

CREDIT OPINION

8 January 2025

Update



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RATINGS

The Co-operative Bank Holdings p.l.c.

Domicile	Manchester, United Kingdom
Long Term Rating	Not Available
Type	Not Available
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

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The Co-operative Bank Holdings p.l.c.

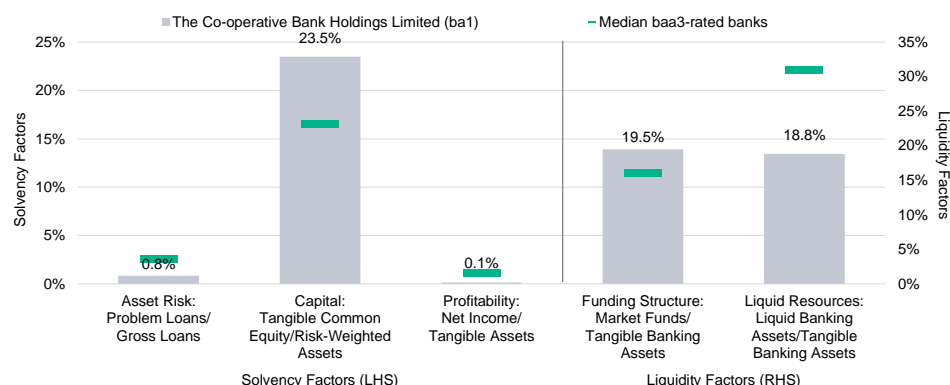
Update following ratings upgrade

Summary

The A3 long-term deposit ratings of [The Co-operative Bank plc](#) (The Co-operative Bank), the operating company of The Co-operative Bank Holdings plc (The Co-operative Bank Holdings), reflect (i) the bank's standalone creditworthiness, expressed in its baa3 standalone Baseline Credit Assessment (BCA), (ii) its baa1 adjusted BCA which benefits from two notches of affiliate support from its new owner Coventry Building Society, and (iii) our assessment of low loss given failure for deposits.

The Co-operative Bank's BCA reflects its strong asset quality, improved stress capital resilience and internal capital generation capacity. Following the completion of its IT platform transition, we expect a material reduction in its cost base, which will improve its efficiency and core profitability while also likely leading to lower capital requirements. The BCA also reflects its stable retail funding model, as well as its improved market funding access as being part of a larger group. The bank also maintains a strong level of liquidity.

Exhibit 1



We assign a BCA to The Co-operative Bank based on the consolidated financials of The Co-operative Bank Holdings. The chart shows the financial ratios of The Co-operative Bank Holdings.

Source: Moody's Ratings

Credit strengths

- » Low stock of problem loans
- » Stable retail funding, backed by adequate liquidity
- » Improved profitability which will sustain capitalisation

Credit challenges

- » Weak but improving efficiency driven by IT systems transformation

- » Largely monoline business model
- » Reliance on market funding via improved market access

Outlook

The outlooks on The Co-operative Bank Holdings' long-term issuer and senior unsecured debt ratings and Co-operative Bank's long-term deposit rating are stable and reflects the stable outlook assigned to Coventry BS.

Factors that could lead to an upgrade

The Co-operative Bank's BCA could be further upgraded following a combination of a greater than expected improvement in profitability driven by improved efficiency and stronger income generation, combined with strong asset quality and capitalisation levels.

The adjusted BCA, debt and deposit ratings of The Co-operative Bank and The Co-operative Bank Holdings, where applicable, could be upgraded following an upgrade of Coventry BS's BCA or if there were a material increase in the aggregate stock of bail-in-able debt of the combined group.

Factors that could lead to a downgrade

The Co-operative bank's BCA could be downgraded if there is a material weakening in its asset risk, lower capitalisation and a significant fall in core profitability. The adjusted BCA, debt and deposit ratings of The Co-operative Bank and The Co-operative Bank Holdings, where applicable, could be downgraded following a downgrade of Coventry BS's BCA or if there were a material decrease in the aggregate stock of bail-in-able debt of the combined group

Key indicators

Exhibit 2

The Co-operative Bank Holdings p.l.c. (Consolidated Financials) [1]

	06-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (GBP Billion)	25.7	25.8	27.6	29.3	25.6	0.1 ⁴
Total Assets (USD Billion)	32.5	32.9	33.2	39.6	35.0	(2.1) ⁴
Tangible Common Equity (GBP Billion)	0.8	1.2	1.2	1.7	1.4	(14.5) ⁴
Tangible Common Equity (USD Billion)	1.0	1.5	1.4	2.2	1.9	(16.4) ⁴
Problem Loans / Gross Loans (%)	0.8	0.8	0.7	0.7	0.9	0.8 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	16.1	24.7	23.9	38.1	29.5	26.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.5	12.7	12.4	8.7	11.2	13.1 ⁵
Net Interest Margin (%)	1.8	1.8	1.6	1.2	1.1	1.5 ⁵
PPI / Average RWA (%)	0.8	2.0	2.7	0.2	-1.4	0.9 ⁶
Net Income / Tangible Assets (%)	0.1	0.5	-4.2	0.4	0.6	-0.5 ⁵
Cost / Income Ratio (%)	92.2	81.2	75.5	97.2	122.0	93.6 ⁵
Market Funds / Tangible Banking Assets (%)	18.7	19.3	22.9	20.2	11.4	18.5 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	18.9	19.0	23.5	24.0	21.5	21.4 ⁵
Gross Loans / Due to Customers (%)	106.6	105.4	103.8	98.9	91.3	101.2 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

The Co-operative Bank plc (The Co-operative Bank) is a UK-based commercial bank that provides banking and related financial products and services to retail and corporate customers only in the UK. Most of its assets are residential mortgages, but the bank also provides loans to small and medium-sized companies, credit cards and consumer loans. Most of The Co-operative Bank's funding

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

comes from its retail clients via current accounts and savings accounts. As of December 2023, The Co-operative Bank had total consolidated assets of £26 billion.

The Co-operative Bank was established in 1872 as the Loan and Deposit Department of The Co-operative Wholesale Society. In August 2009, the bank merged with Britannia Building Society, the second-largest building society in the UK at the time.

In 2013 and 2017, The Co-operative Bank underwent two liability management exercises, which led to a substantially higher Common Equity Tier 1 capital ratio and the creation of a new holding company, The Co-operative Bank Holdings Limited (The Co-operative Bank Holdings).

On 28 November 2024, UK regulators gave approval to the acquisition of the entire issued share capital of The Co-operative Bank Holdings by Coventry BS. This regulatory approval by the UK's Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) allows Coventry BS to acquire The Co-operative Bank for a total cash consideration of £780 million, with up to £125 million deferred for a period of three years, subject to the future performance of The Co-operative Bank. The acquisition is expected to complete on 1 January 2025. Additionally, this concludes the review for upgrade initiated on 30 April 2024.

Detailed credit considerations

We assign a baa3 BCA to The Co-operative Bank based on the consolidated financials of The Co-operative Bank Holdings. The financial data in the following sections is sourced from The Co-operative Bank Holdings' consolidated financial statements, unless otherwise stated.

Low stock of problem loans

We assign an Asset Risk score of a2 to reflect the bank's strong asset quality derived from its secured prime mortgage book, potential downside risk of an increase in problem loans and the operational risks related to executing a strategy that aims to improve its operational efficiency and reduce its heavy cost burden with a goal of achieving through the rate cycle sustainable profitability

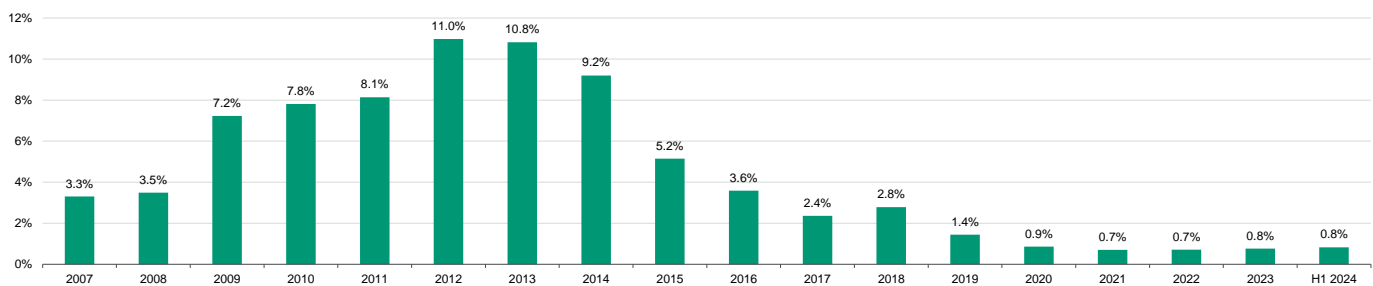
The Co-operative Bank is largely a residential mortgage lender. As of June 2024, 94% of the bank's loan book was composed of secured retail mortgages, with the remainder split between unsecured consumer lending (1%), small and medium-sized enterprise (SME) lending (5%). The average Loan-to-Value on its secured mortgage lending is also low at 55.8% as of June 2024.

The Co-operative Bank's stock of problem loans is low, representing 0.8% of gross loans as of June 2024. The problem loan ratio significantly decreased since its 11% peak in 2012 mainly reflecting the disposal of a portfolio of weak mortgages labeled Optimum between 2015 and 2020.

Most of the legacy corporate lending (around 97%) comprises loans that carry low risk; however, they do not generate sufficient returns (for example, lending to housing associations).

Exhibit 3

Problem loans have significantly reduced Problem loans as a percentage of gross loans



Data until 2017 (included) is from The Co-operative Bank plc; data from 2018 (included) onwards is from The Co-operative Bank Holdings Limited.

Source: Moody's Ratings

Improving capital adequacy yet low leverage

The Co-operative Bank's Capital score is baa1 to reflect our view that the bank's capital is now more resilient to stress, as well as the bank's improving organic capital generation and weak leverage. The Co-operative Bank has high risk-weighted capital ratios.

As of June 2024, the bank's Common Equity Tier 1 (CET1) capital ratio was 19.7% down (by 70bps) from 20.4% in December 2023 due to an increase in our risk-weighted assets (RWAs) impacted by the annual update of operational risk RWAs and the dividend payment of £12m, which was paid in May 2024. Its total capital ratio was 23.8%. We also calculate a high tangible common equity/risk-weighted assets (RWA) of 16.11% as of June 2024.

As of June 2024, The Co-operative Bank reported 19.7% CET1 ratio versus a total capital requirement of 14.3% of RWA, based on a minimum of 9.8% of CET1 and a maximum of 3.3% Tier 2 capital. However, following completion of the simplification program we expect the individual requirement to fall significantly.

The Co-operative Bank reported that as of October 2022, it is compliant with the undisclosed Prudential Regulation Authority buffer, which sits above the minimum regulatory requirements (Pillar 1 + Pillar 2A + CRD IV Buffers) and whose purpose is to provide additional loss absorbency in a stress scenario, for the first time since 2013. The Co-operative Bank's capacity to generate profit has subsequently continued to improve following recent rate rises which enables the bank to continue to recover capitalization under stress.

The Co-operative Bank reported a low 4.1% leverage ratio as of June 2024, calculated using the guidelines from the Bank of England. This has risen in recent quarters however.

Improved profitability with weak but improving efficiency

We assign a Profitability score of ba2 to The Co-operative Bank to reflect our view that the bank's profitability has structurally improved and will continue to be better than its historically very weak levels over the next 12-18 months.

In June 2024, the bank posted £15.4 million net income with net income to tangible assets of -0.79%. The reduction in net income is on the account of increased operating costs due to inflationary environment which are partially offset by the impairment releases. The bank posted a 6% fall in net interest income in June 2024 impacted by a lower average mortgage balance (£0.8bn). We expect its NIM to continue to benefit from its deposit funding profile, which includes a large share of interest free current accounts.

The bank's cost base has been challenged due to a large legacy cost base which is taking time to reach a sustainable level relative to income. In this regard, the bank has completed the rationalizing of its IT platform by moving its three legacy mortgage and savings systems onto one multi product platform. Moody's expects this to lead to significant cost savings and improvements to the bank's efficiency.

We note that the benefits of its IT transformation will only gradually support a lower cost base over time. As a result, the bank will need to grow its net interest income amid declining margins in the UK residential mortgage business (more than 90% of The Co-operative Bank's loan book) and likely stronger competition for deposits. These factors are considered in our view of the bank's earnings quality.

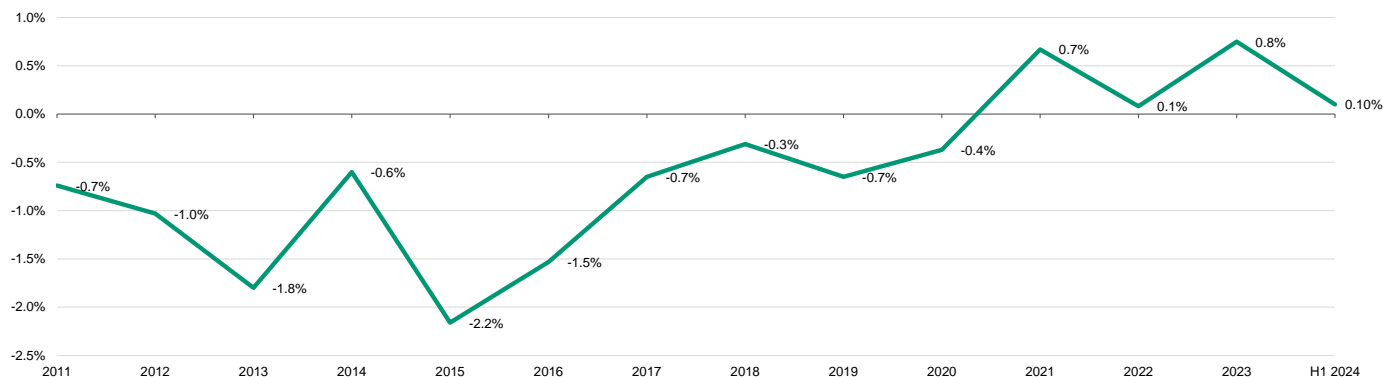
Additionally, the bank's cost of funding is elevated because of the issuance of senior and subordinated bonds by The Co-operative Bank Holdings (9.5% coupon for the Tier 2 notes issued in 2019 and 9% coupon for the senior notes issued in 2020). The £250 million issuance to meet the bank's MREL requirement was issued at a 6% annual rate, below the cost of any prospective AT1 issuance. The £200 million MREL senior green bond has a coupon of 9.5%. However, by being part of a larger group, we would expect cost of funding to decline over time.

¹.

Exhibit 4

The Co-operative Bank has started to report profit in the last quarters

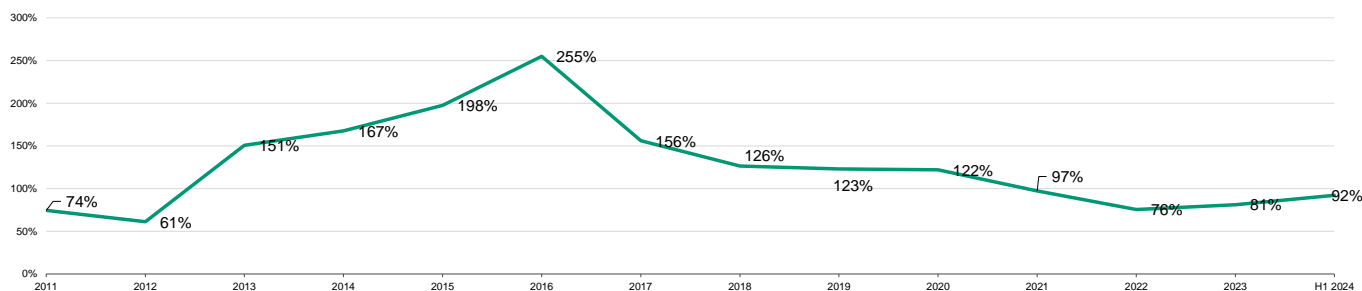
Net Income /Tangible assets as reported by The Co-operative Bank



Data until 2017 (included) is from The Co-operative Bank plc; data from 2018 (included) onwards is from The Co-operative Bank Holdings Limited.

Source: Moody's Ratings

Exhibit 5

Cost to income ratio is improving but is still high

Data until 2017 (included) is from The Co-operative Bank plc; data from 2018 (included) onwards is from The Co-operative Bank Holdings Limited and Moody's adjusted data.

Source: Moody's Ratings

Market access to improve from being part of larger banking group

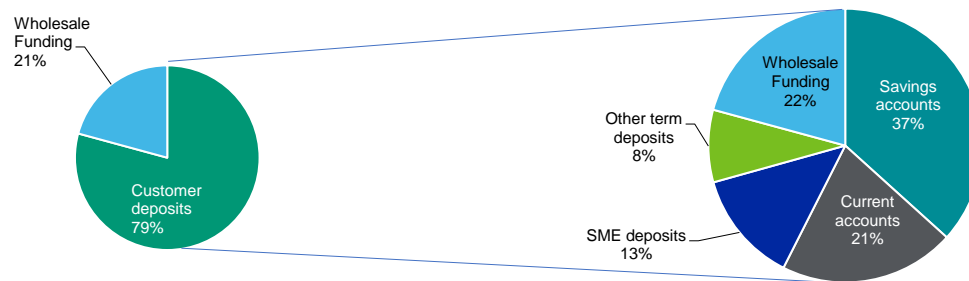
We assign a Funding Structure score of baa1 to The Co-operative Bank to reflect the extent of the bank's market funding reliance, as well as incorporating recent issuances and also the funding benefits it will have as being part of larger group as a wholly owned subsidiary of Coventry Building Society.

The reliance of The Co-operative Bank on wholesale funding however is moderate and wholesale funding represented 19% of tangible banking assets as of June 2024. The Co-operative Bank is mostly funded through deposits (£19.2 billion in June 2024, £19 billion in December 2023 and £19.5 billion as of June 2023) Most of these deposits are customer demand savings accounts (£8.9 billion) and current accounts (£5 billion), which have been historically sticky during the liability management exercises in 2013 and 2017. The remaining deposits are from SMEs (£3.2 billion) and term savings accounts (£2.1 billion)

The remainder of The Co-operative Bank's funding as of June 2024 composed of Covered bond programme launched in H1 2024 with a benchmark £500m three year issuance. The Bank also repaid £1.7 billion of TFSME in total with £3.6 billion remaining. Gilt repos make up £63m of total repo funding.

The Co-operative Bank Holdings currently has several high-yield bonds outstanding. These include a £200 million Tier 2 bond with a 11.75% coupon rate, callable in May 2029 and issued in November 2023. The MREL-qualifying liabilities consist of £250 million bond with a 6% coupon rate, callable in April 2026 and issued in April 2022, a £200 million bond with a 9% coupon rate, callable in November 2024 and issued in November 2020 and a £200 million bond with a 9.5% coupon rate, callable in May 2025, issued in May 2023.

Exhibit 6

Funding is predominantly deposit based

Wholesale funding includes TFSME, securitisations, repos, and the Tier 2 instrument issued by The Co-operative Bank Finance. Sums do not fully match due to rounding.
Source: Moody's Ratings

The Co-operative Bank has adequate liquidity against its market funding with the stock of liquid assets of 184% of the bank's tangible banking assets as of June 2024, slightly below the level of its market funding. The assigned baa3 score reflects our expectation that liquid assets/tangible banking assets will decline as the bank grows its loan book and that a portion of assets that we classify as liquid are encumbered.

In June 2024, the balances with the Bank of England, gilts, and liquid government and bank bonds were £4.1 billion. In addition, The Co-operative Bank had £1.6 billion of other liquid assets. In June 2024, the bank's stock of liquid banking assets was reduced to £4.8 billion, cash and balances at central banks at £2.5 million and £1.9 billion investment securities are encumbered.

The Co-operative Bank reported a 197% (12 months rolling average) liquidity coverage ratio as of June 2024 with a target ratio of 130%-150%

Largely monoline business

The Co-operative Bank's Financial Profile score is baa2.

We apply a negative qualitative adjustment to reflect the lack of business diversification. Although The Co-operative Bank provides a series of products to its retail clients, more than 90% of the bank's loan book is composed of residential mortgages. The remainder of the bank's loan book is composed of loans to SMEs and a small unsecured loan book.

Affiliate Support

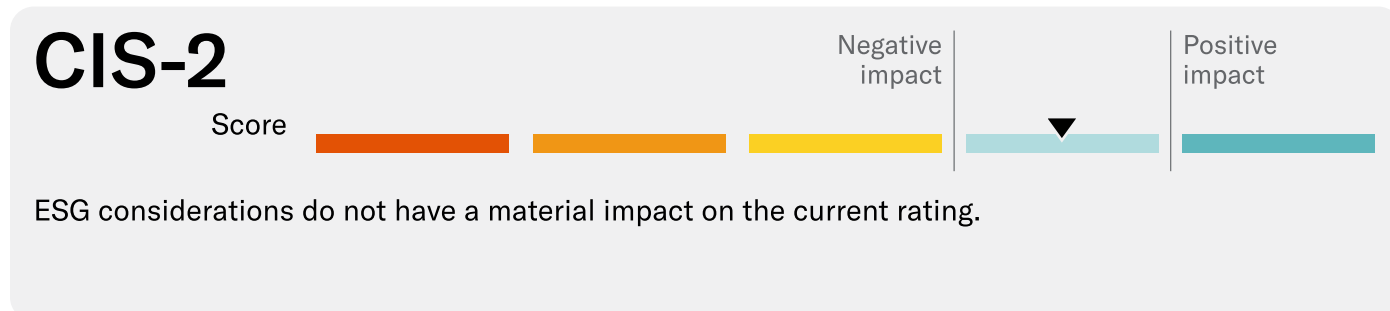
The baa1 adjusted BCA reflects our view of a very high probability of support from its potential new parent, Coventry Building Society, in a situation of stress. Co-operative Bank will now be a wholly owned part of a larger and higher rated entity which leads to two notches of uplift to The Co-operative Bank's baa3 BCA, to an Adjusted BCA of baa1.

ESG considerations

The Co-operative Bank Holdings p.l.c.'s ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score

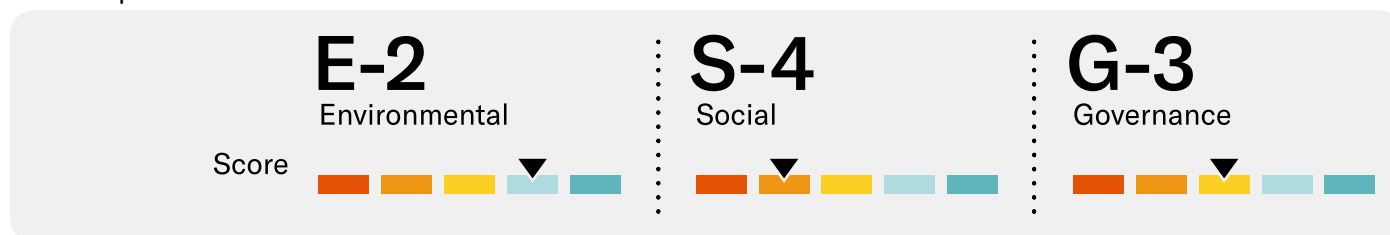


Source: Moody's Ratings

The Co-operative Bank's **CIS-2** indicates that ESG considerations have no material impact on its ratings, because of the parental support from Coventry Building Society despite the governance risks related to the recent integration with its parent company.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The Co-operative Bank faces lower-than-industry-average exposure to environmental risks. The bank has limited exposure to carbon transition because its loan book is predominantly comprised of retail mortgages.

Social

The Co-operative Bank faces high social risks from customer relations: regulatory risk, litigation exposure and high compliance standards, as well as cyber risk and the financial and reputational implications of data breaches. The group also faces industrywide moderate social risks related to potential competition from technological firms and other disruptors.

Governance

The Co-operative bank faces moderate governance risks that stem from the integration risks associated with it being acquired by Coventry Building Society. Because the bank is effectively controlled by Coventry Building Society through its 100% shareholding, we align the subsidiary's board structure, policies and procedures score with that of its parent given its strategic importance and public affiliation with the group and the parent's oversight of its board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

The Co-operative Bank and its ultimate holding company (The Co-operative Bank Holdings plc) are subject to the UK's

implementation of the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime.

Our advanced LGF analysis assumes a residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. These assumptions are in line with our standard assumptions. Particularly for The Co-operative Bank and other retail-funded banks in the UK, we assume the proportion of deposits considered junior at 10%, relative to our standard assumption of 26%, because of the bank's largely retail-oriented depositor base.

We expect that in case of failure, Coventry BS and Co-Operative Bank will be resolved as a single unit, which would mean that the bank's depositors and senior bondholders would therefore also benefit from the loss absorbency of Coventry BS's bail-in-able debt and junior deposits. We now therefore assume the loss-given-failure of the debt and deposits of Co-Operative Bank and Co-Operative Bank Holdings to be in-line with that of Coventry BS's very low loss-given-failure for junior deposits, which results in a one-notch uplift from the baa1 Adjusted BCA, and moderate loss-given-failure Co-Operative Bank Holdings' senior and subordinated bondholders, resulting in a one notch negative differential from the Adjusted BCA.

Government support considerations

There is a low likelihood of government support for The Co-operative Bank's wholesale deposits and for the debt issued by The Cooperative Bank Holdings plc in the event of its failure, resulting in no uplift. This probability reflects the bank's low market share in the UK market and its non-systemic nature compared with the country's largest banks, as well as the loss-absorbing nature of the debt issued by holding companies

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from what suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Rating Factors

Macro Factors											
Weighted Macro Profile		Strong +	100%								
Factor		Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2				
Solvency											
Asset Risk											
Problem Loans / Gross Loans		0.8%	aa2	↔	a2	Expected trend	Operational risk				
Capital											
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)		16.1%	aa2	↔	a3	Nominal leverage	Stress capital resilience				
Profitability											
Net Income / Tangible Assets		-0.8%	caa1	↑↑	ba2	Earnings quality	Expected trend				
Combined Solvency Score			a2		baa1						
Liquidity											
Funding Structure											
Market Funds / Tangible Banking Assets		19.3%	a3	↔	baa1	Extent of market funding reliance					
Liquid Resources											
Liquid Banking Assets / Tangible Banking Assets		19.0%	baa2	↔	baa3	Asset encumbrance					
Combined Liquidity Score			baa1		baa2						
Financial Profile					baa1						
Qualitative Adjustments					Adjustment						
Business Diversification					-1						
Opacity and Complexity					0						
Corporate Behavior					0						
Total Qualitative Adjustments					-1						
Sovereign or Affiliate constraint					Aa3						
BCA Scorecard-indicated Outcome - Range					baa1 - baa3						
Assigned BCA					baa3						
Affiliate Support notching					2						
Adjusted BCA					baa1						
Balance Sheet			in-scope (GBP Million)		% in-scope	at-failure (GBP Million)		% at-failure			
Other liabilities			4,745		18.5%	6,092		23.8%			
Deposits			19,254		75.2%	17,906		69.9%			
Preferred deposits			17,329		67.6%	16,462		64.3%			
Junior deposits			1,925		7.5%	1,444		5.6%			
Senior unsecured holding company debt			650		2.5%	650		2.5%			
Dated subordinated holding company debt			200		0.8%	200		0.8%			
Equity			769		3.0%	769		3.0%			
Total Tangible Banking Assets			25,617		100.0%	25,617		100.0%			
Debt Class		De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional Preliminary	
		Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF	Notching	
		volume +	ordination	volume +	ordination			Guidance	notching	Rating	
		subordination		subordination				vs. Adjusted BCA		Assessment	
Counterparty Risk Rating		12.0%	12.0%	12.0%	12.0%	2	2	2	2	1	a1
Counterparty Risk Assessment		12.0%	12.0%	12.0%	12.0%	3	3	3	3	0	a1 (cr)
Deposits		12.0%	6.3%	12.0%	6.3%	1	1	1	1	0	a3
Senior unsecured holding company debt		6.3%	3.8%	6.3%	3.8%	-1	-1	-1	-1	0	baa2
Dated subordinated holding company debt		3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	0	baa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	1	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	1	0	a3	0	A3	A3
Senior unsecured holding company debt	-1	0	baa2	0	Baa2	Baa2
Dated subordinated holding company debt	-1	0	baa2	0	Baa2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
THE CO-OPERATIVE BANK HOLDINGS P.L.C.	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa2
ST Issuer Rating	P-2
PARENT: COVENTRY BUILDING SOCIETY	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A3
Junior Senior Unsecured -Dom Curr	Baa2
Junior Senior Unsecured MTN -Dom Curr	(P)Baa2
Subordinate MTN -Dom Curr	(P)Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
THE CO-OPERATIVE BANK PLC	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)

Source: Moody's Ratings

Endnotes

- ¹ The historic net income / tangible assets ratios shown in the key indicators table and in the scorecard, which drive the Profitability Macro Adjusted score, include our standard adjustment for defined benefit pension schemes. Under our standard approach, we adjust banks' profit to take into account gains and losses from the actual returns on plan assets, which in recent years have been sizeable. We do not include in profit any other remeasurements or actuarial gain/loss components, like the impact of changes in the pension liability discount rate. Given the high level of fixed income securities among pension assets, the rapid growth of interest rates in 2022 led to a material decline in the value of the pension assets, which drove a large negative adjustment that hindered the bank's adjusted profitability. These changes did not however materially affect the bank's pension deficit or surplus, as they have been largely offset by a lower value of the pension scheme's obligations in 2022 to reflect the increase in the discount rates (i.e. higher interest rates). In recent years, the value of pension assets have also been affected by equity markets, as pension assets also include a material level of shares

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