

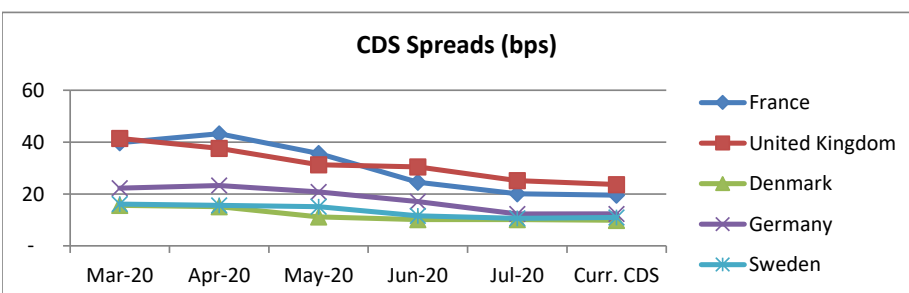
The COVID-19 pandemic has triggered a severe recession. OECD expects Luxembourg's GDP to shrink by 6.5% in 2020, as a consequence of measures put in place to contain the spread of the COVID-19 pandemic, and then recover by 3.9% in 2021. If there is a new virus outbreak later this year (the double-hit scenario), GDP is expected to drop by 7.7% in 2020 and rebound by only 0.2% in 2021. In both scenarios, the recovery will be supported by domestic demand and, to a lesser extent, by exports.

The containment measures put in place to limit the health consequences of the Covid-19 pandemic are having a heavy and rapid impact on the economy. Like many countries, Luxembourg will experience a deep recession this year, with deep impacts on the labor market and public finances. EJR expects policies that protect workers, businesses and households – including grants for small firms, credit guarantees for businesses and the extension of short-time work schemes - to help sustain growth, but at the cost of rising fiscal pressure. The economic crisis has inflated State spending at a time when receipts are decreasing. A gradual emergence from lockdown should allow activity to recover Q3 onwards. We are affirming.

CREDIT POSITION	<u>Annual Ratios</u>					
	<u>(source for past results: IMF, CountryEconomy)</u>					
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>P2020</u>	<u>P2021</u>	<u>P2022</u>
Debt/ GDP (%)	23.0	21.4	22.1	19.5	17.6	16.3
Govt. Sur/Def to GDP (%)	3.3	5.1	4.4	4.0	3.5	3.0
Adjusted Debt/GDP (%)	23.0	21.4	22.1	19.5	17.6	16.3
Interest Expense/ Taxes (%)	1.2	1.0	0.9	0.9	0.9	0.8
GDP Growth (%)	3.8	6.5	7.7	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.2	1.2	1.5	1.7	2.4	2.5
Implied Sen. Rating	AAA	AAA	AAA	AAA	AAA	AAA

INDICATIVE CREDIT RATIOS	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>
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 NRSROs	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Kingdom of Sweden	AAA	35.6	2.2	35.6	1.0	3.9	AA+
Kingdom of Denmark Federal	AAA	33.2	4.2	33.2	1.5	4.4	AAA
Republic of Germany	AAA	59.8	1.6	59.8	3.3	2.5	AA-
French Republic	AA	98.1	-2.5	98.1	4.7	2.9	AA-
United Kingdom	AA	88.1	-1.2	88.1	8.0	4.3	AA+

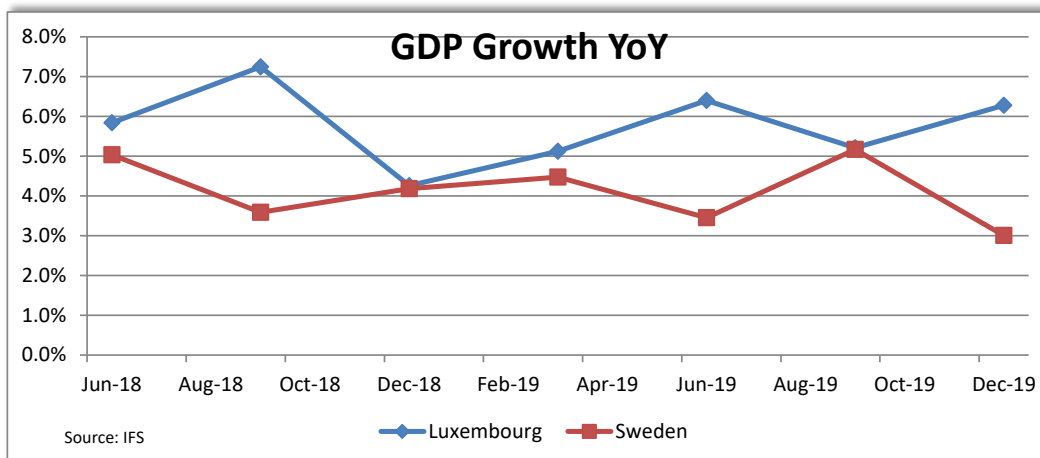


(Source: Thomson Reuters)

<u>Country</u>	<u>EJR Rtg.</u>	<u>CDS</u>
France	A+	20
United Kingdom	A+	24
Denmark	AA	10
Germany	AA	12
Sweden	AA+	11

Economic Growth

The forecasts for Luxembourg issued by institutions predict a recession of -5.4% according to the European Commission, -6.5% by OECD. Following 8 weeks of lockdown, private consumption is expected to drop by about 16% in the second quarter of 2020. Over the same period, non-residential and government fixed investment are set to decline by over 21%. Consumer Confidence in Luxembourg decreased to -12.70 points in July from -10.30 points in June of 2020. The cyclical downturn will result in a clear deterioration in public finances. The public balance is expected to deteriorate sharply, from +2.2% of GDP in 2019 to -6% this year (i.e. -€3.5 billion). This would be an unprecedented deficit.



Fiscal Policy

Short-term indicators point to a rapid deterioration in the economic situation in the second quarter of 2020 due to the measures taken to contain the pandemic. The government set up a loan guarantee facility of EUR 2.5 billion for new credit lines until the end of 2020. This adds to the six-month moratorium on debt repayments voluntarily agreed by Luxembourg banks. The short-time work scheme was expanded to all companies affected by the COVID-19 crisis. Overall, the projection envisages a discretionary fiscal stimulus of about 3% of GDP in 2020.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Luxembourg	4.38	22.06	N/A
Sweden	2.18	35.59	9.73
Denmark	4.22	33.19	8.13
Germany	1.58	59.76	9.61
France	-2.53	98.12	18.06
United Kingdom	-1.24	88.12	21.92

Sources: Thomson Reuters, IFS and CountryEconomy

Unemployment

The containment measures put in place to limit the health consequences of the Covid-19 pandemic are having a heavy and rapid impact on the economy. Like many countries, Luxembourg will experience a deep recession this year, with deep impacts on the labor market and public finances. The seasonally adjusted unemployment rate in Luxembourg was at 7 percent in June 2020, the same as in the previous month. It remained the highest jobless rate since January 2015, amid the coronavirus crisis. The number of unemployed people rose by 30 to 20,715. The national employment increased by 294 to 275,984 and the domestic one, including residents and non-residents, rose by 596 to 470,787.

	Unemployment (%)	
	2018	2019
Luxembourg	5.59	5.36
Sweden	6.28	6.73
Denmark	4.97	4.91
Germany	3.40	3.20
France	9.11	8.43
United Kingdom	4.09	3.80

Source: Intl. Finance Statistics

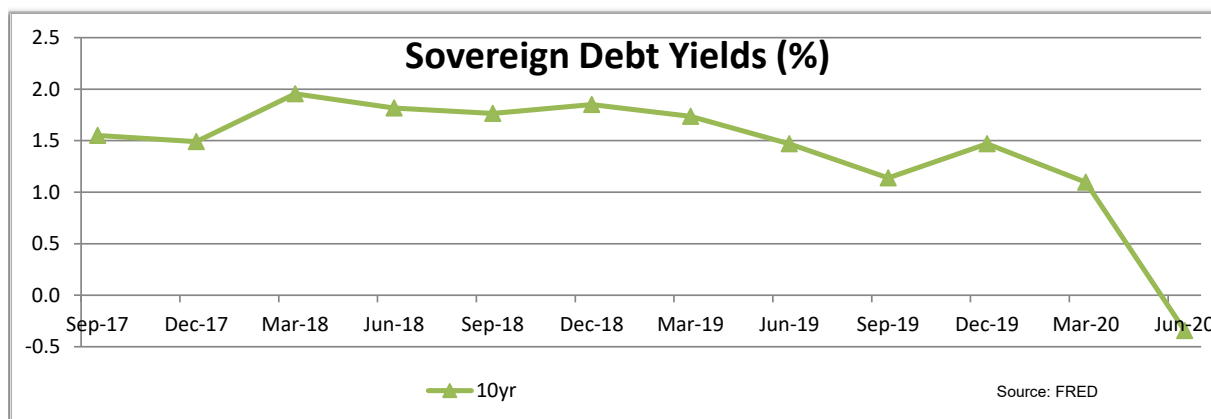
Banking Sector

The restrictions imposed during the lockdown severely limited household consumption, leading to the build-up of 'forced' savings in their current accounts. Overnight deposits in banks in Lux rose 3.2% MoM in March and then +2.3% in April (+12% YOY) - this is the highest increase in deposits in 10 years. Despite the lifting of lockdown measures, some households may hang onto some savings as warranted by the uncertain economic climate. Bankruptcies in Luxembourg increased to 1262 Companies in 2019 from 1191 Companies in 2018, and EJR expects this to increase in 2020. Loans to Private Sector increased to €29,540 million in June from €29,508 million in May 2020.

	Assets	Mkt Cap/ Assets %
Banque et Caisse d'Épargne de l'État	43.5	0.00
Deutsche Bank Luxembourg S.A.	0.1	0.00
CACEIS Bank Luxembourg	46.1	0.00
Total	89.6	
EJR's est. of cap shortfall at 10% of assets less market cap		9.0
Luxembourg's GDP		63.5

Funding Costs

Luxembourg government bonds with maturities of close to ten years still felt the effects of the coronavirus outbreak as they reached an average of -0.34 percent per annum. For the several months in a row, a negative value was reached. Luxembourg's Bank Lending Rate was reported at 1.540 % pa in Jun 2020. This records a decrease from the previous number of 1.680 % p.a. for May 2020.



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 72 (1 is best, 189 worst) is mediocre.

	2019 Rank	2018 Rank	Change in Rank
Overall Country Rank:	72	63	-9
Scores:			
Starting a Business	76	70	-6
Construction Permits	14	7	-7
Getting Electricity	45	31	-14
Registering Property	93	88	-5
Getting Credit	176	173	-3
Protecting Investors	97	119	22
Paying Taxes	23	21	-2
Trading Across Borders	1	1	0
Enforcing Contracts	18	14	-4
Resolving Insolvency	93	86	-7

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

Economic Freedom

As can be seen below, Luxembourg is strong in its overall rank of 75.8 for Economic Freedom with 100 being best.

Heritage Foundation 2020 Index of Economic Freedom				
World Rank 75.8*				
	2020	2019	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	86.4	83.0	3.4	56.6
Government Integrity	90.3	72.4	17.9	43.8
Judicial Effectiveness	74.4	85.8	-11.4	45.1
Tax Burden	64.1	65.4	-1.3	77.3
Gov't Spending	45.4	46.6	-1.2	66.0
Fiscal Health	99.0	98.9	0.1	69.1
Business Freedom	66.8	68.8	-2.0	63.3
Labor Freedom	45.3	45.9	-0.6	59.4
Monetary Freedom	76.4	82.6	-6.2	74.6
Trade Freedom	86.4	86.0	0.4	73.8

*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:

GRAND DUCHY OF LUXEMBOURG has grown its taxes of 3.9% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 3.9% per annum over the next couple of years and 3.9% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

GRAND DUCHY OF LUXEMBOURG's total revenue growth has been more than its peers and we assumed a 4.9% 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%	3.2	3.9	3.9	3.9
Social Contributions Growth %	4.4	5.6	6.0	6.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	4.1	7.8	7.8
Total Revenue Growth%	3.6	4.4	4.9	4.4
Compensation of Employees Growth%	3.5	7.4	7.4	7.4
Use of Goods & Services Growth%	4.5	8.6	8.6	8.6
Social Benefits Growth%	2.7	5.7	5.7	5.7
Subsidies Growth%	7.3	3.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.2	1.2	1.2
Currency and Deposits (asset) Growth%	1.7	0.0		
Securities other than Shares LT (asset) Growth%	7.3	0.0		
Loans (asset) Growth%	0.8	1.1	1.1	1.1
Shares and Other Equity (asset) Growth%	12.2	11.7	11.7	11.7
Insurance Technical Reserves (asset) Growth%	1.8	0.0		
Financial Derivatives (asset) Growth%	2.6	315.4	3.9	3.9
Other Accounts Receivable LT Growth%	2.5	(7.2)	(7.2)	(7.2)
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%	0.7	(0.6)	3.0	3.0
Currency & Deposits (liability) Growth%	(1.6)	3.3	3.3	3.3
Securities Other than Shares (liability) Growth%	4.5	16.7	11.7	11.7
Loans (liability) Growth%	(1.2)	(2.5)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	(54.5)	(10.0)	(10.0)
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are GRAND DUCHY OF LUXEMBOURG's annual income statements with the projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT

	(MILLIONS EUR)					
	2016	2017	2018	2019	P2020	P2021
Taxes	14,418	15,184	17,295	17,968	18,669	19,397
Social Contributions	6,481	6,919	7,304	7,713	8,176	8,666
Grant Revenue						
Other Revenue						
Other Operating Income	<u>2,563</u>	<u>2,602</u>	<u>2,665</u>	<u>2,775</u>	<u>2,775</u>	<u>2,775</u>
Total Revenue	23,462	24,705	27,264	28,456	29,620	30,838
Compensation of Employees	5,183	5,548	5,955	6,398	6,874	7,385
Use of Goods & Services	2,244	2,303	2,429	2,639	2,867	3,115
Social Benefits	9,790	10,385	10,925	11,544	12,198	12,889
Subsidies	580	609	700	723	723	723
Other Expenses				2,781	2,781	2,781
Grant Expense						
Depreciation	1,245	1,319	1,395	1,429	1,429	1,429
Total Expenses excluding interest	<u>21,287</u>	<u>22,706</u>	<u>24,093</u>	<u>25,514</u>	<u>26,872</u>	<u>28,323</u>
Operating Surplus/Shortfall	2,175	1,999	3,171	2,942	2,747	2,515
Interest Expense	<u>176</u>	<u>184</u>	<u>180</u>	<u>163</u>	<u>165</u>	<u>167</u>
Net Operating Balance	1,999	1,815	2,990	2,779	2,582	2,349

ANNUAL BALANCE SHEETS

Below are GRAND DUCHY OF LUXEMBOURG's balance sheets with the projected years based on the assumptions listed on page 5.

ANNUAL BALANCE SHEETS

	(MILLIONS EUR)					
Base Case	2016	2017	2018	2019	P2020	P2021
ASSETS						
Currency and Deposits (asset)	7,209	8,992	9,389	11,887	13,441	13,441
Securities other than Shares LT (asset)	9,199	9,303	9,265	10,110	10,110	10,110
Loans (asset)	1,259	1,276	1,354	1,369	1,384	1,400
Shares and Other Equity (asset)	19,590	20,266	20,801	23,236	25,956	28,995
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	17	34	13	54	56	58
Other Accounts Receivable LT	4,604	4,585	5,461	5,066	4,700	4,360
Monetary Gold and SDR's						
Other Assets						
Additional Assets		-1				
Total Financial Assets	41,878	44,455	46,283	51,722	55,647	58,363
LIABILITIES						
Other Accounts Payable	3,347	3,427	4,094	4,068	4,190	4,316
Currency & Deposits (liability)	282	291	301	311	311	311
Securities Other than Shares (liability)	7,231	9,031	8,935	10,429	11,650	13,013
Loans (liability)	4,510	4,177	4,083	3,982	1,400	-949
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	24	7	11	5	5	4
Other Liabilities				-1	-1	-1
Liabilities	15,394	16,933	17,424	18,794	20,136	20,504
Net Financial Worth	<u>26,483</u>	<u>27,522</u>	<u>28,859</u>	<u>32,928</u>	<u>35,510</u>	<u>37,859</u>
Total Liabilities & Equity	41,877	44,455	46,283	51,722	55,647	58,363

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Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.

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 "AAA" whereas the ratio-implied rating for the most recent period is "AAA"; 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.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

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 GRAND DUCHY OF LUXEMBOURG with the ticker of 1110Z LX we have assigned the senior unsecured rating of AAA. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have 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 Methodologies for Determining Credit Ratings (Main Methodology) version #15 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 projections on pages 1, 6, and 7 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 dependent 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 information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues 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 publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign 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 adequate and acceptable.

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%	3.9	7.9	(0.1)	AAA	AAA	AA+
Social Contributions Growth %	6.0	9.0	3.0	AAA	AAA	AAA
Other Revenue Growth %	0.0	3.0	(3.0)	AAA	AAA	AAA
Total Revenue Growth%	4.9	6.9	2.9	AAA	AAA	AAA
Monetary Gold and SDR's Growth %	(7.2)	(5.2)	(9.2)	AAA	AAA	AAA

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:

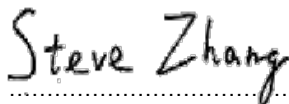


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Subramanian NG
Senior Rating Analyst

Today's Date

August 19, 2020
.....

Reviewer Signature:



.....
Steve Zhang
Senior Rating Analyst

Today's Date

August 19, 2020
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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 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.