

KINGDOM OF THE NETHERLANDS

Rating Analysis - 6/30/16

*EJR Sen Rating(Curr/Prj) AA-/ AA-

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.2%

Steady growth facing challenge – Supported by a structurally diverse, open and competitive economy, the Netherlands' GDP growth accelerated from 0.35% in 2012 to 2.3% in 2015. As of 2015, current account surplus amounts to 9.1% of GDP while Debt-to-GDP is at a comfortable 65.1%.

One major concern is that the Netherlands' exports overly concentrate on only 4 countries: Germany, United Kingdom, France and Belgium, making the economy vulnerable to downturns in global trade volume, especially as UK leaves the EU, which may hurt everyone. We expect the Netherlands will grow slowly at +1% in the next two years. Furthermore, the banking sector might be another potential risk, due to the large size of the mortgage debt (almost equals 95% of the GDP) and the size of bank's overall balance sheet, which will put considerable pressure on the government if the banks need external support. Watch the big economies in the EU. Upgrading to "AA-". Note, to reflect the propensity of central banks to support sovereign obligors, we have eased our indicative credit ratios, resulting in some upgrades.

CREDIT POSITION

	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	67.9	68.2	65.1	65.1	65.2	65.1
Govt. Sur/Def to GDP (%)	-2.8	-2.3	-1.9	-2.0	-2.1	-2.1
Adjusted Debt/GDP (%)	67.9	68.2	65.1	65.1	65.2	65.1
Interest Expense/ Taxes (%)	7.1	6.5	5.3	5.3	5.3	5.4
GDP Growth (%)	0.9	1.8	2.3	1.0	1.0	1.5
Foreign Reserves/Debt (%)	2.1	1.9	1.8	1.8	1.8	1.7
Implied Sen. Rating	A+	A+	AA-	AA-	AA-	AA-

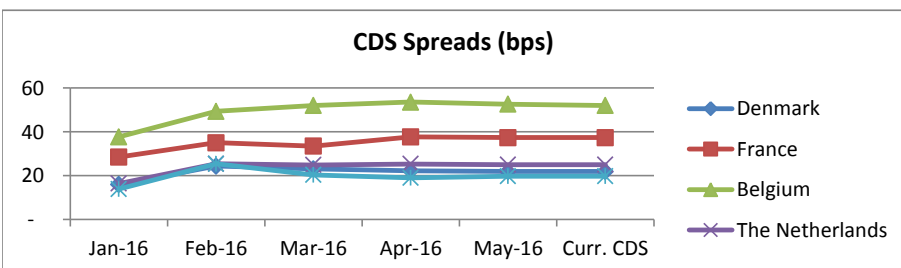
Annual Ratios (source for past results: IMF)

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*
Federal Republic Of Germany	AAA	71.2	0.6	71.2	7.0	4.1	AA
French Republic	AA	96.0	-3.4	96.0	7.0	2.4	A+
Kingdom Of Belgium	AA	106.0	-2.6	106.0	9.6	1.9	A
Republic Of Finland	AA+	63.1	-2.3	63.1	3.9	1.0	AA
Kingdom Of Denmark	AAA	40.2	-1.4	40.2	3.4	3.4	AA+

PEER RATIOS

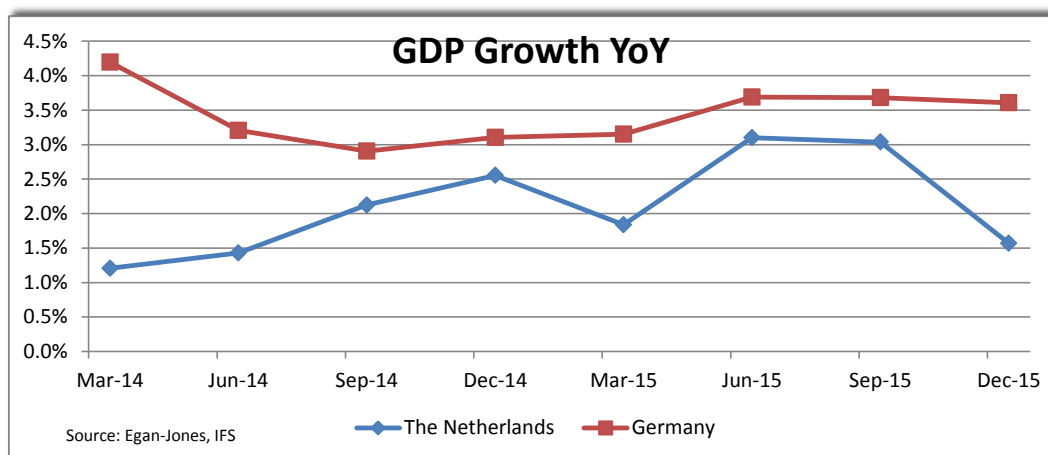


Country	CDS
Denmark	22
France	37
Belgium	52
The Netherlands	25
Germany	20

Economic Growth

Once on the front line of European economic growth, the Netherlands experienced a significant downturn when the 2008 financial crisis diluted world trade. However, a gradual recovery of its neighbors has put the economy back on track as annual GDP growth accelerated from 0.35% in 2012 to 2.31% in 2015. Consumer spending rose at 0.1% in 2014, compared to a decline of 1.5% in 2013. Investment growth also picked up from -3.9% in 2013 to 3.5% in 2014.

The Dutch economy is well diversified and competitive. However, the 2008 financial crisis has demonstrated its high correlation with EU economic cycle, which is quite worrisome as the Brexit came true. We expect the economic growth to slow down to +1% in the next two years.



Fiscal Policy

The Netherlands has been improving its budgetary position for years, as the Surplus-to-GDP ratio improved from -3.8% in 2011 to -1.91% in 2015, which is at a healthy level compared to the peer countries. However, the impact from the Brexit may put some pressure on the Netherlands' deficit. The Debt-to-GDP ratio inched up from 61.7% to 65.1%, but is still among the lowest in the Eurozone. As the government decides to cut the income tax and natural gas production, we expect a slowdown of budgetary consolidation. Watch the fiscal policy after the 2017 election.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Netherlands	-1.91	65.13	24.97
Germany	0.59	71.22	19.80
France	-3.40	95.96	37.34
Belgium	-2.62	105.96	52.06
Finland	-2.31	63.10	26.04
Denmark	-1.44	40.21	21.90

Sources: Thomson Reuters and IFS

Unemployment

Although the unemployment rate of 6.9% in 2015 is not as good as it was in 2009, Netherlands has improved it from 7.43% in 2014 and the rate further dropped to 6.4% in early 2016. As shown in the table, the Netherlands's unemployment rate is at a normal level compared to the peers, between the rates of Germany and Belgium. We don't consider unemployment as a potential risk to the Netherlands economy.

	Unemployment (%)	
	2014	2015
Netherlands	7.43	6.90
Germany	6.70	6.01
France	10.30	10.40
Belgium	8.50	8.50
Finland	8.70	9.40
Denmark	4.93	4.93

Source: Intl. Finance Statistics

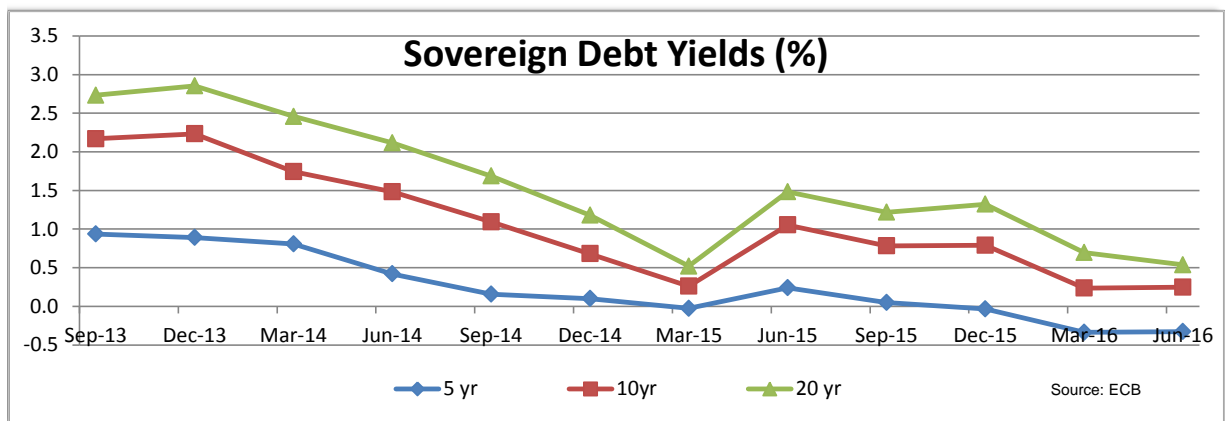
Banking Sector

Although the asset quality in the banking sector has improved in the past 2 years, the Netherlands's risk exposure to the banks is still considerable, as the mortgage debt equals approximately 95% of the GDP. Assets of the top banks totaled 188% of the GDP, making it stressful for the government if support for the banking sector is needed.

Bank Assets (billions of local currency)		
	Assets	Cap/ Assets %
ING GROEP NV-CVA	841.77	4.99
AEGON NV	415.73	2.24
VAN LANSCHOT-CVA	15.50	4.41
WERELDHAVE NV	3.92	47.27
Total	1,276.9	
EJR's est. of cap shortfall at 10% of assets less market cap		73.9
The Netherlands's GDP		678.1

Funding Costs

With the problems of the periphery EU countries, capital has migrated to the supposed safe havens. As can be seen in the below graph, the bond yields have plunged particularly since September, 2013, and after the temporary increase in June, 2015 the 5-year debt yield dropped below 0. We expect the yields to remain low in the foreseeable future.



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 28 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2015	2014	Change in
	Rank	Rank	Rank
Overall Country Rank:	28	25	-3
Scores:			
Starting a Business	28	20	-8
Construction Permits	85	79	-6
Getting Electricity	43	41	-2
Registering Property	30	29	-1
Getting Credit	79	71	-8
Protecting Investors	66	64	-2
Paying Taxes	26	23	-3
Trading Across Borders	1	1	0
Enforcing Contracts	91	91	0
Resolving Insolvency	11	11	0

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

Economic Freedom

As can be seen below, The Netherlands is strong in its overall rank of 73.7 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom				
World Rank 73.7*				
	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	83	88	-5	41.9
Fiscal Freedom	51.8	51.7	0.1	77.4
Government Spending	23.8	25.6	-1.8	61.7
Business Freedom	84.3	89.7	-5.4	64.1
Labor Freedom	66.3	59.6	6.7	61.3
Monetary Freedom	79.8	79.9	-0.1	75.0
Trade Freedom	88	87.8	0.2	75.4
Investment Freedom	90	90	0	54.8
Financial Freedom	80	80	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 THE NETHERLANDS has grown its taxes of 5.4% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 1.2% 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 THE NETHERLANDS'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%	2.2	5.4	1.2	1.5
Social Contributions Growth %	1.7	(2.0)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(11.8)		
Total Revenue Growth%	2.1	0.4	0.4	0.3
Compensation of Employees Growth%	1.0	(1.4)		0.5
Use of Goods & Services Growth%	1.4	(3.0)		
Social Benefits Growth%	2.6	1.9	1.9	1.9
Subsidies Growth%	5.2	(2.7)		
Other Expenses Growth%	0.0			
Interest Expense	0.0	1.9	1.9	
Currency and Deposits (asset) Growth%	(83.4)	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.5)	(7.5)	(7.5)	(7.5)
Shares and Other Equity (asset) Growth%	0.6	5.5	5.5	5.5
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	57.5	2.3	2.3
Other Accounts Receivable LT Growth%	(1.3)	(4.7)	(4.7)	(4.7)
Monetary Gold and SDR's Growth %	0.0	0.0		
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	2.7	13.9	2.3	2.3
Securities Other than Shares (liability) Growth%	0.2	(3.3)	(2.3)	(2.3)
Loans (liability) Growth%	0.6	(2.1)	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 THE NETHERLANDS's annual income statements with the projected years based on the assumptions listed on page 3.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS EUR)					
	2012	2013	2014	2015	P2016	P2017
Taxes	135,482	139,107	147,694	155,691	157,559	159,450
Social Contributions	98,213	100,737	101,761	99,722	100,221	100,722
Grant Revenue						
Other Revenue						
Other Operating Income	45,106	46,692	41,454	36,574	36,574	36,574
Total Revenue	278,801	286,536	290,909	291,987	294,354	296,746
Compensation of Employees	60,113	60,242	60,786	59,957	59,957	59,957
Use of Goods & Services	42,608	41,594	41,650	40,394	40,394	40,394
Social Benefits	141,486	145,648	146,714	149,548	152,437	155,381
Subsidies	8,929	8,200	8,102	7,883	7,884	7,885
Other Expenses				16,969	16,969	16,969
Grant Expense						
Depreciation	21,438	21,753	21,902	21,962	21,962	21,962
Total Expenses excluding interest	291,469	295,000	296,881	296,713	299,603	302,548
Operating Surplus/Shortfall	-12,668	-8,464	-5,972	-4,726	-5,249	-5,802
Interest Expense	<u>10,606</u>	<u>9,907</u>	<u>9,551</u>	<u>8,211</u>	<u>8,364</u>	<u>8,519</u>
Net Operating Balance	-23,274	-18,371	-15,523	-12,937	-13,612	-14,321

ANNUAL BALANCE SHEETS

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

Base Case ASSETS	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
	2012	2013	2014	2015	P2016	P2017
Currency and Deposits (asset)						
Securities other than Shares LT (asset)	20,027	13,255		8,367	8,367	8,367
Loans (asset)	58,133	68,207	68,493	63,327	58,551	54,135
Shares and Other Equity (asset)	94,450	92,302	90,801	95,834	101,146	106,752
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	14,809	10,958	11,452	18,040	18,455	18,879
Other Accounts Receivable LT	45,645	44,947	46,445	44,277	42,210	40,240
Monetary Gold and SDR's						
Other Assets					9,429	9,429
Additional Assets	<u>12,849</u>	<u>9,741</u>	<u>32,859</u>	<u>9,429</u>		
Total Financial Assets	245,913	239,410	250,050	239,274	238,158	237,802
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	1,145	1,055	1,126	1,283	1,283	1,283
Securities Other than Shares (liability)	377,652	376,994	415,844	402,007	392,643	383,498
Loans (liability)	93,814	91,936	92,242	90,345	103,957	118,279
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	<u>26,431</u>	<u>26,977</u>	<u>27,908</u>	<u>31,091</u>	<u>31,091</u>	<u>31,091</u>
Liabilities	499,042	496,962	537,120	524,726	537,222	551,188
Net Financial Worth	<u>-253,129</u>	<u>-257,552</u>	<u>-287,070</u>	<u>-285,452</u>	<u>-299,064</u>	<u>-313,386</u>
Total Liabilities & Equity	245,913	239,410	250,050	239,274	238,158	237,802

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 THE NETHERLANDS with the ticker of 1533Z NA we have assigned the senior unsecured rating of AA-. 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%	1.2	5.2	(2.8)	A+	A+	A+
Social Contributions Growth %	0.5	(2.5)	3.5	A+	A+	A+
Other Revenue Growth %		(3.0)	3.0	A+	A+	A+
Total Revenue Growth%	0.4	0.1	2.4	A+	A+	A+
Monetary Gold and SDR's Growth %	-	(2.0)	2.0	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

Mike Huang

June 30, 2016

Mike Huang
Rating Analyst

Reviewer Signature:

Today's Date

Caroline Ding

June 30, 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.