

KINGDOM OF NORWAY

Rating Analysis - 10/24/16

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 0.5%

Other NRSRO Rating: AAA

The relatively low level of energy prices may have catalyzed the beginning of a new norm for the Norwegian economy. GDP experienced the lowest annual growth rate since 2009 (-0.01%), weighed heavily by the decline in oil and gas exports and the resulting reduction in investments for the related industries. Balance of trade plunged 39.5% from NOK280 billion in 2014 to NOK169 billion in 2015.

On the public side, for the first time since 1996, the government started raiding its sovereign wealth fund to cover the overdrawn public spending. The 2016 budget represents a fiscal injection equivalent to +0.7% of GDP, which is likely to be carried over to 2017 on a smaller scale. We do not question the sustainability of such strategy, given the size and complexity of the sovereign wealth fund. Nonetheless, the Debt-to-GDP ratio will be contained despite the rise in spending. Upgrading to "AA+".

CREDIT POSITION

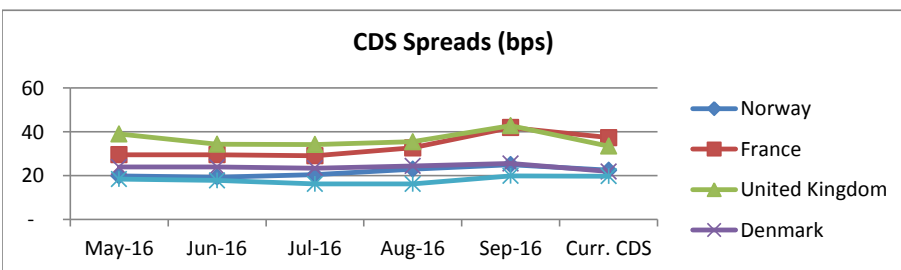
	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	29.7	27.4	32.0	27.0	24.3	22.5
Govt. Sur/Def to GDP (%)	12.1	10.3	7.6	5.6	3.6	2.4
Adjusted Debt/GDP (%)	29.7	27.4	32.0	27.2	24.4	22.6
Interest Expense/ Taxes (%)	2.2	2.2	2.3	2.3	2.4	2.4
GDP Growth (%)	3.6	2.3	-0.7	2.4	2.4	4.4
Foreign Reserves/Debt (%)	36.5	53.1	48.2	56.4	61.4	63.7
Implied Sen. Rating	AAA	AA+	AA+	AA+	AA+	AAA

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

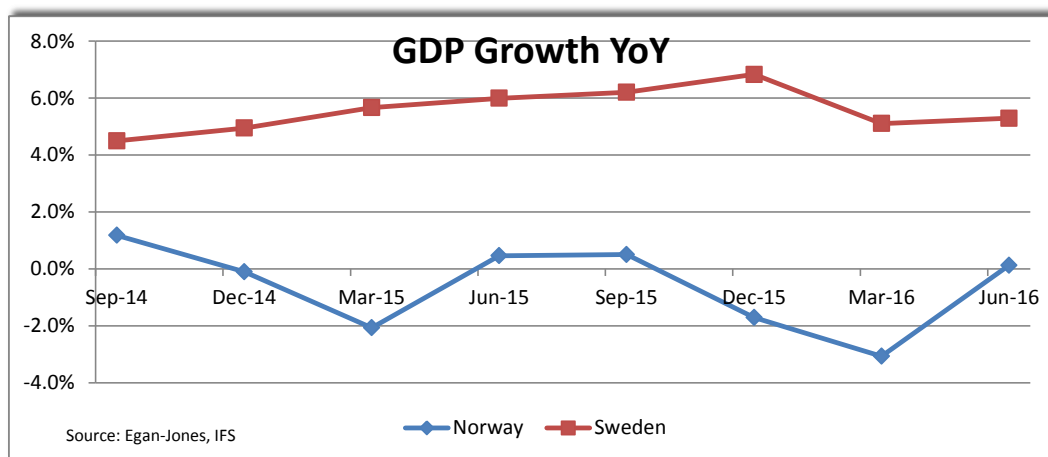
	Other NRSRO	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
PEER RATIOS	Sen.	GDP	GDP (%)	GDP	Taxes %	(%)	Rating*
Kingdom Of Sweden	AAA	43.0	1.0	43.0	1.2	6.2	AAA
Kingdom Of Denmark	AAA	40.4	-1.1	40.4	3.5	3.4	AA+
Federal Republic Of Germany	AAA	71.2	0.6	71.2	6.9	4.1	AA+
French Republic	AA	96.1	-3.4	96.1	6.9	1.9	AA-
United Kingdom	AAA	89.2	-3.3	89.2	8.7	4.0	AA+



Economic Growth

The economy's dependency on the energy sector has seen its downside in the recent oil price decline (73% peak-to-trough decline). GDP experienced a minor contraction in Q4 2015 and Q1 2016, primarily attributable to a sharp decline in exports (-4.5% in 2015), 65% of which is oil and gas products. Lower investment also weighed on the economy as the E&P companies scaled down capital expenditures.

Prospectively, we expect the growth rate to recover slightly (above 1%) as the crude oil price regains its footing in the range of \$40 to \$50 per barrel. Public spending will also be a strong driver.



Fiscal Policy

As seen from the chart to the right, Norway is running a healthy surplus-to-GDP of 7.61%, albeit a decline from 10.3% in 2014. Also, Debt-to-GDP is among the lowest in the EU, signaling a strong credit position. Taxes dropped 4.6% in 2015, a downtrend which is likely to persist due not only to the economic slowdown, but also the government's newly made incentives to cut corporate taxes. Public spendings are bound to rise in the near term. Watch for increasing investment in infrastructure and research and development.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Norway	7.61	31.99	22.44
Sweden	0.97	43.01	23.43
Denmark	-1.09	40.42	21.90
Germany	0.57	71.22	19.80
France	-3.35	96.15	37.34
United Kingdc	-3.31	89.24	33.47

Sources: Thomson Reuters and IFS

Unemployment

Norway's labor market is highly skilled and educated, which contributes to productivity, strong integration in global value chains, and economic growth. Unemployment is among the lowest in the EU counties (4.40% in 2015), but has been rising slightly in the most recent quarters.

	Unemployment (%)	
	2014	2015
Norway	3.50	4.40
Sweden	7.93	7.40
Denmark	4.93	4.93
Germany	6.70	6.01
France	10.30	10.40
United Kingd	6.14	5.33

Source: Intl. Finance Statistics

Banking Sector

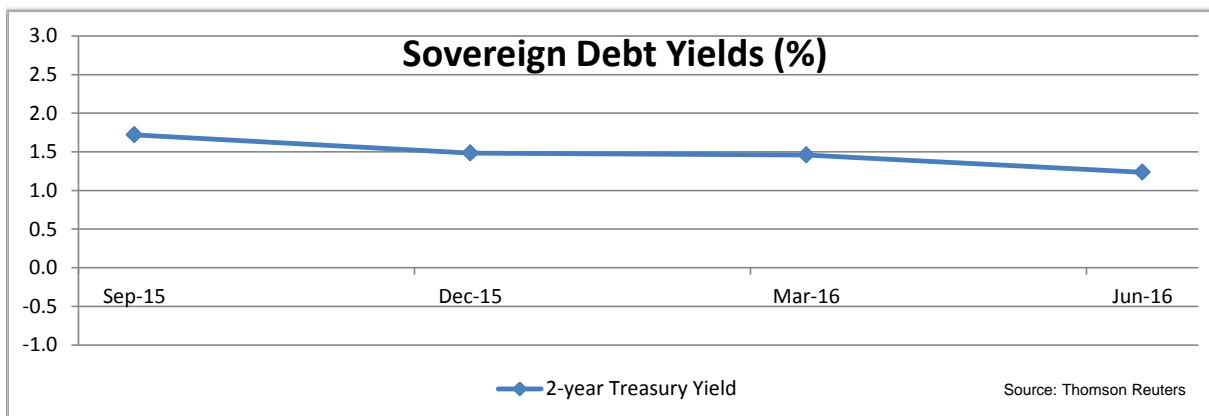
History has shown that country and bank obligations are linked during times of economic distress. The top four banks in Norway have assets equivalent to 98.9% of GDP, which is manageable. On the other hand, a tightening of credit conditions for the manufacturing companies is likely to hurt the economy.

Bank Assets (billions of local currency)		
	Assets	Cap/ Assets %
DNB ASA	2,598.5	6.57
SpareBank 1 SR-Bank ASA	192.0	6.22
Sparebanken Vest	161.7	1.07
SpareBank 1 SMN	131.9	5.63
Total	3,084.2	
EJR's est. of cap shortfall at 10% of assets less market cap		116.5
Norway's GDP		3,117.4

Funding Costs

0.989325

Norway's funding costs have declined slightly. As can be seen from the below graph, 2-year treasury yield dropped from 1.72% in September 2015 to 1.24% in June 2016.



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*			
	2016	2015	Change in
	Rank	Rank	Rank
Overall Country Rank:	9	8	-1
Scores:			
Starting a Business	24	21	-3
Construction Permits	26	28	2
Getting Electricity	18	20	2
Registering Property	13	13	0
Getting Credit	70	61	-9
Protecting Investors	14	12	-2
Paying Taxes	14	15	1
Trading Across Borders	45	45	0
Enforcing Contracts	8	8	0
Resolving Insolvency	6	6	0

* 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 70.8 for Economic Freedom with 100 being best.

Heritage Foundation 2016 Index of Economic Freedom				
World Rank 70.8*				
	2016 Rank**	2015 Rank	Change in Rank	World Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	86	86	0	41.9
Fiscal Freedom	53.2	52.1	1.1	77.4
Government Spending	41.8	43.8	-2	61.7
Business Freedom	89.6	92.1	-2.5	64.0
Labor Freedom	48.5	48.2	0.3	61.3
Monetary Freedom	76.2	81.7	-5.5	75.0
Trade Freedom	87.8	89.4	-1.6	75.4
Investment Freedom	75	75	0	54.8
Financial Freedom	60	60	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 NORWAY has seen a decline in taxes of 4.6% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 0.5% per annum over the next couple of years and 2.4% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:

KINGDOM OF NORWAY's total revenue growth has been less than its peers and we assumed a 0.0% decline 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%	4.1	(4.6)	(0.5)	2.4
Social Contributions Growth %	3.9	4.3	4.0	4.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	4.0	4.0	4.0
Total Revenue Growth%	3.9	(0.5)		
Compensation of Employees Growth%	1.4	4.8	4.3	4.3
Use of Goods & Services Growth%	2.3	5.4	5.0	4.0
Social Benefits Growth%	1.8	6.8	6.8	6.8
Subsidies Growth%	8.0	4.7		
Other Expenses Growth%	0.0			
Interest Expense	0.0	2.0	2.0	2.0
Currency and Deposits (asset) Growth%	(51.9)	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.2)	15.7	13.0	13.0
Shares and Other Equity (asset) Growth%	(0.7)	14.2	12.0	12.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	(5.7)	3.0	3.0
Other Accounts Receivable LT Growth%	1.6	(2.1)	2.0	2.0
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%	3.9	0.0		
Securities Other than Shares (liability) Growth%	1.1	5.3	8.0	8.0
Loans (liability) Growth%	0.6	31.3	12.0	12.0
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	(18.9)	2.0	2.0
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 3.

**ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS NOK)**

	2012	2013	2014	2015	P2016	P2017
Taxes	954	934	907	866	862	857
Social Contributions	277	293	313	327	340	353
Grant Revenue						
Other Revenue						
Other Operating Income	452	457	494	514	514	514
Total Revenue	1,684	1,684	1,714	1,706	1,715	1,724
Compensation of Employees	396	418	441	462	482	503
Use of Goods & Services	172	184	195	206	216	227
Social Benefits	448	468	497	531	567	606
Subsidies	56	57	59	62	62	62
Other Expenses				89	89	89
Grant Expense						
Depreciation	87	90	94	99	99	99
Total Expenses excluding interest	1,226	1,293	1,370	1,449	1,516	1,586
Operating Surplus/Shortfall	458	391	344	257	199	139
Interest Expense	<u>22</u>	<u>21</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>21</u>
Net Operating Balance	436	370	324	237	179	118

ANNUAL BALANCE SHEETS

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

	ANNUAL BALANCE SHEETS (BILLIONS NOK)					
Base Case						
ASSETS	2012	2013	2014	2015	P2016	P2017
Currency and Deposits (asset)						
Securities other than Shares LT (asset)	1,533	1,944	2,415	2,785	2,785	2,785
Loans (asset)	605	683	639	739	835	943
Shares and Other Equity (asset)	3,314	4,288	5,233	5,977	6,694	7,497
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	236	191	228	215	221	228
Other Accounts Receivable LT	321	299	287	281	287	293
Monetary Gold and SDR's						
Other Assets					83	83
Additional Assets	<u>41</u>	<u>56</u>	<u>73</u>	<u>83</u>		
Total Financial Assets	6,050	7,461	8,876	10,080	10,906	11,830
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)	527	497	491	517	559	604
Loans (liability)	365	442	394	518	339	221
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	5	5	12	9	10	10
Other Liabilities	<u>140</u>	<u>147</u>	<u>146</u>	<u>168</u>	<u>168</u>	<u>168</u>
Liabilities	1,036	1,091	1,044	1,213	1,859	2,665
Net Financial Worth	<u>5,014</u>	<u>6,371</u>	<u>7,832</u>	<u>8,867</u>	<u>9,047</u>	<u>9,165</u>
Total Liabilities & Equity	6,050	7,461	8,876	10,080	10,906	11,830

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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 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 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%	(0.5)	3.5	(4.5)	AAA	AAA	AAA
Social Contributions Growth %	4.0	1.0	7.0	AAA	AAA	AAA
Other Revenue Growth %		(3.0)	3.0	AAA	AAA	AAA
Total Revenue Growth%	-	0.1	2.0	AAA	AAA	AAA
Monetary Gold and SDR's Growth %	-	(2.0)	2.0	AAA	AAA	AAA

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:

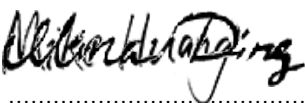
This credit rating is not assigned to an asset-backed security.

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:

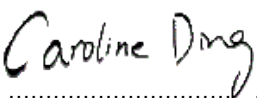


Mina Ding
Rating Analyst

Today's Date

October 24, 2016

Reviewer Signature:



Caroline Ding
Rating Analyst

Today's Date

October 24, 2016

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.