Carnegie Holding AB

(Corp. Reg. No. 556780-4983, registered office Stockholm)

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

Year-end report

1 January – 31 December 2011

Year-end report 1 January – 31 December 2011

- **Financial data for the Group:**
  - Operating income amounted to SEK 1,723m (2,261[1]). The decline was mainly due to discontinued operations, lower activity in the market for corporate transactions and commission trading.
  - Operating expenses totalled SEK 1,754m (2,185[1]). The decrease was attributable to the on-going restructuring programme and that no variable remuneration was expensed for 2011.
  - Items affecting comparability had a negative impact of SEK 237m (pos: 395[1]) on earnings.
  - An operating loss of SEK 31m (profit: 76[1]) was reported before items affecting comparability. Including items affecting comparability, the company posted a loss of SEK 268m (profit: 472[1]) before credit losses.
  - The net loss for the year was SEK 254m (profit: 577[1]).
  - The Group has a strong financial position, with equity totalling SEK 2.2bn, a capital ratio of 18.2% and a Tier 1 ratio of 12.5% at year-end.

- **Company events during the year**
  - Successful integration of the HQ Bank and HQ Fonder acquisitions.
  - Restructuring work initiated to reduce the cost base through centralisation and integration of support activities, more efficient system solutions and reduced staffing.
  - Multiple signs of high customer appreciation: Euromoney named Carnegie best Nordic investment bank, Prospera gave first-place rankings to the operations in Norway and Denmark and Funds and Private Banking received a number of awards and improved ratings from among others Euromoney and Morningstar.

President's comments

Positive signs in early 2012

The past year has been characterised by major economic turmoil in the Eurozone and the resulting turbulence in financial markets. The situation affected activity among institutional investors and reduced the number of transactions in the M&A and ECM markets.

As a consequence, Carnegie's earnings for 2011 were unsatisfactory. Although we delivered positive contributions on an operational level, we still reported an operating loss if financial expenses and depreciation/amortisation on Group level are included. The Group was also charged with considerable expenses in the form of items affecting comparability, primarily related to the on-going restructuring programme. At the business area level, Private Banking displayed a stable trend during 2011. While Funds were negatively impacted by lower asset values, they succeeded in attracting new capital and new customers despite the uncertainty in the market. Our corporate advisory operation, Investment Banking, reported weaker development compared with 2010. The year began on a strong note but declined as market turmoil increased. The Securities business area was adversely impacted by low commission-driven trading on the Nordic exchanges last year.

During 2011, we have devoted time and energy to integrating the companies acquired in 2010 and to launching a comprehensive restructuring programme aimed at increasing efficiency and reducing costs. One main component in the on-going restructuring is the centralisation and integration of support operations, which is aimed to achieve savings of more than SEK 250m. The new organisation comprises three independent business areas, each constituting a separate company, with the aim of creating greater ownership of the entire business chain.

We are pleased that 2012 has started in a positive manner with increased activity in the brokerage operations, a very good "pipeline" in corporate advisory services, a strong inflow to our funds and a private banking operation that continues to attract new customers and capital. Our vision is to be the leading financial advisor in the Nordic region and in 2012 we will continue to develop the operation and offer advice from the foremost experts in the market. A combination of local entrepreneurship, global investment skills and high internal efficiency will provide us with a strong platform for continued value generation.

Frans Lindelöw, President and CEO

1) *Pro forma 2010: Including profit from HQ Bank and HQ Fonder but excluding the trading loss of SEK 1.2bn in HQ Bank. The comparative figures on page 5 and onward are not pro forma.*

Operative income statement Carnegie Holding Group

	Jan-Dec	
(SEKm)	2011	Pro forma 2010[1]
Securities	602	854
Investment Banking	427	637
Private Banking	536	573
Funds	158	197
Operative income	**1 723**	**2 261**
Personnel expenses	-1065	-1 412
Other expenses	-689	-773
Operative expenses	**-1 754**	**-2 185**
Profit / loss before items affecting comparability	**-31**	**76**
Items affecting comparability	-237	395
Profit/loss before credit losses	**-268**	**471**
Credit losses, net	5	135
Profit/loss before taxes	**-263**	**606**
Taxes	9	-29
Profit/loss for the year	**-254**	**577**
Average number of employees	808	874
Number of employees at year-end (FTE)	758	837

Income

Income during 2011 amounted to SEK 1,723m (2,261[1]). The Securities business area reported lower income due to the discontinued operations in the former HQ Bank and also to the lower client activity caused by market turbulence in the second half of 2011. Income in the Investment Banking business area was lower than in the strong 2010. The underlying activity was high early in the year but declined gradually in the wake of the Euro crisis.

The Private Banking business area displayed a stable trend, with an inflow of capital and customers during the year. However, due to lower asset values and relatively low customer activity, income declined somewhat. The Funds business area also displayed a stable trend with net inflow of SEK 1.7bn during 2011. However, income declined due to customers shifting from equity funds to fixed-income funds, and assets under management decreased due to falling asset values.

Expenses

Operating expenses during 2011 amounted to SEK 1,754m (2,185[1]). The decrease in expenses was attributable to the on-going restructuring programmes and to no variable remuneration being payable for 2011. The Group was charged with items affecting comparability that had a net negative impact of SEK 237m (pos: 395[1]) during the year. These expenses derived from the restructuring of the operation, primarily related to the integration of HQ Bank and the on-going restructuring programme, as well as additional costs for pay-roll tax in Norway. Read more about these items on page 4. In 2010, items effecting comparability had a positive impact of net SEK 395m, of which SEK 656m represented negative goodwill and an expense of SEK 261m was related to costs in conjunction with acquisitions and restructuring.

Profit

Before items affecting comparability in 2011, an operating loss of SEK 31m (profit: 76[1]) was reported. As stated above, items affecting comparability had a negative impact of SEK 237m (pos: 395[1]) on profit. Accordingly, a loss of SEK 268m (profit: 472[1]) was posted before credit losses, net. Credit recoveries had a positive impact of SEK 5m (135[1]) on profit. The net loss for the year was SEK 254m (profit: 577[1]).

1) *Pro forma 2010: Including profit from HQ Bank and HQ Fonder but excluding the trading loss of SEK 1.2bn in HQ Bank. The comparative figures on page 5 and onward are not pro forma.*

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Important events during the year

Operational/Financial

Restructuring programme

During the fourth quarter of 2011, Carnegie initiated a programme aimed at reducing annual costs by SEK 250m. The cost savings will be realised successively during 2012. The programme includes the centralisation of several functions, more efficient system solutions and reduced complexity. In the Group, we expect to reduce staff by a total of approximately 100 jobs by 2013, mainly affecting personnel in support functions. In the income statement, SEK 103m was charged against profit for 2011 related to the restructuring.

Information about additional employer contributions

As previously announced, the Norwegian Tax Administration has charged Carnegie additional pay-roll tax for the period 2006-2008. The gross amount is a cost of NOK 66 million, which will have an impact of NOK 41 million on net profit. These costs were charged against earnings for the third quarter of 2011. The Tax Administration's decision has been challenged in court, with the first instance having ruled in favour of Carnegie in January 2012.

Significant awards

Carnegie named best equity house in the Nordic region

Carnegie was named by the business magazine *Euromoney* as the best equity house in the Nordic region. The award was received during the third quarter of 2011 at *Euromoney's* annual awards ceremony "Awards for Excellence."

Carnegie Norway ranked best equity house

Carnegie's Norwegian operations, Carnegie ASA, ended up in first place when TNS Sifo Prospera ranked equity houses in Norway in December 2011. In the 2010 survey, Carnegie ended up in second place. TNS Sifo Prospera's survey is based on telephone interviews with approximately 65 portfolio managers, traders and analysts from Norwegian institutions.

Carnegie Denmark ranked Number One in corporate finance

Carnegie's Danish operations received a first-place ranking when Prospera rated players in the corporate finance market in 2011. The survey is conducted every second year and is based on telephone interviews with some 90 senior executives from transaction active companies.

Improved fund ratings in Morningstar

During the year, two Carnegie funds, Likviditetsfonden (fixed income) and Select Sverige (Swedish equities), were upgraded from the second best to the highest ranking by the fund-rating institute Morningstar. In addition to these two funds, Carnegie's Sverigefond (Swedish equities) had already been awarded five stars.

Carnegie top-ranked in Private Banking

Carnegie was ranked first in eight of a total of 18 categories in Euromoney's annual assessment of private banks in Sweden in 2011. In total, Carnegie finished with a second-place ranking in the survey and was number one in the category measuring customers with the largest wealth.

Carnegie best back office in Sweden

Carnegie ended up at the top in TNS Sifo Prospera's survey in December 2011 when institutional customers ranked the administrative work of their equity houses. In the survey, 43 institutions expressed their opinions on several criteria concerning back-office functionality at 20 Swedish and international equity houses. In recent years, back office has become the second most important criteria for institutional customers in TNS Sifo Prospera's surveys.

Management changes

New head of Private Banking in Luxembourg

Frank Reisböl is the newly appointed MD of Carnegie's private banking operation in Luxembourg, Banque Carnegie Luxembourg S.A., succeeding Claes-Johan Geijer who stepped down in December 2011. Frank Reisböl has highly extensive experience from private banking and has worked at Carnegie since 2002.

New head of Carnegie's Norwegian operation

Natasja Henriksen became MD of Carnegie's Norwegian operation, Carnegie ASA, in September 2011 succeeding Anders Onarheim. Natasja has worked at Carnegie since 2008, most recently as Head of Carnegie Securities Finance in Norway.

Important events after the period

Björn Jansson appointed Head of Investment Banking & Securities

Björn Jansson, currently co-head of Securities, will assume the position as Head of Investment Banking & Securities (IBS). IBS consists of the units Securities and Investment Banking in Sweden as well as Carnegies operations in Denmark, Finland, Norway, UK and the US.

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 or, 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.

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 the Carnegie Bank Group, which includes most of the Group's operations, the Tier 1 capital quotient on 31 December 2011 was 2.2, corresponding to a Tier 1 ratio of 17.6%. In the financial companies group, meaning the Carnegie Holding Group, in which Carnegie Fonder is also included, the Tier 1 capital quotient was 1.6, corresponding to a Tier 1 ratio of 12.5%. 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		Carnegie Holding Group	
	Dec 31		Dec 31	
(SEKm)	**2011**	**2010**	**2011**	**2010**
Capital base				
Equity capital	2 160	2 054	2 189	2 459
Deductions [1]	-593	-582	-1 260	-1 269
Anticipated dividend	-360	-	-22	-
Equity capital in the capital base	**1 207**	**1 472**	**906**	**1 191**
Tier II capital (subordinated dept)	0	-	410	410
Total capital base	**1 207**	**1 472**	**1 316**	**1 600**
Capital requirement				
Capital requirement for credit risk, standardized method	160	161	164	166
Capital requirement for equity and interest rate risk	28	39	28	39
Capital requirement for currency risk	70	53	70	53
Capital requirement for operational risk, base method	290	439	317	468
Total capital requirement	**549**	**693**	**579**	**726**
Surplus capital	658	779	737	874
Tier I capital quotient	2.20	2.12	1.56	1.64
Capital quotient	2.20	2.12	2.27	2.20
Tier 1 ratio %	17.59	17.00	12.52	13.12
Capital ratio %	17.59	17.00	18.18	17.64

1) Intangible assets and deferred tax assets

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Investments

The Group's investments in fixed assets during the year amounted to SEK 31m (28).

Summary of Parent Company

Total income in the Parent Company for the year amounted to SEK 12m (12). Profit before tax for the year was SEK 45m (479), which includes an expense for a purchase consideration totalling SEK 360m (-) for the acquisition of Carnegie Investment Bank AB, as well as anticipated dividend income of SEK 360m (505). No investments were made in fixed assets during the year (-). The Parent Company's liquidity, defined as cash and lending to credit institutions, amounted to SEK 3m (4) on 31 December 2011. Equity totalled SEK 2,277m (2,238) on 31 December 2011.

Liquidity

The Carnegie Holding Group's operations largely involve short-term obligations that mature within two months, which means that the bank does not require financing with a long duration. The Group's financing comprises equity, issued bonds and deposits from the public. Equity and bonds account for 25% of the balance-sheet total, deposits from the public for (excluding client funds) 51% and other liabilities for 24%. Most of the Group's other liabilities are non-interest bearing.

On 31 December 2011, the liquidity reserve for the Carnegie Holding Group was SEK 5,251m, representing a decrease of SEK 121m during the fourth quarter. The composition of the liquidity reserve was as follows:

- Bank balances: SEK 4,862m
- Government securities: SEK 302m
- Covered bonds: SEK 87m

The Carnegie Holding Group utilises risk-tolerance levels for liquidity that ensure that the bank always has an adequate liquidity reserve to survive periods of market turbulence. The liquidity reserve should always exceed the anticipated outflow of cash during a period of stress and may only consist of bank balances and assets that can be refinanced with the Swedish Riksbank. A maximum of 40% of the required liquidity reserve may be derived from the refinancing of securities. This requirement ensures that the bank does not become overly dependent on its financing counterparties. The refinancing of securities on 31 December 2011 amounted to zero. The liquidity reserve should account for at least 10% of the balance-sheet total. On 31 December 2011, the liquidity reserve accounted for 42% of the balance-sheet total.

Consolidated statements of comprehensive income[1]

(SEKm)	Jan-Dec 2011	Jan-Dec 2010
Commission income	1 751	1 712
Commission expenses	-230	-90
Net commission income	**1 520**	**1 623**
Interest income	211	159
Interest expenses	-140	-107
Net interest income	**70**	**52**
Other dividend income	0	0
Net profit from financial transactions	142	123
Capital gain from discontinued operations	-	-1
Total operating income	**1 732**	**1 796**
Personnel expenses	-1 310	-1 225
Other administrative expenses	-608	-719
Amortisation of intangible assets and depreciation of tangible fixed assets	-81	553
Total operating expenses	**-2 000**	**-1 391**
Profit/loss before credit losses	**-268**	**405**
Credit losses, net	5	135
Profit/loss before tax	**-263**	**540**
Taxes	9	-39
Profit/loss for the year	**-254**	**501**
Other comprehensive income:		
Translation of foreign operations, net after tax	-5	-66
Hedge of net investment in foreign operations	-6	-
Total comprehensive income for the year	**-264**	**435**

1) Note that profit from the former HQ Bank is included in the comparison period in 2010 as of 3 September. The former HQ Fonder, now Carnegie Fonder, is included in the comparative figures as of 22 September 2010.

The comparative figures for 2010 include negative goodwill recognised in the amount of SEK 656m.

The pro forma operating income statement for 2010 is shown on page 3, thus providing a better comparison of earnings in 2011.

Consolidated statements of financial position

(SEKm)	31 Dec 2011	31 Dec 2010
Assets		
Cash and bank deposits with central banks	265	287
Negotiable government securities	144	827
Loans to credit institutions	6 198 [1)]	5 519
Loans to general public	2 697	3 617
Bonds and other interest-bearing securities	439	468
Shares and participations	295	1 682
Derivative instruments	212	343
Shares in associated companies	12	-
Intangible assets	776	803
Tangible fixed assets	111	126
Current tax assets	16	26
Deferred tax assets	572	560
Other assets	573	577
Prepaid expenses and accrued income	172	243
Total assets	**12 483**	**15 078**
Liabilities and shareholders' equity		
Liabilities to credit institutions	206	552
Deposits and borrowing from general public	6 889 [1)]	7 611
Securities issued	935	935
Short positions, shares	314	878
Derivative instruments	67	350
Current tax liabilities	32	65
Deferred tax liabilities	95	109
Other liabilities	767	832
Accrued expenses and prepaid income	513	716
Other provisions	67	162
Subordinated debt	410	410
Shareholders' equity	2 189	2 459
Total liabilities and shareholders' equity	**12 483**	**15 078**
Pledged assets and contingent liabilities		
Pledged assets	836	3 152
Contingent liabilities	91	96

1) Whereof SEK 505m (388) in client funds

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Consolidated statements of changes in equity

(SEKm)	Jan-Dec 2011	Jan-Dec 2010
Shareholders' equity - opening balance	2 459	2 109
Dividend paid	-6	-
Repayment of capital contribution	-	-525
Shareholders' contribution	-	440
Comprehensive income for the year	-264	435
Shareholders' equity - closing balance	**2 189**	**2 459**

Consolidated statements of cash flows

(SEKm)	Jan-Dec 2011	Jan-Dec 2010
Profit before tax	-263	540
Adjustments for items not affecting cash flow	71	-500
Paid tax	-47	17
Cash flows from operations before changes in working capital	**-239**	**58**
Changes in working capital	1 337	-2 141
Cash flows from operations	**1 098**	**-2 083**
Acquisition of subsidiaries	-	1 687
Sale of subsidiaries	50	-
Acquisition of intangible and tangible fixed assets	-31	-28
Cash flows from investing activities	**19**	**1 659**
Issue of capital	**-**	440
Dividend paid	-6	**-**
Repayment of capital contribution	-	-525
Issue of convertible debentures	-	410
Cash flows from financing activities	**-6**	**325**
Cash flows for the year	**1 111**	**-98**
Cash and cash equivalents at opening balance [1)]	4 475	4 974
Exchangerate effects on cash and cash equivalents	-14	-401
Cash and cash equivalents at closing balance [1)]	**5 572**	**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-Dec 2011	Jan-Dec 2010
Net income	12	12
Other external expenses	-1	-2
Personnel expenses	-13	-14
Operating profit/loss	**-1**	**-4**
Interest income	0	0
Interest expenses	-30	-22
Result from investments in subsidiaries	76	505
Profit/loss from financial items	**46**	**483**
Profit/loss before tax	**45**	**479**
Taxes	0	0
Profit/loss for the year	**45**	**479**

Statement of comprehensive income

	Jan-Dec 2011	Jan-Dec 2010
Profit/loss for the year	45	479
Other comprehensive income, net of tax	-	-
Total comprehensive income for the year	**45**	**479**

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Balance sheet of Parent Company

(SEKm)	30 Dec 2011	31 Dec 2010
Assets		
Shares and participations in Group companies	2 674	2 638
Deferred tax assets	0	0
Total financial non-current assets	**2 675**	**2 639**
Current receivables from Group companies	5	506
Other current receivables	438	1
Prepaid expenses and accrued income	1	0
Cash and bank	3	4
Total current assets	**446**	**511**
Total assets	**3 121**	**3 150**
Liabilities and shareholders' equity		
Shareholders' equity	2 277	2 238
Convertible debentures	410	410
Trade account payables	1	0
Current liabilities to Group companies	38	212
Other current liabilities	369	279
Accrued expenses and prepaid income	25	10
Pension provisions	2	1
Total liabilities and shareholders' equity	**3 121**	**3 150**
Pledged assets and contingent liabilities		
Pledged assets	-	400
Contingent liabilities	**-**	**-**

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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 2011 compared with 2010 pro forma, that is to say including HQ Bank and HQ Fonder. From page 5 and subsequently, the comparison figures are not pro forma.

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 financial statements were prepared in accordance with the Annual Accounts Act and RFR 2 Accounting for Legal Entities.

The following accounting changes have come into effect as of 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. These changes have not had any significant impact on the consolidated financial statements. 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. Unless otherwise specified, all comparison figures in the report refer to the corresponding period in 2010.

Review report

This report has been reviewed by the company's auditors.

Certification

The Board of Directors and Chief Executive Officer hereby certify that the interim report provides a true and fair view of the operations, position and earnings of the Parent Company and the Group and describes the material risks and uncertainties faced by the Parent Company and the companies included in the Group.

Carnegie Holding AB
Stockholm, 22 February 2012

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