

# MOODY'S

## RATINGS

### **Rating Action: Moody's upgrades The Co-operative Bank's long-term deposit ratings to Baa3, positive outlook**

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11 Mar 2024

London, March 11, 2024 -- Moody's Ratings ("Moody's") today upgraded the long-term deposit ratings of The Co-operative Bank plc (The Co-operative Bank) to Baa3 from Ba1, short-term deposit ratings to Prime-3 from Not Prime as well as its standalone Baseline Credit Assessment (BCA) to ba1 from ba2 and Adjusted BCA to ba1 from ba2. The bank's long-term Counterparty Risk Ratings (CRR) were upgraded to Baa2 from Baa3 and the long- and short-term Counterparty Risk (CR) Assessments were also upgraded to Baa1(cr) from Baa2(cr) and to Prime-2(cr) from Prime-3(cr), respectively. The bank's short-term CRR were affirmed at Prime-3. The long-term issuer, senior unsecured debt rating and subordinated debt rating of The Co-operative Bank Holdings Limited (The Co-operative Bank Holdings), the ultimate holding company of The Co-operative Bank, were upgraded to Ba2 from Ba3 and its short-term issuer ratings were affirmed at Not Prime.

The outlook on the long-term issuer and senior unsecured debt rating of The Co-operative Bank Holdings and on the long-term deposit ratings of The Co-operative Bank remains positive.

#### RATINGS RATIONALE

Moody's said the upgrade of The Co-operative Bank's long-term deposit ratings and the upgrade of its BCA reflect the bank's improved profitability supported by the higher interest rate environment and further progress towards a sustainable capital generative business model. The rating action also reflects the bank's progress in simplifying and upgrading its technology infrastructure which culminated in the transitioning of the majority of its mortgage operations onto one technology platform in February 2024, following the transfer of most of its savings products in 2023. This along with planned decommissioning of legacy systems will help reduce the bank's overheads over the next two to three years, improving the bank's efficiency, operational agility and supporting future profitability. Nevertheless, the bank's profitability is still constrained by limited asset growth and the high cost of its market

funding.

The Co-operative Bank's BCA is also supported by the bank's low asset risk, despite downward pressures from affordability and cost of living pressures, as well as its high capitalisation levels, which was 24.7% as of December 2023, as measured by Moody's ratio of Tangible Common Equity to risk weighted assets. The Co-operative Bank's cost of funding benefits from its large share of low cost deposits, around 75% of total funding and of which 40% are current accounts which bear no interest.

The Co-operative Bank Holdings' minimum requirements for own funds and eligible liabilities (MREL) compliant issuances in 2022 and 2023, as well as its 2023 subordinated debt issuance, coupled with Moody's expectation that the bank's balance sheet will only moderately grow over the outlook horizon, provides protection to The Co-operative Bank's junior depositors. This results in an unchanged notching under Moody's Loss Given Failure analysis to the bank's long-term deposit rating and the holding company's senior unsecured debt rating which are one notch above and one notch below the bank's ba1 BCA, respectively.

## OUTLOOK

The outlook on The Co-operative Bank Holdings' long-term issuer and senior unsecured debt ratings and The Co-operative Bank's long-term deposit ratings is positive. The outlooks reflect Moody's expectations that the bank's financial performance and risk profile supported by a completion of its IT transformation initiatives over the next 12-18 months could be commensurate with a higher rating level.

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

The Co-operative Bank's BCA could be upgraded following a combination of further reduction in execution risk and improvement in normalized profitability, implying durable and sustainable internal capital generation, and a material reduction in its cost base driven by the completion of its IT platform transition, which could also lead to potentially lower capital requirements. 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 of The Co-operative Bank Holdings. The Co-operative Bank Holdings' senior unsecured debt rating and The Co-operative Bank's long-term deposit ratings could also be upgraded following a material increase in the stock of bail-in-able liabilities issued by The Co-operative Bank Holdings or by The Co-operative Bank.

Given the ratings upgrade there is limited downward pressure on the bank's ratings.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in

March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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