

KINGDOM OF BELGIUM

Rating Analysis - 5/16/16

*EJR Sen Rating(Curr/Prj) BBB/ BBB

*EJR CP Rating: A2

EJR's 3 yr. Default Probability: 2.0%

Slight improvement - over the past three IMF-reported fiscal years (i.e., from 2011 to 2014), Belgium's debt rose at an annual rate of 3.3% while its GDP rose at an annual rate of merely 1.9%. As a result, the country's debt to GDP increased from 102.0% to 106.3%.

On the federal government side, a turnaround of the operating shortage has been reassuring. Government revenue accelerated at an annual rate of 4.7% from 2010 to 2013, faster than expenses which rose 3.9% for the same period. Interest expense to revenue dropped from 7.3% in 2010 to 6.0% in 2014. However, the implementation of an expenditure-based fiscal consolidation and an ongoing shift in taxation from labor to consumption create uncertainties on the future, as already reflected in a revenue deceleration in 2014. Another concern is the financial costs, which, while contained due to a reduction in yields (average yield dropped from 3.6% in 2010 to 2.9% in 2014), could rise substantially when the bond yields return to more normal levels. Exposure to the banking sector is a major concern. We are affirming a rating of "BBB".

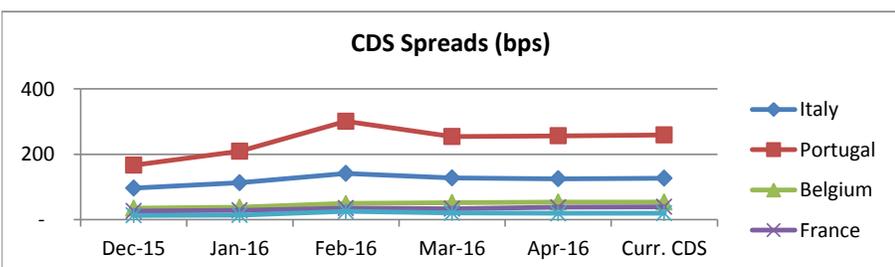
CREDIT POSITION

	Annual Ratios (source for past results: IMF)					
	2012	2013	2014	P2015	P2016	P2017
Debt/ GDP (%)	103.9	104.4	106.3	112.1	118.0	123.7
Govt. Sur/Def to GDP (%)	-3.8	-2.8	-3.0	-3.1	-3.1	-3.2
Adjusted Debt/GDP (%)	103.9	104.4	106.3	112.1	118.0	123.7
Interest Expense/ Taxes (%)	11.9	10.8	10.3	10.4	10.6	10.7
GDP Growth (%)	2.2	1.8	1.7	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.6	1.5	1.5	1.4	1.3	1.2
Implied Sen. Rating	BBB+	BBB+	BBB	BBB	BBB	BBB

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

	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
PEER RATIOS							
Federal Republic Of Germany	AAA	75.2	0.2	75.2	7.7	3.4	AA
French Republic	AA	95.5	-3.6	95.5	7.5	0.7	A
Government Of Canada	AAA	102.9	-1.6	102.9	11.7	5.1	A
Republic Of Italy	BBB-	132.2	-3.6	132.2	15.4	0.4	BBB-
Portugal Republic	BB+	130.2	-8.1	130.2	19.5	1.9	BBB-

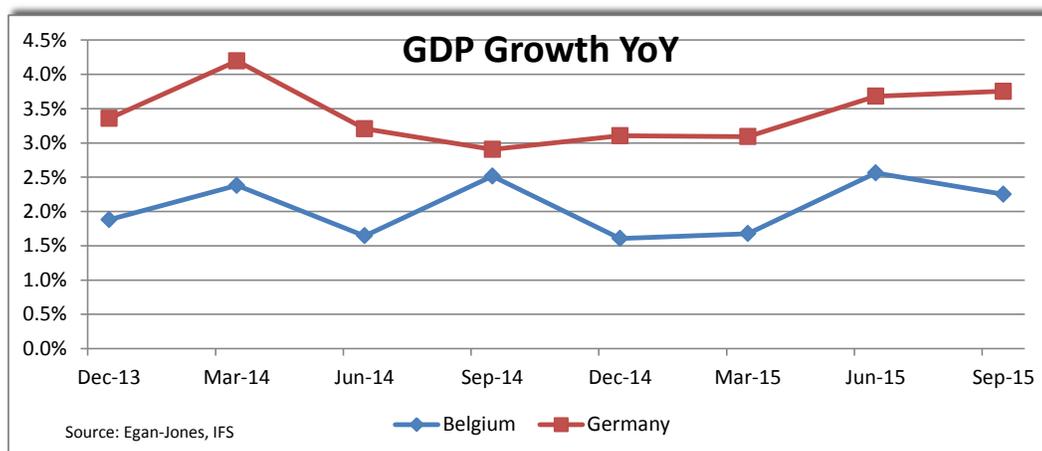


Country (EJR Rtg*)	CDS
Italy (CCC+)	127
Portugal (B-)	259
Belgium (BBB)	54
France (BBB)	39
Germany (A)	19

Economic Growth

A major driver of sovereign credit quality is the overall growth of the economy. In the case of Belgium, the country's GDP growth has been fluctuating around 2% over the past couple of years, lower than the 5% growth as of 2011. Private consumption will continue to drive growth in 2016, as indicated by an upward trend in the private consumption growth rate from 0.3% in 2011 to 1.3% in 2015, benefiting from healthy mortgage lending and moderate private indebtedness.

Another factor to consider is the wage indexation rule approved in 2015, which shifts taxation away from labor in an effort to improve export performance. However, the rule also poses a threat to private consumption. The weakness of the banking sector and external environment remain sources of risk.



Fiscal Policy

Belgium's deficit to GDP of 3.01% is not comforting and is likely to grow over the next couple of years. The deficit is a concern in light of the country's debt to GDP in excess of 100%. The variable which has changed in sovereign markets has been the intervention of central banks. If there is a growth in the crisis, it will probably focus on Italy, Portugal, and Spain, and the ECB and other quasi-govt units will provide support. Attempts to implement austerity measures and provide real bank relief are likely to fall short and will increase debt.

	Deficit-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Belgium	3.01	106.29	54.08
Germany	-0.19	75.22	19.32
France	3.60	95.51	39.17
Canada	1.58	102.87	32.21
Italy	3.55	132.15	126.51
Portugal	8.05	130.17	259.02

Sources: Thomson Reuters and IFS

Unemployment

Belgium's unemployment rate of 8.53% is higher than Germany's and Canada's but lower than others as indicated in the chart at right. Unemployment for the most recent quarter is 8.2%, which is not particularly comforting. The approval of the wage indexation rule in 2015 will likely reduce labor costs and mitigate job losses, particularly in the services and the construction sectors, which rely heavily on the minimum wage.

	Unemployment (%)	
	2013	2014
Belgium	8.45	8.53
Germany	6.88	6.70
France	10.28	10.30
Canada	7.10	6.90
Italy	12.13	12.65
Portugal	16.46	14.13

Source: Intl. Finance Statistics

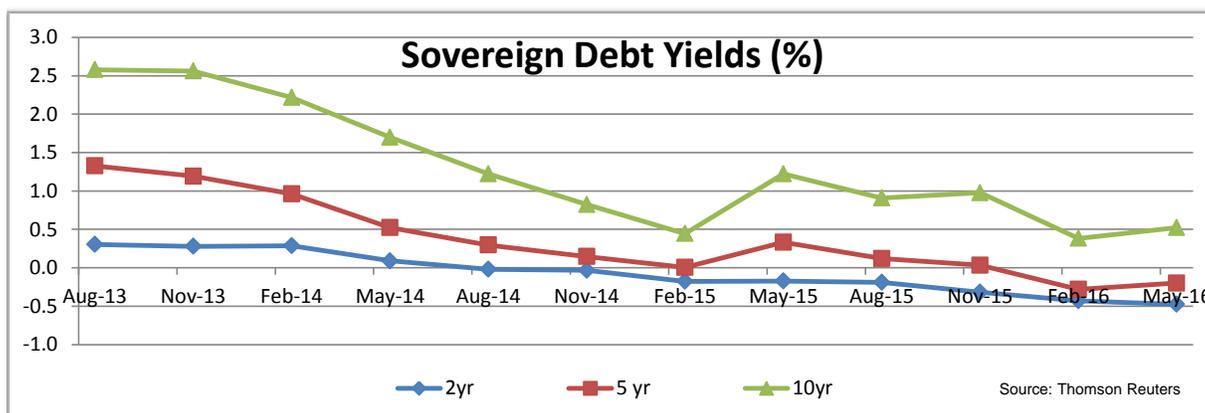
Banking Sector

Belgium has significant exposure to its banking due to the large size of bank assets. Its top five banks' total assets equal to 153% of GDP vs 81% for Germany and 119% for Italy. Belgium has provided financial support to its banks to ameliorate asset quality problems; banks appear to be undercapitalized and equity is severely diluted by reserve shortfalls. However, Belgium's ability to support its banks is minimal.

Bank Assets (billions of local currency)		
	Assets	Cap/ Assets %
DEXIA SA	230.28	9.98
ACKERMANS & VAN	12.25	-20.87
KBC GROEP	252.36	2.44
CNP -NATL PORT	16.25	-21.61
FORTIS	104.49	<u>3.63</u>
Total	615.6	
EJR's est. of cap shortfall at 10% of assets less market cap		26.9
Belgium's GDP		402.0

Funding Costs

Belgium's funding costs have declined over the past 3 years. As can be seen in the below graph, the bond yields have declined since Aug. 2013, but the long-term debt yield fluctuated over the past couple of months. Since ECB's expansionary monetary policy is not likely to end in the short term, the funding costs for Belgium should remain low in the foreseeable future. Watch ECB actions.



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 43 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*			
	2015	2014	Change in
	Rank	Rank	Rank
Overall Country Rank:	43	41	-2
Scores:			
Starting a Business	20	13	-7
Construction Permits	54	53	-1
Getting Electricity	53	48	-5
Registering Property	132	133	1
Getting Credit	97	90	-7
Protecting Investors	57	54	-3
Paying Taxes	90	86	-4
Trading Across Borders	1	1	0
Enforcing Contracts	53	53	0
Resolving Insolvency	10	10	0

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

Economic Freedom

As can be seen below, Belgium is above average in its overall rank of 68.8 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom				
World Rank 68.8*				
	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	80	80	0	42.2
Freedom from Corruption	75	74.2	0.8	41.9
Fiscal Freedom	43.6	44.8	-1.2	77.4
Government Spending	10.2	14.8	-4.6	61.7
Business Freedom	90.7	89.9	0.8	64.1
Labor Freedom	63.7	72.7	-9	61.3
Monetary Freedom	81.7	79.5	2.2	75.0
Trade Freedom	88	87.8	0.2	75.4
Investment Freedom	85	85	0	54.8
Financial Freedom	70	70	0	48.6

*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

Valuation Driver: Taxes Growth:

KINGDOM OF BELGIUM has grown its taxes of 1.5% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 1.5% per annum over the next couple of years and 1.5% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:

KINGDOM OF BELGIUM's total revenue growth has been less than its peers and we assumed no growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	2.0	1.5	1.5	1.5
Social Contributions Growth %	2.4	1.0	1.0	1.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(5.0)	(5.0)	(5.0)
Total Revenue Growth%	2.0	0.7	0.7	0.6
Compensation of Employees Growth%	1.9	1.7	1.7	1.7
Use of Goods & Services Growth%	2.6	2.8	2.5	2.5
Social Benefits Growth%	2.4	1.9	1.9	1.9
Subsidies Growth%	6.9	0.6		
Other Expenses Growth%	(4.2)	(4.2)	(4.2)	(4.2)
Interest Expense	0.0	2.9	2.9	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	0.1	6.0	1.5	1.5
Shares and Other Equity (asset) Growth%	4.5	13.0	13.0	13.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	1.6	3.7	1.5	1.5
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%	0.0			
Currency & Deposits (liability) Growth%	6.7	(3.4)	0.5	0.5
Securities Other than Shares (liability) Growth%	10.2	12.3	5.0	5.0
Loans (liability) Growth%	3.9	15.1	8.0	8.0
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are KINGDOM OF BELGIUM's annual income statements with the projected years based on the assumptions listed on page 3.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS EUR)					
	2011	2012	2013	2014	P2015	P2016
Taxes	110,732	116,541	120,769	122,531	124,369	126,235
Social Contributions	61,776	64,292	66,201	66,864	67,533	68,209
Grant Revenue						
Other Revenue						
Other Operating Income	18,201	19,222	19,908	18,914	18,914	18,914
Total Revenue	190,709	200,054	206,878	208,309	210,817	213,358
Compensation of Employees	46,771	48,599	50,054	50,919	51,799	52,694
Use of Goods & Services	15,870	16,712	16,962	17,439	17,875	18,322
Social Benefits	91,583	96,121	99,487	101,358	103,263	105,204
Subsidies	13,375	13,358	13,679	13,766	13,768	13,769
Other Expenses	15,277	17,318	15,784	15,122	14,487	13,879
Grant Expense						
Depreciation	8,585	8,889	8,968	9,217	9,217	9,217
Total Expenses excluding interest	191,461	200,995	204,934	207,822	210,409	213,086
Operating Surplus/Shortfall	-752	-941	1,944	488	407	272
Interest Expense	<u>13,638</u>	<u>13,825</u>	<u>13,059</u>	<u>12,581</u>	<u>12,951</u>	<u>13,333</u>
Net Operating Balance	-14,390	-14,766	-11,115	-12,093	-12,544	-13,060

ANNUAL BALANCE SHEETS

Below are KINGDOM OF BELGIUM's balance sheets with the projected years based on the assumptions listed on page 3.

	ANNUAL BALANCE SHEETS					
	(MILLIONS EUR)					
Base Case	2011	2012	2013	2014	P2015	P2016
ASSETS						
Currency and Deposits (asset)				17,580	19,634	19,634
Securities other than Shares LT (asset)						
Loans (asset)	24,228	29,666	31,787	33,694	34,199	34,712
Shares and Other Equity (asset)	38,399	40,935	39,180	44,256	49,990	56,466
Insurance Technical Reserves (asset)		1,765	1,546		0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT	19,261	19,346	20,200	20,954	21,268	21,587
Monetary Gold and SDR's						
Other Assets					1,193	1,193
Additional Assets	<u>19,920</u>	<u>17,485</u>	<u>17,136</u>	<u>1,193</u>		
Total Financial Assets	101,808	109,197	109,849	117,677	126,284	133,593
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	1,477	1,447	1,395	1,348	1,348	1,348
Securities Other than Shares (liability)	340,127	382,343	376,798	423,032	444,184	466,393
Loans (liability)	61,137	66,054	70,240	80,833	93,377	106,438
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	<u>14,126</u>	<u>15,280</u>	<u>14,514</u>	<u>14,088</u>	<u>14,088</u>	<u>14,088</u>
Liabilities	416,867	465,124	462,947	519,301	540,453	560,822
Net Financial Worth	<u>-315,059</u>	<u>-355,927</u>	<u>-353,098</u>	<u>-401,624</u>	<u>-414,168</u>	<u>-427,229</u>
Total Liabilities & Equity	101,808	109,197	109,849	117,677	126,284	133,593

Copyright © 2016, Egan-Jones Ratings Company, Inc. ("Egan-Jones"). All rights reserved. The information upon which Egan-Jones ratings and reports are based is obtained by Egan-Jones from sources Egan-Jones believes to be accurate and reliable. Egan-Jones relies on third party reports and information and data provided and Egan-Jones has not, unless required by law or internal policies/procedures, independently verified or performed due diligence related to the accuracy of information, data or reports. Egan-Jones has not consented to, nor will consent to, being named an "expert" under federal securities laws, including without limitation, Section 7 of the Securities Act of 1933. Please note that expected or final ratings are not recommendations to buy, hold or sell the securities. Egan-Jones is not an advisor and is not providing investment advice, strategy or related services. Egan-Jones and its third-party suppliers ("Suppliers") hereby disclaim any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, and fitness for any particular purpose or non-infringement of any of such information. In no event shall Egan-Jones or its directors, officers, employees, independent contractors, agents, representatives, or Suppliers (collectively, Egan-Jones Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error, (negligent or otherwise) or other circumstance or contingency within or outside the control of Egan-Jones or any Egan-Jones Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other opinions issued by Egan-Jones are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report providing an Egan-Jones rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Egan-Jones is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and Egan-Jones shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Egan-Jones. Egan-Jones ratings are subject to disclaimers. **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

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 KINGDOM OF BELGIUM with the ticker of 111136Z BB we have assigned the senior unsecured rating of BBB. 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 available in our Form NRSRO Exhibit #2 dated May 10, 2015 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, 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%	1.5	5.5	(2.5)	BBB	BBB	BBB-
Social Contributions Growth %	1.0	(2.0)	4.0	BBB	BBB-	BBB
Other Revenue Growth %		(3.0)	3.0	BBB	BBB	BBB
Total Revenue Growth%	0.7	0.1	2.7	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	5.0	3.0	7.0	BBB	BBB	BBB

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

Mike Huang

May 16, 2016

Mike Huang
Rating Analyst

Reviewer Signature:

Today's Date

Caroline Ding

May 16, 2016

Caroline Ding
Rating Analyst

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.