

Rating Action: Moody's upgrades the senior unsecured debt rating of The Co-operative Bank Finance p.l.c. to B3 from Caa1

13 Jul 2021

Outlook is positive

London, 13 July 2021 -- Moody's Investors Service (Moody's) today upgraded the long-term deposit rating of The Co-operative Bank plc (The Co-operative Bank) to B2 from B3, and the senior unsecured debt rating of The Co-operative Bank Finance p.l.c. (The Co-operative Bank Finance), the holding company of The Co-operative Bank, to B3 from Caa1. Moody's also upgraded the standalone Baseline Credit Assessment (BCA) of The Co-operative Bank to b2 from b3.

The outlook on the senior unsecured debt rating of The Co-operative Bank Finance and on the long-term deposit rating of The Co-operative Bank is positive.

The rating actions were driven by revisions to Moody's Advanced Loss Given Failure (Advanced LGF) framework, which is applied to banks operating in jurisdictions with Operational Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021. This methodology is available at this link: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625.

A full list of affected ratings and assessments can be found at the end of this Press Release.

RATINGS RATIONALE

Moody's said that, under its revised Advanced LGF framework and taking into account the latest available financials, The Co-operative Bank's deposits are likely to face low loss-given-failure, from moderate loss-given-failure previously. This would result in ratings one notch above the standalone BCA, from ratings in line with the standalone BCA previously. However, Moody's expects The Co-operative Bank's tangible banking assets to increase, as the bank continues to grow its loan book, while the stock of bail-in-able debt will be stable or marginally increase. The rating agency's forward-looking view thus results in deposit ratings that are still in line with the standalone BCA. Finally, the upgrade of the bank's standalone BCA results in the upgrade of the long-term deposit ratings.

Moody's continues to expect the senior unsecured debt issued by The Co-operative Bank Finance to face high loss-given-failure, resulting in ratings that remain one notch below the standalone BCA. The upgrade of the standalone BCA results in the upgrade of the senior unsecured debt of the Co-operative Bank Finance.

The upgrade of The Co-operative Bank's BCA to b2 from b3 reflects the bank's progress towards achieving a sustainable (albeit weak) profitability, as well as ongoing weaknesses in its credit profile.

Moody's said that the progress towards a sustainable business model that generates capital organically via earnings, is credit positive.

However, the operating environment in the UK is still uncertain, with the demand for credit still recovering and continued profitability pressures from low rates. The Co-operative Bank's cost of funding could also increase if the bank is required to issue further unsecured debt to meet the bank's minimum requirements for own funds and eligible liabilities (MREL). The risk that The Co-operative Bank is unable to reach and maintain a sustainable level of profitability makes the bank more susceptible than others to a stressed scenario, in which case, capital could be rapidly depleted.

OUTLOOK

The positive outlooks reflect further potential improvements in The Co-operative Bank's profitability, which will make the bank's capital less susceptible to a stress.

The positive outlook on The Co-operative Bank's long-term deposit rating also reflects the potential issue of additional loss-absorbing debt, which would provide additional protection to the bank's depositors.

FACTORS THAT COULD LEAD TO AN UPGRADE OR A DOWNGRADE OF THE RATINGS

The Co-operative Bank's BCA could be upgraded following a return to sustainable internal capital generation through earnings. An upgrade of the BCA would lead to an upgrade of the long-term deposit ratings of The Co-operative Bank and the senior unsecured debt rating for The Co-operative Bank Finance. Issuance of additional bail-in-able debt by The Co-operative Bank or The Co-operative Bank Finance, which would protect depositors from losses in a resolution scenario, could also lead to an upgrade of the long-term deposit ratings.

The Co-operative Bank Finance's senior unsecured debt rating could also be upgraded following a material increase in the stock of subordinated liabilities issued by The Co-operative Bank Finance or by The Co-operative Bank, or a material issuance of senior unsecured debt by The Co-operative Bank Finance.

The Co-operative Bank's BCA could be downgraded following evidence that the bank will not be able to return to a sustainable level of net profitability beyond 2021.

A downgrade of The Co-operative Bank's BCA would lead to a downgrade of all long-term ratings of The Co-operative Bank and The Co-operative Bank Finance.

LIST OF AFFECTED RATINGS

Upgrades:

.... Issuer: The Co-operative Bank Finance p.l.c.

.... LT Issuer Rating, Upgraded to B3 from Caa1, outlook changed to Positive from Stable

.... Senior Unsecured Regular Bond/Debenture, Upgraded to B3 from Caa1, outlook changed to Positive from Stable

.... Issuer: The Co-operative Bank plc

.... Adjusted Baseline Credit Assessment, Upgraded to b2 from b3

.... Baseline Credit Assessment, Upgraded to b2 from b3

.... LT Deposit Ratings, Upgraded to B2 from B3, outlook changed to Positive from Stable

Affirmations:

.... Issuer: The Co-operative Bank Finance p.l.c.

.... ST Issuer Rating, Affirmed NP

.... Issuer: The Co-operative Bank plc

.... ST Counterparty Risk Assessment, Affirmed NP(cr)

.... LT Counterparty Risk Assessment, Affirmed Ba3(cr)

.... LT Counterparty Risk Rating, Affirmed B1

.... ST Counterparty Risk Rating, Affirmed NP

.... ST Bank Deposit Rating, Affirmed NP

Outlook Actions:

... Issuer: The Co-operative Bank Finance p.l.c.

.... Outlook, Changed To Positive From Stable

.... Issuer: The Co-operative Bank plc

.... Outlook, Changed To Positive From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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