

How AT1 bond issuances have hit a rough patch since 2025

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Additional Tier 1 bonds or AT1 bonds have been caught in one scandal after another, making issuers shy away from them in recent years. Only ₹3,500 crore was raised through these bonds in 2025, registering a 79 per cent decline from the issuances worth ₹16,859 crore in 2024.

DATA FOCUS.

AT1 bonds are high-yielding but very risky instruments issued by banks to meet capital requirements under Basel-III norms. These are perpetual bonds, which means that they have no maturity date and can be written off or converted into equity by the RBI if faced with a financial crisis. This means that not only will the investor have to forego interest, but the principal can also be lost under some circumstances.

These bonds have been involved in several cases of mis-selling where the high returns were highlighted but not the risk. Employees of HDFC Bank's Dubai branch were found mis-selling AT1 bonds of Credit Suisse to their NRI clients. The Supreme Court is yet to give its final order on Yes Bank's write-off of AT1 bonds worth ₹8,415 crore in 2020.

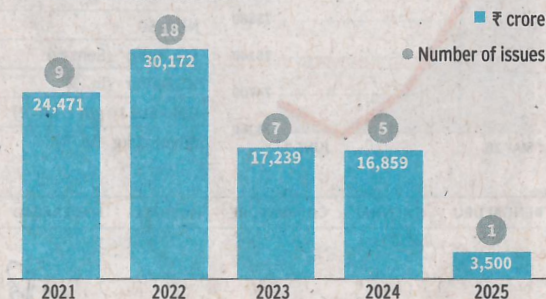
DECLINING NUMBERS

Data compiled by Prime Database for the period from 2021 show these bonds continued to be in favour until 2024. In 2021, nine AT1 bond issuances were recorded, raising ₹24,271 crore. In 2022, 18 issues raised ₹30,172 crore. But the numbers almost halved in 2023 and 2024, before completely dwindling in 2025.

"The decline in AT1 bond issuances is the result of a combination of factors: the

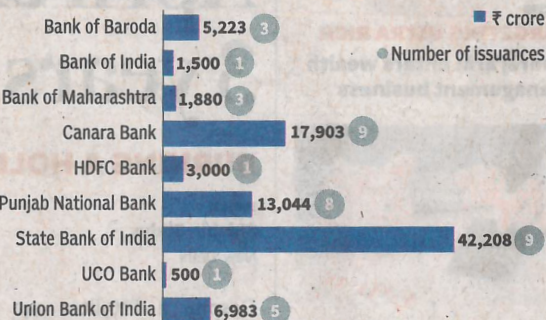
Out of favour

AT1 bond issuances decline



SBI and Canara Bank made the most issues since 2021

Bank-wise AT1 bond issuances



Source: primedatabase.com

hybrid debt-equity nature of the instrument, regulatory and valuation debates, the aftermath of the Yes Bank and Credit Suisse events, concerns over pricing adequacy, a limited investor base and increasingly selective investor appetite," says Venkatakrishnan Srinivasan, founder and managing partner of debt advisory firm Rockfort Fincap.

The strong balance sheets of banks following the pandemic, when they were able to reduce stressed assets, could have led to lower requirement for capital in the last few years.

If we consider bank-wise issuances since 2021, PSU banks are at the forefront in raising funds through AT1 bonds. SBI has raised the most funds at ₹42,208 crore from nine issuances. Canara Bank, which has raised ₹17,903 crore, and Punjab National Bank, which raised

₹13,044 crore, are some of the other PSBs which have used this channel for raising money.

Among private sector banks, only HDFC Bank has issued AT1 bonds worth ₹3,000 crore in 2022.

Interestingly, banks have switched to issuing AT2 bonds since 2024. These bonds are one notch less risky than AT1 bonds and can be redeemed after five years.

"The future growth of the market will depend on whether issuers and investors can arrive at a more balanced risk-reward framework that appropriately reflects the unique characteristics of these instruments. If issuers are willing to offer spreads commensurate with the embedded risks, investor demand can continue to exist, particularly for top-rated public sector banks and AAA-rated private sector banks," adds Srinivasan.