

The OECD projects the UK's GDP growth to be modest at 0.3% in 2023, with a moderate improvement to 1.0% in 2024. To support the economy, government consumption and investment will play a crucial role, followed by a gradual strengthening of private expenditure due to falling wholesale gas prices and improved global conditions. Headline inflation is expected to slow down due to declining energy prices, approaching the target by the end of 2024. However, core inflation is anticipated to be more persistent. The unemployment rate is projected to rise, reaching 4.5% in 2024.

Monetary policy will remain tight, impacting output and reducing inflation. Additionally, the fiscal stance will be restrictive during 2023-24. Despite limited fiscal space, the government is at significant risk from fluctuations in interest rates. A concerning trend is the increasing number of households affected by higher interest rates as fixed-rate mortgage deals expire. Although this situation is expected to continue throughout 2023, it is projected to remain below the historic peak witnessed in 2007. Affirming.

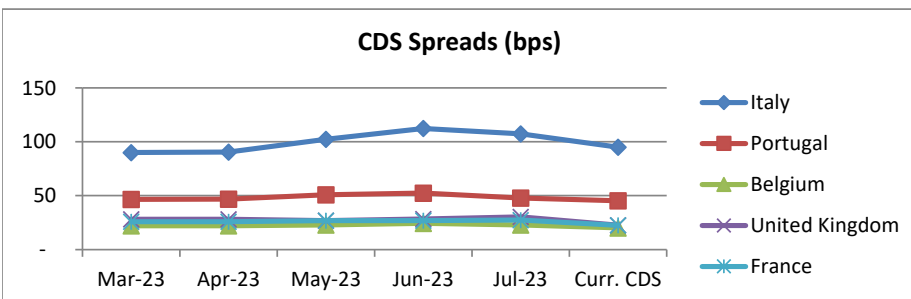
Annual Ratios (source for past results: IMF)

CREDIT POSITION	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>P2023</u>	<u>P2024</u>	<u>P2025</u>
Debt/ GDP (%)	194.2	184.6	147.9	135.8	125.1	115.7
Govt. Sur/Def to GDP (%)	-15.6	-6.5	-5.5	-2.3	-1.7	-1.4
Adjusted Debt/GDP (%)	194.2	184.6	147.9	135.8	125.1	115.7
Interest Expense/ Taxes (%)	7.3	10.9	15.0	14.3	13.7	13.2
GDP Growth (%)	-5.8	7.6	9.7	2.5	3.6	3.6
Foreign Reserves/Debt (%)	2.5	2.3	2.5	2.6	2.8	2.9
Implied Sen. Rating	BBB-	BBB+	A-	A-	A-	A

INDICATIVE CREDIT RATIOS

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>
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

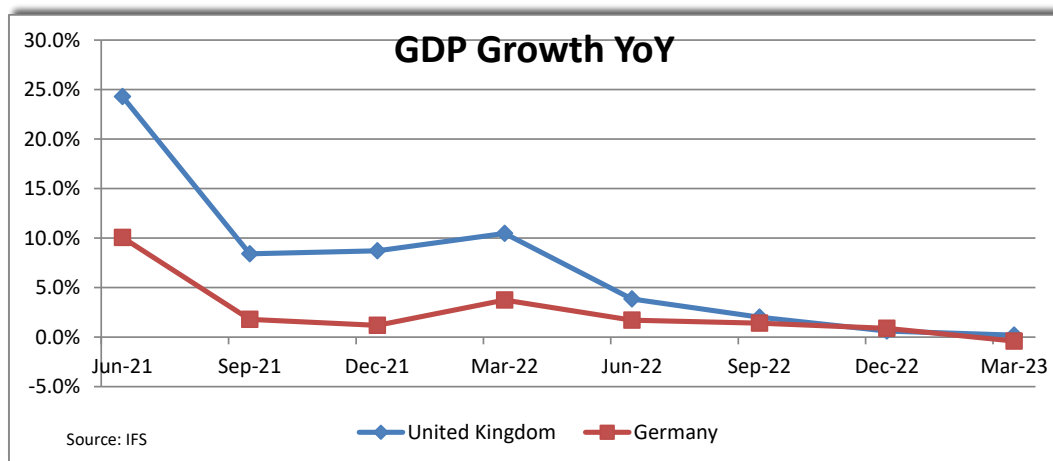
PEER RATIOS	<u>Other NRSRO Sen.</u>	<u>Debt as a % of GDP</u>	<u>Govt. Surp. Def to GDP (%)</u>	<u>Adjusted Debt/ GDP</u>	<u>Interest Expense/ Taxes %</u>	<u>GDP Growth (%)</u>	<u>Ratio- Implied Rating*</u>
Federal Republic Of Germany	AAA	65.3	-2.6	65.3	2.7	7.4	AA
French Republic	AA	117.1	-4.2	117.1	6.1	5.5	A-
Kingdom Of Belgium	AA	103.8	-3.4	103.8	5.1	9.3	BBB
Republic Of Italy	BBB-	151.3	-7.8	151.3	14.6	6.8	BB+
Portugal Republic	BB+	116.6	-0.7	116.6	7.6	11.4	BBB-



<u>Country</u>	<u>EJR Rtg.</u>	<u>CDS</u>
Italy	BBB-	95
Portugal	BBB-	45
Belgium	BBB	20
United Kingdom	A+	23
France	A+	23

Economic Growth

Following the June meeting, the UK's interest rates were hiked for the thirteenth consecutive time, reaching 5%. This decision was partly attributed to the greater resilience of the UK economy. However, the continuous series of rate hikes has had a detrimental effect on the GDP growth outlook for the upcoming year, with projections not even reaching 0.5%. The current year's growth is only slightly above zero. Inflation has been a concern as well, lagging behind expectations at 8.7%. The high growth in food prices, which reached 18.4%, has been a primary contributing factor.



Fiscal Policy

The government's fiscal stance for 2023-24 will be restrictive as it adheres to its national fiscal rule aimed at reducing public debt within a five-year timeframe, despite facing higher borrowing costs. In its 2023 spring budget, the government includes energy support measures, some of which are expected to become obsolete by the third quarter of 2023 due to falling energy prices. The cumulative costs for fiscal years 2022/23 and 2023/24 are estimated at approximately GBP 78 billion, equivalent to about 3% of GDP.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
United Kingdom	-5.52	147.88	22.67
Germany	-2.62	65.28	15.01
France	-4.25	117.11	22.50
Belgium	-3.36	103.79	20.17
Italy	-7.83	151.26	95.04
Portugal	-0.66	116.63	45.31

Sources: Thomson Reuters and IFS

Unemployment

In March to May 2023, the unemployment rate in the United Kingdom surged to 4.0 percent, marking the highest level since the last quarter of 2021 and surpassing market expectations of 3.8 percent. The number of unemployed individuals rose by 77 thousand to reach 1.37 million, with a significant increase observed among people unemployed for up to 12 months. Concurrently, employment levels showed some improvement, rising by 102 thousand to reach 33.05 million. However, this increase was mainly driven by part-time employees and fell short of the market consensus of a 125 thousand advance.

	Unemployment (%)	
	2021	2022
United Kingdom	4.00	3.70
Germany	3.58	3.07
France	7.88	7.32
Belgium	6.28	5.58
Italy	9.56	8.08
Portugal	6.59	6.04

Source: Intl. Finance Statistics

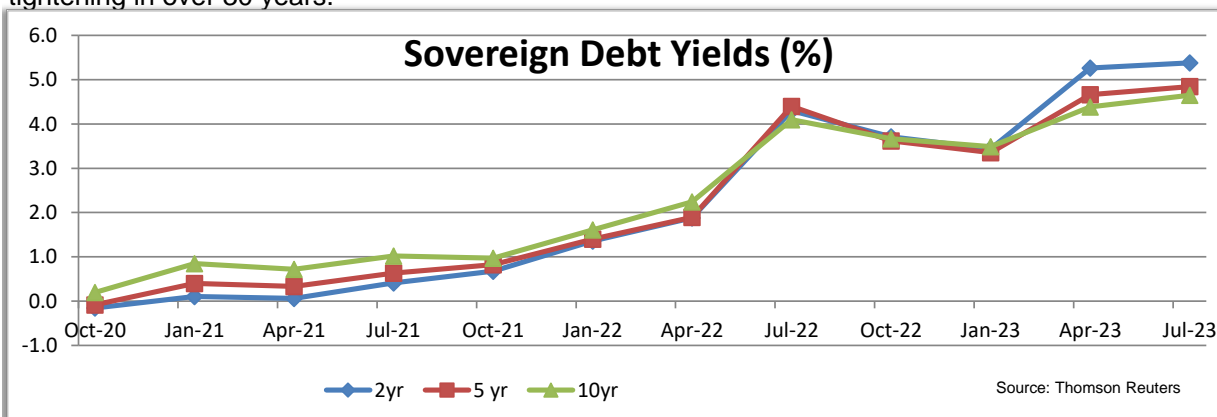
Banking Sector

The UK banking system remains well-capitalized with substantial liquidity buffers. Overall asset quality is relatively strong, and higher interest rates have had limited impacts on credit risk thus far. However, the challenging risk environment exposes certain lending activities, including financing commercial real estate investments, buy-to-let lending, and highly leveraged lending to corporates, especially for lenders more concentrated in these assets, to credit losses as borrowing costs rise.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
HSBC HLDGS PLC	2,949.3	4.10
ROYAL BK SCOTLAN	782.0	3.03
BARCLAYS PLC	1,513.7	1.52
LLOYDS BANKING	877.8	3.15
STANDARD CHARTER	<u>819.9</u>	<u>2.30</u>
Total	6,942.7	
EJR's est. of cap shortfall at 10% of assets less market cap		480.3
United Kingdom's GDP		2,491.2

Funding Costs

In a surprising move, the Bank of England raised its policy interest rate by 50 basis points to 5.0% during its June meeting, marking the 13th consecutive hike. This decision exceeded market expectations, which had anticipated a smaller 25 basis point rate increase. The bank's objective was to combat persistent inflation, resulting in borrowing costs reaching their highest level since the 2008 financial crisis. The Bank of England initiated these rate hikes approximately a year and a half ago, making it the first major central bank to implement such measures and leading to the fastest policy tightening in over 30 years.



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 above average in its overall rank of 69.9 for Economic Freedom with 100 being best.

Heritage Foundation 2023 Index of Economic Freedom				
World Rank 69.9*				
	2023 Rank**	2022 Rank	Change in Rank	World Avg.
Property Rights	95.1	96.2	-1.1	53.3
Government Integrity	86.4	87.1	-0.7	44.4
Judicial Effectiveness	84.8	85.9	-1.1	48.3
Tax Burden	65.4	65.4	0.0	78.1
Gov't Spending	41.9	46.3	-4.4	64.3
Fiscal Health	1.8	22.6	-20.8	54.5
Business Freedom	79.1	79.1	0.0	59.8
Labor Freedom	62.2	62.1	0.1	55.5
Monetary Freedom	80.8	83.0	-2.2	72.1
Trade Freedom	81.8	84.2	-2.4	69.6

*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 7.5% per annum in the last fiscal year which is average. We expect tax revenues will grow approximately 7.5% per annum over the next couple of years and 6.8% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

UNITED KINGDOM's total revenue growth has been less 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%	7.9	7.5	7.5	6.8
Social Contributions Growth %	6.2	9.5	10.0	10.0
Grant Revenue Growth %	0.0	(19.6)	0.5	0.5
Other Revenue Growth %	0.0	0.7	6.8	6.8
Other Operating Income Growth%	0.0	0.7	0.7	0.7
Total Revenue Growth%	7.9	7.3	7.3	6.5
Compensation of Employees Growth%	4.3	3.2	3.2	3.2
Use of Goods & Services Growth%	6.4	(0.2)	(0.2)	(0.2)
Social Benefits Growth%	3.5	5.0	5.0	5.0
Subsidies Growth%	(6.3)	(25.8)		
Other Expenses Growth%	23.6	23.6	23.6	21.2
Interest Expense	1.8	2.9	2.9	
Currency and Deposits (asset) Growth%	(11.4)	0.0		
Securities other than Shares LT (asset) Growth%	(4.6)	0.0		
Loans (asset) Growth%	5.4	18.7	7.5	7.5
Shares and Other Equity (asset) Growth%	57.9	(16.7)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	(1.4)	2.0	2.0
Financial Derivatives (asset) Growth%	0.0	(49.7)	(10.0)	(10.0)
Other Accounts Receivable LT Growth%	4.2	(8.4)	(8.4)	(8.4)
Monetary Gold and SDR's Growth %	0.0	(92.9)	6.8	6.8
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	6.8	(5.0)	3.0	3.0
Currency & Deposits (liability) Growth%	(2.6)	(1.2)	0.5	0.5
Securities Other than Shares (liability) Growth%	(15.1)	(20.1)	(14.1)	(14.1)
Loans (liability) Growth%	2.6	(7.7)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	2.8	0.7	0.7	0.7
Financial Derivatives (liability) Growth%	(60.0)	(18.0)	(18.0)	(18.0)
Additional ST debt (1st year)(millions GBP)	0.0	0.0		

ANNUAL INCOME 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)					
	2019	2020	2021	2022	P2023	P2024
Taxes	594,392	561,209	667,023	717,028	770,805	828,615
Social Contributions	145,970	146,271	162,084	177,509	195,260	214,786
Grant Revenue	74	74	97	78	78	79
Other Revenue	73,853	73,171	77,363	77,908	83,167	88,781
Other Operating Income	73,927	73,245	77,460	77,986	77,986	77,986
Total Revenue	814,289	780,725	906,567	972,523	1,127,296	1,210,247
Compensation of Employees	200,627	208,994	221,156	228,284	235,642	243,237
Use of Goods & Services	171,134	207,118	214,222	213,806	213,391	212,976
Social Benefits	293,711	325,170	326,725	343,000	360,086	378,022
Subsidies	25,672	140,814	52,517	38,959	38,963	38,967
Other Expenses	96,116	118,766	103,408	127,822	158,000	195,303
Grant Expense	21,372	21,139	14,986	17,088	19,485	22,218
Depreciation	45,289	46,356	47,797	50,860	50,860	50,860
Total Expenses excluding interest	853,921	1,068,357	980,811	1,002,731	1,076,426	1,141,583
Operating Surplus/Shortfall	-39,632	-287,632	-74,244	-30,208	50,870	68,664
Interest Expense	<u>50,217</u>	<u>41,122</u>	<u>72,554</u>	<u>107,389</u>	<u>110,519</u>	<u>113,741</u>
Net Operating Balance	-89,849	-328,754	-146,798	-137,597	-59,649	-45,077

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)					
	2019	2020	2021	2022	P2023	P2024
ASSETS						
Currency and Deposits (asset)	87,135	129,695	137,699	106,251	106,251	106,251
Securities other than Shares LT (asset)	108,602	108,276	96,041	90,247	90,247	90,247
Loans (asset)	14,487	11,227	14,324	17,006	18,281	19,653
Shares and Other Equity (asset)	-1,030	-3,883	-3,089	-2,574	-2,625	-2,678
Insurance Technical Reserves (asset)	1,249	1,213	1,035	1,020	1,040	1,061
Financial Derivatives (asset)	-3,447	2,387	3,523	1,771	1,594	1,435
Other Accounts Receivable LT	94,283	114,530	108,819	99,724	91,389	83,751
Monetary Gold and SDR's	639	380	20,808	1,482	1,582	1,689
Other Assets					418,439	418,439
Additional Assets	<u>349,268</u>	<u>373,387</u>	<u>384,545</u>	<u>418,439</u>		
Total Financial Assets	651,186	737,212	763,705	733,366	726,198	719,847
LIABILITIES						
Other Accounts Payable	58,237	62,524	71,637	68,063	70,105	72,208
Currency & Deposits (liability)	206,378	228,524	250,938	247,899	247,899	247,899
Securities Other than Shares (liability)	2,282,381	2,505,082	2,517,028	2,010,887	1,727,833	1,484,622
Loans (liability)	92,024	97,391	87,998	81,197	140,846	185,923
Insurance Technical Reserves (liability)	1,202,750	1,193,114	1,231,488	1,240,494	1,249,566	1,258,704
Financial Derivatives (liability)	1,130	1,922	2,840	2,329	1,910	1,566
Other Liabilities	<u>11,190</u>	<u>10,434</u>	<u>31,019</u>	<u>35,543</u>	<u>35,543</u>	<u>35,543</u>
Liabilities	3,854,090	4,098,991	4,192,948	3,686,412	3,738,894	3,777,619
Net Financial Worth	<u>-3,202,904</u>	<u>-3,361,779</u>	<u>-3,429,243</u>	<u>-2,953,046</u>	<u>-3,012,695</u>	<u>-3,057,772</u>
Total Liabilities & Equity	651,186	737,212	763,705	733,366	726,198	719,847

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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 "A+" whereas the ratio-implied rating for the most recent period is "A-"; 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

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 methodology version #16 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 used 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, governmental filings 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%	7.5	11.5	3.5	A-	A	A-
Social Contributions Growth %	10.0	13.0	7.0	A-	A	A-
Other Revenue Growth %	6.8	9.8	3.8	A-	A	A-
Total Revenue Growth%	7.3	9.3	5.3	A-	A-	A-
Monetary Gold and SDR's Growth %	6.8	8.8	4.8	A-	A-	A-

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:

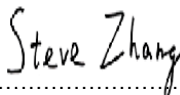
Today's Date

.....
 Subramanian NG
 Senior Rating Analyst

August 18, 2023

Reviewer Signature:

Today's Date

.....

 Steve Zhang
 Senior Rating Analyst

August 18, 2023

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.