

The Norwegian economy has recovered from the pandemic. In March, mainland GDP was just below trend, and unemployment is at its lowest since before the financial crisis in 2008. Going forward, the increase in activity is expected to continue. According to OECD, Mainland GDP growth of 3.5% is projected for 2022. Risks to inflation are pronounced, given the broadening of large price increases and elevated uncertainties around commodity prices. The labour market, already tight, will add to pressures on wage inflation. House prices and household indebtedness remain high.

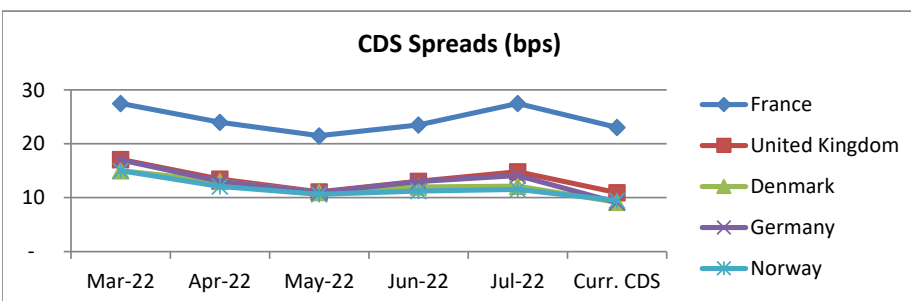
In May 2022, the twelve-month growth in the consumer price index was 5.7 per cent, which is the highest recorded by Statistics Norway since 1988. Inflation is now estimated at 4.7 per cent for the year as a whole, which is an upward adjustment of 1.4 percentage points from Statistics Norway's forecasts in March. The interest rate path has also been raised significantly. There are also signals internationally that high inflation and consequently higher interest rates will curb the strong growth that has so far been seen. This will have a knock-on effect on the Norwegian economy. Affirming.

Annual Ratios (source for past results: IMF)

| CREDIT POSITION | 2019 | 2020 | 2021 | P2022 | P2023 | P2024 |
|-----------------------------|------|------|------|-------|-------|-------|
| Debt/ GDP (%) | 46.8 | 53.4 | 49.3 | 37.9 | 27.5 | 17.9 |
| Govt. Sur/Def to GDP (%) | 9.0 | -0.6 | 10.8 | 10.2 | 9.5 | 8.8 |
| Adjusted Debt/GDP (%) | 46.8 | 53.4 | 49.3 | 38.0 | 27.6 | 18.0 |
| Interest Expense/ Taxes (%) | 1.7 | 1.6 | 0.9 | 0.9 | 0.8 | 0.8 |
| GDP Growth (%) | 0.3 | -4.3 | 21.4 | 6.2 | 6.0 | 6.0 |
| Foreign Reserves/Debt (%) | 32.2 | 34.6 | 32.8 | 47.5 | 67.4 | 112.6 |
| 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 |

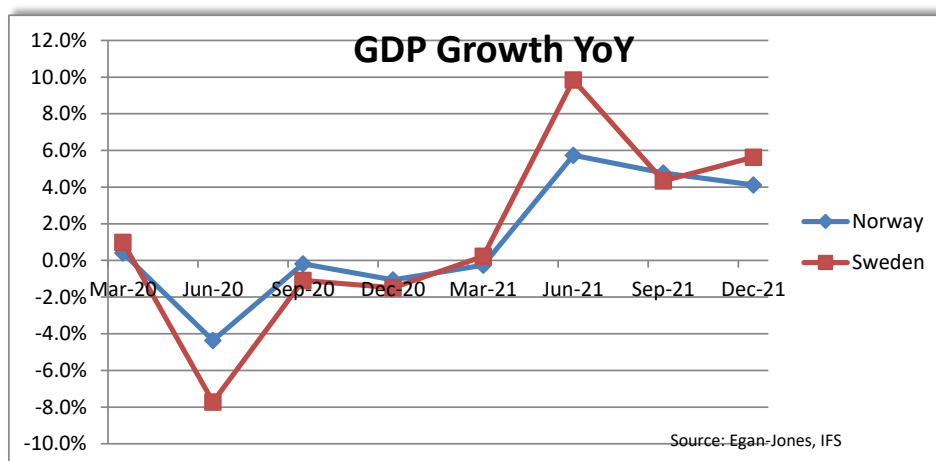
| PEER RATIOS | Other NRSRO Sen. | Debt as a % of GDP | Govt. Surp. Def to GDP (%) | Adjusted Debt/ GDP | Interest Expense/ Taxes % | GDP Growth (%) | Ratio- Implied Rating* |
|-----------------------------|------------------|--------------------|----------------------------|--------------------|---------------------------|----------------|------------------------|
| Kingdom Of Sweden | AAA | 58.9 | 1.1 | 58.9 | 0.6 | 8.3 | AA+ |
| Kingdom Of Denmark | AAA | 50.0 | 3.2 | 50.0 | 1.1 | 7.2 | AA+ |
| Federal Republic Of Germany | AAA | 77.8 | -3.6 | 77.8 | 2.4 | 6.0 | AA |
| French Republic | AA | 137.3 | -6.0 | 137.3 | 4.6 | 8.2 | A- |
| United Kingdom | AAA | 190.8 | -8.9 | 190.8 | 9.4 | 7.8 | BBB |



| Country | EJR Rtg. | CDS |
|----------------|----------|-----|
| France | A+ | 23 |
| United Kingdom | A+ | 11 |
| Denmark | AA | 9 |
| Germany | AA | 9 |
| Norway | AA+ | 9 |

Economic Growth

Growth in public consumption and investment appears to be slightly lower than trend this year. In isolation, this is having a dampening effect on economic developments. The Norwegian economy contracted 1% seq. in Q1'2022, compared to market consensus of a growth in Q4 of 2021. It was the first decline in the economy since Q2 2020, amid supply chain disruptions and the Ukraine war. Both household consumption (-1.5% vs 2.8% in Q4) and government spending (-1.4% vs 0.0%) contracted, while net external trade c exports dropped by 3.5 percent, while imports rose 0.2 percent, amid soaring commodity prices. On the other hand, fixed investment stalled (vs 3.3%). Meanwhile, petroleum activities and ocean transport fell 3.1%, following a 7.0% decline in Q4. Mainland G petroleum-based offshore sector, shrank 0.6% in Q1, reversing from a 1.4% expansion in Q4 of 2021, worse than market expectations of a 0.5% decline.



Fiscal Policy

The Norwegian Central Bank, RNB, since the Final Budget Bill for 2022, has initiated extraordinary measures to the tune of about NOK 60 billion – either been proposed or adopted. These are distributed between interim virus control measures, the electricity support package and strengthening of military and non-military preparedness. The structural non-oil deficit for 2022 is forecast in the RNB to be NOK 352 billion. This is equivalent to 2.9 per cent of the value of the Government Petroleum Fund Global (the petroleum fund) at the beginning of the year, and close to the 3 per cent stipulated in the fiscal rule.

| | Surplus-to-GDP (%) | Debt-to-GDP (%) | 5 Yr. CDS Spreads |
|--------------|--------------------|-----------------|-------------------|
| Norway | 10.81 | 49.28 | 9.47 |
| Sweden | 1.11 | 58.90 | 12.14 |
| Denmark | 3.18 | 50.04 | 9.16 |
| Germany | -3.62 | 77.80 | 9.10 |
| France | -5.97 | 137.28 | 23.02 |
| United Kingd | -8.88 | 190.85 | 10.93 |

Sources: Thomson Reuters and IFS

Unemployment

Norway's unemployment rate inched down to 3.3 percent in the first quarter of 2022 from 3.4 percent in the previous period. It was the lowest jobless rate since Q4 2012, as the number of unemployed fell by 3,000 to 96 thousand while the number of employed increased by 8 thousand to 2.825 million. The labour force participation stood at 72.3 percent in Q1 2022, unchanged from the previous quarter. The parties to the centralised wage bargaining agreed on a wage increase of 3.7 to 3.8 per cent this year. However, wage growth is likely to increase more than this due to the high-pressure labour market. Real wages are expected to increase

| | Unemployment (%) | |
|--------------|------------------|------|
| | 2020 | 2021 |
| Norway | 4.60 | 4.29 |
| Sweden | 8.53 | 8.80 |
| Denmark | 5.65 | 5.08 |
| Germany | 3.83 | 3.58 |
| France | 8.03 | 7.88 |
| United Kingd | 0.00 | 0.00 |

Source: Intl. Finance Statistics

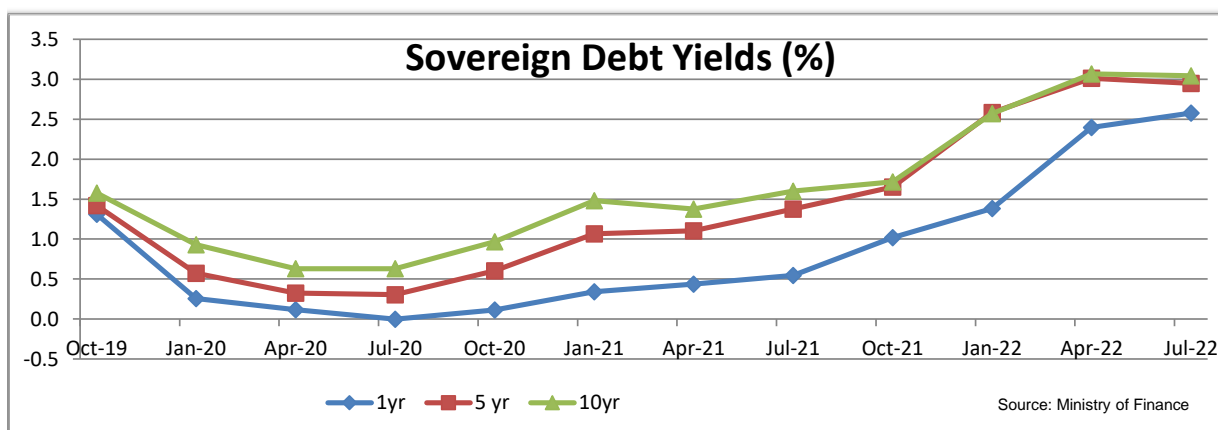
Banking Sector

High debt in Norwegian households and elevated property prices represent the key vulnerabilities in the Norwegian financial system. The debt burden of Norwegian households is high, both in historical terms and compared with other countries. Norwegian banks enjoy strong profitability, and the banks' loan losses have been low in 2021 and so far in 2022. The banks have generally preserved their solvency levels and meet current capital requirements by a margin.

| Bank Assets (billions of local currency) | | |
|---|----------------|----------------------|
| | Assets | Mkt Cap/ Assets % |
| DNB NOR ASA | 2,919.2 | 9.98 |
| SPAREBANK 1 SR B | 304.4 | 9.23 |
| SPAREBANKEN VEST | 234.6 | 4.03 |
| SPAREBANK 1 SMN | 198.85 | 7.85 |
| Total | 3,657.1 | |
| EJR's est. of cap shortfall at 10% of assets less market cap | | 21.3 |
| Norway's GDP | | 4,141.9 |

Funding Costs

Norway 10Y Bond Yield was 2.89 percent and is expected to trade at 2.98 percent by the end of this quarter, according to Trading Economics global macro models. Looking forward, market consensus estimates it to trade at 3.28 per cent in 12 months' time. Th



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 grown its taxes of 37.9% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 3.0% per annum over the next couple of years and 3.0% 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 4.0% 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% | 8.7 | 37.9 | 3.0 | 3.0 |
| Social Contributions Growth % | 5.6 | 5.0 | 2.0 | 2.0 |
| Grant Revenue Growth % | 0.0 | NMF | | |
| Other Revenue Growth % | 0.0 | NMF | | |
| Other Operating Income Growth% | 0.0 | 21.9 | | |
| Total Revenue Growth% | 8.4 | 26.5 | 4.0 | 4.0 |
| Compensation of Employees Growth% | 4.3 | 4.4 | 4.4 | 4.4 |
| Use of Goods & Services Growth% | 6.4 | 8.8 | 6.0 | 6.0 |
| Social Benefits Growth% | 1.2 | 3.8 | 3.0 | 3.0 |
| Subsidies Growth% | (14.7) | (3.0) | | |
| Other Expenses Growth% | 0.0 | | | |
| Interest Expense | 1.8 | 0.6 | 0.6 | 1.0 |
| Currency and Deposits (asset) Growth% | 3.3 | 0.0 | | |
| Securities other than Shares LT (asset) Growth% | 6.9 | 0.0 | | |
| Loans (asset) Growth% | (80.6) | (1,092.2) | 2.0 | 2.0 |
| Shares and Other Equity (asset) Growth% | (70.9) | (554.4) | 2.0 | 2.0 |
| Insurance Technical Reserves (asset) Growth% | 0.0 | 0.0 | | |
| Financial Derivatives (asset) Growth% | (7.4) | 44.8 | 6.0 | 6.0 |
| Other Accounts Receivable LT Growth% | (1.8) | 69.4 | 6.0 | 6.0 |
| 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% | 1.4 | 5.7 | 5.0 | 5.0 |
| Currency & Deposits (liability) Growth% | 10.1 | 0.0 | | |
| Securities Other than Shares (liability) Growth% | 2.6 | (1.8) | (1.2) | (1.2) |
| Loans (liability) Growth% | 0.1 | 24.0 | 24.0 | 21.6 |
| Insurance Technical Reserves (liability) Growth% | 0.0 | 0.0 | | |
| Financial Derivatives (liability) Growth% | 4.4 | 1.7 | 1.7 | 1.7 |
| 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) | | | | | |
| | 2018 | 2019 | 2020 | 2021 | P2022 | P2023 |
| Taxes | 1,047 | 1,057 | 960 | 1,324 | 1,363 | 1,404 |
| Social Contributions | 363 | 383 | 387 | 407 | 415 | 423 |
| Grant Revenue | | | | | | |
| Other Revenue | | | | | | |
| Other Operating Income | <u>605</u> | <u>632</u> | <u>560</u> | <u>683</u> | <u>683</u> | <u>683</u> |
| Total Revenue | 2,015 | 2,072 | 1,907 | 2,414 | 2,461 | 2,511 |
| Compensation of Employees | 520 | 545 | 557 | 581 | 607 | 634 |
| Use of Goods & Services | 257 | 272 | 287 | 312 | 331 | 350 |
| Social Benefits | 581 | 602 | 660 | 685 | 705 | 726 |
| Subsidies | 62 | 65 | 89 | 86 | 86 | 86 |
| Other Expenses | | | | 140 | 140 | 140 |
| Grant Expense | | | | | | |
| Depreciation | 122 | 130 | 140 | 151 | 151 | 151 |
| Total Expenses excluding interest | <u>1,650</u> | <u>1,735</u> | <u>1,912</u> | <u>1,954</u> | <u>2,019</u> | <u>2,087</u> |
| Operating Surplus/Shortfall | 364 | 337 | -4 | 459 | 442 | 423 |
| Interest Expense | <u>17</u> | <u>18</u> | <u>15</u> | <u>12</u> | <u>12</u> | <u>12</u> |
| Net Operating Balance | 347 | 319 | -19 | 448 | 430 | 412 |

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) | | | | | |
|--|---|---------------|---------------|---------------|---------------|---------------|
| | 2018 | 2019 | 2020 | 2021 | P2022 | P2023 |
| ASSETS | | | | | | |
| Currency and Deposits (asset) | 353 | 365 | 509 | 559 | 962 | 962 |
| Securities other than Shares LT (asset) | 2,742 | 2,879 | 2,953 | 3,527 | 3,527 | 3,527 |
| Loans (asset) | 34 | 19 | -12 | 122 | 125 | 127 |
| Shares and Other Equity (asset) | 367 | 274 | 109 | -494 | -504 | -514 |
| Insurance Technical Reserves (asset) | 64 | 71 | 117 | 129 | 129 | 129 |
| Financial Derivatives (asset) | 7 | 7 | 7 | 10 | 11 | 12 |
| Other Accounts Receivable LT | 436 | 435 | 369 | 626 | 663 | 703 |
| Monetary Gold and SDR's | | | | | | |
| Other Assets | | | | | 12,216 | 12,216 |
| Additional Assets | <u>7,575</u> | <u>9,429</u> | <u>10,416</u> | <u>12,216</u> | | |
| Total Financial Assets | 11,578 | 13,478 | 14,469 | 16,695 | 17,129 | 17,162 |
| LIABILITIES | | | | | | |
| Other Accounts Payable | 202 | 209 | 227 | 240 | 252 | 264 |
| Currency & Deposits (liability) | | | | | 0 | 0 |
| Securities Other than Shares (liability) | 577 | 610 | 689 | 677 | 669 | 661 |
| Loans (liability) | 832 | 848 | 907 | 1,125 | 694 | 283 |
| Insurance Technical Reserves (liability) | | | | | | |
| Financial Derivatives (liability) | 8 | 6 | 11 | 12 | 12 | 12 |
| Other Liabilities | | | | | | |
| Liabilities | 1,619 | 1,673 | 1,834 | 2,053 | 2,057 | 1,678 |
| Net Financial Worth | <u>9,959</u> | <u>11,804</u> | <u>12,635</u> | <u>14,642</u> | <u>15,072</u> | <u>15,484</u> |
| Total Liabilities & Equity | 11,578 | 13,478 | 14,469 | 16,695 | 17,129 | 17,162 |

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Comments on the Difference between the Model and Assigned Rating

We consider a one or less "notch" difference between 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 (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 available.**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 | AA+ | AA+ | AA+ |
| Social Contributions Growth % | 7.0 | 10.0 | 4.0 | AA+ | AA+ | AA+ |
| Other Revenue Growth % | | 3.0 | (3.0) | AA+ | AA+ | AA+ |
| Total Revenue Growth% | 7.0 | 9.0 | 5.0 | 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:

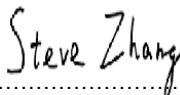
Today's Date


Subramanian NG
Senior Rating Analyst

August 30, 2022
.....

Reviewer Signature:

Today's Date


.....
Steve Zhang
Senior Rating Analyst

August 30, 2022
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(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.