

UK Banks in the International Covered Bond Market Roundtable

Special Report February 2026



Optimism as new year heralds rate cuts and equivalence

When it took power in 2024, the new UK government set itself an ambitious target of 1.5mn new homes by the end of the parliamentary term in 2029. To continue the drive towards that figure, officials are looking at ways to attract more investors, including retail, into the bond market and, at the same time, reduce the regulatory load on financial institutions to make bond issuance and lending easier.

GlobalCapital: Let's start with the UK economy and the housing outlook. How much confidence do market participants have that the government's growth and planning agenda will translate into sustained mortgage demand and housing supply?

Edward Cowan, Skipton Building Society: If we look at the back end of last year, we saw house prices start to stall. We think a lot of that was in relation to the Budget. Through Q4 we saw the average house take an extra seven days to go under offer, and, particularly through November and up until the budget, an extra 11 days.

On the back of that, we feel there is potentially some pent-up demand that will come through in the first half of this year.

One other interesting thing to note is that we saw more sole first-time buyers at the back end of last year, which suggests affordability may be improving.

We think house prices will grow by 2.5% this year.

Interestingly, there's a different dynamic in relation to London. We think that this year, the East Midlands will overtake London in being the best performer since 2010. At a time when London is stagnating at best, we are seeing bumper growth in other areas of the

The prospect of lower interest rates, the pros and cons of sterling covered bonds and RMBS and when and how equivalence with euro covered bonds might happen are other topics that give issuers much to think about in 2026.

GlobalCapital brought together leading figures in treasury and debt capital markets from UK financial institutions in January to discuss these opportunities and challenges in the year ahead, including the evolution of green issuance.

UK that have traditionally lagged behind London.

There are big constraints in London in relation to trapped borrowers who, if they sell, will take on a loss. We're also seeing, given prices are so much higher than in the rest of the country, first-time buyers still struggling to get into the market there.

Karen Dench, Paragon: You mentioned the Budget and last year we saw how prolonged uncertainty affected decision-making across the market. This was evident in the buy-to-let sector too, where we saw some landlords pause activity on purchases, saying: 'We're not

Roundtable participants



Mark Geller, managing director, global head of banks DCM and co-head of FIG DCM EMEA, Barclays Investment Bank

Karen Dench, head of markets, Paragon

Edward Smith, senior manager treasury – wholesale funding, Yorkshire Building Society

Cornelius Trestler, portfolio manager, HQLA investments, Barclays

Richard Merrett, head of secured funding, Nationwide

Edward Cowan, senior treasury dealer – liquidity, Skipton Building Society

Moderator: Toby Fildes, chief product and strategy officer, Derivia Intelligence



entirely sure what's going to happen, so we'll wait and see.

We're a little bit more optimistic now there is certainty. The changes weren't as bad as feared, and people can draw a line under it and move forward. The Spring Statement is not expected to generate the same level of disruption, so we expect to see activity pick up, although there are a few other headwinds for people to navigate.

Edward Smith, Yorkshire Building Society: I completely agree with that. If we look more towards housing supply and the agenda there, the government said they wanted to build 1.5m homes by 2029/2030. At the moment, they're underperforming that.

The positives are that the Office for Budget Responsibility has said that 1.3m might be achievable, but that didn't include the Planning and Infrastructure Bill, which became law in December, so maybe they can get there.

A headwind is showing in the data around construction. We've had 12 months of decreasing performance and November saw the lowest construction output since the pandemic, so there are definite headwinds there for them to be able to achieve it.

Richard Merrett, Nationwide: Households appear to be relatively well positioned in terms of wage growth outstripping household inflation, which should make it easier to get into the housing market.

Dench, Paragon: The rhetoric around growth as the agenda item is clearly helpful and there have been some meaningful steps in the last 12 months. However, there

are still significant factors that are working in the opposite direction that hold back competition and growth outside of the large banks and building societies, for example, the barriers for an internal ratings-based approach to calculating risk-weighted assets and the level of capital required for some assets. There is a deep-rooted perception of buy-to-let as a riskier asset class, which is not necessarily the case when underwritten correctly. Landlords and buy-to-let have long been the punch bag and this has not been particularly helpful in supporting the private rented sector, which is still a key and important part of the housing market. Solving the fundamental shortage of housing should be the focus.

Mark Geller, Barclays: Last year we saw some quite encouraging growth across the mortgage market, including amongst first-time buyers, and we've got the sense that some of that momentum should continue well into this year. There are two aspects. Housebuilders tell us that the government's supply-side reform agenda is welcome, particularly efforts to modernise the UK's outdated planning system. The reforms announced are positive, but change will take time to filter through to local authorities, especially at the planning-committee level.

And the builders consistently tell us that some greater demand-side support might be welcome to give them a little bit more confidence to accelerate construction and some of those numbers that you talked about, Ed.

On the retail front, customers regularly cite that saving for a deposit is the single biggest

barrier to home ownership. So, some targeted policy intervention here could meaningfully increase confidence across the market.

Cowan, Skipton: They've talked about a new potential ISA that they're going to be consulting about for first-time buyers to replace the two products out there at the minute: the lifetime and the help-to-buy.

If this can be an improvement on the current products this should help affordability for first-time buyers.

Cornelius Trestler, Barclays: We expect the UK economy to deliver slightly softer growth this year. The consensus forecast is around 1.1% GDP, characterised by the labour market softening and, potentially, unemployment rising as well.

One of the things we haven't mentioned, which may be a positive for the housing market is that inflation is set to come back close to its 2% target from April and that will, hopefully, allow the Bank of England to deliver the expected rate path of one to two further cuts, allowing swap and mortgage rates to mechanically come lower.

One other thing, touching on the planning reforms, is that planning is cited as one of the big issues for house builders. The government is behind track so far in this parliament to date on the 1.5m homes that have been pledged to be delivered, and the data on housing starts looks a bit soft as well. Developers are also facing quite significant financial constraints on building costs as well as issues around labour supply, which they cite in various surveys.

GlobalCapital: We have touched a little bit on regulation, but let's use

this as an opportunity to take a deeper dive. Have regulatory and policy adjustments gone far enough to support mortgage lending and affordability? How are these changes perceived by international investors in UK covered bonds? What do they mean for UK banks and the international covered bond markets?

Smith, YBS: If you look at some of the changes that occurred last year, one of the most positive ones could be the change of the loan-to-income (LTI) flow limit from 15% of lending for loans above 4.5 times income. Now, they look at it on a holistic industry level, rather than firm-specific. The industry was operating at around 8%.

If we look at where YBS has been historically, we've had occasions where we have been up towards that LTI limit and that's really as a result of our purpose. We want to support those underserved segments, and we are comfortable with our processes to underwrite higher loan-to-value loans.

The Financial Conduct Authority has set out plans to help build the mortgage market of the future, including supporting underserved segments which is a positive statement.

Trestler, Barclays: In addition to the LTI changes, there was also the clarification from the Financial Conduct Authority around affordability of mortgages and the stressed refinancing rates that mortgage providers had to test at when a borrower's term ends.

In their words, the stresses were too punitive and "unduly restricting access to affordable mortgages". The [Financial Policy Committee] reported that the resulting clarification allowed stress rates to drop by 110bp for most of the main lenders and had a tangible impact in allowing people access to mortgages.

While the mortgage approval data from the Bank of England was relatively flat throughout last year – there wasn't any uptick – that can be seen against the headwinds that the housing market faced last year, such as the fiscal uncertainty and the Budget uncertainty.

So, overall, it appears they are supportive.

Dench, Paragon: The other thing the FCA mentioned about potential

changes to affordability assessments was indicating that lenders could consider rental payment history alone to demonstrate ability to pay, which I think is helpful.

Geller, Barclays: Just to add to Cornelius's point, the clarification of the flexibility in firm stress-testing approaches improved access to the mortgage market. For example, it allowed Barclays to make adjustments to our lending policy last year, to allow a typical household to borrow around £91,000 more compared to where we were in early 2025, while still lending responsibly of course.

The additional point is the FCA signalling it's going to do some more work around this to review the overall regulatory framework for mortgages. Much of the rule book was written post-financial crisis and obviously market conditions are a little bit different. The bank's positions are very different now as well, so we welcome that review. There are targeted changes to the FCA rules that would make it simpler for lenders to meet customer needs and adapt to evolving market dynamics, while maintaining strong consumer protection.

GlobalCapital: What has been the impact of UK and European monetary policy on funding conditions? If we were talking a week ago, we'd say that conditions are amazing, but actually today it's slightly different.

Geller, Barclays: There are two ways of looking at this. Certainly, monetary policy has been supportive. You look at the market conditions across all asset classes within the FIG product suite. We've got the very best market conditions

that we've had for some time, notwithstanding the events over the weekend [when US president Donald Trump threatened the EU and UK with tariffs over a dispute about Greenland]. That's fundamentally the starting point of where we are.

For me, there are two aspects. In terms of the prospect of rate cuts, most of that is priced into the curve, but let's see what happens in the US over the course of the year. There is an expectation, particularly in the UK, as Cornelius mentioned, that we'll see some cuts, and our expectations are for around two cuts in the US. The direction for central banks is reasonably clear.

Alongside that, some of the funding flows that we've seen, whether it's money coming off the sidelines, from deposits, from money market funds in the US, taking money out of risk assets and coming into fixed income, is also very supportive as well.

For me, monetary policy supports on the downside. But equally, when you look at where we are in terms of some of the markets at the moment, around absolute yields, the fact that we're trading in some asset classes at 25 year spread tight is balanced with the fact that in terms of absolute yields, we are above the median of the last 25 years in certain asset classes too – this underpins the robust demand.

From an investor point of view, it is a particularly good time to be locking in some of these yields, particularly with the recent memory of what happened in 2020-21 with the very lowest rates at that point.

Trestler, Barclays: Central banks and the Bank of England have been easing financial conditions through lowering policy rates. Where



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Edward Cowan, Skipton Building Society



“We will see how wider spreads in the UK market affect refinancing in sterling but the redemptions will help to drive volumes”

Mark Geller, Barclays Investment Bank

conditions are getting tighter and where it hasn't necessarily been felt yet in covered bond or credit markets is via the draining of reserves, which means the process of quantitative tightening and also the payback of the Bank of England's Term Funding for SMEs (TFSME) programme from Covid times. That drain of reserves has been relatively fast, and we're now getting close to the region, in bank terms, of their preferred minimum range of reserves (PMRR).

That's the range they see reserves move from from abundant to balanced and then scarce beneath that, and they quote a range of £345bn-£490bn.

One sign that we're getting close to the PMRR is that use of BOE lending facilities, their short-term repo (STR) and the indexed long-term repo (ILTR), have been growing quickly over the last year or so.

We've also seen the spread between the Bank of England's base rate and SONIA compressing. Repo markets have become tighter – particularly notable at October month-end following the TFSME pay-down. Cable cross-currency basis has been moving tighter, so there are signs funding markets are tightening.

But to counter that, on the covered bond side, liquidity coverage ratios (LCR) remain healthy, and there's not that much TFSME left to pay back. It doesn't seem to be particularly impactful for covered bonds so far. Whilst the level of reserves probably isn't the main driver of covered bond valuations, you might expect it to tighten bank funding markets over time.

Smith, YBS: The only other thing is higher rates. If you've got

higher rates on deposits, you can effectively fund yourself to an extent through interest capitalisation. If you've got a £50bn deposit balance sheet paying 3.5%, you effectively have just shy of £2bn growth by effectively standing still, which reduces funding requirements, all things being equal.

GlobalCapital: If the Gilt market was opened up to retail investors as a way to get people to move cash out of deposits and into government bonds, would banks suffer because they haven't got quite the level of deposits and therefore, the earning potential from that differential?

Smith, YBS: Potentially, but there are other mechanisms that are already at play. You've got National Savings & Investments, and you've got premium bonds. People can buy Gilts.

There's a consultation around T-bills, which are not tax-efficient because they're classed as deep discount securities, so you don't get the tax-efficiency that you get with buying a Gilt. There's also a consultation around regulated financial advice and guidance, so whether that reforms what constitutes financial advice and actually means that more retail investors purchase assets such as Gilts, I don't know.

Thinking about it from a conduct perspective, people really need to understand what they're buying and the associated risks.

Geller, Barclays: Today, January 19, marks the start of the government's policies around retail involvement. Lucy Rigby, the economic secretary to the Treasury, talked about Access Bonds at the opening ceremony at

the London Stock Exchange this morning. That's interesting, whether it's government bonds or retail corporate bonds from us or other major UK corporates. That's going to be a developing theme over the coming years, which the government is trying to encourage – to get some of that money off the sidelines.

GlobalCapital: How do participants view the trajectory for UK banks' covered bond issuance in H1 2026 and beyond?

Cowan, Skipton: From a Skipton point of view, we had a good year last year. We had two sterling covered bonds, which came in at SONIA plus 57bp and 48bp, respectively.

The key thing for us is to see the investor base is improving with each deal. If you go back to our previous sterling covered bond back in 2023, we had 23 investors. Early last year we were up to 40 and then our most recent transaction brought 73 accounts placing orders. This shows there is real depth in the sterling market.

Given where pricing is at the moment, it feels the optimum place to come and issue.

Merrett, Nationwide: It was great to see a new sterling covered bond issuer as well this year, in Principality Building Society.

We've started quite well this year, doing a large sterling covered trade including a fixed rate tranche. Pricing is fantastic in the sterling market at the moment.

I can see why anyone who's only got one or two trades to do would be forgiven for not looking past the sterling market given the levels.

However, the euro market has been on absolute fire. Both markets are working really well.

Smith, YBS: If you look back at how our deposit book has grown, it has outstripped mortgage growth by around £7bn over the last three years. Our loan-to-deposit ratio has gone from around 110% down to 95%, so we're in the position where our strong liquidity position is suppressing the requirement to do wholesale funding.

That said, we do want to be a regular issuer across our key markets, which would be euros and sterling. The other considerations would be, if we want to maintain liquidity ratios, that the cost

to acquire savings is now more expensive than it was.

So even if a covered bond costs you, let's say SONIA plus high-40s, when you factor in things like the cost of churn on your deposit book, you're questioning if it makes more sense to do the covered bond versus, as an example, generating instant access savings at around bank rate?

Dench, Paragon: I completely agree with that. We are one of those newer players in the market and it's coming up to the anniversary of when we first issued. It was always a market we were looking to access on a 12-18 monthly basis. With spreads where they are, that's something that we hope to look at for this year. But it helps that internal story as well where you've got the relative cost of retail deposits, which has become more expensive.

Cowan, Skipton: That would be very much one of the key things this year for us and for peers as well, where we're expecting strong retail deposit growth.

But if everybody's expecting that, then it's a case of how competitive it gets. Does it become more opportunistic to look at doing more wholesale funding?

Other things to think about as well, which are a little bit further down the track, are some of the changes the chancellor of the exchequer announced in relation to cash ISAs, for example.

For Skipton, around 50% of our new deposit acquisitions comes through cash ISAs, so with the cash ISA limit being restricted that market may reduce in size and/or become more competitive. As such, if there is a gap, wholesale funding will likely fill it, but there are still a lot of unknowns.

Trestler, Barclays: In terms of the issuance outlook, there are around £20bn of redemptions from the Covid-era cheap funding in the UK market due this year.

From the investor perspective, it's not quite clear how much of that gets replaced as covered bonds or how much of it was opportunistic, cheap funding taken at the time.

Also, given the level of senior unsecured spreads, how are issuers thinking about issuance? Do they prefer to take advantage of how tight those spreads are to covereds?

"We believe everything we do is for a social purpose, so we don't see the need to put a label on our bonds"

Richard Merrett, Nationwide



Geller, Barclays: If you look at some of the stats in terms of sterling supply last year, UK supply was about £7.4bn.

This year, to Cornelius's point, we've got close to £20bn of redemptions; 28% from the UK, and interestingly, 47% from Canada.

We will see how wider spreads in the UK market affect refinancing in sterling but the redemptions will help to drive volumes.

GlobalCapital: Experience tells me that everyone loves sterling for the first four months of the year. Is that still the case? Or is that a bit unfair? Is the sterling market more a matter of timing than other markets?

Geller, Barclays: On the covered bond side, I would say the market is open all the way through the year, albeit last year, we saw a bit of an interruption, given some of the regulatory nuances. In an average year, on the triple-A covered side, it's open all the way through and consistently. We can come to this in the next question as well – how do we see the valuations?

Sterling, for most UK issuers over recent years, has consistently offered pricing inside other currencies, although it's obviously important to diversify your investor base.

Pricing is the first port of call to decide whether a market should be considered for issuance, and then a consideration around sources of funding and investor diversification.

If you were looking at other products, there has been a tendency to see issuance in clumps, where a number of transactions come particularly in a certain part of the curve and after three or four have come to market, the appetite tends to drift away, rebuilds over a period

and the issuance restarts. That theme is less pertinent in covered bonds.

GlobalCapital: You announced the next question, Mark. Are covered bonds fairly priced in sterling compared to other secured or high rated assets? How does the cost of issuing covered bonds compare to issuing RMBS and sterling? Where does sterling covered bond pricing sit relative to senior secured funding for UK banks?

Smith, YBS: You can look at it in multiple ways. It's like a bit of a barbell. You've got five-year Gilts at SONIA plus 35bp. If you're doing a five year covered bond at, let's say SONIA plus 48bp, you can say that, optically, that looks very rich.

But when you compare it to RMBS – Santander's latest Holmes deal being the last print at SONIA plus 60bp – and you look at it in comparison to senior funding at Gilts plus 85bp-100bp, it's pretty good from a spread standpoint.

From my perspective, it looks pretty well positioned.

Trestler, Barclays: Over the last two to three years, we've seen Gilt asset swap spreads sell off from incredibly rich levels. In five years, Gilt spreads have sold off by over 100bp to around SONIA plus 35bp.

The spread between Gilts and five year covereds – call it around 10bp – is at the tight end of the recent range.

You have to try to consider whether first of all, that represents value from a fundamental perspective, and secondly which of the two assets you are more likely to get risk-adjusted return from.

If you look at the factors that influence asset allocation – such as

capital, the value at Bank of England facilities, ease of transacting liquidity – certainly Gilts score more highly in all of those categories.

From that perspective, covereds look a little bit rich in terms of that spread. But on the other side, there's been a lot of demand for credit in general. The whole spectrum is compressed, which is keeping everything rich.

Smith, YBS: The other thing about Gilts [is that] they have been more volatile than covered bonds in terms of spread. You can see a covered bond moving one or two basis points at the same time as Gilts have moved 10bp. So maybe there's a benefit to the covered bond asset class versus Gilts because of the volatility.

Merrett, Nationwide: Investors typically hold covered bonds to maturity or near maturity, not designated as hold to collect, but they are more likely to hold them for the carry and to not try and trade out of them, as they would do perhaps with Gilts.

GlobalCapital: I mentioned RMBS just then. Is that something that people contemplated more last year than they're thinking about now?

Dench, Paragon: There was a curious point last year where owner-occupied RMBS was inside of where covereds were.

But for buy-to-let RMBS, we've got a slightly different pricing dynamic. Because these transactions are not LCR-eligible, the pricing differential is wider compared with a covered bond, which is LCR-eligible, and therefore attracts stronger bank treasury demand. But clearly RMBS is a different type of funding with

pros and cons and we see value in having access to both.

Smith, YBS: We consider the relative cost versus a covered bond and at the moment RMBS are more expensive. The other element that's worth considering is the difference between standalone issuance and using a master trust.

With a standalone you've got increased transaction costs to set up a new vehicle, which is very expensive. Whereas if you switch to a master issuer, like we did in September 2024, you remove that large set-up cost and it's more around updating programmes and doing collateral pool audits, which is similar to what you have to do with a covered bond.

Cowan, Skipton: I'd agree with that. In recent months, it's got more expensive. Take the interesting trades we've seen in the last few weeks of similar duration – Principality Building Society's inaugural covered bond coming at 50bp and then Holmes RMBS at 60bp. It was not that long ago that a RMBS was, in fact, pricing through covereds, which, optically to me felt too tight, whereas that 10bp spread now probably feels more normal. But it does mean from an issuance point of view, that, again, covered bonds look more attractive.

Geller, Barclays: On an average basis, sterling UK bank or building society covered bond issuance is pricing about 10bp-12bp inside of RMBS. If we look at it versus cheapest to deliver, senior preferred funding then covered pricing is around 45bp tighter. The average since the start of 2019 has been about 55bp. With senior preferred at 85bp-100bp over Gilts, even in non-preferred for

some names, the senior market is a good prospect for execution.

GlobalCapital: Moving on to equivalence and competition, what do the Prudential Regulation Authority and Treasury's non-UK covered bond equivalence proposals mean for the covered bond market? Do UK issuers expect greater competition from European or other overseas issuers?

Dench, Paragon: I think it's a good thing. The short-term view would be that it means increased competition. If you're a UK issuer, this paper is scarcer and you might be able to price it tighter, but I think that's quite a short-term view. You need to have more supply and a more diverse range of issuers to attract investors to the market.

The short-term view was supported at points during last year because there was just less paper. But it's a good thing to want to see more issuance going forward.

Cowan, Skipton: The interesting thing will be how quickly these things happen. While the European Banking Authority (EBA) has announced it thinks it's a good thing to have equivalency, we know it has an awful lot of other things it wants to address, so it's not likely to happen quickly. Whereas in the UK, given the changes and reversal last year from the PRA, this is probably slightly higher on its agenda to deal with, the UK may come first.

The interesting thing will be to see how equivalence will work. It sounds like the EBA will look on a country-by-country basis but that feels quite complex. Our preference would be for it not to be jurisdiction-based.

There's still a lot to play through, but I agree, it makes it more competitive if we have equivalence. It will mean that third-country issuers should be able to price closer to UK issuers.

Trestler, Barclays: This question relates to the timing around capital treatment of non-UK covereds and how quickly they might align. This is obviously one of the key metrics, as we mentioned earlier, that bank portfolios at least will look at when evaluating the relative attractiveness of UK versus non-UK covereds.

It's not clear how quickly any alignment could happen. Basel 3.1 is coming next January but that



timeline, even now, feels tight. Until the market gets better clarity on timing and direction, it's going to be difficult to reprice in the near term.

GlobalCapital: What about the spread implications? What might equivalence mean for UK issuers' spreads in the short and long term?

Merrett, Nationwide: As I understand it, the PRA is looking at giving equivalence for both risk weights and for LCR levels, so, Level 1 for those equivalent countries, whereas the EBA is proposing harmonising risk weights, but not LCR levels.

Therefore, there'll still be a slight differential between how the two jurisdictions look at treatment of covered bonds.

In the UK, if everyone's equivalent, then you would expect spreads to converge quite tightly, and then pricing will depend on the usual factors, e.g. size, time, tenor as you expect in the market. Whereas for Europe, there will still be a differential between third countries and domestic, so you would still expect to see some differential in the spread.

Smith, YBS: Bank of England repo eligibility is another factor that comes into play and how much bank treasuries value that almost as a backstop.

Another interesting factor around demand might be UK banking sector consolidation. Investors may have combined their credit lines as the result of acquisitions like Nationwide's of Virgin Money, Coventry Building Society and The Co-operative Bank, Santander and TSB, which could constrain an investor's ability to buy UK bonds, and it may be that investors look at buying more non-UK bonds as a result.

Cowan, Skipton: If you get that equivalence in terms of HQLA and your risk weights, then it makes that conversation easier internally on the buy-side.

Geller, Barclays: We've naturally seen that compression anyway. Just to follow my previous point, you look at the Canadian banks. Over the last five or six years, they've tended to trade about 10bp-15bp back of core UK names. But obviously the market was a bit wider at periods as

well. Now it's a 7bp-10bp differential – it's naturally come in.

GlobalCapital: What about euro market opportunities? Can we expect a new golden era for UK issuers in euros? Can we expect more from YBS, for example?

Smith, YBS: We've had a very good relationship with European investors and have been a regular issuer in that market.

When you look at the depth of liquidity in euros versus sterling, there is a significantly larger number of investors.

You've got to look at spread as well and our funding requirement, which is currently reduced. We look at euros on a relative value basis, but we also pay consideration to the fact that we want to maintain a diversified funding base.

Whether there's going to be a material uplift in issuance volumes from us, I'd say not in the short term, but in the long term, hopefully the market is as receptive towards the UK as it has been in the past. When we've spoken to investors recently, it's been positive.

The asset managers seem to be pretty happy and wanting to see UK covered supply. There was a little bit of a wobble at the time of the PRA's release in April 2025 on its treatment of third-country covered bonds which was rectified but overall, I think the feeling is positive. Nationwide was obviously the last one to issue a covered bond in euros, which I think went pretty well. It's probably more important to be a regular issuer in euro covered bonds than it is in sterling as we get some crossover from our sterling RMBS, but I don't know if Mark has a different view on that.

Geller, Barclays: No, I don't disagree with that at all. There's always a sense that because it's a bigger market, you should be more frequent to keep your bonds liquid, to ensure that you have good pricing references for the pricing of future trades.

The frequency of issuance is important but if you look at how strong the market conditions are today, investor appetite for diversification in the currency, even in names that are not going to issue that frequently, is substantial.

The market conditions define what you can do at any one time and you shouldn't be constrained by the need to think that if you access that market, you have to make sure you're maintaining a level of frequency – for example, you are going to do three trades over two years.

Having said that, just to come back to your original question around the European markets for UK issuers, we've all experienced some uncertainty, whether it was in 2016 around Brexit or at the end of 2022, when there was a bit of a risk premium for UK assets internationally. But a lot of that has been removed. UK risk is seen as stable. It's a very good moment, whether that's because of these changes on the regulatory side, reciprocity on the regulatory front or it's just simply the cycle. We are in a good position.

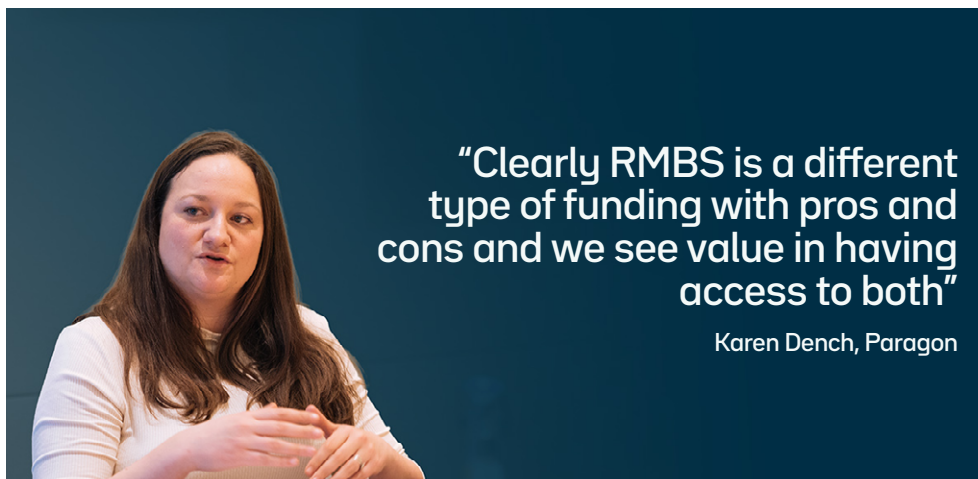
Cowan, Skipton: We're very similar to YBS; we have one trade outstanding. Our funding requirements are slightly lower this year and given the strength and depth of the sterling market, then it's likely that will be the market we target.

But we're very conscious that we still want to keep euro bonds out there.

"If you've got higher rates on deposits, you can effectively fund yourself to an extent through interest capitalisation"

Edward Smith, Yorkshire Building Society





“Clearly RMBS is a different type of funding with pros and cons and we see value in having access to both”

Karen Dench, Paragon

The big difference we’ve seen between the two markets in the last 12 months is the growth in accounts coming in for sterling.

GlobalCapital: How has the covered bond investor base changed?

Merrett, Nationwide: It’s still mainly bank treasuries across all covered bonds, but we have also seen an increase in fast money accounts.

Cowan, Skipton: How much to allocate to fast money is a question. Giving a small amount to good fast-money accounts helps to prove the bonds are liquid. It’s an interesting trade-off.

The investor base is wider than it was. If you go back to 2022 or 2023, we were allocating to bank treasuries and the bonds sat in a buy-and-hold portfolio. Now, it’s the real-money asset managers coming in and placing large orders, improving the diversification and is something that we welcome.

Dench, Paragon: There’s a greater number of bank treasuries too, because of the new challenger banks – albeit they’re not always big ticket sizes.

GlobalCapital: Are the issuers happy with the depth of liquidity in the secondary market?

Smith, YBS: The number of banks facing us that have sterling-focused covered bond traders has increased, which is good to see. There are decent volumes of secondary clips in sterling. We also do repo quite regularly and have no issue monetising there.

One interesting point is in euros. If we look at UK banks’ curves at the moment, we’ve not moved at all, whereas Canadian banks have repriced their curves down. There are two elements to that. One is that the accounts we have been allocating to have been high quality. Second is that bonds follow the last deal that was priced, which for us was in September, so there is a mismatch between where we think we should issue versus where our secondary curve is. I don’t think there is anything that can be done to get the curves in line without primary issuance.

Geller, Barclays: The point about the recent experience of the Canadian deals repricing the perception of clearing levels in primary is important because there were some significant moves – 2bp-3bp for BMO and subsequently the National Bank of Canada and Scotiabank trades versus where the market felt they should have cleared the previous week. That’s down to early-year liquidity, fast-moving markets where SSAs are pricing bonds as well and the movement of investors between covered bonds and SSAs.

We’ve seen a lot more interest on the covered side than we thought we would and some of the record books we’ve had this year across some of the French and Canadian issuance have been outstanding. That has helped to reprice where everyone thought deals should clear but that’s happened now and unless there is a significant repricing in SSAs, we’re probably set fair for now.

GlobalCapital: Is there still room for innovation in the UK covered bond market?

Dench, Paragon: I was involved in origination on the RMBS side as well, so covered bonds were new to us. It was just clear, when we were talking to our advisers, that there is a little bit more friction in covered bonds when it comes to moving the goalposts and changes in structure. But part of that is that part of the product – it is very homogeneous and vanilla.

But there is definitely room at the edges for innovation. People are open to it. But issuers just have to be brave enough to push at those edges.

GlobalCapital: There’s also the time it takes to do it.

Dench, Paragon: It probably took 18 months of work in earnest in terms of setting up the new programme for our buy-to-let covered bond. It was a calculated risk because ultimately you don’t know until you’ve invested time and resource in structuring and approvals and gone out there with a bond.

But we were very pleased with the result.

GlobalCapital: What do you mean by the word friction?

Dench, Paragon: The friction wasn’t necessarily within the asset class. Everyone was very open from investors, to regulators and the ratings agencies. It was more the structuring and being asked if we could do it in a particular way because everyone else had done it that way.

Where we had to change from convention a bit because it didn’t fit with buy-to-let, it was fine as long as we had a rationale and could take everyone through it.

GlobalCapital: We’re told the dollar market has the biggest investor base in the world, with brilliant price tension, if you get it right. Is this an ambition for five years’ time or is it not worth considering? Richard, you have a dollar bond; would you like to do more there?

Merrett, Nationwide: We will look at pricing. It was getting very close to euros, and then over the last few weeks euro pricing has significantly tightened again.

That said, we are conscious that our last dollar covered bond matures this year and we are keen to maintain a presence in that currency.

Pricing does have an impact as do other factors including diversification and investors' line availability to ourselves and our funding plan across all currencies.

Geller, Barclays: On the dollar side, the confidence to get the pricing that you need, as well as the execution risk quality, comes often from lead orders that might have interest. Some of that might be on switch. Some of it might be because of redemptions. Some of it might be because the SSA pipeline is modest.

The investor base is mainly bank treasuries at this point, with some official institution and asset manager demand.

It's a little bit like what we were talking about earlier, where transactions tend to come in clumps.

To Richard's point, many global issuers want to make sure a dollar deal offers true diversification without cannibalising other opportunities, especially in currencies where there are more natural domestic investor bases for those products.

GlobalCapital: We have managed to get through an hour or more of our discussion of capital markets products without talking about green bonds. Three years ago, we couldn't move for them. How has this end of the market evolved over the last 12 months, and can we expect more ESG-type supply from this sector?

Geller, Barclays: Our expectations for issuance of euro covered bonds this year is about €165bn-€170bn, which is modestly up on last year. Of that, we're forecasting a pick-up in sustainability covered bond supply to around €20bn-€22bn.

My guess is there will be more increased attention from ESG investors.

We've got redemptions coming through as well. Redemptions of ESG covered bonds in euros rose by about €1bn-€3bn from 2023-24 to €10bn-€11bn last year and it could be a similar volume this year. It's going to be €20bn in 2028.

One question is whether that's now a maturing market, as opposed to a fast-growing one.

The other question for many issuers will be what the best vehicle is to deliver on sustainability



objectives – whether it is through the bond market, or more broadly as an institution what they're doing around sustainability.

Dench, Paragon: It was something we looked at when we were structuring our programme. We have a green capital instrument – a tier two bond – which was issued back in 2021. We ultimately didn't want the cover pool to be restrictive on the assets which could be used and instead we have a broader focus on sustainability as a company. Investors have an expectation that banks should be doing this anyway and rather than get a benefit for having a green bond, you would be penalised for not doing this as a business overall.

Smith, YBS: As a building society, we want to be viewed inherently as a social institution. The main thing we point to is the fact that if we say we want to be doing more green lending, we don't want to do it at the expense of isolating people from finance.

If you say: 'Look, we want to focus on providing people with A and B EPC-rated mortgages, and we're going to give those customers a discount,' we're potentially in conflict with what our purpose is.

We wouldn't want to set a precedent which isolates people from their ability to access finance. What we do in the buy-to-let space is to encourage the transition to higher EPC ratings. When we're underwriting, we will ensure that borrowers have a specific plan in place to get their property up to the required EPC ratings. But it's that balance at a building society between being green and social.

Merrett, Nationwide: We believe everything we do is for a social purpose, so we don't see the need to put a label on our bonds.

Arguably the people that need the cheaper funding (to improve their EPC rating) are those on the lower EPC ratings, rather than those in A or B rated houses.

I have nothing to prove my theory but if you're issuing a labelled bond, there are specific ESG funds that need ESG assets, of which there aren't enough. As an issuer, it looks to me like you can get more price tension, that you perhaps have more certainty that ESG investors will stick in the book. There doesn't appear to be any greenium but that has been replaced with a slightly more sticky investor base, albeit, as I have said, I don't have anything to prove it.

Geller, Barclays: In other products, particularly senior, 100bp ago, you could see a very clear differential between two different curves that the same issuer would have, which have now been migrated. As you see that compression, with covered bonds as a triple-A rated asset, it's very difficult to discern that differential, particularly at these much tighter levels.

Smith, YBS: As a building society, we are always here to help people due to our ownership structure, and we don't feel like we're getting significant ask from investors for ESG-labelled issuance.

Order books are strong, so unless we start to see a real opportunity to make funding a lot cheaper using a label, then we will stick at what we're doing as a building society at an institutional level. 🌱