

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon ladies and gentlemen and welcome to your ForeningsSparbanken Q2 Report Conference Call. At this time all part (inaudible - audio drops out). Mr. [Schwartz]? Chad Schwartz? Mr. Schwartz? (Inaudible - audio drops out). [OPERATOR INSTRUCTIONS] I would now like to hand over to your chairperson, [Hakan Wilson], Head of Investor Relations. Please go ahead with your conference sir and I will be standing by.

Hakan Wilson - *ForeningsSparbanken - Head of Investor Relations*

Thank you. Good afternoon and welcome to this second quarter presentational results. We have roughly 45 minutes and we'll try to keep within that time schedule because Danske Bank opens their webcast and telephone conference at 5 o'clock. The way we'll do this is that we'll have a general business overview presented by Mr. Jan Liden, the CEO and Chairman -, sorry, CEO and President of the company. Followed by a more detailed presentation of our key issues and numbers by our CFO, Mr. Michael Lander. With us is also Mr. Erkki Raasuke, the head of Baltic Banking and Member of Group Executive Management.

And with that, I'll had over to Mr. Jan Liden.

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Jan Liden - *ForeningsSparbanken - CEO and President*

Thank you. Thank you Hakan very much. I'll go briefly through a few slides with you and beginning with what we considered being business highlights this second quarter. And as you can see on this slide we think that the good results in this quarter is based on good performance in all the major strategic business units.

Starting with Swedish banking, we have had continued high business activity and less margin pressure than we have experienced before. Steady growth in both corporate and household lending, stabilizing mortgage margins and improving deposit margins, mostly due to the increase in interest rates.

Baltic banking, we are happy to report a continued rapid growth also with reasonably stable margins. And stable - consistent stable and high growth in both lending and deposit volumes.

[Servbank] markets have had a very solid performance across all business areas, both in Sweden and in Norway. Both equity and FX fixed income trading performed very well. And strong earnings in project and corporate finals both in Sweden and in First Securities in Norway. And not the least part of the result comes from the almost doubling in the turnover on the Oslo equity market.

The one off items during this quarter worth mentioning is that we have in Baltic banking provisioned another 114 million Swedish crowns, equaling 12.3 billion [audio skip] a million euro in order for the - in order for the discussion with the Russian tax authorities regarding VIP.

We have also been able to - which we have also informed you about before is to sell the remaining shares in Sparbanken 1 group to the other shareholders which have, in this report, reevaluate that stockholding with 342 million Swedish crowns.

If we look at the volume growth in numbers, you see on this slide the growth [volsions] in lending and in saving, considerable growth in nominal terms in the Swedish spend top household and the corporate lending and also - and especially so percentage wise in the Baltic banking who continues a very high and steady pace in their increase.

Savings also increasing rapidly in household deposits in the group. And also funds under management have increased but very modestly so. And equity linked index points have also continued to increase so that our total volume has gone up since year-end to 600 - 763 billion Swedish crowns.

As - here you see a slide where you can see the margins of loans and deposits and as I said, we have now a fairly stable, but different of course situation in different Baltic countries -- Estonia, Latvia, and Lithuania. And on an lower level the Swedish lending margins who have now also stabilized. In the deposit side you see a small increase in all countries except for Latvia and that increase is based on the increase of interest rates that we have had during this quarter.

If we look at these slides, we have tried to establish a kind of overall picture in the different strategic business areas. Swedish banking is somewhat very stable and even where minor - a minor decrease over the quarters in terms of revenues. But we also see that the expenses are coming down much more than the revenues decreased. So we are actually able to increase or improve the cost income ratio and also the related return on allocated equity. We have excluded in this quarterly review also the one-off gains last year when we sold part of the credit cards and the debt collecting company, [Condin Castle].

And you also see a small change here, that for the first time in many quarters we have been able to see an increase in the net interest income, which of course is very good and has been an issue for debate over the last quarters. That has mostly, as you know, been due to the fact that we have experienced very high margin pressure on the - on the mortgage side. But now in this quarter we saw actually 4% increase due to the increased volumes.

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Baltic banking continued to perform very well. You see here the quarterly review of their income and cost development and we can, in this figure we have also excluded this provision for the Russian, VAT, this figure 0.46, which we at least regard as a one-off event. So that is continues good financial development.

Swedbank market, that picture is constructed a little bit differently. Here as the profit showed, both the profit for Swedbank markets in totals and also the profit which is attributable to the Swedbank shareholders because the First Securities is only partly owned by us. And here you see that very positive development on an operating profit level for Swedbank market in total and also for the part that is wholly owned by Swedbank.

We have a diversification pattern or trend in our businesses, which you can see on this slide. If you divide the income by quarter on quarter, by the different business areas you see that the Swedbank, Swedish banking is relatively seen decreasing it on -- percentage wise and Baltic banking and Swedbank markets are increasing. Also if you look at revenue streams by category you see that the net interest income is still of courses very, very important for us but actually slowly going down at the same time as net commissions are increasing.

So if you try to conclude what is happening to the group from a profit point of view you see this slide where we have plotted the different results over the quarter from the beginning of '04 and excluded the net gains from sales of FIH in Quarter 3 '04, credit cards, last year's Quarter 2 and Condin Castle last year's Quarter 3. And then you see what we think is a positive trend with the exception, unfortunately for the first quarter this year. But this quarter we are in that sense back on track.

The group financial targets as we have reported is -- what we're trying to achieve is of course a return on equity which is at least better than the average of our peer group which is the six biggest Nordic banks. And as you see, we have a very good track record there except for last quarter. This quarter we caught up a little bit more and hopefully when we include all the Nordic banks in this comparison, we haven't done that, we hopefully see that we are actually above the average again.

Cost income ratio developed well. So we were down at 0.51 where we have a goal of being less as a group, less than 0.50 and that is an improvement from the first quarter and the primary [cap acceleration] issue is stable around 6.5 percentage units.

Then I'll try to - before we have the different comments from you and questions from you, hand over to Mikael Inglander to give you a run down on the numbers. Please Mikael.

Mikael Inglander - *ForeningsSparbanken* - CEO

Thank you. And before start the PNL, I think there are some things, which I will go deeper into, starting with the net interest income, which has decreased by 7 million. There's a different pattern in their fields and I will comment on that later on. Net commissions is up. I'll go that through as well. And again, net gains is somewhat volatile, but has improved. I will comment on it later on in the material. Total income up 16% and expenses up 7%, but excluding the VAT provision in Russia, it's up 5% and I'll try to go into the different parts so the expenses later on.

Loan losses, down. I'll comment on that as well. And operating profit up 33% but after tax just 24. And I think that is a good comment about that since the average tax in Q1 was 18%, about 18% and this quarter 24. We had some - we gained some taxes paid for previous years in Q1 and in the average you should count on something like 22% as we have said before. So this is a one-off item as we see it.

I'll go on more in detail when it comes to net interest income. As Jan has already explained, we have seen a good volume development both in the Swedish banking, Baltic banking. Also goes for deposit volumes which has incased our revenue streams. Still pressure on the lending margins, both in Swedish banking and Baltic banking but it's covered for with the expansion in volumes and also exceeding. Deposit margins are positive, and that also goes for the volumes. It's a good net in that sense.

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All in all, Swedish banking is up 98 and the Baltic 97, but group level just 7 million and you have an elimination which is described on next slide which is 181, which is important, I believe, to actually dig deeper into.

And we have a pattern over the quarters, which means that we have had volatility when it comes to elimination, up and down, move between net interest income and net gains and losses on financial items. That is due to the way we actually interpret the accounting rules, meaning that trading liabilities and trading assets. The way we financed them on the group level, internally or by another financial institution makes this a bit volatile. But I think the importance with this slide is that net-net it's equal to zero each and every quarter. It's an accounting procedure but it's possible actually to follow the elimination over those six quarter - wrong five quarters. Close to zero. And so it is even this time.

Net commissions, good development starting with payments. It's going up. Still there is a pressure on pricing when it comes to acquiring but we are constantly expanding the volumes 20% again, when it comes to acquiring volumes. I think it's worth mentioning that Quarter 2, 2005, which is higher than both Q1 and Q2, 2006, it contains the payment commission net from [Antecord] which was sold out and that was 53 million, Quarter 2.

Other comment is item other, which has gone up extraordinarily much and that is due to a good business environment and good deals done in markets, both in Sweden but especially in - for securities in Norway and [U2] project and corporate finance commissions.

Going further on to net gains and losses on financial items. Still, yes, there is a volatile pattern over time but I think there is some things which is important to explain since we have had some questions previous quarters regarding this. And as you can see, on this slide, Baltic banking, Swedbank markets is not flat but still not volatile. There are strategic shareholdings elimination, which is the big chunk, which is the volatile part on net gains, and eliminations I tried to explain before.

The other part is the value of strategic share holdings, not just shareholding and what is in that part is our PCCs, primary capital certificates, in the three different Norwegian banks. They are going up and down this quarter going down by 107 million crowns. The other big part is our shares in the Norwegian [inaudible] or group, which we constantly revalue every quarter, this quarter due to the agreement to sell the shares, we have valued them to the sales price and that means up 342 million. We also have dividends on the PCCs in this quarter. I think this - those two explains most of the volatility in the net gains.

Going on to expenses. Up 7% excluding Russian VAT, 5% and that is different post, which has affected it. Decreased staff costs during this quarter, and that is both in Swedish and the Baltic business but most importantly we have increased profit based staff costs which is due to the good business done within, especially Swedbank markets, first securities, but also Baltic banking and there is also a net income which is definitely positive on that actions.

Also connected to the good business and the developments in that area we have other general administrative and administrative expenses going up and marketing and processing. And excluding again Russian VAT, then you have an increase of 167 million, 5%.

Loan losses on group level. We have before said it will not be much better and we will repeat saying that. As you can see from this quarter, its actually - it's a recovery of loans and that also means that we have positive loan losses for this quarter. Still, if we look at Swedish banking, we have positive posts as the amount of unsecured lending has actually decreased and that also means that we had to decrease our provisions.

There are some one-offs for instance connected to the great storm in southeastern part of Sweden, which we also had in this positive figure. Baltic banking still had good development when it comes to loan losses on a low level. And we don't see too many clouds in the horizon.

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Last slide is our business areas and I'll just -- would like to make some short comments regarding this. As you can see here from Swedish banking it's an improvement of operating profit. We have a cost income ratio, which is in line with what we have put up as a go.

Return on equity, which is good. Baltic banking the same if we exclude Russian VAT, we have a cost income ratio of 0.46 and a good ROE on 28.5. And extraordinary good result this quarter from Swedbank markets. So all in all good from all business units.

Jan Liden - *ForeningsSparbanken - CEO and President*

Yes, maybe we should conclude then with the last slide we have. That is that we're - we have a profit for the period, which has been increased from the last quarter with 23%. Consequently the earnings per share and return on equity have increased. Our cost income ratio has also improved and comes close to our target and the primary capital ratio has remained stable.

For the first time in seven quarters Swedish banking, net interest income have increased, Baltic banking continued to grow with maintain in a very good way and if we - had also a very good cost income ratio. Markets delivered - I said before, its best quarterly result ever with a very high profit for the quarter. And I think that concludes our presentation and we'll be happy to try to comment or - and answer your comments or questions.

QUESTIONS AND ANSWERS

Operator

Thank you gentlemen. [OPERATOR INSTRUCTIONS] Our first question comes from Fiona Swaffield. Please go ahead with your question and announce your company.

Fiona Swaffield - *Execution - Analyst*

Hi it's Fiona Swaffield from Execution. Can I ask a question - a couple of areas? The first, the obvious one on mortgages. What I couldn't understand is that the Swedish retail mortgage income looks much better but if you look at Spintab it still seems to have gone down. Could you talk about whether - where we are on the fact book, front book and what's happening with margins on new lending and mortgages and your market share just to give us some update?

And then the second area is on the mutual fund and the flows between deposits and mutual funds. Could you talk about the outflows you saw in mutual funds? Did they all go into deposits? So is there just a mix effect and will this be negative or positive to margins in the second half in terms of whether these went into low cost deposits at all? Thanks.

Jan Liden - *ForeningsSparbanken - CEO and President*

Well thank you. I'll try to start and then maybe we can compliment - with the mortgages at Spintab, what we did - the strategy was that one year ago we discovered that our part from new sales was just above 20%. And we said that this is not endurable because our market share as a whole was above 30%.

One component in this was our perceived unclear pricing strategy towards our customers, which essentially meant that we had a standard price and we invited customers to come and negotiate a better price if they wanted with us in the branch office.

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Well having so many customers as we have, at the same time as the Internet issuing of loans really developed very fast, we discovered that we never were able to have a contact and a negotiation with our customers. And therefore we said we have to have a much simpler and clearer pricing strategy than we had.

We introduced that at the second half of last year and including an offer to our present customers, because we discovered that there was not so much wrong with our new loans pricing and issuing and the difference between the new loans offered at that time, or eight months ago and presently is not so big. But what happened was when you roll over already established loans, many, or too many at least, of our customers left us and that led to that decrease in market share in terms of volumes.

Now, so we said that there are many reasons for maintaining a market share. Number One, this is very good business in itself, it's a single biggest financial product if you like in Sweden. We said also that it's clear that we can have an increased cost selling that the customers who do choose us as their mortgage supplier tends to do more business with us and buy more financial services and products. And thirdly, being such a large bank and no ability to personally meet all the customer, our image and the perception of us as a competitive and customer oriented bank is very important. So therefore we offered the even existing clients a better offer.

On the P&L basis, that hit us pretty hard on the last quarter 2005 and first quarter in 2006. And much less so this second quarter. That does not mean that there is still not a difference between the front book and back book margins. But we have said that even if we are in quite some detail discussed that with many of you a quarter ago, we have said that now it becomes really a competitive issue. So we refrain really from being too detailed about it. But there is a difference and there will be a difference in the future as well. Its very - it's a very high strong competition up there. But the effect on the P&L will not be at all in the magnitude of what it was in these two quarters I mentioned.

As for mutual funds in Sweden, I think, as you see, net-net the - our part of new sales of mutual funds is virtually zero. I mean it's been fairly good growth sales but it has also been a lot of sales. And those sales have been accentuated in May and June this year when we had a - quite some volatility at least on the Swedish stock exchange and on some others as well. And many of our customers have sold out and a lot of it has gone into deposit accounts. I don't think you can state that all of it has gone so.

So we - a focus area for us in the future will be to introduce many of our customers to the mutual funds as such. We have some good examples of newly launched funds that has been quite successful. We will continue that work. We will continue the work of introducing a kind of portfolio management for the many customers.

In terms of profitability, yes, you're right. I mean if they only transfer an equity fund into a high yielding savings account it means not so good business for Swedbank. So our ambition is of course to have that diversification in the client's savings, both the savings accounts and mutual funds and single stocks.

So, maybe we have some other questions? I understand we have -

Operator

Our next question comes from Sasu Jarvinen. Please go ahead with your question and announce your company and location.

Sasu Jarvinen - *Credit Suisse* - Analyst

Hello it's Sasu Jarvinen from Credit Suisse. Just a couple of quick follow-up questions on NII. Looking at the deposit in your slides, you show an uptick in the deposit margins in Sweden over the second quarter. Are you able to give any guidance on NII's sensitivity to rising short rates going forward? And also if you could comment how you see margins developing on the corporate lending side, that would be appreciated. Thanks.

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Jan Liden - *ForeningsSparbanken - CEO and President*

The question, at least the first question, to Michael here.

Mikael Inglander - *ForeningsSparbanken - CEO*

Yes. When it comes to what - how we get affected by the increasing rates, we have said and that still goes, it's 600 million up if we have a 1% increase in interest rates on our P&L. When it comes to margins, as such in the corporate area, I would say there is still a pressure, but it's not as hard as we have seen it in previous quarters.

Sasu Jarvinen - *Credit Suisse - Analyst*

Okay, thanks.

Operator

Our next question comes from [Jay Zadra] from Morgan Stanley in London.

Guglielmo Zadra - *Morgan Stanley - Analyst*

Yes, good afternoon, it's Guglielmo Zadra for Morgan Stanley. Just a few questions. The first is again on the net interest income. The - seven -- last seven quarters you had a declining NII contribution from the Swedish banking division. Considering the trend of this second quarter, can we considering it to have bottomed out completely? So now the growth trend to be positive in the coming quarter assuming that the volumes remain at the same level, i.e., growing as fast as they have been so far. Or there is some element of uncertainty that you would still suggest to factor in our mind.

The second is more general and it refers to the GDP data, which recently came out for Sweden, which have been extremely, extremely strong. Certainly above the street expectation. Can you give us a bit of a feeling on what is the [outlook] that you are experiencing for the second half of this year. And in terms of commercial speed from your corporate and retail clients given what is happening at macro level?

The third is on trading and I would like to have an estimate if possible of how much of the trading profit of the group are customer driven, just for us to get a better sensitivity of what is the sustainability of the number.

And the fourth and large - last question is on the commissions. You mentioned the very strong First Securities contribution in the second quarter. Is that the, let's say only one off element we should account for? And is it really a one-off or it's just the business in that area in your mind should continue growing much faster than it has in the past?

Jan Liden - *ForeningsSparbanken - CEO and President*

Well, those are good questions indeed. If I start from the end then if I understood you correctly. I mean commissions in First Securities, are they persistent? And in a way of course I think they are actually because we have a very interesting business climate in the whole - all of the Nordic and Baltic countries right now, which is actually very good for commission revenues. So I think that is, but on the other hand by nature these revenue streams are volatile of course. But I think we could have a pretty good feeling for at least the rest of this year on -- regarding commissions in the market's operations.

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To your first question regarding the net interest income, have it bottomed out? Will they now only increase? And - as I said, I don't want to answer you directly because we're getting very close into us making forecasts which we have so far not done. What I think, though, is that the effect on the net interest income in the future, in the P&L will be much less now, mathematically because, I mean, the great hit - as I said, we took on the last quarters.

If we have a continuous development in terms of volumes as we have had the first six months, which I'm not so sure of because I think it's actually slowing down a little bit, then - and - but still, approximately the same rates we have, I think it's possible that in Sweden as well as in the other markets we are able to continue a development like we have seen in the second quarter.

As for the business climate, I think the business climate in such is very impressive right now and that's - and from a bank's perspective I think that is good partly because of two reasons. I think that the growth - the economic activity increase in all the three Baltic countries are very impressive, I think that that also goes for the Nordic countries including Sweden. I don't know if you noticed but we have a GNP figure of 5.5% the second quarter in Sweden, which is a long time ago. And - so I think that the business climate is good. That is one reason.

The second thing is that this positive business climate will further stimulate increases in interest rates and that is from a bank's perspective a good thing normally in various ways.

The trading profit - I think that is - first of all, I think, to answer your question - and we have always said that the trading in Swedbank market is mainly customer driven. So we have very little of proprietary trading in Swedbank markets. It's customer driven in one way or the other. So based on increased customer activity, I think that will continue with no really dramatic changes and --provided we have a good business climate that can continue.

One should not also underestimate the Baltic banking and Hansabank's trading activities, which also have developed very well -- still form a lower level but still in a very good way. So I think one can be -- expect that to be fairly followed basically the market conditions. Yes I guess that's as far as I can answer you. Maybe Erkki or Michael has some further comment. They're shaking their hands - shaking their heads, not their hands. Another question please?

Operator

Our next question comes from Kim Bergoe. Please go ahead with your question and announce you company and location.

Kim Bergoe - Fox-Pitt Kelton - Analyst

Hi, Kim Bergoe, Fox-Pitt Kelton. Two questions. One, first on - we heard from SEB that they've been and we can see from their pricing, they're quite aggressive on the deposit side. I'm just wondering if you can give us a comment on whether there's news of price war on the way on the deposit side. And then also, if you can give us any comment on ALM effects in this quarter if that - if there's any sort of move relative to previous quarters from that if that has played into the net interest numbers. Thanks.

Jan Liden - ForeningsSparbanken - CEO and President

Well your last question as far as the Asset Liability Management, if there is any move really. No, I mean the only comment we have is that we are not satisfied really with the new sales of our mutual funds. As - that is what we - in that sense think. And when it comes to deposit, the competitive situation in deposits, I think still we have a very competitive offer in Sweden and maybe Erkki wants to give a comment on the situation in Hansabank.

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Erkki Raasuke - *ForeningsSparbanken - Head of Baltic Banking and Member of Group Executive Management*

The - part of the - for the Baltic banking is - it is very much credit driven currently and probably will remain so for quite some time. And as the overall lending versus the deposits to lending is - I don't know exactly the numbers but it's at least about 150% there as the lending stock versus deposits. Therefore it's actually the further competition in the deposits itself will not really change the bank's position and there is not really any strong competition seen or I would say that there is a very - little competition but rather that this is because of the changes of the deposit pricing. That doesn't make the clients ready to move, so it's rather kind of non-sensitive production in that sense. Obviously, the deposit prices do follow the changes in [Neurenberg] pricing but it match with the same rate but that's pretty much it.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Thank you.

Operator

Our next question comes from Daniel King. Please go ahead with your question and announce your company and location.

Daniel King - *Lehman Brothers - Analyst*

Thank you. Good afternoon, gentlemen. It's Daniel King from Lehman Brothers in London here. Just again going back to the fee income side. It seems what distinguished your ability to have Q2 growth on Q1 I mean almost nobody else is going to do that. Was this element a corporate finance particularly at first securities tell us in one of the slides. In that 172 million what is the element sort of lumpy one off fees because again the general trading environment wasn't particularly good so I imagine there are a couple of very large transactions in there. Can you just give us some idea of how to extrapolate from that and the extent of those large transactions?

Jan Liden - *ForeningsSparbanken - CEO and President*

I guess with all due respect I think we're a little bit on the line where we want to really comment. There a few big transactions here and that's why securities have been participated in but there are a number of - quite a large number of small transactions. Both in Sweden and in Norway we see again coming back to the most important - one of the most important thing that is the business climate and the economic environment in these countries. We see a lot of transactions coming up in the near future and we hope to be part of this and in some ways we already know that we will be part in a number of transactions, but apart from that I don't think I really want to comment more on that.

Daniel King - *Lehman Brothers - Analyst*

Okay, thank you.

Operator

Our next question comes from [Esten Servin] please go ahead with your question and announce your company and location.

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Esten Servin - ABG Securities - Analyst

ABG Wachovia in Oslo. I have a few questions on the asset management revenues going forward and I just wonder. I mean you had the large outflows on your equity fronts and you probably now have a mix more skewed toward [fixed income]. Will that hit into the Q2 numbers or have you seen those effects of that? That's my first question. Now my second question is whether there are any changes in the performance kickbacks - or performance based fees in asset management between Q1 and Q2?

Jan Liden - ForeningsSparbanken - CEO and President

What do you mean by your last question? The kickbacks you mentioned.

Esten Servin - ABG Securities - Analyst

The performance based piece, is that distorting the quarter on quarter comparison?

Jan Liden - ForeningsSparbanken - CEO and President

No it's not distorting the comparison. We haven't changed that. As for your first question when it comes to have the figures so to say been affected by the outflow of the equity funds, I mean in a way it has but on the other hand the full effect you will have the third quarter because I mean what we saw was an growth sales and outflow giving us virtually the zero growth in the end of this second quarter. So I think we will see some of the effects in terms of commissions the third quarter.

Esten Servin - ABG Securities - Analyst

And just a follow-up, is you so much lost your outflow relative to some of the other banks in Sweden in the second quarter. Is that a pure function of your plant base or is it - I mean is it related to your performance or anything like that?

Jan Liden - ForeningsSparbanken - CEO and President

I dare say it's not related to our performance because if you look at the performance of the mutual funds in [Ruber] you'll see that they have actually never been better in terms of rating than they are right now. But I think it's a function partly of our client base. Many of our clients invested a lot five, six years ago in equity funds and have remained their holdings. And when they saw this volatility starting in May and June many of them actually sold equity funds. Some of them went into interest related funds. Some of them went into the deposit accounts. Some of it went to consumption. Not to forget I mean what you see in the business climate in all the Nordic countries including Sweden -- not to mention the Baltic countries -- of course is a rapidly increasing consumption, personal consumption because of increased consumer confidence. And that of course hits our client base being such a large one also in Sweden.

Esten Servin - ABG Securities - Analyst

Okay, thank you.

Operator

Our next question comes [Katlin Maurak]. Please go ahead with your question and announce your company and location.

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Katlin Maurak - - Analyst

Sorry, I do not have a question.

Katlin Maurak - - Analyst

Okay, do we have any more questions?

Operator

Our next question comes from [Aaron Evenson]. Please go ahead with your question and announced your company and location.

Aaron Evenson - Goldman Sachs - Analyst

Hi. This is Aaron from Goldman Sachs in London and I've got a couple of questions. A few have been answered but just a small one. On the Baltic corporation it seems like the tax rate has gone up from previously around 8% or so to 11, 12%. Is there a new level we should expect or is this more of a sort of volatile coincidence?

Jan Liden - ForeningsSparbanken - CEO and President

Well I'll ask Erkki to respond you.

Erkki Raasuke - ForeningsSparbanken - Head of Baltic Banking and Member of Group Executive Management

Actually the Baltic banking has gone up because we have not fully utilized our tax shield in Lithuania and we started to pay the corporate income tax in Lithuania. So basically this is affecting our numbers and you have - during the stable development going forward starting from next quarter. Then we also we can be more specific about what the effective tax rate is going to be.

Aaron Evenson - Goldman Sachs - Analyst

Okay. And just staying in the Baltic, then. [SEB] actually mention that their lending margins were most beneficial in Estonia and in Latvia and as far as I can tell you had your lending margins going up in Latvia but down in Estonia -- or I think it came from Lithuania. What was driving the margins down in Estonia? Was there increased competition there versus the other regions or sort of taken off a little bit faster than previously? The slide Estonia, the lending margins.

Erkki Raasuke - ForeningsSparbanken - Head of Baltic Banking and Member of Group Executive Management

Yes, yes, thank you. I got the question. I was thinking about the wording. Actually there is - I think this time we can pretty well rely on SEB's comment. I think that's right. What had happened in Estonia is that two parts of the portfolio which have been actually going quicker one is proportionately is more factoring portfolio which does have a lower margins than the corporate one so there has been a structural change basically in overall portfolio. And the second thing there was quite a large - hopefully it's not one-off but I mean for time being it's one of deal in our factoring portfolio effectively almost zero risk. So basically it's a state gas supply was what we financed there. And this was coming in and it affected overall portfolio and brought down that deal. So basically if you look on a risk return basis out of this drop in the Estonian margin, that there is nothing to worry.

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Aaron Evenson - Goldman Sachs - Analyst

Okay, that's good. And secondly, just coming back to asset management fees -- follow-up to previous question a little bit. You had net commission - income growing quite nicely in Q2 but you had asset management going down quite significantly. So again was there a sort of no change in commission structure? Were there any significant contribution from performance based fees or anything related to that within asset management?

Jan Liden - ForeningsSparbanken - CEO and President

Again, to confirm your question is no we have had no change in the allocation of the fees. One should also remember of course that we have different fees depending on what type of mutual fund it is. I mean it's all ranging from the public saving for pensions almost to the one pension where we have a fee of 0.4 percentage units. And then going all the way to the interest rate-related funds of 1% up to the equity and the hedge funds-oriented funds which have a fee ranging from 1.4 to 1.8%. And if you see a change in the shift which we actually on the margin have seen in the quarter, that will of course change the fee income. But again, confirming your question, no reallocation of fees.

Aaron Evenson - Goldman Sachs - Analyst

And just to -- is it fair to say that there were some exit seats related to the reasonable -- significant to the output you had in May?

Jan Liden - ForeningsSparbanken - CEO and President

No exit fees. We don't have that in the Swedish operations. So they're actually free to - that's why we think we have so competitive pricing. There are virtually no exit fees unless you sell it within a month and also very few entrance fees. There are some but very few.

Aaron Evenson - Goldman Sachs - Analyst

Okay. Thanks a lot.

Jan Liden - ForeningsSparbanken - CEO and President

Thank you.

Hakan Wilson - ForeningsSparbanken - Head of Investor Relations

I think we have covered all the questions then. Is that correct?

Operator

There are no further questions. So I'll hand the conference back to you for any closing comments.

Hakan Wilson - ForeningsSparbanken - Head of Investor Relations

Very good. In that case, I thank you for participating. The transcript of this webcast will be posted on our website, IR website probably sometime tomorrow so it will be available for everybody. And with that I say thank you very much.

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Jan Liden - *ForeningsSparbanken - CEO and President*

Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This completes today's conference. You may now disconnect your lines. Thank you.

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