KINGDOM OF BELGIUM

Rating Analysis - 12/21/10
Debt: EUR326.3B, Cash: EUR9.4B

EJR Sen Rating(Curr/Prj) BBB/ BBB-
EJR CP Rating: A2
EJR's 1 yr. Default Probability: 2.3%

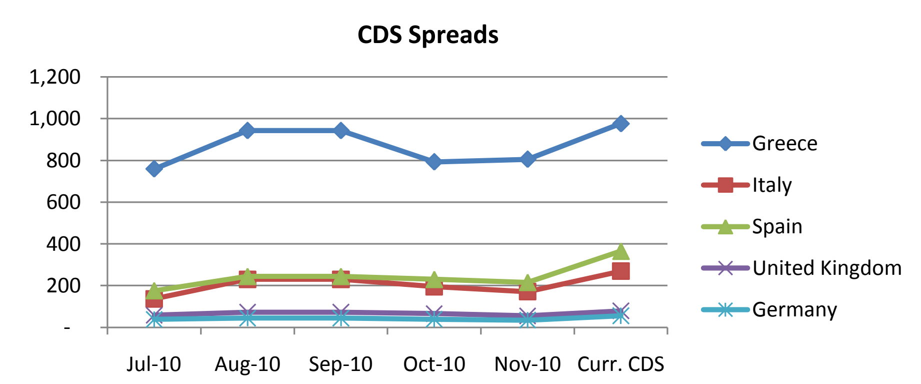
Belgium's economy expanded 2.1% in Q3 2010 (€85,822M in chained 2008 euros), up 0.4% from the previous quarter. Final government consumption was up 1.3% YoY during the quarter while final household consumption increased 1.2% YoY. Belgium's HICP was up 3.0% YoY versus 1.9% YoY in the EA-16. Private consumption is projected to rise 1.4% this year following a 0.2% decline in 2009 due to a 1.5% cut in the savings ratio. Unemployment has remained unchanged at 8.5% since September 2010, up from 7.9% in 2009. Public debt is approaching 100% of GDP. The country's public deficit to GDP is expected to total 4.8%, lower than the euro-zone average, by the end of 2010. Borrowing costs continue to rise as investors worry about the country's high levels of public debt, political instability and potential bailouts for Belgium's eurozone peers. The country is recording a current account surplus.

The cost of insuring against Belgian sovereign debt has risen dramatically in recent weeks with levels suprassing 200bps as a result of recently unsuccessful bond auctions and fears that the country may struggle to refinance its debt in 2011. Spreads remain low in comparison to peripheral eurozone peers.

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Debt/ GDP (%)	80.3	90.9	97.3	102.9	102.5	102.1
Govt. Sur/Def to GDP (%)	-1.3	-6.0	-6.5	-6.5	-6.5	-6.5
Adjusted Debt/GDP (%)	99.5	111.5	118.4	124.4	123.2	122.0
Interest Expense/ Taxes %	12.9	13.0	20.3	21.9	22.5	23.2
GDP Growth (%)	0.3	-0.1	-2.0	-2.0	4.0	4.0
Foreign Reserves/Debt (%)	2.0	1.7	1.6	1.5	1.5	1.4
Implied Sen. Rating	BB+	BB+	BB	B+	B+	B+

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*
United Kingdom	AAA	76.2	-11.4	95.5	6.9	-5.0	B+
Federal Republic Of Germany	AAA	69.4	-3.0	76.0	10.7	-2.0	BB
Kingdom Of Spain	AA	50.4	-11.1	55.0	9.6	-3.0	BB+
Italian Republic	A+	109.5	-5.3	115.5	15.9	-2.8	B
Hellenic Republic (Greece)	BB+	118.6	-15.4	121.7	25.8	-3.2	CCC+



Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece(BB)	976	400
Italy(BBB+)	269	158
Spain(A-)	365	117
United Kingdom(AA)	79	30
Germany(AA)	55	30

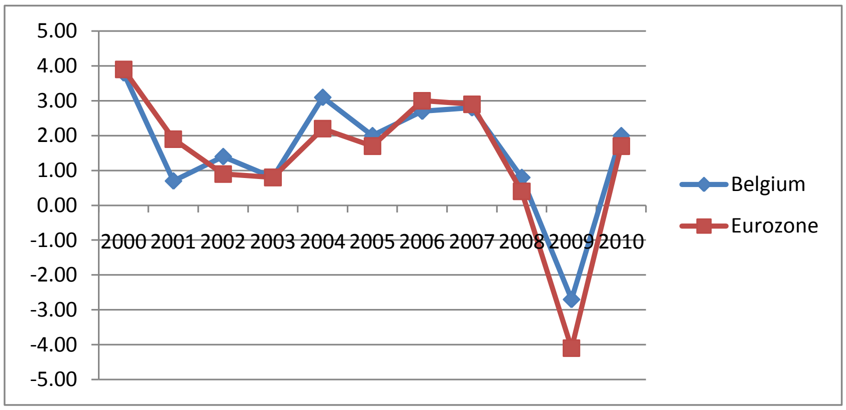
* Projected Rating

Economic Volatility

Belgium is currently recovering from the effects of the global financial crisis which hit the country heavily in 2009. Over the full year, GDP contracted 2.7%, its most severe contraction since World War II. The strong downturn in growth took a particularly heavy toll on households and companies as a decline in foreign trade caused demand to fall. Total value added of non-financial companies fell by 4% at current prices in 2009, marking the first decline in 15 years. The total number of company failures rose by 10% in 2008 and 11% in 2009.

Beligum's GDP was $468.8B in 2009 (US$366B in terms of PPP), or 0.81% of the world total. GDP declined 3.9% in the first half of 2009, during the peak of the recession. By the end of the year, real GDP had contracted by 2.7%. Growth has since returned to positive territory in 2010. GDP growth has averaged 2.1% in the first three quarters of the year with the most recent Q3 recording 2.0% growth (€85,822M). Eurostat projects overall growth of 2.0% while the IMF forecasts 1.6% growth in 2010. Belgium's own central bank projects growth of 2.1% for the year and 1.8% in 2011, slightly outpacing growth in the euro area.

Growth in Real Gross Domestic Product



Source: Eurostat

Rising Sovereign Debt

Belgium's public debt is currently 97.6% of GDP, the third-highest in the EU after only Greece and Italy. Levels are expected to continue to rise through 2011, though at a slower rate than seen during the previous two years. The National Bank of Belgium expects government debt to reach 99.8% of GDP by 2011 while the IMF projects levels to reach as much as 103% of GDP. Meanwhile, Belgium's central bank expects the country's deficit to end 2010 at 4.8% of GDP, a 1.2% improvement on 2009, and to total 4.7% in 2011. Political leaders are striving to bring down the deficit to 4.1% of GDP in 2011, 3% of GDP in 2012, and to break even in 2015. To date, the deficit remains below the EU's average budget deficit of 6.8%.

Belgium - Economic Indicators

	2008	2009	2010	2011	2012
Private Consumption	1.40	-0.20	1.50	1.70	1.80
Government Consumption	2.50	0.40	1.10	1.30	0.40
Gross Fixed Capital Formation	2.40	-4.90	-1.70	2.80	3.70
Total Domestic Demand	1.90	-2.10	1.50	1.90	1.80
GDP at Market Prices	0.80	-2.70	2.10	1.80	1.80
Harmonized Index of Consumer Prices	4.50	0.00	2.10	1.60	1.80
Household Saving Ratio*	11.90	13.40	12.20	12.00	11.60
Current Account Balance**	-1.90	0.80	1.00	1.00	1.10

*As a percentage of disposable income
**As a percentage of GDP

Source: OECD

Macroeconomic Indicators: Unemployment, Inflation and Interest Rates

The decline in employment witnessed during the peak of the economic downturn in 2009 was short-lived, with job lossess totalling 38,400 persons between year-end 2008 and year-end 2009. Employment figures have since recovered, with more than 56,000 jobs expected to be created by the end of 2010, and a further 15,000 in 2011. The central bank has credited the resilience of employment to flexible arragements used during the recession as well as a decline in hourly productivity.

Despite the recent rise in employment, *unemployment* levels in Belgium as well as the EU have risen steadily over the past twelve months. Unemployment in the EU is currently 9.6% while levels in the euro-area (EA-16) have risen to 10.1%. Meanwhile, unemployment in Belgium has increased from 7% in 2008 and 7.9% in 2009 to a current 8.5% in 2010. The rate is expected to be almost stable at 8.6% in 2011.

Within the European monetary union, any divergence in inflation between participating states has a direct effect on the country's price and cost competitiveness. In recent years, Belgium has managed to maintain its competitiveness within the union. Inflation has been rising faster in Belgium than in other EU states. The HICP began rising rapidly during 2010 and was up 3.0% YoY in Belgium (vs. 1.9% YoY in the euro-area on average) in November. Energy prices have been a leading positive contributor. The National Bank of Belgium has forecast inflation at 2.3% this year and 2.1% in 2011. Prices recorded no growth last year.

Interest rates in Belgium are projected to follow trend in the global markets. Rates on Belgian government bonds are expected to reach 3.4% in 2010 and 3.8% in 2011. Interest rates on 3-month euro-denominated interbank deposits are forecast at 0.8% in 2010 and 1.4% in 2011.

Economic Freedoms

The global financial crisis hit Belgium in 2008, quickly sparking a sharp economic downturn in the country. The government has stepped in to help a number of the country's largest banks including Fortis, Drexia, Ethias and KBC and has also implemented a moderate-sized fiscal stimulus package for the economy. As a result, the country's investment freedom and financial freedom have deteriorated slightly since 2009.

Structural weaknesses include burdensome individual and corporate income tax rates of up to 50% and 34%, respectively, and exceptionally high government expenditures which totaled 48.3% of GDP in 2009. The overall freedom to establish and operate a business in Belgium is strongly protected under the country's regulatory environment. Starting a business takes an average of 4 days compared to the world average of 35 days, and obtaining a business license takes less than the world average of 218 days.

Heritage Foundation 2010 Index of Economic Freedom - Belgium*

World Rank: 30 of 183; Regional Rank: 16 of 43**	2010 Rank	2009 Rank	Change in Rank	World Average
Business Freedom	92.9	93.2	-0.3	64.6
Trade Freedom	87.5	85.8	+1.7	74.2
Fiscal Freedom	42.2	41.5	+0.7	75.4
Government Spending	30.0	28.3	+1.7	65.0
Monetary Freedom	77.9	81.0	-3.1	70.6
Investment Freedom	80.0	90.0	-10.0	49.0
Financial Freedom	70.0	80.0	-10.0	48.5
Property Rights	80.0	80.0	0.0	43.8
Freedom from Corruption	73.0	71.0	+2.0	40.5
Labor Freedom	67.1	70.5	-3.4	62.1

*The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
World: Based on a scale of 1-183 with 1 being the highest ranking; Regional: **Asia-Pacific Region includes 41 countries total.
Source: The Heritage Foundation & Wall Street Journal

Assumptions for Projections

	Peer	Issuer	Base Case	
Income Statement	**Median**	**Average**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	(4.8)	(6.1)	**(2.5)**	**0.5**
Social Contributions Growth %	(1.8)	2.3	**2.3**	**2.3**
Grant Revenue Growth %	0.0	0.0		
Other Revenue Growth %	0.1	(1.9)	**(2.0)**	**(2.0)**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	(6.4)	(3.0)	**(2)**	**4.0**
Compensation of Employees Growth%	5.2	4.0	**1.0**	**2.0**
Use of Goods & Services Growth%	5.4	4.6	**1.0**	**1.5**
Social Benefits Growth%	8.7	7.1	**1.0**	**2.0**
Subsidies Growth%	2.3	3.1		
Other Expenses Growth%	23.8	23.8	**2.0**	**3.0**
Special Items (millions EUR)	0.0	0.0		
Balance Sheet				
Currency and Deposits Growth%	0.4	(25.5)	**(4.0)**	**(4.0)**
Securities other than Shares LT Growth%	7.8	92.9	**(2.5)**	**(2.5)**
Loans Growth%	2.4	12.2	**10.0**	**10.0**
Shares and Other Equity Growth%	14.8	4.7	**4.7**	**4.7**
Insurance Technical Reserves Growth%	2.8	0.0		
Financial Derivatives Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	8.0	(1.3)	**(2.5)**	**(2.5)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Accounts Payable Growth%	9.2	NMF		
Currency & Deposits Growth%	4.5	8.8	**6.0**	**6.0**
Securities Other than Shares Growth%	16.3	5.8	**4.1**	**4.1**
Growth%	0.0	0.0		
Loans Growth%	0.8	3.0	**3.0**	**3.0**
Insurance Technical Reserves Growth%	0.0	0.0		
Financial Derivatives Growth%	0.0	0.0		
Addl debt. (1st Year) million EUR	0.0	0.0		

Base Case

ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Taxes	99,370	102,567	96,354	93,945	91,596	92,054
Social Contributions	52,649	55,684	56,966	58,279	59,621	60,995
Grant Revenue	0	0	0	0	0	0
Other Revenue	9,070	10,136	9,939	9,741	9,546	9,355
Other Operating Income	0	0	0	0	0	0
Total Revenue	161,088	168,386	163,260	161,964	160,763	162,404
Compensation of Employees	39,324	41,635	43,288	43,721	44,158	45,041
Use of Goods & Services	12,016	12,786	13,372	13,506	13,641	13,846
Social Benefits	74,915	80,542	86,234	87,096	87,967	88,846
Subsidies	6,479	7,282	7,506	7,507	7,507	7,508
Other Expenses	11,142	11,755	14,555	1,892	14,555	14,992
Grant Expense	0	0	0	0	0	0
Depreciation	5,633	5,892	5,659	5,659	5,659	5,659
Total Expenses	149,508	159,892	170,614	159,381	173,487	175,892
Operating Surplus/Shortfall	11,580	8,494	-7,354	2,584	-12,724	-13,488
Interest Expense	12,985	13,232	12,554	19,079	20,015	20,739
Net Operating Balance	-1,406	-4,738	-19,907	-16,495	-32,740	-34,227

ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Currency and Deposits	6,637	12,656	9,424	9,047	8,685	8,338
Securities other than Shares LT	456	3,962	7,641	7,450	7,264	7,082
Loans	1,523	1,485	1,666	1,833	2,016	2,217
Shares and Other Equity	25,225	32,925	34,464	36,075	37,761	39,526
Insurance Technical Reserves				0	0	0
Financial Derivatives						
Other Accounts Receivable LT	15,854	15,969	15,758	15,364	14,980	14,605
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets	49,695	66,997	68,953	69,769	70,706	71,769
LIABILITIES						
Other Accounts Payable	12,663	11,808	13,639	13,639	13,639	13,639
Currency & Deposits	1,116	1,176	1,279	1,279	1,279	1,279
Securities Other than Shares	249,613	275,293	291,332	303,213	315,579	328,450
Loans	31,377	32,659	33,644	37,781	59,092	81,512
Insurance Technical Reserves						
Financial Derivatives						
Other Liabilities	498	498	539	1,831	1,831	1,831
Liabilities	295,267	321,434	340,433	357,744	391,421	426,711
Net Financial Worth	(245,572)	(254,437)	(271,480)	(287,975)	(320,715)	(354,942)
Total Liabilities & Equity	49,695	66,997	68,953	69,769	70,706	71,769

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