



ANNUAL REPORT 2019

PARETO SECURITIES

DIRECTORS' REPORT 2019

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 services and project financing. The company has its head office in Oslo, a regional office in Stavanger, and branch offices in Denmark and Germany.

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 company and its subsidiaries ("the group") had 446 employees as of 31 December 2019.

Financial developments and profits

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

The group's operating revenues increased from NOK 1 730 000 in 2018 to NOK 1 790 000 in 2019. Pre-tax profit decreased from NOK 497 500 to NOK 346 000. The decrease is a result of non-recurring items related to restructuring of the Frankfurt Branch and legal disputes. The effects related to restructuring of the Frankfurt branch are further described in note 2. The effects of the legal disputes related to Crew Gold from 2010 and Septem Offshore from 2015 are further described in note 21. The group's equity, excluding minority interests, decreased from NOK 561 687 as of 31 December 2018 to NOK 557 341 as of 31 December 2019.

The company's operating revenues increased from NOK 961 400 in 2018 to NOK 980 300 in 2019. Pre-tax profit decreased from NOK 439 100 in 2018 to NOK 266 400 in 2019. The company's equity decreased from NOK 486 594 as of 31 December 2018 to NOK 469 899 as of 31 December 2019.

Key risks factors, risk management and capital adequacy

The group is exposed to market risks related to its 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 is exposed 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 in equities or 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 in accordance with the provisions in the Norwegian Private Limited Companies Act and the Norwegian Securities Trading Act with appurtenant regulations, as well as risk management and internal directives. Corresponding risk management requirements apply to the regulated subsidiaries abroad, subject to and in accordance with the laws of the applicable jurisdiction.

Internal procedures have been established for compliance with applicable laws. The quality of deal facilitation work is ensured through teamwork under experienced project leaders and established capital raising project procedures, including a thorough assessment of potential new investment banking assignments in the internal "Deal Committee". All business activities are subject to in-depth Board and management scrutiny on an on-going basis.

The company and the group complied with all applicable capital adequacy requirements throughout 2019.

Going concern

The annual financial statements have been prepared under the going concern assumption. This assumption is based on the financial situation at year-end 2019 and the profit forecast for 2020.

Outlook for 2020

The group's revenue base has over the last few years become more diversified, in terms of both products and industries, as well as geographically. Diversification has made the group less dependent on energy prices, and also provides a stable platform for further growth.

The Board of Directors expects satisfactory financial performance in 2020. The effects related to the coronavirus disease (COVID-19) is described in note 22.

Working environment, equal opportunities and impact on the external environment

The working environment is considered to be good.

There are no reports of work-related injuries or accidents among the group employees in 2019. The company has established a working environment committee that meets regularly, and has appointed safety representatives in Oslo and Stavanger.

The working-environment committee held two meetings in 2019, and safety inspections were conducted for the purpose of maintaining a healthy and safe working environment in the company. Sickness absence is consistently low.

The company offers equal opportunities to women and men. The proportion of women in the group is relatively low, but steadily increasing. The number of women in the group as of 31 December 2019 was 113 out of 446 employees. There are no women in the Board of Directors. The company is working actively to attract female staff. The company does not discriminate on grounds of disability, ethnicity, national origin, race, religion or other factors.

The company has adopted a sustainability policy which establishes standards and principles to ensure that the group operates in a sustainable manner and meets fundamental human rights, labour, environmental and anti-corruption responsibilities.

The company pollutes the external environment through emissions resulting from travel activities and office use. The company works actively to reduce its own and its business partners' carbon footprint and ensure energy-efficient operations.

Oslo, 17 March 2020

Morten Goller
Chairman

Svein Støle
Board member

Inge Edvardsen
Board member

Arild Hille
Board member

Lars Buin
Board member

Eirik Haavaldsen
Board member

Tormod Høiby
Board member

Christian Jomaas
Chief Executive Officer

PARETO SECURITIES

COMPANY		INCOME STATEMENT		GROUP	
2019	2018	Note	Amounts in NOK 1 000	2019	2018
980 300	961 400	2	Operating revenues	1 790 000	1 730 000
539 313	445 043	3	Personnel expenses	945 394	851 833
7 052	9 208	6	Depreciation	14 930	16 931
324 948	213 476		Other operating expenses	477 223	343 694
871 313	667 727		Total operating expenses	1 437 548	1 212 458
108 987	293 673		Operating profit	352 452	517 542
9 576	9 914		Interest income	17 673	14 273
162 368	167 791		Other financial income	7 704	4 973
-1 432	-937		Interest expenses	-7 071	-3 351
-13 099	-31 341		Other financial expenses	-24 758	-36 037
157 413	145 427		Net financial result	-6 452	-20 142
266 400	439 100		PROFIT BEFORE TAXES	346 000	497 400
29 900	81 000	16	Tax expense	82 900	124 800
236 500	358 100		NET PROFIT FOR THE YEAR	263 100	372 600
			Net profit attributable to owners of parent	248 119	354 214
		7	Net profit attributable to non-controlling interests	14 981	18 386
			Allocation of net profit		
-248 194	-352 119		Proposed dividend		
11 694	-5 981		Transferred to/from other equity		
-236 500	-358 100	14	Total allocations		

PARETO SECURITIES

COMPANY		BALANCE SHEET AS OF 31 DECEMBER		GROUP	
2019	2018	Note	Amounts in NOK 1 000	2019	2018
NON-CURRENT ASSETS					
45 771	15 152	16	Deferred tax assets	60 720	31 122
426	705	6	Software	8 927	2 802
46 197	15 857		Total intangible assets	69 647	33 924
5 820	9 792	6	Office equipment and fittings	11 878	16 759
250 647	228 061	7	Shares in subsidiaries	0	0
72 169	34 042		Loans to subsidiaries	0	0
322 816	262 103		Total financial assets	0	0
374 833	287 752		TOTAL NON-CURRENT ASSETS	81 525	50 684
CURRENT ASSETS					
391 541	284 492	8	Receivables from clients	1 418 800	1 075 041
123 456	57 604		Receivables from financial institutions	123 456	57 604
266 193	188 344		Receivables from group companies	0	0
140 000	162 789		Other receivables	299 260	363 335
921 190	693 229		Total receivables	1 841 516	1 495 980
32 849	45 509	9	Financial instruments	58 695	99 485
611 127	765 509	10	Bank deposits	1 293 264	1 577 851
1 565 166	1 504 247	20	TOTAL CURRENT ASSETS	3 193 475	3 173 316
1 940 000	1 792 000		TOTAL ASSETS	3 275 000	3 224 000

PARETO SECURITIES

COMPANY		BALANCE SHEET AS OF 31 DECEMBER		GROUP	
2019	2018	Note	Amounts in NOK 1 000	2019	2018
EQUITY					
90 000	90 000	13	Share capital	90 000	90 000
-826	-130		Own shares	-826	-130
66 400	66 400		Share premium	66 400	66 400
155 575	156 270		Total paid-in capital	155 575	156 270
314 325	330 324		Retained earnings	401 766	405 417
469 899	486 594		Equity attributable to owners of the parent	557 341	561 687
			Non-controlling interests	23 165	26 630
469 899	486 594	14	TOTAL EQUITY	580 506	588 317
LIABILITIES					
2 820	2 287	5	Pension liabilities	2 820	2 287
21 870	20 910		Deposits from silent partners	22 410	21 450
28 667	40 980		Other liabilities	46 592	57 549
53 357	64 177		Total long-term liabilities	71 822	81 286
52 475	124 500		Payables to financial institutions	52 475	124 500
435 752	195 941	11	Payables to clients	1 543 727	1 334 996
147 789	90 360		Payables to group companies	0	0
52 310	88 951	16	Income tax payable	63 755	114 337
7 132	6 897		Public dues payable	26 157	28 399
248 194	352 119		Proposed dividends	263 098	370 943
473 091	382 460	12	Other liabilities	673 460	581 221
1 416 743	1 241 228		Total short-term liabilities	2 622 672	2 554 396
1 470 100	1 305 405	20	TOTAL LIABILITIES	2 694 495	2 635 682
1 940 000	1 792 000		TOTAL EQUITY AND LIABILITIES	3 275 000	3 224 000

Oslo, 17 March 2020

Morten Goller
Chairman

Svein Støle
Board member

Inge Edvardsen
Board member

Arild Hille
Board member

Lars Buin
Board member

Eirik Haavaldsen
Board member

Tormod Høyby
Board member

Christian Jomaas
Chief Executive Officer

PARETO SECURITIES

COMPANY		CASH FLOW STATEMENT Amounts in NOK 1 000	GROUP	
2019	2018		2019	2018
266 400	439 100	Profit before tax	346 000	497 400
-97 013	-106 198	Tax paid	-157 874	-150 004
7 052	9 208	Depreciation	14 930	16 931
-266 088	-4 577	Change in receivables	-345 536	-333 373
304 432	46 501	Change in short-term liabilities	216 638	74 715
214 783	384 035	Net cash flow from operating activities	74 158	105 669
-3 080	-6 368	Purchase of fixed assets	-21 086	-12 501
-9 926	13 113	Net cash flow from investments	40 790	-31 747
-13 006	6 745	Net cash flow from investing activities	19 704	-44 248
960	20 910	Change in deposits from silent partners	960	20 910
-5 001	1 295	Purchase/sale of own shares	-5 001	1 295
0	0	Capital investment from minority	-3 465	24 767
-352 119	-567 911	Dividend paid	-370 943	-568 291
-356 160	-545 706	Net cash flow from financing activities	-378 449	-521 319
-154 383	-154 926	Net change in cash during the year	-284 587	-459 897
765 509	920 434	Cash and cash equivalents 1.1	1 577 851	2 037 748
611 127	765 509	Cash and cash equivalents 31.12	1 293 264	1 577 851

PARETO SECURITIES

NOTES TO THE FINANCIAL STATEMENTS 2019

NOTE 1 ACCOUNTING POLICIES

General information

Pareto Securities AS is a private limited company headquartered in Oslo, 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. Unless otherwise indicated, the amounts have been rounded to the nearest thousand.

Pareto Securities has been granted an exemption from the requirement under Section 3-4 of the Norwegian Accounting Act for financial statements and annual reports to be prepared in the Norwegian language.

Basis of preparation

The annual financial statements have been prepared in accordance with the Norwegian Accounting Act, Norwegian Generally Accepted Accounting Principles and the Regulations on the Annual Financial Statements 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 carried at acquisition cost in the company's financial statements. 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 consolidated financial statements eliminated against the equity of the subsidiary at the date of acquisition. 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 gain from currency translation of foreign subsidiaries is recorded to equity.

Accounting of partnership

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

Revenue recognition

Revenues from investment banking engagements for which the company receives fees that are contingent upon the transaction outcome, are recognised upon transaction completion, or upon the right to such fee becoming unconditional. Secondary brokerage fees are recognised at the trade date.

Estimates

The financial statements are based on estimates and assumptions. Future events may cause a change in estimates. Changes in estimates are recognised for in the period in which they occur.

Tangible assets

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

PARETO SECURITIES

NOTES TO THE ACCOUNTS 2019

NOTE 1 ACCOUNTING POLICIES CONT.

Receivables/write-downs of bad debts

Receivables include balances outstanding from other financial institutions and other companies. Receivables and payables are reported on a gross basis in the balance sheet in accordance with the Regulations on the Financial Statements of Investment Firms in Norway. Trades that are closed at year-end with settlement after year-end are recognised as receivables from clients/receivables from financial institutions and payables to clients/payables to financial institutions. Receivables are carried at fair value at the 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 carried at fair value on the balance sheet date. The fair value of quoted financial instruments is based on the latest transaction price. Other financial instruments are recognised 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 recognised as assets if their value is positive and as liabilities if their value is negative.

Tax

Tax expenses are matched with profit before tax. Tax expenses consist of current income tax and change in deferred tax.

Liabilities

Liabilities are recognised at their nominal value at the time incurred.

Foreign currency

NOTE 2 OPERATING REVENUES

	Company		Group	
	2019	2018	2019	2018
Investment banking	739 884	756 179	1 246 272	1 260 292
Secondary brokerage	240 416	205 221	420 428	315 108
Business management	0	0	85 600	94 800
Maritime services	0	0	11 300	4 600
Rig-brokerage	0	0	19 500	51 200
Other	0	0	6 900	4 000
Total operating revenues	980 300	961 400	1 790 000	1 730 000

	Company	
	2019	2018
Capital raisings	444 398	545 544
Investment advice/order execution	187 755	175 785
Market making and own account trading	6 845	-1 716
Related services (M&A, advisory, research and FX)	341 302	241 787
Total operating revenues	980 300	961 400

NOTE 2 OPERATING REVENUES CONT.

Disclosure in accordance with Section 5-7 of the Regulations on the Annual Financial Statements of Investment Firms in Norway

Investment banking and secondary brokerage establishments in the Group	No of employees	Operating revenues	Profit before tax	Tax expense
Pareto Securities AS (Norway)	175	894 000	199 273	52 302
Pareto Securities AS, Frankfurt branch (Germany)	56	59 000	-89 128	-22 282
Pareto Securities AS, Copenhagen branch (Denmark)	10	27 600	426	131
Pareto Securities AS, Paris branch (France)	0	0	-1 005	-251
Pareto Securities AB (Sweden)	96	395 700	152 572	34 163
Pareto Securities AB NUF (Norway)	0	16 700	12 884	3 360
Aktieinvest FK AB (Sweden)	14	47 100	-449	0
Pareto Securities Oy (Finland)	9	39 300	13 065	2 650
Pareto Securities Ltd (UK)	10	31 900	6 873	1 584
Pareto Securities AG (Switzerland)	6	23 900	-266	0
Pareto Securities Inc (USA)	14	63 400	2 465	898
Pareto Securities Pte Ltd (Singapore)	14	63 600	17 421	2 181
Pareto Securities Pty Ltd (Australia)	2	1 900	-1 437	0
Sub-total	403	1 664 100	312 695	74 736

Business management and other establishments in the Group	No of employees	Operating revenues	Profit before tax	Tax expense
Pareto Business Management AS (Norway)	27	62 100	13 917	3 295
Pareto Business Management AB (Sweden)	11	21 500	5 049	1 085
Pareto Business Management A/S (Denmark)	2	4 600	1 310	289
Pareto Maritime Services AS (Norway)	2	11 300	5 900	1 738
Pareto Offshore AS (Norway)	4	19 500	5 694	1 400
North Atlantic Seafood Forum AS (Norway)	2	6 900	1 455	320
Pareto Eiendom AS (Norway)	0	0	-20	0
Pareto Investorservice AS (Norway)	0	0	0	0
Sub-total	47	125 900	33 305	8 127
Total	450	1 790 000	346 000	82 900

The business acquired from equinet Bank AG on 1 December 2018, which forms part of the company's Frankfurt branch, was restructured during 2019 and the number of employees in the Frankfurt branch has been reduced from 79 to 36. The restructuring costs exceeded the restructuring provision made as of 31.12.2018, with the Frankfurt branch therefore recording a loss of NOK 89 128 in 2019.

The company is liable to tax in Norway on all its income in Norway and abroad, cf. Section 2-2, Sub-section 6, of the Norwegian Tax Act. Furthermore, the tax treaty between Norway and Germany stipulates that income earned by a Norwegian tax resident which is attributable to a permanent establishment in Germany can be taxed both in the country of residence (Norway) and the country of origin (Germany), cf. Articles 7 and 5. On the same basis, losses attributable to the permanent establishment in Frankfurt for 2019 are deductible for the company against income in Norway and hence reduce the tax payable in Norway for 2019. Under the said tax treaty, double taxation is prevented by Norway providing a credit for foreign income taxes paid against Norwegian tax payable on foreign income (the credit method), cf. Article 23 of said treaty.

Furthermore, the loss in the Frankfurt branch in 2019 has resulted in an increased tax loss carry forward, which can be set off against future profits in Germany. The company will through the Frankfurt branch be liable for tax in Germany after the tax loss carried forward has been used.

None of the establishments have received any public subsidies.

NOTE 3 PERSONNEL EXPENSES

	Company		Group	
	2019	2018	2019	2018
Partner remuneration and salaries	486 102	400 110	804 765	717 184
Employer's national insurance contributions	30 236	22 146	91 389	87 346
Pension costs	5 665	3 163	15 043	9 977
Other personnel costs	17 310	19 623	34 196	37 325
Total personnel expenses	539 313	445 043	945 394	851 833
Average number of man-years	240	179	450	400

NOTE 4 REMUNERATION

Fees to Deloitte AS for the statutory audit of the company were NOK 836 (2018: 500). Fees for other assurance services amounted to NOK 94 (2018: 94), fees for tax services amounted to NOK 401 (2018: 278) and other non-audit services fees mainly related to due diligence amounted to NOK 516 (2018: 2 549). Corresponding fees for the group amounted to NOK 2 443 (2018: 1 802) for the statutory audit, NOK 102 (2018: 141) for other assurance services, NOK 497 (2018: 396) for tax-related services and NOK 531 (2018: 2 572) for other non-audit services mainly related to due diligence. Fees to Deloitte Advokatfirma AS (law firm) amounted to NOK 506 (2018: 103). All amounts reported are exclusive of VAT.

Remuneration to the Chairman of the Board, Morten Goller amounted to NOK 475. Members of the Board who are employees of the Pareto AS Group do not receive remuneration.

Under the remuneration scheme of the company, partners and employees receive a fixed remuneration and may in addition receive a discretionary remuneration. The discretionary remuneration is based on the earnings of the company as a whole, as well as within the department of the employee, participation in major acquisitions, externally or internally focused work of significant value to the company, extraordinary work effort, extensive client/employee responsibility or similar performance indicators.

The remuneration of 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 is governed by the Norwegian Regulations on Remuneration in Investment Firms. For 2019, these employees have received NOK 23 693 as fixed remuneration. Final variable remuneration for these employees will be decided by the Board of Directors after the Annual Report has been approved. The aggregate remuneration for 2019 has been fully accrued in the financial statements for 2019. More detailed information will be published in the company's Pilar 3 reporting on www.paretosec.com. The variable remuneration is comprised of 50% cash and 50% contingent capital. The cash portion is paid after the financial statement has been approved. The contingent capital is withheld by the company in the form of a subordinated loan bearing a market interest rate. The contingent capital is risk adjusted yearly and is paid over a three-year period.

Paid remuneration to former CEO Ole Henrik Bjørge and new CEO Christian Jomaas in 2019 amounted to NOK 9 466, consisting of fixed remuneration for 2019, 50% bonus for 2018 and paid contingent remuneration from 2017, 2016 and 2015. Christian Jomaas participates in the company's remuneration scheme and he holds 1,5% of the shares of Pareto Securities AS through Klevsund AS.

NOTE 5 PENSIONS

The company has a defined contribution pension scheme as required under the Norwegian Mandatory Occupational Pensions Act. The defined contribution plan is managed by Sparebank 1 and Storebrand. Pension contributions for 2019 amount to NOK 2 381.

The company has two unfunded pension plans, and the liabilities under these are recognised in the balance sheet as of 31 December 2019 at NOK 2 820 through actuarial valuations based on commonly applied assumptions.

NOTE 6 FIXED ASSETS

	Office equipment and fittings		Software	
	Company	Group	Company	Group
Acquisition cost 1.1	90 013	150 858	9 052	20 285
Additions during the year	2 754	5 703	326	22 079
Disposals	-65 473	-66 083	-54 948	-65 472
Acquisition cost 31.12	27 294	90 477	-45 570	-23 108
Accumulated depreciation 1.1	80 222	134 099	8 347	17 483
Depreciation	6 446	9 500	606	5 430
Disposals	-65 194	-64 999	-54 948	-54 948
Accumulated depreciation 31.12	21 474	78 600	-45 995	-32 035
Net carrying value 31.12	5 820	11 878	426	8 927
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 7 SHARES IN SUBSIDIARIES

Consolidated companies

Company name	Equity	Registered Office	Holding
Pareto Securities Pte Ltd	27 416	Singapore	100,00 %
Pareto Securities Inc	19 527	New York	100,00 %
Pareto Securities AB	167 734	Stockholm	88,95 %
Aktieinvest FK AB (aquired by Pareto Securities AB January 2019)	54 122	Stockholm	100,00 %
Pareto Securities Oy	14 875	Helsinki	100,00 %
Pareto Securities Ltd	51 858	London	100,00 %
Pareto Securities Pty Ltd	8 516	Perth	100,00 %
Pareto Securities AG	4 789	Zurich	100,00 %
Pareto Offshore AS	10 006	Oslo	87,01 %
Pareto Business Management AS	9 207	Oslo	100,00 %
Pareto Business Management AB	7 663	Stockholm	100,00 %
Pareto Business Management A/S	2 672	Copenhagen	100,00 %
Pareto Maritime Services AS	14 980	Oslo	100,00 %
North Atlantic Seafood Forum AS	2 491	Oslo	75,00 %
Pareto Investorservice AS	954	Oslo	100,00 %
Pareto Eiendom AS	52	Oslo	100,00 %

Non-consolidated companies

Pareto Maritime Services AS holds 100% of the shares of 2B Offshore AS, Pipebarge 1 AS, Partankers IX AS and Adriatic Tankers AS (subsidiaries). The subsidiaries are the principal partners of 2B Offshore silent partnership, Pipebarge 1 silent partnership, Partankers IX silent partnership and Adriatic Tankers silent partnership, respectively. The four investments are project finance shipping/offshore companies syndicated by Pareto Securities AS.

The general partner's ownership interest in the underlying silent partnership is 1.0% of 2B Offshore silent partnership, 1.5% of Pipebarge 1 silent partnership, 1.0% of Partankers IX silent partnership and 1.0% of Adriatic Tankers silent partnership, respectively.

The total carrying value after write-downs of these investments in Pareto Maritime Investment AS and in the consolidated financial statement for the group is NOK 6 097. There is no uncalled committed capital in the four companies.

Pareto Securities group has in accordance with Section 3-8 of the Norwegian Accounting Act not consolidated the subsidiaries owned through Pareto Maritime Services AS in the consolidated financial statements as these are of no significance for the assessment of the group's financial position and performance.

NOTE 8 RECEIVABLES FROM CLIENTS

	Company	Group
Receivables from securities financing clients	0	985 004
Receivables from secondary trading	391 541	433 796
Total receivables from clients	391 541	1 418 800

Loans to clients for securities financing are secured through securities in custody.

NOTE 9 FINANCIAL INSTRUMENTS

	Company		Group	
	Acquisition cost	Carrying value	Acquisition cost	Carrying value
Shares	23 795	25 220	49 327	45 274
Bonds and notes	11 629	7 629	17 453	13 421
Total financial instruments	35 424	32 849	66 780	58 695

NOTE 10 BANK DEPOSITS

	Company	Group
Restricted in respect of payroll taxes deducted at source	3 146	4 960
Restricted in respect of margin security etc	100 048	100 136
Total restricted deposits	103 194	105 096

Funds in client accounts and equity proceeds accounts that belong to clients (client funds) amount to NOK 1 963 041 and are not recognised in the company's balance sheet. The corresponding client liabilities are NOK 1 960 676. The net balance of NOK 2 365 is the result of timing differences on transfers and interest on client deposits. 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	989 000
Payables to clients from secondary trading	435 752	554 727
Total payables to clients	435 752	1 543 727

Client deposits are carried at acquisition cost. Received deposits are due on demand.

NOTE 12 OTHER LIABILITIES

	Company		Group	
	2019	2018	2019	2018
Remuneration to partners and bonus to employees	284 539	303 130	421 961	451 618
Accrued costs and other short-term liabilities	188 552	79 330	251 499	129 603
Total other liabilities	473 091	382 460	673 460	581 221

NOTE 13 SHAREHOLDER INFORMATION

The company has 900 000 shares with a nominal value of NOK 100 each, 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	18 445	2,05 %
Dragesund Invest AS	18 000	2,00 %
Bakkejord Invest AS (owned 100% by Board member Inge Edvardsen)	17 500	1,94 %
Emis AS (owned 100% by Board member Arild Hille)	14 700	1,63 %
Klevsund AS (owned 100% by CEO Christian Jomaas)	13 500	1,50 %
Bielkevågeninvest AB	10 500	1,17 %
Veøy Invest AS	10 250	1,14 %
Sempra AS (owned 100% by Board member Tormod Høiby)	10 000	1,11 %
Own shares	8 255	0,92 %
Other shareholders with holdings below 1%	178 850	19,87 %
Total	900 000	100,00 %

NOTE 14 EQUITY

Company	Share capital	Own shares	Share premium	Other equity	Total equity
Equity 1.1	90 000	-130	66 400	330 324	486 594
Capital increase	0	0	0	0	0
Own shares	0	-696	0	-4 305	-5 001
Net profit for the year	0	0	0	236 500	236 500
Proposed dividend	0	0	0	-248 194	-248 194
Total equity 31.12	90 000	-826	66 400	314 324	469 899

Group	Share capital	Own shares	Share premium	Other equity	Minority interest	Total equity
Equity 1.1	90 000	-130	66 400	405 417	26 630	588 317
Capital increase	0	0	0	0	0	0
Own shares	0	-696	0	-4 305	0	-5 001
Currency translation	0	0	0	729	325	1 053
Net profit for the year	0	0	0	248 119	14 981	263 100
Proposed dividend	0	0	0	-248 194	-14 904	-263 097
Non-controlling interests	0	0	0	0	-3 867	-3 867
Total equity 31.12	90 000	-826	66 400	401 766	23 165	580 506

NOTE 15 GUARANTEES

Guarantees furnished by DNB in favour of Norges Bank for participation in the Norwegian security settlement scheme amount 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 the Norwegian Investor Compensation Scheme (Verdipapirforetaketenes Sikringsfond), established in 2006.

The company has, in relation to the granting of a licence to its subsidiary Pareto Securities Pte Ltd, issued an undertaking to the Monetary Authority of Singapore that the company will cover any liability less than SGD 12 million.

NOTE 16 TAX

	Company		Group	
	2019	2018	2019	2018
Tax payable				
Profit before tax	266 400	439 100	346 000	497 400
Permanent differences	-138 878	-115 071	23 562	27 799
Change in temporary differences	122 476	31 776	124 572	18 832
Adj. tax payable previous year with effect to temp. diff.	-33 579	0	-33 579	0
Loss carried forward	0	0	-1 314	30 248
Taxable income for the year	216 419	355 805	459 241	574 279
Tax payable	54 104	88 951	106 646	138 954
Prepaid tax	-1 794	0	-42 890	-24 617
Current income tax payable in the balance sheet	52 310	88 951	63 755	114 337

Specification of temporary differences

Fixed assets	-7 938	-7 421	-9 712	-9 902
Shares and bonds	-4 000	-859	-4 000	-859
Receivables	10 350	7 658	2 711	1 092
Provisions	-181 497	-59 987	-193 388	-67 882
Loss carried forward	0	0	-54 640	-55 954
Basis for calculation of deferred tax	-183 085	-60 609	-259 029	-133 505
Net deferred tax asset	-45 771	-15 152	-60 720	-31 122

Tax expense

Tax payable for the year	54 104	88 951	106 646	138 954
Change in deferred tax	-30 619	-7 945	-29 598	-13 420
Adjustments tax payable from previous years	6 268	-118	6 268	-126
Other items	147	113	-415	-608
Tax expense on ordinary profit	29 900	81 000	82 900	124 800

Reconciliation from nominal to actual tax rate

Expected tax expense based on nominal tax rate (25%)	66 600	109 775	86 500	124 350
Permanent differences	-34 720	-28 768	5 891	6 950
Loss carried forward	0	0	0	1 200
Other tax rates applied to the group	0	0	-7 860	-8 024
Changes (%) in deferred tax asset	0	0	0	450
Adjustments from previous years	-2 204	-118	-1 936	-126
Other items	224	112	306	0
Tax expense	29 900	81 000	82 900	124 800

NOTE 17 RISK MANAGEMENT AND INTERNAL CONTROLS

The group is exposed to market-related risks in respect of own-account securities holdings, 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 recorded in 2019.

The company works systematically to identify, analyse, measure, monitor, prevent and limit risks associated with the business. The Board of Directors ensures that the company has appropriate risk management systems and internal controls in accordance with Norwegian Regulations on Risk Management and Internal Controls in Investment Firms. PWC is appointed as internal auditor. The Chief Executive Officer provides a yearly report on the company's risk outlook which is reviewed by the internal auditor before being presented to the Board of Directors. The internal auditor has confirmed that the internal control assessment in 2019 is in compliance with the requirements in the relevant regulations.

NOTE 18 REPORTED CAPITAL RATIO

Capital adequacy is calculated on the basis of the provisions in the Norwegian Securities Trading Act with regulations based on Directive 2013/36/EU of 26 June 2013 and Regulation 575/2013 of 26 June 2013 of the European Parliament and of the Council. Figures as reported per the reporting deadline of 11 February 2020.

Specification of tier 1 capital (CET1)	Company		Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Share capital	90 000	90 000	90 000	90 000
Share premium	66 400	66 400	66 400	66 400
Own shares	-5 159	-1 273	-5 159	-1 273
Retained earnings and other reserves	330 324	324 324	427 739	406 100
Total equity	481 565	479 451	578 980	561 227
Adjustments to CET1 due to prudential filters				
Minority interests	0	0	0	0
Share of deferred tax asset	0	0	0	0
Other intangible assets	-705	-1 735	-23 740	-3 624
Value adjustments (prudent valuation)	-111	-121	-137	-384
Tier 1 capital	480 748	477 595	555 102	557 219
Tier 2 capital	0	0	0	0
Own funds	480 748	477 595	555 102	557 219
Specification of risk weighted exposure amounts				
Balance sheet exposures	681 305	652 179	818 837	842 266
Off-balance-sheet exposures (in the portfolio)	0	0	0	0
Off-balance-sheet exposures (outside the portfolio)	39 165	38 285	0	0
Credit risk	720 470	690 464	818 837	842 266
Foreign exchange risk	394 070	313 350	684 823	580 836
Position risk	59 222	58 665	95 421	137 521
Market risk	453 292	372 015	780 244	718 357
Operational risk	1 792 035	1 731 704	3 237 362	3 010 159
Settlement risk	9 113	16 665	9 113	16 665
Credit valuation risk (CVA)	1 197	2 736	1 197	2 736
Total risk-weighted exposure amount	2 976 107	2 813 584	4 846 752	4 590 183
Total capital ratio (minimum requirement of 8%)	16,15 %	16,97 %	11,45 %	12,14 %
Initial capital requirement (EUR 730 000)	7 201	7 262	7 201	7 262

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 holds 66.67 % of the shares of 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:	2019	2018
Parent company (Pareto AS)	376	498
Other group companies	70 819	73 349
Total allocation of external costs and sale of internal services	71 195	73 847
Parent company (Pareto AS)	1 774	1 850
Other group companies	10 485	10 777
Total allocation of external costs and purchase of internal services	12 259	12 627

NOTE 20 LIQUIDITY RISK (GROUP)

Agreed residual maturity of assets	1-30 days	30 days-1 year	1-5 years	Total value
Receivables from clients	1 418 800			1 418 800
Receivables from financial institutions	123 456			123 456
Other receivables	235 201	64 059		299 260
Financial instruments		58 695		58 695
Bank deposits	1 293 264			1 293 264
Total	3 070 721	122 754	0	3 193 475

Agreed residual maturity of liabilities	1-30 days	30 days-1 year	1-5 years	Total value
Pension liabilities		468	2 352	2 820
Deposits from silent partners			22 410	22 410
Payables to financial institutions	52 475			52 475
Payables to clients	1 543 727			1 543 727
Income tax payable		63 755		63 755
Public dues payable		26 157		26 157
Proposed dividends		263 098		263 098
Other liabilities	320 717	352 743	46 592	720 053
Total	1 916 919	706 221	71 354	2 694 495

NOTE 21 LEGAL MATTERS/DISPUTES**Crew Gold 2010**

In 2019 eight sellers of shares in Crew Gold brought legal claims against Pareto Securities AS for the payment of additional consideration up to NOK 1.90 per share under a three months price protection agreement with a subsidiary of Severstal following their sale of 138.3 million Crew Gold shares at NOK 1.10 on 24 February 2010.

The claim from the largest of these sellers representing 80.8 million Crew Gold shares was settled in 2019.

In its decision in January 2020 Oslo District Court ordered Pareto Securities AS to pay an additional consideration of NOK 1.1263 per share to the remaining seven claimants, amounting to NOK 89.2 million including interest and legal costs.

Pareto Securities AS has appealed and provided collateral to the sellers under the judgement. Pareto Securities AS has recognised the court's ruling and the settlement amount in its annual financial statement for 2019.

Septem Offshore 2015

In 2018 Investec Bank plc brought legal claims against Pareto Securities AS for damages in the amount of USD 39.6 million plus interest, for alleged losses incurred on the financing provided by the bank to the project company Septem Offshore AS syndicated by Pareto Securities AS in 2015.

Judgment by the Oslo District Court is expected in the spring of 2020. Pareto Securities AS has made provisions in relation to

NOTE 22 SUBSEQUENT EVENTS AND OUTLOOK

After the balance sheet date, the outbreak and rapid geographical expansion of coronavirus disease (COVID-19) has created turbulence and uncertainty in the global financial market.

The market volatility increases activity and revenues in the secondary broking of securities. For our investment banking division, the challenging market conditions are expected to reduce capital market transactions in the short term. Activity is expected to increase in the longer run as some corporations will need capital due to the implications of COVID-19.

Pareto Securities' business is based on a model with generally low fixed salaries and bonuses to employees if operating profit is positive. This gives the group a low cost base, which makes it well prepared for a period of lower revenues due to COVID-19. The company's Remuneration Committee has adjusted the fixed salaries for employees subject to the Norwegian Regulations on Remuneration in Investment Firms.

Pareto Securities' holdings of own financial instruments in the balance sheet as of 31 December 2019 are limited. The decrease in equity and bond prices world-wide is not expected to result in material impairment losses in the financial statements for year 2020.

Estimated profit before bonus and tax is positive for YTD 2020. The company will regularly assess necessary and appropriate actions to adjust to market situation.

The Board of Directors have, based on these considerations, decided to proceed with the proposal of distribution of the ordinary dividend to the General Meeting. The company's remaining equity after dividend distribution is in compliance with applicable capital adequacy regulations, which include headroom for stress tests. If developments turn out to be much worse than currently anticipated by the Board of Directors, the company has owners with capital who will participate in a potential share issue needed to ensure continued capital adequacy.

Pareto Securities AS has been designated as a systemically important financial institution in a letter of 14 March 2020 from the Financial Supervisory Authority of Norway, and will comply with the requirements applicable as a result thereof.
