FRENCH REPUBLIC

Rating Analysis - 11/30/11
Debt: EUR1,591.2B, Cash: EUR36.8B

EJR Sen Rating(Curr/Prj) A/ A-
EJR CP Rating: A1
EJR's 1 yr. Default Probability: 1.7%

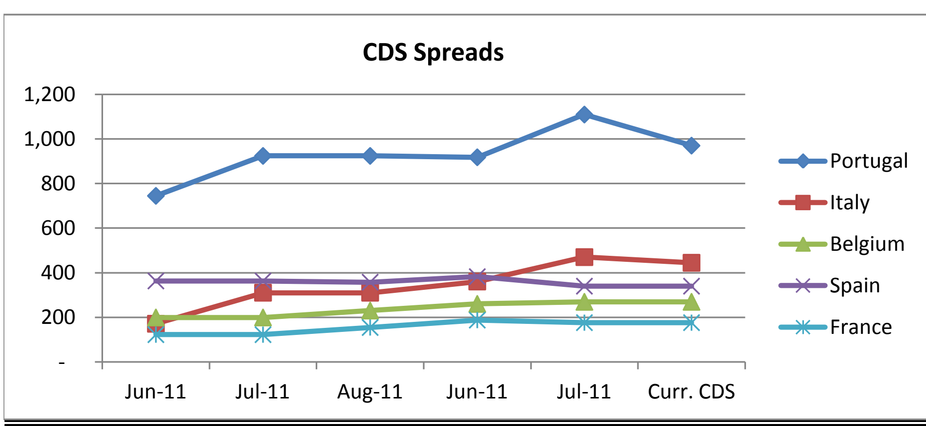
Disastrous trend and the worst has yet to come. Over the past two fiscal years, the Republic of France's debt has grown by 21% from EUR1.32 trillion to EUR1.59 trillion. Meanwhile, FYE GDP declined slightly from EUR2.13 trillion as of 2008 to EUR1.93 trillion as of 2010. As a result, debt to GDP rose from 61.8% in 2008 to 82.5% in 2010 and is near 90% currently. As the EU growth slows, and France's unemployment rises, budget pressures will rise. An item which is hard to quantify but is a growing concern is the health of France's banks; the assets of the three largest banks equal 240% of France's GDP. Given France's propensity for supporting its banks, France might soon be confronting a substantial additional liability.

For the most part, over the past 18 months France has been exempted from the rise in funding costs. However, as the crisis evolves, we expect that France will be pressured. The deterioration in France's credit metrics combined with the needed supported for France's banks are likely to pressure the country. A major catalyst is likely to be the year end financials for France's banks; watch for a significant support program to be announced over the next couple of weeks.

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Jun-08	Jun-09	Jun-10	PJun-11	PJun-12	PJun-13
Debt/ GDP (%)	75.8	82.8	91.4	100.0	108.6	117.1
Govt. Sur/Def to GDP (%)	-7.5	-7.1	-3.1	-2.7	-2.6	-2.6
Adjusted Debt/GDP (%)	94.7	102.2	110.8	119.6	128.2	136.8
Interest Expense/ Taxes (%)	9.6	9.5	9.4	10.3	10.7	11.2
GDP Growth (%)	-0.6	1.4	-0.5	-0.5	-0.4	-0.4
Foreign Reserves/Debt (%)	1.5	1.2	1.7	1.5	1.4	1.3
Implied Sen. Rating	A	BB-	BB-	BB-	BB-	BB-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	40.0	50.0	60.0	80.0	120.0	150.0
Govt. Sur/Def to GDP (%)	5.0	3.0	0.5	-2.0	-5.0	-9.0
Adjusted Debt/GDP (%)	45.0	55.0	65.0	85.0	125.0	155.0
Interest Expense/ Taxes (%)	7.0	9.0	12.0	15.0	22.0	26.0
GDP Growth (%)	5.0	4.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	25.0	20.0	15.0	12.0	9.0	7.0

PEER RATIOS	S&P 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	83.0	-4.3	91.2	11.2	3.7	BB
Kingdom Of Belgium	AA	97.2	-4.1	122.8	12.1	2.1	BB-
Kingdom Of Spain	AA-	58.4	-9.3	67.2	9.7	0.7	BB
Republic Of Italy	A	119.7	-4.6	128.8	15.4	1.5	B+
Portugal Republic	BBB-	94.0	-9.8	103.9	13.6	1.1	B+



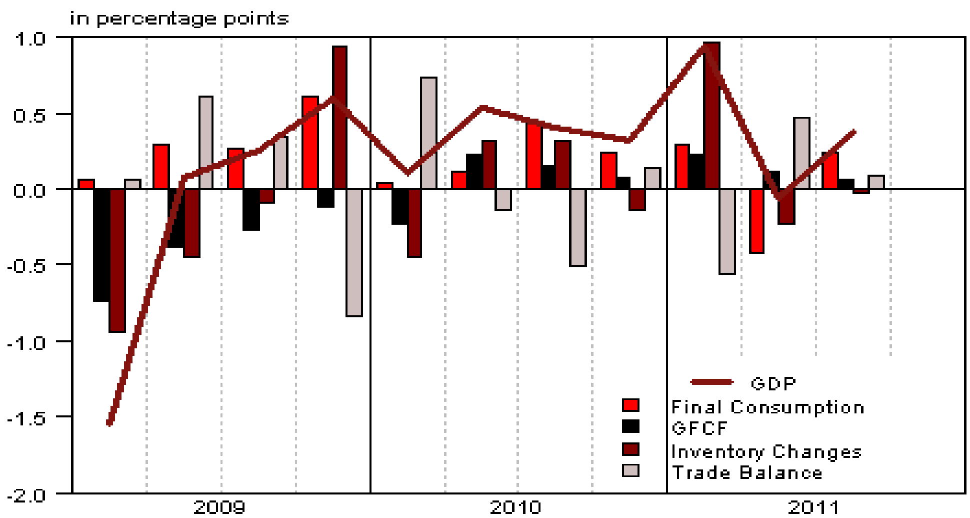
Country (EJR Rtg*)	Current CDS	Targeted CDS
Portugal(BB-)	970	500
Italy(BB)	445	400
Belgium(BBB-)	269	267
Spain(BBB+)	340	158
France(A+)	176	60

* Projected Rating

Economy

France constitutes the world's fifth largest economy (seventh in terms of purchasing power parity) with a total GDP of US$2.7 trillion, or 4.6% of the world economy, and GDP per capita of US$41,216 (2009). The country weathered the global economic crisis relatively well with the help of resilient consumer and government spending. France's GDP grew by 9.7% in 2008, contracted by 7.3% in 2009, and declined by 2.5% in 2010. As a result, debt to GDP rose from 62% to 83% from 2008 to 2010. Regarding growth expectations, per the OCEE, after a sharp slowdown in Q2, real GDP growth in the euro area is expected to remain subdued until Q1 2012. The loss in GDP momentum owes to a stronger than expected weakening in global demand and self-reinforcing negative impulses from the following: the deepening of the sovereign debt crisis, financial markets turbulence and a worsening of business and consumer confidence.

Gross Domestic Product and Components: 2008-2011 YTD



France's Medium-Term Objective: Restoring Structural Balance of Public Finances

France allowed its debt to rise substantially during the global economic downturn. It's debt-to-GDP of nearly 80% was the fourth-highest in the euro zone in 2009 and is expected to continue to rise. Last year, the government launched an Economic Recovery Plan aimed at consolidated the country's public finances. In the past, deficit reduction has been achieved during periods of strong economic growth. As a result, the government's current strategy is to pursue structural reforms that encourage growth and, rather than raising taxes, reduce public spending. The government remains committed to not increasing the tax burden as it is already among the highest in Europe (40% top personal tax rate, 34.4% top corporate tax rate).

Multiyear Public Finance Trajectory

	2008	2009	2010	2011	2012	2013
Public balance (% GDP)	-3.4	-7.9	-8.2	-6.0	-4.6	-3.0
Public debt (% GDP)	67.4	77.4	83.2	86.1	87.1	86.6

Source: France Stability Program 2010-2013

Inflation: Slight Rise in CPI

The CPI increased by 2.3% in October 2011 year over year and .2% year over year excluding energy. The increase in money supply resulting from likely future ECB actions will placed additional pressure on inflation.

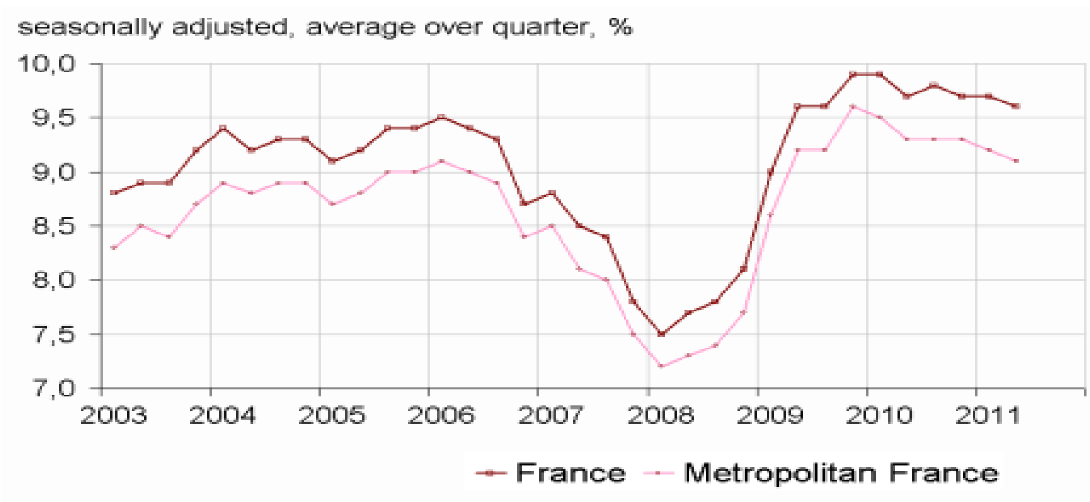
Unemployment Rate High

France's unemployment rate has risen sharply over the past two years since the onset of the global economic crisis. The rate has risen 2.1% from a low of 7.5% in Q1 2008 to a near high of 9.6% in Q1 2011 (.6% more than the OECD average). In Q1 2011, the average unemployment rate in metropolitan France and overseas departments decreased .1% to 9.2%. We expect a rise in unemployment as austerity measures are imposed.

Unemployment is highest among young persons aged 15-24 years with such rates currently exceeding 22%. Unemployment among adults aged 25-49 years fell 0.1% to 8.3% in Q1 2011 while rates among persons aged 50 years and older declined 0.2% to 6.3%. France's overall jobless rate remains below the euro zone average of 10.1%.

Underemployment decreased by 0.5% to 4.8% in the first quarter.

Unemployment Rate in France



Source: INSEE

Pension Reform
The cost of the public pension system in France continues to rise. To date, the system runs a $13B deficit. The deficit is expected to continue to rise to as much as $123B by 2050 as the nation's generation of baby boomers retire. As the population continues to age rapidly, the workforce is left with fewer active workers to fund the system. As a result, in June 2010 Labor Minister Eric Woerth announced France's plans to raise the retirement age from 60 to 62 (with full benefits available at age 67) in order to take pressure off of the country's overwhelmed pension system. Moreover, the government recently announced plans to seize the €36B in assets of the Fonds de Reserve pour les Retraites, the country's reserve pension fund. The assets will be used to pay off the debts of France's welfare system in the amount of €2.1B per year.

Business Environment
France's regulatory environment allows for relative ease in owning and operating a business. Obtaining a business license requires less than the world average of 18 procedures and 218 days. Moreover, starting a business takes less than the world average of 35 days. The corporate tax rate remains high at 34.4% (33.3% plus a 3.3% surcharge applicable to companies with a turnover exceeding a certain threshold).

Assumptions for Projections

	Peer	Issuer	Base Case	
Income Statement	**Median**	**Average**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	5.2	4.2	**0.5**	**0.5**
Social Contributions Growth %	0.5	2.0	**0.6**	**0.6**
Grant Revenue Growth %	0.0	0.0		
Other Revenue Growth %	0.0	1.8	**0.1**	**0.1**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	3.9	3.1	**(1)**	**(0.5)**
Compensation of Employees Growth%	0.5	2.0	**(1.0)**	**(1.0)**
Use of Goods & Services Growth%	3.7	5.6	**(0.5)**	**(0.5)**
Social Benefits Growth%	2.1	3.4	**0.5**	**0.5**
Subsidies Growth%	0.5	5.5		
Other Expenses Growth%	0.6	0.6	**1.0**	**1.0**
Interest Expense	0.0	3.0	**3**	
Balance Sheet				
Currency and Deposits Growth%	13.8	(36.0)	**1.0**	**1.0**
Securities other than Shares LT Growth%	8.3	(7.2)	**2.0**	**2.0**
Loans Growth%	41.5	7.5	**2.0**	**2.0**
Shares and Other Equity Growth%	3.0	(2.2)	**2.0**	**2.0**
Insurance Technical Reserves Growth%	0.0	3.0	**3.0**	**3.0**
Financial Derivatives Growth%	0.0	291.2	**0.5**	**0.5**
Other Accounts Receivable LT Growth%	1.9	0.2	**1.0**	**1.0**
Monetary Gold and SDR's Growth %	0.0	0.0	**2.0**	**2.0**
Other Accounts Payable Growth%	3.3	0.2	**0.2**	**0.2**
Currency & Deposits Growth%	0.0	(1.8)	**0.5**	**0.5**
Securities Other than Shares Growth%	5.3	7.6	**5.3**	**5.3**
Growth%	0.0	0.0		
Loans Growth%	18.6	7.2	**7.2**	**7.2**
Insurance Technical Reserves Growth%	0.0	0.0		
Financial Derivatives Growth%	0.0	2,500.0	**0.5**	**0.5**
Addl debt. (1st Year) million EUR	0.0	0.0		

Base Case

ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

	Jun-08	Jun-09	Jun-10	PJun-11	PJun-12	PJun-13
Taxes	520,047	479,186	499,230	501,726	504,235	506,756
Social Contributions	350,009	353,474	360,441	362,604	364,779	366,968
Grant Revenue	0	0	0	0	0	0
Other Revenue	95,331	96,161	97,911	98,009	98,107	98,205
Other Operating Income	0	0	0	0	0	0
Total Revenue	965,387	928,821	957,582	962,339	967,121	971,929
Compensation of Employees	246,979	254,314	259,428	256,834	254,265	251,723
Use of Goods & Services	97,700	104,799	110,625	110,072	109,522	108,974
Social Benefits	454,629	479,490	495,980	498,460	500,952	503,457
Subsidies	27,002	31,701	33,445	33,448	33,452	33,455
Other Expenses	108,481	119,478	120,206	120,673	121,408	121,880
Grant Expense	0	0	0	0	0	0
Depreciation	48,413	49,471	51,146	51,146	51,146	51,146
Total Expenses excluding interest	956,202	1,007,552	1,037,385	1,070,633	1,070,745	1,070,634
Operating Surplus/Shortfall	9,185	-78,731	-79,803	-108,294	-103,624	-98,705
Interest Expense	56,609	46,057	47,210	47,210	51,824	54,415
Net Operating Balance	-47,424	-124,788	-127,013	-155,504	-155,448	-153,120

ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Jun-08	Jun-09	Jun-10	PJun-11	PJun-12	PJun-13
Currency and Deposits	41,110	57,429	36,753	37,121	37,492	37,867
Securities other than Shares LT	50,277	47,659	44,220	45,104	46,006	46,927
Loans	29,042	38,060	40,905	41,723	42,558	43,409
Shares and Other Equity	363,124	413,364	404,457	412,546	420,797	429,213
Insurance Technical Reserves	1,108	1,148	1,182	1,217	1,253	1,290
Financial Derivatives	2,158	1,089	4,260	4,281	4,303	4,324
Other Accounts Receivable LT	158,246	169,460	169,869	171,568	173,283	175,016
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets	645,065	728,209	701,646	713,560	725,692	738,046

LIABILITIES	Jun-08	Jun-09	Jun-10	PJun-11	PJun-12	PJun-13
Other Accounts Payable	158,246	169,460	169,869	170,279	170,690	171,102
Currency & Deposits	26,700	23,490	23,066	23,066	23,066	23,066
Securities Other than Shares	1,174,446	1,339,204	1,440,580	1,516,915	1,597,295	1,681,934
Loans	189,656	208,058	222,984	295,206	381,994	462,416
Insurance Technical Reserves						
Financial Derivatives		11	286	287	289	290
Other Liabilities	(18,038)	(24,103)	(18,451)	(1)	(1)	(1)
Liabilities	1,531,010	1,716,120	1,838,334	2,005,752	2,173,332	2,338,806
Net Financial Worth	(885,945)	(987,911)	(1,136,688)	(1,292,192)	(1,447,640)	(1,600,760)
Total Liabilities & Equity	645,065	728,209	701,646	713,560	725,692	738,046

Sovereign Rating Methodology

Egan-Jones takes the perspective of the investor as its primary point of view when developing the ratings it issues for sovereigns. Therefore, in the case of sovereign ratings, we attempt to take a more holistic view of credit quality to include not only analytic comparisons of various sovereign issuers but also the impact on our quantitative and qualitative analyses by current global, sovereign, governmental and market events, including the effects of government investments in speculative, volatile or other high risk investment products. For example, many sovereign issuers have taken on significant exposures of major financial institutions over the past several years. Hence, we calculate the under-funding of financial institutions and include this amount in the total indebtedness of sovereigns. (We use a base assumption that no country can afford to allow its major banks to fail and therefore we believe that there will almost always be an intervention by either a host or allied nation should financial institutions or markets require support at some measurable level.)

Generally we devise modeling calculators and do an analysis that examines the debt load of a country with respect to its GDP and other economic indicators. The analysis is then adjusted to reflect the outlook on a myriad of factors that reflect the firm’s overall view of the sovereign debt and the quality of the country’s ability to meet and thrive under such load. Some of the qualitative factors that impact our ultimate assessment of credit quality such as the flexibility, stability and overall strength of the economy, ease of tax collection, acceptance of contract law, ease of doing business, and prospects for future growth and health. The non quant issues are generally subjective and a moving target, so each rating of a sovereign may differ because of the non-quantitative nuances being addressed.

Nota Bene

History has proven that defaults on domestic public debt do occur. In fact, seventy out of three hundred twenty defaults since 1800 have been on domestic public debt (1). Egan-Jones does not view a country's ability to print its own currency as a guarantee against default. Additionally, Egan-Jones generally views cases of excessive currency devaluation as a de facto default.

1. "This Time Is Different: Eight Centuries of Financial Folly", Reinhart & Rogoff, p.111, 126