PARETO SECURITIES AS
GROUP

DISCLOSURE OF FINANCIAL INFORMATION
BASEL III – PILLAR 3
31-12-2015

LAST UPDATED 12 APRIL 2016

Pareto Securities

Contents

1. Introduction

Financial activities entail a need for managing risk. Requirements as to the calculation of capital adequacy on the part of investment firms; Basel II, entered into effect on 1 January 2007, involving, *inter alia*, an obligation for Pareto Securities AS with subsidiaries (the ”Firm”) to disclose risk management, risk measurement and financial information concerning capital adequacy pursuant to the requirements under Pillar 3 of the Capital Adequacy Regulations.

Basel II has been updated by Basel III, the Capital Requirements Regulation and Directive IV (‘CRR’ and ‘CRD IV’, also known as the ‘CRD IV legislative package’). In particular, articles 431 to 455 of the CRR specify the Pillar 3 framework requirements. The CRD IV legislative package came into force (in the EU) on 1 January 2014.

The CRD IV legislative package was partly implemented in Norway on 22 August 2014. The articles 431 to 451 of the CRR were included in the parts of the legislative package which was implemented by law in Norway. The implementation introduced changes to the basis of preparation and disclosure requirements. Changes to Pillar 3 include the disclosure of certain remuneration disclosures and more detailed terms and conditions of capital resources. A worksheet for capital resources is available on Pareto Securities website; http://paretosec.com/financial-information.php

This document describes the organisational structure and risk reporting of the Firm, as well as its guidelines and procedures for the management and control of risk. The approaches used for the calculation of credit risk, market risk and operational risk (Pillar 1) are described in the document. This report is intendent to complement the financial information and capital adequacy information found in the annual report available on the website; http://paretosec.com/financial-information.php

Furthermore, the report includes information about the Firm’s internal capital adequacy process (Pillar 2).

This Pillar 3 report is updated annually with data per year end. The information contained in this document has not been audited by the Firm’s external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

2. Overview of the capital adequacy regulations – Basel 3

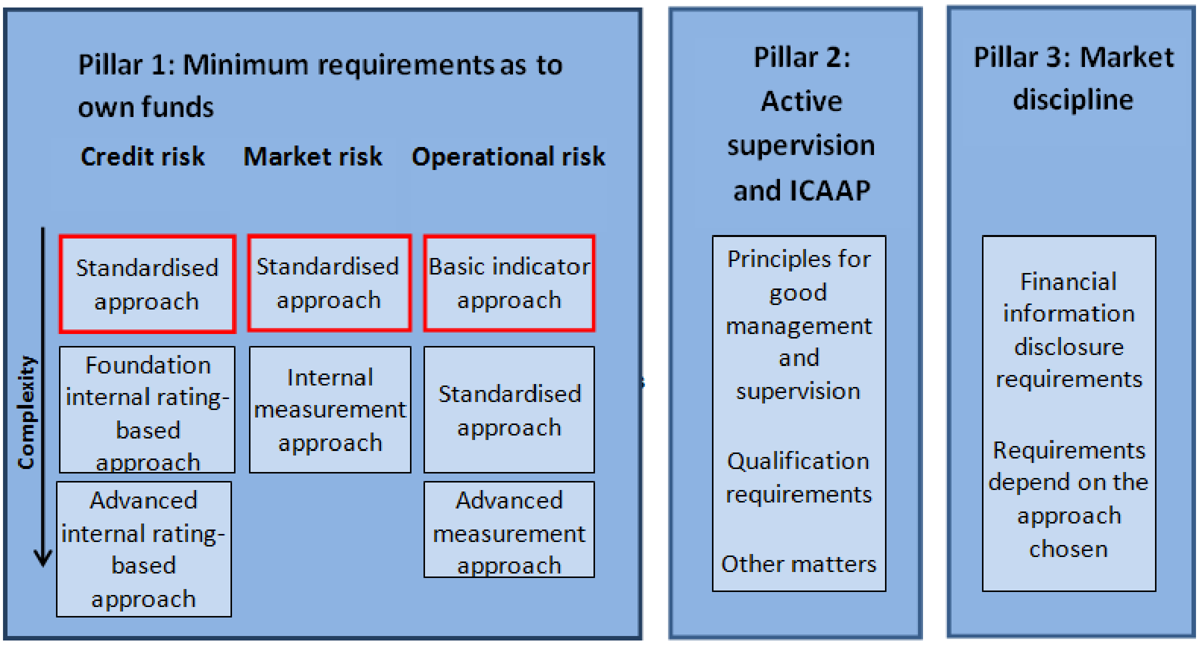
The objective of the capital adequacy regulations is to strengthen the stability of the financial system through:

- More risk-sensitive capital requirements
- Better risk management and control
- Closer supervision
- More information and transparency to the market

The capital adequacy regulations are made up of three pillars:

- Pillar 1:
  Covers the calculation of risk weighted assets for credit risk, counterparty credit risk, market risk and operational risk and minimum requirements as to own funds.
- Pillar 2:
  The Firm's own internal risk and capital assessment process ("ICAAP") and covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations.
- Pillar 3:
  Disclosure of information by firms and covers external communication of risk and capital information by financial institutions as specified in the Basel rules to promote transparency and good risk management.

Chart: Basel 3 – Overview of the pillars



Market discipline

Pillar 1 addresses the regulatory minimum requirements as to capital adequacy. The overall calculation basis is the sum total of the calculation bases for credit risk, market risk and operational risk. The Firm uses the following approaches to determine the calculation basis.

- *Credit risk - the standardised approach*:
  The credit risk weighted assets calculation is based on an estimate of the Exposure at Default (EAD) and assesses capital requirements using standard industry-wide risk weightings based on a detailed classification of asset types.

  - *Counterparty credit risk (CCR) – the mark to market method derivatives (MTM):*
    CCR arises from the risk that parties are unable to meet their future payment obligations under certain financial contracts such as derivatives. CRR differs from credit risk, above, in how the EAD is calculated and applies to traded exposures. It arises where a

counterparty default may lead to losses of an uncertain nature as they are market driven and is the sum of the current market value of the instrument plus an add-on (dependent on Potential Future Exposure, or PFE) that accounts for the potential change in the value of the contract until a hypothetical default of the counterparty.

- *Credit valuation adjustment (CVA) - the standardised approach:*
The CVA is the capital charge accounting for potential MTM losses due to the credit quality deterioration of a counterparty (that does not necessarily default). CVA is the difference between the value of a derivative contract with a risk-free counterparty and that of a contract with the actual counterparty. It is a complement to the counterparty credit risk charge, that accounts for the risk of outright default of a counterparty. As for CCR, the standardised approach takes account of the external credit rating of each counterparty, and incorporates the effective maturity and EAD from the CCR calculation.

➢ *Market risk - the standardised approach:*
Risk weighted assets calculations for market risk assess the losses from extreme movements in the prices of financial assets and liabilities. A calculation is prescribed that depends on the type of contract, the net position at portfolio level, and other inputs that are relevant to the position. For instance, for equity positions a general market risk component captures changes in the market, while specific market risk is calculated based on features of the specific security.

➢ *Operational risk - the basic indicator approach:*
Capital set aside for operational risk is deemed to cover the losses or costs resulting from human factors, inadequate or failed internal processes and systems, external events as well as legal risk. To assess capital requirements for operational risk, the capital requirement is calculated as a percentage of the income, averaged over the last three years.

Pillar 2 addresses the requirements as to the firm's own process for the assessment of risk and whether additional capital is required over and above the Pillar 1 risk calculations. This includes, *inter alia*, a process for the assessment of overall capital needs in view of the Firm's risk profile, liquidity risk and a strategy for maintaining the needed capital level. In addition, Pillar 2 sets out guidelines for the evaluation process of the supervisory authorities with regard to the Firm's risk and capital assessment process.

The purpose of Pillar 3 is to contribute to increased market discipline through requirements as to the disclosure of information. The Firm shall publish information concerning its capital level, capital structure and risk exposure that enables the market to better evaluate its risk profile and capitalisation, as well as its risk management and controls.

The Pillar 3 framework requires the disclosure of information that supports the determination of capital buffers. The Firm is from a regulatory standpoint, required to have two capital buffers[1] above the Pillar 2 requirement:

[1] Implemented under Norwegian law but the Firm (Norwegian investment firms) is currently exempted from the requirement.The CCyB and CCB are 1 % (1,5 % from june 30, 2016) and 2,5 % of the risk weighted exposure amount calculated under Pillar 1.

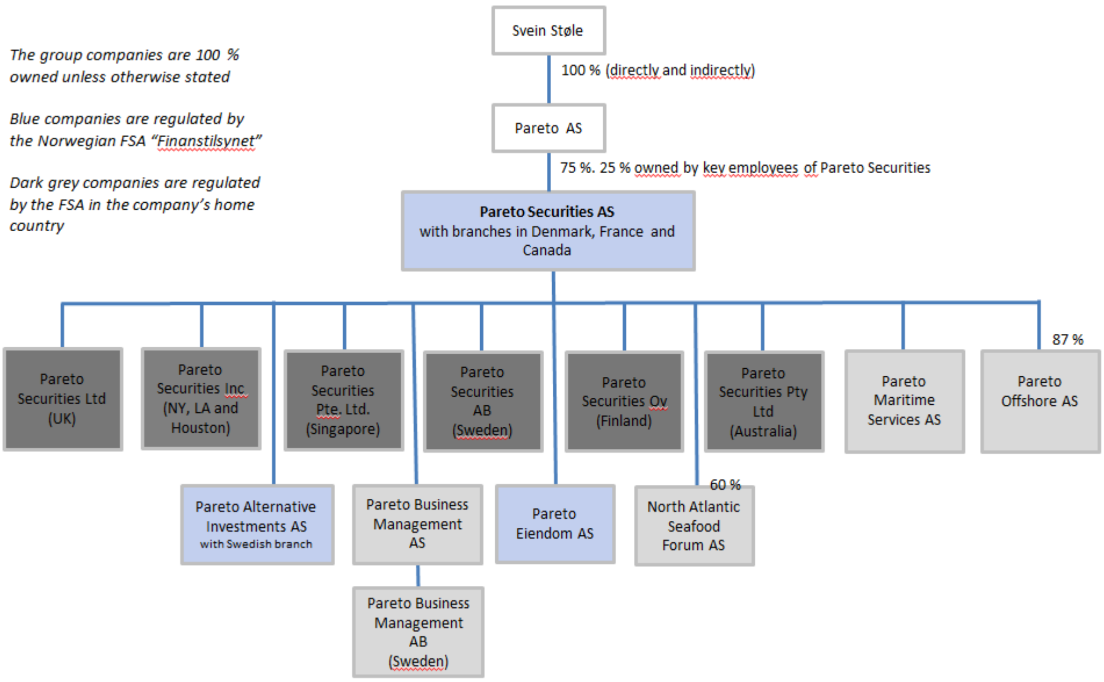
- Countercyclical Capital Buffer (CCyB):
  CCyB aims to achieve the broader macroprudential goal of protecting the financial sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk.
- Capital Conservation Buffer (CCB):
  The capital conservation buffer is designed to ensure that the financial sector build up capital buffers outside periods of stress which can be drawn down as losses are incurred. The requirement is based on simple capital conservation rules designed to avoid breaches of minimum capital requirements.

3. Group structure and scope of consolidation

In this report, the Firm's capital adequacy is presented on a consolidated basis and for the parent company Pareto Securities AS. The consolidation basis used is the same as that used for reporting regulatory capital adequacy to the Norwegian FSA. This scope of consolidation is equal to that used for statutory accounting reporting for the Group's activities. Subsidiaries which are encompassed by capital regulation rules, capital adequacy data is shown on a solo basis in Appendix A. Subsidiaries which are not regulated and thereby not encompassed by capital regulation rules are not reported on a standalone basis in Appendix A. However, all subsidiaries are a part of the consolidated reporting of capital adequacy. All disclosures are published for the Firm and subsidiaries based on regulatory capital adequacy as of 31 December 2015, unless otherwise stated.

Pareto Securities is an investment firm under the supervision of the Financial Supervisory Authority of Norway. Pareto Securities with subsidiaries is again 75 % owned by the parent company Pareto AS, which is 100 % owned (directly and indirectly) by Svein Støle (Norwegian private person). The main focus of the Firm is broking, raising capital and analysis. The ownership and company structure is presented in the chart below:

Chart: The corporate structure of Pareto Securities AS per December 2015



Pareto Securities

3.1 Group structure

Investments in subsidiaries are recognised at acquisition cost in the company accounts. In the group accounts, the cost price of the shares of the subsidiary is set off against the equity of such subsidiary as per its date of incorporation. The earnings of subsidiaries and associated companies are recognised by using the equity approach. Internal transactions between the companies, as well as receivables and liabilities as per 31 December, are eliminated in the group accounts.

Table: Shares in subsidiaries as per December 2015

Name of firm	***Equity portion in NOK thousands***	***Ownership stake in %***
Pareto Securities Ltd	25 320	100
Pareto Securities Inc	38 451	100
Pareto Securities Pte Ltd	15 397	100
Pareto Securities AB	135 408	100
Pareto Securities Oy	41 718	100
Pareto Securities Pty Ltd	4 390	100
Pareto Maritime Services AS	526	100
Pareto Offshore AS	10 006	87,01
Pareto Alternative Investments AS	4 000	100
Pareto Business Management AS	9 185	100
Pareto Business Management AB	685	100
Pareto Eiendom AS	179	100
Pareto Investorservice AS	1 000	100
North Atlantic Seafood Forum AS	387	60

The Firm holds no major ownership stakes in other companies, outside the trading book, than those disclosed above.

3.2 The companies

3.2.1 Pareto Securities AS

Pareto Securities is an independent investment firm and offers stock, bond and foreign exchange broking, analysis and financial advice (corporate finance) in connection with capital raising, offerings, mergers and acquisitions. The company is headquartered in Oslo, with offices in several of the largest Norwegian cities and branches in Copenhagen, Paris and Calgary, and forms part of the Pareto Group. The company is under the supervision of the Norwegian Financial Supervisory Authority. The company is a major player in the high yield bond market based on Norwegian law and a global player within the oil, offshore, shipping and natural resources sectors.

In April 2015, Pareto Securities AS merged with the sister company Pareto Project Finance (PPF), with Pareto Securities AS being the acquiring company. The Project Finance division is a leading arranger of and capital raiser for investment projects within real estate, shipping, offshore and energy. In addition, the division operates a trading desk to provide second-hand trading in projects and companies arranged by Project Finance.

3.2.2 Pareto Securities Ltd

The British investment firm Ocean Equities Ltd. with office in London, was acquired in December 2013 and changed its name to Pareto Securities Ltd. The company is particularly focused on capital raisings for the international mining and commodities industry. The company is under the supervision of the Financial Supervisory Authority in the UK.

3.2.3 Pareto Securities Inc

In 2009, Pareto Securities acquired all shares of the New York-based company Nordic Partners, and renamed it Pareto Securities Inc. The subsidiary has a position as a broker of Norwegian equities and bonds amongst North American institutional investors. The company is working closely with headquarter in Norway to offer equity and debt financing to North-American issuers within energy, shipping and oil services. In 2013, the company established an office in Houston and Los Angeles. The company is under the supervision of the Securities and Exchange Commission in the US and holds a licence to provide both corporate finance and broking services.

3.2.4 Pareto Securities Pte Ltd.

The subsidiary in Singapore was established in 2006. The company is particularly focused on capital raise assignments on behalf of issuers in the sectors of energy, shipping and offshore. The company is under the supervision of the Monetary Authority of Singapore and holds a licence to provide both corporate finance and broking services.

3.2.5 Pareto Securities AB

In 2011, Pareto Securities acquired the investment firm E.Öhman J:or Fondskommission AB and renamed it Pareto Securities AB. The subsidiary, with offices in Stockholm and Malmö, is under the supervision of the Swedish Financial Supervisory Authority and provides services within stock and bond broking and financial advice in Sweden. The company's main focus in the areas of broking, raising capital and analysis and has a strong position in the Swedish corporate high yield bond market.

3.2.6 Pareto Securities Oy

In 2012, Pareto Securities acquired the investment firm E.Öhman J:or Fondskommission Finland Oy AB and renamend it Pareto Securities Oy. The subsidiary, which is based in Helsinki, provides services within stock and bond broking and financial advice with focus on raising capital in Finland and is under the supervision of the Financial Supervisory Authority of Finland.

3.2.7 Pareto Maritime Services AS

Pareto Maritime Services AS was established in 2011 offers unique in-house technical expertise and disponent owner/commercial management services in selected shipping projects. The company have a portfolio of projects with a broad spectrum of ship types and charterers based in Europe, the Middle East and the Far East.

The company's objective is to provide comprehensive technical support services in shipping-related matters to its clients. It sets out to complement the purchasing process of shipping projects and, through an established ISO 9001 Quality Management System incorporating continuous improvement, provide investor confidence and credibility throughout the lifetime of the projects.

3.2.8 Pareto Offshore AS

The subsidiary Pareto Offshore, which was established in 2004, has its office in Oslo and is a leading provider of offshore rig brokering and advisory services to the global drilling industry and financial community.

3.2.9 Pareto Alternative Investments AS

Pareto Alternative Investments (PAI) was established in 2015 and manages a broad range of direct investment funds within the real estate, shipping and offshore. PAI is authorised in accordance with the Alternative Investment Fund Managers Directive (AIFMD) and is under the supervision of the Financial Supervisory Authority of Norway.

3.2.10 Pareto Business Management AS

Pareto Business Management AS (PBM) was established in 1986 as a project management unit. The company offers a complete range of asset management services to more than 180 single-purpose companies within real estate, shipping & offshore.

Functioning as full range project managers, PBM is actively involved in and supports the entire lifespan of the various single-purpose companies (SPCs) that are set up by the Project Finance division. PBM is involved from the initial purchase phase up to the completion of the project when the assets are sold and the relevant SPC is liquidated. The management team handles all aspects of daily operations, such as monitoring lease and loan agreements, maintenance supervision, accounting, tax reporting and the provision of advisory services.

3.2.11 Pareto Eiendom AS

The company holds a real estate license but the the activity is very limited.

3.2.12 North Atlantic Seafood Forum AS

North Atlantic Seafood Forum purpose is soly to organize the annually conference - North Atlantic Seafood Forum in Bergen, Norway.

3.2.14 Pareto Securities AS – branchs

The branchs in Copenhagen, Paris and Calgary provides financial advice and bond broking (Copenhagen).

3.3 The services

3.3.1 Broking

Pareto Securities provides stock, bond and foreign exchange broking. Pareto provides investment advice based on thorough analyses. The company offers investors a combination of ongoing dialogue with analysts and brokers, investor visits from analysts, local events with corporate executives (road shows and conferences) and an efficient Internet trading solution. The combination of local presence and international investor contacts forms the basis for the ability of Pareto Securities to raise funds in the stock and bond markets and its placing power. International clients account for a considerable part of the client base, which enables the company to place many large and complex projects.

3.3.2 Analysis

Equity Research team covers a broad range of companies and industries, including Oil Services, E&P, Shipping, Seafood, Industrials, Financials, Real Estate, Life Science, Telecoms and Natural Resources. Pareto Securities has active coverage of most listed companies in Oslo, Stockholm and Helsinki, in addition to the most important international peers. With longstanding relationships with leading industry players in its core sectors, Pareto Securities brings a proprietary and unique insight to its research. Analysts are continuously working on value-added fundamental research in order to provide clients with investment ideas.

The research product includes: Fundamental company and industry research, sector research, quarterly reporting updates, monthly model portfolio and daily morning reports.

Credit Analysis follows the Nordic credit markets, and performs credit evaluations for the primary and secondary markets. For new issues the team provides a Pareto Securities Credit Rating, an assessment of the credit quality of each new issuer, and maintains post-issue market awareness through regular credit updates. To enable secondary market liquidity, the team provides daily market updates, daily indicative bid/ask levels in High Yield bonds, and a variety of other research products giving Pareto Securities a strong secondary market position.

3.3.3 Corporate finance

Pareto Securities provides advice relating to the raising of equity or loans, offerings, secondary sales, mergers/demergers, valuations and acquisitions/divestments of businesses or companies. The advisory activities have a special focus on businesses that are listed or offer a potential for an initial public offering within a reasonable time horizon. The company holds a leading position in the Nordic capital markets and within the global energy sectors. Through these activities, the company offers the corporate finance clients debt financing and international investor clients attractive investment opportunities. The corporate finance activities are built around long-term relationships with corporate clients, in-depth industry knowledge, strong professional expertise and thorough analyses.

The corporate finance activities are built around long-term relationships with corporate clients, and based on a combination of in-depth industry knowledge and strong professional skill. The team is made up of professionals with comprehensive expertise gained from their experience in consultancy, capital markets and a variety of corporate backgrounds. Pareto Securities global presence across Europe, North America, Asia and Oceania further enhances an unique proximity to key industry players and investors.

3.3.4 Project finance

Project finance is a leading arranger of and capital raiser for investment projects within real estate, shipping, offshore and energy.

Project finance offers everything from single projects to complicated financial solutions related to major real estate, shipping and offshore projects and companies. The Project Finance division is represented with the offices in Oslo, Stockholm, London, Singapore and New York.

The division have 3 focus areas:

1. **Real estate** operates within all types of property transactions. Primarily focus on well-structured long lease investments with solid tenants. Pareto Securities holds a leading position in the Nordic real estate market.
2. **Shipping, offshore and energy;** expertise in structuring, syndication and management of investment projects. Primary focus is well-structured projects with long charter parties.
3. **Project sales** secures equity in new issues and provides liquidity for projects arranged by Pareto Securities. 2nd hand trading is an important business area within project finance and the sales team has a dedicated focus on creating liquidity in the projects arranged by project finance.

3.4 Limitations as to the transfer of capital or the repayment of debt between group companies

The transfer of capital between the mother company and subsidiaries is not subject to any contractual, private law or other actual limitations. In general, the scope for transferring capital or repaying debt between the companies within the group is governed by the legislation applicable to the industry at any given time.

3.5 Sub-ordinated loans and guarantees with group companies

The Firm has in connection with the granting of the license to the subsidiary Pareto Securities Asia Pte Ltd provided a guarantee to the Monetary Authority of Singapore for coverage of any obligations limited to SGD 12 million. The guarantee is included in the capital adequacy reporting (credit risk) for the parent company with a risk-weight of 50 % and eliminated on consolidated level.

The Firm have subordinated loans outstanding with subsidiaries as show below.

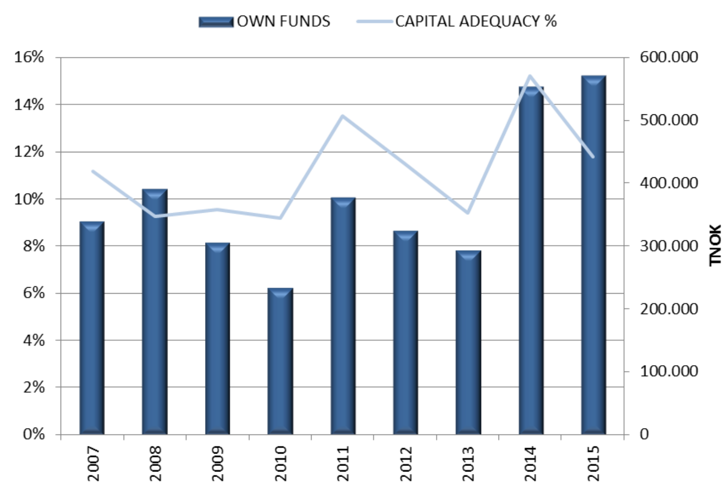
Table: Subordinated loans to subsidiaries

Company	Currency	Interest rate	Loan amount (thousands)	Issued	Maturity
Pareto Securities AB[2]	SEK	STIBOR+3.5%	33 000	15.9.2011	31.12.2018
Pareto Securities Inc.[3]	USD	5%	3 118	12.6.2009	31.12.2017
Pareto Securities Inc.	USD	5%	800	2003/-06	31.12.2017

4. Own funds and capital adequacy – Pillar 1

The chart below shows developments in own funds and capital adequacy for the period 2007 to 2015. The figures are calculated on a consolidated basis by applying the regulatory provisions applicable to the relevant period and using filed December reports for each individual year.

Chart: Annual capital adequacy and own funds



In the following, a specification of own funds and capital adequacy at Pillar 1 level for the Firm and mother company (Pareto Securities AS) as for filed reports per 31 December 2015 are presented.

For subsidiaries of Pareto Securities AS which are subject to supervision and a regulatory framework governing capital adequacy and own funds, the capital adequacy are presented in appendix A. Due to differences in capital adequacy regulations, numbers may not be directly comparable. Subsidiaries which are not subject to supervision and a regulatory framework governing capital adequacy are not

[2] The intention is to repay the loan in September 2016 and to increase the subsidiaries common equity with the same amount (33 MSEK). Subject to approval by the Swedish FSA and the company's boards.
[3] Loans to Pareto Securities Inc. are automatically extended with maturity date another year when approaching one year to maturity.

included in appendix A. Due to the merger with PPF in April 2015, the specification of own funds and capital adequacy in section 4.1 is not directly comparable with earlier years Pillar 3 reports.

4.1 Specification of own funds and capital adequacy

The own funds and capital adequacy for the Firm at the consolidated level and at parent company level as per 31 December 2015 are calculated as follows:

Company	**Pareto Securities Group**	**Pareto Securities AS (mother)**
Amounts in thousands	***NOK***	***NOK***
Paid-up capital instruments	80 000	80 000
Share premium	13 900	13 900
Own CET1 instruments		
Previous years retained earnings	463 029	429 270
Other reserves	18 735	0
Value adjustments	- 539	- 97
Deferred tax benefit	-3 893	-1 705
Intellectual property	- 94	- 94
Tier 1 capital (CET1)	**571 138**	**521 274**
Tier 2 capital	0	0
Own funds	**571 138**	**521 274**
Total risk weighted exposure amount	**4 856 201**	**3 360 812**
Capital Adequacy - Ratios		
CET1 Capital ratio	11,8%	15,5%
T1 Capital ratio	11,8%	15,5%
Total capital ratio	11,8%	15,5%
Risk weighted exposure amount		
Credit risk	871 439	846 927
Settlement risk	70	70
Market risk	241 113	116 444
Foreign exchange risk	380 150	340 182
CVA risk	1 071	1 071
Operational risk	3 362 358	2 056 118
Total risk weighted exposure amount	**4 856 201**	**3 360 812**
Capital requirement		
Credit risk	69 715	67 754
Settlement risk	6	6
Market risk	19 289	9 316
Foreign exchange risk	30 412	27 215
CVA risk	86	86

Operational risk	268 989	164 489
Total minimum capital requirement	**388 496**	**268 865**
Risk weighted exposure amount per exposure class creditrisk		
Regional governments or local authorities	114 602	78 692
Institutions	279 547	107 907
Corporates	37 545	18 311
Retail	15 575	0
Collective investments undertakings (CIU)	33 330	22 948
Other items	390 840	619 069
Total risk weighted exposure amount	**871 439**	**846 927**
Exposure amount credit risk for significant geographic areas		
Norway	555 063	441 463
Sweden	223 700	173 913
Singapore	9 775	51 013
Great Britian	13 113	49 963
USA	26 463	47 663
Finland	13 150	44 913
Total risk weighted exposure amount	**841 263**	**808 925**

4.2 Summary of regulatory capital requirements

The Firm has little risk on its balance sheet and limited loss potential, compared to banks and investment firms with active proprietary trading and/or the granting of credit as an important part of their business strategies. Therefore, the Firm's exposure and capital requirements are primarily operational risk. It follows from the consolidated specification above that capital requirements relating to operational risk account for the main part (69 %) of the overall capital requirement.

4.3 General information about credit risk and a specification of credit risk

The Firm does not engage in the granting of credit to clients with the exception for subsidiary Pareto Securities AB described below. Credit risk is primary related to short term lending (usually less than 3 months maturities) to Nordic credit institutions, lending to the public (in Sweden) and accounts receivable. The Firm does not make use of credit derivatives, whether for hedging, held for own exposure or on behalf of others. The Firm does not accept guarantees or security interests as security.

Loans and receivables are measured at amortized cost. Lending to the public is recognized in the balance sheet after deductions for actual and anticipated credit losses. Actual losses are those judged to be amount finalized. Anticipated credit losses refer to the difference between the loan amount and the amount that is expected with regard to the borrower's repayment ability and collateral value. Accounts receivable and other receivables are stated at the amount expected, and assessed individually.

The Firm's impaired exposures, past due exposures and changes in the specific and general credit risk adjustments for impaired exposures are non-material and not included herein.

Pareto Securities

Pareto Securities AB - credit risk related to the granting of credit

The subsidiary in Sweden assumes credit risk by lending to the public through services related to offering of custody and cash accounts, where deposit clients are granted a credit facility (only for purchasing of securities through Pareto Securities) against collateral (financial instruments).

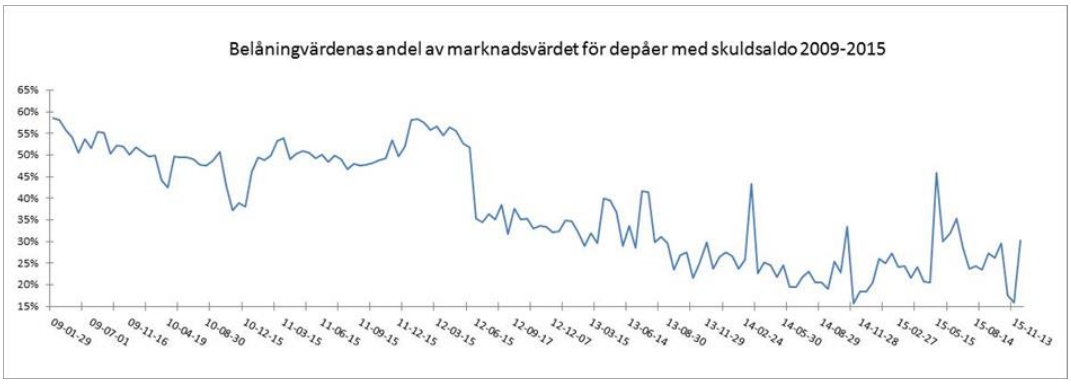
Pareto Securities has more than 1 000 deposit clients of which approx. 300 have a credit facility and approx. 50 % represent actual exposure. Avarage exposure (lending) to clients during 2015 is approx. MSEK 130 of which 25 clients have approx. 50 % of the total. Consequently, there is some concentration around a small number of large clients but the numbers are small compared to the Firms capital reserves.

The actual credit exposure is curtailed by credit evaluation of the client, collateral furnished by clients and credit limits. There are limitations to “wrong-way” risks and total exposure to not listed collateral.

The utilisation of credit lines is at low levels from a seven-year perspective. The table below shows that the actual debt-to-asset ratio is in the region of 30 % of the market value of existing client deposits.

Historical losses related to the custody account services are small compared to the size of activity and the regulatory capital. Since 2001, credit related losses accumulates to less than MSEK 5 and no major losses have arisen since 2009. The credit risk related to the custody account service is considered to be low to moderate.

Chart: Actual credit usage proportional to the market value of collateral (2009-2015)



The table below summarises the financial instruments that Pareto Securities AB is able to furnish as collateral upon refinancing, i.e. the instruments that may be used by clients as collateral. Large Cap and Mid Cap are defined in accordance with the classification applied by the Stockholm Stock Exchange (NASDAQ), and represent 83 % of the total when taken together. Large Cap, which represents 60 % of the market value of the collateral, is assumed to be swiftly realisable without any major price effect.

Table: Composition of collateral as of 2015-11-30

Type	TSEK	Percent of total	Haircut
Large Cap	72 042	60 %	Min 30%
Mid Cap	28 170	23 %	Min 50%
Small Cap	5 145	4 %	Min 70%
Foreign	1 351	1 %	Min 50%
NGM	1 540	1 %	Conservative
First North	9 095	8 %	Conservative
Corporate bonds	1 998	2 %	Conservative
Unlisted	1 413	1 %	Conservative
Other	0	0 %	Conservative
SUM	**120 756**	100%	

4.4 Specification of counterparty risk derivatives as per 31 December 2015

Only the mother company and to a smaller degree the subsidiary in Sweden offers trading (for hedging purpose) in fx derivatives. For all derivatives contracts the Firm have with clients, the market risk is hedged "back-to-back" with large Institutions which the Firm have entered into ISDA and CSA agreements with. As such, the firm has no direct exposure to market risk but indirectly through counterparty risk. The Firm uses the Mark to market method to calculate counterparty risk for derivatives pursuant to part V – chapter 21 of the Norwegian Capital Regulations. The Firm has entered into netting and off-set agreements and the Firm practices netting with derivatives counterparties where it can be applied. Derivative contracts are mark-to-market daily, clients of the Firm post collateral daily, while the Firm and Institutions exchange collateral daily. The Firm accepts cash and to a small degree financial instruments on pledged accounts as collateral. Financial instruments are daily valued to fair value and conservative hair-cuts are applied.

Clients who want to trade derivatives must be approved in advance of trading. Counterparty credit exposures are limited through exposure limits and restrictions to contract types and tenor. For Institutions and selected clients which are regarded highly creditworthy, the Firm accepts credit lines which are evaluated regularly and minimum annually.

The Firm does not use credit derivatives, do not have a credit rating and the value of the collateral is not dependent of a credit ratings. Wrong-way risk is regarded as not relevant for the Firm's counterparty risk derivatives.

Table: Counterparty risk derivatives

	NOK thousands
Exposure value	40 922
Capital requirement	3 273

Gross fair value	67 700
Net fair value	57 321

5. Interest rate risk outside the trading book

Interest rate risk is the risk of loss upon changes in the interest rate level, and as a result of the assets and liabilities being subject to different interest rate maturities.

Interest rate risk is measured both on and off balance sheet. The Firm carries little interest rate risk on and off its balance sheet as the result of no interest-bearing debt and no need for refinancing in the market. The Firm invests surplus liquidity with the main Nordic banks and in short-term, liquid securities; government securities, covered bonds, repos and in short-term fixed-rate deposits. The Firm has low exposure to changes in short- and long-term interest rates beyond the effect (minor) on invested liquidity reserves and surplus capital.

The custody account service offered in Sweden (see chapter 4.3) represents an interest rate risk as the subsidiary borrows from clients (at a given rate) and lends out to clients (at a given rate). As both the borrowing and lending in principle are short, the interest rate risk is deemed low as the interest rates have short maturities. The subsidiary has limited need of refinancing even if a great share of the borrowing is withdrawn immediately.

Summarised, the Firm do not conduct liquidity transformation as a business, the same way that banks do by borrow short and lend long. Overall, the assets side is structurally shorter than the liability side of the balance, resulting in limited interest rate risk.

6. Securitisation and rating agencies

The Firm is not engaged in securitization and does not make use of rating agencies for capital adequacy purposes.

7. Internal risk and capital assessment process

7.1 Overview of internal risk and capital assessment processes

The management of the Firm falls under the auspices of the Board of Directors. The Board of Directors shall ensure that the activities of the Firm are organised in a prudent manner, including all ongoing management and control. Consequently, it is the responsibility of the Board of Directors to ensure that the internal controls of the Firm provide adequate and systematic safeguards against material risks.

The Board of Directors has, against this background, prepared a set of instructions and procedures to ensure prudent operation and adequate control of the Firm. All employees are obliged to understand and comply with the applicable internal instructions and procedures.

By internal controls are meant a process, initiated by the Board of Directors, and executed by the management and employees, to provide reasonable assurance that objectives will be met within the following areas:

- Ensure compliance with statutes, rules and regulations
- Ensure updated and reliable financial reporting
- Prevent material losses

The Chief Executive Officer is responsible for implementing risk management measures that contribute to realising the objectives defined for the Firm by the Board of Directors, including effective management systems and internal controls. The Chief Executive Officer has established such a control structure, based on an assessment of relevant risks. As such, responsibility for risk management resides at all levels of the Group, from the Board and the Chief Executive Officer down through the organisation to each business manager and employee. These responsibilities are distributed so that risk/return decisions and controls are: taken at the most appropriate level; as close as possible to the business and risk; and, subject to robust and effective review and control. The responsibility for effective review and control resides at all levels.

The Firm has a Compliance Department as well as a dedicated Risk Department, and these reports independently of each other to both the Chief Executive Officer and the Board of Directors. The Chief Executive Officer reports to the Board of Directors in Board meetings and whenever else deemed necessary by him.

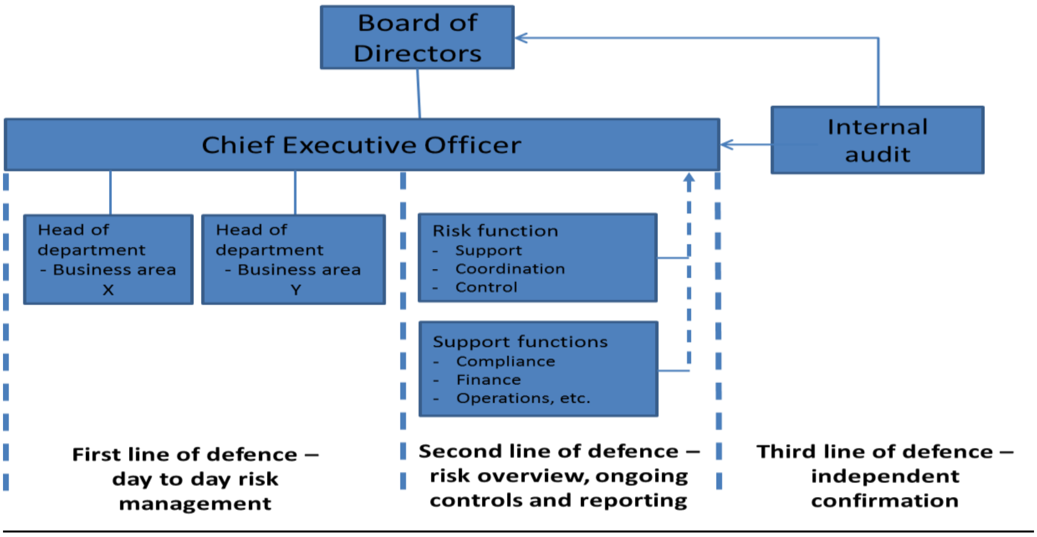
At least once annually, the Firm undertake a review of the major risks for all business areas. For all business areas a systematic review of the risk management and internal control are made to assess if the Firm's risks are handled in a prudent manner.

Documented self-assessments (internal controls) are conducted on a regular basis, and annually at a minimum, in order to identify the operational risks of the company by way of an identification of key risks, an assessment of such risks, as well as an evaluation as to whether established control measures are adequate and work as intended and whether there is a need for establishing additional risk-reducing measures.

A summary about the risk situation; an overall assessment of the risk situation and the internal control of the Firm is submitted to the Board of Directors annually. Before submitted to the Board, the internal auditors review the report. This meets the requirements laid down in the Internal Control Regulations.

In summary, the distribution of responsibilities for risk management and internal controls will be based on the principles of the three lines of defence (see the chart below). The distribution of responsibilities is made operational through the business concept, objectives and strategies of the Firm, together with authorisations, job descriptions, as well as internal instructions and procedures.

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



- First line of defence
  - Line managers have ongoing responsibility for risk management within their areas of responsibility, including operational risks. They have primary responsibility for identifying, assessing, handling, controlling and reporting risk.

- Second line of defence
  - The support functions (compliance and risk) shall assist the Board of Directors, the Chief Executive Officer and line managers with risk management and internal controls, as well as control and review implemented measures.
  - Other support functions shall contribute to the business realising its objectives.

- Third line of defence
  - The Board of Directors needs assurance that risks are managed in an effective manner and in accordance with the guidelines established by the Board of Directors.
  - Internal audit shall provide the Board of Directors with an independent evaluation of established risk management and internal control processes and procedures.

8. Assessment of internal capital under Pillar 2

8.1 Overview of the regulatory framework under Pillar 2

Pillar 2 imposes requirements as to the self-assessment of the Firm's risks and internal capital needs beyond those implied by Pillar 1, under the designation ICAAP (Internal Capital Adequacy Assessment Process). Each of the consolidated companies that fall within the scope of the regulatory framework pertaining to capital adequacy prepares an ICAAP in compliance with the requirements, at least annually.

The purpose of the ICAAP is to ensure that the total own funds of the Firm are commensurate with its risk profile and a strategy for preserving its capital level. The ICAAP also provides a description of approaches and controls used by companies to manage risk. A further objective is to describe long-term strategic and market factors that may influence future capital needs, including stresstests with severe economic downturn.

The ICAAP depends on the Firm's risk profile, risk appetite, stresstests, as well as adopted strategies and budgets for the coming three-year period. The consolidated capital needs of the Firm are based on a consolidated assessment of the Firm; the computed capital needs of the mother company and each of the subsidiaries with their own independent ICAAP and a consolidation of risk exposures of the Firm.

The ICAAP includes an internal liquidity adequacy assessment process (ILAAP) of the Firm's liquidity risk and liquidity-related issues and the internal liquidity needs required to cover the risk.

The ICAAP is deliberated by senior management and by the Board of Directors.

The group's processes with regard to risk and capital management operate on an ongoing basis, and improvements and the development of approaches take place continuously.

Under Pillar 2, the company calculates capital for all main types of risk assumed by the company through its activities, by way of a three-stage procedure:

- First, the minimum capital requirement is calculated by using the approaches adopted for the calculation of Pillar 1 requirements;
- next, capital is calculated for Pillar 2 by assessing (based on stresstests, scenario analyses, etc.) the various types of risk to which the company is or may be exposed to, the costs or earnings effects that may be suffered on the basis thereof, and how much capital these might lay claim to;
- finally, an assessment is made as to whether the Pillar 1 requirement is sufficient to cover risk and the capital needs, or whether the Pillar 2 calculation has uncovered a need for supplementary capital corresponding to all or part of the Pillar 2 calculation.

The Firm shall have a capital level that ensures that the Firm maintains the necessary capital adequacy also in the event of revenue shortfall and/or unexpected loss followed by a longer economic downturn.

The Firm evaluates its capital needs on the basis of scenarios covering unfavourable future market developments, within credit risk, market risk, operational risk, costs and income and other categories of identified risk. The capital supplement under Pillar 2 is principally assessed on the basis of an analysis (scenario-based, stress tests, etc.) of various specific risks, overall and specific risk appitite and other events which may influence the earnings and capital base of the Firm, and which may conceivably affect the Firm.

8.2 Risk categories, management and control

The Firm analysis and evaluates the risk and calculates additional Pillar 2 capital requirement for the following risk categories (if deemed necessary):

1. credit and counterparty risk;
2. market risk;
3. operational risk;

4. liquidity risk;
5. concentration risk;
6. ownership risk;
7. systemic risk;
8. commercial risk, including reputational risk.

The Pillar 2 capital requirement for the above risk categories are calculated separately.

General observations concerning the Firm
The Firm rely on a sound risk culture throughout the organisation.

Risk culture is the set of objectives and practices, shared across the organisation, that drive and govern risk management. The main elements of risk culture at the Firm are broadly aligned with the Financial Stability Board's guidance:

1. Tone from the top: our purpose, value and behaviours, the Firms global code of conduct, and global induction processes all support the embedding of risk culture and values by setting a consistently clear, shared message to all colleagues;
2. Accountability: key risk frameworks set out clear responsibilities;
3. Effective communications and challenge: clearly defined and independent control functions (second line of defence) and internal audit (third line of defence), enhanced training on risk and citizenship, and channels for escalation and whistle blowing enable the effective control of risks at all levels;
4. Incentives: the Global Partnership, and the risk and controls objective within the performance and promotion process has helped to align incentives with a sound risk culture; and
5. Consequence: a clear and transparent consequence culture if not aligning with the Firm's risk culture.

The Firm and its employees shall at all times be in compliance with applicable statutes, regulations and rules, and hold the necessary permits from government authorities in Norway and abroad.

The Firm has low fixed costs, and has always been profitable and operations are not depleting the own funds of the Firm through operating losses. Surplus liquidity relating to the ongoing operating profits of the company is invested in low risk and good liquidity assets such as Nordic covered bonds, repos in covered bonds and deposits in robust Nordic banks.

The Firm has a conservative attitude to risk and particularly in relation to credit- and market risk where risk appetite is low.

The Firm is not involved in deposits and lending and will not normally grant uncovered credit to clients. The Swedish subsidiary are involved with deposits and lendning against financial instruments as collateral. The business activity is described above. The Firm does not engage in own-account trading in financial instruments as part of its own asset management or to make profits based on market price movements. The Firm may invest in the trading book in conjunction with broking or capital raising assignments. Investments are approved by the Chief Executive Officer and shall have a short time horizon.

Operational risk is a material risk on the part of the Firm and is curtailed through good internal instructions and procedures, employee training and high compliance consciousness.

Internal controls and self-assessment are key measures, and are used deliberately to identify and limit the operational risk associated with the different operational activities.

The Firm has one major owner with a strong financial position, does not have other outside investors, is ungeared and has no external borrowings and has at all times sought to have sufficient cash balances and drawing rights to provide for a minimum of six months' worth of overheads. An impact on the wider economy / financial system in the event that the Firm was to fail is considered negligible.

1. *Counterparty and credit risk*

Counterparty and credit risk are risks of losses as the result of the counterparties and clients of the Firm failing to meet their payment or delivery obligations to the Firm, and any collateral not being realisable or having to be realised at a loss.

The Firm is, with some minor exceptions, not exposed to tradionally credit risk which arise from giving loans or credits to clients. The Firm is primarily exposed to counterparty risk in connection with the settlement of financial instruments, i.e. primary and secondary transactions, receivables related to accrued revenue or prepaid expenses and the placement liquidity with institutions. Historically, the Firm has very small counterparty-related losses, even during the financial crisis. The Firm conducts credit evaluations of clients and stipulates limits with regard to accepting orders and taking positions. Settlements are normally conducted "delivery-vs-payment" and items that are not settled on the settlement date are followed up closely by back-office in accordance with internal instructions. Major non-settled items are reported to management, which will take necessary measures if appropriate.

The Firm assumes credit and counterparty risk in derivate positions. The counterparty risk is handled by way of exchange traded derivatives being cleared in clearinghouses, as well as by way of the daily calculation and collection of margin collateral from counterparties. For OTC transactions, the Firm practice mutal provision of collateral with ISDA counterparties and for approved clients, the Firm allows cash and to a small degree financial instruments as collateral. The Firm may grant minor margin (credit) lines to institutions and clients based oncredit evaluations of its counterparties. These margin lines may be changed if the counterparty represents a significantly enhanced counterparty risk. Concentration risk resulting from the use of collateral is considered non-material as the amount is limited and consists mainly of cash. See also section 4.4 for a description of counterparty risk derivatives.

The subsidiary in Sweden assumes credit risk by lending to the public through services related to offering of custody and cash accounts, where deposit clients are granted a credit facility (only for purchasing of securities through Pareto Securities) against posting of collateral (cash and financial instruments). This activity is thoroughly described in section 4.3.

The Firm's credit and counterparty risks are considered to be moderate and the Firm holds moderate additional Pillar 2 capital for credit risk.

2. *Market risk*

Market risk arises as the result of positions in the fixed-income and equities markets, in foreign exchange or in derivatives.

The Firm has a focused business model based on client trading, broking and advice in connection with capital raising. The Firm does not engage in regular proprietary trading in neither equities, fixed-income, foreign exchange nor derivatives. The Firm may enter into and hold equity or fixed-income positions in its trading book in connection with broking, market making (minor activity in Sweden) and corporate assignments (capital raisings). Positions in the trading book shall have a short time horizon and shall be approved by the Chief Executive Officer in conformity with limits laid down by the Board of Directors. The risk function is responsible for the daily control and reporting of risks in the trading book and for positions being in compliance with approved limits and guidelines.

The Firm may occasionally and short term, have greater positions in the trading book in connection with capital placings. This possibility is reflected in the Firm's Pillar 2 capital requirement, resulting in a conservative Pillar 2 capital requirement compared to the usual Pillar 1 capital requirement.

The Firm does not hold major equity positions outside the trading book, other than ownership of subsidiaries. The Firm holdes no Pillar 2 capital for positions outside the trading book.

Derivatives positions and short positions are not held in the trading book. Derivatives positions the Firm holds with clients are hedged via approved institutional counterparties in the OTC market in order to eliminate market risk on the part of the Firm. See also under the heading 'credit and counterparty risk'.

Foreign exchange risk
The parent company assumes foreign exchange risk through its ownership stakes in foreign subsidiaries, in relation to both the asset side and the revenue and cost side. Foreign exchange risk on the asset side primary relates to the ownership of subsidiaries (contributed capital). The ownerships are considered long term. The Firm do not hedge the foreign exchange fluctuations which don't affect operational profit or drain regulatory capital.

The revenues of the Firm are primarily earned in NOK, SEK, and USD and to some extent in EUR, SGD and GBP. Foreign currencies are normally exchanged into Norwegian or Swedish kroner upon the accrual of revenues. The Firm has global presence and costs in the same currencies as its revenues. Revenues and costs in same currency are matched before currency conversion takes place. The net currency effect during the year is deemed not to cause a Pillar 2 capital requirement.

The mother company is not dependent on contribution from subsidiaries to maintain its capital level and net profit (dividend) from subsidiaries are allocated to the ultimate owners which bears the foreign exchange risk for their part of the dividend. Other foreign exchange fluctuations are moderate enough to be absorbed through ongoing operations.

The overall foreign exchange risk is considered to be moderate to low.

Total market risk is considered to be moderate. The Firm holds moderate to high additional Pillar 2 capital for market risk. Primary due to a conservative assessment of the trading book and theoretical risk.

3. Operational risk

Operational risks refer to the risk of loss on the part of the Firm related to inadequate or failed internal processes, staff, systems, external events as well as legal risk. The definition of operational risks includes legal and regulatory risk but excludes strategic 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.

Operational risk is mitigated and controlled through appropriate internal systems and internal controls, instructions and procedures for the Firm, employee training, self-assessment, quality assurance and reporting. The distribution of responsibilities makes line managers and employees responsible for identifying, quantifying and preventing operational risk on a regular basis through the implementation of new processes and measures. Identified incidents are reported on an ongoing basis, analysed and measures, if deemed appropriate, are implemented in the internal controls, instructions or procedures.

The follow-up and control of operational risks falls under the auspices of the risk function and the compliance function.

Documented self-assessments (the internal controls) for purposes of identifying the operational risks of the company and preventive measures are conducted on a regular basis, and at least once a year.

The Firm’s most significant operational risk is assessed to be un-expected financial loss or reputational loss arising from legal and compliance risk, including adherence to external or internal rules and regulations, and inadequate or inappropriate internal processes related to brokerage or corporate finance services. Un-expected financial loss or reputational loss that leads to diminishing revenues might weaken the capital adequacy and may ultimately lead to a breach of capital adequacy regulation.

Consequently, the level of risk exposure and capital needs of the Firm are primarily related to operational risk.

The operational risk is considered to be moderate to high. Historical losses related to operational risk is immaterial and the Firm holds only a small portion of additional Pillar 2 capital for operational risk.

4. Liquidity risk

Liquidity risk is defined as the risk of economic loss on the part of the Firm. Liquidity risk arise as a result of the Firm 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 which needs to be realised or in the form of unusually expensive funding. The Firm fund itself through operations and doesn’t depend on external funding for liabilities recognised on its balance sheet. Surplus liquidity is maintained as liquid capital deposited with robust Nordic banks, short term fixed rate deposits (up to 12 months) or invested in liquid covered bonds and repos with low credit and market risk. Pareto Securities AB engages in borrowing and lending as part of its business activities, but the liquidity risk in this respect is considered low, as the company does not depend on external borrowing for funding purposes.

The purpose of managing interest rate risk is to enable the Firm to keep track of the risk, and to ensure that such risk remains within the established management targets. Approaches used to manage interest rate risk are limits in relation to parallel changes in the yield curve, as well as limits in relation to duration and maximum exposure per issuer. The interest rate exposure of the Firm is predominantly of a short-term nature and the main part of the interest rate risk is measured and controlled daily and followed-up by operational departments. Interest risk, both in and outside the trading book, is considered low.

The Board of Directors has adopted special instructions and contingency plans with regard to liquidity risk and liquidity strategy.

The liquidity risk is considered to be low. The Firm doesn't hold additional Pillar 2 capital for liquidity risk but have a minimum liquidity reserve and drawing rights as cover for liquidity risks.

5. *Concentration risk*

Concentration risk is exposure that may arise within or across different risk categories in the company/group with the potential result of (i) losses that are large enough to threaten the company's / group's ability to maintain its core operations, or (ii) materially alter the risk profile. A distinction is made between two different types of concentration risk:

i. *Intra-risk concentration*;

   Concentration risk that may occur due to fragmented exposures, within a single risk category, which in sum creates a great exposure. Intra-risk is considered primarily to be relevant for market risk, operational risk and earnings. Market risk is handled by limits on exposure and daily control of exposure across the Group. Operational risk is primarily related to corporate finance assignments. Global guidelines are established for additional focus and control of particularly challenging areas of operational risk (legal, conflicts of interest, investor documentation and KYC), and a centralisation of acceptance of the assignment. Lack of revenue is identified as a potential compliance risk in terms of capital adequacy. Intra-risk concentration is not considered great for credit and liquidity risks due to low credit and liquidity risk. The risk of large exposures is handled using both internal company-specific limits for exposure and continuous control both for each individual company and consolidated.

ii. *Inter-risk concentration;*

   Concentration risk that may occur as a result of correlation between various risks exposures across different risk categories due to a common underlying risk driver. A significant drop in the stock market may have a joint effect on credit and counterparty risk, market risk and commercial risk. A significant reduction in risk appetite may affect the Firm's ability to place primary market transactions and thus earnings.

Through scenario analysis and stress-tests, concentration risk is identified and assessed in all risk categories whereas the Pillar 2 capital is calculated. Concentration risk is primary identified within credit risk, market risk, operational risk and earnings risk, risk categories where the Firm holds additional Pillar 2 capital above the Pillar 1 level.

The concentration risk is considered to be moderate. The Firm holds indirectly additional Pillar 2 capital for concentration risk through the risk categories described above.

6. Ownership risk

Ownership risk is defined as the risk that the Firm incurs losses from ownership stakes in strategically held companies and/or needs to contribute new equity to such companies.

Subsidiaries are organised in compliance with the provisions of each countries laws and regulations. The most important controls of ownership risk are through board representation (the chairman), capital planning, capital allocation, risk reporting and monitoring. In a number of the companies, group directors are involved in the daily operations through outsourcing of functions. Ownership risk in subsidiaries primarily takes the form of underlying operational risk by way of covering any losses.

In addition to subordinated loans to two subsidiaries, Pareto Securities AS will from time to time transfer capital to subsidiaries for the purpose of strengthen own funds due to shortfall of revenues and net earnings. The capital transfers are small relative to Pareto Securities AS revenues and profit and do not drain the company's own funds.

An overview of subsidiaries and capital involved is provided in Chapter 3.

The ownership risk is considered to be low and the Firm doesn't hold additional Pillar 2 capital for ownership risk.

7. Systemic risk

Systemic risk is the possibility that an event trigger severe instability or collapse of a significant portion to the financial system which have a significant negative effect on an entire industry or economy. The Firm has no need for external funding and has minimal direct exposure to the private housing market and low exposure to the derivatives markets in terms of increased margin and impairment of assets. Liquidity is placed short term in secured bonds, repo agreements and solid Nordic banks, countries with very good public finances and capitalised banks. If needed, liquidity can be re-allocated to more secure government securities.

The Firm's business model showed to be resistant also during the financial crisis in 2008-2009.

The systemic risk is considered to be low and the Firm doesn't hold additional Pillar 2 capital for systemic risk.

8. Commercial risk, including reputational risk

Commercial risk is defined as the risk of unexpected revenue and cost fluctuations in the operations over the coming year, as the result of changes in external factors like the business cycle or client behaviour, i.e. other factors than credit risk, market risk and operational risk. Reputational risk is included in commercial risk.

Commercial risk is reflected in unexpected shortfalls in earnings. These may be caused by competition factors that result in reduced volumes, pressure on prices, government regulations or negative media coverage. Losses are incurred if the group is unable to adapt its costs to such changes, or to compensate for any shortfall by increasing other revenues. Good strategic planning, close budget and performance follow-up, as well as focused cost control, are the most important tools for reducing commercial risk. The Firm has good diversification in terms of revenue sources and has expanded its activities in terms of product range, industry sectors and geography. No specific management targets have been adopted with regard to commercial risk, but the earnings and costs of the Firm are followed up by monthly reporting to the Board of Directors and are continuously follow-up from senior management at the Firm.

The Firm's revenue diversification, global presence, low cost base, flexible and adaptable organisation, as well as the continuous follow-up and control of senior management, means that the business activities can swiftly be adapted to changes in market conditions.

The Firm believes that one of the greatest risks it faces comes from the potential loss of its reputation. Reputation is difficult to build and establish but easy to lose. Therefore the Firm strives to maintain a good relationship with its clients and potential clients and aims to demonstrate the highest level of integrity in all of its activities.

The commercial risk is considered to be moderate and the Firm don't hold additional Pillar 2 capital for commercial risk. However, the Firm has taken a conservative approach in terms of a period with shortfall in revenues and the risk of draining own funds. The Firm holds an extra internal capital buffer above all capital requirements to prevent a shortfall in the capital adequacy in terms of the requirements.

9. Remuneration

The Firm's remuneration policy align with Regulations of 1 December 2010 relating to Remuneration Arrangements in Financial Institutions, amended on 20 December 2010 and on 22 August 2014 where the latest amendment entered into force on 1 January 2015 ('the Remuneration Regulations'). The latest amendments implements CRD IV requirements for a sound remuneration policy. The amendments introduces a variable remuneration limit of 100 percent (may be up to 200 percent given certain criteria's) of base salary for senior executives, senior officers in control functions and significant risk takers. The requirements are intended to reduce excessive risk taking and promote sound and efficient management of risk and control of risk-taking behaviour by individuals in financial institutions. The regulation applies to all financial institutions, regardless of the individual firm's size and complexity.

The intentions behind the company's remuneration arrangements are to attract and retain skilled and highly qualified personnel, as well as to provide incentive arrangements focused on promoting a long-term perspective, responsibility and effective and sound risk management, not encouraging excessive risk taking and obtaining a sound balance between fixed and variable remuneration. The arrangements do not curtail the scope of the company for maintaining adequate own funds or, if necessary, to expand such funds.

The Board of Directors decides (i) the total amount to be paid in variable remuneration in respect of each financial year, (ii) the remuneration of senior executives and executives with overall responsibility for control functions, as well as (iii) measures to follow up the implementation of the remuneration arrangements.

All employees receive a fixed remuneration at a reasonable level and may in additional receive a discretionary remuneration. The discretionary remuneration is determined in view of the earnings of the Firm as a whole and the earnings of the relevant business unit, as well as whether the employee has brought in considerable new business or clients, engaged in external or internal activities of special value to the company or otherwise performed extraordinarily well, assumed major client/personnel responsibilities, and similar.

The remuneration arrangements may to some extent differ between employees who are assumed to influence company risk ("risk takers" and other "special employees") and employees who are expected to have no or little potential impact on company risk.

Analyses are conducted to identify which employees can be considered «risk takers» or «special employees» (categories: senior executives, employees of material importance to the company's risk exposure, other employees with corresponding remuneration, as well as senior officers in control functions). Variable remuneration for the abovementioned employee group is subject to more restrictions than those of other employees. The classification of employees into the above categories is based on the provisions of the Remuneration Regulations.

The Chief Executive Officer, Head of Project Finance, Head of Corporate Finance, Head of Equity Sales and Head of Fixed Income Sales, are identified as senior executives and significant risk takers. The Chief Financial Officer, Head of Compliance and the Head of Risk Management are identified as senior employees with control duties. No other «risk takers» or other «special employees» have been identified.

The remuneration to the Chairperson of the Board of Directors is TNOK 360. Members of the Board, employed in the Pareto AS Group do not receive remuneration for their services as board members. Paid remuneration to the Chief Executive Officer in 2015 was TNOK 20 106, consisting of fixed remuneration for 2015, 50 % of variable remuneration for the year 2014 and paid out contingent remuneration from 2013 and 2012. The CEO owns 4 % of the shares in Pareto Securities AS through Nes Invest AS.

For 2015, special employees have received fixed work remuneration in the total amount of TNOK 39,500, with TNOK 33,500 being paid to senior executives and TNOK 6,000 being paid to employees with control duties.

Variable remuneration for special employees is divided into a cash portion of 50 % and a contingent capital portion of 50%. The contingent capital is retained by the company in the form of a subordinated loan bearing market interest rate. The contingent capital is risk-adjusted annually and paid out over a three-year period. The contingent capital shall be reduced if thus merited by either the subsequent earnings of the Firm or subsequent performance.

Variable remuneration divided into a cash portion of 50 % and a contingent capital portion of 50 % is in accordance with the Remuneration Regulations and determined by the Board of Directors. The variable remuneration amounted to TNOK 4,355 for the year 2015. Variable remuneration was TNOK 2,941 for senior executives and TNOK 1,414 for senior employees with control duties.

Pareto Securities

APPENDIX A

The own funds and capital adequacy for subsidiaries as per 31 December 2015:

Pursuant to the European Parliament and Councils Directive 2013/36/EU of June 26 2013 ('CRD IV') and the European Parliament and Councils Regulation (EU) no 575/2013 of June 26 2013 and amending Regulation (EU) no 648/2012 ('CRR').

Company	Pareto Securities Ltd	Pareto Securities Inc *	Pareto Securities Pte Ltd **	Pareto Securities AB	Pareto Securities Oy	Pareto Securities Pty Ltd	Pareto Alternative Investment AS
Amounts in thousands	***GBP***	***USD***	***SGD***	***SEK***	***EUR***	***AUD***	***NOK***
Paid-up capital instruments	2 077	360	2 000	37 594	730	2 700	60
Share premium	65	2 044	0	7 550	0	0	3 422
Own CET1 instruments	0	0	0	0	0	0	0
Previous years retained earnings	831	2 365	1 399	84 123	-1 764	-2 019	0
Profit or loss eligible	0	- 658	0	0	0		
Other reserves	59	0	0	0	3 607	0	0
Value adjustments	0	0	0	- 423	0	0	0
Deferred tax benefit	0	0	0	0	0	0	-203
Intellectual property	0	0	0	0	0	0	0
Tier 1 capital (CET1)	**3 032**	**4 111**	**3 399**	**128 844**	**2 573**	**681**	**3 279**
Tier 2 capital	0	3 918	0	19 800	0	0	0
Own funds	**3 032**	**8 029**	**3 399**	**148 644**	**2 573**	**681**	**3 279**
Total risk weighted exposure amount	**9 600**	**N/A**	**11 225**	**901 180**	**9 964**	**N/A**	**26 506**
Capital Adequacy - Ratios							
CET1 Capital ratio	31,6%	131,6%	30,3%	14,3%	25,8%	N/A	12,4%
T1 Capital ratio	31,6%	131,6%	30,3%	14,3%	25,8%	N/A	12,4%
Total capital ratio	31,6%	256,9%	30,3%	16,5%	25,8%	N/A	12,4%
Risk weighted exposure amount							
Credit risk	1 608	N/A	0	204 587	2 453	N/A	26 506
Settlement risk	0	N/A	0	0	0	N/A	0
Market risk	0	N/A	0	118 074	0	N/A	0
Foreign Exchange risk	1146	N/A	0	0	0	N/A	0
CVA risk	0	N/A	0	777	0	N/A	0
Operational risk	6 846	N/A	11 225	577 742	7 511	N/A	0
Total risk weighted exposure amount	**9 600**	**N/A**	**11 225**	**901 180**	**9 964**	**N/A**	**26 506**
Capital requirement							
Credit risk	129	N/A	0	16 367	196	N/A	2 120
Settlement risk	0	N/A	0	0	0	N/A	0
Market risk	0	N/A	0	9 446	0	N/A	0
Foreign Exchange risk	92	N/A	0	0	0	N/A	0
CVA risk	0	N/A	0	62	0	N/A	0
Operational risk	548	N/A	898	46 219	601	N/A	0
Total minimum capital requirement	**768**	**250**	**898**	**72 094**	**797**	**N/A**	**2 120**
Risk weighted exposure amount per exposure class creditrisk							
Institutions	600	N/A	0	124 782	0	N/A	1 753
Corporates	627	N/A	0	17 679	0	N/A	10 605
Retail	0	N/A	0	14 878	0	N/A	0
Other items	381	N/A	0	47 248	2 262	N/A	14 148
Total risk weighted exposure amount	**1 608**	**N/A**	0	**204 587**	**2 262**	**N/A**	**26 506**
Process for assessing the overall capital requirement							
	ICAAP	**N/A**	**N/A**	**ICAAP**	**ICAAP**	**N/A**	**ICAAP**

**Capital requirement pursuant to Rule 15c3-1 of the Securities and Exchange Commission.*

***Capital requirement pursuant to Chapter 289, Regulations 27(3)(b) and (9)(e) of the Securities and Futures Act.*