

CREDIT OPINION

9 December 2020

Update

✓ Rate this Research

RATINGS

The Co-operative Bank plc

Domicile	Manchester, United Kingdom
Long Term CRR	B1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	B3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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The Co-operative Bank Holdings Limited

Update following upgrade of LT CRR and CR Assessment

Summary

The B3 long-term deposit ratings of [The Co-operative Bank plc](#) (The Co-operative Bank), the operating company of The Co-operative Bank Holdings Limited, reflect (1) the bank's standalone creditworthiness, expressed in its b3 standalone Baseline Credit Assessment (BCA); (2) the moderate loss-given-failure of the bank's deposits, which does not result in any uplift; and (3) our assessment of low probability of support from the [Government of United Kingdom](#) (Aa3 stable), which does not lead to any uplift.

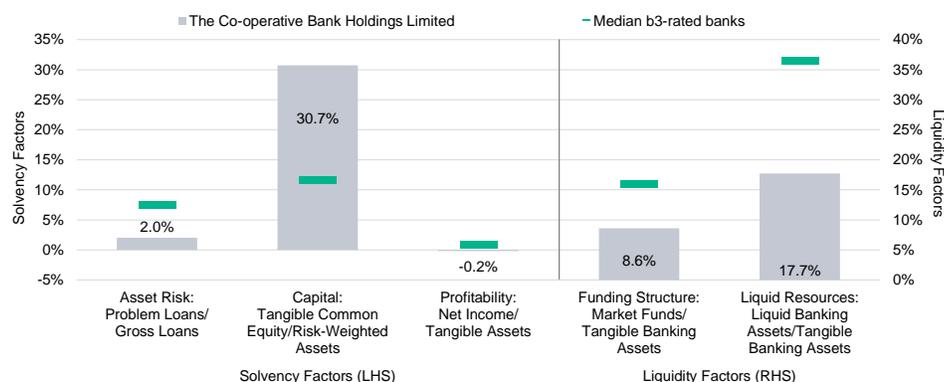
The Caa1 senior unsecured debt rating of [The Co-operative Bank Finance p.l.c.](#) (The Co-operative Bank Finance), the intermediate holding company of The Co-operative Bank, reflects high loss-given-failure, resulting in a rating one notch below The Co-operative Bank's BCA; our assumption of a low probability of government support does not provide any uplift.

The Co-operative Bank's BCA of b3 is driven by the bank's loss-making profile, which is only partially mitigated by a low stock of problem loans, following a substantial reduction in legacy portfolios, and high capital ratios.

On 7 December 2020 we upgraded the long-term Counterparty Risk Rating and the Counterparty Risk Assessment of The Co-operative Bank to Ba3(cr) and B1 from B1(cr) and B2 respectively, following the issuance of a £200 senior bond by The Co-operative Bank Finance.

Exhibit 1

Rating Scorecard - Key financial ratios



We assign a BCA to The Co-operative Bank based on the consolidated financials of The Co-operative Bank Holdings. The chart above shows the financial ratios of The Co-operative Bank Holdings.

Source: Moody's Investors Service

Credit strengths

- » Low stock of problem loans
- » High capital ratios
- » Stable retail funding
- » Ample liquidity

Credit challenges

- » Loss-making profile
- » High susceptibility of capital to stress
- » Limited market access
- » Largely monoline business

Rating outlook

The outlook on The Co-operative Bank's long-term deposit rating, and on The Co-operative Bank Finance's senior unsecured debt rating is stable.

Factors that could lead to an upgrade

The Co-operative Bank's BCA could be upgraded following a return to sustainable internal capital generation through earnings, and the issuance of sufficient debt to meet the bank's minimum requirements for own funds and eligible liabilities (MREL).

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. Substantial issuance of bail-in-able subordinated or senior 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.

Factors that could lead to a downgrade

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, and failure to comply with its MREL requirements.

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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

The Co-operative Bank Holdings Limited (Consolidated Financials) [1]

	06-20 ²	12-19 ²	12-18 ²	12-17 ²	CAGR/Avg. ³
Total Assets (GBP Billion)	24.9	23.4	23.1	24.5	0.7 ⁴
Total Assets (USD Billion)	30.8	31.0	29.4	33.1	(2.9) ⁴
Tangible Common Equity (GBP Billion)	1.5	1.5	1.6	1.4	4.6 ⁴
Tangible Common Equity (USD Billion)	1.9	2.0	2.1	1.9	0.9 ⁴
Problem Loans / Gross Loans (%)	1.3	1.4	2.8	2.4	2.0 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	30.7	31.7	32.5	26.9	30.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.6	16.6	29.0	27.4	22.1 ⁵
Net Interest Margin (%)	1.1	1.4	1.5	1.1	1.3 ⁵
PPI / Average RWA (%)	-1.3	-1.7	-1.9	5.2	0.1 ⁶
Net Income / Tangible Assets (%)	-0.2	0.3	-0.3	1.0	0.2 ⁵
Cost / Income Ratio (%)	121.5	121.0	126.4	66.0	108.7 ⁵
Market Funds / Tangible Banking Assets (%)	9.4	8.6	8.7	8.5	8.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	20.2	17.7	18.2	28.4	21.1 ⁵
Gross Loans / Due to Customers (%)	90.5	93.7	94.1	81.5	90.0 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

The Co-operative Bank plc (The Co-operative Bank) is a UK-based commercial bank that provides banking and related financial products and services to retail and corporate customers only in the UK. Most of its assets are residential mortgages, but the bank also provides loans to small and medium-sized companies, credit cards and consumer loans. Most of The Co-operative Bank's funding comes from its retail clients via current accounts and savings accounts. As of June 2020, The Co-operative Bank had total consolidated assets of £25 billion.

The Co-operative Bank was established in 1872 as the Loan and Deposit Department of the Co-operative Wholesale Society. In January 2009, the bank merged with Britannia Building Society, the second-largest building society in the UK at the time.

In 2013 and in 2017, The Co-operative Bank underwent two liability management exercises, which led to a substantially higher Common Equity Tier 1 capital ratio and the creation of a new holding company, The Co-operative Bank Holdings Limited (The Co-operative Bank Holdings). The bank is privately held, the largest shareholders of the holding company now being private equity firms and hedge funds. The main shareholder prior to the first liability management exercise in 2013, The Co-operative Group, no longer has a stake in The Co-operative Bank or in The Co-operative Bank Holdings.

The Co-operative Bank issues debt compliant with its MREL requirement out of an intermediate holding, The Co-operative Bank Finance p.l.c. (The Co-operative Bank Finance), which sits between The Co-operative Bank Holdings and The Co-operative Bank. To date, the intermediate holding company has issued a £200 million Tier 2 bond in April 2019 and a £200 million senior unsecured bond in November 2020.

Exhibit 3

The group's organisational structure

Source: Company reports

Detailed credit considerations

We assign a BCA to The Co-operative Bank based on the consolidated financials of The Co-operative Bank Holdings. The financial data in the following sections are sourced from The Co-operative Bank Holdings' consolidated financial statements, unless otherwise stated.

Low stock of problem loans

We assign an Asset Risk score of ba2, seven notches below the a1 Macro-Adjusted score, to reflect our expectation that problem loans will increase as a result of the economic shock deriving from the coronavirus outbreak, and the remaining risks in executing a strategy that aims to lead to a sustainable profitability.

The Co-operative Bank is largely a residential mortgage lender. In June 2020, 92% of the bank's loan book was composed of secured retail mortgages, with the remainder split between unsecured consumer lending (2%), SME lending (2%, of which around 44% benefitting from full government guarantees), and legacy corporate lending (4%). The majority of legacy corporate lending (c.94%) comprises loans that carry low risk, but they do not generate a sufficient return (e.g. lending to housing associations).

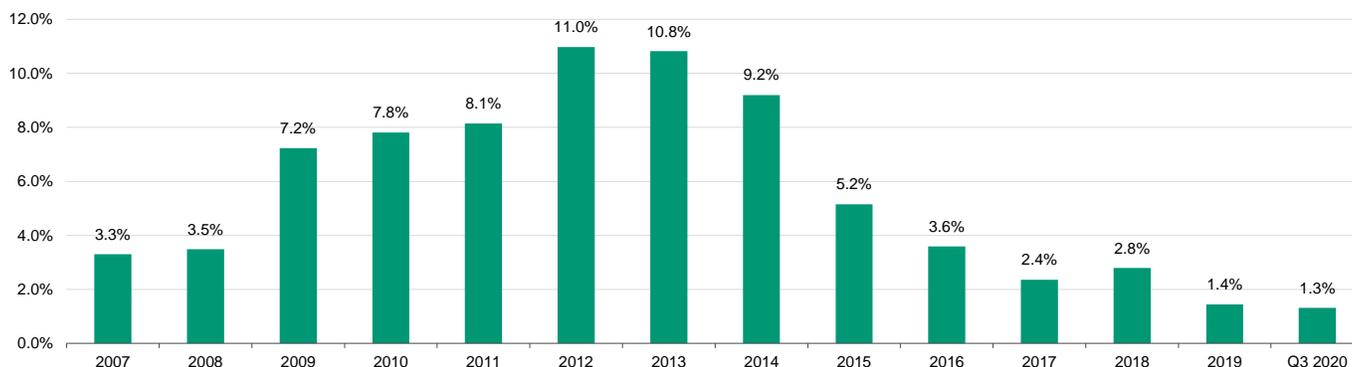
As of June 2020, the bank classified c.14% of its total corporate lending as towards sectors at risk in the current economic shock; this is equivalent to c.0.8% of total lending, which is marginal.

As of September 2020, the Co-operative Bank retains c.£162 million of mortgages with higher risk that were included in a portfolio labelled "Optimum" by the bank. This portfolio shrank materially from its £7.9 billion peak in 2013, mainly via securitisations. As of December 2019, The Co-operative Bank retained some notes related to these securitisations to meet the risk retention regulatory requirements, which had a carrying amount (i.e. maximum exposure to loss) of £159 million; the £159 million notes are in addition to the c.£162 million of "Optimum" mortgages.

Currently the stock of problem loans of The Co-operative Bank is low, representing 1.3% of gross loans as of September 2020. The problem loan ratio significantly decreased since its 11% peak in 2012 (see Exhibit 4), largely reflecting the disposal of the Optimum portfolio.

Exhibit 4

Problem loans have significantly reduced Problem loans as a percentage of gross loans



Data until 2017 (included) is from The Co-operative Bank plc, 2018 and 2019 are The Co-operative Bank Holdings Limited.

Source: Moody's Investors Service

High susceptibility of capital to stress

The Co-operative Bank's Capital score is b2, 13 notches below the Macro-Adjusted score of aa1, to reflect our view that the bank remains vulnerable in a stressed scenario, given its weak organic capital generation and weak leverage.

The Co-operative Bank reported high capital. As of September 2020 the bank's Common Equity Tier 1 (CET1) ratio was 19.1%, while the total capital ratio was 23.7%¹. We also calculate a very high tangible common equity/risk-weighted assets of 30.7% as of June 2020².

Capital has improved significantly in recent years, following a recapitalisation plan in 2017 and the disposal of a large portion of legacy assets, which is positive. As of September 2020 The Co-operative Bank had a 17.2% total capital requirement³; this implies that bank had a buffer of 6.5 percentage points of risk-weighted assets over minimum requirement, or c.£300 million.

Despite the high buffer, we believe that the bank's capital position remains weak. The Co-operative Bank is structurally unprofitable, and we therefore expect capital ratios to decline. Furthermore, The Co-operative Bank indicates that it is not in compliance with the undisclosed Prudential Regulation Authority buffer, which sits above its minimum regulatory requirements and whose purpose is to provide additional loss absorbency in a stress. We therefore believe that The Co-operative Bank's capital is highly vulnerable to a stressed scenario.

The Co-operative Bank reported a weak 3.6% leverage ratio as of September 2020, calculated using the guidelines from the European Banking Authority (EBA); using the guidelines from the Bank of England, the leverage ratio of The Co-operative Bank as of September 2020 was a still weak 4%.

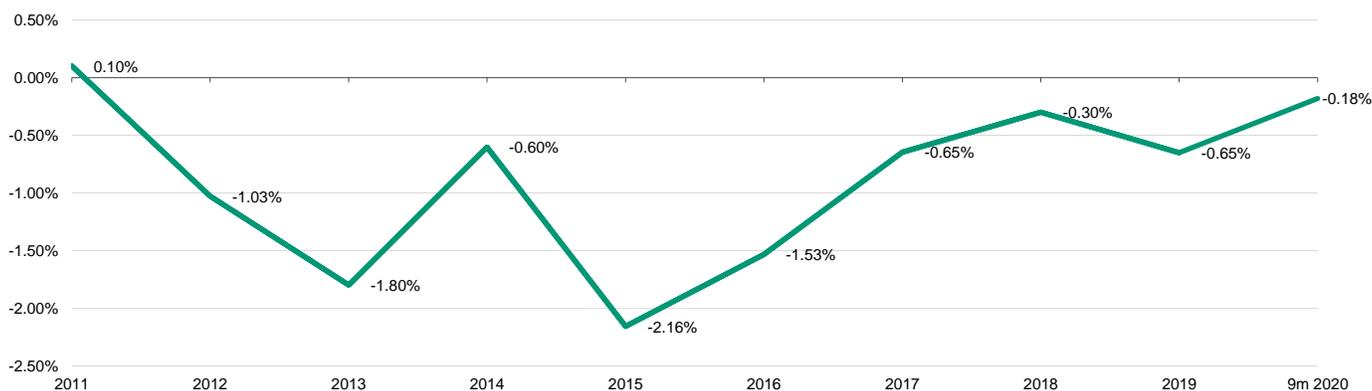
Loss-making profile

We assign a Profitability score of caa3 to The Co-operative Bank, two notches below the Macro-Adjusted score of caa1, to reflect our forecasts and the bank's persistent losses.

Exhibit 5

The Co-operative Bank has reported a net loss for the last eight and a half years

Net income/tangible assets as reported by The Co-operative Bank



Data until 2018 is from The Co-operative Bank plc, 2018 and 2019 are The Co-operative Bank Holdings Limited. The ratio for the nine months of 2020 is not annualised.

Source: Moody's Investors Service

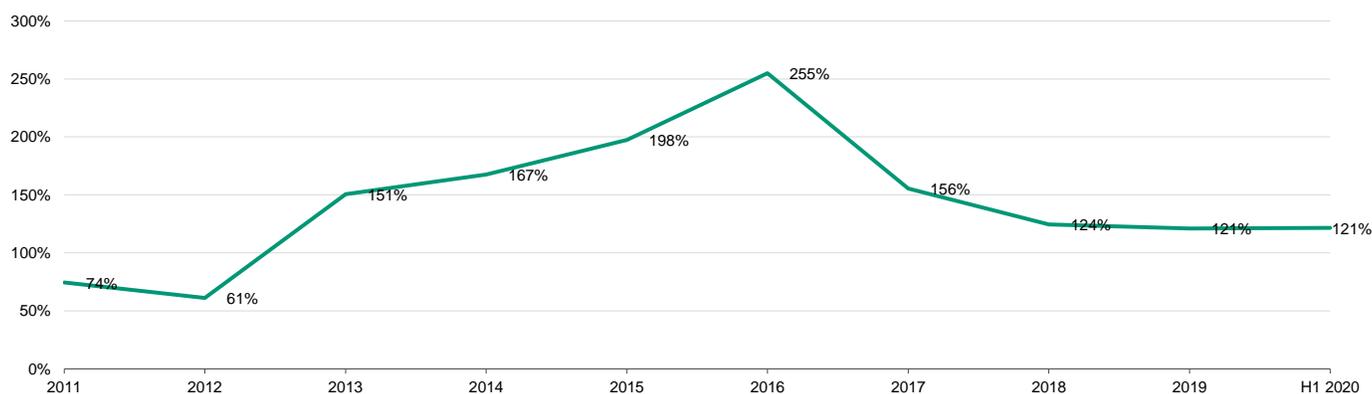
We expect The Co-operative Bank to continue to be loss-making in 2020, with a negative pre-provision profit, albeit reduced from the past; we expect the reduction in restructuring costs to more than offset the coronavirus-related expected loss charges.

Achieving a sustainable level of profitability from 2021 will still be challenging, given (1) dependence on rapid volume growth in a weakening economy, (2) the need to grow net interest income amid declining margins in the UK residential mortgage business (more than 90% of The Co-operative Bank's loan book); and (3) high cost base (see Exhibit 6) and an increase in the cost of funding due to the recent issuance of senior and subordinated bonds by The Co-operative Bank Finance (9.5% coupon for the Tier 2 notes issued in 2019, and 9% coupon for the senior notes issued in 2020), as well as future issuances to meet the bank's MREL requirement.

Exhibit 6

High cost base impedes profitability

Cost-to-income ratio



Data until 2018 is from The Co-operative Bank plc, data from 2018 included and 2019 are The Co-operative Bank Holdings Limited.

Source: Moody's Investors Service

In the first nine months of 2020 The Co-operative Bank reported a net loss of £44.5 million, which compares with a £117.3 million net loss in the first nine months of 2019. The lower loss reflects a substantial reduction in operating expenses (-18% to £292 million), which more than offset a lower net interest income (-20% to £195 million) and a coronavirus-induced spike in loan loss charges (£16.7 million in the first nine months of 2020 compared with £2.3 million in the first nine months of 2019).

In order to improve efficiency, in August 2020 The Co-operative Bank announced the closure of 18 branches out of a total of 68 by the end of the year, and to reduce 350 staff (c.10% of total).

Market access is limited by high funding costs but liquidity is ample

We assign a Funding Structure score of b1 to The Co-operative Bank, six notches below the Macro-Adjusted score of a1, to reflect the bank's challenged access to the unsecured debt market at average market prices.

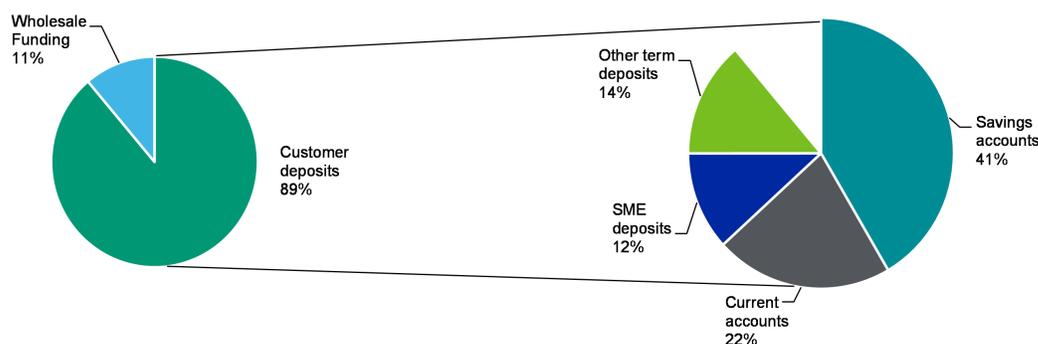
The reliance of The Co-operative Bank on wholesale funding is low (see Exhibit 7), representing 9.4% of tangible banking assets as of June 2020.

The Co-operative Bank is mostly funded through deposits (£20 billion as of June 2020). The majority of these deposits are customer demand savings accounts (£9.3 billion) and current accounts (£4.9 billion), which have been historically sticky during the liability management exercises in 2013 and 2017. The remainder of deposits are from small- and medium-enterprises (£2.7 billion) and term customer savings accounts (£3.1 billion). In Q3 2020 The Co-operative Bank's deposits were largely unchanged (-0.1% from Q2 2020).

The remainder of The Co-operative Bank's funding is largely composed by a £1 billion drawings from the Term Funding Scheme with additional incentives for SMEs (TFSME) from the Bank of England, which the bank drew in Q3 2020 to repay the £1 billion of the previous Term Funding Scheme. The Co-operative Bank also has c.£0.5 billion of covered bonds maturing in November 2021, £0.2 billion RMBS, and £0.5 billion repos. The Co-operative Bank Finance issued a £200 million 10-year Tier 2 bond at a high 9.5% interest rate in April 2019, and a £200 million 5-year (callable after four years) senior bond in November 2020 also at a high 9% interest rate.

Exhibit 7

The Co-operative Bank is mostly funded through deposits Funding split as of June 2020



Wholesale funding includes TFS, covered bonds and securitisations, repos, and the Tier 2 instrument issued by The Co-operative Bank Finance. The chart does not include the £200 million senior bond issued by The Co-operative Finance because the issuance was in November 2020.

Source: Moody's Investors Service

The Co-operative Bank estimates that it needs to issue an additional c.£350 million of MREL-compliant debt by end-2021 to meet with its expected requirement as of 1 January 2022⁴. If the bank's estimates are confirmed, we believe that reaching this level of issuance will be challenging for The Co-operative Bank, which would likely need to continue to offer an interest rate significantly above other UK retail banks.

The Co-operative Bank has ample liquidity against its limited market funding. The stock of liquid assets was high at 20.2% of the bank's tangible banking assets as of June 2020, which is equivalent to a Macro-Adjusted score of baa1. The assigned score is one notch

below the Macro-Adjusted score to reflect our expectation that the percentage of liquid assets over tangible banking assets will slightly reduce over time as the balance sheet grows.

In September 2020 the balances with the Bank of England, gilts, and liquid government and bank bonds were £3.5 billion. In addition to that, The Co-operative Bank has £3.3 billion of other liquid assets (£0.8 billion) and contingent liquidity (£2.5 billion).

According to the bank's estimate, the allowance for the new TFSME is well in excess⁵ of the bank's current £1 billion TFSME drawdowns.

The Co-operative Bank reported a 176% liquidity coverage ratio as of September 2020.

Largely monoline business

The Co-operative Bank's Financial Profile score is ba3.

We apply a negative qualitative adjustment to reflect the lack of business diversification. Even though The Co-operative Bank provides a series of products to its retail clients, more than 90% of the bank's loan book is composed of residential mortgages. The remainder of the bank's loan book is composed of loans to small and medium enterprises, and a small unsecured loan book.

ESG considerations

In line with our general view for the banking sector, The Co-operative Bank has a low exposure to Environmental risks and moderate exposure to Social risks. In fact the bank historically emphasised its social credentials and ethical values arising from its roots in the cooperative movement. See our [Environmental risks heatmap](#) and [Social risks heatmap](#) for further information.

Our assessment of moderate Social risk for The Co-operative Bank also takes into account the bank's exposure to the coronavirus-induced economic shock.

The Co-operative Bank, like other retail and commercial banks in the UK, needs to continue to ensure that its policies and processes are compliant with the Financial Conduct Authority's rules on persistent debtors and fair treatment of customers.

Governance is highly relevant for The Co-operative Bank, as it is to all banks. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. We believe that The Co-operative Bank lacks, at present, a sustainable business model, and has experienced numerous management changes. These governance considerations lead to a two-notch negative adjustment for Corporate Behaviour.

Support and structural considerations

Loss Given Failure (LGF) analysis

The Co-operative Bank is subject to the UK implementation of the European Union Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime.

Our advanced LGF analysis assumes residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. These are in line with our standard assumptions. Particular to The Co-operative Bank and other retail-funded banks in the UK, we assume the proportion of deposits considered junior at 10%, relative to our standard assumption of 26%, because of the largely retail-oriented depositor base of the bank.

Our LGF analysis indicates that The Co-operative Bank's deposits are likely to face moderate loss-given-failure, driven by the residual equity that we expect in a resolution scenario, the recent Tier 2 bond, and the volume of deposits themselves. As a result, deposits receive no notching uplift relative to the bank's BCA.

For the holding company's senior unsecured debt, our LGF analysis shows high loss-given-failure, as at present it has limited senior unsecured debt outstanding and little protection from subordinated debt and the residual equity that we expect in a resolution scenario. This results in ratings that are one notch below The Co-operative Bank's BCA.

We expect The Co-operative Bank to issue additional MREL-eligible debt, which could reduce the loss-given-failure for the bank's depositors and for the Co-operative Bank Finance's bondholders. Nevertheless, the issuance plan is still uncertain and we do not incorporate future issuance in the advanced LGF analysis.

Government support considerations

We believe that there is a low likelihood of government support for The Co-operative Bank's wholesale deposits and for the debt issued by The Co-operative Bank Finance in the event of its failure, resulting in no uplift. This probability reflects the bank's low market share in the UK market and its non-systemic nature compared with the country's largest banks, as well as the loss-absorbing nature of the debt issued by holding companies.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

The Co-operative Bank's CR Assessments are positioned at Ba3(cr)/Not Prime(cr)

The long-term CR Assessment is three notches above the bank's standalone BCA of b3. The uplift results from the small buffer against default provided to the operating obligations by the residual equity that we expect in resolution, by the debt issued by The Co-operative Bank Finance, and by deposits. The main difference from our Advanced LGF approach that is used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than the expected loss. Therefore, we focus purely on subordination and do not take the volume of the instrument class into consideration.

The long-term CR Assessment does not include any further uplift, resulting from our expectation of low probability of government support.

Counterparty Risk Ratings (CRRs)

Our CRRs are opinions on the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event that such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

The Co-operative Bank's CRRs are positioned at B1/Not Prime

The long-term CRRs are two notches above the bank's standalone BCA of b3. The uplift derives from the buffer against default provided to the operating obligations by the residual equity that we expect in resolution, by the debt issued by The Co-operative Bank Finance, and by deposits. The long-term CRRs do not include any further uplift resulting from our expectation of low probability of government support.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from what suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

The Co-operative Bank Holdings Limited

Macro Factors							
Weighted Macro Profile		Strong +		100%			
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	2.0%	a1	↓↓	ba2	Expected trend	Operational risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	30.7%	aa1	↔	b2	Stress Capital resilience		
Profitability							
Net Income / Tangible Assets	-0.2%	caa1	↔	caa3	Earnings quality		
Combined Solvency Score		a3		b2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	8.6%	a1	↔	ba1	Lack of market access		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	17.7%	baa2	↔	baa2	Stock of liquid assets		
Combined Liquidity Score		a3		baa3			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				-1			
Opacity and Complexity				0			
Corporate Behavior				-2			
Total Qualitative Adjustments				-3			
Sovereign or Affiliate constraint				Aa3			
BCA Scorecard-indicated Outcome - Range				b2 - caa1			
Assigned BCA				b3			
Affiliate Support notching				0			
Adjusted BCA				b3			
Balance Sheet							
		in-scope (GBP Million)	% in-scope	at-failure (GBP Million)	% at-failure		
Other liabilities		3,835	15.4%	5,040	20.3%		
Deposits		20,076	80.8%	18,671	75.1%		
Preferred deposits		18,069	72.7%	17,165	69.1%		
Junior deposits		2,008	8.1%	1,506	6.1%		
Senior unsecured holding company debt				200	0.8%		
Dated subordinated holding company debt		200	0.8%	200	0.8%		
Equity		746	3.0%	746	3.0%		
Total Tangible Banking Assets		24,857	100.0%	24,857	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	10.7%	10.7%	10.7%	10.7%	2	2	2	2	0	b1
Counterparty Risk Assessment	10.7%	10.7%	10.7%	10.7%	3	3	3	3	0	ba3 (cr)
Deposits	10.7%	4.6%	10.7%	4.6%	0	0	0	0	0	b3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	ba3 (cr)	0	Ba3(cr)	
Deposits	0	0	b3	0	B3	B3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
THE CO-OPERATIVE BANK PLC	
Outlook	Stable
Counterparty Risk Rating	B1/NP
Bank Deposits	B3/NP
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b3
Counterparty Risk Assessment	Ba3(cr)/NP(cr)
THE CO-OPERATIVE BANK FINANCE P.L.C.	
Outlook	Stable
Issuer Rating	Caa1
Senior Unsecured -Dom Curr	Caa1
ST Issuer Rating	NP

Source: Moody's Investors Service

Endnotes

- The Co-operative Bank uses the Internal Ratings Based (IRB) approach to calculate credit risk for its capital requirements.
- Our tangible common equity ratio is materially higher than the bank's reported CET1 ratio. This is because our tangible common equity includes the £477 million reserves (as of June 2020) recognised following the separation of The Co-operative Bank's pension scheme from the one of The Co-operative Group.
- We calculate the total capital requirement as the sum of 8% Pillar 1, c.6.7% Pillar 2A, 2.5% Capital Conservation Buffer, 0% Countercyclical Capital Buffer, and 0% Systemic Risk Buffer. On 1 December 2020 The Co-operative Bank announced that the Bank of England lowered the bank's Pillar 2A by £48 million; using the bank's risk-weighted assets as of 30 September 2020, we calculate a reduction of around one percentage point of The Co-operative Bank's total capital requirements.
- On 1 December 2020, the Bank of England lowered the capital requirements of The Co-operative Bank by £48 million; we expect the bank to potentially issue less than £350 million to meet its MREL requirements.
- The Co-operative Bank estimates that its initial allowance for the new TFSME is £1.76 billion; still according to the bank's estimates, The Co-operative Bank could have additional £1 billion available.

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