KINGDOM OF SPAIN

*EJR Sen Rating(Curr/Prj) BBB/ BBB

Rating Analysis - 8/30/22

Although the pace of growth will ease this year, it should remain relatively solid. A recovering tourism industry and EU fund inflows should underpin the economy. While accumulated savings and rising employment will provide support to consumer spending, it will be restrained by elevated inflation. Rising interest rates and a weak fiscal position cloud the outlook.

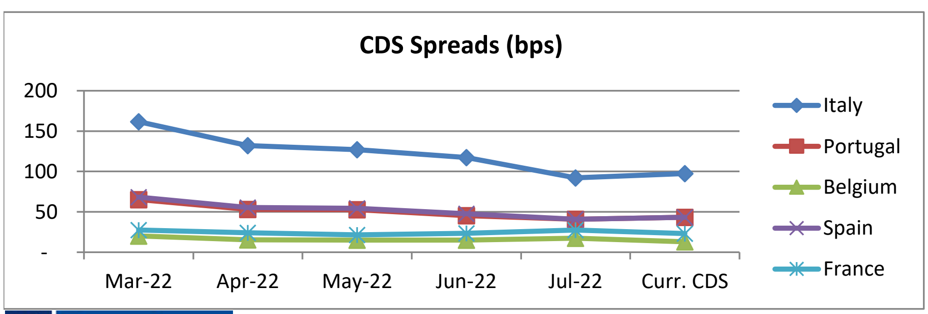
According to OECD, growth is set to slow to 4.1% in 2022 and 2.2% in 2023 due to heightened uncertainty, high inflation and slower external demand. Headline inflation increased to 10.2% in June and core inflation, excluding all energy and unprocessed food, increased to 5.5%. Supply bottlenecks and commodity prices continue to put pressure on inflation and are forecast to do so for longer than previously anticipated. Household savings accumulated during the pandemic, the fiscal package to mitigate the effects of the war, continued recovery in employment and the Next Generation EU funds will support domestic demand. Fiscal policy, which is set to remain supportive in 2022-23, should balance gradual fiscal tightening with well-targeted and temporary support to protect vulnerable households and firms from high inflation. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2019	2020	2021	P2022	P2023	P2024
Debt/ GDP (%)	120.5	147.4	142.5	143.4	140.4	133.3
Govt. Sur/Def to GDP (%)	-3.2	-10.1	-6.6	-3.1	0.8	4.6
Adjusted Debt/GDP (%)	120.5	147.4	142.5	143.4	140.4	133.3
Interest Expense/ Taxes (%)	10.2	9.8	8.8	7.8	6.8	6.1
GDP Growth (%)	3.4	-9.8	7.4	2.5	3.6	3.6
Foreign Reserves/Debt (%)	3.2	2.9	2.8	2.7	2.7	2.8
Implied Sen. Rating	BBB+	BB+	BBB	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

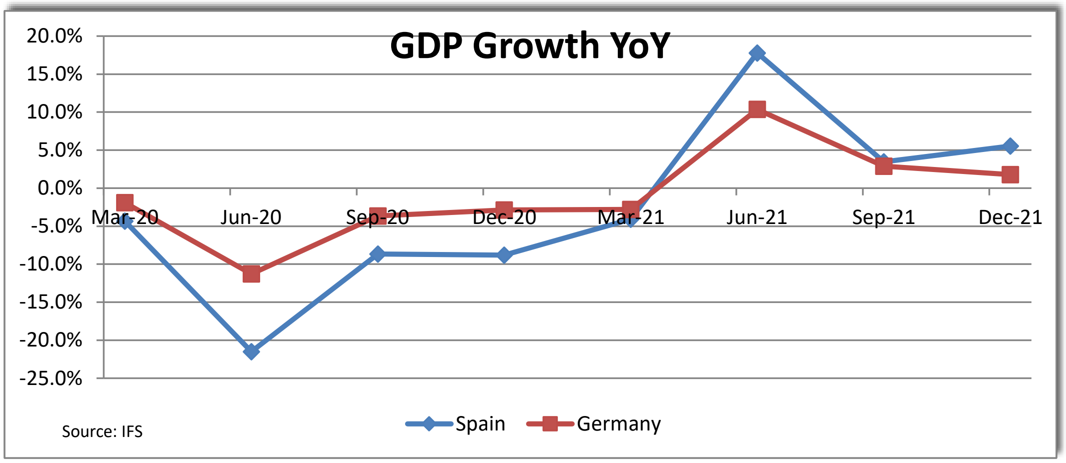
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	77.8	-3.6	77.8	2.4	6.0	AA
French Republic	AA	137.3	-6.0	137.3	4.6	8.2	A-
Kingdom Of Belgium	AA	128.0	-5.0	128.0	5.6	10.8	BBB
Republic Of Italy	BBB-	173.7	-7.2	173.7	11.9	7.2	BB+
Portugal Republic	BB+	145.5	-3.1	145.5	9.8	5.6	BBB-



Country	EJR Rtg.	CDS
Italy	BBB-	98
Portugal	BBB-	43
Belgium	BBB	13
Spain	BBB+	43
France	A+	23

Economic Growth

Spain's growth slowed sharply to a weaker-than-expected 0.2% in the first quarter from the previous quarter, leading the government to slash its growth outlook for this year to 4.3% from 7%. According to macroeconomic experts, Spain would not reach pre-pandemic GDP levels until the end of 2023, with inflation rates that would remain high in the coming months, before moderating thereafter. Spain's gross domestic product advanced 0.2% in Q1 2022, compared to the preliminary estimate of 0.3% and easing from a 2.2% expansion in the previous quarter. Household consumption declined (-2% vs 1.5% in Q4), while government consumption was nearly constant (0.1% vs -1.6%). On the other hand, fixed investment picked up at a faster rate (3.4% vs 3.1%), driven by machinery, equipment, weapons systems and cultivated biological resources (9.1% vs 4.6%), and housing (0.4% vs -0.2%). On a yearly basis, the economy expanded 6.3%, below preliminary estimates of 6.4% but picking up from the 5.5% expansion seen in Q4 2021.



Fiscal Policy

Fiscal policy is set to remain accommodative in 2022-23. Due to strong revenue growth and the phasing-out of COVID-19-related spending, the budget deficit narrowed to 6.9% of GDP in 2021 and is projected to be 4.2% of GDP by 2023.

To counter the negative impact of the war, the government approved a plan in March that included a subsidy on fuel retail sales, the extension of existing energy tax rebates, direct aid to the transport sector and electricity-intensive industries, a refugee reception programme, and a new credit line for vulnerable firms (EUR 10B, 0.6% of GDP).

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Spain	-6.60	142.46	43.34
Germany	-3.62	77.80	9.10
France	-5.97	137.28	23.02
Belgium	-4.98	128.02	12.93
Italy	-7.19	173.71	97.55
Portugal	-3.09	145.47	43.34

Sources: Thomson Reuters and IFS

Unemployment

Spain's unemployment rate increased to 13.65 percent in Q1 2022 from an over thirteen-year low of 13.33 percent in the previous three-month period, as the economic recovery began to falter amid strong headwinds from soaring energy and raw material costs and the war in Ukraine.

Unemployment (%)

	2020	2021
Spain	15.53	14.81
Germany	3.83	3.58
France	8.03	7.88
Belgium	5.73	6.28
Italy	9.30	9.56
Portugal	7.12	6.60

Source: Intl. Finance Statistics

Banking Sector

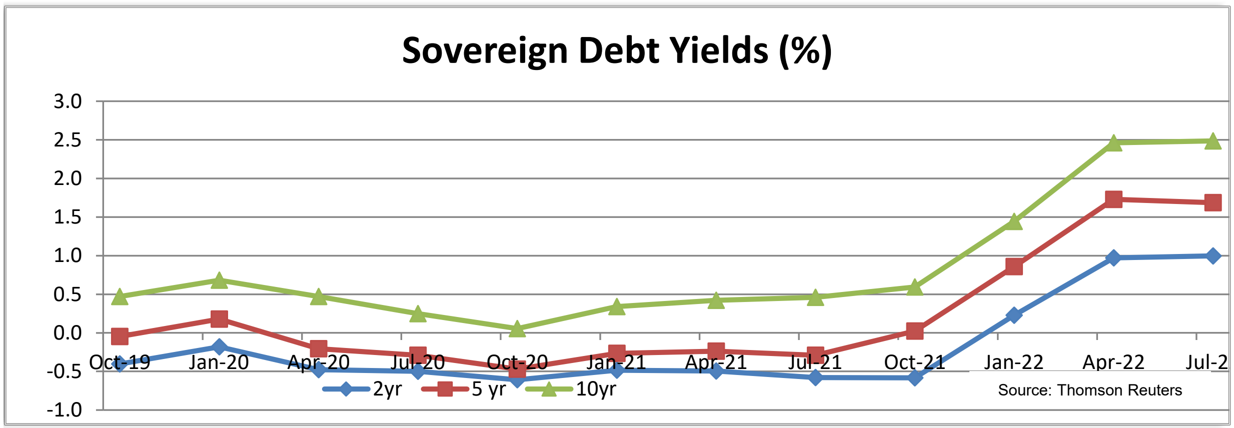
The Spanish banking system has demonstrated resilience to the COVID-19 pandemic, and although the conflict in Ukraine renders the economic outlook more uncertain, it appears the downside risks for Spanish banks are limited. The exposure of Spanish banks to Russian and Ukraine assets is very limited. Economic activity indicators suggest the economy will grow in Q2 2022.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
BANCO SANTANDER	1,595.8	2.68
BBVA	662.9	4.20
CaixaBank	680.0	3.46
Bankia	209.8	2.58
Banko de Sabadell	251.95	1.47
Total	3,400.5	
EJR's est. of cap shortfall at 10% of assets less market cap		236.8
Spain's GDP		1,205.1

Funding Costs

Spain 10Y Bond Yield was 2.27 percent and is expected to trade at 2.49 percent by the end of this quarter, according to Trading Economics global macro models. Looking forward, market consensus estimates it to trade at 3.31 per cent in 12 months' time. The Spain 5 Years CDS value is 63.40 (25 Jul 2022) which value reveals a 1.06% implied probability of default, on a 40% recovery rate supposed. The Spain 5 Years Sovereign CDS reached a maximum value of 163.50 (19 March 2020) and a minimum yield of 28.30 (18 September 2021).



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 grown its taxes of 15.3% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 15.3% per annum over the next couple of years and 13.8% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
KINGDOM OF SPAIN's total revenue growth has been more than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	10.1	15.3	**15.3**	**13.8**
Social Contributions Growth %	6.0	6.3	**6.0**	**6.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	25.4	**30.6**	**30.6**
Total Revenue Growth%	9.1	13.2	**13.2**	**11.9**
Compensation of Employees Growth%	3.1	4.9	**4.9**	**4.9**
Use of Goods & Services Growth%	6.8	7.0	**7.0**	**7.0**
Social Benefits Growth%	2.8	0.7	**0.7**	**0.7**
Subsidies Growth%	9.3	(12.7)		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.5	**1.5**	
Currency and Deposits (asset) Growth%	1.3	0.0		
Securities other than Shares LT (asset) Growth%	7.0	0.0		
Loans (asset) Growth%	(73.1)	(17.1)	**(17.1)**	**(17.1)**
Shares and Other Equity (asset) Growth%	(9.9)	(1,191.5)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	2.7	0.0		
Financial Derivatives (asset) Growth%	0.0	77.6	**15.3**	**13.8**
Other Accounts Receivable LT Growth%	4.2	4.3	**4.3**	**4.3**
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%	5.8	32.9	**5.0**	**5.0**
Currency & Deposits (liability) Growth%	1.8	0.5	**0.5**	**0.5**
Securities Other than Shares (liability) Growth%	(0.1)	1.3	**0.9**	**0.9**
Loans (liability) Growth%	2.8	8.0	**8.0**	**8.0**
Insurance Technical Reserves (liability) Growth%	6.1	505.0	**2.0**	**2.0**
Financial Derivatives (liability) Growth%	(22.1)	(52.7)	**(10.0)**	**(10.0)**
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)

	2018	2019	2020	2021	P2022	P2023
Taxes	274,046	277,651	256,441	295,769	341,022	393,198
Social Contributions	149,450	160,656	162,215	172,460	182,808	193,776
Grant Revenue						
Other Revenue						
Other Operating Income	48,588	50,190	46,843	58,728	58,728	58,728
Total Revenue	472,084	488,497	465,499	526,957	582,557	645,702
Compensation of Employees	127,631	134,729	140,454	147,363	154,612	162,217
Use of Goods & Services	61,573	64,096	65,909	70,521	75,456	80,736
Social Benefits	216,603	229,615	262,235	264,016	265,809	267,614
Subsidies	11,918	12,435	21,452	18,718	18,720	18,722
Other Expenses				49,762	49,762	49,762
Grant Expense						
Depreciation	29,500	29,487	29,660	30,016	30,016	30,016
Total Expenses excluding interest	477,099	500,128	553,908	580,396	594,375	609,067
Operating Surplus/Shortfall	-5,015	-11,631	-88,409	-53,439	-11,817	36,635
Interest Expense	29,309	28,361	25,237	26,085	26,481	26,884
Net Operating Balance	-34,324	-39,992	-113,646	-79,524	-38,299	9,751

ANNUAL BALANCE SHEETS

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

	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
Base Case						
ASSETS	2018	2019	2020	2021	P2022	P2023
Currency and Deposits (asset)	106,246	99,134	114,112	147,768	147,768	147,768
Securities other than Shares LT (asset)	1,186	8,399	10,039	10,393	10,393	10,393
Loans (asset)	-4,271	-5,489	-3,420	-2,836	-2,352	-1,950
Shares and Other Equity (asset)	124	-512	59	-644	-657	-670
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	133	164	170	302	348	401
Other Accounts Receivable LT	77,242	77,553	75,266	78,513	81,900	85,433
Monetary Gold and SDR's						
Other Assets					261,348	261,348
Additional Assets	269,708	263,093	256,562	261,348		
Total Financial Assets	450,368	442,342	452,788	494,844	498,749	502,724
LIABILITIES						
Other Accounts Payable	77,011	80,914	82,888	110,163	115,671	121,455
Currency & Deposits (liability)	4,707	4,876	4,959	4,983	4,983	4,983
Securities Other than Shares (liability)	1,178,308	1,259,820	1,390,860	1,408,507	1,421,017	1,433,637
Loans (liability)	155,258	152,977	173,749	187,682	225,981	216,229
Insurance Technical Reserves (liability)		1,227	902	5,457	5,566	5,677
Financial Derivatives (liability)	1,867	1,455	1,036	490	441	397
Other Liabilities	1		-1			
Liabilities	1,417,152	1,501,269	1,654,393	1,717,282	1,759,485	1,753,709
Net Financial Worth	-966,784	-1,058,927	-1,201,605	-1,222,438	-1,260,737	-1,250,985
Total Liabilities & Equity	450,368	442,342	452,788	494,844	498,749	502,724

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 "BBB"; 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%	15.3	19.3	11.3	BBB	BBB+	BBB
Social Contributions Growth %	6.0	9.0	3.0	BBB	BBB+	BBB
Other Revenue Growth %		3.0	(3.0)	BBB	BBB	BBB
Total Revenue Growth%	13.2	15.2	11.2	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	BBB	BBB	BBB

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**

August 30, 2022

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Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

August 30, 2022

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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.