

The Co-operative Bank plc
11 August 2015

PRA and FCA enforcement notice relating to The Co-operative Bank plc published today

Today, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) have published the outcome of their enforcement investigations into the decisions, events and processes at The Co-operative Bank over the period from 22 July 2009 to 31 December 2013. Although no fine has been imposed on the Bank, the terms of the PRA and FCA Notices and public censures demonstrate to The Co-operative Bank and others the seriousness with which the regulators regard its failings over the relevant period. These failings would normally have merited a substantial fine being imposed.

Dennis Holt, Chairman, said:

“On behalf of the Bank, I would like to apologise again to customers for these past failings and reassure them that the Bank is a significantly stronger organisation today under the leadership of the current senior management team.

The investigations by the regulators into what went wrong at the Bank are very important and the Board takes the censures extremely seriously. The Bank has been co-operating fully with the regulatory authorities and the Board fully accept the lessons that need to be learnt, but it is important to remember these are not a reflection of how the Bank is run today. They relate to historical events and legacy issues and were not decisions made by the current senior management team. The facts underlying the failings were largely set out in Sir Christopher Kelly’s independent report published in April 2014, and, since then, the Bank has made material progress in addressing these shortcomings by enhancing the Bank’s governance, its processes, systems and practices, significantly strengthening its Board and in rebuilding the Bank’s capital position. Nevertheless the Board is fully focussed on continuing to remediate the findings of the investigation and strengthening the culture of the organisation. Of course, we have always said the turnaround will take time and there is further work ahead towards a full recovery.

We understand the details of the findings may once again cause customers concern but there is no impact on the resilience of the Bank, its strategic plan or on the quality of service we provide customers. I would like to thank our colleagues for their dedication and our customers and shareholders for their ongoing support as we continue to focus on rebuilding a bank that our customers deserve, and that will meet the expectations of all of our stakeholders.”

Since 2013, The Co-operative Bank has made significant progress in addressing the failings detailed today in the regulatory reviews, as acknowledged in the PRA’s announcement today: “towards the end of 2013, following changes to its Board and senior management, the Co-op Bank began properly to address the concerns around its risk management framework structures and policies and procedures around corporate lending and capital management.”

The Co-operative Bank is currently delivering a recovery plan which the PRA noted in December 2014 has achieved the targets set over the prior 18 months in terms of building its capital base and improving resilience. Since then, the Bank has completed the initial securitisation of £1.5bn of Non-core residential mortgage assets within the Optimum portfolio; and has also raised £250m of Tier 2 capital.

During the period of the investigations, the PRA has found that, The Co-operative Bank was in breach of Principle 3 (Management and Control) with respect to the Bank's controls and risk management framework. The FCA found the Bank to be in breach of UK Listing Rule 1.3.3 in relation to two statements in the Bank's 2012 Annual Report and Accounts. In addition the FCA and PRA have both found that, from 25 April 2012 to 9 May 2013, the Bank also breached Principle 11 by failing to notify the FCA and PRA of intended changes to two senior positions (and the reason for those changes).

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About The Co-operative Bank

The Co-operative Bank plc provides a full range of banking products and services to almost 5 million retail and SME (Small and Medium Sized Enterprises) customers. The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank plc customers are protected by the Financial Services Compensation Scheme (FSCS) in the UK.

About Sir Christopher Kelly's independent review

Sir Christopher Kelly published his independent review, jointly commissioned by The Co-operative Bank and The Co-operative Group in July 2013, into events that led to the announcement of The Co-operative Bank's capital action plan to address its £1.5billion capital shortfall in April 2014. The review included an analysis of strategic decision making, management structures, culture, governance and accounting practices and aspects of the role of the Bank auditors. The report was commissioned to assist in identifying lessons to be learned to strengthen not only the Bank and the Group but the co-operative business model generally.