

Co-operative Bank in shock merger approach to rival lender TSB

The Co-operative Bank has made an audacious approach about a merger with TSB in a move that could trigger a fresh wave of consolidation among Britain's mid-sized lenders.

Sky News has learnt that the Co-operative Bank contacted TSB's Spanish owner, Banco Sabadell, earlier this month to gauge its appetite for a deal.



Image:
TSB's Spanish owner has been approached about a sale of the UK lender.

It is understood to have said that it would be willing to pay in excess of £1bn for TSB.

City sources said this weekend that Sabadell had indicated that it was not keen to enter into formal discussions at this stage about a merger of what by some measures are the UK's

seventh-largest and eight-largest banks.

If it did materialise, a tie-up between two of the best-known brands in the sector would create a high street lender with more than 8m customers encompassing mortgages, current accounts, credit cards and savings products.

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That would make the combined business larger by customer numbers than Virgin Money, which has approximately 6.5m customers, although it would be smaller than Virgin Money as measured by the size of its loan-book.

It would also remain far smaller than Lloyds Banking Group, NatWest Group, Barclays, HSBC Holdings and Santander UK in terms of market share and high street presence.

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Nevertheless, the Co-operative Bank’s approach for TSB was described this weekend by one industry executive not connected to the prospective deal as a logical move.

The profitability of UK retail banks has been hampered since the aftermath of the 2008 financial crisis, with interest rates at historic lows for more than a decade.

Analysts have for years forecast a wave of corporate activity that would see mid-sized banks bulk up, although the combination of OneSavings Bank with Charter Court Financial Services and Virgin Money’s tie-up with CYBG have proved to be exceptions.

This week, a takeover of Sainsbury’s Bank by Centerbridge Partners, the US-based investor, fell apart after the supermarket group concluded that it would not deliver value to shareholders.

If the Co-operative Bank did succeed with a formal bid for TSB, it would be a deal laden with corporate irony.

In 2013, the Co-operative Bank’s bid to acquire the branch network which became TSB was left in ruins when the scale of its own financial crisis emerged.

The Co-operative Bank, which at the time was majority-owned by the Co-op Group, one of the UK’s biggest mutuals, was forced to turn to a group of American hedge funds in a £1.5bn rescue

deal.

Its former chairman, Paul Flowers, was left humiliated by tabloid revelations about his private life that led to him being dubbed 'the crystal methodist', and prompted an overhaul of its leadership and ownership structure.

The ensuing eight years brought further turbulence for both the Co-operative Bank and TSB, however, with the former reliant on another bailout by investors in 2017.

TSB, meanwhile, was plunged into a storm of its own the following year when an IT systems calamity left millions of customers locked out of their accounts for days.

The incident came three years after Sabadell bought TSB from public investors and Lloyds Banking Group, its former parent.

TSB's future has been the subject of intense speculation since last year when its Spanish owner signalled that it would be open to a sale.

The odds on a short-term deal diminished in the spring, however, when Sabadell indicated that it would delay an auction process.

News of the Co-operative Bank's unsolicited approach to Sabadell is likely to trigger interest from other suitors for TSB, which operates nearly 300 branches.

It comes just weeks after TSB confirmed the appointment of Nick Prettejohn, a City veteran, as its new chairman.

The Co-operative Bank's ability to propose a transaction of this scale underlines its recent recovery, having announced an underlying profit of nearly £13m for the first half of 2021.

It has itself been on the receiving end of takeover interest, although talks about a sale to Cerberus Capital Management, an often controversial investor, broke down last December.

A merger with TSB would almost certainly make a medium-term exit for both Sabadell and the Co-operative Bank's owners easier to execute, potentially through a public share sale.

In April, two major investors – Bain Capital Credit and JC Flowers – took a 10% stake in the Co-operative Bank, which some analysts interpreted as a sign that it would become more proactive in its approach to industry consolidation.

The lender's other shareholders include GoldenTree Asset Management and Silver Point Capital, two US-based hedge funds.

Credit Suisse is advising the Co-operative Bank, while Goldman Sachs has been retained by Sabadell to advise on the future of TSB.

A Sabadell spokesman said: "This is not a transaction that we wish to explore at this moment, as we have previously expressed publicly."

The Co-operative Bank and TSB declined to comment.