KINGDOM OF BELGIUM

Rating Analysis - 6/20/17

*EJR Sen Rating(Curr/Prj) BBB/ BBB
*EJR CP Rating: A2
EJR's 3 yr. Default Probability: 2.0%

Slight improvement - Belgium maintained its debt-to-GDP ratio at 127.5% in 2016, a slight decline from 129.7% in 2014 (using the market value of debt). Government deficit-to-GDP also improved from 2.97% in 2014 to 2.52% in 2016, as a result of the government's reformist programme.

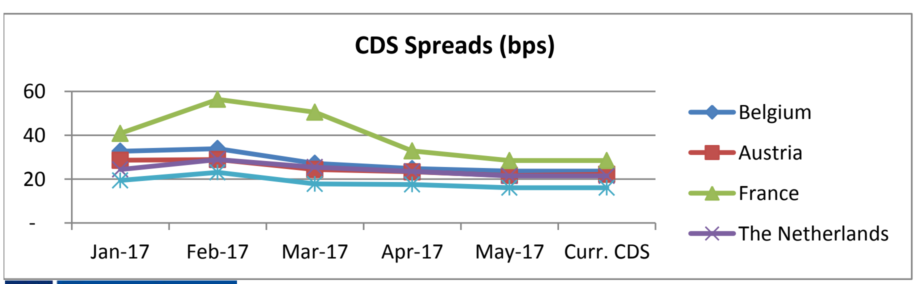
Although Belgium gradually improved its fiscal status over the past a couple of years, uncertainty still exists concerning Brexit and economic reforms, which could be reflected from the fluctuation in both debt and government deficit. Belgium has a strong trading relationship with other EU countries, among whom UK and Italy together contribute near 16% of its exports (approximately 13.3% of its nominal GDP). This reliance of Belgium's economy raises concerns due to the talk of Italy's departure and other uncertainties in the EU. Also, the overall debt-to-GDP ratio of 127.5% is at high level compared to other healthy economies in Europe, which may further increase Belgium's debt burden if the EU tightens monetary policies and raises interest rates. We expect a continuous slow improvement on Belgium. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2014	2015	2016	P2017	P2018	P2019
Debt/ GDP (%)	129.7	126.7	127.5	128.6	129.7	130.3
Govt. Sur/Def to GDP (%)	-3.0	-2.4	-2.5	-2.5	-2.4	-2.3
Adjusted Debt/GDP (%)	129.7	126.7	127.5	128.6	129.7	130.3
Interest Expense/ Taxes (%)	10.7	10.0	9.5	9.5	9.5	9.5
GDP Growth (%)	2.3	2.4	2.8	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.3	1.4	1.4	1.4	1.3	1.3
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

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	76.5	0.6	76.5	5.9	3.3	AA
Kingdom Of Denmark	AAA	52.1	-0.2	52.1	2.9	1.9	AA+
Kingdom Of The Netherlands	AA+	75.8	0.3	75.8	4.6	3.0	AA-
Austria	AA+	105.6	-1.2	105.6	7.6	2.8	A+
French Republic	AA	123.5	-3.2	123.5	6.5	1.9	BBB+



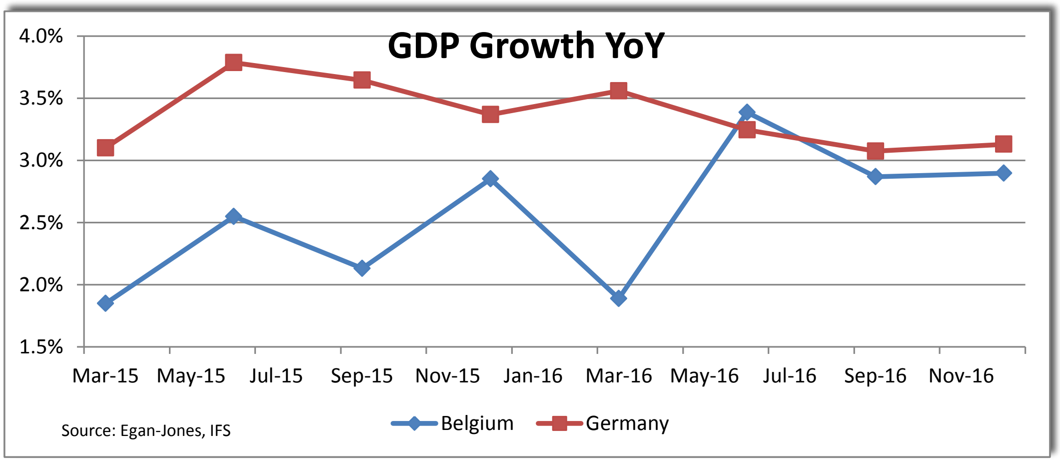
Country	CDS
Belgium	24
Austria	22
France	28
The Netherlands	22
Germany	16

Egan-Jones Ratings Company

Economic Growth

Belgium's annual GDP (nominal) growth rate gradually recovered from 1.1% in 2013 to 2.8% in 2016, which was a healthy level for Europe. As shown in the chart below, the quarterly GDP YoY growth improved gradually during the last 2 years.

Belgium's economy is well diversified and is resilient to stress. However, a large portion of its GDP relies on exports, which constitutes 82.9% of the country's GDP. Furthermore, 73.0% of Belgium's exports are purchased by other European nations. Considering that some EU members are troubled by political uncertainty, Belgium's high reliance on exports to European nations raises concerns. Watch for the European economy and political environment.



Fiscal Policy

Belgium's deficit to GDP improved to 2.52% but is still not comforting. Debt to GDP of 127.52%, which is at the highest level compared to its peers, reflects Belgium's stubbornly high debt and difficulties in generating consistent primary surpluses on the fiscal balance. The ongoing quantitative easing in euro zone is providing low interest rates and low financing cost for Belgium. With the country's high debt level, a rise in interest rate would be painful.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Belgium	-2.52	127.52	23.74
Germany	0.65	76.47	16.07
Denmark	-0.16	52.10	18.13
The Netherla	0.26	75.84	21.53
Austria	-1.16	105.59	22.24
France	-3.25	123.55	28.46

Sources: Thomson Reuters and IFS

Unemployment

Belgium's unemployment rate has declined to 7.83% but is still higher than most of its peers except France (10.4%) as indicated in the chart on right. Unemployment rate for the most recent quarter is 7.2%, which is lower than the European Union's 8.2%. However, youth unemployment is very high in Belgium (23.2%), higher than EU average of 21.9%. We expect Belgium's unemployment rate to improve over the next year.

Unemployment (%)	2015	2016
Belgium	8.50	7.83
Germany	4.60	4.10
Denmark	6.20	6.20
The Netherla	6.90	6.00
Austria	5.70	6.00
France	10.40	10.06

Source: Intl. Finance Statistics

Banking Sector

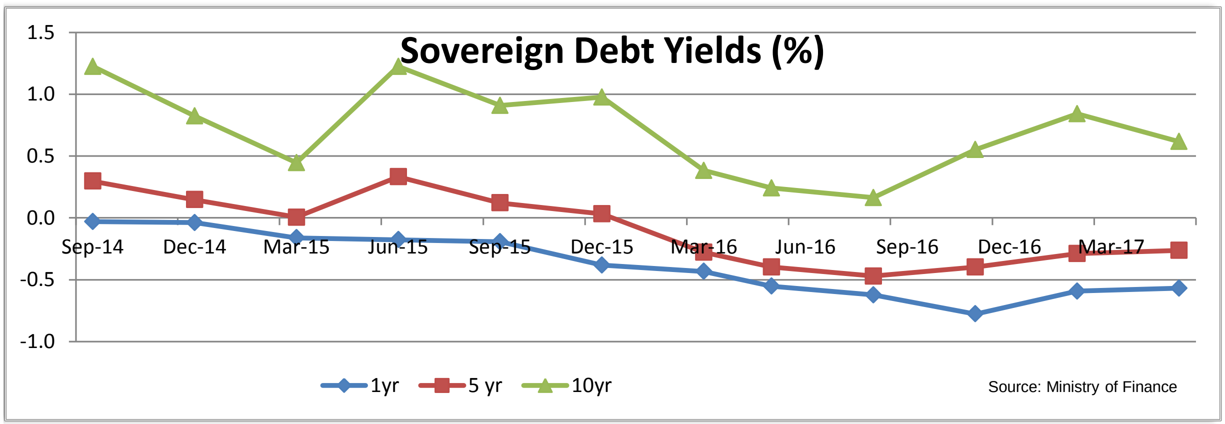
Belgium has significant exposure to its banking due to the large size of bank assets. Its top three banks' total assets equal 119% of GDP vs. 102% for Italy and 88% for Germany. Since the global financial crisis, Belgium's banking sector has improved considerably; capital ratios like CET1 ratio has improved significantly (CET1 as of Dec 2015 was 15%, up from 9.3% in 2013), and non-performing loans have fallen to 3.5% of total loans.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
DEXIA SA	212.77	0.01
ACKERMANS & VAN	12.88	38.77
KBC GROEP	275.20	10.30
Total	500.8	
EJR's est. of cap shortfall at 10% of assets less market cap		16.7
Belgium's GDP		422.0

Funding Costs

Belgium's funding costs have slightly decreased over the past 3 year. As can be seen in the graph below, the bond yields have declined since June 2015, but have risen recently. Since ECB's expansionary monetary policy (QE programme) is likely to continue until the end of the year, 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 42 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*

	2017 Rank	2016 Rank	Change in Rank
Overall Country Rank:	**42**	**43**	**1**
Scores:			
Starting a Business	17	20	3
Construction Permits	44	54	10
Getting Electricity	60	53	-7
Registering Property	131	132	1
Getting Credit	101	97	-4
Protecting Investors	63	57	-6
Paying Taxes	66	90	24
Trading Across Borders	1	1	0
Enforcing Contracts	52	53	1
Resolving Insolvency	10	10	0

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

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Economic Freedom

As can be seen below, Belgium is above average in its overall rank of 67.8 for Economic Freedom with 100 being best.

Heritage Foundation 2017 Index of Economic Freedom
World Rank 67.8*

	2017 Rank**	2016 Rank	Change in Rank	World Avg.
Property Rights	83.3	80.0	3.3	52.2
Government Integrity	71.5	76.0	-4.5	42.4
Judical Effectiveness	69.3	N/A	N/A	44.4
Tax Burden	44.1	44.2	-0.1	77.3
Gov't Spending	9.6	11.0	-1.4	63.0
Fiscal Health	66.3	N/A	N/A	66.3
Business Freedom	82.0	85.4	-3.4	64.8
Labor Freedom	61.1	60.5	0.6	59.4
Monetary Freedom	84.9	84.0	0.9	76.3
Trade Freedom	87.0	88.0	-1.0	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

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*EJR CP Rating: A2
EJR's 3 yr. Default Probability: 2.0%

Credit Quality Driver: Taxes Growth:
KINGDOM OF BELGIUM has grown its taxes of 2.3% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 2.3% per annum over the next couple of years and 2.3% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
KINGDOM OF BELGIUM's total revenue growth has been more than its peers and we assumed a 1.7% 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%	1.6	2.3	**2.3**	**2.3**
Social Contributions Growth %	3.7	(0.6)	**1.0**	**1.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	4.9	**4.6**	**4.6**
Total Revenue Growth%	1.4	1.6	**1.7**	**1.4**
Compensation of Employees Growth%	2.5	2.1	**2.1**	**2.1**
Use of Goods & Services Growth%	1.5	0.4	**0.4**	**0.4**
Social Benefits Growth%	1.8	3.0	**2.0**	**2.0**
Subsidies Growth%	2.6	0.1		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.2	**2.2**	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(4.5)	1.3		
Shares and Other Equity (asset) Growth%	3.9	6.2	**4.0**	**4.0**
Insurance Technical Reserves (asset) Growth%	(5.4)	0.0		
Financial Derivatives (asset) Growth%	(9.9)	0.0		
Other Accounts Receivable LT Growth%	(1.2)	8.2	**2.3**	**2.3**
Monetary Gold and SDR's Growth %	0.0	0.0	**1.0**	**1.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	10.8	1.2	**1.2**	**1.2**
Securities Other than Shares (liability) Growth%	0.3	4.6	**1.5**	**1.5**
Loans (liability) Growth%	(1.6)	(1.3)	**0.5**	**0.5**
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 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)

	2013	2014	2015	2016	P2017	P2018
Taxes	120,869	123,127	124,446	127,318	130,246	133,242
Social Contributions	65,990	66,767	67,927	67,486	68,161	68,842
Grant Revenue						
Other Revenue						
Other Operating Income	19,697	18,677	18,360	19,259	19,259	19,259
Total Revenue	206,556	208,571	210,733	214,063	217,666	221,343
Compensation of Employees	50,035	50,808	51,135	52,204	53,295	54,410
Use of Goods & Services	16,961	16,790	16,661	16,727	16,793	16,860
Social Benefits	99,369	101,302	103,558	106,639	108,772	110,947
Subsidies	13,711	13,871	13,943	13,954	13,955	13,957
Other Expenses				13,682	13,682	13,682
Grant Expense						
Depreciation	8,994	9,091	9,148	9,414	9,414	9,414
Total Expenses excluding interest	205,167	207,359	208,075	212,620	215,912	219,269
Operating Surplus/Shortfall	1,389	1,212	2,658	1,443	1,754	2,074
Interest Expense	12,928	13,127	12,443	12,074	12,345	12,622
Net Operating Balance	-11,540	-11,913	-9,783	-10,631	-10,591	-10,548

ANNUAL BALANCE SHEETS

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

ANNUAL BALANCE SHEETS
(MILLIONS EUR)

Base Case

ASSETS	2013	2014	2015	2016	P2017	P2018
Currency and Deposits (asset)						
Securities other than Shares LT (asset)	1,538		1,149	1,092	1,092	1,092
Loans (asset)	31,646	33,694	34,088	34,535	34,535	34,535
Shares and Other Equity (asset)	39,195	45,063	44,578	47,330	49,223	51,192
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)		17,070		18,275	18,275	18,275
Other Accounts Receivable LT	19,787	20,860	21,764	23,543	24,084	24,638
Monetary Gold and SDR's						
Other Assets						
Additional Assets	17,207	1,268	17,337			
Total Financial Assets	109,373	117,955	118,916	124,775	127,210	129,733

LIABILITIES	2013	2014	2015	2016	P2017	P2018
Other Accounts Payable						
Currency & Deposits (liability)	1,395	1,348	1,380	1,397	1,397	1,397
Securities Other than Shares (liability)	376,790	422,244	423,278	442,936	449,580	456,324
Loans (liability)	71,366	81,685	80,362	79,352	89,943	100,490
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	14,576	14,847	15,766	14,590	14,590	14,590
Liabilities	464,127	520,124	520,786	538,275	551,300	564,371
Net Financial Worth	-354,754	-402,169	-401,870	-413,500	-424,091	-434,638
Total Liabilities & Equity	109,373	117,955	118,916	124,775	127,210	129,733

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 "BBB" whereas the ratio-implied rating for the most recent period is "BBB"; 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 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 used 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%	2.3	6.3	(1.7)	BBB	BBB	BBB
Social Contributions Growth %	1.0	4.0	(2.0)	BBB	BBB	BBB
Other Revenue Growth %		3.0	(3.0)	BBB	BBB	BBB
Total Revenue Growth%	1.7	3.7	(0.3)	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	1.0	3.0	(1.0)	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**

Chris Liao

June 20, 2017

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Chris Liao
Rating Analyst

Reviewer Signature: **Today's Date**

Caroline Ding

June 20, 2017

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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.