

GlobalCapital

Financial Institution Borrowers Roundtable

MAY 2025

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Funding flexibility key to navigating 2025 macro volatility

After a solid first quarter for financial institution bond issuance, the severe global market turbulence from the US government's tariff announcements in early April abruptly swept aside previously stable funding conditions. Increased levels of uncertainty and volatility have since kept primary markets hostage, making new issuance more challenging across the capital stack. In late March, just before the global markets sell-off, *GlobalCapital* convened a roundtable of leading international financial institution borrowers to discuss their funding needs and strategy for the year amid changing market conditions. Funding flexibility and nimbleness are always important for issuers. Such attributes are paramount today.



GlobalCapital: For the issuers here, you've already accessed the markets this year. Petra, to start with you, I see that Nordea has been active across currencies and formats. So what are your thoughts on conditions out there for issuing, what have they been like so far?

Petra Mellor, Nordea: The credit market was very resilient in the first quarter. Issuance conditions were strong with generally good appetite across formats and currencies. However, we expect some market volatility to emerge around US tariffs and for this to potentially impact the global economy.

Nordea has issued close to €8bn in the first quarter, representing 40% of our total funding plan for 2025. We have issued across all funding formats — senior preferred and senior non-preferred in euros, dollars, Swedish krona and covered bonds in all Scandinavian currencies and in euros.

Andreas Wein, LBBW: To a degree I echo what Petra was just saying. I was more nervous, but conditions have turned out better so far than what we feared them to be in January and February. The credit market is stable which is good and not necessarily what we expected.

We have so far been active in the euro senior and covered bond

format, and the Swiss franc market, with issuances that were all hugely successful. Every transaction worked out really well, so we are pretty much on-track as to where we want to be at this time of the year.

Aurélien Harff, Crédit Agricole Group (CAG): We are also on-track having done something like 45% of our annual funding plan, which is what we wanted to achieve at this stage. Funding conditions have been good and we have seen that in terms of the cost we have paid, which was marginally better than last year. We saw there was a very deep demand in the market, indicated by larger books, early this

Roundtable participants



Tanguy Morel,
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head of bond
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Bank Corporate
Markets Wertpapier-
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Aurélien Harff,
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year. However, since late February a lot has happened and while overall, we have experienced good funding conditions and have been on-track with our plan, we need to be cautious about market conditions going forward.

Kristofer Middleton, Lloyds: On our side, we have a fairly modest funding plan in the context of what we normally and historically have done. We've already gone out and done a few trades this year, so we're pretty much exactly where we expect to be. So far, the market has been very conducive if you put deals out there at the right time at the right level.

One thing we've seen more recently is investors becoming a little bit more hesitant when issuers bring deals with very low new issue concessions. As a result, we've seen book attrition and investor participation in those deals wane slightly.

That said, we're coming off a very constructive base. We're coming off a period of six months where issuers have been paying very limited new issue concessions and that's because of the investor appetite out there. And that's a very conducive environment for us as issuers to go out and fulfil our needs and mitigate potential headwinds.

GlobalCapital: From the debt capital markets side, Ed, Tanguy, what are your reflections on the past few months?

Ed Jennings, Lloyds Corporate & Institutional: Everybody has said that conditions are stable. We saw a great start to covered bonds at the beginning of the year with massive books and spreads tightening. Then it became a bit more complicated and we had to be more careful.

One point that we hear a lot is that the fundamentals for banks, for FIG issuers generally, are as good as they've been for an awfully long time, so I don't think — certainly when we talk to investors — there are any credit concerns. However, valuation is a concern. People are looking at all the risks in the market, and while they're very confident of the credit that they're buying, they're less confident about the spread at which they're buying it.

So the point around, particularly in the last few months, making sure that you're getting the day right, getting the premium right, so that you bring investors with you (not tightening too much and getting lots of attrition) has been a really important theme. The real money guys have generally bought into that, and as long as it's priced correctly, investors generally will engage.

Tanguy Morel, Lloyds Bank Corporate Markets Wertpapierhandelsbank (LBCM): The credit market has clearly been very supportive for issuance in the first quarter.

It's quite interesting to see that the asset class has been attracting

flows in two different environments. Last year we were in a decreasing rate environment with projections of rates going even lower and that did not affect the credit spectrum; all assets were tighter.

We're now in a different rate environment where it might be a story of higher for longer, post the inauguration of Trump in the US. But again, the credit asset class has been performing very well in Q1, better than other asset classes.

So overall, it's been so far a very supportive environment for credit and for all asset classes from covered bonds to AT1. However, maybe now we're seeing a bit of an inflexion point emerge, where dealers and issuers need to be nimbler and more flexible.

GlobalCapital: It's fair to say it's probably going to get a lot more interesting from here. Looking forward then, Petra, how much of your funding programme do you still have to complete, and what do you expect to see in market conditions for the rest of the year?

Mellor, Nordea: We have around €20bn to do in total long-term funding this year. It's a relatively normal funding year where we tend to raise roughly half of our long-term funding in Scandinavian currencies, and most of that in the covered bond format on the back of our retail mortgages in the respective country. The other half is



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Aurélien Harff, Crédit Agricole Group

expected to be raised in international currencies, primarily euros and dollars across euro covered bonds, senior preferred and senior non-preferred notes.

We do not tend to front-load a lot of our funding programme. Instead, we usually spread out our funding needs across the year, coming to the markets regularly. As it stands, we are well on-track with our funding programme, with around 40% of the year’s programme done. Given the good issuance conditions and the open windows we have had in the first quarter, we took advantage of supportive markets.

Regarding market conditions for the rest of the year, there are three things primarily to keep an eye on here. The first one is growth, which will likely be impacted by tariffs and trade regulations. Fears of recession are coming back.

Secondly, we need to keep an eye on inflation. We thought that inflation was on the right track and going down. But with tariffs, this raises questions about the direction of inflation. In turn, this could have an impact on the third actor — interest rates.

On a more positive note, however, if rates stay higher than expected, this could benefit the banking sector relative to other sectors. Also, banks generally are in a good position due to being well capitalised, profitable and experiencing historically low credit losses. In addition, we are beginning to see Europe generate some economic momentum, which could lead to stronger growth here.

GlobalCapital: *Andreas, Aurélien and Kris, you will probably share*

some of the same thoughts. But how do you assess funding conditions from here. Is there anything you will be keeping a close eye on?

Wein, LBBW: Assessing the political situation going forward is extremely difficult. But how do we position ourselves in that context? There are two things to be mindful of. How spreads develop is certainly an issue. I’m glad that we have got a good bit of our senior funding already done. At the end of the day, as a bank, as a lender, we are active on both sides of the balance sheet. So, widening spreads, on the asset and the liability side, will be manageable. But it’s still obviously a challenge.

On the funding side, we will definitely continue to diversify. We entered the Australian dollar market for the first time last year. We’re aiming to do so again this year. Covered bonds will be the predominant element for us in benchmark issuance for the rest of this year. We’re always looking for opportunities in currencies other than euros when it makes sense, primarily with the aim of diversification.

Reflecting on Petra’s remarks about growth and inflation, I’m cautiously optimistic for Europe. The new German government’s decision to abolish or adapt the debt brake makes me positive that there is potential for growth because there is significant — specifically in Germany — investment needed in defence and infrastructure.

So there is money there now to be spent and that’s good news. This may not materialise immediately in measurable growth in the corporate sector in 2025 but going forward

it should be a good impulse to the economy. And yes, this may lead to rising rates, but that’s something banks can benefit from.

Harff, CAG: Our funding plan for the year is €20bn, which is €4bn lower than last year, and €6bn lower than the year prior. So our annual need is a bit lower than in recent years, partly because home-loan origination in France has been slower, which has meant we have marginally less liquidity needs. So of €20bn, that’s €10bn of senior preferred and covered bonds, where we need less than last year, and €10bn of senior non-preferred and tier two, which is similar to what we did last year. The capital part is actually quite stable.

So far, we have done about 45% of that, which is not really front-loading, it’s more a seasonal pattern. We are often issuing quite a lot in January, when the market is deep, conditions are conducive, and there is a lot of redemptions. There is also our blackout period, so we are timing our funding accordingly.

So far this year, we have made good progress. We have done a bigger part of our senior non-preferred and tier-two funding, probably more than half of what we need there. This means we have issued a lower proportion of covered bonds and senior preferred, which relates to spreads being compressed across the capital stack, with covered bonds being very close to senior preferred and so on. Obviously, it may make sense to secure your more subordinated part of the funding stack, even if you don’t have a strong conviction that spreads should go wider.

Sector-wide, banks are in a good place, with rates more favourable than they have been for a long time. The whole sector had great results last year. The feedback we get from the market is that investors don’t seem to be worried about banks.

More broadly, the speed of the German decision to spend more was somewhat unexpected. That can potentially change things because in the long term it could more than offset the impact of whatever tariffs are put in place between Europe and the US. So that’s a very strong decision that has already impacted rates expectations.

As long as rates remain in that area, it is good for our market and our business. They are also providing good yields for investors, but obviously, if at some point we

expect rates to go up quickly, that would present a technical challenge to spreads.

GlobalCapital: Kris, from your side, what do you have left to do in terms of your annual funding programme? Are there any issues out there that you have identified that could impact what you aim to do?

Middleton, Lloyds: Last year we did just short of £14bn. This year we've guided up to £10bn, and we're probably 30% through that. Again, that's less of an acceleration and more just the funding conditions have been conducive to us getting it done. We've already done an ATI this year, which is our highest, most expensive product. So we've already taken that risk off the table, if you will.

In terms of the look forward from here, there's a couple of things. For us, and where we're a little bit different from the guys around the table, we have a very limited amount of senior funding to do. We've guided up to £3bn of senior funding out of the bank and that's the senior or covered bond secured format. That's really because of the deposit strength in the UK which is not only in our group but across other UK banking groups as well.

So that's one area where it's not as big a focus for us and therefore we'll be very tactical in what we need to do. We've got various tools within the bank on the balance sheet to play with there.

On the more holding company (holdco) senior, capital side, there are a couple of things we look at in terms of risk. On one side, we're always interested in the technical picture in terms of supply on our side and from our peers. And from the sounds of it, supply is expected to be lower this year. Couple that with the fact that people have already got a fair portion of their issuance done, and that is a positive technical factor for us going into the final three quarters of the year.

The other way to look at it is on the investor side. In mid-March we saw euro investment grade funds have their first outflows since last April. It was a very, very minor outflow, the low tens of millions, but an outflow, nonetheless. That's something we keep track of, as well as the rate environment as we move forward from here, which will play heavily into that picture.



“Volatility does influence what Nordea is doing. In this kind of uncertain environment, we monitor the market very closely in connection with a new issue and try to be more flexible when it comes to maturities, currencies and timing”

Petra Mellor, Nordea

Overall, we try to take a balanced approach. So not front-loading everything, but equally where markets are conducive to issuance, and we need to do that type of funding for the plan, we'll absolutely look to access those markets.

Similarly to the guys around the table, we diversify our funding plan across currencies so we're active in dollars, euros, sterling, yen, Singaporean dollars, and Aussie dollars. We look to access those markets on a regular or semi-regular basis, which helps with the risk management, particularly in the context of a lower year in terms of overall funding.

GlobalCapital: From the banking side, how do you advise issuer clients at this point in time? What are your conversations with investors like as you look forward?

Jennings, Lloyds Corporate & Institutional: On the issuer side, it's interesting when you come in at the beginning of the year and it's been pretty good for most asset classes for a little while. As such, issuers have got something to balance, which is: the market is good and investors are engaged, but they don't necessarily want to front-load absolutely everything because there's a cost implication of doing so. So it's how do you balance the fact that markets are good, that spreads are historically in good condition, with the fact that you can't just do everything now.

Kris mentioned there's been a bit of an outflow recently. But actually, if you look at the year

overall, there have been good inflows into credit funds versus a much lower volume last year, for instance. We get the sense there is cash to put to work; credit remains a high-quality asset that people want to invest in.

Yes, we've had a little bit of volatility in the last couple of weeks, but we've seen some issuers come at a good premium to start with as a result, and where transactions offer a little bit more spread, this tends to generate huge interest.

Morel, LBCMW: The bias for any large organisation is to front-load as much as they can at the start of the year. But, in a sense, 2025 started differently than previous years. There was a sense in the last few years that there was a very strong market at the beginning, with some risk of a short geopolitical event to impact markets at some point. That never really happened. There were a few good years and then we went into 2025 more bullish.

However, the whole dynamic has changed since the start of 2025. The US election has not necessarily boosted equity markets and risk markets in general, as some initially expected. The sentiment shift has gone in a different direction. President Trump has changed the dynamic for markets from what it was at the start of the year. If you go back to the start, all issuers had lower volumes to do, they were probably more relaxed in terms of being able to spread out issuance over the whole year.

With that in mind, one can see that even in more optimistic scenarios

the markets may be more challenging around the edges than how they looked at the start of the year.

GlobalCapital: It seems plausible that the market uncertainty and volatility we have seen will be with us for some time. Given this, how might this influence your funding strategy?

Harff, CAG: The volatility we have seen in the first quarter has not changed how we plan our funding execution for the year.

What's very striking is that there is a strong opposing force between Germany spending more and tariffs. Even on tariffs, it's not clear what the impact will be on rates over the medium term.

We always talk about uncertainty, but it is certainly very difficult at the moment to build a clear picture. It could go either way in terms of growth and the economy. In terms of our customers, however, everything seems to be fine. Non-performing loans and the cost of risk seem

under control and underlying customer activity is good.

In this context, we haven't front-loaded the plan. In fact, we have actually issued less compared to the same period last year. Indeed, if you look at where spreads currently are and compare them to OATs or Bunds, you could argue we're seeing more of a widening than tightening of risk.

However, at these spread levels, there is no reason to hold back and not to issue. We have a large excess of liquidity and reserves, so we cannot afford to build even more — it would be too expensive. But we need to get going with the issuance plan, there is no reason to hold back.

Mellor, Nordea: Volatility does influence what Nordea is doing. In this kind of uncertain environment, we monitor the market very closely in connection with a new issue and try to be more flexible when it comes to maturities, currencies and timing. We can decide at relatively short notice what to do and in which format and currency to issue

in depending on market conditions and investor appetite.

That really speaks to what we have done this year where we have mandated banks at short notice for potential trades. As such, we have gone to the market quite quickly, in and out on the same day. We have aimed to open-up books early in the morning and tried to close them relatively soon during the day to avoid being exposed to potential volatility longer than necessary.

We have also tried to issue in markets when the investor appetite and the conditions have been stronger than normal. For example, we have issued floating rate notes in several currencies due to high investor demand.

We have also issued in sterling, which is another market we are active in from time to time. It's a market that can be a little bit on and off, so issuers tend to come quite quickly when investor appetite is there.

This type of approach will probably be the main theme throughout the rest of the year. We need to be flexible, nimble and quick.

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Middleton, Lloyds: I echo that. In the short term you need to be nimble, target quick access, and pick the right market and product, and, ultimately, at the right level on the right day.

Just to put the [first quarter] volatility in context, we've had a long period now where issuers have brought trades to market, generated books that are six times oversubscribed and landed them at fair value. So trades have been going swimmingly well. We've now had a situation for two weeks [in March] where issuers are paying on the senior holdco trade. For instance, they might be paying 5bp of new issue concession. I'd still say that is a very well-functioning market. Yet it's where you try and push through that and you don't react to the situation you're in that it gets more challenging.

Over the longer term, banks fundamentally are in a very strong position. The cost of risk is extremely low. The conditions for banks to operate in are quite stable, with a relatively high-rate environment being beneficial.

As such, we've seen this in bank share prices, in bank capital spreads and funding spreads over the past year and a half.

So there's always uncertainty out there, but fundamentally banks are in a very different space than they were five or 10 years ago to deal with some of those uncertainties. That should, all else being equal, act as a defence mechanism against spread widening and spread volatility. That said, there's always the risk of Black Swan events causing huge spikes.

GlobalCapital: Focusing on foreign currency issuance as part of this flexible approach, what are the factors you consider when looking to do this? Price, of course, is paramount, but what else?

Mellor, Nordea: Nordea is a well-diversified bank operating in five different key currencies: euros; dollars; Swedish kronor; Norwegian kroner; and Danish kroner. But we also fund in other currencies as a way to diversify our investor base when the relative pricing makes sense to do so.

When issuing in other currencies, we take into account the cost after cross-currency swaps to see if we could use one currency better in another currency, which might suit us better.

The investor diversification is very important and we like to be a regular issuer in some of the niche markets to build and maintain an investor base, a secondary curve and support some trading to maintain liquidity in our bonds.

GlobalCapital: Andreas, Aurélien what does that calculation look like from your perspective?

Wein, LBBW: Very similar. I like that last point that Petra made. It's worth establishing yourself in a certain market over time so that you become a repeat issuer and get people familiar with your name and establish a degree of credibility.

One thing that I find very important as well is understanding the degree of execution certainty. How well do we understand that specific market? And do we have a feel for how investors will behave? There are markets that are fairly straightforward for us such as the euro market, but there are others that are a lot more difficult to read.

Harff, CAG: If you have a €20bn funding plan, you need to be diversified. You're not going to do all of it in euros. But clearly since we have increased our funding plan back to what it used to be after the QE years — so about three years ago — we have needed to push diversification further. If you look at last year's numbers, in the unsecured part of our funding, we had about a third denominated in euros, a third in US dollars, and a third in other currencies.

That's not a target specifically, but we think it's a good mix. It means that we issued once or twice

in Japanese yen, Australian dollars, sterling, and Singaporean dollars last year. Issuing once a year at least is a good frequency. In most of these markets, we look to issue a second time but we need to find the windows. Reading the market can be tricky.

We did the same at the beginning of this year. We found euro spreads to be quite wide in our case in January, having widened at the end of last year. As a result, we issued in other currencies at the beginning of the year and then from February, started issuing in euros.

Diversification in different markets is key. Fundamentally it's about making your funding sustainable and not trying to save a couple of basis points. But when you can do both at the same time, that's obviously great. Sometimes we have to pay a bit more to raise some funding in non-euro currencies, but it has a lot of value and we are flexible about that.

One of the key questions this year is the relative value between euros and dollars, which was very favourable to us last year and until January this year before it reversed. The euro/dollar basis is key for us to watch this year.

Middleton, Lloyds: We're obviously a sterling balance sheet, so sterling is our home currency, but we look at everything on a relative basis, swapping back to SONIA. So if I'm looking at Aussie issuance, I'll look at swap back to SONIA and then compare the price. Similarly, we don't necessarily look at the non-core market outside of euros, sterling or dollars. We don't necessarily need them to be flat or inside our core markets. We do

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Kristofer Middleton, Lloyds



diversify the plan during years when we have a larger plan — say, £15bn to £20bn — but also during a year like this year, when we will be active in those currencies as well.

One of the reasons we do that is because having that diversified funding plan, no matter the size of your funding every year, helps in terms of not over-saturating a single market like the dollar market or the euro market with issuance. You're going to have bigger years where you're going to rely on those markets a bit more, so if you've got a smaller funding plan, make that relative to that market, whether it's dollars, euros or sterling.

The only other thing I would add to the risks of doing the non-core currencies is that there is a definitive difference in the depth of those markets compared to dollars and euros. Therefore, you do get these cliff-edge effects where issuers are essentially penalised for re-accessing a market, they have over-issued in. You either don't get the size of trade you want out of that market or pay up in terms of spread.

We've seen examples of this over the last 12 months when issuers have taken trades to non-core markets, probably not got the book they would normally expect, and suddenly it's 10bp-12bp wider the day after because of the way those trades have been allocated.

So you've got to be careful as an issuer to really understand those markets and be present in those markets and have the dialogue with investors to understand what the limits are there.

GlobalCapital: Tanguy, from the banking side, what are the

opportunities and the challenges that you see for issuers in non-core currencies?

Morel, LBCMw: Diversification has two main propositions. One is when you've got a big funding programme, say, €20bn-plus, it's something you have to do so that you're not overloading the market. The second is when it comes to a more volatile market, you then have options if you had previously developed your access in non-core currencies. You've got options in the various currencies and the various asset classes.

That's what we ultimately recommend to issuers. Even if they don't necessarily need to do it to support the size of their programme, it makes sense to invest in what you define as your non-core currencies over the cycle.

GlobalCapital: Petra, in your experience of accessing the sterling market, what is that like for you?

Mellor, Nordea: It is an interesting market with a valuable investor base. When we issue in sterling, where we have been active in senior preferred, non-preferred and tier two in the last couple of years, we typically see that 70%-80% of the order book consists of investors that are not regularly in our euro and dollar books, so there's definitely valuable diversification there.

I may add that we look at the sterling market very closely before entering because it is a market that can move quite swiftly. As such, sometimes it is a market where we are a little nervous before launching a new bond. We welcome an investor dialogue to hear when and

what they like to buy in terms of tenors and format. But it is a market that we actively consider and like to be a regular issuer in.

GlobalCapital: Kris, as this is your home market, how do you see it?

Middleton, Lloyds: One thing that's notable about the sterling market, and that I always hear from our sterling investors, is the liquidity in that market is just not the same as in euros and dollars. That, therefore, makes it difficult because there's so much price discovery in the sterling market. We've found that on a number of senior trades in the past, and we also had an element of that on our AT1 trade this year, where we were the first issuer to access that market in 2025 — albeit that trade went extremely well.

GlobalCapital: Ed, Tanguy, how do you assess the sterling market for issuers?

Jennings, Lloyds Corporate & Institutional: Generically it's great to see the non-UK issuers come into the sterling market because we actually see UK investors together with European investors getting involved in order books, which broadens the market.

Importantly, when the sterling market is working, we are now seeing bigger trades and greater oversubscription than we possibly did three to five years ago, when it was challenging to get benchmark-sized trades away.

While it can be a widow-maker of a market, when it's there it can provide good liquidity to issuers.

Morel, LBCMw: One of the interesting aspects of the sterling market is that it's actually bigger, that is, it has more investors, than some of the other niche markets. Issuers are increasingly attracted to it.

Notably, we've seen more non-domestic issuers access this market more regularly in the last few years. Crédit Agricole, for example, has been accessing this market twice a year. The volumes are actually bigger, too. We are no longer doing £250m trades. We are talking about £800m to even £1bn trades being possible as well. So bigger sizes are available and it's certainly a market that has been growing very nicely in the last few years and offering opportunities for large issuers to diversify.



"It's worth establishing yourself in a certain market over time so that you become a repeat issuer and get people familiar with your name and establish a degree of credibility"

Andreas Wein, LBBW

The one thing that is still to be discussed is the sterling covered bond market. There's a lot of demand there. Pricing-wise it still doesn't make sense for euro-based borrowers, but there is untapped potential in the sterling market.

Harff, CAG: If I may, we had a difficult issuance in the sterling market years ago, where we couldn't exceed £300m in size. But it has clearly got deeper in at least the last three years, and our issuances have attracted very good quality order books. Yes, it's probably a market where you feel there are limitations on its depth, but as a result of that, you need to be early in the wave of issuance. That's why we launched very early this year.

What's striking about the sterling market is that we never really know the size of trade we will get. Sometimes we aim for at least £400m, but it can go to £800m, or not. The price is going to be within a 5bp range, but the size is always the big question mark. But when it works, it's a great market. Investors are very sophisticated and we know them well.

GlobalCapital: In terms of where we are, given the roll-off in QE funding schemes and the onset in some jurisdictions of active QT, some had expected a significant pick-up in issuance. What impact, if any, has this dynamic had on your funding programmes and markets that you focus on?

Mellor, Nordea: It hasn't had a huge impact. We have always seen the QE programmes as a complement to our normal funding platforms rather than a substitute. So Nordea has had relatively normal issuance years in the past few years, raising roughly €20bn to €25bn in long-term funding. That excludes Danish covered bonds that are match funded and capital instruments as we don't guide on capital issuance.

It's fair to say that for a couple of years when we had QE, the TLTRO (the ECB's Targeted Longer-Term Refinancing Operations) from the ECB, we were less active in the euro covered bond market. The TLTRO was quite similar to our euro covered bonds, being collateralised and in euros. Hence, we were less active in the euro covered bond market. But now, when the TLTRO has been repaid, we are back being a regular issuer in the euro covered

bond market. It's definitely a core market for us and we are a regular issuer again.

GlobalCapital: We all anticipate quite a bit of government funding to come over the course of this year, especially from the US, UK and, indeed, through core Europe as well. Do you anticipate this impacting issuance for you going forward?

Middleton, Lloyds: I'd say probably not for us but that's in the context of my comments earlier on our funding plan, particularly on the opco products. The UK has seen a period where we've gone through Covid, seen huge deposit strength, and that will carry through over the next couple of years. We've had banks with elevated LCRs (leverage coverage ratios) and therefore even with the Bank of England's TFS (Term Funding Scheme), for example, we just haven't seen that huge uptick in secured funding that some might have expected and maybe that we expected two or three years ago if you looked at our plan two or three years out.

So, for us, it's something that's very manageable just in the context of the volumes we've got over the short term. Obviously over the longer term, if that continues to play out then we will obviously take a closer look at that, but it's not something that necessarily keeps me up at night.

Wein, LBBW: Looking at Germany specifically there is significantly increased government spending. But if you see where we're coming from, a debt-to-GDP ratio of 60%, which

is very low in any context, and the economic impact it should have, I don't think overall this is a negative. It is constructive.

Mellor, Nordea: I fully agree that it's not a big concern that Germany is increasing the fiscal deficit with their military infrastructure programme. But for other countries, such as the US and UK and some of the other European countries, this is something that there'll be a little bit more of a market focus on.

It feels like the theme of the rates picture will be a key driver for market sentiment and credit spreads as we progress through 2025. Going back a few weeks, we had 10yr OATs trading reasonably close to our own [senior non-preferred] secondaries, creating a floor for low beta credit. There is some sort of market dynamic going on here that we will monitor during the course of 2025.

Morel, LBCMW: It's a really good point that Petra is making. We were very focused last year on the relationship between government bond yields and covered bonds. That market was impacted ultimately because OATs started to go through the roof after the French election results in July. But the reality is that all the credit markets have a relationship to covered bonds, so if we start seeing covered bonds wider at some point, it doesn't make sense for credit investors to buy senior preferred with, say, only a 15bp differential to covered bonds, which are actually triple-A rated and secured.

So there could be a ripple effect on not just the covered bond market but also other markets. Ultimately,

"...it's great to see the non-UK issuers come into the sterling market because we actually see UK investors together with European investors getting involved in order books, which broadens the market"

Ed Jennings, Lloyds Corporate & Institutional





“While the dollar covered bond market is a bit more niche, the sterling market has developed massively since the introduction of SONIA, with healthy demand made up of a good mix of bank treasuries and real money investors”

Tanguy Morel, Lloyds Bank Corporate Markets Wertpapierhandelsbank

it’s just a question of spread and, at the end of the day, the bigger picture is that if this additional government spending is directed in the economy and keeps rates higher, it will be better for banks.

GlobalCapital: *Sticking with the euro covered bond market, how should we assess the correlation between this market and the rates market? Also, what does the potential look like for sterling and dollar covered bond markets?*

Harff, CAG: What we have seen is the covered bond spread moving a bit wider and attracting a lot of demand as a result. For instance, I have rarely seen as big a subscription as we saw on our covered bond trade in January from a mix of some fast money orders as well as a lot of real money accounts. We have seen some spreads tightening since, and we also issued again in February, inside where we previously issued, which shows just how healthy the market is.

Now, a year ago, we were probably issuing senior preferred unsecured at the same spread as today and the OAT asset swap was way tighter than what it is now. So there is probably a little room for spread tightening in senior preferred and covered bonds. There is, however, a lot of cash in front of it and the asset is very good, so the euro covered bond market has reacted quite well to the last few quarters in terms of valuations.

On sterling and dollar covered bonds, we have only issued in dollars and not in the last 15 years,

so I don’t know the status of those markets. But a sterling covered bond is potentially something we would consider one day. At this moment, though, we seem to have to pay a premium to issue in sterling instead of euro covered bonds and are actually issuing lower volumes than we used to. So, most immediately, there is more room and scope for us to issue in the euro market before we start looking at other currencies.

Wein, LBBW: We have been active in the dollar covered bond market. Compared to the euro market, it’s a comparably small circle of investors that look at it, but it’s one of the markets that we felt we could navigate quite well. We have simply tried to have a good dialogue with the investor base there and get a good feel for what we can do in that segment.

Morel, LBCMW: While the dollar covered bond market is a bit more niche, the sterling market has developed massively since the introduction of SONIA, with healthy demand made up of a good mix of bank treasuries and real money investors.

There’s certainly a limited number of issuers accessing that market and investors do want to see more diversification, with participation from European bank issuers in particular. The challenge is obviously coming from the regulatory treatment, whereby third-country covered bonds are less favourably treated than domestic ones by the Bank of England. The spread on offer is also a bit rich

compared to what the European banks can achieve in their own markets, for example, in euros.

For French names it’s not that far, unfortunately, because French covered bond spreads have become a bit wider in euros. But even then, it does mean that in the context of lower funding needs from issuers, they are unlikely to pay even only 5bp more to access the covered market in sterling.

So the conditions are not there yet, but it does feel that we’re not that far away from being at a price point which makes sense for both issuers and investors. Certainly there’s demand from investors for new entrants in the sterling covered bond market.

GlobalCapital: *There seems to have been some degree of interest in the more intermediate maturities among investors. What changes have we seen there or do you expect to see?*

Mellor, Nordea: In the past, there has been a lot of demand for duration, and particularly for such a strong name as Nordea. But uncertainty and volatility generally do not help duration. So investors have recently been looking more closely at shorter durations despite the fact that many real money asset managers and insurers would like to go out longer on the curve.

Wein, LBBW: We always try to be responsive to investor demand. That’s the overarching theme when it comes to benchmark issuance. Then, when it comes to covered bonds, it’s obviously very much driven by the cover pool that we have. Our mortgage cover pool contains commercial real estate with a bit of retail in there. Therefore, the duration of the cover pool is medium term. So that’s a key factor that drives our maturity profile, but some duration decisions are driven by investor need.

Harff, CAG: We have to adapt to the investors’ preferences and that depends on which market. As we discussed earlier, the Australian dollar market tends to see more three to five-year demand, while sterling investors would sometimes like to see longer dated issuance. So we try to do a bit for all of them. On average, our funding is going

to be six to seven years, but we have issued from 18 months out to 15 years.

For instance, the historic move higher in Bund yields in March, and the market expectation for long-term rates staying higher, was a risk to longer duration bonds. So we understand why investors would be more cautious about committing to 10-year or 12-year bonds. We had to adapt and chose to issue in a shorter tenor, even if these moves didn't feel like we are back in 2022 or early 2023 when rates went up by 200bp in six months.

This time it's more of a recalibration of market expectations. However, it feels like there has been some very successful 10-year issuance or longer-term issuance this year and at the end of last year, so there is clearly still a good level of demand for long-dated maturities.

Middleton, Lloyds: From my side, I've heard from the investor base in the last three months that they're reticent to buy long-dated AT1s and tier two. They are much more focused on playing in the shorter end and that is all rate-driven views, effectively. As an issuer, we do exactly the same. We will look through the currency set, at the tenors available, and where investor demand is, which is almost obvious sometimes in the steepness or shallowness of the curve in certain parts.

However, we're in a spread environment where, for example, our holdco senior spreads are very tight compared to where they have been over the past 10 years. Therefore, we're looking at that and seeing that there's incentive for us to lock-in those spread levels for longer tenors. And we and other issuers have done that through doing non-call 10 senior deals, particularly in the euro and dollar space.

So that's some of the activity we've been doing but it's half preference of our balance sheet, half preference of investor demand. We have also got to have an eye on the steepness of the curve as well.

Jennings, Lloyds Corporate & Institutional: The demand is clearly there. But from an issuer perspective, if that demand is not at a price that works for them, they are simply not going to do it. At the same time, Kris's point around the relative tightness of levels over

the cycle encourages the type of thinking that longer trades can work for both sides of the equation — investors and issuers.

I'd add that — and we've seen a few people look at it — you can balance a longer deal, which is maybe a little bit more expensive, with a very short floating rate note market. The floater market in euros has been super-effective. So going for a barbell approach as an issuer, going long accompanied with a short, is something that's quite effective on a balanced spread basis.

GlobalCapital: A lot of what we have discussed is grounded in the current strength of the credit market, which is looking pretty resilient. But can this be maintained during the rest of the year? What are the risks to credit?

Mellor, Nordea: We are coming from an environment in the first quarter when markets were strong and credit spreads tight. While these conditions are likely to change, credit should still be relatively resilient.

The banking sector is also good to invest in given that European banks are very well-capitalised, have minimal credit losses and have higher profitability than we have seen in many, many years. So from that perspective we will benefit compared to some other issuers.

I also think that the Nordic market is a good place to operate in, given the geopolitical instability and macro events that we see globally.

However, we have to monitor markets very closely and keep an eye on the underlying economic growth, which may take a little bit of a hit and a downward revision. We have to look closely at inflation and thus also the rates trajectory.

So I do expect some uncertainty and volatility during the course of the year and hence we need to be very nimble, flexible and adjust to navigate this successfully.

Wein, LBBW: If you take banks as a mirror of the economy as a whole and you look at the 2024 results, balance sheets are intact, credit portfolios are intact. The risks that we are all worried about, at least in 2024, have not materialised to the degree we may have feared, so I am cautiously optimistic on that basis for 2025 when it comes to credit.

Harff, CAG: The fundamentals are good. The fundamental quality of our bank and banks in general is good. There is also less new issue supply, and that supply slowdown recently is important to note, while inflows into investment-grade funds remained pretty good until March this year, so it was difficult to see a case for credit spreads to be much wider in the short term.

However, the trajectory of economies and rates in the US and Europe, is very uncertain. It is this that can impact the market, as we have already seen with covered bond spreads.

Middleton, Lloyds: Technical conditions in the market from supply-side dynamics and investor demand have been strong. Over the longer term, that's less certain.

On the fundamentals side, if you look at banks' balance sheets, if you look at the cost of risk, if you look at the performance of the underlying portfolios, whatever metric you look at, banks are very, very well-positioned going into the next few years. That's a super-strong position to be in and a good backdrop for issuance from an issuer perspective.

Yes, we'll have uncertainties and periods of volatility like we've had over the past week [in March]. So being nimble is an issue and targeting and risk managing properly is important, as it always is. But that to me is completely normal. I can't think of a year where that hasn't been the case. So I absolutely think that we're operating in a normal environment when we're talking about uncertainties and that's the environment we always operate in.

Jennings, Lloyds Corporate & Institutional: My only concern is that everybody is so positive.

Morel, LBCMW: The exceptionally strong market conditions so far this year are clearly at risk of volatility bouts and the widespread expectation is that any further tightening of spreads is probably limited now given where we are in the cycle. In that context, the best way for issuers to navigate more volatile market conditions is to be nimble and flexible in terms of execution, also in terms of timing to access the market and ultimately listening to investors. **GC**

Lloyds pursues DCM growth opportunity



What have been the historical strengths of Lloyds' debt capital markets (DCM) business?

Over the last two to three years, we have really increased the amount of flow going through the desk, particularly in euros and US dollars. But as a predominantly UK-focused bank, we have traditionally been known for our sterling franchise. We see strong potential for continued growth and we recognise the importance of building our presence in these markets to enhance how we serve our clients. Indeed, international borrowers would generally see us as adding the most value in that space and particularly our connectivity to the UK investor base. In the corporate sphere, we have had a particular specialism in social housing as well as infrastructure and utilities while the focus on the financial institution (FI) side has been predominantly in the UK bank space and supporting international borrowers in sterling. This said we are increasingly active in insurance and see that as a strength too.

How and why is Lloyds' DCM strategy changing?

We have made strong progress across markets in the last couple of years and we have the infrastructure in place across syndicate, sales and trading to fully capitalise on that momentum. We are doing this partly by increasing investment across a range of areas — in the FI DCM team, for instance, we are selectively adding headcount to increase our engagement across the client base. While focused in the UK, we are also increasingly active across a broader segment of clients across Europe and the US and see further opportunities to build this out. In the corporate space, we have created a single team to cover risk management and bonding financing, which has improved our ability to offer relevant advice and seamless execution. With the strength of our distribution platform and increased presence in Europe and the US we are optimistic that we can play our role in delivering to support Lloyds Banking Group's broader targets.

What are the distinctive strengths that Lloyds offers European issuer clients?

Beyond its traditional strengths in sterling, the UK bank is looking to further expand its euro and US dollar bond business, says **Ed Jennings**, managing director, head of financial institution debt capital markets, **Lloyds Corporate & Institutional**



Ed Jennings, head of FI debt capital markets, Lloyds Corporate & Institutional

We have a well-established and robust distribution platform complemented by a strong secondary trading operation that continues to grow in scale and impact. Ensuring clients are aware of this and utilising it is an important part of the strategy on both the origination and distribution side. If I think about the FI part of the business, for which I am responsible, one of the key strengths is that we work very closely with our treasury. On top of this we have a uniquely stocked balance sheet advisory team, led by Linn Leitner-Dietmaier, who are able to provide bespoke analysis around specific topics that help support issuers understand key rating, market and regulatory drivers of balance sheet evolution. Clearly the DCM market is extremely competitive and ensuring we are penetrating a broader segment of the global client base and delivering the insight we have across a variety of items is a key ambition.

What are the areas of the business you are investing in to deliver on the new strategy/business objectives?

The bank is adding European and US clients to increase our client set in the corporate space in particular. We see many opportunities over the coming years as this process continues. Across DCM, we

have increased our market position and that enables us to further invest across the platform. In the FI space, we believe being relevant across an increased product range and more present in key global markets will support our specific DCM specialisms. We would expect to add incremental headcount over the coming years as the business scales up across the platform.

What is the business ultimately aiming to achieve?

Our ambition is to be a high-performing, client-first DCM platform across our core currencies of sterling, euros and US dollars and supporting our clients as they consider their financing requirements over the coming years. It is an exciting place to be at the moment and we are operating from a position of strength. With a scalable platform and growth client engagement, we are confident in our ability to accelerate growth, deepen relationships and play a central role in delivering on the broader ambitions of Lloyds Banking Group.

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