

Supermarket giant Tesco to explore sale of banking arm

Tesco, Britain's biggest supermarket chain, is to kick off a review of its presence in the UK banking sector – a move that could lead to a sale of the business.

Sky News has learnt that the grocery giant is lining up Goldman Sachs to advise on the future of Tesco Bank, which launched in 1997.

City insiders said this weekend that the review was at a very preliminary stage and may not lead to a formal sale process.

One source suggested that a partial sale or joint venture could also be an option for the retailer.

A banking analyst suggested this weekend that if it was sold, Tesco Bank could be worth more than £1bn based on its book value.

The company has more than five million customers, offering products including pet insurance, savings accounts and credit cards.

Ken Murphy, who has been Tesco's chief executive since 2020, has been publicly supportive of its presence in the banking sector.

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Based in Edinburgh, Tesco Bank employs 3,800 people and generated adjusted operating profits of £67m in its last half-year results.

There is no suggestion that the review of the business could result in any form of wind-down or job losses.

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“The bank’s balance sheet remains strong, and we continue to have sufficient capital and liquidity to absorb changes in both regulatory and funding requirements,” it said in its most recent results announcement.

Tesco Bank retreated from the UK mortgage market in 2019, announcing the sale of its existing mortgage book to Lloyds Banking Group for a cash consideration of £3.8bn.

Last month, it named Jacqui Ferguson, a former Hewlett Packard Enterprise Services executive, as its interim chair.

Her appointment follows the departure of Sir John Kingman, the former Treasury mandarin who had chaired the bank since 2019.

Sir John resigned to join Barclays as chair of its UK ring-fenced bank.

Tesco's potential exit from the banking business comes 15 years after it paid £950m to acquire the then crisis-hit Royal Bank of Scotland's 50% stake in their Tesco Personal Finance joint venture.

More recently, rival J Sainsbury has also explored the disposal of its banking arm but decided in 2021 to terminate discussions with suitors.

The list of potential buyers of Tesco Bank would be expected to include other mid-sized UK lenders as well as financial investors.

Tesco has recovered strongly from the biggest crisis in its history, which emerged in 2014 when the company overstated income, triggering a Serious Fraud Office probe and protracted shareholder litigation.

Mr Murphy, who replaced Sir Dave Lewis at the helm of Tesco, has sought to exert tight control of its cost-base amid growing inflationary pressures.

Last month, he snapped up the Paperchase stationery retail brand and announced a shake-up of store management roles which put more than 2,000 jobs at risk.

Tesco and Goldman Sachs both declined to comment.