

Pareto Securities Oy

Pillar III Disclosures in accordance with IFR Art. 46 (EU 2019/2033)

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1. Introduction

Pareto Securities Oy (“Pareto” or “Company”) is an investment firm under the supervision of the Financial Supervisory Authority of Finland (“FIN-FSA”). Pareto offers primary- and secondary trading in equities and debt instruments in addition to Investment Banking services such as capital raising, M&A and project finance. Client deposits and lending, granting of credit to clients, research activity, derivatives trading or keeping client assets are not a part of Pareto’s business. Pareto does not trade financial instruments on own account on its own behalf. Pareto’s client base consists mainly of professional clients and eligible counterparties, in addition to a few non-professional clients.

In accordance with the Investment Firm Regulation (EU 2019/2033, “IFR”), the Company is required to disclose information relating to its risk management objectives and policies, governance, own funds, own funds requirements, in addition to remuneration policy and practices.

The regulatory framework is comprised of three pillars:

- Pillar I: Calculation of Own Funds and liquidity requirements
- Pillar II: Internal Capital Adequacy and Risk Assessment Process
- Pillar III: External disclosures of information by firms

With this report Pareto discloses the Pillar III information to be published in accordance with Article 46 of IFR. The information is related to the year ended 31st December 2022 (based on audited financial statements) and is prepared on an individual (solo) basis. None of the disclosures have been audited and they have been produced solely for the purposes of satisfying the IFR requirements.

2. Corporate Governance

Pareto is governed by its Board of Directors (“the Board”). The function of the Board is to be responsible for the Company’s administration and for appropriately organizing operations in accordance with the laws, regulations and articles of association.

In the selection of the Board members, Pareto follows the Principles for Management and Control of Subsidiaries and [Diversity and Inclusion policy](#), given by the Pareto Securities Group (“PSEC Group”), in addition to EBA/ESMA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06, ESMA35-36-2319). The target of the Diversity and Inclusion policy is to recruit the most suitable candidates regardless of gender, ethnicity, religion, sexual orientation or disabilities, and seeking the best balance when it comes to gender, age, education and nationality of the Board members. Pareto considers that the set targets have been achieved well.

The number of directorships held by members of the management body per 31.12.2022 is presented in the chart below:

Director	Internal directorships	External directorships
Mats Carlsson	4	2
Camilla Kempe	5	2
Markus Wirenhammar	1	1

Taking into account the value of its on- and off-balance sheet assets, the Company is not required to and has not created a separate risk committee.

3. Risk management objectives and policies

3.1 General

The principles for risk management are stated in the Company's Risk Management Policy, which has been adopted by the Board of Directors (“the Board”). In general, Pareto has a low risk appetite in its operations and in the management of its assets. All risk management within Pareto is conducted close to the business, which in

practice means that each manager and employee is personally responsible for ensuring that risk management and risk control within the department is within the Board's decided risk appetite. Compliance, Risk Control and the Internal Auditor are responsible for supporting and controlling the operations' risk management and that the risk exposure is within the Board's risk appetite. Compliance, Risk Control and the Internal Auditor reports separately to the Board.

3.2 Risk management strategies and processes

Risk management is a component of the management process of Pareto’s business activities. The objective of risk management is to control and handle risks that arise as a result of the company’s activities, so it doesn’t threaten Pareto’s ability to reach strategic or financial targets nor threaten the continuity in business operations.

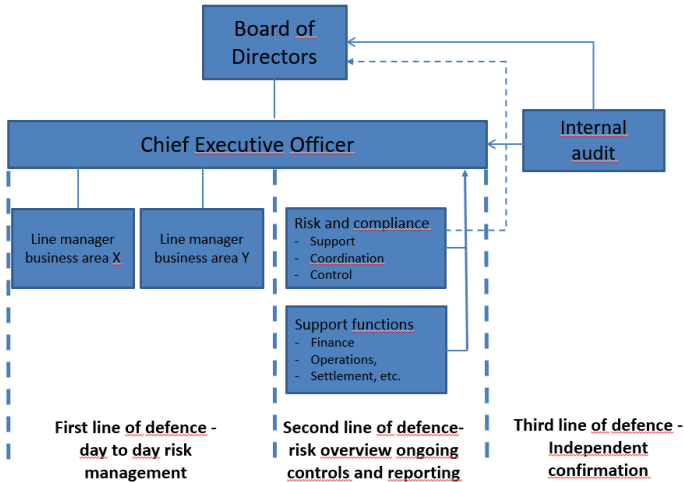
It is an objective of risk management to support and control the business activities by allowing the maximization of earnings in proportion to acceptable risks. Risk management shall be arranged in a manner which is cost effective taking into consideration the size of the company, the nature of the business activities and identified risks.

The Risk Management Policy is a principal document reflecting the size, scope and nature of Pareto’s business and risk strategy. The policy is subject to regular review and audit by risk control. The policy is adopted by the Board not less frequent than every two years or when changes require an update.

All risk taking shall occur under the compliance of the limits and procedures set by the Board. The Board has, against this background, prepared a set of instructions, risk limits and procedures to ensure prudent operation, and adequate risk exposures and control of Pareto. All employees are obliged to understand and familiarise themselves with the applicable internal instructions and procedures.

The distribution of responsibilities for risk management and internal controls are based on the principles of the three lines of defence (see the figure below), meaning that there are three lines in the organization that manage and control that the risks in the business reflect the risk level decided by the Board. This means that the responsibility for and daily management of risk lies within the business where the risk arises and that the risk owners are found in the business (first line), Compliance and Risk Control support and control first line’s risk management, and report risks to management and the Board (second line), and an independent review of first and second line is carried out by internal auditor who reports to the Board (third line).

Chart: The three lines of defence for risk management and internal controls



3.3 Risk statement of the Board

The Board’s function is to ensure that, taking into consideration the scope and magnitude of its operations, the Company has an adequate internal control and adequate internal risk management processes.

In current business set-up, the Board has general low risk appetite and risk tolerance for all types of risk. Risk arises mainly due to Pareto’s core business activities. Operational risk is considered a significant risk for Pareto.

The Board considers that it has in place adequate risk management processes and controls with regards to the Company's profile and strategy.

4. Own funds

EU IF CC1.01 - Composition of regulatory own funds (Investment firms other than small and non-interconnected)

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet in the audited financial statements
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	OWN FUNDS	2 687 257	
2	TIER 1 CAPITAL	2 687 257	
3	COMMON EQUITY TIER 1 CAPITAL	2 687 257	
4	Fully paid up capital instruments	730 000	CC2_1
5	Share premium		
6	Retained earnings	1 187 334	CC2_3
7	Accumulated other comprehensive income		
8	Other reserves	769 923	CC2_2
9	Minority interest given recognition in CET1 capital		
10	Adjustments to CET1 due to prudential filters		
11	Other funds		
12	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
13	(-) Own CET1 instruments		
14	(-) Direct holdings of CET1 instruments		
15	(-) Indirect holdings of CET1 instruments		
16	(-) Synthetic holdings of CET1 instruments		
17	(-) Losses for the current financial year		
18	(-) Goodwill		
19	(-) Other intangible assets		
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds		
22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds		
23	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment		
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment		
25	(-) Defined benefit pension fund assets		
26	(-) Other deductions		
27	CET1: Other capital elements, deductions and adjustments		
28	ADDITIONAL TIER 1 CAPITAL	0	
29	Fully paid up, directly issued capital instruments		
30	Share premium		
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
32	(-) Own AT1 instruments		
33	(-) Direct holdings of AT1 instruments		
34	(-) Indirect holdings of AT1 instruments		
35	(-) Synthetic holdings of AT1 instruments		

36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment		
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment		
38	(-) Other deductions		
39	Additional Tier 1: Other capital elements, deductions and adjustments		
40	TIER 2 CAPITAL	0	
41	Fully paid up, directly issued capital instruments		
42	Share premium		
43	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
44	(-) Own T2 instruments		
45	(-) Direct holdings of T2 instruments		
46	(-) Indirect holdings of T2 instruments		
47	(-) Synthetic holdings of T2 instruments		
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment		
49	(-) T2 instruments of financial sector entities where the institution has a significant investment		
50	Tier 2: Other capital elements, deductions and adjustments		

EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	c
		Balance sheet as in published/audited financial statements	Cross reference to EU IF CC1
		As at 31.12.2022	
Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements			
1	Kontanta medel (Cash)	54,50	
2	Fordringar på kreditinstitut (Receivables from credit institutions)	3 015 358,92	
3	Materiella tillgångar (Tangible assets)	33 528,70	
4	Övriga tillgångar (Other assets)	294 392,81	
5	Förutbetalda kostnader och upplupna intäkter (Prepayments and accrued income)	288 412,85	
xxx	Total Assets	3 631 747,78	
Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements			
1	Övriga skulder (Other liabilities)	263 908,61	
2	Upplupna kostnader och förutbetalda intäkter (Accrued costs and prepaid income)	680 582,11	
xxx	Total Liabilities	944 490,72	
Shareholders' Equity			
1	Aktiekapital (Share capital)	730 000,00	CC2_1
2	Fond för fritt inbetalt eget kapital (Unrestricted equity fund)	769 923,01	CC2_2
3	Balanserat resultat (Retained earnings)	1 064 495,10	CC2_3
4	Räkenskapsperiodens vinst (Profit of the financial period)	122 838,95	CC2_3
xxx	Total Shareholders' equity	2 687 257,06	

5. Own funds requirements

In accordance with the IFR, Pareto's own funds requirement is the highest of its

- a) permanent minimum capital requirement of EUR 750 000;
- b) fixed overheads requirement or
- c) total K-factor requirement.

On 31.12.2022, the highest of own funds requirements for Pareto was the permanent minimum capital requirement, EUR 750 000. Fixed overhead requirement was EUR 532 447, and total K-factor requirement significantly lower, EUR 774.

Pareto's own funds are well above the minimum level, with a ratio of 341,92 %.

	Amount
Own funds requirement 31.12.2022	750 000
Permanent minimum capital requirement	750 000
Fixed overheads requirement	532 447
K-factor requirement	774
Total Own funds	2 564 418
CET1 ratio (56 %)	341,92 %
Surplus of CET 1 Capital	2 144 418

In accordance with Pillar II regulations, Pareto shall have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that are considered adequate to cover the nature and level of the risks to which Pareto is or might be exposed to.

Pareto's risk- and capital management operate on an ongoing basis, in terms of daily monitoring and control by Compliance and Risk Control. The management processes include daily control and weekly reporting of the liquidity ratio and large exposures, quarterly assessment and reporting of capital adequacy and capital ratios, and annual update of ICAAP/ICARA. Risk Control, together with Administration, is responsible for producing capital and liquidity reports to the authorities, and a status report at every Board meeting. The CEO is obligated to take actions if capital adequacy limits/targets are at risk of being breached.

The purpose of Pillar II is to ensure that own funds are commensurate with Pareto's risk profile, as well as to prepare a capital plan for preserving its capital level for the coming three-year period. The process is also intended to provide an overview of approaches and controls used by Pareto to manage risk. A further objective is to describe long-term strategic and market factors that may have an impact on the capital requirement.

Own funds shall cover unexpected losses that may be incurred, and the capital level shall ensure that Pareto maintains solvency also in the event of major unexpected loss. Pareto evaluates capital requirements on the basis of scenarios covering unfavourable future market developments (stress testing). The capital supplement under Pillar II is principally assessed on the basis of an analysis of various specific risks and other events which may have a significant negative influence of the earnings and/or Pareto's own funds.

5.1 Permanent minimum capital requirement

The Article 9 of the Investment Firm Directive (EU 2019/2034, "IFD") provides the initial capital requirements for investment firms. The requirements depend on the types of activities the firm is authorized. As Pareto holds the license for dealing on own account, the minimum capital requirement is set in amount of EUR 750 000.

5.2. Fixed overheads requirement

As laid out in Article 13 of the IFR, the fixed overheads requirement shall amount to at least one quarter of the fixed overheads of the preceding year. The fixed overheads are deducted by variable expenses.

	Amount
Total expenses of the previous year	3 523 925
(-) Total deductions	-1 394 138
Annual fixed overheads of the previous year	2 129 787
Fixed overhead requirement	532 447

5.3. K-factor requirement

The relevant K-factors for calculating the K-factor requirement for Pareto are K-COH, i.e. requirement based on client orders handled, and K-DTF, i.e. requirement based on the operational risks from the investment firm's daily trading flow. K-COH requirement belongs to the category of Risk-to-Client (RtC), and K-DTF to category Risk-to-Firm (RtF).

Risk-to-market category (RtM) isn't applicable to Pareto, since it is not engaged in own account trading in financial instruments on its own behalf, nor holds any trading book positions for itself or on behalf of the clients. Pareto applies the license for dealing on own account only when facilitating secondary fixed income brokerage, which is matched principal trading.

In addition, Pareto doesn't have any assets under management, assets safeguarded or client money held, nor trading in derivatives.

	Factor amount	K-factor requirement
Total K-Factor requirement		774
Risk to client		620
Assets under management	-	
Client money held - Segregated	-	
Client money held - Non-segregated	-	
Assets safeguarded and administered	-	
Client orders handled - Cash trades	620 134	620
Client orders handled - Derivatives trades	-	
Risk to market		0
K-Net positions risk requirement		
Clearing margin given	-	
Risk to firm		154
Trading counterparty default		
Daily trading flow - Cash trades	153 714	154
Daily trading flow - Derivative trades	-	
K-Concentration risk requirement		

6. Concentration risk

Concentration risk is defined as the risk of loss due to dependency or large exposure to a counterparty or group of counterparties, markets, products, industry or sector, or financial instruments. The Board has low risk appetite and -tolerance for concentration risk but accepts it as a part of its business.

Pareto's dependency of markets, products and clients shall be moderate. Concentration risk shall be mitigated by broadening Pareto's client and product base, and by a low cost base. Given the business focus, Pareto shall not have concentration risk towards financial instruments.

Pareto shall limit its exposure or dependence towards a client or group of connected clients. The Board accepts a higher concentration (in reality credit risk) to approved banks in the Nordic banking sector where cash is deposited. The concentration limit for approved banks is set to a maximum of 150 % of own funds in accordance with a separate Board decision.

The Company does not trade on own account and the concentration K-Factor, K-CON, does not apply.

7. Liquidity requirement

According to the IFR regulation, investment firms shall hold an amount of liquid assets equivalent to at least one third of the fixed overhead requirement, increased by 1,6% of the total amount of guarantees provided to clients. Pareto does not provide guarantees to clients.

The table below provides the information on the amount of the liquid assets of the Company.

	31.12.2022
Fixed overhead requirement	532 447
Client guarantees	0
Liquidity requirement	177 482
Total liquid assets	3 015 415
Surplus of liquid assets	2 837 933

Liquidity- and financing risk is defined as the risk of economic loss as a result of Pareto being unable to meet its ongoing payment obligations and/or to fund increases in its assets without incurring significant additional costs in the form of price reductions on such assets that need to be realised or in the form of unusually expensive funding.

The Board has low risk appetite and risk tolerance for liquidity- and financing risk. Pareto does not fund itself externally and there is no structural liquidity- and financing risk on the balance sheet in terms of funding, borrowing, lending or interest rate risk. Pareto funds itself through operations, by being profitable.

Pareto's liquidity- and financing risk is regulated in a separate instruction decided upon by the Board. Pareto has in place a contingency plan given the size, scope and nature of its business. Management of Pareto's liquidity- and financing risk is primarily based on control of large exposure limits for bank deposits, weekly reporting of bank exposures and liquidity reserve, and reporting to the Board. Pareto's assessment is that the liquidity and interest rate risk is low.

8. Other central risks

8.1 Credit- and counterparty risk

Credit- and counterparty risk is a risk of loss as the result of counterparties and clients of Pareto being unable to meet their payment or delivery obligations to Pareto. Settlement risk is that transactions in financial instruments cannot be settled at the agreed time due to the counterparty's inability to fulfill its obligations so that loss occur for Pareto.

Pareto accepts credit- and counterparty risk as a part of the business but has a low risk tolerance for it. Pareto does not engage in the granting of credit to clients, collateral handling and does not make use of derivatives, neither for hedging, held for own exposure or on behalf of others. Bank deposits represent a credit risk, but deposits shall be diversified with approved Nordic banks. Given the size, credit ratings of the banks, and their importance to the economy and the strict regulation, the credit risk is considered low. Other credit- and counterparty risk is related to short term receivables for accrued revenues or prepaid expenses and the risk is also low.

8.2 Operational risks

Operational risk is the risk of loss related to inadequate or failed internal processes, staff, systems, external events as well as legal risk, including regulatory risk.

Legal- and regulatory risk includes, but is not limited to, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. The interpretation, scope and validity of the legal framework governing the supervised entity's operations entail uncertainties that may give rise to significant losses and have a bearing on the entity's legal responsibility and possible liability for indemnification. Regulatory risk is also the risk that changes in laws and regulations will materially impact the business negatively.

In terms of risk appetite, Pareto accepts that operational risk is an inherent risk in all aspects of its business and operations. Pareto has low risk tolerance for operational risk, but it accepts a certain level of operational risk and

thereby a potential cost, given it doesn't threaten the business in reaching its targets, result in severe disturbance or the continuity of operations, have a significant impact for staff or regulatory matters or results in a high cost.

Operational risk is considered being Pareto's greatest risk and can become significant if it is not properly managed and the risk materializes.

Internal controls are used to limit the operational risk within activities and processes. Pareto and its employees shall at all times be in compliance with applicable statutes, regulations and rules, and regular controls are conducted to ensure this. Incidents are reported on an ongoing basis, analysed and new measures, if deemed appropriate, are implemented in internal controls, instructions or procedures. Pareto keeps a log of identified incidents. Internal Audit, Risk Control and Compliance shall control the quality of Pareto's internal control.

9. Remuneration policy and practices

9.1 Introduction

As of June 2021, when IFD/IFR entered into force, Pareto was classified as a small and non-interconnected firm ("Class 3 firm") by the FIN-FSA. The IFD/IFR remuneration provisions are not applicable to Class 3 firms, them being subject only to the MIFID II remuneration framework (including e.g. conflicts of interest between employees and clients, definition of remuneration, and the balance between fixed and variable remuneration). Regarding the variable remuneration awarded from the financial year 2021, paid out early 2022, Pareto was thus not obliged to identify material risk takers, defer variable remuneration allocated to them, limit the maximum ratio between fixed and variable remuneration, set up a remuneration committee or pay out at least fifty percent of the variable remuneration in shares or other financial instruments.

From 1.1.2022 onwards, Pareto has been classified as Class 2 firm, and the IFD/IFR regulation is applicable in its entirety. Remuneration policy has been adjusted accordingly.

9.2 Principles for remuneration

Pareto shall have a remuneration system that promotes sound management and control of the Company's risk, counteracts excessive risk taking and contributes to the avoidance of conflicts of interest between the Company and the Company's clients. Any incentive schemes of the Company shall be structured so as to promote a responsible long-term perspective on the part of employees. The policy shall contribute to ensuring that the interests of the client are attended to in both the short and the long run. Pareto shall also ensure that the total variable remuneration does not limit the ability of the Company to maintain a sufficient capital base.

The remuneration policy covers all employees and all remuneration paid by Pareto. The policy is gender neutral with regard to level of education, seniority, expertise and skills, limitations (e.g. social, economic, cultural or other relevant factors), work experience, relevant business activities and market remuneration level.

The Board establishes the compensation policy and has overall responsibility for its application and follow-up. The Board shall decide on: i) the total amount to be paid in variable remuneration for each financial year; ii) remuneration to the CEO; iii) measures for monitoring the application of the remuneration policy; and iv) payment of historically deferred variable remuneration.

9.3 Risk analysis and capital assessment

The Board shall decide on the total variable remuneration that may be paid by the company. To support the decision making, Pareto shall analyze the risks associated with the remuneration system and assess the result of the financial year in question, in addition to the bonus pool, in relation to capital requirements and capital base. The results of the assessments shall be presented to the Board. The Board must always ensure that Pareto maintains a sufficient capital base and that the Company can strengthen its capital base if necessary.

9.4 Balance between fixed and variable remuneration

All employees of Pareto shall be offered fixed remuneration – and a total compensation in line with market conditions – that reflects their responsibilities, experience, education, and efforts. The fixed remuneration shall be agreed in the employment agreement. The Company applies a group-wide salary ceiling for fixed remuneration for all employees that cannot substantially affect Pareto's risk level.

The variable remuneration to an employee must never be so large in relation to the fixed that an employee becomes dependent on the variable remuneration. This means that the fixed remuneration must account for such a large part of the total remuneration that the variable part can be reduced to zero.

Decisions on variable remuneration to the individual shall be made after an evaluation of the employee's performance during the past financial year, based on both financial and non-financial criteria. The evaluation is carried out by the CEO and in applicable cases by the department manager together with the CEO.

Variable remuneration to persons in control functions shall be determined on the basis of objectives that are linked to the tasks of the control functions, be independent of the results in the business areas they control and may not in any other way jeopardize the objectivity of these persons.

9.5 Quantitative information on remuneration

Pareto was not obliged to identify members of Identified Staff for bonuses awarded for financial year 2021 (paid out 2022), hence only the members of the senior management are included in the following calculation.

	Senior management	
	EUR	Headcount
Total remuneration 2022	608 012	1
Total fixed remuneration	168 000	1
Of which: in cash	100 %	
Total variable remuneration	440 012	1
Of which: in cash	100 %	
Variable remuneration	266 100	1
Deferred variable remuneration	173 912	1
Deferred variable remuneration due to vest in subsequent years	0	

Guaranteed variable remuneration or severance payments awarded during the financial year or earlier, were not paid out during the financial year. Deferred variable remuneration was not reduced through performance adjustments.