



**ANNUAL REPORT 2016**

## **PARETO SECURITIES**

### **DIRECTORS' REPORT 2016**

#### **The 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, a regional office in Stavanger, 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 and management of project companies.

Pareto Securities AS was established in 1992 and is part of the Pareto Group with Pareto AS as its parent company.

The number of employees in the Pareto Securities Group as of 31 December 2016 was 365 persons.

#### **Financial developments and profits**

Financial developments and profits are presented in Norwegian kroner (NOK) in thousands.

The group's operating revenues decreased from NOK 1 510 000 in 2015 to NOK 1 365 000 in 2016. Pre-tax profit shows a reduction from NOK 405 000 to NOK 377 000. The group's equity, excluding minority interests, is unchanged at NOK 500 000.

The parent company's operating revenues decreased from NOK 862 200 in 2015 to NOK 728 400 in 2016. Pre-tax profit shows a reduction from NOK 384 100 to NOK 335 500. The parent company's equity increased from NOK 438 800 to NOK 458 150.

#### **Going concern**

The annual financial reports have been prepared under the going concern assumption. This is based on the financial situation at year-end and the profit forecast for 2017.

#### **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 cost base is low, which strengthens our ability to face periods with reduced activity.

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

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

The company's risk is governed by regulations 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 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 potential new corporate finance assignments in the internal "Deal Committee". The business activities are subject to critical board and management reviews on an on-going basis.

The company has met the authorities' capital requirements throughout 2016.

### Outlook for 2017

Decreasing 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. The group activities are diversified both geographically and product wise. The Board of Directors expect a satisfactory result in 2017.

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

There are no reports of work-related injuries or accidents among the employees in 2016. The company has established work-environment committees that meet regularly, and has appointed safety representatives in Oslo and Stavanger.

During 2016 the work-environment committee had two meetings, and safety inspections were conducted for the purpose of maintaining a healthy and safe work environment in the company. 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. 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 activities. Modern communication equipment, including video conferencing equipment, contributes towards reducing travel activities.

Oslo, 30 March 2017

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	
2016	2015	Notes	Amounts in NOK 1 000	2016	2015
728 400	862 200	2	Operating revenues	1 365 000	1 510 000
367 743	416 320	3	Personnel expenses	729 242	796 721
8 398	10 988	5	Depreciation	15 663	18 019
138 808	159 386		Other operating expenses	251 594	289 840
514 949	586 695		Total operating expenses	996 499	1 104 579
213 451	275 505		Operating profit	368 501	405 421
10 724	15 182		Interest income	13 123	17 261
138 098	121 212		Other financial income	15 451	23 624
-2 974	-3 535		Interest expenses	-5 477	-4 568
-23 799	-24 264		Other financial expenses	-14 598	-36 737
122 049	108 595		Net financial result	8 499	-421
335 500	384 100		PROFIT BEFORE TAXES	377 000	405 000
56 700	80 700	16	Tax expense	95 500	110 000
278 800	303 400		NET PROFIT FOR THE YEAR	281 500	295 000
		6	Net profit allocated to minority interests	520	2 432
			Net profit allocated to majority interests	280 980	292 568
			Allocation of net profit		
-261 740	-385 480		Proposed dividend		
-17 060	82 080		Transferred to/from other equity		
-278 800	-303 400	14	Total allocations		



# PARETO SECURITIES

COMPANY		BALANCE SHEET AS OF 31 DECEMBER		GROUP	
2016	2015	Notes	Amounts in NOK 1 000	2016	2015
<b>NON-CURRENT ASSETS</b>					
8 425	20 296	16	Deferred tax assets	18 325	29 983
2 979	3 729	5	Software	8 145	8 256
11 404	24 025		Total intangible assets	26 470	38 239
14 979	19 582	5	Office equipment and fittings	21 723	30 639
238 117	224 603	6	Shares in subsidiaries	0	0
39 424	76 524		Loans to subsidiaries	0	0
277 541	301 127		Total financial assets	0	0
303 924	344 735		TOTAL NON-CURRENT ASSETS	48 193	68 879
<b>CURRENT ASSETS</b>					
250 836	293 217	8	Receivables from customers	487 524	449 810
33 207	74 100		Receivables from financial institutions	33 207	74 100
151 969	125 898		Receivables from group companies	0	0
119 714	167 416		Other receivables	262 962	327 774
555 726	660 631		Total receivables	783 693	851 684
6 140	134 679	9	Financial instruments	27 704	196 839
504 210	509 956	10	Bank deposits	1 870 410	1 764 599
1 066 076	1 305 266		TOTAL CURRENT ASSETS	2 681 807	2 813 122
1 370 000	1 650 000		TOTAL ASSETS	2 730 000	2 882 000

PARETO SECURITIES

COMPANY			BALANCE SHEET AS OF 31 DECEMBER		GROUP	
2016	2015	Notes	Amounts in NOK 1 000		2016	2015
<b>EQUITY</b>						
80 000	80 000	13	Share capital		80 000	80 000
0	-235		Treasury shares		0	-235
13 900	13 900		Share premium		13 900	13 900
93 900	93 665		Total paid-in capital		93 900	93 665
364 250	345 135		Retained earnings		406 100	406 335
458 150	438 800		Total paid-in capital and retained earnings		500 000	500 000
			Minority interest		1 475	1 750
458 150	438 800	14	TOTAL EQUITY		501 475	501 750
<b>LIABILITIES</b>						
3 182	3 616	7	Pension liabilities		3 182	3 616
0	0		Deposits from silent partners		420	2 500
3 182	3 616		Total long-term liabilities		3 602	6 116
168 231	175 356		Payables to financial institutions		168 231	175 356
106 647	146 749	11	Payables to customers		1 217 555	1 070 529
5 950	6 108		Payables to group companies		0	0
44 089	69 700	16	Income tax payable		64 529	92 149
15 825	14 514		Public dues payable		23 378	28 791
261 740	385 480		Proposed dividends		262 204	387 812
306 186	409 677	12	Other liabilities		489 026	619 497
908 668	1 207 584		Total short-term liabilities		2 224 923	2 374 135
911 850	1 211 200		TOTAL LIABILITIES		2 228 525	2 380 251
1 370 000	1 650 000		TOTAL EQUITY AND LIABILITIES		2 730 000	2 882 000

Oslo, 30 March 2017  
Board of Directors



Morten Goller  
Chairman



Lars Buin



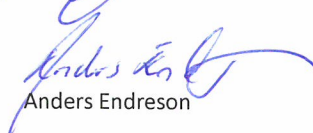
Svein Støle



Christian Jomaas



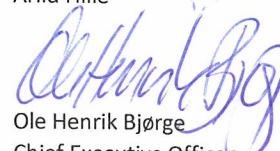
Inge Edvardsen



Anders Endreson



Arild Hille



Ole Henrik Bjørge  
Chief Executive Officer

## PARETO SECURITIES

COMPANY		CASH FLOW STATEMENT	GROUP	
2016	2015	Amounts in NOK 1 000	2016	2015
335 500	384 100	Profit before taxes	377 000	405 000
-70 505	-135 310	Taxes paid	-122 064	-179 103
8 398	10 988	Depreciation	15 663	18 019
142 005	37 105	Change in receivables	67 991	10 519
-150 175	-321 176	Change in current liabilities	-5 491	80 158
265 224	-24 293	Net cash flow from operating activities	333 099	334 593
-2 808	-23 450	Purchase of fixed assets	-8 493	-30 544
115 025	41 803	Net cash flow from investments	169 135	11 020
112 217	18 353	Net cash flow from investment activities	160 642	-19 524
0	-8 112	Change in deposits from silent partners	-2 080	-8 112
2 290	9 309	Purchase/sale of own shares	2 290	9 309
0	0	Capital investment from minority	-330	100
-385 478	-350 769	Dividend paid	-387 810	-354 643
-383 188	-349 572	Net cash flow from financing activities	-387 930	-353 346
-5 747	-355 511	Net change in cash during the year	105 811	-38 277
509 956	676 928	Cash and cash equivalents 1.1	1 764 599	1 575 300
0	188 538	Cash Pareto Project Finance merger 1.1	0	227 576
504 210	509 956	Cash and cash equivalents 31.12	1 870 410	1 764 599

## **PARETO SECURITIES**

### **NOTES TO THE ACCOUNTS 2016**

#### **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 the 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.

##### **Consolidation principles**

Pareto Securities' consolidated financial statements comprise the parent company Pareto Securities AS with branches and companies in 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 trade date.

##### **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.

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

Receivables include balances with other financial institutions 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.

**NOTE 1 ACCOUNTING POLICIES CONT.**

**Financial investments**

Marketable financial instruments are measured 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 measured 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	
	2016	2015	2016	2015
Corporate finance / Project financing and syndication	498 981	599 264	869 320	932 180
Securities brokerage	229 419	262 936	351 580	387 366
Business management	0	0	82 700	88 755
Alternative investments	0	0	38 400	31 199
Offshore rigs brokerage	0	0	23 000	70 500
Total operating revenues	728 400	862 200	1 365 000	1 510 000

**NOTE 3 PERSONNEL EXPENSES**

	Company		Group	
	2016	2015	2016	2015
Wages and performance-related bonus	305 840	347 656	586 346	650 968
Social security tax	43 783	53 367	99 895	102 120
Pension costs including social security tax	2 859	2 164	8 744	9 382
Other personnel costs	15 262	13 133	34 258	34 251
Total personnel expenses	367 743	416 320	729 242	796 721
Number of employees at year end	187	203	365	400

**NOTE 4 REMUNERATION**

Fees to Deloitte AS for the statutory audit of the parent company were NOK 443. Fees for other assurance services amounted to NOK 120, fees for tax services amounted to NOK 218 and other non-audit services fees amounted to NOK 34. Corresponding fees for the group amounted to NOK 1 396 for the statutory audit, NOK 235 for other assurance services, NOK 297 for tax-related services and NOK 112 for other non-audit services. Fees to Deloitte Advokatfirma AS (law firm) amounted to NOK 222. 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 2016 these employees have received NOK 29 520 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 2016 has completely been accrued in the financial accounts for 2016. 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 2016 amounted to NOK 13 720, consisting of fixed remuneration for 2016, 50 % bonus for 2015 and paid out contingent remuneration from 2014, 2013 and 2012. He is a participant in the company's remuneration scheme. He owns 3,75 % 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	79 906	139 494	6 403	14 521
Additions in year	1 967	2 666	841	5 827
Disposals	0	-1 338	0	-3 394
Acquisition cost 31.12	81 873	140 821	7 244	16 954
Accumulated depreciation 1.1	60 324	108 854	2 674	6 265
Depreciation	6 807	10 689	1 591	4 974
Disposals	-237	-445	0	-2 431
Accumulated depreciation 31.12	66 895	119 098	4 265	8 808
Net book value 31.12	14 979	21 723	2 979	8 145
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	16 414	Singapore	100,00 %
Pareto Securities Inc	22 955	New York	100,00 %
Pareto Securities AB	161 482	Stockholm	100,00 %
Pareto Securities Oy	13 684	Helsinki	100,00 %
Pareto Securities Ltd	21 820	London	100,00 %
Pareto Securities Pty Ltd	1 394	Perth	100,00 %
Pareto Offshore AS	10 293	Oslo	89,50 %
North Atlantic Seafood Forum AS	396	Oslo	60,00 %
Pareto Business Management AS	9 193	Oslo	100,00 %
Pareto Business Management AB	1 859	Stockholm	100,00 %
Pareto Alternative Investments AS	21 044	Oslo	100,00 %
Pareto Maritime Services AS	526	Oslo	100,00 %
Pareto Eiendom AS	127	Oslo	100,00 %
Pareto Investorservice AS	999	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 2016 amount to NOK 2 165.

The company has two unfunded pension plans for which the obligation is recorded in the balance sheet as of 31 December 2016 at NOK 3 182 as a result of actuarial valuations based on commonly used assumptions within insurance.

**NOTE 8 RECEIVABLES FROM CUSTOMERS**

	<b>Company</b>	<b>Group</b>
Loans to customers for securities financing	0	174 920
Receivables from secondary trading	250 836	312 604
<b>Total receivables from customers</b>	<b>250 836</b>	<b>487 524</b>

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**

	<b>Company</b>		<b>Group</b>	
	<b>Aquisition cost</b>	<b>Book value</b>	<b>Aquisition cost</b>	<b>Book value</b>
Shares	4 101	4 101	16 807	12 498
Bonds and certificates	1 368	1 029	1 368	1 037
Project Finance companies - real estate and shipping	1 010	1 010	14 169	14 169
<b>Total financial instruments</b>	<b>6 479</b>	<b>6 140</b>	<b>32 344</b>	<b>27 704</b>

**NOTE 10 BANK DEPOSITS**

	<b>Company</b>	<b>Group</b>
Restricted in respect of payroll taxes deducted at source	7 257	8 945
Restricted in respect of margin security etc	143 431	143 431
<b>Total restricted deposits</b>	<b>150 688</b>	<b>152 376</b>

Funds on client accounts and equity issue accounts that belong to customers (client funds) amounts to NOK 565 894 and are not recognized in the company's balance sheet. The corresponding client debt is NOK 565 103. Net funds of NOK 791 are a result of timing differences on transfers and interest on client depots. These are included in bank deposits in the financial statement.

The parent company has a settlement credit facility of NOK 200 000 and an uncommitted intraday credit facility. The company's liquidity situation is satisfactory.

**NOTE 11 PAYABLES TO CUSTOMERS**

	<b>Company</b>	<b>Group</b>
Customer deposits	0	1 058 780
Payables to customers from secondary trading	106 647	158 775
<b>Total payables to customers</b>	<b>106 647</b>	<b>1 217 555</b>

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

**NOTE 12 OTHER LIABILITIES**

	<b>Company</b>	<b>Group</b>
Bonus due to partners/employees (incl. national insurance contribution)	281 179	399 032
Accrued costs and other short-term liabilities	25 007	89 994
<b>Total other liabilities</b>	<b>306 186</b>	<b>489 026</b>

**NOTE 13 SHAREHOLDER INFORMATION**

The company has 800 000 shares with a face value of NOK 100 held as follows:

	Number of shares	Ownership
Pareto AS (owned 100 % directly and indirectly by Board Member Svein Støle)	600 000	75,00 %
Nes Invest AS (owned 100 % by CEO Ole Henrik Bjørge)	30 000	3,75 %
Dragesund Invest AS	27 640	3,46 %
Bakkejord Invest AS (owned 100 % by Board Member Inge Edvardsen)	22 000	2,75 %
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	10 580	1,32 %
Vøøy Invest AS	8 427	1,05 %
Other shareholders with holdings below 1 %	66 411	8,30 %
<b>Total</b>	<b>800 000</b>	<b>100,00 %</b>

**NOTE 14 EQUITY**

Company	Share capital	Treasury shares	Share premium	Other equity	Total equity
Equity 1.1	80 000	-235	13 900	345 135	438 800
Treasury shares	0	235	0	2 055	2 290
Net profit for the year	0	0	0	278 800	278 800
Proposed dividend	0	0	0	-261 740	-261 740
<b>Total equity 31.12</b>	<b>80 000</b>	<b>0</b>	<b>13 900</b>	<b>364 250</b>	<b>458 150</b>

Group	Share capital	Treasury shares	Share premium	Other equity	Minority interest	Total equity
Equity 1.1	80 000	-235	13 900	406 335	1 750	501 750
Treasury shares	0	235	0	2 055	0	2 290
Translation differences	0	0	0	-21 530	0	-21 530
Net profit for the year	0	0	0	280 980	520	281 500
Proposed dividend	0	0	0	-261 740	-464	-262 204
Change minorities	0	0	0	0	-330	-330
<b>Total equity 31.12</b>	<b>80 000</b>	<b>0</b>	<b>13 900</b>	<b>406 100</b>	<b>1 475</b>	<b>501 475</b>

**NOTE 15 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 (Verdipapirforetaketenes 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 16 TAXES

	Company		Group	
	2016	2015	2016	2015
<b>Taxes payable</b>				
Profit before tax	335 500	384 100	377 000	405 000
Permanent differences	-109 707	-90 286	10 750	16 547
Change in temporary differences	-49 438	-35 237	-45 155	-51 455
Losses carried forward	0	0	21 328	-18 824
Taxable income for the year	176 355	258 577	363 923	351 268
Taxes payable	44 089	69 816	94 312	101 769
Prepaid taxes	0	-116	-29 783	-9 620
Current income tax payable in the balance sheet	44 089	69 700	64 529	92 149
<b>Specification of temporary differences</b>				
Fixed assets	-8 313	-8 717	-11 407	-10 952
Shares & bonds	-329	-13 599	-329	-13 579
Receivables	-15 382	13 181	-22 661	11 301
Provisions	-9 682	-72 048	-22 000	-89 366
Losses carried forward	0	0	-53 438	-32 109
Basis for calculation of deferred tax	-33 706	-81 183	-109 834	-134 706
Net deferred tax assets	-8 425	-20 296	-18 325	-29 983
<b>Tax expense</b>				
Tax payable for the year	44 089	69 816	94 312	101 769
Change in deferred tax	11 871	12 887	11 658	19 085
Adjustments from previous years	749	-2 025	-10 154	-10 685
Other items	-9	22	-316	-169
Tax expense on ordinary profit	56 700	80 700	95 500	110 000
<b>Reconciliation from nominal to actual tax rate</b>				
Expected tax expense based on nominal tax rate	83 875	103 707	94 250	109 350
Permanent differences	-27 427	-24 377	2 687	4 468
Losses carried forward	0	0	4 266	-3 765
Other tax rates on the group	0	0	-696	-696
Changes (%) in deferred tax assets	0	1 624	-1 548	1 663
Adjustments from previous years	251	-2 025	-3 285	-1 923
Other items	1	1 772	-175	903
Tax expense	56 700	80 700	95 500	110 000

## NOTE 17 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 appointed PWC as its internal auditor for 2016. 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 2016 is according to the requirements in the regulations.



## NOTE 18 REPORTED CAPITAL RATIO

Capital adequacy is calculated based on the provisions in the Norwegian Securities Trading Act with regulations . The figures are as reported to the Norwegian FSA by deadline 11 February the following year.

	Company		Group	
Spesification of tier 1 capital (CET1)	31.12.16	31.12.15	31.12.16	31.12.15
Share capital	80 000	80 000	80 000	80 000
Share premium	13 900	13 900	13 900	13 900
Retained earnings & other reserves	345 135	429 270	406 335	463 029
Total equity	439 035	523 170	500 235	556 929
Adjustments to CET1 due to prudential filters				
Minority interests	0	0	0	0
Share of deferred tax assets	0	-1 705	-2 000	-3 893
Other intangible assets	-2 979	-94	-7 606	-94
Value adjustments (prudent valuation)	-77	-97	-849	-539
Tier 1 capital	435 979	521 274	489 780	552 403
Tier 2 capital	0	0	0	0
Own funds	435 979	521 274	489 780	552 403
Spesification of risk weighted exposure amounts				
Balance sheet exposures	652 143	809 554	591 713	871 439
Off balance sheet exposures (in the portfolio)	0	0	0	0
Off balance sheet exposures (outside the portfolio)	35 786	37 373	0	0
Credit risk	687 929	846 927	591 713	871 439
Foreign exchange risk	369 196	340 182	467 352	380 150
Position risk	9 354	116 444	89 098	241 113
Market risk	378 550	456 626	556 451	621 263
Operational risk	2 056 118	2 056 118	3 362 358	3 362 358
Settlement risk	3 429	70	3 429	70
Credit valuation risk (CVA)	3 634	1 071	3 634	1 071
Total risk weighted exposure amount	3 129 659	3 360 812	4 517 585	4 856 201
Total capital ratio (minimum requirement of 8 %)	13,9 %	15,5 %	10,8 %	11,4 %
Initial capital requirement (EUR 730 000)	6 633	7 022	6 633	7 022

**NOTE 19 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:	2016	2015
Parent company (Pareto AS)	387	650
Other group companies	52 643	56 587
Total sales of services	53 030	57 237
Parent company (Pareto AS)	2 853	7 253
Other group companies	9 607	10 271
Total bought services	12 460	17 524

These amounts include internal group allocation of costs from external suppliers.

**NOTE 20 LIQUIDITY RISK**

Agreed rest maturity assets	1-30 days	30 days-1y	1-5 years	Total value
Receivables from customers	487 524			487 524
Receivables from financial institutions	33 207			33 207
Other receivables	202 962	60 000		262 962
Bank deposits	1 870 410			1 870 410
Total 2016	2 594 103	60 000	0	2 654 103

Agreed rest maturity liabilities	1-30 days	30 days-1y	1-5 years	Total value
Payables to financial institutions	168 231			168 231
Payables to customers	1 217 555			1 217 555
Income tax payable		64 529		64 529
Public dues payable		23 378		23 378
Proposed dividends		262 204		262 204
Other liabilities	89 994	371 355	27 677	489 026
Total 2016	1 475 780	721 466	27 677	2 224 923

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To the General Meeting of Pareto Securities AS

## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Pareto Securities AS showing a profit of TNOK 278 800 in the financial statements of the parent company and profit of TNOK 281 500 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

#### *Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other information*

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

## **Report on Other Legal and Regulatory Requirements**

### *Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption is consistent with the financial statements and complies with the law and regulations.

### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 30 March 2017

Deloitte AS



**Jørn Borchgrevink**

State Authorised Public Accountant (Norway)