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UK Bank Capital Lenders on M&A standby as they gear up for growth

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Lenders on M&A standby as they gear up for growth

Banks across European debt capital markets scrambled to get ahead of issuance needs, pricing deals late into last year.

UK lenders may be thankful they did as they mull consolidation within their sector and the role they will play in driving growth in an economy that may be on the up compared to those of European peers



GlobalCapital: Demand for bank capital has been red hot in 2024 as the market moved on quickly from the Credit Suisse episode. Should we be surprised at the speed with which we have moved on? It has been pretty spectacular. I know markets have short memories but at times in 2024 they have felt like they have no memories.

Donal Quaid, NatWest: Credit Suisse was quite an idiosyncratic event. So investors have looked through that and felt quite comfortable with the asset class and we have seen that in 2024 in a very conducive market.

Rebecca Bland, Barclays: The regulatory clarity issued at the time was very helpful and I agree with Donal. The market has moved on from that moment. The focus in 2024 has been much more on the rates environment and on bank fundamentals.

Bharat Kumar, Deutsche: Yes, absolutely. It has been good. In 2024 we have had to navigate various geopolitical issues, including a number of elections. But we have

come out of it fantastically well and banks have been conservative with their financing needs as well. They have probably pre-financed more, simply because of Q4 and the US election as we weren't sure there was going to be an open window post elections. So, yes, banks are in a very good shape heading into 2025. It looks like the fundamentals are strong from an economic perspective as well. Asset quality is holding up, so there are good reasons for spread compression.

Samir Dhanani, Jefferies: Obviously, Credit Suisse was idiosyncratic — but if you also look at the asset class and the amount of excess spread, that more than compensates for the losses that were taken. That historic spread at which they were issued meant the asset class — fundamentally pricing in a degree of loss — was still attractive for investors.

GlobalCapital: On the subject of Credit Suisse, a year ago it felt like there was not quite panic but recognition that that was close. There was a lot of talk around the speed of deposit withdrawal as a problem for the industry and the very future of AT1s was

being discussed and called into question. It felt like banking was having to confront a brave new world with new problems and challenges. Have any lessons been learnt from that or have we just carried on regardless?

Bland, Barclays: We will always learn whatever lessons we can from a material market event and Credit Suisse was one of them. To your broader point, I am not sure we saw a brave new world over the past 18 months, but we definitely saw a move through the interest rate cycle and we saw a change in customer behaviour and a change in deposit dynamics.

I would say that change was really driven by the rates cycle and it has stabilised — so some of the changes we saw in the deposit base through 2023 have really softened through 2024. I think we are in a much more stable position and well set to head into 2025.

Quaid, NatWest: I would echo that. There are probably two different elements there. One is, as Rebecca said, the customer behaviour changes, which were really driven by the rate cycle as opposed to anything else. If we go back to

not just the Credit Suisse event but also US regional banks, there are always lessons to be learnt. There is always quite a strong reaction to events like that, with calls for changes to regulation, particularly on the liquidity side.

But there is more comfort from a regulatory perspective when they look at how we stress our balance sheets — not just from a capital perspective but from a liquidity perspective as well. So, I am personally not expecting any material change in liquidity regulation, although it will continue to be discussed. But the big lesson we have all learnt is that if you lose confidence in your business model, it doesn't matter how much liquidity you hold to withstand a stress.

GlobalCapital: *Bharat, you touched on this a little bit but what is the outlook? We have come to the end of 2024. We have had an amazing year but what about 2025?*

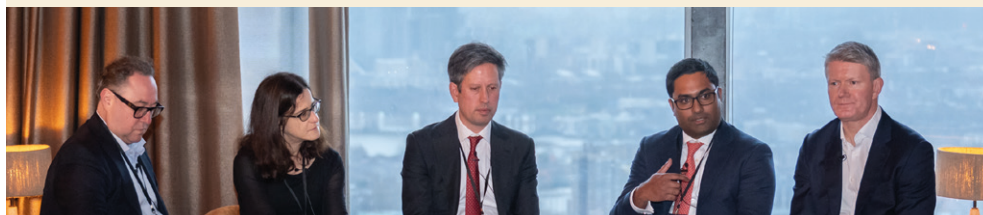
Kumar, Deutsche: Looking at the funding plans across UK banks, it does feel like there has been a decent amount of pre-funding. So, in 2024 there have been more FIG issuances compared with 2023. We estimate that maybe half of 2025's redemption call schedule has already been refinanced — and if you look at the quantum of redemptions, it is pretty much flat to 2024.

So we expect slightly lower quantum of issuances, opportunistically taking advantage of windows for execution. Equally, we are not seeing the significant loan growth or growth in RWA for other reasons, such as Basel 4 implementation. Not surprisingly, it looks like a steady pace of issuance in the bank capital market during 2025.

GlobalCapital: *Just very quickly, with so much pre-financing, does that mean people are taking a big call on rates? Donal?*

Quaid, NatWest: No, because in effect rates are not the key driver when we are looking at it from an issuer perspective. It's really spread. I suppose if we look at capital in particular, yes we have seen a decent amount of pre-financing in H2. That's probably no surprise, given the conducive market we talked about — not just from an investor demand perspective but from a

Roundtable participants



Moderator:	Rebecca Bland, treasurer, Barclays UK	Samir Dhanani, head of FIG solutions and DCM, Jefferies	Bharat Kumar, director, capital solutions, Deutsche Bank	Donal Quaid, treasurer, NatWest Group
	Toby Fildes, managing director, GlobalCapital			

spread performance perspective as well. We have tested historical lows of certain asset classes over H2, so it has given an opportunity for banks and treasuries to de-risk their 2025 funding plans.

There are other considerations that we need to take into account when we think about pre-financing, because we can't refinance everything. We need to think about the financial costs and the additional cost of carry versus expectations on spreads through 2025.

Bland, Barclays: We will issue through the cycle, given our scale — but, as Donal says, when the market is favourable we will be thoughtful around the timing. When the market is strong, we will look to see what opportunities that gives us; and when it isn't, we will be a bit more patient.

Dhanani, Jefferies: Going around doing our year-end meetings with issuers over the past few weeks, I feel like a bit of a stuck record from 2023, saying that markets are very conducive. The risks that we expected in the second half didn't really come through in 2024. So, I expect we will see a pretty similar pattern to what we have seen in the past 12 months, where, from

most issuers' perspective, the risks on spreads are skewed to wider, just because it can only go so much tighter, given where we are versus historical levels. But it is constrained by the fact that you can't pre-fund everything, because there is the cost of carry to consider.

GlobalCapital: *Let's quickly ask the audience members whether they are more optimistic about the bank capital world in 2025 than they were in 2024?*

Audience response: By a small amount, the largest group think it will be about the same. Slightly fewer people think it is going to be better and then slightly more than that think it is going to be worse.

GlobalCapital: *We are mostly painting a very positive picture here. What could throw such a good market off balance?*

Bland, Barclays: The unknown unknowns! I am definitely in the optimistic camp — there are a lot of signs of positivity, lots to feel good about. We will keep an eye on how the regulatory environment evolves. It will be interesting to see how different jurisdictions align around

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Bharat Kumar, Deutsche Bank





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the Basel regime — that is going to be an important thing to watch over the next year.

Quaid, NatWest: I think it has to be a wider global macro geopolitical event that hits us.

Dhanani, Jefferies: Yes, I think with a positive overall view, potential risks are rates. And European macro is getting quite a lot of focus. Arguably a fair bit of that is priced in already.

GlobalCapital: You are talking about France and Germany?

Dhanani, Jefferies: Yes. “Core” Europe. There has been that inversion, with southern Europe compressing versus “core”. Those are probably the two themes that come up most frequently — which arguably means that if we are derailed, it will be by something else that we don’t know about today.

Kumar, Deutsche: With rate rises going up so significantly over the past two years, I have been surprised that asset quality has held up so well, bar one or two sectors. However, with the incoming Trump administration, a possible imposition of tariffs and the other geopolitical concerns we were talking about, I feel that if this hits asset quality and starts to have knock-on effects — such as derailing capital distribution plans or an increase in RWAs — it would affect debt capital markets down the line.

Dhanani, Jefferies: I think that’s more of a 2026 theme, just because the lags are so long to come through on this type of thing.

GlobalCapital: Does anybody in the audience have a different opinion on what could derail the market next year?

Audience member: I would agree with what is being said. The market is compartmentalising all the issues of the world — geopolitics, rates or whatever it is — and isolating them and saying, ‘I am not really worried about this particular point because it is not going to have a contagion effect’.

Maybe the one thing, which I think someone touched on, would be global growth predictions. We are predicting about 3.1%, mainly driven by India and China at 6.5% and 4.5%. With tariffs potentially

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Donal Quaid, NatWest Group



on China, if global growth underperforms significantly as a result, I think it could have a shock effect through the system and people might get much more nervous.

GlobalCapital: Let’s drill down a bit more on AT1s now. One of the constant talking points of this asset class is the convention that the issuer should always call. When interest rates were high, this made the convention contentious. I presume, though, that is less of an issue now, with rates lower. But does the convention still hold strong?

Quaid, NatWest: It depends who you ask. If you ask the investor community, there would be an expectation that AT1 is called. An issuer probably takes a slightly different view on it. We will always say we look at it on an economic basis. I don’t think that has changed, given the rate cycle.

Bland, Barclays: I agree with that. It is a decision to be made case by case, in the round, looking at a range of factors. I don’t think that fundamental point changes.

Quaid, NatWest: I would probably add that if you look at the history of the asset class, at the number of non-calls, that is obviously something that is taken into serious consideration from an issuer perspective. The economic element is important — and linked to the thought process around economics is the impact [a non-call] has on secondary performance and access to market.

GlobalCapital: What I am really driving at is that we have just had high rates peak and perhaps the convention around not calling was eroded because it really was economic to call.

Quaid, NatWest: You could argue that is driven more by spread dynamics. The resets now where you can refinance look a lot more attractive than what’s actually coming up to call.

GlobalCapital: Is this something that is coming up less now?

Kumar, Deutsche Bank: It’s a frequent topic of conversation, clearly. To your earlier point, the AT1 market has come back quickly after the Credit Suisse event. I think issuers are starting to get comfortable with market access and even considering smaller tranches for issuance, and therefore potentially having more frequent call decisions to make. Sometimes timing the market is great when you get the best pricing. But if it is a large tranche and it comes up to call and then something like a Credit Suisse event happens then you are stuck with that big decision on that one tranche. So maybe there is merit to issuers also starting to issue smaller a bit more frequently throughout the cycle as well.

Dhanani, Jefferies: The other important trend has been doing liability management in concert with your new issue. It has become the standard approach in 2024, which gives flexibility for issuers to take advantage of tighter markets, to refinance economically. So, the question doesn’t arise. In a wider spread market, I am sure the question will come back — and it will be interesting to see how that goes. You clearly have a massive difference between the approach in Europe, where there is a holistic view taken by most issuers, and the US, where it is a very hard basis points-driven view. I don’t see any signs of those two approaches converging any time soon, but it is always on the agenda.



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Quaid, NatWest: On that point around the liability management exercise, I was going to add that I think that's true but I think there are also situations where that is not feasible — or at least more difficult. For example, an AT1 that is SEC registered is a lot more complicated because of Reg M.

GlobalCapital: The news from Australia, where they have decided to phase out AT1s, is very compartmentalised presumably. Is there anything we need to worry about here in the UK or Europe?

Kumar, Deutsche: That's the general feeling that we get. [We get the same message when] speaking to regulators here. Clearly, we have gone through the cycle of implementing Basel 3.1, and the CRR in Europe. I feel there is not much appetite at this stage for opening that legislative package so early for something like this.

Dhanani, Jefferies: There is effectively a five-year lag, at least, before any of these things happen — even if there were a real institutional will to bring them about.

GlobalCapital: Moving on, we are seeing consolidation in the UK banking sector and potentially in Europe. I am not going to ask our panellists what their predictions are for M&A in the sector next year, but I want to know how you run a treasury operation and a funding schedule while this is happening?

Bland, Barclays: I definitely won't speculate about the future but let me talk about what we have done over the past couple of years. We talked to the market about our strategy at our Investor Day back in February 2024. It is very much a growth strategy and a commitment to the UK market. A lot of that will come from organic growth — but you will have seen us acquire Kensington Mortgage Company in 2023 and in November 2024 we completed the acquisition of Tesco Bank. The way we have thought of that in terms of our issuance plan and our funding schedule is very much as part of the overall delivery of our strategy. It's very much about strategy execution and delivery, rather than anything more technical or anything that

changes our broader approach to our funding plan.

The conversations we are having around acquisitions are no different really from the broader conversations that we are having around strategy execution and our growth commitment — notwithstanding your question around how easy it is going to be to grow over the coming year. That is something we are committed to and, in the right context, inorganic opportunities are a great way to deliver that.

Quaid, NatWest: When you think about consolidation, there is quite a spectrum from asset purchases to full scale entity acquisition. In 2024 we have purchased a mortgage book from Metro and we have purchased an asset and liability book from Sainsbury's Bank. No real change in terms of our issuance plans, because that's fully funded. From a Metro mortgage book perspective, it is just funded out of excess liquidity — whereas for the Sainsbury's deal the impact on our net funding position was immaterial, given you are buying a portfolio of assets and liabilities.

If you look at wider entity acquisition, then there are implications around processes — turning two entities into one. But that is obviously not something that we have had to worry too much about in 2024.

GlobalCapital: Do you think that 2025 is going to be bigger in the sector than 2024 for that type of activity? Is there now momentum, an inevitable slide to consolidation?

Donal Quaid: I would say yes — whether that is 2025 or 2026 — but I think you have seen the start of consolidation in European banking that will probably evolve over the next few years.

GlobalCapital: Audience question: do you expect to see more consolidation in the UK and European banking sectors next year than this year?

Audience response: A strong majority expect more consolidation.

Dhanani, Jefferies: As Donal referenced, it is clearly going to happen on the entity consolidation side. That does create some things that need to be done on the capital markets side, though regulators are reasonably accommodating. But we are not seeing the sort of transactions that are going to be really material from an issuance standpoint. If you begin to see G-SIBs come together, then obviously that will change that dynamic a bit, and that is something we need to be aware of.

I also think it has probably helped market access for smaller banks, because there is clearly M&A upside. Where a small bank gets bought by a Barclays or a NatWest, as an investor you are going to be sitting on a nice gain.

GlobalCapital: How should we expect the US and UK operating environments for banks to evolve following Trump's election win in the US, the UK Budget and Rachel Reeves's Mansion House speech?

Bland, Barclays: It is very early days for the administrations in both jurisdictions, but there are lots of signs for optimism. Both economies have been very resilient and that's important. In the UK we have much more clarity following the election in 2024 and we have a government that is committed to growth.

In the US, the growth narrative from the incoming administration is

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Rebecca Bland, Barclays UK



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very reassuring. The market reaction has also been very favourable and for us, on a more technical point, a strong dollar is very helpful. We will need to see how the policies from the US evolve. I have mentioned Basel already and that's definitely a space to keep an eye on. But there are lots of reasons to feel very optimistic about the environment in both jurisdictions.

Quaid, NatWest: From conversations with investors, both on the equity and on the fixed income side, I think there is quite a positive outlook on the UK at present. Some of that goes back to a more stable political environment, which we touched on, compared with other parts of Europe and elsewhere, so I think that is driving allocation of capital into the UK on equity and on fixed income.

The Mansion House speech was quite a strong positive for financial services. The government coming out strongly in favour of financial services is a big pivot to what we have seen historically. And the government's focus on investment and growth is a big positive as well. There are obviously fiscal challenges but the messaging is quite strong in terms of where they see the direction of travel.

I completely agree on the US. We just need to see who ends up in certain posts — as well as the Trump approach on all policies and Basel 4 and the impact that will have on international implementation.

Kumar, Deutsche: One thing I would add is the news regarding the UK green taxonomy, and the regulation of ESG rating providers. One common concern across the market is the proliferation of these varying taxonomies and green bond standards. You have different standards across various jurisdictions, which is a challenge for international cross-currency issuers. That's one to watch out for — how closely the UK aligns itself with the EU approach or others internationally.

Dhanani, Jefferies: There is also a subtle difference from the US, where you expect to see deregulation. I don't know how long that will take: changing personnel, policy, and so on can take a while. The UK and Europe are looking to make it easier for banks to lend to areas of priority for governments, whether that is infrastructure or green lending and so on. Both of those facilitate bank



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Samir Dhanani, Jefferies

lending and make it cheaper to do. While one is quite directed and planned, the other is more liberalising.

GlobalCapital: Ashley Alder, chair of the FCA, was warning recently of a race to the bottom with the US in any deregulation agenda. Is that something that is coming up in conversation?

Quaid, NatWest: I just don't see any possibility of a race to the bottom when it comes to regulation. We are already operating in a very strong regulatory regime in the UK. I can't see any unwinding of any material parts of regulation. But I think what is positive is probably an acceptance that, post-GFC, we have now reached the end of regulatory change — not just from a banking perspective, but from an investment perspective as well when it comes to expectations on capital distribution from investors.

Bland, Barclays: Let's see how government policy evolves. The devil will be in the detail. But a watching brief rather than a cause for concern, I would say.

Kumar, Deutsche: Maybe one thing to add is that there is an acceptance that, for small and medium-sized banks, regulators are willing to have the debate about proportionality here in the UK. Obviously, some thresholds have been increased, whether that's MREL or ring-fencing, and so on. But if that gains steam and becomes more meaningful, I think that could be a game changer for challenger banks because the regulatory burden of reporting and other things can be quite damaging to growth.

GlobalCapital: Is there much substance to the suggestion that this is a golden time for

UK institutions, including its banks, given what is happening in France and Germany? Some people argue that suddenly the UK is the destination of choice for investors. Have we seen any of that in the secondary bond levels of UK banks versus European institutions?

Dhanani, Jefferies: I think we have. If we rewind to just after the Brexit referendum, for instance, UK banks did not have the best access to euros and the European markets were wary. That has definitely shifted. So, yes, you see that relative difference. We need to see whether that relative difference is because the UK is being seen more positively, or whether it is a relative difference resulting from investors being more cautious on France and Germany, thereby increasing allocations to the UK because that's perceived as relatively safe. It does look good in terms of investor perceptions of the UK, after what has been a more challenging backdrop for almost a decade now.

Kumar, Deutsche: It depends on whether it is a strong market or a weak market. In a strong market it is hard to quantify the difference, but when it becomes weaker or volatile, that's when you really see difference in perception for UK banks versus continental issuers. So maybe we are in a sweet spot where it does not really matter — but we will see in 2025.

Quaid, NatWest: It is a fantastic opportunity. Now it's whether we can capitalise on it. That requires regulators, politicians and industry to work closely together to drive and unlock growth in the UK.

Bland, Barclays: I agree, it's great opportunity — and let's make the most of it! GC

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