



**ANNUAL REPORT 2015**

## **PARETO SECURITIES**

### **DIRECTORS' REPORT 2015**

#### **Description of business activities**

Pareto Securities AS has business activities within primary and secondary brokerage of equities and fixed income instruments, corporate finance advisory services and project financing and syndication of real estate and shipping/offshore assets. The company has its head office in Oslo, regional offices in Stavanger and Trondheim, and branch offices in Denmark and France. The company has security-licensed subsidiaries in Sweden, Finland, UK, USA, Singapore and Australia. Norwegian subsidiaries have activities in management of alternative investment funds, rig brokering, management of project companies, and within maritime project management.

Pareto Securities AS was established in 1992 and is part of the Pareto Group with Pareto AS as its parent company. In 2015 the company merged with its related company Pareto Project Finance AS which has been in business since 1986.

The number of employees in the Pareto Securities Group as of 31 December 2015 was 400 persons, of these 236 worked in Norway.

#### **Financial developments and results**

Financial developments and results are presented in Norwegian kroner (NOK) in thousand. In accordance with the accounting standards, figures for 2014 have not been restated to include Pareto Project Finance AS due to common ownership of the two companies.

The group's operating income decreased from NOK 1 531 600 in 2014 to NOK 1 510 000 in 2015. Pre-tax profit shows a reduction from NOK 466 000 to NOK 405 000. The group's equity decreased from NOK 571 650 to NOK 501 750 after proposed dividend.

The parent company's operating income increased from NOK 847 900 in 2014 to NOK 862 200 in 2015. Pre-tax profit shows a reduction from NOK 393 750 to NOK 384 100. The parent company's equity decreased from NOK 530 000 to NOK 438 800 after proposed dividend.

#### **Going concern**

The annual financial reports have been prepared under the going concern assumption. This assumption is based on the financial situation at year-end and the result forecast for 2016.

#### **Key risks in the business activities, risk management and capital coverage**

The company and its subsidiaries are exposed to market risks related to their holding of financial instruments. The company is also indirectly exposed to fluctuation in the capital markets. Weak capital markets lead to fewer transactions and lower revenues. The company's operating expense base is low. This strengthens its ability to face periods of reduced revenues as a result of low transaction activity.

Furthermore, the company has exposure to settlement risk linked to unsettled transactions, counterparty risk, currency exchange risk and litigation risk related to alleged errors in the facilitation of capital raising and project financing projects.

The company does not trade equities and bonds for its own account as part of its general capital management, but takes to a limited degree positions in relation to capital raising projects. Surplus liquidity is deposited in financially sound banks. Credit is granted only to a very limited degree. This contributes to limit the company's financial risk.

The company's risk is governed by rules in the Norwegian Companies Act, the Securities Trading Act with regulations and directives for risk management and internal control. Same kind of risk management requirements apply to its subsidiaries abroad, subject to and in accordance with the laws for the applicable country.

Internal routines have been established for adherence to applicable laws. The quality of the deal facilitation work is secured through teamwork with experienced project leaders and established routines for capital raising projects, hereunder a thorough assessment of new deals in the internal Deal Committee. The business activities are subject to critical board and management reviews on an on-going basis.

The Norwegian Financial Supervisory Authority's final report from their company inspection, which had been ongoing since April 2014, was published in March 2015. The company has initiated a number of measures to secure even better compliance and quality in the services that we offer, as a result of new insights gained during the supervision and the Authority's input in the report. The internal auditor has in a separate project verified that the administration has followed up on the remarks in the Financial Supervisory Authority's final report. The company has met the authorities' capital requirements throughout 2015.

**Outlook for 2016**

Continuing low energy prices may have a negative impact on the group's revenues. At the same time a significant portion of the group's income is derived from activities outside Norway with less exposure to the energy sector. Furthermore, the group's product portfolio is more diversified than ever before, not at least because of the merger with Pareto Project Finance AS. The group activities are therefore diversified both geographically and product wise. The Board of Directors expect a satisfactory result in 2016.

**Working environment, equality and influence of the external environment**

There are no reports of work-related injuries or accidents among the employees in 2015. The company has established work-environment committees that meet regularly, and has appointed safety representatives in Oslo and Stavanger.

During 2015 the work-environment committee had two meetings, and safety inspections were conducted for the purpose of maintaining a good and safe work environment in the company. The safety work has been particularly focused on the office renovation work in Oslo and the merger with Pareto Project Finance AS. All employees at the head office have been given new and ergonomic work stations, and a representative from the employees' health service has assisted the employees optimizing their work environment. Absence due to sick leave is consistently low.

The company does not discriminate between women and men. The portion of women in the company is relatively low as it is in the finance industry generally. The company is however working actively to attract qualified female staff. Over the last years the company has hired several women from leading schools in Norway and abroad. The company does not discriminate due to disabilities, ethnicity, national origin, race or religion.

The company does not pollute the external environment, beyond emissions resulting from travel activity. Modern communication equipment, including video conferencing equipment, contributes towards reducing travel activities.

Oslo, 31 March 2016  
Board of Directors

Morten Goller  
Chairman

Svein Støle

Inge Edvardsen

Arild Hille

Lars Buin

Christian Jomaas

Anders Endreson

Ole Henrik Bjørge  
Chief Executive Officer

PARETO SECURITIES

| COMPANY  |          | INCOME STATEMENT |  | GROUP     |           |
|----------|----------|------------------|--|-----------|-----------|
| 2015     | 2014     | Notes            | Amounts in NOK 1 000                       | 2015      | 2014      |
| 862 200  | 847 900  | 2                | Operating revenues                         | 1 510 000 | 1 531 600 |
| 416 320  | 422 670  | 3                | Personnel expenses                         | 796 721   | 794 870   |
| 10 988   | 3 630    | 5                | Depreciation                               | 18 019    | 10 240    |
| 159 386  | 132 496  |                  | Other operating expenses                   | 289 840   | 228 830   |
| 586 695  | 558 796  |                  | Total operating expenses                   | 1 104 579 | 1 033 940 |
| 275 505  | 289 104  |                  | Operating profit                           | 405 421   | 497 660   |
| 15 182   | 19 802   |                  | Interest income                            | 17 261    | 25 851    |
| 121 212  | 124 420  |                  | Other financial income                     | 23 624    | 7 409     |
| -3 535   | -4 643   |                  | Interest expenses                          | -4 568    | -6 658    |
| -24 264  | -34 933  |                  | Other financial expenses                   | -36 737   | -58 262   |
| 108 595  | 104 646  |                  | Net financial expenses                     | -421      | -31 660   |
| 384 100  | 393 750  |                  | PROFIT BEFORE TAXES                        | 405 000   | 466 000   |
| 80 700   | 82 800   | 15               | Tax expense                                | 110 000   | 130 600   |
| 303 400  | 310 950  |                  | NET PROFIT FOR THE YEAR                    | 295 000   | 335 400   |
|          |          | 6                | Net profit allocated to minority interests | 2 432     | 4 160     |
|          |          |                  | Net profit allocated to majority interests | 292 568   | 331 240   |
|          |          |                  | Allocation of net profit                   |           |           |
| -385 480 | -159 351 |                  | Proposed dividend                          |           |           |
| 82 080   | -151 599 |                  | Transferred to/from other equity           |           |           |
| -303 400 | -310 950 | 13               | Total allocations                          |           |           |

PARETO SECURITIES

| COMPANY                   |           | BALANCE SHEET AS OF 31 DECEMBER |   | GROUP     |           |
|---------------------------|-----------|---------------------------------|---|-----------|-----------|
| 2015                      | 2014      | Notes                           | Amounts in NOK 1 000                    | 2015      | 2014      |
| <b>NON-CURRENT ASSETS</b> |           |                                 |   |           |           |
| 20 296                    | 32 931    | 15                              | Deferred tax assets                     | 29 983    | 49 068    |
| 3 729                     | 125       | 5                               | Software                                | 3 729     | 1 685     |
| 24 025                    | 33 056    |                                 | Total intangible assets                 | 33 712    | 50 753    |
| 19 582                    | 7 760     | 5                               | Office equipment and fittings           | 35 166    | 15 002    |
| 224 603                   | 219 764   | 6                               | Shares in subsidiaries                  | 0         | 0         |
| 76 524                    | 60 682    |                                 | Loans to subsidiaries                   | 0         | 0         |
| 301 127                   | 280 446   |                                 | Total financial assets                  | 0         | 0         |
| 344 734                   | 321 263   |                                 | TOTAL NON-CURRENT ASSETS                | 68 879    | 65 755    |
| <b>CURRENT ASSETS</b>     |           |                                 |   |           |           |
| 293 217                   | 311 355   | 8                               | Receivables from customers              | 449 810   | 469 123   |
| 74 100                    | 96 381    |                                 | Receivables from financial institutions | 74 100    | 96 381    |
| 125 898                   | 129 517   |                                 | Receivables from group companies        | 0         | 0         |
| 167 416                   | 79 610    |                                 | Other receivables                       | 327 774   | 151 447   |
| 660 631                   | 616 863   |                                 | Total receivables                       | 851 684   | 716 951   |
| 134 679                   | 64 946    | 9                               | Financial instruments                   | 196 839   | 91 994    |
| 509 956                   | 676 928   | 10                              | Bank deposits                           | 1 764 599 | 1 575 300 |
| 1 305 266                 | 1 358 738 |                                 | TOTAL CURRENT ASSETS                    | 2 813 122 | 2 384 245 |
| 1 650 000                 | 1 680 000 |                                 | TOTAL ASSETS                            | 2 882 000 | 2 450 000 |

PARETO SECURITIES

| COMPANY            |           | BALANCE SHEET AS OF 31 DECEMBER |   | GROUP     |           |
|--------------------|-----------|---------------------------------|---|-----------|-----------|
| 2015               | 2014      | Notes                           | Amounts in NOK 1 000                        | 2015      | 2014      |
| <b>EQUITY</b>      |           |                                 |   |           |           |
| 80 000             | 64 000    | 12                              | Share capital                               | 80 000    | 64 000    |
| -235               | -1 175    |                                 | Treasury shares                             | -235      | -1 175    |
| 13 900             | 13 900    |                                 | Share premium                               | 13 900    | 13 900    |
| 93 665             | 76 725    |                                 | Total paid-in capital                       | 93 665    | 76 725    |
| 345 135            | 453 275   |                                 | Retained earnings                           | 406 335   | 493 275   |
|                    |           |                                 | Total paid-in capital and retained earnings | 500 000   | 570 000   |
|                    |           |                                 | Minority interest                           | 1 750     | 1 650     |
| 438 800            | 530 000   | 13                              | TOTAL EQUITY                                | 501 750   | 571 650   |
| <b>LIABILITIES</b> |           |                                 |   |           |           |
| 3 616              | 4 039     | 7                               | Pension liabilities                         | 3 616     | 4 039     |
| 0                  | 0         |                                 | Deposits from silent partners               | 2 500     | 2 500     |
| 3 616              | 4 039     |                                 | Total long-term liabilities                 | 6 116     | 6 539     |
| 175 356            | 168 745   |                                 | Payables to financial institutions          | 175 356   | 168 745   |
| 146 749            | 211 339   | 11                              | Payables to customers                       | 1 070 529 | 679 729   |
| 6 108              | 37 717    |                                 | Payables to group companies                 | 0         | 0         |
| 69 700             | 96 573    | 15                              | Income tax payable                          | 92 149    | 130 703   |
| 14 514             | 11 021    |                                 | Public dues payable                         | 28 791    | 24 175    |
| 385 480            | 159 351   |                                 | Proposed dividends                          | 387 812   | 163 225   |
| 409 677            | 461 216   |                                 | Other liabilities                           | 619 497   | 705 234   |
| 1 207 584          | 1 145 961 |                                 | Total short-term liabilities                | 2 374 135 | 1 871 811 |
| 1 211 200          | 1 150 000 |                                 | TOTAL LIABILITIES                           | 2 380 251 | 1 878 350 |
| 1 650 000          | 1 680 000 |                                 | TOTAL EQUITY AND LIABILITIES                | 2 882 000 | 2 450 000 |

Oslo, 31 March 2016  
Board of Directors

Morten Goller  
Chairman

Svein Støle

Inge Edvardsen

Arild Hille

Lars Buin

Christian Jomaas

Anders Endreson

Ole Henrik Bjørge  
Chief Executive Officer

**PARETO SECURITIES**

| <b>COMPANY</b> |             | <b>CASH FLOW STATEMENT</b>               | <b>GROUP</b> |             |
|----------------|-------------|--|--------------|-------------|
| <b>2015</b>    | <b>2014</b> | <b>Amounts in NOK 1 000</b>              | <b>2015</b>  | <b>2014</b> |
| 384 100        | 393 750     | Profit before taxes                      | 405 000      | 466 000     |
| -135 310       | -121 485    | Taxes paid                               | -179 103     | -151 018    |
| 10 988         | 3 630       | Depreciation                             | 18 019       | 10 240      |
| 37 105         | 169 170     | Change in receivables                    | 10 519       | 521 930     |
| -321 176       | -177 913    | Change in current liabilities            | 80 098       | -200 930    |
| -24 293        | 267 152     | Net cash flow from operating activities  | 334 533      | 646 222     |
| -23 450        | -6 798      | Purchase of fixed assets                 | -30 484      | -9 098      |
| 41 803         | 23 690      | Net cash flow from investments           | 11 020       | 171 256     |
| 18 353         | 16 892      | Net cash flow from investment activities | -19 464      | 162 158     |
| -8 112         | 0           | Change in deposits from silent partners  | -8 112       | 0           |
| 9 309          | -11 599     | Purchase/sale of own shares              | 9 309        | -11 599     |
| 0              | 0           | Capital investment from minority         | 100          | 285         |
| -350 769       | -335 763    | Dividend paid                            | -354 643     | -341 759    |
| -349 572       | -347 362    | Net cash flow from financing activities  | -353 346     | -353 073    |
| -355 511       | -63 319     | Net change in cash during the year       | -38 277      | 455 306     |
| 676 928        | 740 247     | Cash and cash equivalents 1.1            | 1 575 300    | 1 119 994   |
| 188 538        |             | Cash Pareto Project Finance merger 1.1   | 227 576      |             |
| 509 955        | 676 928     | Cash and cash equivalents 31.12          | 1 764 599    | 1 575 300   |

## PARETO SECURITIES

### NOTES TO THE ACCOUNTS 2015

#### NOTE 1 ACCOUNTING POLICIES

##### General information

Pareto Securities AS is a private limited company headquartered in Oslo in Norway ("the company"). The company together with its subsidiaries ("the group") is an independent full service investment bank.

The consolidated financial statements are presented in Norwegian kroner (NOK), which is the functional currency of the company. Except if indicated, the amounts presented have been rounded to the nearest thousand.

Pareto Securities has been granted an exemption from the provisions in the Accounting Act § 3-4 in preparing financial statements and annual report in Norwegian language.

##### Basis of preparation

The annual accounts have been prepared in accordance with the Norwegian Accounting Act and the Regulations on the Annual Accounts of investment firms in Norway.

##### Merger with Pareto Project Finance AS

In 2015, Pareto Securities AS merged with Pareto Project Finance AS ("PPF"). The merger, has since both companies was under control of Pareto AS, been carried out using the Group continuity method in the accounts of the company. The company issued 160.000 new shares as compensation to the shareholders of Pareto Project Finance AS, which amounts to 20 % of the total voting rights.

In accordance with the accounting standards, figures for 2014 have not been restated to include Pareto Project Finance AS due to common ownership of the two companies.

##### Consolidation principles

Pareto Securities consolidated financial statements comprise the parent company Pareto Securities AS with branches and companies which Pareto Securities AS has a controlling interest. 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. Internal transactions between the companies as well as receivables and payables per 31 December, are eliminated in the consolidated financial statements. Foreign exchange loss and gains from translation of foreign subsidiaries, and from hedging, is recorded to equity.

##### Revenue recognition

Income from corporate finance engagements for which the company receives fee contingent upon the outcome of the final transaction, is recognised upon completion of the transaction. Brokerage fees are recognised at the date of the trade.

##### Estimates

The preparation of the financial statements is based on estimates and presumptions. Future events may involve a change in estimates. Changes in the estimates are accounted for in the period in which they occur.

##### Tangible assets

Tangible assets are recognized at historical cost adjusted for accumulated depreciation. Fixed assets are depreciated on a straight line base, based on their estimated economic life.



## **PARETO SECURITIES**

### **NOTES TO THE ACCOUNTS 2015**

#### **NOTE 1 ACCOUNTING POLICIES CONT.**

##### **Receivables/write-downs of bad debts**

Receivables include balances with other investment firms and other companies. Receivables and payables are reported gross in the balance sheet in accordance with the Regulations on the Annual Accounts of investment firms in Norway. Trades that are closed at year-end with settlement after year-end are recorded as receivables from customers/receivables from financial institutions and payables to customers/payables to financial institutions. Receivables are measured at fair value at transaction date. Earned, not paid, fees related to corporate finance engagements are included in other receivables. Provisions for bad debt are based on a case-by-case assessment.

##### **Financial investments**

Marketable financial instruments are valued at fair value on the balance sheet date. The fair value for quoted financial instruments is based on the latest transaction price. Other financial instruments are valued using valuation techniques based on observable market values. When applying valuation techniques, the value is adjusted for credit- and liquidity risk.

##### **Financial derivatives**

Financial derivatives are presented as an asset if the value is positive and as a liability if the value is negative.

##### **Taxes**

Tax expenses are matched with profit before tax. The tax expense consists of current income tax and change in deferred taxes.

##### **Liabilities**

Liabilities are recognized at their nominal value at the time they arise.

##### **Foreign currencies**

Monetary items in the balance sheet in foreign currencies are translated into NOK at exchange rate at the balance-sheet date.

**NOTE 2 OPERATING REVENUES**

|                               | Company        |                | Group            |                  |
|-------------------------------|----------------|----------------|------------------|------------------|
|                               | 2015           | 2014           | 2015             | 2014             |
| Corporate finance             | 599 264        | 656 142        | 932 180          | 1 102 406        |
| Securities brokerage          | 262 936        | 191 758        | 387 366          | 293 875          |
| Business management           | 0              | 0              | 74 693           | 0                |
| Maritime services             | 0              | 0              | 14 062           | 0                |
| Alternative investments       | 0              | 0              | 31 199           | 0                |
| Offshore rigs brokerage       | 0              | 0              | 70 500           | 135 319          |
| <b>Total operating income</b> | <b>862 200</b> | <b>847 900</b> | <b>1 510 000</b> | <b>1 531 600</b> |

**NOTE 3 PERSONNEL EXPENSES**

|   | Company        |                | Group          |                |
|---|----------------|----------------|----------------|----------------|
|   | 2015           | 2014           | 2015           | 2014           |
| Wages and performance-related bonus         | 345 641        | 351 258        | 648 953        | 647 445        |
| Social security tax                         | 53 367         | 53 920         | 102 120        | 101 882        |
| Pension costs including social security tax | 2 164          | 2 187          | 9 382          | 9 360          |
| Other personnel costs                       | 13 133         | 13 291         | 34 251         | 34 169         |
| <b>Total personnel expenses</b>             | <b>416 320</b> | <b>422 670</b> | <b>796 721</b> | <b>794 870</b> |
| Number of employees at year end             | 203            | 170            | 400            | 353            |

**NOTE 4 REMUNERATION**

Fees to Deloitte AS for the statutory audit of the parent company were NOK 453. Fees for other assurance services amounted to NOK 171, fees for tax services amounted to NOK 390 and other non-audit services fees amounted to NOK 167. Corresponding fees for the group amounted to NOK 1 570 for the statutory audit, NOK 195 for other assurance services, NOK 472 for tax-related services and NOK 307 for other non-audit services. Fees to Deloitte Advokatfirma AS (law firm) amounted to NOK 205. All amounts presented are excluding VAT.

Remuneration to the Chairman of the Board, Morten Goller amounted to NOK 360. Members of the Board, employed in the Pareto AS Group do not receive remuneration.

The company has a remuneration scheme where all employees have a fixed remuneration and may in addition receive a discretionary remuneration. The discretionary remuneration is based on earnings for the company as a whole as well as within the department of the employee, participation in considerable acquisitions, externally or internally focused work of significant value for the company, extraordinary work effort, large client-/employee responsibility or similar.

The remuneration to the Chief Executive Officer, Chief Financial Officer, Head of Compliance, Head of Risk Management, Head of Corporate Finance, Head of Equities, Head of Fixed Income and Head of Project Finance are regulated by the Norwegian regulation for remuneration in investment firms of 1 December 2010. For 2015 these employees have received NOK 39 500 as fixed remuneration. Final variable remuneration for these employees is decided by the Board of Directors after the Annual Report is adopted. The aggregate remuneration for 2015 has completely been accrued in the financial accounts for 2015. More specified information will be published in the company's Pilar 3 reporting on [www.paretosec.com](http://www.paretosec.com). The variable remuneration is allocated with 50 % cash and 50 % in contingent capital. The cash part is paid out after the financial statement has been approved. The contingent capital is withheld in the company in the form of a subordinated loan bearing a market interest rate. The contingent capital is risk adjusted yearly and is paid out over a three year period.

Paid remuneration to CEO Ole Henrik Bjørge in 2015 amounted to NOK 20 106, consisting of fixed remuneration for 2015, 50% bonus for 2014 and paid out contingent remuneration from 2013 and 2012. He is a participant in the company's remuneration scheme. He owns 4% of the shares in Pareto Securities AS through Nes Invest AS.

**NOTE 5 FIXED ASSETS**

|  | Office equipment and fittings |           | Software  |           |
|--|-------------------------------|-----------|-----------|-----------|
|  | Company                       | Group     | Company   | Group     |
| Acquisition cost 1.1                           | 58 133                        | 121 672   | 33 799    | 45 084    |
| Acquisition cost 1.1 - merger with PPF         | 2 674                         | 23 951    | 2 096     | 2 096     |
| Additions in year                              | 19 525                        | 26 416    | 3 925     | 4 068     |
| Disposals/Sale                                 | -425                          | -23 335   | -33 417   | -55 589   |
| Acquisition cost 31.12                         | 79 906                        | 148 705   | 6 403     | -4 341    |
| Accumulated depreciation 1.1                   | 50 374                        | 106 671   | 33 674    | 43 399    |
| Accumulated depreciation 1.1 - merger with PPF | 1 651                         | 15 462    | 0         | 0         |
| Depreciation                                   | 8 571                         | 13 900    | 2 417     | 4 119     |
| Disposals                                      | -271                          | -22 494   | -33 417   | -55 589   |
| Accumulated depreciation 31.12                 | 60 324                        | 113 538   | 2 674     | -8 071    |
| Net book value 31.12                           | 19 582                        | 35 167    | 3 729     | 3 729     |
| Economic life                                  | 2-5 years                     | 2-5 years | 2-5 years | 2-5 years |
| Depreciation plan                              | Linear                        | Linear    | Linear    | Linear    |

**NOTE 6 SHARES IN SUBSIDIARIES**

| Company name                      | Equity  | Registered Office | Ownership |
|-----------------------------------|---------|-------------------|-----------|
| Pareto Securities Pte Ltd         | 15 397  | Singapore         | 100,00 %  |
| Pareto Securities Inc             | 38 451  | New York          | 100,00 %  |
| Pareto Securities AB              | 135 408 | Stockholm         | 100,00 %  |
| Pareto Securities Oy              | 41 718  | Helsinki          | 100,00 %  |
| Pareto Securities Ltd             | 25 320  | London            | 100,00 %  |
| Pareto Securities Pty Ltd         | 4 390   | Perth             | 100,00 %  |
| Pareto Offshore AS                | 10 006  | Oslo              | 87,01 %   |
| North Atlantic Seafood Forum AS   | 387     | Oslo              | 60,00 %   |
| Pareto Business Management AS     | 9 185   | Oslo              | 100,00 %  |
| Pareto Business Management AB     | 682     | Stockholm         | 100,00 %  |
| Pareto Alternative Investments AS | 4 000   | Oslo              | 100,00 %  |
| Pareto Maritime Services AS       | 526     | Oslo              | 100,00 %  |
| Pareto Eiendom AS                 | 179     | Oslo              | 100,00 %  |
| Pareto Investorservice AS         | 1 000   | Oslo              | 100,00 %  |

**NOTE 7 PENSIONS**

The company has a defined contribution pension scheme as required under the act concerning Mandatory Occupational Pensions. The defined contribution plan is administered by Storebrand. Pension contributions for 2015 amount to NOK 1.821.

The company has two unfunded pension plans for which the obligation is recorded in the balance sheet as of 31 December 2015 at NOK 3 616 as a result of actuarial valuations based on commonly used assumptions within insurance.

## PARETO SECURITIES

### NOTES TO THE ACCOUNTS 2015

NOK 1 000

#### NOTE 8 RECEIVABLES FROM CUSTOMERS

|  | Company | Group   |
|--|---------|---------|
| Loans to customers for securities financing (in the subsidiary Pareto Securities AB) | 0       | 151 784 |
| Receivables from secondary trading   | 293 217 | 298 026 |
| Total receivables from customers   | 293 217 | 449 810 |

Loans to customers for securities financing is mainly secured through securities in custody and is recognised in the balance sheet with deduction for realized and probable losses.

#### NOTE 9 FINANCIAL INSTRUMENTS

|  | Company         |            | Group           |            |
|--|-----------------|------------|-----------------|------------|
|  | Aquisition cost | Book value | Aquisition cost | Book value |
| Shares   | 1 169           | 1 169      | 34 869          | 25 616     |
| Bonds and certificates                               | 141 070         | 129 974    | 158 961         | 147 953    |
| Project Finance companies - real estate and shipping | 3 536           | 3 536      | 23 270          | 23 270     |
| Total financial instruments                          | 145 775         | 134 679    | 217 100         | 196 839    |

#### NOTE 10 BANK DEPOSITS

|   | Company | Group   |
|---|---------|---------|
| Restricted in respect of payroll taxes deducted at source | 6 516   | 8 146   |
| Restricted in respect of margin security etc              | 150 613 | 150 613 |
| Total restricted deposits                                 | 157 129 | 158 759 |

Balances on client accounts and equity issue accounts that belong to customers (client funds) are not recognized in the company's balance sheet.

The parent company has a credit settlement of NOK 200.000 and an uncommitted intraday credit facility. The company's liquidity situation is satisfactory.

#### NOTE 11 PAYABLES TO CUSTOMERS

|  | Company | Group     |
|--|---------|-----------|
| Customer deposits (in the subsidiary Pareto Securities AB) | 0       | 908 276   |
| Payables to customers from secondary trading               | 146 749 | 162 254   |
| Total payables to customers                                | 146 749 | 1 070 529 |

Customer deposits are measured at acquisition cost. Received deposits is due on demand.

**NOTE 12 SHAREHOLDER INFORMATION**

|   | Number of shares | Ownership       |
|---|------------------|-----------------|
| The company has 800 000 shares with a face value of NOK 100 held as follows:    |                  |                 |
| Pareto AS (owned directly and indirectly with 100% by Board Member Svein Støle) | 600 000          | 75,00 %         |
| Nes Invest AS (owned 100% by CEO Ole Henrik Bjørge)                             | 32 000           | 4,00 %          |
| Dragesund Invest AS   | 27 640           | 3,46 %          |
| Bakkejord Invest AS (owned 100% by Board Member Inge Edvardsen)                 | 23 000           | 2,88 %          |
| Emis AS (owned 100% by Board Member Arild Hille)                                | 18 000           | 2,25 %          |
| Skoghøy Invest AS (owned 96,35% by Board Member Anders Endreson)                | 16 942           | 2,12 %          |
| Pawa Invest AS  | 9 415            | 1,18 %          |
| Own shares  | 2 355            | 0,29 %          |
| Other shareholders with holdings below 1%                                       | 70 648           | 8,83 %          |
| <b>Total</b>  | <b>800 000</b>   | <b>100,00 %</b> |

**NOTE 13 EQUITY**

| Company                   | Share capital | Treasury shares | Share premium | Other equity   | Total equity   |
|---------------------------|---------------|-----------------|---------------|----------------|----------------|
| Equity 1.1                | 64 000        | -1 175          | 13 900        | 453 275        | 530 000        |
| Treasury shares           | 0             | 940             | 0             | 8 369          | 9 309          |
| Merger with PPF 1.1       | 16 000        | 0               | 0             | 115 571        | 131 571        |
| Dividend                  | 0             | 0               | 0             | -150 000       | -150 000       |
| Net profit for the year   | 0             | 0               | 0             | 303 400        | 303 400        |
| Proposed dividend         | 0             | 0               | 0             | -385 480       | -385 480       |
| <b>Total equity 31.12</b> | <b>80 000</b> | <b>-235</b>     | <b>13 900</b> | <b>345 135</b> | <b>438 800</b> |

| Group                     | Share capital | Treasury shares | Share premium | Other equity   | Minority interest | Total equity   |
|---------------------------|---------------|-----------------|---------------|----------------|-------------------|----------------|
| Equity 1.1                | 64 000        | -1175           | 13 900        | 493 274        | 1 650             | 571 650        |
| Treasury shares           | 0             | 940             | 0             | 8 369          | 0                 | 9 309          |
| Merger with PPF 1.1       | 16 000        | 0               | 0             | 129 165        | 0                 | 145 165        |
| Dividend                  | 0             | 0               | 0             | -150 000       | 0                 | -150 000       |
| Translation differences   | 0             | 0               | 0             | 20 211         | 0                 | 20 211         |
| Hedging subsidiaries      | 0             | 0               | 0             | -1 772         | 0                 | -1 772         |
| Net profit for the year   | 0             | 0               | 0             | 292 568        | 2 432             | 295 000        |
| Proposed dividend         | 0             | 0               | 0             | -385 480       | 0                 | -385 480       |
| Dividend to minorities    | 0             | 0               | 0             | 0              | -2 332            | -2 332         |
| <b>Total equity 31.12</b> | <b>80 000</b> | <b>-235</b>     | <b>13 900</b> | <b>406 336</b> | <b>1 750</b>      | <b>501 750</b> |

**NOTE 14 GUARANTEES**

Guarantees provided by DNB in favour of Norges Bank for participation in security settlement amounts to NOK 100 000. These guarantees are secured through a first factoring charge on the company's receivables and a charge on securities held as current assets.

Pareto Securities AS is a member of Norwegian Investor Compensation Scheme (Verdipapirforetakenes Sikringsfond), established in 2006.

Pareto Securities AS has, in relation to the granting of licence to the subsidiary Pareto Securities Pte Ltd, issued a statement to the Monetary Authority of Singapore which states that they will cover any obligation less than SGD 12.000.000.

## NOTE 15 TAXES

|   | Company |          | Group    |          |
|---|---------|----------|----------|----------|
|   | 2015    | 2014     | 2015     | 2014     |
| <b>Taxes payable</b>                                  |         |          |          |          |
| Profit before tax                                     | 384 100 | 393 750  | 405 000  | 466 000  |
| Permanent differences                                 | -90 286 | -77 923  | 16 547   | 28 846   |
| Change in temporary differences                       | -35 237 | 41 850   | -51 455  | 81 018   |
| Losses carried forward                                | 0       | 0        | -18 824  | -332     |
| Taxable income for the year                           | 258 577 | 357 677  | 351 268  | 575 532  |
| Taxes payable   | 69 816  | 96 573   | 101 769  | 150 762  |
| Prepaid taxes   | -116    | 0        | -9 620   | -20 059  |
| Current income tax payable in the balance sheet       | 69 700  | 96 573   | 92 149   | 130 703  |
| <b>Specification of temporary differences</b>         |         |          |          |          |
| Tangible fixed assets                                 | -7 515  | -8 572   | -8 445   | -9 443   |
| Intangible assets                                     | -1 202  | -1 502   | -2 507   | -3 134   |
| Shares & bonds  | -13 599 | -27 611  | -13 579  | -27 611  |
| Receivables   | 13 181  | 3 587    | 11 301   | 3 587    |
| Provisions  | -72 048 | -81 550  | -89 366  | -117 450 |
| Losses carried forward                                | 0       | -7 477   | -32 109  | -28 882  |
| Basis for calculation of deferred tax                 | -81 183 | -123 125 | -134 706 | -182 933 |
| Net deferred tax assets                               | -20 296 | -32 931  | -29 983  | -49 068  |
| <b>Tax expense</b>                                    |         |          |          |          |
| Tax payable for the year                              | 69 816  | 96 573   | 101 769  | 150 762  |
| Change in deferred tax                                | 12 887  | -13 006  | 19 085   | -19 328  |
| Adjustments from previous years                       | -2 025  | -772     | -10 685  | -834     |
| Other Items   | 22      | 0        | -169     |          |
| Tax expense on ordinary profit                        | 80 700  | 82 800   | 110 000  | 130 600  |
| <b>Reconciliation from nominal to actual tax rate</b> |         |          |          |          |
| Expected tax expense based on nominal tax rate        | 103 707 | 106 312  | 109 350  | 125 820  |
| Permanent differences                                 | -24 377 | -21 039  | 4 468    | 7 788    |
| Losses carried forward                                | 0       | 0        | -3 765   | -90      |
| Other tax rates on the group                          | 0       | -1 969   | -696     | -2 620   |
| Deferred tax asset from 27% to 25%                    | 1 624   | 0        | 1 663    | 0        |
| Adjustments from previous years                       | -2 025  | 0        | -1 923   | 0        |
| Other items   | 1 772   | -504     | 903      | -299     |
| Tax expense   | 80 700  | 82 800   | 110 000  | 130 600  |

## NOTE 16 RISK MANAGEMENT AND INTERNAL CONTROL

The company and its subsidiaries are exposed to market related risks in respect of own account holdings in securities, counterparty risk and currency risk. Furthermore, the company is exposed to settlement risk and operational risk.

The company works systematically to identify, analyze, measure, monitor, prevent and limit risks in the business. The Board of Directors makes sure that the company has appropriate systems for risk management and internal control in accordance with Norwegian regulations regarding risk management and internal controls in investment firms. As a measure in this regard, the company has appointed KPMG AS as its internal auditor for 2015. The Chief Executive Officer is yearly producing a report regarding the company's risk situation which is reviewed by the internal auditor before it is presented to the Board of Directors. The internal auditor has confirmed that the internal control assessment 2015 is according to the requirements in the regulations.

## NOTE 17 REPORTED CAPITAL RATIO

Capital adequacy is calculated based on the provisions in the Norwegian Securities Trading Act with regulations which is based on Directive 2013/36/EU of 26 June 2013 and Regulation no 575/2013 of 26 June 2013 of the European Parliament and of the Council. 2015 figures are as reported per reporting deadline 11 February 2016.

| Spesification of tier 1 capital (CET1)                 | Company   |           | Group     |           |
|--|-----------|-----------|-----------|-----------|
|  | 31.12.15  | 31.12.14  | 31.12.15  | 31.12.14  |
| Share capital  | 80 000    | 64 000    | 80 000    | 64 000    |
| Share premium  | 13 900    | 12 725    | 13 900    | 12 725    |
| Retained earnings & other reserves                     | 429 270   | 453 275   | 463 029   | 494 925   |
| Total equity   | 523 170   | 530 000   | 575 664   | 571 650   |
| Adjustments to CET1 due to prudential filters          |           |           |           |           |
| Minority interests                                     | 0         | 0         | 0         | -1 650    |
| Share of deferred tax assets                           | -1 705    | -1 705    | -3 893    | -3 690    |
| Other intangible assets                                | -94       | -125      | -94       | -1 685    |
| Value adjustments (prudent valuation)                  | -97       | -3 700    | -539      | -8 479    |
| Tier 1 capital   | 521 274   | 524 470   | 571 138   | 556 146   |
| Tier 2 capital   | 0         | 0         | 0         | 0         |
| Own funds  | 521 274   | 524 470   | 571 138   | 556 146   |
| <b>Spesification of risk weighted exposure amounts</b> |           |           |           |           |
| Balance sheet exposures                                | 809 554   | 700 901   | 871 439   | 575 551   |
| Off balance sheet exposures (in the portfolio)         | 0         | 0         | 0         | 0         |
| Off balance sheet exposures (outside the portfolio)    | 37 373    | 33 785    | 0         | 0         |
| Credit risk  | 846 927   | 734 686   | 871 439   | 575 551   |
| Foreign exchange risk                                  | 340 182   | 308 773   | 380 150   | 388 807   |
| Position risk  | 116 444   | 107 884   | 241 113   | 172 965   |
| Market risk  | 456 626   | 416 657   | 621 263   | 561 772   |
| Operational risk                                       | 2 056 118 | 1 677 009 | 3 362 358 | 2 723 803 |
| Settlement risk  | 70        | 169       | 70        | 169       |
| Credit valuation risk (CVA)                            | 1 071     | 8 923     | 1 071     | 8 923     |
| Total risk weighted exposure amount                    | 3 360 812 | 2 837 444 | 4 856 201 | 3 870 218 |
| Total capital ratio (minimum requirement of 8 %)       | 15,5 %    | 18,5 %    | 11,8 %    | 14,4 %    |

**NOTE 18 RELATED PARTIES**

Pareto Securities AS is a part of the Pareto Group. Transactions with related parties are based on market terms and conditions. The group is controlled by Pareto AS which owns 75 % of the shares in Pareto Securities AS. Svein Støle is the 100% owner of Pareto AS. There are no transactions with the controlling owner.

| The company's transactions with related parties: | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|
| Parent company (Pareto AS)                       | 650           | 537           |
| Other group companies                            | 56 587        | 58 592        |
| <b>Total sales of services</b>                   | <b>57 237</b> | <b>59 129</b> |
| Parent company (Pareto AS)                       | 7 253         | 21 022        |
| Other group companies                            | 10 271        | 6 066         |
| <b>Total bought services</b>                     | <b>17 524</b> | <b>27 088</b> |

These amounts include internal group re invoicing of costs from external suppliers.

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