

FRENCH REPUBLIC

Rating Analysis - 12/2/19

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

*EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.3%

French economy has turned out to be one of the best performing in Europe this year. French GDP beat economists' consensus forecast in Q3, and is up 0.3% YOY and will grow by 1.3% this year against 1.1% for the whole eurozone. Private investment is also rising strongly, up 5.5% in Q3'19 - in stark contrast with the trends in other major developed economies. Macron's tax reforms early in his presidency, his overall business-friendly proclamations and policies have brought about a steady improvement in companies' profits.

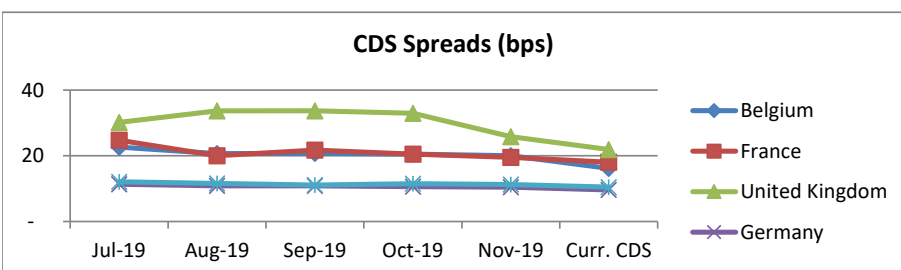
Amidst increasing trade hostility, France's strength in services and domestic consumption is a pos. Exports contribute only 31% of French GDP, vs. 48% for the overall eurozone. And, France has a higher share of services, at 70% of its gross value added. Yet the French economy has been slowing slightly since last year, when it grew by 1.7%, and the European Commission expects growth to dip to 1.3% this year, before inching up to 1.4% in 2020. Consumer spending has been the traditional driver of the French economy and it continued in this role, increasing by 0.3% in the third quarter, boosted by Macron's €10B package of tax cuts and other stimulus measures last year. We are affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2016	2017	2018	P2019	P2020	P2021
Debt/ GDP (%)	123.7	122.8	122.1	122.3	121.4	119.4
Govt. Sur/Def to GDP (%)	-3.4	-2.7	-2.4	-1.4	-0.4	0.5
Adjusted Debt/GDP (%)	123.7	122.8	122.1	122.4	121.6	119.6
Interest Expense/ Taxes (%)	6.3	5.8	5.6	5.4	5.2	5.1
GDP Growth (%)	1.6	2.7	2.5	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.3	1.1	1.5	1.2	1.6	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

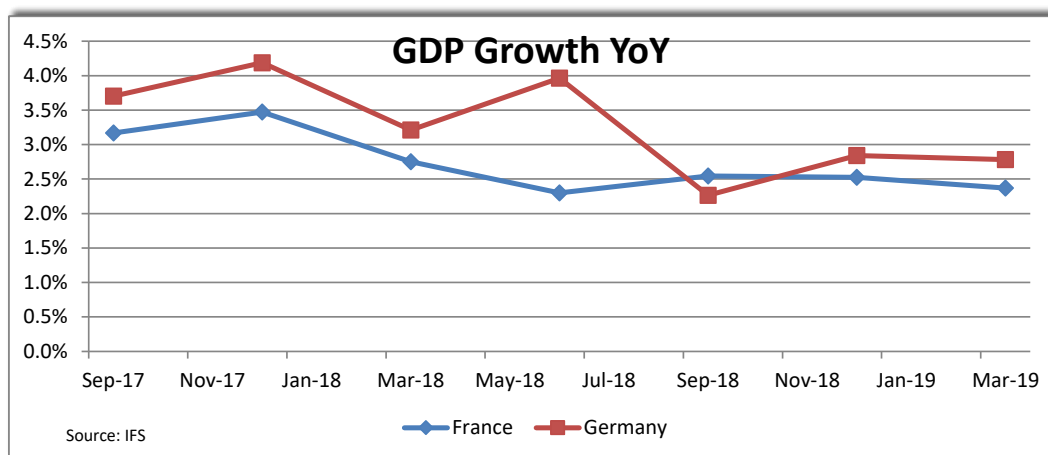
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	69.2	1.8	69.2	3.9	3.1	AA+
Kingdom Of Sweden	AAA	56.7	2.4	56.7	1.2	4.6	AAA
Kingdom Of Belgium	AA	119.9	-0.4	119.9	7.2	2.6	A
Republic Of Finland	AA+	69.5	0.0	69.5	2.9	3.7	AA+



Country	CDS
Belgium	16
France	18
United Kingdom	22
Germany	10
Finland	10

Economic Growth

GDP growth sustained its momentum in Q3'19 - matching Q2'19's result and proving more resilient to the global slowdown than most of its European peers. External sector contributed to the overall expansion thanks to a rebound in exports, while the momentum has likely eased at the outset of Q4'19 - as business sentiment fell to a near five-year low in October and consumer sentiment moderated slightly in the same month. Production of goods and services decelerated slightly compared to the previous quarter (+0.3% after +0.4%). Output in goods stepped back again (-0.4% after -0.2%), while it grew at almost the same pace as the previous quarter in services (+0.5% after 0.6%). In politics, with the debate on pension reform at an important stage, large workers unions called for a country-wide strike starting on 5 December at a time of rising tensions within Macron's parliamentary majority.



Fiscal Policy

Presenting France's 2020 budget, Finance Minister Bruno Le Maire said the European Central Bank's latest monetary easing steps created an opportunity for governments that can afford it to invest more. French tax cuts already this year worth more than €10B are proving to be fortuitous for French growth as the global economy loses momentum, hitting export-dependent Germany particularly hard. French households would see their tax burden cut next year by €9.3B, including a €5B reduction in income tax, which would benefit 95% of households.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
France	-2.35	122.14	18.06
Germany	1.77	69.18	9.61
Sweden	2.45	56.68	9.73
Belgium	-0.40	119.91	16.18
Finland	-0.01	69.54	10.48
United Kingdc	-0.39	113.24	21.92

Sources: Thomson Reuters and IFS

Unemployment

France's unemployment rate stood at 8.6 percent in the third quarter of 2019, up by 0.1 percentage point from a quarter earlier. Compared to the second quarter when jobless rate dropped to its lowest since 2008, the number of jobseekers increased by 10,000 to 2.5M people in France. On a yearly basis, however, the jobless rate fell by 0.5% - a pos. Macron enacted legislation to lessen rigid labor rules by offering more flexibility to companies to hire and fire and more freedom in terms of pay and working condition.

	Unemployment (%)	
	2017	2018
France	9.43	9.11
Germany	3.76	3.40
Sweden	6.68	6.28
Belgium	7.10	5.90
Finland	8.63	7.36
United Kingd	4.40	4.09

Source: Intl. Finance Statistics

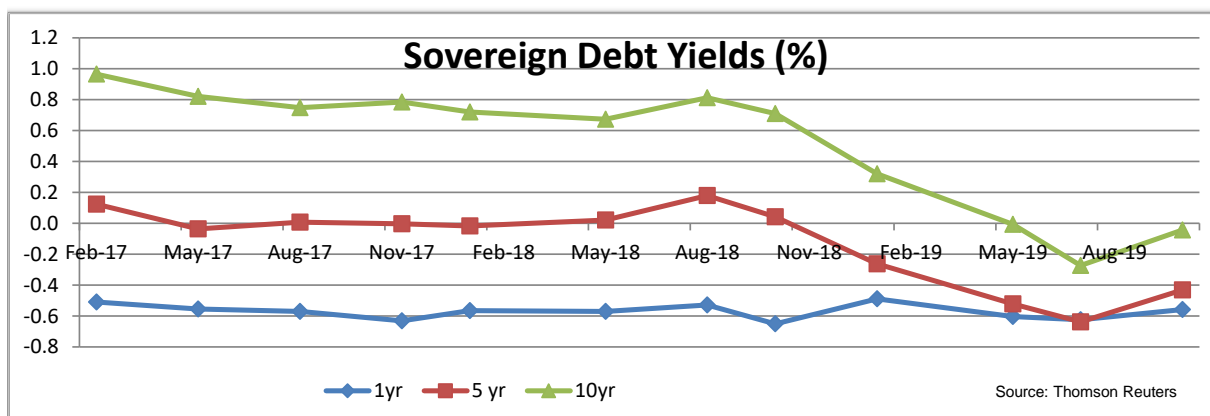
Banking Sector

Five French banks rank among the euro-zone's top ten banks and among the top twenty worldwide. The aggregate net banking income of the four biggest French banks is robust, totalling €124.6B in 2018, compared with €122.9B in 2017 (an increase of +1.3%). New regulations are forcing French banks to step up sales of bad loans even though their balance sheets are healthier than rivals in southern Europe. French banks had a stock of around €124B of NPLs at the end of June.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
BNP Paribas	2,040.8	3.15
Credit Agricole	1,624.4	2.25
Societe Generale	1,309.4	1.82
NATIXIS	495.5	2.55
Total	5,470.2	
EJR's est. of cap shortfall at 10% of assets less market cap		409.7
France's GDP		2,353.1

Funding Costs

The pool of negative-yielding euro zone bonds is draining at last as extreme economic pessimism gripping markets abates, but sub-zero borrowing costs are expected to remain a persistent feature of the year ahead. France's 10-year bond yield turned positive (in early November) for the first time in since July and now has again slipped lower - trades at -0.04%.



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 32 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	32	31	-1
Scores:			
Starting a Business	37	25	-12
Construction Permits	52	18	-34
Getting Electricity	17	26	9
Registering Property	99	100	1
Getting Credit	104	90	-14
Protecting Investors	45	33	-12
Paying Taxes	61	54	-7
Trading Across Borders	1	1	0
Enforcing Contracts	16	15	-1
Resolving Insolvency	26	28	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 63.8 for Economic Freedom with 100 being best.

Heritage Foundation 2019 Index of Economic Freedom				
World Rank 63.8*				
	2019 Rank**	2018 Rank	Change in Rank	World Avg.
Property Rights	82.5	84.0	-1.5	52.3
Government Integrity	66.1	65.1	1.0	44.9
Judicial Effectiveness	67.9	72.7	-4.8	41.5
Tax Burden	48.4	47.3	1.1	77.2
Gov't Spending	3.9	2.7	1.2	64.2
Fiscal Health	64.9	60.8	4.1	66.0
Business Freedom	81.2	80.2	1.0	63.5
Labor Freedom	45.2	45.0	0.2	59.4
Monetary Freedom	79.1	81.6	-2.5	75.1
Trade Freedom	81.0	81.9	-0.9	74.3

*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 5.1% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 5.1% per annum over the next couple of years and 4.6% 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 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%	3.9	5.1	5.1	4.6
Social Contributions Growth %	3.5	(1.4)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	0.1	0.1	0.1
Total Revenue Growth%	3.8	2.3	2.3	2.1
Compensation of Employees Growth%	3.0	1.2	1.2	1.2
Use of Goods & Services Growth%	4.3	1.4	1.4	1.4
Social Benefits Growth%	2.4	1.8	1.8	1.8
Subsidies Growth%	3.4	10.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.4	1.4	1.4
Currency and Deposits (asset) Growth%	(4.6)	0.0		
Securities other than Shares LT (asset) Growth%	(2.1)	0.0		
Loans (asset) Growth%	2.3	(1.3)	(1.3)	(1.3)
Shares and Other Equity (asset) Growth%	(1.2)	0.0	0.0	0.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	17.0	5.1	5.1
Other Accounts Receivable LT Growth%	(1.2)	0.8	0.8	0.8
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)	3.0	3.0	3.0
Currency & Deposits (liability) Growth%	1.2	6.8	6.8	6.8
Securities Other than Shares (liability) Growth%	(0.1)	2.0	1.4	1.4
Loans (liability) Growth%	1.2	0.2	0.2	0.2
Insurance Technical Reserves (liability) Growth%	0.0	(22.8)	3.0	3.0
Financial Derivatives (liability) Growth%	0.0	6.2	6.6	6.6
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)					
	2015	2016	2017	2018	P2019	P2020
Taxes	638	649	681	716	752	790
Social Contributions	413	418	430	425	427	429
Grant Revenue						
Other Revenue						
Other Operating Income	118	118	119	119	119	119
Total Revenue	1,169	1,185	1,230	1,259	1,298	1,338
Compensation of Employees	281	284	291	294	298	301
Use of Goods & Services	111	112	115	116	118	120
Social Benefits	569	580	590	600	611	622
Subsidies	56	56	57	63	63	63
Other Expenses				122	122	122
Grant Expense						
Depreciation	74	75	76	78	78	78
Total Expenses excluding interest	1,202	1,220	1,251	1,274	1,290	1,306
Operating Surplus/Shortfall	-33	-35	-21	-15	8	32
Interest Expense	<u>44</u>	<u>41</u>	<u>40</u>	<u>40</u>	<u>41</u>	<u>41</u>
Net Operating Balance	-77	-76	-61	-55	-33	-9

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	2015	2016	2017	2018	P2019	P2020
ASSETS						
Currency and Deposits (asset)	51	49	64	71	77	77
Securities other than Shares LT (asset)	41	49	44	42	42	42
Loans (asset)	98	85	83	82	81	80
Shares and Other Equity (asset)	493	528	561	561	562	562
Insurance Technical Reserves (asset)	6	5	5	5	5	5
Financial Derivatives (asset)	6	7	7	8	8	9
Other Accounts Receivable LT	286	282	301	303	305	307
Monetary Gold and SDR's						
Other Assets					0	0
Additional Assets	<u>0</u>	<u>0</u>		<u>0</u>		
Total Financial Assets	980	1,004	1,065	1,072	1,080	1,082
LIABILITIES						
Other Accounts Payable	238	255	279	288	296	305
Currency & Deposits (liability)	39	37	38	41	41	41
Securities Other than Shares (liability)	2,038	2,181	2,217	2,262	2,294	2,326
Loans (liability)	302	289	283	283	316	326
Insurance Technical Reserves (liability)	0	0	0	0	0	0
Financial Derivatives (liability)	9	10	10	11	12	13
Other Liabilities			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Liabilities	2,627	2,772	2,828	2,885	2,927	2,938
Net Financial Worth	<u>-1,647</u>	<u>-1,769</u>	<u>-1,763</u>	<u>-1,813</u>	<u>-1,847</u>	<u>-1,856</u>
Total Liabilities & Equity	980	1,004	1,065	1,072	1,080	1,082

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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 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 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%	5.1	9.1	1.1	A	A	A
Social Contributions Growth %	0.5	3.5	(2.5)	A	A	A
Other Revenue Growth %		3.0	(3.0)	A	A	A
Total Revenue Growth%	2.3	4.3	0.3	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.

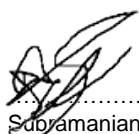
ATTESTATION FORM

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

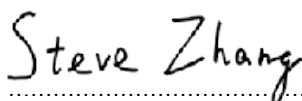


Subramanian NG
Senior Rating Analyst

December 02, 2019

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

December 02, 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.