JÖNKÖPING INTERNATIONAL
BUSINESS SCHOOL
JÖNKÖPING UNIVERSITY

Evaluation of Banking Internationalization

-A case study of Nordea in Poland and SEB in Germany

Master thesis within Corporate Finance

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Jönköping May 2011

Acknowledgements

The authors would like to express their gratitude to the people that have been a part of the process in developing this Master Thesis.

First the authors would like to thank the interviewed employees at Nordea and SEB for giving their knowledge and providing valuable input to the evaluation.

The authors would also like to thank Andreas Stephan and Jan Weiss as well as Olof Brunninge, for the comments and feedback throughout this process.

The authors are responsible for the contents of this thesis. All eventual criticism should be directed to them rather than the sources stated in this thesis.

Master's Thesis in Corporate Finance

Title:	Evaluation of Banking Internationalization
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Date:	2011-05-20
Subject terms:	Internationalization, Incentives, Establishment, Identity, CAMEL

Abstract

The purpose of this thesis is to gain a deeper understanding in the internationalization process that Swedish banks go through. This will be achieved by evaluating Nordea and SEB and their internationalization to Poland and Germany.

The concept of internationalization is constantly being explored, leading to different forms of results and theories within this area of research. Nordea is one of the largest providers of financial services in the Nordic and Baltic Sea region. Nordea has a strong focus on expanding their internationalization. SEB's biggest markets are the Nordic countries, the Baltic's and Germany. SEB has diverse strategies and structures in the different countries that the bank operates in. The methodology for this thesis is of a deductive approach performed with qualitative and quantitative data. A case study on Nordea and SEB is performed. To complement the case study results, a CAMEL rating is conducted on Nordea and SEB to assess the risk and earnings performance on each bank and and their specific internationalization locations.

Evidence from this thesis confirms that the amount of knowledge and experience put in by the bank to the location is essential for the success of internationalization. This research found Nordea's incentives towards Poland were the higher potential in growth in emerging markets. For SEB the incentive was mainly to follow customers which confirm that SEB has a strong commitment to the home market which leads the bank to new activities. The authors found the CAMEL rating to be a valuable tool for evaluating foreign operations. The authors believe an external CAMEL rating should be assigned each parent company along with their internationalization locations. Both banks obtained very low ratings according to these measures which indicates good and solid performance with little need for supervision. Nordea and SEB are both stable banks in Sweden as well as abroad. The international operations assess a slightly higher CAMEL rating for both banks which shows that the banks have a more stable business in the domestic countries. The CAMEL rating showed that Nordea and SEB's parent companies are well prepared for the new Basel regulations which will be implemented in 2013 while the acquisitions in Poland and Germany must make adoptions to the new set of requirements.

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1 Introduction

The introduction includes the background, where the reader is guided into the concept of internationalization within the banking industry and a short presentation of Nordea and SEB. The problem section discusses aspects on internationalization and what reasons and possible obstacles there are for a bank to internationalize, which will then lead to the purpose.

1.1 Background

Internationalization can be seen as overcoming distance and globalize the world economy (McDonald, Mayer, Buck, 2004). Internationalization is also based on obtaining a national knowledge and transferring that knowledge abroad. The internationalization move can also be used for future orientation as a learning process (Blomstermo, Sharma, 2003). The concept of internationalization is constantly being explored, leading to different forms of results and theories. Much of the information gained is from studying outcomes and experimental knowledge to provide answers to the behavior of internationalization (Marquardt, 1994). In the last couple of years researchers have increased interest in internationalization of service firms. Particularly banking, finance and insurance firms have developed and increased their internationalization leading to new research taking place. The increased research in the field of service firms has been brought up due to changes in regulations, technology and changes in customer demand (Blomstermo, Sharma, 2003).

Most case studies in service firms show that many firms enter countries choosing the ones neighboring their own country. After a while the firm generally moves to more distant markets (Blomstermo, Sharma, 2003). This can also be seen in the Uppsala internationalization model which states that firms gradually internationalize by starting with countries nearby (Johanson, Vahlne, 1977).

International banking was enlightened in the 1970's (Mullineux, Murinde, 2003). The process of internationalization contributes to economic effects in Europe and occurs in different forms when a company goes international. The European Union as well as the Euro currency has led to increased internationalization and a higher concentration of the banks. This have enlarged the competition in the banking industry and also increased the incentives for the banks to be more aware of their products and try to constantly improve strategies and products offered to the customers. Another factor that keeps moving globalization further is the new technology that is making communication and long-distance business easier and is also contributing to global banking competition (Bikker, Wesseling, 2003).

Nordea is an important player in the Swedish banking industry. The bank is a result of mergers between four different Nordic banks which originates from Finland, Denmark, Norway and Sweden. This indeed gave Nordea an international benefit with a strong base in all of the Nordic countries. In the Nordic and Baltic Sea region Nordea is the largest provider of financial services. Nordea sees itself as a major player in the banking internationalization within the region that the bank operates in and claims to be in head of the progress of integrating banking and insurance activities across borders (Nordea, 2011).

The Swedish bank SEB has since the 1970's been active in different countries. The bank is operating in more than 20 countries and is constantly expanding. Today the bank is established in markets all over the world with its biggest market in the Nordic countries, the Baltic's and Germany. SEB has diverse strategies and structures in the different countries in which the bank operates in. In the other Nordic countries they are more focused on corporate and investment banking while in Sweden and the Baltic's it operates as a full scale universal bank. SEB has a vision to become the leading Swedish merchant bank within north Europe (SEB, 2011).

Previous studies of trends in internationalization by Smith & Walter (1998) found an increase in the activity for banks between the years 1985-95. The increased activity for financial institutes was mainly acquisitions of banks in developed countries and in some emerging markets (Smith, Walter, 1998). The Bank of International Settlement[1] (BIS) finds that the later year's documentation on internationalization shows an increase of foreign entry in emerging markets (BIS, 2001).

1.2 Problem discussion

This thesis is within the field of corporate finance and banking. The focus will be on the process of internationalization in the banking industry with an evaluation of the bank's chosen location. The authors intend to investigate the different internationalization strategies used by two Swedish banks. After doing research in form of reading articles and literature and having meetings with Olof Brunninge[2] the authors found Nordea and SEB to be the most interesting banks to include in the case study. This is based on the fact that both banks have a long experience of internationalization but have different strategies and put focus on different aspects which will enrich the thesis with a broad knowledge and perspective on the subject.

The authors are interested in finding out what the reasons were behind the strategic choices of SEB and Nordea when entering new markets and what different outcomes were retrieved by these decisions. What were the main incentives to go abroad?

According to Grant and Venz (2009) the recent financial crisis starting from 2007 explored the negative aspects that can elope from internationalization. An unwarranted opportunism and acceptance of increasing risk were factors that brought internationalized banks under financial worries during the crisis. Banks and other financial service providers disappointing returns from their internationalization was a result from entering with poor incentives. Falling regulations in combination with banks that were too driven for potential growth and imitating

[1] An international organization for central banks and handles international financial and monetary corporations (BIS, 2011).

[2] PhD, Assistant professor. Jönköping International Business School.

their competitors was leading to increased entry modes just before the crisis hit. Consideration and analysis of the entering location along with making the internationalization linked to the firm's performance was put aside during the time. This has brought increased attention to and enlightened the need for evaluation of banking internationalization.

According to Marquardt (1994) there are different conditions when entering a new market that need to be carefully evaluated for each bank: the experience, network relationships and cultural aspects. How the bank position itself determines the condition for the chosen bank on its new location. How did Nordea and SEB create a position in their new markets?

Since Nordea is well established in the Nordic countries it was interesting to look deeper into a market further away with a structure that differs by a relatively large amount from the Swedish market and so the choice fell on Poland for further investigation. Nordea entered Poland 1999 after an acquisition of a Polish owned bank. The following years Nordea have made further acquisitions to gain market share on the Polish market and expand their branches to become a full universal bank. Nordea's goal on internationalization is to become one of the five largest banks in Poland. Today Nordea is ranked 13^{th} and is planning on new investment in Poland for 2011 (Mandrup, Bransén, 2010).

SEB entered Germany 1976 and has a long history of building an international identity. The operations were developed with expanding the corporation to become a full universal bank (SEB, 2011). In 2010 a deal was closed. SEB sold the retail branch in Germany to Santander. The decision was based on SEB returning back to its core values to focus on merchant banking and wealth management (Suess, Penty 2010). This made Germany an interesting choice for the authors to focus on. SEB has made adjustments to the original internationalization strategy.

Can these two banks' internationalization locations along with the parent company be evaluated and compared by using a framework covering both quantitative and qualitative variables?

1.3 Purpose

The purpose of this thesis is to gain a deeper understanding in the internationalization process that Swedish banks go through. This will be achieved by performing an in-depth case study of Nordea and SEB and their internationalization to Poland and Germany. The authors intend to evaluate these two banks' strategies and incentives for going abroad and to find patterns in line with the theoretical framework used as well as to make a financial evaluation of the internationalization process outcomes.

1.4 Research questions

The authors intend to retrieve an understanding concerning the internationalization within Nordea and SEB and the chosen locations. Research questions were established to guide throughout the study (Saunders, Lewis, Thornhill, 2009).

The research questions for this study are stated below:

- *Depending on the experience, knowledge and the ongoing follow-up processes of the bank, is the bank able to determine the outcomes of their internationalization projects?*

- *Is there an established theoretical framework that describes and fits the internationalization process for the specific banks?*

- *Can earnings and risk exposure be assessed for parent company as well as for the specific location by a CAMEL framework?*

1.5 Delimitations

The authors have tried to collect a full understanding of the process of internationalization. Despite this, there are many different theories and not all could be covered and analyzed in this thesis. To be able to perform the purpose a distinction had also be done on what banks to be covered and what specific internationalization location to be used. In Sweden, Swedbank and Handelsbanken are comparable banks to Nordea and SEB. Limitations due to the facts that Swedbank mainly operates internationally in the Baltic countries and that Handelsbanken was deeply investigated and studied by Olof Brunninge made the choice of the other banks more interesting to explore further. There was also not enough time available to be able to do a full study of all of the internationalization locations that Nordea and SEB have made and a distinction needed to be done. Both Poland and Germany are countries outside of the Nordics but both associated as home markets for the banks, however there is a high level of difference between the different locations which will give the thesis an even broader prospective. These limitations lead to a research with a narrow focus, given that the reliability is on each company's specific attributes.

2 Theoretical framework

There are many models to choose from when a firm expands their organization to foreign countries. The authors have chosen to look deeper into a few of these models to later on be able to analyze Nordea and SEB from these specific viewpoints. The theories do sometimes relate to each other or include the same views which will be seen in the analysis and conclusion parts of this thesis.

2.1 Incentives to internationalization

First the authors will describe the different incentives that could be the reasons for why a bank chooses to internationalize. The incentives for a bank can be diverse depending on the structure and profile of the specific bank.

Tschoegl (2002) starts with the investigation of banks incentives to go international by dividing the banks abroad into two groups; the traditional and the innovators. The definition is defined by the strategies at their home market. The traditional banks are mainly operating via a branch in a financial center and focusing on classic banking services. The traditional bank operates within finance trade, trade payments and foreign exchange. Additional traditional banks provide loan lending for corporations from the home market and can engage to loan lending to new corporations in the host country. Traditional banks can also be seen as adapting to herding which is when a firm is following or being affected by the actions of other banks (Bikhchandani, Sharma 2000). The innovators are developed from deregulations, crises and the home market is a transnational economy. The innovators response to new opportunities and focus on bringing new methods or products to the market they enter. Compared to the banks herding behavior the innovators are first at the market and hence a trendsetter (Slager, 2004).

Listed below are a number of important incentives for a bank to internationalize (Slager, 2006);

2.1.1 New markets

There are three different categories under the new market incentive. The first is new markets with similar demands, and this means an option to advance to new markets that already has established customers which is a good alternative when the products can simply be transferred to new countries. The second category is new markets and new demands. This incentive is used by firms that have products that cannot be sold in the domestic country or have a small financial market in the home country. The third form of this incentive is rescaling home boundaries. Expanding the domestic market through political or societal unions like the European Union (Slager, 2006).

2.1.2 Economic structure and location

Different structures of the financial markets and pace as in which the market grows can be important if it differs between the home country and the country a bank intends to enter (Slager, 2006). Hryckiewicz & Kowalewski (2010) formed a study that shows specific economic factors that influence the choice for the entering banks. When the economic business cycle reaches an expansion phase banks choose more developed countries due to specific location and ownership factors. When these factors holds the entering bank can gain higher profitability. For example if a specific location is known as a financial center this will create an incentive for foreign banks to establish to gain new contacts and develop their business (Marquardt, 1994). The incentive to internationalize to developed countries is argued by Pecchioli (1983) to be that they move to large economies where there is a large extent of overseas trade.

Result has proven that banks within the OECD[3] countries choose to internationalize to emerging markets where the potential for high expected real growth, inefficient domestic banking systems and loose regulation is occurring (Focarelli, Pozzolo, 2001). SIS (2001) state that the banking industry in emerging countries was before heavily regulated for both domestic and foreign entry in the market compared to the developed markets. Due to technology changes, macroeconomic push affects and the banking crisis in the 1990's the emerging markets were forced to become more open for entry. Banks that did go abroad were large institutes with profitable results. In the 1990's foreign entry from banks to emerging markets created a desire from authorities to create a more stable regulated financial environment and recapitalize the inefficient domestic banks.

2.1.3 Regulations

According to Slager (2006) regulations can be an incentive to internationalize for banks in countries where there are strong regulations and limited growth opportunities in the home country. Domestic regulation as an incentive for banks to internationalize implies that there might be reason for the bank to enter a new country due to more freedom and less regulatory restrictions in the host country (Slager, 2006). Regulations of importance in this particular case are taxations, exchange regulations, entry barriers and monetary policies. The regulation aspect is also discussed in the study from Brealey and Kaplanis (1996) where foreign bank entering can gain profitable regulation or tax treatment depending on the different authorities. For example the host country can stimulate the rate of growth to reduce domestic business and attract foreign entry which the foreign banks can gain profitability from.

[3] The Organization for Economic Co-Operation Development (OECD), created in the 1960's works to provide policies that will increase the level of social well-being and economic conditions. Sweden has been a member of OECD since 1961 (OECD, 2011).

2.1.4 Concentration for market power

Concentration as an incentive to internationalize means that increasing the market share in the domestic market might be problematic because of high market shares of other banks or equally divided shares among the banks which can be seen as a push effect to internationalize. Concentration can also be seen as a pull effect and this occurs when the barriers to enter a foreign market are low, a higher concentration can possibly give higher margins (Slager 2006).

2.1.5 Customers

According to BIS (2001), banks have historically followed their customer when entering new markets and often specialized in the corporate customer segment. The incentive concerning clients can occur either as a push or a pull effect. One pull effect is for banks to follow their domestic clients as they start to develop a business abroad (Aliber 1984; Metais 1979). Another reason to follow a client is simply not to lose the customer to competitors. Thirdly there is incentive for banks to follow customers in order to take part of the internalization benefits that can be achieved in the host country which leads to benefits for both the bank and the clients (Aliber 1984).

There is also the push effect to be considered where the bank leads the client into new markets. This refers to when the bank internationalization helps the clients to exploit new markets by following the bank and globalize their own organization as well (Slager 2006).

2.1.6 Financial incentives

Net interest earnings are for many banks the most important source of income. Going international gives the opportunity to gain even higher profits if the interests are higher in other countries. Spread can be seen as a pull and as a push factor. It can be a pull factor in the sense that it is possible to earn higher spreads in other countries and as a push factor if the interest rate is low in the domestic country (Slager, 2006).

Another incentive to internationalize can be to achieve a lower cost of capital[4]. There are large differences between countries in what the costs of capital are for the banks operating in the country (Slager, 2006). If the cost of capital that a bank has is lower than the cost of capital for the competitors there is an opportunity for the bank to increase its own market share. The cost of capital can be lowered by taking on less risk full activities or by diversifying the activities (Aliber, 1984).

As a company enters a new country the risks and returns that the bank has will automatically be spread out by distributing the business volume to new markets. Organizations that are di-

[4] Cost of capital; the cost of a company's funds. The minimum return an investor is demanding for an investment (Damodaran, 2002)

versified geographically are able to gain stronger risk-return tradeoffs (Slager, 2006). This implies that going international can reduce the risks (Rugman, 1976).

2.1.7 Historical and cultural determinants

History and culture can be an incentive if the domestic country has for example the same systems and language because it simplifies the internationalization process.

When entering countries with similar cultures and structures it can be seen as an advantage because it makes it easier to sell the same type of products and promote them in the same manner (Slager 2006).

2.2 The process of establishment in a foreign market

This model describes conditions that need to be evaluated before and during a period of internationalization. This theoretical framework can be seen as a guide for banks to structure their internationalization process so it can become a player on the entered market.

2.2.1 Three conditions

There are three conditions that must hold in order for a bank to proceed in the internationalization process and create an established position with a developed structure (Marquardt, 1994). The model can be found in Appendix 2, Figure 1.

2.2.1.1 Experience conditions

The experience condition refers to the experience that the bank has obtained from internationalization. The experience and knowledge can open up opportunities in one location but also provide information on past problems and how to handle them (Marquardt, 1994).

2.2.1.2 Exchange conditions

When a bank enters a new market it needs to establish a new position at the chosen market. The bank's position can be of strong or weak form in the new market. A weak form in a new market can result in only receiving customers that the other banks do not want (Marquardt, 1994). According to Marquardt (1994) an old assumption is that all banking should be local. A bank is selling its products mostly through personal contact and knowledge of the market is essential for establishment of connection with the customers. Local branch offices are a part of the bank's identity building in the new market. According to Focarelli, Pozzolo (2001) an organization can expand activities if it acquires a competitive advantage on the host country. Otherwise the foreign organization will be crowed out of the market by the domestic competitors. A pattern for the competitive advantage the entering business poses can be traced back to the ones already achieved at the home market.

The exchange conditions are built on three relationships. First the relationship between the bank and the customers; the financial services a bank is offering are most often homogenous in their nature and a customer could pick any bank for products. Since this homogeneity exists banks need to build relationship that is stronger than their products (Marquardt, 1994).

Relationship between banks; another bank is in first hand a competitor but many banks chose to cooperate within some areas of business. By entering a new market banks need to establish contacts with other local banks to establish a strong position in the market (Marquardt, 1994).

Relationship between bank and government; the strong regulations for banks obligates the bank to establish a relationship with the government within the new market (Marquardt, 1994).

2.2.1.3 Operational condition

Differences in laws or just rules of the game can affect the organizations operations (Marquardt, 1994). The regulations that control the entry of new foreign banks in the host country can work as a barrier which can be regarding taxation or exchange controls and it often has a great effect on the financial organizations (Aliber 1984). Entering banks in foreign locations have been considered having a conservative and cautious approach to lending to smaller firms in the host country market due to a higher risk. Regulators in the host country might create increased regulations due to this uneven distribution of segments (BIS, 2001). Another operational aspect is the cultural differences or similarities for the host and home country. If the cultural differences are of large scale it can lead to higher costs and risks for the international investment (McDonald, Mayer, Buck, 2004).

2.2.2 Establish position and development

The three factors above are the conditions that should hold when a bank goes abroad. The process of settling in and establish its operation is essential for the banking industry. Earlier studies found that the more historical experience from internationalization the better the result. The establishment of the operation was earlier mentioned built on trust and reliable relationships with customers. Thus a bank in entry mode needs to establish contacts to create strong relationships with its customers. This is one reason why some banks chose to follow their customers abroad and continue an already established relationship (Marquardt, 1994).

2.3 The Uppsala internationalization model

The authors have chosen to focus on the findings and theoretical framework from Johanson and Vahlne's Uppsala internationalization model that is one of the most commonly discussed models of internationalization and states that organizations that are interested in going abroad usually do this in a gradual manner. The model shows that the market knowledge and *commitment has effects on the commitment decisions and the current activities and vice versa. This model was chosen instead of the alternative model by Bilkey and Tesar.*[5]

The Uppsala model is a model where the organization gradually increases their internationalization (Appendix 2, Figure 2). The focus is put on interplay among the countries involved and a constantly increasing commitment. The model is an explanation to the mode of making a national firm international and refers to that a firm mainly makes small steps into becoming internationalized instead of one large move (Johanson, Vahlne, 1977).

The mechanism of internationalization is a dynamic model with a state and change affect. A dynamic model follows the theory that the outcome of one decision follows another and leads to a cycle of outcomes as is symbolized by the model. The state effect is the market knowledge along with the market commitment which leads to change effects in form of commitment decisions and current activities and these decisions and activities do also have effect on the market knowledge and commitment. The assumption of this model is that a firm strives to obtain long-term profit and relatively low risk-taking since these actions affects decisions. The model indicates that the internationalization state has impact on the possible opportunities and risks that will lead to effects on the commitment decision and the current activities (Johanson, Vahlne, 1977).

The market commitment is made up of two different parts, the volume of resources that are committed to the internationalization and the degree of the commitment. The amount of resources refers to the size of the investment. As an example, the degree refers to that the resources that are placed in a specific market can be thought of as a commitment to that market. The commitment is getting stronger as the amount of resources integrated with different parts of the organization increases. The greater the specialization of the resources connected to the specific market the higher the commitment will be (Johanson, Vahlne, 1977). The level of resource committed is the first factor that has a positive correlation to the level of return from the foreign market. Furthermore a close collaboration is closely related to the exchange the organization can achieve from the environment (McDonald, Mayer, Buck, 2004).

The market knowledge is the knowledge about opportunities or risks associated with the decision and knowledge about the market environment. One type of knowledge can only be retrieved by experience while others can be taught (Johanson, Vahlne 1977). Research has shown that experience is crucial in the internationalization process and should be derived from the *learning by doing* strategy (Blomstermo, Sharma, 2003).

The current activities are the major basis of the experience. One could say that as the products become more complex and differentiated the larger the current activities will make the total commitment. The fact that the learning process that comes with the activities usually takes a

[5] A model by Bilkey and Tesar (1977) that is dynamic with focus on experimental knowledge; this export model was not chosen because this framework is better suited for firms that are planning to make physical export and are less suited for the purpose to examine the risk and benefits of the banking industries internationalization (Blomstermo, Sharma, 2003).

long time affects the whole internationalization process into becoming slower. (Johanson, Vahlne, 1977).

The other change aspect is the commitment decisions. There can be an economic effect or an uncertainty effect of every commitment that is made by the firm. The economic effect is related to the increases in size of the operations and the uncertainty effect is regarding the market uncertainty which refers to the inability of the people who makes the decision to actually make predictions of the present and future market (Johanson, Vahlne, 1977).

The internationalization phase is an incremental process where information in one foreign investment can be used in the next one that will be taken (Johanson, Vahlne, 1977). When acquiring knowledge the organization should be active in the environment rather than using an approach of collecting data and analyzing it. By being active and operating in the new market the organization acquires new information at the same time as it builds up a relationship (Hadjikhani, 1997).

2.3.1 The Uppsala Model Revisited

Observations from past studies state that the past models might need to be updated because of the large changes in the speed of technology and high global competition (Johanson, Vahlne, 2003). Firms learn from relationships that lead them to enter new markets where more relationships can be built which lead them to enter more new countries. Uppsala internationalization model treat experimental knowledge as something that reduce uncertainty and create opportunities to go abroad (Johanson, Vahlne, 2009). That the Uppsala model could be seen as too old to be fully implemented today can partly be because of the fact that internet and online services are more used and so the availability for organizations to go abroad further away is easier today. However, this does not necessarily mean that the Uppsala model does not apply to the organizations today rather the internet and technology development makes countries come closer together despite of geographical distance. This makes it easier for firms to in a faster pace be able to internationalize (Forsgren, 2002). There are also other factors to consider, for example the Uppsala model states that firms will not invest in other countries if the risk of the investment is too high. However it might also be so that the risk of not investing will be even higher in order to keep up with the increasing competition and so this might lead faster entry than expected (Forsgren, Hagström, 2007).

2.4 Organizational identity in transition

Since there are many strategies and models to relate to internationalization it is of importance to look deeper into the identity of the bank and what changes are required when entering a new country and new market in order to be successful (Vaara, Tienar, Irrman 2007).

One of the key issues in the question of internationalization is the radical change in organization that follows from the process. The change affects both the organization and the people involved. The main task for the organization in transition is to handle the needs for national identification and combine it with a joint international identification (Vaara et al, 2007).

Organizations can take on different identities leading to different strategies. By this corporations can start building up their images in the social context in which they operate. The assimilation character where one creates a feeling of similarity and homogeneity or by a dissimilation character where one instead focuses on building heterogeneity with the countries they operate in (Vaara et al, 2007).

To create an effective identity the organization needs to have an authentic and natural attitude towards the identity of their organization, with a goal to create something real. The model developed handles the different variables that need to be combined to achieve an identity for long lasting business (Vaara et al, 2007) (Appendix 2, Figure 3).

The naturalness versus the artificiality is important when the internationalization involves a new culture. The organization need to combine and unify the similarities within the countries but also take into consideration the cultural differences that exist between for example two countries (Vaara et al, 2007).

The ability to create uniqueness to make customers feel unique and to build a connection is important. The organization needs to create a unique identity but also consider not excluding a group or by making it a too personal identity. If customers care about the bank's values and feel a connection to the identity and soul of the bank a long lasting relationship can be upheld (Vaara et al, 2007)

An organizational identity that is well performed provides a sense of positive self-esteem for both customers and employees. The positive self-esteem comes from the ideas and a promotion strategy that the organization has taken that connects the organization both internally and externally (Vaara et al, 2007).

The future orientation is important since in internationalization an obstacle is the fear of losing the national identity. When entering a new market it is vital for an organization to attract new customers and if this new market is not structured exactly as the domestic market there is need for organizational changes which could lead to threats of losing the identity of the bank (Vaara et al, 2007).

3 Method

In the following chapter the author's chosen method will be further explained. The main data is from structured open-end questions from interviews and thus qualifies for further argumentation as well as a quality assessment. Another important factor is the financial information gathered mainly from annual reports that provides the authors with the underlying information needed to make a financial evaluation.

3.1 Research design

A research design is a necessary mean for being able to perform a study and obtain the purpose. The term method will be used when referring to techniques to obtain and evaluate data. Methodology refers to how a research should be undertaken and the implications of each research choice (Saunders et al, 2009). To define a research design one can refer to it as “a logical plan for getting here to there” (Yin, R. 2003,. p.20). The plan should start with the research question that the authors aim to answer and the goal to reach these answers and conclusion to the specific question. The answers are covered in the result section. The gap from question to answer for this study consists of collection of relevant theories and a case study on the specific field of interest.

3.1.1 Deductive approach to theory

This research project is in need of a theoretical framework. The research approach to theory can be either an inductive or deductive approach. An inductive approach refers to when data is collected and a theory is derived from the sample. A deductive approach is gathering relevant theory where research questions can be derived from following a research agenda (Saunders et al, 2009). A deductive research approach is accurate in this research project. The authors first gathered a complete theoretical framework where research questions were established. Empirical result was derived from the context of the relevant theoretical framework and end with an analysis as a third step. An important characteristic of the deductive research approach refers to finding variables that explain casual relationships and allows testing of the research questions (Saunders et al, 2009).

When using a deductive approach the authors review the literature to identify theories and ideas that will be adapted to the case study. By reviewing the literature the authors obtained an understanding on the research topic and the purpose of the thesis that was interpreted into the case study interviews (Saunders et al, 2009).

3.1.2 Exploratory research

Depending on the question to be answered and what already is discovered in the field of interest further distinctions were made. The starting point for the research was to separate the terms explanatory, descriptive and exploratory.

An explanatory research focuses on answering the question *why* and it uses the research questions implemented in statistic tools to investigate the answer. The questions are based on reliable and measurable variables and enable the investigators to understand the phenomenon better. A descriptive research aims on describing relevant aspects on a certain phenomena like for example an organization (Lundahl, Skärvad, 2008). The purpose is most often to establish an accurate picture of persons, events or situations (Saunders et al, 2009). An exploratory research focuses on a clear problem statement which for example can be a stated research question (Lundahl, Skärvad, 2008). New insights to the phenomena are found by asking questions and the research is seen in a new light based on the answers (Saunders et al, 2009). The investigator examines the research questions and establishes what is already known in the subject. From this a precise research agenda can be established with research questions, purpose, data collection and analysis (Lundahl, Skärvad, 2008). The author's research purpose is to enlighten an understanding of the chosen banks' internationalizations.

3.2 Data Collection

Every study requires different forms of data for investigating specific research questions. A distinction to make is regarding the choice of qualitative and quantitative collection of data. The first difference of the two data collection approaches is that quantified data can be measured numerically. A quantitative approach to data collection refers to gathering large samples of data and putting the collection to use. A qualitative approach focuses on the non-numeric data. The qualitative approach characterize instead of quantifies the data (Saunders et al, 2009).

3.2.1 Qualitative and Quantitative study

The authors believe that a mix of a qualitative and quantitative data collection is best suited for this thesis. By a qualitative collection of data the authors can gain a deeper understanding of the research questions and a chance to adjust the research along the process (Hyde, 2000). A qualitative study is given by reasoning, testing and discussions (Holme, Solvang, 1997). The quantitative study will consist of a CAMEL framework where numerical data will be analyzed.

The qualitative study is based on interviews with informed employees working with the process of internationalization for both Nordea and SEB in Sweden and analysis of the annual reports in order to make financial conclusions. The interviews however, are vital sources for this thesis and more of an open-ended nature rather than structured questions. This suggests that the interviews have two levels that the authors need to consider which are to retrieve information regarding the questions that are to be answered as well as asking open-ended questions in a friendly manner (Yin, 2003). The data collected to contribute to the results of this study are of both primary and secondary form.

3.2.2 Primary data

The primary data is collected by the authors for the specific purpose of this study. Interviews, observations and answer sheets are commonly used tools for gathering primary data. (Saunders et al, 2009). The primary data was obtained through in-depth interviews with open-end questions. Interviews were made with employees with insight in the process of internationalization. Contact through email with key persons at both banks both in Sweden and the location of internationalization has also been necessary. Furthermore the authors have had close contact and regular meetings with a researcher within the field of this study at Jönköping International Business School, Olof Brunninge.

3.2.3 Secondary data

Secondary data is the form of data that is already conducted in the subject even if the purpose might have been different. Authors, scientists and institutions are often providers of secondary data (Saunders et al, 2009).

To find further information of the topic secondary data is used. Studies of theories concerning internationalization strategies in general and analysis will be reviewed concerning the specific bank's strategies and their internationalization history. There was a need to look deeper into the annual reports of the banks over the years in order to be able to complete the CAMEL framework. These studies will be derived from secondary data such as relevant literature, academic journals, company websites and relevant news articles found in libraries, internet and archives.

3.2.4 Data collection for the CAMEL model

For the CAMEL model, qualitative as well as quantitative factors are examined for being able to evaluate the performance and risk of a financial situation (NCUA , 2003). The CAMEL model is mostly used for internal analysis and there are only a few published results available to the public. The figures and numbers used for the CAMEL framework were assessed by five years of annual reports and data from interviews with the corresponding banks (Appendix 3, Table 2-5) (Appendix 6, Table 1-4). Contact by mail was established with employees at the bank's offices at the specific locations. The foreign contacts provided financial summaries and information that was not available at the banks local website. The ratios within each component of the CAMEL analysis have been chosen by the authors based on literature and information gathered on different CAMEL models. The authors chose the ratios that were most important from the project findings and the ratios have been compared with the results that have been considered important for the banks themselves. Some limitations are taken due to internal information not being available for public use and changes in regulations over the last five years.

3.3 Research strategy

A case study is a strategy. Other strategies to conduct research can be experiments or surveys. The right strategy for a study is depending on the research questions. When trying to answer a *how* or *why* research question and the event for the study is contemporary a case study is the right choice (Yin, 2003). Case study is a main method and interviews are the sub-method to use (Gillham, 2000). A case study is defined as a search for knowledge. The essence of the case study is to enlighten an understanding of a set of decisions and to analyze the incentives and results from it (Yin, 2003).

3.3.1 Case study

A case study is the opposite of an experimental or survey study where the context is highly restricted and limits the ability to explore (Saunders et al, 2009). Case study findings that are based on a deductive approach where theory is collected as a first step can be used in different ways. When the theory is in line with the case-study findings the confidence in the theory can be enlightened. The theoretical framework can also be found to not be true in the case-study which opens up an opportunity to redefine the theory (Hyde, 2000).

The starting point of a case study research is to gather relevant literature as well as getting to know the case in its setting. The actual investigation is a later concern but should be specified by broad aims to focus on while gathering literature. To create a focus and aim for the study a research question can be constructed and followed throughout the case study (Gillham, 2000).

After research and limitations a choice of investigating banks' were established. The authors wish to gain a rich understanding of Nordea and SEB's specific internationalization strategies and objectives in the banking industry. These choices of characteristics from both emerging and developed markets, universal and focused banks and more and less successful operations will give a broad perspective and knowledge within the subject. The findings will be presented in the analysis and result section. The qualitative interviews are designed to contribute to an understanding in people and their actions and the cultural context they interact in. This is often referred to as interpretive paradigm (Saunders et al, 2009).

The main results from the case study come from the interviews and financial reports. How the interviews were constructed and performed will be covered in its own section due to the great importance of measuring reliability and validity of the chosen methods. The method for the financial analysis will also be covered more deeply below. The information retrieved from the interviews as well as collected secondary data will be analyzed together with the theoretical framework in order to find patterns and strategies and help the authors to state conclusions.

There was also a need to look deeper into the financial factors and ratios used for the CAMEL framework that helps with the contribution to the final conclusions regarding the situations in Poland and Germany for the banks.

3.4 Interviews

An interview is a purposeful discussion between two or more people and can be used as a main tool for data collection (Kahn, Cannel, 1957).

The authors believed that to achieve valid and reliable data that was relevant to the research questions interviews needed to be constructed. There are different types of interviews; structured, semi-structured and unstructured. The last two is often referred to as qualitative research interviews and qualifies for less standardization (Saunders et al, 2009). The authors found that the form of interviews best suited for the research topic is of semi structured form. The semi-structured interviews become a main research tool for the study.

The semi-structured interview is developed from a list of themes. Given the organizational context the questions were adopted to fit Nordea and SEB. This type of in-depth interviews can provide meaningful insight to the exploratory study (Saunders et al, 2009). The interview includes open-ended questions which allowed the participants to define and describe. The open-ended questions lets the authors explore the responses. It is of great importance to understand reasons of decisions made by the banks and a semi-structured interview allows for this reasoning.

The semi-structured interviews were conducted at Nordea and SEB head offices in Stockholm in Sweden. For the interview with Nordea a contact was established with Asbjörn Höyheim. Höyheim has been a member of the supervisory board since May 2007. A part from the supervision Höyheim is one of the directors in the management board for Nordea Bank Polska. He is also working closely to the countries concerning the New European Market. The interview with SEB was conducted with Fredrik Björkman, Group Strategy and Business Development and Jonas Söderberg, Senior Advisor Merchant Banking. Both Björkman and Söderberg have a high level of experience in the German market and SEB's process in Germany. Söderberg has worked for SEB in Germany for several years and was able to provide the authors with useful information to enrich the thesis further.

3.4.1 Outline for semi-structured interview

An interview has different forms of strengths and weaknesses to consider. The strength of an interview is that it is focused and targeting the topic directly. The strengths are the insight it brings and causal explanation. The weaknesses to consider are that if not careful questions are developed the risk of bias increase. Feedback is important to prevent inaccurate results that can come from misunderstanding (Yin, 2003). Effort should be put in finding the persons who can contribute most to the study, the key persons (Lundahl, Skärvad, 2008). Consideration to eliminate regarding the interview can be that what people believe and saying can be different from what they do. Theory must be used to deal with this sort of complexity (Gillham, 2000).

The authors stated open-ended questions in order to make the interview structured. However, there was room for long answers followed by further discussions and the conversations went along without problems or interruptions. As an example one of the questions was “how did you investigate the specific international market before entering it with respect to customers, demand and competition?” The interview questions are found in Appendix 1.1.

3.5 Quality assessment

Data quality assessment is an important aspect when conducting semi-structured interviews. The assessment can be parted into three variables to consider; reliability, validity and generalization (Saunders et al, 2009).

3.5.1 Reliability

The guideline for conducting the research is that someone else can follow the steps taken and repeat the procedure (Yin, 2003). The first step is preparation for the interviews followed by obtaining knowledge of the organization’s context. Furthermore relevant information about the research needs to be provided to the participants before the meeting. During the introduction phase of the research meeting a short presentation of the authors was provided to make the participants feel a connection and establish appropriateness before the interview begun (Saunders et al, 2009).

To obtain reliability the authors made sure that the participants were key persons in the organization within the research subject. After information was received the authors interpreted the data quickly so the reliability would not be affected. The authors also looked deeper into the information that was given to them during the interviews and compared the answers to other sources to obtain a wider knowledge and higher level of reliability. The reliability of the information gathered from the financial reports of the banks was also considered by looking for comparison in ratios from other sources that was not subjective to the matter e.g. Morningstar and Bloomberg webpages.

3.5.2 Validity

Validity refers to the extent to which the researcher gains appropriate knowledge and takes part of the participants experiences (Saunders et al, 2009).

The data collection for this study is designed to obtain as high validity as possible. The authors have designed the interview with regards to the research topic and its purpose. The knowledge the authors obtained before the interviews provided an ability to ask follow-up questions. The knowledge provides insight to the judgment whether or not the research participant has credibility (Saunders et al, 2009). The authors believed that the obtained knowledge in the research topic provided judgment whether the participants’ answers were biased or not. The follow-up questions where then adapted to this understanding.

3.5.3 Generalizability

The term generalization belongs to external validity and refers to if the findings can be applicable to other research settings and organizations. Generalization defines how the research shows reality. Qualitative research that is using semi-structured interviews cannot obtain generalization about entire populations which is an important aspect to remember throughout the study (Saunders et al, 2009). That form of generalization is often referred to as an external generalization (Yin, 2003). The difficulties in using external generalization for qualitative research especially with semi-structured interviews are that too many elements are specific to the different institutions (Gillham, 2000).

The purpose of the thesis is not to obtain a theory on the subject area that is applicable on all organizations or all banks. The goal is to reach results that might lead to a certain degree of increase in generalization and a broader significance to the results of the study. This form of analytical generalization for this study is referred to as internal generalization (Yin, 2003). The study is made in order to gain understanding regarding Nordea and SEB and their processes and strategies as they establish in foreign countries and mainly Poland and Germany. Even though some parts of the theories can be generalized to other banks as well it is vital to keep in mind that the strategies and motives vary between each organization.

3.6 Method for developing a financial analysis

The CAMEL model was chosen by the authors in order to investigate the financial aspects of the internationalization by Nordea and SEB to Poland and Germany. The authors will apply the model to evaluate the performance indicators for the different banks and investigate how the operation in each chosen location is performing with regards to their risk exposure. A period of the latest five years was evaluated and computed since the authors find this to be an appropriate interval to perform a reliable assessment. Regards was also taken to the limitation of obtaining historical financial figures from earlier years. To be able to evaluate the banks at the chosen location the figures for the whole group's operations are also gathered to compare results. The ratios will then be analyzed with industrial average and graded after the author's analytical knowledge.

3.6.1 CAMEL background

The organization Bank for International Settlement (2011) promotes monetary and financial stability and for this purpose created a Basel committee. The Basel regulations have contributed to a more international standard within reporting on performance in banking (Baral, 2005). Since 2007 the Basel regulations is required for European and OECD countries. The new requirements from the Basel committee, Basel III demands further regulations on the banking industry. Basel III is developed to ensure that financial institutes will not suffer and account the same economic downturn as the recent financial crisis during 2007-2009. Capital, leverage and liquidity are the components covered in the Basel framework with increased regulations in the third edition. Basel III is referred to increasing the core capital within capital adequacy and higher levels of reserves to hold for countercyclical changes (Globe Business Publishing, 2010). The need for supervision has been the demand for early warning signs for banks that might develop problems in the future (Gilbert, Meyer & Vaughan, 2000).

Gilbert et al. (2000) discuss frameworks that have been developed to assess and control banks surveillance. The CAMEL framework has been more applicable since the introduction of Basel. The framework consists of the areas Capital, Assets, Management, Earnings and Liquidity. The purpose of CAMEL is to enhance and control the specific variables during the operating years. The CAMEL model monitors risk factors together with the performance factors of a specific financial institute and both qualitative and quantitative factors are considered. The financial components can also be used for evaluating current situations for banks. Most often the CAMEL model is conducted by banking supervisory boards or supervisory authorities and hold for internal use (Baral, 2005).

3.6.2 Capital adequacy

Capital adequacy represents the C in CAMEL and hence is the first part in the CAMEL analysis. Capital adequacy is a measure used in order to investigate the financial strength of the financial institutions. For a bank to be stable it needs to have sufficient funds in order to cover for the risk assets that are connected to the risk-weighted capital ratios (Asian Development bank, 2011). The sum of total risk-weighted assets is composed by adding the requirement for credit, market and operational risk for the bank (Government Hong-Kong, 2011).

Tier 1 capital is the amount of the financial strength that a bank has and it is mainly composed of equity capital and disclosed reserves. When categorizing a bank's assets they can be divided into groups depending on the riskiness of the asset. Tier 1 capital is measured to be the least risky group and tier 2 capitals is considered to be the second least risky group because it consists of less reliable capital. If a bank has a high level of tier 1 capital it is considered to be reliable in meeting the unexpected losses that might occur (Cambridge, 2011).

CAR = Capital base (Tier 1+ Tier 2) / Total reported risk weighted assets

The capital adequacy ratio (CAR) will be mandatory to hold 8% for banks starting January 2013 (BIS, 2011).

Tier 1 capital ratio = Tier 1 capital / Total reported risk weighted assets

The tier 1 capital ratio shows the strength of the bank's capital in comparison to the risk-weighted assets. The higher percentage rate of these ratios the stronger ability the bank has in order to resist capital losses (Asian development Bank, 2011).

The capital base in relation to the capital requirements is the CAR ratio divided by the capital requirement level of 8%. This figure tells us if the capital adequacy of the bank meets the requirements that are set (SEB Annual report, 2010).

The IRB approach stands for the internal-rating-based approach and means that the banks which have been approved to use this approach can use their own internal measures of risk when stating the capital requirement of an exposure. The IRB approach includes a capital floor that needs to be taken into account. The floor is assessed by using an adjustment factor to the risk-weighted assets plus tier 1 and tier 2 deductions minus the amount of provisions that might appear in tier 2 (BIS 2004).

3.6.3 Asset Quality

The A in CAMEL stands for evaluating the financial performance for a bank's asset quality. Ratings for asset quality present current conditions and prospects of future events which can cause changes within the asset quality ratios. The quality can be assessed by looking upon economic condition, practices and trends (NCUA, 2003). Asset quality can be assessed by analyzing loans and investments for the specific bank. Loans are often the largest item on the balance sheet. The loan portfolio requires management to make it solid and long lasting during all phases in the economic cycle (Scribd, 2011). When there is high loan concentration it requires risk management and reliable practices within the financial institution (Asian Development Bank, 2011).

The first asset quality factor is a table and evaluation over the banks concentration of their current outstanding loans. The table can be covering geographic, industry, borrower and quality of the total outstanding loans. When evaluating the table the concentration can indicate on a certain exposure to a specific group. The investigation should show if the bank has a policy towards the exposure and limitations regarding those (Asian Development Bank, 2011).

The second factor under asset quality is related to polices and the approvals for loans (Asian Development Bank, 2011).

Portfolio in Arrears = Impaired loans / Total loans outstanding

After establishing the distribution and the concentration of loans for the bank the quality can be evaluated through ratio indicators on available reserves and actual loan losses. The portfolio in arrears[6] is an indicator on the percentage of default of the total loans outstanding. The portfolio in arrears indicates a degree of risk by the already known impaired loan. Hence it does not take into account the uncertainty of impairment of what is not yet past due. Standard for loan portfolio in arrears is approximately <=1% as a guideline. A decreasing ratio should indicate a positive trend but concerns should be taken to the effect of rescheduling and write-offs. By rescheduling and by using write-offs reduces the whole ratio but the default risk is still existing (Sa-Dhan, 2006).

[6] The arrears mean past due or overdue and the Portfolio in Arrears measures the amount of default that is included in a portfolio (Sa-Dhan, 2006).

Loan loss ratio = Net write-offs / Total loans outstanding

The loan loss ratio is an indicator on the uncollectible loans over the last period, the write-offs are the loss for that specific period (Asian Development Bank, 2011). The loan loss ratio is indicating on the quality of the portfolio due to the offset of reserves to cover loan losses. The ratio covers a part of the control of default risk. The trend in the loan loss ratio can be captured by comparing several years and seek for fluctuations or irregular ratios. A decreasing loan loss ratio is considered a positive trend. Considerations should be taken to rescheduling and write-offs as mentioned for the portfolio in arrears indicator. In general a bank with control over their default risk should have a loan loss ratio around <=3% (Sa-Dhan, 2006).

Provisioning ratio = Total allowance / Total impaired loans gross

Provisioning ratio measures the proportion on allowances for non-performing loans against the total impaired loan outstanding. Loan loss provision is an expense defined as allowances for bad loans that are not performing. The loan loss provision is following the economic cycle and trends can be traced due to higher provisions being made during financial down turns. The higher ratio the more conservative loan approach the bank acquires (Moneywatch, 2004).

Total reserve ratio = Total reserves / Total loans outstanding

The final measure under asset quality is the total reserve ratio. The ratio indicates the reserves set aside to cover potential loan losses (Asian Development Bank, 2011). By using historical default figures or industry averages the reserve ratio can be a guideline on amount of reserve needed to cover unexpected loan losses (Sa-Dhan, 2006).

3.6.4 Management quality

The M in CAMEL stands for assessing Management quality. Management can be seen as the component that has the largest focus on the future and is an important determinant of the ability to create properly computed analysis of how the bank responds to financial stress. Management factors should consider among others the risks of interest rate, liquidity, reputation and credit (NCUA, 2003).

Cost per unit of money lent = Total operating expenses / Total loan

Management quality can be evaluated by calculating the cost per unit of money lent. This gives an indication of the efficiency of distributing loans in terms of money. The lower the number, the lower the cost is for each amount that is lent out by the bank and hence the management is acting more efficiently (Asian Development Bank, 2011). Cost per unit of money lent provides an understanding of changes in the operating costs and how efficient the bank is operating. By looking at the trends in this cost curve there is a possibility to conclude whether the bank has learned by experiences or not (Sa-Dahn, 2011).

3.6.5 Earnings performance

The performance of the financial corporation's ability to make and maintain earnings is of vital importance; hence the E in CAMEL symbolizes Earnings performance (NCUA, 2003). Long term growth is connected to reasonable profit levels and reserves along with enhancing shareholder value (Asian Development Bank, 2011)). A positive earnings performance opens opportunities for further expansion, creates competitive advantage and increases capital. The earnings performance can be analyzed by historical earnings, current as well as under different economic conditions. The key factor to investigate is past and current growth level and the stability. The quality and composition of earnings and the assets are reported in the balance sheet (NCUA, 2003).

ROA = Net income after taxes / Total assets

The return on assets is a percentage indicator on the banks efficiency in generating returns on its assets (Damodaran, 2002). By taking the total assets one get a measure on the total financial performance for the institution. The total return measures both the profit margin and the efficiency in the organization. An increasing return on asset is considered positive. By analyzing the historical changes and trends of return on asset creates an ability to determine impact on changes from policies and managements action (Sa-Dhan, 2006).

ROE = Net income after taxes / Total equity

Return on equity is an earning measure from the equity investor's point of view on the profitability (Damodaran, 2002). The return on equity measures how much was earned on the equity invested in the institution. The return is relevant for both investors and management in how to create value for shareholders. The historical trends will be analyzed and an indicator on positive return on equity is most often an increasing return during the years (Sa-Dhan, 2006).

Total shareholder return = (End of period stock price - Start of period stock price + Dividends paid) / Start of period stock price

Most often in annual reports the total shareholder return is analyzed due to its significance for investors. Total shareholder return is assessing the performance of the stock. The return indicates the overall financial benefits for shareholders and also how the market evaluates the institutions performance. Dividends are generally low and the total shareholder return is most driven by the changes of appreciation/depreciation in stock prices. The total shareholder return is a measure on past performance and regards should be taken to it is not an indicator on future performance (Bloomsbury Information, 2009).

Risk adjusted profit = Total income – Total expenses – Standard tax – Expected losses

Risk adjusted profit is the final target for measuring the earnings performance for the bank. The risk adjusted profit is based on economic profit less cost of acquiring equity (Nordea, 2001).

3.6.6 Liquidity

Liquidity is L in CAMEL and the final component. Liquidity is important because a bank or a financial institution must be able to respond to the depositors and creditors demands (Asian Development Bank, 2011). The risk that is associated with liquidity is the risk of not being able to respond to the cash flow today and in the future at the same time as the daily operations continue as regular (NCUA, 2003). In order to measure the liquidity of a bank a loan-to deposit ratio is of relevance as well as the cost-to-income ratio, current ratio and financial leverage ratio (Asian development bank, 2011).

Loan to deposit ratio = (Loans to the public – Repos) / Deposits and borrowing from public

The loan to deposit ratio indicates the bank's ability to handle the possible withdrawals from customers. When admitting deposits the financial institution is in need of a certain degree of liquidity in order to keep up with their daily operations. The higher the loan to deposit ratio is the more the bank is in need of their borrowed funds which usually is more costly than deposits (Finance formulas, 2011).

Cost to income ratio = Operating expenses / Operating income

The cost to income ratio is often used when doing valuations of banks because it shows how efficient the bank is and how profitable it is. A low measure of this ratio, <=1% is desired since it shows that the income is large enough to cover the costs that the bank has. Fluctuations over the years in this ratio could be a sign that the business is experiencing some problems, for example if the ratio increases by a large amount from one year to the next this means that the costs have increased significantly compared to the income (Moneyweek, 2011).

In order to receive a more powerful insight in the liquidity of a bank one can also use the measures of current ratio and financial leverage ratio (Asian development bank 2011).

Current ratio = Current assets / Current liabilities

An organization's current assets are assets that can easily be changed into cash. Examples of these assets are stocks since they can quickly be transferred into liquid asset. The current liabilities are equivalent to the current assets since they are the short-term liabilities that are due within a year (Accounting for management, 2011). The current ratio is a common indicator of the short term financial position that the bank is in. It shows the safety that the bank is able to provide creditors and the ratio gives a sign on the stability in the bank. A high current ratio shows that the firm is able to pay the liabilities in time and has a high liquidity. A ratio close to 2:1 would be desirable since it means that the current assets are able to cover the current liabilities with the double amount. However this is only a measure of the quantity of the assets and not the quality and hence a ratio of less than 2:1 does not automatically mean that the organization has unsatisfactory liquidity. If for example a firm has current assets that are obsolete stocks or debtors that are not recoverable this could make the current ratio high but still not conclude a reliable liquidity position for the organization (Accounting for management, 2011).

Financial leverage ratio = Total assets / Total equity

The financial leverage ratio works as an indicator of how the bank uses debt to finance the assets. The higher the ratio, the more debt a company has in their capital. The financial leverage measure is a component in calculating return on equity and measures the debt that the organization has (Morningstar, 2011). Depending on the business that the firm is in the financial leverage ratio can be valued differently. In stable markets, a high financial ratio is not as risky as the same ratio would have been in a fluctuating unstable market because the likelihood of falling short in a stable market is smaller. In a bank the asset base is much higher than the equity. The average value of the ratio for the banking industry is higher than for the regular company and the average bank have a ratio of around 12:1 (Morningstar, 2011). A higher value than this implies that the business is risky (Stock-pick-focus, 2010). However, most of the Swedish banks have values of the financial leverage of 20 (Morningstar, 2011).

3.6.7 The CAMEL rating

According to the National Credit Unit Administration (2003) the CAMEL rating system is composed to reflect financial, operational and management factors to evaluate the financial institutions performance with regards to their risk exposure. By exploring the five components for a bank’s condition a rating is established from 1-5 on all components as well as an overall rating (Federal Reserve Bank, 1999). The numerical rating is assigned to the financial components after the following criteria’s:

1. A strong and solid performance, no supervisory concern needed. Management identifies all risks. Any weaknesses can be handled easily and with internal actions.

2. Good and stable fundamentals. Management is aware and identifies most of the risks and takes action thereafter. Very limited supervision mainly adjustments needed for control.

3. Weakness in one or more variables, less satisfactory results with some flaws. This means a need for increased supervision but still little concern for a banking failure to occur.

4. High degree of financial worries and unsound practice. Poor result when referring to the size and risk profile. Need serious supervision and increased concern for banking failure.

5. Extreme financial worries and unsafe condition beyond control which requires immediate actions. Threatens the viability of the financial institution and indicates a high probability of failure.

The specific rating that was used for the five different components of the CAMEL model is based on the national credit institutions guidelines and is stated in Appendix 1.2.

4 Empirical findings for Nordea

In this chapter the authors provide the reader with a summary of information gathered about Nordea and its internationalization process with a focus on the Polish establishment. The information is obtained through interviews with Asbjörn Hoyheim[7] at Nordea's head office in Stockholm as well as annual reports, articles and literature. There is also a financial summary computed from the CAMEL framework that will be used later on in the analysis.

4.1 Background Nordea Group

The financial corporation Nordea Bank AB was formed to a Group through a series of cross-border mergers and acquisitions from Sweden, Finland, Denmark and Norway. Nordea also consists of smaller acquisitions from the Baltic States and Poland. From the Nordic countries Sweden was the largest when referring to population and area (Nordea Group, 2011). In the year 2000 the recently merged company was in a challenge of organizational character. Distribution of key positions, responsibilities, creation of strategy and value both internal and external was the main goal (Lerpold, Ravasi, Rekom & Soenen, 2007).

Nordea has almost 10 million customers around the world and branch offices on approximately 1400 different places. The Nordea Bank AB stock is noted in Stockholm, Helsinki and Copenhagen (Nordea Group, 2011). Nordea's largest shareholder's is Sampo Group a property and casualty insurance company (Sampo, 2011), the Swedish state and Nordea fund. Nordea is an AA-rated bank, with a stated business profile towards a conservative approach (Nordea Group, 2011).

4.2 Nordea Group internationalization background

Two great strategic changes can be seen in the history of Nordea's process towards internationalization. In 1991 the internationalization plans had to change due to the financial worries of the real estate collapse. Nordea became state owned as a cause from the high credit losses. The other strategic change came after 1995 when a merger with Merita was made providing the base for being the leading Scandinavian bank. Nordea's internationalization philosophy can be stated as building a Scandinavian bank through large-scale mergers, but also acquisitions outside of Scandinavia (Brunninge, 2005).

Poland was the first larger investment outside of the Nordic countries. Poland belongs to what Nordea strategically calls the New European market which refers to Poland, Russia and the Baltic States (Nordea Group, 2011). New European market stands alone for 7% of income and 3-17% of the shares. Nordea's growth strategy in the new European market is to proceed and establish a full organic growth path (Nordea Annual Report, 2010). By organic growth

[7] Management board member and supervisory board member at Nordea Bank Polska (A. Hoyheim, personal communication, 2011-03-23).

Nordea refers to reducing time to bring new products and services to the market to spend more time with customers. Time spent on customers leads to efficiency on an operational level resulting in increased market shares (A. Hoyheim, personal communication, 2011-03-23).

When entering a new country Nordea focus on three variables; the stability, growth and the maturity of the host country. Nordea uses the ratio banking assets to GDP as a variable for the potential of growth. The banking assets as a percentage to GDP in Sweden was for 2010 approximately 340% (Tradingeconomics, 2010) and in Poland 83% (Business Monitor International, 2010). The average central banking assets in Europe is about 200% but most often in emerging countries the average reaches about 100% (Tradingeconomics, 2010).

The internationalization strategy is referred to as a network expansion. Nordea as a unified financial service in the Nordic countries and with its further expansion into new European markets has been carefully strategized to be presented as a competitive advantage (Nordea, Annual Report 2011.

The internationalization has been a geographical process from the Nordic areas towards the new European markets starting 10 years ago. Nordea fully incorporated Russia 2009 and that is the latest internationalization location (Nordea Group, 2011). Banks for sale in the European market are currently after the financial crisis in 2008 more expensive leading to higher commitment costs for acquiring new banks. The caution around the risk in the banking industry and new acquisitions has led to a slowdown in the European banks' internationalization processes. Nordea was before the crisis planning a business case for entering Ukraine but poor result of the prospect led to a retreat of the project. Nordea has for the moment no plans for new locations (A. Hoyheim, personal communication, 2011-03-23).

4.3 Nordea Bank Polska

The operations in Poland under the branch name Nordea Bank Polska started in 1999 when Nordea acquired the small polish bank Komunalny. In 2001 a fusion between Nordea Bank Polska and BWP-Unibank expanded Nordea's operation in Poland. The plans of expansion took even higher turns when Nordea in 2002 acquired the Korean bank LG Petro which was 2.5 the size of the fusion in 2001 (A. Hoyheim, personal communication, 2011-03-23). Since 1999 the bank has expanded their operations in Poland to 500 000 customers and around 200 branch offices. Nordea Bank AB is the largest shareholder in Nordea Bank Polska with 99.21% per cent of the total shares. The bank's shares are listed on the Warsaw stock exchange market. In 2005 Nordea acquired its shareholder's Sampo life insurance operation in Poland. During the years Nordea has increased its commitment in the Polish market and operates within Nordea Bank Polska, Nordea Finance and life insurance (Nordea Bank Polska, 2011).

During the financial crisis in 2009 the Polish economy was seen as resistant compared to for example Russia. The future expansion plans for the new European market has currently been postpone as a cause from the turbulent years 2007-2009.

4.3.1 The business case

Before the entry to Poland Nordea had analysts carefully develop a business case for the investment and the market in Poland. When analyzing the competition and practices in the Baltics and Poland Nordea used bench marketing as a tool for new knowledge[8]. The collected knowledge and results have been evaluated and used in the prospects for new internationalizations. For example when Nordea entered Russia which was fully incorporated in 2009 the knowledge from their experiences in the Baltic's and the Polish market was used in the Russian business case (A. Hoyheim, personal communication, 2011-03-23).

Poland is considered to be one of Nordea's home markets since from the start the countries around the Baltic Sea and Nordic areas are Nordea's main target markets. Nordea stands alone of being a Swedish bank in Poland with the concept of offering both merchant and retail branches (Nordea Annual Report, 2010). When Nordea's corporate customers went international with their operations it was a natural step to follow them abroad providing financial services abroad. The incentive to support the merchant banking customers along with the potential of growth in the Polish market was contributing to the international investment. The effect of going international has synergy effects for Nordea's customers in Sweden. A bank in high competition needs to offer opportunities for the corporate customers and by going international Nordea is able to follow the customers abroad. An international bank provides more security in today's society. Pure national banks seem to be coping with harder times controlling their net interest margins due to less diversification of risk. The reach for more profitable net interest margins was also considered as an incentive for Nordea to enter Poland. When using net interest margins Nordea calculates the forecast in the business case and later evaluate the outcome. In 1999 when the first acquisition was made the net interest margins were higher in Poland than the Nordic markets. Since the two countries are members in EU the net interest margin is moving towards a combined average (A. Hoyheim, personal communication, 2011-03-23).

When going international Nordea looks at the economic structure of the chosen country. Poland is facing quick development and it is a competitive market for banking. Regards should be taken to Poland's economic structure. Nordea required Poland to have a fully operating legal system and a democratic foundation. The economic structure in Poland is different from the Nordic countries. The state of wealth is less rich in Poland and the social security systems are still not well developed compared to Sweden. Changes in economic structure can be more noticeable during different economic cycles. Nordea noticed for example in Poland during the recession of 2007-2009 a higher increase in inhabitants suffering financial worries than in the Nordic countries. This is an indication of higher risk thus it can result in great credit losses for the operating bank (A. Hoyheim, personal communication, 2011-03-23).

[8] Bench marketing is a tool to compare companies in one industry to find the best result and most efficient practices (Reh, 2011).

4.3.2 The investment

Banking is a business concept with a long term time horizon (A. Hoyheim, personal communication, 2011-03-23). The investments that Nordea undertook when entering Poland in the late 1990's and beginning of 2000 are compared to the whole Nordea Group's balance sheet. When comparing the balance sheet for Nordea Group with Nordea Bank Polska the investment in Poland is 0.121% (0.067%) of total assets in 1999 (2000) and consists of 0.133% (0.018%) of net profits for 1999 (2000) (Appendix 3, Table 1).

The size of the investment compared to the total balance sheet is a judgment of commitment as well as risk for the specific investment. Nordea reached break even for the polish investment several years ago and out beat the market expectations and own calculations by obtaining fast growth and a profitability sooner than expected (A. Hoyheim, personal communication, 2011-03-23).

4.4 International management

Nordea has separated its international management teams. Nordea prefer each team having an own relationship and responsibility to the specific market. The Polish management team is chosen for their specific knowledge and experience. The Polish management has close interaction with the Swedish management team to share common values and goals (A. Hoyheim, personal communication, 2011-03-23). To measure quality and efficiency of management the ratio for cost per unit of money lent was calculated for Nordea Group and Nordea Bank Polska. The efficiency in distributing loans was on average 15 000 EUR for Nordea Group and 12 000 EUR for Nordea Bank Polska[9] (Appendix 4, Table 5-6).

The maintenance over liquidity risk is a task for the management team both for Nordea Group and Nordea Bank Polska. One of the most important key figures to focus on for the business in Poland is the cost-to-income ratio (A. Hoyheim, personal communication, 2011-03-23). The cost-to-income ratio for the period 2006-2010 results in an average of 52% for Nordea Group and 66% for Nordea Bank Polska. The loan to deposit ratio has been kept on an average of 166% for the whole group and 143% for Poland. Nordea group's average financial leverage on how they use debt to finance their asset is 24 and for Poland an average leverage ratio of 14 (Appendix 4, Table 9-10).

4.4.1 International identity

Nordea's long-term strategic focus for the new European market is to establish full-scale banking operations that can be integrated to the whole Group's business (A. Hoyheim, personal communication, 2011-03-23). In 2001 Nordea practiced techniques to reach out with the new international identity. The bank constructed internal integration with the employees and

[9] 0,048272 M PLN correspond to 12 000 EUR with exchange rate 1 EUR= 3,95 PLN. <www.valuta.se> (2011-05-03)

external measures in form of reaching national media with their Nordic values (Vaara et al, 2007). The core values of Nordic Nordea were transferred to Poland with regards to some adoption to the Polish market and their specific needs. Nordic values are popular in Poland but as a business concept more is needed to make a deal (A. Hoyheim, personal communication, 2011-03-23).

4.5 Return and growth

The main factor for business expansion for Nordea Bank Polska is from the investment of new branch offices (Nordea Bank Polska, 2011). During the recent financial crisis Nordea Group and Nordea Bank Polska decreased in performance. The efficiency in generating return and the risk adjusted profit are financial targets for the performance of the bank (Asian Development Bank, 2011). The average return on equity for the years 2006-2010 was 15% for Nordea Group and 11.08% for Nordea Bank Polska. The risk adjusted profit decreased in 2010 compared with 2009 for Nordea Group. Nordea Bank Polska has a steady increase in the risk adjusted profit (Appendix 4, Table 7-8).

Through the list of Nordea Bank Polska stock on Warsaw stock exchange commitment to stock and claim holders are also in the center of further decision makings. The investor perspective is an important aspect for Nordea both as a Group and for the specific locations (A. Hoyheim, personal communication, 2011-03-23). The average return on assets was slightly higher in Poland with 0.81% compared to the group's total of 0.64%. The total shareholder return for Nordea Group fluctuates during 2006 to 2010. The average shareholder return was 14.82% for Nordea Group and 16.85% for Nordea Bank Polska (Appendix 4, Table 7-8).

4.6 Market

Poland's market history can be seen as an emerging market that has a high potential for growth. Poland has around 38 million inhabitants (The Worldbank Group, 2011). Poland's economy during the last couple of turbulent years in 2007-2009 has been relatively stable compared to neighboring countries. Poland picked up fast during 2010, increased exports, government spending and private consumption are some of the macro and micro economic variables that led to a fast return after 2009. Poland's economic growth expects to increase around 4.5% during 2011. Furthermore the rate for the polish currency, Zloty is expected to increase in value during 2011, and has had a steady increase seen from previous years. Poland is a member of the European Union since 1994 and is ranked EU's sixth largest economy. The long-term outlook for the Polish economy remains solid (Nordea Annual Report, 2010).

Nordea Bank is one of the smaller actors in the Polish banking industry with a market share of around 2.5% and the 13th largest commercial bank in Poland. The business volume for Nordea Bank Polska has increased both in merchant and retail banking during the last decade leading to increased market shares (Nordea Annual Report, 2010). The Polish market is very competitive, almost all European and some American banks operate in Poland. Nordea's vision is to become one of the five largest banks in the Polish market with a time frame of five years and increase market share to 7-8% (A. Hoyheim, personal communication, 2011-03-23).

Attempts to increase market share has been by securing the deposit level at the branch offices in Poland. The goal is to advance in other areas as in investment funds and private banking. Another potential is within the house mortgaging market. Compared to Sweden, house mortgaging is low in Poland leading to potential for growth within lending. Nordea's lending portfolio is well diversified with a conservative risk approach (Mandrup, Bramsén, 2010). The conservative approach is also used in the competition on prices and net interest margins in the Polish banking industry. There is a high degree of competition in prices and net interest margins but Nordea do not want to give in to pressure, instead they want to keep prices constant by following the business cycle (A. Hoyheim, personal communication, 2011-03-23).

A distinction is made between how to grow in retail branches and merchant branches in Poland. The retail branch is expanding mainly through increase in new branch network and corporate by more business deals and more employers. In 2010 Nordea Bank Polska delivered 45 new branches in the Polish market. For 2011 the prospect is put on 10 new branch offices to the already 159 offices created by organic growth since 2007 (Nordea Annual Report, 2010).

4.6.1 Regulations

The regulations for Nordea in Poland are strong compared to the Nordic countries. The banking industry is in general a hard regulated environment. Despite the general regulations Nordea needs to consider and evaluate changes in regulations at an early stage. For Nordea to make decisions for further commitment the regulations and possible changes by the Polish regulators need to be taken into consideration (A. Hoyheim, personal communication, 2011-03-23). For example constrains by regulators in foreign lending can lead to higher interest for Nordea Bank[10]. Further regulations to maintain are from the National Bank of Poland. An established banking system exists in Poland concerning all banking activity within the country and the regulation is upheld by the National Bank of Poland (Business.com, 2011).

Nordea as a financial institution has during 2010 started with the Basel III regulations. Basel III indicates higher requirement for Nordea's capital base. The capital base for Nordea has since 2006 been constantly increasing. The CAR ratio is well above the expected required 8% for the years 2006-2010. The total average CAR for the investigated years 2006-2010 is 10.38%. The CAR ratio divided and put to relation with the official requirement is on average, 1.30. Nordea Bank Polska has not yet started providing the figures regarding the capital adequacy. The CAR ratios provided are calculated internal but is reported and above the requirement of 8% (Appendix 4, Table 1-2).

[10] The polish government has discussed prospects on regulating parts of the market by constraining the foreign lending for banks. This can develop to a problem for Nordea that gain interest margins by foreign trade in Swiss franc (A. Hoyheim, personal communication, 2011-03-23).

4.6.2 Credit risk

For Nordea Group in 2010 the concentration of loans outstanding was first split by corporate and private customers. Loans outstanding in 2010 were 55% to corporation and 45% household customers (Nordea Annual Report, 2010). The syndication of loans is the main tool for the concentration risk. Nordea's industry distribution is diversified and covers sectors that limit the risk exposure. Geographically Nordea has no market with more than 30% of the total loan outstanding as strategic risk diversification tool. The Baltic countries have a total part of the loan portfolio in 2010 of 2.5% (Nordea Annual Report, 2010) and Poland 1.57% (Appendix 4, Table 4).

The credit quality is maintained by follow ups on impaired loans. The stress test performed every year is a tool for Nordea to see how they can control different macro-economic situation as well as different exposure for example geographical areas. The stress tests performed in 2010 confirmed Nordea Group to handle large credit risk exposures (Nordea Annual Report, 2011).

Nordea group's measure of portfolio in arrears has been relatively low until the recent financial crisis 2007-2009 where the ratio increased and reached 1%. Nordea Bank Polska's portfolio was slightly more resistant against the financial crisis regarding the loans in arrears and considerably stable after 2006 (Appendix 4, Table 3-4).

The loan loss ratio is the indicator of the loan unable to be collected and needed to be written off compared to the loans outstanding. The ratio was well below the guideline of 3% (Sa-Dhan, 2006). A decrease can be seen for both Poland and Nordea Group on 2010 compared to 2009's results. Both Nordea Group and Poland had an increase in impaired loans during the financial crisis of 2007-2009 (Appendix 4, Table 3-4). The impaired loans for 2010 were around 1% for Nordea's operation in Poland (Nordea Annual Report, 2011). The inflow of new impaired loans was lower in 2009, resulting in somewhat higher level of impaired loans at year-end and significantly lower net loan loss provisions. From past experience Nordea has taken wisdom from own failures during the banking crises and are now more risk averse in their credit output. The goal is to keep the amount of credit even through all years and not fluctuated which is involving higher risks (A. Hoyheim, personal communication, 2011-03-23). Loan loss reserve on loans has an average of 0.45%. The reserve set aside for loan losses has decreased the last two years and maintained even the previous years (Appendix 4, Table 3-4).

The provisioning rate is on average 45% for Nordea group and 52% for Nordea Bank Polska during the financial years 2006-2010 (Appendix 4, Table 3-4). Impaired loans have increased since 2007 and the largest sector groups for impaired groups are consumer staples, retail trade and industrial commercial services (Nordea Annual report, 2010).

4.7 Customers

The customer segmentation used in the Nordic countries is implemented in Poland with complementary changes to fit the location (Nordea Annual Report, 2010). Nordea Bank Polska focuses on a more restrictive segment of customers. For example smaller companies in Poland have higher risk compared to Nordic small companies and have more restrictions when referring to loan lending within Nordea's own requirements for lending. Nordea Bank Polska attributes its customer segment as medium to high-income takers and medium to large-enterprises to limit the risk taken (A. Hoyheim, personal communication, 2011-03-23).

In order to attract customers on the retail business Nordea has marketing strategies specific for Poland. For example TV-commercials, ads in papers and banners are directly focused towards the Polish market and Nordea Bank Polska's specific customer segment (A. Hoyheim, personal communication, 2011-03-23).

Nordea's customer segment for Poland is to provide service to medium to large corporate customer that had Nordic relation as well as municipalities. This segment was implemented in the new European market about 20 years ago when the first entry was established. An increase in the popularity of internationalization has led Nordea to develop their foreign operation further and Nordea is dedicated to provide full service to solid corporate and private customers in Poland (A. Hoyheim, personal communication, 2011-03-23).

4.7.1 Culture

The cultural aspect in Poland was considered by Nordea before entering. Nordea made reflections on the difference in the Polish society's lack of trust in the authorities from the government. The Polish employees as well as the customers value hierarchy structures more compared to Nordea's Swedish employees and customers. The core values of Nordea should be the same in every country but respect for the foreign location must be taken. By obtaining knowledge and make use of it a successful integration can be accomplished. It is important to have a clear niche towards the chosen segment when entering a market as Poland that is highly competitive and to stay with this focus. The goal with the foreign operation for Nordic customers is that they should be able to walk into Nordea in Poland and recognize their bank, its products and values. Nordea considers that the bank has a good reputation in Poland associated with stability (A. Hoyheim, personal communication, 2011-03-23).

5 Analysis Nordea

This chapter presents the analysis of Nordea Bank from the empirical findings. The analysis is based on how Nordea Bank performs the internationalization with focus towards Poland compared with the main theory.

5.1 Incentives to internationalization

Nordea can be seen as an innovating bank since the historical background indicates a trend setting pattern. Although no trendsetting objectives can be traced to Poland, Nordea is currently the only Swedish bank providing a full universal bank within that area (A. Hoyheim, personal communication, 2011-03-23). Nordea's internationalizations are most often results from arising opportunities from deregulations which is in line with the findings from Tschoegl (2002). The first counter stone to internationalization is the need to reach new markets (Slager, 2006). By the rescaling boundaries as a result from membership in the European Union Poland opened up as a market to enter for Nordea Group.

The three most important incentives for Nordea are the stability, growth and maturity in the host country. The stability factor is needed to withhold the trust for the banking industry. The state of wealth is less rich in Poland, lack of fully functioning security systems and has compared to fully developed countries a higher risk during economic downturns. The risk for entering was considered before entering Poland but compared to other emerging markets Poland has a fully working authority system providing stability for banking.

The 38 million in population can be used as a potential for Nordea's growth in market share. The concentration of market share is not as tight as in the Swedish banking industry resulting in opportunities for higher market share levels. The ratio banking assets as a percentage to GDP indicates the potential for growth in Poland. The Polish market is far from the maturity level that exists in the more developed European market. The less developed house mortgaging market is another aspect of the potential for banking in Poland. This is in line with the findings from Focarelli & Pozzolo (2001) that large banks have incentives to reach other profit opportunities than the once available at the home market. Poland is still seen as an emerging market with potential in growing into a mature market compared to Sweden.

Beside the most important incentives for internationalization the search for higher net interest margin should be considered in the Polish internationalization. Slager (2006) examined the incentives for large financial institutions to reach higher spreads in interest margins. There are still opportunities for higher spreads to gain from the interest margins when Poland moves towards the Nordic countries levels. To follow the customers abroad is also an incentive to mention but is rather a necessary mean from being a competitive bank which confirms the findings from Aliber (1984).

Incentives to reach opportunities in regulations (Slager, 2006) (Brealey & Kaplanis, 1996) (1996), historical and cultural determinants (Slager, 2006), and diversification of risks (Slager, 2006) (Rugman, 1976) was tasks to handle during the internationalization rather than being an incentive for Nordea to enter.

5.2 The process of establishment in a foreign market

The internationalization background for Nordea Group consists of large-scale mergers. The previous history of successful mergers was opening opportunities to proceed in Poland. Nordea's conservative approach can be traced to the location of Poland. During the recent financial crisis Poland was one of the most resistant economies in Europe. Focarelli & Pozzolo (2001) argues that industrialized countries choose emerging markets due to their resistance to economic downturns.

After the entry to Poland, Nordea has put effort in creating a strong position in the Polish market. The goal to go from 13th place on largest commercial banks to 5th can be accomplished if resources and commitment is increased. Marquardt (1994) found that banks with weak position in the market might not get profitable customers. By securing the deposit levels and increasing commitment in private banking Nordea Bank Polska can attract the customer needed to obtain a strong position. At the Swedish market a competitive advantage for Nordea can be traced by following the existing customers abroad. The competitive advantage in the Polish market is Nordea's reputation of being a large Nordic bank with values that attract modern Polish corporations that wants to enter the Nordic countries.

Nordea states that customer segmentation is more limited in Poland. Rather than Marquardt (1994) findings that customers see banking products homogenous and they demand relationship provided from the bank, Nordea claim the opposite. Nordea's customer focus has been medium to large enterprises with Nordic relationship rather than offerings to the whole Polish society. Nordea does not compete with the local banks to the same extent as Marquardt (1994) indicates. Nordea's relationship with other banks is limited to the bench marking activities. As Nordea enters a higher position in market share in Poland changes in segmentation might need to be adjusted to be able to compete with the Polish Banks. The relationship with the Polish authorities is different from the Swedish due to higher regulations but Nordea has managed to handle the tight regulations and overcome the barriers. The regulation aspect can be a barrier for Nordea even during their operation in Poland. New requirements from Basel III and from the Polish government can decrease Nordea's profitability.

The knowledge from previous internationalizations along with following existing customer abroad has been the major forces to a successful establishment process. These variables confirm the findings from Marquardt (1994).

5.3 Uppsala Internationalization Model

The investment in Poland during the years 1999-2000 was relatively small for Nordea Group. This indicates a moderate risk and commitment being taken according to Johnson & Vahlne (1977). Both for the prospect to enter Russia and Ukraine has the business case from Poland been used. Today Nordea has better conditions and knowledge for entering new countries because of the internationalization in the new European market sector. The effects of going international have positive side effects for the customers in Sweden. A bank in high competition needs to offer opportunities for its corporate customers and by going international Nordea is able to follow the customers abroad. An international bank provides more security in today's society.

By establishing the operation further, the commitment has increased leading to new goals for the investment. Commitment to the market has been increasing during the years with new goals to reach for each year. For 2011 Nordea plan to expand the retail chain further, the knowledge of the current financial crisis plays a part in the future investment plans. The Uppsala model created by Johnson & Vahlne (1977) can be interpreted into Nordea's operation with regards to the fact that every internationalization process has different variables to consider depending on the location. The fact that Poland is an emerging market which is associated with higher risk can be a reason for Nordea's choice of limitations in the customer segment. The risk in emerging markets affects the commitment decisions. Poland has since the recent financial crisis in 2007-2009 been starting to experience growth again. This opportunity is leading to new investment goals for Nordea Group. Nordea will increase commitment in the market by expanding the current market share of 2.5% to reach 7-8% within 5 years. This will be accomplished by organic growth in retail and merchant banking with specialization in private banking and investment fund markets.

The Johnson & Vahlne (1977) internationalization model can explain a pattern of increased commitment for Nordea leading to new activities and a clear state and change effect. Regards should be taken to the current economic state of the market. Changes in the economic cycle can affect current activities and decisions as for example plans of expansion.

5.4 Organizational identity

The polish market has high regards for Sweden and the Nordic countries but this is sometimes not enough to convince potential customer to choose Nordic solutions. According to Nordea focus should be on communication with the employees and mutual understanding for the operations leading to an efficient organization. Nordea is also showing trust to the Polish market by having a Polish management. The biggest cultural differences between the Swedish and the Polish markets are that the trust for the government is lower in Poland and that Polish inhabitants have a different respect for hierarchy. It is important for Nordea to have employees that are well aware of these cultural differences but at the same time the core values of Nordea should be the same in every country. The foreign employees need to respect the values of

Nordea and adapt to them. This is referred to the creation of naturalness by Vaara et al. (2007). Nordea want to transfer the Nordic feelings and attitudes in all of its countries, stated by Vaara et al. (2007) as creating assimilation. The uniqueness of Nordea is maintained by using the same strategy as in Sweden. The positive identity that Nordea wants to create towards the customers is similar to the identity in Sweden but the marketing strategies need different touches to the specific market. For future orientation there is a need to consider the identity that was created in the Nordic countries as well as in Poland. For example when opening up in Russia the adapted Polish identity of Nordea was more close to fit the Russian's identity than the ideas used in the Nordic countries.

5.5 Assessing CAMEL for Nordea

The following part of the chapter covers the assessment of Nordea Group and Nordea Poland's CAMEL rating. The results are revisited from the empirical summary and analyzed by the statements made from Nordea and from the theoretical framework to decide a reliable rating.

5.5.1 Capital adequacy

Nordea needs to maintain capital adequacy to cover potential risks for the future. Strong ratios indicate management's vision on being long lasting within the banking industry. Nordea is well above the 6% required on tier 1 capital ratio as well as the 8% required for total capital ratio. During all years of investigation Nordea has been above Basel III's required ratios which are mandatory from 2013. For Nordea Bank Polska the requirement is not yet external and calculations for earlier years than 2010 and 2009 could not be assessed. Since the requirements should be implemented first 2013 and Nordea Bank Polska is above the required 8% for CAR during 2009 and 2010, this would indicate a well-established ground to maintain until 2013. The total capital adequacy is strong and resistant in Poland. Regards should be taken to the limitations in external ratios to for the public.

Nordea Group is qualified a 1 rating for a strong capital adequacy and Nordea Bank Polska a rating of 2 is set. The capital ratio is strong and correspond well above the currently and future required levels which is in line with the rating 2 (NCUA, 2003). Due to the limitations in external numbers a rating of 1 is not assessed when analyzing Nordea Bank Polska.

5.5.2 Asset quality

Rating asset quality is assessed by the five different asset quality variables. Nordea has diversified loans outstanding by market limitations and customer segmentation. Nordea Bank Polska has a small part of the total outstanding loans with 1.57% in 2010. Nordea Groups lending portfolio is well diversified which can be used as a competitive advantage. The conservative loan philosophy can be a factor for the considered small losses during the recent crisis in Poland. This is in line with the Asian Development Bank (2011) statement on how to evaluate if a bank has certain policies to risk exposure for loans. The stress test that is made on annual basis both internally and externally along with public reports following the Pillar III requirements[11] indicates on stable and well developed process for assessing the quality and limitation for risks.

The loan portfolio in arrears calculations showed that both Nordea Group and Nordea Bank Polska has an average and historical percentage around 1% which is the preferred level for banks according to the findings from Sa-Dhan (2006). The increasing ratio means they recovered from the recent financial crisis during 2007-2009 and is now facing a more stable phase level.

The low loan loss ratio is not exceeding the guideline of 3% for both Nordea Group and Nordea Bank Polska. Generally the ratios for both locations show little fluctuations or irregular patterns. The results are indications of control of the risk for default (Sa-Dahn, 2006). A low ratio for loan reserves indicates non problematic loans and an increasing ratio indicates warning signs. Nordea Group and Nordea Bank Polska both have low results.

The provision that has been made to cover impaired loans was both relatively close to 50%. Nordea states to operate under a conservative approach which should indicate on higher ratios than average. Regards should be taken to the size of Nordea Group which makes it possible to make allowances and keep the ratio stable.

The variables to consider for asset quality on Nordea Group shows a strong and resistant bank with high indications on quality on the various ratios investigated. A rating of 1 is set which indicates a low risk in total loan portfolio with high quality. A rating of 2 is established for Nordea Bank Polska due to a low but slightly higher risk than Nordea Group (NCUA, 2003).

5.5.3 Management quality

Nordea has established an international management team both at the headquarters and in Poland. The idea is to build trust by giving trust to the Polish board. The efficiency within the management strategy can be viewed by assessing the management quality. The cost per unit of money lent is low both for the Group and in Poland. After 2008 the cost is decreasing which can be an indicator on efficient management. The cost to provide credit by looking on total loans being made for the whole period shows increase in both operating expenses as well as loans outstanding.

The knowledge Nordea obtain by assessing management at specific locations as well as the high efficiency in distributing cost for loans being made indicates on a rating of 2 for Nordea group and Nordea Bank Polska. A good satisfied level for management quality according to NCUA (2003).

[11] The Pillar III requirements are to improve market discipline through enhanced disclosure of banks (Nordea, 2011).

5.5.4 Earning performance

Return on asset is historically increasing for Poland but decreasing for Nordea Group. The average ratio is stable for both indicating on solid earnings performance. Return on equity shows decreasing results for Nordea Group from the financial crisis but not for Nordea Bank Polska which has an increasing ratio with no fluctuations. This can be traced to the fact that Nordea Poland was considered to be less damaged from the recent crisis compared to other markets for Nordea Group. The same can be stated for the risk adjusted profit for both the Group and the Polish operation.

The total shareholder return is where the greatest changes can be shown. The cause of wide fluctuations is due to the recent financial worries in the market during 2007-2009. The same patterns can be traced for Nordea Bank Polska but for the annual year 2010 Nordea Bank Polska provided sufficiently better return to their shareholder's than Nordea Group.

By investigating the past and current growth levels one can state that during 2007-2009 a decrease in stability can be measured. The average ratios for earning performance are stable and follow industrial averages[12]. According to NCUA (2003) a rating of 2 for Nordea Group and Nordea Bank Polska is appropriate when it is positive earning pattern and although fluctuations can be seen the pattern remains overall stable.

5.5.5 Liquidity performance

One of the most important key figures to focus on for the business in Poland is cost-to-income ratio. The ratio is relatively stable for both Group and Nordea Bank Polska. An unstable ratio can indicate problems in the future. Nordea has compared to the previous industrial average a high ratio, which might be explained by the composition on the bank's operation (Nordea Annual report, 2010).

The financial leverage for Nordea Group is 24 and 14 for Nordea Bank Polska. The ratio is higher than the recommended level for banks which indicates a higher risk but the major Swedish banks have in general around 20 for their Group Company (Morningstar, 2011). The average loan to deposit ratio is slightly higher than the Swedish competitors[13] which could be an indication of a liquidity risk.

The liquidity ratios show not as well performing figures as the previous variables for CAMEL. The loan to deposit ratio as well as the financial leverage is above industrial average indicating a higher risk. A rating of 3 for Nordea Group is in line with the performance where an improvement can be preferable but not indicating on a significant risk. Nordea Bank Polska is historically more stable and close to recommended industrial numbers leading to a rating of 2 (NCUA, 2003).

[12] Morningstar Inc, 2011 industrial average banks (Electronic) Available at; <http://biz.yahoo.com/ic/410.html>

[13] Morningstar, 2011 (compared to Swedbank, Handelsbanken and SEB)

5.5.6 Nordea's CAMEL rating

The total assessment of the five variables is put together and Nordea Group and Nordea Bank Polska are given a rating. Nordea Group has an average rating of 1.8 (Appendix 4, Table 11). 1.8 indicate a strong and stable performance with solid fundamental results according to the Federal Reserve Bank (1999). Nordea Group's strengths are within capital adequacy requirements while the liquidity ratios were the least performing of the five variables. The risk associated in lack of liquidity is to not being able to respond to unexpected events within future cash flow requirements.

Nordea Bank Polska received a combined rating of 2 (Appendix 4, Table 11). A rating of 2 means performing with stable fundamentals according to Federal Reserve Bank (1999). Management has a responsibility to identify risks which is obtained but with some adjustments needed (NCUA, 2003). Nordea Bank Polska had an even rating during all CAMEL variables but regards should be taken to the lack of external figures being public since providing a solid report by management is contributing to trust for the financial institution.

6 Empirical findings for SEB

In this chapter the authors provide the reader with a summary of information gathered about SEB and its internationalization process with a focus on the German establishment. The information is obtained through interviews with Fredrik Björkman[14] and Jonas Söderberg[15] at SEB's head office in Stockholm as well as annual reports, articles and literature. There is also a financial summary computed from the CAMEL framework that will be used later on in the analysis.

6.1 Background SEB Group

From the beginning SEB went under the name Stockholms-Enskilda-Bank. The bank was founded by André Oscar Wallenberg in year 1856. In the 1990's the bank was mainly a Swedish base network with a strategic position towards large corporations and high-income earners. S-E-Banken managed to turn the bad years from the real estate crisis and make profits again around 1995. In 1998 an acquisition of three banks in the Baltic States was made and the name was changed to Skandinaviska Enskilda Bank (SEB). In 2000 one acquisition of the German BfG was made providing an established network in Germany and in 2001 the German bank renamed to SEB AG.

In Denmark, Norway, Finland and Germany SEB has a selective strategy with focus on merchant and investment banking, life insurance and asset management while in Sweden and the Baltic States SEB offers full service with additional to the above mentioned also retail banking (SEB Annual report 2010). Results for 2010 last quarter show that 75% of revenues for SEB comes from their Nordic operations in Sweden, Norway, Denmark and Finland from where Sweden amounts to 56% of the revenues alone (SEB Year-End Report, 2010). SEB has currently an S&P rating of an A within the whole group[16] (SEB Group, 2011). SEB are holders of around 300 000 shareholders. The top three largest shareholders are Investor AB with 20.8%, Trygg Foundation with 8.1% and Alecta with 7% (SEB Annual report, 2010).

6.2 SEB Group internationalization background

The direction towards a more internationalized strategy started during the 1990's and the bank entered Germany as early as in the 1970's. SEB is mentioned to have had the strongest focus on internationalization compared to the other major Swedish banks (Marquardt, 1994). Today SEB considers the home market to be not only Sweden but the Nordic countries and Germany, but SEB is represented in over 20 different countries worldwide (F. Björkman, J. Söder-

[14] Works at Group Strategy and Business Development, Merchant Banking, SEB, Stockholm (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

[15] Senior Advisor, Merchant Banking, SEB, Stockholm (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

[16] Standard & Poor's Outlook, long term (SEB Group, Rating, 2011)

berg, personal communication, 2011-03-24). When entering a new country, SEB looks deeper into the profits that can be gained from this establishment, how to allocate the investment and consider important factors for SEB which are the return on equity ratio and the cost-to-income ratio. When investing in a bank in a new country SEB looks into the turnover of the organization. An amount of 250 million to 2 billion euro in turnover is approximately what SEB is looking for and from that the bank makes calculations and analysis on which organizations to invest in (F. Björkman, J. Söderberg, personal communication, 2011-03-24). The bank strives towards being supportive to the customers in following them internationally (SEB Annual report 2010). SEB does also consider the interest margins when planning on going international in the sense that they consider how much the whole investment will cost. However, SEB values each customer differently and so the interest margins will not only depend on the country but also on the customers that is in mind for the specific internationalization (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

SEB states itself to be the biggest bank in Sweden within merchant banking. SEB wants to make long-term relationships and does only consider internationalization if there are good chances of continued relationships and growth within the country. This is something that has changed over the last five years since the financial crisis made the banks aware of the importance of a strong focus and core organization. SEB also discovered that being strong internationally and being diversified makes a bank more able to deal with the financial crisis (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

6.3 The internationalization to Germany

SEB expanded their business to Germany in year 1976 by opening the Deutsch-Skandinavische Bank in Frankfurt. When the acquisition of BfG in year 2000 was established the bank was offering a universal bank on the German market. The German bank changed its name to SEB AG in year 2001 and this led to a chance to show the connection to the Swedish market and that SEB as the parent company that will set the structure for SEB in Germany as well. The unstable business climate in Germany made it difficult for SEB to gain profits but SEB had a strategy that was long term and a strong belief that SEB AG would grow and become a strong universal bank in Germany by making cost efficiency decisions (SEB Annual report, 2001). SEB AG however, did not measure up to the expected result but still managed to stay relatively profitable compared to other German banks (SEB Annual report, 2002).

Even though Germany experienced an economic recovery in 2004 it was not beneficial for SEB AG since the demand for credits in the banking industry did not increase. However the merchant banking gained new customers (SEB Annual report, 2004). In year 2008 the retail business in Germany was separated from the other operations because it did not create as high customer activities as the other operations and needed to be separated to get more flexibility. The same year SEB in Germany also sold a broking agency to its parent company in Sweden (SEB Annual report, 2008).

The retail branch in Germany was in year 2009 still not measuring up to the investors required rate of return (Realtid, 2008). An announcement from July 2010 stated that SEB is selling the German branch office operation to Banco Santander. The sale was completed on the 31st of January 2011 for an amount of 555 M EUR (SEB Annual report 2010). This decision affected 173 branch offices, 1 million private customers and around 2000 employees at SEB (SEB Newsroom, 2010). The capital gain was 135 M EUR and the selling affected the business negatively by 245 M EUR due to the unwinding of hedges. These numbers are the same as the estimated values made by the bank before making the realization (SEB Annual report 2010). The result from the retail operation could be explained by the market in general in Germany. The market consists of many retail banks in small scale, of which many of them are not listed on the stock exchange. The smaller banks not listed has fewer investor claims. Another aspect is that SEB as an entering bank in an already established market could have taken a weak position in the market (Realtid, 2008). Speculators suggest that contributing factors to the poor result in Germany for SEB is results from being too brave, not having enough patience, operating with weak control and being too naive (Affärsvärlden, 2011).

6.3.1 SEB AG today

After adjusting the accounts to give a clearer view of the divestment SEB group had restructuring costs of 764 M SEK and transaction costs of 1240 M SEK (SEB Annual report 2010). Today the break-even point in the German market is accomplished and SEB looks positively on the future (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

There are three divisions in SEB AG today; these are merchant banking, real estate and asset management. The bank has relationships with 60 of the 100 largest companies in Germany. In some segments for the institutional customers, SEB is market leading in Germany (SEB AG, 2011). Merchant Banking has ten local branch offices located in Frankfurt, Berlin and Hamburg (SEB Group Germany, 2011). Today SEB AG also offers international products to the corporate segment which gives an advantage in the competition on the German market. Asset management segment in Germany have a volume of 10 000 M EUR which makes it ranked to be one of the largest and most successful providers of real estate equity funds in Germany (SEB AG, 2011).

During year 2010 the percentage of the SEB's organization in Germany was 8% (SEB Annual report, 2010). The merchant banking organization in Germany has developed and expanded through the year 2010 and it was stated by Euromoney[17] to be the second best bank for real estate business in Germany (SEB Annual report 2010). SEB AG has by S&P a rating of A- (SEB AG, 2011).

[17] Euromoney magazine is within the subject of wholesale financial world and its institutions and users.

6.4 International management

The ability by management to keep a high level of competence and to evaluate and detect the risk factors is directly connected to the profitability of the institution. In order to avoid losses SEB tries to handle the risks at an early stage by making strategic planning. SEB Group uses a framework that is built on independent control of risk, credit analysis and credit approval functions. The Board of Directors is the people with highest responsibility regarding risks and to maintain the internal controls. The board creates the policies related to risk and has the responsibility to have the risk exposure development under sight (SEB Group Pillar 3, 2010).

Another management responsibility is to see to that the organization works as efficiently as possible and keeping costs down. The cost per unit of the money that SEB lends out was 18 725 SEK which is an increase compared to 16585 SEK in year 2009 but between the years 2006-2008 the cost per unit was gradually decreasing. The cost per unit of money lent for SEB AG was 8300 EUR in year 2010 and this cost has decreased since 2007 with an exception for 2009 (Appendix 7, Table 5-6).

The cost to income ratio is a liquidity measure that is very important for SEB to supervise (F. Björkman, J. Söderberg, personal communication, 2011-03-24). The ratio has for SEB Group been on average 0.61 and for SEB AG the average was 0.78 which is slightly higher. Both ratios have however been stable over the years with only small fluctuations (Appendix 7, Table 9-10).

The management needs to assure that the reserve ratios are able to cover for the expected and unexpected costs that might happen and so the liquidity of the bank needs to be held under control (Asian Development Bank, 2011). SEB's liquidity reserve was higher than 10% in year 2010 which more than enough covers the internal level of 5% (SEB Annual report 2010). The net cash inflows were larger than the outflows in year 2009 for some time because of an extension of funding maturities. After that it became stable and the in- and outflows evened out and this was the position for 2010 as well (SEB Annual report, 2010). The loan to deposit ratio that shows SEB's ability to manage withdrawals from customers that could possibly occur was in year 2010 142.64% for SEB Group and in 2010 it was 104.83% for SEB AG. The ratio has increased for SEB Group over the years but SEB AG had a decrease in the loan to deposit ratio in 2010 of 14.79 percentage units (Appendix 7, Table 9-10).

The current ratio in SEB has had an average of 0.77 and for SEB AG 0.79, the later is however not very representative since the ratio has been fluctuating over the years. For both of the groups the ratio has been gradually increasing which is preferable in order to be able to cover for the short term liabilities in time (Appendix 7, Table 9-10).

The financial leverage ratio of SEB Group is on average 26.87 and for SEB AG 23.89. Since the year 2007 for both groups the ratio has decreased in value which concludes that the debt part of the capital that SEB has have decreased over the last years (Appendix 7, Table 9-10).

6.4.1 International Identity

When entering Germany it was mostly in order to satisfy the needs of the Nordic customers. Today the corporate segment is also for local business where German organizations can sell globally with the help of SEB. The size of SEB in Germany sets its own limits since it cannot provide the largest business deals alone (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

SEB believes that its identity and profile is able to grow in Germany and that it can contribute to the market of large corporations in the country (F. Björkman, J. Söderberg, personal communication, 2011-03-24). SEB has a focus on low risk lending which is in line with German regulations which makes it possible for the bank to refinance itself on the bond market in Germany (SEB Group, 2011). The majority of the Nordic subsidiaries that operate in Germany have SEB as their business bank and German middle corporations and institutes use SEB as their bank to reach the Nordic market (SEB Group, 2011).

6.5 Return and growth

The earnings that a bank has can be reflected on by looking at different return ratios (Asian development bank 2011). The return on assets for SEB Group has on average been 0.4% and 0.14% for SEB AG. For SEB Group the value of return on assets has been varying by a large amount over the previous five years. The lowest value was 2009 of 0.05% and the highest in 2007 of 0.58%. For SEB AG the values have also been fluctuating. The lowest value between the years 2006-2010 was in year 2010 and 2007, 0.08% and the highest in year 2006 with 0.29% (Appendix 7, Table 7-8).

Return on equity is a measure that is strongly used and highly valued in SEB (F. Björkman, J. Söderberg, personal communication, 2011-03-24). The return on equity for SEB Group and for SEB AG in 2010 was 6.83% and 1.78% respectively. For SEB Group the rate was down as low as 1.18% in 2009 after previous years of ratios of around 15%. For SEB AG the return on equity was highest in 2006 with a ratio of 6.25% (Appendix 7, Table 7-8).

The total shareholder return for SEB Group was 26.34% in year 2010. The return has varied through the years and was negative between 2007 and 2008. In 2009 however the total shareholder return was as high as 35.18%. SEB's risk adjusted profit was negative in year 2009 with -4626 M SEK. In 2008 the measure was 1620 and 8441 M SEK in year 2007. Hence, both 2009 and 2010 showed low results in profit which is a result of the high values in expected losses that SEB experienced for these years (Appendix 7, Table 7).

6.6 Market

The German market is equal to the other home markets that SEB has which are the Nordic countries in the sense of maturity but when SEB entered the German market in the 1970's it was an important financial center. SEB can see an opportunity in the German market since the

German banks have had a rough economic path which opens up for SEB that does only focus on their corporate segment. As much as one third of the national output in Germany is a result of export and this export has contributed to the German expansion and economic growth. The policies and economic structure in Germany is gradually becoming more related to the European Union's policies and structures (Trading Economics, 2010).

SEB has had a high degree of commitment to the German market. Due to the fact that the clients of the bank in Germany have an orientation towards export, it is important for SEB to be a support for these companies when they expand internationally by opening branch offices in the country the clients go into (SEB Annual report, 2010). SEB has an advantage in Germany in the sense that Sweden is a country that is highly respected abroad. The fact that Sweden has its own currency and a well-functioning business and regulation system contributes to this advantage (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

6.6.1 Regulation

New regulations outside of Sweden have new rules that need to be applied by the banks. The implementation of Basel III creates doubts concerning internationalization since the capital requirements will increase and the stockholder requirements will not accept the rate of return to be lower than what is required. However, SEB has strong capital compared to many other banks. The regulations are seen to be barriers of entry rather than a motive for internationalization of SEB. The focus should be put in a legal system that can be trusted and has a non-dramatic environment in general (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

SEB want to put around 2 billion euro into growth potential in the Nordic countries and Germany in the next coming five years. Most of that capital is going to be put into organic growth and building new corporate customers and long lasting relationships (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

The rules of capital adequacy are followed by SEB just like all companies that perform banking services or equivalent operations (SEB Annual report, 2010). SEB Group has remained a strong and stable capital ratio over the years with an exception of year 2008 which shows significant decreases in both total tier 1 capital ratio and the CAR ratio. The CAR ratio also has less variance than the tier 1 capital ratio. The measures for SEB AG follows the same patterns with a dip in year 2008 and high values in year 2009 followed by a smaller decrease in year 2010. 2010 had values of CAR 12.87% and tier 1 total capital ratio of 8.6%. The total tier 1 capital ratio with adjustment for transitional floor for SEB Group has increased over the last two years with a ratio of around 12% compared to previous years where the ratio was around 8% and the same trend can be seen for the total core capital ratio. For SEB AG the total tier 1 capital ratio has been relatively stable over the last three years of values of around 8% (Appendix 7, Table 1-2). To increase the quality of the capital base and management SEB has tried to increase the tier 1 capital and during the year 2009-2010 the bank managed to increase the value (SEB Annual report 2010).

6.6.2 Credit risk

The percentage of total loan booked in Germany is 24.41% and 24.98%[18] in year 2009. The German corporate portfolio in 2010 showed that the asset quality was high and there were limited loan losses. SEB base all of its lending decisions on a credit analysis and it should be as a proportion of the ability a client has to pay back. The client needs to be recognized by SEB (SEB Annual report, 2010). The credit approval process is based on the financial position that the customer has and the anticipated position as well. SEB also considers the protection of collateral or covenants that the client might have. The process is different depending on the customer because the client might have different risk levels and the size of the loan also differs. The larger the customer the more important is the credit analysis (SEB Annual report 2010). A limitation amount that an individual customer or company can borrow from SEB is 25% of the total lending amount that the bank is able to give. A higher amount than that will lead to risks of credit losses for the bank that might increase and get bigger than the bank can handle. SEB has a capital base of around 100 000 M SEK and they have a diversified customer base (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

The loans lent to smaller businesses and individuals are usually made on a portfolio base. The loans are divided into different categories and the loans are small with equivalent risk features. Examples of these categories are credit card exposures, retail mortgage loan and consumer loans. These loans are lent out depending on the historical credit loss and assessment of potential credit losses (SEB Annual report 2010).

In order to remain asset quality and the long-term relationships that SEB aims for, the bank has kept a proactive and conservative profile (SEB Annual report, 2010). As can be seen from the ratio of portfolio in arrears, SEB has a high level of default in the total loans outstanding. The ratio has increased significantly in year 2009-2010 compared to the previous three years for SEB Group. In year 2010 the ratio was 1.90% which is almost doubled compared to 2008's value of 0.93% (Appendix 7, Table 3-4).

The quality of the portfolio that SEB has can be seen as the loan loss ratio which is on average 0.26% for SEB Group and 0.12% for SEB AG. For SEB AG the ratio was significantly higher in year 2010 and 2008 because of a very high amount of write-offs. For SEB Group the loan loss ratio has increased distinctly in 2009 as well and the previous years had much lower results than 2010 (Appendix 7, Table 3-4).

The reserves that SEB has put aside in order to cover for possible loan losses can be seen by the total reserve ratio which was on average 0.8% for SEB Group and 3.09% for SEB AG. The ratio increased largely in 2009-2010 to around 1.2% compared to around 0.5% in previous years for SEB Group. The ratio for SEB AG has been higher and had a higher amount of fluctuations (Appendix 7, Table 3-4).

[18] Total loan amount booked in Germany divided by total loan amount 24,41% =(288713/1182757), 24,98=(326803/1308117)

Provisioning ratio of SEB Group has increased significantly over the last two years and it was in these years around 50% compared to 2008 when the ratio was 19.70% and 2007 it was 9.04% (Appendix 7, Table 3-4).

6.7 Customers

SEB's internationalization is mostly influenced by the clients. All banking is considered long term and SEB states that no bank is greater than its capital of trust. SEB has followed the customers to the German market and this is an important incentive for the internationalization strategy. Since SEB is mostly a merchant bank it is most common to follow the corporate customers. In general, SEB has chosen not to make business with clients that are unknown to the bank. For example, at the moment SEB has no intentions of entering the Middle East or Asia further since it has no current customers in these segments and the bank is not familiar with the market structures and regulations in these countries (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

In order to attract new customers and to keep the current clients SEB need to keep the focus on its own core values and visions but at the same time it found it to be very important to adjust to the new market and to connect with the local environment. When communicating with new customers it is significant for SEB to completely understand the business and organization of the clients and to make the customer aware of the fact that SEB understands them and respects them and their values (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

6.7.1 Culture

Germany is different compared to Sweden considering how to do business. In Germany there is a much stronger connection to hierarchy and it is of high importance for the Germans to do business with employees that are decision makers and at least in the same hierarchy level as themselves. They often want to have contact with the CEOs instead of employees of lower grade. Another big difference is the fact that German corporations usually are a lot bigger than the Swedish. SEB have established a good corporate segment in Germany with customers that have operating profits of 250 M EUR to 2000 M EUR. Operating profits of 250 M EUR in Sweden would be a middle sized company but in Germany the market is larger and there are great opportunities to increase the market share for SEB (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

The business model of SEB is adapted to Germany but the importance is put on integrating the Swedish board members with German so cultural exchange can occur. To build an international network that works and attributes different cultural influences is important since otherwise the bank becomes only local (F. Björkman, J. Söderberg, personal communication, 2011-03-24).

7 Analysis SEB

This chapter presents the analysis of SEB from the empirical findings. The analysis is based on how SEB performs the internationalization with focus towards Germany compared with the main theory.

7.1 Incentives to internationalization

SEB is a traditional bank according to the theory of Tschoelg (2002) in the sense that it has universal banking activities in some countries like Sweden. The bank offers standard products and operates where there are many other banks operating with similar products. However, SEB can also be seen as an innovator when looking on the situation in Germany where the bank has changed focus. As an innovator SEB has a strong merchant focus and want to enter countries where it can stand out as a Swedish bank with a corporate segment focus. It cannot be concluded that SEB follows other Swedish banks because SEB is alone in profiling itself as a big merchant bank in Sweden compared to its biggest competitors.

The most important incentive for internationalization, also as stated as one of the incentives according to Slager (2006), is the customers. A pull effect occurs since SEB follows its large customers to new markets in order to keep these customers and fulfill their needs. The bank values the customers differently and this can be seen in the choice of country to internationalize to. The internationalization to Hong-Kong is done in order to be a part of the financial center in the world and by this be able to get to the largest customers, hence the location of the internationalization is important (Marquardt, 1994).

According to Slager (2006), Brealey, Kaplanis (1996) and Aliber (1984) regulations in a new country can work as an incentive. Since SEB has been operating in Germany for a long time, the bank has been able to learn the German rules and standards. With the Basel III standards to be implemented, SEB needs more capital which could lead to a decrease in the internationalization processes of the banks in Europe which could create even better opportunities for SEB that has stable capital value.

SEB relates to Germany as a home market, this can therefore be seen as the third alternative in the incentive by Slager (2006) regarding new markets. SEB expanded in Germany in 2000 which might be because of the European Union has affected the bank's decision and worked as an incentive. German people in general considers Sweden to be a country of high standards and the Swedish way of making business reliable which gives SEB market power and a competitive advantage over the other banks, both international and domestic German banks. When entering in the 1970's Germany was a financial center and hence the economic structure could be seen as an incentive for SEB to enter Germany. The high market concentration in the Swedish banking industry can also be seen as an incentive since SEB needs to internationalize in order to expand.

The way of doing business in Germany is different from the Swedish standards and therefore the cultural aspects mentioned by Slager (2006) cannot really be seen as an incentive for SEB to enter the German market. Other incentives as diversification of risks (Slager, 2006) (Rugman, 1976), net interest earnings (Slager, 2006), cost of capital (Slager, 2006) (Aliber, 1984) and historical and cultural motives (Slager, 2006) are not considered to be the main reasons for SEB’s choice of internationalization process.

7.2 The process of establishment in a foreign market

Historical experience is important for a bank in order to be successful when going international. SEB has gained knowledge on the culture as well as the market structure in Germany as in line with the theory by Marquardt (1994). SEB has also entered the Nordic countries and opened franchises in all parts of the world which have increased the bank’s global knowledge. In previous years SEB was more of a universal bank but this has changed because the financial crisis have taught the bank to be more focused in the business and concentrate on a core organization which leads to the divestment of the retail operations in Germany.

In order to succeed according to Marquardt (1994) the bank needs to build relationships that are stronger than the products. SEB can be seen to have a strong position in Germany because it already has a large base of customers. This in turn can create more possibilities since this shows the other possible clients that SEB provides satisfactory services. It is also an advantage that SEB is able to provide the German customers help in reaching the business in the Nordic countries. However, SEB can be seen to have taken a weak position since the bank failed in the retail business partly because the market was already well established.
It was an advantage for SEB to enter Germany since Swedish business has a good reputation and provides reliable services. Since SEB is a relatively small bank in Germany with many large corporations as customers there might be need for the bank to establish relationships with other banks as well. Large bank customers usually have more than one bank and by working together with others SEB might gain customers which is in line to the findings from Marquardt (1994).

Due to the fact that the regulation system in Germany is not very different from the Swedish system it will be easier for SEB to keep its products and structure. Because of the European Union the similarities increase between the member countries which make it even easier. However there are cultural differences that can make it difficult to break through the communication distances that might occur as mentioned by McDonald, Mayer and Buck (2004). Even though Germany is closely related to Sweden in religion and business there are still differences like hierarchy importance that could be problematic for SEB. It is therefore of significance for the bank to keep the respect towards the country at the same time as the core values are remained.

The three conditions for the establishment model seem to be followed by SEB merchant banking but not for the retail segment. A reason for this difference could be that SEB has had a focus on the merchant business for some time and the bank is much more experienced within this field and have much more knowledge which reflects the theory's experience condition. To be successful in a foreign country it might also be easier to target the larger customers that the bank follows from Sweden rather than starting to build a new network which is more the case in the retail business. However SEB did have a universal bank in Germany from the beginning and should have been able to gain private customers as well. Probably the lack of knowledge of the German market was the biggest mistake since SEB thought the market would behave differently.

7.3 Uppsala internationalization Model

Based on the model by Johanson and Vahlne (1977) one can see that since SEB has been active in the German market for over 30 years the bank has had time to establish a commitment that is strong through investments and resources put in the operations. The commitment increased when SEB bought BfG but the divestment in 2010 made the commitment decrease in a sense. Since SEB seeks for a high level of turnover in order to invest in a new bank internationally as well as looking for long-term relationships only, it can be concluded that SEB only invests with a large level of commitment. The most important factor for SEB is the customers which means that the commitment is based on the customers. SEB is very active in the German market in for example the commercial real estate division which is the main choice for Nordic customers in Germany. The commitment in Germany grows as other clients like the Nordic customers will also be affected by SEB's decisions in Germany.

The market knowledge that is the risks and opportunities seen by the bank (Johanson, Vahlne, 1977) has as previously mentioned two sides. The German market is similar to the other markets that SEB operates in which are the Nordic countries. In order to succeed with a universal bank in Germany, perhaps the focus from SEB should be put on this specific market and the needs. However, today SEB has gained experience from their success and failures and they have learned that it could be better to put focus on their core advantages instead of trying to be a bank for everyone.

The German market in the 1970's was seen as a financial center at the time and it gave them strong opportunities to make new contacts and make business. The commitment was as mentioned above increased due to the investment in BfG and so this decision was to increase the commitment to the German market, then the divestment was made, however this does not mean that SEB's commitment to Germany has decreased because the bank has decided to put effort in other segments of the German market and so the bank will continue to increase its commitment to Germany and the customers depending on the bank's operations in the country.

SEB is a bank that evaluates the alternatives carefully before it makes investments which is in line with Johanson and Vahlnes (1977) model that states that the internationalization process will take longer time because it takes time to learn from the gained experiences. The bank wants to continue its growth in the merchant banking in Germany. SEB has knowledge and a large commitment to the German market but due to the mistakes made in the retail business there might be reason for even further investigation in the market in order to prevent losses in the future.

7.4 Organizational identity

SEB's identity in Germany has changed in the latest year to have a merchant focus. SEB is unique in line with the model from Vaara et al. (2007) in the German market by simply being a Swedish bank. Therefore focusing on the Swedish aspect is a good choice for keeping the organization real and also showing a positive self-esteem since SEB wants to show and influence with the Swedish strategies and values. The naturalness also in line with Vaara et al (2007) of a bank that operates internationally will be satisfied if the bank stays with the core values and implements the Swedish way of doing business, however in order to enable future organization development within the country it is important to consider the German market and business behavior and adapt to this as well. SEB has done well in the sense that the bank has brought the Swedish structure to SEB AG when dealing with customers as well as its own employees. This is in line with the characteristics of assimilation.

The identity that SEB wants to obtain in Germany is to be the leading bank for parts of the market like for example commercial real estate. However it is difficult for them to conquer the whole German market because of the size of the corporations which requires more capital than SEB can offer and there need to be a cooperation of more than one bank in order to handle the client.

7.5 Assessing CAMEL for SEB

The following part of the chapter is referring to the financial aspects of SEB Group and SEB AG by using the CAMEL model. From the summary above it was possible to determine the rating levels for SEB Group and SEB AG. There is reason to consider the financial numbers of SEB AG in year 2009 as a transition period due to their big divestment of the retail business that was announced completed in January 2010.

7.5.1 Capital adequacy

The tier 1 capital ratio increased during the years 2009 and 2010 compared to previous years because of the increase in tier 1 capital for these years. This means that SEB has managed to increase the capital that is least risky. SEB AG has a smaller tier 1 capital ratio which is a reflection of the smaller tier 1 capital. It was a goal for SEB to increase the tier 1 capital which it has managed to fulfill. However the business in Germany is not equally stable and this could be partly because of the difficult years that have followed because of the financial crisis and the retail divestment in Germany.

The rating for SEB Group in capital adequacy is good at the moment and the bank is able to cover for the risks and could be set at a rating of 1. SEB AG might not be equally strong and should therefore have a rating of 2 but SEB Group will be able to put in capital if needed.

7.5.2 Asset quality

Five different variables were used to represent the asset quality in SEB. SEB AG amounts for about 24% of the total loans lent out which is a quite high number and implies that Germany is a pretty large market for SEB. Since the risk management and the processes for loan and credit approval are guided and regulated this means that the bank has a controlled loan assessment which is in line with the Asian development bank (2011).

The portfolio in arrears ratio for SEB Group is under 1 for 2006-2008 which is a good measure but has a negative trend since the last two years have an almost doubled amount which could be explained by the almost doubled amount of impaired loans. This shows of a decreased quality in the assets that are lent out.

The loan loss ratio increased significantly in 2009 and decreased in 2010 but was still higher than previous years which implies that the net write-offs has increased. This implies that there have been an increase in loan losses and the default has increased. However the ratio of SEB group is very low and well below the required level of 3%. For SEB AG the loan loss ratio has been very low with an exception for year 2008 and 2010. The higher value in 2008 can be explained by the financial crisis during this period which made many companies unable to repay their debts and so the bank lost parts of the outstanding loans. That there was a decrease in year 2009 could be because this year was mainly a transition to the selling of retail business and so there were larger fluctuations while year 2010 gives a more appropriate level.

The total reserve ratio is lower for SEB Group than SEB AG. The ratio for SEB Group increased 2009-2010 which is a sign of an increase in reserves. The ratio for SEB AG decreased significantly in year 2009 because of a decrease in the total reserves available but increased in 2010 again to a ratio of 5.12%.

The provisioning ratio follows trends and crisis and so SEB Group has been able to become more stable within the last two years compared to 2007-2008 when the financial crisis was current. The last two years have had significantly higher ratios which can be explained by the increased level of total allowance. This is a sign of an increased level of conservatism in the loan approach.

Overall SEB Group have increased the reserves and kept all of the ratios at appropriate levels. This makes SEB Group and SEB AG ranked to rating of 2 because they both have good values in ratios. A rating of 1 is not set due to SEB's higher loan defaults in the later investigating years which make the banks not completely sufficient in their asset quality.

7.5.3 Management Quality

The management quality in SEB can be understood by considering many of the other factors in the CAMEL analysis as well. However, the cost per unit of money lent is a good measure of the efficiency. The cost per unit of money lent has for SEB Group been stable for the last five years which can be a sign that the bank operates efficiently and does not have increasing costs. The risk management within the bank is structured and SEB has a policy of always being prepared and the bank does not want to take high risk. SEB AG had a decrease of almost half the costs from year 2008 to 2009 but the cost per unit of money lent increased to 8300 M SEK in year 2010. The previous years have had a stable cost and the decrease in the last two years is due to the almost half decrease in total operating expenses which could be a reflection of the divestment made of the retail business.

The rating set for this variable of CAMEL should be set at as a 2 for SEB AG due to their decrease in cost but the fluctuations in last three years makes the bank not enough stable for a rating of 1. SEB Group is rated as a level 2 because of the fact that the rate has increased instead of decreased which is not a desired outcome however the rate has been held relatively stable over the last five years.

7.5.4 Earning Performance

The return on assets for both SEB Group and SEB AG are low. SEB Group has been constantly decreasing until year 2010 when it had a value of 0.31%. The value for 2009 is described by the low net income for this period. SEB AG has had even lower values of return on assets. The ratio showed the highest result in year 2008 because of a higher net income value. The same will then apply for SEB Group and SEB AG's return on equity ratios. SEB Group had a significantly lower value in year 2009. SEB AG had a significant increase in the return on equity in year 2008. The low values for SEB Group in 2009 could be a reflection of the financial crisis that could affect the income negatively. The decrease in values in 2009 for SEB AG is also reflected by the bad economy that was still occurring in the market. The increase in income in 2008 for SEB AG can partly be an effect from the sale of the broking agency that also leads to decreases in income in the following year.

The total shareholders return for SEB Group had significant decreases during the years of the financial crisis. The total shareholder return for 2009 shows that SEB has been able to fully recover and has reached a stable level in 2010.

The risk adjusted profit for SEB Group follows the same pattern and the negative result in 2009 is a reflection of the increased amount of expected loss. Due to the financial crisis the financial expected losses were set high because the bank knew that the market was unstable.

The rating for earning performance for SEB Group is not as strong because of the low returns and low adjusted profits and so the rating could be set to a ranking of 3. SEB AG follows the same patterns with even lower results which could give them a ranking of 3. This rating is partly due to the limitation in numbers and hence there are increased difficulties in determining the appropriate level.

7.5.5 Liquidity performance

The value of the cost to income ratio is less than one for both SEB Group and SEB AG which is a good sign. SEB group shows good results with values of about 0.61. The rate has been very stable over the years which show that the bank has not had any significant increases in costs or decreases in income. SEB AG has slightly higher overall level but the bank has kept the rate less than 1.

The loan to deposit ratio has increased since 2006 for SEB Group which is not a good sign. SEB AG has decreased the loan to deposit ratio since 2006. The higher rates the more is the bank in need of its borrowed funds and so SEB AG has a better position in this matter compared to SEB Group. However the rate for SEB Group has kept a relatively unchanging level in the last three years and still manages to remain lower than other banks like Nordea Group.

The current ratio for SEB AG and SEB Group has followed the same outline through the years. The assets are lower than the liabilities but it is not only the quantity of assets that matters and as can be concluded from the asset quality part of the CAMEL analysis, the bank has high quality of the assets and hence the current ratio of less than 100% does not necessarily and not in this particular case need to be a warning alert.

SEB Group has financial leverage average of almost 27 and SEB AG of almost 24. The ratio has been kept relatively stable over the years and is slightly higher than the average of 20 in the Swedish banking industry.

The rating of liquidity for SEB Group as well as SEB AG will be set at level 2 because there is a smaller risk to credit exposure but this risk can be recognized by the management and sufficiently handle the risk. The bank puts focus on the cost-to-income ratio and this is held at required levels.

7.5.6 SEB’s CAMEL rating

The average total CAMEL rating for SEB Group will be a level of 2 and for SEB AG the rating will be 2.2 in line with the guidelines of National Credit Union Administration (2003) (Appendix 7, Table 11). The strongest section for both groups is the capital adequacy. Earnings liquidity was very low for SEB AG while it had somewhat better in management quality. However one must also take into consideration that the numbers and figures available for SEB AG is much more limited than for SEB Group which can make the results a bit biased and not totally comparable to each other. However, based on these numbers one can see that the average rating is very low and so SEB has a strong position as a bank and even though there was a divestment of the retail business in Germany the bank was able to develop the bank to have a strong position on the German market. The management is aware and the bank has stable and reliable fundamentals. There need only to be adjustments in order to maintain control over the bank’s risks.

8 Conclusion

The conclusion section is the authors attempt to answer the research questions stated in the beginning of this thesis.

The results from Nordea and SEB's evaluation regarding knowledge and experience were correlated with diverse outcomes. Nordea has greater experience of acquisitions in emerging markets which affected the internationalization towards Poland positively. By the experience and knowledge obtained, Nordea could be able to determine its future position in Poland. For SEB the financial difficulties within the retail business could be traced to lack of market knowledge, less commitment than needed and not building a long lasting identity. Regards should also be taken to the high competitiveness in the German market which was an external force that could have affected SEB's retail branch outcome. With higher level of knowledge and experience in the merchant segment SEB can be able to determine the internationalization projects for the merchant branch.

This study found Nordea and SEB devoted to long term commitments to their specific locations. Therefore the Uppsala internationalization model is a valuable tool to use since it shows that the commitment is a determining factor and this can also be linked to the process of establishment conditions. The results were in line with these theories and hence enlightened the confidence of the authors' findings. The Uppsala model was criticized as old and not fully applicable on firms today but this thesis can prove that it is still in line with today's internationalization processes. The evaluation proved that the level of resources has a positive correlation to the level of return at the foreign location. The confidence makes it possible to make an internal generalization towards Nordea and SEB. However the theory of incentives is highly diversified and could not be generalized even if the banks aim towards the same goals.

The growth potential in the Swedish market is limited for both banks due to high concentration on the market. Internationalization within the banking industry is from the investigated bank's point of view necessary in order to be able to increase market shares and compete in today's market.

The evaluation of the internationalization processes can be strengthen by the results of the CAMEL model that proves that both Nordea and SEB are very stable and strong banks domestically as well as at their internationalization locations. Hence, the CAMEL framework is a valuable tool in order to determine what financial position, not only a bank is in but also the different segments within the bank which in this case is the abroad locations. The authors believe a CAMEL rating should be assigned to all acquisitions as well as parent companies externally since it's qualitative and quantitative variables affects investor and customer perspectives. The empirical findings showed that both Nordea and SEB were able to transfer their core identities abroad which can be seen since both banks maintained approximately the same CAMEL ratings internationally as well as domestically.

The CAMEL rating of Nordea was 1.8 and for Nordea Bank Polska 2. SEB Group had a rating of 2 and SEB AG, 2.2. A conclusion of this can be drawn that both Nordea and SEB are two strong and stable banks in Sweden as well as abroad. The international operations assess a slightly higher CAMEL rating for both banks which shows that the banks have more stable business in the domestic countries. These findings also showed that both Nordea and SEB in Sweden are prepared for the new regulations that Basel III will bring in 2013 while the acquisitions in Poland and Germany must make adoptions to the new requirements.

By making a CAMEL framework to see the past and current financial position, as well as considering the factors emphasized in the theories in this thesis, a bank should be able to evaluate itself and its position on the market.

9 Discussion

One weakness for the construction of the CAMEL assessment for both investigated banks was the lack of public financial figures. Due to the recent awareness of measuring the foreign operation individually the previous financial reports is not providing sufficient information to construct a complete CAMEL framework. Some of the financial information demanded was held internal due to the high competitiveness in the banking industry.

Strengths in the thesis were the information provided from the interviews with employees at key positions. The authors retrieved insight in the bank's internal operations and along with the assessment of the CAMEL rating the authors were able to state captivating assumptions and conclusions.

For further studies the CAMEL model could be further developed. Increasing the amount of ratios in each segment would strengthen the findings and a higher level of reliability could be obtained. Another interesting investigation would be to evaluate different internationalization locations within one bank to compare results and see where focus should be put.

The authors provided an internal generalization of the findings towards Nordea and SEB. Perhaps other Swedish as well as Nordic banks fit the same theories and result which would open up for further generalization.

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Appendix 1- Method

Appendix 1.1 Interview Questionnaire

1 Incentives for internationalization

The first part covers the incentives that have been the main driving forces for Nordea and SEB's internationalization towards Poland and Germany (Slager, 2006).

Q1.1 Market incentives

Findings from theoretical framework describes thee different forms of markets *(Slager, 2006)*.
-New market with similar demands
-New market and new demands
-Internationalized as a result of rescaling home boundaries (for example a membership in EU)
What incentive for reaching a new market was yours? How do you describe the demand for banking services in Poland/ Germany?

Q1.2 Differences in economic structure

What differences in wealth can be compared with the home and host country? How is the potential for growth compared to the home market? Which technological differences like advancement in internet etc. can be seen?

Q1.3 Regulations

Regulations can be an incentive to internationalize in countries which operates with strong regulations and limited growth opportunities within the home country. Are there any specific regulations that served as a barrier/ incentive for entry? What are the main differences between Swedish and Polish/German regulations?

Q1.4 Market power and concentration

How do you handle competition within your host country? Compared to the Swedish banking market? Were there any competitive advantages that contributed to the internationalization?

Q1.5 Customers

To what extent was the internationalization to Poland/ Germany a method to follow and maintain the existing merchant banking customers? How is Swedish customer affected by Nordea/SEB's internationalization?

Q1.6 Net interest margins

Net interest earnings are for many banks the most important source of income. Going international gives the opportunity to gain even higher profits if the interests are higher in other countries *(Slager, 2006)*. What were the main differences in Poland/Germany compared to Sweden with regards to incentives of net interest margins?

Q1.7 Cost of capital

Earlier studies show that banks have had goals of lower cost of capital as an incentive for going international, how has this affected your incentives to Poland/ Germany?

Q1.8 Risk/return diversification

How was the internationalization a way to handle Nordea/SEB's portfolio? Diversification? How did the bank's total risk reduce from going international?

2. Uppsala Internationalization model (Johanson, Vahlne, 1977)

Uppsala internationalization model is a theoretical model explaining the process of internationalization. According to the model internationalization is a slow incremental process with established patterns.

Q2.1 Market commitment
Is there a geographical internationalization pattern for Nordea/SEB? First the Nordic countries and then moving further geographically?
How has the market commitment towards Poland/Germany increased through the years?
Compared to the whole groups balance sheet how large was the first investment in the host country? What were the risks?

Q2.2 Market knowledge
How did you examine the Polish/German market? Customers and demands? Competitors?
How has the relationship to your host country developed through the years?
How has the knowledge been used in marketing?

Q2.3 Current activities
Has the earlier experience of being international been used to make plans for the future? Has the commitment and knowledge in Poland/Germany taken Nordea/SEB to new markets?

Q2.4 Commitment decisions
What are future plans for the bank in Poland/Germany? What have you learned from past experience that can be interpreted into the future? What opportunities and threats are there in the future for your specific market?

3. The process of establishment in a foreign market

Q3.1 Experience conditions
Did past experience provide comfort and knowledge for the establishment in Poland/Germany? Are there any historical experiences contributed to the specific establishment?

Q3.2 Exchange conditions: Possibilities to make business;
In the theoretical framework one view is all banking is local, what is your opinion on this?
How did you establish your position in the host country (Marquardt, 1994)? What position has Nordea/SEB in the Polish/German market? Strong/Weak?

Q3.3 Exchange conditions: Getting involved in the network
How did Nordea/SEB create a network in the host country? Network of customers? Government? Other banks?
What benefits/risk was seen from the creation of a new network. In what branch/ phase did it acquire more resources and knowledge to create a long lasting network?
(Retail, Merchant, Private banking, Corporate Finance.)

Q3.4 Operational conditions: Cultural differences
What cultural differences was expected when entering Poland/Germany? What cultural differences did you need to handle? What is the greatest difference in making business in Poland/ Germany? What changes has Nordea/SEB adapted to the culture?

4. Organizational identity in transition

Going international changes both the organization and the people within it. Attention should be focused upon how a bank creates an international banking identity (Vaara, Tienar, Irrman 2007).

Q4.1 What is your international identity? Compared to the Swedish?

Has it changed/ adapted to the internationalization?

Q4.2 How can you use your identity as a competitive advantage in the banking industry?

Q4.3 The four dimensions of building an identity

-How is one creating an identity without the risk of becoming artificial?

-How do you create a unique identity that the customer can feel connected to?

How have you created a positive picture of Nordea/SEB in Poland/ Germany?

What are your plans for identity establishment in the future? What will be the focus?

5. Financial factors

Q5.1 How much would a greater credit default on the host country market affect the Groups's results?

Q5.2 How much would the Group's result be affected by a greater loss in customers on the host country market?

Q5.3 How is the operation in Poland/Germany presented for Nordea/SEB's shareholders?

Q5.4 What key figures are you focusing upon for the specific internationalization location?

Appendix 1.2- CAMEL Rating

Rating capital adequacy

Rating the capital adequacy part of the CAMEL analysis is done by assigning a rating of 1 to credit unions that are able to have a level of capital fully corresponding to the current and expected risks. A rating of 2 means that the capital fully corresponds to the current and expected risks but the capital position will not be as strong and stable as the ones for rating 1. The rating 3 concludes organizations that have more risks in parts of its operations like for example asset quality problems affecting the capital. These institutions may not be able to meet the risk net worth requirements. If the union is significantly undercapitalized and does not have enough capital compared to the risk in the ongoing operations, a rating of 4 is appropriate. Rating 5 is given to the bank if it is critically undercapitalized or has major problems in asset quality, earnings or credit or interest risks (NCUA, 2003).

Rating asset quality

The different investigated variables within asset quality for the bank are leading to a final ranking. A grade of 1 indicates a low risk in the portfolio and a high asset quality. The rating 2 in asset quality indicates high quality but a slightly higher risk to consider. The 1 and 2 ranked banks are in general stable with clear trends. Rating 3 is considered approved but with a higher concern and need for supervision. The banks are having more fluctuations in trends and are more unstable. With a ranking of 4 and 5 there is a highly unsecure asset quality. The asset problems can affect the survival of the bank (NCUA, 2003).

Rating management quality

A rating of 1 in the management quality segment means that the management team is highly efficient. In order to receive a rating of 2 the management gives a satisfactory performance but with smaller faults. If the management experience lacks in operating performance in some segments or fails to have a strong strategic plan the rating 3 is appropriate. A management rating of 4 means that there are shortages that need to be taken into account in the ability of the management to fully complete the responsibilities. Finally a rating of 5 is given to management that has incompetence. The problems that occur from this level of management are considered serious and actions of replacement need to be taken (NCUA, 2003).

Rating earnings performance

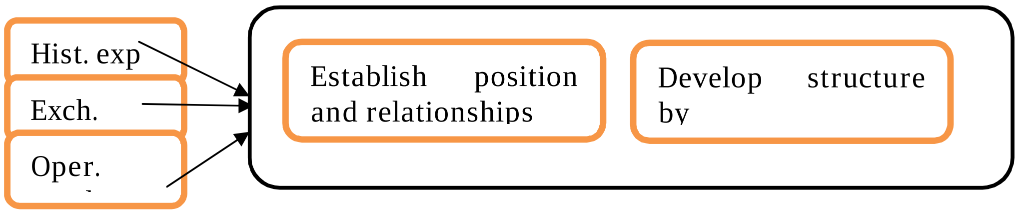
By assessing the financial earnings indicators a rate for the overall earnings performance can be concluded. A rating of 1 provides solid and positive earning patterns with high asset quality. Rating 2 is assigned still positive earnings performance and is considered stable in quality. A rating of 3 indicates a not fully sufficient level of the pattern of earnings and the satisfactory level on assets and earnings is not measuring up to the required level for the banking industry. Rating of 4 and 5 indicates losses in the earnings patterns and poor financial result compared to industrial averages. The result is of vital financial threat to the organizations survival (NCUA, 2003).

Rating liquidity

For the liquidity assessment in the CAMEL model a rating of 1 means that the bank is only exposed to a small risk in the liabilities, assets and equity. The liquidity risk is accounted for and liquidity needs are met. Rating 2 means that the bank has somewhat higher risk exposure but the management can identify and control the risk in a sufficient manner. A rating of 3 shows that the exposure of credit risk is significant and there is need of improvement. Liquidity may also be insufficient in meeting the requirements. Finally a rating of 4 shows that the bank experience a high risk level and the management is unable to plan and handle the liquidity requirements and a level of 5 means that the exposed credit risk is extremely high (NCUA, 2003).

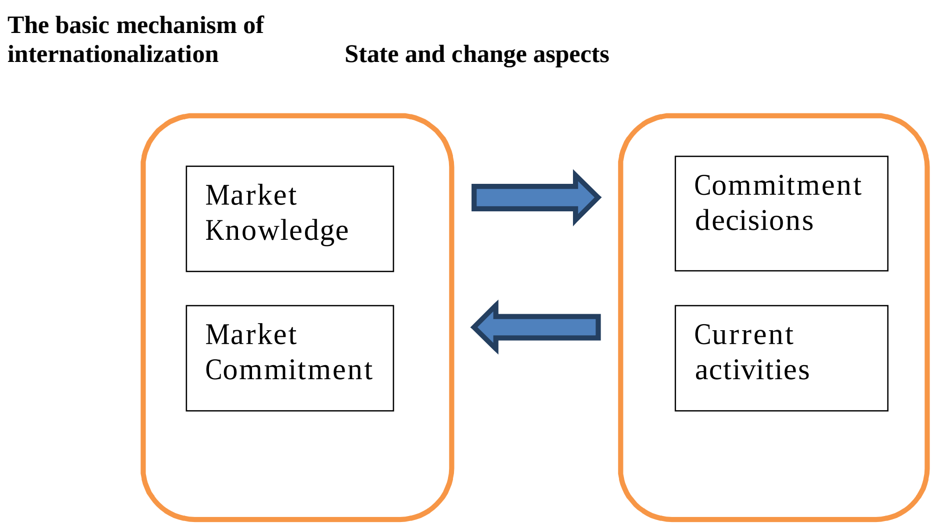
Appendix 3- Model Figures

Figure 1- Conditions for foreign operation



Source: Developed for this thesis, based on (Marquardt, 1994) findings from *Banketableringar i främmande länder.*

Figure 2- Uppsala Internationlization Model



Source: Developed for this thesis, based on (Johnson, Vahlne, 1977) findings from *The internationalization process of the firm.*

Figure 3- The dimensions of identity building in the process of internationalization

Source: Developed for this thesis, based on (Vaara et al, 2007) findings from *Crafting an international identity.*

Appendix 3- Tables Nordea

Table 1 - Total Assets Nordea Group and Nordea Bank Polska

Year	Nordea Group -Total assets (EUR thn)	Nordea Bank Polska -Total assets (EUR thn)	Nordea Group- Net profit (EUR thn)	Nordea bank polska - Net profit (EUR thn)	% Total asset Nordea Bank Polska of Nordea Group	% net profit Nordea Bank Polska of Nordea Group
1999	103 977 000	125 485	1 661 000	2204	0,121 %	0,133
2000	224 464 000	150 103	1 733 000	312	0,067	0,018

Comparing the balance sheet for Nordea Group's total assets and net profit which is stated in EUR M with Nordea Bank Polska's posts for the years 1999 and 2000 when the first acquisitions was made (Nordea Poland Annual Report, 1999), (Nordea Poland Annual Report, 2000) (Nordea Group Annual Report 2000).

Table 2 - Income statement Nordea Group (Nordea Group Annual Reports, 2006-2010)

Nordea GROUP						
Income statement						
In M EUR	2010	2009	2008	2007	2006	
Operating income						
Interest income	9687	10973				
Interest expense	-4528	-5692				
Net interest income	5159	5281	5093	4282	3869	
Fee and commission income	2955	2468	1883	2140	2074	
Fee and commission expense	-799	-775				
Net fee and commission income	2156	1693	1883	2140	2074	
Net result from items at fare value	1837	1946	1028	1209	1036	
Profit from companies accounted for						
under the equity method	66	48	24	41	68	
Dividends						
Other operating income	116	105	172	214	318	
Total operating income	9334	9073	8200	7886	7365	
Operating expenses						
General administrative expenses:						
Staff costs	-2784	-2724	-2568	-2388	-2251	
Other expenses	-1862	-1639	-1646	-1575	-1485	
Depreciation, amortisation and impairment						
charges of tangible and intangible	-170	-149	-124	-103	-86	
Total operating expenses	-4816	-4512	-4338	-4066	-3822	
Profit before loan losses	4518	4561	3862	3820	3543	
Net loan losses	-879	-1486	-466	60	257	
Impairment of securities held as financial						
non-current assets	0			3	8	
Operating profit	3639	3075	3396	3883	3808	
Appropriations						
Income tax expenses	-976	-757	-724	-753	-655	
Net profit for the year	2663	2318	2672	3130	3153	
Attributable to:						
Shareholders of Nordea Bank AB (p	2657	2314				
Non-controlling interests	6	4				
Total	2663	2318				

Table 3 -Nordea Group Balance Sheet (Nordea Group Annual Reports, 2006-2010)

	2010	2009	2008	2007	2006	
Balance Sheet M EUR						
Assets						
Cash and balances with central banks	10023	11500	3157	5020	2104	
Treasury bills	13112	12944	6545	5193	6678	
Loans to credit institutions	15788	18555	23903	24262	26792	
Loans to the public	314211	282411	265100	244682	213985	
Interest-bearing securities	69137	56155	44830	38782	29066	
Financial instruments pledged as collateral	9494	11240	7937	4790	10496	
Shares	17293	13703	10669	17644	14585	
Derivatives	96825	75422	86838	31498	24207	
Fair value changes of the hedged items in						
portfolio hedge of interest rate risk	1127	763	413	-105	-37	
Investments in group undertakings						
Investments in associated undertakings	554	470	431	366	398	
Intangible assets	3219	2947	2535	2725	2247	
Property and equipment	454	452	375	342	307	
Investment property	3568	3505	3334	3492	3230	
Deferred tax assets	278	125	64	191	382	
Current tax assets	262	329	344	142	68	
Retirement benefit assets	187	134	168	123	84	
Other assets	22857	14397	14604	7724	10726	
Prepaid expenses and accrued income	2450	2492	2827	2183	1572	
Total assets	580839	507544	474074	389054	346890	
Liabilities						
Deposits by credit institutions	40736	52190	51932	30077	32288	
Deposits and borrowings from the public	176390	153577	148591	142329	126452	
Liabilities to policyholders	38766	33831	29238	32280	31041	
Debt securities in issue	151578	130519	108989	99792	83417	
Derivatives	95887	73043	85538	33023	24939	
Fair value changes of the hedged items in portfolio						
hedge of interest rate risk	898	874	532	-323	-401	
Current tax liabilities	502	565	458	300	263	
Other liabilities	38590	28589	17970	22860	22177	
Accrued expenses and prepaid income	3390	3178	3278	2762	2008	
Deferred tax liabilities	885	870	1053	703	608	
Provisions	581	309	143	73	104	
Retirement benefit obligations	337	394	340	462	495	
Subordinated liabilities	7761	7185	8209	7556	8177	
Total liabilities	556301	485124	456271	371894	331568	
Untaxed reserves						
Equity						
Non-controlling interests	84	80	78	78	46	
Share capital	4043	4037	2600	2597	2594	
Share premium reserve	1065	1065				
Other reserves	-146	-518	-888	-160	-111	
Retained earnings	19492	17756	16013	14645	12793	
Total equity	24538	22420	17803	17160	15322	
Total liabilities and equity	580839	507544	474074	389054	346890	
Assets pledged as security for own liabilities	163945	138587	95507	17803	18136	
Other assets pledged	5972	6635	10807	6304	3053	
Contingent liabilities	23963	22267	12287	24254	22495	

Table 4 - Nordea Bank Polska Income Statement (Nordea Bank Polska Annual Reports, 2006-2010)

Nordea Poland					
PLN THN					
Income statement					
	2010	2009	2008	2007	2006
Operating income					
Interest income	761828	702179	744936	417711	302190
Interest expense	-299918	-349600	-444864	-242256	-166844
Net interest income	461910	352579	300072	175455	135346
Fee and commission income	128237	101335	82355	75796	55575
Fee and commission expense	-37225	-32161	-25841	-18441	-10169
Net fee and commission income	91012	69174	56514	57355	45406
Net result from items at fare value	201625	153006	118357	84730	56802
Profit from companies accounted for					
under the equity method					
Dividends					
Other operating income	34164	18630	12185	10866	8143
Total operating income	788711	593389	487128	328406	245697
Operating expenses					
General administrative expenses:	-403172	-350948	-283944	-212209	-158877
Staff costs	-188581	-169216	-134663	-101481	-77527
Other expenses	-214591	-181732	-149281	-110728	-81350
Depreciation, amortisation and impairment					
charges of tangible and intangible assets	-37999	-32759	-23861	-21821	-24309
Total operating expenses	-441171	-383707	-307805	-234030	-183186
Profit before loan losses	347540	209682	179323	94376	62511
Net loan losses					
Impairment of securities held as financia	-20630	-16718	-2108	-3842	5416
non-current assets					
Operating profit	326910	192964	177215	90534	67927
Appropriations					
Income tax expenses	-67573	-47771	-40795	-20002	-17859
Net profit for the year	259337	145193	136420	70532	50068

Table 5 - Nordea Bank Polska Balance Sheet (Nordea Bank Polska Annual Reports, 2006-2010)

PLN THN					
Nordea Bank Polska					
Balance Sheet	2010	2009	2008	2007	2006
Assets					
Cash and balances with central banks	628834	652036	214139	471000	131738
Treasury bills					
Loans to credit institutions	839607	497251	201265	269280	535506
Loans to the public	20718093	16996797	13676132	8635834	681680
Interest-bearing securities	2240282	1901570	1263532	599208	5362528
Financial instruments pledged as collateral					
Shares					
Derivatives					
Fair value changes of the hedged items in					
portfolio hedge of interest rate risk					
Investments in group undertakings					
Investments in associated undertakings					
Intangible assets	44689	44740	44131	41212	44014
Property and equipment	158217	138380	136795	76380	56264
Investment property					
Deferred tax assets	40559	31565	42556	27325	23971
Current tax assets	3204				
Retirement benefit assets					
Other assets	158881	162631	185559	119209	82447
Prepaid expenses and accrued income					
Total assets	24832366	20424970	15764109	10239448	6918148
Liabilities					
Deposits by credit institutions	12566105	9411662	5853468	2681226	1383171
Deposits and borrowings from the public	9460672	9252451	8386504	6334684	4799915
Liabilities to policyholders					
Debt securities in issue	325139	-	1317	1501	1824
Derivatives					
Fair value changes of the hedged items in portfolio					
hedge of interest rate risk	19587	33646	92572	14521	13177
Current tax liabilities	-	2646			
Other liabilities	141811	101210	121345	97843	127536
Accrued expenses and prepaid income					
Deferred tax liabilities			16723	7822	11617
Provisions					
Retirement benefit obligations					
Subordinated liabilities	467314	408780	221873	171303	
Reserves	373	9087	10324	9703	13749
Total liabilities	22981001	19219482	14704126	9318603	6350989
Untaxed reserves					
Equity					
Non-controlling interests					
Share capital	277494	227594	227594	227089	168089
Share premium reserve					
Other reserves	1314534	832701	695969	623224	349002
Retained earnings	259337	145193	136420	70532	50068
Total equity	1851365	1205488	1059983	920845	567159
Total liabilities and equity	24832366	20424970	15764109	10239448	6918148

Appendix 4- Camel rating for Nordea Group and Nordea Bank Polska

Table -1 Capital adequacy for Nordea Group (Authors own calculations, figures provided from Nordea Group Capital Adequacy Reports, 2006-2010)

M EUR						
Nordea Group	2010	2009	2008	2007	2006	Average
Calculation of capital base;						
Tier 1	21049	19577	15760	14230	13147	
Supplementary capital (tie	5305	4933	6097	6075	6726	
Deductions for undertakin	1620	1584	1531	1645	1714	
Capital base	24734	22926	20326	18660	18159	20961
Risk weighted assets;						
Credit risk	164662	153123	150746	156952	176329	
Market risk	5765	5386	5930	3554	9069	
Operational risk	14704	13215	11896	10976		
Total	185131	171724	168572	171482	185398	176461,4
Adjustment for transitiona	29629	20134	44709	33103		
Total reported	214760	191858	213281	204585	185398	201976,4
Total reported capital requ	17180,8	15348,64	17062,48	16366,8	14831,84	
Tier 1 capital ratio (includir	9,80%	10,20%	7,39%	6,96%	7,09%	
CAR (Total capital ratio including tran		11,52%	11,95%	9,53%	9,12%	9,79%
Capital base in relation to c	0,00	1,44	1,49	1,19	1,14	1,05
Capital requirements as pe	8%					

Table -2 Capital adequacy Nordea Bank Polska (Authors own calculations, figures provided from Nordea Bank Polska, 2011)

PLN THN			
Total reported		1424859	
Total reported capital requirement / 12,5		113988,72	
	2010	2009	
CAR (Total capital ratio includi	10,85	9,76%	

Table -3 Asset quality Nordea Group (Authors own calculations, figures provided from Nordea Group, 2006-2010)

Nordea Group	2010	2009	2008	2007	2006	Average
M EUR						
Impaired loans/Past due	4849	4240	2224	1432	1616	
Total loans outstanding	329999	300966	289003	268944	240777	
Portfolio in Arrears (%)	1,47%	1,41%	0,77%	0,53%	0,67%	0,97%
Net writ-offs	1724	2422	961	452	520	
Total loans outstanding	329999	300966	289003	268944	240777	
Loan loss ratio/Credit los	0,52%	0,80%	0,33%	0,17%	0,22%	0,41%
Total allowance	2534	2118	742	603	764	
Total impaired loans gro:	4849	4102	2191	1321	1860	
Provisioning ratio %	52,26%	51,63%	33,87%	45,65%	41,08%	44,90%
Total reserves	2534	2118	742	603	764	
Total loan outstanding	329999	300966	289003	268944	240777	
Total (Loan) loss reserve	0,77%	0,70%	0,26%	0,22%	0,32%	0,45%

Table -4 Asset quality Nordea Bank Polska (Authors own calculations, figures provided from Nordea Bank Polska, 2006-2010)

Nordea Poland						
	2010	2009	2008	2007	2006	average
PLN THN						
Impaired loans/Pas	233 262,000	140 195,000	145 642,000	149 002,000	189 876,000	
Total loan outstand	21557700	17494048	13877397	8905114	1217186	
Portfolio in Arrears	1,08%	0,80%	1,05%	1,67%	15,60%	4,04%
Net writ-offs	3062	12804	15820	14015	63799	
Total loan outstand	21557700	17494048	13877397	8905114	1217186	
Loan loss ratio/Cre	0,01%	0,07%	0,11%	0,16%	5,24%	1,12%
Total allowance	24	19	18	26	27	
Total impaired loar	59	34	38	40	54	
Provisioning ratio	40,68%	55,88%	47,37%	65,00%	50,00%	51,79%
Total reserves	94940	76800	73615	87039	95814	
Total loan outstand	21557700	17494048	13877397	8905114	1217186	
Total (loan) reserve	0,44%	0,44%	0,53%	0,98%	7,87%	2,05%

Table -5 Management Quality for Nordea Group (Authors own calculations, figures provided from Nordea Group, 2006-2010)

Nordea	2010	2009	2008	2007	2006	Average
M EUR						
Total operating expenses	-4816	-4512	-4338	-4066	-3822	
Total loan	329999	300966	289003	268944	240777	
Cost per unit of money lent	0,014594	0,014992	0,01501	0,015118	0,015874	0,015118

Table -6 Management Quality for Nordea Bank Polska (Authors own calculations, figures provided from Nordea Bank Polska, 2006-2010)

Nordea Poland	2010	2009	2008	2007	2006	average
PLN THN						
Total operating expenses	-441171	-383707	-307805	-234030	-183186	
Total loan	21557700	17494048	13877397	8905114	1217186	
Cost per unit of money lent	0,0204647	0,0219336	0,0221803	0,02628	0,1505	0,048272

Table -7 Earning performance Nordea Group (Authors own calculations, figures provided from Nordea Group, 2006-2010)

Nordea	2010	2009	2008	2007	2006	Average
M EUR						
Net income after taxes	2663	2318	2672	3130	3153	
Total assets	580839	507544	474074	389054	346890	
Retrun on Assets	0,46%	0,46%	0,56%	0,80%	0,91%	0,64%
Net income after tax	2663	2318	2672	3130	3153	
Total equity	24538	22420	17803	17160	15322	
Return on Equity	10,85%	10,34%	15,01%	18,24%	20,58%	15,00%
Total Shareholder Return	3,70%	78,60%	-46,90%	6,40%	32,30%	14,82%
Total income	9334	9073	8200	7886	7365	
Total expenses	-4816	-4512	-4338	-4066	-3822	
Expected losses (EL)	-858	-796	-690	-615	-523	
Tax	-976	-757	-724	-753	-655	
Risk adjusted profit	2684	3008	2448	2452	2365	2591,4

Table -8 Earning performance Nordea Bank Polska (Authors own calculations, figures provided from Nordea Bank Polska, 2006-2010)

Nordea Poland	2010	2009	2008	2007	2006	average
PLN THN						
Net income after taxe	259337	145193	136420	70532	50068	
Total assets	24832366	20424970	15764109	10239448	6918148	
Retrun on Assets	1,04%	0,71%	0,87%	0,69%	0,72%	0,81%
Net income after tax	259337	145193	136420	70532	50068	
Total equity	1851365	1205488	1059983	920845	567159	
Return on Equity	14,01%	12,04%	12,87%	7,66%	8,83%	11,08%
Total Shareholder Ret	31,05%	55,69%	-32,33%	12,99%		16,85%

Table -9 Liquidity for Nordea Group (Authors own calculations, figures provided from Nordea Group, 2006-2010)

Nordea M EUR	2010	2009	2008	2007	2006	Average
Operating expenses	-4816	-4512	-4338	-4066	-3822	
Operating income	9334	9073	8200	7886	7365	
Cost/Income ratio	51,60%	49,73%	52,90%	51,56%	51,89%	51,54%
Loans to the public	314211	282411	265100	244682		
of which repos	19701	18418	19961	14670		
Deposit and borrowin	176400	153600	148600	142300		
Loan to deposit ratio	166,96%	171,87%	164,97%	161,64%		166,36%
Total assets	580839	507544	474074	389054	346890	
Total equity	24538	22420	17803	17160	15322	
Financial leverage rati	23,67	22,64	26,63	22,67	22,64	23,65

Table -10 Liquidity for Nordea Bank Polska(Authors own calculations, figures provided from Nordea Bank Polska, 2006-2010)

Nordea Poland	2010	2009	2008	2007	2006	Average
PLN THN						
Operating expenses	-441171	-383707	-307805	-234030	-183186	
Operating income	788711	593389	487128	328406	245697	
Cost/Income ratio	55,94%	64,66%	63,19%	71,26%	74,56%	65,92%
Loans to the public	20 718 093	16996797	13676132	8635834	681680	
of which repos						
Deposit and borrowing	9460672	9252451	8386504	6334684	4799915	
Loan to deposit ratio	218,99%	183,70%	163,07%	136,33%	14,20%	143,26%
Total assets	24832366	20424970	15764109	10239448	6918148	
Total equity	1851365	1205488	1059983	920845	567159	
Financial leverage ratic	13,41	16,94	14,87	11,12	12,20	13,71

Table -11 The Camel rating (Authors own ratings, 2011)

	CAR	ASSET	Mgmt	Earning	Liquidity	Average	
Nordea Group	1	1	2	2	3	1,8	
Nordea Bank Polska	2	2	2	2	2	2	

Appendix 6- Tables SEB

Table -1 SEB GROUP Income statement (SEB Group Annual Reports, 2006-2010)

SEB GROUP						
	2010	2009	2008	2007	2006	
Income statement						
M SEK						
Operating income						
Interest income	46041	58104	97281	86035	66137	
Interest expense	-30031	-40058	-78571	-70037	-51856	
Net interest income	16010	18046	18710	15998	14281	
Fee and commission income	18671	17995	19877	21400	19945	
Fee and commission expense	-4511	-4710	-4623	-4349	-3799	
Net fee and commission incom	14160	13285	15254	17051	16146	
Net financial income	3166	4488	2970	3239	4036	
Net life insurance income	3255	3597	2375	2933	2661	
Net other income	288	2159	1795	1219	1623	
Other operating income						
Total operating income	36879	41575	41104	40440	38747	
Operating expenses						
General administrative expenses:						
Staff costs	-14004	-13786	-16241	-14921	-14363	
Other expenses	-7303	-6740	-7642	-6919	-6887	
Depreciation, amortisation anc	-1880	-4672	-1524	-1354	-1287	
charges of tangible and intangible assets						
Restructuring costs	-764	0				
Total operating expenses	-23951	-25198	-25407	-23194	-22537	
Profit before loan losses	12928	16377	15697	17246	16210	
Gains less losses from tangible and intangible assets				788	70	
Result from sale of fixed capita	14	4	5			
Provision for risks	-1837	-12030	-3231			
Net credit losses incl. Changes in value of seized assets				-1016	-718	
Operating profit (before taxes)	11105	4351	12471	17018	15562	
Appropriations						
Income tax expenses	-2521	-2482	-2421	-3376	-2939	
Discontinued operations	-1786	-691	0	0	0	

Table -2 SEB AG Income statement (SEB AG Annual Reports, 2006-2010)

Income statement SEB AG						
M EUR						
Operating income	2010	2009	2008	2007	2006	
Interest income	1226,2	1546,3	2754,7	2388,1	2171,9	
Interest expense	-974,3	-1323,4	-2368,7	-2007,5	-1773,5	
Net interest income	251,9	222,9	386	380,6	398,4	
Fee and commission income	234,6	225,1	407,7	437,7	343,9	
Fee and commission expense	-102,1	-99,4	-117,5	-133,9	-67,2	
Net fee and commission income	132,5	125,7	290,2	303,8	276,7	
Net result from items at fare value	-55,4	-44,5	16,8	-0,8	12,6	
Profit from companies accounted for						
under the equity method	26,5	14,1	-23,7	37,8	13,4	
Result from security provisions (hed	-40,4	-26,1	-5,3	-49,8	11	
Other operating income	8,3	26,8	47,7	10,8	14	
Total operating income	323,4	318,9	711,7	682,4	726,1	
Operating expenses						
General administrative expenses:						
Staff costs	-121,1	-127,7	-300,8	-314	-280,3	
Other expenses	-80,5	-68,7	-183,7	-188,6	-184,6	
Depreciation, amortisation and impairment						
charges of tangible and intangible as	-50,5	-18,6	-23,8	-26,7	-29,3	
Total operating expenses	-252,1	-215	-508,3	-529,3	-494,2	
Profit before loan losses	71,3	103,9	203,4	153,1	231,9	
Result from sale of fixed capital asse	5,9	-0,4	-0,6	-0,1	-1	
Provision for risks	-15,1	-29,9	-30,4	-46,6	-61,7	
Operating profit (before taxes)	62,1	73,6	172,4	106,4	169,2	
Appropriations						
Income tax expenses	-22,9	-26,5	-64,2	-54,2	-20,8	
Net profit for the year	39,2	47,1	108,2	52,2	148,4	
Attributable to:						
Results from a business unit determ	-119,3	-61,3	0	0	0	
Expenses from profit and loss transf	0	-74	0	0	0,3	
Net income/net loss for the financia	-80,1	-88,2	108,2	52,2	148,7	

Table -3 Balance sheet SEB Group (SEB Group Annual Reports, 2006-2010)

Balance Sheet	M EUR	2010	2009	2008	2007	2006
Assets						
Cash and balances with central bar		46488	36589	44852	96871	11314
Treasury bills						
Loans to credit institutions		204188	331460	266363	263012	180478
Loans to the public		1074879	1187837	1296777	1067341	950861
Financial assets at fair value		617746	581641	635454	661223	614288
Available for sale financial assets		66970	87948	163115	170137	116630
Held to maturity investments		1451	1332	1997	1798	2231
Assets held for sale		74951	596	852	0	2189
Investments in associate		1022	995	1129	1257	1085
Intangible assets		16922	17177	19395	16894	15572
Property and equipment		1588	2200	2626	2564	2302
Investment property		8525	8393	7490	5239	5040
Deferred tax assets		1709	1624	2836	845	1121
Current tax assets		4580	3898	3998	3766	2568
Trade and client receivable		30434	14637	13402	25377	11277
Withheld margins of safety		13989	17120	30361	0	0
Other assets		14379	14780	20055	28138	17485
Total assets		2179821	2308227	2510702	2344462	1934441
Liabilities						
Deposits by credit institutions		212624	397433	429425	421348	368326
Deposits and borrowings from the p		711541	801088	841034	750481	643849
Liabilities to policyholders		263970	249009	211070	225916	203719
Debt securities in issue		530483	456043	525219	510564	394357
Financial liabilities at fair value		200690	191440	295533	216390	151032
Liabilities held for sale		48339	165			
Trade and client payables		29960	16401	9498	33940	12479
Current tax liabilities		4021	1547	1148	1101	1036
Other liabilities		27535	25338	26062	53075	37536
Whitheld margins for safety		13963	21399	25047		
Deferred tax liabilities		9852	10299	9810	9403	9099
Provisions		1748	2033	1897	1536	2066
Subordinated liabilities		25552	36363	51230	43989	43675
Total liabilities		2080278	2208558	2426973	2267743	1867174
Untaxed reserves						
Equity						
Non-controlling interests						
Share capital		21942	21942	6872	6872	6872
Revaluation reserves		-2147	-303	-1295	-278	772
Other reserves		33306	34114	32857	29757	30203
Retained earnings		39378	42486	45103	40177	29290
Net profit		6798	1178			
Minority interest		266	252	192	191	130
Total equity		99543	99669	83729	76719	67267
Total liabilities and equity		2179821	2308227	2510702	2344462	1934441

Table -4 Balance Sheet SEB AG	**(SEB AG Annual Reports, 2006-2010)**				
Balance Sheet M EUR	2010	2009	2008	2007	2006
Assets					
Cash reserve	1545,7	414	1896,4	1651,6	278,3
Due from banks	12682,7	15244,1	11560,7	16608,8	8337
Thereof; provision for risks	-0,1	-0,1	-0,5	-0,7	-9,1
Trade accounts receivable	17514,2	26347,8	29245,7	25571	27060,2
Thereof; provision for risks	-188,9	-303,5	-303,7	-358,5	-304,7
Thereof; pledged accounts receivable	123	43,8	0		
Asset-side financial instruments valued at fair value	2586,2	3325,1	4828,8	6641,3	6894
Thereof; deposit as security	808,3	279,7	1380,6		
Positive market values from derivates	230,4	202,3	101,8	67,7	109,3
Fair value changes from underlying transactions	380,5	392,4	320,3	-67,8	31,3
Financial investments	5090,3	6401,1	11699,5	10545,2	8000,9
Intangible assets	12,5	36,3	35,8	25,8	15,3
Property and equipment	22	66,4	75,2	92,2	106,5
Investment property	46	17,5	20	21,3	69,2
Deferred tax assets	216,4	33,4	30,3	83,1	117,4
Current tax assets	56,2	217,3	243,8	152,6	83,7
Other assets	431,8	55,5	52,6	59,2	486
Thereof; pension	37,4	0	6,8	8,3	27,1
Assets held for sale	8275,5	60	77,6	38,5	121,3
Total assets	49090,4	52813,2	60188,5	61490,5	51710,4
Liabilities					
Liabilities to banks	16395,2	16842,4	16159,1	21187	16138,1
Current deposit and other accounts	16707	22025,4	26171,5	24791,7	19102,1
Bonded liabilities	4450,9	7892,9	11408,1	10464,4	11812,4
Liabilities-side financial instruments valued at fair value	2830,5	2642,6	3214,7	2397,3	1127,9
Negative market values from Derivative security instruments	310,6	519,5	360,4	21,2	448,7
Fair value changes from underlying transactions (portfolio hedge)	151,9	146,1	147,5	-43,5	-16,3
Liabilities in connection to assets held for sale	5273,3	19,7	37	0	0,4
Current tax liabilities	7,3	16,7	0,1	15,1	13,5
Other liabilities	617,4	205,2	174,7	195,4	504,5
Deferred tax liabilities		0	0		0
Provisions	97,2	114,9	69,3	89,7	83,4
Retirement benefit obligations					
Subordinated liabilities	50,8	74,9	85,8	96,5	119,8
Total liabilities	46892,1	50500,3	57828,2	59214,8	49334,5
Untaxed reserves					
Equity					
Subscribed capital	775,2	775,2	775,2	775,2	775,2
Share premium reserve	583,1	581,9	581	580	499,7

Appendix 7- Camel ratings for SEB Group and SEB AG

Table -1 Capital adequacy for SEB Group (Authors own calculations, figures provided from SEB Group Capital Adequacy Reports, 2006-2010)

Calculation of capital base M SEK	2010	2009	2008	2007	2006	average
Core tier 1 capital	87387	85381	70092	69221	60575	
Tier 1 capital	101980	101604	82463	72702	60662	
Supplementary capital (tier 2)	8091	16885	33743	31647	35836	
Deductions for undertakings	10922	11144	11483	11376	11576	
Capital base	99149	107345	104723	92973	84922	97822,4
Risk weighted assets;						
Total for credit risk IRB approach	523911	543312,5	592350	368862		
Total, companies that report according to Ba	716126	730487,5	817787,5	550609		
Total, companies that report according to Ba	0	0	0	186255		
Total	716126	730487,5	817787,5	736864	740513	
Adjustment for transitional floor	83672	64687,5	168250	105110		
Total reported	799798	795175	986037,5	841974	740513	
Total reported capital requirement / 12,5	63983,84	63614	78883	67357,92	59241,04	
Core Tier 1 capital ratio	10,93%	10,74%	7,11%	8,22%	8,18%	9,03%
Tier 1 capital ratio	12,75%	12,78%	8,36%	8,63%	8,19%	10,14%
CAR (Total capital ratio including transitiona	12,40%	13,50%	10,62%	11,04%	11,47%	11,81%
Capital base in relation to capital requireme	1,55	1,69	1,33	1,38	1,43	1,48

Table -2 Capital adequacy for SEB AG (Authors own calculations, figures provided from SEB Group Capital Adequacy Reports, 2006-2010)

SEB AG	2010	2009	2008	2007	2006	
M SEK						
Calculation of capital base;						
Core tier 1 capital						
Tier 1 Cap	13872	15833	16870			
Supplementary capital (tier 2)						
Deductions for undertakings						
Capital ba	20749	23796	23853	23377		
Risk weighted assets;						
Total for credit risk IRB approach						
Total, companies that report according to Basel II						
Total, companies that report according to Basel I						
Total	11881	13289	15984	16772,74		
Adjustme	1020	977	2668			
Total repc	12901	14266	18652	16772,74		
Total repc	161262,5	178325	233150	209659,3		
Tier 1 capi	8,60%	8,88%	7,24%	0,00%		
CAR (Tota	12,87%	13,34%	10,23%	11,15%		
Capital ba	1,61	1,67	1,28	1,39		

Table -3 Asset quality SEB Group (Authors own calculations, figures provided from SEB Group Annual Reports, 2006-2010)

SEB GROUP	2010	2009	2008	2007	2006	Average
M SEK						
Impaired loans/Past due	24254	28573	14575	8391	8526	
Total loans outstanding	1279067	1519297	1563140	1330353	1125982	
Portfolio in Arrears (%)	1,90%	1,88%	0,93%	0,63%	0,76%	1,22%
Net writ-offs	1837	12030	3155	1021	703	
Total loans outstanding	1279067	1519297	1563140	1330353	1125982	
Loan loss ratio/Credit loss level	0,14%	0,79%	0,20%	0,08%	0,06%	0,26%
Total reserves	14919	18077	9219	6389	6404	
Total loans outstanding	1279067	1519297	1563140	1330353	1125982	
Total (loan) reserve ratio	1,17%	1,19%	0,59%	0,48%	0,57%	0,80%
Total allowance	8883	10665	2741	630	421	
Total impaired loans gross	16640	21325	13911	6967		
Provisioning ratio	53,38%	50,01%	19,70%	9,04%		33,04%

Table -4 Asset quality for SEB AG (Authors own calculations, figures provided from SEB AG Annual Reports, 2006-2010)

SEB AG	2010	2009	2008	2007	2006	Average
M EUR						
Net writ-offs	64,4	23,7	70,1	26,7	29,3	
Total loans outstanding	30196,9	41591,9	40806,4	42179,8	35397,2	
Loan loss ratio/Credit loss level	0,21%	0,06%	0,17%	0,06%	0,08%	0,12%
Total reserves (Cash reserve)	1545,7	414	1896,4	1651,6	278,3	
Total loans outstanding	30196,9	41591,9	40806,4	42179,8	35397,2	
Total (loan) reserve ratio	5,12%	1,00%	4,65%	3,92%	0,79%	3,09%

Table -5 Management quality SEB Group (Authors own calculations, figures provided from SEB Group Annual Reports, 2006-2010)

SEB Group	2010	2009	2008	2007	2006	Average
M SEK						
Total operating expenses	-23951	-25198	-25407	-23194	-22537	
Total loan	1279067	1519297	1563140	1330353	1131339	
Cost per unit of money lent	0,0187	0,0166	0,0163	0,0174	0,0199	0,0178

Table -6 Management quality SEB AG (Authors own calculations, figures provided from SEB AG Annual Reports, 2006-2010)

SEB AG	2010	2009	2008	2007	2006	Average
M EUR						
Total operating expenses	-252,1	-215	-508,3	-529,3	-494,2	
Total loan	30196,9	41591,9	40806,4	42179,8	35397,2	
Cost per unit of money lent	0,0083	0,0052	0,0125	0,0125	0,0140	0,0105

Table -7 Earning performance SEB Group (Authors own calculations, figures provided from SEB Group Annual Reports, 2006-2010)

M SEK	2010	2009	2008	2007	2006	Average
Net income after taxes	6798	1178	10050	13642	12623	
Total assets	2179821	2308227	2510702	2344462	1934441	
Retrun on Assets	0,31%	0,05%	0,40%	0,58%	0,65%	0,40%
Net income after tax	6798	1178	10050	13642	12623	
Total equity	99543	99669	83729	76719	67267	
Return on Equity	6,83%	1,18%	12,00%	17,78%	18,77%	11,31%
Total Shareholder Return	26,34%	35,18%	-62,95%	-18,49%	38,87%	
jan	dec	div				
45,59	56,1	1,5	2010			
33,54	44,34	1	2009			
84,62	31,35	0	2008			
112,75	85,4	6,5	2007			
85,14	112,23	6	2006			
Total income	36879	41575	41104	40440	38747	
Total expenses	-23951	-25198	-25407	-23194	-22537	
Expected losses (EL)		-18521	-11656	-5429		
Tax	-2521	-2482	-2421	-3376	-2939	
Risk adjusted profit		-4626	1620	8441		

Table -8 Earning performance SEB AG (Authors own calculations, figures provided from SEB AG Annual Reports, 2006-2010)

M EUR	2010	2009	2008	2007	2006	Average
Net income after taxes	39,2	47,1	108,2	52,2	148,4	
Total assets	49090,4	52813,2	60188,5	61490,5	51710,4	
Retrun on Assets	0,08%	0,09%	0,18%	0,08%	0,29%	0,14%
Net income after tax	39,2	47,1	108,2	52,2	148,4	
Total equity	2198,3	2313,9	2360,3	2275,7	2375,9	
Return on Equity	1,78%	2,04%	4,58%	2,29%	6,25%	3,39%

Table -9 Liquidity performance for SEB Group (Authors own calculations, figures provided from SEB Group Annual Reports, 2006-2010)

M SEK	2010	2009	2008	2007	2006	Average
Operating expenses	-23951	-25198	-25407	-23194	-22537	
Operating income	36879	41575	41104	40440	38747	
Cost/Income ratio	0,65	0,61	0,62	0,57	0,58	0,61
Loans to the public	1074879	1187837	1296777	1067341	950861	
of which repos	63449	61638	60246	130363	112425	
Deposit and borrowing from	709087	798152	837381	747812	641758	
Loan to deposit ratio	142,64%	141,10%	147,67%	125,30%	130,65%	137,47%
Current assets	1281833	1227438	1302132	1209331	973062	
Current liabilities	1462008	1550550	1784042	1692482	1346830	
Current ratio	0,88	0,79	0,73	0,71	0,72	0,77
Total assets	2179821	2308227	2510702	2344462	1934441	
Total equity	99543	99669	83729	76719	67267	
Financial leverage ratio	21,90	23,16	29,99	30,56	28,76	26,87

Table -10 Liquidity performance for SEB AG **(Authors own calculations, figures provided from SEB AG Annual Reports, 2006-2010)**

SEB AG	2010	2009	2008	2007	2006	Average
M EUR						
Operating expenses	-252,1	-215	-508,3	-529,3	-494,2	
Operating income	323,4	318,9	711,7	682,4	726,1	
Cost/Income ratio	0,78	0,67	0,71	0,78	0,68	0,72
Loans to the public	17514,2	26347,8	29245,7	25571	27060	
of which repos						
Deposit and borrowing from the p	16707	22025,4	26171,5	24791,7	19102,1	
Loan to deposit ratio	104,83%	119,62%	111,75%	103,14%	141,66%	116,20%
Current assets	31199,2	31297,1	28731,5	27230,2	16964,2	
Current liabilities	34586,5	35236,3	35245,1	36713,6	29053,5	
Current ratio	0,90	0,89	0,82	0,74	0,58	0,79
Total assets	49090,4	52813,2	60188,5	61490,5	51710,4	
Total equity	2198,3	2313,9	2360,3	2275,7	2375,9	
Financial leverage ratio	22,33	22,82	25,50	27,02	21,76	23,89

Table -11 Camel rating for SEB Group and SEB AG **(Authors own ratings, 2011)**

	CAP AD	ASSET Q	MGMT	EARNINGS	LIQUDITY	Average	
SEB Group	1	2	2	3	2	2	
SEB AG	2	2	2	3	2	2,2	