Neonet

Liquidity risk and liquidity reserve

Background

According to FFFS 2010:12, Security companies should make such information public for investors and market participants in order to judge the company's ability to handle liquidity risk and its liquidity positions.

Liquidity risk is defined as the risk of not being able "to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses".

Management of liquidity risk is one of the key success factors for the Financial Group of Neonet AB including its subsidiaries Neonet Securities AB and Neonet Technology AB ("the Group"). The business model is such, that a large number of trades must be settled on a daily basis. Even though the market and credit risks of these trades are limited the ability of the Group to perform the following transactions is important:

- Payments in different currencies
- Delivery of securities
- Pledging of collaterals in different currencies.
- Handling the effects of disruptions in the settlement cycle

Organization

The Board of directors establishes the company's risk tolerance and risk limits in relation to company`s strategies and business plan.

The CEO is responsible for the reporting of liquidity risks and the liquidity risk management to the Board.

Company`s Finance (Treasury) function is responsible for the daily management and analyzing of the Liquidity risk. The company`s Risk manager has a controlling function.

Serious events should be reported immediately to the chairman of the Board and, if extraordinary events occur, also to the Board.

Reporting

Company`s Treasury function is responsible to report liquidity risk to the management and risk function at least once a week. The Board is regularly informed and a stress test is regularly performed, at least once a month.

Liquidity reserve

The Group's liquidity reserve should be defined as the excess available collateral compared with the prevailing sum of collateral requirements. It should be expressed as a percentage of the available collateral.

Liquidity risk

Company uses a VAR-model to measure its liquidity risk and collateral requirement. The risk is measured by using a 5 day moving average, the average is then together with a 90 days standard deviation compared to company`s total available collateral using a 95% confidence interval.