FRENCH REPUBLIC

Rating Analysis - 7/20/18

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

In the first quarter of 2018, French economy decelerated at a higher speed than expected because of easing growth in fixed investment and exports. Although private consumption is expected to improve it is likely to be constrained by the increase in inflation and indirect taxes. The Debt-to-GDP ratio has increased over the last five year due to the anemic growth in economy, high unemployment and budget deficits while its neighbors in Europe such as Germany and United Kingdom, have enjoyed a relatively strong recovery since the financial crisis.

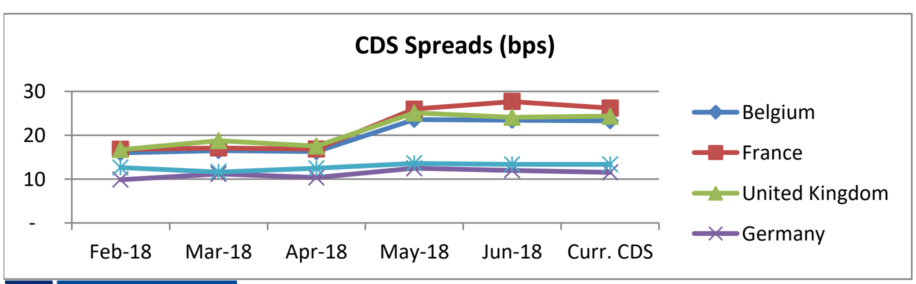
Even though France reduced its unemployment rate to 8.9% for February in 2018, it is still higher than the Eurozone average and more than double than the level of jobless in Germany and Britain. The situation is even worse for young people with 20.4% (May 2018) of the people between the age of 15 and 24 do not have a job. Another challenge for France is the trade war with the U.S. because it exports 15% share of total EU exports in aluminum to the U.S. and the U.S. is also the largest importer of French goods outside Eurozone. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2015	2016	2017	P2018	P2019	P2020
Debt/ GDP (%)	95.6	96.6	96.8	98.1	99.0	99.4
Govt. Sur/Def to GDP (%)	-3.5	-3.3	-2.4	-2.0	-1.7	-1.4
Adjusted Debt/GDP (%)	95.6	96.6	96.8	98.3	99.2	99.6
Interest Expense/ Taxes (%)	6.9	6.5	5.9	5.9	5.8	5.7
GDP Growth (%)	2.3	1.4	2.8	1.9	1.9	2.0
Foreign Reserves/Debt (%)	1.6	1.7	1.4	1.5	1.3	1.4
Implied Sen. Rating	A+	A+	A+	A+	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	64.1	1.2	64.1	8.1	3.8	AA+
Kingdom Of Sweden	AAA	57.9	2.6	57.9	1.9	4.4	AA+
Kingdom Of Belgium	AA	121.8	-1.0	121.8	14.6	3.4	A+
Republic Of Finland	AA+	73.3	-0.2	73.3	5.8	3.6	AAA

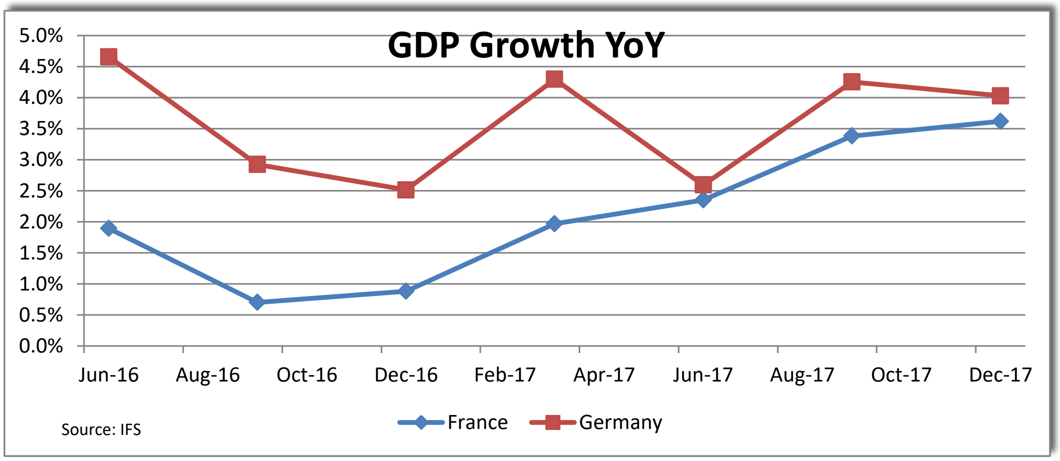


Country	CDS
Belgium	23
France	26
United Kingdom	24
Germany	12
Finland	13

Economic Growth

France's nominal GDP grew by 3.6% in Dec 2017. The French economy decelerated at a faster-than-expected pace in the first quarter of this year due to slower growth in fixed investment and exports, which put an end to a sequence of five quarters of robust expansion. Industrial production contracted for the second consecutive month in April, while sentiment in the manufacturing industry remained steady at a high level in June. The government is planning to sell stakes in public-private enterprises to increase revenue and reduce fiscal spending.

The economy is expected to decelerate this year from 2017. The GDP growth rate is expected to be 2.0% in 2018 and 1.9% in 2019.



Fiscal Policy

In the past five year, France has been improving its public deficit to GDP ratio and it has brought its public deficit below the European Union's three percentage limit for the first time in a decade last year. The government intends to finance a gradual reduction of business and labor taxes by lowering current public expenditures. Lower taxes and costs of employing low-skilled workers will support the recovery. This, with economic expansion and lower spending is expected to maintain the deficit below 3% of GDP.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
France	-2.39	96.80	26.23
Germany	1.20	64.13	11.54
Sweden	2.56	57.90	11.80
Belgium	-0.97	121.83	23.34
Finland	-0.23	73.33	13.37
UK	-0.89	117.57	24.39

Sources: Thomson Reuters and IFS

Unemployment

Unemployment rate in France is still one of the highest in the Eurozone area. Unemployment rate was 8.9% for February 2018 but unexpectedly increased to 9.2% in May 2018, which missed market consensus of 8.8%. The structural reasons are high wage rates and short working hours. The jobless rate is likely to remain in the same level for the short future.

Unemployment (%)

	2016	2017
France	10.07	9.43
Germany	4.14	3.77
Sweden	6.95	6.68
Belgium	7.86	7.16
Finland	8.79	8.63
UK	4.91	4.40

Source: Intl. Finance Statistics

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Banking Sector

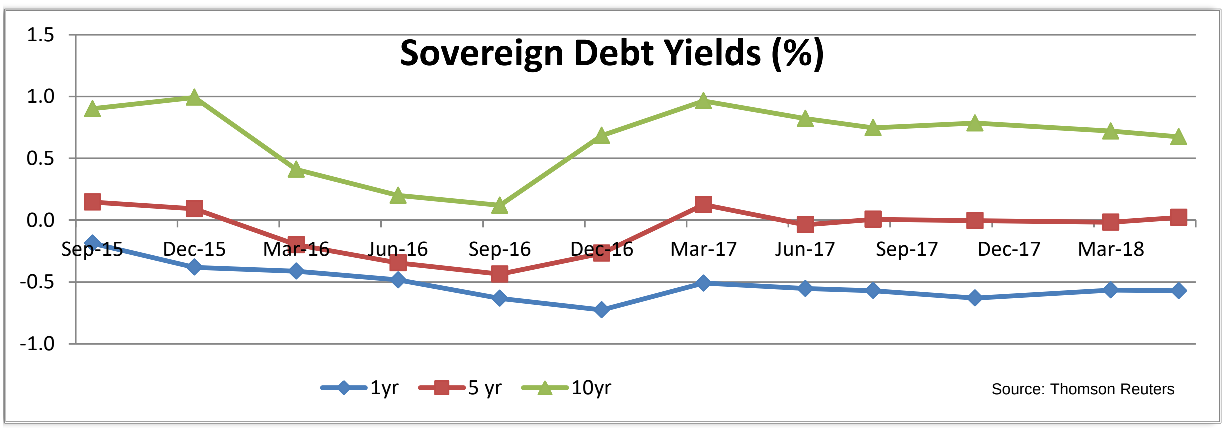
France has significant exposure to its banking system since the top four banks have assets more than 200% of its GDP, compared with 59% for Germany. Assets quality kept improving in recent years as non-performing loans ratios fell from 4.5% in 2013 to 3.6% in 2016, which is the lowest since 2008 crisis. The improving economy should enhance asset quality.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
BNP Paribas	1949.77	3.35
Credit Agricole	1551.60	2.07
Societe Generale	1274.20	2.27
NATIXIS	519.99	3.65
Total	5,295.6	
EJR's est. of cap shortfall at 10% of assets less market cap		384.2
France's GDP		2,291.7

Funding Costs

As can be seen in the graph below, the bond yield of France was relative stable for the recent 12 months. The 10-year yield fell slightly from 0.82% in May 2017 to 0.67% in May 2018 while the 5-year yield was relatively unchanged at the level of 0%. We expect France's borrowing cost to be maintained in a lower level since ECB is reluctant to raise interest rate until middle of 2019.



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 31 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*

	2018 Rank	2017 Rank	Change in Rank
Overall Country Rank:	**31**	**29**	**-2**
Scores:			
Starting a Business	25	27	2
Construction Permits	18	20	2
Getting Electricity	26	25	-1
Registering Property	100	100	0
Getting Credit	90	82	-8
Protecting Investors	33	32	-1
Paying Taxes	54	63	9
Trading Across Borders	1	1	0
Enforcing Contracts	15	18	3
Resolving Insolvency	28	24	-4

* 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 63.9 for Economic Freedom with 100 being best.

Heritage Foundation 2018 Index of Economic Freedom
World Rank 63.9*

	2018 Rank**	2017 Rank	Change in Rank	World Avg.
Property Rights	84.0	85.0	-1.0	51.5
Government Integrity	72.7	69.7	3.0	46.9
Judical Effectiveness	65.1	72.7	-7.6	42.1
Tax Burden	47.3	47.6	-0.3	76.7
Gov't Spending	2.7	2.0	0.7	63.5
Fiscal Health	60.8	57.0	3.8	66.3
Business Freedom	80.2	78.0	2.2	64.8
Labor Freedom	45.0	44.1	0.9	58.9
Monetary Freedom	81.6	81.6	0.0	76.0
Trade Freedom	81.9	82.0	-0.1	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:
FRENCH REPUBLIC has grown its taxes of 5.0% per annum in the last fiscal year which is average. We expect tax revenues will grow approximately 2.5% per annum over the next couple of years and 2.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
FRENCH REPUBLIC's total revenue growth has been less than its peers and we assumed a 2.0% growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	5.4	5.0	**2.5**	**2.5**
Social Contributions Growth %	4.6	3.2	**1.5**	**1.5**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	1.6	**3.2**	**3.2**
Total Revenue Growth%	4.3	4.0	**2.0**	**2.0**
Compensation of Employees Growth%	0.0	0.0		
Use of Goods & Services Growth%	2.1	2.3	**1.8**	**1.8**
Social Benefits Growth%	2.1	2.1	**1.9**	**1.9**
Subsidies Growth%	3.1	4.9	**2.0**	**2.0**
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.8	**1.4**	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	(5.1)	0.0		
Loans (asset) Growth%	2.5	(2.3)	**(1.8)**	**(1.8)**
Shares and Other Equity (asset) Growth%	0.0	0.0		
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	1.3	6.4	**3.0**	**3.0**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	0.0	0.0		
Securities Other than Shares (liability) Growth%	(1.8)	1.3	**0.9**	**0.9**
Loans (liability) Growth%	(2.1)	(2.0)	**0.5**	**0.5**
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 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS EUR)

	2014	2015	2016	2017	P2018	P2019
Taxes	621	638	648	681	698	715
Social Contributions	409	413	418	431	438	444
Grant Revenue						
Other Revenue						
Other Operating Income	116	118	118	120	120	120
Total Revenue	1,146	1,169	1,185	1,233	1,256	1,280
Compensation of Employees						
Use of Goods & Services	110	111	111	114	116	118
Social Benefits	560	569	579	591	603	614
Subsidies	47	56	56	59	60	61
Other Expenses				408	408	408
Grant Expense						
Depreciation	75	74	75	75	76	78
Total Expenses excluding interest	1,176	1,202	1,216	1,247	1,263	1,279
Operating Surplus/Shortfall	-30	-33	-31	-14	-7	1
Interest Expense	46	44	42	40	41	41
Net Operating Balance	-76	-77	-73	-55	-48	-41

ANNUAL BALANCE SHEETS

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

ANNUAL BALANCE SHEETS
(BILLIONS EUR)

Base Case **ASSETS**	2014	2015	2016	2017	P2018	P2019
Currency and Deposits (asset)						
Securities other than Shares LT (asset)	47	40	48	46	46	46
Loans (asset)	101	98	96	94	92	91
Shares and Other Equity (asset)						
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT	274	281	279	296	305	315
Monetary Gold and SDR's						
Other Assets					613	613
Additional Assets	557	555	561	613		
Total Financial Assets	979	975	983	1,049	1,056	1,064
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)	1,992	2,039	2,138	2,166	2,187	2,207
Loans (liability)	299	303	299	293	341	382
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	-251	-241	-285	-241	-241	-241
Liabilities	2,040	2,101	2,153	2,218	2,850	2,898
Net Financial Worth	-1,601	-1,672	-1,771	-1,746	-1,794	-1,834
Total Liabilities & Equity	979	975	983	1,049	1,056	1,064

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for the most recent period is "A+"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

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

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For the issuer 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 Oct 06, 2017 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%	2.5	6.5	(1.5)	A+	A+	A+
Social Contributions Growth %	1.5	4.5	(1.5)	A+	A+	A+
Other Revenue Growth %		3.0	(3.0)	A+	A+	A+
Total Revenue Growth%	2.0	4.0	-	A+	A+	A+
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	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**

Chris Liao

July 20, 2018

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Chris Liao
Rating Analyst

Reviewer Signature: | **Today's Date**

Steve Zhang

July 20, 2018

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Steve Zhang
Senior Rating Analyst

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.