

# FINAL TRANSCRIPT

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**FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call**

Event Date/Time: Oct. 27. 2005 / 9:30AM ET

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

## CORPORATE PARTICIPANTS

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*ForeningsSparbanken - CEO*

**Kristina Siimar**

*ForeningsSparbanken - CFO*

**Christer Westholm**

*ForeningsSparbanken - Chief Accountant*

## CONFERENCE CALL PARTICIPANTS

**Christoffer Malmer**

*Goldman Sachs - Analyst*

**Daniel King**

*Lehman Brothers - Analyst*

**Kim Bergoe**

*Fox-Pitt, Kelton - Analyst*

**Denise Holle**

*Merrill Lynch - Analyst*

**Andreas Pakason**

*UBS - Analyst*

**Ronit Ghose**

*Citigroup - Analyst*

**Guillermo Sazra**

*Morgan Stanley - Analyst*

**Hansel Stroden**

*Deutsche Bank - Analyst*

## PRESENTATION

**Operator**

[OPERATOR INSTRUCTIONS]

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### Unidentified Company Representative

-- results. We have with us here today our CEO, Mr. Jan Liden, who will take us through the presentation; also Ms. Kristina Siimar on the line from Hansabank in Tallinn; and also Mr. Christer Westholm, our Chief Accountant. So, I'll hand over to our CEO, Mr. Jan Liden straight away.

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**Jan Liden - ForeningsSparbanken - CEO**

Thank you very much. I will try to follow the slide presentation we have prepared for your. Ask questions during the presentation or after the presentation, preferably after.

What we are saying with this quarter is that we have very good results in many dimensions. First of all, and most importantly, of course, it's very good operating results. Slow growth income and business volumes. Also, the market conditions helped us

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

to boost fees and commission. Hansabank has very satisfactory results and has reported another record quarter. T1 ration improved to 6.5%. You all remember that we discussed the capital situation after the acquisition of the remaining shares of Hansabank. Credit quality is still excellent in all markets. That goes for Sweden, other Nordic markets and, also, definitely for Hansabank. Also, this quarter we have been helped by another one-off gain, and that is the sale of our debt collecting company, KIAB, which we reported on this summer. That transaction was concluded at the end of September this year and gave us a net gain of 1.4 billion Swedish krone. We have also these new accounting rules from IAS39, which we have reported on earlier. In this quarter, we had a very positive effect of 477 million Swedish krone, and that accumulated is for this year almost 900 million Swedish krone.

So, if we go and just look at the Group results-- I'm on slide number 4 now. The total income has increased by 43% compared to the same quarter last year. We're not up to 8.8 billion Swedish krone. Costs have increased moderately by 2% to 3.4 billion Swedish krone, and we have this net gain I just told you about from the sale of KIAB. The operating profit consequently increased to 5.2 billion Swedish krone, and net profit has increased 34% to 4.2 billion Swedish krone. Our return on equity has now increased to 27.3% for the Group.

On this slide number 5 you see the comparison between the Group P&L in figures quarter by quarter, and you see here that the income, as I explained, has considerably increased, costs much more moderately, and losses marginally, but still continued in a very positive way.

If we try to make a presentation of what items are affecting comparability on slide 6, what we see here is both, of course, the capital gains-- Last quarter, the second quarter, we had the sale of EnterCard. This quarter we had the sale of KIAB. We have also this profit-based staff cost of this, which we have talked to you about before, including this system of copper coin depending on the result. We have also costs for personnel changes, and then we have the total effect of these accounting rules under IAS39. We have done the same thing, of course, for 2004. And, then, you see that accumulated we have items affecting comparability of 1.9 billion Swedish krone after the first three quarters this year, and if we look at what happened in 2004, you see there is minus of 1 billion Swedish krone. Minus. If we look a little bit further on IAS39, we see that this volatility we have-- We have tried to break them down, and you see, first of all, that the effect on the first quarter was marginal, minus 5 million Swedish krone. In quarter two, we had a large positive effect as we had the third quarter. You see the big hosts here in the quarter three results is, of course, that we in net interest income have reduced for interest income compensation when mortgage credits are changed, which we earlier used to report over the whole maturity time of that credit. Now, you find them as a one-time revenue under net profit on financial items at fair value at the bottom to interest income compensation. We also have valuation of derivatives in the Spintab portfolio at fair value. We have, of course, the founding and the lending portfolio valued, and they match each other. But, we have to make a fair value of the associated derivative portfolio, and that gives us, in this case, an effect of plus 242 million. If we go on and look at the lending portfolio, you'll see that we have a healthy and stable growth in total, both this quarter and, of course, the [inaudible] quarters. The Spintab lending has continued, which is the largest single portfolio in the group, to continue to increase with 12% this quarter. Corporate lending has continued to increase but a little bit less than especially the second quarter. Hansabank lending continues to increase in a very rapid pace and increased this quarter by 45% to 77 billion Swedish krone.

If you look at slide number 9, you see that the Group lending is broken down on different sectors, and, of course, the Spintab and the household mortgages, which have continued to increase. I think what you can see here is there is no big change from the last quarter. That is the two biggest items of growth is the Spintab mortgage portfolio and Hansabank's increase in lending. If you continue to savings, one can see that the fund assets - the assets under fund management - have continued to increase. You see the comparison here is end of last year, where the value was 286 billion Swedish krone, and now it's 350. If you look at household deposits, you can see that they have increased 280 compared to 157. Market share in new savings in Sweden have increased to 19% compared to 17% all in all. That is everything. That is deposits, assets, equity linked, bonds and things like that. The new household deposits, which we discussed also year, which we have increased from 10% to 25% when it comes to the new savings in the year.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

If we look at the Group a little bit more, you see here on slide 11 that also on deposits-- You see that they have in total deposits-- The total has increased in Sweden to 260; in Hansabank from 45 to 59. You see it broken down on household and other deposits. Fund management has continued to increase in the Swedish operations, as we said before and, also, percentage wise very strongly in Hansabank.

If we try to break down the net interest income in different portfolios, you see that the Swedish retail operation compared with the same quarter last year has decreased, so it's now just about 3 billion Swedish krone. The markets have decreased a little bit as well. International banking operations, mainly Hansa, have continued to increase. Asset management - mirror variations. Shared Services - also minor changes.

In slide 13 you see it broken down. Actually, you see the same slide as the one before but covering the three first quarters every year. You see that it's basically the same pattern as the slide covering only the third quarter. That is a slight decrease in Swedish retail operations market; increase in Hansa international banking and minor variations for the rest of it. The eliminations you see here on the last line is due to two things, both that we had difficulty in allocating the interest net to the different business sectors last year when we defined them differently and also that some of them have been moved to net from financial transactions. The change-- If you'd like to take a look at it from another perspective and begin with the Swedish retail operations, you see that the increase in volumes, both on deposits and lending, of course lead to an increase to net interest income and the decreased lending and deposit margins lead to a negative result. On balance you see how you can arrive at the total net of minus 159 million Swedish krone. If you look at the Hansabank, you see the same pattern, but there one can also see that the increased volumes, at least in the lending volumes, have managed to overcome the decreased lending margin. So, there you have a positive net. As you see for the deposit volumes there is of course an increase. But, there is decreased deposit margins, which leads to a slight negative. Then you have other effects from tertiary trading and other balance sheet items leading up to a total positive net of 301 million Swedish krone.

I continue to slide 16, and then you see the net commission income continuously increasing. It's very broad, so it's all sectors that is actually increasing. Payment processing is very stable, all through the different countries, as I say. Lending commissions continue to go up here. Brokerage asset management as well as even insurance commissions, even if they are more stable-- a total increase to almost 2 billion Swedish krone the third quarter and indeed a dramatic change if you compare to the same quarter last year.

If you look at slide 17, you see that if you break it down in different areas - payment processing was very strong growth, first securities in Norway also very strong growth. That is, of course, consolidated as you remember from the 15th of June this year. Asset management, of course, due to the increasing value of the fund. Brokerage also up due to increased activity. [Unintelligible] is about the same.

Net profit on financial items at fair value. On slide 18, you see here that we have substantial change on the different lines here. First of all, we have financial instruments classified as trading and derivatives, and that is, of course, to a large extent depending on the effect of the derivative which is, as I told you before, [unintelligible], which is having increased in value during the quarter. Other financial instruments and change in exchange rate is also developing fairly well but, of course, with a lot of variation between each quarter.

The underlying costs in the Swedish operation is virtually the same or slightly declining. The cost for staff reductions is approximately 50 million Swedish krone this quarter, and the profit-based staff cost is almost [270] million Swedish krone. The total cost in international operations, of course, mostly involving Hansabank, is 558 - actually, a slight decrease from the second quarter, but there is a general increase in costs in the Hansabank operation due to its expansion. The full-time positions in Swedish operations is virtually the same as before.

The cost/income ratio on slide 21. You see we are now as a Group below the 0.50, and if we include the capital gain, that is, of course, an even better figure. And, right now, we are below the target we have of 0.50 for the Group.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

The credit quality has also continued to develop very well. The doubtful claims have decreased marginally but, still, a little bit. And, the provision ratio in total has increased to 149% due to our very conservative risk policy. The total net in terms of loan losses has continued to decrease and is now approximately 100 million Swedish krone, less than the same figure for last year. If you try to express it in basis points or in relation to the total lending portfolio, it is very small numbers right now.

Look at capital adequacy in tier 1, which was discussed because we had a drop, as you recall, in the second quarter due to that we spent-- what we spent in investing in Hansabank shares. Now we have, due to the quarterly profit, been able to increase the capital ratio to 6.5%. That is due to the profit - 55 basis points - almost half of that coming from the sale of our debt collecting company. Conversion of staff options to shares made another 8 basis points. And, new hybrid capital was responding to 9 basis points expressed in tier 1 ratio.

If we look at it a little bit on the different businesses, in Swedish retail operations, net interest income increased-- just the retail operations, that is-- in quarter three. Costs is 9% lower in quarter three. Swedbank was named the corporate bank of the year for the third consecutive year. We have still a strong development of business volumes for the Swedish markets. We have increased, if you annualize it by 5%, the total lending, and deposits have increased by 7% annualized. The number on the full-time employees is still being decreased in the retail operations, marginally.

Asset management and insurance. Robur reached 342 billion in volume under management, up 22%, actually, during 2005. Almost 80% of Robur equity funds outperform their relative indexes, which is, of course, very good. And, the average Morningstar rating on Robur funds have improved further to 3.14, which is, of course, very satisfying.

Swedbank Markets had an increased equity trading activity, which you can see in the commission income. We had a very strong quarter for first securities, and the commissions are up 66%.

If we go over to Hansabank, then, I will try through the slides and, of course, rely heavily on Mrs. Siimar, who can help us answer your difficult questions. You see here slide 28, which is trying to display the quarterly highlights. Continues very strong loan growth of 50%, very strong deposit growth of 32%, and a corresponding very nice profit - 40%. The volume figures here, as you see now, expressed in million euros. Revenues have correspondingly increased with about EUR30 million on a quarter-on-quarter basis, which is, of course, very good. Expenses have increased EUR10 million, which is a very nice relation. Our return on equity up to 27.1%. Net interest has been achieved in spite of a lowering net interest margin, and the cost income ratio has continued to improve to 42.3%.

On slide 29 you see some of the highlights. The net profit has increased to EUR68 million. Divided - in Estonia 37, Latvia 17, Lithuania 12 million, and even Russia EUR2 million in profit. I think it's a fair statement below that that we do have an accelerating growth in all business units due to low interest rates and strong credit demand. It is also so that loan growth has come more evenly distributed between the different business units. So, in the third quarter, Estonia accounted for 36% growth, Latvia 28%, Lithuania 26%, and Russia 10%. Moscow branch has been officially opened in the beginning of September, and The Bank magazine has elected Hansabank as the bank of the year in Estonia for the sixth consecutive year. Very impressive record. And, also very satisfactory in Lithuania for the first time.

The financial targets you see here [unintelligible] pretax profit, excluding IFRS changes, return of equity, cost/income ratio and risk costs. All of these targets are reached and superceded, which is, of course, again, very satisfying.

If you look at this slide 31, you can see the profits developing over the different quarters. I guess the interesting point of this slide is that after three quarters this year, Hansabank has reached the same level as they did the four quarters last year. If you look at regional distribution in the different markets, Estonia, Latvia, Lithuania, and Russia, you see here the distribution in deposits, loans, revenues, expenses, operating profit, and so forth. Of course, you see here that Estonia is still the biggest market in terms of revenues and operating profit, but the other markets are now developing very well as well.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

Here is a slide that looks at net profit and the development if you compare the third quarter '04 with the last quarter and the percentage change. You see the comment here that we have very high growth in Lithuania as a result of strong volume growth and changes to IFRS. And, we have-- In Russia, we are in the start-up phase.

If you look at the slide number 34, you see the revenues increasing very healthily year on year and also quarter on quarter. And, you see that the net interest income as well as the other revenues are increasing as well, with the exception of other income, which was a minor change.

The net interest margin is developing, as they all are, in very competitive markets, and for the Group it's going down consistently. And, if you look at the right side of the slide, you see slightly different behavior in the different markets. There you see Lithuania fairly flat, Latvia coming down, and also Estonia, even though Estonia is somewhat going upwards again. Perhaps if I ask you, Kristina, do you have any comment to why the interest margin seems to bounce back upwards in Estonia?

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**Kristina Siimar** - *ForeningsSparbanken* - CFO

Basically, the major reason is not so much that we see some stabilization in the margin but, rather, that [unintelligible] increased almost more than twice higher than the profits. So, basically, it's pretty much the balancing structure which has changed.

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**Jan Liden** - *ForeningsSparbanken* - CEO

Okay. Thank you.

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**Kristina Siimar** - *ForeningsSparbanken* - CFO

If you look at loan yields, basically, the trend is not upwards.

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**Jan Liden** - *ForeningsSparbanken* - CEO

Okay. Thank you. If we look at expenses-- I'm on 36 now. You see here that we have an expansion in activity in Hansabank, though the last quarter is basically the same, even a slight decrease of 1%. You see how we divide those expenses. And, of course, if you compare with the same quarter last year, there is an increase of 20% up to EUR58 million. The number of employees has increased, and the annual increase is considerable. Also, of course, we have allocated [unintelligible] for bonuses this year. The cost/income ratio, as we said before, very, very impressive in Hansabank. You see how it's divided between the different markets on the right side of the slide. Return equity also developing well from a very good level, I should say. I mean, we have-- As you see to the right side, we have over 40% rough in Estonia and Latvia and an increase to 28% in Lithuania. Lending and deposits is also-- If you look at the boxes on the top of it, it's telling you the different countries are expanding year on year, and you see the figures year to date change. If you look at lending, you see the group increased with [unintelligible] 50%, with Estonia 40%, Latvia 59%, Lithuania 54%. That is, of course, very high numbers.

That is also displayed on slide number 40, and to the right side you also see quite an interesting slide. You see the kinds of loans that are distributed in the different markets where you see a good spread, which I think is a good thing, of course.

But, also, lending is divided of all the different sectors, as you see on slide 41. And, also, you see that they're also divided in retail and corporate segments. Also, if you look at it in a relative way where you see how much of market penetration you have when you relate the lending portfolio to the GDP, you see that it's most mature in Estonia, slightly followed by Latvia, and Lithuania is still not on those levels.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

Household lending is of course dominated by mortgage credit, but you also see consumer lending [inaudible]. Also an interesting observation— if you relate mortgages to the GDP to get some kind of illustration of how mature the market is, you see that of course Estonia is still higher than the other markets. But, they are all basically on a lower level than many mature markets, also indicating, of course, a future potential.

[Unintelligible] quality slightly higher figures than you see in Sweden but still on a very acceptable level. You see here that the rate and also the coverage ratio is very good, and the risk/cost is, of course, still very minor.

So, if we try to summarize the situation for the Group, I think it's fair to say that the Swedish market position is very well consolidated. Lending, savings and [unintelligible] drove earnings growth. We were appointed corporate bank of the year for the third consecutive year. We have confirmed very positive trends in Hansabank with accelerated loan growth investments in growth markets. And, we have also strengthened the capital base, which is also very satisfying in the sense that tier 1 ratio has improved to 6.5%. Last week, we also had a credit rating confirmed by Standard & Poors, and the outlook was raised to positive.

That, I think, concludes the presentation in terms of slides. We'll be happy to try to answer some of your questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. [OPERATOR INSTRUCTIONS] Our first question will come from Christoffer Malmer with Goldman Sachs.

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### Christoffer Malmer - Goldman Sachs - Analyst

Yes. Hi. This is Christoffer Malmer with Goldman Sachs.

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### Christoffer Malmer - Goldman Sachs - Analyst

I had some questions on slide 15 in your slide pack on the margin and the extended [signal] development at Hansabank. If I looked at that same slide last quarter for the first half year, effectively just adding up what is the net effect of the volume versus margins both lending and deposit? You were positive 156 in the first six months of this year. And, now, after the first nine months, you're minus 91, adding up just some of the commercial activities in lending and deposit margins and [mortgage]. I'm just trying to understand; is there an acceleration of pressure, or is this--? What are the factors that are driving this development at this point? Secondly, related to this slide as well, there's a significant increase which [unintelligible]. What is exactly the activity that is coming through here [inaudible], and what is the volatility in the characteristics of those [unintelligible] coming through this line? Thank you.

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### Jan Liden - ForeningsSparbanken - CEO

Okay, now. Kristina, why don't you begin to try to explain some of the items.

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### Kristina Siimar - ForeningsSparbanken - CFO

Yes. That first question was about Hansabank net interest margin development. Basically, if you could repeat what is exactly your question.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Christoffer Malmer** - *Goldman Sachs - Analyst*

The question is if I just add up sector volume growth versus margin compression, both on the asset and liability side of the balance sheet, in the first six months of this year-- if you looked at the half-year presentation, it [inaudible].

**Kristina Siimar** - *ForeningsSparbanken - CFO*

I'm sorry. Do you hear me?

**Jan Liden** - *ForeningsSparbanken - CEO*

Yes, but we don't hear our friend from Goldman Sachs.

**Kristina Siimar** - *ForeningsSparbanken - CFO*

I don't hear either.

**Jan Liden** - *ForeningsSparbanken - CEO*

Hopefully, the rest of us are here. He asked about what has happened to the margins in total because he looked at the six month results and now at the nine month results. Do we have any comments what is happening? Is the margin pressure increasing, is the way I perceived the question. The second question was what is under the last line, treasury, trading and other balance sheet items?

**Kristina Siimar** - *ForeningsSparbanken - CFO*

[Unintelligible.] The net interest margin of Hansabank-- I have this story about the way which is percentage here is like 15% because we usually don't express this this way. But, what I can describe what's happening in the margin [unintelligible], except there hasn't been really big changes in the trend. The volume growth has been still very heavy, like it increased-- the lending book increased in the third quarter, close to [unintelligible] in second quarter EUR800 million. Basically, why this affects it still positive that also we see the pressure in loan yields, and they're mostly coming from asset side, as the growth is much higher, basically. But, still, the contribution is positive to net interest margin - or net interest income. As explained, the lending growth year on year has been 50% for the Group, and net interest income growth has been, I think, 23%.

**Jan Liden** - *ForeningsSparbanken - CEO*

Okay. Thank you. Are you with us?

**Operator**

This is the operator [unintelligible]. Mr. Malmer actually got disconnected.

**Jan Liden** - *ForeningsSparbanken - CEO*

Well, we'll continue with other questions, I think, so we can come back to this.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Operator**

The next question will come from Daniel King with Lehman Brothers. Please go ahead.

**Daniel King** - *Lehman Brothers - Analyst*

Good afternoon. The gains you've seen from the ISFR [unintelligible] on the net gains and losses items at fair value line, is that mainly coming through the retail network? I'm referring specifically to Q3 in Internal Banking operations, which shows another very strong result from that line, 276. Is some of that benefit coming through Hansabank as well, or is it really just coming through in retail?

**Jan Liden** - *ForeningsSparbanken - CEO*

Yes. I think-- You asked about the shares. Was that it?

**Daniel King** - *Lehman Brothers - Analyst*

Well, the benefit which you've seen from the [unintelligible] issues, the 400 or 500 million through the net gains and losses item, is that all coming through in the branch network, or is some of that coming through [unintelligible] division?

**Jan Liden** - *ForeningsSparbanken - CEO*

Some of it is. You see, for instance, the valuation of assets at fair value. You see on the shares. That is actually some instruments from Norway, which we call [unintelligible], which is actually a kind of instrument in the Norwegian savings banks, which are also floated on the stock exchange, which have actually increased in value during this period. But, most of the effect on IAS is coming from the Swedish retail operations, and this is basically coming from the mortgage sector, where you have the two changes, actually, which are important. First of all, what we said the interest income compensation, which is now taken directly as they occur and not activated on the maturity of the loan, and, secondly, the valuation of the derivatives, which is valued at the market value. And, the corresponding or associated funding and lending portfolio is not valued that way. That's why if you have a change in the interest rates, which we have had, you will see a change in the value of that derivative portfolio.

**Daniel King** - *Lehman Brothers - Analyst*

Okay. If I could follow up with, I think, where Chris was going with his question, which is on that slide 15 with Hansabank's net interest income. Without the plus 550 line, the treasury, trading and other, it wouldn't be a positive. Could you outline what that treasury, trading and other balance sheet item relates to?

**Jan Liden** - *ForeningsSparbanken - CEO*

Yes. I think it's treasury and trading-- Perhaps, I'll ask, Kristina, if you can shed some light over that line. Is that possible, Kristina?

**Kristina Siimar** - *ForeningsSparbanken - CFO*

Yes. That's actually probably [unintelligible] can explain what was put under discretion and trading because, I assume, that this can be that maturity missed net income, but I'm not sure.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Jan Liden** - *ForeningsSparbanken - CEO*

Then, I guess, we have to come back to you with a response to that question. It's better than we are speculating.

**Daniel King** - *Lehman Brothers - Analyst*

Thank you.

**Operator**

Our next question is coming from Kim Bergoe with Fox-Pitt, Kelton. Please go ahead.

**Kim Bergoe** - *Fox-Pitt, Kelton - Analyst*

Afternoon. Kim Bergoe with Fox-Pitt, Kelton. I have another question. Sorry that, again, it has to be about margins. On your slide 14 about the change in net interest income in the Swedish regional operation, you have that one positive item at the bottom, shareholders' equity and other balance sheet items. If you could touch upon what that is and how that has increased in the period. Then, also, the way I see it anyway, there were sort of a few [unintelligible], I guess, in net interest. If you could just touch upon the underlying sort of customer margins in the different areas, Swedish, mortgage, retail, and then just run us through, mainly, the Swedish business - what underlying customer margins are doing. Thanks.

**Jan Liden** - *ForeningsSparbanken - CEO*

If we start with the first one on slide 14, that is the post shareholders' equity items. What we basically see there is a lot of effects we have on these huge clearing volumes we have, where we, of course, can calculate and see an interest net effect. As for the equity, that is going the other direction. Right? So, this is a net post, which is, in effect, positive. But we are a very, very large payment operator in Sweden, of course. That means that we have huge flows going through the bank at every time, basically. There you have the effect.

To your other question-- Maybe I misunderstood that. You wanted to talk a little bit about margins in the different business segments. Was that it?

**Kim Bergoe** - *Fox-Pitt, Kelton - Analyst*

Yes. Just sort of touch upon [inaudible] other effects. I guess these are the ones triggering all the questions. But, just sort of run us through where you see customer margins going a different-- Also, just clarify this 80 million positive item there. Obviously, interest rates have gone down in the period, so it's basically what is approximated because it's generated on much larger volumes. That's why it's a positive item of 80. Is that correctly understood?

**Jan Liden** - *ForeningsSparbanken - CEO*

Yes. That's correctly understood. To your first question, then, if you run down the difference with this segment, that is-- If we look at mortgages, we have for a long time explained to you what's happening to our front book and back book with compressed margins. That situation we still experience. However, we think that the pressure has diminished a little bit. The first quarter this year, margins were coming down very rapidly. Then, we thought we saw a kind of stabilization at the end of the second quarter. I think we have basically the same pattern the third quarter. We have the interest rate cuts coming through the end of June, and then we had the further compression on margins. But, then, they stabilized a little bit during the end of the quarter. If you look at quarters, we have an underlying demand for investment. We see those continue. In terms of margins, we see, what I

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

would say is, a stable situation. Of course, if you look at the larger corporation and municipalities and things like that, you have, of course, very low margins. Where you see continuous increased competition and lower margins is on condominium units - not the people who live in the condominium units and how they finance themselves, but on the condominium unit itself. But, all in all, a kind of stabilization in the Swedish operation when it comes to lending margins.

Of course, when you look at deposit margins, you have a continuous decrease in margins because the interest rates have, on a quarterly basis, further gone down. We have also very attractive offers for our customers which also puts pressure on margins.

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**Kim Bergoe** - *Fox-Pitt, Kelton - Analyst*

Just if I can-- On the [inaudible]. Is part of that-- You mentioned on a couple of occasions, obviously, that you got a hedge in place. Is part of that the effect of the hedge that you've got?

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**Jan Liden** - *ForeningsSparbanken - CEO*

No. Not the 80 million. That isn't part of that.

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**Unidentified Company Representative**

The hedge is supposed to be in other changes.

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**Jan Liden** - *ForeningsSparbanken - CEO*

Okay. Thanks.

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**Kim Bergoe** - *Fox-Pitt, Kelton - Analyst*

So, actually that had a-- You had a smaller hedge effect.

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**Unidentified Company Representative**

Yes.

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**Kim Bergoe** - *Fox-Pitt, Kelton - Analyst*

Yes.

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**Operator**

Our next question will come from Christoffer Malmer from Goldman Sachs. Please go ahead.

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**Christoffer Malmer** - *Goldman Sachs - Analyst*

Yes. Hi. It's Christoffer again. I don't know if I should take it personally. It seems like I was thrown off the call.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Jan Liden** - *ForeningsSparbanken - CEO*

We tried to respond to you. I don't know if you heard something.

**Christoffer Malmer** - *Goldman Sachs - Analyst*

I did catch the last bit, I think. I just wanted to maybe-- It seems like wherever there's a difference in terms of presentation from how you presented [unintelligible]. It seems like you're looking at it from [unintelligible] respect. [Unintelligible.] Do you experience that the margin pressure for the time being is outweighing the volume growth on the operational side for the reason that net interest income is growing is more related to the treasury?

**Kristina Siimar** - *ForeningsSparbanken - CFO*

No. No. Definitely not. Basically, it's exactly that the volume growth is very, very strong. Even the depreciating margin is basically just the lending growth is increasing. Our lending portfolio is increasing 50% per annum; the net interest income increasing 23%. That's the result of strong [unintelligible], still able to increase net interest income.

**Christoffer Malmer** - *Goldman Sachs - Analyst*

And, that net interest income growth is then not related to what you--

**Kristina Siimar** - *ForeningsSparbanken - CFO*

No. Basically, this treasury thing is not important at all. I assume that the way it is presented here is somehow related to this maturity mismatch or improve the maturity mismatch, as the lending portfolio has increased so much higher. The deposit base, I think, this maturity mismatch increased. I assume that 550-something which is allocated to maturity mismatch.

**Jan Liden** - *ForeningsSparbanken - CEO*

What we will do is we'll try to figure it out in more detail and get back to you. We said that when we lost you last time.

**Kristina Siimar** - *ForeningsSparbanken - CFO*

But, the point is, really, that lending growth is outperforming separation margins.

**Christoffer Malmer** - *Goldman Sachs - Analyst*

That's the main point. Thank you very much.

**Operator**

Our last question will come from Denise Holle with Merrill Lynch. Please go ahead.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Denise Holle** - *Merrill Lynch - Analyst*

Yes. Hi. It's Denise Holle at Merrill. Two questions, again, related to Hansa. First of all, could you just remind us how much of the loan growth over the last year came from acquisitions. And, then, secondly, in the Group accounts, the amortization of the revaluation of the loans at Hansa - this intangible asset you created. Why did that drop from 118 million charge in the first quarter to 40 million in the second quarter?

**Jan Liden** - *ForeningsSparbanken - CEO*

If we start with the last question, I think it's-- You're right. It's 158, and I think we had 118 the second quarter. The reason was that we slightly took-- We evaluated it a little bit high, so we adjusted that a little bit the third quarter. I think we even know the figure, basically, for the next quarter.

**Unidentified Company Representative**

Yes. We have it estimated into around 100 million Swedish krone, depending on exchange rates and all that. But, around 100 million.

**Denise Holle** - *Merrill Lynch - Analyst*

For fourth quarter. So, will this number be stable now on an annual basis, or not?

**Jan Liden** - *ForeningsSparbanken - CEO*

We have a non-linear depreciation on that amortization. Maybe Christer could tell us.

**Christer Westholm** - *ForeningsSparbanken - Chief Accountant*

In our other presentation materials, we have a schedule showing the actual amortization during the coming years. It is, as Jan said, declining.

**Denise Holle** - *Merrill Lynch - Analyst*

Okay.

**Jan Liden** - *ForeningsSparbanken - CEO*

Now, for the first question, which was related to how much of the growth of the lending was related to acquisitions in the Hansabank case. Maybe Kristina has a comment on that.

**Kristina Siimar** - *ForeningsSparbanken - CFO*

The Hansabank Group lending portfolio currently is about EUR3.2 million. That's pretty much it.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Denise Holle** - Merrill Lynch - Analyst

I'm just wondering how much of that came from the Russian acquisition. I think that was really the only acquisition.

**Kristina Siimar** - ForeningsSparbanken - CFO

[Unintelligible] acquisition in Russia. That's just a license of the bank, I think. The lending portfolio is less than \$2 million.

**Denise Holle** - Merrill Lynch - Analyst

So, it's all organic.

**Kristina Siimar** - ForeningsSparbanken - CFO

Yes. Yes.

**Denise Holle** - Merrill Lynch - Analyst

Okay. Thank you.

**Jan Liden** - ForeningsSparbanken - CEO

Okay.

**Operator**

Our next question will come from [Andreas Pakason] with UBS. Please go ahead.

**Andreas Pakason** - UBS - Analyst

Yes. I have a follow-up question on Hansa, again. Just on Russia, I saw that if I took the Hansabank quarter with [unintelligible] presentation, it looks like Russia is growing income by some 111% in the quarter. Is that due to the expansion, or is that just a growth in that business that you had before? It seems like the increase in the erosion is showing that you've been down lately. It shouldn't really have an impact in that. Is that, in that case, growth that we should be expecting for some time [unintelligible] low base in Russia.

**Jan Liden** - ForeningsSparbanken - CEO

That's a tricky question. Kristina, why don't you start?

**Kristina Siimar** - ForeningsSparbanken - CFO

Yes. Basically, if you followed the trends of the last twelve months in Russia, it has been pretty much like setting up the bank. Basically, the costs are increasing much faster than the revenues. But, the portfolio was like the most [unintelligible] that we have. The growth in the last twelve months hasn't been as big [inaudible]. Basically, what kind of trends you can expect there? That's now basically what the last year increase the number [unintelligible] bank operations establish a branch. So, mostly

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

focused on investments and cost side. So, now, basically, we are back in a track. They're planning to build up the portfolio now based on the infrastructure we have currently.

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**Andreas Pakason** - UBS - Analyst

I see, and I'm not worried about the cost side in Russia, since you're building it up. But, the income growth has been very, very rapid. It is still [unintelligible] of Hansa at the moment. I'd just like to get a feel on what revenue growth we should expect or if this is a normalized run rate once you have the operations built up.

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**Kristina Siimar** - ForeningsSparbanken - CFO

Basically, the target, really, like the revenue growth-- Once we seen so far and what we are following is that we would like to keep the Russian portfolio currently roughly at the level of 10% of our restated asset currently. I think, really, it's like 6%. The portfolio can increase a few hundred million euros per annum, but we are currently keeping this 10% restated [unintelligible].

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**Andreas Pakason** - UBS - Analyst

That's good. Thanks.

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**Operator**

Our next question will come from Ronit Ghose with Citigroup. Please go ahead.

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**Ronit Ghose** - Citigroup - Analyst

Thank you. It's Ronit at Citigroup. I have another question on Hansa, maybe directed to Kristina. You reported, obviously, some incredibly strong loan growth numbers. I was wondering if you could sort of maybe look out over the next 12 to 24 months, particularly at your three home markets in Estonia, Latvia and Lithuania. You could [unintelligible] Russia, but especially Latvia and Lithuania. How do you see this evolving? Obviously, in the last 12 to 18 months you already once increased your financial targets. Loan growth, particularly in Estonia, has surprised you. Do you think, given the kind of relative maturity of Estonia compared to the other markets, 14% is really kind of exceeding your expectations. You would expect that to be accelerated quite a bit over the next 12 to 18 months. I'd be very interested in hearing your outlook for the next couple of years on credit expansion. Thank you.

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**Kristina Siimar** - ForeningsSparbanken - CFO

That's true, basically. The current growth in Estonia has been surprising all of us. Basically, we expected much lower growth in Estonia. What's about future? We still basically don't see a big decrease in this growth rate. Most probably don't expect like 40% growth in [unintelligible], but definitely that's not 10% or 15%. What is the result is the economy is growing very fast, but the interest rates are very, very low. That's basically supporting further consumption and investing in household and mortgages etcetera. If you compare our rates-- We have discussed that's how we too see the mortgage portfolio development in Estonia, Latvia and Lithuania over the next 12 to 24 months. [Unintelligible] pretty similar in Estonia, Latvia and Lithuania, meaning that we still see quite strong growth in Estonia in mortgages. One can say it's quite a mature market already.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Ronit Ghose** - Citigroup - Analyst

Yes. And, if you think about the [unintelligible] Lithuania, where historically the banking system has been much less developed and you've also had a lower market share, it's relative, I guess, to how optimistic would you be for the coming year or two?

**Kristina Siimar** - ForeningsSparbanken - CFO

You mean the lending growth rate?

**Ronit Ghose** - Citigroup - Analyst

Yes; specifically the lending growth rates in Lithuania.

**Kristina Siimar** - ForeningsSparbanken - CFO

When it comes to the growth rate, we are expecting much faster growth rate compared to Estonia. But, what, as well, will be most probably true is that over the next 12 months we don't reach the same penetration level as in Estonia in Lithuania. All of those developments are taking much more time.

**Ronit Ghose** - Citigroup - Analyst

Okay. Thanks.

**Kristina Siimar** - ForeningsSparbanken - CFO

But, of course, basically we target these to rate or lending, our target is to be number one in Lithuania.

**Operator**

Our next question will come from [Guillermo Sazra] with Morgan Stanley. Please go ahead.

**Guillermo Sazra** - Morgan Stanley - Analyst

Yes. Good afternoon. It's Guillermo Sazra from Morgan Stanley. I have three questions. The first is on loan growth in the [unintelligible] segment specifically in Sweden. Could you please just give an indication of what has been the loan growth with a bit more [unintelligible] on the different corporate segments, i.e., more business, how much in SME, what's been the large corporate for the Swedish corporation. The second is on the hedging. You just highlighted where it has been reported from an accounting perspective. But, can you also identify what has been the amount of impact on the P&L of the Group for the third quarter? The third question is on the tax rate of the Hansabank corporation. It's been 5% in the third quarter; actually, slightly less. So, can you give us any indication of what is the latest outlook on this very specific item on the Hansa P&L? Thank you.

**Jan Liden** - ForeningsSparbanken - CEO

Okay. That was very clear. Now, as for the tax rate, you know there is a special situation that means that in the Hansabank group we only pay taxes on the profit which is where we pay dividends. Now, we have said that we really want to as a Group to continue to invest money in the Company. So, therefore, we see us paying lesser tax. But, we, of course, pay taxes in Latvia and Lithuania. So, what that would make, if you tried to make it as a percentage on a Group level, I don't know.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Christer Westholm** - *ForeningsSparbanken - Chief Accountant*

7% or 8%.

**Jan Liden** - *ForeningsSparbanken - CEO*

7% or 8% is something that we can calculate. As for the loan growth in corporates in Sweden, I think what we have is-- If you look at the slides numbered 8 and 9, you can have some kind of clues here. There, as you see in number 8, first you see that we have a growth in the third quarter of 5% in corporate lending and the first three quarters 14%. From that, one might-- I don't think that one needs to be particularly worried about it going down to 5% from 14%. I think what we saw in the first two quarters was that, especially in the second quarter-- We saw a number of, if I may call it, big-ticket items coming through. I expect, rather, structural changes to continue on the Swedish corporate side, which will mean that, of course, things have to be refinanced to a higher value than they are today. That's usually the case. But, the underlying pressure for borrowing in the Swedish sector due to what they need for financing their operations, inventory and investments, I think that will continue to increase for the next period - at least 2006. I think an estimate could be as good as any. My feeling would be something like up to 10% over the next coming period.

As for the hedge effect, I think we have said that we really don't want to talk about that. But, I guess, the figure for '05 is on a quarter basis.

**Christer Westholm** - *ForeningsSparbanken - Chief Accountant*

We listed as the amount that the effective schedule you are talking about, Schedule 14, is 113 million Swedish krone. That's the difference between the hedge effect. It's a positive difference between the hedge effect [unintelligible].

**Jan Liden** - *ForeningsSparbanken - CEO*

Okay.

**Guillermo Sazra** - *Morgan Stanley - Analyst*

Can you hear me?

**Jan Liden** - *ForeningsSparbanken - CEO*

Yes; we can hear you.

**Guillermo Sazra** - *Morgan Stanley - Analyst*

One follow-up question, then, to go back to the corporate lending group question. Considering that the loan-- the overall economic conditions in Sweden are accumulating, moving from, let's say, an [unintelligible] to an internal demand has driven growth for the country overall, are you experiencing an acceleration in the FME or small business, which is at the moment stronger than what you see in the large corporates? You said it's a differentiating growth pattern due to the different phase or the different type of growth in economy that you're seeing at the moment in Sweden.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Jan Liden** - *ForeningsSparbanken - CEO*

You have to take that for what it is. It's an estimation. But, my short answer would be yes in terms of financing needs. I think one could see continued steady growth in lending potential, if you like, from FMEs. When it comes to the large corporates, I think what you will see when that happens is when it has to do with structural activities and transactions.

**Guillermo Sazra** - *Morgan Stanley - Analyst*

Thank you.

**Operator**

Our last question will come from [Hansel Stroden] with Deutsche Bank. Please go ahead.

**Hansel Stroden** - *Deutsche Bank - Analyst*

Yes. Good evening or good afternoon. I was just wondering if you could give us some flavor of how much of the net interest income that was previously reported as eliminations-- How much of that has gone-- where? Has any of that gone to the net interest income in the Swedish retail business is one question, and how much? It looks as if pretty much it went into the international net interest income line. The second question is regarding the minority, which is quite much higher in this quarter compared to the last quarter. I'm just wondering if you could give us some guidance as to what we should expect going forward. Then, one final question is on payment and lending commissions, which are very strong during this quarter. I was just wondering if you could go through a few of the drivers behind that and also maybe what we should expect going forward.

**Jan Liden** - *ForeningsSparbanken - CEO*

If I start with the easy one about the commissions, I think that lending commissions-- The reason for having them there is we have them in bigger transactions than what we have seen this quarter; of course, some of it coming in also from first securities. But, we have it definitely in the Swedish operations as well. As for payment commissions, we see a very strong increase in the whole Group, I should say, but definitely in Sweden also, coming through both, as before, on the issuing side and on the acquiring side. The reason is not so much many new [unintelligible], even though you have a healthy growth there as well; but, actually, more transactions coming through. Each transaction, due to the system we have in the core operations with interchange fees and merchant fees, leads us to have higher revenues both as to interchange fees when it's up to our own [unintelligible] acquired by another acquirer or as a merchant fee, including the interchange fee, when it comes to acquiring transactions from [unintelligible] issued by ourselves. That growth is steady - something in the line of 20% on a constant basis. That, of course, is transaction based and also [unintelligible] increase in revenue in that magnitude.

When it came to your other questions regarding how much of the eliminations went into where, basically, I think I'd ask Christer to try to respond to your question.

**Christer Westholm** - *ForeningsSparbanken - Chief Accountant*

All right. I wish I could answer that question because in that case we don't even need to have these eliminations [unintelligible]. I'm sorry. I can't answer that.

**Hansel Stroden** - *Deutsche Bank - Analyst*

Okay. And, the minorities?

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Jan Liden** - *ForeningsSparbanken - CEO*

Sorry. The minorities was-- Your question was that the minorities was much larger.

**Hansel Stroden** - *Deutsche Bank - Analyst*

It's basically three times the size this quarter as in the last quarter. I was just wondering--

**Jan Liden** - *ForeningsSparbanken - CEO*

We have an increased minority interest in Hansabank - in Hansabank ownings [unintelligible]. I don't know if Kristina can comment on this?

**Kristina Siimar** - *ForeningsSparbanken - CFO*

The question is about what minorities, you mean? What the question was?

**Hansel Stroden** - *Deutsche Bank - Analyst*

The question is regarding minorities being so much larger this quarter than last quarter and basically why that is and also if we are to regard the current level as a starting point for focus going forward.

**Kristina Siimar** - *ForeningsSparbanken - CFO*

But, Hansabank doesn't increase in minority interest. What slide are you referring to?

**Hansel Stroden** - *Deutsche Bank - Analyst*

I'm referring to figures in the international line in the Group accounting and also in interest in minorities on the Group level. I'm not sure if it has to do with Hansabank.

**Jan Liden** - *ForeningsSparbanken - CEO*

It was a hypothesis. Do you have anything to contribute to that, Kristina?

**Kristina Siimar** - *ForeningsSparbanken - CFO*

No.

**Jan Liden** - *ForeningsSparbanken - CEO*

I think we have to come back to you on that issue. Please forgive us. We're not able to respond immediately to that one.

Oct. 27. 2005 / 9:30AM, FSPA.ST - Q3 2005 ForeningsSparbanken AB Earnings Conference Call

**Hansel Stroden** - *Deutsche Bank - Analyst*

Okay. That's good. Thanks.

**Operator**

Ladies and gentlemen, if there are no further questions at this stage, I would like to turn the call back over to you for any closing remarks.

**Jan Liden** - *ForeningsSparbanken - CEO*

Well, ladies and gentlemen, thank you for your interest. We'll try to get back to you on the specifics that we were not able to respond to you immediately. We kept track of them, so we'll be back to you. Thank you very much for your attention.

**Operator**

Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation. You may now disconnect.

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