BANKING

Co-op Bank ditches plans to float after £400m loss is uncovered

By Jim Armitage and Nick Goodway

The stricken Co-op Bank has abandoned plans to float this year as it admitted it needs a further £400m just three months after raising £1.5bn to fill the hole in its accounts.

Hedge-fund investors and the wider Co-operative Group, who bailed it out last time, must now decide whether they want to throw further cash at the loss-making bank.

The bank's chief executive, Niall Booker, said the Co-op had uncovered a further £400m of mis-selling PPI and interest-rate-hedging products to customers, as well as breaches of the Consumer Credit Act and failure to manage properly those struggling to make their mortgage repayments. It now expects to have lost £1.2bn to £1.3bn last year.

Co-op Bank will turn to its shareholders – now largely consisting of the hedge funds and institutions which agreed to swap their bonds for equity last year – for the extra £400m.

If the Co-op Group decides it does not want to add to the £462m it has already given or pledged to the bank as part of the original bailout, its 30 per cent stake will be diluted even further, leaving the hedge-fund investors owning a larger majority.

The Co-op Group is itself in turmoil after the resignation of its chief executive, Euan Sutherland, this month, and the publication of Lord Myners' excoriating review of its governance and management. It would need to put up more than £100m extra to maintain its shareholding at 30 per cent.

But if it decides not to, it would risk alienating further the ethical investors who have traditionally been attracted to the Co-op Bank's previous co-operative-ownership structure. Some charities began looking for alternative places to bank after the hedge funds became the majority shareholders.

Tim Jones, a spokesman for Jubilee Debt Campaign, an NGO which argues for better repayment terms for poor countries' debts, said: "If the Co-operative Group's share diminishes even further, we're concerned the ethical principles will be put further at risk."

Mr Booker (*pictured*) said the extra costs had come to light since the bank completed its refinancing in December. He added that the cost of separating the bank from the Co-op Group would be about £40m in 2013.

The effect of the extra £400m of losses will cut the bank's key balance-sheet ratio (core tier 1) from almost 9 per cent to 7.2 per cent, only just above the minimum 7 per cent required by regulators.

{i} The Co-operative Bank confirmed yesterday it had **cut 1,000 jobs** from its 10,000-strong workforce and closed 30 of its branches. It expects to close a further 15 branches this year.