



RATING ACTION COMMENTARY

Fitch Places The Co-operative Bank on Rating Watch Positive on Planned Acquisition by Coventry

Fri 19 Apr, 2024 - 1:59 PM ET

Fitch Ratings - London - 19 Apr 2024: Fitch Ratings has placed The Co-operative Bank p.l.c.'s Long- and Short-Term Issuer Default Ratings (IDRs) on Rating Watch Positive (RWP). A full list of rating actions is below.

The rating actions follow the announcement by Coventry Building Society (Coventry) that they have agreed to non-binding terms of a cash-financed acquisition of the Co-operative Bank. The RWP reflects Fitch's view that the acquisition by Coventry will result in the Co-operative Bank benefitting from a high likelihood of support from its new, higher-rated owner. Fitch will reflect this likelihood of support by assigning a Shareholder Support Rating (SSR) to the Co-operative Bank once the transaction is completed.

Fitch will resolve the RWP on completion of the transaction, subject to customary closing and relevant regulatory conditions being met. The resolution of the RWP could take longer than six months, due to the time of completion, which is more than Fitch's normal Rating Watch resolution horizon.

We do not expect the acquisition to have an immediate significant impact on the standalone credit profile of the Co-operative Bank. Therefore, the Viability Rating (VR) is unaffected by today's rating actions. This is because Coventry will operate the Co-operative Bank as a separate business and integrate it gradually over several years.

KEY RATING DRIVERS

Shareholder Support to Become Likely: Fitch expects to assign an SSR to the Co-operative Bank once the deal is finalised to reflect our view of potential shareholder support. This reflects our view that the Co-operative Bank will become strategically important to Coventry as it will offer scale and business diversification benefits to Coventry in its core market. Once assigned, we expect the SSR to be one notch below Coventry's Long-Term IDR. The one notch difference will reflect the Co-operative Bank's strategic role within the Coventry group, its large size relative to Coventry's, and that the integration process will be gradual over several years.

Integration Risks: The acquisition would involve material execution risks, particularly given the Co-operative Bank's large size and the need to restructure Minimum Requirement for own funds and eligible liabilities (MREL) debt at the Co-operative Bank, although Coventry plans a conservative and gradual integration process. Major cost savings and synergies are not expected in the first few years following completion.

Short-Term IDR: The Co-operative Bank's Short-Term IDR has been placed on RWP to reflect that an upgrade of the Long-Term IDR above the 'BB' range would result in an upgrade of the Short-Term IDR.

Government Support: We expect to withdraw the Co-operative Bank's Government Support Rating (GSR) upon completion of the transaction, because we expect Coventry to become the primary source of support. We do not believe the acquisition will affect the GSR (which is primarily driven by the UK's resolution legislation), which is therefore unaffected by this rating action.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The Co-operative Bank's ratings would be removed from Rating Watch if the announced acquisition plan is terminated.

Until the completion of the acquisition, the IDRs will remain sensitive to a downgrade of the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

We expect to resolve the Rating Watch and upgrade the Long-Term IDR to one notch below Coventry's Long-Term IDR on completion of the acquisition. This would trigger an upgrade of the Short-Term IDR.

Prior to the completion of the acquisition, the Co-operative Bank's IDRs remain sensitive to an upgrade of the VR.

VR ADJUSTMENTS

The VR of 'bb' is below the 'bbb-' implied VR due to the following adjustment reason: business profile (negative).

The business profile score of 'bb' is below the 'bbb' category implied score due to the following adjustment reasons: business model (negative), market position (negative).

The asset quality score of 'bbb+' is below the 'aa' category implied score due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'bb+' is below the 'aa' category implied score due to the following adjustment reason: leverage and risk-weight calculation (negative).

The funding and liquidity score of 'bb+' is below the 'a' category implied score due to the following adjustment reason: non-deposit funding (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The RWP on the Co-operative Bank reflect our view that its ratings will benefit from support from Coventry.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
The Co-operative Bank p.l.c.	LT IDR	BB+ Rating Watch Positive	Rating Watch On	BB+ Rating Outlook Positive
	ST IDR	B Rating Watch Positive	Rating Watch On	B

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

The Co-operative Bank p.l.c.

UK Issued, EU Endorsed

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