TAALERI PLC

# HALF YEAR FINANCIAL REPORT

2017

TAALERI

# TABLE OF CONTENTS

# TAALERI GROUP 1 JANUARY–30 JUNE 2017

- Continuing earnings increased by 46.7 per cent to EUR 31.5 million (1–6/2016: 21.5).
- Income increased by 15.0 per cent to EUR 38.7 (33.7) million.
- Assets under management grew by 10.4 per cent to EUR 5.3 billion (12/2016: 4.8).
- Operating profit increased by 32.8 per cent to EUR 15.6 (11.7) million.
- Operating profit amounted to 40.3 (34.9) per cent of income.
- Earnings per share were EUR 0.44 (0.32).

| The Group's realised financial targets | 1-6/ 2017 | 1-6/ 2016 | Target |
|---|---|---|---|
| Operating profit, EUR million | 15.6 | 11.7 | - |
| Operating profit, % | 40.3 | 34.9 | > 20.0 |
| Profit after taxes, EUR million | 12.5 | 9.2 | - |
| Return of equity, % | 26.2 | 19.9 | > 15.0* |
| Equity ratio, % | 46.7 | 49.8 | > 30.0 |
| Conglomerate's capital adequacy ratio, % | 272.9 | 312.4 | > 150.0 |
| Operating segments – financial objectives, annualised | | | |
| Assets under management, growth % | 21.2 | 17.0 | > 15.0 |
| Gross premiums written, growth % | 34.4 | 22.3 | > 15.0 |

* long term target

# BUSINESS IN THE REVIEW PERIOD

The income of the **Wealth Management segment** grew by 36 per cent to EUR 23.9 million. The operating profit of Wealth Management was EUR 7.9 million, representing 33 per cent of income. Wealth Management continued to invest in growing its business and increasing brand awareness while keeping costs under control. Investment operations have been successful in both mutual funds and private equity funds. The number of customers increased by 400 customers to 4,300 customers, and assets under management increased from the start of the year by 10.6 per cent to EUR 5.2 billion.

The premiums written of the **Financing segment** grew by 34 per cent to EUR 7.4 million. The income was EUR 11.7 million, consisting of net income from insurance operations of EUR 5.3 million and realised net income from investment operations of EUR 6.4 million. The return on investments at fair value was 3.3 per cent. Garantia's insurance portfolio grew by 6 per cent and totalled EUR 1.4 billion at the end of June 2017. Claims incurred remained on a low level.

The **Energy segment**, through which Taaleri is significantly expanding its operations in the energy sector, was established in summer 2016.The launch of the international Solar Wind Fund during the first half of the year was a success, raising over EUR 87 million capital. The Energy segment's result was a loss of EUR 0.7 million due to business start-up costs.

**Other operations** consist of Taaleri Plc, Taaleri Investments Group and associated companies Fellow Finance Plc and Inderes Oy. During the first half of 2017, Taaleri Investments Ltd exited its co-investment Mattiovi Oy.

# REVIEW BY CEO JUHANI ELOMAA

**Strong start for the year**

Our financial performance was strong during the first half of the year. I am especially pleased with the fact that the strong positive development has been visible in all of our three business segments. We recorded robust growth figures in Wealth Management and Financing. The income from Wealth Management grew by a third. The income was increased by the successful launch of new private equity funds and the favourable development of mutual funds, which reflected in wealth management fees. At the same time, we have been able to keep the increase in costs under control.

In one year, Taaleri's assets under management have increased by over EUR 1 billion to more than EUR 5 billion, which speaks of customers' interest for our innovative products. For example, the Africa Fund and the Solar Wind Fund that focuses on renewable energy have raised significant capital. On the other hand, our mutual funds have also performed very well. For example, the Micro Markka Equity Fund, which focuses on small Finnish listed companies, is constantly among the top funds.

The Financing segment, where income consists of Garantia's business operations, has continued to improve its profit performance commendably. The segment's income doubled thanks to the strong growth of premiums written and low claims incurred as well as profits from investment operations. The operating profit of the Financing segment more than tripled from the corresponding time period last year.

The Energy segment founded in the autumn has also taken off well. Our first private equity fund that leverages the expertise of the energy team raised almost EUR 90 million of assets under management, and we are already in the process of launching the first projects. We are pursuing projects in North America, India, Eastern Europe and Africa.

Political turns of events have on a continuous basis caused market disturbances. However, the economic growth figures have exceeded the projections of economists. The expansion of Taaleri's business operations into financing and energy in recent years as well as the growing interest in private equity funds and co-investment projects have diversified the business risk and created attractive new business opportunities. Mattiovi Oy, which we sold in June, is a demonstration of the opportunities provided by co-investment cases for creating jointly investment profits for both our customers as well as for Taaleri's own investments.

Our strategy has already proved its effectiveness, and I believe that we can build the Energy segment into a globally growing business alongside Wealth Management and Financing.

Juhani Elomaa
CEO
Taaleri Oyj

# REVIEW FOR 1 JANUARY 2017–30 JUNE 2017

## OPERATING ENVIRONMENT

In the first half of 2017, high-risk investments did well on average. At the same time, however, the yield spread was large and trading was characterised by slight caution. Political instability has likely been a major cause of the weakening dollar and decreasing long-term interest rates in the United States. The uncertainty has not however infected concrete economic data. Domestic demand continues to be strong and the employment situation has further improved. Furthermore, companies have enjoyed strong growth of returns in the second quarter. In the United States, the stock market (S&P 500) rose by over 9 per cent in the first half of the year. However, euro-denominated investors did not benefit much from this since the dollar weakened no less than 8.5 per cent over the same time period.

The most significant event in Europe was the French presidential election in the spring. The election of Emmanuel Macron as the 25th president of France was a great relief to the market, where the pricing of this event already started after the first round of the election. The Eurozone stock market (Eurostoxx) rose in the first half of the year by slightly over 8 per cent, and profits of over 11 per cent were achieved in Finland (OMX Helsinki cap).

Restored confidence has reflected in the economic data of the Eurozone. Realised economic data has repeatedly exceeded the projections of economists. The deflationary atmosphere of mid-2016 has transformed into nice economic growth. Inflation expectations have also gradually increased. Companies' profit forecasts have been raised for the first time in a while, and realised annual growth of returns in the second quarter was over 10 per cent. Profit forecasts for the whole year have since been slightly reduced due to the stronger euro and fallen oil prices.

Finland's economic growth has recovered, pulled by growth of the global economy and the Eurozone in particular. Domestic demand and the construction industry have clearly recovered during the first half of the year. However, relative development is constantly strained by the one-sidedness of the export sector, lack of competitiveness and inefficiency of the public economy and job market.

## TAALERI'S BUSINESS DURING THE REVIEW PERIOD

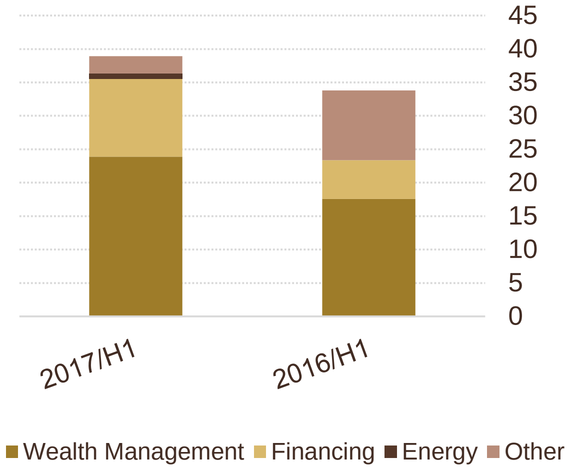
During the first half of the year, Taaleri invested in improving existing business and ramping up the Energy segment established last year. The Group's continuing earnings increased by 47 per cent to EUR 31.5 million, whereas last year's continuing earnings during the review period were EUR 21.5 million. The growth of continuing earnings was 32 per cent in Wealth Management, wherein Private Equity Funds saw a growth of 60 per cent. During the first half of the year, the launching of the international Solar Wind and Africa II funds was a success, raising over EUR 150 million of new capital. The continuing earnings of the Financing segment grew by 102 per cent to EUR 11.7 (5.8) million, wherein net income from insurance operations increased by 27 per cent to EUR 5.3 million and investment operations increased by 289 per cent to EUR 6.4 (1.6) million. The future growth of energy is mainly based on international energy projects, and in Finland the operations of the present wind power projects are being invested in.

### Taaleri Group

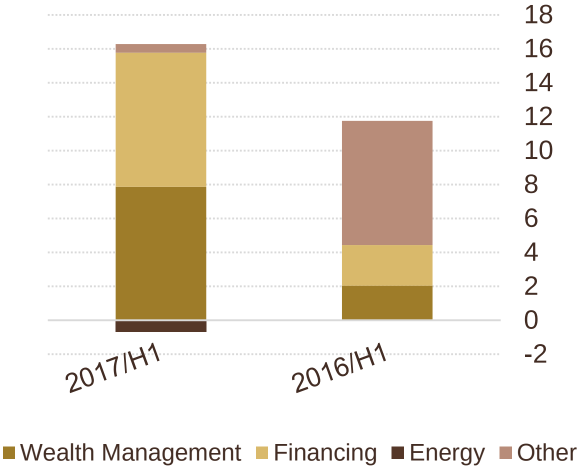
The Group's income grew by 15.0 per cent to EUR 38.7 (33.7) million. Of the Group's continuing earnings, fee and commission income increased by an unprecedented 40.1 per cent to EUR 24.0 (17.1) million, and the net income from insurance operations continued its strong improvement, increasing by 27.3 per cent to EUR 5.3 (4.2) million. During the review period, a sales profit of EUR 1.7 million was recorded for our co-investment Mattiovi Oy, whereas the result of the reference period included the sales profit of EUR 8.5 million for Finsilva Oyj. Realised net income from investment operations of insurance operations increased to EUR 6.4 (1.7) million. The return on investment of insurance operations at fair value was 3.3 (1.5) per cent.

The Group's operating profit increased by 32.8 per cent to EUR 15.6 (11.7) million and the profit for the period by 36.5 per cent to EUR 12.5 (9.2) million. Comprehensive income for the review period increased by 14.5 to EUR 10.6 (9.3) million.

TOTAL INCOME, MEUR




OPERATING PROFIT, MEUR




Taaleri manages the group through three segments: Wealth Management, Financing, and Energy. Operations that do not belong to the segments are presented in "Other operations", which includes the Group management of parent company Taaleri Plc and the Group's own investments, as well as the Group's shares of Fellow Finance Plc and Inderes Oy.

## RESULT AND RISK POSITION OF THE WEALTH MANAGEMENT SEGMENT

Taaleri's Wealth Management segment consists of Wealth Management for private individuals and corporate customers as well as a large selection of investment products. Taaleri's key investment products cover in addition to equity and money market funds also private equity funds, which invest in, among other things, forest, property, renewable energy and business operations.

With Taaleri, it is possible to invest directly into funds and businesses operations, which would otherwise be difficult to access for many private investors and smaller institutions. Taaleri challenges established operating models by combining capital, ideas and entrepreneurship.

The Wealth Management segment consists of the investment service company Taaleri Wealth Management Ltd and its subsidiaries[1] and Taaleri Private Equity Funds Group and Taaleri Kapitaali Oy. Taaleri Private Equity Funds Ltd. has the Finnish Financial Supervisory Authority's authorisation to act as an alternative investment fund manager. Taaleri also provides wealth management services in Turkey.

The Wealth Management segment did very well during the review period. Profits grew by 36 per cent to EUR 23.9 (17.6) million. The continuing fees of Wealth Management grew by 32 per cent to EUR 18.1 (13.8) million. The primary driver of the increase of continuing fees is the increase in the assets under management in mutual funds and private equity funds. The performance fees grew by 51 per cent to EUR 5.7 (3.8) million. The operating profit from Wealth Management nearly quadrupled, amounting to EUR 7.9 (2.0) million. The segment's administrative expenses stayed on the same level as previous year even though more variable personnel costs for 2017 were reserved for the first half of the year than for the comparison period. The first half of 2016 was strained by costs associated with the brand reform.

[1] Taaleri Wealth Management Ltd's subsidiaries are Taaleri Fund Management Ltd, Taaleri Portföy Yönetimi A.S., Kultataaleri Oy and Taaleri Tax Services Ltd.

Wealth Management continued to invest in growing its business and increasing brand awareness, but attention was also paid to costs. Investment operations have been successful in both mutual funds and private equity funds. In the first half of the year, preparations were also made for the entry into force of MiFID II regulation in 2018. During the review period, the average number of full-time personnel was 119 (121).

| Wealth Management | H1 2017 | H1 2016 | Change, % |
|---|---|---|---|
| **EUR million** | | | |
| Wealth Management fees | 18.1 | 13.8 | 31.8 |
| Performance fees | 5.7 | 3.8 | 51.2 |
| **Total income** | **23.9** | **17.6** | **36.0** |
| **Operating profit** | **7.9** | **2.0** | **284.2** |
| | | | |
| **Average full time personnel** | 119 | 121 | -1.9 |

The mutual funds administered by Taaleri did extremely well in the review period, and the assets under management increased by 18 per cent. In June, the non-UCITS fund Micro Rhein Equity Fund achieved its target size and was subjected to a pre-planned size restriction or 'soft closing'. In private equity funds, one of the most significant events of the review period was the sale of Taaleri's co-investment case Mattiovi Oy to JELD-WEN Suomi Oy, due to which a performance fee was recorded for Taaleri Private Equity Funds Ltd in the Wealth Management segment. Taaleri Kapitaali Oy served as the sellers' advisor. During the review period, Taaleri Africa II private equity fund was established, and Taaleri Solar Wind private equity fund achieved its target size and was closed.

The assets under management by Wealth Management grew in the first half of the year by 10.6 per cent to EUR 5.2 (4.7) billion. The assets under management in our own mutual funds grew by 18.0 per cent to EUR 1,012 (857) million. The assets under management in our own private equity funds grew by 8.8 per cent to EUR 957 (880) million. Assets under management in discretionary wealth management grew by 15.5 per cent to EUR 1.7 (1.4) billion, while assets in advisory wealth management grew by 2.7 per cent to EUR 1.6 (1.5) billion.

| Assets under management | 30/6/2017 | 31/12/2016 | Change, % |
|---|---|---|---|
| **EUR million** | | | |
| **Assets under management** | **5 173** | **4 678** | **10.6** |
| **Mutual funds** | 1 012 | 857 | 18.0 |
| **Private equity funds** | 957 | 880 | 8.8 |
| **Discretionary wealth management** | 1 653 | 1 431 | 15.5 |
| **Advisory wealth management** | 1 552 | 1 511 | 2.7 |

The result of the Wealth Management segment is influenced by the development of assets under management, which depends on the progress of the private equity funds' projects and the development of capital markets. The profit development is also influenced by the realisation of performance fee and commission income tied to the success of investment operations. On the other hand, private equity fund management fees are based on long-term contracts that bring in a steady cash flow.

On 29 February 2016, Taaleritehtaan Biotehdas I Ky and Gasum Ltd carried out ownership reorganisation, in which ownership of the Biotehdas chain was transferred to Gasum. The divestment process has not yet been completed.

## RESULT AND RISK POSITION OF THE FINANCING SEGMENT

The Financing segment includes Garantia Insurance Company Ltd. Garantia is an insurance company specialising in guaranty insurance, which promotes the availability of financing and the more effective use of capital by offering guaranty services to companies operating in Finland and to households through cooperation partners. The company's main products are loan guaranties, residential mortgage guaranties and commercial bonds. Garantia is actively involved in various financing arrangements and develops new products for its customers' needs. The company's business is divided into insurance operations and investment operations.

The income of the Financing segment was EUR 11.7 (5.8) million, and the operating profit was EUR 7.9 (2.4) million as a result of net income from investments recorded in the income statement, which was greater than in the comparison period.

The net income from guaranty insurance grew by 27 per cent to EUR 5.3 (4.2) million due to the strong growth of premiums written and claims incurred that have remained low. The Group's premiums written increased by 34 per cent to EUR 7.4 (5.5) million and the premiums earned by 18 per cent to EUR 5.8 (4.9) million. Premiums earned being smaller than premiums written was influenced by the change in provision for unearned premiums. The change in provision for unearned premiums was a result of strong growth of premium income. Net income from investment operations recorded in the income statement of the investment operations increased to EUR 6.4 (1.6) million, mainly thanks to investment sales profits.

The result at fair value before tax of the Financing segment was EUR 5.7 (2.5) million. The changes in fair value of the investment operations were EUR –2.3 (0.1) million, meaning that Garantia's investment operations yielded to Taaleri Group a total of EUR 4.2 (1.7) million. The return on investment at fair value was 3.3 (1.5) per cent.

The busy housing market and the strong development in the construction sector increased guaranty fees especially in residential mortgage guaranties and commercial bonds. The new sales in loan guaranties also grew as investment activity started to pick up. The insurance exposure grew 6.3 per cent and was EUR 1,402 (1,320) million at the end of June. Residential mortgage guaranties accounted for 37 (35) per cent of the total exposure, commercial bonds 29 (27) per cent, loan guaranties 28 (31) per cent and other guaranties 6 (7) per cent.

Claims paid remained at a low level in the first half of the year. Claims incurred (preceding 12 months) in relation to the insurance exposure was 0.07 (0.13) per cent. Operating expenses grew as a result of increased personnel costs.

| Financing, EUR million | 1-6/2017 | 1-6/2016 | Change, % |
|---|---|---|---|
| Net income from guaranty insurance operations | 5.3 | 4.2 | 27.3 |
| Net income from investment operations | 6.4 | 1.6 | 288.8 |
| **Total income** | **11.7** | **5.8** | **101.7** |
| Operating profit before valuations | 7.9 | 2.4 | 234.0 |
| Operating profit at fair value before tax | 5.7 | 2.5 | 132.1 |
| Average full time personnel | 26 | 21 | 21.4 |

| | 30/6/2017 | 31/12/2016 | Change, % |
|---|---|---|---|
| Investment assets, fair value | 128.5 | 123.5 | 4.1 |
| Guaranty insurance, gross exposure | 1 402.4 | 1 319.7 | 6.3 |

## Risk position

The principal risks associated with Garantia's business operations are credit risks arising from guaranty operations, and the market risk regarding investment assets covering technical provisions.

In the first half of the year, Garantia's risk position remained stable. The growth of insurance exposures took place in the highly dispersed mortgage guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. As a result of the shortening of loan guaranties, the share of the insurance exposure classified as investment grade, i.e. with a rating between AAA- and BBB-, excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance, declined somewhat, however, and was 20% (21). The share of those with lower credit ratings of C+ or lower remained low and was 3.1% (2.8). The principal sectors in the insurance exposure were construction at 42% (37) and manufacturing at 24% (26). The proportion of construction guaranties that is reinsured is 54% (52).

As a part of Taaleri Group, Garantia falls within the sphere of regulation of large customer risks determined in the EU Capital Requirements Regulation. At the end of June, Garantia's largest single customer risk amounted to 21.8 (38.9) per cent of Taaleri Group's own funds.

The risk level of investment activities was raised moderately when the share of finance sector fixed income investments was reduced and the share of corporate sector fixed income investments was increased to secure the return level. Fixed income investments (incl. cash and bank balances) made up 80 % (79), equity investments (incl. private equity investments) 18 % (20) and other investments 1 % (1) of the investment portfolio. Fixed income investments mainly consist of investments in the bonds of Finnish and Nordic companies and credit institutions with strong creditworthiness. The share of investment grade fixed income investments (excl. fixed income funds) was 60 % (70). The modified duration of bond investments was 3.7 (3.0).

## Credit Rating

No changes took place in Garantia's credit rating or its outlook in the first half of the year. Standard & Poor's Credit Market Services Ltd (S&P) confirmed Garantia Insurance Company Ltd's financial strength rating as A- with a stable rating outlook.

## Guaranty insurance business operations

This section briefly outlines Garantia's key financial information in accordance with Finnish Accounting Standards (FAS) to illustrate the company's operative development.

Premiums written increased by 34.4% to EUR 7.4 (5.5) million and earned premiums increased by 23.0 per cent to EUR 5.4 (4.4) million.

Claims paid remained at an exceptionally low level in the first half of the year. The claims ratio was 4.0 per cent (9.6) and claims incurred (preceding 12 months) in relation to the insurance exposure was 0.07 (0.13) per cent. A total of EUR 0.3 (0.4) million was paid in claims in January–June, of which approximately 90 per cent concerned residential mortgage guaranties and the rest commercial bonds. The proportion of this sum recorded as claims of recourse was EUR 0.0 (0.0) million. A total of EUR 0.5 (0.3) million was recovered from claims paid during and prior to the January–June period. EUR 0.2 (0.1) million of this concerned claims of recourse.

Operating expenses grew by 23 per cent to EUR 2.6 (2.1) million as a result of increased personnel costs. The company's expense ratio was 48.7 (48.9) per cent and the combined ratio was 52.7 (58.4) per cent.

The balance on the technical account improved and the balance on the technical account before changes to equalization provision increased to EUR 2.5 (1.8) million. The equalization provision declined by EUR 0.2 (0.4) million to EUR 73.4 (73.6) million, as a result of which the balance on the technical account was EUR 2.7 (2.2) million.

Net return on investments recognised in profit and loss was EUR 6.1 (1.3) million and comprised sales profits and fixed-income returns. As a result of the sales, the valuation difference of investment assets decreased in the first half of the year and was EUR 7.7 (9.9) million at the end of June. The investment income at fair value (excl. income, expenses and operating expenses from investment activities unallocated to investment types) was 3.3per cent (1.5). Net investment income from capital employed at fair value was EUR 4.4 (1.6) million, or 3.2 per cent (1.4). The investment portfolio (incl. cash and bank balances) at market value was EUR 131 (127) million at the end of June.

| **Garantia Insurance Company (FAS)* EUR million** | **1-6/2017** | **1-6/2016** | **Change, %** | **2016** |
|---|---|---|---|---|
| **Premiums written** | **7.4** | **5.5** | 34.4 | 12.2 |
| Other items** | -2.0 | -1.1 | 80.3 | -2.8 |
| **Earned premiums** | **5.4** | **4.4** | **23.0** | **9.5** |
| Claims incurred | -0.2 | -0.4 | -48.7 | -1.2 |
| Operating expenses | -2.6 | -2.1 | 22.5 | -5.0 |
| **Balance on technical account before changes in equalisation provision** | **2.5** | **1.8** | **40.0** | **3.3** |
| Change to equalisation provision | 0.2 | 0.4 | -48.7 | 1.2 |
| **Balance on technical account** | **2.8** | **2.2** | **23.4** | **4.5** |
| Investment income and expenses, net | 6.1 | 1.3 | 377.1 | 3.2 |
| **Earnings before tax** | **8.9** | **3.5** | **152.3** | **7.7** |
| | | | | |
| **Combined ratio, %** | 52.7 % | 58.4 % | -5.7 %-yks. | 64.9 % |
| **Claims ratio, %** | 4.0 % | 9.6 % | -5.6 %-yks. | 12.4 % |
| **Expense ratio, %** | 48.7 % | 48.9 % | -0.2 %-yks. | 52.5 % |
| **Return on investments at fair value, %** | 3.3 % | 1.5 % | 1.8 %-yks. | 5.8 % |
| **Solvency ratio (S2), %*** ** | 419.9 % | 501.0 % | -81.1 %-yks. | 435.4 % |

* Figures presented in the table are based on Garantia's FAS financial statements.
** Reinsurers' share of premiums written, change to provision for unearned premiums and reinsurers' share of change to provision for unearned premiums.
*** The Solvency II regulations do not fall within the sphere of statutory auditing under the insurance Companies Act that entered into force on 1 January 2016.

## RESULT AND RISK POSITION OF THE ENERGY SEGMENT

The Energy segment is a new business area for Taaleri, and it began its operations in the second half of 2016. The Group has existing expertise in renewable energy, which is being utilised in the new business. The aim of the energy segment is to channel assets under management into renewable energy, such as wind and solar power, as well as into existing energy sources and networks. The energy segment comprises Taaleri Energia Oy, Taaleri Energia Operations Oy and Taaleri Energia Funds Management Ltd.

The objective is for the energy business to internationalise and expand into new forms of energy production, such as solar power. The aim of the Energy segment is to develop, build, finance and operate Finnish and international energy projects. The Energy segment makes investments in the different stages of energy projects in Finland and internationally, mainly in industrial-scale projects. The objective is to observe a wide spread in the selection of projects. The energy business also includes the operational activities of energy projects, which is intended to bring a steady and long-term cash flow to the company. The Energy segment operates in close cooperation with the Wealth Management segment. The capital is primarily committed to new investments made through funds.

In the first half of 2017, Taaleri Solar Wind, an international renewable energy fund that mainly invests in solar and wind power, was launched successfully. Taaleri Private Equity Funds serves as the alternative investment fund manager. Indicative offers have been made for projects in North America, Europe, Africa, the Middle East and India. The Energy segment currently has exclusive rights to negotiate investments of the Solar Wind private equity fund in Eastern Europe.

| Energy segment, EUR million | 1-6/2017 | 1-6/2016 | Change, % |
|---|---|---|---|
| Income | 0.8 | - | - |
| Operating profit | -0.7 | - | - |
| Average full time personnel | 16 | - | - |

## OTHER OPERATIONS

Other operations include the Group administration services of Taaleri Plc that support the segments, the investments on the Group's own balance sheet, which are implemented through Taaleri Investments Ltd, and Taaleri's shares in Fellow Finance Plc and Inderes Oy.

The Group's investment company Taaleri Investments Ltd invests from its own balance sheet in unlisted and listed companies on the principles of co-investment. Taaleri Investments Ltd aims to make longer-term investments where value is created for Taaleri through ownership and combining entrepreneurship, ideas and private capital.

The returns of Taaleri Investments Ltd vary based on the changes in value of the investments it makes and any divestments from the investments. The returns and income of Taaleri Investments Ltd may thus vary significantly between periods under review. During the review period, Taaleri Investments Ltd sold its co-investment item Mattiovi Oy and recorded a profit of EUR 1.7 million for the review period. The reference period includes the sales profit of EUR 8.5 million for Finsilva Oyj. Income from other operations amounted to EUR 2.6 (10.4) million. Investments of other operations amounted to EUR 14.9 million (31 December 2016: 10.3) at the end of the review period, and loan receivables were EUR 4.7 (6.8) million.

Associated company Fellow Finance Plc offers an online peer-to-peer lending service, and its income consist of fee and commission income from loans transmitted between borrowers and investors. Lainaamo Oy is a part of the Fellow Finance Group, whose products are mainly loans directed at consumers. Associated company Inderes Oy is an analytics company specialising in stock research.

| Other business, EUR million | 1-6/2017 | 1-6/2016 | Change, % |
|---|---|---|---|
| Income | 2.6 | 10.4 | -75.3 |
| Operating profit | 0.5 | 7.3 | -93.1 |
| Average full time personnel | 15 | 18 | -18.2 |

## TAALERI'S BALANCE SHEET AND FINANCING

The balance sheet total of Taaleri Group at the end of June 2017 was EUR 209.5 million (31 December 2016: 213.3). The Group's investments totalled EUR 144.8 (135.1) million, corresponding to 69.1 (63.4) per cent of the Group's balance sheet total.

The Group's interest-bearing liabilities amounted to EUR 63.2 (73.7) million, which consisted of the bond programmes of Taaleri Plc totalling EUR 54.7 (64.7) million and liabilities to credit institutions of EUR 8.5 (9.0) million. In April, Taaleri repaid its first bond, EUR 10.0 million, which it had issued in 2014. Liabilities totalled EUR 111.7 (119.4) million. At the end of the review period, equity was EUR 97.8 (93.9) million.

The equity ratio of Taaleri Group remained strong and was 46.7 (44.0) per cent at the end of the review period.

## TAALERI'S RISK MANAGEMENT AND RISK POSITION

The task of risk management is to identify, assess, measure, mitigate and monitor risks caused by business operations that influence the implementation of the Group's strategy. Risk management aims to mitigate the likelihood of unforeseeable risks being realised, their influence on and the threat they present to the business operations of the Taaleri Group, as well as to support the achievement of the objectives set in the strategy by ensuring that the principles set by the Taaleri Plc Board of Directors are complied with in the company's operations. Taaleri Group's risks are divided into five main categories: strategic and business operations risk, credit risk, liquidity risk, market risk and operative risk (including compliance risk). The principles of Taaleri's risk and capital adequacy management are described in note 39 to the 2016 financial statements.

In the assessment of Taaleri's risk position, its subsidiary Garantia Insurance Company has a significant impact on the Group's overall risk position. Garantia's capital adequacy is strong and its risk position has remained stable. In early 2017, Garantia's claims ratio was 4.0 (9.6) per cent and the claims incurred in relation to gross exposure remained low at 0.07 (0.13) per cent. The share of interest investments in Garantia's investments was 80 per cent. Standard & Poor's credit rating for Garantia is A- with a stable outlook.

The greatest risks of Taaleri's Wealth Management segment mainly consist of operative risks and, to a slight extent, credit risks. In future, Taaleri will also be subject to international risks through the Energy segment, once the operations of Taaleri Energia Oy get fully underway. The most significant risks of other business operations consist of private equity investments made by Taaleri Investments Ltd and loans granted from the credit risks of Taaleri Plc and credit institution receivables.

Taaleri falls within the sphere of regulation of large customer risks determined in the EU Capital Requirements Regulation. At the end of the review period, Taaleri's largest single customer risk was 21.8 (38.9) per cent of the Group's own funds and no customer entity's liability exceeded the 25 per cent limit required by the law. The maximum customer risk regulation is only applied to Garantia as part of the Taaleri Group.

## CAPITAL ADEQUACY OF TAALERI

### Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

Taaleri Group forms a financing and insurance conglomerate according to the Act on the Supervision of Financial and Insurance Conglomerates (RaVa) (2004/699). The Solvency II rules that entered into force on 1 January 2016 tightened the capital requirements, which is also reflected in the capital adequacy according to the Act on the Supervision of Financial and Insurance Conglomerates (2004/699).

As a RaVa conglomerate, Taaleri Group publishes its own funds and capital adequacy in accordance with the capital adequacy regulations for financial and insurance conglomerates. On 30 June 2017, Taaleri RaVa conglomerate's own funds amounted to EUR 91.9 million (31 December 2016: 84.7), with the minimum requirement being EUR 33.7 (31.5) million. The conglomerate's capital adequacy is EUR 58.2 (53.2) million and the capital adequacy ratio is 272.9 (268.9) per cent, with the minimum requirement being 100 per cent.

| Capital adequacy of RaVa conglomerate, EUR thousand | Solvenssi II 30/6/2017 | Solvenssi II 31/12/2016 |
|---|---|---|
| **Shareholders' equity of the Taaleri Group** | **97 817** | **93 850** |
| **Goodwill and other intangible assets** | -2 481 | -2 513 |
| **Minority interests** | -310 | -354 |
| **Planned distribution of profit** | - | -6 237 |
| **Profit for the period, Financing Sector** | -3 154 | - |
| **Total of conglomerate's own funds** | **91 872** | **84 746** |
| | | |
| **Financing business' requirement for own funds** | 8 125 | 7 163 |
| **Insurance business' requirement for own funds** | 25 545 | 24 357 |
| **Minimum amount of own funds of the Conglomerate** | **33 670** | **31 520** |
| | | |
| **Conglomerate's capital adequacy** | **58 202** | **53 226** |
| **Conglomerate's capital adequacy ratio** | **272,9 %** | **268,9 %** |

Within the Taaleri Group, the regulatory capital according to Solvency II is determined and reported not only for Garantia Insurance Company Ltd, but also for Taaleri Plc and Garantia together as part of the RaVa conglomerate. Taaleri applies the standard approach in its regulatory capital calculation. The solvency capital requirement (SCR) of the parent company Taaleri Plc and the subsidiary Garantia Insurance Company Ltd was EUR 25.5 million (31 December 2016: 24.4). Taaleri's own funds fully comprise its own unrestricted Tier 1 basic funds. The final amount of the requirements of the insurance business' own funds is still being assessed by the Financial Supervisory Authority. The executive management expects the conglomerate's capital adequacy to remain strong, in spite of a possible increase in the capital requirement for insurance risk.

### Capital adequacy according to the Act on Credit Institutions and the EU Capital Requirements Regulation

Within the Taaleri Group, the regulatory capital according to the Act on Credit Institutions (610/2014) and the EU Capital Requirements Regulation (CRR) (Regulation (EU) No 575/2013 of the European Parliament and of the Council) is determined and reported to the supervised parties operating in the Financing sector. Taaleri applies the standard approach in the regulatory capital calculation of the credit risk capital requirement and the basic approach in the calculation of the operative risk capital requirement. The Taaleri Group's objective for the capital adequacy of the Financing sector is 12 per cent.

Starting from 1 January 2017, the internal insurance company investment of the financing and insurance group will be processed as a risk-weighted item instead of deduction as laid down in Capital Requirements Regulation (CRR) Article 49 (4) in accordance with a special permission granted by the Finnish Financial Supervisory Authority on 29 November 2016. The special permission is valid until 31 December 2018, assuming that the company continuously meets the conditions for the special permission. Garantia's book acquisition expense of EUR 60 million can be left undeducted. Neither is the impact on the result accumulated by the insurance company investment included in the consolidated Common Equity Tier of the investment service company. Equity investments include the Group's internal insurance company investment of EUR 60.0 million with a risk-weight of 100 per cent. The consolidated Common Equity Tier of the investment service company would be negative by EUR 0.2 million on 30 June 2017 if the special permission were not applied, and the insurance company investment would be deducted from the Common Equity Tier. The company meets the requirements for the special permission according to the situation on 30 June 2017, and it considers that it does not need new special permission after this special permission.

| **Capital adequacy for the Financing sector (CRR 49 permit of exception)** | **30/6/2017** |
|---|---|
| **Common Equity Tier 1 (CET1) before deductions** | **61 025** |
| • Deductions from CET1 | |
| Goodwill and intangible assets | -2 417 |
| Non-controlling interest | -310 |
| Profit for the period | -9 934 |
| **Common Equity Tier 1 (CET1)** | **48 364** |
| • Additional Tier 1 Capital (AT1) before deductions | - |
| • Deductions from AT1 | - |
| • Additional Tier 1 Capital | - |
| **Tier 1 Capital (T1 = CET1 + AT1)** | **48 364** |
| Tier 2 Capital (T2) before deductions | **-** |
| Deductions from T2 | - |
| Tier 2 Capital (T2) | **-** |
| **Total capital base (TC = T1 + T2)** | **48 364** |
| **Total risk weighted assets (Total risk exposure)** | **179 583** |
| – from credit risk | 107 942 |
| – from operative risks | 71 641 |
| – from other risks | - |
| Common Equity Tier 1 (CET1) capital ratio (%) | 26.9 % |
| Tier 1 (T1) capital ratio (%) | 26.9 % |
| Total Capital (TC) ratio (%) | 26.9 % |

## Solvency according to the Insurance Companies Act (Solvency II)

The Solvency II regulatory capital requirements for insurance companies entered into force on 1 January 2016. The objective of Solvency II is a harmonised, comprehensive and risk-based regulatory capital framework that promotes internal competition within the EU, the effective utilisation of capital and companies' own risk management and, through this, enhances the security of the benefits of the insured.

Garantia continues to have strong capital adequacy. At the end of June, Garantia's own assets were EUR 103.1 (100.9) million, clearly exceeding the capital requirement of EUR 24.6 (23.2) million. Garantia's solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 420 (435) per cent. The growth in the solvency capital requirement was the result of growth of the insurance risk due to increase in insurance operations and of the market risk related to investments.

Garantia's own funds fully comprise its own unrestricted Tier 1 basic funds. Garantia uses neither correlation correction nor volatility correction in the calculation of technical reserves. In the calculation of the solvency capital requirement, Garantia applies the standard method. Garantia does not apply technical reserve or market risk calculation transitional provisions. The final amount of Garantia's solvency capital requirements is still being assessed by the Financial Supervisory Authority. The executive management expects Garantia's capital adequacy to remain strong, in spite of a possible increase in the capital requirement of insurance risk.

## DECISIONS MADE AT THE GENERAL MEETING

The Annual General Meeting was held on 29 March 2017. It decided to adopt the financial statements for 2016 and discharge the Board of Directors and the CEO from liability for 2016. The general meeting decided to distribute dividend of EUR 0.22 per share and leave the remaining share of distributable assets as equity. Members of the Board of Directors Peter Fagernäs, Esa Kiiskinen, Juha Laaksonen, Vesa Puttonen and Hanna Maria Sievinen were re-elected as members, and Tuomas Syrjänen was elected as a new member. Ernst & Young Oy, Authorised Public Accountants, was re-elected as the company's auditor, with Ulla Nykky, Authorised Public Accountant, as appointed auditor.

The Annual General Meeting authorised the Board of Directors to decide on the acquisition of no more than 2,000,000 of the company's treasury shares with non-restricted equity. The authorisation will remain valid for 18 months after the decision of the extraordinary general meeting, and it revokes the authorisation to acquire the company's treasury shares granted at the AGM of 8 January 2016. The shares may be acquired to develop the company's capital structure, to finance or implement corporate acquisitions, investments or other arrangements related to the company's business operations, to be used as part of the company's reward scheme, or to be cancelled if justified from the point of view of the company and its shareholders.

The AGM authorised the Board of Directors to decide on the issue of new shares and the assignment of treasury shares in the possession of the company on the following terms:

- The Board of Directors may issue new shares and assign treasury shares in the possession of the company to a
  maximum of 2,500,000 shares.
- The new shares may be issued and the treasury shares possessed by the company may be assigned to the company's shareholders in relation to their ownership of shares or deviating from the shareholder's pre-emptive subscription right in a private placement, if there is a weighty financial reason for it from the point of view of the company,
  such as using the shares as consideration in potential corporate acquisitions or other arrangements that are part of the company's
  business operations, or to finance investments or as part of the company's reward scheme.
- The Board of Directors may also decide on a free-of-charge share issue to the company itself.
- The new shares may be issued and the shares possessed by the company may be assigned either against payment or without payment. A private placement may only be without payment if there is an especially weighty reason for it from the point of view of the company and taking into account the benefit of all its shareholders.
- The Board of Directors will decide on all other factors related to share issues and the assignment of shares.
- The authorisation is valid for one year from the close of the General Meeting, but no later than until 30 June 2018.

Peter Fagernäs was re-elected as Chairman of the Board, and Juha Laaksonen was elected as Vice Chairman. The Board has three committees: the Audit Committee, Remuneration Committee and Nomination Committee. Vesa Puttonen was elected as Chairman of the Audit Committee and Hanna Maria Sievinen and Tuomas Syrjänen were elected as its other members. Peter Fagernäs was elected as Chairman of the Remuneration Committee, and Juha Laaksonen and Esa Kiiskinen were elected as its other members. Peter Fagernäs, Juha Laaksonen and Pertti Laine were elected as members of the Board's Nomination Committee. The Board of Directors elected Peter Fagernäs as Chairman of the Nomination Committee.

In accordance with a proposal by the Board of Directors, the General Meeting decided to increase the maximum amount of annual variable remuneration from 100per cent to 200per cent, so that the amount of a person's variable remuneration can be up to 200per cent of their fixed salary. The increase of the maximum amount applies to all personnel, excluding members of the Board of Directors of Taaleri Plc.

The General Meeting decided to revise Section 7 of the Articles of Association as follows: “Section 7 Auditor – The company has one (1) auditor that must be an auditing organisation referred to in the Auditing Act. The term of office of the auditor ends at the close of the first Annual General Meeting following the election.”

### Shares and share capital

Taaleri has a total of 28,350,620 shares. The company’s share capital has remained at EUR 125,000.00.

Since 2016, Taaleri’s shares have been listed on the Helsinki Stock Exchange among the medium-sized companies. The closing price of Taaleri Plc’s share on 30 June 2017 was EUR 9.20 (31 December 2016: 8.24), and the company’s market value at the end of the review period was thus EUR 260 (233) million. The highest share price during the review period was EUR 9.38 and the lowest EUR 7.78. In total, 1.3 million shares were traded on Nasdaq Helsinki during the review period.

### Taaleri shareholders and treasury shares

During the first half of the year, the number of shareholders has increased from 2,704 at the end of 2016 by almost 500 new owners to a total of 3,196 owners. On 30 June 2017, the company possessed 45,000 (45,000) treasury shares. The company’s 10 largest shareholders on 30 June 2017 are presented in the table below.

| 10 largest shareholders 30 June 2017 | Percentage of shares and votes |
|---|---|
| 1. Oy Hermitage Ab | 8.83 |
| 2. Veikko Laine Oy | 8.57 |
| 3. Elomaa Juhani* | 7.30 |
| 4. Haaparinne Karri** | 5.89 |
| 5. Lombard International Assurance S.A. | 5.64 |
| 6. Berling Capital Oy | 4.04 |
| 7. Vakuutusosakeyhtiö Henki-Fennia | 3.94 |
| 8. Swiss Life Luxembourg Sa | 3.23 |
| 9. Capercaillie Capital Oy | 1.88 |
| 10. Lampinen Petri | 1.85 |

*includes the share of the controlled company E-capital Oy, 0.94 %

**includes the share of the controlled company Xabis Oy, 0.59 %

### Personnel

Professional and motivated personnel are Taaleri’s most important success factor and strength. The turnover of the company’s personnel has been low throughout its operations, and the company’s growth has been facilitated by successful recruitment.

The Group employed an average of 175 (161) full-time personnel during the period under review. There were 119 (121) full-time people in the Wealth Management segment, 26 (21) in the Financing segment and 16 (–) in the Energy segment. The full-time personnel of other business operations averaged 15 (18). Of the personnel, 95 per cent were employed in Finland and 5 per cent abroad.

The personnel costs of the Taaleri Group totalled EUR 12.4 (10.6) million during the period under review. Fixed personnel costs increased to EUR 9.3 (8.8) million, mainly due to the personnel costs of the new Energy segment, which amounted to EUR 0.9 (–) million. The costs of incentives and synthetic options were EUR 3.1 (1.8) million during the review period.

## Company administration and management during the financial period

The composition of the Board of Directors in the period 1 January–29 March 2017 was Peter Fagernäs, Juha Laaksonen, Esa Kiiskinen, Pertti Laine, Vesa Puttonen and Hanna Maria Sievinen. Composition of the Board of Directors starting from 29 March 2017:

- Peter Fagernäs, Chairman
- Juha Laaksonen, Vice Chairman
- Esa Kiiskinen
- Vesa Puttonen
- Hanna Maria Sievinen
- Tuomas Syrjänen

The Board has an Audit Committee, Remuneration Committee and Nomination Committee. Juhani Elomaa was CEO of the parent company throughout the period, and Karri Haaparinne Deputy CEO. There is a Group Executive Management Team, whose main task is to assist the CEO by preparing area-specific strategies and policies, operating plans, internal guidelines and various monthly reports to be processed jointly by the Management Team and potentially by the Board of Directors.

At the end of the review period, the Group Executive Management Team comprised CEO of Taaleri Plc Juhani Elomaa, Deputy CEO Karri Haaparinne, Head of Legal Janne Koikkalainen and CFO Minna Smedsten. The Group Executive Management Team also included Head of Wealth Management Jorma Alanne, Managing Director of Taaleri Wealth Management Ltd Petri Lampinen and Managing Director of Garantia Insurance Company Ltd Vesa Aho.

Ernst & Young Oy, Authorised Public Accountants, served as the company's auditor with Ulla Nykky APA as appointed auditor.

On its website at https://www.taaleri.com/en/investor-relations/governance/statements, Taaleri publishes a separate report on its corporate governance.

## Incentive schemes

Taaleri has two share-based incentive schemes. On 4 December 2013, the Board of Directors of Taaleri Plc decided on a share-based incentive scheme for the Group's key persons. Under the incentive scheme, key persons were issued synthetic option rights, and a potential bonus will be paid in 2017–2018 partly in the company's shares and partly in cash. On 19 February 2015, the Board decided that, in terms of the number of shares in the synthetic option programme, the effect of the share issue decided upon by the extraordinary general meeting on 12 February 2015 would be taken into account, so that it would have no impact on the value of the synthetic option rights. Based on the synthetic option programme of 2013, 584,000 new rights based on share value increase were granted, including a part paid in cash, and new rights are no longer available. By the end of the review period, 187,000 rights had been exercised, and the number of outstanding synthetic options was 397,000.

On 28 October 2015, the Board of Directors of Taaleri Plc decided on a share-based incentive scheme for the Group's key persons. Under the incentive scheme, key persons were issued synthetic option rights, and a potential bonus will be paid in 2019–2020 in cash. At the moment of granting, the bonuses paid based on the incentive scheme will correspond to the value of a total of no more than about 800,000 rights based on the value increase of Taaleri Plc shares, including the part paid in cash. Based on the synthetic option programme of 2015, 610,000 new rights based on share value increase have been granted, including a portion paid in cash. At the end of the review period, the number of outstanding synthetic options was 585,000.

## Changes in Group structure

Taaleri Plc serves as parent company for the Group, whose subsidiaries are Taaleri Wealth Management Ltd and its subsidiaries Taaleri Private Equity Funds Ltd, Taaleri Investments Ltd, Garantia Insurance Company Ltd and Taaleri Energia Oy.

During the review period, Taaleri Wealth Management Ltd capitalised its subsidiary in Turkey, Taaleri Portföy Yönetimi, with EUR 0.1 million. During the review period, Taaleri Group's subsidiaries closed down and established administrative subsidiaries and subscribed to 100per cent of their shares.

## Material events after the review period

Since the end of the review period, the business of Taaleri Group has continued as planned. The development of wealth management performance fees has continued strong in the second half of the year.

## Estimate of likely future development

The Group's largest single risk is the dependence of business profits on changes in the external operating environment and the financial situation in Finland. The company management estimates that the positive development in Finland will continue through the rest of the year, although national and international political risks may reduce outlooks. The Wealth Management segment enjoyed good development in the first half of the year, and the company has succeeded in gathering more capital through various private equity fund projects as well as through the success of mutual funds. The development of the Financing segment has been positive, both in relation to premiums written and claims incurred. The company believes that, through active sales and high-level risk management, significant growth can be achieved also in future. It is expected that the Group's expansion into the energy sector will significantly increase the assets managed by the company's private equity funds in the long term.

Financial targets related to growth are growth of more than 15 per cent per annum in assets under management for the Wealth Management segment and growth of more than 15 per cent per annum in gross premiums written for the Financing segment. Taaleri's operating profit target is at least 20 per cent of income and, thanks to the strong first half of the year, the operating profit of the whole year is estimated to amount to over 25 per cent of income. Taaleri's target for return on equity in the long term is at least 15 per cent, and the equity ratio target is at least 30 per cent. In addition to these, the company aims to increase the amount of dividend to be distributed, and annually to distribute a competitive dividend, taking into account the company's financial and financing situation as well as the capital adequacy requirements and future investment plans. The company management estimates that the income and the operating profit will increase from the previous year.

## KEY FIGURES

| GROUP | 1-6/2017 IFRS | 1-6/2016 IFRS | 1-12/2016 IFRS |
|---|---|---|---|
| Income, EUR 1 000 | 38,722 | 33,670 | 60,569 |
| Operating profit (-loss), EUR 1 000 | 15,604 | 11,749 | 16,340 |
| - as percentage of turnover | 40.3 % | 34.9 % | 27.0 % |
| Net profit for the period, EUR 1 000 | 12,534 | 9,185 | 12,771 |
| - as percentage of turnover | 32.4 % | 27.3 % | 21.1 % |
| Basic earnings per share, EUR | 0.44 | 0.32 | 0.45 |
| Diluted earnings per share, EUR | 0.44 | 0.32 | 0.45 |
| Return on equity % (ROE) 1) | 26.2 % | 19.9 % | 13.4 % |
| Return on equity at fair value % (ROE) 1) | 22.1 % | 20.1 % | 16.5 % |
| Return on assets % (ROA) 1) | 11.9 % | 9.4 % | 5.9 % |
| Cost/income ratio | 59.9 % | 65.4 % | 73.2 % |
| Price/earnings (P/E) 1) | 10.5 | 13.6 | 18.4 |
| Number of employees, avg | 186 | 174 | 179 |

1) Annualized.

| GROUP | 1-6/2017 IFRS | 1-6/2016 IFRS | 1-12/2016 IFRS |
|---|---|---|---|
| Equity ratio -% | 46.7 % | 49.8 % | 44.0 % |
| Modified equity ratio % 1) | 46.7 % | 49.8 % | 44.0 % |
| Gearing -% | 26.9 % | 26.0 % | 19.7 % |
| Equity/share, EUR | 3.44 | 3.07 | 3.30 |
| Dividend/share, EUR | - | - | 0.22 |
| Dividend/earnings, % | - | - | 49.2 % |
| Effective dividend yield, % | - | - | 2.7 % |
| Loan receivables, EUR 1 000 | 4,776 | 6,911 | 6,919 |
| Conglomerate's capital adequacy ratio, % | 273 % | 312 % | 269 % |
| Number of shares at the end of period 2) | 28,305,620 | 28,305,620 | 28,305,620 |
| Average number of shares 2) | 28,305,620 | 28,305,620 | 28,305,620 |
| Share average price, EUR | 8.33 | 8.87 | 8.73 |
| - highest price, EUR | 9.38 | 9.50 | 9.50 |
| - lowest price, EUR | 7.78 | 8.20 | 8.00 |
| - closing price, EUR | 9.20 | 8.77 | 8.24 |
| Market capitalization, EUR 1000 3) | 260,412 | 248,240 | 233,238 |
| Shares traded, thousands | 1,304 | 1,680 | 2,719 |
| Shares traded, % 4) | 5 % | 6 % | 10 % |

1) Modified equity ratio relates to a covenant term of a bond issued by the Group.
From 2015 it equals the equity ratio, because Lainaamo Plc is no longer consolidated into the Group, and therefore the equity ratio does not need to be modified. See calculation formula on page 21.
2) Adjusted for share issues and reduced by own shares acquired
3) Reduced by own shares acquired.

All per share key figures have been adjusted in accordance with the bonus issue in March 2015 (1:3).

**INSURANCE OPERATIONS KEY FIGURES**

The insurance business key figures have been calculated in accordance with the rules, regulations and instructions of the Finnish Financial Supervisory Authority (FSA). Taaleri's insurance business operations consist entirely of Garantia Insurance Company Ltd.

| EUR 1 000 | 1-6/2017 | 1-6/2016 | 1-12/2016 |
|---|---|---|---|
| **Premiums written** | **7,353** | **5,470** | **12,218** |
| Other items [1)] | -1,975 | -1,096 | -2,751 |
| **Earned premiums** | **5,378** | **4,374** | **9,467** |
| Claims incurred | -215 | -419 | -1,174 |
| Operating expenses | -2,618 | -2,137 | -4,966 |
| **Balance on technical account before changes in equalisation provision** | **2,545** | **1,818** | **3,327** |
| Change in equalisation provision [2)] | 215 | 419 | 1,174 |
| **Balance on technical account** | **2,760** | **2,237** | **4,501** |
| Investment income and expenses, net | 6,120 | 1,284 | 3,212 |
| **Earnings before tax** | **8,880** | **3,520** | **7,713** |
| | | | |
| Combined ratio, % | 53 % | 58 % | 65 % |
| Claims ratio, % | 4 % | 10 % | 12 % |
| Expense ratio % | 49 % | 49 % | 53 % |
| Return on investments at fair value, % | 3.3 % | 1.5 % | 5.8 % |
| Solvency ratio (S2), % [3)] | 420 % | 501 % | 435 % |
| Insurance exposure, EUR billion | 1.40 | 1.23 | 1.32 |
| Number of employees, avg | 26 | 21 | 22 |

1) Reinsurers share of premiums written, change in provision for unearned premiums and reinsurers' share of change in provisision for unearned premiums.
2) The Solvency II regulations do not fall within the sphere of statutory auditing under the Insurance Companies Act that entered into force on 1 January 2016.

## KEY FIGURES ACCOUNTING PRINCIPLES

Basic earnings per share, EUR

$$\frac{\text{Profit or loss attributable to ordinary share holders of the parent company}}{\text{Weighted average number of ordinary shares outstanding - repurchased own shares}}$$

Diluted earnings per share, EUR

$$\frac{\text{Profit or loss attributable to ordinary share holders of the parent company}}{\text{Weighted average number of ordinary shares outstanding + dilutive potential ordinary shares - repurchased own shares}}$$

**Alternative performance measures**

The Alternative Performance Measures Guidelines issued by the European Securities and Markets Authority (ESMA) came into force on 3 July 2016. The Alternative Performance Measures (APMs) are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods. They should not be considered to be replacements for the performance measures defined in IFRS -standards.

Taaleri presents certain adjusted key figures that are named "adjusted" as in previous years. No changes have been made to the accounting principles of these key figures and the adjustments made are presented below.

In addition to the adjusted key figures, Taaleri also reports other key figures that are not defined in IFRS. No changes have been made to defitions or names of these key figures since the financial reporting in 2016 and the formulas are presented below.

The table below presents the adjustments made in the adjusted key figures.

| **Items affecting comparability, EUR 1 000** | **H1 2017** | **H2 2016** | **H1 2016** |
|---|---|---|---|
| Finsilva fair value change | - | - | - |
| **Total items affecting comparability in income** | **-** | **-** | **-** |
| Negative goodwill and expenses directly relating to the Garantia acquisition | - | - | - |
| **Total items affecting comparability in operating profit** | **-** | **-** | **-** |
| **Total items affecting comparability in net profit for the period** | **-** | **-** | **-** |

Return on equity (ROE), %

$$\frac{\text{Profit for the period x 100}}{\text{Total equity (average of the beginning and end of the year)}}$$

Return on equity at fair value % (ROE)

$$\frac{\text{Total comprehensive income for the period x 100}}{\text{Total equity (average of the beginning and end of the year)}}$$

Return on assets (ROA), %

$$\frac{\text{Profit for the period x 100}}{\text{Balance sheet total (average of the beginning and end of the year)}}$$

Cost/income ratio, %

$$\frac{\text{fee and commission expense + interest expense + administrative expenses + depreciation + other operating expenses}}{\text{total income + share of associates' profit or loss}}$$

Price/Earnings (P/E)

$$\frac{\text{Price of series B share at the end of the period}}{\text{Earnings/share}}$$

Equity ratio, %

$$\frac{\text{Total equity x 100}}{\text{Balance sheet total}}$$

Modified equity ratio, %

$$\frac{\text{(total equity + minority interest + voluntary provisions less deferred tax liability excluding Lainaamo consolidation) x 100}}{\text{balance sheet total excluding Lainaamo consolidation}}$$

Gearing ratio, %

$$\frac{\text{(Interest-bearing liabilities - cash and cash equivalents) x 100}}{\text{Total equity}}$$

Equity/share, EUR

$$\frac{\text{Equity attributable to ordinary share holders of the parent company}}{\text{Number of shares at end of period - repurchased own shares}}$$

| | |
|---|---|
| Dividend/share, EUR | $\frac{\text{Dividend payable for the financial period x 100}}{\text{Weighted average number of ordinary shares}}$ |
| Dividend/earnings, % | $\frac{\text{Dividend/share x 100}}{\text{Basic earnings per share}}$ |
| Effective dividend yield, % | $\frac{\text{Dividend/share x 100}}{\text{Price of series B share at the end of the period}}$ |
| Conglomerate's capital adequacy ratio, % | $\frac{\text{Conglomerate's total capital base}}{\text{Conglomerate's minimum requirement of total capital base}}$ |
| Market capitalization | Number of shares (A + B) at end of financial period, less repurchased own shares, multiplied by stock exchange price of series B share at end of financial period |
| Shares traded, % | $\frac{\text{Shares traded during the financial period x 100}}{\text{Weighted average number of ordinary shares outstanding}}$ |

**KEY FIGURES FOR INSURANCE OPERATIONS**

The key figures for the insurance operations are calculated based on regulations from the Financial Supervisory Authority. In calculating the key figures, the function-specific expenses of the insurance companies are used, which are not presented on the same principles as in the Group’s income statement.

| | |
|---|---|
| Combined ratio, % | Claims ratio, % + Expense ratio, % |
| Claims ratio, % | $\frac{\text{Claims incurred x 100}}{\text{Insurance premium income}}$<br>This key figure is calculated after the share of the reinsurers. |
| Expense ratio, % | $\frac{\text{Operating costs x 100}}{\text{Insurance premium income}}$<br>This key figure is calculated after the share of the reinsurers. |
| Solvency ratio (S2), % | $\frac{\text{Basic own funds x 100}}{\text{Solvency capital requirement (SCR)}}$ |

## CONSOLIDATED INCOME STATEMENT

| EUR 1 000 | Note | 1/1 - 30/6/2017 | 1/1 - 30/6/2016 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Fee and commission income | | 23,977 | 17,108 |
| Net income from insurance | | 11,698 | 5,800 |
| From guarantee insurance operations | | 5,282 | 4,150 |
| From investment operations | | 6,415 | 1,650 |
| Net gains or net losses on trading in securities and foreign currencies | | 838 | 9,000 |
| Income from equity investments | | 1,869 | 1,334 |
| Interest income | | 328 | 405 |
| Other operating income | | 13 | 22 |
| **TOTAL INCOME** | | **38,722** | **33,670** |
| Fee and commission expense | | -2,539 | -2,135 |
| Interest expense | | -1,613 | -1,212 |
| Administrative expenses | | | |
| Personnel costs | | -12,418 | -10,605 |
| Other administrative expenses | | -3,367 | -4,008 |
| Depreciation, amortisation and impairment of tangible and intangible assets | | -570 | -576 |
| Other operating expenses | | -2,817 | -3,557 |
| Impairment losses on loans and other receivables | 4 | - | 60 |
| Share of associates' profit or loss | | 205 | 113 |
| **OPERATING PROFIT** | | **15,604** | **11,749** |
| Income tax expense | | -3,069 | -2,563 |
| **PROFIT FOR THE PERIOD** | | **12,534** | **9,185** |

| **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** | **1/1 - 30/6/2017** | **1/1 - 30/6/2016** |
|---|---|---|
| **Profit for the period** | 12,534 | 9,185 |
| **Items that may be reclassified to profit or loss** | | |
| Translation differences | -28 | 42 |
| Available-for-sale financial assets | -2,382 | 43 |
| Income tax | 476 | -9 |
| **Items that may be reclassified to profit or loss in total** | **-1,934** | **77** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **10,601** | **9,262** |

| **Profit for the period attributable to:** | | |
|---|---|---|
| Owners of the parent company | 12,366 | 9,136 |
| Non-controlling interests | 168 | 49 |
| **Total** | **12,534** | **9,185** |

| **Total comprehensive income for the period attributable to:** | | |
|---|---|---|
| Owners of the parent company | 10,432 | 9,213 |
| Non-controlling interests | 168 | 49 |
| **Total** | **10,601** | **9,262** |

| **Total comprehensive income for the period attributable to the owners of the parent company** | | |
|---|---|---|
| Continuing operations | 10,432 | 9,213 |
| Discontinued operations | - | - |
| **Total** | **10,432** | **9,213** |

| **Earnings per share for profit attributable to the shareholders of the parent company** | **1/1 - 30/6/2017** | **1/1 - 30/6/2016** |
|---|---|---|
| Basic earnings per share, profit for the period | 0.44 | 0.32 |
| Diluted earnings per share, profit for the period | 0.44 | 0.32 |

Income is presented as gross figures, except for gains or losses on trading in securities and foreign currencies, which are presented as net figures to give a fair presentation of the operations.

## CONSOLIDATED BALANCE SHEET

| Assets, EUR 1 000 | Note | 30.6.2017 | 31.12.2016 |
|---|---|---|---|
| Receivables from credit instutions | 2, 3 | 36,928 | 55,148 |
| Receivables from the public and general government | 2, 3 | 4,776 | 6,919 |
| Debt securities | 2, 3 | 100 | 100 |
| Shares and units | 2, 3 | 11,788 | 7,353 |
| Participating interests | 2, 3, 8 | 4,395 | 4,185 |
| Derivative instruments | 2, 3 | - | 28 |
| Insurance assets | 2, 3 | 130,867 | 126,202 |
| Insurance assets | | 2,387 | 2,740 |
| Investments | | 128,480 | 123,463 |
| Intangible assets | | 2,481 | 2,514 |
| Goodwill | | 627 | 627 |
| Other intangible assets | | 1,853 | 1,886 |
| Tangible assets | | 453 | 503 |
| Other assets | | 6,586 | 4,846 |
| Accrued income and prepayments | | 10,196 | 4,898 |
| Deferred tax assets | | 962 | 566 |
| | | **209,532** | **213,262** |

| Liabilities, EUR 1 000 | Note | 30.6.2017 | 31.12.2016 |
|---|---|---|---|
| **LIABILITIES** | | **111,715** | **119,412** |
| Liabilities to credit institutions | 2, 3 | 8,475 | 8,967 |
| Debt securities issued to the public | 2, 3, 5 | 54,730 | 64,691 |
| Insurance liabilities | 2, 3 | 16,712 | 14,998 |
| Other liabilities | | 1,663 | 1,411 |
| Accrued expenses and deferred income | | 13,803 | 12,494 |
| Deferred tax liabilities | | 16,332 | 16,852 |
| | | | |
| **EQUITY CAPITAL** | 6 | **97,817** | **93,850** |
| Share capital | | 125 | 125 |
| Reserve for invested non-restricted equity | | 35,814 | 35,814 |
| Fair value reserve | | -3,194 | -1,288 |
| Translation difference | | -276 | -248 |
| Retained earnings or loss | | 52,672 | 46,432 |
| Profit or loss for the period | | 12,366 | 12,661 |
| Non-controlling interest | | 310 | 354 |
| | | **209,532** | **213,262** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| EUR 1 000 | 1/1 - 30/6/2017 | 1/1 - 30/6/2016 |
|---|---|---|
| Cash flow from operating activities: | | |
| Operating profit (loss) | 15,604 | 11,749 |
| Depreciation | 570 | 576 |
| Other adjustments | | |
| Changes in fair value of investments | | |
| - Held for trading | 130 | 6,857 |
| - Available-for-sale | -1,902 | 35 |
| Other adjustments | -506 | -91 |
| Cash flow before change in working capital | 13,895 | 19,125 |
| Change in working capital | | |
| Increase (-)/decrease (+) in loan receivables | 2,142 | 2,505 |
| Increase (-)/decrease (+) in current interest-free receivables | -6,590 | -1,199 |
| Increase (+)/decrease (-) in current interest-free liabilities | 1,474 | 170 |
| Cash flow from operating activities before financial items and taxes | 10,922 | 20,601 |
| Direct taxes paid (-) | -1,828 | -1,375 |
| **Cash flow from operating activities (A)** | **9,094** | **19,226** |
| | | |
| Cash flow from investing activities: | | |
| Investments in tangible and intangible assets | -486 | -939 |
| Investments in subsidiaries and associated companies | | |
| net of cash acquired | -21 | -13,240 |
| Other investments | -9,687 | -3,776 |
| **Cash flow from investing activities (B)** | **-10,194** | **-17,955** |
| | | |
| Cash flow from financing activities: | | |
| Purchase of own shares | -178 | 103 |
| Debt securities issued to the public | -10,000 | - |
| Increase (+)/decrease (-) in non-current liabilities | - | -500 |
| Dividends paid and other distribution of profit | | |
| To parent company shareholders | -6,227 | -5,661 |
| To non-controlling shareholders | -215 | -1,472 |
| **Cash flow from financing activities (C)** | **-17,120** | **-7,530** |
| | | |
| Increase/decrease in cash and cash equivalents (A+B+C) | -18,220 | -6,259 |
| | | |
| Cash and cash equivalents at beginning of period | 55,148 | 27,983 |
| Cash and cash equivalents at end of period | 36,928 | 21,724 |
| Net change in cash and cash equivalents | -18,220 | -6,259 |

## CHANGES IN GROUP EQUITY CAPITAL

| 2017, EUR 1 000 | Share capital | Available-for-sale | Reserve for invested non-restricted equity | Translation differences | Retained earnings | Total | Non-controlling interests | Equity total |
|---|---|---|---|---|---|---|---|---|
| 1.1.2017 | 125 | -1,288 | 35,814 | -248 | 59,093 | 93,496 | 354 | 93,850 |
| Total comprehensive income for the financial period | - | -1,906 | - | -28 | 12,366 | 10,432 | 168 | 10,601 |
| Earnings for the period | - | - | - | - | 12,366 | 12,366 | 168 | 12,534 |
| Other comprehensive income items | - | -1,906 | - | -28 | - | -1,934 | - | -1,934 |
| Distribution of profit | - | - | - | - | -6,227 | -6,227 | -215 | -6,442 |
| Dividend EUR 0.14/share | - | - | - | - | -6,227 | -6,227 | - | -6,227 |
| Distribution of profit for subgroup | - | - | - | - | - | - | -215 | -215 |
| Share-based payments | - | - | - | - | - | - | - | - |
| payable as equity | - | - | - | - | -178 | -178 | - | -178 |
| Transactions with non-controlling interests [1)] | - | - | - | - | -16 | -16 | - | -16 |
| Other | - | - | - | - | - | - | 3 | 3 |
| **30.6.2017** | **125** | **-3,194** | **35,814** | **-276** | **65,038** | **97,507** | **310** | **97,817** |

| 1/1 - 30/6/2016, EUR 1 000 | Share capital | Available-for-sale | Reserve for invested non-restricted equity | Translation differences | Retained earnings | Total | Non-controlling interests | Equity total |
|---|---|---|---|---|---|---|---|---|
| 1.1.2016 | 125 | -4,398 | 37,512 | -138 | 61,839 | 94,941 | 2,119 | 97,060 |
| Total comprehensive income for the financial period | - | 35 | - | 42 | 9,136 | 9,213 | 49 | 9,262 |
| Earnings for the period | - | - | - | - | 9,136 | 9,136 | 49 | 9,185 |
| Other comprehensive income items | - | 35 | - | 42 | - | 77 | - | 77 |
| Distribution of profit | - | - | -1,698 | - | -3,963 | -5,661 | -1,472 | -7,133 |
| EUR 0.09/share for Series A shares | - | - | - | - | -3,963 | -3,963 | - | -3,963 |
| EUR 0.09/share for Series B shares | - | - | -1,698 | - | - | -1,698 | - | -1,698 |
| Distribution of profit for subgroup | - | - | - | - | - | - | -1,472 | -1,472 |
| Share-based payments | - | - | - | - | - | - | - | - |
| payable as equity | - | - | - | - | 103 | 103 | - | 103 |
| Other | - | - | - | - | -11,605 | -11,605 | -441 | -12,045 |
| **30.6.2016** | **125** | **-4,363** | **35,814** | **-96** | **55,511** | **86,991** | **255** | **87,246** |

1) See note 7.

## SEGMENT INFORMATION - EARNINGS

| | Continuing operations | | | | |
|---|---|---|---|---|---|
| **1 January–30 June 2017, EUR 1 000** | **WEALTH MANAGEMENT** | **FINANCING** | **ENERGY** | **OTHER** | **TOTAL** |
| Continuing earnings | 18,131 | 11,698 | 776 | 890 | 31,495 |
| Performance fees | 5,745 | - | - | - | 5,745 |
| Sales profits | - | - | - | 1,688 | 1,688 |
| **Total income** | **23,876** | **11,698** | **776** | **2,577** | **38,927** |
| Fee and commission expense | -2,474 | - | -41 | -24 | -2,539 |
| Interest expense | -18 | - | - | -1,595 | -1,613 |
| Personnel costs | -8,036 | -1,990 | -877 | -1,515 | -12,418 |
| Direct expenses | -3,813 | -685 | -347 | -1,338 | -6,184 |
| Depreciation, amortisation and impairment | -496 | -46 | -11 | -16 | -570 |
| Impairment losses on loans and other receivables | - | - | - | - | - |
| **Operating profit before overhead costs** | **9,038** | **8,977** | **-501** | **-1,911** | **15,604** |
| Overhead costs | -1,175 | -213 | -176 | 1,564 | - |
| Allocation of financing expenses | - | -851 | - | 851 | - |
| **Operating profit before valuations** | **7,864** | **7,912** | **-677** | **505** | **15,604** |
| Change in fair value of investments | - | -2,254 | - | -128 | -2,382 |
| **Profit before taxes and non-controlling interests** | **7,864** | **5,658** | **-677** | **377** | **13,222** |

| | Continuing operations | | | | |
|---|---|---|---|---|---|
| **1 January–30 June 2016, EUR 1 000** | **WEALTH MANAGEMENT** | **FINANCING** | **ENERGY** | **OTHER** | **TOTAL** |
| Continuing earnings | 13,761 | 5,800 | - | 1,913 | 21,473 |
| Performance fees | 3,799 | - | - | - | 3,799 |
| Sales profits | - | - | - | 8,510 | 8,510 |
| **Total income** | **17,559** | **5,800** | **-** | **10,423** | **33,782** |
| Fee and commission expense | -2,097 | - | - | -38 | -2,135 |
| Interest expense | -19 | - | - | -1,194 | -1,212 |
| Personnel costs | -6,859 | -1,495 | - | -2,250 | -10,605 |
| Direct expenses [1)] | -4,194 | -705 | - | -2,666 | -7,566 |
| Depreciation, amortisation and impairment [1)] | -375 | -105 | - | -96 | -576 |
| Impairment losses on loans and other receivables | 60 | - | - | - | 60 |
| **Operating profit before overhead costs** | **4,074** | **3,494** | **-** | **4,179** | **11,748** |
| Overhead costs [1)] | -2,028 | -130 | - | 2,158 | - |
| Allocation of financing expenses | - | -996 | - | 996 | - |
| **Operating profit before valuations** | **2,047** | **2,369** | **-** | **7,332** | **11,748** |
| Change in fair value of investments | -26 | 69 | - | - | 43 |
| **Profit before taxes and non-controlling interests** | **2,021** | **2,438** | **-** | **7,332** | **11,791** |

1) Beginning from 1 January 2017 some costs, previously recognised as overhead costs have been allocated to the segments' direct expenses and depreciations. Comparative figures have been amended to reflect this change.

**Reconciliations**

| **Reconciliation of total income** | **1/1 - 30/6/2017** | **1/1 - 30/6/2016** |
|---|---|---|
| Total income of segments | 38,927 | 33,782 |
| Share of associates' profit or loss allocated to total income of segments | -205 | -113 |
| **Consolidated total income** | **38,722** | **33,670** |

| **Reconciliation of operating profit** | **1/1 - 30/6/2017** | **1/1 - 30/6/2016** |
|---|---|---|
| Total earnings of segments before taxes and non-controlling interests | 13,222 | 11,791 |
| Change in fair value of investments | 2,382 | -43 |
| **Consolidated operating profit** | **15,604** | **11,749** |

## NOTES TO THE HALF YEAR FINANCIAL REPORT 30 JUNE 2017

## 1. ACCOUNTING POLICIES

The half year financial report has been prepared in accordance with IAS 34 (Interim Financial Reporting) and with the accounting principles presented in the financial statements 2016.

The half year financial report is unaudited. All figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

The half year financial report is available in Finnish and English. The Finnish version is the official half year financial report that will apply if there is any discrepancy between the language versions.

### New standards to be applied later

**IFRS 9 Financial instruments**

A project regarding IFRS 9 is ongoing and the group will implement the standard from 1 January 2018. IFRS 9 brings changes to the classification and measurement of financial instruments, and to the impairment of financial assets. The Group does not apply hedge accounting. The effects of the implementation presented in the Financial statements of 2016 have been further specified below.

*Classification and measurement*

We expect the most significant changes to be in the classification of equity instruments. Equity instruments under insurance assets have previously been classified as available-for-sale and will likely in the future be classified as fair value through other comprehensive income (FVOCI, no recycling). This means that fair value changes would be recognised in other comprehensive income as previously, but cumulative gains and losses would not at any point in time be recycled through profit or loss. A large part of instruments under Shares and units that previously have been classified as available-for-sale will likely be measured at fair value through profit or loss, which means that profit volatility will increase.

Based on the analysis by the Group, financial assets and liabilities will under IFRS 9 likely be classified as follows:

- Receivables from credit institutions, receivables from the public and general government and other financial assets (such as fee and commission receivables, interest receivables and accrued income) which, under IAS 39, are classified in Loans and Receivables, will primarily, under IFRS 9, be measured at amortised cost.

- Debt securities which, according to IAS 39, are classified as available-for-sale or at fair value through profit or loss will, according to IFRS 9 primarily be measured at fair value through profit or loss.

- Shares and units which, under IAS 39, are classified either as available-for-sale or at fair value through profit or loss will, under IFRS 9 be measured either at fair value through other comprehensive income (without recycling) or at fair value through profit or loss. Investments perceived as strategic will primarily be measured at fair value through profit or loss, and non-strategic investments at fair value through other comprehensive income (without recycling). This means that the amount of instruments measured at fair value through profit or loss will increase.

- Investments included in insurance assets which, according to IAS 39, are classified as available-for-sale will, according to IFRS 9, primarily be measured at fair value through other comprehensive income unless the cash flow characteristics of the debt instrument lead to measurement at fair value through profit or loss. For equity instruments, this means that changes in fair value will no longer have an impact on profit or loss at any stage.

- Liabilities to credit institutions, debt securities issued to the public and other financial liabilities (such as accounts payable and accrued expenses) which, under IAS 39, are classified as other liabilities, will, under IFRS 9, be measured at amortised cost.

Preliminary assessments are naturally dependent on the financial instruments on Taaleri's balance sheet at the moment of transfer.

*Impairment*

The new impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. Expected credit loss (ECL) is recognised on all loans and debt instruments not recorded at fair value through profit or loss and on off-balance sheet liabilities.

The largest part of instruments for which ECL will be recognised are in Garantias investment portfolio. For debt instruments in Garantia's investment portolio, the preliminary plan is to create an individual credit risk calculation model

(PDxLGDxEAD)[1] based on the calculation model used at present. The Group only has a few other debt instruments and ECL for these will be calculated using an equivalent individual credit risk calculation model. ECL for the following 12 months is recognised when the credit risk has not increased significantly, and for the whole lifetime of the instrument when the credit risk has increased significantly. A significant increase in credit risk is determined based on the change in credit rating. The credit rating is deemed to take into account reasonable and supportable information to the appropriate extent. In addition to this, the credit risk is deemed to have increased significantly, if contractual payments are more than 30 days past due.

It is expected that the application of the expected credit loss model will increase and bring forward credit loss allowances, but not to a significant extent.

Preliminary assessments are naturally dependent on the financial instruments on Taaleri's balance sheet at the moment of transfer.

**IFRS 15 Revenue from contracts with customers**

IFRS 15 *Revenue from contracts with customers* specifies the requirements an entity must apply to measure and recognise revenue and the related cash flows, as well as requires entities to provide users of financial statements with more informative, relevant disclosures regarding the nature, quantity and uncertainty of revenue. Revenue is recognised when (or as) a company transfers control of goods or services to a customer and the customer thus can control its use and receive benefit from it. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. IFRS 15 applies to different fee and commission income in the Group, but insurance income (to which IFRS 4 is applied) and financial instruments (to which IAS 39/IFRS 9 are applied) remain outside the scope of application. The group will implement the standard from 1 January 2018 at which point it is planned that the accumulated effect of implementation is recognised in equity. The effects of the new standard are still being analysed, but management does not expect the adoption of the standard to have a material impact on the Group.

[1] PD = probability of default, LGD = loss given default, EAD = exposure at default

## 2 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

**Financial assets and liabilities 30 June 2017, EUR 1 000**

| **Financial assets** | Loans and receivables | At fair value through profit or loss | Available-for-sale | Total | Fair value |
|---|---|---|---|---|---|
| Receivables from credit institutions [1)] | 36,928 | - | - | 36,928 | 36,928 |
| Receivables from the public and general government [1)] | 4,776 | - | - | 4,776 | 4,776 |
| Debt securities | - | - | 100 | 100 | 100 |
| Shares and units | - | 7,928 | 3,860 | 11,788 | 11,788 |
| Insurance assets | - | - | 128,480 | 128,480 | 128,480 |
| Other financial assets | 13,503 | - | - | 13,503 | - |
| **Financial assets total** | **55,207** | **7,928** | **132,440** | **195,575** | |
| Participating interests | - | - | - | 4,395 | - |
| Other than financial instruments | - | - | - | 9,562 | - |
| **Assets in total 30 June 2017** | **-** | **-** | **-** | **209,532** | |

| **Financial liabilities** | At fair value through profit or loss | Other liabilities | Total | Fair value |
|---|---|---|---|---|
| Liabilities to credit institutions [1)] | - | 8,475 | 8,475 | 8,475 |
| Debt securities issued to the public [2)] | - | 54,730 | 54,730 | 58,926 |
| Other financial liabilities | - | 11,371 | 11,371 | - |
| **Financial liabilities total** | **-** | **74,576** | **74,576** | |
| Other than financial liabilities | - | - | 37,139 | - |
| **Liabilities in total 30 June 2017** | **-** | **-** | **111,715** | |

1) The carrying amount of these receivables and liabilities are seen as the best estimate of their fair values.
2) Bonds included in Debt securities issued to the public are carried at amortised cost.

**Financial assets and liabilities 31 December 2016, EUR 1 000**

| **Financial assets** | Loans and receivables | At fair value through profit or loss | Available-for-sale | Total | Fair value |
|---|---|---|---|---|---|
| Receivables from credit institutions [1)] | 55,148 | - | - | 55,148 | 55,148 |
| Receivables from the public and general government [1)] | 6,919 | - | - | 6,919 | 6,919 |
| Debt securities | - | - | 100 | 100 | 100 |
| Shares and units | - | 3,233 | 4,120 | 7,353 | 7,353 |
| Derivative instruments | - | 28 | - | 28 | 28 |
| Insurance assets | - | - | 123,463 | 123,463 | 123,463 |
| Other financial assets | 7,297 | - | - | 7,297 | - |
| **Financial assets total** | **69,364** | **3,261** | **127,682** | **200,307** | |
| Participating interests | - | - | - | 4,185 | - |
| Other than financial instruments | - | - | - | 8,770 | - |
| **Assets in total 31 December 2016** | **-** | **-** | **-** | **213,262** | |

| **Financial liabilities** | At fair value through profit or loss | Other liabilities | Total | Fair value |
|---|---|---|---|---|
| Liabilities to credit institutions [1)] | - | 8,967 | 8,967 | 8,967 |
| Debt securities issued to the public [2)] | - | 64,691 | 64,691 | 67,084 |
| Other financial liabilities | - | 9,006 | 9,006 | - |
| **Financial liabilities total** | **-** | **82,664** | **82,664** | |
| Other than financial liabilities | - | - | 36,748 | - |
| **Liabilities in total 31 December 2016** | **-** | **-** | **119,412** | |

1) The carrying amount of these receivables and liabilities are seen as the best estimate of their fair values.
2) Bonds included in Debt securities issued to the public are carried at amortised cost.

## 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

| Fair value of assets 30 June 2017, EUR 1 000 | Level 1 | Level 2 | Level 3 | Fair value total |
|---|---|---|---|---|
| Receivables from credit institutions | - | 36,928 | - | 36,928 |
| Receivables from the public and general government | - | 4,776 | - | 4,776 |
| Debt securities | - | - | 100 | 100 |
| Shares and units | 7,928 | - | 3,860 | 11,788 |
| Insurance assets | 124,262 | - | 4,218 | 128,480 |
| **Total** | **132,190** | **41,704** | **8,179** | **182,073** |

| Fair value of liabilities 30 June 2017, EUR 1 000 | Level 1 | Level 2 | Level 3 | Fair value total |
|---|---|---|---|---|
| Liabilities to credit institutions | - | 8,475 | - | 8,475 |
| Debt securities issued to the public | - | 58,926 | - | 58,926 |
| **Total** | **-** | **67,401** | **-** | **67,401** |

| Fair value of assets 31 December 2016, EUR 1 000 | Level 1 | Level 2 | Level 3 | Fair value total |
|---|---|---|---|---|
| Receivables from credit institutions | - | 55,148 | - | 55,148 |
| Receivables from the public and general government | - | 6,919 | - | 6,919 |
| Debt securities | - | - | 100 | 100 |
| Shares and units | 3,233 | - | 4,120 | 7,353 |
| Derivative contracts | 28 | - | - | 28 |
| Insurance assets | 120,041 | - | 3,421 | 123,463 |
| **Total** | **123,302** | **6,919** | **7,641** | **193,010** |

| Fair value of liabilities 31 December 2016, EUR 1 000 | Level 1 | Level 2 | Level 3 | Fair value total |
|---|---|---|---|---|
| Liabilities to credit institutions | - | 8,967 | - | 8,967 |
| Debt securities issued to the public | - | 67,084 | - | 67,084 |
| **Total** | **-** | **76,051** | **-** | **76,051** |

**Fair value hierarchy**

Level 1: Fair values are based on the prices quoted on the active market on identical assets or liabilities.

Level 2: Fair values are based on information other than quoted prices included within level 1 that are observable for the asset or liability, either directly (from prices) or indirectly (derived from prices). When measuring the fair value of these instruments, Taaleri Group uses generally accepted valuation models whose information is based to a significant degree on verifiable market information.

Level 3: Fair values are based on information concerning an asset or liability, which is not based on verifiable market information. Level 3 assets are mainly valued at a price received from an external party or, if no reliable fair value is available/determinable, at purchase price.

**Assets classified at level 3**

Assets categorised within level 3 consist of unquoted shares in private equity funds, stocks and debt securities. Shares in private equity funds are mainly measuered at the latest fair value received from the management company. Unquoted shares are measured at fair value using discounted cash flow analysis or, if it is determined that fair value cannot be measured reliably, at acquisition cost.

| **Reconciliation of assets categorised within level 3, EUR 1 000** | **30.6.2017** | **31.12.2016** |
|---|---|---|
| Fair value January 1 | 7,641 | 46,533 |
| Purchases | 1,312 | 2,009 |
| Sales and deductions | -1,035 | -41,654 |
| Change in fair value - income statement | - | -190 |
| Change in fair value - comprehensive income statement | 261 | 943 |
| **Fair value at end of period** | **8,179** | **7,641** |

| **Unrealised gains or losses attributable to fair value measurements of assets or liabilities categorised within level 3 held at the end of the reporting period recognised in profit or loss, EUR 1 000** | **1/1 - 30/6/2017** | **1/1 - 30/6/2016** |
|---|---|---|
| Net gains or net losses on trading in securities and foreign currencies | - | -50 |
| **Total** | **-** | **-50** |

## 4 IMPAIRMENT LOSSES ON RECEIVABLES

| **EUR 1 000** | **1/1 - 30/6/2017** | **1/1 - 30/6/2016** |
|---|---|---|
| Impairment losses on receivables from the public and general government: | | |
| Agreement-specific amortisation and impairment losses, deductions | - | -60 |
| **Booked to the income statement** | **-** | **-60** |

No credit losses have been realised in the 2015 and 2016 financial periods.

## 5 DEBT SECURITIES ISSUED TO THE PUBLIC

| **EUR 1 000** | **30.6.2017** | **31.12.2016** |
|---|---|---|
| Publicly issued bonds | 54,730 | 64,691 |
| **Total** | **54,730** | **64,691** |

Taaleri Plc has issued one bond in 2016 and two in 2014. The Taaleri Plc bond 01/2014 was repayed in April 2017. The bond issued in 2016 is listed on the Nasdaq HEL Corporate Bond market and the bond issued in 2014 is listed on the Nasdaq First North Bond Market Finland.

Further information about the bond programme can be found on the company's website (only in Finnish): www.taaleri.com/fi/investor-relations/jvk

## 6 EQUITY CAPITAL

**Share capital**

The company's share capital on 30 June 2017 was EUR 125 000 and the amount of shares 28 350 620. The company's shares do not have a nominal value.

The parent company possesses 45 000 of its own shares. All shares issued have been paid for in full. The group uses share-based incentive schemes. The company has not issued convertible bonds or other than the above-mentioned special rights.

## 7 INVESTMENTS IN SUBSIDIARIES

**Changes in subsidiary shareholdings H1 2017**

In January 2017, Turkish subsidiary Taaleri Portföy Yönetimi A.Ş. was capitalised to the amount of 410 thousand Turkish lira (EUR 101 thousand). The Group's shareholding changed from 83 % to 84 %.

Also during the financial period, the group discontinued, established and purchased shares in a range of small companies, mainly in relation to its private equity fund operations.

**Changes in subsidiary shareholdings 2016**

The group has on 30 March 2016 acquired the 25% minority interest of its subsidiary Taaleri Private Equity Funds Ltd at a purchase price of EUR 12 million. The purchase price is based on an external valuation. Following the transaction, Taaleri Plc owns 100% of Taaleri Private Equity Funds Ltd. The effect on the group's equity capital was EUR 11.2 million negative.

In July 2016, Turkish subsidiary Taaleri Portföy Yönetimi A.Ş. was capitalised to the amount of 373 thousand Turkish lira (EUR 116 thousand). The Group's shareholding changed from 84% to 83%.

During the financial period, there were no other changes in subsidiary shareholdings that would have led to a change in ownership interest without a loss of control. The effect of all minority shareholder transactions on the equity of parent company is presented in the table below.

The group has on 29 April 2016 sold all of its holdings in Metsärahasto II Ky. Earnings of EUR 8.5 million were recognised in the income statement item 'Net gains or net losses on trading in securities and foreign currencies'. Taaleri has an optional right to an additional consideration, which is determined based on Finsilva Plc:s operating profit in the years 2021-2022, other operating expenses deducted. The option has no value on 31 December 2016.

The subsidiary Bonus Solutions Oy was capitalised at two different occations during the year, to a total amount of EUR 300 thousand. The groups ownership interest did not change.

Two new subsidiaries were established in July of 2016, Taaleri Energia Oy and Taaleri Kapitaali Oy.

Also during the financial period, the group discontinued, established and purchased shares in a range of small companies, mainly in relation to its private equity fund operations.

| **Effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control, EUR 1 000** | **1/1 - 30/6/2017** | **1/1 - 30/6/2016** |
|---|---|---|
| From an addition to the share owned in subsidiaries | -16 | -11,226 |
| From a reduction in the share owned in subsidiaries without loss of control | - | -7 |
| **Net effect on equity** | **-16** | **-11,232** |

**Significant judgments and assumptions**

The Group has sold all of its holdings in Metsärahasto II Ky in a deal closed on 29 April 2016. In relation to the sale a profit of EUR 8.5 million was recognized in the income statement item 'Net gains or net losses on trading in securities and foreign currencies'. Until 29 April 2016 Taaleri Plc had a controlling interest in Metsärahasto II Ky in accordance with IFRS 10. This was based on the fact that Taaleri Plc was fully exposed to the variable returns from Metsärahasto II Ky, and could influence the investee to affect the amount of the investor's returns. Because of this, in accordance with IFRS 10, Metsärahasto II Ky was a subsidiary of Taaleri Plc and was consolidated in the group.

**Interest that material non-controlling interests have in the group, EUR 1 000**

There is no material non-controlling interest in the group.

## 8 INVESTMENTS IN ASSOCIATED COMPANIES

There have been no changes in the group's investments in associated companies during the first half of 2017. Hence, on 30 June 2017 the group has two associated companies, Fellow Finance Plc and Inderes Oy. Neither of these is considered material to the group. Both associated companies are consolidated using the equity method. A total of EUR 205 thousand of profit from continuing operations of the associated companies has been recognised in the group in the income statement item 'Share of associates' profit or loss'. Associated companies have neither discontinued operations nor comprehensive income items.

## 9 CONDITIONAL LIABILITIES AND CONTINGENT LIABILITIES

| **Commitments not recognised as liabilities, EUR 1 000** | **30.6.2017** | **31.12.2016** |
|---|---|---|
| Total gross exposures of guarantee insurance | 1,402,438 | 1,319,746 |
| Guarantees | 4,834 | 219 |
| Investment commitments | 6,407 | 1,649 |
| Pledged securities | 8,500 | 15,000 |
| Credit limits (unused) | 10,000 | 10,000 |
| **Total** | **1,432,180** | **1,346,614** |

Garantia received a notification of a possible claim of EUR 5 million on 30 Decemer 2011. Garantia considers this claim unfounded and has therefore not recorded it in the provision of known claims. There has been no material change in the status of the matter during 2017 and the process continues.

## 10 RELATED PARTY DISCLOSURES

The parent company and its subsidiaries and associated companies belong to the group's related parties. Related parties also include the members of the Board of Directors and the executive board as well as their related parties.

The following belong to the company's related parties:

1) Someone who, by virtue of shareholding, options or convertible bonds has or may have at least 20 percent of the company's stocks or shares, or the voting rights attached to them, or a corresponding shareholding or voting right in an organisation belonging to the group, or in an organisation exercising control in the company, unless the significance of the company that is the subject of ownership is minor in terms of the whole group.

2) A member and deputy member of the Board of Directors, CEO and Deputy CEO, and somebody in a similar position in a company as referred to in point 1.

3) The children and spouse of someone as referred to in point 2, or someone in a marital relationship with that person.

4) An organisation and foundation in which an above-mentioned person, either alone or with another person, has control as specified in Chapter 1, Paragraph 5 of the Accounting Act.

Business transactions made with the company and companies belonging to the group have been carried out on terms equivalent to those that prevail in arm's length transactions. Taaleri Plc acquired the minority of Taaleri Private Equity Funds Ltd on 30 March 2016 and owns 100% of Taaleri Private Equity Funds Ltd following the transaction. Among the subsidiary's minority shareholders were Taaleri Plc's CEO Juhani Elomaa and Deputy CEO Karri Haaparinne and the related party transactions are reported in the table below. More information about the transaction can be found in note 7.

Board member Peter Fagernäs is among the 10 largest shareholders of the company through companies that he owns. The company's CEO Juhani Elomaa, Deputy CEO Karri Haaparinne and member of the Executive Board Petri Lampinen are also amongst the company's 10 largest shareholders.

**Related party transactions with associated companies and related parties, EUR 1 000**

| 1/1 - 30/6/2017 | Sales | Purchases | Receivables | Liabilities |
|---|---|---|---|---|
| Associated companies | 348 | 45 | 4,711 | - |
| Other related parties | 112 | 10 | 4,158 | - |

| 1/1 - 30/6/2016 | Sales | Purchases | Receivables | Liabilities |
|---|---|---|---|---|
| Associated companies | 336 | 3 | 4,000 | - |
| Other related parties | 537 | 10,100 | - | - |

Garantia has, in the course of its normal business, granted guarentees amounting to EUR 10 million to related parties.

The group has specified its related parties and amended the comparative figures as the Market Abuse Regulation entered into force on 3 July 2016.

In Helsinki 21 August 2017

The Board of Directors of Taaleri Plc

This Half Year Financial Report has not been audited and is available on www.taaleri.com.

The next half year financial report will be published on 15 February 2018.

## TAALERI IN BRIEF

Taaleri is a Financial Group, whose parent company Taaleri Plc is listed on Nasdaq Helsinki's main market. The Taaleri Group consists of three business areas: Wealth Management, Financing and Energy. Taaleri provides services to institutional investors, companies and private individuals. The Group's subsidiaries engaging in business are Taaleri Wealth Management and its subsidiaries, Taaleri Private Equity Funds Ltd Group, Taaleri Investments Ltd Group, Taaleri Energia Ltd and Garantia Insurance Company Ltd. In addition, Taaleri's has associated companies Fellow Finance Plc, which offers peer-to-peer lending services, and Inderes Ltd, which produces analyses for investors.

At the end of June 2017, Taaleri had EUR 5.3 billion assets under management and 4,300 wealth management customers. Taaleri Plc has approximately 3,200 shareholders. The operations of Taaleri are supervised by the Finnish Financial Supervisory Authority.

More information about our company and services: www.taaleri.com/en