Sector report | 16 October 2026

Nordic Banks

Shareholder distribution at risk, but bondholders can sleep well

Over the last days Nordea and SEB have announced capital headwinds, which the market seems to have taken to imply significant cuts in shareholder distributions and caused some general uncertainty about the general validity of bank IRB models. We believe credit investors should not be concerned at this point and do not see read across to other banks.

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The debacle began on Wednesday morning when the Swedish FSA issued a press release stating that it would be raising SEB's CET1 requirement by SEK10bn because SEB's corporate IRB models suffer from larger deficiencies than previously anticipated (SFSA imposed a 1% P2R add-on in 2023 due to deficient IRB models as well). This caused uncertainty relating to SEB's capacity to continue to conduct share buybacks (SEB has been doing quarterly share buybacks of SEK1.25bn during 2026) and resulted in the stock closing down almost 5% for the day.

On Thursday morning, Nordea announced that it would be pausing its share buybacks (Nordea concluded a EUR500m buyback in April) as discussions with the ECB pertaining to Nordea's corporate IRB models had led it to conclude that the updated models would lead to a rise in REA. This became the focal point relating to Nordea's Q3 results and caused the share price to close the day 6.5% lower.

The above also seems to have led to general investor concern over whether there is a read-across to other Nordic banks in terms of rising capital requirements, as well as to what extent we can even trust these black-box models in the first place. In addition, some general unpacking seems in order, which is what we will try to do in this note.

SEB

For SEB, we think it is important to keep in mind that (even if most of us had probably forgotten) SEB has been doing ongoing work with its IRB models on corporate exposures and that it was widely known that the model updates would lead to rising capital requirements, as this was what caused the add-on back in 2023. What was new is that the extent is seemingly twice as large as the SFSA used to deem necessary. The capital add-on will be effective from 31 December 2026, which takes the pro-forma CET1 buffer from 250bp (end-Q2) to around 150bp and thus in the lower end of its management target range (100-300bp above its requirement). With SEB generating approximately 75bp CET1 per quarter and a dividend accrual of 50%, the underlying CET1 generation is 35-40bp. Organic growth usually takes up 15-20bp of that, leaving around 15-25bp worth of excess CET1, which corresponds to about SEK2bn and thus in principle there is ample room for further share buybacks despite the capital add-on.

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But it should be noted that SEB tends to only use share buybacks as a tool to dispose of excess CET1 when it projected to remain above the target range (which is no longer the case) and consensus was – if anything – looking for a pick-up in the pace of buybacks next year. Hence, we ascribe the forceful market reaction to essentially a rerating of the buyback pace. However, it also appears to be against the backdrop of quite high consensus expectations for share buybacks, and we emphasise that SEB did not comment on what the add-on implies for the buyback pace in its press release following the SFSA release.

Nordea

Nordea's Q3 results revealed that Nordea (which did EUR500m worth of buybacks in Q1/Q2 but has not been buying back shares during Q3) has paused its share buybacks as a consequence of discussions with the ECB concerning its corporate IRB models have led the bank to believe it will be subjected to tougher capital requirements going forward. While Nordea does not provide any colour on the size of the potential capital headwind, we would tend to believe they must be rather sizeable in order for Nordea to pause buybacks (consensus was looking for another EUR500m being announced in Q4) as Nordea's current (Q3) CET1 buffer was reported at 190bp against a management target of 150bp. With Nordea having a very high accrual rate, however (c.70%), very little CET1 generation takes place organically and hence share buybacks are inherently more a sporadic phenomenon than for SEB and to the extent that the capital add-on exceeds 40bp it thus more or less rules out further share buybacks (though Nordea still expects capital reliefs from updates to its IRB models for retail customers it also has a potential negative one-off from a negative verdict in its Danish court case where the downside risk is as much as EUR900m). Besides the negative impact from no further share buybacks, the lack of clarity likely also weighed on investor sentiment.

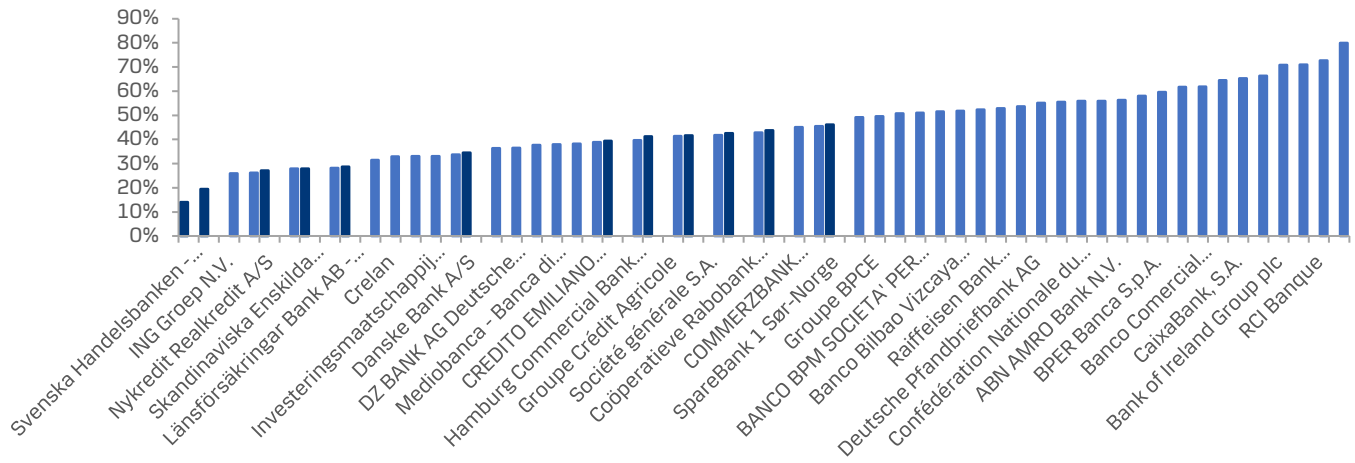
What is important to note is that Nordea does not provide any guidance for the size of the capital impact of the IRB update. This is important because Nordea's 40bp excess CET1 and very little organic CET1 creation means that it does not take much of an impact for its excess CET1 to be eaten up. Hence, the actual size of the capital impact may be as little as 40bp (EUR5bn/3% increase in REA). Therefore, while having to cancel share buybacks on the same essential ground as a peer had to the prior day does appear to indicate sector-wider challenges, we believe one should keep Nordea's larger sensitivity in mind.

What to make of all of this

We do not believe investors should read across from the cases relating to Nordea/SEB onto other Nordic banks. We view the two cases as separate and do not expect repercussions from this for other banks. First, it is independent regulators overseeing the IRB models, with SEB supervised by the Swedish FSA (Finansinspektionen) and Nordea by the ECB. Second, the add-on for SEB is essentially a further add-on to an old and well-known (albeit perhaps forgotten) case from 2023, as mentioned. Also, Nordea has seemingly been quite surprised itself about the turn of events as it used to guide for a neutral impact from the model corporate IRB updates to now (as of Q3) a (seemingly rather large) negative impact.

The above being said, we do think there are some indications of SEB having had rather low IRB model risk weights relative to Nordic peer banks. Based on pillar 3 disclosures, we estimate an average corporate IRB risk weight of around 30% while most peer banks are closer to 40%. While we ourselves had not singled out SEB as being prone to IRB model revisions based on this metric, it does go to show that there's no inherent reason to expect recent events to have implications for other banks. SEB did in fact have quite low corporate risk weights and Nordea's (while not low per se) are just quite sensitive from a capital/buyback perspective. However, it does raise questions about the validity of Nordic banks' IRB models more generally, as they do in fact produce quite a bit lower risk weights than their European counterparts.

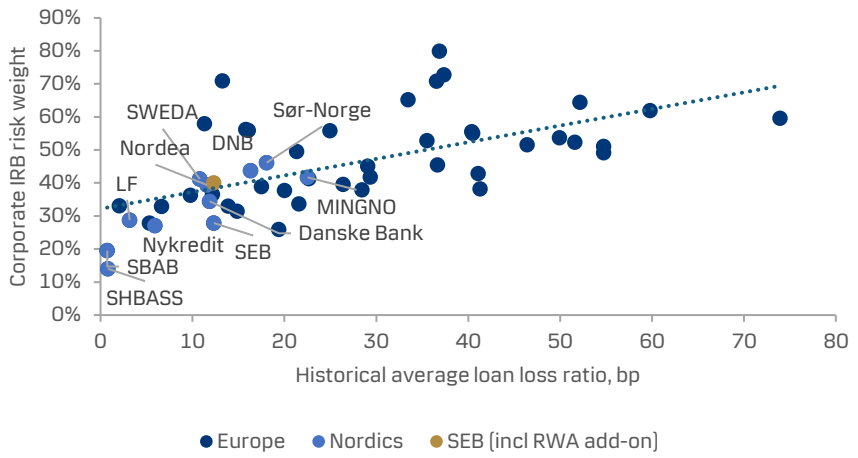
Chart 1. Average corporate IRB risk weight



Source: EBA, Danske Bank Credit Research

The average Nordic bank's corporate IRB risk weight is around 34% against a European average of 48%. However, we need to keep in mind that risk weights cannot be viewed in isolation as they have always been meant to reflect the risk of the underlying asset. Hence, we should compare them to the riskiness of the banks' balance sheets. This is notoriously impossible, but we can look at the average realised loan loss ratio and when viewed in this light, Nordic banks generally do not come off as having lower risk weights than one would expect.

Chart 2. Risk weights and asset risk go hand in hand for most



Source: Company data, EBA, Danske Bank Credit Research

Based on the above, while we obviously cannot rule out further model revisions, there appears to be no imminent obvious candidates suggested by the data. Also, while we have had a couple of instances in recent days, it is worth keeping in mind that it is quite rare that we see large-scale overhauls of IRB models. Meanwhile, it does illustrate (one reason) why it is a strength to have conservative capital planning (i.e. large buffer over MDA) as it makes adverse regulatory developments or loan losses much more easily digestible.

However, it is also important to keep in mind that while a lot of uncertainty has been caused, at the end of the day none of the developments have much bearing on the credit profiles of SEB and Nordea (nor Nordic banks more generally). They may have to cancel share buybacks but from a creditor perspective, retaining earnings is obviously better than having it leaving the bank – it provides for a larger capital base even if it does not show up when measured in percentage of REA.

While it would obviously be negative if we had to conclude from the last few days' events that internal risk and capital models cannot be trusted, we believe reaching such conclusions is a far stretch. IRB models are a constant work in progress and regulators will change their view on certain aspects occasionally and this will lead to revisions. With neither of the banks in question having a history seeing large critique by regulators of their models, we deem the last few days' events to be unfortunate but a cost of doing business and nothing that meaningfully changes our view of the banks in question though it does – as mentioned – reinforce our view that conservative capital planning is a key credit strength.

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Report completed: 15 October 2026 at 16:10 CET
Report disseminated: 15 October 2026 at 17:50 CET