



## Neonet Securities AB Annual Report 2015

Translated version of  
the Swedish audited  
Annual report

### **INDEPENDENT EXECUTION SPECIALISTS**

Neonet is an independent agency broker and execution specialist with 20 years' experience, facing every challenge, from market fragmentation to MiFID and beyond.

**We continue to push the boundaries.**

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### **COMMENTS FROM THE CEO**

During 2015 our efforts rebuilding market and client credibility started to bear fruit. We saw growth in revenue and in market share over the year. As planned we have re-established ourselves as a competitor in the Nordic region.

As well as growing revenue during 2015 we also invested in the business both on the technology and infrastructure side and we have hired a number of senior individuals in the front office and in non-revenue generating roles. These investments intended to help us grow the business further during 2015 and beyond had the effect of increasing our costs so in spite of the strong revenue growth during 2015 we did not return the business to profitability which was our goal.

2016 started well but as market volumes fell during the second quarter ahead of Brexit concerns, in spite of maintaining market share, the company found itself with larger than expected losses.

Tim Wildenberg  
Chief Executive Officer  
Neonet Securities AB

## ADMINISTRATION REPORT

Neonet Securities AB, 556530-4804, is a securities company under the supervision of the Swedish FSA (Finansinspektionen). The company is a wholly owned subsidiary of Neonet AB, 556530-1263, which has the following ownership structure: Hay Tor Capital (60%), KAS BANK N.V. (20%), Cidron Delphi Intressenter AB (16%), Neonet management (3%) and others (1%).

### Operations

Neonet Securities AB operates as an agency broker and is uniquely placed as an independent and technology capable direct member of European stock exchanges and MTFs. It is recognized for its skills in Execution and Algorithmic Trading and Smart Order Routing and also offers a number of hosted trading services such as exchange gateways and order execution-related functionality. Neonet Securities AB has, in addition to Sweden, clients in approximately 20 countries.

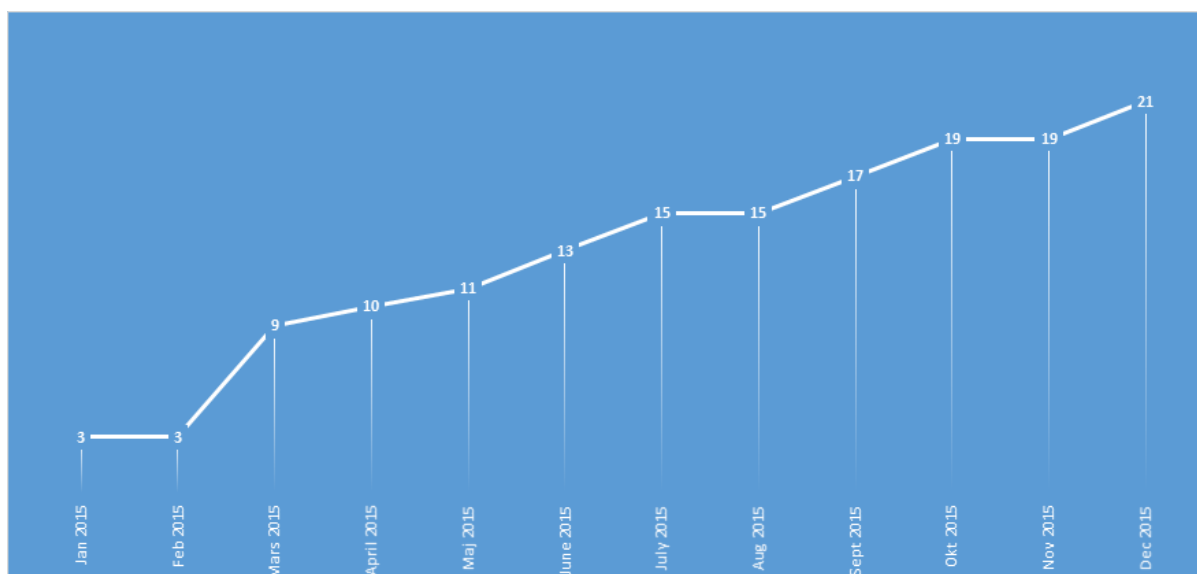
Neonet Securities AB operates only as an agent and execute orders on behalf of clients. Transactions are settled on a delivery versus payment basis. The majority of the firm's revenue is collected as commission, though the firm does have a number of clients who use Neonet's hosted technology platform. These clients are typically invoiced and might have contractual payment relationships or a hybrid model combining commission and invoicing.

Neonet Securities AB's independence makes it an appealing counterparty for both buy and sell side firms who see Neonet Securities AB as non-threatening and an un-conflicted player that is not competing with its clients' business.

The vast majority of Neonet's clients trading in Europe is executed under the exchange memberships held in the name of Neonet Securities AB, while trading on exchanges outside of Europe takes place through partners.

The company's focus on clients and growth has continued to be a priority during 2015. Neonet Securities AB is now positioned as a specialist execution broker rather than a technology vendor as it was in prior years. A more structured sales and client service approach has started to show results and work has continued to improve the firm's execution algorithm offering. As a result of the altered positioning Neonet Securities AB has seen an increasing proportion of its revenue generated as commission or related to transactions versus invoiced technology revenue. It is anticipated that this trend will continue.

The below chart shows the total accumulated new clients during the year (21), which equals an increase of approximately 15% compared to last year.

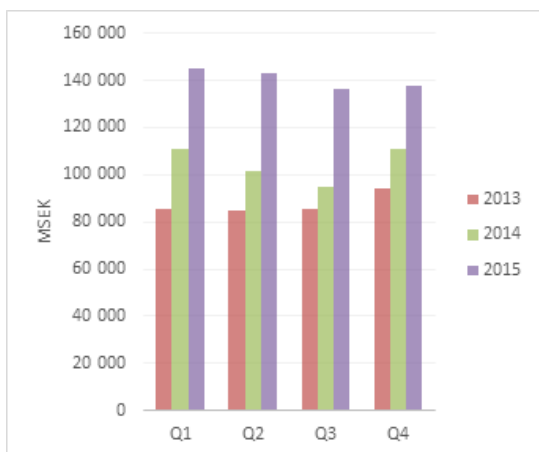


## Financial Overview

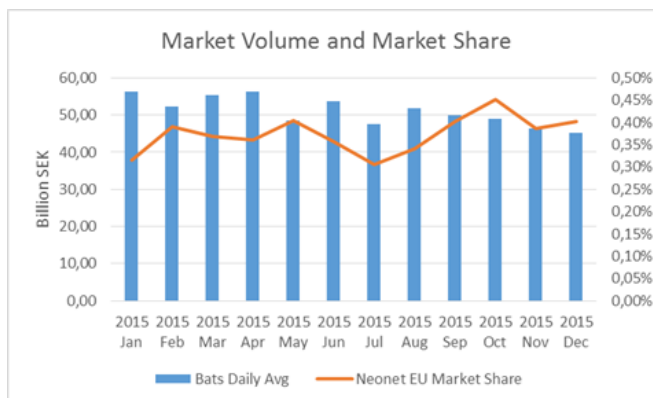
### Revenue

The transaction net amounted to SEK 62.3m, compared to SEK 48.9m the year before, this equals an increase of 27%. Net operating revenue amounted to SEK 90.7m, compared to SEK 80.4m.

The table below on the left show that Neonet's trading volumes have increased each quarter since Neonet's new management started in 2013 and the new strategy was implemented. The right side table show Neonet's market share during 2015, which has increased from 0.32% in January to 0.40% in December.



(Trading volumes per quarter during the last three years)



(Neonet's market share during 2015)

Net interest income for the year amounted to SEK -1.1m (-0.7m) and consisted of interest expenses of SEK -1.1m (-0.9m). The interest expenses are attributable to loans raised in the event of delays in delivery or payment of equity transactions. These loans are designed to eliminate delays in settlement of such transactions.

Net financial items were positively affected by realized and unrealized foreign exchange gains/losses in a net amount of SEK -0.5m (0.4m) on funds tied up in foreign currencies.

### Earnings

The company's income before appropriations and tax amounted to SEK -23.1m, compared to SEK -20.1m the year before. Neonet Securities AB's transaction margin was essentially unchanged compared to the previous year.

### Income for the year after tax

Income for the year after tax and appropriations was SEK -23.1m, a deterioration of SEK 3.0m compared to the previous year (-20.1m).

### Investments and system development

Investments during the year totaled SEK 0.7m (0.1m). The investments consisted of computer equipment. During the year significant investments were made in a new data center and new connections. The related costs have not been recognized as an asset instead they have been recognized as an expense in the income statement.

### Liquidity and financial position

Current net cash and cash equivalents at December 31, 2015, amounted to SEK 47.7m (56.6m), and consisted of bank deposits adjusted for receivables and liabilities in the settlement process.

Gross cash in the balance sheet totaled SEK 47.8m, of which SEK 10.4m consisted of blocked accounts, compared to SEK 88.9m and SEK 40.4m, respectively, at Jan 1, 2015. Fluctuations in cash and cash equivalents in the balance sheet and blocked accounts are normal and consistent with the nature of the company's operations.

The company has temporary settlement loans, which are taken up in the event of delays in payment or delivery from the clients. These loans run only from the contractual settlement date until the underlying transaction has been settled, normally less than three days.

The company's equity at December 31 2015, amounted to SEK 40.9m (49.0m). The company's equity/assets ratio on the same date was 26.3% (36.1%).

Information about Neonet Securities AB's shares and their quota value is provided in the statement of changes in equity.

The owners have in June 2015 injected additional capital to Neonet AB in the form of a convertible loan of SEK 15m. Neonet AB has contributed the issued amount to Neonet Securities AB as an unconditional shareholders' contribution.

### **Outlook for 2016**

2016 started well but as market volumes fell during the second quarter, in spite of maintaining market share, the company found itself with larger than expected losses. The second half of 2016 looks challenging given current market volumes.

### **Subsequent Events**

The Company's operational liquidity is currently negatively affected by the company's weak earnings due to low volumes in the market. This liquidity risk is managed by the size of the liquidity reserve, SEK 10m, established by the Board. At the end of June 2016 approximately SEK 5m of the liquidity reserve was used. The company is currently in discussions with existing and potential new investors regarding refinancing.

As per end of May 2016 the company has consumed approximately SEK 0.6m of the Capital planning buffer of SEK 11.4m. The available own funds as per end of May exceeds the formal buffer requirements with approximately SEK 10.8m.

### **Employees**

The number of employees at the end of the year was 59 (52).

### **Proposed Appropriation of Earnings**

The following funds are at the disposal of the Annual General Meeting (SEK):

Retained earnings	15 106 354
Loss for the year	-23 128 835
<b>Total</b>	<b>-8 022 481</b>

The Board of Directors proposes that the accumulated deficit be appropriated as follows (SEK):

To be carried forward	-8 022 481
<b>Total</b>	<b>-8 022 481</b>

For additional information about the company's reported income for the financial year and position at the end of the financial year, see the following income statement, balance sheet, cash flow statement and accompanying notes.

FIVE-YEAR OVERVIEW	2015-12-31	2014-12-31	2013-12-31	2012-05-01	2012-01-01
				2012-12-31	2012-04-30
Transaction revenue	102 686	100 869	127 996	68 331	45 538
Operating income	-23 129	-20 110	-41 639	-44 124	-54 419
Equity	40 917	49 045	69 156	94 955	134 439
Total assets	155 288	135 770	144 692	172 201	311 990
Equity/assets ratio %	26	36	48	55	43
Return on equity, %	neg.	neg.	neg.	neg.	neg.
Return on assets	-0,15	-0,15	-0,29	-0,26	-0,15
Average no. of employees	58	57	63	69	39

The financial years 2012 is 8, and 4 months which means that the financial years are not fully comparable.

INCOME STATEMENT	Note	2015-01-01	2014-01-01
		2015-12-31	2014-12-31
Transaction revenue	2	102 686	100 869
Transaction expenses	3	-40 386	-51 990
Interest income	4	16	214
Interest expenses	4	-1 066	-934
Net gains/losses on financial transactions	5	-463	404
Other operating revenue	6	29 887	31 829
<b>Total operating revenue, net</b>		<b>90 674</b>	<b>80 392</b>
General administrative expenses	7, 8	-112 275	-97 783
Depreciation of property, plant and equipment and amortization of intangible assets	12,13	-1 527	-2 719
<b>Total operating expenses</b>		<b>-113 803</b>	<b>-100 502</b>
<b>Operating income</b>		<b>-23 129</b>	<b>-20 110</b>
Income tax expense	9	-	-
<b>Income/loss for the year*</b>		<b>-23 129</b>	<b>-20 110</b>

\*Income/loss for the year is equal to comprehensive income

<b>BALANCE SHEET</b>	<b>Note</b>	<b>2015-12-31</b>	<b>2014-12-31</b>
<b>ASSETS</b>			
Pledgeable treasury bills	22	10 000	10 000
Lending to credit institutions	10	47 823	88 850
Lending to the public	11	13	22
Intangible assets	12	20	522
Property, plant and equipment	13	956	1 262
Other assets	14	91 774	79 615
Prepaid expenses and accrued income	19	4 701	5 002
<b>Total assets</b>		<b>155 288</b>	<b>185 273</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
Liabilities to credit institutions	15	63 071	49 503
Deposits and borrowings from the public	16	216	-
Other liabilities	17	25 583	59 564
Accrued expenses and deferred income	18	25 501	27 161
<b>Total liabilities</b>		<b>114 371</b>	<b>136 228</b>
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital		48 000	48 000
Statutory reserve		939	939
<i>Non-restricted equity</i>			
Retained earnings		15 106	20 216
Income/loss for the year		-23 129	-20 110
<b>Total equity</b>		<b>40 917</b>	<b>49 045</b>
<b>Total liabilities, provisions and equity</b>		<b>155 288</b>	<b>185 273</b>
<b>Memorandum items</b>			
<b>Other pledged assets</b>			
Blocked funds included in lending to credit institutions		37 759	40 000
Contingent liabilities		Non	Non



STATEMENT OF CHANGES IN EQUITY	Share capital	Statutory reserve	Retained earnings	Income/loss for the year	Total equity
Opening balance at Jan 1, 2014	48 000	939	61 856	-41 639	69 156
Income from previous year carried forward	-	-	-41 639	41 639	-
Income/loss for the year*	-	-	-	-20 110	-20 110
<b>Closing balance at Dec. 31, 2014</b>	<b>48 000</b>	<b>939</b>	<b>20 217</b>	<b>-20 110</b>	<b>49 045</b>
Opening balance at Jan 1, 2015	48 000	939	20 217	-20 110	49 045
Income from previous year carried forward	-	-	-20 110	20 110	-
Unconditional shareholder contribution	-	-	15 000	-	15 000
Income/loss for the year*	-	-	-	-23 129	-23 129
<b>Closing balance at Dec. 31, 2015</b>	<b>48 000</b>	<b>939</b>	<b>15 107</b>	<b>-23 129</b>	<b>40 917</b>

\*Income/loss for the year is equal to comprehensive income

The number of shares amounts to 480,000, with a quota value of 100 each.

Accumulated unconditional shareholders contribution 91 734

<b>CASH FLOW STATEMENT</b>	<b>2015-01-01 2015-12-31</b>	<b>2014-01-01 2014-12-31</b>
<b>Operating activities</b>		
Transaction revenue	102 700	101 083
Interest received	-	-
Interest paid	-1 064	-934
Outgoing payments to suppliers and employees	-149 727	-149 274
Incoming payments from clients	26 953	31 327
Tax paid	54	-274
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	<b>-21 085</b>	<b>-18 072</b>
Changes in other operating assets	4 088	-8 998
Changes in other operating liabilities	-5 496	5 607
<b>Cash flow from changes in operating assets and liabilities</b>	<b>-1 408</b>	<b>-3 391</b>
<b>Cash flow from operating activities, excluding equity transactions settled on behalf of clients</b>	<b>-22 493</b>	<b>-21 463</b>
Changes in operating assets attributable to settlement*	-15 990	-20 315
Changes in operating liabilities attributable to settlement*	-16 361	55 084
<b>Cash flow from operating activities, attributable to settlement of equity transactions on behalf of clients</b>	<b>-32 352</b>	<b>34 769</b>
<b>Cash flow from operating activities</b>	<b>-54 844</b>	<b>13 306</b>
<b>Investing activities</b>		
Disposal of financial assets	-720	-87
<b>Cash flow from investing activities</b>	<b>-720</b>	<b>-87</b>
<b>Financing activities</b>		
Unconditional shareholder contributions	15 000	-
<b>Cash flow from financing activities</b>	<b>15 000</b>	<b>0</b>
<b>Cash flow for the year</b>	<b>-40 564</b>	<b>13 219</b>
Cash and cash equivalents at beginning of year	88 850	75 227
Foreign exchange gains/losses in cash and cash equivalents	-463	404
<b>Cash and cash equivalents at end of year</b>	<b>47 823</b>	<b>88 850</b>

\*Cash flow attributable to settlement of securities transactions varies significantly from day to day depending on the trading volumes and time variations in processing at the counterparty level. Settlement normally takes place two to three days after the trade date.

## **ACCOUNTING AND VALUATION POLICIES**

### **Accounting Regulations**

Neonet Securities AB is a registered corporation and securities company that falls under the supervision of the Swedish Financial Supervisory Authority. The company is domiciled in Sweden. The address to the head office is Olof Palmes gata 31, Stockholm.

The most significant accounting policies applied in this annual report are described below. These policies have been applied consistently to all financial periods presented in this report, unless otherwise specified.

This annual report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and general advice for annual accounts in credit institutions and securities companies FFFS 2008:25 and the Swedish Financial Reporting Council's recommendation RFR 2. Neonet Securities thus applies a legally limited IFRS, which means that all EU-approved IFRSs are applied with the restrictions resulting from compliance with RFR 2 and FFFS 2008:25.

### **Introduction of New Accounting Standards**

In preparing the Company's Annual Report at December 31, 2015 a number of new and revised IFRS has been published which will enter into force in the coming years. The IFRS that will come into force in 2016 or later has not been applied in advance. The following describes the expected impact of these new and revised IFRSs on the Company's financial statements.

#### **New IFRS not yet applied**

The following describes the new IFRS that will be or are expected to have an impact on the company's financial statements. The new IFRS that have been published on 31 December 2015 and are not described below are not expected to have any effect on the consolidated financial statements.

#### **Amendment to IAS 1 Presentation of Financial Statements**

Amendments to IAS 1 "Disclosure Initiative" shall enter into force on 1 January 2016. These amendments are designed to further encourage companies to apply their professional judgment to determine which information must be provided and how the information can be structured in the financial statements.

#### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15 comes into force on 1 January 2017 and replaces all previously issued standards and interpretations that manage revenue (i.e. IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from customers, SIC 31 Revenue - Barter transactions involving advertising services). IFRS 15 provides a single model for revenue recognition relating to customer contracts. It is still unclear whether IFRS 15 will affect the Group.

#### **IFRS 9 Financial Instruments**

IFRS 9 will enter into force on 1 January 2018 and will replace IAS 39 Financial Instruments: Accounting and valuation. The new standard has been revised in different parts, a part to accounting and valuation of financial assets and financial liabilities. IFRS 9 classifies financial assets into three different categories. Classification is determined at initial recognition based on the characteristics of the asset and the company's business model. For financial liabilities, there are no major changes compared with IAS 39. The other part relates to hedge accounting. To a large extent the new principles means better conditions that a financial statement gives a fair picture of a company's financial risk management in financial instruments. Lastly, new principles have been introduced for impairment of financial assets, where the model is based on expected losses. The purpose of the new model is among other things that provision for credit losses should be made at an earlier stage. Based on the business the group conducts the part relating to impairment and part of the classification and measurement of financial assets may potentially affect the financial statements.

#### **IFRS 16, Leasing**

IFRS 16 will enter into force on 1 January 2019 and will replace IAS 17. The new standard specifies how leasing agreements should be recognized and the lessee is required to recognize all leasing agreements as assets and liabilities, if the agreement is not less than 12 months or of a smaller value, with amortization and interest

expenses in the income statement. For the lessor the requirement to distinguish between financial and operational leasing agreements remains. It is still unclear whether IFRS 16 will affect the Group.

The company will during the year examine whether the new standards mentioned above will affect the Neonet Securities AB and implement changes where this is required.

### **Other Accounting Policies**

#### **Revenue recognition**

Revenue is measured at the fair value of consideration received or receivable for services sold in the ordinary course of business. The company recognizes revenue when the amount can be measured reliably and it is probable that the future economic benefits associated with the item of revenue will flow to the company. Transaction revenue is recognized on the same date as completion of the underlying transaction. License revenue is recognized in other operating revenue. License revenue is normally of two types; installation revenue that is recognized partly when the contract is signed and partly when the license is deployed, and monthly revenue that is recognized in the period when the service is utilized. Interest income is recognized in the period when it arises.

#### **Receivables and liabilities in foreign currency**

Transactions in foreign currency are translated to the functional currency at the rate of exchange ruling on the transaction date, or the date when these items were revalued. Receivables and liabilities in foreign currency are translated at the closing day rate of exchange, with recognition of translation differences through profit or loss.

#### **Non-current assets and amortization/depreciation**

##### *Costs for system development*

Costs that are directly associated with development of identifiable software products that are controlled by the company and have probable future economic benefits for more than one year are recognized as intangible assets. The software is tested for impairment regularly until it is available for use. Investments in software that raise the value of Neonet's offer to trade shares electronically are recognized as intangible assets.

##### *Property, plant and equipment*

An item of property, plant and equipment (PPE) is recognized as an asset in the balance sheet when it is probable that the future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured reliably. Items of property, plant and equipment are stated at historical cost, adjusted for any subsequent expenditure, less accumulated depreciation and any impairment losses.

##### *Amortization/depreciation*

Assets are measured at cost and are depreciated on a straight-line basis over the estimated useful life of the asset. The difference between straight-line and tax depreciation is reported as excess depreciation. The residual value and useful life of an asset is reviewed at each balance sheet date and adjusted when needed. In the income statement, operating income is charged with straight-line depreciation, which is based on the estimated useful life of the asset, according to the following depreciation/amortization schedule:

Electronic trading system and administrative system	(intangible asset)	40-60 months
Computer equipment	(PPE)	40 months
Other	(PPE)	40 months

##### *Impairment of intangible assets and property, plant and equipment*

The carrying amounts of the company's non-financial assets are reviewed at each balance sheet date to look for any indication that an asset may be impaired. If there is an indication of impairment, the asset's recoverable amount is calculated. The recoverable amount is the higher of fair value less costs to sell and value in use. When the carrying amount of an asset or cash-generating unit (group of units) exceeds its recoverable amount, an impairment loss is recognized in the income statement.

**Tax, including deferred tax**

Income taxes consist of current tax and deferred tax. Income taxes are recognized in the income statement, except for when the tax refers to items that are recognized directly in the equity. In such cases, the resulting tax effect is also recognized in the equity.

Current tax refers to tax payable or receivable with respect to the current year, with the application of the tax rates that have been enacted or substantively enacted by the balance sheet date. This also includes adjustments in current tax attributable to earlier periods. The year's change in deferred tax assets or liabilities is recognized as deferred tax. Differences between the carrying amount of an asset or liability and its tax give rise to deferred tax assets or liabilities. Deferred tax assets that cannot be netted against deferred tax liabilities are recognized as financial assets. Deferred tax liabilities are recognized as provisions.

**Employee benefits**

For short-term employee benefits, the undiscounted amount of benefits expected to be paid in respect of service rendered by employees in a period is recognized in that period. A provision is recognized for the anticipated cost of bonus payments when the company has a legal or constructive obligation to make such payments in respect of service rendered by the employees and the obligation can be measured reliably.

In accordance with the company's pension policy, Neonet has only defined contribution pension plans. The pension premiums are charged to income for the year.

**Financial Instruments: recognition and measurement**

The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets and also loans and receivables. The classification depends on the purpose for which the instruments were acquired. The management determines the classification of instruments on initial recognition. Financial assets and liabilities are initially measured at fair value including transaction costs that are directly attributable to the acquisition. The exception to this rule is transaction costs attributable to financial assets and liabilities classified as financial assets and liabilities at fair value through profit or loss, for which transaction costs are not included in historical cost.

The purchase or sale of a financial instrument is recognized on the trade date, i.e. the date on which Neonet commits to buy or sell the asset or liability. A financial instrument is derecognized from the balance sheet when the risks and rights to receive cash flows under the agreement are realized, expire or the company has relinquished control of the asset and Neonet has transferred substantially all the risks and rewards incident to ownership.

Securities settlement receivables and liabilities that are settled through clearing organizations in each market where Neonet is an exchange member are reported net in the balance sheet. These are netted per clearing organization and market. Changes in liabilities related to temporary monetary loans and security loans are recognized in the balance sheet on a daily basis.

The company does not engage in proprietary trading and does not offer securities lending. All interest expenses are recognized in the period in which they are incurred.

**Financial assets at fair value through profit and loss**

This category has two sub-categories: financial assets and liabilities that are held for trading and those which the company has designated to this category on initial recognition. A financial asset or liability is classified in this category if it is acquired or held for the purpose of selling in the short term or if this classification is determined by the management. Derivative instruments are also classified as held for trading if they are not identified as hedging instruments. Assets in this category are classified as current assets. The company's holdings in this category are classified in the balance sheet under pledge able treasury bills and bonds and other fixed income securities. Derivatives with a positive value are recognized under other assets. Liabilities in this category are classified in the balance sheet under other liabilities.

**Loans and receivables**

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted on an active market. These are included in current assets, with the exception of items maturing more than 12 months after the balance sheet date, which are classified as non-current assets. The company's holdings in this category are classified in the balance sheet under contract settlement receivables and other assets. Their carrying amount corresponds to fair value.

Loans and receivables are recognized at amortized cost less impairment losses. An impairment loss is recognized when there is objective evidence that the company will not receive the amount due according to the original terms of the contract. A provision is then made for the difference between the carrying amount of the asset and the present value of future cash flows, discounted by the original effective interest rate.

**Financial liabilities measured at amortized cost**

Other financial liabilities are recognized at amortized cost. Historical cost is equal to fair value on the date of acquisition. For borrowings, this corresponds to the amount of consideration received plus any directly attributable transaction costs.

Trade payables, liabilities to credit institutions, securities loans and certain other liabilities are included in this category.

**Recognition of derivative instruments**

Derivative instruments are recognized in the balance sheet on the contract date and are measured at fair value, on both initial and subsequent recognition. The holdings are reporting in the balance sheet gross under other assets and liabilities. The company does not apply hedge accounting in accordance with IAS 39 and thereby recognizes changes in the fair value of such instruments directly in the income statement within net gains/losses on financial transactions. On the closing date, the Company holds no derivative instruments.

**Fair value**

The fair value of listed investments is based on quoted market prices. If the market for a certain financial asset is not active (and for unlisted securities), the company determines fair value by using a valuation technique. For loans and receivables and other financial liabilities, fair value is assessed to correspond to the carrying amount since the discounting effect is not significant.

**Definition of cash and cash equivalents**

In the cash flow statement, the term cash and cash equivalents refers to cash and lending to credit institutions.

The company's net holdings of cash and cash equivalents are otherwise defined as the total of cash at hand, fixed income instruments, the net of securities settlement receivables and liabilities, and receivables primarily from clearing and similar institutions, excluding liabilities for temporary settlement loans and other current borrowings.

**Group contributions**

Group contributions paid and received directly to or from the Parent Company, and to or from sister companies, are recognized directly in non-restricted equity.

**Contingent liabilities**

A contingent liability is recognized when there is a possible obligation depending on the occurrence of some uncertain future event, or whose existence will be confirmed only by the occurrence or non-occurrence or one or more uncertain future events, for which an obligation is not recognized as a liability or provision because the possibility of an outflow of resources is remote.

## RISK

### Risk management

The Board has the ultimate responsibility for Neonet Securities AB's risk management and that business are conducted with a good internal control. For an effective risk management, the responsibility is based on the principle of three lines of defense. The model distinguishes between functions owning the risk and compliance (first line), functions for monitoring and control (second line), and functions for independent control (third line). The Board has also appointed a Risk Evaluation Committee (REC) with the task of making recommendations to the Board regarding limits, new customers, changes in risk policies, etc. The Committee comprises the CEO, CFO, COO, Risk Officer and Compliance Officer.

#### *First line*

Neonet Securities AB's business lines has full responsibility for the risks that arise in their own operations. The business line staff is the people closest to the customers and have the best knowledge of the specific market, service or IT system.

#### *Second line*

The Risk Officer and the Compliance Officer are responsible for the identification, quantification, analysis and reporting of all risks. The control functions are independent from the business operations and report directly to the CEO and the Board. It maintains policies and risk management framework to make risk assessment as efficient as possible.

#### *Third line*

Internal Audit is an independent function reporting directly to the Board. Their job is to perform risk and regulatory audits on both first and second line of defense. The work aims to improve the business and control functions by evaluating the risk framework, governance and internal controls.

### Risk Exposures for the Company

As a natural part of Neonet Securities AB's business the company is exposed to various types of risks. Of the recognized risks the most significant ones are credit risk (counterparty risk), settlement risk, operational risk, liquidity risk, earnings risk and market risk. The identified risks are continuously monitored and reported to the Management Group and the Board on a regularly basis. The company's risk management is regulated in more detail by the policies established by the Board. The risk policy established by the Board implicates a generally low risk appetite.

#### **Credit risks (counterparty risks)**

Neonet Securities AB don't conduct lending and therefore have no credit risk in the traditional sense. However the company has a credit risk towards the institutions through which the company settles executed securities transactions. This exposure relates to deposited funds that is held as a security for the settlement of executed transactions.

The company also has a credit risk towards the institutions where the company holds its liquidity reserve. These are investments and is not of a speculative nature.

The company's credit and counterparty risk is regulated in detail by a policy established by the Board. Before the company enters into a business relationship where a credit or counterparty risk can occur a structured evaluation of the counterparty is done. The company has also established certain minimum rating requirement for counterparties where the company has invested its liquidity reserve.

The table below shows the company's significant counterparty exposures and their rating as of 31<sup>st</sup> December 2015.

Counterparty	Rating	Amount (SEK m)
Bank A	AA-	14
Bank B	A-	38
Stat	AAA	10

Counterparty risk is the risk that one of Neonet Securities AB's clients cannot fulfill their obligations to deliver securities or cash (pre-settlement risk). This type of risk arises because Neonet Securities AB, in all transactions, represents the clients in Neonet Securities exchange membership. If a situation occurs where a client cannot fulfill its settlement obligations Neonet Securities AB might have to act on the market in order to buy or sell the shares to a different price than the original one in order to fulfill the settlement cycle and the trade towards the markets counterparties. This pre-settlement risk is managed through a credit check that all clients must undergo before being approved to trade through Neonet Securities AB. The credit assessment model is based on a scoring system where a number of risk factors (financial factors combined with customer category specific risks) are evaluated and graded. The company's counterparty risk is in detailed regulated by a policy established by the Board.

However there is no risk in the actual settlement of trades as all transactions are made DVP (Delivery Versus Payment) or RVP (Receipt Versus Payment).

A certain delay in the settlement cycle can occur when the customer or the market are not able to deliver traded instruments on time. Neonet Securities AB has a unit with responsibility for monitoring failed settlement i.e. transactions that do not settle on time.

At December 31, 2015, the net value of the balance sheet item for transactions not settled according to the normal settlement schedule amounted to SEK 69.2m (SEK 53.2m at Dec 31, 2014).

### **Operational risks**

Operational risk is the risk of losses due to inadequate processes or routines, human error, IT systems failure or external events, including legal and regulatory risks.

The term "operational risk" includes a wide category of risks that can result in financial damage for Neonet Securities AB. Operational risks arise in all functions of the organization, as well as in operations that are outsourced to subcontractors and carried out in collaboration with external parties. The following are a few typical examples of operational risk:

- Systemic risk, the risk that Neonet Securities AB's IT-system or electronic communication with the customer or the marketplace does not work as intended.
- Human error, the risk caused by errors that could occur due to the human factor.
- Legal risks. Legal risks can arise in connection with any contract between Neonet Securities AB and clearing banks, Neonet Securities AB's clients, vendors of all sorts of services and between Neonet Securities AB and its employees.

Operational risks within the company is identified and managed through a structured self-assessment process and by carefully analyzing operational incidents that have occurred. The company has an implemented process for reporting, managing and analyzing occurred operational incidents. How to manage the company's operational risks is in detail regulated by a policy established by the Board.

### **Market risks (interest rate risks and currency risks)**

Neonet Securities AB's immediate exposure to market risk is limited. The company does not trade in financial securities for their own account. The market risk that occurs is an interest risk related to money market instruments and deposited funds and a currency exposure.

The Company's interest risk relates to deposited funds held as collateral at the institutions through which the company handles the settlement of executed trades. These collaterals consists mainly of deposited cash at a bank account which does not result in a market risk. A part of the deposited funds is held in Swedish government bonds with a short maturity, neither this results in a significant market risk exposure.

The Company's liquidity risk policy, which regulates how the company's liquidity reserve may be invested, stipulates that the company is not allowed to invest in interest-bearing instruments with a maturity of more than 12 months. This limits the potential market risk for these sort of investments.



The Company has a structural currency exposure since the company has a larger part of its revenues in foreign currency than expenses in foreign currency. This transaction related currency exposure is continuously converted into SEK to minimize the exposure. Only a limited part of the company's collaterals related to the settlement of executed securities is in foreign currency and therefore no substantial structural currency exposure arises.

Current liabilities in the balance sheet carry variable interest. Short-term risk exposure is limited since the majority of these liabilities have a very short maturity, normally only one or a few days. The fair value of both financial assets and liabilities correspond to the booked value.

At the balance sheet date December 31, 2015, interest-bearing receivables totaled SEK 57.8m (49.4) and interest-bearing current liabilities amounted to SEK 63.1m (0), with an average interest rate of 0.01% and 0.03%, respectively.

Neonet Securities AB has exposure in a number of foreign currencies (table below).

Current assets and current liabilities in foreign currency at 2015-12-31:

Currency	Closing day rate SEK/currency	Current assets, thousands in foreign currency	Current liabilities, thousands in foreign currency
CAD	6,0258	81	75
CHF	8,4287	63	37
DKK	1,2242	118	64
EUR	9,1350	1 861	1 770
GBP	12,3785	419	525
JPY	0,0693	198	-
NOK	0,9556	4 477	4 206
PLN	2,1545	12	17
USD	8,3524	453	402

### Liquidity risk

Liquidity risk is the risk that the company will be forced to fulfill its obligations to a higher cost or in worst case not be able to fulfill its obligations at all. The Company has two main types of liquidity risks; liquidity risk related to the settlement of executed securities transactions and the need for working capital in the current business.

The Company's business model entails obligations related to settlement of financial transactions. The Company has financial structures in place to ensure the settlement of normal predicted business volumes. Liquidity risks related to settlement of executed transactions is attributable to unforeseen high market volumes or increased collateral requirements. The Company daily monitors the settlement of executed transactions in relation to the available capacity and regularly conducts stress tests of the settlement capacity.

The Company's operational liquidity is currently negatively affected by the company's weak earnings. This liquidity risk is managed by the size of the liquidity reserve, SEK 10m, established by the Board. The size of the liquidity reserve is set to cover a calculated 6 months negative historical cash flow. The Company daily monitors the operational liquidity and performs weekly liquidity forecasts and controls of the size of the liquidity reserve.

Today Neonet Securities AB has no financial liabilities to cover the cash requirements of the company's operations. Currently the company's only external funding attributes to arrangements in order to cover the settlement of executed financial transactions. In case of any liquidity crisis Neonet Securities AB has an action plan for the working process. The company's control of the liquidity risk is in detail regulated by a policy established by the Board.

### Compliance

The compliance function is handled by Neonet Securities AB's Compliance Officer. The Officer is responsible for ensuring that operations are conducted in accordance with applicable laws and regulations, and contribute to

upholding high quality, integrity and ethics in the company's activities. Neonet Securities AB's compliance officer is independent and reports directly to the management and the Board. The legal counsel and compliance function are responsible for spreading knowledge about laws and regulations within Neonet Securities AB.

## NOTES

### NOTE 1 CAPITAL BASE

Neonet Securities AB is a wholly owned subsidiary of Neonet AB and part of a fully consolidated Financial Group. Included in the consolidated Financial Group is the mother company Neonet AB and the subsidiary Neonet Securities AB. Reporting regarding December 31 2015 and December 31 2014 is according to the current regulatory framework.

The company has an internal policy for the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) established by the Board. The report contains an assessment of current and future risks and capital requirement and liquidity requirement. The Company estimates the capital requirement for the identified risks with a standardized approach. The capital requirement for operational risks is based on the basic indicator approach. The internal capital and liquidity evaluation focus on two different scenarios. One Base scenario where the financial development of the Company is forecasted in accordance with corresponding budget and business plan and one scenario with a stressed economic downturn. The stressed scenario is also used in order to calculate the possible need for a capital planning buffer. The Company's internal capital and liquidity evaluation is updated quarterly and based on the actual development of the profit and loss and the risk exposure.

The Company has no debts to the parent company. There are no other restrictions of cash except for collateral or restricted funds (note 17).

The table below contains the information that must be published according to the SFSA's regulations (FFFS 2014:12), chapter 8. Additional periodic information according to the European Parliament's and the Council's regulation (EU) No 575/2013 on prudential requirements for credit institutions and the Commission's implementing regulation (EU) No 1423/2013 can be found on Neonet's website at <http://www.neonet.com/>.

Included in the capital base is the Boards proposed appropriation of earnings.

	2015-12-31	2014-12-31
Equity	139 734	48 939
Retained earnings	-98 817	116
<b>CET1 capital</b>	<b>40 917</b>	<b>49 055</b>
Intangible assets	-20	-522
<b>Total regulatory adjustments of CET1 capital</b>	<b>-20</b>	<b>-522</b>
<b>CET1 capital</b>	<b>40 897</b>	<b>48 524</b>
<b>Total capital</b>	<b>40 897</b>	<b>48 524</b>
<b>Total risk exposure amount</b>	<b>164 636</b>	<b>196 014</b>
<b>Capital requirement</b>		
Capital requirement for credit risks according to the standard method	1 432	3 685
Capital requirement for operational risks	11 585	11 585
Capital requirement for currency risks	152	38
Capital requirement for settlement risks	2	373
<b>Total minimum capital requirement</b>	<b>13 171</b>	<b>15 681</b>
Capital conservation buffer	4 116	4 900
<b>Total capital requirement</b>	<b>17 287</b>	<b>20 581</b>

<b>Capital requirement by exposure class according to the standard method</b>	<b>2015-12-31</b>	<b>2014-12-31</b>
Exposure to governments and central banks	10 986	11 355
Institutional exposure	45 274	109 152
Risk-weighted amount	9 055	21 830
Capital requirement	724	1 746
Corporate exposures	7 222	6 940
Risk-weighted amount	7 222	6 940
Capital requirement	578	555
Other items	1 623	17 295
Risk-weighted amount	1 623	17 295
Capital requirement	130	1 384
Currency risk	1 897	480
Risk-weighted amount	1 897	480
Capital requirement	152	38
Settlement risk	27	4 657
Risk-weighted amount	27	4 657
Capital requirement	2	373
<b>Capital ratios and buffers</b>		
CET1 capital ratio	24,8%	24,8%
T1 capital ratio	24,8%	24,8%
Total capital ratio	24,8%	24,8%
Totalt CET1 capital ratio and inklusive buffer requirements	7	7
- Of wick demands on capital conservation buffer	2,5	2,5
- Of wick demands on countercyclical capital buffer	-	-
- Of wick demands on systemic risk buffer	-	-
CET1 capital available as buffer	20,3%	20,3%
<b>Amounts below the threshold for the deduction (prior to the determination of risk weight)</b>		
Threshold for non-deductible holdings in entities in the financial sector in which the institution has no substantial holding	4 090	4 852
The Institute's direct and indirect holdings of the CET1 instruments in entities in the financial sector in which the institution has a substantial holding	4 090	4 852
<b>Liquidity</b>		
Available liquidity	13 646	18 132

The company's liquidity reserve amounts to SEK 10m. The company has no external loans or deposits from the public.

<b>Neonet AB</b>	<b>2015-12-31</b>	<b>2014-12-31</b>
Equity	3 253	3 253
Convertible Bond	15 000	-
Retained earnings	22 651	45 791
<b>CET1 capital</b>	<b>40 904</b>	<b>49 044</b>
Intangible assets	-20	-522
<b>Total regulatory adjustments of CET1 capital</b>	<b>-20</b>	<b>-522</b>
<b>CET1 capital</b>	<b>40 885</b>	<b>48 522</b>
<b>Total capital</b>	<b>40 885</b>	<b>48 522</b>
<b>Total risk exposure amount</b>	<b>158 722</b>	<b>191 946</b>
<b>Capital requirement</b>		
Capital requirement for credit risk according to the standard method	1 438	3 688
Capital requirement for operational risks	11 258	11 258
Capital requirement for currency risks	155	38
Capital requirement for settlement risk	2	373
<b>Total minimum capital requirement</b>	<b>12 852</b>	<b>15 357</b>

#### **NOTE 2 TRANSACTION REVENUE**

	<b>2015-12-31</b>	<b>2014-12-31</b>
Commissions from securities transactions - external	102 686	100 869
<b>Total commission revenue</b>	<b>102 686</b>	<b>100 869</b>

#### **NOTE 3 TRANSACTION EXPENSES**

	<b>2015-12-31</b>	<b>2014-12-31</b>
Other commission expenses	-40 386	-51 990
<b>Total commission expenses</b>	<b>-40 386</b>	<b>-51 990</b>

This item refers to variable commission expenses from exchanges, clearing houses, central securities depositories, banks and others.

**NOTE 4 NET INTEREST INCOME**

<b>Interest income</b>	<b>2015-12-31</b>	<b>2014-12-31</b>
Lending to credit institutions	-	154
Change in value of fixed income securities	12	28
Other interest income	4	32
<b>Total interest income</b>	<b>16</b>	<b>214</b>
<b>Interest expenses</b>		
Liabilities to credit institutions for securities loans and monetary loans	-1 055	-909
Other interest expenses	-11	-25
<b>Total interest expenses</b>	<b>-1 066</b>	<b>-934</b>
<b>Net interest income</b>	<b>-1 050</b>	<b>-720</b>

**NOTE 5 NET GAINS/LOSSES FROM FINANCIAL TRANSACTIONS**

	<b>2015-12-31</b>	<b>2014-12-31</b>
Foreign exchange gains/losses	-463	404
<b>Total gains/losses from financial transactions</b>	<b>-463</b>	<b>404</b>

1) This item refers to all foreign exchange gains/losses that have affected the income statement.

The Group's currency exposure consists of assets in foreign currencies that have been placed as a deposit for marginal collateral requirements or retained as a buffer to be used in the event of a need for supplementary collateral for overnight and securities loans.

**NOTE 6 OTHER OPERATING REVENUE**

	<b>2015-12-31</b>	<b>2014-12-31</b>
Data communication and stock exchange information	4 919	5 514
Technology revenues	24 702	24 609
Other	266	1 706
<b>Total other operating income</b>	<b>29 887</b>	<b>31 829</b>

The item data communication and stock exchange information refers to revenue from billed through services, which make up part of the offering for utilization of the electronic trading system. A corresponding expense is included in other operating expenses.

**NOTE 7 OTHER OPERATING EXPENSES**

This item includes expenses of the following types: data and data communication expenses, fees for exchange memberships, fees for information services for stock prices, insurance, costs for premises, auditing fees and other fees.

	<b>2015-12-31</b>	<b>2014-12-31</b>
Stock exchange and communication expenses	-30 612	-36 018
Costs for premises	-3 337	-3 258
Selling costs	-2 874	-1 997
Fees for supervisory and auditing services	-838	-818
IT and telecom expenses	-15 364	-12 822
Consulting expenses	-2 139	-1 326
Other expenses	-4 478	6 016
<b>Total other expenses</b>	<b>-59 643</b>	<b>-50 223</b>

	<b>2015-12-31</b>	<b>2014-12-31</b>
<b>Auditing services</b>		
Ernst & Young	-310	-331
<b>Services outside the scope of the audit</b>		
Ernst & Young	-5	-172
<b>Tax advisory services</b>		
Ernst & Young	-	-
<b>Total fees to auditors</b>	<b>-315</b>	<b>-503</b>

Auditing services refer to examination of the annual report, the accounts and the administration of the Board of Directors and the CEO, other tasks incumbent on the company's auditor and advice prompted by observations from such audits. All other services from auditing firms are classified as other services.

**NOTE 8 EMPLOYEES**

Number of employees at the year-end and the breakdown between women and men was as follows:

Number of employees	2015		2014	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Number of employees at the year end				
Sweden	56	40	50	36
UK	3	3	2	2
<b>Group</b>	<b>59</b>	<b>43</b>	<b>52</b>	<b>38</b>

	2015	2014
Salaries and remuneration amounted to:		
Board Chairman	-317	-356
Other Board members	-240	-723
CEO	-1 611	-1 416
Other senior executives	-5 692	-6 611
Salary other employees	-28 418	-24 324
<b>Total salaries and remuneration</b>	<b>-36 278</b>	<b>-33 430</b>
Social security expenses, legal and contractual	-10 468	-9 125
Pension costs (of which 42 TSEK for the CEO. Previous year: 166 TSEK).	-4 561	-3 625
<b>Total salaries, remuneration, social security expenses and pension costs</b>	<b>-51 307</b>	<b>-46 180</b>
Other personnel expenses	-1 325	-1 382
<b>Total personnel expenses</b>	<b>-52 632</b>	<b>-47 562</b>

	2015	2014
Remuneration Board		
Alasdair Haynes	317	257
Neil Scarth	180	185
Stellan Abrahamsson	60	185
Peter Melbi	-	150
<b>Total Remuneration Board</b>	<b>557</b>	<b>777</b>

The management team has during the year consisted of six people in addition to the CEO, five men and one woman. The board of Neonet Securities AB has during the year varied between 4-5 members. As of 2015-12-31, the board consisted of four members, all of whom were men.

A defined contribution based payment is continuously made for pensions of employees, in accordance with the company's pension policy, a so called defined contribution plans. The premium is determined by the employee's salary.

Neonet Securities AB has adopted a remuneration policy that has been formulated to meet the requirement in the Swedish Financial Supervisory Authority's regulation (FFFS 2011:1) on remuneration systems in securities companies. The remuneration policy has been formulated based on an analysis of the risks existing in the company. It sets out grounds and principles for the way in which remuneration is determined, applied and monitored, and how the company defines which employees can influence the company's risk level. The remuneration policy is designed to promote sound and effective risk management and prevent excessive risk-taking. Information in accordance with the Swedish Financial Supervisory Authority's regulation and general advice 2007:5 on publication of information about capital adequacy and risk management is provided at [www.neonet.com](http://www.neonet.com).



**NOTE 9 CURRENT TAX AND DEFERRED TAX**

	2015	2014
Current tax for the year	-	-
Tax on temporary differences	-	-
<b>Total current tax</b>	<b>0</b>	<b>0</b>
<b>Reconciliation of the company's tax expense and the tax expense based on the applicable tax rate</b>		
Reported income before tax	-23 129	-20 110
Tax according to the applicable tax rate	5 088	4 424
Tax effect of non-taxable tax revenue	-	6
Tax effect of non-deductible expenses	-115	-88
Tax effect of the year's unrecognized loss carryforwards	-6 330	-3 961
Tax effect of group contributions	-	-
Tax effect of unrecognized temporary differences	1 357	-381
<b>Tax on income for the year according to the income statement</b>	<b>0</b>	<b>0</b>
<b>Tax rate</b>		
Applicable tax rate	22%	22%

In addition to the above the company has loss-carry forwards amounting to SEK 92.8m.

**NOTE 10 LENDING TO CREDIT INSTITUTIONS**

	2015	2014
Swedish credit institutions	14 969	17 348
Foreign credit institutions	32 854	71 502
<b>Total lending to credit institutions</b>	<b>47 823</b>	<b>88 850</b>
<b>Information about the maturities of lending</b>		
Payable on demand	47 823	88 850
	<b>47 823</b>	<b>88 850</b>

Lending to credit institutions amounted to SEK 47 823 thousand (39 347), of which SEK 1 391 thousand (2 857) consisted of client account assets. The corresponding amount for client account liabilities, SEK 1 391 thousand (2 857), is also included in the item other liabilities.

**NOTE 11 LENDING TO THE PUBLIC**

	2015	2014
Group receivables	13	22
<b>Total lending to the public</b>	<b>13</b>	<b>22</b>

**NOTE 12 INTANGIBLE ASSETS**

	<b>2015</b>	<b>2014</b>
Opening cost	13 296	13 296
Impairment of intangible assets	-	-
The year's acquisitions	-	-
<b>Closing cost</b>	<b>13 296</b>	<b>13 296</b>
Opening straight-line amortization	-12 774	-11 283
Impairment of depreciation of intangible assets	-502	-1 491
The year's straight-line amortization	-	-
<b>Closing straight-line amortization</b>	<b>-13 276</b>	<b>-12 774</b>
<b>Closing carrying amount</b>	<b>20</b>	<b>522</b>

This item refers administrative systems. Non-current assets include no ongoing development projects for which amortization has not yet been started. For information about amortization periods, see the accounting policies.

**NOTE 13 PROPERTY, PLANT AND EQUIPMENT**

	<b>2015</b>	<b>2014</b>
Opening cost	44 488	44 401
The year's acquisitions	720	87
<b>Closing cost</b>	<b>45 208</b>	<b>44 488</b>
Opening straight-line amortization	-43 226	-41 998
The year's straight-line amortization	-1 025	-1 228
<b>Closing straight-line amortization</b>	<b>-44 251</b>	<b>-43 226</b>
<b>Closing carrying amount</b>	<b>956</b>	<b>1 262</b>

**NOTE 14 OTHER ASSETS**

	<b>2015</b>	<b>2014</b>
Contract settlement receivables	1 990 104	1 886 736
Contract settlement liabilities	-1 920 927	-1 833 550
<b>Total contract settlement receivables, net</b>	<b>69 176</b>	<b>53 186</b>
Tax assets	812	864
Trade receivables	6 862	6 940
Other receivables	14 923	18 625
<b>Total other assets</b>	<b>91 774</b>	<b>79 615</b>

**NOTE 15 LIABILITIES TO CREDIT INSTITUTIONS**

	<b>2015</b>	<b>2014</b>
Foreign credit institutions	63 071	49 503
<b>Total liabilities to credit institutions</b>	<b>63 071</b>	<b>49 503</b>
<b>Information about the maturity of liabilities</b>	<b>2015</b>	<b>2014</b>
Payable on demand	63 071	49 503
<b>Total payable on demand</b>	<b>63 071</b>	<b>49 503</b>

**NOTE 16 DEPOSITS AND BORROWING FROM THE PUBLIC**

	<b>2015</b>	<b>2014</b>
Group liabilities	216	-
<b>Total deposits and borrowing from the public</b>	<b>216</b>	<b>0</b>

**NOTE 17 OTHER LIABILITIES**

	<b>2015</b>	<b>2014</b>
Securities loans	10 437	40 366
Trade payables	5 671	5 129
Other liabilities	9 474	14 069
<b>Total other liabilities</b>	<b>25 583</b>	<b>59 564</b>

Funds are separated on a bank account which correspond with the amount of security loans.

<b>Information about the maturity of liabilities</b>	<b>2015</b>	<b>2014</b>
Payable on demand	25 583	59 564
<b>Total payable on demand</b>	<b>25 583</b>	<b>59 564</b>

**NOTE 18 ACCRUED EXPENSES AND DEFERRED INCOME**

	<b>2015</b>	<b>2014</b>
Transaction expenses	4 179	3 691
Data communication and stock market information	1 472	15 842
Vacation pay and social security expenses	3 296	3 655
Personnel expenses	1 510	1 346
Accrued interest expenses	54	66
Deferred income	202	738
Other accrued expenses	14 788	1 823
<b>Total accrued expenses and deferred income</b>	<b>25 501</b>	<b>27 161</b>

**NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME**

	<b>2015</b>	<b>2014</b>
Prepaid vendor invoices	4 701	3 922
Recoverable VAT	-	950
Accrued interest income	-	-
Other	-	130
<b>Total prepaid expenses and accrued income</b>	<b>4 701</b>	<b>5 002</b>

**NOTE 20 RENTAL AND MAJOR LEASE COMMITMENTS**

Rental expenses for the year amounted to SEK 3 337 thousand, compared to SEK 3 020 thousand in the previous year.

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Contracted future rental expenses	3 537	3 651	3 726	3 804	14 718

**NOTE 21 RELATED PARTY TRANSACTIONS**

Neonet Securities AB, 556530-4804, is a wholly owned subsidiary of Neonet AB, 556530-1263, which has the following ownership structure: Hay Tor Capital (60%), KAS BANK N.V. (20%), Cidron Delphi Intressenter AB (16%), Neonet management (3%) and others (1%). At 2015-12-31 the owner's had a significant influence over Neonet AB. All transactions is made on the basis of market conditions.

None of the Board members, the senior executives or the company's auditors, either on their own behalf or through companies or related parties, have participated directly in any business transaction carried out by the company that has been unusual in nature or in respect of its terms and conditions during the current or preceding financial year.

**NOTE 22 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**

<b>2015</b>	Level 1	Level 2	Level 3
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Pledgeable treasury bills	10 000	-	-
<b>Total</b>	<b>10 000</b>	<b>0</b>	<b>0</b>
<b>2014</b>	Level 1	Level 2	Level 3
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Pledgeable treasury bills	10 000	-	-
<b>Total</b>	<b>10 000</b>	<b>0</b>	<b>0</b>

As of January 1, 2009, the company applies the amendment to IFRS 13 for financial instruments measured at fair value in the balance sheet. This amendment requires disclosures about the measurement of fair value at each level in the following fair value hierarchy.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as quoted prices) or indirectly (i.e. derived from quoted prices),

Level 3 – Inputs for assets and liabilities that are not based on observable market data (i.e. unobservable data).

**NOT 23 FINANCIAL INSTRUMENTS BY CATEGORY**

2015	Loans and receivables	Assets measured at fair value through profit or loss	Available-for-sale assets	Total
<i>Assets in the balance sheet</i>				
Pledgeable treasury bills	10 000	-	-	10 000
Lending to credit institutions	47 823	-	-	47 823
Contract settlement receivables, net	69 176	-	-	69 176
Other assets	21 256	-	-	21 256
<b>Total</b>	<b>148 255</b>	<b>0</b>	<b>0</b>	<b>148 255</b>

	Other financial liabilities	Liabilities measured at fair value through profit or loss	Available-for-sale liabilities	Total
<i>Liabilities in the balance sheet</i>				
Liabilities to credit institutions	63 071	-	-	63 071
Securities loans	10 437	-	-	10 437
Other liabilities	36 775	-	-	36 775
<b>Total</b>	<b>110 283</b>	<b>0</b>	<b>0</b>	<b>110 283</b>

2014	Loans and receivables	Assets measured at fair value through profit or loss	Available-for-sale assets	Total
<i>Assets in the balance sheet</i>				
Pledgeable treasury bills	10 000	-	-	10 000
Lending to credit institutions	88 850	-	-	88 850
Contract settlement receivables, net	53 186	-	-	53 186
Other assets	22 446	-	-	22 446
<b>Total</b>	<b>174 482</b>	<b>0</b>	<b>0</b>	<b>174 482</b>

	Other financial liabilities	Liabilities measured at fair value through profit or loss	Available-for-sale liabilities	Total
<i>Liabilities in the balance sheet</i>				
Liabilities to credit institutions	49 503	-	-	49 503
Securities loans	40 366	-	-	40 366
Other liabilities	41 361	-	-	41 361
<b>Total</b>	<b>131 230</b>	<b>0</b>	<b>0</b>	<b>131 230</b>

Stockholm 2016-06-09

Alasdair Haynes  
Board Chairman

Tim Wildenberg  
CEO

John Ashdown  
Board member

Mark van Weezenbeek  
Board member

Neil Scarth  
Board member

Our audit report, which deviates from the standard format, was submitted on June 27<sup>th</sup>, 2016.

Ernst & Young AB

Jesper Nilsson  
Authorized Public Accountant