UNITED KINGDOM
Rating Analysis - 6/30/16

*EJR Sen Rating(Curr/Prj) A+/ N/A
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.3%

Big challenge - the UK's economic recovery has slowed since 2013 while the sovereign debt grew slightly from 86.2% to 89.2% of the UK's GDP. The nominal GDP growth rate of 2.90% in 2015 was much lower than that of 4.81% in 2013; on June 24, 2016, the Brexit referendum was approved with the likely result being a further reduction in growth. We expect the growth rate to drop to approximately 1% in the next 12 months.

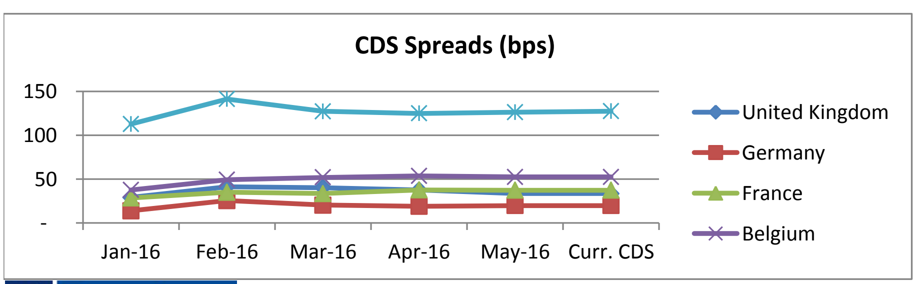
Other concerns are from the political side, as the chain reaction after the Brexit may spread. The exit from EU already caused the panics in the financial area, resulting in the capital outflow and the sharp depreciation of the GBP, which will likely stress the banking sector. Also, the Scottish independence referendum may be again triggered since the major of Scotland wants to remain in the EU, and so does the Northern Ireland. The Brexit brought huge uncertainty to the market. Watch further Brexit procedures. Affirming at "A+" with a developing watch. Note, to reflect the propensity of central banks to support sovereign obligors, we have eased our indicative credit ratios, resulting in some upgrades.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	86.2	88.4	89.2	92.5	95.4	97.6
Govt. Sur/Def to GDP (%)	-4.7	-4.6	-3.5	-3.2	-2.9	-2.5
Adjusted Debt/GDP (%)	86.2	88.4	89.2	92.5	95.4	97.6
Interest Expense/ Taxes (%)	10.6	10.1	8.7	8.6	8.5	8.4
GDP Growth (%)	4.8	4.4	2.9	0.8	0.8	1.2
Foreign Reserves/Debt (%)	2.9	3.2	4.3	4.2	4.1	3.9
Implied Sen. Rating	AA-	AA-	AA-	A+	A+	A+

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	71.2	0.6	71.2	7.0	4.1	AA+
French Republic	AA	96.0	-3.4	96.0	7.0	2.4	A
Kingdom Of Belgium	AA	106.0	-2.6	106.0	9.6	1.9	A+
Republic Of Italy	BBB-	132.9	-3.0	132.9	13.9	1.1	BBB-
Portugal Republic	BB+	129.0	-5.1	129.0	18.0	3.4	A-



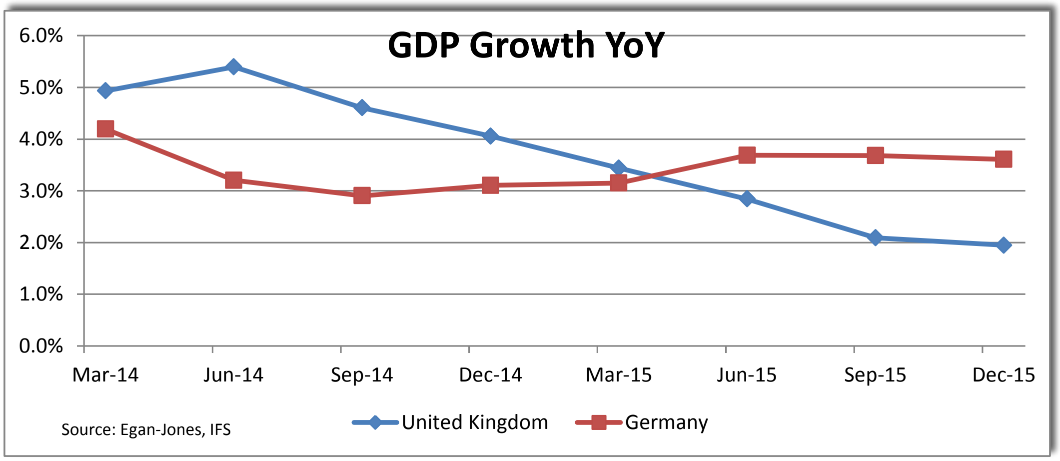
Country	CDS
United Kingdom	33
Germany	20
France	37
Belgium	53
Italy	128

Egan-Jones Ratings Company

Economic Growth

The UK's economy has been recovering since 2009, however, slowing down during the last 2 years. As shown in the chart below, the UK's YoY GDP growth has dropped from approximately 5.3% in June 2014 to 2.0% in December 2015, as a result of a deceleration in investment and manufacturing.

Although consumer spending accounts for 65% of GDP in 2014, suggesting a relatively strong resilience to external shocks, the Brexit may hurt the UK's economy from inside. Mr. Osborne recently announced the possible tax raises to help tighten the fiscal deficit budget, which is likely to discourage the major support of the UK's economy. We expect the UK's GDP growth to remain weak over the next couple of years.



Fiscal Policy

The UK has been reducing its deficit budget for years. The Deficit-to-GDP ratio has dropped from 7.8% in 2012 to 3.46% in 2015 mainly due to increases in tax, which is however, not comforting considering the rising trend of the Debt-to-GDP ratio (81.9% in 2011 to 89.2% in 2015). The absolute value of Debt-to-GDP is only greater than Germany, which is still at a low level. After leaving the EU, Mr. Osborne announced the actions of raising taxes and cutting spending to reduce the deficit, which may improve the UK's fiscal balance.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
UK	-3.46	89.22	33.47
Germany	0.59	71.22	19.80
France	-3.40	95.96	37.34
Belgium	-2.62	105.96	52.60
Italy	-2.96	132.89	127.50
Portugal	-5.10	128.97	259.08

Sources: Thomson Reuters and IFS

Unemployment

The UK's unemployment rate was the lowest among the peer countries in both 2014 and 2015. The most recent data shows that the number was 5.0% at the end of 2015, and the UK has been improving it since 2013. However, the capital outflow caused by the fear after the Brexit may increase the UK's unemployment. Watch the UK's market.

Unemployment (%)	2014	2015
UK	6.19	5.37
Germany	6.70	6.01
France	10.30	10.40
Belgium	8.50	8.50
Italy	12.65	11.89
Portugal	14.10	12.60

Source: Intl. Finance Statistics

Banking Sector

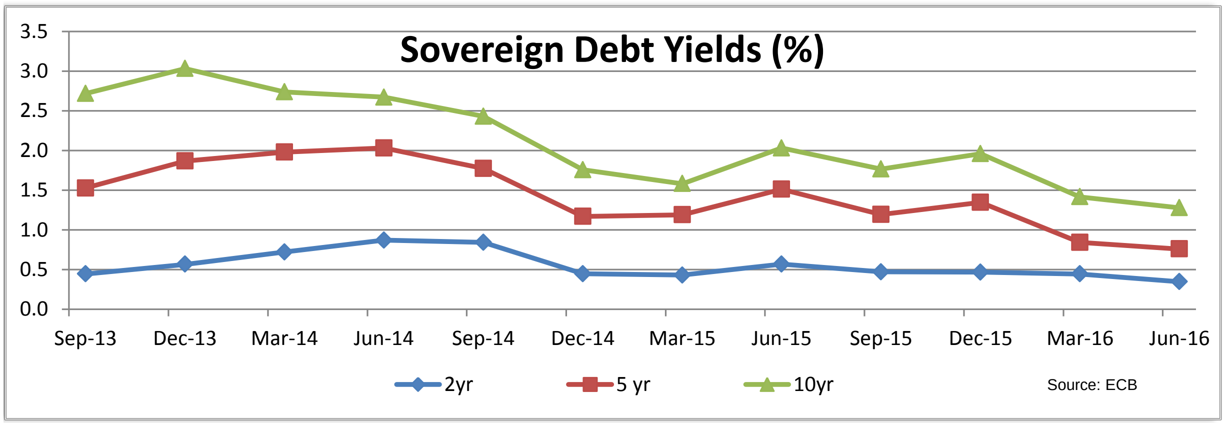
The UK's banking sector has been strengthened since the crisis with the compressed size of its banks. The top 5 banks in the UK now have total assets equal to 214% of the GDP, which was less than half of the 2013 level (465%). However, the UK's exposure to its banking sector is still significant as compared to that of Germany (roughly 115%), especially with the big shock from the Brexit.

Bank Assets (billions of local currency)

	Assets	Cap/ Assets %
HSBC HLDGS PLC	1661.83	5.30
ROYAL BK SCOTLAN	562.35	4.95
BARCLAYS PLC	772.42	3.93
LLOYDS BANKING	556.34	8.98
STANDARD CHARTER	441.71	3.92
Total	3,994.7	
EJR's est. of cap shortfall at 10% of assets less market cap		185.9
United Kingdom's GDP		1,864.0

Funding Costs

Interest rate has been dropping since its peak level in early 2014. As can be seen in the chart below, the UK's 2-year debt yield is around 0.4% in June, 2016, which is at the same level as it was in September, 2013. As UK leaves the EU and its credit worthiness drops, the funding costs may increase in the short future. Watch the bond market and the government response.



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 6 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*

	2015 Rank	2014 Rank	Change in Rank
Overall Country Rank:	**6**	**6**	**0**
Scores:			
Starting a Business	17	43	26
Construction Permits	23	23	0
Getting Electricity	15	16	1
Registering Property	45	44	-1
Getting Credit	19	17	-2
Protecting Investors	4	4	0
Paying Taxes	15	16	1
Trading Across Borders	38	36	-2
Enforcing Contracts	33	26	-7
Resolving Insolvency	13	12	-1

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

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Economic Freedom

As can be seen below, United Kingdom is strong in its overall rank of 75.8 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom
World Rank 75.8*

	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	76	76.4	-0.4	41.9
Fiscal Freedom	62.9	56.6	6.3	77.4
Government Spending	30.3	29.5	0.8	61.7
Business Freedom	91.1	92	-0.9	64.1
Labor Freedom	75.6	73.1	2.5	61.3
Monetary Freedom	74.4	73.5	0.9	75.0
Trade Freedom	88	87.8	0.2	75.4
Investment Freedom	90	90	0	54.8
Financial Freedom	80	80	0	48.6

*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

Valuation Driver: Taxes Growth:
UNITED KINGDOM has grown its taxes of 4.1% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 1.8% per annum over the next couple of years and 2.3% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:
UNITED KINGDOM's total revenue growth has been more than its peers and we assumed a 2.4% growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	2.7	4.1	**1.8**	**2.3**
Social Contributions Growth %	1.7	5.1		
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	2.0	**1.0**	**1.0**
Total Revenue Growth%	1.9	4.1	**2.4**	**2.4**
Compensation of Employees Growth%	0.9	1.0	**1.0**	**1.0**
Use of Goods & Services Growth%	1.4	0.9		
Social Benefits Growth%	1.8	2.2	**1.0**	**1.0**
Subsidies Growth%	0.8	19.2		
Other Expenses Growth%	4.5	4.5		
Interest Expense	0.0	2.6	**1.0**	**1.0**
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.5)	(1.1)	**(1.1)**	**(1.1)**
Shares and Other Equity (asset) Growth%	0.9	(6.7)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	0.3	0.0		
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	(0.2)	(4.8)	**(4.8)**	**(4.8)**
Monetary Gold and SDR's Growth %	0.0	0.0		
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	2.4	7.8	**7.0**	**7.0**
Securities Other than Shares (liability) Growth%	2.4	1.1	**0.8**	**0.8**
Loans (liability) Growth%	(1.2)	13.3	**13.3**	**13.3**
Insurance Technical Reserves (liability) Growth%	0.0	6.5	**2.0**	**2.0**
Financial Derivatives (liability) Growth%	0.0	2.1	**2.1**	**2.1**
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 3.

ANNUAL REVENUE AND EXPENSE STATEMENT

(MILLIONS GBP)

	2012	2013	2014	2015	P2016	P2017
Taxes	451,459	468,042	484,304	504,063	513,136	522,373
Social Contributions	131,560	134,807	138,660	145,718	145,718	145,718
Grant Revenue						
Other Revenue						
Other Operating Income	58,055	79,580	72,780	74,257	74,257	74,257
Total Revenue	641,074	682,429	695,744	724,038	733,111	742,348
Compensation of Employees	171,580	167,154	170,449	172,139	173,860	175,599
Use of Goods & Services	189,040	197,332	204,941	206,713	206,713	206,713
Social Benefits	245,921	250,774	256,793	262,482	265,107	267,758
Subsidies	9,125	9,219	9,960	11,871	11,872	11,873
Other Expenses	70,348	62,141	59,666	62,338	62,338	62,338
Grant Expense						
Depreciation	26,500	27,387	28,246	29,176	29,176	29,176
Total Expenses excluding interest	712,514	714,007	730,055	744,719	749,066	753,457
Operating Surplus/Shortfall	-71,440	-31,578	-34,311	-20,681	-15,955	-11,110
Interest Expense	48,320	49,506	48,953	43,729	44,166	44,608
Net Operating Balance	-119,760	-81,084	-83,264	-64,410	-60,122	-55,718

ANNUAL BALANCE SHEETS

Below are UNITED KINGDOM's balance sheets with the projected years based on the assumptions listed on page 3.

ANNUAL BALANCE SHEETS
(MILLIONS GBP)

Base Case						
ASSETS	**2012**	**2013**	**2014**	**2015**	**P2016**	**P2017**
Currency and Deposits (asset)	3,287	2,938	2,095	1,008	1,008	1,008
Securities other than Shares LT (asset)	697	49,115	55,022	71,291	71,291	71,291
Loans (asset)	149,776	149,874	154,351	152,604	150,877	149,169
Shares and Other Equity (asset)	213,803	195,738	200,863	187,377	191,125	194,947
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT	67,869	65,799	67,170	63,954	60,892	57,977
Monetary Gold and SDR's						
Other Assets					89,985	89,985
Additional Assets	150,893	96,751	98,522	89,985		
Total Financial Assets	586,325	560,215	578,023	566,219	565,177	564,377

LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	133,761	126,593	144,404	155,651	155,651	155,651
Securities Other than Shares (liability)	1,479,092	1,485,168	1,747,999	1,768,057	1,782,259	1,796,575
Loans (liability)	27,496	27,818	29,663	33,623	93,745	149,462
Insurance Technical Reserves (liability)	73,378	63,253	63,138	67,263	68,608	69,980
Financial Derivatives (liability)	2,359	1,259	1,109	1,132	1,155	1,179
Other Liabilities	75,139	72,442	73,638	69,661	69,661	69,661
Liabilities	1,791,225	1,776,533	2,059,951	2,095,387	2,154,467	2,209,384
Net Financial Worth	-1,204,900	-1,216,318	-1,481,928	-1,529,168	-1,589,290	-1,645,007
Total Liabilities & Equity	586,325	560,215	578,023	566,219	565,177	564,377

*EJR Sen Rating(Curr/Prj) A+/ N/A
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.3%

Comments on the Difference between the Model and Assigned Rating

*EJR Sen Rating(Curr/Prj) A+/ N/A
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.3%

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 available in our Form NRSRO Exhibit #2 dated May 10, 2015 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, 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%	1.8	5.8	(2.2)	AA-	AA-	AA-
Social Contributions Growth %	-	(3.0)	3.0	AA-	AA-	AA-
Other Revenue Growth %		(3.0)	3.0	AA-	AA-	AA-
Total Revenue Growth%	2.4	0.4	4.4	AA-	AA-	AA-
Monetary Gold and SDR's Growth %	-	(2.0)	2.0	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**

Mike Huang
……………………………………………………………… June 30, 2016 ……………………………………………
Mike Huang
Rating Analyst

Reviewer Signature: **Today's Date**

Caroline Ding
……………………………………………………………… June 30, 2016 ……………………………………………
Caroline Ding
Rating Analyst

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.