



**BANK OF ENGLAND**

# News release

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11 August 2015

## **PRA censures Co-operative Bank for serious risk management and transparency failings**

Following an enforcement investigation into the Co-operative Bank Plc (Co-op Bank) the Prudential Regulation Authority (PRA), supported by a team of investigators at the Financial Conduct Authority (FCA), has found that there were serious and wide-ranging failings in Co-op Bank's control and risk management framework during the period from 22 July 2009 to 31 December 2013. The PRA has also found that the firm failed to deal with its regulators in an open and co-operative manner in that period.

The PRA found Co-op Bank's control framework to be flawed both in design and operation, and found inadequacies in the firm's risk management framework policies and in its capital management and corporate lending policies and procedures. This meant that the firm did not adequately consider the level of risk it assumed and therefore did not have the capability to manage that risk. This in turn had the potential to weaken the firm and reduce its resilience. The PRA also found deficiencies in the management information which the firm produced. These deficiencies led to the Co-op Bank's Board not being appropriately apprised of key issues, which hampered its ability to manage the business effectively.

The PRA found that Co-op Bank had a culture which encouraged prioritising the short-term financial position of the firm at the cost of taking prudent and sustainable actions for the longer-term.

Co-op Bank also failed to deal with its regulators (the Financial Services Authority and subsequently the PRA) in an open and cooperative manner. Specifically, Co-op Bank failed to notify the regulators without delay of two intended personnel changes in senior positions.

The PRA considers these breaches by Co-op Bank to be sufficiently serious to warrant a substantial financial penalty. However the PRA has concluded that imposing a financial penalty on Co-op Bank would not advance the PRA's statutory objective to promote the safety and soundness of the firms it regulates. The PRA would otherwise have imposed a financial penalty of around £120 million on Co-op Bank.

Towards the end of 2013, following changes to its Board and senior management, 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 PRA expects firms to remediate any weaknesses such as those identified in this investigation as a matter of course, without delay.

Andrew Bailey, Deputy Governor, Prudential Regulation, Bank of England and CEO of the PRA said:

“Firms must have in place strong controls and sound risk management as operating without them undermines safety and soundness. Co-op Bank’s failings stand out both for the duration and seriousness of the risk management and control deficiencies uncovered. This was compounded by a lack of openness with their regulator. These were serious transgressions. The PRA has not levied a fine in this instance but, if any future enforcement investigation into Co-op Bank found serious and wide-ranging failings, this censure will be a relevant factor in determining the outcome.”

The PRA’s consideration of, and investigations into, the role of former senior individuals in events at Co-op Bank are continuing. No further information will be provided on this until investigations are concluded.

ENDS

#### **Notes for Editors**

1. [Final notice for the Co-operative Bank Plc](#)
2. The PRA would have imposed a financial penalty of around £120 million. However, this figure would have been reduced to around £85 million through the application of a 30% discount if the PRA were to have reached settlement with Co-op Bank at Stage 1.
3. News release - [The Financial Conduct Authority censures the Co-operative Bank for listing rules breaches and failing to be open with the regulator](#)
4. [News release - Co-operative Bank enforcement investigation](#) – 6 January 2014
5. [PRA Approach to Enforcement](#)