

UNITED KINGDOM

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

*EJR CP Rating: A1

Rating Analysis - 7/26/20

*EJR's 3 yr. Default Probability: 1.3%

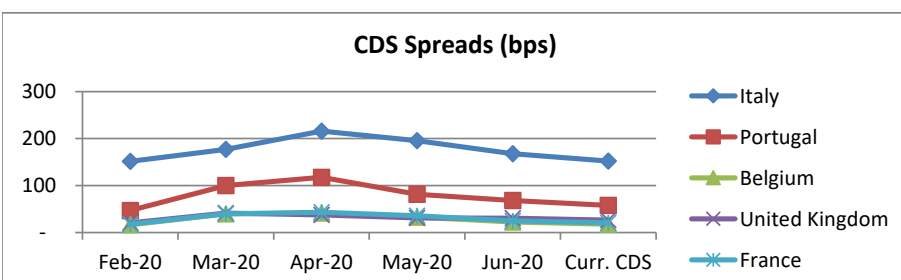
The COVID-19 crisis has led to a severe economic contraction. The economic downturn associated with COVID-19 has been driven by sharp fluctuations in private consumption to a greater degree than most previous downturns. OECD expects U.K.'s GDP to fall by 14% in 2020 if there is a second virus outbreak later in the year (the double-hit scenario). An equally likely single-hit scenario would still see GDP fall sharply by 11.5%. Under these scenarios, unemployment rate is set to more than double to 10% and remain elevated throughout 2021 - a worry. A higher unemployment rate will damp wage growth and subdue consumption.

The government swiftly put in place a comprehensive economic support package. Fiscal measures include income support for workers and self-employed, around GBP 330 billion in state loan guarantees to keep firms in business - the question is: "is this adequate?". The Johnson administration in the UK has long stated that the transition period (for Brexit) would not be extended. But given the economic disruption caused by COVID-19, a temporary extension of existing trading relationships with the EU beyond the end of 2020 would help reduce uncertainty. Watch for fiscal deficit scenario given the accommodative policy stance adopted by the UK government. We are affirming.

CREDIT POSITION	Annual Ratios (source for past results: IMF, CountryEconomy)					
	2017	2018	2019	P2020	P2021	P2022
Debt/ GDP (%)	86.2	85.8	88.1	92.0	95.7	98.9
Govt. Sur/Def to GDP (%)	-1.9	-1.6	-1.2	-1.0	-0.8	-0.5
Adjusted Debt/GDP (%)	86.2	85.8	88.1	92.0	95.7	98.9
Interest Expense/ Taxes (%)	9.9	9.0	8.0	7.9	7.9	7.8
GDP Growth (%)	3.7	3.5	4.3	2.3	2.3	2.5
Foreign Reserves/Debt (%)	5.1	5.8	5.5	5.9	5.6	5.9
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

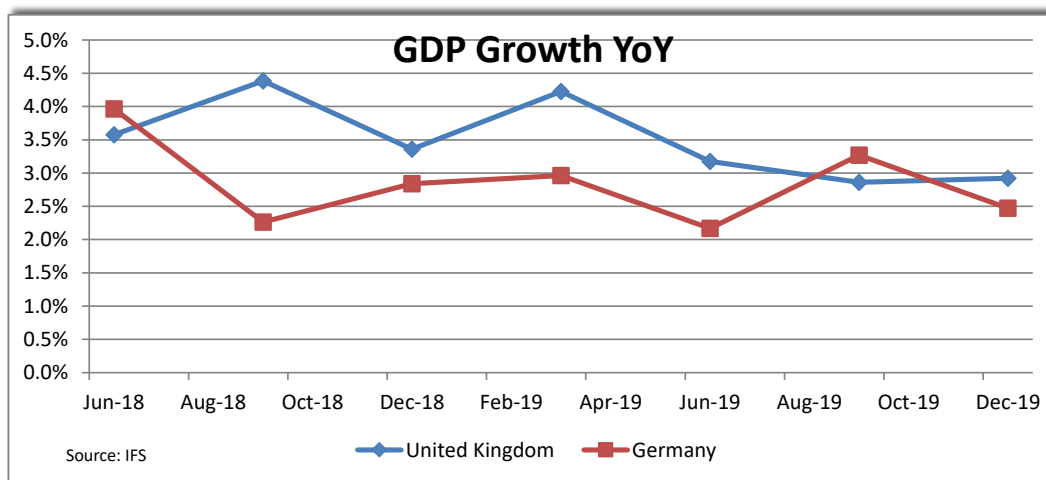
PEER RATIOS	Other NRSROs	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic of Germany	AAA	59.8	1.6	59.8	3.3	2.5	AA
French Republic	AA	98.1	-2.5	98.1	4.7	2.9	A+
Kingdom of Belgium	AA	98.7	-1.5	98.7	6.6	4.8	AA+
Republic of Italy	BBB-	134.8	-2.1	134.8	11.7	1.6	BBB
Portugal Republic	BB+	117.7	-0.7	117.7	12.0	3.9	A+



Country	EJR Rtg.	CDS
Italy	BBB-	152
Portugal	BBB-	58
Belgium	BBB	18
United Kingdom	A+	27
France	A+	21

Economic Growth

Industrial Production in the U.K decreased 20% YOY in May 2020, following a record 23.8% plunge in April. In the end of May, firms returned to work after the coronavirus lockdown, as businesses managed to operate while adhering to social distancing measures. Manufacturing was down 22.8%, electricity, gas, steam, and air conditioning -16.8%; mining and quarrying -11.7%. The CBI's quarterly gauge of manufacturing optimism in the UK jumped to -1 in the third quarter of 2020 from an all-time low of -87 in the previous three-month period, as the economy reopened from a coronavirus-induced lockdown. Bankruptcies in the United Kingdom decreased to 3,883 companies in the first quarter of 2020 from 4,246 companies in Q4'19.



Fiscal Policy

The government reacted promptly to the crisis and put in place a substantial set of economic support measures, including 5% of GDP in discretionary spending, to support business and households. As a service-based economy, the United Kingdom is heavily affected by the crisis. Economic measures to tackle the crisis and the sharp fall in revenues will lead to a substantial fiscal deficit.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
United Kingdom	-1.24	88.12	26.67
Germany	1.58	59.76	12.34
France	-2.53	98.12	20.78
Belgium	-1.52	98.75	17.93
Italy	-2.09	134.80	151.86
Portugal	-0.69	117.74	57.82

Sources: Thomson Reuters, IFS and CountryEconomy

Unemployment

The number of unemployed people in Britain could soar to almost 15% of the working population if the country experiences a second wave of the coronavirus pandemic. Absent that, the UK's unemployment rate is likely to rise to only 11.7% by the end of the year, the highest level since 1984 when it peaked at 11.9%. The current UK unemployment rate is 3.9%. About 856,000 new unemployment benefit claims (2.5% of the labor force) were registered in April, and 8.4 million workers (24.4% of the labor force) were furloughed by the end of May. Higher unemployment benefits should be extended beyond the fiscal year 2020-21 to help support demand during the recovery. The government, through The Coronavirus Job Retention Scheme, provides companies with 80% of furloughed workers' salaries. In addition, self-employed receive a taxable grant of up to 80% of their previous earnings over the past three years.

Unemployment (%)	2018	2019
	United Kingdo	4.09
Germany	3.40	3.20
France	9.11	8.43
Belgium	5.98	5.44
Italy	10.62	9.90
Portugal	7.05	6.33

Source: Intl. Finance Statistics

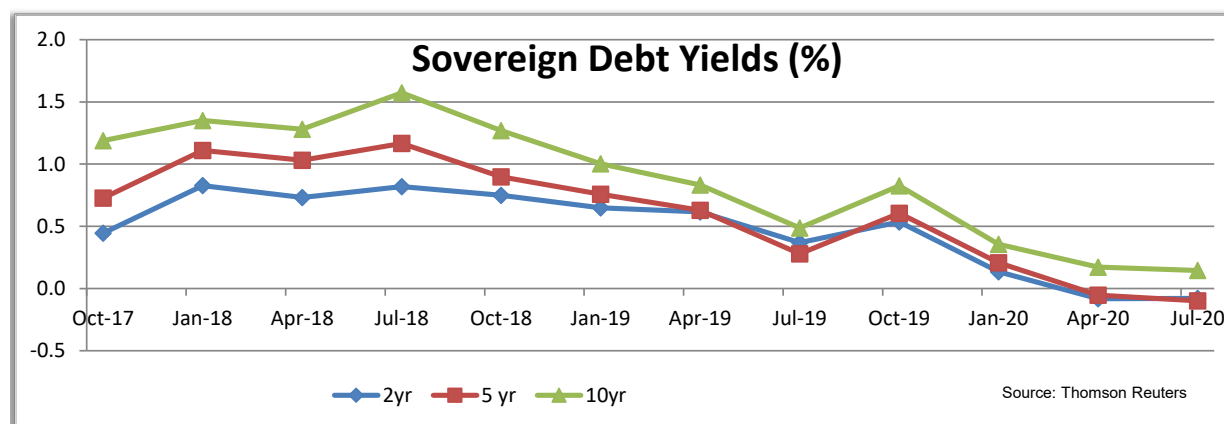
Banking Sector

Monetary policy has appropriately been further eased in the context of increased financial stress. The Bank of England cut interest rates from 0.75% to 0.10% and announced an increase of its bond-purchasing programme by GBP 200 billion (9% of GDP), to a total of GBP 645 billion. It temporarily extended the Ways and Means facility that allows the government to increase spending without the need to turn to the markets, and reduced the counter-cyclical capital buffer to preserve banks' capacity to lend to households and firm.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
HSBC HLDGS PLC	2,715.2	2.58
ROYAL BK SCOTLAN	723.0	1.92
BARCLAYS PLC	1,140.2	1.64
LLOYDS BANKING	833.9	2.48
STANDARD CHARTER	<u>720.4</u>	<u>1.85</u>
Total	6,132.7	
EJR's est. of cap shortfall at		
10% of assets less market cap		476.6
United Kingdom's GDP		2,213.7

Funding Costs

United Kingdom 10Y Bond Yield was 0.15% and its 5 Years CDS value is 24.0338, which reveals a 0.40% implied probability of default, on a 40% recovery rate supposed. UK on track to sell £533bn of debt this year - the Extra £110bn in scheduled gilt issuance is set to take total to more than double previous record.



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*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	8	7	-1
Scores:			
Starting a Business	18	14	-4
Construction Permits	23	14	-9
Getting Electricity	8	9	1
Registering Property	41	47	6
Getting Credit	37	29	-8
Protecting Investors	7	10	3
Paying Taxes	27	23	-4
Trading Across Borders	33	28	-5
Enforcing Contracts	34	31	-3
Resolving Insolvency	14	14	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, United Kingdom is strong in its overall rank of 79.3 for Economic Freedom with 100 being best.

Heritage Foundation 2020 Index of Economic Freedom				
World Rank 79.3*				
	2020	2019	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	92.2	92.3	-0.1	56.6
Government Integrity	89.9	85.9	4.0	43.8
Judicial Effectiveness	82.7	83.8	-1.1	45.1
Tax Burden	64.7	64.7	0.0	77.3
Gov't Spending	49.5	48.2	1.3	66.0
Fiscal Health	78.1	68.6	9.5	69.1
Business Freedom	94.7	92.9	1.8	63.3
Labor Freedom	73.1	73.5	-0.4	59.4
Monetary Freedom	80.3	81.2	-0.9	74.6
Trade Freedom	86.4	86.0	0.4	73.8

*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:

UNITED KINGDOM has grown its taxes of 3.2% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 3.2% per annum over the next couple of years and 3.2% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

UNITED KINGDOM's total revenue growth has been more than its peers, and we assumed a 4.2% 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%	2.7	3.2	3.2	3.2
Social Contributions Growth %	3.2	8.3	8.0	8.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(0.9)	(0.9)	(0.9)
Total Revenue Growth%	2.8	3.8	4.2	3.8
Compensation of Employees Growth%	3.1	5.0	5.0	5.0
Use of Goods & Services Growth%	2.3	6.3	6.3	6.3
Social Benefits Growth%	3.8	2.0	2.0	2.0
Subsidies Growth%	7.3	11.0		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.5	2.5	2.5
Currency and Deposits (asset) Growth%	(2.3)	0.0		
Securities other than Shares LT (asset) Growth%	8.9	0.0		
Loans (asset) Growth%	0.8	7.2	3.2	3.2
Shares and Other Equity (asset) Growth%	9.7	4.1	4.1	4.1
Insurance Technical Reserves (asset) Growth%	1.6	0.0		
Financial Derivatives (asset) Growth%	11.4	(62.9)	(10.0)	(10.0)
Other Accounts Receivable LT Growth%	1.8	(0.3)	(0.3)	(0.3)
Monetary Gold and SDR's Growth %	0.0	(45.0)	2.9	2.9
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	(1.4)	0.8	3.0	3.0
Currency & Deposits (liability) Growth%	1.0	5.3	5.3	5.3
Securities Other than Shares (liability) Growth%	6.8	7.1	5.0	5.0
Loans (liability) Growth%	(2.4)	(7.7)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	0.0	(4.0)	3.0	3.0
Financial Derivatives (liability) Growth%	5.9	(8.6)	(8.6)	(8.6)
Additional ST debt (1st year)(millions GBP)	0.0	0.0		

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ANNUAL OPERATING STATEMENTS

Below are UNITED KINGDOM's annual income statements with the projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT

	(MILLIONS GBP)					
	2016	2017	2018	2019	P2020	P2021
Taxes	536,970	562,187	583,162	602,072	621,338	641,221
Social Contributions	151,838	160,829	166,056	179,832	194,219	209,756
Grant Revenue						
Other Revenue						
Other Operating Income	<u>72,984</u>	<u>79,018</u>	<u>80,660</u>	<u>79,905</u>	<u>79,905</u>	<u>79,905</u>
Total Revenue	761,792	802,034	829,878	861,809	895,462	930,882
Compensation of Employees	178,746	184,637	190,400	199,830	209,727	220,114
Use of Goods & Services	163,790	163,116	168,267	178,944	190,298	202,373
Social Benefits	312,234	315,566	323,195	329,736	336,409	343,218
Subsidies	15,180	17,604	19,665	21,819	21,821	21,823
Other Expenses				69,385	69,385	69,385
Grant Expense						
Depreciation	39,234	40,461	40,875	41,634	41,634	41,634
Total Expenses excluding interest	<u>770,749</u>	<u>784,838</u>	<u>810,577</u>	<u>841,348</u>	<u>869,275</u>	<u>898,548</u>
Operating Surplus/Shortfall	-8,957	17,196	19,301	20,461	26,187	32,334
Interest Expense	<u>48,062</u>	<u>55,467</u>	<u>52,495</u>	<u>47,973</u>	<u>49,153</u>	<u>50,362</u>
Net Operating Balance	-57,019	-38,271	-33,194	-27,512	-22,966	-18,027

ANNUAL BALANCE SHEETS

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

Base Case	ANNUAL BALANCE SHEETS					
	(MILLIONS GBP)					
ASSETS	2016	2017	2018	2019	P2020	P2021
Currency and Deposits (asset)	80,572	95,866	98,021	103,383	103,383	151,550
Securities other than Shares LT (asset)	88,706	84,200	91,441	91,448	91,448	91,448
Loans (asset)	140,355	137,799	142,992	153,320	158,226	163,289
Shares and Other Equity (asset)	182,075	187,599	183,160	190,759	198,673	206,916
Insurance Technical Reserves (asset)	654	634	628	639	639	639
Financial Derivatives (asset)	-6,470	-3,043	-3,780	-1,401	-1,261	-1,135
Other Accounts Receivable LT	92,212	95,637	95,303	95,005	94,708	94,412
Monetary Gold and SDR's	-1,397	1,231	1,624	893	919	945
Other Assets						
Additional Assets	<u>19,655</u>	<u>16,817</u>	<u>18,803</u>	<u>21,489</u>	21,489	21,489
Total Financial Assets	596,362	616,740	628,192	655,535	668,224	729,553
LIABILITIES						
Other Accounts Payable	71,542	70,467	75,312	75,878	78,154	80,499
Currency & Deposits (liability)	172,617	188,328	190,254	200,246	123,895	85,719
Securities Other than Shares (liability)	2,036,071	2,062,415	2,060,209	2,206,367	2,315,936	2,430,946
Loans (liability)	34,424	41,971	53,099	49,028	71,994	90,021
Insurance Technical Reserves (liability)	20,704	15,064	8,927	8,567	8,824	9,089
Financial Derivatives (liability)	1,680	1,466	1,214	1,109	1,013	925
Other Liabilities	<u>11,074</u>	<u>10,681</u>	<u>11,102</u>	<u>10,680</u>	<u>10,680</u>	<u>10,680</u>
Liabilities	2,348,112	2,390,392	2,400,117	2,551,875	2,587,530	2,666,887
Net Financial Worth	<u>-1,751,750</u>	<u>-1,773,652</u>	<u>-1,771,925</u>	<u>-1,896,340</u>	<u>-1,919,306</u>	<u>-1,937,333</u>
Total Liabilities & Equity	596,362	616,740	628,192	655,535	668,224	729,553

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Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.

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 reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for the most recent period was "AA-"; we expect results to decline slightly.

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 UNITED KINGDOM with the ticker of 6152Z LN we have assigned the senior unsecured rating of A+. 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 Methodologies for Determining Credit Ratings (Main Methodology) version #15 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 used 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 adequate and acceptable.

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%	3.2	7.2	(0.8)	AA-	AA-	A+
Social Contributions Growth %	8.0	11.0	5.0	AA-	AA-	A+
Other Revenue Growth %	0.0	3.0	(3.0)	AA-	AA-	AA-
Total Revenue Growth%	4.2	6.2	2.2	AA-	AA-	AA-
Monetary Gold and SDR's Growth %	2.9	4.9	0.9	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:

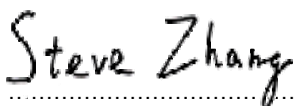


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Subramanian NG Senior
Rating Analyst

Today's Date

July 26, 2020
.....

Reviewer Signature:



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Steve Zhang
Senior Rating Analyst

Today's Date

July 26, 2020
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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 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.