KINGDOM OF NORWAY

Rating Analysis - 2/14/11

EJR Sen Rating(Curr/Prj) BBB/ N/A
EJR CP Rating: A2
EJR's 1 yr. Default Probability: 2.0%

Norway's GDP increased for the fifth consecutive quarter in Q3 2010, rising 0.9% over Q2 2010. The growth was driven largely by exports as well as an increase in final household and government consumption expenditures. In December, the country recorded its largest trade surplus in two years as exports of NOK 74.8B exceeded imports of NOK 39.1B (due primarily to increased exports of crude oil). During the same month, the CPI increased by 1.1% from the month prior due mainly to growth in the prices of energy goods. The unemployment rate is currently 3.6% of the labour force. The general public's gross domestic debt amounted to NOK 3,618 billion at end-December, unchanged from the month prior and up 6.2% from the year prior. Household debt rose slightly in the month to NOK 2,119B.

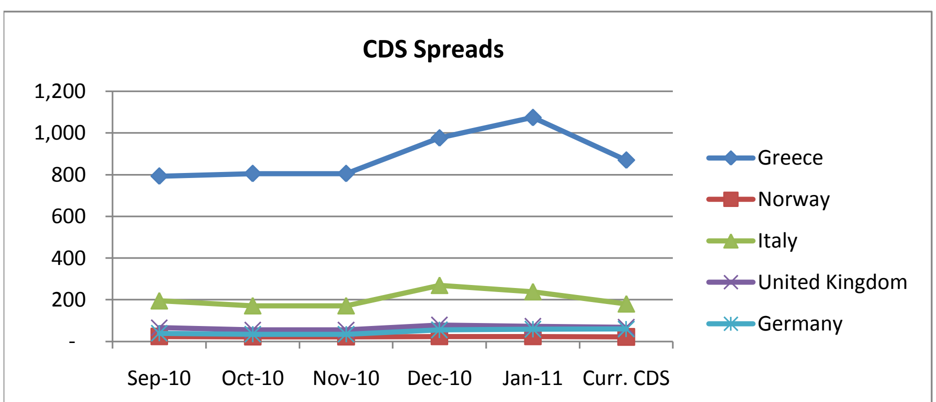
Though the country holds a higher percentage of debt relative to GDP, Norway's CDS spreads are currently trading at levels below most of its peers, particularly those of Scandonavia, making now a wise time to invest in the securities. While peer CDS spreads have fluctuated, those of Norway have remained relatively constant in recent months.

Note: The Kingdom of Norway reports limited financials; the government balance sheet is not available.

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Debt/ GDP (%)	44.8	58.1	59.2	60.5	59.6	58.7
Govt. Sur/Def to GDP (%)	9.7	9.7	13.7	14.1	14.1	14.1
Adjusted Debt/GDP (%)	46.0	59.5	60.7	62.0	61.0	60.1
Interest Expense/ Taxes %	4.0	4.5	5.0	5.5	5.8	6.0
GDP Growth (%)	-1.1	-1.4	-2.0	-2.0	1.5	1.5
Foreign Reserves/Debt (%)	25.7	16.5	15.7	14.9	15.0	15.1
Implied Sen. Rating	A-	BBB	BBB+	A-	A-	A

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	78.9	-11.4	97.7	7.0	1.7	BB
Federal Republic Of Germany	AAA	71.3	-3.0	77.8	10.7	3.9	BB+
Kingdom Of Spain	AA	51.8	-11.1	56.6	9.6	0.6	BB+
Italian Republic	A+	112.6	-5.3	118.1	15.9	1.1	B+
Hellenic Republic (Greece)	BB+	121.9	-15.4	125.2	25.8	-4.6	CCC+



Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece(B+)	869	600
Norway(BB+)	22	333
Italy(BBB+)	180	158
United Kingdom(AA)	68	30
Germany(AA)	59	30

* Projected Rating

Economic Resilience

Norway has proven itself to be the only Western industrialized nation to have largely escaped the global economic meltdown, having been only mildly affected over the last few years. The decline was limited by strong political intervention in the financial markets and expansive monetary and fiscal policies. The country has healthy banks with good regulations covering the entire financial sector.

Output fell at a lesser extent relative to other OECD countries during the 2008-2009 crisis and has recovered more quickly. However, Svein Gjedrem, governor of Norway's Central Bank, has warned Norwegians that the country is not immune to the economic crises. He argues that the country's economy remains vulnerable. Labor is increasingly costly and it has never been more profitable to relocate businesses abroad. Moreover, the high level of spare capacity in other countries may place Norway's businesses at an even greater disadvantage with respect to competition. Overall, Gjedrem has called for tighter banking regulation and a better tax system to help stabilize the country's financial system going forward.

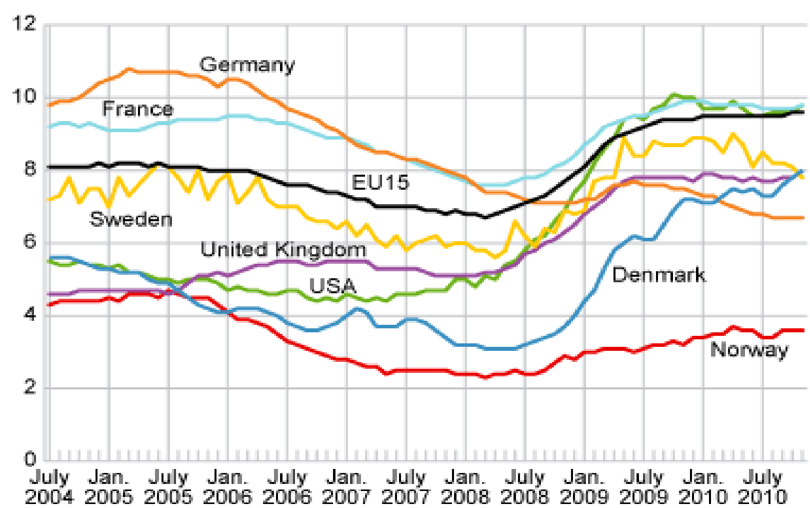
Norway's GDP contracted in 2009 by 1.5% - the country's first annual GDP dip in two decades - due in large part to the slowing world economy and the drop in oil prices. However, growth resumed at the end of 2009. In the third quarter of 2010, Norway's GDP grew by 0.9% over the second quarter, marking the fifth consecutive quarter of positive economic growth. The growth was led by an increase in final household and general government consumption expenditures as well as an increase in exports excluding crude oil and natural gas.

Stable Labour Market

Unemployment levels have remained low. Throughout Q3 2010, the rate remained stable at 3.6%, unchanged from August 2010. The rate is currently one of the lowest in Europe. When adjusted for seasonal variations, the total number of unemployed persons increased by 5,000, or 0.2%, from August (average July-September) to November (average October-December).

Employment also remained stable during the August to November period. Overall, the total number of employed persons increased by 10,000. Employment grew by 0.2% in the quarter due primarily to increased employment in local government, wholesale and retail trade and construction. Employment in business services fell during the period while levels remained relatively stable in most other industries. Total hours worked increased by 0.3%.

Seasonally adjusted unemployment in selected countries. 2004-2010. Per cent of the labour force



Source: Statistics Norway and Eurostat (http://epp.eurostat.ec.europa.eu).

Strong Trade Surplus

Norway is one of the world's most prosperous countries, with high productivity and a great deal of entrepreneurial activity. The country is richly endowed with natural resources, including petroleum, hydropower, fish, forests, and minerals. The petroleum sector, of which Norway is highly dependent, accounts for nearly half of all exports and over 30% of state revenue. Overall, Norway is one of the world's largest gas exporters. Fisheries, metal and oil are Norway's most important commodities. Currently, the government continues to save a large portion of its oil reserves in investment funds outside of the country as insurance against depleting reserves. The country, which has a strong tradition of openness to global trade and investment, has mostly transparent and efficient regulations across most sectors. Although not a member of the EU, Norway contributes greatly to the EU budget as a member of the European Economic Area.

In the third quarter of 2010, exports of traditional goods increased by 2.2%. The strongest contributors to the increase were fish and fish products as well as chemical and mineral products. Meanwhile, on a quarterly basis, total exports fell 1.3% as export volumnes of crude oil and natural gas declined. Imports of traditional goods fell by 1.7%.

Inflation Increases as Energy Prices Rise

The CPI increased by 1.1% from November to December 2010. The index was up 2.8% as compared to the year prior. The largest factor contributing to the increase was a rise in energy prices. Grid rent was up 19.9% montly and 38.3% yearly. The prices of fuel and lubricants rose by 3.5% in the month of December while the prices of books increased 17.6% and airline fares grew 7.6%. Clothing prices decreased 1.1%.

Fiscal Policy

Norway has a moderate corporate flat tax rate of 28%. However, the country has a significant income tax rate ranging as high as 47.8%. Other taxes include a value-added tax, a tax on net wealth and a number of environmental taxes. All included, the overall tax revenue as a percentage of GDP for 2009 was 43.4%.

Policy reform is likely as the country faces a number of long term fiscal challenges. The OECD notes that the number of older persons (aged 67 and above) is expected to nearly double over the next fifty years. As a result, expenditures are likely to increase sharply resulting in a fiscal gap if not offset by reform.

Heritage Foundation 2011 Index of Economic Freedom - Norway*

World Rank: 30 of 183; Regional Rank: 16 of 43**

	2011 Rank	2010 Rank	Change in Rank	World Average
Business Freedom	**88.3**	88.8	-0.5	64.3
Trade Freedom	**89.4**	89.2	+0.2	74.8
Fiscal Freedom	**51.6**	50.5	+1.1	76.3
Government Spending	**51.5**	49.8	+1.7	63.9
Monetary Freedom	**75.1**	74.2	+0.9	73.4
Investment Freedom	**65.0**	65.0	No Change	50.2
Financial Freedom	**60.0**	60.0	No Change	48.5
Property Rights	**90.0**	90.0	No Change	43.6
Freedom from Corruption	**86.0**	79.0	+7.0	40.5
Labor Freedom	**45.8**	47.1	-1.3	61.5

*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: **Europe region includes 43 countries total.

Source: The Heritage Foundation & Wall Street Journal

The Norwegian Government Pension Fund

The Norwegian Government Pension Fund, created in 1990, is currently the world's largest outside of the Middle East. It is also the most transparent and predictable investment fund in the world. The purpose of the fund is to facilitate government savings necessary to meet the rapid rise in public pension expenditures in the coming years, and to support a long-term management of petroleum revenues. Recent data from Norway's Central Bank shows that the fund, which invests a large portion of assets in fixed income and equities, fell by 0.15% in April to 2.758 trillion Norwegian crowns ($443 billion) from NOK 2.762 at the end of March. During the financial crisis, the fund bought $175 billion in stocks following a 2007 decision to increase the proportion invested in stocks from 40% to 60%. The fund owns stock in nearly 8,000 different companies worlwide, including emerging economies in Asia, and is the single largest investor in European stock markets. Total return of the fund for 2009 was 25%, regaining nearly all losses from 2008.

Moving Forward

The Norwegian economy is expected to continue picking up in the wake of the global financial crisis. However, no clear upswing is anticipated before the end of 2012. Therefore, several quarters of increased unemployment and only moderate wage growth are to be expected.

Assumptions for Projections

	Peer	Issuer	Base Case	
Income Statement	**Median**	**Average**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	(4.8)	(11.0)	**(4.8)**	**0.5**
Social Contributions Growth %	(1.8)	1.2	**1.2**	**1.2**
Grant Revenue Growth %	0.0	(100.0)	**0.5**	**0.5**
Other Revenue Growth %	0.1	(11.1)	**(3.0)**	**2.0**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	(6.4)	(9.1)	**(2)**	**1.5**
Compensation of Employees Growth%	5.4	7.8	**7.8**	**7.8**
Use of Goods & Services Growth%	5.4	10.5	**5.2**	**5.2**
Social Benefits Growth%	8.7	9.9	**9.9**	**9.9**
Subsidies Growth%	2.3	11.0		
Other Expenses Growth%	5.9	5.9	**5.9**	**5.9**
Special Items (millions NOK)	0.0	0.0		
Balance Sheet				
Currency and Deposits Growth%	0.4	0.0		
Securities other than Shares LT Growth%	7.8			
Loans Growth%	2.4	0.0		
Shares and Other Equity Growth%	14.8	0.0		
Insurance Technical Reserves Growth%	2.7	0.0		
Financial Derivatives Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	8.0	0.0		
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	0.0		
Securities Other than Shares Growth%	16.3	0.0		
Growth%	0.0	0.0		
Loans Growth%	0.8	0.0		
Insurance Technical Reserves Growth%	0.0	0.0		
Financial Derivatives Growth%	0.0	0.0		
Addl debt. (1st Year) million NOK	0.0	0.0		

Base Case

ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS NOK)

	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Taxes	781,648	844,081	751,087	715,035	680,713	684,117
Social Contributions	206,032	232,012	234,804	237,630	240,489	243,383
Grant Revenue	0	2	0	0	0	0
Other Revenue	339,318	394,435	350,789	340,265	330,057	336,659
Other Operating Income	0	0	0	0	0	0
Total Revenue	1,327,000	1,470,530	1,336,680	1,292,930	1,251,260	1,264,158
Compensation of Employees	278,316	303,680	327,361	352,889	380,407	410,071
Use of Goods & Services	138,951	149,557	165,274	173,868	182,909	192,421
Social Benefits	325,200	347,390	381,815	419,651	461,237	506,944
Subsidies	43,239	45,707	50,742	50,747	50,752	50,757
Other Expenses	28,804	30,738	32,551	32,551	34,471	34,471
Grant Expense	19,722	22,423	27,429	29,047	30,760	32,574
Depreciation	41,040	44,921	48,201	48,201	48,201	48,201
Total Expenses	875,272	944,416	1,033,373	1,106,954	1,188,737	1,275,439
Operating Surplus/Shortfall	451,728	526,114	303,307	185,976	62,523	-11,280
Interest Expense	29,025	34,143	33,992	35,692	37,476	39,350
Net Operating Balance	422,703	491,971	269,315	150,284	25,046	-50,630

ANNUAL BALANCE SHEETS (MILLIONS NOK)

ASSETS	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Currency and Deposits				150,284	175,331	175,331
Securities other than Shares LT						
Loans						
Shares and Other Equity						
Insurance Technical Reserves				0	0	0
Financial Derivatives						
Other Accounts Receivable LT				0	0	0
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets				150,284	175,331	175,331
LIABILITIES						
Other Accounts Payable						
Currency & Deposits				0	0	50,630
Securities Other than Shares						
Loans				0	0	0
Insurance Technical Reserves						
Financial Derivatives						
Other Liabilities				(0)	(0)	(0)
Liabilities						50,630
Net Financial Worth				150,284	175,331	124,701
Total Liabilities & Equity				150,284	175,331	175,331

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