

**PARETO SECURITIES AS  
GROUP**

**DISCLOSURE OF FINANCIAL INFORMATION  
BASEL III – PILLAR 3  
31-12-2017**

**UPDATED PR 24 APRIL 2018**

## Contents

1. Introduction.....	3
2. Overview of the capital adequacy regulations – Basel 3.....	3
3. Group structure.....	5
3.1 Group structure and consolidation .....	6
3.2 The companies .....	7
3.3 The main services.....	9
3.4 Limitations as to the transfer of capital or the repayment of debt between group companies	10
3.5 Sub-ordinated loans and guarantees with group companies .....	10
4. Own funds and capital adequacy – Pillar 1 and scope of consolidation .....	11
4.1 Specification of own funds and capital adequacy .....	12
4.2 Summary of regulatory capital requirements.....	13
4.3 General information about credit risk and a specification of credit risk .....	13
4.4 Specification of counterparty risk derivatives as per 31 December 2017 .....	15
5. Interest rate risk outside the trading book .....	15
6. Securitisation and rating agencies .....	16
7. Internal control and capital assessment process .....	16
7.1 Overview of risk management and internal control .....	16
7.2 Overview of the regulatory framework and assessment of internal capital under Pillar 2 .....	17
7.3 Risk categories, management and control.....	18
8. Remuneration.....	23

## 1. Introduction

Basel III, the Capital Requirements Regulation and Directive IV ('CRR' and 'CRD IV'), involving, inter alia, an obligation for Pareto Securities AS with subsidiaries (the "Firm") to disclose risk management objectives and policies, management of risks, the nature of risk reporting and risk measurement, and financial information concerning capital adequacy pursuant to the requirements under Pillar 3 of the Capital Adequacy Regulations. The CRR and CRD IV legislative package was partly implemented in Norway on 22 August 2014. The articles 431 to 455 of the CRR specify the Pillar 3 requirements.

This Pillar 3 document describes the organisational structure and risk reporting of the Firm, as well as its policies 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 intended 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 ("ICAAP" or "Pillar 2").

This document is updated annually with data per year end. The information contained in the document has not been audited by the Firm's 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:

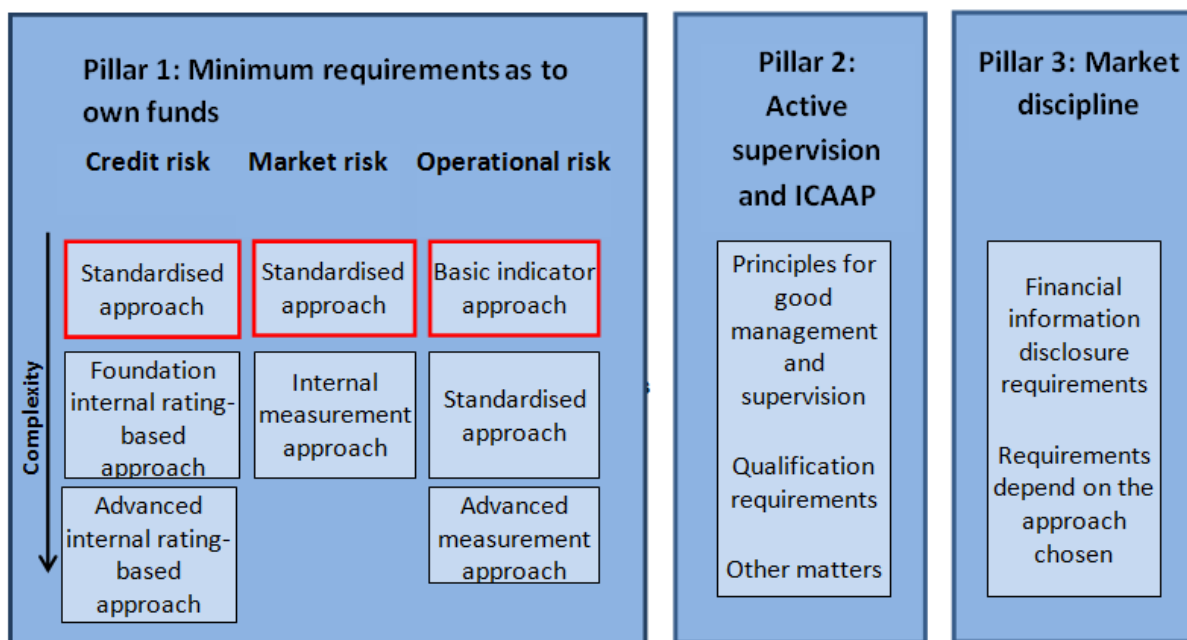
- Risk-sensitive capital requirements
- Better risk management and control
- Closer supervision
- More information and transparency to the market

The capital adequacy regulations are made up of three pillars:

- Pillar 1:  
Covers the calculation of risk weighted assets for credit- and counterparty risk, market risk and operational risk, capital buffers and minimum requirements as to own funds.
- Pillar 2:  
The Firm's own internal capital adequacy assessment process ("ICAAP") which covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations, and the internal liquidity adequacy assessment process ("ILAAP") covering the Firm's liquidity and funding risk management framework.

- 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) derivatives – the mark to market method (MTM):*  
CCR arises from the risk that parties are unable to meet their future payment obligations under certain financial contracts such as derivatives. CCR 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 major 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 capital and liquidity adequacy 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 by regulation required to have capital in the form of two capital buffers<sup>1</sup> above the Pillar 2 requirement:

➤ **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

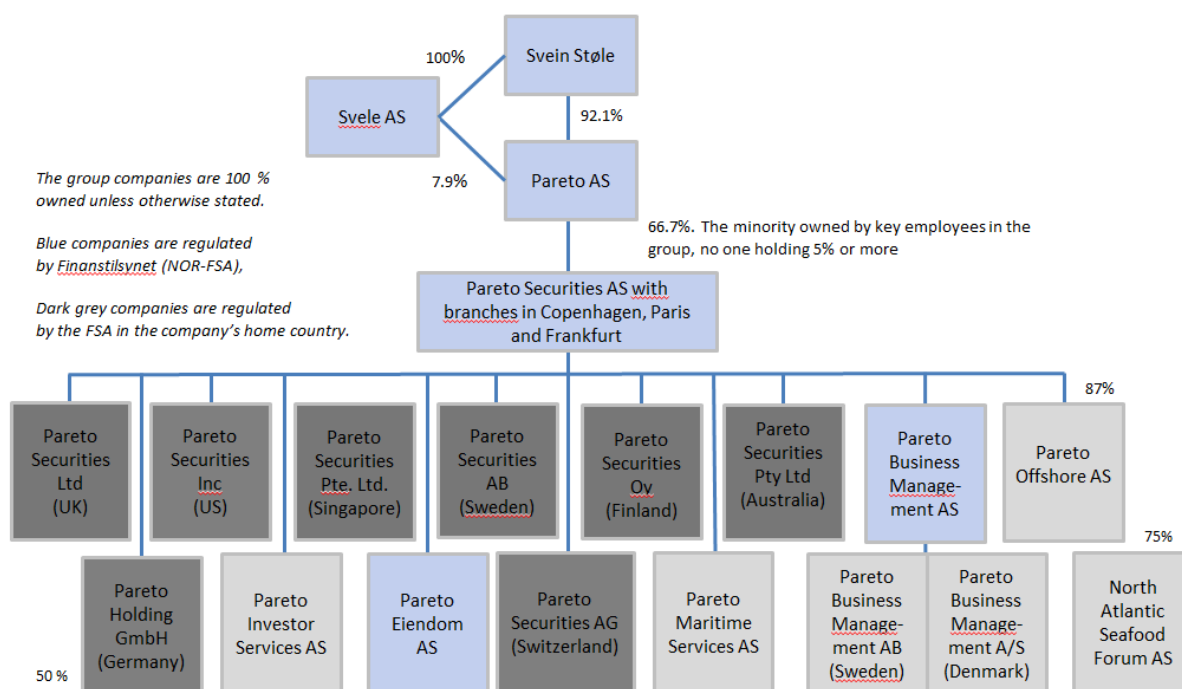
Pareto Securities is an investment firm under the supervision of the Financial Supervisory Authority of Norway. Pareto Securities with subsidiaries is 66,7 % owned by the parent company Pareto AS,

---

<sup>1</sup> Under Norwegian law, the CCyB and CCB are 1.5 % and 2.5 % of the risk weighted exposure amount calculated under Pillar 1. The Firm is currently exempted from the capital buffer requirements.

which is 100 % owned (directly and indirectly) by Svein Støle (Norwegian private person). The main focus of the Firm is broking of equity and bonds, corporate finance services and analysis. The ownership and company structure is presented in the chart below:

**Chart: The corporate structure of Pareto Securities AS per December 2017**



### 3.1 Group structure and consolidation

Investments in subsidiaries are measured at acquisition cost in the company's financial statement. If impairments are not expected to be temporary, write-downs to fair value will be carried out. Foreign branches are incorporated in the parent company's financial statements based on the same principles as other branches of the company. The acquisition cost of shares in subsidiaries are in the group accounts eliminated against the equity of the subsidiary at the date of establishment. The earnings of subsidiaries and associated companies are recognised by using the equity approach. Internal transactions between the companies as well as receivables and payables per 31 December, are eliminated in the consolidated financial statements. The Firm divested Pareto Alternative Investment AS to the parent company Pareto AS in 2017. No other sale or liquidation has occurred over the past year. In 2017, the Firm established daughter company in Switzerland, a joint venture in Hamburg and a branch in Frankfurt. Foreign exchange loss and gains from translation of foreign subsidiaries, and from hedging, is recorded to equity. See note 14 in the annual report.

**Table: Shares in subsidiaries as per December 2017**

<b>Company name</b>	<b>Equity portion in NOK thousands</b>	<b>Ownership stake in %</b>
Pareto Securities Ltd	31 343	100
Pareto Securities Inc	21 842	100
Pareto Securities Pte Ltd	25 104	100
Pareto Securities AB	199 918	100
Pareto Securities Oy	14 819	100
Pareto Securities Pty Ltd	7 201	100
Pareto Securities AG	5 003	100
Pareto Holding GmbH	12 281	50
Pareto Maritime Services AS	11 302	100
Pareto Offshore AS	10 006	87.01
Pareto Business Management AS	9 202	100
Pareto Business Management AB	858	100
Pareto Business Management A/S	1 131	100
Pareto Eiendom AS	65	100
Pareto Investorservice AS	969	100
North Atlantic Seafood Forum AS	1 108	75

The Firm has no ownership stakes in companies, outside the trading book, other 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 offers a complete range of financial services within Equity Capital Markets (ECM), Debt Capital Markets (DCM), Mergers & Acquisitions (M&A) and advisory, as well as Project Finance and Asset Syndication. The company has its head office in Oslo and has a global presence across North America, Europe, Asia and Oceania, and forms part of the Pareto Group. The company is under the supervision of the Norwegian Financial Supervisory Authority. For further information about the company, please visit: <http://www.paretosec.com/ourfirm.php>

#### 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 the headquarter in Norway to offer equity and debt financing to North-American issuers within energy, shipping and oil services. 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 corporate financial services in Sweden. The company's main focus is in the areas of broking, raising capital and analysis and the company 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 renamed 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 Securities AG

Pareto Securities AG was established in 2017. The subsidiary, which is based in Zurich, provides services within financial advice with focus on raising capital in Switzerland and is under the supervision of the Financial Supervisory Authority of Switzerland.

#### 3.2.8 Pareto Holding GmbH

Pareto Holding GmbH was established in 2017 as a holding company for a joint venture (50 %) named Pareto Securities GmbH. The joint venture, operating as a tied agent for Pareto Securities AS, are based in Hamburg and provides services within bond broking and financial advice with focus on raising capital in Germany.

#### 3.2.9 Pareto Maritime Services AS

Pareto Maritime Services AS was established in 2011 offers 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.

#### 3.2.10 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.

#### 3.2.11 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.

PBM has a subsidiary in Sweden and Denmark, offering the same services as the parent company.

#### [3.2.12 Pareto Eiendom AS](#)

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

#### [3.2.132 North Atlantic Seafood Forum AS](#)

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

#### [3.2.14 Pareto Investorservice AS](#)

The activity of the company is very limited.

#### [3.2.15 Pareto Securities AS – branches](#)

The branches in Copenhagen, Frankfurt and Paris provides financial advice and bond broking in Copenhagen.

### [3.3 The main 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.

The subsidiary in Sweden offers services related to securities financing transactions (SFTs) for Swedish and Norwegian clients, please see chapter 4.3 for further description.

#### [3.3.2 Analysis – equity and credit](#)

Equity Research team covers a broad range of companies and industries, including Oil Services, E&P, Shipping, Seafood, Industrials, Financials, Real Estate, Life Science, TMT 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. 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 gives 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, and a variety of 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.

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 has in-depth industry knowledge, strong professional expertise and a global presence across Europe, North America, Asia and Oceania.

### 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. Project finance has a strong representation in the Nordic region and acts globally.

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 are focusing 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 provided a guarantee to the Monetary Authority of Singapore for coverage of any obligations limited to SGD 12 million for the subsidiary Pareto Securities Pte Ltd. 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**

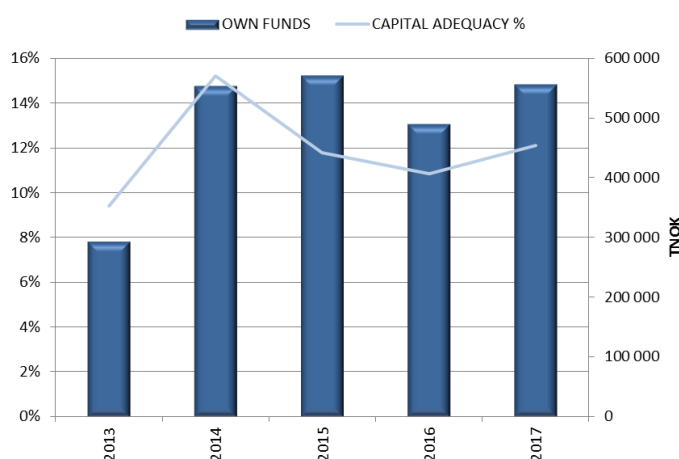
Company	Currency	Interest rate	Loan amount (thousands)	Issued	Maturity <sup>2</sup>
Pareto Securities Inc.	USD	5%	3 118	12.6.2009	31.12.2018
Pareto Securities Inc.	USD	5%	800	2003/-06	31.12.2018

#### 4. Own funds and capital adequacy – Pillar 1 and scope of consolidation

The Firm’s capital adequacy is presented on a consolidated basis and for the parent company Pareto Securities AS. The basis for consolidation is the the capital adequacy regulations and as reported to the Norwegian FCA. The scope of consolidation is also equal to that used for statutory accounting reporting for the group’s activities and all subsidiaries are a part of the Firm’s consolidated capital adequacy. All disclosures published for the Firm and subsidiaries are based on regulatory capital adequacy as of 31 December 2017, unless otherwise stated.

The chart below shows developments in own funds and capital adequacy for the period 2013 to 2017. 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**



Below follows a specification of own funds and capital adequacy at Pillar 1 level for the Firm and the mother company Pareto Securities AS as per 31 December 2017. The figures are as reported to the Norwegian FSA by deadline 11 February the following year.

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

<sup>2</sup> Loans are automatically extended with maturity date another year when approaching one year to maturity.

Subsidiaries which are either very small or not subject to a regulatory framework governing capital adequacy are not included in appendix A. Due to the merger with PPF in April 2015, own funds and capital adequacy is not directly comparable with Pillar 3 reports before this date.

#### 4.1 Specification of own funds and capital adequacy

Consolidated and parent company own funds and capital adequacy as per 31 December 2017:

<i>Company</i>	<b>Pareto Securities Group</b>	<b>Pareto Securities AS (mother)</b>
<i>Amounts in thousands</i>	<i>NOK</i>	<i>NOK</i>
Paid-up capital instruments	90 000	90 000
Share premium	66 400	66 400
Own CET1 instruments	0	0
Retained earnings and other reserves	406 100	364 250
Value adjustments	- 612	- 124
Deferred tax benefit	0	0
Intellectual property	-4 840	-2 857
<b>Tier 1 capital (CET1)</b>	<b>557 048</b>	<b>517 669</b>
Tier 2 capital	0	0
<b>Own funds</b>	<b>557 048</b>	<b>517 669</b>
<b>Total risk weighted exposure amount</b>	<b>4 602 375</b>	<b>3 063 032</b>
<b>Capital Adequacy - Ratios</b>		
CET1 Capital ratio	12,10%	16,90%
T1 Capital ratio	12,10%	16,90%
Total capital ratio	12,10%	16,90%
<b>Risk weighted exposure amount</b>		
Credit risk	881 464	861 784
Settlement risk	1 648	1 648
Market risk	137 742	58 068
Foreign exchange risk	595 683	393 478
CVA risk	3 693	3 693
Operational risk	2 982 145	1 744 361
<b>Total risk weighted exposure amount</b>	<b>4 602 375</b>	<b>3 063 032</b>
<b>Capital requirement</b>		
Credit risk	70 517	68 943
Settlement risk	132	132
Market risk	11 019	4 645
Foreign exchange risk	47 655	31 478
CVA risk	295	295

Operational risk	238 572	139 549
<b>Total minimum capital requirement</b>	<b>368 190</b>	<b>245 043</b>
<b>Risk weighted exposure amount per exposure class creditrisk</b>		
Regional governments or local authorities	45 822	21 063
Institutions	318 750	187 864
Corporates	21 357	8 928
Retail	56 788	0
Other items	438 747	643 929
<b>Total risk weighted exposure amount</b>	<b>881 464</b>	<b>861 784</b>
<b>Exposure amount credit risk for significant geographic areas</b>		
Norway	478 648	462 598
Sweden	237 839	161 552
Singapore	6 852	57 231
Great Britian	15 999	57 139
USA	39 868	46 006
Finland	10 104	19 768
<b>Total risk weighted exposure amount</b>	<b>789 310</b>	<b>804 294</b>
<b>Leverage ratio</b>		
Exposure amount leverage ratio	3 239 319	1 795 932
Leverage ratio	17,20%	28,8%

#### 4.2 Summary of regulatory capital requirements

The Firm has limited structural risk on its balance sheet and limited loss potential, compared to banks and investment firms with proprietary trading and/or credit and lending as an important part of their business strategies. The Firm's exposure and capital requirements are primarily related to operational risk. It follows from the specification above that capital requirements relating to operational risk accounts for the main part of the overall capital requirement. Foreign exchange risk is mainly related to the ownership interest and inter-company balances with the foreign subsidiaries.

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

Credit risk is mainly related to bank deposits with the largest Nordic banks, inter-company balances, short term receivables and settlement of financial transactions. The Firm does not engage in traditional granting of credit or lending to clients with the exception for subsidiary Pareto Securities AB as described below. 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 have a credit rating. The Firm does not accept guarantees or security interests as security.

Wrong-way risk is being identified in all credit exposures, and handled and limited in accordance with Board instruction. The Firm's wrong-way risk is low.

Settlement risk is handled by way of that the delivery vs payment principle form the basis for settlement of financial instruments.

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. Actual and anticipated credit losses are negligible.

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 AB - credit risk related to securities financing transaction

The subsidiary in Sweden assumes credit risk by lending to the public through services related to securities financing transactions (SFTs), that is securities lending and margin lending transactions for purchasing and borrowing of securities through Pareto Securities, and which is secured by collateral (financial instruments). The actual credit exposure is curtailed by credit evaluation of the client, the collateral furnished by clients and credit limits in accordance with credit policy which is adopted by the board. All credits are approved by a credit committee and controlled by credit risk officers on a daily basis.

- 'securities lending' means a transaction by which a counterparty transfers securities subject to a commitment that the borrower will return equivalent securities on a future date or when requested to do so by the transferor, that transaction being considered as securities lending for the counterparty transferring the securities and being considered as securities borrowing for the counterparty to which they are transferred;
- 'margin lending transaction' means a transaction in which a counterparty extends credit in connection with the purchase, sale, carrying or trading of securities, but not including other loans that are secured by collateral in the form of securities.

Pareto Securities has more than 500 deposit clients which have a credit facility and represent an actual exposure. Gross exposure (lending) to clients at the end of 2017 is about MSEK 500 while the net exposure calculated in accordance with the capital regulation is about MSEK 70. Concentration risks are limited and controlled daily. Concentration risks are not considered material but the Firm holds Pillar 2 capital for identified concentration risk. The Pillar 2 capital is calculated in accordance with regulatory methodology.

The utilisation of credit lines (debt-to-asset ratios) are usually low, less than 50 % in a five-year perspective. Historical losses related to securities financing transactions are low compared to gross lending and own funds. Since 2001, losses accumulates to less than MSEK 5 and no losses have materialised since 2009. As such, the credit risk in connection with SFTs is low.

Equities listed on a regulated market, primary in Stockholm and Oslo, represents more than 75 % of all collateral furnished by clients. The haircut typically range from 20 – 50 % for these collaterals. Remaining collateral is equities not listed on a regulated market or traded OTC, and bonds. The haircut for these types of collateral is typically about 70 %.

#### 4.4 Specification of counterparty risk derivatives as per 31 December 2017

Only the mother company and the subsidiary in Sweden (volumes in Sweden are very low) offers trading for hedging purpose in derivatives, mainly in FX derivatives. For all derivatives contracts the Firm enters into with clients, the market risk is hedged “back-to-back” with large international institutions the Firm have ISDA and CSA agreements with. As such, the firm has no risk appetite for market risk derivatives. The Firm uses the mark-to-market method to calculate counterparty risk for derivatives. 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 and collateral is exchanged daily with the counterparties. Collateral comprise of cash on pledged accounts. Market risk may arise if the counterparty defaults on its obligations but collateralisation curtail the risk. The value of the collateral is not dependent of a credit ratings nor the development in market prices.

A credit committee derivatives approves all clients before derivatives trading can commence. Counterparty exposures are also limited through exposure limits, and restrictions to contract types and tenors. The Firm accepts smaller credit lines for the institutional counterparties and selected creditworthy clients. Losses related to the derivatives business are negligible.

**Table: Counterparty risk OTC derivatives (Group)**

	NOK thousands
<b>Exposure value</b>	11 720
<b>Capital requirement</b>	938
<b>Gross fair value</b>	44 951
<b>Net fair value</b>	26 818

## 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 large Nordic banks to variable interest and short-term in liquid securities; government securities, covered bonds and repos. The Firm has very low exposure to changes in short- and long-term interest rates beyond the effect on invested liquidity reserves.

The SFT service offered by the subsidiary Pareto Securities AB (see chapter 4.3) represents a potential interest rate risk as the subsidiary borrows from clients and lends to clients. However, both the borrowing and the lending have variable interest rates and represents in principle short maturities. In theory, the borrowing has a shorter maturity than the lending and represents a potential short term interest rate risk but not considered material. Even if a great amount of the lending is withdrawn, the subsidiary has limited need for (re)financing during the time it takes to reduce or wind down the lending business.

Summarised, the Firm do not conduct liquidity transformation as a business the same way that banks do by borrowing short and lending long term. Total interest rate risk outside the trading book is low.

## 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 control and capital assessment process

### 7.1 Overview of risk management and internal control

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 make sure 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:

- 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 the Firm's risks. The 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 the risk; and, subject to robust and effective review and control. The responsibility for effective review and control resides at all levels.

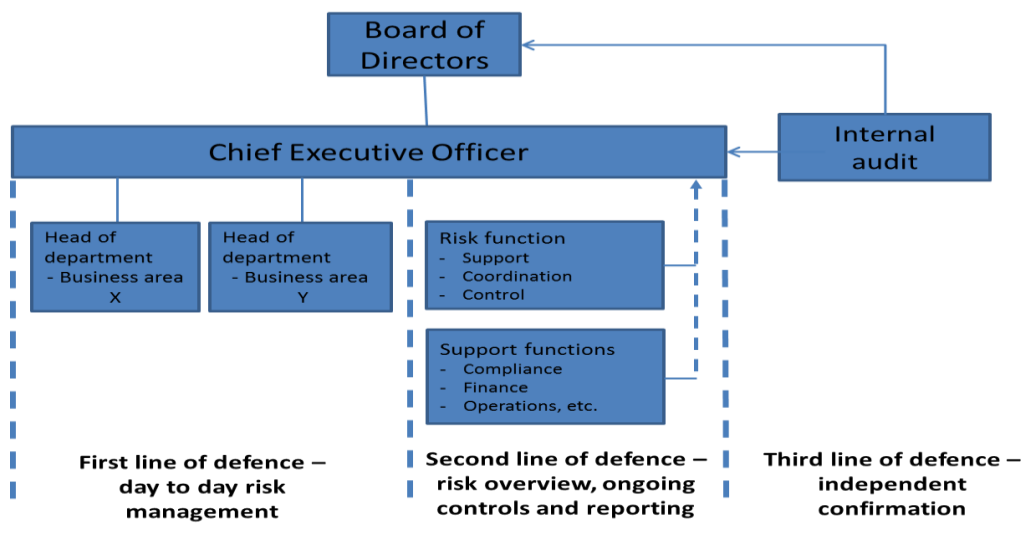
The Firm has a Compliance Department as well as a dedicated Risk Department, and these reports independently of each other to both the Chief Executive Officer and the Board of Directors. The Chief Executive Officer reports to the Board of Directors in board meetings, and whenever else deemed necessary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

At least once annually, the Firm undertake a review of all major risks for all business areas. A systematic review of risks, the risk management and internal controls are made to assess if the Firm's risks are handled in a prudent manner. The self-assessments of risks and internal control are conducted in order to identify the operational risks of the company by way of an identification of key risks, a risk assessment, and an evaluation as to whether established control measures are adequate and work as intended or whether there is a need for establishing additional risk-reducing measures. The result of the self-assessment is reported to the Board of Directors. The report which is subject to audit by internal audit, provides an overall assessment of the risk situation and the internal control in the Firm.



The distribution of responsibilities for risk management and internal controls are 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, the risk culture, 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.

## 7.2 Overview of the regulatory framework and assessment of internal capital 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 Internal Capital Adequacy Assessment Process ("ICAAP"). 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. Pillar 2 includes the Internal Liquidity Adequacy Assessment Process ("ILAAP") covering the Firm's liquidity and funding risk. ILAAP is described in section 7.3 under liquidity risk.

The purpose of the ICAAP is to ensure that the total own funds of the Firm are commensurate with its business, risk profile and a strategy for preserving its capital level. The ICAAP also provides a description of methods and controls used by the Firm to manage risk. A further objective is to describe long-term strategy, market factors and stress tests, including severe economic downturn lasting at least three years, that may influence future capital needs. The consolidated capital requirement of the Firm are based on a consolidated assessment of the Firm; i.e. the computed capital requirement for the mother company and each of the subsidiaries, based on a consolidation of total risk exposures of the Firm. The ICAAP is deliberated by senior management and audited by internal audit before it is adopted by the Board of Directors. The group's processes with regard to risk and capital management are on an ongoing basis, and improvements and the development of risk management 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 the business strategy, scenario analyses, stresstests 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's own funds shall be at a 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 long and severe economic downturn. The Firm evaluates its capital requirement on the basis of scenarios covering unfavourable future market developments within credit risk, market risk, operational risk, business risk, concentration risk and other relevant categories of identified risk. The capital supplement under Pillar 2 is principally assessed on the basis of the Firm's risk appetite of various specific risks, scenario-based analysis and stress tests and other events which may influence the earnings and capital base of the Firm.

### 7.3 Risk categories, management and control

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

1. credit and counterparty risk, including settlement risk;
2. market risk;
3. operational risk;
4. liquidity- and financing risk;
5. concentration risk;
6. business risk, including reputational risk;
7. ownership risk;
8. systemic risk;
9. Other risk

*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 Firm's 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 program, and the risk and controls objective within the performance and promotion process has helped to align incentives with a sound risk culture;
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. Its 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 liquid assets such as Nordic covered bonds and repos, and deposits with large Nordic banks.

The Firm has in general a conservative risk appetite.

The Firm is not involved with traditional banking business such as deposits and lending, or granting of credit to clients. The Swedish subsidiary offers securities financing transactions through securities lending and margin lending transactions in exchange for collateral in the form of securities. This 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 to support broking or capital raising assignments. Investments in the trading book are approved by the Chief Executive Officer and have a short time horizon.

Operational risk is a material risk on the part of the Firm and is curtailed through well functioning internal instructions and procedures, employee training and high compliance consciousness. Internal controls and self-assessment are key measures, and are used deliberately to limit the operational risk associated with business activities.

The Firm is owned by key employees (33.33 %) and one external owner (66.67 %) with a strong financial position. The Firm is ungeared and has no external borrowings beyond the SFT service. The Firm has at all times sought to have sufficient cash balances and drawing rights to provide for a minimum of two 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. Credit- and counterparty risk*

Credit- and counterparty 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. Settlement risk is included in the definition.

The Firm's credit- and counterparty risk is described in sections 4.3 and 4.4 above. Historically, the Firm has only negligible losses related to credit- and counterparty risk, even during periods with high stress, such as the financial crisis in 2008-2009.

The Firm's credit- and counterparty risk are considered moderate and the Firm's Pillar 2 capital requirement is not considered higher than the capital requirement calculated under Pillar 1.

As the Pillar 1 capital requirement not sufficiently capture concentration risk in the SFT portfolio, the Firm have Pillar 2 capital for concentration risk in the SFT portfolio.

### *2. Market risk*

Market risk is the risk of loss due to negative changes in market prices as a result of open positions in the fixed-income and equities markets, in foreign exchange or in derivatives.

The Firm has a business model based on client trading, broking and corporate finance services. The Firm does not engage in regular proprietary trading, neither in equities, fixed-income, foreign exchange nor derivatives. The Firm may enter into equity or fixed-income positions in its trading book in relation to broking and corporate finance 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 daily reporting of positions and risks in the trading book and the control of positions being in compliance with approved limits.

The Firm's Pillar 2 capital is higher than the Pillar 1 capital due to that the Pillar 2 capital is calculated based on position limits, while the Pillar 1 capital is calculated on actual positions. Actual positions are usually well below the position limits approved by the Board.

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

Derivatives positions and short positions are not held in the trading book. See also section 4.4 above.

#### *2.1 Foreign exchange risk*

The parent company assumes foreign exchange risk through its ownership in foreign subsidiaries. The ownerships are long term and the Firm do not hedge foreign exchange risk related to the ownerships. Revenues and costs are in EUR, GBP, NOK, SEK, SGD and USD and same currency is matched at company level before currency conversion takes place when they fall due. Summarised, foreign exchange risk is a result of business operations and not a result of structural foreign exchange risk on the balance sheet. Pillar 2 capital requirement for foreign exchange risk is not higher than the Pillar 1 capital requirement.

### *3. Operational risk*

Operational risk is the risk of loss on the part of the Firm due to inadequate or failed internal processes, staff, systems and external events. The definition includes legal and 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.

Operational risk is mitigated and controlled through appropriate internal controls, instructions and procedures for the Firm, employee training, annual 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 daily basis. Incidents are reported on an ongoing basis, analysed and if necessary, new measures are implemented in internal controls, instructions or procedures. The follow-up and control of operational risk falls under the auspices of the risk function and the compliance function which are controlled by internal audit. See also section 7.1.

Operational risk is the Firm's biggest risk, and operational risk related to corporate finance services is the single largest risk. Consequently, the capital requirement for operational risk is relatively higher than for other risk types. Historical losses due to operational risk have however never affected the capital adequacy. The Pillar 1 capital requirement for operational risk is regarded sufficient and the Firm does not hold additional Pillar 2 capital for operational risk.

### *4. Liquidity- and financing risk*

Liquidity- and financing risk is the risk of economic loss on the part of the Firm 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 does not depend on external funding for liabilities recognised on its balance sheet. Surplus liquidity is maintained as capital deposits with large Nordic banks and liquid covered bonds and repos with low risk. Pareto Securities AB is engaged in borrowing and lending as part of its business activity securities financing transactions. The structural liquidity risk is low as both the borrowing and the lending is short in terms of interest and maturity. The company is only to a limited degree dependent of external borrowing for funding purposes. The total interest rate exposure of the Firm is predominantly of a short-term nature.

Settlement of financial transaction may from time to time require extra liquidity but maturities are short. The Firm have liquidity drawing rights for the purpose of ensuring the settlement of financial transactions.

Net interest rate risk is the amount the Firm's total net interest income will change with the next 12 months if interest rates change by one percentage point. It reflects the disparity in items on and off the balance sheet when interest rates pricing periods, volumes or reference price of assets, liabilities and derivatives do not correspond to each other exactly. The net interest rate risk is low and not a structural risk on or off the balance sheet. The Firm holds no Pillar 2 capital for net interest rate risk.

The Board of Directors has adopted instructions and contingency plans with regard to liquidity risk, liquidity strategy and stress testing. The main part of the liquidity risk is controlled daily and followed-up by operational departments according to internal instructions.

The liquidity- and financing risk is considered low as the Firm has excess liquidity, interest rates are variable and with short maturities. The Firm has ringfenced liquidity reserves to handle stressed situations which may give lead to liquidity- and financing risk. The liquidity reserves serve as the Pillar 2 capital requirement for liquidity and financing risk.

#### *5. Concentration risk*

Concentration risk is the risk of loss arising from a large position in a single asset or market exposure due to lack of diversification. .

The Firm has Pillar 2 capital for concentration risk related to its SFT services. No other material concentration risk is identified for other risk categories within the Firm.

#### *6. Business risk, including reputational risk*

Business risk is 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 business risk.

Unexpected shortfalls in earnings may be caused by competition factors that result in lower sales, pressure on prices, severe economic downturn in important markets, government regulations or negative media coverage. Losses may be realised if the Firm does not adapt its costs to compensate for any shortfall in revenues or unexpected costs. Strategic planning, on-hand follow-up of revenues and costs, as well as a low cost based and cost control, are the most important tools for reducing business risk. The Firm is highly diversified in terms of revenue sources through a broad product range, industry sectors, clients and geography. The Firm is flexible and may swiftly adapt to changes in market conditions.

The Firm believes that one of the greatest risks it faces comes from the potential loss of its reputation. Therefore, the Firm strives to maintain a good relationship with its clients by long term thinking, to demonstrate the highest level of integrity in all of its activities, adherence to laws and regulations, and good business practice.

The business risk is prudently managed and the Firm has over a long time proven its abilities to generate revenues and profit, even during periods with severe economic downturn over several years, and to adjust its business and operations to changing market and regulatory conditions. The Firm does not hold Pillar 2 capital for business risk.

#### *7. Ownership risk*

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

Subsidiaries are organised in compliance with the provisions of each country's laws and regulations. The most important controls of ownership risk are through board representation, capital planning, conservative risk appetite, 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 covering operational losses due to operational risk or shortfall in income.

The mother company has from time to time transferred capital to subsidiaries for the purpose of strengthen the funds due to shortfall of revenues and earnings. Capital transfers to subsidiaries have been small relative to the size of Pareto Securities AS revenues, profit and balance sheet. Capital transfers have not drained the Pareto Securities AS own funds.

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

The ownership risk is considered to be low and the Firm has not identified Pillar 2 capital for ownership risk.

#### *8. 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 severe negative effect on an entire industry or economy. The Firm does not fund itself externally, has minimal direct exposure to the private housing market and low exposure to the derivatives markets in terms of increased margins and impairment of assets. Surplus liquidity is well diversified in short term placings such as deposits, covered bonds and repos with the largest Nordic banks. Liquidity can easily be re-allocated if required.

Systemic risk is considered to be low and the Firm holds no Pillar 2 capital for systemic risk.

## **8. Remuneration**

The Firm's remuneration policy complies with chapter 15 of Regulations of 9 December 2016 regarding financial institutions which implements CRD IV requirements for a sound remuneration policy ('the Remuneration Regulations'). 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 etc.

The remuneration arrangements 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. The risk takers may not receive a bonus in excess of 200 per cent of their fixed salary and the bonus will be distributed over a three year time period.

Assessments 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). The classification of employees into the above categories is based on the provisions of the Remuneration Regulations.

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 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 375. 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 2017 was TNOK 12,096, consisting of fixed remuneration for 2017, 50 % variable remuneration for 2016 and paid out contingent remuneration from 2015, 2014 and 2013. The CEO owns 2.44 % of the shares in Pareto Securities AS through Nes Invest AS.

For 2017, special employees have received fixed work remuneration in the total amount of TNOK 26,013, with TNOK 21,013 being paid to senior executives and TNOK 5,000 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 is divided into a cash portion of 50 % and a contingent capital portion of 50 % in accordance with the Remuneration Regulations and determined by the Board of Directors. The aggregated variable remuneration to the «risk takers» and «special employees» amounted to TNOK 34,358 for the year 2017. Variable remuneration was TNOK 27,993 for senior executives and TNOK 6,365 for senior employees with control duties.



## APPENDIX A

The own funds and capital adequacy for subsidiaries as per 31 December 2017:

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
Amounts in thousands	GBP	USD	SGD	SEK	EUR
Paid-up capital instruments	3 077	360	4 000	37 594	730
Share premium	65	2 044	0	0	0
Own CET1 instruments	0	0	0	0	0
Previous years retained earnings	-1 144	258	-1 248	122 841	6
Interim loss	0	- 83	0	0	0
Other reserves	59	0	0	9331	770
Value adjustments	0	0	-393	- 590	0
Deferred tax benefit	0	0	0	0	0
Intellectual property	0	0	0	-1 781	-5
<b>Tier 1 capital (CET1)</b>	<b>2 057</b>	<b>2 579</b>	<b>2 359</b>	<b>167 395</b>	<b>1 501</b>
Tier 2 capital	0	3 918	0	0	0
<b>Own funds</b>	<b>2 057</b>	<b>6 497</b>	<b>2 359</b>	<b>167 395</b>	<b>1 501</b>
<b>Total risk weighted exposure amount</b>	<b>7 863</b>	<b>N/A</b>	<b>4 910</b>	<b>971 698</b>	<b>10 295</b>
<b>Capital Adequacy - Ratios</b>					
CET1 Capital ratio	26,16%	82,53%	48,04%	17,23%	14,58%
T1 Capital ratio	26,16%	82,53%	48,04%	17,23%	14,58%
Total capital ratio	26,16%	207,90%	48,04%	17,23%	14,58%
<b>Risk weighted exposure amount</b>					
Credit risk	1 876	N/A	0	227 912	1 265
Settlement risk	0	N/A	0	1 549	0
Market risk	0	N/A	0	79 902	0
Foreign Exchange risk	408	N/A	0	25 428	0
CVA risk	0	N/A	0	0	0
Operational risk/ fixed costs	5 578	N/A	4 910	636 907	9 030
<b>Total risk weighted exposure amount</b>	<b>7 863</b>	<b>N/A</b>	<b>4 910</b>	<b>971 698</b>	<b>10 295</b>
<b>Capital requirement</b>					
Credit risk	150	N/A	0	18 233	101
Settlement risk	0	N/A	0	124	0
Market risk	0	N/A	0	6 392	0
Foreign Exchange risk	33	N/A	0	2 034	0
CVA risk	0	N/A	0	0	0
Operational risk	446	N/A	393	50 953	722
<b>Total minimum capital requirement</b>	<b>629</b>	<b>250</b>	<b>393</b>	<b>77 736</b>	<b>824</b>
<b>Risk weighted exposure amount per exposure class creditrisk</b>					
Institutions	706	N/A	0	90 260	804
Corporates	750	N/A	0	12 894	0
Retail	0	N/A	0	56 808	0
Other items	421	N/A	0	67 950	460
<b>Total risk weighted exposure amount</b>	<b>1 876</b>	<b>N/A</b>	<b>0</b>	<b>227 912</b>	<b>1 265</b>
<b>Process for assessing the overall capital requirement</b>					
	ICAAP	N/A	N/A	ICAAP	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.