

REPUBLIC OF AUSTRIA

Rating Analysis - 12/19/19

*EJR Sen Rating(Curr/Prj) A+/ A+

*EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.3%

Economic growth is projected to edge down over the 2020-21 period as the global slowdown and trade tensions weaken export growth and business investment. Following an increase in pension entitlements, the budget balance will deteriorate slightly over 2019-21 with fiscal policy otherwise broadly neutral. Domestic demand will be the key driver of growth.

As confidence of manufacturing firms has fallen sharply, business investment growth has slowed. The strong slowdown in major export markets has also reduced export growth. The authorities need to make the revenue structure of the general government more growth-friendly and more conducive to social inclusion, for example by further reducing labour taxes on low-income earners and finance it with green taxes. Output growth is set to be broadly stable at around 1.3% in 2020-21. Household consumption will remain the key driver of the expansion, as the weak external environment weighs on exports. We are affirming.

CREDIT POSITION

| | 2016 | 2017 | 2018 | P2019 | P2020 | P2021 |
|-----------------------------|-------|------|------|-------|-------|-------|
| Debt/ GDP (%) | 103.4 | 97.0 | 91.6 | 87.0 | 81.3 | 74.6 |
| Govt. Sur/Def to GDP (%) | -1.1 | -0.2 | 0.6 | 1.7 | 2.9 | 4.0 |
| Adjusted Debt/GDP (%) | 103.4 | 97.0 | 91.6 | 87.0 | 81.3 | 74.6 |
| Interest Expense/ Taxes (%) | 7.7 | 6.8 | 6.1 | 5.9 | 5.7 | 5.5 |
| GDP Growth (%) | 3.8 | 3.6 | 4.2 | 2.3 | 2.3 | 2.5 |
| Foreign Reserves/Debt (%) | 2.5 | 1.6 | 2.1 | 1.1 | 1.7 | 0.6 |
| Implied Sen. Rating | A+ | A+ | AA- | A+ | AA- | AA- |

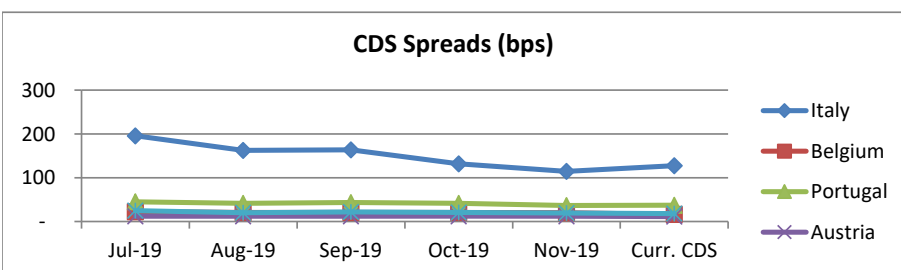
Annual Ratios (source for past results: IMF)

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

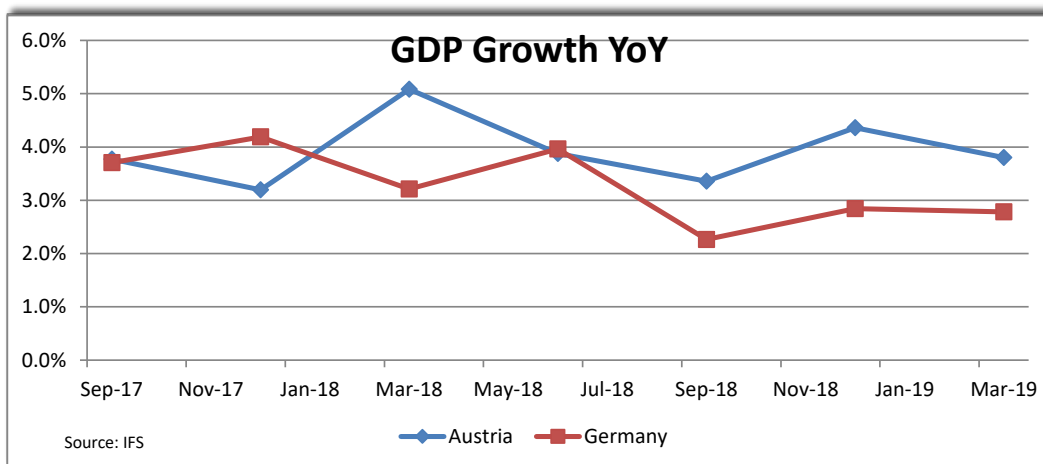
| | Other NRSRO Sen. | Debt as a % of GDP | Govt. Surp. Def to GDP (%) | Adjusted Debt/ GDP | Interest Expense/ Taxes % | GDP Growth (%) | Ratio-Implied Rating* |
|-----------------------------|------------------|--------------------|----------------------------|--------------------|---------------------------|----------------|-----------------------|
| Federal Republic Of Germany | AAA | 69.2 | 1.8 | 69.2 | 3.9 | 3.1 | AA |
| French Republic | AA | 122.1 | -2.4 | 122.1 | 5.6 | 2.5 | BBB+ |
| Kingdom Of Belgium | AA | 119.9 | -0.4 | 119.9 | 7.2 | 2.6 | A |
| Republic Of Italy | BBB- | 147.3 | -2.7 | 147.3 | 12.9 | 1.7 | BB+ |
| Portugal Republic | BB+ | 139.0 | -1.2 | 139.0 | 13.4 | 4.1 | A- |



| Country | EJR Rtg. | CDS |
|----------|----------|-----|
| Italy | BBB- | 127 |
| Belgium | BBB | 16 |
| Portugal | BBB | 37 |
| Austria | A+ | 11 |
| France | A+ | 18 |

Economic Growth

OECD sees Austria's GDP growth at 1.4% for 2019 and 1.3% for 2020. The 2020 projection is down from 1.6% forecast by the OECD in May, though the 2019 projection is unchanged, as recruitment bottlenecks, weakening external demand – especially from key markets Germany and Italy – and global trade tensions dampen Austria's outlook. Reducing barriers to entry in key sectors ranging from service professions and specialist manufacturing to rail and freight transport and pharmaceutical distribution could bolster competition and economic dynamism. Gross Domestic Product grew 0.1% seq. in Q3 - the same than in the previous quarter. The year-on-year change in GDP was 1.5%, 20 bps less than the 1.7% recorded in Q2'19.



Fiscal Policy

Austria's fiscal policy stance is slightly expansionary for 2020, based on the structural balance estimates. In contrast to the Stability Programme, the fiscal expansion weighs mainly on the expenditure side (appx 0.2% of GDP) and is mainly the result of increased cash social benefits in the form of pensions adjustments. On the revenue side, tax relief for low-income earners and tax reductions to support more climate-friendly consumer choices and small enterprises will reduce tax revenues, while new taxes on the digital economy, measures against tax fraud, new provisions regarding corporate restructuring and an increase of the tobacco tax will enhance receipts.

| | Surplus-to-GDP (%) | Debt-to-GDP (%) | 5 Yr. CDS Spreads |
|----------|--------------------|-----------------|-------------------|
| Austria | 0.56 | 91.58 | 11.17 |
| Germany | 1.77 | 69.18 | 9.61 |
| France | -2.35 | 122.14 | 18.06 |
| Belgium | -0.40 | 119.91 | 16.18 |
| Italy | -2.67 | 147.31 | 127.18 |
| Portugal | -1.18 | 139.04 | 36.94 |

Sources: Thomson Reuters and IFS

Unemployment

Unemployment in Austria sank 4.1% year-over-year in August to a total of 330,691 unemployed persons. This put the total unemployment rate as calculated by Austria's own criteria at 6.7%. The positive result comes despite a weakening economy, though the total drop comes in lower than the 8% seen in August 2018. The long-term unemployed, defined as being out of work for a year or more, saw a modest 2.8% decrease in their jobless numbers, while unemployment increases were seen for people with health issues (up 3.6%) and people with disabilities (up 3.7%).

| | Unemployment (%) | |
|----------|------------------|-------|
| | 2017 | 2018 |
| Austria | 5.52 | 4.86 |
| Germany | 3.76 | 3.40 |
| France | 9.43 | 9.11 |
| Belgium | 7.10 | 5.90 |
| Italy | 11.23 | 10.62 |
| Portugal | 9.02 | 7.05 |

Source: Intl. Finance Statistics

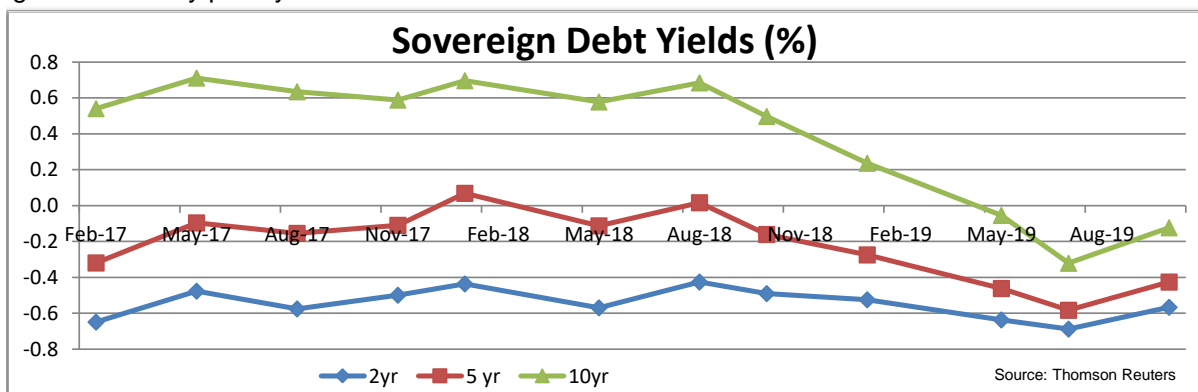
Banking Sector

The Maastricht budget balance of the general government was positive in 2018 for the first time since the 1970s. Due to the surplus of public households and the successful resolution of bad bank vehicles the public debt ratio declined to about 70% and will reach the Maastricht criterion of 60% in a few years. On the other hand, Austria's property market is at risk of overheating, and the country's central bank is watching in case measures to cool it are needed. Housing market in Austria, according to Austrian National Bank is now 14.1% over-valued relative to market fundamentals.

| Bank Assets (billions of local currency) | | |
|---|--------------|----------------------|
| | Assets | Mkt Cap/ Assets % |
| ERSTE GROUP BANK | 236.8 | 5.74 |
| RAIFFEISEN INTL | 140.1 | 5.10 |
| OEST VOLKSBANKEN | 2.4 | 0.38 |
| OBERBANK AG | 22.2 | 13.97 |
| Total | 401.5 | |
| EJR's est. of cap shortfall at 10% of assets less market cap | | 16.3 |
| Austria's GDP | | 385.7 |

Funding Costs

The Austria 10Y Government Bond has a -0.130% yield and the Central Bank Rate is 0.00%. The current 5-Years Credit Default Swap quotation is 9.23 and implied probability of default is 0.15%. Austria, in June 2019, became the first euro zone country to price a public sale of debt below the European Central Bank's deposit rate, as expectations of more ECB stimulus and worries over the global economy push yields in the bloc to new lows.



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 22 (1 is best, 189 worst) is strong.

| The World Bank's Doing Business Survey* | | | |
|---|-----------|-----------|-----------|
| | 2018 | 2017 | Change in |
| | Rank | Rank | Rank |
| Overall Country Rank: | 22 | 19 | -3 |
| Scores: | | | |
| Starting a Business | 118 | 111 | -7 |
| Construction Permits | 42 | 49 | 7 |
| Getting Electricity | 22 | 20 | -2 |
| Registering Property | 31 | 30 | -1 |
| Getting Credit | 77 | 62 | -15 |
| Protecting Investors | 29 | 32 | 3 |
| Paying Taxes | 39 | 42 | 3 |
| Trading Across Borders | 1 | 1 | 0 |
| Enforcing Contracts | 9 | 10 | 1 |
| Resolving Insolvency | 23 | 20 | -3 |

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

Economic Freedom

As can be seen below, Austria is above average in its overall rank of 71.8 for Economic Freedom with 100 being best.

| Heritage Foundation 2018 Index of Economic Freedom | | | | |
|---|---------------|-------------|------------------|--------------|
| World Rank 71.8* | | | | |
| | 2018 | 2017 | Change in | World |
| | Rank** | Rank | Rank | Avg. |
| Property Rights | 83.5 | 86.0 | -2.5 | 51.5 |
| Government Integrity | 73.5 | 75.2 | -1.7 | 42.1 |
| Judicial Effectiveness | 80.9 | 81.8 | -0.9 | 46.9 |
| Tax Burden | 49.9 | 50.3 | -0.4 | 76.7 |
| Gov't Spending | 19.4 | 19.3 | 0.1 | 63.5 |
| Fiscal Health | 81.1 | 79.7 | 1.4 | 66.3 |
| Business Freedom | 75.5 | 76.9 | -1.4 | 64.8 |
| Labor Freedom | 66.7 | 67.6 | -0.9 | 58.9 |
| Monetary Freedom | 83.7 | 83.4 | 0.3 | 76.0 |
| Trade Freedom | 86.9 | 87.0 | -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:

REPUBLIC OF AUSTRIA has grown its taxes of 5.4% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 5.4% per annum over the next couple of years and 4.9% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

REPUBLIC OF AUSTRIA's total revenue growth has been more than its peers and we assumed no 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% | 4.6 | 5.4 | 5.4 | 4.9 |
| Social Contributions Growth % | 4.2 | 4.9 | 5.0 | 5.0 |
| Grant Revenue Growth % | 0.0 | NMF | | |
| Other Revenue Growth % | 0.0 | NMF | | |
| Other Operating Income Growth% | 0.0 | 1.5 | 1.5 | 1.5 |
| Total Revenue Growth% | 3.4 | 4.8 | 4.8 | 4.3 |
| Compensation of Employees Growth% | 2.2 | 2.7 | 2.7 | 2.7 |
| Use of Goods & Services Growth% | 3.5 | 1.8 | 1.8 | 1.8 |
| Social Benefits Growth% | 2.8 | 2.9 | 2.9 | 2.9 |
| Subsidies Growth% | 0.7 | 10.7 | | |
| Other Expenses Growth% | 0.0 | | | |
| Interest Expense | 1.8 | 1.8 | 1.8 | 1.8 |
| Currency and Deposits (asset) Growth% | 3.0 | 0.0 | | |
| Securities other than Shares LT (asset) Growth% | 3.5 | 0.0 | | |
| Loans (asset) Growth% | (1.3) | (4.5) | (4.5) | (4.5) |
| Shares and Other Equity (asset) Growth% | 1.1 | 3.9 | 3.9 | 3.9 |
| Insurance Technical Reserves (asset) Growth% | 0.0 | 0.0 | | |
| Financial Derivatives (asset) Growth% | 0.0 | (27.0) | (10.0) | (10.0) |
| Other Accounts Receivable LT Growth% | 0.8 | 3.7 | 3.7 | 3.7 |
| 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% | (0.4) | 1.1 | 3.0 | 3.0 |
| Currency & Deposits (liability) Growth% | 2.5 | 3.5 | 3.5 | 3.5 |
| Securities Other than Shares (liability) Growth% | 1.2 | (1.7) | (1.2) | (1.2) |
| Loans (liability) Growth% | (2.4) | (3.5) | 0.5 | 0.5 |
| Insurance Technical Reserves (liability) Growth% | 0.0 | 0.0 | | |
| Financial Derivatives (liability) Growth% | 0.0 | (44.2) | (10.0) | (10.0) |
| Additional ST debt (1st year)(millions EUR) | 0.0 | 0.0 | | |

ANNUAL INCOME STATEMENTS

Below are REPUBLIC OF AUSTRIA's annual income statements with the projected years based on the assumptions listed on page 5.

| | ANNUAL REVENUE AND EXPENSE STATEMENT | | | | | |
|-----------------------------------|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | (MILLIONS EUR) | | | | | |
| | 2015 | 2016 | 2017 | 2018 | P2019 | P2020 |
| Taxes | 98,269 | 97,051 | 100,262 | 105,712 | 111,420 | 117,437 |
| Social Contributions | 52,112 | 54,013 | 56,043 | 58,802 | 61,742 | 64,829 |
| Grant Revenue | | | | | | |
| Other Revenue | | | | | | |
| Other Operating Income | 22,172 | 22,508 | 22,784 | 23,128 | 23,128 | 23,128 |
| Total Revenue | 172,553 | 173,572 | 179,089 | 187,642 | 196,291 | 205,394 |
| Compensation of Employees | 36,769 | 37,990 | 39,067 | 40,110 | 41,181 | 42,280 |
| Use of Goods & Services | 21,884 | 22,548 | 23,062 | 23,468 | 23,881 | 24,302 |
| Social Benefits | 78,506 | 80,827 | 81,879 | 84,270 | 86,731 | 89,264 |
| Subsidies | 4,499 | 4,935 | 5,259 | 5,823 | 5,824 | 5,824 |
| Other Expenses | | | | 15,648 | 15,648 | 15,648 |
| Grant Expense | | | | | | |
| Depreciation | 8,909 | 9,105 | 9,414 | 9,737 | 9,737 | 9,737 |
| Total Expenses excluding interest | 166,706 | 170,072 | 173,025 | 179,056 | 183,001 | 187,055 |
| Operating Surplus/Shortfall | 5,847 | 3,500 | 6,064 | 8,586 | 13,289 | 18,340 |
| Interest Expense | <u>8,069</u> | <u>7,480</u> | <u>6,835</u> | <u>6,408</u> | <u>6,524</u> | <u>6,643</u> |
| Net Operating Balance | -2,223 | -3,982 | -771 | 2,178 | 6,765 | 11,697 |

ANNUAL BALANCE SHEETS

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

| | ANNUAL BALANCE SHEETS | | | | | |
|--|------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | (MILLIONS EUR) | | | | | |
| Base Case | 2015 | 2016 | 2017 | 2018 | P2019 | P2020 |
| ASSETS | | | | | | |
| Currency and Deposits (asset) | 33,298 | 38,659 | 33,850 | 30,823 | 33,500 | 33,500 |
| Securities other than Shares LT (asset) | 8,687 | 8,016 | 6,708 | 6,048 | 6,048 | 6,048 |
| Loans (asset) | 48,142 | 45,195 | 42,963 | 41,015 | 39,155 | 37,380 |
| Shares and Other Equity (asset) | 56,152 | 60,533 | 64,194 | 66,679 | 69,260 | 71,941 |
| Insurance Technical Reserves (asset) | | | | | 0 | 0 |
| Financial Derivatives (asset) | 1,576 | 955 | 564 | 412 | 371 | 334 |
| Other Accounts Receivable LT | 25,334 | 24,644 | 25,583 | 26,526 | 27,504 | 28,518 |
| Monetary Gold and SDR's | | | | | | |
| Other Assets | | | | | | |
| Additional Assets | <u>1</u> | | | | | |
| Total Financial Assets | 173,190 | 178,002 | 173,862 | 171,503 | 175,838 | 177,720 |
| LIABILITIES | | | | | | |
| Other Accounts Payable | 27,520 | 28,242 | 30,275 | 30,607 | 31,525 | 32,471 |
| Currency & Deposits (liability) | 5,415 | 5,580 | 1,594 | 1,650 | 1,650 | 1,650 |
| Securities Other than Shares (liability) | 273,428 | 290,229 | 281,571 | 276,771 | 273,468 | 270,205 |
| Loans (liability) | 49,946 | 45,150 | 45,661 | 44,080 | 37,315 | 25,618 |
| Insurance Technical Reserves (liability) | 141 | 123 | 126 | 126 | 126 | 126 |
| Financial Derivatives (liability) | 1,537 | 794 | 817 | 456 | 410 | 369 |
| Other Liabilities | <u>15,784</u> | <u>16,201</u> | <u>16,649</u> | <u>16,802</u> | <u>16,802</u> | <u>16,802</u> |
| Liabilities | 373,771 | 386,319 | 376,693 | 370,492 | 368,062 | 358,247 |
| Net Financial Worth | <u>-200,581</u> | <u>-208,317</u> | <u>-202,831</u> | <u>-198,989</u> | <u>-192,224</u> | <u>-180,527</u> |
| Total Liabilities & Equity | 173,190 | 178,002 | 173,862 | 171,503 | 175,838 | 177,720 |

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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 adjustment 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 "AA-"; we expect results to decline slightly.

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 REPUBLIC OF AUSTRIA with the ticker of 1480Z AV 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 version #13 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 upon 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, governmental filings 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% | 5.4 | 9.4 | 1.4 | A+ | AA- | A+ |
| Social Contributions Growth % | 5.0 | 8.0 | 2.0 | AA- | AA- | A+ |
| Other Revenue Growth % | | 3.0 | (3.0) | AA- | AA- | AA- |
| Total Revenue Growth% | 4.8 | 6.8 | 2.8 | AA- | AA- | AA- |
| Monetary Gold and SDR's Growth % | 5.0 | 7.0 | 3.0 | 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.

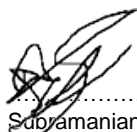
ATTESTATION FORM

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:

Today's Date

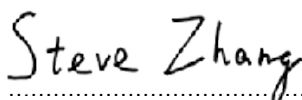


Subramanian NG
Senior Rating Analyst

December 19, 2019

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

December 19, 2019

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.