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CREDIT OPINION
5 July 2023

Update

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RATINGS

Santander UK Group Holdings plc

Domicile	London, United Kingdom
Long Term CRR	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Not Assigned

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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Santander UK Group Holdings plc

Update to credit analysis

Summary

We rate the deposit and senior debt of Santander UK plc (Santander UK) A1, and the senior unsecured debt of Santander UK Group Holdings plc (Santander UK Group) Baa1.

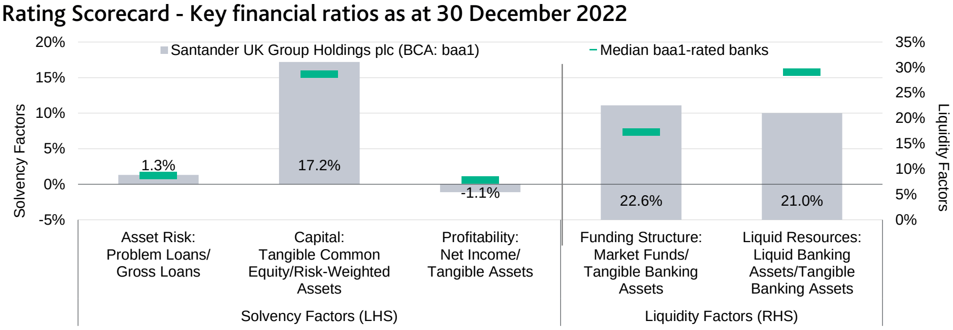
Santander UK's A1 senior unsecured debt and deposit ratings incorporate: (1) the bank's standalone creditworthiness, reflected in its baa1 Baseline Credit Assessment (BCA); (2) limited financial and operational links to its parent, Banco Santander S.A. (Banco Santander, A2/A2 stable, baa1), which shields Santander UK from a potential deterioration in its parent's creditworthiness; (3) very low loss-given-failure (LGF), providing two notch uplift under our Advanced LGF analysis; and (4) our assessment of a moderate probability of support from the Government of United Kingdom (Aa3 negative), providing a further notch uplift.

Santander UK Group's Baa1 senior unsecured debt ratings incorporate: 1) its notional BCA of baa1; 2) the instrument's moderate Advanced LGF, resulting in no uplift and 3) low probability of government support, providing no uplift. We align the ratings of the group's non-ring-fenced bank Santander Financial Services plc (SFS) with those of Santander UK.

Santander UK's baa1 BCA reflects: 1) low stock of problem loans; 2) solid capitalisation; 3) improved profitability, benefiting from wider margins, healthy mortgage volumes and low credit provisions, and 4) modest business diversification in line with mortgage-focused peers, reflected in one notch negative qualitative adjustment in our scorecard.

Exhibit 1

Rating Scorecard - Key financial ratios as at 30 December 2022



We assign a BCA to Santander UK based on the consolidated financials of Santander UK Group. The chart above shows the financial ratios of Santander UK Group.
Source: Moody's Investors Service

Credit strengths

» Low level of asset risk driven by low stock of problem loans and largely retail focused business model

» High capitalisation

» Solid profitability, benefiting from wider deposit margins and low credit impairments

Credit challenges

» Lower than peers' leverage ratio

» Expected deterioration in credit quality as inflation and cost of living pressures bite

» Competition in the mortgage market pressuring margins

Outlook

The outlook on Santander UK's long-term deposit, issuer rating and senior unsecured debt ratings is negative, reflecting the negative outlook on the UK sovereign debt rating, and the proximity of its issuer ratings to the UK sovereign debt ratings. A downgrade of the UK sovereign debt rating, which is currently on a negative outlook, would reduce the likelihood of an uplift to Santander UK's long-term deposit, issuer rating and senior unsecured debt ratings by one notch.

Factors that could lead to an upgrade of the ratings

There is limited upward pressure on Santander UK's long-term deposit, issuer rating and senior unsecured debt ratings, as reflected by the negative outlook. The outlook could be stabilised in case the outlook on the UK's sovereign debt rating is changed to stable from negative, if there is a significant increase in the stock of more junior bail-in-able liabilities, or if the standalone BCA is upgraded. Santander UK's BCA could be upgraded if there is an improvement in profitability, a reduction in problem loans and a reduced reliance on its moderate market funding. The BCA could also be upgraded if the bank were able to increase the level of diversification of its business.

Factors that could lead to a downgrade of the ratings

Santander UK's long-term deposit, issuer rating and senior unsecured debt ratings could be downgraded if the BCA is downgraded, if there is a significant decline in the stock of bail-in-able liabilities, or if the UK sovereign debt rating is downgraded. Santander UK's BCA could be downgraded if there is a deterioration in the bank's asset quality metrics, a material weakening in profitability or a deterioration in the bank's funding and liquidity positions, including a further reduction in the quantity or quality of its liquidity buffer. Santander UK Group's senior holdco debt rating could be downgraded following a downgrade of Santander UK's BCA or following a material reduction in the volume of bail-in-able debt.

Key indicators

Exhibit 2
Santander UK Group Holdings plc (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (GBP Billion)	292.2	293.7	295.6	285.2	286.0	0.5[4]
Total Assets (USD Billion)	351.5	396.4	404.0	377.9	364.3	(0.9)[4]
Tangible Common Equity (GBP Billion)	12.1	12.3	11.4	13.8	13.7	(3.2)[4]
Tangible Common Equity (USD Billion)	14.5	16.6	15.6	18.2	17.5	(4.6)[4]
Problem Loans / Gross Loans (%)	1.2	1.4	1.4	1.1	1.2	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.2	18.0	15.7	18.8	17.5	17.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.3	22.4	22.7	15.6	17.1	19.6[5]
Net Interest Margin (%)	1.5	1.3	1.1	1.2	1.3	1.3[5]
PPI / Average RWA (%)	3.6	2.7	1.8	2.3	2.3	2.5[6]
Net Income / Tangible Assets (%)	-1.1	0.5	0.5	0.5	0.5	0.2[5]
Cost / Income Ratio (%)	48.8	55.6	64.3	59.5	56.6	56.9[5]
Market Funds / Tangible Banking Assets (%)	22.5	24.5	24.2	25.6	27.8	24.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	21.0	24.1	25.4	24.3	24.9	24.0[5]
Gross Loans / Due to Customers (%)	110.9	108.8	108.6	113.4	113.3	111.0[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [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 Investors Service and company filings

Profile

Santander UK is a retail and commercial bank that operates exclusively in the UK. It is a large subsidiary of Banco Santander, accounting for around 19% of the group's assets at the end-2022. In the UK, Santander UK is the third-largest residential mortgage provider and is the fifth-largest current account provider.

As part of the implementation of the ring-fencing legislation in the UK, in 2018, Santander UK transferred its small corporate and investment banking division to the London branch of Banco Santander, and its branches in the Crown Dependencies to its sister company SFS, which became the non-ring-fenced bank of Santander UK Group. At present, in addition to the branches in the Crown Dependencies, SFS retains a small portfolio of legacy assets.

Detailed credit considerations

We assign a BCA to Santander UK based on the consolidated financials of Santander UK Group. The financial data in the following sections are sourced from Santander UK Group's consolidated financial statements, unless otherwise stated.

Concentration of revenue in UK residential mortgages

Santander UK's baa1 BCA incorporates a negative qualitative adjustment to reflect its modest business diversification, due to the high proportion of retail loans in Santander UK's loan book: 85% of Santander UK's portfolio consists of residential mortgages (followed by corporate and SME loans, 10%[1], consumer loans, 2%, credit cards and unsecured personal loans, 2%) at end-2022.

We apply the same one-notch negative qualitative adjustment to other UK banks with similar business models, in particular the building societies.

Asset risk supported by low stock of problem loans

The assigned a1 Asset Risk score reflects our expectation that problem loans will broadly stabilize at the current level or moderately deteriorate over the outlook period.

Santander UK's loan book has a low risk profile, largely comprising residential mortgages (85% of the total loan book), with a relatively low average loan-to-value ratio of 50%[2] at end-2022. Buy-to-let mortgages are low, representing just 8% of the loan book. Lending to corporate and small and medium-sized enterprises at 10% of total loans is relatively low compared with that of its peers, although the bank aims to gradually increase its market share. Consumer finance lending is small when compared with other large UK banks, representing 2% of total lending. The remainder of Santander UK's loan book (<1%) is largely composed of legacy assets and portfolios in run-off booked under the bank's corporate centre.

Stage 3 loans decreased to 1.2% of loans at end-2022 from 1.4% at end-2021 while Stage 2 loans increased to 8.4% of loans from 7.8% at end-2021. We expect Stage 3 loans to moderately increase relative to current levels.

High capitalisation, but weaker than peers' leverage ratio

The assigned a1 Capital score is two notches below the aa2 Macro-Adjusted score, reflecting an expected decrease of capital levels and its weaker-than-peers leverage ratio.

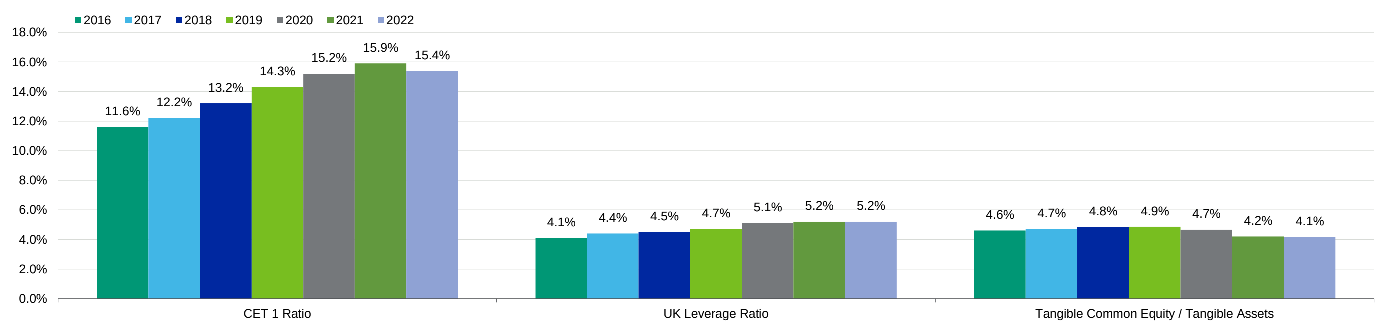
Regulatory capitalisation is currently solid: the Common Equity Tier 1 (CET1) capital ratio was 15.2% at end-2022 (15.9% at end-December 2021), 400 bps above it's the Maximum Distributable Amount (MDA). The CET1 ratio has been improving (it was 14.3% at end-2019 and 13.2% at end-2018), reflecting stable retained earnings and a material decrease in risk-weighted assets, driven by a reduction in the exposure towards commercial real estate companies, together with ring-fencing transfers and securitisations. The Tangible Common Equity ratio was 17.2% at end-2022.

The leverage ratio calculated according to the UK Prudential Regulation Authority's recommendations (the so-called UK leverage ratio) was 5.2% at the end-2022, above requirements. However, our leverage ratio was 4.1% at end-2022, lower than most peers.

Exhibit 3

Santander UK's increase in CET1 ratio mainly reflects lower risk-weighted assets

Santander UK's main capital ratios



Regulatory ratios on a transitional phase-in basis. The tangible Common Equity ratio excludes high-trigger AT1 instruments from 2020
Source: Moody's Investors Service, company reports

Solid profitability, benefiting from wider deposit margins and low credit provisions

The assigned baa3 Profitability score is nine notches above the caa3 Macro-Adjusted score [3] and reflects our profits expectation over the outlook period.

Santander UK's profitability was relatively stable pre-coronavirus and in recent years, due to its concentration in residential mortgages and a smaller than-peers impact from legacy issues such as payment protection insurance (PPI) redress.

In FY 2022, Santander UK Group reported £1,423 million profit after tax, broadly in line with 2021. Net interest income increased 12% during the year, benefiting from base rate increases; net fee and commission income increased 16%. Operating costs decreased by 7% driven by lower spending on transformation programme following the significant restructuring in the prior year. The £321 million credit impairment charge (equal to 15 bps of loans) largely reflected the deterioration in the economic outlook and follows the £233 million write-back in 2021. Other provisions of £421 million (2021: £379 million), included £108 million penalty for historical shortcomings in anti-money laundering controls.

In 1Q 2023, Santander UK Group reported a profit after tax of £402 million, a 3% increase compared to the same period in the prior year. Revenue increased 11% yoy, driven by a 12% yoy increase in net interest income due to the impact of base rate increases. Banking net interest margin increased to 2.21%, up from 2.01% in 1Q 2022. The bank reported £61 million credit impairment charges, a 17% yoy increase reflecting the weaker economic environment in the UK. Operating costs of £614 million were 6% higher yoy, due to inflationary pressure, partially offset by lower transformation programme costs.

We expect profitability to continue to benefit from healthy new business margins supported by high liability spreads, modest volumes growth, and moderate credit provisions. We estimate around £1.6-1.8 billion net income in 2023. Longer-term, higher competition in the mortgage market will affect pricing on new mortgage lending and lower lending volumes will put pressure on revenue; further cost savings, driven by the transformation programme will partially mitigate these pressures.

Stable retail funding profile

The assigned baa1 Funding Structure score is in line with the Macro-Adjusted score. Being primarily a retail bank, customer deposits are Santander UK's main source of funding, accounting for about 72% of total funding at year-end 2022. In 2021, Santander UK replaced more price-sensitive deposit customers with current accounts, which are generally more stable and usually have more than one product with the bank. This continues to be a focus of the bank both to increase the stickiness and cost of its retail funding base. Moody's calculated loan-to-deposit ratio was 111% at end-2022, a level higher than most of its peers.

Wholesale funding reliance is moderate and broadly stable, representing 23% of tangible banking assets at year-end 2022. Santander UK has Term Funding Scheme with additional incentives for SMEs (TFSME) repayments of £21.1 billion due by 2025 and the remaining £3.9 billion between 2027 and 2031. The bank repaid £6.9 billion of TFSME in 2022 and expect similar annual repayments over the next three years.

We assign a baa1 Liquid Resources score, in-line with the Macro-Adjusted score to reflect the expected trend. Santander UK has a good stock of liquid assets, representing 21% of the bank's tangible banking assets at end-2022. The bank reported a strong 152% liquidity coverage ratio as of year-end 2022. The liquidity coverage ratio-eligible liquidity pool was £46.3 billion as of the same date, covering 4.2 times the wholesale funds with a residual maturity of less than one year.

ESG considerations

Santander UK Group Holdings plc's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score

CIS-2
Neutral-to-Low

NEGATIVE IMPACT
POSITIVE IMPACT

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Santander UK Group's **CIS-2** reflects limited credit impact from environmental and social factors on the rating to date, and low governance risks.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-4	G-2
Neutral-to-Low	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

Santander UK Group faces lower-than-industry-average exposure to environmental risks. The bank has limited exposure to carbon transition risks because its loan book is concentrated in UK residential mortgages, with very low exposure to commercial loans.

Social

Santander UK Group faces high industry-wide social risks from customer relations and associated regulatory risks and litigation exposure and high compliance standards in its operations. The bank's developed policies and procedures help manage associated credit risks. The bank also faces industrywide moderate social risks related to potential competition from technology firms and other disruptors.

Governance

Santander UK Group faces low governance risks. The bank's risk management, policies, and procedures are in line with industry best practices, as evidenced by its good asset quality. The bank demonstrates sound management of capital and liquidity, while earnings generation has recently improved. Because Santander UK is fully owned by Banco Santander SA, we aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation with the group, the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.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

Affiliate support

We expect a high probability of support coming from Banco Santander, based on the size of Santander UK within the group and reputational risk to its parent. Our assumptions do not lead to any uplift, because the BCA of Santander UK is in line with that of Banco Santander.

Loss Given Failure (LGF) analysis

Santander UK is subject to the UK implementation of the EU Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. Our analysis assumes 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, and it assigns a 25% probability to deposits being preferred to senior unsecured debt. These assumptions are in line with our standard assumptions. We also assume the proportion of deposits considered junior at 10%, relative to our standard assumption of 26%, because of the more retail, and small and medium-sized enterprise-oriented depositor base.

Our LGF analysis indicates that Santander UK's junior deposits and senior debt are likely to face very low loss-given-failure because of the loss absorption provided by limited subordinated debt and the volume of deposits and senior debt. This results in a two-notch uplift from the bank's BCA. For the senior unsecured debt of the holding company Santander UK Group, our LGF analysis shows moderate loss-given-failure, resulting from the combination of its own limited volume of debt and the amount of debt subordinated to it. This results in ratings in line with Santander UK Group's BCA.

The Additional Tier 1 high-trigger contingent convertible perpetual preferred securities issued by Santander UK Group are rated Ba1 (hyb) following the update of the methodology.

Government support

We expect a moderate probability of government support for Santander UK's deposits and senior debt, reflecting the bank's high market share for deposits and residential mortgages in the UK. This results in one notch of uplift to the long-term deposit and senior unsecured ratings.

For junior securities, and for the senior debt of the holding company, we believe that potential government support is low, and these ratings do not include any related uplift.

Counterparty Risk (CR) Assessments and Counterparty Risk Ratings (CRRs)

Santander UK's CR Assessments are Aa3(cr)/Prime-1(cr). The long-term CR Assessments, before government support, are three notches above the bank's standalone BCAs of baa1. The uplift results from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. A moderate probability of government support results in one additional notch of uplift.

Santander UK's CRRs are Aa3/Prime-1. The long-term CRRs, before government support, are three notches above the bank's BCAs of baa1. The uplift derives from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. A moderate probability of government support results in one additional notch of uplift. Although Santander UK is likely to have more than a nominal volume of CRR liabilities at failure, this has no impact on the CRRs because the significant level of subordination below the CRR liabilities at the banks already provides the maximum amount of uplift under our rating methodology.

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 that 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 6

Santander UK Group Holdings plc

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	1.3%	aa3	↓	a1	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	18.0%	aa2	↓↓	a1	Expected trend	Nominal leverage
Profitability						
Net Income / Tangible Assets	-1.1%	caa3	↑↑	baa3	Expected trend	
Combined Solvency Score		a3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	22.5%	baa1	↔	baa1	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	21.0%	baa1	↔	baa1	Expected trend	
Combined Liquidity Score		baa1		baa1		
Financial Profile				a3		
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				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (GBP Million)**	**% in-scope**	**at-failure (GBP Million)**	**% at-failure**
Other liabilities	62,966	21.7%	76,899	26.5%
Deposits	199,034	68.5%	185,102	63.7%
Preferred deposits	179,131	61.6%	170,174	58.5%
Junior deposits	19,903	6.8%	14,928	5.1%
Senior unsecured bank debt	2,015	0.7%	2,015	0.7%
Dated subordinated bank debt	799	0.3%	799	0.3%
Junior subordinated bank debt	525	0.2%	525	0.2%
Senior unsecured holding company debt	13,499	4.6%	13,499	4.6%
Dated subordinated holding company debt	934	0.3%	934	0.3%
Preference shares(holding company)	2,200	0.8%	2,200	0.8%
Equity	8,721	3.0%	8,721	3.0%
Total Tangible Banking Assets	290,693	100.0%	290,693	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	15.0%	15.0%	15.0%	15.0%	3	3	3	3	0	a1
Counterparty Risk Assessment	15.0%	15.0%	15.0%	15.0%	3	3	3	3	0	a1 (cr)
Deposits	15.0%	9.2%	15.0%	9.9%	2	2	2	2	0	a2
Senior unsecured bank debt	15.0%	9.2%	9.9%	9.2%	2	1	2	2	0	a2
Senior unsecured holding company debt	9.2%	4.5%	9.2%	4.5%	0	0	0	0	0	baa1
Dated subordinated bank debt	4.5%	3.9%	4.5%	3.9%	-1	-1	-1	0	0	baa1
Dated subordinated holding company debt	4.5%	3.9%	4.5%	3.9%	-1	-1	-1	0	0	baa1
Junior subordinated bank debt	3.9%	3.8%	3.9%	3.8%	-1	-1	-1	-1	-1	baa3
Non-cumulative bank preference shares	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	-2	ba1
Holding company non-cumulative preference shares	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	-2	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	1	Aa3	Aa3
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3(cr)	
Deposits	2	0	a2	1	A1	A1
Senior unsecured bank debt	2	0	a2	1	A1	A1
Senior unsecured holding company debt	0	0	baa1	0	Baa1	Baa1
Dated subordinated bank debt	0	0	baa1	0	Baa1	Baa1
Dated subordinated holding company debt	0	0	baa1	0	Baa1	Baa1
Junior subordinated bank debt	-1	-1	baa3	0	Baa3 (hyb)	Baa3 (hyb)
Non-cumulative bank preference shares	-1	-2	ba1	0	Ba1 (hyb)	
Holding company non-cumulative preference shares	-1	-2	ba1	0	Ba1 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
SANTANDER UK GROUP HOLDINGS PLC	
Outlook	Stable
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Subordinate	Baa1
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Other Short Term	(P)P-2
SANTANDER FINANCIAL SERVICES PLC	
Outlook	Negative
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
ST Issuer Rating	P-1
SANTANDER UK PLC	
Outlook	Negative
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate	Baa1
Jr Subordinate	Baa3 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

1 Including Local Authorities and Housing Associations

2 Balanced weighted average LTV

3 The historic net income / tangible banking assets ratios shown in the key indicators table and in the scorecard, which drive the Profitability Macro Adjusted score, include out 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 sizable. We do not include in profit any other remeasurements of 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 increase in 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.

REPORT NUMBER 1371629

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454