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Moody's assigns Aaa/P-1 ratings to FROB debt guaranteed by Spanish government

London, <Rating Date Pending> -- Moody's Investors Service has today assigned ratings of Aaa/Prime 1 (P-1) to senior debt issued by Fondo de Reestructuración Ordenada Bancaria (FROB) backed by a full guarantee from the Kingdom of Spain. These ratings will apply equally to local and foreign currency debt issues.

FROB is a specific-purpose fund established by the Spanish government to acquire capital in banks, with a view to strengthening the quality of their capital base and facilitating the restructuring of (parts of) the Spanish banking system. It is fully controlled and managed by the Bank of Spain, the country's banking supervisor and central bank.

“The rating is driven strongly by a first demand, unconditional and irrevocable guarantee from the Spanish government, which we recently affirmed as a ‘resistant’ Aaa borrower with a stable outlook,” said Anthony Thomas, a Vice President in Moody’s Sovereign Risk Group.

Key features of the guarantee are a cap of € 27 billion to the amount of debt that FROB may issue under the guarantee in 2009, and a lifetime total of €90bn. Under present plans, FROB will issue senior debt securities with a maturity not exceeding 7 years between now and 15 December 2010. The government also commits to making payments in the currency in which any guaranteed security is denominated.

“FROB debt also benefits a specific process that has been put in place to ensure timeliness of payments to investors, even in the event that government support is called upon,” added Thomas.

This process requires, FROB to notify the Spanish Treasury at least 15 days prior to an interest or principal payment date if it does not have sufficient cash resources to pay investors on the due date. In this event, the Treasury will deposit the necessary amounts in an account with the Bank of Spain. The Bank of Spain, in turn, in its capacity as paying agent for FROB, will use these monies to make payments to debt holders in a timely manner.

The creation of FROB in the scale currently envisioned will not put downward pressure on Spain's Aaa sovereign rating. Even if FROB were to raise the entire €90bn it will be permitted to issue, we still see Spain's government debt affordability metrics as Aaa-compatible.

The principal methodology used in rating FROB's sovereign-guaranteed debt was Moody's Sovereign Bond Methodology, which can be found at www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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