

## CREDIT OPINION

21 April 2021

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.

### 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

Alain Laurin +33.1.5330.1059  
Associate Managing Director  
alain.laurin@moodys.com

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

## Banco Santander S.A. (Spain)

### Update to credit analysis

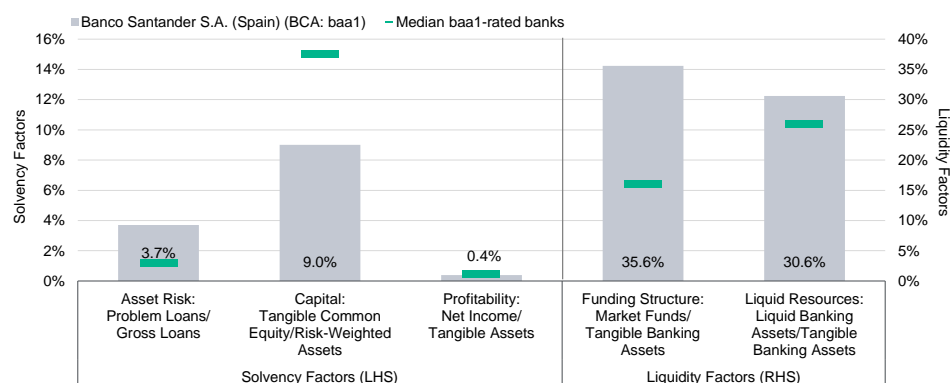
#### Summary

[Banco Santander S.A. \(Spain\)](#)'s (Santander) A2/Prime-1 ratings reflect the bank's Baseline Credit Assessment (BCA) of baa1; 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 our assumption of moderate support from the [Government of Spain](#) (Baa1 stable). This results in no further uplift given that 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 (i) the benefits from its ample geographical diversification, which underpins sustained profit generation and low earnings volatility, (ii) its modest asset risk and profitability metrics, which however we expect to deteriorate because of the coronavirus pandemic, (iii) the bank's overall modest capitalisation, which is mitigated by its proven capacity to generate capital in times of stress, and (iv) its well-established global funding structure, with self-sufficient and diversified funding channels and liquidity management at each of the group's subsidiaries, mitigating the risks inherent to its large stock of confidence-sensitive wholesale funding. 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 when compared to its European peers
- » Proven capacity to generate capital in times of stress
- » Good liquidity and large market access, with an independent model for its subsidiaries, which limits contagion risk

### Credit challenges

- » Santander's subdued profitability in mature markets continues to weigh on the group's bottom-line profitability.
- » The full effect of the economic shock, which will unfold in 2021 and possibly beyond, with further strain likely on asset quality and profitability.
- » The bank's tangible common equity (TCE) ratio is modest and below that of its international peers.
- » It has a large stock of confidence-sensitive wholesale funding on its balance sheet.

### 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. 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, downward pressure on these ratings would only emerge 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 its capital were to deteriorate without returning to pre-crisis levels within two to three 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 strain on asset quality and profitability. 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](http://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]

	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (EUR Million)	1,508,250.0	1,522,695.0	1,459,271.0	1,444,305.0	1,339,125.0	3.0 <sup>4</sup>
Total Assets (USD Million)	1,845,428.2	1,709,222.4	1,668,157.7	1,734,317.6	1,412,445.0	6.9 <sup>4</sup>
Tangible Common Equity (EUR Million)	56,801.4	61,983.2	56,877.5	56,164.9	54,117.2	1.2 <sup>4</sup>
Tangible Common Equity (USD Million)	69,499.7	69,576.0	65,019.2	67,442.7	57,080.3	5.0 <sup>4</sup>
Problem Loans / Gross Loans (%)	3.5	3.7	4.0	4.4	4.2	4.0 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	9.0	9.2	8.5	8.5	8.6	8.8 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	37.7	38.6	42.7	45.3	41.5	41.2 <sup>5</sup>
Net Interest Margin (%)	2.2	2.5	2.5	2.6	2.5	2.5 <sup>5</sup>
PPI / Average RWA (%)	3.6	3.8	3.7	3.8	3.6	3.7 <sup>6</sup>
Net Income / Tangible Assets (%)	0.4	0.6	0.7	0.6	0.6	0.6 <sup>5</sup>
Cost / Income Ratio (%)	50.2	49.8	47.8	48.3	48.4	48.9 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	35.6	36.7	34.8	35.3	37.0	35.9 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	30.6	29.1	29.6	29.6	28.4	29.5 <sup>5</sup>
Gross Loans / Due to Customers (%)	111.4	117.6	113.5	113.8	118.9	115.1 <sup>5</sup>

[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 €1.5 trillion as of year-end 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. Before the outbreak of the pandemic, only 15% of its net profit was generated in Spain and around 50% was in developing markets<sup>1</sup> (excluding the corporate centre). As of year-end 2020, Spain contributed 7% of group's profits and 54% was generated in developing markets. Retail banking accounts for 60%<sup>2</sup> of the group's total attributable profit. As of year-end 2020, the group had 148 million customers, with Brazil accounting for the largest share (33%), followed by the UK with 17%.

## 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.

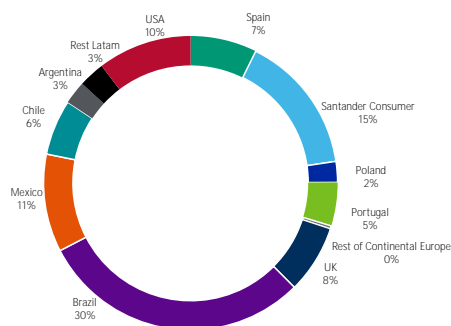
As of year-end 2020, about 80% of the group's gross customer loans were in mature markets, with the UK and Spain accounting for the largest shares (27% and 22%, respectively). The US and Brazil account for similar shares of around 10%, followed by Chile, Mexico, Portugal and Poland, with shares ranging between 3% and 4%.

The contribution of mature markets to the group's profit was 46% as of year-end 2020, underpinned by the low-interest-rate environment, subdued business growth and restructuring costs in some of Santander's key markets, namely Spain and the UK.

Commercial banking accounts for around three-quarters<sup>3</sup> of the group's attributable profit, providing high recurrence and stability to Santander's earnings. The remaining share is generated by the corporate and investment banking division.

Exhibit 3

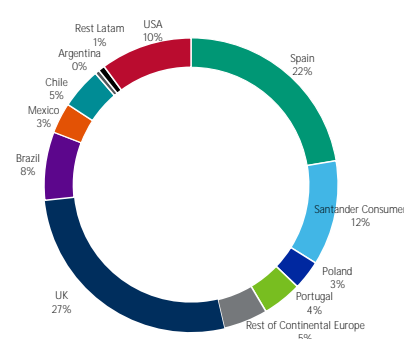
### Ample geographic diversification by profits... Profit contribution by key franchise as of end-2020



Excluding corporate centre and nonrecurrent adjustments.  
Source: Santander 2020 financial presentation

Exhibit 4

### ... and by loan book Loan breakdown by key franchise as of end-2020



Source: Santander 2020 financial presentation

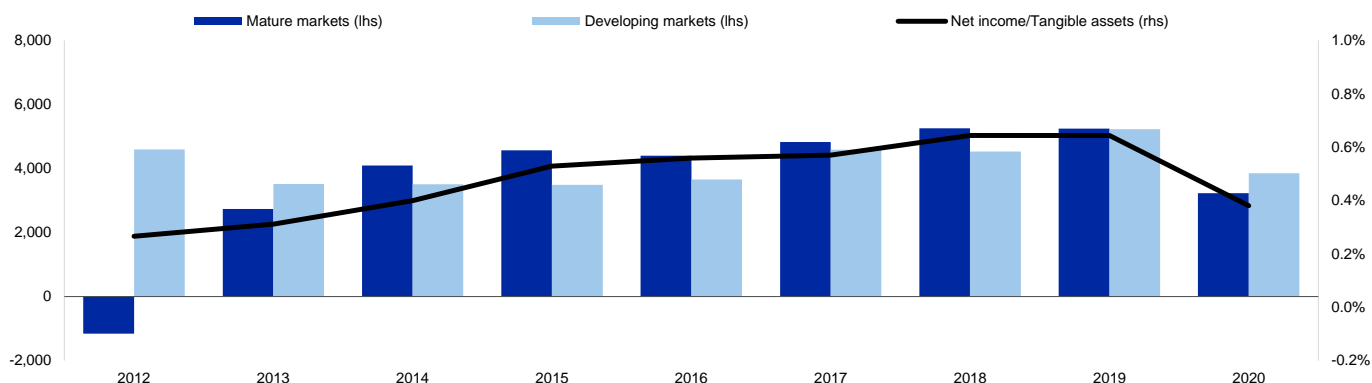
### Profitability currently affected by one-off charges and by large pandemic-related provisions is expected to improve

The baa3 score in Profitability reflects our expectations for improvement of the group's bottom line profitability (measured as net income/tangible assets) from the 0.38% (adjusted for non-recurring charges) reported as of year-end 2020. The positive adjustment also incorporates 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.

Santander reported sizeable losses of €7.7 billion as of year-end 2020 because of extraordinary goodwill and deferred tax asset (DTA) impairments of €12.6 billion related to the revised projections at some of its core markets, as well as restructuring charges, primarily in Spain. Excluding the impact of these impairments, net profit was only €5.7 billion, a sharp decline from around €9.6 billion adjusted profits reported a year earlier. Its weak profit is also explained by the sharp depreciation of currencies (-10 pp in revenue and -8 pp in costs) and a significant increase in loan loss provisions (from €9.4 billion as of year-end 2019 to €12.4 billion as of year-end 2020). At constant rates, gross operating income was broadly unchanged (with the South America and global businesses<sup>4</sup> offsetting poor performance in Europe) but operating costs declined 1.2% (or 5% in real terms<sup>5</sup>). Santander plans to continue to accelerate its transformation plan and go beyond its strategic cost targets first set out in April 2019 and generate €1 billion of additional cost efficiencies in Europe in 2021 and 2022 and to achieve a cost-to-income ratio below the 47% reported as of year-end 2020.

The bank's key strategic targets set out before the pandemic remain unchanged. However, because of the difficult environment, Santander will accelerate its transformation plans to leverage its scale and group strengths, with strict cost control and a strong focus on achieving efficiency gains. Preserving or enhancing margins, fee and commission income, active management of unprofitable portfolios, and a strong focus on customer satisfaction are some of the initiatives that should eventually lead to higher profitability levels that are more commensurate with the group's geographical footing.

Exhibit 5

**Bottom-line challenged by low interest rates and the pandemic-related macroeconomic shock**

Excluding the corporate centre and nonrecurrent adjustments  
 Source: Santander 2020 financial presentation

**Asset-quality metrics will deteriorate as public support measures fade away**

We have assigned an Asset Risk score of baa2 to Santander to reflect recent performance and our expectation that problem loan recognition will rise as public support measures globally fade away.

The expected deterioration has to be taken into account in conjunction with the increase in the coverage ratio — measured as loan loss provisions/nonperforming loans — that has significantly strengthened in 2020 to close to 78% from the 68% reported in the year earlier. The increase is driven by the update of IFRS9 macro models and management overlays to address the impact of the pandemic-induced crisis and consequently, to cover the expected increase in nonperforming loans (NPLs). Santander's cost of risk (CoR) increased to 128 basis points (bps) in 2020 from close to 100 bps as of year-end 2019, but below the bank's initial guidance for the year of between 140 bps and 150 bps. For 2021, we expect the CoR to decrease but to stay above the 2019 level.

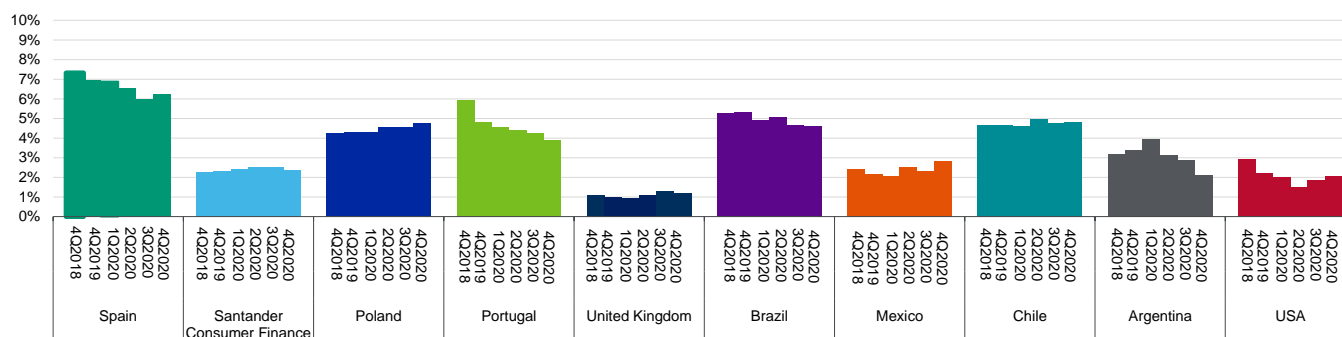
According to our calculations, the group reported an NPL ratio of 3.49% as of year-end 2020, down from 3.69% as of year-end 2019. The nonperforming asset (NPA) ratio (defined as NPLs plus foreclosed real estate assets (RE), according to our definition) also declined to 4.5% from 4.8%, driven not only by lower NPLs but also lower RE assets. 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 — is a positive. 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 exposure 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, which materialised in March 2018, allowed Santander to deconsolidate all the transferred assets.

Asset-risk metrics varied across the bank's key geographies during 2020. The metrics in Argentina, have improved the most, with a reduction of 128 bps in its NPL ratio to 2.11%, followed by a reduction of 90 bps in Portugal to 3.89%, and 70 bps in both Brazil and Spain. Mexico showed the highest deterioration of around 62 bps to 2.81%, followed by Poland with an increase of 43 bps to 4.74%.

Exhibit 6

**Mixed performance across key franchises**

NPLs/total loans (in percentage terms)



Source: Santander Q4 2020 Results presentation

Santander's asset-quality metrics are weaker than those of its international peers, reflecting not only the still high level of NPA in its domestic portfolio but also its exposure to developing countries. This structural factor is partially mitigated by the ample spreads achieved in these countries compared with those in mature markets.

**Modest TCE, but proven capacity to generate capital in times of stress**

Our ba2 Capital score reflects the bank's Moody's-defined TCE ratio of 9.4% as of year-end 2020 as well as a positive adjustment to capture the bank's proven ability to generate capital in times of stress and a negative adjustment for Santander's low leverage ratio (below 5%, according to our calculation).

Santander's Common Equity Tier 1 (CET1) capital ratio, on a fully loaded basis, reached 11.89% as of year-end 2020, up from 11.41% as of year-end 2019. On a phased-in basis, regulatory capital increased to 12.34% from 11.65% in the year earlier, significantly benefiting from the 7% decline in risk-weighted assets (RWAs) on the back of currency devaluations and the partial release of the previous accrual for dividend payments against 2019 results (+0.29 bps) that offset the negative impact from one-offs (-0.43 bps) and market developments (-0.14 bps). The CET1 ratio includes dividend accrual of 0.09 bps for 2020 results<sup>6</sup>. Santander's board intends to restore a payout of 40-50% of the underlying profit as soon as conditions permit.

Similar to its European peers, Santander significantly benefited from the [measures](#) adopted by the ECB in March 2020 in response to the pandemic. As a result, the group now has a CET1 management buffer of around 300 bps, above the required 8.85% ratio (9.69% pre-changes) or +349 bps on a phased-in basis, but such 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% on an un-consolidated basis, which compares with the 17.17% CET1 ratio reported as of year-end 2020 (both ratios use transitional arrangements). Santander expects upcoming regulatory developments<sup>7</sup> to detract around 40 bps from its regulatory capital ratio.

Our more conservative capital assessment compared with regulators' capital ratios is primarily explained by the fact that the convertible deferred tax assets are not deducted from the capital base, while [we give benefit, as a capital component, to only a share of them](#) (57% as of year-end 2020); [a more conservative risk weighting of 50% that we apply to the sovereign exposures compared with the regulators' risk weighting of 0%](#); and the exclusion of minority interests from our TCE calculation.

Santander's has a capital target of 11%-12% CET1<sup>8</sup> which is below the weighted average for European banks (15.5% fully loaded as reported by the European Banking Authority (EBA)<sup>9</sup>) and also below the levels of its peers that we rate. Lower capital levels are to some extent mitigated by Santander's higher resilience to stressed scenarios, as shown in the EBA's 2018 stress test, and by a lower Pillar 2 Requirements (P2R)<sup>10</sup> of 1.50% than the 1.72%<sup>11</sup> average for institutions supervised by the Single Supervisory Mechanism.

Santander has a long-standing policy of fully hedging its foreign-exchange risk to protect its regulatory solvency ratios. As of year-end 2020, the largest exposures of permanent investments (with their potential impact on equity) were, in the following order: in the US

dollar, UK pound, Brazilian real, Mexican peso, Chilean peso and Polish zloty. The group hedges some of these positions with foreign-exchange rate derivatives. Hedging levels of the core capital ratio for foreign-exchange rate risk were maintained around 100% in 2020.

### 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 on an unconsolidated basis. 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 with 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 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.](#), has been an exception to the general rule.

The group is around 70% deposit funded (as a percentage of net liabilities<sup>12</sup>), which provides a stable and well-diversified funding source. As of year-end 2020, outstanding medium- and long-term debt accounted for around 14% of net liabilities. The outstanding debt has a conservative maturity profile with maturities not exceeding €20 bn annually over the next few years. Recourse to short-term funding is limited (2% of net liabilities), and the bulk relates to certificates of deposits and commercial paper in the UK. In line with its domestic and European peers, the group took advantage of the attractive conditions of the ECB's TLTRO III programme and took €77.4 billion as of year-end 2020 (out of a total of €77.7 billion and up from €46.2 billion as of year-end 2019). Accrued income associated with this funding amounted to €391 million as of year-end 2020 (1.2% of NII as of the same date).

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 RWA amounting to €380 billion (as of the end of December 2017) — was established at €109 billion (€74 billion subordinated), representing 28.60% of RWA, to be met from 1 January 2020<sup>13</sup>. As of year-end 2020, the resolution group was compliant with the set requirement. As a global systemically important bank, Santander is also required to build up a stock of bail-in-able debt to comply with total loss absorbing capacity (TLAC) requirements, which require it to have a minimum fully loaded TLAC of 21.52% of RWA from 1 January 2022. As of year-end 2020, Santander's TLAC ratio was 23.8%.

Santander's liquidity coverage ratio was 165% on a group basis as of year-end 2020. As of the period, the parent bank had a liquidity coverage ratio of 175%, 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 year-end 2020, the ratio was at 119% for the group, with the parent at 118%.

### 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 risks 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 pandemic, 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 risks 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. In March 2020, the European Court of Justice (ECJ) [ruled](#) that the use of the index falls within the remit of the European Union's (EU) directive on unfair terms (Directive 93/13/EEC) and, therefore, Spanish courts can consider it abusive. Later in November 2020, Spain's Supreme Court ruled that the use of the IRPH is not abusive, despite observing a lack of transparency in the four cases brought to court. This ruling is [credit positive](#) for banks, but we anticipate that IRPH-related litigation will continue, and several consumer associations have committed to appeal the case to the ECJ.

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 metrics 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 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 lawsuits 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 6.7% of its gross loan book as of year-end December 2020, below the 8.5% 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](#).

## 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 explicit 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, 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 consider only the risk of default rather than both the likelihood of default and the expected financial loss, and 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 7

#### 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	3.7%	baa2	↓	baa2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	9.0%	ba3	↔	ba2	Stress capital resilience	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.4%	ba2	↑	baa3	Earnings quality	Expected trend
Combined Solvency Score		ba1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	35.6%	ba3	↔	baa2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	30.6%	a3	↔	a3	Intragroup restrictions	Additional liquidity resources
Combined Liquidity Score		baa3		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 + subordination	Sub-ordination	Instrument volume + 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 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 8

Category	Moody's Rating
<b>BANCO SANTANDER S.A. (SPAIN)</b>	
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
<b>BANCO PSA FINANCE BRASIL S.A.</b>	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Bank Deposits	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)
<b>BANCO S3 CACEIS MEXICO, S.A.</b>	
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)
<b>BANCO SANTANDER RIO S.A.</b>	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Caa3/NP
Counterparty Risk Rating -Dom Curr	Caa1/NP
Bank Deposits -Fgn Curr	Caa3/NP
Bank Deposits -Dom Curr	Caa1/NP
Baseline Credit Assessment	ca
Adjusted Baseline Credit Assessment	caa3
Counterparty Risk Assessment	Caa1(cr)/NP(cr)
<b>BANCO SANTANDER, S.A. (URUGUAY)</b>	
Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
<b>CASA DE BOLSA SANTANDER, S.A. DE C.V.</b>	
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
<b>SANTANDER BANK, N.A.</b>	
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
<b>SANTANDER FINANCIAL SERVICES PLC</b>	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
ST Issuer Rating	P-1
<b>SANTANDER INT'L DEBT, S.A. UNIPERSONAL</b>	
Outlook	Stable
Senior Unsecured	A2
<b>SANTANDER US DEBT, S.A. UNIPERSONAL</b>	
Outlook	Stable
Senior Unsecured	A2
<b>TOTTA (IRELAND) P.L.C.</b>	
Bkd Commercial Paper -Dom Curr	P-3
<b>SANTANDER UK PLC</b>	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
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
<b>SANTANDER UK GROUP HOLDINGS PLC</b>	
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
<b>SANTANDER CONSUMER FINANCE S.A.</b>	
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
<b>BANCO SANTANDER, S.A., LONDON BRANCH</b>	
Counterparty Risk Rating	A2/P-1
Deposit Note/CD Program	--/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
<b>BANCO SANTANDER, S.A., NEW YORK BRANCH</b>	
Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Commercial Paper	P-1
<b>BANCO SANTANDER TOTTA S.A.</b>	
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
<b>SANTANDER INTERNATIONAL PRODUCTS PLC</b>	
Outlook	Stable
Bkd Senior Unsecured	A2
Bkd Commercial Paper -Dom Curr	P-1
Bkd Other Short Term -Dom Curr	(P)P-1
<b>BANCO SANTANDER (BRASIL) S.A.</b>	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	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
<b>SANTANDER CENTRAL HISPANO ISSUANCES LTD.</b>	
Bkd Subordinate MTN	(P)Baa2
<b>PSA BANQUE FRANCE</b>	

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
<b>BANCO SANTANDER (BRASIL) S.A. - CAYMAN BR</b>	
Counterparty Risk Rating	Baa3/P-3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP
<b>BANCO SANTANDER-CHILE</b>	
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
<b>SANTANDER CENTRAL HISPANO INTERNATIONAL LTD</b>	
Bkd Sr Unsec MTN	(P)A2
Bkd Commercial Paper	P-1
Bkd Other Short Term	(P)P-1
<b>EMISORA SANTANDER ESPANA S.A.U</b>	
Outlook	Stable
Bkd Sr Unsec MTN	(P)A2
<b>SANTANDER BANK POLSKA S.A.</b>	
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
<b>SANTANDER HOLDINGS USA, INC.</b>	
Outlook	Stable
Senior Unsecured	Baa3
<b>BANCO SANTANDER MÉXICO, S.A.</b>	
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)
<b>SANTANDER CONSUMER BANK AS</b>	
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
<b>SANTANDER ISSUANCES S.A. UNIPERSONAL</b>	
Subordinate	Baa2
<b>GRUPO FINANCIERO SANTANDER MÉXICO SAB DE CV</b>	
Jr Subordinate	Ba1 (hyb)
<b>SANTANDER CONSUMER BANK AG</b>	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
<b>SANTANDER FINANCE PREFERRED, S.A. UNIPERSONAL</b>	
Pref. Stock Non-cumulative	Ba2 (hyb)
<b>SOVEREIGN REAL ESTATE INVESTMENT TRUST</b>	
Pref. Stock Non-cumulative	Ba1 (hyb)
<b>BANESTO HOLDINGS, LTD.</b>	
BACKED Pref. Stock Non-cumulative	Ba2 (hyb)

Source: Moody's Investors Service

## Endnotes

- [1](#) Latam and Poland
- [2](#) Excluding the corporate centre.
- [3](#) Retail banking plus wealth management and insurance. Excluding the corporate centre.
- [4](#) Santander Corporate & Investment Banking and Wealth Management & Insurance
- [5](#) excluding inflation
- [6](#) Based on the limit established by recommendation 2020/63 of the ECB on 15 December 2020.
- [7](#) New Default definition, credit conversion factor etc
- [8](#) Including IFRS 9 transitional arrangements,
- [9](#) EBA Risk Dashboard Q4 2020
- [10](#) The P2R typically covers risks underestimated or not covered by the minimum capital requirement.
- [11](#) average for Deutsche Bank AG, Commerzbank AG, Banco Bilbao Vizcaya Argentaria, S.A., BNP Paribas S.A., Crédit Agricole S.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A.
- [12](#) net of trading derivatives and interbank balances
- [13](#) In compliance with BRRD I.

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