

S&PCORRECT: Rating On Issuance By FROB Lowered To 'AA' Following Spain Downgrade

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(**Editor's Note:** In the original version of this article, published on April 28, 2010, FROB's maximum outstanding issuance amount for which the Spanish state provides it with an explicit, timely, unconditional, and irrevocable guarantee on all due principal and interest payments was misstated in the second paragraph. A corrected version follows.)

- In our opinion, Spain is likely to have an extended period of subdued economic growth, which weakens its budgetary position.
- We have lowered our long-term rating on the Kingdom of Spain to 'AA' from 'AA+' and assigned a negative outlook.
- Since our rating on issuance by the Fondo de Reestructuración Ordenada Bancaria (FROB)--a key entity for the Spanish state in managing the restructuring of Spanish credit institutions--is based on an equalization with the long-term sovereign rating, we are lowering our rating on FROB's issuance to 'AA' from 'AA+'.

MADRID (Standard & Poor's) April 28, 2010--Standard & Poor's Ratings Services said today that it has lowered its long-term debt rating to 'AA' from 'AA+' on the €3 billion 3% senior unsecured bonds issued by Fondo de Reestructuración Ordenada Bancaria (FROB; "Fund For Orderly Bank Restructuring")--a key entity for the Spanish state in managing the restructuring of Spanish credit institutions and reinforcing the latter's own resources. The rating action is the same as that we have taken today on the Kingdom of Spain (AA/Negative/A-1+).

Our 'AA' rating on FROB's issuance is based on an equalization with the long-term sovereign credit rating. The Spanish state provides an explicit, timely, unconditional, and irrevocable guarantee--stipulated in the guarantee

terms--on all due principal and interest payments of issuance by FROB up to an outstanding total of €27 billion or its equivalent in any other currency. According to Article 9 of the guarantee, if FROB fails to make its due payments, creditors have legal comfort since they not only have direct recourse to the guarantor, but the Bank of Spain, as FROB's paying agent and in representation of the creditors, will also deposit a payment request with the guarantor on their behalf, without the creditors having to take prior legal action against FROB.

FROB was created by the Spanish government as a key entity to manage the restructuring of Spanish credit institutions, and to reinforce these institutions' own resources according to the terms stipulated in the Royal Decree-law 9/2009 of June 26, 2009. FROB is 75% owned by the Spanish state; the rest of the capital is divided between the Deposit Guarantee Fund of Banks, the Deposit Guarantee Fund of Savings Banks, and the Deposit Guarantee Fund of Credit Cooperatives, according to the percentage of the total deposits in the credit institutions at year-end 2008. This shareholder structure is reflected in FROB's initial endowment, which amounted to €9 billion, of which the state provided €6.75 billion.

FROB may grant--under market conditions--the funds it acquires, to any of the Deposit Guarantee Funds, whether of banks, savings banks, or credit cooperatives, in order to provide financial support in relation to the restructuring of credit institutions. The funds may also be used for restructuring transactions where FROB has been appointed as interim administrator of a credit institution, and also to enhance credit institutions' own resources, to acquire preferential holdings that are convertible into shares and ownership quotas, or to contribute to the credit cooperatives' capital base. Unassigned assets of the fund must be converted into public debt or into other high-liquidity, low-risk assets.

RELATED CRITERIA AND RESEARCH

- Spain Downgraded To 'AA' On Protracted Economic Adjustment And Risks To Budgetary Position; Outlook Negative, April 28, 2010
- Rating Sovereign-Guaranteed Debt, April 6, 2009

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