

FEDERAL RESERVE SYSTEM

The PNC Financial Services Group, Inc.
Pittsburgh, Pennsylvania

PNC Bancorp, Inc.
Wilmington, Delaware

Order Approving Acquisition of a State Member Bank

The PNC Financial Services Group, Inc., a financial holding company within the meaning of the Bank Holding Company Act (“BHC Act”), and its wholly owned subsidiary, PNC Bancorp, Inc., a bank holding company within the meaning of the BHC Act (jointly, “PNC”), have requested the Board’s approval under section 3 of the BHC Act¹ to acquire RBC Bank (USA), Raleigh, North Carolina (“RBC Bank”), a state member bank, from RBC USA Holdco Corporation, a wholly owned subsidiary of the Royal Bank of Canada.²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (76 Federal Register 50480 (2011)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

PNC, with total consolidated assets of approximately \$263 billion as of June 30, 2011, is the seventh largest depository organization in the United States, controlling deposits of approximately \$180 billion, which represent approximately 2 percent of the total amount of deposits of insured depository institutions in the United States. PNC Bank operates in sixteen states and the District of Columbia³

¹ 12 U.S.C. § 1842.

² After the acquisition, PNC plans to merge RBC Bank with and into its only subsidiary depository institution, PNC Bank, National Association, Pittsburgh (“PNC Bank”).

³ PNC Bank currently operates branches in Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania,

and engages in numerous nonbanking activities that are permissible under the BHC Act.⁴ PNC Bank is the largest insured depository organization in Pennsylvania, controlling deposits of approximately \$62 billion, which represent 21 percent of the total amount of deposits of insured depository institutions in the state. PNC Bank is the 14th largest insured depository organization in Florida, controlling deposits of approximately \$5 billion, and the 82nd largest insured depository institution in Georgia, controlling deposits of \$237 million, which represent 1.2 percent and less than 1 percent of the total amount of deposits of insured depository institutions in those states, respectively.

RBC Bank, with total consolidated assets of approximately \$27 billion as of June 30, 2011, operates in Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia. In North Carolina, RBC Bank is the fifth largest depository institution, controlling deposits in the state of approximately \$10 billion. RBC Bank is the 20th largest insured depository institution in Florida and the eighth largest insured depository institution in Georgia, controlling deposits of approximately \$3 billion in each of those states.

On consummation of the proposal, PNC Bank would become the fifth largest depository organization in the United States, with consolidated deposits of \$201 billion, representing approximately 2.2 percent of the total amount of deposits of insured depository institutions in the United States. In Pennsylvania, PNC Bank would remain the largest depository organization, controlling deposits of approximately \$62 billion (approximately 21 percent of deposits of insured depository institutions in the state). In Florida, PNC Bank would become the ninth largest depository organization,

Virginia, West Virginia, Wisconsin, and the District of Columbia. PNC Bank also has limited-purpose branches in Toronto, Canada, and Nassau, The Bahamas.

⁴ PNC has a 21 percent financial interest in Blackrock, Inc. (“Blackrock”), New York, New York, and holds almost 24 percent of the voting shares of Blackrock. In addition, PNC selects two members of Blackrock’s seventeen-member board of directors, and PNC and Blackrock have a number of business relationships. For BHC Act purposes, PNC is considered to control Blackrock. For accounting and financial reporting purposes, PNC treats its interest in Blackrock as an equity investment. Blackrock is a publicly traded company and one of the largest asset managers in the world, with approximately \$3.4 trillion in assets under management.

controlling deposits of approximately \$8 billion (approximately 2 percent of deposits of insured depository institutions in the state), and in Georgia, PNC Bank would become the eighth largest depository organization, controlling deposits of approximately \$3.1 billion (approximately 1.7 percent of deposits of insured depository institutions in the state).

Interstate and Deposit Cap Analyses

Section 3 of the BHC Act imposes certain requirements on interstate transactions. Section 3(d) generally provides that the Board may approve an application by a bank holding company (“BHC”) that is well capitalized and well managed⁵ to acquire a bank located in a state other than the home state of the BHC without regard to whether the transaction is prohibited under state law. However, this section further provides that the Board may not approve an application that would permit an out-of-state BHC to acquire a bank in a host state that has not been in existence for the lesser of the state statutory minimum period of time or five years.⁶ In addition, the Board may not approve an application by a BHC to acquire an insured depository institution if the home state of such insured depository institution is a state other than the home state of the BHC, and the applicant controls or would control more than 10 percent of the total amount of deposits of insured depository institutions in the United States (“nationwide deposit cap”).⁷

For purposes of the BHC Act, the home state of PNC is Pennsylvania and RBC Bank’s home state is North Carolina.⁸ PNC is well capitalized and well managed

⁵ The standard was changed from adequately capitalized and adequately managed to well capitalized and well managed by section 607(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1842(d)(1)(A).

⁶ 12 U.S.C. § 1842(d)(i)(B).

⁷ 12 U.S.C. § 1842(d)(2)(A). For a detailed discussion of the nationwide deposit cap, see Bank of America Corporation/LaSalle, 93 Federal Reserve Bulletin 109, 109-110 (2007); Bank of America Corporation/Fleet, 90 Federal Reserve Bulletin 217, 219-220 (2004).

⁸ A bank holding company’s home state is the state in which the total deposits of all subsidiary banks of the company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C). For purposes of section 3(d) of the BHC Act, the

under applicable law. North Carolina law has no minimum age requirement,⁹ and RBC Bank has been in existence for more than five years.

Based on the latest available data reported by all insured depository institutions in the United States, the total amount of deposits of insured depository institutions is \$8.9 trillion. On consummation of the proposed transaction, PNC would control approximately 2.2 percent of the total amount of deposits in insured depository institutions in the United States. Accordingly, in light of all the facts of record, the Board is not required to deny the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹⁰

The Board has considered the competitive effects of the proposal in light of all the facts of record. PNC Bank and RBC Bank compete directly in ten local markets: Brevard, Daytona Beach, Fort Pierce, Indian River, Miami-Fort Lauderdale, Naples, Orlando, Tampa Bay, and West Palm Beach, all in Florida; and Atlanta, Georgia. The Board has considered the number of competitors that would remain in the markets, the relative shares of total deposits in depository institutions in the markets controlled by PNC Bank and RBC Bank, the concentration levels of market deposits and the increases in those levels as measured by the Herfindahl-Hirschman Index (“HHI”)

Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. 12 U.S.C. §§ 1841(o)(4)-(7), 1842(d)(1)(A), and 1842(d)(2)(B).

⁹ See N.C.G.S. § 53-224.19 (permitting interstate merger acquisitions but not imposing an age requirement).

¹⁰ 12 U.S.C. § 1842(c)(1).

under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Guidelines”),¹¹ and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in each of the ten banking markets. On consummation of the proposal, eight markets would remain moderately concentrated and two markets would remain unconcentrated, as measured by the HHI. Numerous competitors would remain in all ten markets. The change in the HHI’s measure of concentration would be less than 100 points in nine of the ten markets. In Indian River, the change in the HHI’s measure of concentration would be 184 points, and the post-merger HHI would be 1477, which is within the limits of the DOJ Guidelines.

The DOJ has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation of the transaction would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in any relevant banking market and that competitive considerations are consistent with approval.

¹¹ Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher-than-normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its guidelines for bank mergers or acquisitions, which were issued in 1995, were not changed. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

Other Section 3(c) Considerations

Section 3(c) of the BHC Act requires the Board to take into consideration a number of other factors in acting on bank acquisition applications. These are: the financial and managerial resources (including consideration of the competence, experience, and integrity of officers, directors, and principal shareholders) and future prospects of the company and banks concerned; effectiveness of the company in combatting money laundering; the convenience and needs of the community to be served; and the extent to which the proposal would result in greater or more concentrated risks to the stability of the United States banking or financial system. The Board has considered all these factors and, as described below, has determined that all considerations are consistent with approval of the application.¹² The review was conducted in light of all the facts of record, including supervisory and examination information from various U.S. banking supervisors of the institutions involved, publicly reported and other financial information, and information provided by PNC.

A. Financial, Managerial, and Other Supervisory Considerations

In evaluating financial factors in expansionary proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding on the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the

¹² Because each factor under section 3(c) was independently consistent with approval in this case, there was no need for the Board to consider weighing one factor against others. The Board notes that section 4, which deals with acquisitions of nonbanks including insured depository institutions that are not banks, specifically requires a weighing of public benefits against adverse effects.

operations of the institutions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered the financial factors of the proposal. PNC and PNC Bank are well capitalized and would remain so on consummation of the proposed acquisition. The proposed transaction is structured as a stock purchase of all the shares of RBC Bank (and the related credit card portfolio of RBC's Georgia bank affiliate), for a total payment of \$3.6 billion. The purchase would be financed with the proceeds from \$1.0 billion of noncumulative preferred stock, \$1.25 billion of five-year subordinated debt that was issued in the third quarter of 2011, and other available cash resources. Although capital ratios would decline upon consummation, PNC and PNC Bank would have capital ratios well above the established regulatory minimums. In addition, PNC has been performing capital stress testing since the second quarter of 2009. Under its most recent testing, PNC Bank projected that it would be able to maintain a baseline tier 1 common equity ratio at a level acceptable to the Board. Asset quality and earnings prospects are consistent with approval, and PNC appears to have adequate resources to absorb the costs of the proposal and the proposed integration of the institutions' operations. Based on its review of the record, the Board finds that PNC has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved. The Board has reviewed the examination records of PNC, PNC Bank, and RBC Bank, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money-laundering laws.

PNC and PNC Bank are each considered to be well managed. PNC has a demonstrated record of successfully integrating large organizations into its operations and risk-management systems following acquisitions, including its integrations of Riggs National Corporation in 2005, Mercantile Bancshares Corporation in 2007, Sterling Financial Corporation in 2008, and National City Corporation, an institution

of roughly equal size to PNC at the time of its acquisition, in 2009. PNC is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. PNC would implement its risk-management policies, procedures, and controls at the combined organization that are acceptable from a supervisory perspective. In addition, PNC's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and PNC is proposing to integrate RBC Bank's existing management and personnel in a manner that augments PNC's management.

PNC's integration record, managerial and operational resources, and plans for operating the combined institutions after consummation provide a reasonable basis to conclude that managerial factors are consistent with approval. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved are consistent with approval.

B. Convenience and Needs Considerations

Under section 3, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").¹³ The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,¹⁴ and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.¹⁵

The Board has considered the convenience and needs factor and the CRA performance records of the relevant insured depository institutions. As provided in the

¹³ 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

¹⁴ 12 U.S.C. § 2901(b).

¹⁵ 12 U.S.C. § 2903.

CRA, the Board evaluates the record of performance of an institution in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.¹⁶ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor. PNC Bank received an "outstanding" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of September 30, 2009, and RBC Bank received a "satisfactory" rating at its most recent CRA performance evaluation by the Federal Reserve, as of June 21, 2010. Moreover, the facts of record do not reflect a subsequent decline in the CRA performance of the two institutions since those examinations. The Board has also received 121 comments on the proposal, all in support of the transaction, including 104 comments from community groups.

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by PNC, and confidential supervisory information. PNC represents that the proposal will benefit the convenience and needs of the communities currently served by RBC Bank in several ways. PNC intends to offer its treasury management, capital markets, and other corporate services to RBC Bank's corporate clients and to enhance RBC Bank's consumer products with PNC home mortgage loans, including loans designed for the credit needs of LMI borrowers. Consummation of the proposal would provide access to a larger ATM network to current customers of PNC Bank and RBC Bank. PNC also plans to extend its community development activities to the communities currently served by RBC Bank, offering deposit and lending products designed to address the banking needs of LMI families and communities, community-based organizations, and small businesses. PNC intends to deploy teams from its community development banking group into areas currently served by RBC Bank to ensure the promotion of community development

¹⁶ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 at 11665 (2010).

lending, investment, and outreach. These efforts would include monetary grants and volunteer services supporting school readiness and Head Start programs in communities served by PNC Bank; a dedicated team focusing on small business lending in certain LMI areas; and strategic investments through a community development subsidiary and specialized New Market Tax Credit and Low-Income-Housing Tax Credit programs designed to foster small business job growth and affordable-housing development. The proposal would result in increased geographic diversification that could reduce the combined company's exposure to regional economic downturns and that could increase administrative efficiency, thereby providing indirect benefits to customers. Based on all the facts of record, the Board has concluded that considerations relating to the convenience and needs of the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval.

C. Financial Stability

The Dodd-Frank Act amended section 3 of the BHC Act to require the Board also to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system.”¹⁷ In analyzing this factor, the Board has considered whether the proposal would result in a material increase in risks to financial stability due to the increase in size of the combining firms, a reduction in the availability of substitute providers for the services offered by the combining firms, the extent of

¹⁷ Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1842(c)(7). Other provisions of the Dodd-Frank Act impose a similar requirement that the Board consider or weigh the risks to financial stability posed by a merger, acquisition, or expansionary proposal by a financial institution. See sections 163, 173, and 604(e) and (f) of the Dodd-Frank Act. A special process was established by the Dodd-Frank Act for requiring the divestiture of a business by a financial firm. Section 121 of the act provides that the Board shall require a financial firm to divest or terminate a business only if the Board determines that the company “poses a grave threat to the financial stability of the United States,” the Financial Stability Oversight Council (“FSOC”) by a vote of two-thirds of its members approves the requirement to divest or terminate the business, and the Board has determined that actions other than divestiture or termination of the business are inadequate to mitigate the grave threat. 12 U.S.C. § 5331.

interconnectedness among the combining firms and the rest of the financial system, the extent to which the combining firms contribute to the complexity of the financial system, and the extent of cross-border activities of the combining firms.¹⁸ The Board has also considered the relative degree of difficulty of resolving the combined firm.¹⁹ The Board has assessed these factors individually and in combination and has based its assessment on quantitative analysis,²⁰ using publicly available data, data compiled through the

¹⁸ These categories correspond to those used by the Basel Committee to assess the systemic importance of globally active banking organizations. See Basel Committee of Banking Supervision, “Global systemically important banks: assessment methodology and the additional loss absorbency requirement. Rules text.” November 2011. These categories are not exhaustive, and additional categories could inform the Board’s decision. The Board expects to issue a notice of proposed rulemaking implementing the provisions of the Dodd-Frank Act that require the Board to take into account a proposal’s impact on the risks to the stability of the U.S. financial or banking system. The public would have an opportunity through the rulemaking process to provide the Board with views on how it should take the financial stability factor into account when reviewing applications and notices.

¹⁹ Blackrock is considered to be a subsidiary of PNC for purposes of the BHC Act. However, PNC owns only a minority of the shares of Blackrock, and neither GAAP nor public reporting rules require Blackrock to be consolidated into PNC’s balance sheet. PNC’s financial operations are not integrated with those of Blackrock, and other operational ties between the two are relatively limited. Based on these and other facts of record, the Board has treated Blackrock as an equity investment of PNC for purposes of the financial stability analysis. This analysis might change if facts regarding their relationship change; for example, if PNC were to increase its stake in Blackrock or establish more significant operational linkages with Blackrock. PNC would require Board approval under section 163(b) of the Dodd-Frank Act to increase its investment in Blackrock, which would require a review of whether the transaction would result in “greater or more concentrated risks to the stability of the United States banking or financial system.” Section 163(b) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 5363.

²⁰ Much of the data considered by the Board represent measures of an institution’s activities relative to the U.S. financial system (“USFS”). For this purpose, the USFS comprises all U.S. financial institutions (“USFIs”) used in computing total liabilities for purposes of calculating the limitation on liabilities of a financial company required under section 622 of the Dodd-Frank Act and includes U.S.-based bank and nonbank affiliates of foreign banking organizations. In connection with its supervision of nonbank financial institutions that the FSOC determines could pose a threat to the financial stability of the United States, the Board may require financial and other

supervisory process, and data obtained through information requests to the institutions involved in the proposal, as well as on qualitative judgments.²¹

Size. An organization's size is one important indicator of the risk the organization poses to the financial system. Congress has imposed a specific 10 percent nationwide deposit limit and a 10 percent nationwide liabilities limit on potential combinations by banking organizations.²² Other provisions of the Dodd-Frank Act impose special or enhanced supervisory requirements on large banking organizations.²³

The Board has considered measures of PNC's size relative to the USFS, including PNC's consolidated assets, its total leverage ratio exposures,²⁴ and its U.S. deposits. As a result of the proposed acquisition, PNC would become the

reporting by these institutions, which would increase the pool of available data for financial stability analyses. See sections 113 and 151 of the Dodd-Frank Act, codified at 12 U.S.C. §§ 5323 and 5341, respectively.

²¹ In developing the financial stability analysis used in this proposal, the Board has taken into consideration related Board initiatives on financial stability to the extent appropriate, such as proposals to set capital surcharges for global systemically important financial institutions and to identify nonbank systemically important financial institutions. The Board recognizes that a merger analysis is unique in financial stability reviews because it focuses on preventing the formation of an institution that poses significant risks to financial stability rather than regulating an existing institution that poses similar risks. Accordingly, the stability framework for a merger analysis may overlap with, but not be identical to, the framework associated with the other stability initiatives.

²² 12 U.S.C. §§ 1842(d) and 1852. See also section 623 of the Dodd-Frank Act, codified at 12 U.S.C. § 1852.

²³ Section 165 of the Dodd-Frank Act, codified at 12 U.S.C. § 5365, requires the Board to subject all bank holding companies with total consolidated assets of \$50 billion or more and any nonbank financial company designated by the FSOC for supervision by the Board to enhanced prudential standards, in order to prevent or mitigate risks to the financial stability of the United States that could arise from the material distress or failure of these firms.

²⁴ Total leverage exposure is calculated in a manner roughly equivalent to the methodology set out in "Basel III: A global regulatory framework for more resilient banks and banking systems" and takes into account both on- and off-balance-sheet assets.

19th largest USFI based on assets, with \$291 billion or 1.1 percent of USFS assets. PNC would become the 16th largest USFI based on leverage exposures, with \$420 billion or 1.2 percent of USFS leverage exposures. PNC also would become the fifth largest USFI based on U.S. deposits, with \$201 billion or 2.2 percent of total U.S. deposits.

These measures suggest that, although the combined organization would be large on an absolute basis, PNC would have only a modest share of USFS assets, leverage exposures, and U.S. deposits. PNC also is significantly smaller than the largest USFIs. Three USFIs each would have between six and eight times the assets of PNC, and seven other institutions would have at least twice the assets of PNC. PNC's share of and rank in U.S. deposits, 2.2 percent and fifth, respectively, are higher than the other measures of its size because PNC is primarily engaged in commercial banking activities, which is not the case with many of the largest USFIs. PNC's deposit share would nonetheless be relatively modest. There are three USFIs that would each have between 3.5 and 5 times the U.S. deposits of PNC and three institutions that would each have between 0.9 and 1.5 times the U.S. deposits of PNC. PNC's overall national market share for deposits of approximately 2.2 percent and its market share of national liabilities of approximately 1.4 percent are both well below the 10 percent limits set by Congress.²⁵

Both PNC and RBC Bank engage in a relatively traditional set of commercial banking activities, and the increased size of the combined organization would not increase the difficulty of resolving the organization's activities. Accordingly, although the proposed transactions would increase PNC's overall size, and its ranking to the fifth largest bank in the United States based on U.S. deposits, its larger size alone would not result in materially greater or more concentrated risks to the stability of the United States banking or financial system.

Measures of a financial institution's size on a pro forma basis could either understate or overstate risks to financial stability posed by the financial institution. For

²⁵ In this context, liabilities have been computed under the limitations on consolidated liabilities of section 622 of the Dodd-Frank Act, codified at 12 U.S.C. § 1852.

instance, a relatively small institution that operates in a critical market for which there is no substitute provider or that could transmit its financial distress to other financial organizations through multiple channels, could present material risks to the stability of the USFS. Conversely, an institution that is relatively large could engage in activities that are not complex for which there are several substitute providers in the event of failure or severe financial distress and, accordingly, may present only limited risks to U.S. financial stability.

PNC's size does not rise to the level when the Board would be inclined, solely on that basis, to restrict its ability to make a \$27 billion acquisition. Accordingly, the Board has considered other factors, both individually and in combination with size, to evaluate the likely impact of this transaction on financial stability.

Substitutability. The Board has examined whether PNC or RBC Bank engages in any activities that are critical to the functioning of the USFS and whether substitute providers would remain that could quickly step in to perform such activities should the combined entity suddenly be unable to do so as a result of severe financial distress.

PNC and RBC Bank both provide business and consumer credit. RBC Bank has a de minimis market share (less than 1 percent) in a variety of business- and consumer credit-related activities that the Board has considered. Although PNC has a larger share in some of these markets, numerous other USFIs provide business and consumer credit, and the transaction does not create, solidify, or maintain the position of a single entity that is likely to pose an unacceptable risk to U.S. financial stability. The Board also considered a number of critical activities that are performed either by PNC or RBC Bank (but not by both) and in no case would the combined entity provide a service for which many substitute providers could not be readily identified.

Interconnectedness. The Board has examined data to determine whether financial distress experienced by the merged entity could create financial instability by being transmitted to other institutions or markets within the U.S. financial or banking system. In particular, the Board has considered whether the combined

entity's relationships to other market participants and the similarity of product offerings could transmit material financial distress experienced by the combined entity to its counterparties directly, transmit such distress indirectly through a fire sale of assets or erosion of asset prices, or trigger contagion resulting in the withdrawal of liquidity from other financial institutions.²⁶

PNC does not currently engage, and as a result of this transaction would not engage in the future, in business activities or participate in markets to a degree that in the event of financial distress of the combined entity, would pose material risk to other institutions. The pro forma merged entity's expected use of wholesale funding is lower relative to all USFIs than is its corresponding share of consolidated assets. On a pro forma basis, the transaction also would not concentrate exposure to any single counterparty that was among the top three counterparties of either PNC or RBC Bank before the merger. The record does not show other evidence that the pro forma combined entity would be so interconnected with markets and institutions in the U.S. financial or banking system as to make it likely that the combined entity would transmit financial distress to other market participants or to the market generally in a manner or to a degree that would cause material risks to the U.S. financial or banking system. Although distress in a large institution such as PNC could clearly have an effect on other market participants, that effect would not appear to be so adverse as to have a material impact on market stability.

Complexity. The Board has considered the extent to which the pro forma entity contributes to the overall complexity of the USFS. The pro forma entity's share of complex assets in the aggregate USFS appears to be largely consistent with its corresponding share of consolidated assets. The Board also has considered whether the complexity of the pro forma entity's assets and liabilities would hinder its timely and efficient resolution in the event it were to experience financial distress. PNC and

²⁶ The source of the contagion could include a belief on the part of market participants that a particular institution is related to the merged entity because it has a similar business model or risk profile, or because the institution is thought to have counterparty exposures to the merged entity.

RBC Bank do not engage in complex activities, such as serving as a core clearing and settlement organization for critical financial markets, that might complicate the resolution process by increasing the complexity, costs, or timeframes involved in a resolution. Under these circumstances, resolving the pro forma organization would not appear to involve a level of cost, time, or difficulty such that it would cause a material increase in risks to the stability of the USFS.²⁷

Cross-border activity. The Board has examined the cross-border activities of PNC and RBC Bank to determine whether the cross-border presence of the combined organization would create difficulties in coordinating a resolution, thereby materially increasing the risks to U.S. financial stability. PNC has several indirect subsidiaries outside the United States, and PNC Bank operates branches in Toronto, Canada, and Nassau, The Bahamas. RBC Bank's cross-border activities are limited to a branch in Georgetown, Cayman Islands.²⁸ The combined organization is not expected to engage in any additional activities outside the United States as a result of the proposed transaction. In addition, the combined organization would not engage in critical services whose disruption would impact the macroeconomic condition of the United States by disrupting trade or resulting in increased difficulties for the resolution process. Based on this review, the Board considers that the cross-border presence of the consolidated organization would not result in a material increase in risks to the stability of the U.S. financial or banking system.

Financial stability factors in combination. The Board has assessed the foregoing factors in combination to determine whether interactions among them might mitigate or exacerbate risks suggested by looking at them individually. The Board also

²⁷ As noted previously, the Dodd-Frank Act requires bank holding companies like PNC that hold more than \$50 billion in total consolidated assets to submit resolution plans, which are intended to assist an institution in managing its risks and plan for a rapid and orderly resolution in the event of material distress or failure and to enable the regulators to understand an institution's complexity. See 12 U.S.C. § 5365.

²⁸ On consummation of the merger of PNC Bank and RBC Bank, PNC intends to transfer all assets and liabilities of the Cayman Branch to PNC Bank's branch in Nassau, The Bahamas, and to close the Cayman Branch.

has considered whether the proposed transaction would provide any stability benefits and whether enhanced prudential standards applicable to the combined organization would tend to offset any potential risks.²⁹

For instance, concerns regarding PNC's size would be greater if PNC were also highly interconnected to many different segments of the USFS through its counterparty relationships, participation in short-term funding and capital markets, or other channels. The Board's level of concern about its size would also be greater if the structure and activities of PNC were sufficiently complex that, if PNC were to fail, it would be difficult to resolve its failure quickly without causing significant disruptions to other financial institutions or markets.

As discussed above, the combined entity would not be highly interconnected. Furthermore, the organizational structure and operational regime of the combined organization would be centered on a commercial banking business, and the resolution process would be handled in a predictable manner by the Federal Deposit Insurance Corporation. The Board has also considered other measures that are suggestive of the degree of difficulty with which PNC could be resolved in the event of a failure. These measures suggest that PNC would be significantly more straightforward to resolve than large universal banks or large investment banks.

Based on these and all the other facts of record, the Board has concluded that the proposal would not materially increase risks to the stability of the U.S. financial or banking system. Accordingly, the Board has determined that considerations relating to financial stability are consistent with approval.

D. Conclusion on Section 3(c) Factors

As described above, the Board has considered the financial and managerial resources and future prospects of the companies and banks concerned; effectiveness of the companies in combatting money laundering; the convenience and needs of the community to be served; and the extent to which the proposal would result in greater or more

²⁹ Section 165 of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 5365.

concentrated risks to the stability of the United States banking or financial system. Based on all the facts of record, including those described above, the Board has determined that all of the factors are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board approved the proposal effective December 19, 2011.³⁰ In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by PNC, PNC Bancorp, and PNC Bank with all the commitments made to and relied on by the Board in connection with the application and on receipt of all other regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after December 19, 2011, or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

December 23, 2011

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

³⁰ Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, and Raskin.