FEDERAL RESERVE BOARD

Bankia, S.A.
Valencia, Spain

Order Approving Establishment of a Branch

Bankia, S.A. ("Bankia"), a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA[1] to establish a branch in Miami, Florida. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.[2]

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation (*Miami Herald*, June 14, 2011). The time for filing comments has expired, and the Board has considered all comments received.

Bankia, with total assets of approximately $406.3 billion,[3] is the fourth largest bank in Spain. Banco Financiero y de Ahorros, S.A. ("BFA"), Madrid, Spain, owns 52.4 percent of Bankia.[4] No other shareholder owns more than 5 percent of the

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[1] 12 U.S.C. § 3105(d).

[2] Id.

[3] Asset and ranking data are as of September 30, 2011.

[4] BFA was created through a Sistema Institucional de Protección (Integration Agreement), an integration transaction supported by the Bank of Spain to address the effects of the global financial crisis on Spanish financial institutions by consolidating a number of Spanish savings banks, or cajas de ahorros, operating in Spain. BFA was established by seven Spanish savings banks, including Caja de Ahorros y Monte de Piedad de Madrid, Caja Madrid ("Caja Madrid"), which owns 52.1 percent of BFA, and Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja ("Bancaja"), which owns 37.7 percent. Each of the remaining five savings banks owns less than 3 percent of the issued shares of BFA. The Board approved BFA's application to become a bank holding company on December 16, 2010. See Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja, 97 Federal Reserve Bulletin 4 (2011). BFA received €4.465 billion from the Fondo de Reestructuración Ordenada Bancaria ("FROB") in exchange for

shares of Bankia. Bankia is a commercial bank that offers services and products in retail banking, corporate banking and finance, capital markets, asset management, and personal banking. Bankia intends to take over the international operations previously conducted by the savings banks that own BFA. Bankia's indirect parents, Caja Madrid and Bancaja, maintain an agency and branch, respectively, in Miami, Florida. Bankia meets the requirements for a qualifying foreign banking organization under Regulation K.[5]

Bankia, as part of a corporate reorganization,[6] proposes to establish the branch to assume the operations of Caja Madrid's agency and Bancaja's branch, and those offices would be closed. The proposed branch would offer substantially the same products and services currently provided by the Caja Madrid and Bancaja offices.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside the United States; (2) has furnished the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home country supervisors.[7]

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perpetual convertible preference shares of BFA. FROB was created by the Spanish government to support and facilitate integrations transactions among Spanish financial institutions. FROB is a bank holding company by virtue of its ownership interest in BFA. See Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja, supra. FROB's investment in BFA represents approximately 17 percent of the total equity and, if converted to voting shares, would represent 17 percent of BFA's voting shares. The current proposal would not increase FROB's indirect ownership of any bank in the United States.

[5] 12 CFR 211.23(a).

[6] Subsequent to BFA's creation, BFA and the savings banks agreed to transfer certain BFA assets and liabilities, including the group's banking business, to Bankia.

[7] 12 U.S.C. § 3105(d)(2); 12 CFR 211.24. In assessing this standard, the Board considers, among other indicia of comprehensive, consolidated supervision, the extent to which the home country supervisors (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank

The Board also considers additional standards as set forth in the IBA and Regulation K.[8]

As noted above, Bankia engages directly in the business of banking outside the United States. Bankia also has provided the Board with information necessary to assess the application through its submissions that address the relevant issues.

With respect to supervision by home country authorities, the Board previously has determined that BFA, Caja Madrid, and Bancaja are subject to comprehensive supervision on a consolidated basis by their home country supervisor.[9] The Board also has determined that other banks in Spain that are supervised under the same regime as Bankia were subject to home country supervision on a consolidated basis.[10] Bankia is supervised by the Bank of Spain on substantially the same terms and

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financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

[8] 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3). The additional standards set forth in section 7 of the IBA and Regulation K include the following considerations: whether the bank's home country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; the bank's record of operation; in the case of a foreign bank that presents a risk to the stability of the United States, whether the home country of the foreign bank has adopted, or is making demonstrable progress toward adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk.

[9] See Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja, supra; Caja de Ahorros y Monte de Piedad de Madrid, 95 Federal Reserve Bulletin B23 (2009); Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja, 84 Federal Reserve Bulletin 231 (1998).

[10] See e.g., Banco Popular Español S.A., 92 Federal Reserve Bulletin C130 (2006); Banco Bilbao Vizcaya Argentaria, S.A., 91 Federal Reserve Bulletin 258 (2005); Banco Pastor, S.A., 87 Federal Reserve Bulletin 555 (2001).

conditions as BFA, Caja Madrid, Bancaja, and those other banks. Based on all the facts of record, the Board has determined that Bankia is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The additional standards set forth in section 7 of the IBA and Regulation K have also been taken into account.[11] The Bank of Spain has no objection to the establishment of the proposed branch.

With respect to the financial and managerial resources of Bankia, taking into consideration the bank's record of operations in its home country, its overall financial resources, and its standing with home country supervisors, financial and managerial factors are consistent with approval of the proposed branch. Spain has adopted risk-based capital standards that are consistent with those established by the Basel Capital Accord ("Accord"). Bankia's capital is in excess of the minimum levels that would be required by the Accord and is considered equivalent to capital that would be required of a U.S. banking organization for a similar proposal. Managerial and other financial resources of Bankia are also consistent with approval, and Bankia appears to have the experience and capacity to support the proposed branch. In addition, Bankia has established controls and procedures for the proposed branch to ensure compliance with U.S. law.

Spain has enacted laws and regulations to deter money laundering that are consistent with the Financial Action Task Force recommendations. Money laundering is a criminal offense in Spain, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. Bankia has policies and procedures to comply with these laws and regulations, and its compliance with applicable laws and regulations is monitored by governmental entities responsible for anti-money-laundering compliance.

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[11] <u>See</u>, <u>supra</u>, note 8.

With respect to access to information about Bankia's operations, the restrictions on disclosure in relevant jurisdictions in which Bankia operates have been reviewed and relevant government authorities have been contacted regarding access to information. Bankia has committed to make available to the Board such information on the operations of Bankia and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bankia has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bankia has provided adequate assurances of access to any necessary information that the Board may request.

Section 173 of the Dodd-Frank Act amended the IBA to provide that the Board may consider, for a foreign bank that presents a risk to the stability of the United States financial system, whether the home country of the foreign bank has adopted, or is making demonstrable progress toward adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk.[12] Spain has made progress toward adopting a system of financial regulation for its financial system to mitigate the risk to financial stability from its banks. The Bank of Spain and the Spanish government have taken a number of measures to strengthen the overall financial supervisory regime. These measures include supporting the integration of Spanish savings banks into financial groups, adopting legislative measures that increase minimum capital requirements for Spanish financial institutions, and requiring financial institutions to implement their recapitalization plans. The Bank of Spain also established a Financial Stability Department to monitor and analyze financial stability

[12] 12 U.S.C. § 3105(d)(3)(E).

risks and issues in the Spanish and global financial systems and produces an annual Financial Stability Report that includes an assessment of the key macroeconomic and financial market risks in Spain. In addition, Spanish authorities have been actively involved in advancing international financial stability discussions in various fora, including the Organisation for Economic Co-operation and Development, the International Monetary Fund, the Basel Committee on Banking Supervision, and the Financial Stability Board. More recently, Spain actively participated in the G-20 meeting of finance ministers and central bank governors where agreement was reached on a set of guidelines that measure potentially destabilizing imbalances in the global economy as a first step toward making the world less prone to financial crisis.

On the basis of all the facts of record, and subject to the commitments made by Bankia and its parent companies, as well as the terms and conditions set forth in this order, Bankia's application to establish a branch in Miami is hereby approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board.[13] Should any restrictions on access to information on the operations or activities of Bankia and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bankia's or its affiliates with applicable federal statutes, the Board may require termination of any of Bankia or its affiliates' direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bankia with the commitments made in connection with this application and with the conditions in this order.[14] The commitments and conditions

[13] 12 CFR 265.7(d)(12).

[14] The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the State of Florida to license branches of a foreign bank. The Board's approval of this application does not supplant the authority of the State of Florida or its agent, the Office of Financial Regulation ("OFR"), to license the proposed branch of Bankia in accordance with any terms or conditions that the OFR may impose.

referred to above are conditions imposed in writing by the Board in connection with this decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bankia and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective December 16, 2011.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board