

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings places Coventry Building Society's ratings on review for downgrade and The Co-operative Bank's ratings on review for upgrade**

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19 Apr 2024

London, April 19, 2024 -- Moody's Ratings (Moody's) has today placed all ratings and assessments of Coventry Building Society ("Coventry BS") on review for downgrade, with the exception of the Society's Prime-1 short-term Counterparty Risk Rating (CRR) and short-term Prime-1(cr) Counterparty Risk (CR) Assessment which have been affirmed. At the same time, Moody's placed all ratings and assessments of The Co-operative Bank Holdings Limited ("Co-operative Bank Holdings") and The Co-operative Bank plc (Co-operative Bank) on review for upgrade. The rating action follows the announcement by both companies that the Boards of both companies have agreed on non-binding heads of terms for a potential acquisition of Co-operative Bank by Coventry BS for a total cash consideration of £780 million, with up to £125 million deferred for a period of 3 years subject to the future performance of Co-operative Bank.

A full list of affected ratings is at the end of this press release.

#### RATINGS RATIONALE

Moody's stated that the potential acquisition is a sizable operation for Coventry BS since Co-operative Bank's assets amount to £26 billion, which equates to over 40% of Coventry BS's own total assets as of December 2023. The rating agency notes that the Society has not made an acquisition of this size and scale before, and that a likely multi-year strategic transformative integration would result in elevated execution and integration challenges. In addition, the Society could also face slightly higher asset risk pressures, a moderate decline in capitalisation as well as an increase in the wholesale funding depending on how the potential acquisition could be financed.

Given the low risk appetite and prudent track record of Coventry BS, Moody's expects those risks to be manageable. The rating action also reflects the strong strategic rationale of a potential acquisition, which would give the society access to current account funding and result in a significant rise in its prime mortgage loan book

and overall customer base. The affirmation of the short-term CRR and CR Assessment reflects Moody's expectation that the impact on Coventry BS's financial profile and hence downward pressure on the ratings would be limited.

For Co-operative Bank, being a wholly owned part of a larger and higher rated entity could lead to upwards rating pressure under the rating agency's assessment of the probability of support from its potential new parent, Coventry BS, in a situation of stress. Moody's considers this could lead to multiple notches of uplift to Co-operative Bank's current ba1 Baseline Credit Assessment (BCA), which would then translate into ratings uplift for its other ratings as well as the ratings of Co-operative Bank Holdings. Being part of an enlarged group, would also provide Co-operative Bank with the opportunity to cross sell its loans and products to a far larger customer base, supporting growth and profitability.

During the review period, Moody's will assess if an offer for the Co-operative Bank is made, the actual structure and financing of any potential acquisition, its expected effects on both firms' financials, the finalisation of board approvals required for any acquisition as well as regulatory approval for the transaction.

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

### COVENTRY BUILDING SOCIETY

Given the review for downgrade there is no upward rating pressure at the moment. The ratings could be confirmed if the integration challenges are significantly reduced and there were to be no weakening in Coventry BS' capital and asset risk. Furthermore, deposit and debt ratings could be confirmed following a significant increase in the stock of more junior bail-in-able liabilities, or the transaction does not proceed.

Coventry BS's long-term deposit, senior unsecured debt, CRRs and CR Assessments and junior senior unsecured debt ratings could be downgraded if the review concludes (i) a downgrade of the BCA, which would be the result of a deterioration in the Society's solvency and liquidity, material cost or time overruns in the phased integration plans or (ii) following a significant reduction in the stock of bail-in-able liabilities.

### THE CO-OPERATIVE BANK HOLDINGS LIMITED AND THE CO-OPERATIVE BANK PLC

The Co-operative Bank's BCA could be upgraded following a combination of an 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. The bank's Adjusted BCA could be upgraded following an acquisition

by Coventry BS which could lead to more than one notch of affiliate support. An upgrade of the BCA and Adjusted 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 review for upgrade, there is no downward pressure on the ratings of The Co-operative Bank and The Co-operative Bank Holdings.

#### LIST OF AFFECTED RATINGS

Issuer: Coventry Building Society

..Placed On Review for Downgrade:

.... LT Counterparty Risk Rating (Foreign Currency), Placed on Review for Downgrade, currently Aa3

.... LT Counterparty Risk Rating (Local Currency), Placed on Review for Downgrade, currently Aa3

.... LT Bank Deposits (Foreign Currency), Placed on Review for Downgrade, currently A2, outlook changed to RUR from STA

.... LT Bank Deposits (Local Currency), Placed on Review for Downgrade, currently A2, outlook changed to RUR from STA

.... ST Bank Deposits (Foreign Currency), Placed on Review for Downgrade, currently P-1

.... ST Bank Deposits (Local Currency), Placed on Review for Downgrade, currently P-1

.... LT Counterparty Risk Assessment, Placed on Review for Downgrade, currently Aa3(cr)

.... Baseline Credit Assessment, Placed on Review for Downgrade, currently a3

.... Adjusted Baseline Credit Assessment, Placed on Review for Downgrade, currently a3

.... Senior Unsecured (Local Currency), Placed on Review for Downgrade, currently A2, outlook changed to RUR from STA

.... Senior Unsecured Medium-Term Note Program (Local Currency), Placed on Review for Downgrade, currently (P)A2

.... Junior Senior Unsecured (Local Currency), Placed on Review for Downgrade, currently Baa1

.... Junior Senior Unsecured Medium-Term Note Program (Local Currency), Placed on Review for Downgrade, currently (P)Baa1

.... Subordinate Medium-Term Note Program (Local Currency), Placed on Review for Downgrade, currently (P)Baa1

.... Preferred Stock Non-cumulative (Local Currency), Placed on Review for Downgrade, currently Baa3 (hyb)

..Affirmations:

.... ST Counterparty Risk Assessment, Affirmed P-1(cr)

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

..Outlook Actions:

....Outlook, Changed To Rating Under Review From Stable

Issuer: The Co-operative Bank Holdings Limited

..Placed On Review for Upgrade:

.... LT Issuer Rating (Foreign Currency), Placed on Review for Upgrade, currently Ba2, outlook changed to RUR from POS

.... LT Issuer Rating (Local Currency), Placed on Review for Upgrade, currently Ba2, outlook changed to RUR from POS

.... ST Issuer Rating (Foreign Currency), Placed on Review for Upgrade, currently NP

.... ST Issuer Rating (Local Currency), Placed on Review for Upgrade, currently NP

.... Senior Unsecured (Local Currency), Placed on Review for Upgrade, currently Ba2, outlook changed to RUR from POS

.... Subordinate (Local Currency), Placed on Review for Upgrade, currently Ba2

..Outlook Actions:

....Outlook, Changed To Rating Under Review From Positive

Issuer: The Co-operative Bank plc

..Placed On Review for Upgrade:

.... LT Counterparty Risk Rating (Foreign Currency), Placed on Review for Upgrade, currently Baa2

.... LT Counterparty Risk Rating (Local Currency), Placed on Review for Upgrade, currently Baa2

.... ST Counterparty Risk Rating (Foreign Currency), Placed on Review for Upgrade, currently P-3

.... ST Counterparty Risk Rating (Local Currency), Placed on Review for Upgrade, currently P-3

.... LT Bank Deposits (Foreign Currency), Placed on Review for Upgrade, currently Baa3, outlook changed to RUR from POS

.... LT Bank Deposits (Local Currency), Placed on Review for Upgrade, currently Baa3, outlook changed to RUR from POS

.... ST Bank Deposits (Foreign Currency), Placed on Review for Upgrade, currently P-3

.... ST Bank Deposits (Local Currency), Placed on Review for Upgrade, currently P-3

.... LT Counterparty Risk Assessment, Placed on Review for Upgrade, currently Baa1(cr)

.... ST Counterparty Risk Assessment, Placed on Review for Upgrade, currently P-2(cr)

.... Baseline Credit Assessment, Placed on Review for Upgrade, currently ba1

.... Adjusted Baseline Credit Assessment, Placed on Review for Upgrade, currently ba1

..Outlook Actions:

....Outlook, Changed To Rating Under Review From Positive

## 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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