FRENCH REPUBLIC

Rating Analysis - 6/30/16

*EJR Sen Rating(Curr/Prj) A+/ A+
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.3%

The French debt-to-GDP increased from 90% in 2012 to 96% as of 2015. The dovish monetary policy across Europe reduced the interest expense, yet a fundamentally strong driver of recovery and growth has yet to appear as debt-to-GDP ratio heads towards the triple digits.

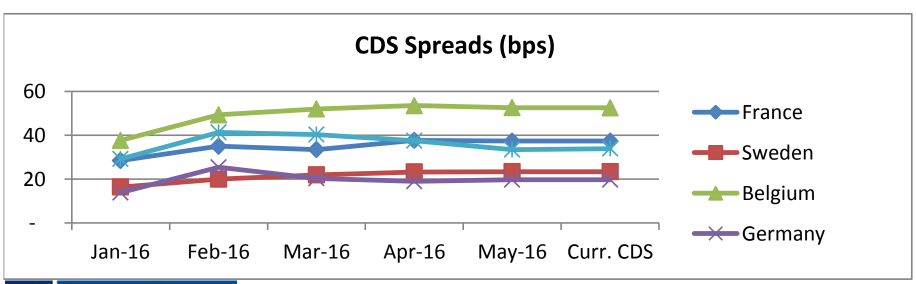
In an effort to boost labor productivity, the government has passed several laws including the Macron Act in 2015 and the El Khomri Labor Act in 2016. However, the effects were and are likely to remain limited, as any measures short of drastic will be watered down in the face of the long-standing structural inefficiency in the labor market. The favorable trend in commodity prices, which contributed considerably to GDP growth in 2015, is also expected to see a slight reversal in 2016. Considering the indispensable role that public spending plays in sustaining GDP growth and the lack of any potential replacement, we expect France's credit metrics to remain stagnant in the short to medium time horizon. Upgrading to "A+". Note, to reflect the propensity of central banks to support sovereign obligors, we have eased our indicative credit ratios, resulting in some upgrades.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	92.3	95.6	96.0	98.4	100.5	102.0
Govt. Sur/Def to GDP (%)	-3.4	-3.6	-3.4	-3.1	-2.7	-2.4
Adjusted Debt/GDP (%)	92.3	95.6	96.0	98.6	100.7	102.2
Interest Expense/ Taxes (%)	7.9	7.5	7.0	6.9	6.8	6.8
GDP Growth (%)	1.5	0.7	2.4	2.5	2.5	2.6
Foreign Reserves/Debt (%)	10.5	11.1	14.4	14.2	13.6	13.1
Implied Sen. Rating	A+	A+	AA-	AA-	A+	A+

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	71.2	0.6	71.2	7.0	4.1	AA+
Kingdom Of Sweden	AAA	43.4	1.0	43.4	1.2	6.0	AAA
Kingdom Of Belgium	AA	106.0	-2.6	106.0	9.6	1.9	A
Republic Of Finland	AA+	63.1	-2.3	63.1	3.9	1.0	AA
United Kingdom	AAA	89.2	-3.5	89.2	8.7	4.0	AA

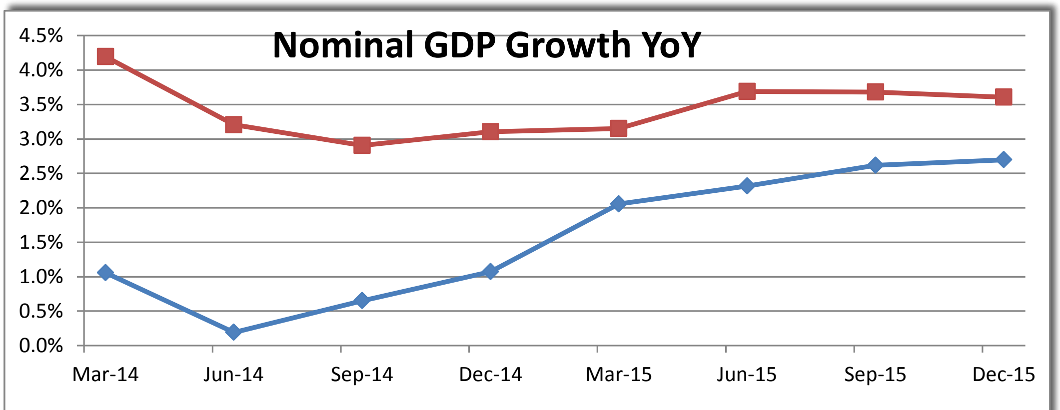


Country	CDS
France	37
Sweden	23
Belgium	53
Germany	20
United Kingdom	34

Economic Growth

Despite its top-rank productivity, France's economic growth has been tepid for the past several years, largely on account of a structural underutilization of labor. Real GDP growth saw a slight improvement recently as it accelerated from 0.2% in 2014 to 1.2% in 2015, but underlying the growth was a downtrend in oil price, which is likely to see a moderate reversal in the future.

In the medium term, we expect the stagnation of the work force and accommodative labor condition to continue to weigh on real GDP growth by setting a ceiling at 1.5% per year. However, a revival of investment is likely to contribute positively by uplifting the growth figure by 50-100 bps for the next two years.



Source: Egan-Jones, IFS

Fiscal Policy

The improvement in France's budget deficit has been gradual at best - sensible because government spending is still an indispensable driver of GDP growth. Public revenue rose at an annualized rate of 2.4% from 2012 to 2015, while expenditure rose at a slightly slower pace of 1.9%. Deficit-to-GDP was 3.4% in 2015 compared to 4.2% in 2012, as reflected in a deceleration in Debt-to-GDP growth from 5.1% to 0.4% for the same period. We expect a period of two to three years before the deficit-to-GDP ratio moves within the Maastricht ceiling of 3%.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
France	-3.40	95.96	23.43
Germany	0.59	71.22	19.79
Sweden	1.02	43.43	37.35
Belgium	-2.62	105.96	52.56
Finland	-2.31	63.10	26.04
UK	-3.46	89.22	33.96

Sources: Thomson Reuters and IFS

Unemployment

France's unemployment worsened from 7.4% in 2008 to 10.4% in 2015, one of the highest in the Eurozone area. The underlying reason is a structural one: high wage rates and short working hours raise the cost of labor, and in turn, the threshold to employment. Given the current pace of reforms, unemployment is unlikely to drop below 10% in the short future.

Unemployment (%)

	2014	2015
France	10.30	10.40
Germany	6.70	6.01
Sweden	7.93	7.40
Belgium	8.50	8.50
Finland	8.70	9.40
UK	6.19	5.37

Source: Intl. Finance Statistics

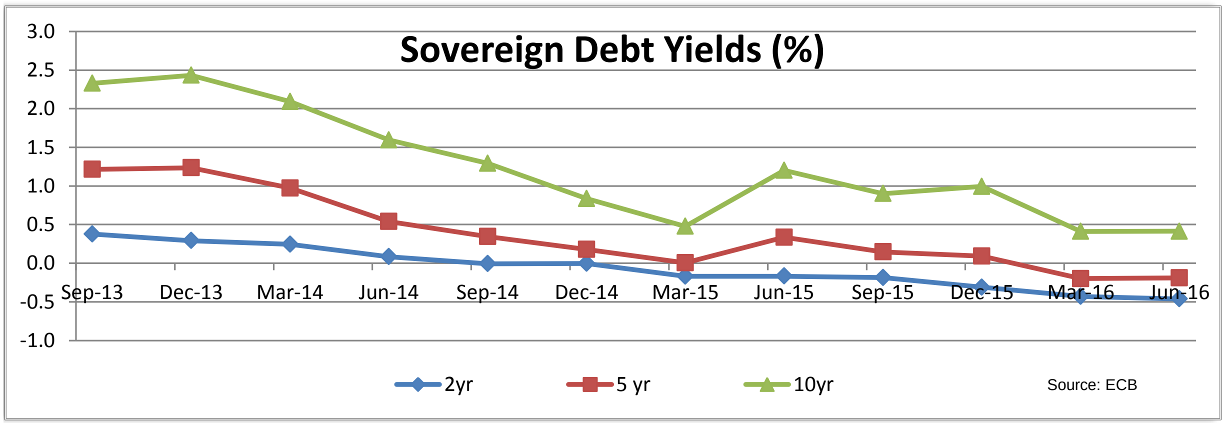
Banking Sector

France has significant exposure to its banking sector because of the banks' high aggregate size measured in assets: the top five banks have assets equal to 257% of GDP, compared to 112% for Germany. However, asset quality has improved slightly as the share of non-performing loans fell from 4.2% in 2014 to 4% in 2015. Weak profitability and slow recovery of the economy still weighs on the sector.

Bank Assets (billions of local currency)	Assets	Cap/ Assets %
BNP PARIBAS	1994.19	2.94
CREDIT AGRICOLE	1529.29	1.52
SOC GENERALE	1334.39	2.14
NATIXIS	500.26	2.70
CREDIT INDUS COM	253.98	2.51
Total	5,612.1	
EJR's est. of cap shortfall at 10% of assets less market cap		431.1
France's GDP		2,185.3

Funding Costs

Despite stagnant credit metrics, France has seen a decline in its borrowing costs on account of accommodative monetary policies. As shown in the chart below, the 10-year yield dropped from 2.4% in December 2013 to 0.4% in June 2016, while the 2-year yield entered the negative territory in September 2014 and has been declining since. We expect France's borrowing costs to be contained in the next two to three years due to ECB's reluctance to raise interest rates.



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*	2015 Rank	2014 Rank	Change in Rank
Overall Country Rank:	**27**	**27**	**0**
Scores:			
Starting a Business	32	27	-5
Construction Permits	40	39	-1
Getting Electricity	20	22	2
Registering Property	85	82	-3
Getting Credit	79	71	-8
Protecting Investors	29	27	-2
Paying Taxes	87	105	18
Trading Across Borders	1	1	0
Enforcing Contracts	14	12	-2
Resolving Insolvency	24	22	-2

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

Economic Freedom

As can be seen below, France is above average in its overall rank of 62.5 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom
World Rank 62.5*

	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	80	80	0	42.2
Freedom from Corruption	71	69.9	1.1	41.9
Fiscal Freedom	47.5	48.4	-0.9	77.4
Government Spending	2.5	5.6	-3.1	61.7
Business Freedom	80.2	79.9	0.3	64.1
Labor Freedom	43.5	51.8	-8.3	61.3
Monetary Freedom	77.5	76.1	1.4	75.0
Trade Freedom	83	82.8	0.2	75.4
Investment Freedom	70	70	0	54.8
Financial Freedom	70	70	0	48.6

*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

Valuation Driver: Taxes Growth:
FRENCH REPUBLIC has grown its taxes of 2.7% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 2.7% per annum over the next couple of years and 2.7% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:
FRENCH REPUBLIC's total revenue growth has been less than its peers and we assumed no growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	4.1	2.7	**2.7**	**2.7**
Social Contributions Growth %	4.0	1.0	**1.0**	**1.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	3.0	**3.0**	**5.4**
Total Revenue Growth%	3.9	2.1	**2.1**	**1.9**
Compensation of Employees Growth%	1.0	1.0	**1.0**	**1.0**
Use of Goods & Services Growth%	1.0	1.4	**1.4**	**1.4**
Social Benefits Growth%	3.4	1.8	**1.8**	**1.8**
Subsidies Growth%	5.2	16.3		
Other Expenses Growth%	0.0			
Interest Expense	0.0	2.1	**1.9**	
Currency and Deposits (asset) Growth%	(51.9)	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.1)	(3.3)	**(0.5)**	**(0.5)**
Shares and Other Equity (asset) Growth%	(2.2)	(0.2)	**0.5**	**0.5**
Insurance Technical Reserves (asset) Growth%	0.0	(8.5)	**1.2**	**1.2**
Financial Derivatives (asset) Growth%	0.0	5,109.0	**2.7**	**2.7**
Other Accounts Receivable LT Growth%	(1.3)	3.0	**2.7**	**2.7**
Monetary Gold and SDR's Growth %	0.0	0.0		
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	7.8	(2.5)	**0.5**	**0.5**
Securities Other than Shares (liability) Growth%	1.1	2.4	**1.6**	**1.6**
Loans (liability) Growth%	(1.2)	0.6	**0.6**	**0.6**
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(billions EUR)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are FRENCH REPUBLIC's annual income statements with the projected years based on the assumptions listed on page 3.

ANNUAL REVENUE AND EXPENSE STATEMENT

(BILLIONS EUR)

	2012	2013	2014	2015	P2016	P2017
Taxes	586	609	618	635	652	669
Social Contributions	387	399	409	413	417	421
Grant Revenue						
Other Revenue						
Other Operating Income	112	112	115	119	119	119
Total Revenue	1,086	1,120	1,142	1,166	1,187	1,209
Compensation of Employees	268	273	279	282	284	287
Use of Goods & Services	107	110	110	111	113	114
Social Benefits	530	545	557	567	578	588
Subsidies	36	36	48	55	55	55
Other Expenses				106	106	106
Grant Expense						
Depreciation	73	74	75	75	75	75
Total Expenses excluding interest	1,119	1,144	1,173	1,196	1,211	1,226
Operating Surplus/Shortfall	-34	-24	-31	-30	-24	-17
Interest Expense	54	48	46	44	45	46
Net Operating Balance	-87	-72	-77	-74	-69	-63

ANNUAL BALANCE SHEETS

Below are FRENCH REPUBLIC's balance sheets with the projected years based on the assumptions listed on page 3.

ANNUAL BALANCE SHEETS
(BILLIONS EUR)

Base Case

ASSETS	2012	2013	2014	2015	P2016	P2017
Currency and Deposits (asset)						
Securities other than Shares LT (asset)						
Loans (asset)	96	103	103	99	99	98
Shares and Other Equity (asset)	451	485	507	506	509	511
Insurance Technical Reserves (asset)	6	6	48	44	44	45
Financial Derivatives (asset)	1	47	1	50	51	52
Other Accounts Receivable LT	253	266	274	283	290	298
Monetary Gold and SDR's						
Other Assets					7	7
Additional Assets	91	38	46	7		
Total Financial Assets	898	945	979	988	1,000	1,011

LIABILITIES	2012	2013	2014	2015	P2016	P2017
Other Accounts Payable						
Currency & Deposits (liability)	42	41	40	39	39	39
Securities Other than Shares (liability)	1,770	1,784	1,991	2,038	2,072	2,106
Loans (liability)	271	286	298	299	368	431
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	221	237	246	259	259	259
Liabilities	2,305	2,348	2,575	2,636	2,716	2,791
Net Financial Worth	-1,407	-1,403	-1,597	-1,648	-1,716	-1,779
Total Liabilities & Equity	898	945	979	988	1,000	1,011

Comments on the Difference between the Model and Assigned Rating

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 FRENCH REPUBLIC with the ticker of 223727Z FP we have assigned the senior unsecured rating of A+.
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.

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%	2.7	6.7	(1.3)	A+	A+	A+
Social Contributions Growth %	1.0	(2.0)	4.0	A+	A+	A+
Other Revenue Growth %		(3.0)	3.0	A+	A+	A+
Total Revenue Growth%	2.1	0.1	4.1	A+	A+	A+
Monetary Gold and SDR's Growth %	-	(2.0)	2.0	A+	A+	A+

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature: **Today's Date**

Mike Huang
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Mike Huang
Rating Analyst

June 30, 2016
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Reviewer Signature: **Today's Date**

Caroline Ding
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Caroline Ding
Rating Analyst

June 30, 2016
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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.