

In 2023, the Spanish economy posted a growth of 2.5%, driven by robust labor market developments that sustained private consumption, as well as contributions from net exports and public consumption. Despite the high interest rates and general uncertainty, overall investment growth was subdued, especially in the second half of the year, notably in equipment and machinery and residential construction. In the Q1 of 2024, real GDP recorded a quarterly growth of 0.7%, largely driven by external demand.

Downside surprises in the evolution of economic activity in Spain's main trading partners could adversely impact the outlook for activity, affecting external demand and private investment. Moreover, due to the impact of recent interest rate hikes, persistent precautionary behavior from the private sector with a preference for further deleveraging poses downside risks to investment growth. On the other hand, a gradual normalization of non-financial corporations' investment levels and the still elevated household savings ratio over the forecast horizon have the potential to provide additional impetus to domestic demand. Upgrading.

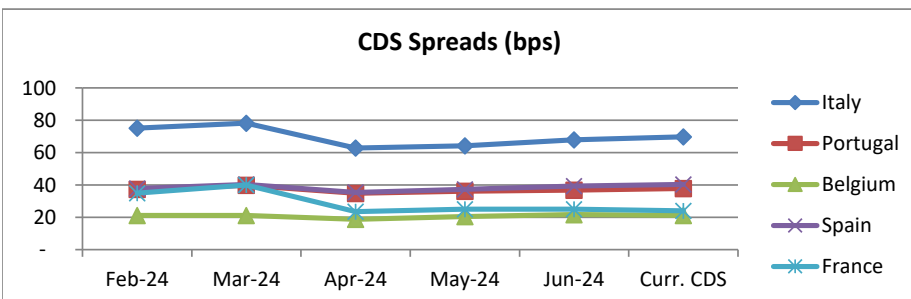
Annual Ratios (source for past results: IMF)

CREDIT POSITION	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>P2024</u>	<u>P2025</u>	<u>P2026</u>
Debt/ GDP (%)	140.9	116.1	114.1	120.4	126.9	133.5
Govt. Sur/Def to GDP (%)	-6.4	-4.2	-2.9	-3.0	-3.0	-3.3
Adjusted Debt/GDP (%)	140.9	116.1	114.1	120.4	126.9	133.5
Interest Expense/ Taxes (%)	8.8	9.6	10.2	9.7	9.3	8.9
GDP Growth (%)	9.2	10.2	8.6	2.5	3.6	3.6
Foreign Reserves/Debt (%)	2.8	3.4	3.4	3.2	3.0	2.8
Implied Sen. Rating	BBB	A-	A-	BBB+	BBB+	BBB+

INDICATIVE CREDIT RATIOS

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>
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

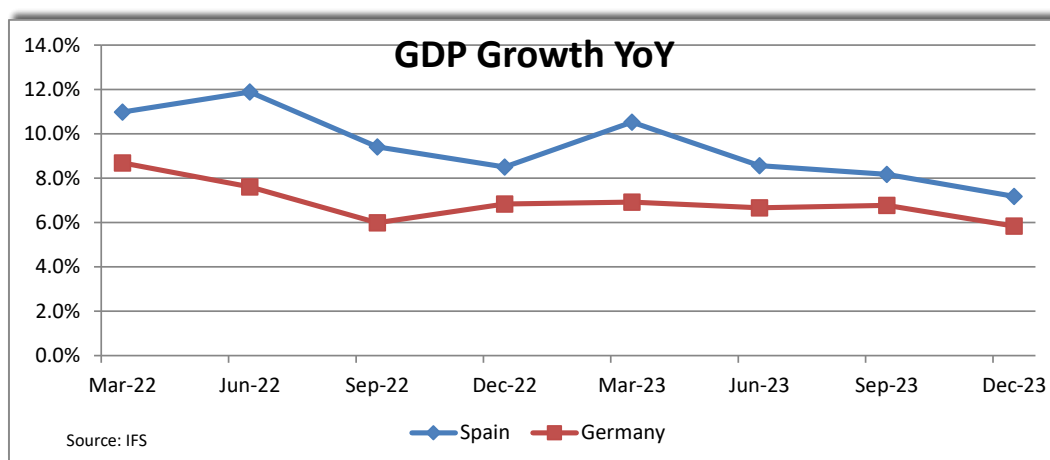
PEER RATIOS	<u>Other Sen.</u>	<u>Debt as a % of GDP</u>	<u>Govt. Surp. Def to GDP (%)</u>	<u>Adjusted Debt/ GDP</u>	<u>Interest Expense/ Taxes %</u>	<u>GDP Growth (%)</u>	<u>Ratio- Implied Rating*</u>
Federal Republic Of Germany	AAA	64.0	-2.6	64.0	3.8	6.3	AA
French Republic	AA	117.2	-4.8	117.2	5.9	6.2	A-
Kingdom Of Belgium	AA	108.6	-3.9	108.6	6.8	5.5	BBB
Republic Of Italy	BBB-	151.4	-6.8	151.4	12.7	6.2	BB+
Portugal Republic	BB+	105.8	1.1	105.8	8.6	9.6	BBB-



<u>Country</u>	<u>EJR Rtg.</u>	<u>CDS</u>
Italy	BBB-	70
Portugal	BBB-	38
Belgium	BBB	21
Spain	BBB+	40
France	A+	24

Economic Growth

Sequential GDP growth remained stable in Q1 2024 from Q4 2023, as improvements in net trade, fixed investment, and household consumption offset declines in government spending and destocking. Looking ahead to the current quarter, economists expect the economy to lose some momentum but continue to outperform the Euro area average, with available data painting a positive picture so far. In April, industrial output grew at a faster month-on-month rate than the Q1 average, and retail sales rebounded. Moreover, survey data for May was optimistic, with both the manufacturing and services PMI rising further and economic sentiment remaining upbeat. Consequently, GDP growth in Spain for 2024 has been revised upwards from 1.5% to 2.1%. However, in 2025, growth is expected to slow by 0.5 percentage points from the previous forecast to 2.0%, due to the need to adjust public accounts and the anticipated weakness in the Eurozone economy.



Fiscal Policy

The general government deficit decreased in 2023 to 3.6% of GDP from 4.7% in 2022, driven by the reduced cost of measures to mitigate high energy prices and favorable macroeconomic developments that boosted revenues. A significant factor in reducing the deficit was the 11% growth in taxes on income and wealth, reflecting strong corporate profits and a robust labor market. On the expenditure side, savings from targeted energy-related measures, which saw their budgetary cost decrease by 0.6 percentage points to 0.9% of GDP, were the main contributor to the deficit decline.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Spain	-2.93	114.12	40.25
Germany	-2.55	64.01	11.51
France	-4.84	117.19	24.00
Belgium	-3.85	108.57	21.16
Italy	-6.85	151.35	69.77
Portugal	1.08	105.78	37.73

Sources: Thomson Reuters and IFS

Unemployment

The positive performance of the labor market in 2023 continued into 2024. Job creation increased sharply in the first two quarters of the year before moderating slightly in the second half. Employment expanded by 3.2% annually, supported by strong migration flows. The unemployment rate fell to 12.1% last year and is projected to decline further, reaching 11.6% in 2024 and 11.1% in 2025, though it will remain at an elevated level. Nominal wage growth is expected to moderate in 2024 and 2025 but remain slightly

	Unemployment (%)	
	2022	2023
Spain	12.93	12.12
Germany	3.07	3.03
France	7.32	7.34
Belgium	5.58	5.53
Italy	8.08	7.67
Portugal	6.16	6.58

Source: Intl. Finance Statistics

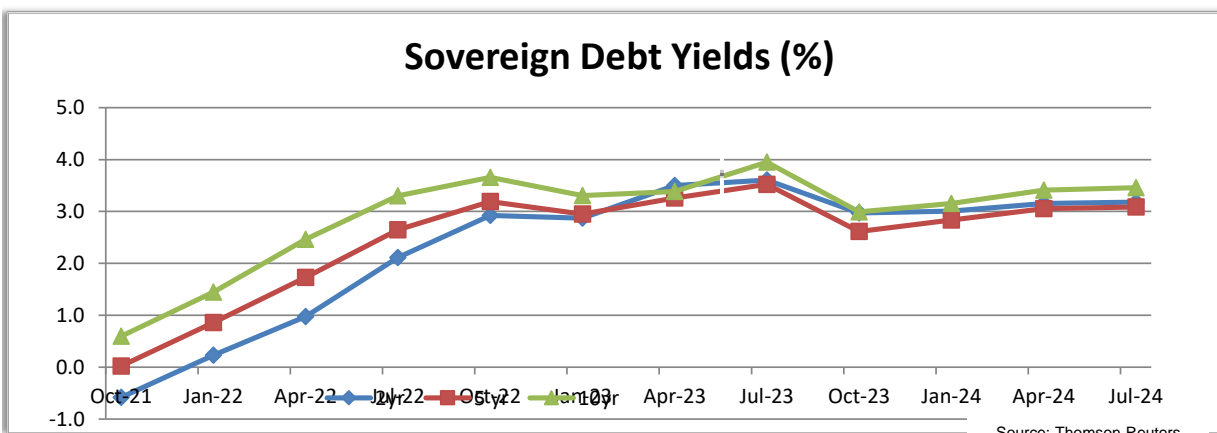
Banking Sector

At the end of 2023, the banking sector's profitability (ROE) stood at 12.57%, a 4.52% increase from the previous year. Industry solvency saw a modest increase of about 2bps compared to 2022, with a CET1 fully loaded ratio of 12.8%. Efficiency in the industry improved significantly, with the efficiency ratio dropping from 50.6% in 2022 to 42% by December 2023. Non-performing loans (NPLs) showed a slight increase of 3 basis points due to the sale of doubtful loan portfolios.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
BANCO SANTANDER	1,797.1	3.78
BBVA	775.6	6.97
CaixaBank	607.2	6.03
Bankia	209.8	2.58
Banko de Sabadell	<u>235.17</u>	<u>4.19</u>
Total	3,624.8	
EJR's est. of cap shortfall at 10% of assets less market cap		188.6
Spain's GDP		1,461.9

Funding Costs

The yield on the Spain 10-Year Government Bond is currently 3.187%. The spread between the Spain 10-Year and 2-Year government bonds stands at 20.8 basis points. The current quotation for Spain's 5-Year Credit Default Swap is 34.76 basis points, implying a default probability of 0.58%.



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	2020	Change in
	Rank	Rank	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 63.3 for Economic Freedom with 100 being best.

Heritage Foundation 2024 Index of Economic Freedom				
World Rank 63.3*				
	2024	2023	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	87.2	87.2	0.0	53.4
Government Integrity	64.0	66.9	-2.9	43.7
Judicial Effectiveness	73.6	73.1	0.5	48.8
Tax Burden	57.0	58.2	-1.2	78.1
Gov't Spending	26.0	30.2	-4.2	64.2
Fiscal Health	0.0	7.4	-7.4	52.1
Business Freedom	79.7	75.2	4.5	62.1
Labor Freedom	63.6	62.1	1.5	55.9
Monetary Freedom	74.1	80.6	-6.5	67.2
Trade Freedom	84.2	83.6	0.6	69.8

*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 7.0% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 7.0% per annum over the next couple of years and 6.3% 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 a 8.0% 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%	5.4	7.0	7.0	6.3
Social Contributions Growth %	6.4	9.3	9.0	9.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	18.5	14.0	14.0
Total Revenue Growth%	6.4	9.0	8.0	7.2
Compensation of Employees Growth%	6.3	5.5	5.5	5.5
Use of Goods & Services Growth%	5.0	7.5	7.5	7.5
Social Benefits Growth%	4.4	9.6	9.6	9.6
Subsidies Growth%	(2.5)	(20.2)		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.2	2.2	
Currency and Deposits (asset) Growth%	(8.2)	0.0		
Securities other than Shares LT (asset) Growth%	12.0	0.0		
Loans (asset) Growth%	(57.9)	33.8	7.0	7.0
Shares and Other Equity (asset) Growth%	(74.8)	159.4	159.4	143.5
Insurance Technical Reserves (asset) Growth%	8.3	0.0		
Financial Derivatives (asset) Growth%	(18.0)	(40.8)	(10.0)	(10.0)
Other Accounts Receivable LT Growth%	(0.5)	12.1	7.0	7.0
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%	0.8	1.9	3.0	3.0
Currency & Deposits (liability) Growth%	(2.1)	2.6	2.6	2.6
Securities Other than Shares (liability) Growth%	9.1	9.3	6.5	6.5
Loans (liability) Growth%	(0.5)	(6.5)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	2.8	1.6	1.6	1.6
Financial Derivatives (liability) Growth%	0.0	(29.5)	(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)					
	2020	2021	2022	2023	P2024	P2025
Taxes	256,714	296,595	331,047	354,254	379,052	405,585
Social Contributions	162,191	171,687	180,222	196,931	214,655	233,974
Grant Revenue						
Other Revenue						
Other Operating Income	48,667	60,926	62,826	74,476	74,476	74,476
Total Revenue	467,572	529,208	574,095	625,661	668,183	714,035
Compensation of Employees	140,609	148,103	154,894	163,376	172,322	181,759
Use of Goods & Services	66,403	71,543	79,101	85,007	91,354	98,175
Social Benefits	262,211	263,406	267,041	292,710	320,846	351,687
Subsidies	21,418	17,878	26,965	21,507	21,509	21,511
Other Expenses				37,316	37,316	37,316
Grant Expense						
Depreciation	29,845	30,847	31,884	32,655	32,655	32,655
Total Expenses excluding interest	554,309	581,534	599,158	632,571	676,003	723,103
Operating Surplus/Shortfall	-86,737	-52,326	-25,063	-6,910	-7,820	-9,068
Interest Expense	<u>25,120</u>	<u>26,175</u>	<u>31,809</u>	<u>35,967</u>	<u>36,742</u>	<u>37,534</u>
Net Operating Balance	-111,857	-78,501	-56,872	-42,877	-44,563	-46,603

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)					
	2020	2021	2022	2023	P2024	P2025
ASSETS						
Currency and Deposits (asset)	115,126	147,748	162,844	161,374	202,814	202,814
Securities other than Shares LT (asset)	10,039	10,606	10,202	10,628	10,628	10,628
Loans (asset)	-2,952	-3,183	-3,126	-4,184	-4,477	-4,790
Shares and Other Equity (asset)	171	-335	-143	-371	-963	-2,497
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	170	302	321	190	171	154
Other Accounts Receivable LT	77,169	84,374	87,516	98,125	104,994	112,343
Monetary Gold and SDR's						
Other Assets					256,266	256,266
Additional Assets	<u>254,792</u>	<u>261,454</u>	<u>266,350</u>	<u>256,266</u>		
Total Financial Assets	454,515	500,966	523,964	522,028	569,434	574,918
LIABILITIES						
Other Accounts Payable	82,844	112,725	127,166	129,528	133,414	137,416
Currency & Deposits (liability)	4,959	4,983	5,151	5,286	5,286	5,286
Securities Other than Shares (liability)	1,392,450	1,408,510	1,240,604	1,355,617	1,443,590	1,537,272
Loans (liability)	173,751	188,829	182,581	170,748	215,311	261,914
Insurance Technical Reserves (liability)	902	6,977	7,072	7,186	7,302	7,420
Financial Derivatives (liability)	1,036	491	88	62	56	50
Other Liabilities			-1			
Liabilities	1,655,942	1,722,515	1,562,661	1,668,427	1,760,395	1,812,483
Net Financial Worth	<u>-1,201,427</u>	<u>-1,221,549</u>	<u>-1,038,697</u>	<u>-1,146,399</u>	<u>-1,190,962</u>	<u>-1,237,565</u>
Total Liabilities & Equity	454,515	500,966	523,964	522,028	569,434	574,918

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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 "A-"; 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 #16 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%	7.0	11.0	3.0	BBB+	BBB+	BBB+
Social Contributions Growth %	9.0	12.0	6.0	BBB+	BBB+	BBB+
Other Revenue Growth %		3.0	(3.0)	BBB+	BBB+	BBB+
Total Revenue Growth%	8.0	10.0	6.0	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.

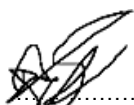
ATTESTATION FORM

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

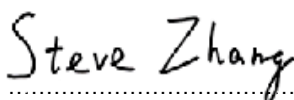


Supramanian NG
Senior Rating Analyst

Aug 16, 2024

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

Aug 16, 2024

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.