Carnegie Holding AB

Corp. reg. no. 556780-4983, registered office Stockholm

Parent Company of Carnegie Investment Bank AB (publ)
and Carnegie Fonder AB

Interim Report

1 January – 30 June 2011

Interim report 1 January – 30 June 2011

- **Financial data for the group:**
    - Revenue amounted to SEK 1,041 (1,191[1]) million. The decrease relates to terminated operations and lower revenue in commission and transaction services.
    - Expenses before credit reserves amounted to SEK 964 million (1,071[1]). Items affecting comparability increased expenses by SEK 28 million (8).
    - Profit before credit reserves amounted to SEK 77 million (120[1]). Adjusted for items affecting comparability, profit before credit reserves amounted to SEK 105 million (128[1]).
    - Profit for the period amounted to SEK 57 million (163[1]).
    - Strong financial position with equity amounting to SEK 2.5 billion, capital ratio of 19 percent, and Tier I capital ratio of 14 percent at the end of the second quarter.
- **Company events:**
    - Carnegie ranked number one in equity capital markets transactions, measured by number of transactions completed in 2011.
    - Carnegie was named "Best Equity House" by business magazine Euromoney during the quarter, and Carnegie's analysis topped the ranking in a survey conducted by Financial Hearings.
    - Successful launch of the integrated private banking operation.
    - Net inflow of SEK 700 million to Carnegie Funds during the first half-year of 2011.

President's comments

Volatile market climate

The uncertain macro-economic climate in the US and Europe continues to dominate the financial markets, resulting in declining stock prices. The expected increase in demand for advisory services related to equity capital market transactions has also dampened due to the current market situation.

Considering these market conditions, Carnegie stands strong. We performed the highest number of equity capital markets transactions in the market and were active in several major IPOs during the first six months of the year[2)]. Brokerage revenues have not been satisfactory but we can see that Carnegie's improved customer satisfaction is strengthening our relative position with leading institutions. This has also attracted external attention and we received several awards during the quarter.

The Private Banking business area is showing a stable trend. During the second quarter, market investments in Sweden have promoted our high level of expertise and personal service. The Funds business area offers both equity and fixed-income funds, which is advantageous now that many customers are moving away from equity toward fixed-income funds amid the market turmoil. Overall, Carnegie Funds showed a capital inflow during the first half year and has increased its share of the Swedish fund market.

Profitability in our business activities is not satisfactory but is following the market trend. As such, we must continue enhancing our efficiency and adapting to market conditions. At the same time, we believe that our focus is right – to create the leading and most respected investment and private bank in the Nordic region. I see our recent awards as a sign that we are on the right track.

Frans Lindelöw
President and CEO

1) Pro forma 2010: Includes profits from HQ Bank and HQ Fonder but excluding trading loss in HQ Bank of SEK 1.2bn. From page 4 and later, the comparison figures are not pro forma.
2) Number of Nordic ECM-transactions during the period 1 January – 30 June 2011, according to Thomson Reuters.

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Operative income statement

(SEKm)	Jan-Jun 2011	Jan-Jun Pro forma 2010[1]
Securities	386	429
Investment Banking	285	364
Private Banking	282	298
Fonder	87	101
Total income	**1 041**	**1 191**
Personnel expenses	-645	-684
Other expenses	-319	-387
Expenses before credit losses	**-964**	**-1 071**
Operating profit before credit losses	**77**	**120**
Credit reserves, net	6	82
Profit/loss before taxes	**83**	**202**
Taxes	-25	-39
Profit/loss for the period	**57**	**163**
Average number of employees	825	889
Number of employees at year-end (FTE)	824	868

Revenue

Revenue during the first half of 2011 amounted to SEK 1,041 million (1,191[1]). The Securities business area reported lower revenue due to discontinued operations from the former HQ Bank and slightly lower commission income. Revenue in Investment Banking was lower compared with a strong first half-year in 2010. However, the underlying activity in the area was high and revenue from this operation is generated irregularly during the year. Private Banking showed a stable trend. The Funds business area reported lower revenue due to customers moving away from equity funds towards fixed-income funds and lower than average asset under management.

Expenses

Expenses before credit reserves during the first half of 2011 amounted to SEK 964 million (1,071[1]). The expenses include items affecting comparability of SEK 28 million (8), pertaining to costs associated with restructuring and integration of the former HQ Bank. Adjusted for items affecting comparability, expenses before credit reserves amounted to SEK 936 million (1,063[1]).

Profit

Profit before credit reserves during the first half of 2011 amounted to SEK 77 million (120[1]). Restructuring and integration costs impacted profit by SEK 28 million (8). Adjusted for the above items, profit before credit reserves amounted to SEK 105 million (128[1]). Loan recoveries had a positive impact of SEK 6 million (82) on profit. Net profit for the period was SEK 57 million (163[1]).

1) Pro forma 2010: Includes profits from HQ Bank and HQ Fonder but excluding trading loss in HQ Bank of SEK 1.2bn. From page 4 and later, the comparison figures are not pro forma.

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Important events during the period

Efficiency measures in the Swedish operations

Due to cost-efficiency and integration processes in the Swedish organisation, about 15 positions have been cut from the Swedish operations. These reductions affected Securities, Private Banking and administration.

Important events after the period

Prestigious prize to Carnegie

Carnegie was named "Best Equity House in the Nordics" by the business magazine Euromoney. The prize was awarded on 7 July 2011 at Euromoney's annual Awards for Excellence gala.

Euromoney's citation: "Carnegie receives Euromoney's prize for best equity house for its role as lead manager or co-lead manager in six of nine Nordic and Baltic IPOs worth more than USD 100 million.
Carnegie was also involved in six of the ten largest equity capital markets transactions during the surveyed period (1 April 2010 to 31 March 2011) and was the only Nordic investment bank that, together with Goldman Sachs, performed the block transaction of SEK 28 billion in Volvo shares, the largest equity capital markets transaction ever implemented in the Nordic region."

Ownership in OPM and Burgundy

In conjunction with Carnegie's acquisition of HQ Bank on 3 September 2010, Carnegie also became entitled to acquire HQ AB's shares in a number of subsidiaries and associated companies. Carnegie has chosen to exercise that right. The option was settled in the original purchase consideration and no additional payment will be made. The ownership assessment was completed in July regarding the acquisition of 50 percent of the shares in Optimized Portfolio Management AB and 7.2 percent of the shares in Burgundy AB.

Risks and uncertainties

General information on risks and uncertainties

The business activities of Carnegie expose the group to market, credit, liquidity and operational risks. Market risk is defined as the risk of loss due to the effect of, for example, changes in equity prices, interest rates, or currency exchange rates. Credit risk is defined as the risk of loss due to a counterparty being unable to meet its obligations. Credit risk mainly arises as a consequence of loans to clients using shares as collateral. Liquidity risk is related to the need for liquidity in the day-to-day operations. Operational risk is the risk of loss resulting from inadequate or failed processes and systems, alternatively human error or external events. A more detailed description of the Carnegie group's risk management is presented in the 2010 annual report for Carnegie Holding.

Market turmoil

Prices on global stock markets fell sharply after the end of the period. The downturn can be explained to a certain degree by growing concern for public finances in the US and some parts of Europe, and greater uncertainty about the economic situation in these parts of the world. The initial impact on Carnegie is limited since the company is primarily engaged in advisory services and has limited proprietary trading. Carnegie is affected by the macro-economic situation mainly through greater exposure to credit risk and reduced demand for transaction services. Carnegie's exposure towards PIIGS countries is negligible and the Group has an effective process for controlling and monitoring the credit quality of leveraged portfolios.

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Capital requirement and capital ratio

The tables below present the capital requirement and capital ratio according to the Swedish Financial Supervisory Authority's directive FFFS 2007:5 regarding publication of information on capital adequacy.

The capital ratio is calculated as the ratio between the capital base and capital requirement. The capital ratio must not fall below 1 according to the legal requirement.

At Carnegie Bank Group, which includes most of the group's operating activities, the capital quotient on 30 June 2011 was 3.0, which corresponds to capital ratio of 24.2 percent. In the financial companies group, i.e. Carnegie Holding Group, in which Carnegie Fonder is also included, the capital quotient was 2.4, corresponding to capital ratio of 19.5 percent.

A more detailed description of Carnegie's capital adequacy is provided in the 2010 annual report, as well as on Carnegie's website at www.carnegie.se.

Capital adequacy

	Carnegie Bank Group 30 June		Carnegie Holding Group 30 June	
(SEKm)	**2011**	**2010**	**2011**	**2010**
Capital base[1]				
Equity capital	2 486	1 963	2 455	1 567
Deductions [2]	-583	-278	-1 260	-279
Anticipated dividend	-	-	-6	-
Equity capital in the capital base	**1 903**	**1 685**	**1 189**	**1 288**
Tier II capital (subordinated dept)	-	-	410	-
Total capital base	**1 903**	**1 685**	**1 598**	**1 288**
Capital requirement				
Capital requirement for credit risk, standardized method	196	171	198	171
Capital requirement for equity and interest rate risk	70	24	70	24
Capital requirement for currency risk	73	72	73	72
Capital requirement for operational risk, base method	290	319	317	319
Total capital requirement	**628**	**586**	**658**	**586**
Surplus capital	1 275	1 099	941	702
Tier I capital quotient	3,03	2,88	1,81	2,20
Capital quotient	3,03	2,88	2,43	2,20
Tier 1 ratio %	24,23	23,00	14,46	17,58
Capital ratio %	24,23	23,00	19,45	17,58

1) Non audited profit is not included in the capital base

2) Intangible assets and deferred tax assets

Investments

The group's investments in fixed assets amounted to SEK 11 million (13) during the period.

Summary of the parent company

Total revenue in the parent company during the period amounted to SEK 6 million (7). Profit before tax during the period amounted to SEK -19 million (-15). No investments have been made in fixed assets during the period (-). Liquidity, defined as cash and lending to credit institutions, amounted to SEK 3 million (3) per 30 June for the parent company. Equity per 30 June 2011 amounted to SEK 2,213 million (1,304).

Liquidity

The Carnegie Holding group's operations involve largely short-term obligations that mature within two months, which means that the bank does not require financing with long duration. The group's financing consists of equity, issued bonds and deposits from the public. Equity and bonds make up 23 percent, deposits from the public make up 48 percent, and other liabilities make up 29 percent of total capital employed. Of other liabilities, the majority do not attract interest.

The liquidity reserve was SEK 4,649 million per 30 June 2011 for the Carnegie Bank group, entailing an increase of SEK 1,706 during the second quarter. The change is mainly due to reduced proprietary trading and increased deposits. The composition of the liquidity reserve was as follows:

- Bank deposits: SEK 4,109 million
- Government securities: SEK 387 million
- Secured bonds: SEK 153 million

To assure an adequate liquidity reserve, the Carnegie Holding group utilises liquidity risk tolerance levels that should ensure the bank always has an adequate liquidity reserve to survive periods of market turbulence. The liquidity reserve should always be greater than the anticipated outflow of cash during a period of stress, and may consist of balances with banks and assets that can be refinanced with the Swedish Riksbank. A maximum of 40 percent of the liquidity requirement may only be derived from the refinancing of securities. This requirement ensures that the bank does not become too dependent on its financing counterparties. The refinancing of securities was zero per 30 June 2011. The liquidity reserve should make up at least 10 percent of total balance sheet. The liquidity reserve comprised 31 percent of total capital employed per 30 June.

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Consolidated statements of comprehensive income

(SEKm)	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
Commission income	1 043	745	1 712
Commission expenses	-130	-1	-90
Net commission income	**914**	**743**	**1 623**
Interest income	98	64	159
Interest expenses	-68	-59	-107
Net interest income	**30**	**5**	**52**
Other dividend income	0	1	0
Net profit from financial transactions	96	64	123
Capital gain from discontinued operations	-	-	-1
Total operating income	**1 041**	**813**	**1 796**
Personnel expenses	-645	-491	-1 225
Other administrative expenses	-282	-231	-719
Amortisation of intangible assets and depreciation of tangible fixed assets	-36	-39	553
Total operating expenses	**-964**	**-761**	**-1 391**
Profit/loss before credit losses	**77**	**51**	**405**
Credit losses, net	6	82	135
Profit/loss before tax	**83**	**133**	**540**
Taxes	-25	-20	-39
Profit/loss for the period	**57**	**113**	**501**
Other comprehensive income:			
Translation of foreign operations, net after tax	8	-17	-66
Hedge of net investment in foreign operations	-6	-	-
Total comprehensive income for the period	**59**	**96**	**435**

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Consolidated statements of financial position

(SEKm)	30 June 2011	30 June 2010	31 December 2010
Assets			
Cash and bank deposits with central banks	287	290	287
Negotiable government securities	147	293	827
Loans to credit institutions	6 212 1)	5 399	5 519
Loans to general public	3 453	3 009	3 617
Bonds and other interest-bearing securities	479	555	468
Shares and participations	1 405	1 095	1 682
Derivative instruments	317	354	343
Intangible assets	789	19	803
Tangible fixed assets	114	131	126
Current tax assets	33	10	26
Deferred tax assets	562	260	560
Trade and client receivables	579	431	470
Other assets	203	842	107
Prepaid expenses and accrued income	377	134	243
Total assets	**14 957**	**12 823**	**15 078**
Liabilities and shareholders' equity			
Liabilities to credit institutions	756	298	552
Deposits and borrowing from general public	7 238 1)	6 531	7 611
Securities issued	935	935	935
Short positions, shares	1 390	512	878
Derivative instruments	360	410	350
Current tax liabilities	75	43	65
Deferred tax liabilities	100	9	109
Trade and client payable	244	909	234
Other liabilities	277	1 009	598
Accrued expenses and prepaid income	521	435	716
Other provisions	138	51	162
Subordinated debt	410	-	410
Shareholders' equity	2 512	1 680	2 459
Total liabilities and shareholders' equity	**14 957**	**12 823**	**15 078**

1) Whereof SEK 539m in client funds

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Consolidated statements of changes in equity

(SEKm)	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
Shareholders' equity - opening balance	2 459	2 109	2 109
Dividend paid	-6	-	-
Repayment of capital contribution	-	-525	-525
Shareholders' contribution	-	-	440
Comprehensive income for the year	59	96	435
Shareholders' equity - closing balance	**2 512**	**1 680**	**2 459**

Consolidated statements of cash flows

(SEKm)	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
Profit before tax	83	133	540
Adjustments for items not affecting cash flow	46	-76	-500
Paid tax	-36	-8	17
Cash flows from operations before changes in working capital	**93**	**49**	**58**
Changes in working capital	76	778	-2 141
Cash flows from operations	**169**	**826**	**-2 083**
Acquisition of subsidiaries	-	-	1 687
Acquisition of intangible and tangible fixed assets	-11	-13	-28
Cash flows from investing activities	**-11**	**-13**	**1 659**
Issue of capital	-	-	440
Dividend paid	-6	-	-
Repayment of capital contribution	-	-525	-525
Issue of convertible debentures	-	-	410
Cash flows from financing activities	**-6**	**-525**	**325**
Cash flows for the period	**152**	**289**	**-98**
Cash and cash equivalents at opening balance [1)]	4 475	4 974	4 974
Exchangerate effects on cash and cash equivalents	22	-285	-401
Cash and cash equivalents at closing balance [1)]	**4 649**	**4 978**	**4 475**

1) As of Q2 2011 cash pledged as collateral has been excluded. Comparative figures have been restated.

Income statement of Parent Company

(SEKm)	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
Net income	6	7	12
Other external expenses	0	0	-2
Personnel expenses	-7	-8	-14
Operating profit/loss	**0**	**-2**	**-4**
Interest income	0	0	0
Interest expenses	-19	-13	-22
Result from investments in subsidiaries	-	-	505
Profit/loss from financial items	**-19**	**-13**	**483**
Profit/loss before tax	**-19**	**-15**	**479**
Taxes	0	0	0
Profit/loss for the period	**-19**	**-15**	**479**

Statement of comprehensive income

	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
Profit/loss for the period	-19	-15	479
Other comprehensive income, net of tax	-	-	-
Total comprehensive income for the period	**-19**	**-15**	**479**

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Balance sheet of Parent Company

(SEKm)	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
Assets			
Shares and participations in Group companies	2 638	1 733	2 638
Deferred tax assets	0	-	0
Total financial non-current assets	**2 639**	**1 733**	**2 639**
Current receivables from Group companies	91	1	506
Other current receivables	431	1	1
Prepaid expenses and accrued income	1	0	0
Cash and bank	3	3	4
Total current assets	**526**	**5**	**511**
Total assets	**3 165**	**1 738**	**3 150**
Liabilities and shareholders' equity			
Shareholders' equity	2 213	1 304	2 238
Convertible debentures	410	-	410
Trade account payables	0	1	0
Current liabilities to Group companies	520	162	212
Other current liabilities	0	268	279
Accrued expenses and prepaid income	21	3	10
Pension provisions	1	0	1
Total liabilities and shareholders' equity	**3 165**	**1 738**	**3 150**

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The Carnegie group

To clarify the legal structure encompassed by this financial report, a brief description is provided below of the operations within Carnegie.

Carnegie Holding
Carnegie Holding was formed on 19 March 2009 in conjunction with the Altor and Bure acquisition of Carnegie Investment Bank AB (publ) ("Carnegie Bank"). The holding company's operations consist of directly or indirectly owning, managing, issuing guarantees and loans to the banking operations and other group companies associated with financial operations. All business operations within Carnegie take place within Carnegie Bank and Carnegie Fonder AB (formerly HQ Fonder Sverige AB). Carnegie Holding is owned by Altor Fund III, the investment company Bure Equity AB, Investment AB Öresund and employees of Carnegie.

Carnegie Bank
As of 3 September 2010, operations previously conducted in HQ Bank AB were included in Carnegie Bank. HQ Bank AB was merged with Carnegie Bank on 30 September 2010.

Carnegie Fonder
Carnegie Holding consolidates Carnegie Fonder AB ("Carnegie Fonder") as of 22 September 2010.

Comparison figures

Pages 2 and 3 present commentary on Carnegie Holding's operating results for the first six months of 2011 compared with the six months of 2010 pro forma, that is to say including HQ Bank and HQ Fonder. From page 4 and subsequently, the comparison figures are not pro forma.

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MISCELLANEOUS

Accounting policies

This report was prepared in accordance with IAS 34 Interim Financial Reporting, the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the Swedish Financial Supervisory Authority's regulations (FFFS 2008:25). The parent company's accounts were prepared according to the Annual Accounts Act and RFR 2 Accounting for Legal Entities.

The following accounting changes have come into effect from 2011: IAS 24 (revised 2010) Related Party Disclosures, IAS 32 (amendment) Financial Instruments: Presentation, IFRS 7 (amendment) Financial Instruments: Disclosures, IFRIC 14 (amendment) Prepayments of a Minimum Funding Requirement and IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. The changes have not had any significant impact on the consolidated financial statements for 2011. In other respects, the consolidated and Parent Company accounting policies, calculation methods and presentation are essentially unchanged compared with the 2010 Annual Report.

Note that rounding may result in amounts in SEK millions not agreeing when summed.

Auditor's review report

This report has not been reviewed by the company's auditors.

Certification

The board of directors and the chief executive officer hereby certifies that this interim report provides a true and fair summary of the operations, financial position and earnings of the parent company and the group and the significant risks and uncertainties faced by the parent company and those companies that are included in the group.

Carnegie Holding AB

Stockholm, 17 August 2011

Arne Liljedahl Chairman	**Björn Björnsson** Board member	**Fredrik Cappelen** Board member
Harald Mix Board member	**Fredrik Strömholm** Board member	**Patrik Tigerschiöld** Board member

Frans Lindelöw

President and CEO

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