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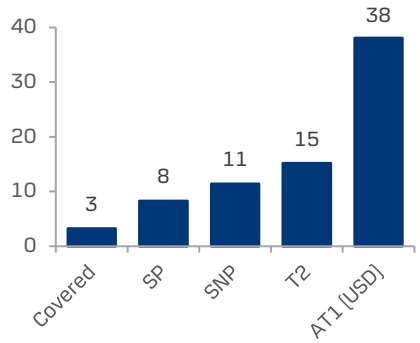
Taking stock after the widening in AT1s

We view the recent widening in AT1s as a catalyst for further spread performance again after several months of very compressed spreads. We find that extension risk has been priced more into the shorter end of the curve and is more pronounced in broader Europe. We continue to expect Nordic banks to call their AT1s at first call date, while Handelsbanken and SEB could emerge as potential USD AT1 issuers next spring and Danske Bank could return to the market already in Q4. We recommend Swedbank's call Mar-29 and call Mar-30 and see value in Nordea's call Mar-29.

Since the onset of the turmoil surrounding French public finances and the subsequent widening in OAT spreads, credit spreads have decompressed unevenly, with AT1s taking the hardest hit – reflecting their higher risk relative to higher-ranking debt in the capital structure. Following several months of very compressed spreads and limited catalysts for further spread performance, we believe the recent market jitters may be the catalyst that AT1s have needed, opening the door to picking up AT1s that offer both higher yields and potential spread performance.

Chart 2 shows the top 10 AT1s that have widened the most over the past month across both the Nordics and broader Europe. Focusing on the latter, it is unsurprising that the ranking is dominated by French banks, given that concerns over French public finances are at the root of the recent turmoil. While some mechanical spillover to the rest of the AT1 market is natural, we find it notable that the widening has been so meaningful for other banks, given that this is primarily a French sovereign story.

Chart 1. AT1s have widened the most over the past month

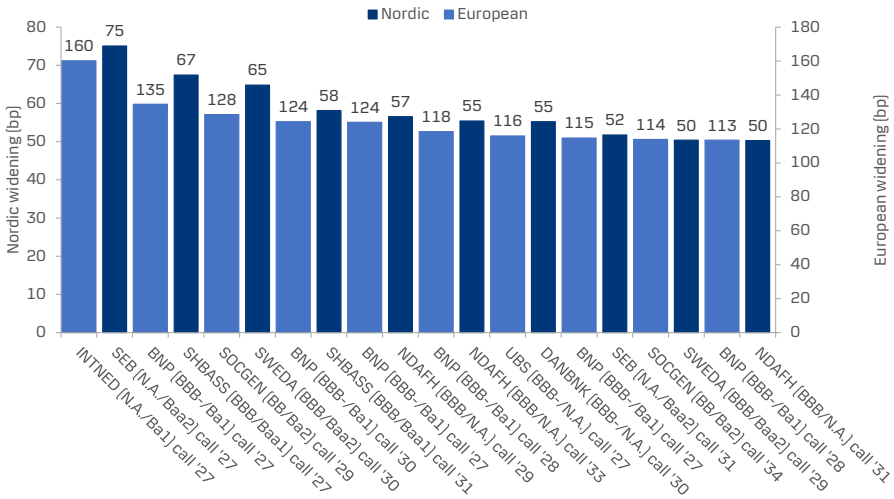


Source: Bloomberg, Danske Bank Credit Research

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Chart 2. Nordic AT1s have widened less than broader Europe



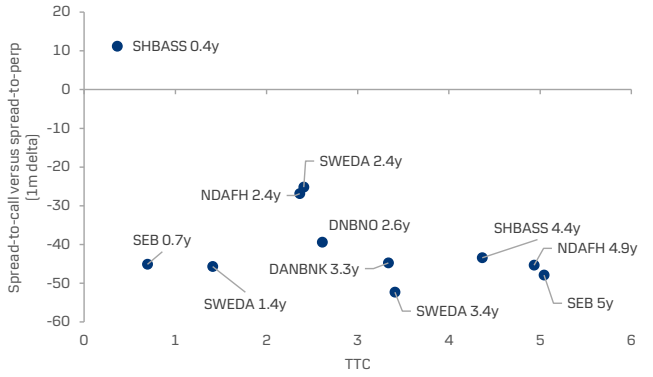
Source: Bloomberg, Danske Bank Credit Research

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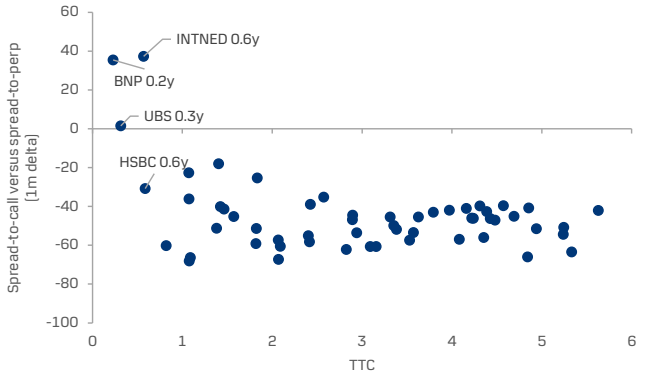
To assess whether other factors besides the French turmoil are at play, we zoom in on extension risk pricing following the recent spread widening. Below we have compared spread-to-call and spread-to-perpetuity (perp) of USD-denominated AT1s (excluding those with calls already announced) alongside the respective reset spreads in the Nordics as well as the broader Europe. The spreads are derived from the relevant SOFR or Treasury curves. We use the difference between spread-to-call and spread-to-perp as a proxy for extension risk and assess how this difference has changed over the recent month. Thus, a widening of spread-to-call relative to spread-to-perp indicates that more extension risk is priced in than a month ago, and vice versa.

Chart 3. Extension risk repricing (Nordics)



Source: Bloomberg, Danske Bank Credit Research

Chart 4. Extension risk repricing (Broader Europe)



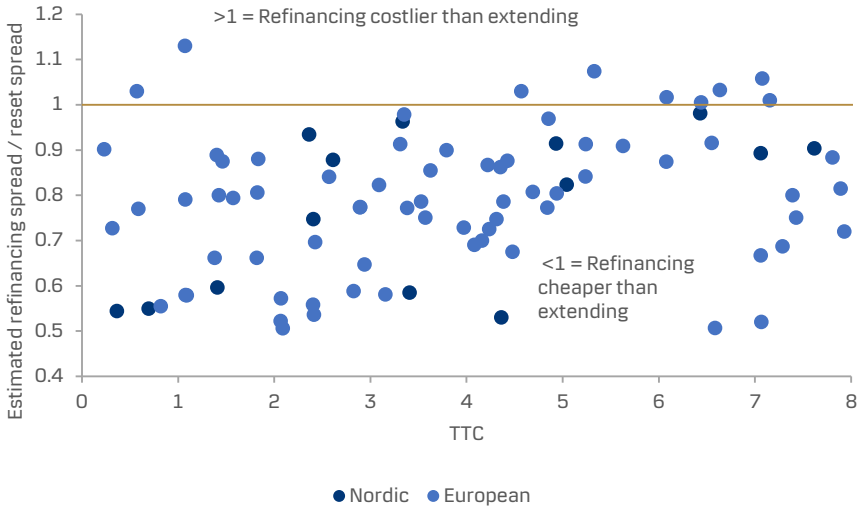
Source: Bloomberg, Danske Bank Credit Research

The charts suggest that extension risk has been more priced in recently – most pronounced at the shorter end of the curve, where current refinancing conditions are more relevant to the upcoming call decision. That said, there could be additional factors aside from time to call also influencing these dynamics. Reset spreads and issuer-specific considerations also appear relevant. BNP's call Jan-27 (0.2y) and ING's call May-27 (0.6y), for example, combine short times to call with relatively low reset spreads of T+320 and T+286, respectively, making their call economics less favourable than for bonds with higher resets. ING may also be affected by investor sensitivity following its decision to skip a T2 first call date in the spring (see our coverage *here*). Importantly, however, extension risk pricing is less distinct in the Nordics, with only Handelsbanken's call Mar-27 appearing to have seen higher extension risk priced in over the last month. The fact that this is less pronounced could very well be a reflection of Nordic banks' historical tendency to call subordinated instruments at the first call date, regardless of whether call economics have been favourable (with Nordea appearing as an outlier following their decision to skip a T2 first call date, in the spring, akin to ING).

Looking ahead, we expect banks, and in particular Nordic banks, to call their respective AT1s at the first call date, even when call economics are not financially beneficial. The expectation that AT1s will be called rather than extended is further supported by current spread levels. Despite the recent decompression, the widening has occurred from historically low levels, meaning that the bulk of issuers, including almost all Nordic issuers, still face

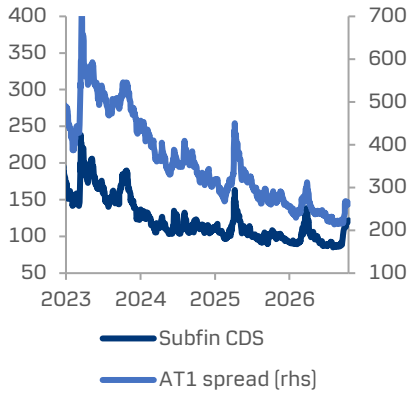
reset spreads above current potential refinancing levels. Accordingly, we see strong arguments for banks to call rather than extend.

Chart 5. Estimated refinancing spreads versus actual reset spreads



Source: Company data, Bloomberg, Danske Bank Credit Research

Chart 6. Refinancing costs have ticked meaningfully higher, but remains compressed historically

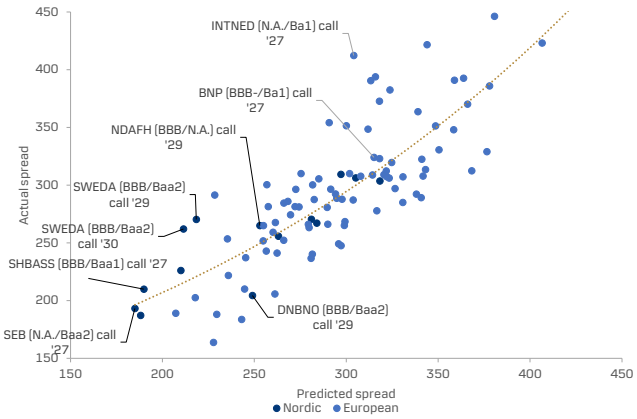


Source: Bloomberg, Danske Bank Credit Research

Pricing considerations

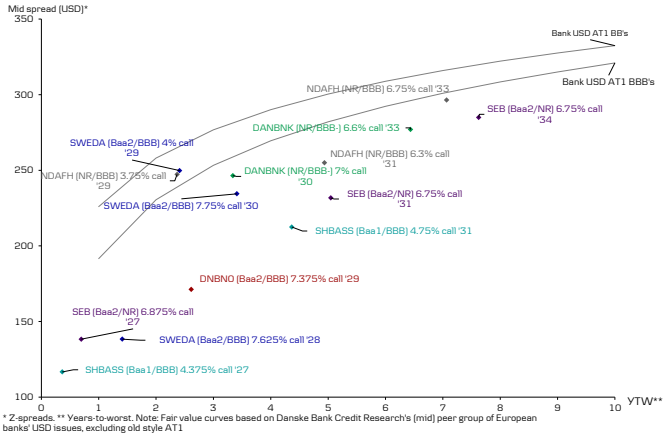
Following the above findings, we have carried out a simple OLS regression, including factors such as TTC, rating and reset spread, to identify potentially attractive pick-ups amid the recent widening.

Chart 7. We see value in Swedbank's call Mar-29 and call Mar-30



Source: Bloomberg, Company data, Danske Bank Credit Research

Chart 8. Nordic USD AT1 RV chart

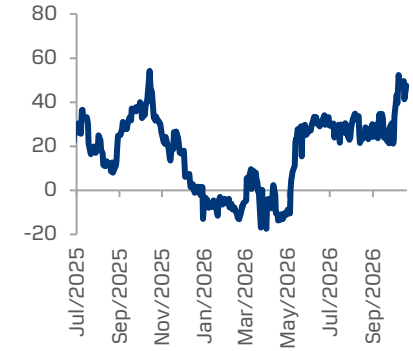


Source: Bloomberg, Danske Bank Credit Research

Based on the regression, we find a few interesting cases across both broader Europe and the Nordics. Among the former, BNP's short-dated call Jan-27 (0.2y) looks attractive, supported by its consistent first-call track record and the fact that the call Jan-27 appears to be prefunded through its USD1.5bn AT1 issuance in August. This brought BNP's total AT1 issuance to around EUR4.1bn year-to-date, already exceeding its EUR4bn capital instrument funding plan for 2026. ING's call May-27 also screens as attractive, although we see higher extension risk given ING's recent decision to postpone a T2 call within its 3m par-call period, while its AT1s issued prior to Q3 24 have a 6m par-call structure, providing even greater refinancing flexibility.

As for the Nordics, our regression analysis suggests that Swedbank looks attractive at current levels, as indicated by the predicted spreads of the call Mar-29 and call Mar-30, with limited supply risk given its current capital stack (see appendix 1). While the signal is meaningfully less clear than for Swedbank, we also see Nordea's call Mar-29 as an attractive opportunity, potentially funded by selling DNB's call May-29. We pitched the same trade around this time last year, which subsequently delivered strong spread performance, and see a similar entry point forming today. With only a limited difference in reset spreads (DNB's is 12bp above Nordea's), we find the current spread differential attractive. One explanation could be the difference in Moody's ratings. However, we do not believe this should weigh materially on relative pricing, given that the banks remain similarly rated by S&P and that Nordea's recent downgrade reflected their decision not to issue sufficient senior preferred debt to preserve the previous notching, rather than an actual deterioration in Nordea's business franchise. Risks to the switch include Nordea's potential DKK6.6bn (EUR0.9bn) fine related to the legacy money-laundering case, with a verdict expected in the coming month. Additionally, investors may also favour DNB's higher-coupon bond during periods of spread widening given the higher carry.

Chart 9. The spread between Nordea's call Mar-29 and DNBNO's May-29 has widened reaching attractive levels



Source: Bloomberg, Danske Bank Credit Research

Funding

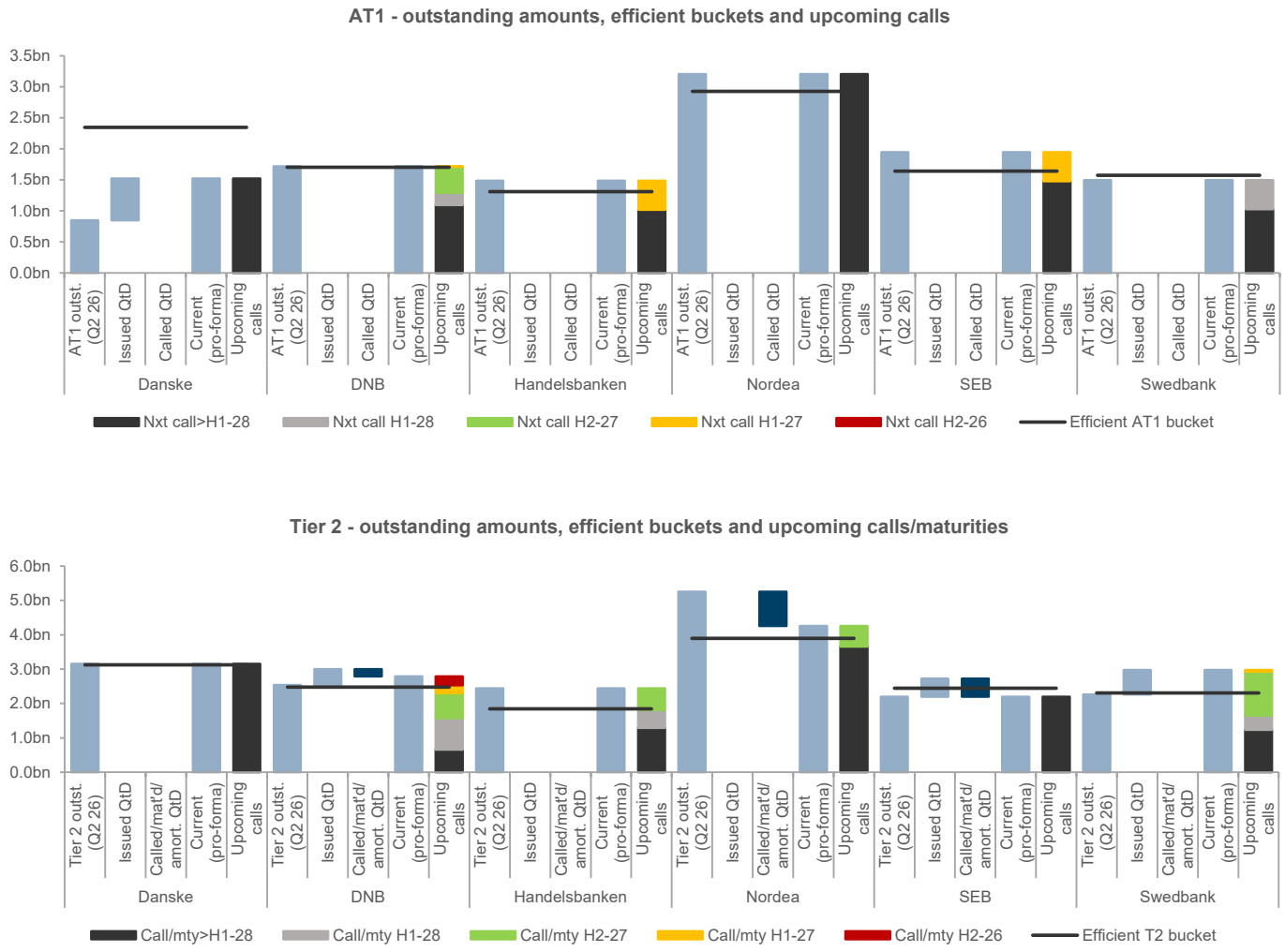
Supply is another consideration when assessing the opportunities identified above. Among the Nordic banks, Handelsbanken and SEB have the nearest AT1 call dates, in Mar-27 and Jun-27, respectively. Calling these instruments without replacing them would leave both banks below their efficient AT1 stacks, potentially opening the door for issuance next spring. However, both banks have previously operated below their efficient AT1 buckets, meaning that issuance could also depend on the development of their CET1 positions. As for the remaining banks, all except Danske Bank are currently above or close to their efficient AT1 buckets (in fact, Danske Bank's shortfall is quite meaningful – see appendix 1). Given Danske Bank's ambitions around capital optimisation, including expectations to issue more AT1 and T2 as communicated during conference calls, it would not be an outright surprise to see it active in AT1 format in the not-too-distant future. Looking at T2 stacks as well, there does not appear to be any imminent need for banks to come to the T2 market in the near term, after DNB issued a EUR500m T2 last month to refinance their upcoming calls in November.

Conclusion

Overall, the recent widening has led to some extension risk being priced for AT1s with near-term call dates (relative to the rest of the curve), although this

has been less pronounced in the Nordics. Looking ahead, we continue to expect Nordic banks to call their AT1s at the first call date, supported by both their strong historical call behaviour and current call economics, with reset spreads remaining above potential refinancing levels despite the recent widening. From a funding perspective, Handelsbanken and SEB could emerge as potential USD AT1 issuers during next spring, with upcoming calls in March and June 2027, while Danske Bank could also return to the market during Q4 already given its capital-optimisation ambitions and meaningful AT1 shortfall against the efficient bucket. Conversely, near-term T2 supply appears more limited. We see the recent widening as an opportunity to pick up AT1s that now offer more attractive entry points. Against this backdrop, we recommend Swedbank's call Mar-29 and Mar-30, while we also see value in Nordea's call Mar-29, potentially funded by selling DNB's call May-29.

Appendix 1. Overview of some of the larger Nordic banks' subordinated positions (AT1 and T2)



Source: Bloomberg, Company data, Danske Bank Credit Research

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