

KINGDOM OF NORWAY

Rating Analysis - 12/26/18

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 0.5%

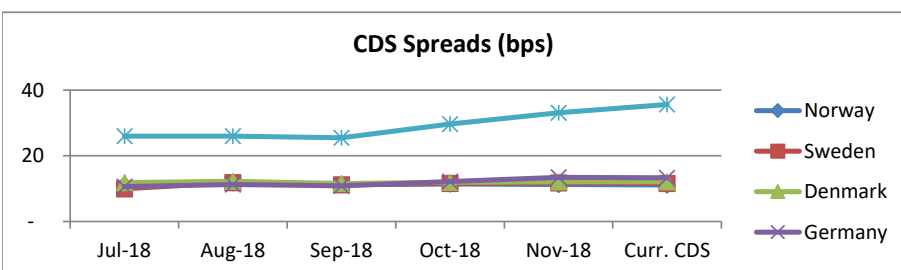
Norway has managed to translate economic growth into high and rising living standards, with a GDP per capita of \$89,741, well above the average of \$44,656 for 30 advanced economies.

The neutral fiscal stance implied by the fiscal rule and proposed in the 2019 budget is appropriate given solid, but moderating, output growth. The central bank is signalling another increase in its policy rate in March 2019, which is appropriate to contain inflationary pressures. Structural reforms should remain focused on improving the business environment, while maintaining good social outcomes, including lighter taxation financed by greater public-spending efficiency. Following through on proposed measures to meet climate-change commitments will be important. As can be seen below, Norway's credit metrics remain strong. Affirming.

CREDIT POSITION	Annual Ratios (source for past results: IMF)					
	2015	2016	2017	P2018	P2019	P2020
Debt/ GDP (%)	31.8	35.3	36.2	30.4	25.7	22.0
Govt. Sur/Def to GDP (%)	7.5	5.7	6.2	5.2	4.2	3.2
Adjusted Debt/GDP (%)	31.8	35.3	36.2	30.5	25.8	22.2
Interest Expense/ Taxes (%)	2.3	2.0	1.7	1.7	1.7	1.7
GDP Growth (%)	-0.9	0.0	5.9	2.1	2.1	2.1
Foreign Reserves/Debt (%)	46.0	45.7	44.0	55.9	67.4	82.9
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

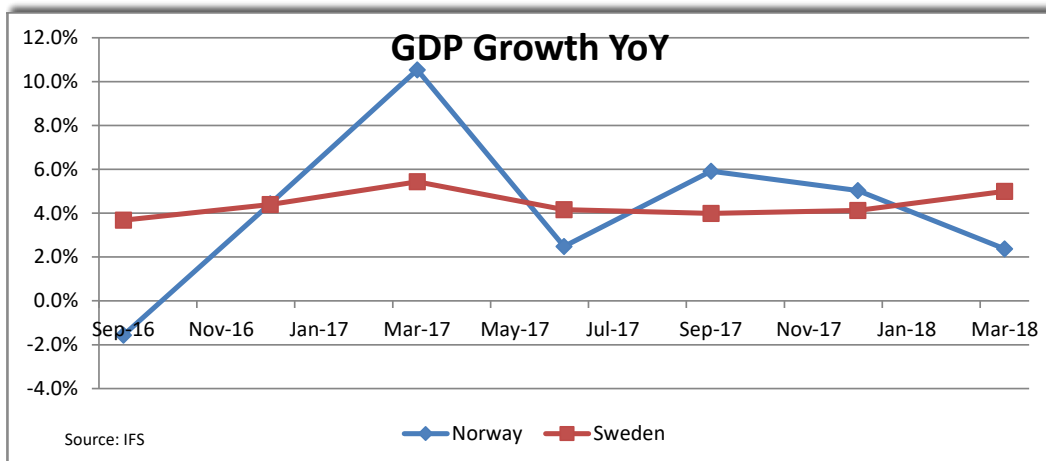
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Kingdom Of Sweden	AAA	40.6	2.6	40.6	0.9	4.4	AAA
Kingdom Of Denmark	AAA	36.4	1.6	36.4	2.3	3.7	AA+
Federal Republic Of Germany	AAA	64.1	1.0	64.1	4.4	3.7	AA+
French Republic	AA	97.0	-2.5	97.0	6.3	2.8	AA-
United Kingdom	AA	87.7	-0.7	87.7	9.9	3.8	AA+



Country	CDS
Norway	11
Sweden	12
Denmark	12
Germany	13
France	36

Economic Growth

The central bank maintains that the Norwegian economy remains on a strong footing and that there is no slack left. The external environment has resulted in lower GDP growth forecast for the coming years slightly, leading to a downward revision in the output gap forecast. But the output gap is still seen to remain in positive territory, and core inflation is seen to remain close to the target over the forecast horizon. The Norwegian economy continues to perform well, despite recent low oil prices, a testimony to policies that insulate the country from volatile petroleum markets.



Monetary Policy

The Norges Bank raised its policy rate in Sep, the first time since 2011, and has indicated that the next hike would most likely come in 1Q19. The pace of monetary policy tightening will depend on a broad set of domestic and external macroeconomic conditions, and one specific factor: the large household debt. The average household now has debt amounting to 229% of disposable income, up from 224% a year ago. A strong rise in interest rates, new international financial turmoil or other economic shocks could trigger a sharp fall in property prices and an abrupt slowdown in household demand for goods and services.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Norway	6.23	36.20	11.12
Sweden	2.62	40.60	11.63
Denmark	1.59	36.40	12.05
Germany	1.02	64.10	13.28
France	-2.54	97.00	35.62
United Kingdc	-0.73	87.70	38.23

Sources: Thomson Reuters and IFS

Unemployment

The unemployment rate in Norway, at 4%, is down 1.1%-pts since the start of 2016, and the Norges Bank estimates that the output gap closed in Q3 2018. Tighter resource use has helped lift wage growth, and this is a continuation of the rebound witnessed in the GDP growth since early 2016. The central bank expect further tightening in resource use, and hence further pressure on wage growth. workers and employees rather than the part-time.

	Unemployment (%)	
	2016	2017
Norway	4.73	4.21
Sweden	6.95	6.68
Denmark	6.19	5.72
Germany	4.13	3.76
France	10.07	9.43
United Kingd	4.91	4.40

Source: Intl. Finance Statistics

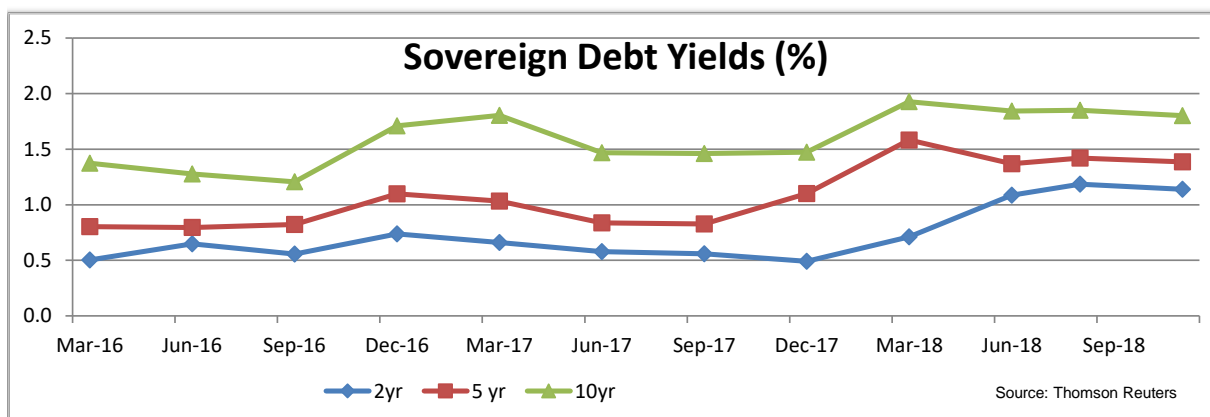
Banking Sector

The Norges banking-sector capital requirements have increased substantially in recent years. Strong vigilance on housing and credit market developments needs to be retained and the authorities should be prepared to make a wide-ranging policy response. The Norges Bank estimates that currently a 1% increase in deposit and lending rates would reduce disposable income by 1%-pt—a higher impact than its 0.6%-pt estimate for 2004 - a worry.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
DNB NOR ASA	2698.27	8.80
SPAREBANK 1 SR B	216.62	10.94
SPAREBANKEN VEST	175.19	1.75
SPAREBANK 1 SMN	153.25	7.38
SPAREBANK 1 NORD	<u>3.92</u>	<u>29.63</u>
Total	3,247.3	
EJR's est. of cap shortfall at 10% of assets less market cap		48.1
Norway's GDP		3,304.4

Funding Costs

Norwegian market has been affected by the downturn in the oil and oil service sectors over the past few years, concurrent with the fall in the oil price from above \$110 per boe in 2014 to below \$30 per BOE in 2016. Since Norway is a part of the EEA, Norwegian regulatory and legislative developments within the banking and financing sector are mainly in line with EU regulations.



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 8 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2018	2017	Change in
	Rank	Rank	Rank
Overall Country Rank:	8	6	-2
Scores:			
Starting a Business	19	21	2
Construction Permits	21	43	22
Getting Electricity	23	12	-11
Registering Property	14	14	0
Getting Credit	77	75	-2
Protecting Investors	10	9	-1
Paying Taxes	28	26	-2
Trading Across Borders	22	22	0
Enforcing Contracts	8	4	-4
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 74.3 for Economic Freedom with 100 being best.

Heritage Foundation 2018 Index of Economic Freedom				
World Rank 74.3*				
	2018	2017	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	86.4	86.7	-0.3	51.5
Government Integrity	93.6	88.3	5.3	42.1
Judicial Effectiveness	86.0	83.3	2.7	46.9
Tax Burden	56.4	55.6	0.8	76.7
Gov't Spending	29.2	38.5	-9.3	63.5
Fiscal Health	97.8	98.4	-0.6	66.3
Business Freedom	90.4	89.5	0.9	64.8
Labor Freedom	54.6	48.8	5.8	58.9
Monetary Freedom	73.9	75.8	-1.9	76.0
Trade Freedom	87.9	87.7	0.2	75.9

*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 5.2% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 0.8% per annum over the next couple of years and 0.9% 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 1.0% 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%	4.6	5.2	0.8	0.9
Social Contributions Growth %	4.7	3.5	0.4	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	5.9	0.5	0.5
Total Revenue Growth%	4.1	5.0	1.0	1.1
Compensation of Employees Growth%	0.0	4.3	4.5	4.5
Use of Goods & Services Growth%	0.3	0.0	0.5	0.5
Social Benefits Growth%	2.1	2.8	2.8	2.8
Subsidies Growth%	3.1	4.2		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.3	1.3	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(0.7)	9.2	0.8	0.8
Shares and Other Equity (asset) Growth%	0.0	0.0		
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	0.0	1.6	0.8	0.8
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%	0.0			
Currency & Deposits (liability) Growth%	0.0	0.0		
Securities Other than Shares (liability) Growth%	0.0	0.0		
Loans (liability) Growth%	(2.0)	12.5	12.5	12.5
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
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 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(BILLIONS NOK)					
	2014	2015	2016	2017	P2018	P2019
Taxes	908	873	877	922	929	937
Social Contributions	313	326	331	342	344	345
Grant Revenue						
Other Revenue						
Other Operating Income	495	512	501	531	531	531
Total Revenue	1,716	1,711	1,709	1,795	1,803	1,812
Compensation of Employees	441	463	478	498	521	544
Use of Goods & Services						
Social Benefits	497	529	551	566	582	599
Subsidies	60	64	67	70	70	70
Other Expenses				324	324	324
Grant Expense						
Depreciation	96	104	110	115	115	115
Total Expenses excluding interest	1,372	1,456	1,513	1,573	1,612	1,652
Operating Surplus/Shortfall	344	255	195	221	192	161
Interest Expense	<u>21</u>	<u>20</u>	<u>17</u>	<u>16</u>	<u>16</u>	<u>16</u>
Net Operating Balance	323	235	178	206	176	145

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	2014	2015	2016	2017	P2018	P2019
ASSETS						
Currency and Deposits (asset)	228	215	295	321	488	488
Securities other than Shares LT (asset)						
Loans (asset)	638	737	748	816	823	829
Shares and Other Equity (asset)						
Insurance Technical Reserves (asset)	70	82	95	114	114	114
Financial Derivatives (asset)						
Other Accounts Receivable LT	292	280	290	295	297	299
Monetary Gold and SDR's						
Other Assets					10,038	10,038
Additional Assets	<u>7,657</u>	<u>8,774</u>	<u>8,926</u>	<u>10,038</u>		
Total Financial Assets	8,885	10,088	10,354	11,583	11,759	11,768
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)						
Loans (liability)	390	511	588	661	485	340
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	<u>668</u>	<u>700</u>	<u>739</u>	<u>749</u>	<u>749</u>	<u>749</u>
Liabilities	1,058	1,211	1,327	1,410	1,410	1,274
Net Financial Worth	<u>7,827</u>	<u>8,877</u>	<u>9,027</u>	<u>10,174</u>	<u>10,350</u>	<u>10,494</u>
Total Liabilities & Equity	8,885	10,088	10,354	11,583	11,759	11,768

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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 available in our Form NRSRO Exhibit #2 dated Nov 5, 2018 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%	0.8	4.8	(3.2)	AA+	AA+	AA+
Social Contributions Growth %	0.4	3.4	(2.6)	AA+	AA+	AA+
Other Revenue Growth %		3.0	(3.0)	AA+	AA+	AA+
Total Revenue Growth%	1.0	3.0	(1.0)	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.

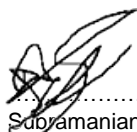
ATTESTATION FORM

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

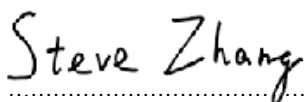


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Subramanian NG
Senior Rating Analyst

December 26, 2018
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Reviewer Signature:

Today's Date



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Steve Zhang
Senior Rating Analyst

December 26, 2018
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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.