KINGDOM OF SPAIN

Rating Analysis - 9/2/21

*EJR Sen Rating(Curr/Prj) BBB/ BBB
*EJR CP Rating: A2
EJR's 3 yr. Default Probability: 2.0%

Spain maintains its economic growth forecast for this year at 6.5% as it was set in April and is likely to expand 7% in 2022, when it is expected to reach pre-pandemic levels. The caveat being that the forecasts hinge on the progress of the coronavirus vaccination program and the arrival of European Union recovery funds. The government expects unemployment to remain at 15% this year and 14% in 2022. The quarterly unemployment rate stood at 13.8% in late 2019, before the pandemic hit. The government also maintained the budget deficit this year and in 2022 at 8.4% and 5%, respectively, as the current suspension of the fiscal straightjacket rules that set a 3% budget gap limit on EU member countries will also be in place for 2022.

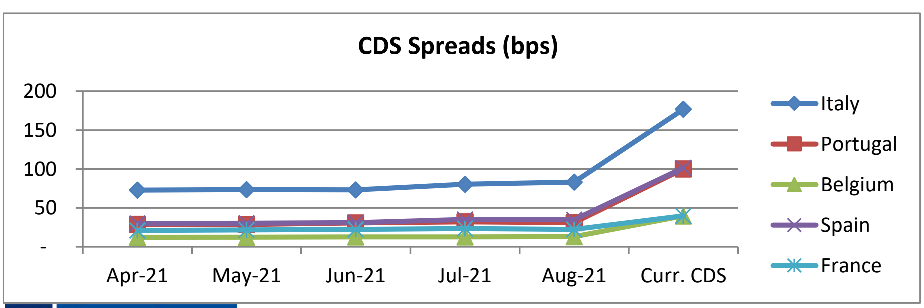
As vaccination advances and restrictions are progressively lifted, economic activity will pick up strongly. Reduced uncertainty will lead to a sharp decline in precautionary saving and support private consumption. The spread of the Delta variant risks hitting the tourism sector, while weak public finances and potentially market-unfriendly reforms of labor and rental housing markets cloud the outlook. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	114.5	117.3	146.7	152.2	159.2	152.4
Govt. Sur/Def to GDP (%)	-2.8	-3.2	-11.1	-14.6	-17.2	-16.7
Adjusted Debt/GDP (%)	114.5	117.3	146.7	152.2	159.2	152.4
Interest Expense/ Taxes (%)	10.7	10.2	9.8	10.8	11.9	12.1
GDP Growth (%)	3.6	3.4	-9.9	2.5	3.6	3.6
Foreign Reserves/Debt (%)	30.3	31.5	30.4	25.6	21.3	17.8
Implied Sen. Rating	A-	A-	BB+	BBB-	BBB-	BBB-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

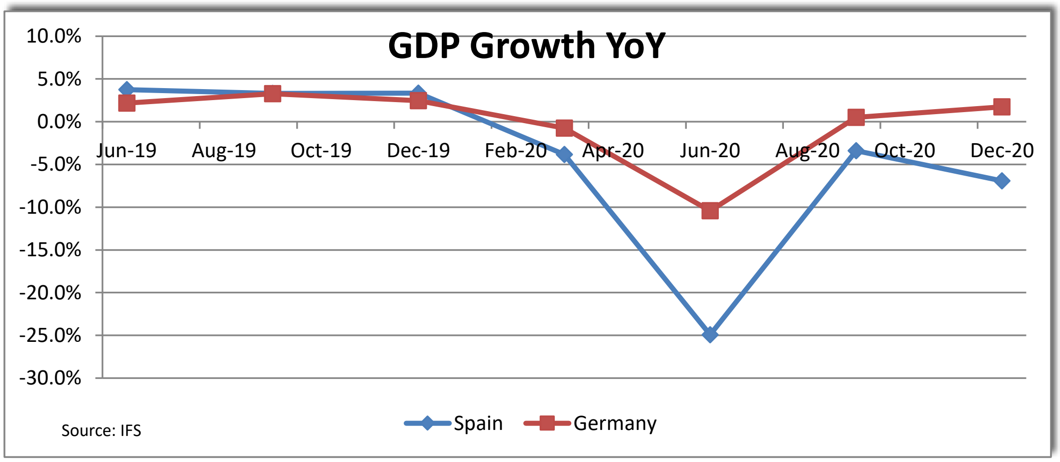
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BB
Kingdom Of Belgium	AA	142.4	-9.0	142.4	6.5	-5.3	BB
Republic Of Italy	BBB-	184.1	-9.7	184.1	11.9	-7.8	B
Portugal Republic	BB+	155.1	-6.3	155.1	11.8	-5.4	BB-



Country	EJR Rtg.	CDS
Italy	BBB-	177
Portugal	BBB-	100
Belgium	BBB	40
Spain	BBB+	101
France	A+	40

Economic Growth

The economy likely rebounded in Q2, as the lifting of restrictions fed domestic spending and activity. Solid employment growth, higher consumer confidence, and soaring service PMI readings in Q2 hint at a bounce back in tertiary sector activity. Spain's GDP expanded 2.8% on quarter in Q2'21, rebounding from a 0.4% contraction in the previous period and beating market expectations of a 2.2% advance, a preliminary estimate showed. As Covid-19 cases went down, the country loosened most of the restrictions on businesses and both household consumption (6.6% vs -0.4% in Q1) and government expenditure (0.8% vs -0.1%) rebounded. Meantime, gross fixed capital formations continued to decline (-1.5% vs -0.8%) and net foreign demand contributed negatively to growth, as exports went up 0.4% (vs -1.7% in Q1) while imports rose at a faster 2.9% (vs -1.3%). Year-on-year, the economy advanced a record 19.8%, after a 4.2% drop and also above market forecasts of a 19% rebound. The Spanish government forecasts economic growth at 6.5% this year, despite a resurgence in Covid-19 cases.



Fiscal Policy

The government has introduced direct fiscal support (6.4% of GDP) and liquidity measures (14.3% of GDP) since March 2020. The extension of the job retention schemes and the aid to the self-employed are under discussion. The moratorium on home evictions and deferral of rent payments for vulnerable groups were extended until August. Direct aid measures to firms (0.9% of GDP), including non-reimbursable grants to viable firms in the most impacted sectors and two funds for recapitalisation and loan restructuring, were recently introduced.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Spain	-11.15	146.73	101.46
Germany	-4.19	79.69	22.28
France	-8.79	145.87	39.75
Belgium	-8.97	142.45	39.72
Italy	-9.72	184.12	176.76
Portugal	-6.26	155.13	99.99

Sources: Thomson Reuters and IFS

Unemployment

At a rate of 15.26% in Q2'21 (vs. 15.98% in Q1'21), Spain was one of the countries with the highest unemployment rates in the European Union. As of Q3 2005, the unemployment rate in Spain was at roughly 8.4%, in the same quarter of 2012 it increased resulting in a rate of around 24.8. As of Q2 2017, the unemployment rate was 9.72% lower than its peak, the peak occurred in Q1 2013 before fluctuating somewhat in a downward trend.

Unemployment (%)

	2019	2020
Spain	13.96	15.50
Germany	3.20	4.31
France	8.43	8.62
Belgium	5.36	5.55
Italy	9.95	9.31
Portugal	6.46	7.20

Source: Intl. Finance Statistics

Banking Sector

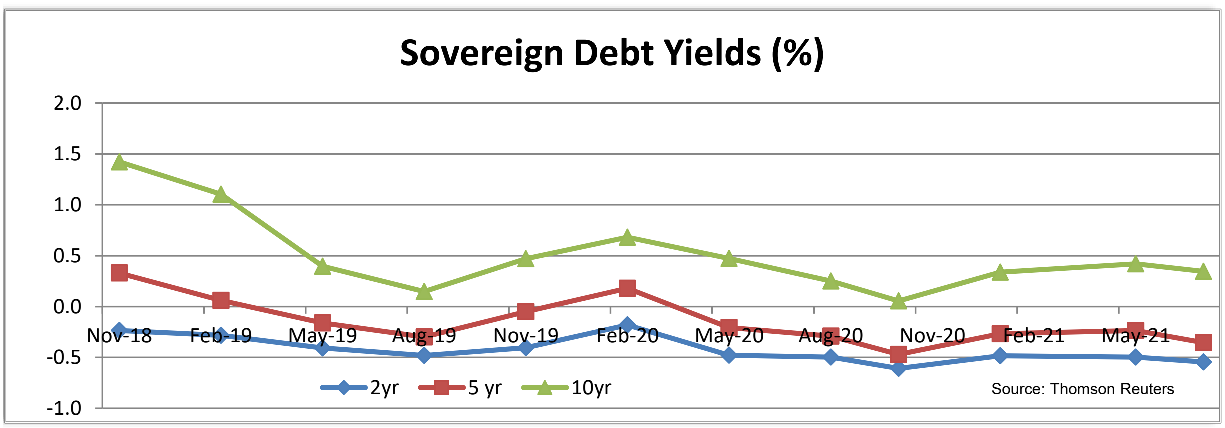
Since the global financial crisis, the volume of bank lending to the resident private sector in Spain increased in 2020 (by 3.5%). Total new lending to the resident private sector in 2020 was up 5.6% on 2019, although there were contrasting performances for non-financial corporations and sole proprietors (rising 6.6%) and households (down 5.6%). Watch for lay-offs, rise in NPAs as government support wanes.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
BANCO SANTANDER	1,508.3	3.59
BBVA	736.2	5.02
CaixaBank	451.5	4.69
Bankia	209.8	2.58
Banko de Sabadell	235.76	1.44
Total	3,141.6	
EJR's est. of cap shortfall at 10% of assets less market cap		193.1
Spain's GDP		1,121.7

Funding Costs

Bank Lending Rate in Spain increased to 1.61% in June from 1.54% in May 2021. ECB Harmonised was reported at 0.33 % pa in Jul 2021, compared with 0.45 % pa in the previous month. The Spain 10Y Government Bond has a 0.313% yield and current 5-Years Credit Default Swap quotation is 29.90 and implied probability of default is 0.50%.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 30 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*

	2021 Rank	2020 Rank	Change in Rank
Overall Country Rank:	**30**	**30**	**0**
Scores:			
Starting a Business	97	97	0
Construction Permits	79	79	0
Getting Electricity	55	55	0
Registering Property	59	59	0
Getting Credit	80	80	0
Protecting Investors	28	28	0
Paying Taxes	35	35	0
Trading Across Borders	1	1	0
Enforcing Contracts	26	26	0
Resolving Insolvency	18	18	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Spain is above average in its overall rank of 69.9 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom
World Rank 69.9*

	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	76.4	74.9	1.5	53.6
Government Integrity	65.4	55.1	10.3	45.9
Judical Effectiveness	70.3	51.8	18.5	45.4
Tax Burden	61.7	62.1	-0.4	77.7
Gov't Spending	48.1	48.3	-0.2	67.1
Fiscal Health	69.8	62.6	7.2	72.1
Business Freedom	66.3	66.8	-0.5	63.2
Labor Freedom	57.9	57.7	0.2	59.5
Monetary Freedom	83.5	82.0	1.5	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:
KINGDOM OF SPAIN has seen a decline in taxes of 7.8% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 7.8% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
KINGDOM OF SPAIN's total revenue growth has been less than its peers and we assumed a 6.8% decline in total revenue over the next two years.

	Peer	Issuer	Assumptions	
Income Statement	**Median**	**Avg.**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	(6.5)	(7.8)	**(7.8)**	**0.5**
Social Contributions Growth %	(1.2)	0.8	**0.8**	**0.8**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(8.1)	**(8.1)**	**(8.1)**
Total Revenue Growth%	(5.0)	(5.0)	**(6.8)**	**(6.1)**
Compensation of Employees Growth%	2.9	4.5	**4.5**	**4.5**
Use of Goods & Services Growth%	2.2	3.2	**2.2**	**2.2**
Social Benefits Growth%	8.0	14.0	**14.0**	**14.0**
Subsidies Growth%	28.1	71.0		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.5	**1.5**	
Currency and Deposits (asset) Growth%	22.9	0.0		
Securities other than Shares LT (asset) Growth%	2.2	0.0		
Loans (asset) Growth%	(108.8)	(67.7)	**(7.8)**	**(7.8)**
Shares and Other Equity (asset) Growth%	(30.6)	(110.0)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	1.7	0.0		
Financial Derivatives (asset) Growth%	2.0	3.7	**(7.8)**	**(7.8)**
Other Accounts Receivable LT Growth%	2.6	(3.1)	**(3.1)**	**(3.1)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	2.9	2.7	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	0.7	1.7	**1.7**	**1.7**
Securities Other than Shares (liability) Growth%	14.4	13.4	**9.4**	**9.4**
Loans (liability) Growth%	2.4	13.4	**13.4**	**13.4**
Insurance Technical Reserves (liability) Growth%	10.3	(26.5)	**3.0**	**3.0**
Financial Derivatives (liability) Growth%	5.5	804.4	**20.0**	**25.0**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are KINGDOM OF SPAIN's annual income statements with the projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)

	2017	2018	2019	2020	P2021	P2022
Taxes	257,722	274,046	277,483	255,809	235,856	217,459
Social Contributions	142,430	149,450	160,667	161,898	163,138	164,388
Grant Revenue						
Other Revenue						
Other Operating Income	43,379	48,234	49,654	45,610	45,610	45,610
Total Revenue	443,531	471,730	487,804	463,317	444,604	427,458
Compensation of Employees	123,460	127,631	134,463	140,470	146,745	153,301
Use of Goods & Services	59,386	61,573	63,982	66,024	67,477	68,961
Social Benefits	207,420	216,603	229,648	261,731	298,296	339,970
Subsidies	12,126	11,918	12,523	21,420	21,422	21,424
Other Expenses				42,764	42,764	42,764
Grant Expense						
Depreciation	28,177	29,500	30,241	30,782	30,782	30,782
Total Expenses excluding interest	453,753	475,715	498,842	563,191	607,486	657,202
Operating Surplus/Shortfall	-10,222	-3,985	-11,038	-99,874	-162,882	-229,745
Interest Expense	29,251	29,287	28,349	25,192	25,578	25,969
Net Operating Balance	-39,473	-33,272	-39,387	-125,066	-188,459	-255,714

ANNUAL BALANCE SHEETS

Below are KINGDOM OF SPAIN's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
ASSETS	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	92,939	102,891	95,807	114,323	114,323	114,323
Securities other than Shares LT (asset)	3,360	3,540	10,963	9,935	9,935	9,935
Loans (asset)	-1,729	-212	-1,262	-407	-375	-346
Shares and Other Equity (asset)	-1,326	-19	-250	25	26	26
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	333	133	164	170	157	145
Other Accounts Receivable LT	75,853	76,958	77,994	75,558	73,198	70,912
Monetary Gold and SDR's						
Other Assets					251,638	251,638
Additional Assets	247,503	246,906	245,297	251,638		
Total Financial Assets	416,933	430,197	428,713	451,242	448,901	446,632
LIABILITIES						
Other Accounts Payable	65,841	76,173	81,205	83,388	85,890	88,466
Currency & Deposits (liability)	4,462	4,707	4,876	4,959	4,959	4,959
Securities Other than Shares (liability)	1,104,787	1,142,798	1,220,058	1,383,268	1,512,798	1,654,457
Loans (liability)	170,089	155,258	152,959	173,405	361,864	617,578
Insurance Technical Reserves (liability)			1,227	902	929	957
Financial Derivatives (liability)	208	157	113	1,022	1,226	1,472
Other Liabilities						
Liabilities	1,345,387	1,379,093	1,460,438	1,646,944	1,833,063	2,086,507
Net Financial Worth	-928,454	-948,896	-1,031,725	-1,195,702	-1,384,161	-1,639,875
Total Liabilities & Equity	416,933	430,197	428,713	451,242	448,901	446,632

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "BBB" whereas the ratio-implied rating for the most recent period is "BB+"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For the issuer KINGDOM OF SPAIN with the ticker of 1841z SM we have assigned the senior unsecured rating of BBB. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:
We are using the methodology version #15a available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:
Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:
EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:
EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:
This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:
Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			**Resulting Ratio-Implied Rating**		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	(7.8)	(3.8)	(11.8)	BB	BB	BB
Social Contributions Growth %	0.8	3.8	(2.2)	BB	BB	BB
Other Revenue Growth %		3.0	(3.0)	BB	BB	BB
Total Revenue Growth%	(6.8)	0.1	(8.8)	BB	BB	BB
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	BB	BB	BB

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature: **Today's Date**

September 02, 2021

Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

September 02, 2021

Steve Zhang
Senior Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward- looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.