UNITED KINGDOM

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

Rating Analysis - 8/30/22

The Bank of England (BOE) warned in August that the UK economy will enter its longest recession since the global financial crisis (GFC) in the fourth quarter of 2022. According to OECD, GDP is projected to increase by 3.6% in 2022, before stagnating in 2023.

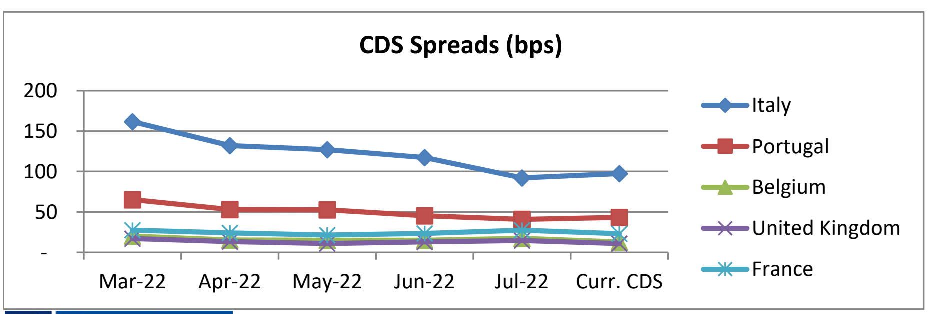
Inflation will keep rising and peak at over 10% at the end of 2022 due to continuing labour and supply shortages and high energy prices, before gradually declining to 4.7% by the end of 2023. Private consumption is expected to slow as rising prices erode households' income. Public investment will weaken in 2022 as supply bottlenecks hamper the implementation of planned investment, but is set to rise again in 2023 as these effects subside. The United Kingdom has limited direct trade and financial linkages with Russia and Ukraine, but higher global energy prices add to the squeeze on household incomes, which are now declining in real terms. The government should consider slowing fiscal consolidation to support growth. The challenges are spread across the economy, with both consumers and businesses under pressure. Affirming with a developing watch.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2019	2020	2021	P2022	P2023	P2024
Debt/ GDP (%)	169.5	192.1	190.8	198.9	202.5	201.6
Govt. Sur/Def to GDP (%)	-3.8	-15.9	-8.9	-5.1	-0.5	3.9
Adjusted Debt/GDP (%)	169.5	192.1	190.8	198.9	202.5	201.6
Interest Expense/ Taxes (%)	8.2	7.0	9.4	8.4	7.5	6.8
GDP Growth (%)	3.7	-4.7	7.8	2.3	2.3	2.5
Foreign Reserves/Debt (%)	2.8	2.5	2.2	2.0	1.7	1.7
Implied Sen. Rating	BBB+	BBB-	BBB	BBB	BBB	BBB+

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

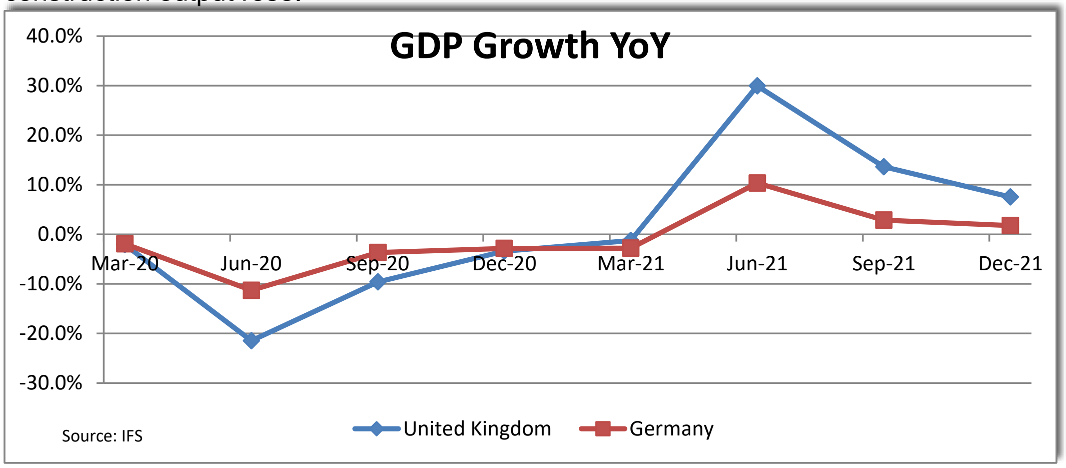
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	77.8	-3.6	77.8	2.4	6.0	AA
French Republic	AA	137.3	-6.0	137.3	4.6	8.2	A-
Kingdom Of Belgium	AA	128.0	-5.0	128.0	5.6	10.8	BBB-
Republic Of Italy	BBB-	173.7	-7.2	173.7	11.9	7.2	BB+
Portugal Republic	BB+	145.5	-3.1	145.5	9.8	5.6	BBB-



Country	EJR Rtg.	CDS
Italy	BBB-	98
Portugal	BBB-	43
Belgium	BBB	13
United Kingdom	A+	11
France	A+	23

Economic Growth

Long-term issues over low U.K. productivity growth and the lack of clear direction from the U.K. government over the benefits of Brexit have also likely contributed to weak investment levels. Additionally, expectations for revival in Britain's housing market have dried up quickly reflecting the worsening economic outlook and rising interest rates. The British economy expanded 0.8% on quarter in the first three months of 2022, the lowest in a year, and in line with preliminary estimates. The largest contributors were information and communication, and transport and storage while production output was primarily driven by a rise in manufacturing output; and construction output rose.



Fiscal Policy

Fiscal policy has started to tighten, with the main pandemic support measures phased out at the end of 2021. Other measures, such as the temporary reduced VAT rates on hospitality and recreational services, ended on March 2022. The government has committed to a gradual medium-term fiscal consolidation plan, with planned increases in tax revenues and increased investment. As cost of living has risen sharply, the government introduced temporary and targeted support measures to aid vulnerable households. The government is on track to reach its new fiscal target, which will put net debt on a declining trajectory.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
United Kingd	-8.88	190.85	10.93
Germany	-3.62	77.80	9.10
France	-5.97	137.28	23.02
Belgium	-4.98	128.02	12.93
Italy	-7.19	173.71	97.55
Portugal	-3.09	145.47	43.34

Sources: Thomson Reuters and IFS

Unemployment

The labour market rebounded quickly and job vacancies have reached record highs. Unemployment has fallen below pre-pandemic levels to 3.7%. Labour force participation has declined since the onset of the pandemic, mainly due to long-term sickness and early retirement by those aged above 55 years. Continued tightness of the labour market is expected to feed through to higher wage growth over the projection period, but with wage growth remaining below inflation.

Unemployment (%)	2020	2021
United Kingd	5.10	4.00
Germany	3.83	3.58
France	8.03	7.88
Belgium	5.73	6.28
Italy	9.30	9.56
Portugal	7.12	6.60

Source: Intl. Finance Statistics

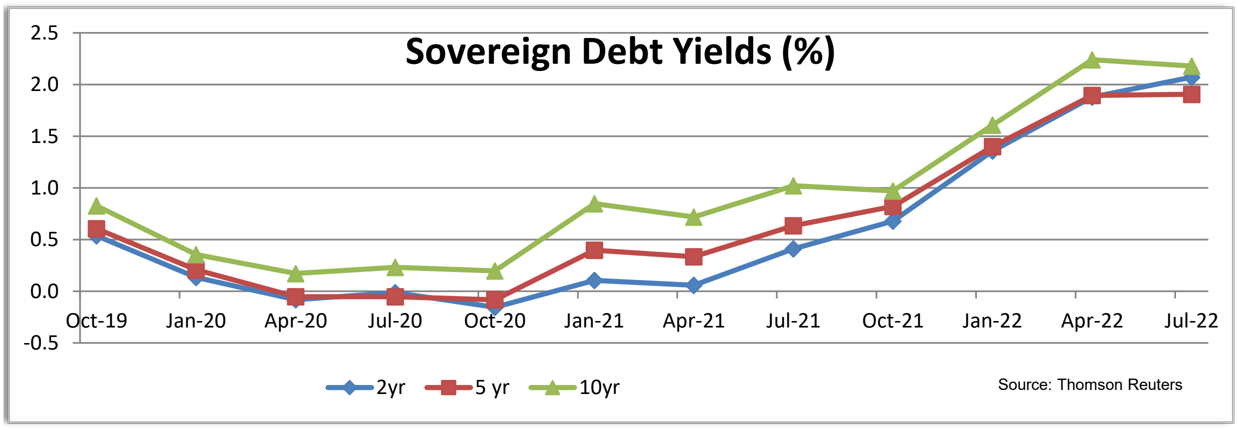
Banking Sector

Risks from the mortgage market remain contained but rapid house price growth warrants continuous vigilance.
Well-developed capital markets and a sound banking system are expected to facilitate the required reallocation of capital as a consequence of Brexit, the pandemic and net zero transition but the long-term impact on the UK financial sector remains unclear.
The UK banking sector has levels of capital and liquidity that can support households and businesses even with the worsening in the economic outlook.

Bank Assets (billions of local currency)	Assets	Mkt Cap/ Assets %
HSBC HLDGS PLC	2,957.9	3.54
ROYAL BK SCOTLAN	782.0	3.03
BARCLAYS PLC	1,384.3	1.87
LLOYDS BANKING	886.5	3.40
STANDARD CHARTER	827.8	2.09
Total	6,838.6	
EJR's est. of cap shortfall at 10% of assets less market cap		481.9
United Kingdom's GDP		2,317.1

Funding Costs

Britain's 10-year Gilt edged slightly above the 1.9% level in the second week of August, but still not far from the 2-1/2-month low of 1.7% hit at the beginning of the month. The Bank of England revised its growth forecast to indicate a recession will begin in Q4 and last until 2023, and hiked its key Bank rate by 50bps, marking its steepest raise in borrowing costs since 1995 to tame inflation that currently stands at a 40-year high. The central bank also announced it will probably begin selling some of the government bonds it acquired during more than a decade of quantitative easing starting next month.



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*	2021 Rank	2020 Rank	Change in Rank
Overall Country Rank:	**8**	**8**	**0**
Scores:			
Starting a Business	18	18	0
Construction Permits	23	23	0
Getting Electricity	8	8	0
Registering Property	41	41	0
Getting Credit	37	37	0
Protecting Investors	7	7	0
Paying Taxes	27	27	0
Trading Across Borders	33	33	0
Enforcing Contracts	34	34	0
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 78.4 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom
World Rank 78.4*

	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	87.6	92.2	-4.6	53.6
Government Integrity	76.7	89.9	-13.2	45.9
Judical Effectiveness	86.5	82.7	3.8	45.4
Tax Burden	64.9	64.7	0.2	77.7
Gov't Spending	54.8	49.5	5.3	67.1
Fiscal Health	77.3	78.1	-0.8	72.1
Business Freedom	94.4	94.7	-0.3	63.2
Labor Freedom	73.2	73.1	0.1	59.5
Monetary Freedom	81.0	80.3	0.7	74.7
Trade Freedom	84.0	86.4	-2.4	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:
UNITED KINGDOM has grown its taxes of 13.3% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 13.3% per annum over the next couple of years and 12.0% 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 no 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%	10.1	13.3	**13.3**	**12.0**
Social Contributions Growth %	6.0	7.1	**7.0**	**7.0**
Grant Revenue Growth %	0.0	(100.0)	**0.5**	**0.5**
Other Revenue Growth %	0.0	(8.6)	**12.0**	**12.0**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	9.1	10.0	**10.0**	**9.0**
Compensation of Employees Growth%	3.1	4.3	**4.3**	**4.3**
Use of Goods & Services Growth%	6.8	(1.3)	**(1.3)**	**(1.3)**
Social Benefits Growth%	2.8	1.1	**1.1**	**1.1**
Subsidies Growth%	9.3	(46.9)		
Other Expenses Growth%	(0.6)	(0.6)	**(0.6)**	**(0.6)**
Interest Expense	1.8	1.4	**1.4**	
Currency and Deposits (asset) Growth%	1.3	0.0		
Securities other than Shares LT (asset) Growth%	7.0	0.0		
Loans (asset) Growth%	(73.1)	(11.8)	**(11.8)**	**(11.8)**
Shares and Other Equity (asset) Growth%	(9.9)	(4.5)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	2.7	0.0		
Financial Derivatives (asset) Growth%	0.0	(16.1)	**(16.1)**	**(16.1)**
Other Accounts Receivable LT Growth%	4.2	(20.4)	**12.6**	**12.6**
Monetary Gold and SDR's Growth %	0.0	5,356.1	**400.0**	**360.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	5.8	1.4	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	1.8	10.1	**13.3**	**13.3**
Securities Other than Shares (liability) Growth%	(0.1)	9.1	**6.3**	**6.3**
Loans (liability) Growth%	2.8	(12.6)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	6.1	2.3	**2.3**	**2.3**
Financial Derivatives (liability) Growth%	(22.1)	31.3	**17.3**	**15.6**
Additional ST debt (1st year)(millions GBP)	0.0	0.0		

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)

	2018	2019	2020	2021	P2022	P2023
Taxes	593,697	596,823	562,753	637,434	722,213	818,267
Social Contributions	139,270	147,024	146,405	156,758	167,731	179,472
Grant Revenue	143	74	74			
Other Revenue	74,769	74,061	74,024	67,676	75,777	84,847
Other Operating Income						
Total Revenue	807,879	817,982	783,256	861,868	965,721	1,082,587
Compensation of Employees	190,530	203,207	218,586	227,943	237,701	247,876
Use of Goods & Services	165,041	170,860	212,887	210,187	207,521	204,889
Social Benefits	283,123	293,857	325,598	329,044	332,526	336,046
Subsidies	20,530	25,606	141,362	75,127	75,135	75,142
Other Expenses	104,293	95,960	118,933	118,192	117,456	116,724
Grant Expense	22,324	21,372	21,251	13,021	7,978	4,888
Depreciation	43,305	45,024	46,194	47,105	47,105	47,105
Total Expenses excluding interest	829,146	855,886	1,084,811	1,007,598	1,025,422	1,032,670
Operating Surplus/Shortfall	-21,267	-37,904	-301,555	-145,730	-59,701	49,916
Interest Expense	49,661	48,760	39,593	60,110	60,927	61,755
Net Operating Balance	-70,928	-86,664	-341,148	-205,840	-120,628	-11,839

ANNUAL BALANCE SHEETS

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

ANNUAL BALANCE SHEETS
(MILLIONS GBP)

Base Case ASSETS	2018	2019	2020	2021	P2022	P2023
Currency and Deposits (asset)	89,769	87,135	129,716	169,419	169,419	169,419
Securities other than Shares LT (asset)	92,308	108,599	108,227	91,683	91,683	91,683
Loans (asset)	2,476	15,218	11,220	9,896	8,728	7,698
Shares and Other Equity (asset)	-3,182	-1,048	-3,839	-3,667	-3,740	-3,815
Insurance Technical Reserves (asset)	641	634	658	691	691	691
Financial Derivatives (asset)	-2,324	-3,447	2,391	2,007	1,685	1,414
Other Accounts Receivable LT	108,538	96,939	116,844	93,021	104,774	118,012
Monetary Gold and SDR's	1,648	639	380	20,733	103,665	518,325
Other Assets					381,147	381,147
Additional Assets	346,533	347,865	373,636	381,147		
Total Financial Assets	636,407	652,534	739,233	764,930	858,052	1,284,575

LIABILITIES	2018	2019	2020	2021	P2022	P2023
Other Accounts Payable	52,349	57,899	62,394	63,290	65,189	67,144
Currency & Deposits (liability)	190,816	206,178	228,368	251,533	251,533	251,533
Securities Other than Shares (liability)	2,117,035	2,281,040	2,503,533	2,730,191	2,903,216	3,087,206
Loans (liability)	75,307	70,407	76,225	66,600	187,228	199,067
Insurance Technical Reserves (liability)	1,140,513	1,196,873	1,250,872	1,279,764	1,309,323	1,339,565
Financial Derivatives (liability)	1,174	1,130	1,926	2,528	2,965	3,478
Other Liabilities	10,735	11,190	10,434	30,684	30,684	30,684
Liabilities	3,587,929	3,824,717	4,133,752	4,424,590	4,638,340	5,076,702
Net Financial Worth	-2,951,522	-3,172,183	-3,394,519	-3,659,660	-3,780,288	-3,792,127
Total Liabilities & Equity	636,407	652,534	739,233	764,930	858,052	1,284,575

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 adjustmer which are reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for th recent period is "BBB"; 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 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+) 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 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 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%	13.3	17.3	9.3	BBB	BBB+	BBB
Social Contributions Growth %	7.0	10.0	4.0	BBB	BBB	BBB
Other Revenue Growth %	12.0	15.0	9.0	BBB	BBB	BBB
Total Revenue Growth%	10.0	12.0	8.0	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	12.6	14.6	10.6	BBB	BBB	BBB

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**

August 30, 2022

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Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

August 30, 2022

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Steve Zhang
Senior Rating Analyst

(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.