CZECH REPUBLIC

Rating Analysis - 6/19/17

The Czech economy has seen solid growth since 2013 after the longest recession in the country's recent history, although in 2016, growth slowed. However, 2016's 3.55% annual nominal GDP growth rate was still healthy compared to the rest of Europe. Despite the general election later this year, the strong economic fundamentals and highly diversified industries make the Czech Republic less vulnerable to political instability.

The major concern is the high dependence of the Czech economy on exports. Exports comprise approximately 83% of its GDP and the major portion of exports is from trading with other European countries. Although Europe is recovering gradually, highly concentrated exports will make the Czech economy vulnerable to the low growth of EU zone. In April, 2017, the Czech Republic removed the currency exchange rate cap, which led to an immediate appreciation of CZK. Also the central bank indicated that the expansionary monetary policy might end and become more conventional. All these together with the recent downtrend of GDP growth attract attention. We are affirming our rating of "AA".

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2014	2015	2016	P2017	P2018	P2019
Debt/ GDP (%)	56.7	53.9	49.6	47.5	45.1	42.4
Govt. Sur/Def to GDP (%)	-2.8	0.0	-0.5	-0.1	0.3	0.7
Adjusted Debt/GDP (%)	56.7	53.9	49.6	47.6	45.2	42.5
Interest Expense/ Taxes (%)	6.8	5.5	4.7	4.6	4.5	4.3
GDP Growth (%)	5.3	5.6	3.5	2.5	2.5	2.5
Foreign Reserves/Debt (%)	1.8	2.3	3.3	3.6	3.8	3.9
Implied Sen. Rating	AA	AA+	AA	AA	AA	AA

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

PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	76.5	0.6	76.5	5.9	3.3	AA+
Kingdom Of The Netherlands	AA+	75.8	0.3	75.8	4.6	3.0	AA
Republic Of Austria	AA+	105.6	-1.2	105.6	7.6	2.8	A+
French Republic	AA	123.5	-3.2	123.5	6.5	1.9	A-
United Kingdom	AA	123.2	-2.1	123.2	9.0	4.1	A

CDS Spreads (bps)
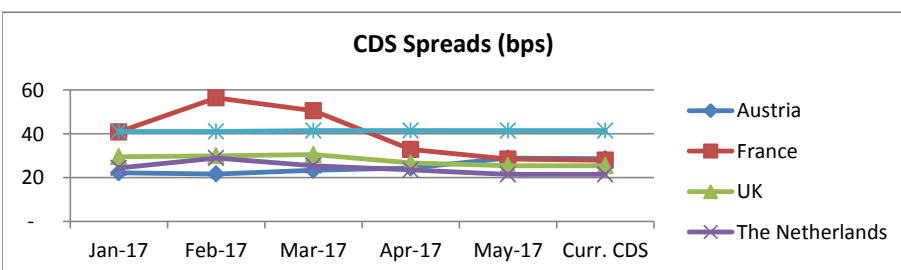
Country	CDS
Austria	29
France	28
UK	25
The Netherlands	22
Czech Republic	41

Economic Growth

Although the growth of the Czech economy slowed down in 2016, the nominal GDP growth rate stood at 3.5% at the year end, which was at the high level among European countries. For the Dec'16 quarter, the YoY growth dropped to approx 3%, from 6% two years ago.

The major concern is that Czech's high dependence on exports, which comprised 83% of its GDP in 2015. Additionally, 86.4% of its exports are delivered to other European countries, making its economy vulnerable to the overall economy in Europe. In April, 2017, Czech central bank removed currency cap and indicated the end of expansionary monetary policy, which might hurt the exports. Watch for the European economy and CZK exchange rates.

GDP Growth YoY

Source: IFS

Legend: Czech Republic — Germany
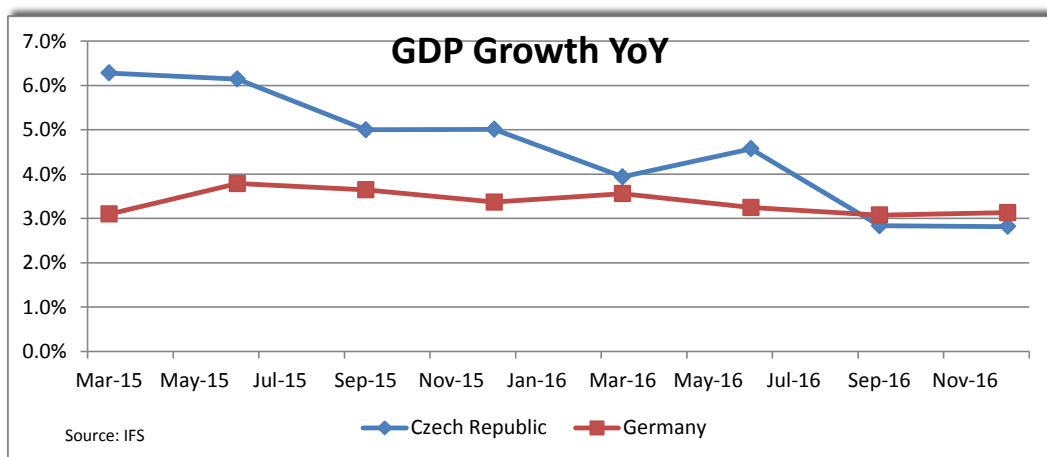
Fiscal Policy

Czech Republic has a debt-to-GDP ratio of 49.6% (using the market value of debt), 8.2% lower than that in 2010. The deficit-to-GDP ratio rose slightly to 0.53%, which was still much lower than the 4.66% realized in 2012. The 5-Year CDS Spread is 41.43 bps, slightly higher than other healthy economies in Europe. We expect the debt-to-GDP ratio will improve slightly over the coming years as the economy continues to recover from the recession, with a deficit-to-GDP ratio below 1%.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Czech Republ	-0.53	49.63	41.43
Germany	0.65	76.47	16.07
The Netherlaı	0.26	75.84	21.53
Austria	-1.16	105.59	28.58
France	-3.25	123.55	27.96
UK	-2.06	123.25	25.47
Sources: Thomson Reuters and IFS			

Unemployment

Czech's unemployment rate was the lowest among peer countries in 2015 and 2016. As shown in the chart, for 2016 the 4% unemployment was even lower than Germany's. Czech has been improving the employment rate since 2014. We do not consider the unemployment as a potential risk to Czech's economy.

Unemployment (%)		
	2015	2016
Czech Repub	5.10	4.00
Germany	4.60	4.10
The Netherla	6.90	6.00
Austria	5.70	6.00
France	10.40	10.06
UK	5.37	4.90
Source: Intl. Finance Statistics		

CZECH REPUBLIC

Rating Analysis - 6/19/17

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

Page 3

Banking Sector

Komercni Banka is the only publicly traded top-5 bank in the Czech Republic. The top 5 banks' balance sheet is about 4 times of the shown amount, at around 84% of its GDP (source: banksdaily). The country's exposure to its banking sector is within a normal level, as compared to Germany, where the top 5 banks have assets equal to approximately 111% of the GDP. The risk in Czech's banking sector is minimal.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
Komercni Banka	922.74	19.30
Total	922.7	
EJR's est. of cap shortfall at 10% of assets less market cap		-85.8
Czech Republic's GDP		4,716.1

Funding Costs

Although Czech's sovereign debt yields slightly increased in the past 2 quarters, the overall rates have dropped since August 2013 and remained at a low level. As can be seen below, the 2-year debt yield is near null, and the 10-year debt yields is around 0.7%. As ECB holds the expansionary monetary policy, we are expecting Czech to maintain the low funding costs in the foreseeable future.

Sovereign Debt Yields (%)

Source: Thomson Reuters
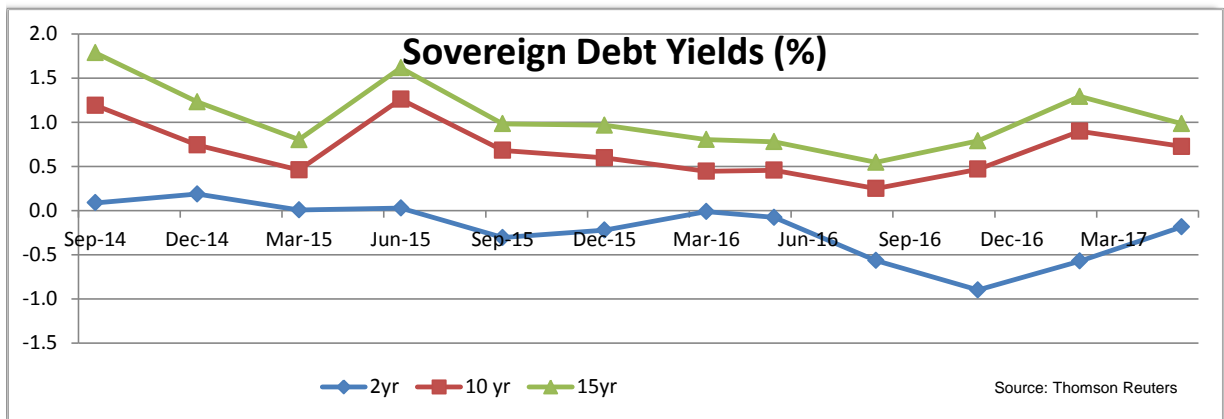
Ease of Doing Business

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 27 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*

	2017 Rank	2016 Rank	Change in Rank
Overall Country Rank:	**27**	**36**	**9**
Scores:			
Starting a Business	81	93	12
Construction Permits	130	127	-3
Getting Electricity	13	42	29
Registering Property	31	37	6
Getting Credit	32	28	-4
Protecting Investors	53	57	4
Paying Taxes	53	122	69
Trading Across Borders	1	1	0
Enforcing Contracts	68	72	4
Resolving Insolvency	26	22	-4

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

Economic Freedom

As can be seen below, Czech Republic is above average in its overall
rank of 73.3 for Economic Freedom with 100 being best.

Heritage Foundation 2017 Index of Economic Freedom World Rank 73.3*				
	2017 Rank**	2016 Rank	Change in Rank	World Avg.
Property Rights	70.3	75.0	-4.7	52.2
Government Integrity	55.9	51.0	4.9	42.4
Judical Effectiveness	55.9	N/A	N/A	44.4
Tax Burden	82.9	82.5	0.4	77.3
Gov't Spending	45.3	47.3	-2.0	63.0
Fiscal Health	92.0	N/A	N/A	66.3
Business Freedom	67.2	66.6	0.6	64.8
Labor Freedom	77.7	77.7	0.0	59.4
Monetary Freedom	85.8	84.1	1.7	76.3
Trade Freedom	87.0	88.0	-1.0	75.9
*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:

Czech Republic has grown its taxes of 5.6% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 5.0% per annum over the next couple of years and 5.0% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

CZECH REPUBLIC's total revenue growth has been less than its peers and we assumed a 1.5% 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%	4.5	5.6	5.0	5.0
Social Contributions Growth %	4.5	6.1	5.5	5.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(21.1)	(10.0)	(10.0)
Total Revenue Growth%	4.2	1.1	1.5	1.4
Compensation of Employees Growth%	2.7	5.6	5.3	5.2
Use of Goods & Services Growth%	1.4	2.6	2.6	2.6
Social Benefits Growth%	1.8	2.8	2.8	2.8
Subsidies Growth%	4.2	8.1	5.0	5.0
Other Expenses Growth%	0.0			
Interest Expense	1.5	1.9	1.9	2.0
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(4.5)	(6.8)	(5.0)	(5.0)
Shares and Other Equity (asset) Growth%	2.7	(4.2)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	(5.4)	9.5	5.0	5.0
Financial Derivatives (asset) Growth%	(9.9)	70.4	5.0	5.0
Other Accounts Receivable LT Growth%	(1.2)	(20.3)	(0.5)	(0.5)
Monetary Gold and SDR's Growth %	0.0	0.0	1.0	1.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	10.8	46.8	5.0	5.0
Securities Other than Shares (liability) Growth%	4.8	(4.2)	(3.0)	(3.0)
Loans (liability) Growth%	(1.7)	(15.8)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	0.0	(16.1)	3.0	3.0
Financial Derivatives (liability) Growth%	0.0	(20.5)	(5.0)	(5.0)
Additional ST debt (1st year)(billions CZK)	0.0	0.0		

CZECH REPUBLIC
Rating Analysis - 6/19/17

*EJR Sen Rating(Curr/Prj) AA/ AA
*EJR CP Rating: A1+
EJR's 3 yr. Default Probability: 1.0%

Page 6

ANNUAL INCOME STATEMENTS

Below are Czech Republic's annual income statements with the projected
years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS CZK)

	2013	2014	2015	2016	P2017	P2018
Taxes	816	826	894	945	992	1,042
Social Contributions	607	629	663	703	742	783
Grant Revenue						
Other Revenue						
Other Operating Income	273	284	330	261	261	261
Total Revenue	1,695	1,739	1,887	1,909	1,994	2,085
Compensation of Employees	367	380	398	420	442	466
Use of Goods & Services	270	274	283	291	298	306
Social Benefits	678	695	710	730	750	771
Subsidies	96	99	105	114	119	125
Other Expenses				127	127	127
Grant Expense						
Depreciation	198	201	206	208	219	230
Total Expenses excluding interest	1,738	1,802	1,840	1,889	1,955	2,024
Operating Surplus/Shortfall	-43	-63	48	19	39	60
Interest Expense	55	56	49	45	45	46
Net Operating Balance	-98	-119	-1	-25	-6	14

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

ANNUAL BALANCE SHEETS

Below are Czech Republic's balance sheets with the projected years based on the assumptions listed on page 5.

		ANNUAL BALANCE SHEETS				
Base Case		(BILLIONS CZK)				
ASSETS	2013	2014	2015	2016	P2017	P2018
Currency and Deposits (asset)						
Securities other than Shares LT (asset)						
Loans (asset)	128	134	129	120	114	108
Shares and Other Equity (asset)	624	648	602	577	588	600
Insurance Technical Reserves (asset)	11	14	3	3	3	3
Financial Derivatives (asset)	0	403	1	2	2	2
Other Accounts Receivable LT	366	382	396	315	314	312
Monetary Gold and SDR's						
Other Assets					452	452
Additional Assets	511	3	418	452		
Total Financial Assets	1,640	1,583	1,548	1,468	1,473	1,477
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	7	10	5	8	8	8
Securities Other than Shares (liability)	1,815	1,882	1,882	1,802	1,749	1,697
Loans (liability)	195	188	184	155	161	147
Insurance Technical Reserves (liability)	11	8	11	9	9	10
Financial Derivatives (liability)	6	5	2	1	1	1
Other Liabilities	347	360	374	367	367	367
Liabilities	2,381	2,452	2,458	2,342	2,353	2,343
Net Financial Worth	-741	-869	-910	-874	-880	-866
Total Liabilities & Equity	1,640	1,583	1,548	1,468	1,473	1,477

Comments on the Difference between the Model and Assigned Rating
We consider a one or less "notch" difference between 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 "AA" whereas the ratio-implied rating for the most recent period is "AA"; we expect results to remain approximately the same.

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

CZECH REPUBLIC

Rating Analysis - 6/19/17

Page 9

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

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 CZECH REPUBLIC with the ticker of 1040Z CP we have assigned the senior unsecured rating of AA.
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 available in our Form NRSRO Exhibit #2 dated May 10, 2015 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, 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.

CZECH REPUBLIC

Rating Analysis - 6/19/17

Page 10

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

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%	5.0	9.0	1.0	AA	AA	AA
Social Contributions Growth %	5.5	8.5	2.5	AA	AA	AA
Other Revenue Growth %		3.0	(3.0)	AA	AA	AA
Total Revenue Growth%	1.5	3.5	(0.5)	AA	AA	AA
Monetary Gold and SDR's Growth %	1.0	3.0	(1.0)	AA	AA	AA

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:

Mike Huang

…………………………………………………..

Mike Huang
Rating Analyst

Reviewer Signature:

Caroline Ding

……………………………………………..

Caroline Ding
Rating Analyst

Today's Date

June 19, 2017

……………………………………….

Today's Date

June 19, 2017

……………………………………….

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.