

CREDIT OPINION

16 October 2020

Update

 Rate this Research

RATINGS

Banco Santander S.A. (Spain)

Domicile	Santander, Spain
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Maria Cabanyes +34.91.768.8214
Senior Vice President
maria.cabanyes@moodys.com

Maria Jose Mori +34.91.768.8227
VP-Sr Credit Officer
mariajose.mori@moodys.com

Victor Perez Becerril +34.91.768.8221
Associate Analyst
victor.perez@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

Banco Santander S.A. (Spain)

Update to credit analysis

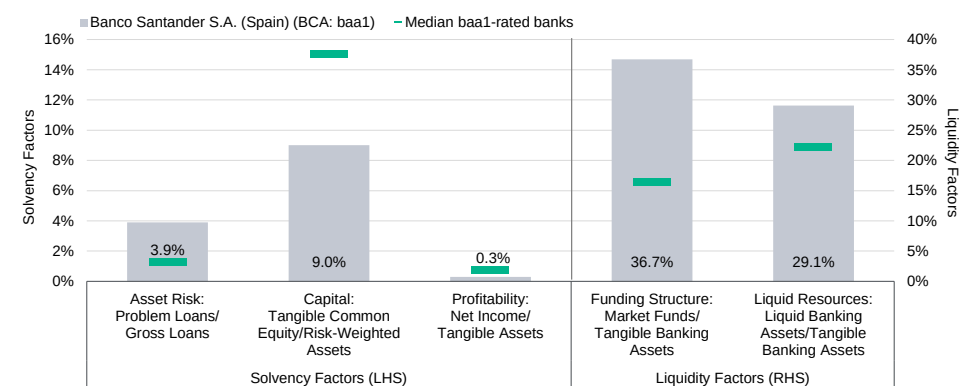
Summary

[Banco Santander S.A. \(Spain\)](#)'s (Santander) A2/Prime-1 ratings reflect (1) the bank's Baseline Credit Assessment (BCA) of baa1; (2) a very low loss given failure for long-term depositors and senior unsecured creditors based on our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch uplift; and (3) our assumption of moderate support from the [Government of Spain](#) (Baa1 stable), although this results in no further uplift, given the fact that Santander's long-term ratings (before government support) exceed the sovereign rating. The bank's long-term deposit and senior unsecured debt ratings are capped at A2 by Spain's sovereign rating of Baa1 with a stable outlook. Santander's Counterparty Risk (CR) Assessment is A3(cr)/Prime-2(cr).

Santander's BCA reflects a combination of the following factors: (1) benefits of ample geographical diversification, which underpins sustained profit generation and low earnings volatility, (2) modest asset risk and profitability metrics which we expect will deteriorate due to the coronavirus crisis; (3) overall modest capitalisation, which is mitigated by its proven capacity to generate capital in times of stress; and (4) well established global funding structure with self-sufficient and diversified funding channels and liquidity management at each of the group's subsidiaries which mitigates the risks inherent to its large stock of confidence-sensitive wholesale funding. There are, however, risks to the bank's credit profile, namely in terms of asset quality and profitability, as a result of the deteriorating operating environment because of the coronavirus outbreak. Santander's baa1 BCA is not capped by the Baa1 sovereign rating.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » Very strong geographical diversification, which underpins consistent profit generation and low earnings volatility despite the bank's high exposure to developing markets
- » Above-average pre-provision profitability through the cycle
- » Proven capacity to generate capital in times of stress
- » Good liquidity and proven market access, with an independent model for its subsidiaries, which limits contagion risk

Credit challenges

- » Subdued profitability in mature markets, which continues to weigh on the group's bottom-line profitability.
- » The full effect of the economic shock, which will unfold during the remainder of the year, with further pressure expected on asset quality and profitability.
- » Modest tangible common equity (TCE) ratio and regulatory solvency ratios below those of its international peers

Outlook

Santander's deposit and senior unsecured debt ratings carry a stable outlook, in line with that on the Spanish government's Baa1 rating.

Factors that could lead to an upgrade

- » Upward pressure on Santander's deposit and debt ratings is primarily dependent on an upgrade of the bank's home country's (Spain) rating, given the fact that our current A2 long-term debt and deposit ratings already exceed the sovereign rating by two notches and are constrained at that level under our methodology. This reflects our view that asset loss rates would likely be higher in case of a sovereign default and that the expected loss of the bank's debt and deposits would, therefore, be unlikely to be significantly below that of the sovereign's own debt. An upgrade of the sovereign rating by one notch would lift the current constraint on the bank's ratings, leading to an upgrade of the debt and deposit ratings to A1. The ratings of junior instruments would be unaffected.
- » An upgrade of the BCA is dependent on an improvement in the bank's credit fundamentals (namely, asset risk, capital and profitability). Given Santander's exceptional geographical diversification, its BCA could exceed the Spanish sovereign rating by one notch.

Factors that could lead to a downgrade

- » Because of the current constraint on Santander's debt and deposit ratings by the Spanish sovereign, these ratings would only experience downward pressure in case of a multi-notch downgrade of the BCA or a downgrade of Spain's rating.
- » Downward pressure on Santander's BCA could develop if capital deteriorates without returning to pre-crisis levels within 2-3 years. Challenges to the group's creditworthiness stem from the low interest rate environment, subdued business in mature markets and deteriorating operating conditions across all its key markets leading to asset quality and profitability pressures. The risks associated with the acquisition of Banco Popular Espanol, S.A. (Banco Popular), such as (but not only) those related to potential litigation costs, could also exert downward pressure on the bank's BCA.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Banco Santander S.A. (Spain) (Consolidated Financials) [1]

	06-20 ²	12-19 ²	12-18 ²	12-17 ²	12-16 ²	CAGR/Avg. ³
Total Assets (EUR Million)	1,572,881.0	1,522,695.0	1,459,271.0	1,444,305.0	1,339,125.0	4.7 ⁴
Total Assets (USD Million)	1,766,587.3	1,709,222.4	1,668,157.7	1,734,317.6	1,412,445.0	6.6 ⁴
Tangible Common Equity (EUR Million)	57,500.6	61,936.5	56,877.5	56,164.9	54,117.2	1.7 ⁴
Tangible Common Equity (USD Million)	64,582.1	69,523.6	65,019.2	67,442.7	57,080.3	3.6 ⁴
Problem Loans / Gross Loans (%)	3.7	3.7	4.0	4.4	4.2	4.0 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	9.0	9.2	8.5	8.5	8.6	8.8 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	39.5	38.7	42.7	45.3	41.5	41.5 ⁵
Net Interest Margin (%)	2.2	2.5	2.5	2.6	2.5	2.5 ⁵
PPI / Average RWA (%)	3.6	3.8	3.7	3.8	3.6	3.7 ⁶
Net Income / Tangible Assets (%)	0.3	0.6	0.7	0.6	0.6	0.5 ⁵
Cost / Income Ratio (%)	47.8	49.8	47.8	48.3	48.4	48.4 ⁵
Market Funds / Tangible Banking Assets (%)	38.7	36.7	34.8	35.3	37.0	36.5 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	31.5	29.1	29.6	29.6	28.4	29.7 ⁵
Gross Loans / Due to Customers (%)	112.4	117.6	113.5	113.8	118.9	115.2 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

With total assets of around €1.6 trillion as of June 2020, Banco Santander S.A. (Spain) (Santander) is Spain's largest banking group and ranks among the 15 largest banking groups in Europe. The group has ample geographical diversification, with only 15% of its net profit generated in Spain and around 50% in developing markets (excluding the corporate centre) as of year-end 2019. Retail banking accounts for 75%¹ of the group's total attributable profit. As of year-end 2019, the group had 145 million customers, with Brazil accounting for the largest share (32%), followed by the UK with 17%.

Recent developments

The rapid global spread of the coronavirus has led to an unprecedented credit shock across many sectors worldwide. Our [baseline](#) economic growth forecasts are underpinned by our view that economic activity will heal gradually from one of the worst quarters in the economic history of most countries but its continuation will be closely linked to the containment of the virus. Risks to the economic outlook are, however, tilted to the downside and the macroeconomic outlook for emerging market countries is more uncertain than that for advanced economies.

To reflect the growing strain of coronavirus disruption, in March 2020, we [changed](#) the outlook on six European banking systems to negative, including Spain, as well as for the [US](#) and [Latin American](#) banking systems. The [UK](#) has a negative rating outlook since December 2019.

A number of measures have been [announced](#) by European regulators to safeguard banks' role as they cope with the short-term pressures of the coronavirus outbreak.

Detailed credit considerations

Ample geographical diversification in low correlated markets underpins well-diversified earnings streams and low earnings volatility

The group has leading market positions in several major markets, which results in a widely diversified balance sheet and sustained profit generation. Our assessment of Santander's exceptional geographical diversification is reflected in a one-notch positive qualitative adjustment to its Business Diversification score, resulting in an overall baa1 BCA. We expect this strength to remain a positive credit driver even during the current synchronized global downturn but uneven recovery.

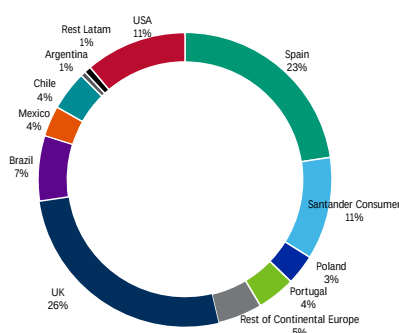
At end of June 2020, about 80% of the group's gross customer loans were located in mature markets, with the UK and Spain accounting for the largest shares (26% and 23%, respectively). The US and Brazil account for similar shares of around 10%, followed by Chile, Mexico, Portugal and Poland, with shares ranging between 3% and 4%.

Despite the significant weight of mature markets in Santander's loan book, their contribution to the group's profit was around 50% at end of 2019. This is not only because of the inherently higher profitability levels in developing markets but also because of depressed profitability levels in mature markets on the back of low interest rates and subdued business growth, as well as still-high loan-loss provisioning efforts and restructuring costs in some of Santander's key markets.

Commercial banking accounts for around three-quarters² of the group's attributable profit, which provides a high degree of recurrence and stability to Santander's earnings.

Exhibit 3

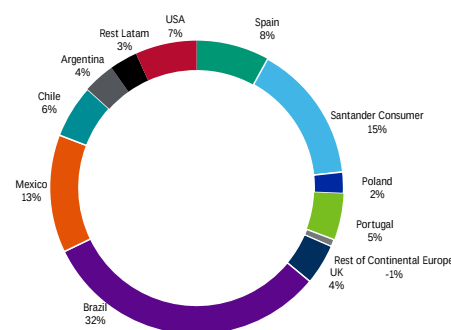
Loan breakdown by geography



Source: Santander Q2 2020 financial presentation

Exhibit 4

Profit breakdown by geography



Excluding corporate centre and non-recurrent adjustments
Source: Santander Q2 2020 financial presentation

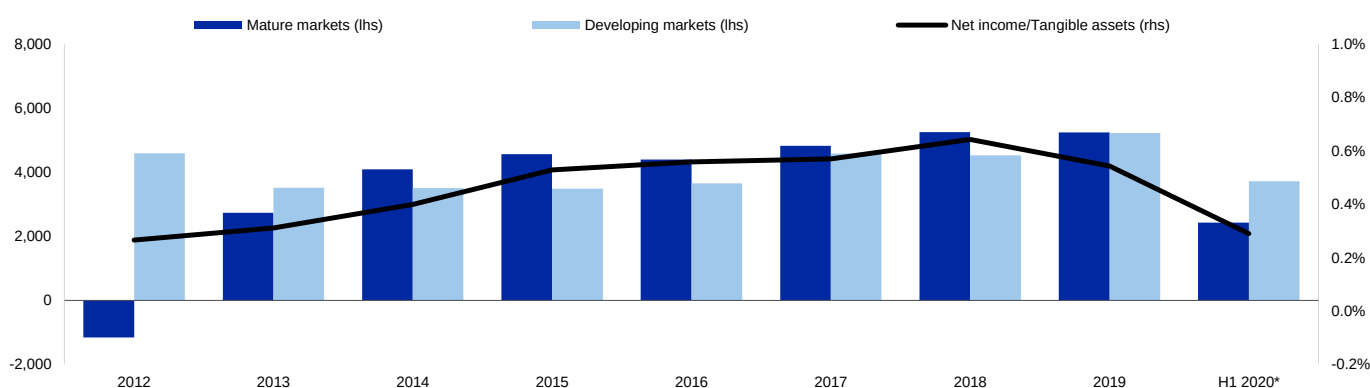
High pre-provision profitability but ongoing challenges in mature markets weigh on the group's bottom-line

We have revised downwards Santander's Profitability score to baa3 from baa2 as we no longer expect a gradual improvement in this factor over the outlook period. We maintained a positive adjustment to reflect the group's high pre-provision profitability and low earnings volatility, with net interest and fee income accounting for around 95% of the group's total income. [Central bank](#) measures in reaction to a further spread of the coronavirus could, however, exacerbate further the profitability pressure that many banks are under, particularly when combined with higher credit risk spreads, reduced bond and equity issuance, and stock market falls.

Santander reported sizeable losses at end of June 2020 amounting to €11 billion on the back of extraordinary goodwill and deferred tax assets (DTAs) impairments of €12.6 billion related to revised projections in some of its core markets. Excluding this impact, net profit was only €2.3 billion, a sharp decline from around €4 billion published a year earlier. Poor profits are also explained by the sharp depreciation of currencies and a significant increase in loan loss provisions (from €4.3 bn at end-June 2019 to €7.0 bn at end-June 2020). Negative developments outweighed the 7.6% decline in operating expenses (-1.4% at constant rate) when compared to the same period last year. The group achieved above €300 million in cost efficiencies in Europe year to date, equivalent to 75% of its target for full year 2020. Santander plans to continue to accelerate its transformation plan and go beyond its strategic cost targets first set out in April 2019 to generate close to €1 billion in cost efficiencies in Europe (€1.2 billion across the globe).

Pre-covid key strategic targets remain unchanged but given the challenging environment Santander will accelerate its transformation plans to leverage its scale and group strengths with a strong focus on strict cost control and the achievement of efficiency gains. Preserving or enhancing margins, fee and commission income, active management of unprofitable portfolios, and strong focus on customer satisfaction are some of the initiatives that should eventually lead to stronger profitability levels more commensurate with the group's relatively high exposure to more profitable developing markets.

Exhibit 5

Bottom line profitability is under pressure

Bars exclude the corporate centre and non-recurrent adjustments. * Annualized
Source: Santander Q2 2020 financial presentation

Modest asset-quality metrics will likely deteriorate

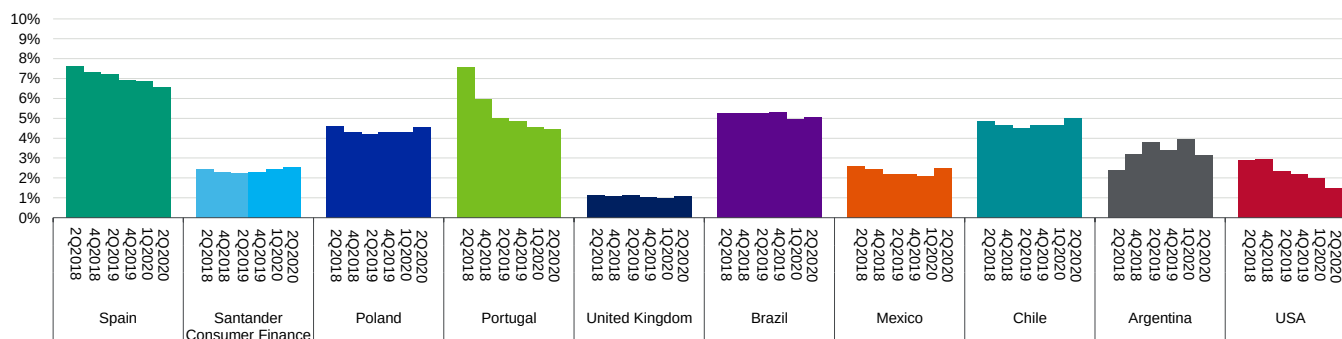
We have assigned an Asset Risk score of baa2 to Santander (in line with the Macro-Adjusted score) to reflect more recent developments and our expectation that problem loan recognition will rise over the rest of 2020 and also likely into 2021. The full stress on borrowers is not visible yet given payment holidays as well as extensive government support programs across different countries. We expect that the coronavirus outbreak will have a direct impact on banks' asset quality, and we could reassess our current assessment of this factor depending on the breath and severity of the shock and the broad deterioration in credit quality that it will trigger.

As of the end of June 2020, the group reported a nonperforming loan (NPL) ratio of 3.67%, in line with the 3.69% at the end of 2019. The assigned baa2 score also reflects Santander's relatively high nonperforming asset (NPA) ratio (defined as NPLs plus foreclosed real estate assets, according to our definition), which we estimate at close to 5% for the same period. We note positively the significant improvement achieved in this metric, which has declined from its peak of 9.5% in June 2017 following the acquisition of Banco Popular. The sharp decline is mainly explained by the transfer of Banco Popular's real estate business to a newly created company. The reduction in risk exposures is [credit positive](#) but [less significant than what the consolidated NPA suggests](#), given the fact that Santander holds a 49% stake in the new company (Blackstone holds the remaining 51% stake). This transaction that materialised in March 2018 allowed Santander to deconsolidate all the transferred assets.

In H1 2020, asset-risk metrics by key geographies have shown divergent trends, being USA the core market that has improved the most with a reduction of 70 bps down to 1.5%, followed by Portugal, Spain, Brazil and Argentina, whose improvements have ranged between 40 bps and 25 bps. Chile showed the highest deterioration of around 35 bps up to 5%. Asset risk metrics in Mexico, Poland, SCF and to a lower extent UK, also deteriorated between 30 bps and close to 10 bps.

Exhibit 6

Evolution of NPL ratio by geography



Source: Santander Q2 2020 financial presentation

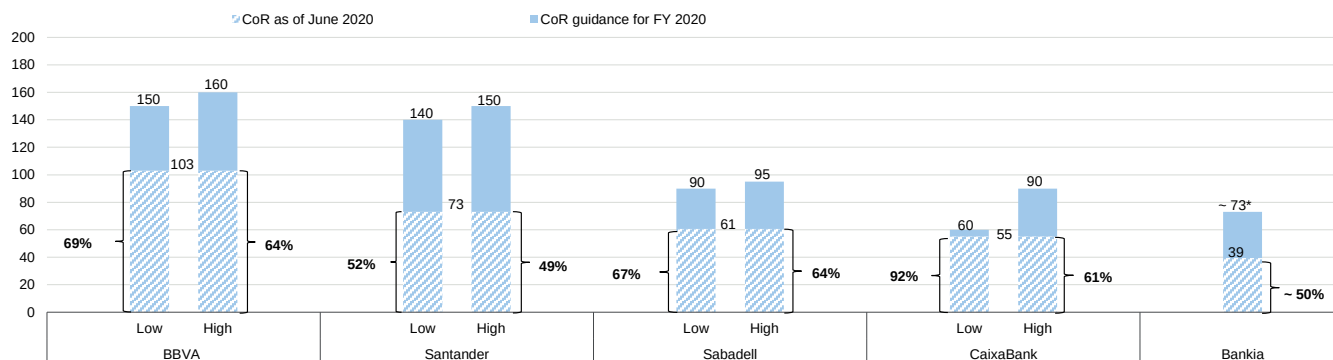
Santander has weaker asset-quality metrics than those of its international peers, reflecting not only the current high level of NPA in its domestic portfolio but also its exposure to developing countries. This more structural factor is partially mitigated by the ample spreads achieved in these countries compared with those in mature markets. When looking at NPLs as a percentage of PPI, Santander is placed very favourably compared with its international peers.

Coverage ratio measured as loan loss provisions to nonperforming loans has significantly strengthened in H1 2020 to 72.4% up from 68.3% at the end of December 2019 and compares very favourably with the average of the Spanish banking system of 43.3% as of the same date (source: European Banking Authority). The increase is explained by the loan loss provisions that Santander has set aside derived from the update of IFRS9 macro models to incorporate the economic downturn caused by the coronavirus. Consequently, Banco Santander cost of risk (CoR) has increased to around 150 bps (annualized) in H1 2020 from close to 100 bps reported at year end 2019. The group confirmed its CoR guidance for 2020 as a whole of between 140 and 150 basis points, so we expect Banco Santander to book similar provisions for the rest of the year.

Exhibit 7

Santander's CoR guidance at 140-150 bps for 2020

Cost of risk (bps) booked in H1 2020 as a percentage (%) of 2020 guidance, from highest to lowest guidance



* Bankia expects to report a cost of risk for full year 2020 similar to the cost of risk disclosed in H1 2020.

Source: Moody's Investors Service, Banks' financial statements

Modest TCE and regulatory ratios, but proven capacity to generate capital in times of stress

Our ba2 Capital score reflects the bank's TCE ratio of 9.6% as of year-end 2019 following our adjustment for deferred taxed assets and (1) a positive adjustment to capture the bank's proven ability to generate capital in times of stress; and (2) a negative adjustment for Santander's low leverage ratio (below 5%, according to our calculation). In our capital assessment, we also factor in our expectation of some improvement, which is limited given the increased payout target to 40%-50% (from 30%-40%). The coronavirus outbreak will, however, delay such impact as Santander had to cancel dividend payments [following ECB's recommendation](#). The supervisory measures

announced by the ECB give banks significant additional [leeway](#) to absorb asset-quality declines because capital requirements have temporarily been lowered.

Santander's Common Equity Tier 1 (CET1) capital ratio, on a fully loaded (FL) basis, reached 11.46% at end of June 2020 (11.84% when including the benefit of IFRS 9 transitional arrangements), broadly in line with year-end 2019 level. The ratio includes dividend accrual of 6 bps³ towards a potential cash dividend against 2020 results which reflects the board's commitment to apply a full cash dividend policy as soon as conditions permit. Capital benefited in the quarter (+24 bps) from bringing forward the expected European regulation of capital requirements (CRR2 quick fix) measures.

Our more conservative capital assessment compared with regulators' capital ratios is primarily explained by (1) the fact that the regulators do not deduct convertible deferred tax assets from the capital base, while [we give benefit, as a capital component, to only a share of them](#) (56% as of year-end 2019); (2) [a more conservative risk weighting that we apply to the sovereign exposures compared with the regulators' risk weighting of 0%](#); and (3) the exclusion of minority interests from our TCE calculation.

Santander expects to finish 2020 at the top end of its CET1 target range of 11-12%⁴, which, nevertheless, remains below the weighted average of European banks (14.7% as reported by the EBA⁵) and also below the levels of its peers that we rate. Lower capital levels are to some extent mitigated by Santander's lower vulnerability to severe scenarios, as shown in the EBA's 2018 stress test.

Similar to its European peers, Santander significantly benefited (+80 bps) from the [measures](#) adopted by the ECB in response to the covid-19 crisis. As a result, the group now holds a CET1 management buffer of close to 300 basis points above the required 8.86% ratio but we caution that the use of buffers is temporary. The ECB also requires Santander to comply with a minimum Supervisory Review and Evaluation Process (SREP) requirement of 8.6%⁶ on an individual basis, which compares with the 16.1% CET1 ratio reported as of the end of June 2020 (both ratios using transitional arrangements).

Santander has a long-standing policy of fully hedging its foreign-exchange risk to protect its regulatory solvency ratios. As of year-end 2019, the largest exposures of permanent investments (with their potential impact on equity) were, in the following order, in the Brazilian real, US dollar, UK pound, Chilean peso, Mexican peso and Polish zloty. The group hedges some of these positions of a permanent nature with foreign-exchange rate derivatives. Hedging levels of the core capital ratio for foreign-exchange rate risk were maintained near 100% in 2019.

Good liquidity, with an independent liquidity model for subsidiaries to limit contagion risk

Given the limitations on intragroup funding from both regulatory and internal perspectives, we analyse Santander's liquidity at the parent bank level. At baa1, our Combined Liquidity score reflects the funding structure and readily available liquid resources at the individual level (including funding vehicles). Our assessment also incorporates positive adjustments to reflect the bank's capacity to generate liquidity from the issuance of covered bonds, the partial divestiture of its quoted subsidiaries and its proven market access which mitigate the inherent risks associated to its large stock of confidence-sensitive wholesale funding.

Santander has a long-standing policy of ensuring that its subsidiaries are self-sufficient in terms of liquidity and they do not rely on the parent bank for funding. We view this policy positively, particularly in times of stress, because it reduces the risk of contagion across borders. Only Santander's subsidiary, [Santander Consumer Finance S.A.](#) (deposits A2 stable, BCA baa2), has been an exception to the general rule.

The group is around 69% deposit funded (as a percentage of net liabilities), which provides a stable and well-diversified funding source. As of end-June 2020, outstanding medium- and long-term debt accounted for around 15% of net liabilities. Outstanding debt has a conservative maturity profile and recourse to short-term funding is limited, and the bulk relates to certificates of deposits and commercial paper in the UK. Santander did not publish the targeted longer-term refinancing operation funding at end of June 2020.

In November 2019, the minimum requirement for own-funds and eligible liabilities (MREL) of the parent resolution group — formed by the parent bank and Santander Consumer Finance S.A., with overall risk-weighted assets (RWA) amounting to €380 billion (as of the end of December 2017) — was established at 109 billion (as of the end of December 2016), representing 28.60% of RWA to be met from 1 January 2020.

Santander's liquidity coverage ratio was 175% on a group basis as of end-June 2020. This ratio is largely driven by the parent bank, Santander UK and Santander Brazil. These entities are primarily deposit funded. As of the same date, the parent bank had a liquidity coverage ratio of 193%, with all its subsidiaries above the 100% minimum requirement.

Although not yet required, Santander also complies with the net stable funding ratio at the group level and for the bulk of its subsidiaries. As of end-March 2020 (last available figure), the ratio was at 111% for the group, with the parent at 105%.

Global monetary easing and related initiatives triggered by the coronavirus outbreak will help relieve liquidity pressures on banks (see Recent developments section).

Environmental, social and governance considerations

Santander has a low exposure to environmental risks in all its key geographies, consistent with our general assessment for the banking sector. See our [environmental risk heat map](#) for further information.

Overall, we expect banks to face moderate social risks. This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety, and the deteriorating global economic outlook, which are creating a severe and extensive credit shock across many sectors, regions and markets. See our [Social risk heat map](#) for further information.

Given its geographical footprint, Santander is exposed to social risks of a different nature. For Spanish banks, we have identified the [potential litigation around the IRPH](#) (Mortgage Loan Reference Index, Índice de Referencia de Préstamos Hipotecarios) index reference rate as a key social risk. On 3 March 2020, the European Union Court of Justice (ECJ) ruled that the use of the index falls within the remit of the European Union's directive on unfair terms (Directive 93/13/EEC), and therefore Spanish courts can consider it [abusive](#). The number of borrowers who take legal action against banks and Spain's judicial stance will be the main determinant of the ECJ ruling's final effect on Spain's banks. Also, in Spain, Santander faces litigation costs from product mis-selling inherited from [Banco Popular](#). We have not incorporated any financial impact into Santander's scorecard for these two issues. In any case, any impact should be manageable, given the bank's sheer size and ample geographical diversification. In the UK, [conduct and litigation costs are primarily associated with the mis-selling of payment protection insurance](#); in Poland, [it is associated with the litigation around mortgages in foreign currency](#). At this stage, there is high uncertainty surrounding how the borrower-friendly judgement of the ECJ will affect Polish banks. However, the sector is exposed to the risk of significant potential losses, as well as reputational damage, because of the growing number of law suits the banks face from their customers who claim their contracts contained abusive terms. For Santander's subsidiary, the Swiss franc mortgage portfolio has been gradually amortising. This exposure represented 6.5% of its gross loan book as of year-end 2019, below the 7.6% average for the banking sector.

Governance is highly relevant for Santander, as it is to all competitors in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. For Santander, we do not have any particular governance concerns in any of its key markets, with the exception of the US where governance risks have been identified within Santander Holdings USA by aforementioned regulatory written agreements. Therefore, we have incorporated these risks into the ratings assessment of both Santander Bank, N.A. and Santander Holdings USA, Inc. Corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss Given Failure (LGF) analysis

Santander is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. We apply a standard assumption for European banks that 26% of deposits are junior. These metrics are in line with our standard assumptions. We included in Santander's individual balance sheet at failure our estimate of the debt issued out of funding vehicles guaranteed by Santander. S.A. as well as [Santander Consumer Finance, S.A.](#) (domestic perimeter).

For Santander's deposits and senior unsecured debt, our LGF analysis takes into consideration the likely impact on LGF from the combination of its own volume and subordination.

Our LGF analysis indicates a very low loss given failure for long-term depositors and senior unsecured creditors. However, the bank's long-term deposit and senior unsecured debt ratings are capped at A2 by Spain's Baa1 sovereign rating with a stable outlook.

The same LGF analysis for Santander indicates a moderate loss severity for junior senior creditors in the event of the bank's failure, leading to a rating of Baa1 for these securities, in line with the bank's Adjusted BCA of baa1. Santander's junior senior debt ratings do not include any additional uplift from government support, reflecting our view that there is a low probability of government support for these instruments, given their explicitly loss-absorbing nature.

For junior securities, our initial LGF analysis confirms a high level of loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional downward notching for junior subordinated debt and preference shares instruments to reflect the coupon suspension risk ahead of a potential failure.

Please refer to the loss given failure and government support table at the bottom of the scorecard.

Government support

The implementation of the BRRD has prompted us to reconsider the potential for government support to benefit certain creditors. We now take into account the fact that there is a moderate likelihood of government support for Santander's debt and rated wholesale deposits in the event of its failure. This probability reflects the bank's share in its domestic market and its global systemically important status, which may lead the government to intervene to shield it from disruptive losses. However, this systemic support assessment does not translate into any additional notching as Santander's BCA is at the same level as the sovereign rating.

For junior senior or junior securities, we believe that the probability of government support is low, and, therefore, these ratings do not include any related uplift.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

Santander's CRRs are positioned at A2/Prime-1

Santander's CRRs are positioned two notches above the Adjusted BCA of baa1, reflecting the very low loss given failure from the high volume of instruments that are subordinated to CRR liabilities, which is the maximum achievable CRR in Spain. According to our methodology, a bank's CRR will typically not exceed the sovereign rating by more than two notches.

Counterparty Risk (CR) Assessment

The CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Santander's CR Assessment is positioned at A3(cr)/Prime-2(cr)

The CR Assessment, before the government cap, is positioned three notches above the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference from our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, thereby focusing purely on subordination and taking no account of the volume of the instrument class.

The CR Assessment is capped at A3. The CR Assessment will not typically exceed the sovereign's rating by more than one notch, or two notches, where the Adjusted BCA is already above the sovereign rating, which is not the case for Santander.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Banco Santander S.A. (Spain)

Macro Factors						
Weighted Macro Profile	Strong - 100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.9%	baa2	↓	baa2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	9.0%	ba2	↔	ba2	Stress capital resilience	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.3%	ba3	↓	baa3	Earnings quality	Expected trend
Combined Solvency Score		ba1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	36.7%	ba3	↔	baa2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.1%	baa2	↔	a3	Intragroup restrictions	Additional liquidity resources
Combined Liquidity Score		ba1		baa1		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				1		
Sovereign or Affiliate constraint				Baa1		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + ordination subordination	Sub- ordination	Instrument volume + ordination subordination	Sub- ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	2	0	a2
Counterparty Risk Assessment	-	-	-	-	-	-	-	1	0	a3 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2
Junior senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa1
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa2
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-1	-2	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	a2	0	A2	A2
Counterparty Risk Assessment	1	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2
Junior senior unsecured bank debt	0	0	baa1	0	Baa1	Baa1
Dated subordinated bank debt	-1	0	baa2	0	Baa2	Baa2
Non-cumulative bank preference shares	-1	-2	ba1	0	Ba1 (hyb)	Ba1 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
BANCO SANTANDER S.A. (SPAIN)	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured	Baa1
Junior Senior Unsecured MTN -Dom Curr	(P)Baa1
Subordinate	Baa2
Pref. Stock Non-cumulative	Ba1 (hyb)
Commercial Paper	P-1
BANCO PSA FINANCE BRASIL S.A.	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba2/NP
NSR Bank Deposits	Aa2.br/BR-1
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
BANCO S3 MEXICO, S.A., INST DE BANCA MULTI	
Outlook	Stable
Bank Deposits	Baa2/P-2
NSR Bank Deposits	Aa2.mx/MX-1
Baseline Credit Assessment	baa3

Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
BANCO SANTANDER RIO S.A.	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Caa3/NP
Counterparty Risk Rating -Dom Curr	Caa1/NP
Bank Deposits -Fgn Curr	Ca/NP
Bank Deposits -Dom Curr	Caa1/NP
Baseline Credit Assessment	ca
Adjusted Baseline Credit Assessment	caa3
Counterparty Risk Assessment	Caa1(cr)/NP(cr)
BANCO SANTANDER, S.A. (URUGUAY)	
Outlook	Stable
Bank Deposits	Baa3/P-3
NSR Bank Deposits	Aa2.uy/--
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
CASA DE BOLSA SANTANDER, S.A. DE C.V.	
Outlook	Negative
Issuer Rating -Dom Curr	Baa1
NSR Issuer Rating	Aa1.mx
ST Issuer Rating -Dom Curr	P-2
NSR ST Issuer Rating	MX-1
SANTANDER BANK, N.A.	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
SANTANDER FINANCE CAPITAL, S.A. UNIPERSONAL	
Pref. Stock	Ba2 (hyb)
SANTANDER FINANCIAL SERVICES PLC	
Outlook	Negative
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
ST Issuer Rating	P-1
SANTANDER INT'L DEBT, S.A. UNIPERSONAL	
Outlook	Stable
Senior Unsecured	A2
SANTANDER US DEBT, S.A. UNIPERSONAL	
Outlook	Stable
Senior Unsecured	A2
TOTTA (IRELAND) P.L.C.	
Bkd Commercial Paper -Dom Curr	P-3
SANTANDER UK PLC	
Outlook	Negative
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3

Subordinate	Baa1
Jr Subordinate	Baa2 (hyb)
Pref. Stock -Dom Curr	Baa2 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1

SANTANDER UK GROUP HOLDINGS PLC

Outlook	Negative
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Subordinate	Baa1
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Pref. Shelf Non-cumulative	(P)Ba1
Other Short Term	(P)P-2

SANTANDER CONSUMER FINANCE S.A.

Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits -Dom Curr	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A2
Junior Senior Unsecured -Dom Curr	Baa1
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1

BANCO SANTANDER, S.A., LONDON BRANCH

Counterparty Risk Rating	A2/P-1
Deposit Note/CD Program	--/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)

BANCO SANTANDER, S.A., NEW YORK BRANCH

Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Commercial Paper	P-1

BANCO SANTANDER TOTTA S.A.

Outlook	Stable
Counterparty Risk Rating -Dom Curr	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured MTN -Dom Curr	(P)Baa3
Commercial Paper -Dom Curr	P-3
Other Short Term -Dom Curr	(P)P-3

SANTANDER INTERNATIONAL PRODUCTS PLC

Outlook	Stable
Bkd Senior Unsecured	A2
Bkd Commercial Paper -Dom Curr	P-1
Bkd Other Short Term -Dom Curr	(P)P-1

BANCO SANTANDER (BRASIL) S.A.

Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	Baa3/P-3
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba1/NP
NSR Bank Deposits	Aaa.br/BR-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1

Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP
SANTANDER CENTRAL HISPANO ISSUANCES LTD.	
Bkd Subordinate MTN	(P)Baa2
PSA BANQUE FRANCE	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2
BANCO SANTANDER (BRASIL) S.A. - CAYMAN BR	
Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	Baa3/P-3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP
BANCO SANTANDER-CHILE	
Outlook	Negative
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A1
SANTANDER CENTRAL HISPANO INTERNATIONAL LTD	
Bkd Sr Unsec MTN	(P)A2
Bkd Commercial Paper	P-1
Bkd Other Short Term	(P)P-1
SANTANDER HOLDINGS USA, INC.	
Outlook	Stable
Senior Unsecured	Baa3
Subordinate Shelf	(P)Baa3
Pref. Shelf Non-cumulative	(P)Ba2
EMISORA SANTANDER ESPANA S.A.U	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A2
SANTANDER BANK POLSKA S.A.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A3
BANCO SANTANDER MÉXICO, S.A.	
Outlook	Negative
Bank Deposits	Baa1/P-2
NSR Bank Deposits	Aaa.mx/MX-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	Baa1
NSR Senior Unsecured	Aaa.mx
Subordinate	Baa3 (hyb)

SANTANDER CONSUMER BANK AS	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured	A3
Junior Senior Unsecured MTN	(P)Baa3
Subordinate	Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
ST Issuer Rating	P-2
SANTANDER FINANCE PREFERRED, S.A. UNIPERSONAL	
Pref. Stock Non-cumulative	Ba2 (hyb)
SANTANDER ISSUANCES S.A. UNIPERSONAL	
Subordinate	Baa2
GRUPO FINANCIERO SANTANDER MÉXICO SAB DE CV	
Jr Subordinate	Ba1 (hyb)
SANTANDER CONSUMER BANK AG	
Outlook	Positive
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
BANCO ESPAÑOL DE CREDITO, S.A. (BANESTO)	
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
SOVEREIGN REAL ESTATE INVESTMENT TRUST	
Pref. Stock Non-cumulative	Ba1 (hyb)
BANESTO HOLDINGS, LTD.	
BACKED Pref. Stock Non-cumulative	Ba2 (hyb)

Source: Moody's Investors Service

Endnotes

- [1](#) Excluding the corporate centre.
- [2](#) Excluding the corporate centre.
- [3](#) Santander has announced its intention to resume dividend payment to be paid in 2021 with a charge to share premium reserves. This is subject to ECB approval, the bank maintaining a CET1 ratio within or above its target range of 11-12%, and the total distribution not exceeding 50% of the group's consolidated ordinary (underlying) profit.
- [4](#) Including IFRS 9 transitional arrangements
- [5](#) European Banking Authority. Risk Dashboard 2Q2020
- [6](#) As of December 2019. Santander has not disclosed the 2020 revised SREP requirement on an individual basis.

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