

Fund for Orderly Bank Restructuring (FROB)

27 October 2009

Benchmark issue of 5-year bonds
guaranteed by the Kingdom of Spain

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1. What is the Fund for Orderly Bank Restructuring (FROB)?

1. What is the FROB?

The Fund for Ordered Bank Restructuring (FROB) is an **entity with legal personality** created by Royal Decree 9/2009, of 26 June, concerning bank restructuring and reinforcing the equity of credit entities.

Characteristics of the FROB:

Strongly capitalised:
€9,000Mn
(€6,000Mn already paid, the remaining €3,000Mn will be paid in the first two weeks of November).

Public control

- Parliament controls FROB activities
- The Ministry of Economy has a preliminary report and the right to a veto

Guarantee by the Spanish Government, up to €27.0bn, covering the FROB's financial obligations which comply with the requirements set out in the guarantee order

Strict and independent governance:

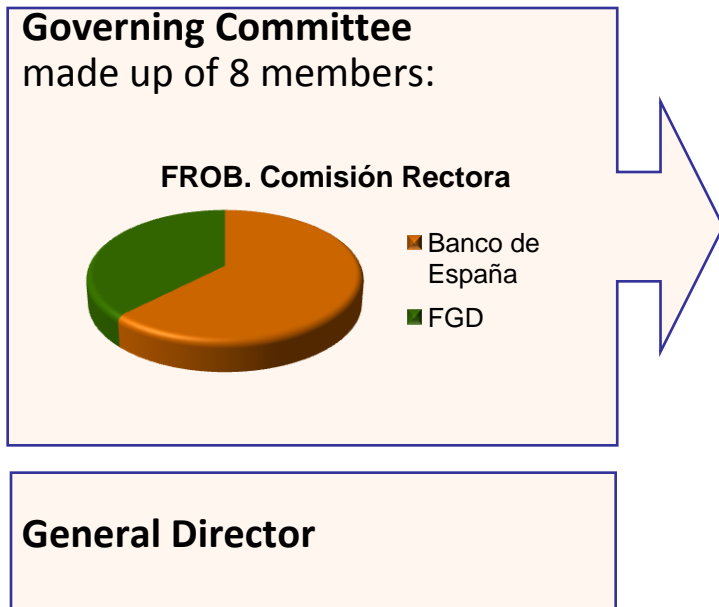
- **chaired by and with a majority of the Bank of Spain** and
- with the participation of the Deposit Guarantee Fund (FGD)

1. What is the FROB?

Initial allocation of €9,000Mn, €6,750Mn of which are assigned by the Government, and €2,250Mn by the Deposit Guarantee Funds

Public control: report submitted to the Ministry of Economy every four months, quarterly parliamentary control and every time there is an FROB action; audits by Tribunal de Cuentas

FROB Governance



- **5 persons from the Bank of Spain**
 - Deputy Governor (Chairman of the Governing Committee).
 - Supervision GD (Deputy Chairman of the Governing Committee)
 - Regulation GD
 - Services GD
 - General Secretary (Secretary of the Governing Committee)
- 3 members on behalf of the Deposit Guarantee Funds
- A representative (without the right to vote) of the National Government Auditing Agency (*Intervención General de la Administración del Estado*) will also sit in on the meetings of the Governing Committee

2. Financial structure and financing of the FROB. Guarantee of the Kingdom of Spain

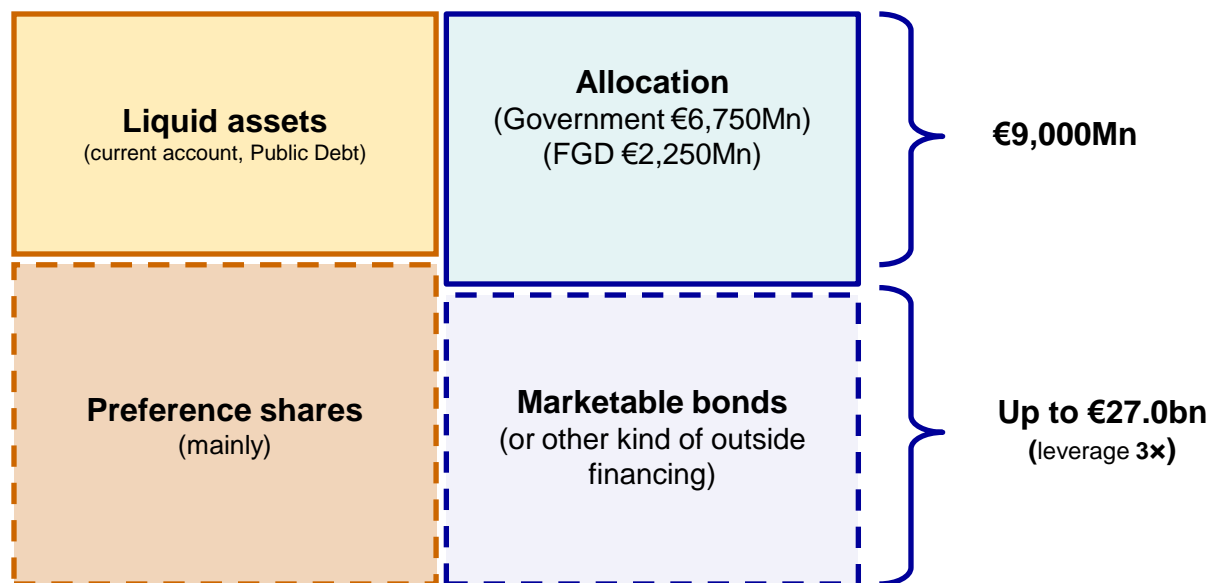
2. Financial structure of the FROB

Initial allocation of €9,000Mn, 75% of which is furnished by the Government and 25% by the FGD.

Debt capacity of €27.0bn (3 times its allocation¹)...

... with the explicit, unconditional and irrevocable guarantee of the Kingdom of Spain (guarantee of €27.000Mn, already granted)

Strong position in liquid assets (current account or Public Debt)



¹ From 01.01.2010 onwards can be increased up to 10 times, €90,000 Mn, with the approval of the Ministry of Economy.

2. Securities issued by the FROB

Simple bonds...

...with the explicit, unconditional and irrevocable guarantee of the Kingdom of Spain...

- **Equity Requirements for credit risk: 0% RWA**
([confirmed by the Bank of Spain](#))
- **Eligible as guarantee assets in ECB monetary policy operations**
([confirmed by the Bank of Spain](#))
 - **Up to 5 years: Haircut: 4.5%**
 - **Between 5 and 7 years: Haircut: 5.5%**

Trading on the Public Debt Entry Book Market

The Bank of Spain will act as a payment agent in FROB issues.

Equivalent treatment for tax purposes to that of the Government bonds

¹ From 01.01.2010 onwards can be increased up to 10 times, €90,000 Mn, with the approval of the Ministry of Economy.

2. Guarantee of the Kingdom of Spain

Limit of guarantee granted: €27.0bn of principal plus the pertinent ordinary interests

Characteristics: Explicit, unconditional, irrevocable and waiving the right of excussion

Guaranteed operations: Marketable securities, loans or credits in euros or other currency with a term no longer than 7 years, formalised prior to 15.12.2010. Payments agent: Bank of Spain

Clearing in the event of execution: At the EONIA rate for the days elapsed between the maturity date of the guaranteed obligation and the date of payment by the guarantor, provided the execution of the guarantee is requested within the 5 days following the maturity date

Execution procedure: The Bank of Spain, as the payment agent, and on behalf of the legitimate creditors, will claim, at the General Directorate of the Treasury and Financial Policy, the payment through it of the amount not paid to the holders of the affected securities or loans

Payment by the Government: The General Directorate of the Treasury and Financial Policy is authorised by Royal Decree 9/2009 to carry out the payments arising from the execution of the guarantee, immediately and with no need for further budget-related steps.

3. FROB inaugural issue

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Issuer:	Fund for Orderly Bank Restructuring (FROB)
Amount:	Up to €3,000,000,000
Issue rating:	Aaa (Moody´s) / AA+ (S&P) / AAA (Fitch)
Type:	Simple bonds. Single repayment on maturity (bullet). Fixed interest rate.
Term:	5 years
Range:	Senior, guaranteed
Guarantor:	Kingdom of Spain
Coupon:	Annual (Act/act)
Face value	50.000 €
Trading:	Entry Book Public Debt Market (governing body: Bank of Spain)
Representation of bonds:	By book entry
Registration:	Iberclear
Payments Agent:	BANK OF SPAIN
Lead managers:	Barclays Capital, BBVA, Calyon, Deutsche Bank, HSBC

4. Objectives and Functions of the FROB: Processes for restructuring and strengthening the equity of credit entities

4. Objectives and Functions of the FROB

Final objective of the FROB: credit institution equity reinforcement and ordered restructuring

Helping entities which could have difficulties to adapt to the new setting

- Adjusting productive capacity and costs
- Increasing efficiency and productivity
- Improving Management Capacity
- Reinforcing their solidity and solvency
- Resuming the normal furnishing of credit to companies and households

4. Objectives and Functions of the FROB

Integración

Supporting entities' integration processes through the temporary injection of capital:

- Will be carried out by the subscription, through the FROB, of preferential shareholdings which are convertible under market conditions, once an **integration plan** has been approved by the Bank of Spain
- This support will be on a temporary basis and will be geared towards improving efficiency and increasing productivity
- Entities must undertake to **repurchase preferential shareholdings within a period of 5 years** (can be extended for 2 further years). The FROB has the option of converting preference shares into ordinary shares, shareholdings with voting rights or capital contributions, depending on the nature of the entities involved

Reestructuración

Directing the **restructuring processes** of Spanish credit institutions:

- First of all, using their own initiative, entities with weaknesses have to try and find a private solution
- As a second option, they can seek the support of the pertinent Deposit Guarantee Fund (FGD), if the Bank of Spain approves an action plan with the object of assuring the entity's viability
- If it does not choose either of these options, the Bank of Spain shall appoint the FROB as the provisional administrator of the entity. A **restructuring plan** will be formulated, ending with the merger or transfer - total or partial - of its business
- The FROB's support in the restructuring process shall include financial support measures (guarantees, loans with favourable conditions, subordinate financings, acquisition of assets, capital injections, etc. and management measures

4. Objectives and Functions of the FROB

The Spanish banking system and the crisis

Strong relative resistance by virtue of:

- Lack of toxic assets
- Retail business model with high level of efficiency
- Stringent regulation and supervision: high anti-cyclical provisions, control of off balance sheet operations

Systemic entities **have not needed government bail-outs** and emerge from the crisis in a **stronger position**

Certain small and medium-sized entities are facing problems due to:

- The length and depth of the financial crisis and its impact on the real economy
- Adjustment in residential real estate: asset deterioration

Appendix: Spanish economy: evolution and forecasts.

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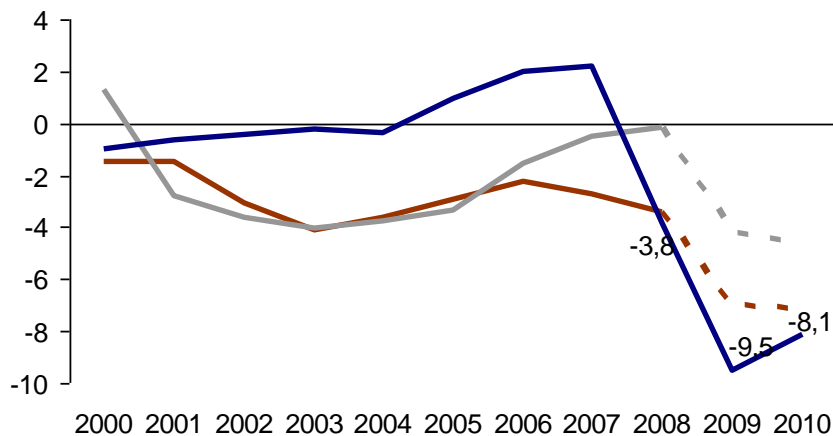
Macroeconomic Table

(% Annual Variation)

	2008	2009	2010
GDP	0,9	-3,6	-0,3
National Demand	-0,5	-5,6	-1,0
External contribution (pp of GDP)	1,4	2,3	0,7
GDP deflator	2,5	0,4	0,0

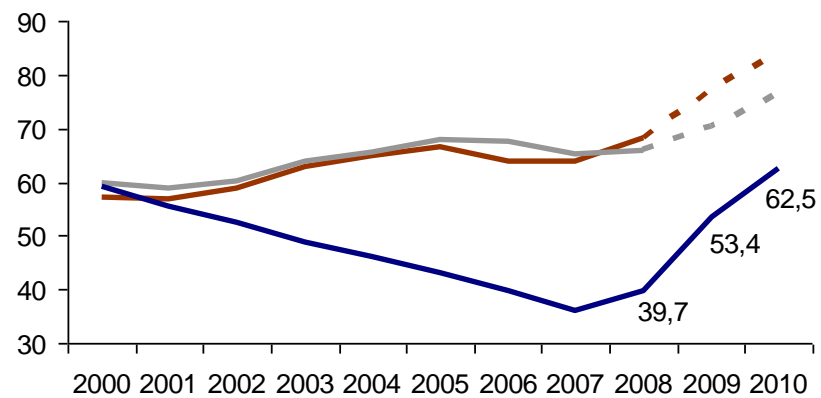
Source: Government General Budget Project for 2010 (Proyecto de Presupuestos Generales del Estado para 2010)

Capacity (+)/Need (-) for financing GDP (in %)



Spain Germany France

Debt/GDP ratio (in %)



Spain Germany France

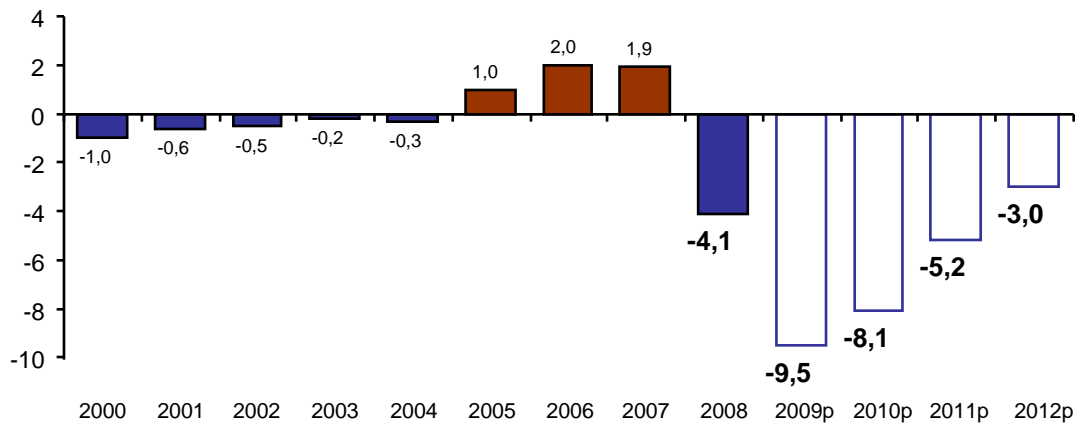
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Commitment with fiscal consolidation

Tax	Measure
Income	Withdrawal of stimulation measures
	Increase in tax on saving
VAT	Rise in VAT from 1 July 2010
Companies	Reduction for SMEs with fewer than 25 employees and €5mn of revenues (25% to 20%)

Source: Government General Budget Project for 2010 (Proyecto de Presupuestos Generales del Estado para 2010)

Capacity (+)/Need (-) for Financing of Public Administrations (% nominal GDP, National Accounting)



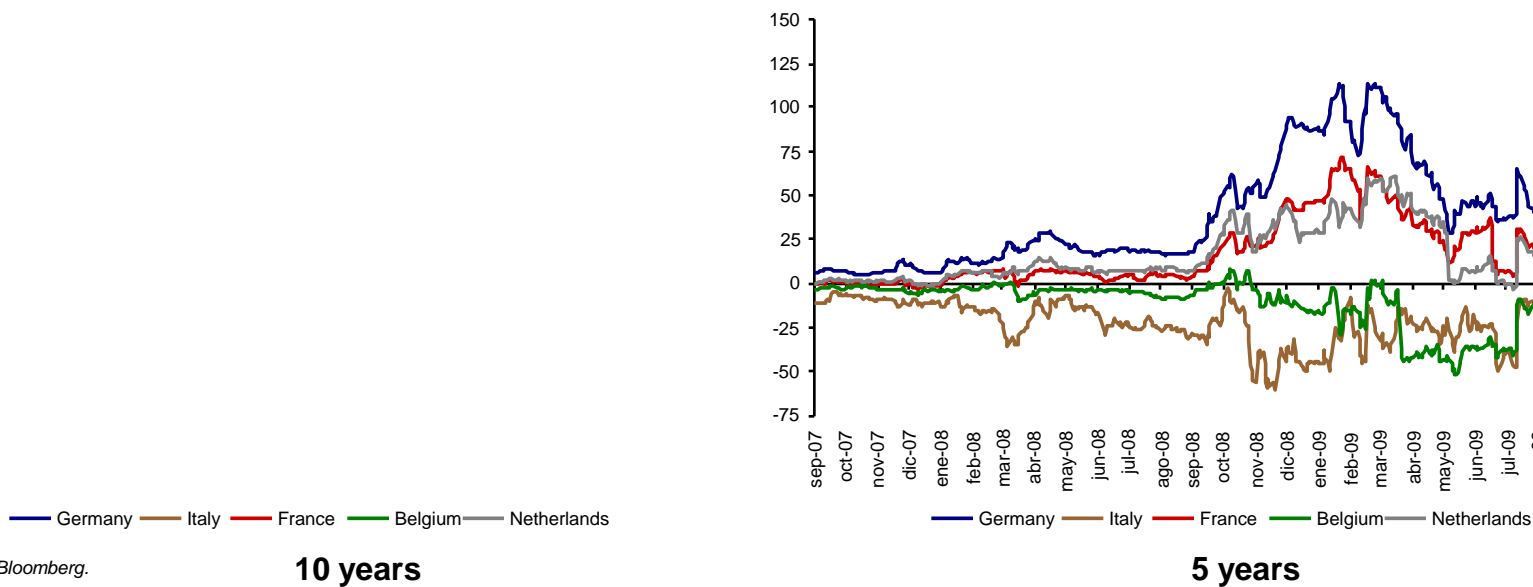
Source: IGAE

- Spending limit down 3.9% against the closing forecast for 2009

- Moderate increase in taxes

Appendix: Spanish economy: evolution and forecasts.

Spain spread at 10 and 5 years vs. European benchmarks (bps)



Source: Bloomberg.

Regulatory appendix

6. Regulatory appendix

Royal Decree 9/2009, of 26 June, on bank restructuring and reinforcing of equity of credit entities, which creates the Fund for Ordered Bank Restructuring (FROB)

Order of the Ministry of Economy and the Treasury, hereby granting a guarantee for the Government as a guarantee for the economic obligations which could be demanded of the Fund for Ordered Bank Restructuring

Order of the Ministry of the Economy and the Treasury whereby, pursuant to the stipulations of section 1 of the single last provision of Royal Decree 505/1987, of 3 April, the regime of Public Debt securities represented using the entry book system is extended to the securities issued by the Fund for Ordered Bank Restructuring in accordance with Royal Decree 9/2009 (Pending)

Resolution of 24.09.09 of the Executive Committee of the Fund for Ordered bank Restructuring for the circulation of an issue of fixed income bonds for the maximum sum of 3,000 million euros

Decision of the Bank of Spain regarding the treatment of the regulation for the equity of credit entities as regards the holding of securities issued by the FROB (RWA: 0%)

Decision of the Bank of Spain regarding the treatment of the securities issued by the FROB as guarantee for the monetary policy operations of the European Central Bank (Haircut: 4.5%)

Decision of the Directorate General for Taxation regarding the treatment for tax purposes of the securities issued by the FROB acquired by non-residents in Spain.

The information contained in this prospectus and in the regulatory appendix attached can be consulted on the website of the Fund for Orderly Bank Restructuring (FROB):

www.frob.es

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