



ANNUAL REPORT 2018

PARETO SECURITIES

DIRECTORS' REPORT 2018

The business activities

Pareto Securities AS ("the company") is a regulated investment firm with business activities within primary and secondary brokerage of equities and fixed income instruments, investment banking advisory services and project financing. The company has its head office in Oslo, a regional office in Stavanger, and branch offices in Denmark, France and Germany. The German branch has grown substantially during 2018 after the acquisition of the business of equinet Bank AG 1 December 2018.

The company has security-licensed subsidiaries in Sweden, Finland, UK, USA, Singapore and Australia and a representative office in Switzerland. Norwegian subsidiaries have activities in rig-brokering and business management of project finance companies.

The company was established in 1992 and is part of the Pareto group with Pareto AS as its parent company. The number of employees in the company and its subsidiaries ("the group") as of 31 December 2018 was 457 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 2 065 000 in 2017 to NOK 1 730 000 in 2018. The decrease in operating revenues is a result of more challenging market conditions in 2018. Operating revenues from Investment banking decreased from NOK 1 509 273 in 2017 to NOK 1 264 292 in 2018 as a result of fewer transactions closed during 2018. Operating revenues from Secondary brokerage decreased from NOK 345 462 in 2017 to NOK 315 108 in 2018. Pre-tax profit decreased from NOK 715 000 to NOK 497 400. The group's equity, excluding minority interests, is NOK 561 687. Total assets in the balance sheet is reduced from NOK 3 310 000 in 2017 to NOK 3 224 000 in 2018.

The company's operating revenues decreased from NOK 1 157 000 in 2017 to NOK 961 400 in 2018. Pre-tax profit shows a decrease from NOK 636 200 in 2017 to NOK 439 100 in 2018. The company's equity increased from NOK 479 318 in 2017 to NOK 486 594 in 2018.

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

The group is exposed to market risks related to their holding of financial instruments. The group is also indirectly exposed to fluctuation in the capital markets. Weak capital markets lead to fewer transactions and lower revenues. The group's operating cost base is low, which strengthens the ability to face periods with reduced activity.

Furthermore, the group 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 group 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 managed according to regulations in the Norwegian Companies Act, the Norwegian Securities Trading Act with regulations and directives for risk management and internal control. The same kind of risk management requirements applies to the regulated subsidiaries abroad, subject to and in accordance with the laws of 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 investment banking assignments in the internal "Deal Committee". The business activities are subject to critical board and management reviews on an on-going basis.

The company and the group have fulfilled the authorities' capital requirements throughout 2018.

Going concern

The annual financial reports have been prepared under the going concern assumption. The assumption is based on the financial situation at year-end 2018 and the profit forecast for 2019.

Outlook for 2019

The group income has over the last years become more diversified, both product and industry wise as well as geographically. Diversification has made the group less dependent on the energy prices, and also constitutes a stable platform for further growth.

The Board of Directors expects a satisfactory result in 2019.

Working environment, equality and influence of the external environment

There are no reports of work-related injuries or accidents among the employees in the group in 2018. The company has established work-environment committees that meet regularly, and has appointed safety representatives in Oslo and Stavanger.

During 2018 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 group is relatively low, but has increased over time. The number of women in the group as of 31 December 2018 was 97 out of 457 employees. There are no women in the Board of Directors. The company is working actively to attract qualified female staff. The company does not discriminate due to disabilities, ethnicity, national origin, race, religion or other factors.

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

Oslo, 18 March 2019

(sign)
Morten Goller
Chairman

(sign)
Svein Støle
Board member

(sign)
Inge Edvardsen
Board member

(sign)
Arild Hille
Board member

(sign)
Lars Buin
Board member

(sign)
Christian Jomaas
Board member

(sign)
Stefan Gattberg
Board member

(sign)
Eirik Haavaldsen
Board member

(sign)
Ole Henrik Bjørge
Chief Executive Officer

PARETO SECURITIES

COMPANY		INCOME STATEMENT		GROUP	
2018	2017	Notes	Amounts in NOK 1 000	2018	2017
961 400	1 157 000	2	Operating revenues	1 730 000	2 065 000
445 043	556 448	3	Personnel expenses	851 833	1 024 048
9 208	8 184	5	Depreciation	16 931	14 827
213 476	180 724		Other operating expenses	343 694	315 594
667 727	745 356		Total operating expenses	1 212 458	1 354 469
293 673	411 644		Operating profit	517 542	710 531
9 914	5 261		Interest income	14 273	8 755
167 791	226 193		Other financial income	4 973	10 662
-937	-1 740		Interest expenses	-3 351	-4 195
-31 341	-5 158		Other financial expenses	-36 037	-10 753
145 427	224 556		Net financial result	-20 142	4 469
439 100	636 200		PROFIT BEFORE TAXES	497 400	715 000
81 000	107 200	16	Tax expense	124 800	159 000
358 100	529 000		NET PROFIT FOR THE YEAR	372 600	556 000
		6	Net profit allocated to minority interests	18 386	588
			Net profit allocated to majority interests	354 214	555 412
			Allocation of net profit		
-352 119	-567 911		Proposed dividend		
-5 981	38 911		Transferred to/from other equity		
-358 100	-529 000	14	Total allocations		

PARETO SECURITIES

COMPANY		BALANCE SHEET AS OF 31 DECEMBER		GROUP	
2018	2017	Notes	Amounts in NOK 1 000	2018	2017
NON-CURRENT ASSETS					
15 152	7 207	16	Deferred tax assets	31 122	17 702
705	2 603	5	Software	2 802	4 717
15 857	9 809		Total intangible assets	33 924	22 419
9 792	10 377	5	Office equipment and fittings	16 759	19 487
228 061	267 589	6	Shares in subsidiaries	0	0
34 042	32 147		Loans to subsidiaries	0	0
262 103	299 736		Total financial assets	0	0
287 752	319 922		TOTAL NON-CURRENT ASSETS	50 684	41 906
CURRENT ASSETS					
284 492	249 005	8	Receivables from clients	1 075 041	767 439
57 604	54 660		Receivables from financial institutions	57 604	54 660
188 344	160 984		Receivables from group companies	0	0
162 789	225 899		Other receivables	363 335	340 509
693 229	690 547		Total receivables	1 495 980	1 162 607
45 509	19 094	9	Financial instruments	99 485	67 738
765 509	920 434	10	Bank deposits	1 577 851	2 037 748
1 504 247	1 630 076	20	TOTAL CURRENT ASSETS	3 173 316	3 268 094
1 792 000	1 950 000		TOTAL ASSETS	3 224 000	3 310 000

PARETO SECURITIES

COMPANY		BALANCE SHEET AS OF 31 DECEMBER		GROUP	
2018	2017	Notes	Amounts in NOK 1 000	2018	2017
EQUITY					
90 000	90 000	13	Share capital	90 000	90 000
-130	-225		Treasury shares	-130	-225
66 400	66 400		Share premium	66 400	66 400
156 270	156 175		Total paid-in capital	156 270	156 175
330 324	323 143		Retained earnings	405 417	404 919
486 594	479 318		Total paid-in capital and retained earnings	561 687	561 094
			Minority interest	26 630	1 863
486 594	479 318	14	TOTAL EQUITY	588 317	562 957
LIABILITIES					
2 287	2 740	7	Pension liabilities	2 287	2 740
20 910	0		Deposits from silent partners	21 450	540
40 980	25 406		Other liabilities	57 549	49 741
64 177	28 146		Total long-term liabilities	81 286	53 021
124 500	133 837		Payables to financial institutions	124 500	133 837
195 941	170 417	11	Payables to clients	1 334 996	1 180 317
90 360	17 169		Payables to group companies	0	0
88 951	106 198	16	Income tax payable	114 337	125 387
6 897	17 747		Public dues payable	28 399	40 881
352 119	567 911		Proposed dividends	370 943	568 291
382 460	429 257	12	Other liabilities	581 221	645 310
1 241 228	1 442 536		Total short-term liabilities	2 554 396	2 694 022
1 305 405	1 470 682	20	TOTAL LIABILITIES	2 635 682	2 747 043
1 792 000	1 950 000		TOTAL EQUITY AND LIABILITIES	3 224 000	3 310 000

Oslo, 18 March 2019

(sign) Morten Goller Chairman	(sign) Svein Støle Board member	(sign) Inge Edvardsen Board member	(sign) Arild Hille Board member
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(sign) Lars Buin Board member	(sign) Christian Jomaas Board member	(sign) Stefan Gattberg Board member	(sign) Eirik Haavaldsen Board member
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(sign)
Ole Henrik Bjørge
Chief Executive Officer

PARETO SECURITIES

COMPANY		CASH FLOW STATEMENT Amounts in NOK 1 000	GROUP	
2018	2017		2018	2017
439 100	636 200	Profit before taxes	497 400	715 000
-106 198	-43 881	Taxes paid	-150 004	-96 962
9 208	8 184	Depreciation	16 931	14 827
-4 577	-127 544	Change in receivables	-333 373	-378 914
46 501	190 556	Change in current liabilities	74 715	163 772
384 035	663 515	Net cash flow from operating activities	105 669	417 723
-6 368	-3 205	Purchase of fixed assets	-12 501	-8 532
13 113	-42 426	Net cash flow from investments	-31 747	-40 034
6 745	-45 631	Net cash flow from investment activities	-44 248	-48 567
0	62 500	Capital increase	0	62 500
20 910	0	Change in deposits from silent partners	20 910	120
1 295	-2 421	Purchase/sale of own shares	1 295	-2 421
0	0	Capital investment from minority	24 767	181
-567 911	-261 740	Dividend paid	-568 291	-262 198
-545 706	-201 661	Net cash flow from financing activities	-521 319	-201 818
-154 926	416 223	Net change in cash during the year	-459 897	167 338
920 434	504 210	Cash and cash equivalents 1.1	2 037 748	1 870 410
765 509	920 434	Cash and cash equivalents 31.12	1 577 851	2 037 748

PARETO SECURITIES

NOTES TO THE ACCOUNTS 2018

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 firm.

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 Norwegian 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, Norwegian Accounting Standards 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 currency translation of foreign subsidiaries is recorded to equity.

Accounting of partnership

Pareto Securities AS is the principal partner in Pareto Securities silent partnership established 1 January 2018. The silent partnership's accounts are fully incorporated in the financial statements of the principal partner. The partner's share of the profit in the silent partnership is classified as other financial expenses in the income statement, while unpaid profits to partners are classified as current liabilities. Capital contributions from partners are classified as long-term liabilities in the accounts of the principal partner.

Revenue recognition

Revenue from investment banking 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.

PARETO SECURITIES

NOTES TO THE ACCOUNTS 2018

NOTE 1 ACCOUNTING POLICIES CONT.

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.

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 expenses consist 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	
	2018	2017	2018	2017
Investment banking	756 179	925 141	1 264 292	1 509 273
Secondary brokerage	205 221	231 859	315 108	345 462
Business management and maritime services	0	0	99 400	84 800
Rig-brokerage	0	0	51 200	40 800
Management of alternative investment funds (sold 2017)	0	0	0	84 665
Total operating revenues	961 400	1 157 000	1 730 000	2 065 000

NOTE 3 PERSONNEL EXPENSES

	Company		Group	
	2018	2017	2018	2017
Partner remuneration and wages	400 110	461 076	717 184	832 189
Social security tax on wages	22 146	68 867	87 346	134 802
Pension costs including social security tax	3 163	3 019	9 977	11 551
Other personnel costs	19 623	23 487	37 325	45 506
Total personnel expenses	445 043	556 448	851 833	1 024 048
Average number of man-labour years	179	171	400	368

NOTE 4 REMUNERATION

Fees to Deloitte AS for the statutory audit of the company were NOK 500 (2017: 497). Fees for other assurance services amounted to NOK 94 (2017: 107), fees for tax services amounted to NOK 278 (2017: 129) and other non-audit services fees mainly related to due diligence amounted to NOK 2 549 (2017: 0). Corresponding fees for the group amounted to NOK 1 802 (2017: 1 740) for the statutory audit, NOK 141 (2017: 122) for other assurance services, NOK 396 (2017: 209) for tax-related services and NOK 2 572 (2017: 9) for other non-audit services mainly related to due diligence. Fees to Deloitte Advokatfirma AS (law firm) amounted to NOK 103 (2017: 398). All amounts presented are excluding VAT.

Remunerations to the Chairman of the Board, Morten Goller amounted to NOK 475. 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 Investment Banking, Head of Equities, Head of Fixed Income and board member Eirik Haavaldsen are regulated by Norwegian regulations for remuneration in investment firms. For 2018 these employees have received NOK 23 320 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 2018 has completely been accrued in the financial accounts for 2018. More specified information will be published in the company's Pilar 3 reporting on 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 2018 amounted to NOK 12 213, consisting of fixed remuneration for 2018, 50 % bonus for 2017 and paid out contingent remuneration from 2016, 2015 and 2014. He is a participant in the company's remuneration scheme. He owns 2,44 % 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	83 531	144 547	8 808	18 625
Additions during the year	9 098	13 329	2 819	4 335
Disposals	-2 616	-7 018	-2 576	-2 675
Acquisition cost 31.12	90 013	150 858	9 052	20 285
Accumulated depreciation 1.1	73 154	125 060	6 206	13 908
Depreciation	7 067	13 356	2 141	3 575
Disposals		-4 318	0	0
Accumulated depreciation 31.12	80 222	134 098	8 347	17 483
Net book value 31.12	9 792	16 759	705	2 802
Economic life	3-5 years	3-5 years	3-5 years	3-5 years
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line

NOTE 6 SHARES IN SUBSIDIARIES

Company name	Equity	Registered Office	Ownership
Pareto Securities Pte Ltd	26 085	Singapore	100,00 %
Pareto Securities Inc	400	New York	100,00 %
Pareto Securities AB	169 312	Stockholm	87,27 %
Pareto Securities Oy	14 992	Helsinki	100,00 %
Pareto Securities Ltd	44 507	London	100,00 %
Pareto Securities Pty Ltd	9 899	Perth	100,00 %
Pareto Securities AG	4 926	Zurich	100,00 %
Pareto Offshore AS	10 006	Oslo	87,01 %
North Atlantic Seafood Forum AS	1 283	Oslo	75,00 %
Pareto Business Management AS	9 209	Oslo	100,00 %
Pareto Business Management AB	3 743	Stockholm	100,00 %
Pareto Business Management A/S	1 937	Copenhagen	100,00 %
Pareto Maritime Services AS	10 819	Oslo	100,00 %
Pareto Eiendom AS	72	Oslo	100,00 %
Pareto Investorservice AS	954	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 Sparebank 1 and Storebrand. Pension contributions for 2018 amount to NOK 2 397.

The company has two unfunded pension plans for which the obligation is recorded in the balance sheet as of 31 December 2018 at NOK 2 287 as a result of actuarial valuations based on commonly used assumptions within insurance.

PARETO SECURITIES**NOTES TO THE ACCOUNTS 2018****NOK 1 000****NOTE 8 RECEIVABLES FROM CLIENTS**

	Company	Group
Receivables from securities financing clients	0	658 312
Receivables from secondary trading	284 492	416 729
Total receivables from clients	284 492	1 075 041

Loans to clients for securities financing is secured through securities in custody. There have been no material realized or unrealized losses in 2017 or 2018.

NOTE 9 FINANCIAL INSTRUMENTS

	Company		Group	
	Aquisition cost	Book value	Aquisition cost	Book value
Shares	8 898	8 669	59 344	40 850
Bonds and certificates	37 699	36 840	60 531	58 634
Total financial instruments	46 597	45 509	119 875	99 485

NOTE 10 BANK DEPOSITS

	Company	Group
Restricted in respect of payroll taxes deducted at source	3 282	5 044
Restricted in respect of margin security etc	133 993	133 993
Total restricted deposits	137 275	139 037

Funds on client accounts and equity issue accounts that belong to clients (client funds) amounts to NOK 770 160 and are not recognized in the company's balance sheet. The corresponding client debt is NOK 762 910. Net funds of NOK 7 500 is a result of timing differences on transfers and interest on client depots. These are included in bank deposits in the financial statement.

The 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 CLIENTS

	Company	Group
Client deposits	0	998 793
Payables to clients from secondary trading	195 941	336 203
Total payables to clients	195 941	1 334 996

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

NOTE 12 OTHER LIABILITIES

	Company		Group	
	2018	2017	2018	2017
Remuneration to partners and bonus to employees	303 130	396 031	451 618	605 495
Accrued costs and other short-term liabilities	79 330	33 226	129 603	39 814
Total other liabilities	382 460	429 257	581 221	645 310

NOTE 13 SHAREHOLDER INFORMATION

The company has 900 000 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	66,67 %
Nes Invest AS (owned 100 % by CEO Ole Henrik Bjørge)	22 000	2,44 %
Dragesund Invest AS	18 000	2,00 %
Bakkejord Invest AS (owned 100 % by Board Member Inge Edvardsen)	18 000	2,00 %
Emis AS (owned 100 % by Board Member Arild Hille)	15 000	1,67 %
Klevsund AS (100 % owned by board member Christian Jomaas)	13 000	1,44 %
Bielkenvägeninvest AB	11 000	1,22 %
Pawa Invest AS	10 580	1,18 %
Veøy Invest AS	10 000	1,11 %
Sempra AS	10 000	1,11 %
Obelix Capital AS	9 000	1,00 %
Treasury shares	1 300	0,14 %
Other shareholders with holdings below 1 %	162 120	18,01 %
Total	900 000	100,00 %

NOTE 14 EQUITY

Company	Share capital	Treasury shares	Share premium	Other equity	Total equity
Equity 1.1	90 000	-225	66 400	323 143	479 318
Capital increase	0	0	0	0	0
Treasury shares	0	95	0	1 200	1 295
Net profit for the year	0	0	0	358 100	358 100
Proposed dividend	0	0	0	-352 119	-352 119
Total equity 31.12	90 000	-130	66 400	330 324	486 594

Group	Share capital	Treasury shares	Share premium	Other equity	Minority interest	Total equity
Equity 1.1	90 000	-225	66 400	404 919	1 863	562 957
Capital increase	0	0	0	0	0	0
Treasury shares	0	95	0	1 200	0	1 295
Currency translation	0	0	0	-2 796	497	-2 300
Net profit for the year	0	0	0	354 214	18 386	372 600
Proposed dividend	0	0	0	-352 119	-18 824	-370 943
Change minorities	0	0	0	0	24 708	24 708
Total equity 31.12	90 000	-130	66 400	405 417	26 630	588 317

NOTE 15 GUARANTEES

Guarantees provided by DNB in favour of Norges Bank for participation in the Norwegian security settlement scheme 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.

The company is a member of Norwegian Investor Compensation Scheme (Verdipapirforetakenes Sikringsfond), established in 2006.

The company 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 the company will cover any obligation less than SGD 12 000 000.

NOTE 16 TAXES

	Company		Group	
	2018	2017	2018	2017
Taxes payable				
Profit before tax	439 100	636 200	497 400	715 000
Permanent differences	-115 071	-206 533	27 799	-47 336
Change in temporary differences	31 776	-4 873	18 832	2 322
Losses carried forward	0	0	30 248	-27 731
Taxable income for the year	355 805	424 794	574 279	642 255
Taxes payable	88 951	106 198	138 954	158 022
Prepaid taxes	0	0	-24 617	-32 641
Current income tax payable in the balance sheet	88 951	106 198	114 337	125 387
Specification of temporary differences				
Fixed assets	-7 421	-5 857	-9 902	-7 491
Shares and bonds	-859	0	-859	0
Receivables	7 658	5 764	1 092	-10 181
Provisions	-59 987	-28 740	-67 882	-41 048
Losses carried forward	0	0	-55 954	-25 706
Basis for calculation of deferred tax	-60 609	-28 833	-133 505	-84 425
Net deferred tax assets	-15 152	-7 207	-31 122	-17 702
Tax expense				
Tax payable for the year	88 951	106 198	138 954	158 022
Change in deferred tax	-7 945	1 218	-13 420	623
Adjustments from previous years	-118	-158	-126	-195
Other Items	113	-58	-608	551
Tax expense on ordinary profit	81 000	107 200	124 800	159 000
Reconciliation from nominal to actual tax rate				
Expected tax expense based on nominal tax rate (25 %)	109 775	159 050	124 350	178 750
Permanent differences	-28 768	-51 634	6 950	-11 834
Losses carried forward	0	0	1 200	-3 458
Other tax rates on the group	0	0	-8 024	-5 571
Changes (%) in deferred tax assets	0	0	450	-666
Adjustments from previous years	-118	-158	-126	-195
Other items	113	-58	0	1 975
Tax expense	81 000	107 200	124 800	159 000

NOTE 17 RISK MANAGEMENT AND INTERNAL CONTROL

The group is exposed to market related risks in respect of own account holdings in securities, counterparty risk and foreign currency risk. The company's interest risk is limited. Furthermore, the company is exposed to credit risk and operational risk. The main categories of credit risk are securities financing (note 8) and settlement risk. The settlement risk is considered low, and no significant loss has been booked in 2018.

The company works systematically to identify, analyze, measure, monitor, prevent and limit risks related to the business. The Board of Directors makes sure that the company has appropriate risk management systems and internal control in accordance with Norwegian regulations regarding risk management and internal controls in investment firms. PWC is appointed as internal auditor. The Chief Executive Officer provides a yearly 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 in 2018 is according to the requirements in the relevant regulations.

NOTE 18 REPORTED CAPITAL RATIO

Capital adequacy is calculated based on the provisions in the Norwegian Securities Trading Act with regulations 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. Figures are as reported per reporting deadline 11 February 2019.

Spesification of tier 1 capital (CET1)	Company		Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Share capital	90 000	90 000	90 000	90 000
Share premium	66 400	66 400	66 400	66 400
Own shares	-1 273	0	-1 273	
Retained earnings & other reserves	324 324	364 250	406 100	406 100
Total equity	479 451	520 650	561 227	562 500
Adjustments to CET1 due to prudential filters				
Minority interests	0	0	0	0
Share of deferred tax assets	0	0	0	0
Other intangible assets	-1 735	-2 857	-3 624	-4 840
Value adjustments (prudent valuation)	-121	-124	-384	-612
Tier 1 capital	477 595	517 669	557 219	557 048
Tier 2 capital	0	0	0	0
Own funds	477 595	517 669	557 219	557 048
Spesification of risk weighted exposure amounts				
Balance sheet exposures	652 179	824 938	842 266	881 464
Off balance sheet exposures (in the portfolio)	0	0	0	0
Off balance sheet exposures (outside the portfolio)	38 285	36 846	0	0
Credit risk	690 464	861 784	842 266	881 464
Foreign exchange risk	313 350	393 478	580 836	595 683
Position risk	58 665	58 068	137 521	137 742
Market risk	372 015	451 546	718 357	733 425
Operational risk	1 731 704	1 744 361	3 010 159	2 982 145
Settlement risk	16 665	1 648	16 665	1 648
Credit valuation risk (CVA)	2 736	3 693	2 736	3 693
Total risk weighted exposure amount	2 813 584	3 063 032	4 590 183	4 602 375
Total capital ratio (minimum requirement of 8 %)	17,0 %	16,9 %	12,1 %	12,1 %
Initial capital requirement (EUR 730 000)	7 262	7 183	7 262	7 183

NOTE 19 RELATED PARTIES

The company is a part of the Pareto Group. Transactions with related parties are based on market terms and conditions. Pareto AS owns 66,67 % of the shares in the company. Svein Støle is the 100 % owner of Pareto AS. There are no transactions with the controlling owner Svein Støle.

The company's transactions with related parties:	2018	2017
Parent company (Pareto AS)	498	407
Other group companies	73 349	63 034
Total sale of services	73 847	63 441
Parent company (Pareto AS)	1 850	1 763
Other group companies	10 777	9 402
Total purchase of services	12 627	11 165

Amounts include internal group allocation of costs from external suppliers.

NOTE 20 LIQUIDITY RISK (GROUP)

Agreed rest maturity assets	1-30 days	30 days-1y	1-5 years	Total value
Receivables from clients	1 075 041			1 075 041
Receivables from financial institutions	57 604			57 604
Other receivables	285 873	77 462		363 335
Financial instruments		99 485		99 485
Bank deposits	1 577 851			1 577 851
Total	2 996 369	176 947	0	3 173 316

Agreed rest maturity liabilities	1-30 days	30 days-1y	1-5 years	Total value
Pension liabilities		458	1 829	2 287
Deposits from silent partners			21 450	21 450
Payables to financial institutions	124 500			124 500
Payables to clients	1 334 996			1 334 996
Income tax payable		114 337		114 337
Public dues payable		28 399		28 399
Proposed dividends		370 943		370 943
Other liabilities	232 002	349 220	57 549	638 770
Total	1 691 498	863 357	80 827	2 635 682

NOTE 21 ACQUISITION OF THE BUSINESS OF EQUINET BANK AG

The company, acting through its Frankfurt branch, has purchased the non-banking business of equinet Bank AG. The business purchase includes (a) moveable and intangible assets, securities as well as information technology, (b) agreements and (c) 79 employment contracts. Closing of the transaction took place 1 December 2018. The purchase will strengthen the company's presence in Central and Northern Europe. Operating revenues for equinet Bank AG was EURm 18,6 for 2017 and EURm 10,6 for 2018.

NOTE 22 EVENTS AFTER THE END OF THE REPORTING PERIOD

In January 2019, our subsidiary Pareto Securities AB acquired Aktieinvest FK AB ("Aktieinvest"). Aktieinvest is supervised by the Swedish Financial Supervisory Authority and is authorized to conduct securities operations in accordance with the Swedish Securities Act (2007: 528), insurance mediation according to Insurance Mediation Act (2005: 405) and permission to provide individual pension savings (IPS) products pursuant to the Individual Pension Savings Act (1993:931).

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 358 100 in the financial statements of the parent company and profit of TNOK 372 600 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 2018, 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 2018, 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 2018, 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 2018, 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 ISAs, we exercise professional judgment and maintain professional skepticism 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 and 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 and the Group'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 and the Group 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 and 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 and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 18 March 2019
Deloitte AS

Jørn Borchgrevink
State Authorised Public Accountant (Norway)