

KINGDOM OF NORWAY

Rating Analysis - 12/6/19

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 0.5%

Norway's Q3 GDP data confirmed that the country's economy is faring much better than Nordic peers Sweden, Finland and Denmark. GDP for mainland Norway (excluding shipping and petroleum extraction) grew by 0.7% seq. - the growth being particularly strong in July and tapered off in both August and September.

The economy appears poised to lose some of its momentum in the coming months. Yet another fall in output in petroleum and ocean transport means that total GDP stagnated. Norway's expenditure breakdown is encouraging and shows that fixed mainland investment rose sharply by 5.3% in Q3'19, while household spending and government consumption both grew again by 0.4% and 0.9% respectively. Outlook appears modest. We are affirming.

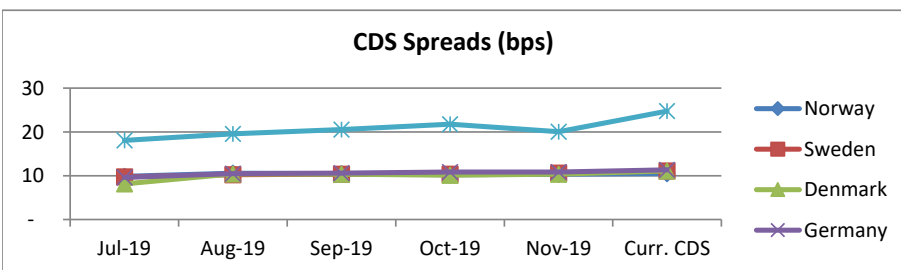
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2016	2017	2018	P2019	P2020	P2021
Debt/ GDP (%)	42.5	42.9	45.6	34.6	22.3	9.0
Govt. Sur/Def to GDP (%)	5.8	6.8	9.2	10.6	12.1	13.4
Adjusted Debt/GDP (%)	42.5	42.9	45.6	34.7	22.4	9.1
Interest Expense/ Taxes (%)	1.8	1.5	1.5	1.4	1.3	1.2
GDP Growth (%)	-0.4	6.4	7.1	2.3	2.3	2.5
Foreign Reserves/Debt (%)	38.2	36.6	32.5	43.0	66.1	164.8
Implied Sen. Rating	AA+	AA+	AA+	AA+	AA+	AA+

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

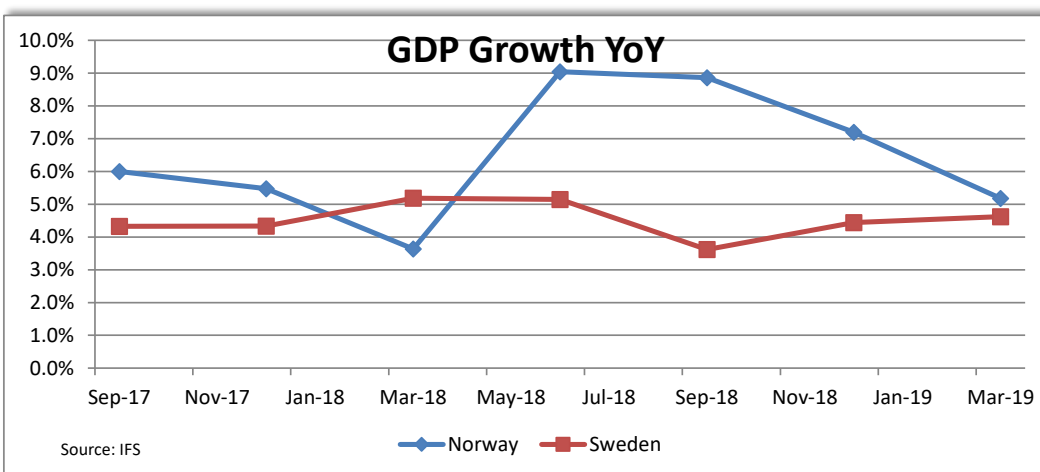
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Kingdom Of Sweden	AAA	56.7	2.4	56.7	1.2	4.6	AA+
Kingdom Of Denmark	AAA	48.0	1.2	48.0	2.4	2.1	AA+
Federal Republic Of Germany	AAA	69.2	1.8	69.2	3.9	3.1	AA+
French Republic	AA	122.1	-2.4	122.1	5.6	2.5	A-
United Kingdom	AA	113.2	-0.4	113.2	9.0	3.3	A+



Country	CDS
Norway	10
Sweden	11
Denmark	11
Germany	11
France	25

Economic Growth

Growth in the mainland economy has picked up gradually over the past years. Activity is increasing both across the country and across industries, and firms expect further improvement going forward. Higher purchasing power among Norwegian households and increased activity in the petroleum industry, both domestically and internationally, are expected to contribute to continued upturn in the Norwegian economy. Norwegian decision-makers have been much engaged in optimizing benefits received from the economic development of marine environments such as fisheries and other offshore production activities. Given the slowing growth, Norges Bank's signalling that the policy rate will most likely be on hold after recent increases is a pos. Mainland output growth is projected to slow to 1.7% by 2021, principally due to an end to the rebound in oil investment, and slowing growth of exports and household consumption.



Monetary Policy

The 2020 Budget proposal essentially retains the broadly positive fiscal stance adopted in budgets since 2017, envisaging a small fiscal contraction between 2019 and 2020. This stance aligns well with continuing above-potential output growth. Deficits will remain below the reference target value (the “3% path”). Structural policy needs to help reverse the decline in potential output growth, while also ensuring the economy is on target to meet climate change goals and retaining a high priority on inclusiveness.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Norway	9.24	45.64	10.47
Sweden	2.45	56.68	11.09
Denmark	1.24	48.01	11.10
Germany	1.77	69.18	11.34
France	-2.35	122.14	24.75
United Kingdc	-0.39	113.24	30.13

Sources: Thomson Reuters and IFS

Unemployment

A total of 59,500 people in Norway were registered as being without work and receiving unemployment benefits in October. That’s the lowest level recorded by state welfare agency in 10 years. The low unemployment rates reflect Norway’s strong economy that has continued to grow despite international uncertainty and increased opposition to Norway’s oil industry. The petroleum sector has recovered from the oil price collapse five years ago, but remains responsible for most of Norway’s carbon emissions and is a target of climate and environmental activist who want to phase it out.

	Unemployment (%)	
	2017	2018
Norway	4.21	N/A
Sweden	6.68	6.28
Denmark	5.72	4.97
Germany	3.76	3.40
France	9.43	9.11
United Kingd	4.40	4.09

Source: Intl. Finance Statistics

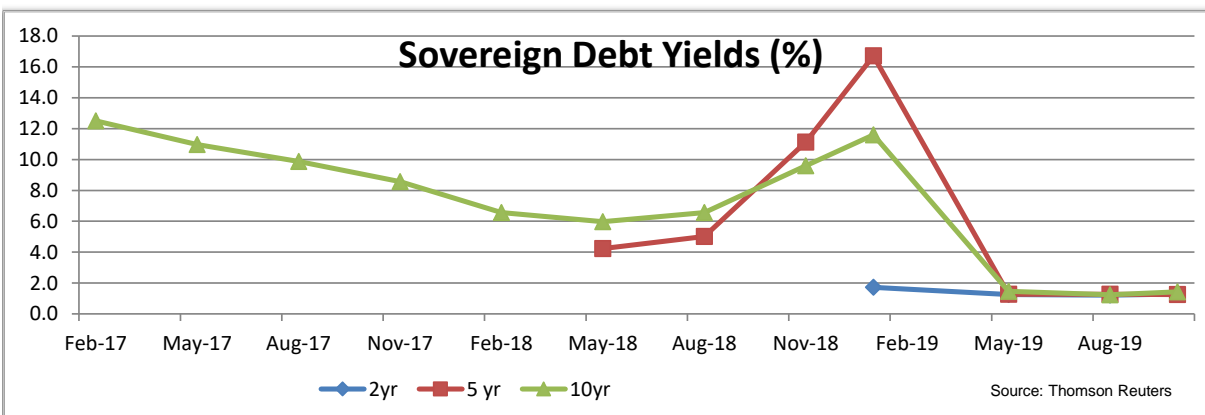
Banking Sector

The Norwegian banking system exhibits solid profitability underpinned by good cost efficiency and low credit costs. A positive economic outlook for Norway and a backdrop of positive interest rates provide a constructive environment for the country's banks. Banks with the highest problem loans tend to be those focused on consumer finance, where problem loans can account for up to 8% of loans. Households Debt to GDP in Norway averaged 64.38% of GDP from 1975 until 2019.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
DNB NOR ASA	2,634.9	10.07
SPAREBANK 1 SR B	234.1	10.65
SPAREBANKEN VEST	189.4	1.89
SPAREBANK 1 SMN	160.7	7.88
Total	3,219.0	
EJR's est. of cap shortfall at 10% of assets less market cap		15.4
Norway's GDP		3,530.9

Funding Costs

Norges Bank insisted that it would maintain a constant interest rate with its eye keen on the country's economic activity. It has been trading on a low of 10 against the Euro since October 2019 indicating a major fall in commodity prices such as oil and gas in the European space. The Norway 10 Years Government Bond has a 1.381% yield and 5 Years CDS value is 11 suggesting a 0.18% implied probability of default, on a 40% recovery rate supposed.



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 9 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	9	8	-1
Scores:			
Starting a Business	25	19	-6
Construction Permits	22	21	-1
Getting Electricity	44	23	-21
Registering Property	15	14	-1
Getting Credit	94	77	-17
Protecting Investors	21	10	-11
Paying Taxes	34	28	-6
Trading Across Borders	22	22	0
Enforcing Contracts	3	8	5
Resolving Insolvency	5	6	1

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

Economic Freedom

As can be seen below, Norway is above average in its overall rank of 73.0 for Economic Freedom with 100 being best.

Heritage Foundation 2019 Index of Economic Freedom				
World Rank 73.0*				
	2019	2018	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	86.1	86.4	-0.3	52.3
Government Integrity	81.2	93.6	-12.4	44.9
Judicial Effectiveness	92.3	86.0	6.3	41.5
Tax Burden	57.4	56.4	1.0	77.2
Gov't Spending	25.3	29.2	-3.9	64.2
Fiscal Health	97.3	97.8	-0.5	66.0
Business Freedom	89.4	90.4	-1.0	63.5
Labor Freedom	53.7	54.6	-0.9	59.4
Monetary Freedom	75.4	73.9	1.5	75.1
Trade Freedom	83.2	87.9	-4.7	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:

KINGDOM OF NORWAY has grown its taxes of 8.9% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 8.9% per annum over the next couple of years and 8.0% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

KINGDOM OF NORWAY's total revenue growth has been more than its peers and we assumed a 9.9% 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	8.9	8.9	8.0
Social Contributions Growth %	3.5	4.5	4.0	4.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	12.5	17.8	17.8
Total Revenue Growth%	3.8	9.1	9.9	8.9
Compensation of Employees Growth%	3.0	4.8	4.8	4.8
Use of Goods & Services Growth%	4.1	3.4	3.4	3.4
Social Benefits Growth%	2.3	2.5	2.5	2.5
Subsidies Growth%	8.2	5.6		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.0	1.0	
Currency and Deposits (asset) Growth%	2.2	0.0		
Securities other than Shares LT (asset) Growth%	(2.4)	0.0		
Loans (asset) Growth%	6.3	10.7	8.9	8.9
Shares and Other Equity (asset) Growth%	1.8	(2.6)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	(8.7)	(50.3)	(10.0)	(10.0)
Other Accounts Receivable LT Growth%	0.8	5.3	5.3	5.3
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%	6.8	0.7	3.0	3.0
Currency & Deposits (liability) Growth%	1.2	0.0		
Securities Other than Shares (liability) Growth%	(1.8)	4.5	3.2	3.2
Loans (liability) Growth%	1.2	25.9	25.9	23.4
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	(8.2)	(8.2)	(8.2)
Additional ST debt (1st year)(billions NOK)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are KINGDOM OF NORWAY's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(BILLIONS NOK)					
	2015	2016	2017	2018	P2019	P2020
Taxes	873	877	940	1,024	1,115	1,214
Social Contributions	326	331	342	357	371	386
Grant Revenue						
Other Revenue						
Other Operating Income	512	501	532	599	599	599
Total Revenue	1,711	1,709	1,814	1,979	2,085	2,199
Compensation of Employees	463	478	499	523	548	575
Use of Goods & Services	206	216	230	238	246	255
Social Benefits	529	550	566	580	595	610
Subsidies	64	68	69	73	73	73
Other Expenses				100	100	100
Grant Expense						
Depreciation	104	109	115	122	122	122
Total Expenses excluding interest	1,456	1,513	1,577	1,637	1,685	1,735
Operating Surplus/Shortfall	255	196	237	342	400	464
Interest Expense	<u>20</u>	<u>16</u>	<u>14</u>	<u>16</u>	<u>16</u>	<u>16</u>
Net Operating Balance	235	180	223	326	384	448

ANNUAL BALANCE SHEETS

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

Base Case	ANNUAL BALANCE SHEETS (BILLIONS NOK)					
	2015	2016	2017	2018	P2019	P2020
ASSETS						
Currency and Deposits (asset)	215	295	321	353	521	521
Securities other than Shares LT (asset)	2,785	2,747	2,746	2,742	2,742	2,742
Loans (asset)	737	748	818	906	986	1,074
Shares and Other Equity (asset)	5,977	6,167	7,281	7,095	7,237	7,382
Insurance Technical Reserves (asset)	82	95	116	106	106	106
Financial Derivatives (asset)	12	12	13	7	6	5
Other Accounts Receivable LT	280	291	311	328	345	364
Monetary Gold and SDR's						
Other Assets						
Additional Assets		<u>0</u>				
Total Financial Assets	10,088	10,355	11,607	11,536	11,944	12,194
LIABILITIES						
Other Accounts Payable	176	190	199	200	206	212
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)	515	540	552	577	596	614
Loans (liability)	510	589	662	834	450	2
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	9	8	8	8	7	6
Other Liabilities						
Liabilities	1,211	1,326	1,422	1,619	1,643	1,445
Net Financial Worth	<u>8,877</u>	<u>9,029</u>	<u>10,185</u>	<u>9,917</u>	<u>10,301</u>	<u>10,749</u>
Total Liabilities & Equity	10,088	10,355	11,607	11,536	11,944	12,194

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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 "AA+" whereas the ratio-implied rating for the most recent period is "AA+"; we expect results to remain approximately the same.

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 NORWAY with the ticker of 1233Z NO 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 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%	8.9	12.9	4.9	AA+	AA+	AA+
Social Contributions Growth %	4.0	7.0	1.0	AA+	AA+	AA+
Other Revenue Growth %		3.0	(3.0)	AA+	AA+	AA+
Total Revenue Growth%	9.9	11.9	7.9	AA+	AA+	AA+
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	AA+	AA+	AA+

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.

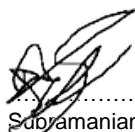
ATTESTATION FORM

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

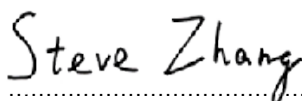


Subramanian NG
Senior Rating Analyst

December 06, 2019

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

December 06, 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.