

Nordic Bank Capital Roundtable Powering through volatility

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Why Nordic banks will come through capital markets volatility

Persistent inflation, interest rate volatility and geopolitical tensions have all had a negative impact on credit growth in the Nordic region in the first half of 2026. However, the capital markets have shown resilience, and issuers have had to show flexibility and agility in the timing of deals. At the same time, they have stepped up their contact with investors, including from new locations such as Asia. On top of turmoil in the markets, banks

await to hear what the EU’s plans for regulatory simplification mean for them.

For this Nordic Bank Capital Roundtable, *GlobalCapital* brought together a group of the region’s capital markets bankers, bank executives and treasury specialists to describe their funding plans for 2026, how they see the capital markets shaping up over the next 12 months, and why investors see Nordic bank bonds as safe investments.

GlobalCapital: Thank you all so much for joining and to ABN AMRO and SEB for the sponsorship. We gather here to discuss what’s been happening in the Nordic region, predominantly in the capital space, but it is never just about capital. The macro backdrops have shaped market forces as have regulatory decisions in bigger jurisdictions. At the same time, the Nordic region is so well capitalised. Are we at a crossroads?

To start with the broad picture and macro developments. The war is still going on in the Middle East [as of June 4 when the roundtable took place]. As of this week, it seems tensions are back up, and with the increased tensions oil prices are higher and inflation

worries are back again in people’s minds. How is this affecting the Nordic region? Norway, for example, is oil-rich, but is that having different impacts across bank earnings, credit costs and operations? Dag, what’s your take, being based in Norway?

Dag Hjelle, SpareBank 1 Sør-Norge: Roughly more than 50% of our income used to be from the sale of oil and gas and we tax these companies at 78% and put that into the oil fund. The oil fund invests all that outside Norway and doesn’t buy our debt or Norwegian assets at all, so that means that we have payment balances with other countries, which is very much in our favour. That is one part. Of course,

that money will pile up at a faster pace now. But the negative effects of this are that with geopolitical tension, investments are slower and uncertainty higher because the wars and tariffs are also holding people back. What we see is less growth in credit than we have seen previously. We’re now below 4%, which has an effect on bank balances and bank funding.

GlobalCapital: Ellert, what’s your take from an Icelandic perspective? Are inflation worries affecting the banks’ cost of funding or the business environment?

Ellert Hlöðversson, Islandsbanki: Iceland is an inflationary region, so we’re not unfamiliar with the

Roundtable participants



Kapil Damani, head of bank capital, DCM – capital and financing, ABN AMRO

Ellert Hlöðversson, chief financial officer, Islandsbanki

Petra Mellor, head of bank debt, long term funding, Nordea

Kerstin Ahlqvist, head of long term funding and sustainability, Swedbank

Moderator: **Atanas Dinov,** FIG editor, *GlobalCapital*

Helena Colling, bond syndicate manager, SEB

Jan-Joost Leusveld, head of DCM secured debt, ABN AMRO

David Rostedt, DCM credit research analyst, SEB

Dag Hjelle, head of treasury, SpareBank 1 Sør-Norge

Morten Bækmand Nielsen, head of investor relations, Nykredit



concept. Everything is really oil. We consume domestically, we produce power in a sustainable way, so we don't rely on carbon fuel for that, but everything is either flown or shipped to the country or uses oil to produce it, so inflation is high and remains quite stubborn. We're seeing an impact in various sectors, and I agree with what Dag is saying, that it is impacting loan growth. Corporates and SMEs are delaying every decision that can be delayed. However, the banks are gaining quite a lot from it in the short term, because an element of our loan book is that we provide CPI-linked instruments, so we are structurally long inflation. NIMs [net interest margins] for all the Icelandic banks were quite high in the first quarter and will remain quite high this year as we gain from the inflation in that sense. But this, to my mind, is a short-term gain, because we are even longer the economy than we are inflation, so at the end of the day, if this does not get contained, it will come up as long losses at some point.

GlobalCapital: From a funding perspective, do you have concerns about the economy being slower and slower credit growth, Petra?

Petra Mellor, Nordea: The imminent effects of the Middle Eastern conflict are higher energy prices, which may lead to elevated inflation and potentially higher rates for longer. A higher rate environment is generally good for banks as it's positive for NII [net interest income] and supportive for spreads. Given the Nordic economies' strength, and the fact that we are a little bit more used to the geopolitical

uncertainties, we are at least not yet so concerned about the material credit growth impact and increased credit losses. European banks and Nordic banks, in particular, have very strong credit quality and exceptionally low credit losses. The funding markets that we operate in have been very resilient. Uncertainty and rate volatility are not good for markets generally, but the markets have stayed open and functional.

The main impact for us as an issuer is that we have to be more flexible and agile, but the strength of the market has surprised most of us.

GlobalCapital: Kerstin, have you been surprised by this market, despite all the macro volatility and arguably worsening macroeconomic conditions?

Kerstin Ahlqvist, Swedbank: I see similarities from previous periods of rates volatility and inflation uncertainty, but I do agree the market has been surprisingly resilient this time around. The infrastructure and investor base today are much better adapted to this kind of environment. What also differentiates this market from earlier periods of volatility is the influx of liquidity in the system over the years. It has supported fund inflows to the high levels still seen in the market and seemingly put a cap on credit spreads. The market has been contained and as long as the liquidity keeps high, I believe the dynamics will remain supportive.

GlobalCapital: Have you reconsidered what you might be issuing based on the rates volatility? Have you changed

your plans? For example, have you focused more on capital or covered bonds, or anything else?

Ahlqvist, Swedbank: Our funding strategy is to fund through the cycle, and that is the approach we have found most efficient and prudent over time. We try to be tactical about the timing and constantly evaluate the spread delta between different asset classes in the funding decisions. But even if spreads between asset classes are compressed in favour of, for example, capital issuance, we normally would not front-load by moving issuance of capital instruments from one year based on only pricing.

GlobalCapital: You've touched on the compression between asset classes, but before we go there, I wanted to ask Morten, back in 2023/2024 rates volatility was very high and some issuers faced uncertainty and challenges during book building, deals were even postponed. But now we are hearing that the markets are good despite the rates volatility. Have you faced any challenges because of this volatility? What approach have you taken?

Morten Baekmand Nielsen, Nykredit: I wouldn't say we have faced problems with this. We have done both an AT1 [additional tier one] and a tier 2 earlier this year. We didn't foresee the conflict in the Middle East, but we were lucky enough to issue the AT1 just a couple of weeks before the war with Iran broke out. That was probably more down to luck, but luck sometimes also comes from preparation, because we looked more broadly at the uncertainty of the geopolitical situation and decided it would be a good idea to get the capital issuances out of the way early in the year. We had calls, on both an AT1 and a tier 2, so we did the refinancing early in the year. But when we look at it today, we are mindful of the high volatility. We cannot rule out that we will have a situation like we had back in 2022/23 where markets had good days and days when the market was pretty much closed. So, as was said before, we take an agile approach to issuance. We want to make sure that we can issue whenever there is a good window, so we are prepared. Our approach on the IR side is to

have investor meetings all the time, rather than relying on deal-related road shows. We have a long-term funding plan, and then it's more down to a tactical decision whether to issue this week or that week.

GlobalCapital: Petra just mentioned the importance of being more agile in this kind of a market. Have you had to push your deals earlier or later than planned? You mentioned you issued before the war.

Baekmand Nielsen, Nykredit:

No, I would say that was down to coincidence. We had a call on an AT1 and also on a tier 2, around April, and we wanted to refinance those bonds ahead of the calls. It was more or less a given when we were going to issue, especially the AT1, because we first had to have our full year results for 2025 out in early February, before we could issue it. So, it was not a question of perfect foresight or anything like that. It was down, to some extent, to a little bit of luck since we happened to issue the AT1 just ahead of the outbreak of the hostilities in the Middle East. Sometimes it is just a coincidence.

Ahlqvist, Swedbank: Just adding to what Morten said and as alluded to earlier. If you look back a couple of years from now, the whole market infrastructure is different and better set up. We've learned from being through systemic uncertainty before. From the issuer perspective, we, along with many others, have more funding tools in our toolbox today. In Swedbank we have a well-implemented diversification strategy in place where we can pivot between markets, currencies and different formats such as private placements, public deals and ESG-labelled bonds. As market participants, including us, adapted and learned from prior experience, the overall market is left less sensitive to adverse shocks, and as already mentioned the high liquidity is there as a kind of support mechanism.

Hlödversson, Islandsbanki: I echo that. It's a cornerstone of the funding plan for Islandsbanki to remain quite diverse across geographies, currencies and types of instruments. We spend a lot of time on the road, as Morten mentioned, meeting investors to always be

prepared. We have also been agile in our funding, issuing probably sooner than we needed, not many years sooner, but at least taking advantage of market situations when we feel that the risk profile is skewed in either direction. That's quite important.

Kapil Damani, ABN AMRO: I'll also build on that. One of the most significant structural shifts over the last five years has been the amount of continuous investor engagement across the market. When market windows are short, that groundwork is what gives you the agility to act. A good example: congratulations to Morten on that Nykredit AT1, the tightest in the market at the time, and the tier two alongside it. Whether foresight or timing, the outcome speaks for itself. Our own experience was instructive. We were running the AT1 mandate for Aktia Bank in Finland, and the situation was more constrained. A regulatory update on the IRB impact to their CET1 ratio landed the Thursday before the week we announced and we made a deliberate call to allow the market to absorb that information before going live. That compressed our execution window significantly, with a Q1 results blackout also approaching. The transaction priced in the week of March 23, which by most measures was peak volatility in the context of Middle East tensions, with the VIX near its highest point in that cycle and very little competing supply. The reason it worked is exactly what colleagues around this table have described: the depth of investor engagement we had built with Aktia ahead of launch meant we went into that window with a high degree of conviction on where the book would clear. Pre-deal investor work is no longer a nice-to-have, in this kind of environment, it is the transaction.

GlobalCapital: You're saying that you're not seeing parallels to what was happening in 2023-24 with the rates volatility?

Damani, ABN AMRO: Bank fundamentals are exceptionally strong across every metric you look at and the level of capital conservatism embedded in the system reflects that. The reference point is 2023. Credit Suisse was a defining event, not just for AT1 specifically, but for the market's confidence in the European bank resolution framework. It raised legitimate questions about the instrument: the write-down sequencing, the treatment of equity relative to AT1, the so-called upside-down hierarchy. What followed was important. European regulators were clear and consistent that the Swiss outcome was jurisdiction-specific, and that BRRD [Bank Recovery and Resolution Directive] protections meant it could not be replicated here. That clarity mattered. The fundamental driver is earnings. Banks have operated in a higher-rate environment that has generated strong NIMs, and asset quality, despite well-flagged concerns, Swedish commercial real estate being the obvious example that has proved far more resilient than the bear case assumed. Those concerns never materialised. Strong earnings are your first line of defence, and Nordic banks have had that in abundance.

Mellor, Nordea: I can echo that. Being in the Nordics is a good place to be. The Nordic economies remain resilient. Bank credit is in strong demand for technical reasons, and the fund inflows keep coming in. Credit is a good place to be compared to other more volatile asset classes. We are in a relatively high yield environment,



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Dag Hjellev, SpareBank 1 Sør-Norge

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making credit actually attractive and competitive to invest in. Corporate issuance is up quite a lot, but bank issuance is not. Compared to government bonds, bank paper is attractive as some government bonds are a little bit more uncertain nowadays: there are increased macro and political risks as well as rating deteriorations, fiscal issues and so forth. Investing in Nordic bank paper is attractive, in my view.

GlobalCapital: Is this because Nordic banks are so well capitalised, and basically banks that are generally well capitalised are doing well, and that in this environment, capitalisation is actually a tailwind for bank issues? I'm curious, Helena, about your syndicate perspective.

Helena Colling, SEB: From an investor perspective, banks are currently an attractive place to be, largely because we have supportive dynamics on both sides of the equation. On the supply side, credit growth remains subdued, which keeps issuance limited. Most supply is driven by refinancing and in some segments, we are actually seeing net negative supply.

At the same time, demand is strong, supported by ongoing inflows into credit, so we are in the fortunate position of having positive technicals on both supply and demand.

In an environment where spreads across asset classes have compressed, instruments like AT1s and other subordinated debt issued by strong banks become particularly compelling relative to alternatives. Even amid volatility, investors are comfortable holding risk and when the relatively rare opportunities arise, especially in Nordic subordinated debt, they tend to see very strong demand.

GlobalCapital: Dag, from your perspective, Norwegian banks are also very well capitalised. Have you benefited, or not, from all the compression that's been going on and this demand for yield?

Hjelle, SpareBank 1 Sør-Norge: Both coming from a strong country with very good macro and a very well capitalised bank, we also see the diversification argument for investors in Europe. Most of our investors come from Europe, so that could also be one factor that



"We didn't foresee the conflict in the Middle East, but we were lucky enough to issue the AT1 just a couple of weeks before the war broke out with Iran"

Morten Baekmand Nielsen, Nykredit

plays positive for us. But, no, from my side, I can say that maybe I have been waiting for the market to have a stop-and-go, but it seems like the investors are only go, so what we have seen in the last half year is a little bit surprising.

Ahlqvist, Swedbank: If we get to a stage in which markets are becoming more volatile and issuance windows shortens, if anything, what we have seen in the past is that the Nordic banks — because of their high resilience and strong capital positions — are benefiting in such an environment. If instead talking about spread decompression, I believe it will be driven more by general risk repricing and investor positioning than by deterioration of bank credit fundamentals at this stage.

Damani, ABN AMRO: Agreed, from a credit spread perspective, the volatility is being driven by underlying rates, not bank fundamentals. On the macro backdrop, eurozone CPI has been tracking close to the ECB's 2% target but surged to 3.2% in May, overshooting the target by around 120bp in just a few months. That mechanically shifted the policy calculus. Within a single week, four council members publicly confirmed a 25bp hike, which was fully reflected in swap markets ahead of the June 11 decision. Higher for longer is back on the table, and as discussed, that remains broadly positive for bank balance sheets. [An ECB monetary policy meeting followed on June 11 where the central bank raised interest rates by 25bp, the first upward move since 2023]. The more interesting dynamic is what it has done to primary demand. The Iran conflict had a paradoxical effect: as ECB expectations flipped from cuts to

hikes, short-dated IG yields moved higher. That has materially improved the carry position for yield-focused investors, who are consequently more actively deployed in primary markets. We see that effect most acutely in the subordinated space. Two to three years ago current spreads simply looked unreachable in this direction. The theme runs across the entire capital structure.

Baekmand Nielsen, Nykredit: Just a comment on a potential risk-off environment and a shift by investors through the capital stack. One important thing this time around is that I would expect an orderly and normal reallocation. Unlike a few years ago when we had super low or even negative interest rates and saw quite a lot of investors that were forced into investing in instruments that was riskier than their true preference. Back then I was a little bit concerned that, if something went wrong, you would suddenly have more or less a fire sale and a reallocation with investors going higher up the capital stack. I don't think that's the case this time. It seems to me that the investors that are active in capital instruments today, are there because they have actively chosen to be there, not because they have been forced there to find any yield, so I think this will be a more normal reallocation within the capital stack.

Damani, ABN AMRO: Nordic AT1s trade rich relative to the broader European universe, but that premium is entirely justified and here is why. Islandbanki, to take the most striking example, operates at a more than 20% CET1 ratio. Buffer requirements are the most demanding. And as we have discussed, Nordic banks have amongst the strongest earnings power on the continent, and



“If you look back a couple of years from where we are now, the whole market infrastructure is different and better set up because we have been through it before”

Kerstin Ahlqvist, Swedbank

earnings, ultimately, are your first line of defence. When you stack those three factors together, tight spread levels are not a valuation anomaly. They are a rational market outcome. Nykredit printed the tightest euro AT1 in the market at the time of issuance. SEB’s Reg S dollar AT1 set its own benchmark. Nordea’s AT1 and T2 transactions was similarly at the tight end of what the market had seen. And Danske this year has continued that pattern. Each of those deals has pushed through what previously looked like a floor. The Nordics do not just participate in AT1 markets, they consistently set the benchmark for what the asset class can achieve.

GlobalCapital: Capitalisation is a good buffer, despite the potential for the macro environment to worsen. You call it a quite interesting, paradoxical improvement from the war with yields going up, so there doesn’t appear to be really a concern that this demand could shift the other way, going up the capital structure. Or do you maybe see potential higher demand for senior preferred or covered bonds?

Colling, SEB: My expectation is that in a more risk-off scenario, investors are likely to rotate between credits in addition to across asset classes. If you are already comfortable investing in AT1s or tier 2s, you will probably stay within that space but become more selective in terms of names and jurisdictions.

It is harder to envisage a significant shift out of subordinated into, say, covered bonds, or even a pronounced move from subordinated into senior debt, although some reallocation in that direction will occur. Overall, I think the more meaningful adjustment would be increased selectivity across credits

and regions, rather than a wholesale shift between asset classes.

GlobalCapital: This is a good way to move to the next topic, which is the evolution of the regulatory landscape. From what we’ve heard so far, the Nordic region is very well capitalised, actually better capitalised, due to regulations, than many parts of the EU. What’s currently happening is the European Commission is trying not to deregulate but to simplify bank regulations and the bank capital stack. So, curious to hear if this gold plating in the Nordic region makes the Nordic banks less competitive in this environment versus the rest of the European banks, because of these higher capitalisation requirements? We mentioned Icelandic banks are, for example, some of the best capitalised, but is that a hindrance or is that a tailwind for you, Ellert when, you speak to investors?

Hlöðversson, Islandsbanki: It does impact competitiveness, especially for larger companies, where we have some Scandinavian peers doing business in Iceland as well. But most of it comes from the fact that we have to tie up way more capital than many of our peers, given the fact that we’re standardised. But, in a broader sense, Europe has started to realise that, and I would actually call it lead-plated rather than a gold-plated, because that is actually what is happening — tying a plate of lead around the banking sector as a whole, which is impacting the competitiveness of the banking sector in Europe, compared to the US banks especially. This really has started to become a problem. The ECB and the regulator have started to see that now, so I’m hopeful we’ll start to see some deregulation

or simplification that is going to positively impact this.

Damani, ABN AMRO: Fifteen years of Basel III implementation has produced a framework of extraordinary complexity, layers of buffers on buffers, hard requirements, soft expectations, and in some jurisdictions, such as Sweden, regulatory publication of management buffers which creates market expectations. That is a significant degree of supervisory reach into capital management decisions that are, in most frameworks, a matter for bank boards. The international context matters here. The US has set the agenda with the Basel III endgame re-proposal. Governor Bowman’s revised framework, if implemented as proposed, releases approximately \$200bn of capital across the US banking system. The strategic implications are direct: US banks will have materially lower capital costs, greater capacity for M&A and the ability to underprice European competitors in large corporate lending. That competitive asymmetry is a structural concern, not a cyclical one. The UK is responding differently but deliberately. The government has explicitly added a growth mandate to the PRA’s remit, and the December FPC capital reform paper signalled that the calibration has gone too far in places. The direction of travel is already visible in CET1 targets: NatWest has moved from 13.5% to 13%, now aligned with Lloyds, a meaningful signal of where management and regulatory expectations are converging. Which brings me to my colleagues here. Your CET1 ratios are substantially higher than those reference points. How does that shape the way you run your businesses?

Hlöðversson, Islandsbanki: It certainly impacts how we are competitive but given that the nature of the Icelandic business especially, is mostly local, it’s impacting all the competitors in a similar manner, aside from maybe the largest entities that are competing internationally. But at the end of the day, it becomes pricing, so the reality of it, at least in an Icelandic context, is that the pricing of loans becomes higher than it probably could have been.

GlobalCapital: As a bank based in the EU, Petra, do you think what the ECB is trying to do with its competitiveness consultation is generally simplification of the process, or is it just re-labelling it, to try to make it more competitive, but perhaps not with the right intention?

Mellor, Nordea: You said there are signs of hope. We see efforts being made within the EU to try to simplify regulations and to become more competitive, which is good, but then we also have to walk the talk and see that actually happening.

Damani, ABN AMRO: The distinction matters. This is simplification, not deregulation, and the ECB has been explicit on that. The HLTf recommendations point clearly to where the complexity sits, and buffers are the right place to start. Covid was the real stress test. What it demonstrated was that buffers are not genuinely usable in practice: politicians wanted banks to lend, but no institution will deploy capital into uncertainty while facing an expectation of rapid replenishment. The stigma around buffer usage is itself a policy failure. Let's make these buffers usable.

GlobalCapital: So, regulation is not going in the right direction. Has that affected your capital issuance in any way, Dag?

Hjelle, SpareBank 1 Sør-Norge: No, not really. As has been said here, we don't actually want to go vocal on our management buffer, because if we did, our hunch is that the regulator would actually say: "Oh, you need another half percent", so seriously, I would like to see that we could dip into the buffers because the buffers are really fat enough. But then again, I don't know all the jurisdictions in Europe, but it doesn't look like we need it in Norway.

Damani, ABN AMRO: One of the defining themes of Q1 bank results was how mainstream SRT [significant risk transfer] has become as a capital management tool across Europe. The Nordics have been a relative latecomer to that, reflecting the region's higher capitalisation and historically lower appetite for balance sheet optimisation of this kind. The broader policy context is important here.

The EU has effectively acknowledged that financing the infrastructure investment required over the next two decades is not achievable without a functioning securitization framework. SRT sits at the centre of that. JJ, how do you see this playing out?

Jan-Joost Leusveld, ABN AMRO: Indeed, we have seen this tremendous growth in SRTs in the eurozone and for every large or midsize European bank it's become a major part of its capital and risk management toolbox. We haven't seen a similar development here in the Nordics for many of the reasons that have been mentioned already, including high capitalisation and low risk weights, so there's been less of a need from that perspective to enter into SRTs. But I also think the regulatory framework has not been as clear; how do you actually achieve SRT?

For banks it's really a strategic tool, in the sense that SRTs — rather than working just on the liability side — allow you to also focus on risk management.

Maybe you're over-concentrated in certain sectors, either in capital allocation, or you want to work on the risk from a certain sector.

It has a very important function that should be part and parcel of a larger financial institution that offers benefits that other capital instruments may not have. But I also realise that you need a supportive regulatory framework where you're able to assess upfront what is needed, because it's a real investment you're making.

You're not doing SRTs opportunistically as a one-off because of the resources required to set them up and the regulatory approval track. But thereafter you'll have it as an integrated tool in the wider capital and risk management framework.

GlobalCapital: We've touched on SRTs and AT1s, and before we go back to the bread and butter of bank capital and recent issuance where we've had some really interesting developments, last December, the ECB floated a proposal potentially to make AT1s closer to equities. But there's been limited information on this. How is this being received in the Nordic region? Is there a sense of fear or concern among investors about this AT1 redesign?

David Rostedt, SEB: There's a lot of speculation about what more equity-like features entail. But if you look at Swedish and Danish banks, the loss trigger is at 7%-8% compared to 5.125% in many countries, so let's say that we already know that there is a 7% trigger level across the EU, I don't think it should have too many implications. Not long ago S&P changed their methodology somewhat for AT1s and made some tweaks to the buffer down to the contractual trigger and made some easings there that actually led to SBAB, for instance, having a one notch upgrade for an AT1. If you look at reality, no bank has been able to survive down to 5.125% before you enter a point of no viability, so it would make practical sense to increase that level.

Damani, ABN AMRO: I would push back on that. The ECB is asking the wrong question. Basel III and the CRR [EU Capital Requirements Regulation] have made European AT1 structurally more complex than equivalent instruments anywhere else. Banks in the US issue preference shares: perpetual, non-cumulative instruments, no triggers or bells and whistles at materially lower all-in costs. European investors have spent a decade learning what AT1 actually

"We have a high yield environment, making credit actually worthwhile and competitive to invest within, plus we have lots of corporate paper and corporate issues compared to earlier years"

Petra Mellor, Nordea





“That level of compression is more pronounced in AT1 than it has been in other parts of the asset class, but we see it everywhere”

Kapil Damani, ABN AMRO

means: how triggers interact with MDA and how many layers of coupon restriction apply. The instrument is already carrying more complexity than it should. The ECB position, as I understand it, presents two views: the Bundesbank position, which is abolition, and the redesign camp, which wants higher triggers and more equity-like features.

On abolition, where does the capital go? AT1 has proven it can absorb losses. Credit Suisse had roughly 4%–5% of their RWAs in AT1. That write-down was absorbed. I spoke to hedge funds the Monday after the decision: they had lost on the AT1, made on the holdco, and markets were functioning. The AT1 buffer preserved the senior stack. That is the instrument working as designed. On recycling the stock after a decade of build-out, forcing a full refinancing of the entire outstanding base, or perpetually grandfathering legacy instruments, imposes real cost for no demonstrated benefit. On higher triggers, the consequence is higher pricing. And on mandatory coupon suspension tied to loss recognition: I am not persuaded that making coupon skipping more likely improves financial stability. It increases stigma, it does not reduce risk.

Rostedt, SEB: Another thing that’s been speculated on in this case is:

Will you be able to pay AT1 coupons if you post losses? Let’s say you post losses for four consecutive quarters, then you have to skip your coupon. But let’s say you’re still allowed to pay a dividend, then you get a conflict with regards to creditor hierarchy.

Damani, ABN AMRO: The creditor hierarchy issue is a legitimate structural concern. The current framework can produce the outcome where AT1 coupons are suspended while dividends continue – that inversion is indefensible from a fixed-income investor perspective. Some issuers have addressed this through alignment event provisions in their AT1 documentation, which effectively future-proof the instrument: if the regulatory framework evolves to allow a dividend stopper, the terms adapt accordingly. A hard-wired dividend stopper would resolve the hierarchy problem cleanly and should be part of any serious simplification proposal.

GlobalCapital: Are we talking here about a potential far-fetched scenario or is this an actual concern from investors. Are issuers concerned about these regulatory developments?

Damani, ABN AMRO: There was no impact in the market, which makes me think investors basically have determined that the ECB recommendations are not going through.

Mellor, Nordea: I think the proposal is still at such a high level. Investors started to ask about it but then realised that it’s not imminent. It’s still uncertain if and when it would happen. I agree with you, Kapil, what exactly would the benefit of both coupon cancellations and changing trigger levels? It would make an already relatively complex asset class more complex by changing the rules now. So, I think both issuers and investors would prefer no more changes.

Ahlgvist, Swedbank: Regardless of how specific AT1 instruments are designed in the future, regulatory certainty remains one of the most important factors supporting healthy functioning markets for capital instruments.

Damani, ABN AMRO: I agree with Kerstin on regulatory certainty as the priority. On the ECB proposal to abolish AT1, I think that position was premature and unsupported by the evidence. The case for abolition has not been made. My expectation is that the Commission’s response will reframe this toward simplification and I would be surprised if the instrument is materially redesigned. The direction of travel is ‘make it simpler’, not ‘start again’.

Rostedt, SEB: I agree with you, because if we would say that we would have AT1 coupon cancellations if a bank posts losses, then there will be a lot of focus on banks posting low earnings volatility. That would be one of the key slides in your investor presentation deck. But it also means that banks with higher earnings volatility will perhaps have much more difficulty attracting investors to invest in their AT1s and we will have a differentiation not only in pricing, but also in which banks have access to this type of capital. This will create a skewness between competition, not only between the universal banks across Europe, but also if we look at the smallest challenger banks in Sweden, where we have small mortgage players that are still posting losses but building



“It’s harder to see a bigger shift, at least from subordinated to public, for example, or maybe more naturally, from subordinated to senior”

Helena Colling, SEB

scale and have strong ownership commitment and they issue AT1s. But they wouldn't be able to do that if we had this sort of new type of regulation we have been discussing.

GlobalCapital: Speaking of structures, one specific feature of AT1 structuring has captured the market's attention — the par call. Some of the issuers here have stopped using it and others are still using it. So is this actually a real divergence between issuers and investors and also between issuers and issuers.

Damani, ABN AMRO: The par call debate has intensified as more issuers have dropped the feature. In cases because larger issuers running multiple AT1 lines look at it as a portfolio, and in part because regulatory visibility around redemption approval improved. Our own treasury's position is that it adds complexity. For Aktia, the calculus was different and made the par call a meaningful tool for refinancing flexibility if the market is closed. When we asked the issuer directly, the answer was unambiguous, they valued it.

Ahlqvist, Swedbank: I can add some comments here, as we have used the feature in our latest AT1 trades. We do not necessarily believe there is a divergence in how issuers and investors view par calls. We view them as more investor-friendly due to the flexibility they provide and the increased likelihood of investors being repaid earlier in the cycle. That's why we have chosen to add the feature to recent AT1 instruments. When speaking with investors, there is generally a good understanding of the mutual benefits involved and, importantly, that investors are ultimately investing in the bank's broader capital story when buying AT1s.

Damani, ABN AMRO: Kerstin, I take that point. The Covid episode is the clearest historical case for the par call. Two institutions faced AT1 markets that were effectively closed: Lloyds and Deutsche Bank extended rather than refinanced. For Lloyds, a sterling AT1 with a 5-yr non-call period following first call date meant they were locked at an elevated spread for the duration of the extension. When, in reality, the unprecedented quantitative easing



“It has a very important function that should be part and parcel of a larger financial institution that offers benefits that other capital instruments may not have”

Jan-Joost Leusveld, ABN AMRO

reopened fixed income markets within six months. Had a par call been in place, that extension would not have been necessary. Par call reduces extension risk. That case has not been rebutted.

Ahlqvist, Swedbank: Yes, the flexibility to delay an extension decision during periods of systemic market stress in the end can be beneficial for both issuers and investors.

Mellor, Nordea: We started to use the par call period in 2021 to increase the flexibility around refinancings, both for us as an issuer, but also for investors. But as the market developed, we decided to stop using the par call period after 2024, so our most recent subordinated issuances do not have it anymore. We have tried to be as transparent as possible and have added a page to our investor presentation where we describe our view about the par call period.

GlobalCapital: Morten, you issued in February an AT1 without a par call. What was your reasoning behind it?

Baekmand Nielsen, Nykredit: It was simply to keep the structure simple. Also, because we saw there was a clear expectation in the market that issuers should call as early as possible. Therefore, we didn't really put a lot of value in a par call and wanted to keep the structure clean. In addition, we have quite a lot of CET1 and additional capital sitting with our owners, and therefore we were quite comfortable with not having a par call in our new AT1.

Ahlqvist, Swedbank: Can I ask you what is the frequency of calls for you after the first call and what are your call structures?

Mellor, Nordea: We have it on every interest payment date after the first call. This is the standard structure for us where we have a recurring call after the first call period, so we would have the ability to call on every interest date thereafter.

Baekmand Nielsen, Nykredit: For us, after the initial non-call period it is on payment dates.

Colling, SEB: We do not experience the inclusion of par calls to be a major factor for investors when marketing AT1s.

That said, in more volatile environments it is always preferable to keep structures simple, so if there is no strong need for it, it should not be included merely for the sake of it. However, our experience is that it is not a contentious issue, and for many investors, echoing Kerstin's point, it is actually viewed as providing additional flexibility for the issuer, which is ultimately positive for those taking risk in the name.

I would also see it as beneficial in jurisdictions where AT1 buybacks are not permitted, unlike in some markets where they are. In those cases, there is arguably some value in having this feature, and if it does not meet meaningful resistance from investors, there is little reason not to include it.

In the Nordic market, which has seen increasing AT1 issuance in domestic currencies, it has not proved to be an issue. Investors are generally very comfortable with par calls and most view it as offering an element of flexibility that helps mitigate extension risk.

GlobalCapital: Speaking of local currency issuance, does this work as your cheapest source of capital, Ellert?

Hlöðversson, Islandsbanki: It has been for tier twos, but we have not issued AT1s in ISK. We may want to take a look at that at some point in time now that Landsbankinn has proven that the ISK market can absorb AT1s, which was not the case before. But it's important for us to have outside flexibility across all currencies.

GlobalCapital: We've seen Icelandic banks do it in dollars. Would you consider doing it in dollars?

Hlöðversson, Islandsbanki: We're not opposed, but given our size of a potential deal, at maybe \$100m or so, we would need to have the maturity of our entire AT1 stack in a single instrument, which we are not fond of. That creates refinance risks as it decreases the overall divergence we want in our funding structure.

GlobalCapital: I guess you've got great name recognition to do it in local Nordic currencies.

Hlöðversson, Islandsbanki: Normally, all the Icelandic banks do such a number of issuances here in both Swedish and Norwegian kroner, and we still really view those as our home markets.

GlobalCapital: It's quite interesting that a lot of Nordic banks prefer to issue AT1s in dollars. Nykredit was rather an exception in issuing in euros. What was the rationale behind the choice of currency?

Baekmand Nielsen, Nykredit: For Nykredit, the decision to issue in euros rather than dollars is fairly simple. We have virtually no business in dollars and the hedging and accounting-implications of dollar-issuance are such that we

would require a very substantial funding advantage to make it worthwhile for us to issue in dollars.

Colling, SEB: Tenor and market depth were part of the overall consideration for SEB's dollar AT1. The dollar market has generally been receptive to longer call structures, particularly in the seven- to 10 year part of the curve, while the euro market tends to offer best execution for five- to seven-year calls, and the domestic market is primarily focused around five years.

Additionally, SEB has an established track record in the dollar market, with a long-standing and well-developed investor base. As a result, issuing in dollars offered the strongest execution in terms of both investor base and tenor.

GlobalCapital: Are dollar deals better for hedging or for swapping in terms of relative value?

Mellor, Nordea: We have outstanding subordinated issuance in all our core currencies: dollars, euros, Swedish krona and Norwegian krone, and we really like this diversification. As we discussed earlier, in volatile and uncertain times, there is a very big advantage in being well diversified because if one market is shut or does not work so well, we have other markets to go to. Furthermore, we like to issue in our core currencies to mitigate FX volatility with our risk exposure amount. We could look at other currencies also, of course, but we tend to look at the all-in cost after hedging to compare issuance in different currencies, so that's part of the discussion when we look at different currencies.

Ahlqvist, Swedbank: In subordinated debt we have a well-diversified tier two funding stack,

but for AT1s, where our needs are generally limited, it's rare that we issue outside of dollars. The dollar offers a very deep, liquid and functioning AT1 market with a broad set of investors globally. Certain investors in Asia, for example, have historically been better positioned to buy dollars than euros. But then if we look at the local currency market in Swedish kronor and Norwegian kroner, it is an interesting picture that emerges for AT1 instruments. It is both deep and liquid and in addition the docs process is simpler and the time to market is faster.

Hlöðversson, Islandsbanki: And it's cheaper

Ahlqvist, Swedbank: Agree, it's from time to time also cheaper from a pricing perspective.

Colling, SEB: Talking about that, the Swedish krona market has indeed proven to be both deep and resilient, even for larger issuers. Most recently, Handelsbanken successfully placed Skr6bn in an AT1 transaction, equivalent to roughly €650m at a spread that, at the time, we viewed as offering the issuer arbitrage versus the dollar market.

That arbitrage appears intermittently, sometimes present and sometimes not. However, over the past 18 months, the Swedish market has been particularly impressive, with the investor base significantly strengthening and becoming both deeper and broader.

GlobalCapital: The tightest AT1s have been issued this year. Has this been a one-off record for years to come, or are the supply and demand dynamics, and the capital positioning of Nordic banks likely to allow similar issuance, or even a breach through the record tight levels?

Baekmand Nielsen, Nykredit: Nykredit had the pleasure of issuing that record-setting euro AT1 at a spread of 287bp, which was well inside the hitherto "unbreakable" barrier of 300bp.

In all fairness, we benefitted from being a very rare issuer. The fact that many of our Nordic peers have opted for issuance in US dollars whereas we issued in euros just added to the scarcity value.



"Another thing that's been speculated on in this case is: Will you be able to pay AT1 coupons if you post losses?"

David Rostedt, SEB

Damani, ABN AMRO: May was a record month for AT1 issuance, its second-highest month since 2022, a strong signal of where issuer and investor appetite sits. The compression story is well illustrated by the tier two and AT1 differential. Three years ago it was north of 750bp and today, it's 240bp [as of June 4]. That really goes to show the demand for this type of risk. The other structural shift worth noting is longer tenors, roughly one-third of all AT1 issuance that we've seen this year has been in the non-call 10 format versus 8%. Investors are extending duration in AT1, which is a strong expression of confidence in the asset class and in the credits issuing it.

GlobalCapital: I would like to ask you what's been happening with ESG? For example, is the way ESG is perceived in the Nordic market changing? We've talked before how the Nordic market is a leading region for ESG, but how does labelling the capital structure matter? Is there a particular place to use labelled debt within the capital structure?

Mellor, Nordea: Sustainability still matters very much. It's more integrated now than before, both in issuers' and investors' strategic agendas. It's a little less about labelling each and every instrument itself. We are an active sustainable issuer, with about €18bn outstanding sustainable bonds. Some of the developments we have seen recently have been under the European Green Bond Standard. We issued the first covered bond in this format earlier this year. Furthermore, we are active across different asset classes in sustainable format, from covered bonds to tier two. We have not yet issued in a sustainable format in AT1, mainly for regulatory reasons, as we are not allowed to have an incentive to redeem an AT1. We could have some matching issues, as an AT1 is a perpetual instrument and we wouldn't necessarily have perpetual green assets.

GlobalCapital: Ellert, you said earlier that Iceland has a lot of sustainable assets and you are involved in that part of the market. How does that reflect in your capital structure and funding and refinancing?

"This isn't a specific topic, it's intertwined into everything we do, so it's become more of a household item rather than a topic of discussion in that sense"

Ellert Hlööversson, Islandsbanki



Hlööversson, Islandsbanki: We have a lot of sustainable assets, but we have not issued anything in a sustainable manner outside of the senior space. The sustainable assets are in a way, way larger pool than currently allocated towards issuances, so we may want to do that at some point in time. But I agree with what Petra said, that, overall, the discussion with investors has become less of a topic. Investors are more acquainted with how far the Nordics really are. This isn't a specific topic, it's intertwined into everything we do, so it's become more of a household item rather than a topic of discussion in that sense. But we certainly see larger order books for green issuances than for non-green ones, although we can't really say that we see any indication that pricing differs, at least not when markets are so active as they are currently.

Ahlqvist, Swedbank: Our discussions highlight the increasing maturity of the ESG market and one where sustainability now has a natural and holistic place in banks' overall strategies. In the Nordics, most banks have stayed committed to ESG strategies and targets over the last year, and that creates credibility for the region. If we look at the issuance pattern, I think the same logic applies there. It's a more mature market now, which is probably why we see less difference between the different asset classes and a less pronounced greenium. What we see though, at least in Swedbank, is positive takeaways in our issuances for green bonds. Over the last year we came to the market five times in green format and what we see in the order books is actually a higher participation rate and demand from dedicated green investors. We still see benefits, maybe not so much in the greenium, but in the stickiness of the book, and supportive secondary trading that we can use as reference points when we issue new bonds.

GlobalCapital: Are you seeing similar developments, Dag, or is there a particular ESG topic you're focusing on, or about to focus on next year.

Hjelle, SpareBank 1 Sør-Norge: No, we are sticking to our plan this year. Both of our euro benchmarks this year have been green. We did a green covered €1bn seven year and a six year non-call five year senior non-preferred, both in green format. We also have senior preferred outstanding in benchmark euros. I agree with what's been said here, that it's not that big a topic in investor meetings. One of the reasons is that investors have already ticked SR Bank as green, or green enough, and we don't see much bigger books. But I agree with Kerstin that investors could be a little stickier.

GlobalCapital: Helena, we were talking earlier about the compression across the capital stack and regions. Does this development help to have ESG capital when you price such bonds, whether local in or international currencies?

Colling, SEB: With market conditions as favourable as they currently are, green labelling AT1s is not necessarily the most effective use of green assets. While it can broaden the appeal somewhat, it may also introduce additional considerations for certain investors, even in what is otherwise a relatively straightforward, plain-vanilla structure, to the extent an AT1 can be considered as such.

As a result, we would generally not view this as the most natural asset class to which to deploy a green label at present. In other asset classes, the incremental benefit is likely to be more pronounced. ©