

KINGDOM OF NORWAY

Rating Analysis - 9/2/21

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 0.5%

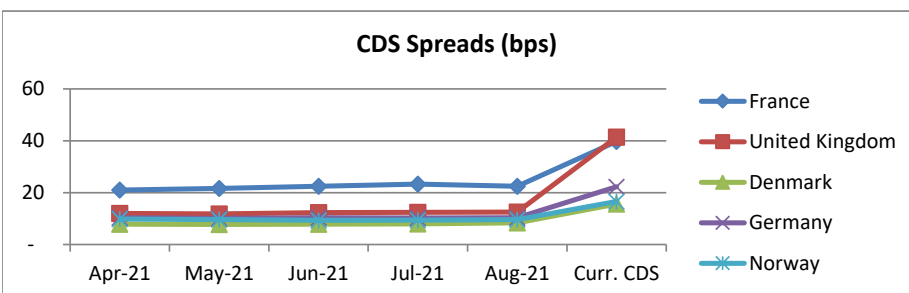
Norwegian mainland GDP increased by 5.6% QoQ, SAAR, in Q2'21 - implying that GDP is now around the same level as in February 2020. The overall strong growth in the second quarter was driven by the loosening of restrictions with many stores and shops reopening in April and May, and as a consequence consumer-oriented industries generally performed well with retail sales remaining high. Service industries such as transport, culture and accommodation also increased sharply in 2Q, but nevertheless remained below the February 2020 level.

Mainland real GDP is projected to increase by 3.4% in 2021 and 3.7% in 2022, with the gradual lifting of restrictions as the vaccine rollout progresses unleashing demand. In its assessment of the economy since the June meeting, Norges Bank said that the development had been broadly as projected. The recovery in the domestic economy continued to be strong with registered unemployment falling and household consumption performing better than expected in June'21. The additional government support made available to households and businesses should remain in place until economic recovery is well established and risks of further disruption have eased. Lingering uncertainty over the pandemic and new virus flare-ups cloud the outlook. Affirming.

CREDIT POSITION	Annual Ratios (source for past results: IMF)					
	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	45.3	46.7	53.5	52.6	54.2	54.1
Govt. Sur/Def to GDP (%)	9.8	8.9	-0.9	-4.4	-6.9	-7.5
Adjusted Debt/GDP (%)	45.3	46.7	53.5	52.7	54.3	54.2
Interest Expense/ Taxes (%)	1.6	1.7	1.7	1.8	1.9	1.9
GDP Growth (%)	7.8	0.4	-4.3	6.2	6.0	6.0
Foreign Reserves/Debt (%)	29.6	32.2	34.5	33.4	32.0	28.7
Implied Sen. Rating	AAA	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

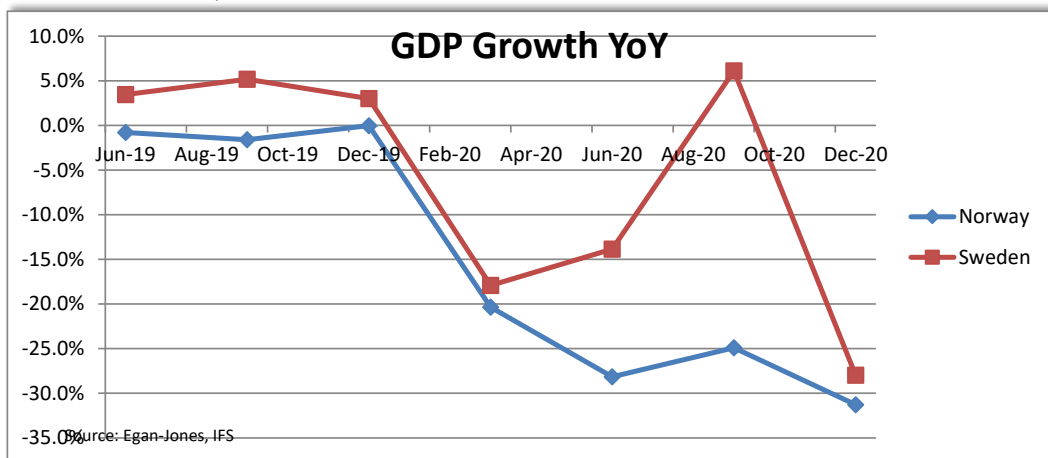
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Kingdom Of Sweden	AAA	58.8	0.2	58.8	1.2	0.5	AA+
Kingdom Of Denmark	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
Federal Republic Of Germany	AA	145.9	-8.8	145.9	4.2	-5.5	BB+
French Republic	AAA	187.8	-12.8	187.8	7.2	-4.8	B+



Country	EJR Rtg.	CDS
France	A+	40
United Kingdom	A+	41
Denmark	AA	16
Germany	AA	22
Norway	AA+	17

Economic Growth

Containment measures are expected to continue easing as the latest wave of cases subsides and vaccination progresses. Economic activity is projected to pick up markedly in the second half of the year, with output growth of 3.4% for the year as a whole and an increase of 3.7% in 2022. The Norwegian economy expanded 1.1% seq. in Q2'21, rebounding from a 0.6% contraction in the previous period, amid gradual softening restrictions and higher economic activity. Household consumption (3.2% vs -3.4% in Q1), government spending (1.9% vs -1.5%), and fixed investment (2.8% vs -2.9%) all rebounded. At the same time, both exports and imports also rebounded sharply (3.9% vs -1.8%) and (3.9% vs -4.9%), respectively. Meanwhile, petroleum activities and ocean transport fell 0.2% after growing 1.5% in Q1. Mainland GDP, which excludes the largely petroleum-based offshore sector, advanced 1.4% in Q2, recovering from a 1.0% decline in Q1.



Fiscal Policy

The Government has implemented extensive fiscal policy measures to mitigate the economic fallout of the pandemic and strict measures to contain it. Support measures have largely been in the form of direct cash transfers to firms and increased income protection for households. Norges Bank's view on Monetary policy continues to state that it shall maintain monetary stability by keeping inflation low and stable.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Norway	-0.94	53.52	16.60
Sweden	-1.32	63.50	16.10
Denmark	0.20	58.84	15.61
Germany	-4.19	79.69	22.28
France	-8.79	145.87	39.75
United Kingdom	-12.82	187.83	41.42

Sources: Thomson Reuters and IFS

Unemployment

Long-term unemployment increased markedly in the period to autumn 2020, and the number seeking work for more than six months has since remained high. Norway's unemployment rate inched up to 5.1% in Q2'21 from 5.0% in the previous period. It was the highest jobless rate since Q3'20, as the number of unemployed increased by 8,000 to 149 thousand while the number of employed advanced by 73 thousand to 2.772M.

	Unemployment (%)	
	2019	2020
Norway	3.35	4.62
Sweden	6.77	8.29
Denmark	4.91	5.66
Germany	3.20	4.31
France	8.43	8.62
United Kingdom	3.74	4.34

Source: Intl. Finance Statistics

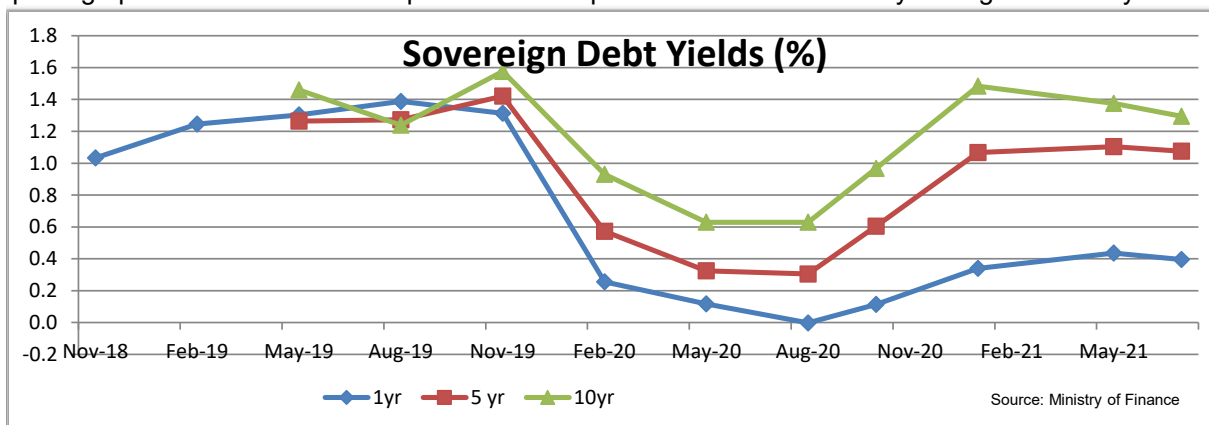
Banking Sector

Norges Bank is signalling a start to increases in its policy rate, which has been held at zero per cent since spring 2020. The Bank's model-based interest rate paths indicate rate increases commencing in H2 2021. Norway's fiscal support to businesses and households over the crisis continues to comprise supplements to existing transfer programmes plus a range of additional measures.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
DNB NOR ASA	2,918.9	9.75
SPAREBANK 1 SR B	287.0	10.45
SPAREBANKEN VEST	221.3	4.34
SPAREBANK 1 SMN	187.91	8.62
Total	3,615.2	
EJR's est. of cap shortfall at 10% of assets less market cap		21.1
Norway's GDP		3,413.5

Funding Costs

The central bank judges that the high level of vaccinations (over 70% of the total population has received at least one dose) limits the need for further restrictions and thus should have little impact on economic projections. While underlying inflation has dropped sharply over the past three quarters to a level below the 2% target, the Norges Bank still sees inflation picking up further ahead and still puts a lot of emphasis on financial stability risks generated by record-low interest rates.



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*			
	2021	2020	Change in
	Rank	Rank	Rank
Overall Country Rank:	9	9	0
Scores:			
Starting a Business	25	25	0
Construction Permits	22	22	0
Getting Electricity	44	44	0
Registering Property	15	15	0
Getting Credit	94	94	0
Protecting Investors	21	21	0
Paying Taxes	34	34	0
Trading Across Borders	22	22	0
Enforcing Contracts	3	3	0
Resolving Insolvency	5	5	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 73.4 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom				
World Rank 73.4*				
	2021	2020	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	82.4	84.3	-1.9	53.6
Government Integrity	86.3	95.6	-9.3	45.9
Judicial Effectiveness	95.8	82.8	13.0	45.4
Tax Burden	57.1	57.7	-0.6	77.7
Gov't Spending	25.3	25.6	-0.3	67.1
Fiscal Health	96.6	97.3	-0.7	72.1
Business Freedom	85.5	86.1	-0.6	63.2
Labor Freedom	57.8	57.4	0.4	59.5
Monetary Freedom	75.4	74.8	0.6	74.7
Trade Freedom	84.0	83.8	0.2	70.7

*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 seen a decline in taxes of 11.4% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 6.0% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

KINGDOM OF NORWAY's total revenue growth has been less than its peers and we assumed a 6.1% decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(4.2)	(11.4)	(6.0)	0.5
Social Contributions Growth %	0.6	0.7	0.7	0.7
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(11.9)	(5.2)	(5.2)
Total Revenue Growth%	(2.9)	(9.3)	(6.1)	(3.2)
Compensation of Employees Growth%	2.6	2.2	2.2	2.2
Use of Goods & Services Growth%	4.5	4.4	4.0	4.0
Social Benefits Growth%	6.9	9.4	9.4	9.4
Subsidies Growth%	79.3	35.7		
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.8	0.8	
Currency and Deposits (asset) Growth%	33.8	0.0		
Securities other than Shares LT (asset) Growth%	(3.7)	0.0		
Loans (asset) Growth%	20.2	(170.7)	(6.0)	(6.0)
Shares and Other Equity (asset) Growth%	5.0	(57.6)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	2.5	0.0		
Financial Derivatives (asset) Growth%	6.7	5.6	(6.0)	(6.0)
Other Accounts Receivable LT Growth%	12.8	(18.2)	(16.0)	(16.0)
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%	15.1	10.1	3.0	3.0
Currency & Deposits (liability) Growth%	3.6	0.0		
Securities Other than Shares (liability) Growth%	17.0	12.9	9.0	9.0
Loans (liability) Growth%	3.6	7.2	7.2	7.2
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	5.5	103.3	25.0	25.0
Additional ST debt (1st year)(billions NOK)	0.0	0.0		

ANNUAL OPERATING 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)					
	2017	2018	2019	2020	P2021	P2022
Taxes	944	1,047	1,057	937	881	828
Social Contributions	345	363	383	386	388	391
Grant Revenue						
Other Revenue						
Other Operating Income	<u>540</u>	<u>605</u>	<u>632</u>	<u>557</u>	<u>557</u>	<u>557</u>
Total Revenue	1,828	2,015	2,073	1,880	1,827	1,777
Compensation of Employees	496	520	545	557	569	582
Use of Goods & Services	247	257	272	284	295	307
Social Benefits	567	581	602	659	721	788
Subsidies	60	62	66	89	89	89
Other Expenses				169	169	169
Grant Expense						
Depreciation	115	122	131	139	139	139
Total Expenses excluding interest	<u>1,589</u>	<u>1,650</u>	<u>1,736</u>	<u>1,897</u>	<u>1,982</u>	<u>2,074</u>
Operating Surplus/Shortfall	239	365	337	-17	-155	-297
Interest Expense	<u>14</u>	<u>17</u>	<u>18</u>	<u>16</u>	<u>16</u>	<u>16</u>
Net Operating Balance	225	348	319	-32	-171	-313

ANNUAL BALANCE SHEETS

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

	ANNUAL BALANCE SHEETS					
	(BILLIONS NOK)					
Base Case	2017	2018	2019	2020	P2021	P2022
ASSETS						
Currency and Deposits (asset)	321	353	365	509	509	509
Securities other than Shares LT (asset)	2,746	2,742	2,879	2,953	2,953	2,953
Loans (asset)	60	34	16	-12	-11	-10
Shares and Other Equity (asset)	160	367	274	116	119	121
Insurance Technical Reserves (asset)	62	64	71	101	101	101
Financial Derivatives (asset)	13	7	7	7	7	6
Other Accounts Receivable LT	394	435	440	360	302	254
Monetary Gold and SDR's						
Other Assets					10,408	10,408
Additional Assets	<u>7,894</u>	<u>7,575</u>	<u>9,432</u>	<u>10,408</u>		
Total Financial Assets	11,652	11,577	13,484	14,442	14,387	14,342
LIABILITIES						
Other Accounts Payable	199	202	207	228	235	242
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)	552	577	610	689	751	819
Loans (liability)	721	832	848	910	1,081	1,394
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	8	8	6	11	14	18
Other Liabilities						
Liabilities	1,480	1,619	1,672	1,838	1,954	2,222
Net Financial Worth	<u>10,172</u>	<u>9,958</u>	<u>11,813</u>	<u>12,604</u>	<u>12,433</u>	<u>12,120</u>
Total Liabilities & Equity	11,652	11,577	13,484	14,442	14,387	14,342

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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+"; 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 (Non-NRSRO)

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+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have 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 Methodologies for Determining Credit Ratings (Main Methodology) version #15a 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 projections on pages 1, 6, and 7 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 dependent 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 information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues 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 publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign 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%	6.0	10.0	2.0	A1+	A1+	A1+
Social Contributions Growth %	7.0	10.0	4.0	A1+	A1+	A1+
Other Revenue Growth %		3.0	(3.0)	A1+	A1+	A1+
Total Revenue Growth%	7.0	9.0	5.0	A1+	A1+	A1+
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	A1+	A1+	A1+

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

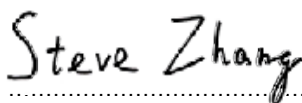


Subramanian NG
Senior Rating Analyst

September 2, 2021

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

September 2, 2021

(Note, see our senior report for additional disclosures.)

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.