TAALERI

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2018

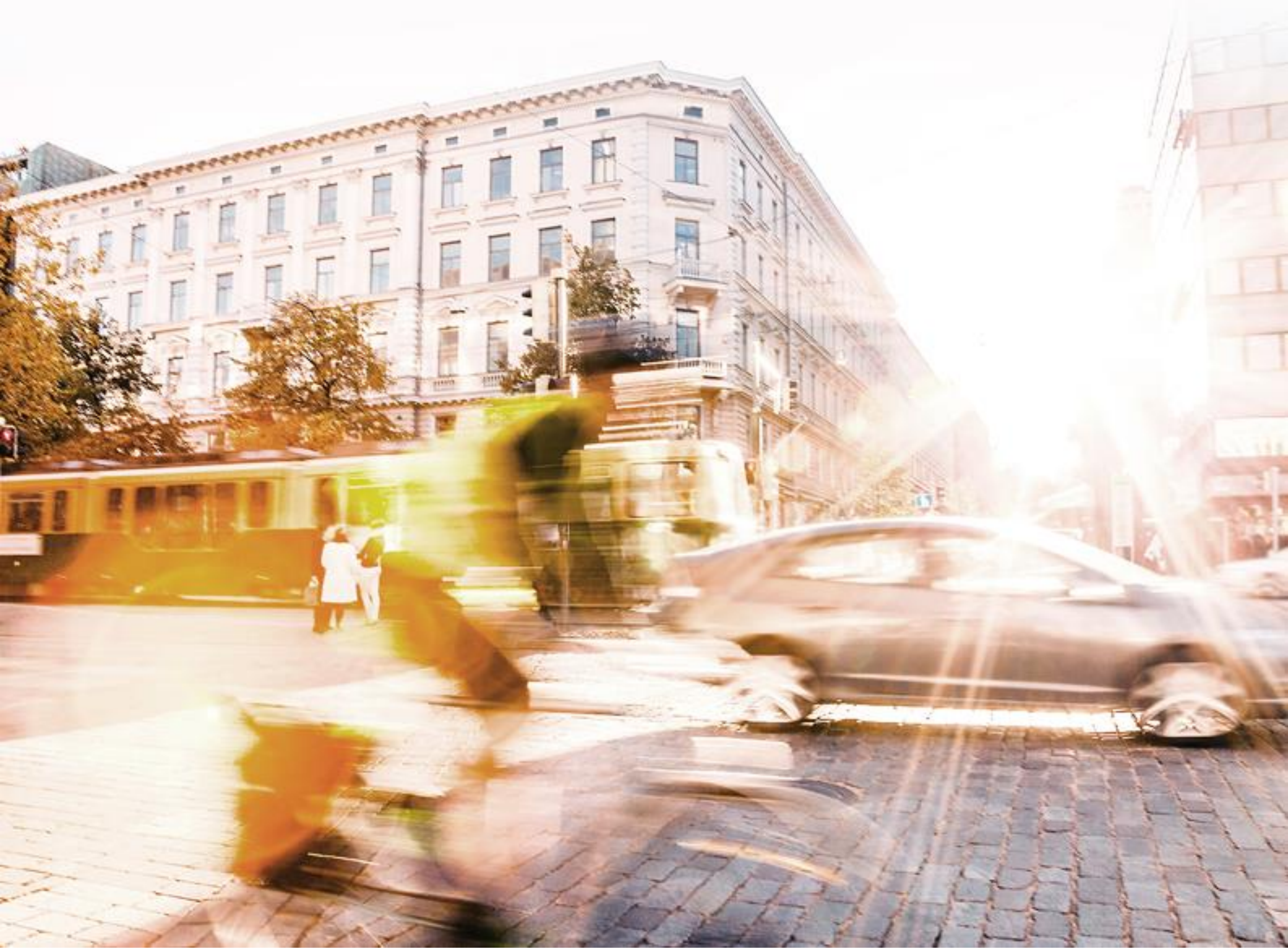


TABLE OF CONTENTS

Taaleri Plc Board of Director's Report and Financial Statements 2018

CONTINUING EARNINGS GREW, EARNINGS PER SHARE WAS EUR 0.76 AND DIVIDEND PROPOSAL IS EUR 0.30 PER SHARE

The Group in 2018

- Income was EUR 72.5 (81.0) million, a decrease of 10.5 per cent due to lower performance fees.
- Continuing earnings grew 6.3 per cent to EUR 52.0 (48.9) million.
- Net income from investment operations was EUR 12.2 (16.8) million. Garantia investment operations yielded EUR -0.7 (11.9) million, and a profit of EUR 13.8 million was recorded due to the listing of Fellow Finance.
- Operating profit was EUR 23.9 (27.6) million, or 33 (34) per cent of income, due to improved cost efficiency.
- Earnings from investment operations were EUR 12.2 (16.8) million. Garantia investment operations totalled EUR -0.7 (11.9) million. Fellow Finance' listing resulted in a EUR 13.8 million recorded profit.
- Operating profit was EUR 23.9 (27.6) million, or 33 (34) per cent of income, due to improved cost efficiency.
- Earnings per share were EUR 0.76 (0.76).
- Assets under management grew 2.9 per cent to EUR 5.7 (5.6) billion.
- Insurance exposure grew 11.8% and totalled EUR 1.7 (1.5) billion.
- The Board of Directors' proposes a dividend of EUR 0.30 per share.

Group key figures	2018	2017	Long-term target
Earnings key figures			
Continuing earnings, MEUR	52.0	48.9	
Income, MEUR	72.5	81.0	
Operating profit, MEUR	23.9	27.6	
Operating profit, %	33.0	34.1	**> 20.0**
Profit for the period, MEUR	21.6	21.8	
Return on equity, %	18.9	21.8	**> 15.0**
Balance sheet key figures			
Equity ratio, %	51.4	46.3	**> 30.0**
Group’s capital adequacy ratio, %	186.0	251.2	
Per share key figures			
Earnings/share, EUR	0.76	0.76	
Equity/share, EUR	4.26	3.73	
Share closing price, EUR	7.10	10.35	
Other key figures			
Cost/income ratio	67.0	66.2	
Average full-time employees	183	175	
Market capitalization, MEUR	201.0	293.0	
Assets under management, BEUR	5.7	5.6	
Guaranty insurance portfolio, BEUR	1.7	1.5	

Income statement items are compared with figures for the corresponding period last year. The balance sheet is compared to the situation at the end of 2017, unless otherwise stated.

REVIEW BY CEO JUHANI ELOMAA

”Our company’s result remained at a good level also in 2018. Taaleri’s operating margin in 2018 was 33%, and earnings per share EUR 0.76, both at last year’s level. Income slightly declined, mainly due to the weak equity and bond market during the second half of the year, and totalled EUR 72.5 million. The operating profit of the Wealth Management segment remained at last year’s level, EUR 16.8 (16.7) million, and the operating profit margin strengthened to 35 per cent. The improved operating profit was due mainly to lower variable personnel costs. Garantia’s net income from insurance operations grew by 33 per cent to EUR 13.0 (9.8) million due to the growth of premiums written, continued low claims incurred and growth in the insurance portfolio. Taaleri Energia’s projects advanced well and as planned. In January 2019, Taaleri Energia and energy company Masdar, signed a letter of intent to establish a joint development company. In fact, the Energy segment is continually seeking new investment opportunities in international renewable energy infrastructure markets. The earnings improvement in “Other” came from the listing of Fellow Finance.

The year included many successes, one good example of which is the listing of the associated company Fellow Finance. Taaleri has been part of Fellow Finance’s story since 2015. We envisioned strong change in the financial market, and we believed in Fellow Finance’s position as one of the clear frontrunners. This view proved to be correct. Unfortunately, the year also included setbacks. The private equity fund Taaleri Geo Fund I made a decision to invest in the Höhenrain geothermal energy plant project in the Bavarian state in Germany. In the test drilling, the project’s production capacity proved to be insufficient and thus the project became commercially unviable.

Taaleri has been a growth company throughout its history; accordingly, we must be bold so that we can find new investment targets and grow faster than the market. The finance arrangements-related megatrend is fundamentally helping us; when entrepreneurs, companies and developers of new business models seek capital directly through different financial actors on the capital markets. This means that today entrepreneurs, companies, and developers of new operating models in need of capital are seeking it primarily from the capital market via various financial operators. This creates diverse demand for special expertise in financing. Taaleri has several examples of these kinds of direct financing activities from the year, among them: Turun Toriparkki, Garantia’s multi-issuer bond, and the financing of the Keilaniemi tower building.

Climate change is one of our biggest global crises and it has negative impacts around the world. Making more clearly defined choices for the sake of responsibility is something we must do. As an enabler of responsible ownership, we believe in responsible actions rather than written assurances. We are creating a sustainable future by taking a bold role in energy market transformation by building renewable energy. We can make an impact by seeking out opportunities to finance projects and players that are focused on building a sustainable future. Our operations must be transparent so that Taaleri’s credibility as a responsible partner can be seen and assessed by all.

As our operative environment quickly evolves, we too are evolving while simultaneously taking care of our competitiveness. In 2018 there was an increased focus on leadership. Personnel motivation, opportunities to influence one’s own work and to be self-directed have improved well.

A fundamental transformation of the Wealth Management business model is under way. High-quality, personal service is at the core of our operations. A multi-channel approach, standardization of our processes, and quantitative analysis are the kinds of development paths that will now bring further development to Taaleri’s wealth management. The acquisition of Evervest, Finland’s only robo-advisor asset manager last summer, and the personnel that was transferred with the acquisition and streamlining the customer experience are at the core of the internal change.

An event-filled year is now behind us, and I want to thank all our colleagues, customers and partners for the shared efforts in 2018.”

BOARD OF DIRECTORS' REPORT 1 JANUARY–31 DECEMBER 2018

Operating environment

The Finnish economy continued to be strong and experienced broad growth. Employment also developed favourably in 2018. Volatility and correction movements in the stock market increased, as economic uncertainties grew. During the early part of the year inflation figures worried investors, while later in the year the fear of a significant economic *slowdown grew. Concerns included an accelerated pace of rising interest rates by the US Federal Reserve, the trade war between the US and China, as well as other political challenges around the world. Despite this, the US stock exchange markets, and particularly the technology companies, fared well.*

The 2018 earnings and net sales of companies grew everywhere, including in Europe, although economic growth in the euro area fell short of expectations. At the end of 2018, the US Federal Reserve lowered the growth forecast for 2019, and the fear of excessive interest rate increases had a strong impact on stock market valuations, adding to the fear of a global slowdown in economic growth. The slowdown in China's economic growth, excessive interest rate increases, and international politics in Europe and globally has led investors to increasingly question the continuation of global economic growth at a good level and will create uncertainty also in the future.

In addition to the investment environment, our operating environment and our company are impacted directly and indirectly mega trends affecting the financial sector. These mega trends are: changes in customer behaviour, the Americanization of the capital markets, regulation and climate change. Taaleri is an enabler of responsible ownership. As the world changes, the ways of managing assets also have changed. Changes in the operating environment were visible in 2018 and have impacted companies. Creating flexible solutions and structures gives us much more ability to handle the big changes targeting the sector – and ideally to also benefit from them."

FINANCIAL RESULT

Segment specific income and operating profit

EUR million	**2018**	**2017**	**Change, %**
Group income	**72.3**	**81.6**	**-11.4**
Wealth Management	48.7	54.6	-10.7
Financing	12.5	21.8	-42.6
Energy	2.3	1.8	27.7
Other operations	8.8	3.4	156
Group operating profit/loss	**23.9**	**27.6**	**-13.5**
Wealth Management	16.8	16.6	1.1
Financing	4.9	13.9	-64.4
Energy	-2.3	-1.5	50.8
Other operations	4.4	-1.4	n.a.

The Group's share of the result of associated companies is taken into account in the segment-specific income. Segment information is displayed on page 33.

The Group's income in 2018 was EUR 72.5 (81.0) million. The Group's continuing earnings increased by 6.3 per cent to EUR 52.0 (48.9) million. The Group's fee and commission income was EUR 45.6 (53.0) million, of which the performance fees accounted for EUR 8.1 (15.8) million. Net income from insurance operations was EUR 12.3 (21.7) million, of which net income from guaranty insurance operations grew by 32.6 per cent to EUR 13.0 (9.8) million, due to the growth of premiums written, continued low claims incurred and growth in the quaranty insurance portfolio. The net return on investments in insurance operations totalled EUR -0.7 (11.9) million, and the return on investments at fair value was -1.7 (6.6) per cent. With IFRS 9, the majority of the change in the fair value of investments of Garantia's investment portfolio is visible directly in income, while previously only the realized sales revenue was presented in income. Taaleri Group's investment operations without Garantia's investment operations yielded EUR 12.9 (4.9) million, which mainly includes EUR 13.8 million profit from the Fellow Finance ownership, of which EUR 5.2 million is realized capital gains, and write-downs from geothermal projects in Germany amounting to EUR 5.4 million, and the additional earn-out of EUR 4.9 million from a wind project.

The Group's operating profit was EUR 23.9 (27.6) million and represented 33.0 (34.1) per cent of the Group's income. Taaleri's Board of Directors decided that the Fellow Finance ownership is for sale, and it is now recorded in Taaleri's balance sheet at fair value. Accordingly, Taaleri booked a gain totalling approximately EUR 8.7 million in its results during the second half of the year.

The Group's cost-effectiveness is visible as lower total administrative costs. The administrative costs decreased by 17.1 per cent and totalled EUR 30.2 (36.4) million. Personnel costs decreased by 25.8 per cent to EUR 21.7 (29.3) million due to the decrease in variable salaries. Other administrative expenses totalled EUR 8.4 (7.1) million and other operating expenses EUR 8.4 (6.7) million, which increased mainly due to costs related to ICT services, capital gains and project development.

Profit for the financial period 2018 remained at last year's level and amounted to EUR 21.6 (21.8) million. Comprehensive income strengthened 6.5 per cent and was EUR 20.3 (19.0) million.

Taaleri's balance sheet, investments and financing

The balance sheet total of the Taaleri Group was EUR 238.0 (31 Dec. 2017: 229.3) million. The Group's investments were EUR 162.2 (165.8) million, corresponding to 68.1 (72.3) per cent of the Group's balance sheet total.

The Group's interest-bearing liabilities amounted to EUR 61.8 (62.7) million, which consisted of EUR 54.8 (54.8) million in Taaleri Plc bond programs and EUR 7.0 (8.0) million in liabilities to credit institutions. Liabilities totalled EUR 115.6 (123.2) million and equity stood at 122.4 (106.1) million.

The equity ratio of Taaleri Group remained strong and was 51.4 (46.3) per cent.

BUSINESS SEGMENTS

Taaleri manages its business through three segments: Wealth Management, Financing, and Energy. Operations that do not belong to the segments are presented in "Other operations".

WEALTH MANAGEMENT

Taaleri's Wealth Management segment offers a broad range of wealth management services and investment products both to private individuals and corporate customers. In addition to services and allocation solutions based on the individual needs of our customers, our offering includes all traditional asset classes, both on the stock and money markets. In addition, we offer various opportunities for co-investment and private equity investments.

Wealth Management	2018	2017	Change, %
EUR million			
Wealth Management fees	35.8	35.7	0.2
Performance fees	8.1	15.8	-48.7
Investment operations	4.8	3.1	57.3
Total	**48.7**	**54.6**	**-10.7**
Operating profit	**16.8**	**16.6**	**1.1**
Average full-time personnel	120	119	1.2

Wealth Management's income totalled EUR 48.7 (54.6) million, in 2018. The continuing fees of Wealth Management remained at the 2018 level and totalled EUR 35.8 (35.7) million. Volumes from trading activities decreased compared to the previous year, but the on average higher assets under management of the private equity funds and co-investments and the increased advisory fees boosted earnings in 2018. In 2018 Taaleri arranged, among other things, funding for the real-estate development projects Turku Toripark and Keilaniemen kiinteistökehitys Oy, where Taaleri acted as a financial advisor in the issue of a EUR 100 million senior secured bond.

Performance fees totalled EUR 8.1 (15.8) million. The profit from investment operations during 2018 totalled EUR 4.8 (3.1) million. Costs declined 15.9 per cent and totalled EUR 30.9 (36.8) million. The positive development in administrative expenses was primarily due to the decreased variable personnel costs. Direct costs increased as a result of the continuing investments in business growth and the development of IT systems, as well as the costs related to the Helsinki office move.

Wealth Management's operating profit was at the 2017 level and totalled EUR 16.8 (16.7) million, whisch corresponds to 35 per cent of income.

Assets under management by Wealth Management grew by 3.0 per cent to EUR 5.6 (5.5) billion. The assets under management in Taaleri's own mutual funds declined to EUR 0.9 (1.1) billion. Assets under management in Taaleri's own private equity funds as well as co-investments totalled EUR 1.0 (1.1) billion. Assets under management in discretionary wealth management grew by 8.4 per cent to EUR 1.9 (1.8) billion, while assets in consultative wealth management grew by 13.6 per cent to EUR 1.8 (1.5) billion.

Assets under management	31 December 2018	31 December 2017	Change, %
EUR million			
Assets under management	**5,612**	**5,451**	**3.0**
Mutual funds	911	1,083	-15.8
Private equity funds	1,024	1,052	-2.6
Discretionary wealth management	1,922	1,772	8.4
Consultative wealth management	1,754	1,544	13.6

On 5 July, Taaleri Wealth Management Ltd acquired Evervest Oy, Finland's first robo-advisor wealth management company. The new digital distribution channel and its further development has a clear strategic position in the transformation of the wealth management sector. The ramp-up of the new digital channel boosts efficiency into processes, creates additional needs to the business, and at the same time supports the traditional meeting-based asset management service model.

During the review period investment commitments were collected for a new co-investment in Taaleri Datacenter. In addition, the special investment fund Taaleri Uusi Eurooppa and the investment fund sijoitusrahasto Taaleri Euroopan Kassakoneet began operations. It was decided to drive down the private equity fund Taaleri Geo Fund I and co-investment Taaleri Geoenergia Ky due to increased risks.

FINANCING

The Financing segment includes Garantia Insurance Company Ltd, an insurance company specializing in guaranty insurance. Garantia's solutions help customers promote sales, secure financing and improve their capital efficiency. Garantia's solutions for companies cover loan guarantees, commercial bonds, rent guarantees for the housing portfolio, investment guarantees and residual value guarantees. Garantia's solutions for consumers cover Takaamo and Securent rent guarantees, and residential mortgage guarantees offered through partners. Garantia is actively involved in various financing arrangements and develops new solutions for its customers' needs. The company's business is divided into guaranty insurance operations and investment operations.

Financing, EUR million	2018	2017	Change, %
Net income from guaranty insurance operations	13.2	9.8	34.7
Net income from investment operations	-0.7	11.9	-106.2
Income	12.5	21.8	-42.6
Operating expenses	-7.5	-7.8	n.a.
Operating profit before valuations	4.9	13.9	-64.4
Change in fair value of investments	-1.7	-3.6	n.a.
Result at fair value before tax	3.3	10.3	-68.4
Claims ratio, %	-4.2%	10.1%	-14.3% pts
Expense ratio, %	39.1%	50.1%	-11.0% pts
Combined ratio, %	34.9%	60.3%	-25.4% pts
Return on investment at fair value, %	-1.7%	6.6%	-8.3% pts
Average full-time personnel	25	25	-1.3

	31 Dec. 2018	31 Dec. 2017	Change, %
Investment assets, fair value, MEUR	134	134	0.2
Guaranty insurance portfolio, MEUR	1,667	1,491	11.8
Solvency ratio, %	233.4%	393.6%	-160.2% pts
Credit rating	A-	A-	

*Garantia's solvency ratio, or the ratio of basic own funds to the solvency capital requirement, including the capital add-on was 233.4 (237.6 pro forma) per cent and excluding the capital add-on 390.7 (393.6) per cent.

In 2018, Income of the Financing segment was EUR 12.5 (21.8) million. Net income from insurance operations grew by 34.7 per cent to EUR 13.2 (9.8) million due to growth in premiums written and the continued low claims expenses. The insurance exposure grew 11.8 per cent to EUR 1.7 (1.5) billion. Net income from investment operations totalled -0.7 (11.9) million as a result of the weakened global stock market.

Operating expenses declined somewhat from the previous year and totalled EUR 7.5 (7.8) million. The operating profit of the Financing segment before valuations was EUR 4.9 (13.9) million. The result at fair value before tax was EUR 3.3 (10.3) million.

Insurance operations

In 2018, gross premiums written (including reinsurers' share) grew by 14.1 per cent to EUR 17.4 (15.2) million and premiums (after reinsurers' share) by 15.4 per cent to EUR 12.3 (10.6) million in 2018. Premium income grew in all product groups. A EUR 82 million multi-issuer bond issued by eight Finnish companies in September and guaranteed by Garantia grew premium income in loan guaranties. Strong growth in the construction sector increased guaranty fees, especially in commercial bonds, resulting in growth in premium income from investment guarantees done in co-operation with Taaleri. Premiums written in investment guarantees, done in co-operation with Taaleri, increased. The brisk housing market increased guaranty fees in residential mortgage guaranties, although the growth in premium income slowed somewhat with respect to the comparison period.

The gross exposure of the guaranty insurance portfolio increased by 11.8 per cent and was EUR 1,667 (1,491) million at the end of 2018. Residential mortgage guaranties accounted for 39 (39) per cent of the gross exposure, commercial bonds 31 (30) per cent, loan guaranties 22 (25) per cent and other guaranties 8 (7) per cent.

Insurance claims paid remained exceptionally low. The claims ratio was -4.2 (10.1) per cent and insurance claims paid (less reinsurers' share and including the share of actual operating expenses allocated to claims handling) with respect to the guaranty insurance portfolio 0.05 (0.07) per cent. In 2018, EUR 0.7 (0.6) million was paid in claims, of which approximately 50 per cent was due to residential mortgage guaranties and 50 per cent to commercial bonds. Of that sum, EUR 0.0 (0.0) million was recorded in claims of recourse. Of claims paid during and before 2018, EUR 2.1 (0.9) was recovered. Of that sum, EUR 0.9 (0.3) million was allocated to claims of recourse. The net provision for claims outstanding (less reinsurers' share) declined to EUR 1.3 (1.6) million, a result of changes in the provision for claims outstanding, which decreased claims incurred by EUR 0.4 million.

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund that was a loan guaranty customer of Garantia in 2011 and that was placed in liquidation in December 2011 (and has since gone bankrupt 5 February 2018) under the Pension Fund Act (1164/1992, as amended), related to which Garantia originally received a claim on 30 December 2011. Garantia considers the claim to be still unfounded, which is why it has not been entered in the profit and loss account as a provision for outstanding claims. In Taaleri Group's financial report, the insurance claim is presented as a contingent liability.

The expense ratio of insurance operations improved to 39.1 (50.1) per cent and the combined ratio to 34.9 (60.3) per cent due to the strong growth of premiums earned (net) as well as lower claim expenses. Combined ratio was further improved by low claims paid and decreased operating expenses.

Investment activity

Net income from investment operations in 2018 was EUR -0.7 (11.9) million and consisted of interest income and clearly lower investment sales profits than during the comparision period as well as clearly higher negative fair value changes which targeted mainly the net gains from investment operations as a result of the adoption of IFRS 9. The change in the fair value investment assets recognised in the comprehensive income before taxes was EUR -1.7 (-3.6) million. Return on investment at fair value thus totalled EUR -2.4 (8.3) million, or -1.7 (6.6) per cent. The investment portfolio (incl. cash and bank balances) was valued at EUR 132 (132) million.

Risk position

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

The risk position of guaranty insurance operations remained stable during 2018 despite investment market turbulence. The growth of insurance exposure took place in well-diversified mortgage guaranties and investment guaranties, and in short-term commercial bonds covered by comprehensive reinsurance. 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 was 11 (21) per cent and the share of guaranties with a credit rating of BB- or better was 79.5 (75.5) per cent. The share of those with credit ratings of C+ or lower decreased and was 1.7 (2.7) per cent. The principal sectors in the insurance exposure were construction at 22 (25) per cent and manufacturing at 22 (25) per cent. A total of 54 (55) per cent of construction guaranties are reinsured.

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 2018, Garantia's largest single customer risk amounted to 22.3 (20.8) per cent of Taaleri Group's own funds.

In investment operations risk was kept at a moderate level throughout the year, and it was further lowered late in the year. Fixed income investments (incl. cash and bank balances) made up 87.4 (76.0) per cent, equity investments (incl. private equity investments) 11.1 (22.7) per cent, and real-estate investments 1.4 (1.3) per cent 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 51.2 (48.9) per cent. The modified duration of fixed income investments was 3.4 (3.7).

Credit rating

No changes took place in Garantia's credit rating or its outlook during the year. Standard & Poor's Global Ratings Europe Limited (S&P) has confirmed Garantia Insurance Company Ltd.'s Financial Strength Rating (FSR) and the Financial Enhancement Rating (FER) reflecting the company's solvency and willingness to meet its financial commitments as A- with a stable outlook rating.

Corporate arrangements

Garantia acquired the entire share capital of Suomen Vuokravastuu Oy (SVV) on 31 August 2018, and on 31 December 2018 Suomen Vuokravastuu merged with the insurance company Garantia through a subsidiary merger. In conjunction with the merger, the rent guaranties offered by SVV were modified into an insurance format and were included as part of Garantia's normal insurance guaranty business. The financial significance of the corporate arrangement will initially remain small for Garantia because of the small scale of SVV's business at the time of acquisition and into the start-up phase. The company's income during the final accounting for the financial period 1 August 2017-31 December 2018 was EUR 0.4 million, profit for the financial period EUR 0.0 million, balance sheet total EUR 0.1 million, and the guaranty portfolio EUR 1.8 million. A fair value assessment of SVV has been conducted by an independent expert.

ENERGY

Taaleri Energia operates on international energy infrastructure markets seeking new investment opportunities. Energy's operational responsibilities are based on the life-cycle model: from seeking and selecting targets to develop, their project development, construction and operation to the controlled shutdown of energy plants. Taaleri Energia creates relations also with the leading domestic and international institutional investors as well as develops and manages investment products tailored for their needs. The Energy segment started its operations in 2016 and has one of Europe's largest teams specialized in wind and solar power.

Energy segment, EUR million	2018	2017	Change, %
Income	2.3	1.8	27.7
Operating profit	-2.3	-1.5	50.8
Average full-time personnel	19	16	19.6

The Taaleri Solar Wind fund acquired a 30 per cent stake in the 158-MW Čibuk wind power project in Serbia in 2017 and in the 200-MW Baynouna solar energy project in Jordan in January 2018. Construction of Čibuk has advanced as planned, and at the end of 2018 all wind turbines were generating electricity. In the Baynouna project, the financial terms were fulfilled in November, and the work on preparations for the actual construction phase progressed as planned. Taaleri Energy's partner in both projects is Masdar, one of the world's leaders in renewable energy. Masdar is owned by the Mubadala Investment Company of the Emirate of Abu Dhabi.

During the first half of the year Taaleri Energia established a subsidiary in the United States to seek out and develop renewable energy investment opportunities in North America, and it acquired the project rights of a 275-MW wind power project in Texas. In the second half of 2018, Taaleri Energia signed an agreement with the German Senvion on the supply and commissioning of 68 wind turbines. The agreement also includes a 25-year service contract. This wind power project is progressing as planned and is estimated to be commercially operating during the second half of 2020.

In March 2018, Taaleri signed a significant, multi-year contract with Fortum for the purchase and sale of wind power. Under the agreement, Fortum undertakes to purchase the production of 13 wind farms, managed by Taaleri, and to sell it to the Nord Pool power exchange. Taaler's wind power portfolio is the second largest in Finland.

As the latest investment, in December 2018 the Taaleri Solar Wind Fund acquired 100 per cent of the Slageryd wind power project located in Sweden. The construction and operation of six wind turbines is being carried out in collaboration with the German BayWa r.e. The construction of the project was started immediately and the commercial commissioning will take place in the first half of 2020.

Taaleri Energia's subsidiary Taaleri Energia Funds Management Oy received the alternative investment fund manager license in June 2018.

OTHER OPERATIONS

Other operations include the Group administration services of Taaleri Plc that support the segments and the investments on the Group's own balance sheet, which are done primarily through Taaleri Investments Ltd. The Group's investment company Taaleri Investments Ltd invests from its own balance sheet in unlisted and listed companies directly and on the principles of co-investment. Taaleri Investments Ltd aims to make longer-term investments mainly in growth companies, where value is created for Taaleri through ownership and where entrepreneurship, ideas and capital are combined.

Taaleri's balance sheet investments include portfolio investments, co-investments and the Group's own investments. The aim of the portfolio investments is to pursue new business opportunities that support the existing businesses and grow the value of the target companies. Portfolio investments include shares in, e.g., Fellow Finance Plc, Inderes Oy, ClarkApps Oy, (former Bonus Solutions Oy), Turun Toripark and Munkkiniemi Group. The primary goal of co-investments is to create value for the target company. Co-investments include shares in, e.g., Rauma Marine Constructions, Taaleri Geoenergia and Ficolo Oy. The Group's own investments include TT Canada Real Estate Holding, other listed and unlisted investments, and granted loans.

Other operations, EUR million	2018	2017	Change, %
Income	8.8	3.4	156.0
Operating profit	4.4	-1.4	n.a
Average full-time personnel	19	16	22.7

	31 December 2018	31 December 2017	Change, %
Investments and receivables, fair value	**45.7**	33.7	35.6
- Portfolio investments	25.3	9.2	174.6
- Co-investments	4.8	6.3	-23.6
- Own investments	15.6	18.2	-14.4

In 2018, income from other operations amounted to EUR 8.8 (3.4) million and operating profit to EUR 4.4 (-1.4) affected by the listing of Fellow Finance that yielded EUR 13.8 million and the impairment of the German geothermal projects totaling EUR 5.4 million Taaleri decreased the ownership in Fellow Finance to 26 percent and decided that the shares are for sale. In addition, Taaleri invested in in real-estate projects in Finland including Turun Toripark and in Canada. Investments in other operations and loan receivables totalled EUR 45.7 (33.7) million.

OTHER GROUP EVENTS DURING THE FINANCIAL PERIOD

CORPORATE RESPONSIBILITY

Responsible Taaleri has high ethics and is committed to act in a sustainable, ethical and socially responsible manner. Environmental, Social and Governance. "ESG" matters are in well incorporated in the company strategy. We all have the duty to operate responsibly. We also believe that responsible operations advance business success and long-term shareholder value, and encompass:

- Fair and legal behaviour;
- Economic responsibility to shareholders;
- Responsibility to minimise and manage environmental impacts;
- Responsibility towards employees; and
- Responsibility to the wider community.

We understand that evolving legislation, climate change, and other factors can change the long-term risk and returns profile, and therefore we are continuously developing our business. Additionally, we want to promote solutions that tackle the key challenges of our time, e.g. in renewable energy production. We want people, communities, the environment, and our assets to be safe also in the future.

Taaleri business segments are responsible with dedicated committees to oversee and review the implementation of Taaleri's responsibility actions, including environmental, social and governance, and responsible investment matters. Each segment will have/has a separate ESG policy.

CHANGES IN GROUP STRUCTURE

In order to promote entrepreneurship Taaleri reduced, on 6 March 2018, its ownership in Taaleri Energia by 19.4 percent to commit its Energy segment's key operative individuals; at the end of the financial period Taaleri had an 80.6 per cent stake in the company. Taaleri Investments acquired an 82.47 per cent stake in Erdwärme Oberland GmbH on 14 March 2018. Taaleri Wealth Management Ltd acquired the entire share capital of the investment company Evervest Oy on 5 July 2018, and the company became a fully-owned subsidiary of Taaleri Wealth Management Ltd. Garantia Insurance Company acquired the entire share capital of Suomen Vuokravastuu Oy on 31 August 2018, and the company was merged with Garantia at the end of the 2018 financial period. Taaleri Wealth Management acquired a 20 per cent minority shareholding in Taaleri Veropalvelut Oy (Taaleri Tax Services), giving Taaleri Wealth Management a 95 per cent share in the company on 17 December 2018. Additionally, during the financial period, management and project companies were established under Taaleri Private Equity Funds Group and Taaleri Energia Group.

CHANGES IN TAALERI'S EXECUTIVE MANAGEMENT TEAM

At the end of December 2017, Taaleri announced it is renewing its management system and thereby its organization from 1 January 2018. Through these changes, the Group is seeking to streamline its operations and to create an operating model that more strongly supports its core processes. Taaleri's processes are built around managing customer relationships and product development.

Samu Lang, Taaleri's CIO, Director, Markets and Portfolio Management, was appointed Head of the Wealth Management segment and a member of the Group's Executive Management Team. Heikki Nystedt was appointed Taaleri's Head of Product and Service Development.

On 15 August 2018, Vesa Aho, CEO of Garantia Insurance Company Ltd and member of Taaleri Plc.'s Executive management Team informed that he will move to another company. He left the company on 30 September 2018. Titta Elomaa, Head of Investment and deputy CEO of Garantia, assumed responsibility for the duties of CEO until a successor has been appointed.

ANNUAL GENERAL MEETING 2018

Taaleri Plc's Annual General Meeting was held on 21 March 2018 in Helsinki. The General Meeting adopted the financial statements for the 2017 financial period and granted the members of the Board of Directors and the CEO discharge from liability.

In accordance with the proposal of the Board of Directors, the General Meeting decided that, based on the balance sheet to be adopted for the financial period ending 31 December 2017, a dividend of EUR 0.26 per share be distributed and the remaining part of the distributable funds be retained in shareholders' equity. The dividend payment record date was 23 March 2018 and the dividend was paid on 3 April 2018.

The General Meeting decided on the annual remuneration payable to the members of the Board of Directors as follows:

- Chairman of the Board of Directors EUR 50,000
- Vice Chairman of the Board of Directors EUR 36,000
- Chairman of the Audit Committee EUR 36,000
- Member of the Board of Directors EUR 30,000

The annual remuneration covers the whole of the term of office and committee work.

In addition, in accordance with the proposal of the Nomination Committee of the Board it was decided that:

- Committee members who are not members of the Board, are paid EUR 1,000 per meeting
- Travel and accommodation expenses of the members of the Board and the Committees are paid against invoices, when the meeting takes place outside the member's domicile.

It was decided that the number of members of the Board of Directors of the company be set at six (6). All of the present members of the Board of Directors, that is Peter Fagernäs, Juha Laaksonen, Vesa Puttonen, Esa Kiiskinen, Hanna Maria Sievinen and Tuomas Syrjänen, were re-elected to the Board. The term of office of the Board of Directors will end at the close of the following Annual General Meeting.

The General Meeting elected Authorized Public Accountants Ernst & Young Oy to auditor for the term of office that will end at the close of the following Annual General Meeting. Ernst & Young Oy has announced that the auditor-in-charge will be Ulla Nykky.

The General Meeting authorized the Board of Directors to decide on the purchase of the company's treasury shares using assets belonging to unrestricted equity on the following conditions: Up to 2,000,000 shares may be purchased, corresponding to 7.05% of all the company's shares. The purchase may be made in one or more instalments. The purchase price per share shall be the price given on the Helsinki Stock Exchange or another market-based price. 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 authorization issued to the Board of Directors includes the right to decide whether the shares will be acquired in a private placement or in proportion to the shares owned by shareholders. The purchase may take place through private placement only if there is a weighty financial reason for it from the company's perspective. The Board of Directors has the right to decide on other matters concerning the purchase of shares. This authorization is valid for 18 months from the date of the close of the Annual General Meeting. This authorization supersedes the authorization to purchase the company's treasury shares issued at the Annual General Meeting of 29 March 2017.

The General Meeting also authorized 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 up to a maximum of 2,500,000 shares, corresponding to 8.82% of all the company's 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 authorization is valid for one (1) year from the close of the Annual General Meeting, but no later than until 30 June 2019. This authorization supersedes the authorization issued at the Annual General Meeting on 29 March 2017.

The General Meeting decided that Section 4 of the Articles of Association be amended to read as follows: "Section 4 Board of Directors" The Board of Directors comprises at least three (3) and no more than eight (8) members. The Chairman and Vice Chairman of the Board of Directors are elected by the General Meeting. The term of office of the members of the Board of Directors ends at the close of the first Annual General Meeting following the election.

Decisions regarding organization of Taaleri Plc.'s Board of Directors

In its meeting held on 21 March 2018, Taaleri Plc's Board of Directors decided to elect Peter Fagernäs as Chairman of the Board of Directors and Juha Laaksonen as Vice Chairman.

Vesa Puttonen, Hanna Sievinen and Tuomas Syrjänen were elected as members of the Audit Committee of the Board of Directors. The Board of Directors elected Vesa Puttonen as Chairman of the Audit Committee.

Peter Fagernäs, Juha Laaksonen and Esa Kiiskinen were elected as members of the Remuneration Committee of the Board of Directors. The Board of Directors elected Peter Fagernäs as Chairman of the Remuneration Committee.

Board members Peter Fagernäs and Juha Laaksonen, as well as the external member of the Board Pertti Laine were elected as members of the Nomination Committee of the Board of Directors. The Board of Directors elected Peter Fagernäs as Chairman of the Nomination Committee.

TAALERI'S PERSONNEL

Taaleri's most important success factor and strength is having professional and motivated personnel. The company's personnel turnover has been low throughout its operations, and the company's growth has been facilitated by successful recruitment.

The Group employed an average of 183 (175) full-time people during the period under review. There were 120 (119) full-time people in the Wealth Management segment, 25 (25) in the Financing segment and 19 (16) in the Energy segment. The full-time personnel of Other operations averaged 19 (16). Of the personnel, 99 per cent were employed in Finland.

During 2018 the personnel costs of the Taaleri Group declined 25.8 percent and totalled EUR 21.7 (29.3) million, even though the number of employees increased. This was due to a decrease in variable remuneration and stock option expenses, when compared to 2017.

Incentive schemes

Taaleri has three share-based incentive schemes for the Group's key persons.

The two first incentive schemes, 2013 and 2015, are synthetic option rights, the potential bonus of which will be paid partly in company shares and partly in cash. By the end of year 2018, the year 2013 synthetic options usage time ended and, for year 2015 a total of 615,000 synthetic options were outstanding. The Board of Directors has the right to require Taaleri key personnel to purchase company shares to a maximum of 50 per cent of the received bonus amount.

The third incentive scheme, has three earning periods lasting three years each. The Board of Directors will decide on the earning criteria and the targets set for each earning criterion at the beginning of each earning period. The bonuses paid will correspond with the value of no more than 420,000 Taaleri Plc shares, including the part paid in cash. The bonus will be paid partly in company shares and partly in cash.

SHARES AND SHARE CAPITAL

Taaleri's share Nasdaq Helsinki

2018	No. of shares traded	Total value EUR	High EUR	Low EUR	Average* EUR	Last EUR
TAALA	2,247,398	21,779,481	11.80	7.08	9.69	7.10

* Volume weighted average

	31 Dec. 2018	%	31 Dec. 2017	%
Market capitalization, EUR million	201.0		293.0	
No. of shareholders	4,414	100.0	3,928	100.0
Shareholding per group				
Corporations	9,449,145	33.4	9,426,857	33.3
Financial and insurance corporations	4,169,016	14.7	1,299,162	4.5
Public institutions	197,847	0.7	191,447	0.7
Non-profit institutions	311,203	1.1	326,399	1.1
Households	13,612,081	48.1	13,799,115	48.7
Nominee registrations and direct foreign shareholders	575,266	2.0	3,307,640	11.7

On 31 December 2018, Taaleri Plc's Shareholders equity was EUR 125,000.00. The company had 28,350,620 registered shares.

Taaleri's share has been listed on Nasdaq Helsinki, among mid-cap companies, since 2016. The trading code is TAALA. On 31 December 2018, the company possessed 45,000 (45,000) treasury shares.

10 biggest shareholders, 31 December 2018

	No.	of shares, %
1. Veikko Laine Oy	2,603,833	9.18
2. Oy Hermitage Ab	2,503,128	8.83
3. Elomaa Juhani	1,717,562	6.06
4. Lombard International Assurance S.A.	1,461,161	5.15
5. Haaparinne Karri	1,450,213	5.12
6. Fennia Life Insurance Company Ltd	1,281,239	4.52
7. Swiss Life Luxembourg Sa	1,139,558	4.02
8. Lampinen Petri	508,844	1.79
9. Mathur Ranjit Juhani C.	430,000	1.52
10. Berling Capital Ltd	411,558	1.45
Total,	**13,507,096**	**47.64**
of which Nominee registrations	**451,878**	**1.59**

Share split by number of shares, 31 December 2018

No. of shares	Owners	% of owners	Shares	%
1-100	1,546	37.3	76,605	0.3
101-500	1,295	31.3	332,256	1.2
501-1,000	456	11.0	360,493	1.3
1,001-5,000	421	10.2	930,332	3.3
5,001-10,000	160	3.9	1,259,563	4.4
10,001-50,000	199	4.8	3,841,557	13.6
50,001-100,000	26	0.6	1,712,240	6.0
100,001-500,000	30	0.7	7,172,036	25.3
500,001-	8	0.2	12,665,538	44.7
Total	**4,141**	**100.0**	**28,350,620**	**100.0**

Taaleri Plc's Board of Directors' ownership, 31 December 2018, including organizations with controlling interests

Board of Directors		No.	of shares, %
Chairman	Peter Fagernäs	2,503,128	8.83
Deputy Chairman	Juha Laaksonen	0	0.00
	Esa Kiiskinen	232,496	0.82
	Vesa Puttonen	182,224	0.64
	Hanna Maria Sievinen	3,000	0.01
	Tuomas Syrjänen	2,500	0.01
Total		**2,923,348**	**10.31**

Taaleri Executive Management Team ownership, 31 December 2018, including organizations with controlling interests

Management team		No.	of shares, %
CEO	Juhani Elomaa	1,984,218	7.00
Deputy CEO	Karri Haaparinne	1,617,896	5.71
Legal counsel	Janne Koikkalainen	10,000	0.04
Wealth Management Director	Samu Lang	256,530	0.90
CFO	Minna Smedsten	17,586	0.06
Member, until 14 Jan 2019	Petri Lampinen	517,112	1.82
Member until 30 Sep 2018	Vesa Aho	0	0.00
Total		**4,403,342**	**15.53**

Taaleri share price development from the listing; 20 April 2013 – 31 December 2018

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).

As a RaVa conglomerate, Taaleri Group discloses its own funds and capital adequacy in accordance with the capital adequacy regulations for financial and insurance conglomerates. Taaleri RaVa conglomerate's own funds amounted to EUR 105.1 (96.1) million, with the minimum requirement being EUR 56.5 (38.3) million. The change in the own funds requirement is mainly due to the capital add-on requirement in 2018 for Garantia of EUR 17.8 million, set by the Financial Supervisory Authority. The conglomerate's capital adequacy is EUR 48.6 (57.9) million and the capital adequacy ratio is 186.0 (251.2) per cent, with the minimum requirement being 100 per cent.

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 as a part of the RaVa conglomerate. Taaleri applies the standardised approach in its regulatory capital calculation. The total solvency capital requirement (SCR) of the parent company Taaleri Plc and the subsidiary Garantia Insurance Company Ltd was EUR 27.5 (28.5) million. The Financial Supervisory Authority confirmed during 2018 a capital add-on totaling EUR 17.8 million. The total solvency requirement was hence EUR 45.3 million for the insurance business.

Taaleri's own funds fully comprise its own unrestricted Tier 1 basic funds.

Capital adequacy of RaVa conglomerate, EUR thousand	**31 Dec. 2018**	**31 Dec. 2017**
Shareholders' equity of the Taaleri Group	**122,381**	**106,084**
Goodwill and other intangible assets	-7,164	-2,205
Non-controlling interests	-1,661	-384
Planned distribution of profit	-8,505	-7,371
Conglomerate's own funds, total	**105,051**	**96,124**
Financing business' requirement for own funds	11,156	9,781
Insurance business' requirement for own funds	45,327	28,484
Minimum amount of own funds of the conglomerate, total	**56,483**	**38,265**
Conglomerate's capital adequacy	**48,567**	**57,859**
Conglomerate's capital adequacy ratio	**186.0%**	**251.2%**

Capital adequacy according to the Act on Credit Institutions and the EU Capital Requirements Regulation (Basel III)

Within the Taaleri Group, the regulatory capital according to the Act on Credit Institutions (610/2014) and the EU Capital Requirements Regulation (CRR) (No 575/2013 of the European Parliament and of the Council) is determined and disclosed to the supervised parties operating in the Financing sector. Taaleri applies the standardised approach in the regulatory capital calculation of the credit risk capital requirement. Taaleri has changed to the standardised approach in the calculation of the operational risk capital requirement from the previously used basic indicator method as of 31 December 2018.

Taaleri Group's target level for the own funds of the Financing sector is 1.3 times the internal risk based capital requirement, calculated on the basis of the pillar 1 minimum capital requirement and additional pillar 2 risk-based capital requirement.

The Finnish Financial Supervisory Authority has 31 January 2019 given Taaleri Plc permission pursuant to Article 49 (1) of the EU Capital Requirements Regulation (EU) 575/2013 (CRR). The permission entitles Taaleri Plc to not deduct the investments in the own funds instruments of Garantia Insurance Company Limited from the consolidated common equity tier capital (CET1) of the investment services firm. Instead of deduction, investments in insurance company should be risk-weighted in accordance with CRR Article 49 (4). The permit is for a fixed term and is valid until 31.12.2020.

With the permission Garantia's book acquisition expense of EUR 60.4 million can be left undeducted. The impact on the result accumulated by the insurance company investment is not included in the consolidated Common Equity Tier 1 of the investment service company. Equity investments include the Group's internal insurance company investment of EUR 60.4 million with a risk-weight of 100 per cent. With the result of the review period, the consolidated Common Equity Tier 1 of the investment service company would be EUR 16.6 million on 31 December 2018, if the CRR 49 permission were not applied, and the alternative calculation method where the insurance company investment would be deducted from the Common Equity Tier 1 would be used.

Taaleri's Financing sector's Common Equity Tier 1 with the CRR 49 permission is EUR 57.1 (48.8) million, from which the profit of year 2018, EUR 21.3 (19.2) million, is deducted. The risk-weighted commitments were EUR 229.6 (217.2) million, of which the share of credit risk was EUR 150.0 (145.6) million and the share of operational risk EUR 79.6 million according to the standardized (according to the basic indicator method approach 2017: EUR 71.6) million. The Financing sector's capital adequacy ratio was 24.9 (22.5) per cent.

Financing sector's capital adequacy, EUR thousand (with the CRR 49 permission)	31 Dec. 2018	31 Dec. 2017
Common Equity Tier 1 before deductions	**86,321**	**70,554**
Deductions from the Common Equity Tier 1		
Goodwill and intangible assets	-6,228	-2,173
Non-controlling interests	-1,662	-384
Profit of the review period	-21,318	-19,172
Common Equity Tier (CET1)	**57,113**	**48,825**
Additional Tier 1 before deductions	-	-
Deductions from the Additional Tier 1	-	-
Additional Tier 1 (AT1)	-	-
Tier 1 capital (T1 = CET1 + AT1)	**57,113**	**48,825**
Tier 2 capital before deductions	**-**	-
Deductions from the Tier 2 capital	-	-
Tier 2 capital (T2)	**-**	-
Total capital (TC = T1 + T2)	**57,113**	**48,825**
Total risk-weighted commitments (total risk)	**229,622**	**217,201**
- of which the share of credit risk	150,023	145,560
- of which insurance company holdings	60,350	60,000
- of which the share of operative risk	79,599	71,641
- of which the share of other risks	-	-
Common Equity Tier 1 (CET1) in relation to the amount of total risk (%)	24.9%	22.5%
Tier 1 capital (T1) in relation to the amount of total risk (%)	24.9%	22.5%
Total capital (TC) in relation to the amount of total risk (%)	24.9%	22.5%

Solvency according to the Insurance Companies Act (Solvency II)

Garantia continues to have strong capital adequacy. Garantia's own funds at the end of December 2018 were EUR 103.3 (106.8) million. The solvency capital requirement including the capital add-on was EUR 44.3 (44.9 pro forma) million and excluding the capital add-on EUR 26.4 (27.1) million. Garantia's solvency ratio, or the ratio of basic own funds to the solvency capital requirement, including the capital add-on was 233.4 (237.6 pro forma) per cent and excluding the capital add-on 390.7 (393.6) per cent. The decrease in own basic funds was mainly a result of the change in expected dividends. The decrease in the solvency capital requirement excluding the capital add-on was the result of the decreased investment risk, which was faster than the growth of insurance risk.

Garantia's own funds fully comprise its unrestricted Tier 1 basic own funds. Garantia uses neither matching adjustment nor volatility adjustment in the calculation of technical provisions. In the calculation of the solvency capital requirement, Garantia applies the standard formula. Garantia does not apply technical provision or market risk calculation transition arrangements. In June 2018 the Financial Supervisory Authority confirmed Garantia's capital add-on to EUR 17.8 million. The Financial Supervisory Authority states that the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation. In addition, the Financial Supervisory Authority notes that the requirement to use an internal model is not appropriate for Garantia. The increase in the capital add-on was at the expected level and the capital add-on including the increase is somewhat smaller than what Garantia uses in its internal riskmodel for solvency capital requirement.

Based on the Insurance Companies Act that came into force on 1 January 2016, the Solvency II capital adequacy regulations do not fall within the sphere of statutory auditing.

TAALERI'S RISK MANAGEMENT AND RISK POSITION

The task of risk management is to identify, assess, measure, handle and monitor business operation-related risks that influence the realization of the Group's strategic and operative goals, as well as to oversee that the principles approved by the Taaleri Plc Board of Directors are complied with in the company's operations. Risk management aims to mitigate the likelihood of unforeseeable risks being realized, and their influence on and the threat they present to Taaleri Group's business operations. Risk management supports the achieving of the goals set in the strategy by promoting better utilization of opportunities related to the different functions and the distribution of risk-taking capacity to the different functions as efficiently as possible and within the framework of risk appetite defined for projects.

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). In addition, Taaleri follows the development of political risks. Taaleri uses in its evaluation a report Nordic West Office publishes quarterly on political risk. The report is based on a Global Scenarios Matrix. The principles of Taaleri's risk and capital adequacy management are described in note 36 to the 2018 financial statements.

The risk-bearing capacity of the Taaleri Group comprises a properly optimized capital structure, profitability of business operations and qualitative factors, which include reliable management, internal control and proactive risk and capital adequacy management. Taaleri Group's attitude towards risk-taking is based on careful consideration of the risk/return relationship. Taaleri Plc's Board of Directors has decided that the Group may not in its activities take a risk that jeopardizes the target level set for the company's own funds.

Segment-specific risks

The greatest risks of Taaleri's Wealth Management segment mainly consist of operative risks and, to a slight extent, credit risks. 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 the capital markets. The profit development is also influenced by the realization 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.

The business operations of Garantia Insurance Company Ltd in the insurance sector and the company's investment operations play a key role in Taaleri's risk position. The insurance and investment activities carried out by Garantia Insurance Company are central to Taaleri's 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. Garantia's capital adequacy is strong and its risk position has remained stable. At the end of the review period, Garantia's claims ratio was -4.2 per cent and the claims incurred in relation to gross exposure remained low at 0.05 per cent. The share of fixed income investments in Garantia's investments was 87 per cent. Standard & Poor's Global Ratings Europe Limited (S&P) credit rating for Garantia is A- with stable outlook.

The Energy segment's objective is to channel assets under management to renewable energy production projects and to other energy projects supporting sustainability. The goal is to internationalize and expand energy business operations considerably, which naturally grows risks relating to the growth and internationalization of the operations. The Energy segment's earnings are impacted by its success in finding suitable projects, its ability to identify all risks related to renewable energy's international development, construction, financing and operations, and its success in internationalization of its operations. The Energy segment's earnings are also affected by the success of its own investments in development-stage energy projects.

The most significant risks of the Other operations segment consist primarily of private investments and financing granted by Taaleri Investments Ltd and of credit risks related to Taaleri Plc's granted loans as well as receivables from credit institutions. The Other operations segment's returns consist of the fair value changes of investments and of prof-its/losses gained in connection with the sales of its investments. The returns and income of the Other operations segment may thus vary significantly between periods under review.

Taaleri falls within the sphere of regulation of large customer risks defined in the EU Capital Requirements Regulation. At the end of the review period, Taaleri's largest single customer risk was 22.3 (20.8) per cent of the Group's own funds and the liabilities of any (single) customer entity did not exceed the 25 per cent limit set by the law.

MATERIAL EVENTS AFTER THE FINANCIAL PERIOD

In January 2019, Taaleri Plc. and Mr. Petri Lampinen, member of Taaleri's executive management team and responsible for customer relationships at Taaleri Wealth Management agreed on termination of employment. Lampinen left the company on 14 January 2019.

15 January 2019, Taaleri Energia and Masdar signed a letter of intent to establish a joint venture. The aim of the joint venture is to develop wind power and solar energy projects in Eastern Europe.

31 January 2019, the Finnish Financial Supervisory Authority gave Taaleri Plc. permission pursuant to Article 49 (1) of the EU Capital Requirements Regulation (EU) 575/2013 (CRR). The permission entitles Taaleri Plc to not deduct the investments in the own funds instruments of Garantia Insurance Company Limited from the consolidated common equity (CET1) of the investment services firm. Garantia is part of Taaleri Plc's financing and insurance conglomerate supervised by the Financial Supervisory Authority. Instead of deduction, investments in insurance company should be risk-weighted in accordance with CRR Article 49 (4). The permit is for a fixed term and is valid until 31.12.2020.

OUTLOOK

Short-term risks and concerns

To change and grow in a changing market environment requires courage. The most significant external factors affecting the Group's operating profit are changes in the operating and regulatory environment and the development of the financial market globally but especially in Finland.

The results of the Wealth Management and the Energy segments are influenced by the development of assets under management, which depends among other things on the progress of the private equity funds' projects and the development of capital markets. The profit development is also influenced by the realization of performance fees, and which are tied to the success of our investment operations. The Energy segment's earnings are also affected by the success of its own investments in development-stage energy projects.

The Financing segment's i.e. Garantia's guaranty insurance business and investment activity, has a major impact on Taaleri's operational income.

The Other operations segment's returns consist of the market value changes in investments and of sales profits/losses gained in connection with exits. The returns and income of the Other operations segment may thus vary significantly between periods under review.

Long-term financial targets

Taaleri's long-term operating profit target is at least 20 per cent of income, its long-term return on equity target is at least 15 per cent, and its long-term equity ratio target is at least 30 per cent.

The company strives to increase the amount of dividend it distributes, and to annually distribute a competitive dividend, taking into account the company's financial and financing situation as well as the Finnish Financial Supervisory's capital adequacy requirement.

BOARD OF DIRECTORS´ DIVIDEND PROPOSAL

The Board of Directors proposes that a dividend of EUR 0.30 per share, a total of EUR 8,505,186.00 be paid for the financial year 2018. The parent company's distributable funds total EUR 60,954,918.41, which includes EUR 11,591,097.91 in net profit for the year. The dividend is paid on a yearly basis.

The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date, which is 22 March 2019. The dividend payment date proposed by the Board is 29 March 2019.

The Board of Directors' report and financial statements will be available at www.taaleri.com on 28 February 2019 at the latest.

Helsinki, 14 February 2019
Taaleri Plc
Board of Directors

KEY FIGURES

GROUP	2018	2017	2016
Income, EUR 1,000	72,513	80,989	60,569
Operating profit (-loss), EUR 1,000	23,895	27,611	16,340
- as percentage of turnover	33.0 %	34.1 %	27.0 %
Net profit for the period, EUR 1,000	21,637	21,787	12,771
- as percentage of turnover	29.8 %	26.9 %	21.1 %
Basic earnings per share, EUR	0.76	0.76	0.45
Diluted earnings per share, EUR	0.76	0.76	0.44
Return on equity % (ROE)	18.9 %	21.8 %	13.4 %
Return on equity at fair value % (ROE)	17.8 %	19.1 %	16.5 %
Return on assets % (ROA)	9.3 %	9.8 %	5.9 %
Cost/income ratio	67.0 %	66.2 %	73.2 %
Price/earnings (P/E)	9.3	13.7	18.4
Number of full-time employees, avg	183	175	167

GROUP	2018	2017	2016
Equity ratio -%	51.4 %	46.3 %	44.0 %
Net gearing -%	24%	8%	17%
Equity/share, EUR	4.26	3.73	3.30
Dividend/share, EUR [1)]	0.30	0.26	0.22
Dividend/earnings, % [1)]	39.3 %	34.3 %	49.2 %
Effective dividend yield, % [1)]	4.2 %	2.5 %	2.7 %
Loan receivables, EUR 1,000	9,379	6,598	6,919
Conglomerate's capital adequacy ratio, %	186.0 %	251.2 %	268.9 %
Financing sector capital adequacy ratio, %	24.9 %	22.5 %	-
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	9.69	9.30	8.73
- highest price, EUR	11.80	11.50	9.50
- lowest price, EUR	7.08	7.78	8.00
- closing price, EUR	7.10	10.35	8.24
Market capitalization, EUR 1,000 [2)]	200,970	292,963	233,238
Shares traded, thousands	2,247	2,487	2,719
Shares traded, %	8%	9%	10%

1) The Board’s proposal for 2018 EUR 0.30 dividend/share.
2) Reduced by own shares acquired.

INSURANCE OPERATIONS KEY FIGURES

Taaleri's insurance business operations consist entirely of Garantia

EUR 1,000	2018	2017	2016
Net income from insurance	**13,021**	**9,818**	**8,714**
Earned premiums, net	12,277	10,638	9,467
Claims incurred, net	744	-820	-753
Other income	**202**	**3**	
Net income from investment operations	**-734**	**11,930**	**3,614**
Operating expenses	**-7,540**	**-7,849**	**-7,702**
Operating profit before valuations	**4,949**	**13,902**	**4,626**
Change in fair value of investments	**-1,690**	**-3,604**	**3,064**
Profit before taxes and non-controlling interests	**3,259**	**10,298**	**7,690**
Combined ratio, %	35%	60%	64%
Claims ratio, %	-4%	10%	12%
Expense ratio %	39%	50%	52%
Return on investments at fair value, %	-1.7 %	6.6 %	5.8 %
Solvency ratio (S2), % [1)]	390.7 %	393.6 %	435.4 %
Solvency ratio (S2) with raise in capital requirement, % [1)]	233.4 %	237.6 %	
Insurance exposure, EUR billion	1.67	1.49	1.32
Number of employees, avg	26	25	22

1) 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. The Solvency II -figures have not been audited.

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 (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.

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, %	$\frac{\text{Total equity x 100}}{\text{Balance sheet total}}$
Net 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, %	$\frac{\text{Conglomerate's total capital base}}{\text{Conglomerate's minimum requirement of total capital base}}$
Total capital in relation to risk-weighted items	$\frac{\text{Total Capital (TC)}}{\text{Risk-weighted items (Total risk)}}$
Common equity tier in relation to risk-weighted items	$\frac{\text{Common Equity Tier (CET1)}}{\text{Risk-weighted items (Total risk)}}$
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

Combined ratio, %	Claims ratio, % + Expense ratio, %
Claims ratio, %	$\frac{\text{(Claims incurred + operating expenses allocated to claims paid) x 100}}{\text{Insurance premium income}}$
	This key figure is calculated after the share of the reinsurers.
Expense ratio, %	$\frac{\text{(Operating costs - Group's allocated overhead and financing expenses + operating expenes allocated to claims paid) x 100}}{\text{Insurance premium income}}$
	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	1/1-31/12/2018	1/1-31/12/2017
CONTINUING OPERATIONS			
Fee and commission income	3	45,631	53,015
Net income from insurance	4	12,287	21,748
From guaranty insurance operations		13,021	9,818
From investment operations		-734	11,930
Net gains or net losses on trading in securities and foreign currencies	5	-2,814	534
Income from equity investments	6	11,835	1,301
Interest income	7	678	562
Other operating income	8	4,896	3,829
TOTAL INCOME		**72,513**	**80,989**
Fee and commission expense	9	-5,774	-6,391
Interest expense	10	-2,943	-3,133
Administrative expenses			
Personnel costs	11, 42	-21,735	-29,304
Other administrative expenses	12	-8,430	-7,079
Depreciation, amortisation and impairment of tangible and intangible assets	13	-1,181	-1,316
Other operating expenses	14	-8,390	-6,738
Expected credit losses from financial assets measured at amortised cost	15	51	-
Share of associates' profit or loss	44	-215	583
OPERATING PROFIT		**23,895**	**27,611**
Income tax expense	16	-2,258	-5,824
PROFIT FOR THE PERIOD		**21,637**	**21,787**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	1/1-31/12/2018	1/1-31/12/2017
Profit for the period		21,637	21,787
Items that may be reclassified to profit or loss	17		
Translation differences		21	248
Changes in the fair value reserve		-1,690	-3,739
Income tax		338	748
Items that may be reclassified to profit or loss in total		**-1,330**	**-2,743**
Items that may not be reclassified to profit or loss	17		
Changes in the fair value reserve		-31	
Income tax		5	
Items that may not be reclassified to profit or loss in total		**-26**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**20,281**	**19,044**

Profit for the period attributable to:		
Owners of the parent company	21,626	21,447
Non-controlling interests	12	341
Total	**21,637**	**21,787**

Total comprehensive income for the period attributable to:		
Owners of the parent company	20,269	18,703
Non-controlling interests	12	341
Total	**20,281**	**19,044**

Earnings per share for profit attributable	Note	1/1-31/12/2018	1/1-31/12/2017
Basic earnings per share, profit for the period	18	0.76	0.76
Diluted earnings per share, profit for the period	18	0.76	0.76

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	31/12/2018	31/12/2017
Receivables from credit instutions	19, 24, 25, 37, 39	26,133	34,567
Receivables from the public and general government	20, 24, 25, 37, 39	9,379	6,598
Shares and units	21, 24, 25, 37, 39	12,424	25,883
Assets classified as held for sale	22	12,007	-
Participating interests	21, 24, 25, 37, 39	6,140	7,606
Insurance assets	23, 24, 25	133,634	135,586
Insurance receivables		1,802	3,268
Investments		131,832	132,318
Intangible assets	26	6,575	2,205
Goodwill		5,097	627
Other intangible assets		1,479	1,577
Tangible assets	27	692	361
Other assets	28	6,540	10,081
Accrued income and prepayments	29	22,163	5,322
Deferred tax assets	34	2,322	1,113
		238,009	**229,322**

Liabilities, EUR 1,000	Note	31/12/2018	31/12/2017
LIABILITIES		**115,628**	**123,238**
Liabilities to credit institutions	24, 25, 30, 37, 39	6,996	7,982
Debt securities issued to the public	24, 25, 31, 37, 39	54,815	54,758
Insurance liabilities	23, 24, 25	23,293	20,336
Other liabilities	24, 32	2,882	2,131
Accrued expenses and deferred income	24, 33	12,999	22,143
Deferred tax liabilities	34	14,643	15,887
EQUITY CAPITAL	35	**122,381**	**106,084**
Share capital		125	125
Reserve for invested non-restricted equity		35,814	35,814
Fair value reserve		-2,414	-4,280
Translation difference		21	-
Retained earnings or loss		65,547	52,594
Profit or loss for the period		21,626	21,447
Non-controlling interest		1,662	384
		238,009	**229,322**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Cash flow from operating activities:		
Operating profit (loss)	23,895	27,611
Depreciation	1,181	1,316
Other adjustments		
Changes in fair value of investments		
- at fair value through profit or loss	-813	-76
- at fair value through other comprehensive income	1,522	-2,984
Other adjustments	490	-297
Cash flow before change in working capital	26,275	25,569
Change in working capital		
Increase (-)/decrease (+) in loan receivables	-2,830	304
Increase (-)/decrease (+) in current interest-free receivables	-12,879	-6,149
Increase (+)/decrease (-) in current interest-free liabilities	-1,589	12,780
Cash flow from operating activities before financial items and taxes	8,977	32,505
Direct taxes paid (-)	-3,890	-3,711
Cash flow from operating activities (A)	**5,087**	**28,794**
Cash flow from investing activities:		
Investments in tangible and intangible assets	-1,376	-870
Investments in subsidiaries and associated companies net of cash acquired	-9,918	-3,215
Other investments	5,235	-27,426
Cash flow from investing activities (B)	**-6,059**	**-31,511**
Cash flow from financing activities:		
Changes in synthetic options	1,279	-472
Transactions with non-controlling interests	23	24
Debt securities issued to the public	-	-10,000
Increase (+)/decrease (-) in non-current liabilities	-1,000	-1,000
Dividends paid and other distribution of profit		
To parent company shareholders	-7,359	-6,202
To non-controlling shareholders	-404	-215
Cash flow from financing activities (C)	**-7,461**	**-17,864**
Increase/decrease in cash and cash equivalents (A+B+C)	-8,434	-20,581
Cash and cash equivalents at beginning of period	34,567	55,148
Cash and cash equivalents at end of period	26,133	34,567
Net change in cash and cash equivalents	-8,434	-20,581

CHANGES IN GROUP EQUITY CAPITAL

2018, EUR 1,000	Share capital	Fair value reserve	Reserve for invested non-restricted equity	Translation differences	Retained earnings	Total	Non-controlling interests	Equity total
31/12/2017	**125**	**-4,280**	**35,814**	**-**	**74,041**	**105,700**	**384**	**106,084**
Effect of IFRS 9 transition 1.1.2018	-	3,244	-	-	-3,301	-57	-	-57
Effect of IFRS 2 amendments 1.1.2018	-	-	-	-	783	783	-	783
01/01/2018	**125**	**-1,036**	**35,814**	**-**	**71,523**	**106,426**	**384**	**106,809**
Total comprehensive income for the financial period	-	-1,378	-	21	21,626	20,269	12	20,281
Earnings for the period	-	-	-	-	21,626	21,626	12	21,637
Other comprehensive income items	-	-1,378	-	21	-	-1,356	-	-1,356
Chargeable additions to equity	-	-	-	-	-	-	-	-
Distribution of profit	-	-	-	-	-7,359	-7,359	-404	-7,764
Dividend EUR 0.26/share	-	-	-	-	-7,359	-7,359	-	-7,359
Distribution of profit for subgroup	-	-	-	-	-	-	-404	-404
Purchase of own shares	-	-	-	-	-	-	-	-
Share-based payments payable as equity	-	-	-	-	1,279	1,279	-	1,279
Shares sold to non-controlling interests [1)]	-	-	-	-	397	397	1,647	2,044
Transactions with non-controlling interests [1)]	-	-	-	-	-291	-291	-8	-300
Other	-	-	-	-	-	-	32	32
31/12/2018	**125**	**-2,414**	**35,814**	**21**	**87,173**	**120,720**	**1,662**	**122,381**

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
01/01/2017	125	-1,288	35,814	-248	59,093	93,496	354	93,850
Total comprehensive income for the financial period	-	-2,991	-	248	21,447	18,703	341	19,044
Earnings for the period	-	-	-	-	21,447	21,447	341	21,787
Other comprehensive income items	-	-2,991	-	248	-	-2,743	-	-2,743
Distribution of profit	-	-	-	-	-6,227	-6,227	-215	-6,442
Dividend EUR 0.22/share	-	-	-	-	-6,227	-6,227	-	-6,227
Distribution of profit for subgroup	-	-	-	-	-	-	-215	-215
Purchase of own shares	-	-	-	-	-	-	-	-
Share-based payments payable as equity	-	-	-	-	-472	-472	-	-472
Shares sold to non-controlling interests [1)]	-	-	-	-	147	147	-103	44
Transactions with non-controlling interests [1)]	-	-	-	-	53	53	7	60
31/12/2017	**125**	**-4,280**	**35,814**	**-**	**74,041**	**105,700**	**384**	**106,084**

1) See note 43.

SEGMENT INFORMATION

Business segments

Taaleri Group's business segments are Wealth Management, Financing, and Energy. Any activity not belonging to these segments is presented in "Other operations".

The Wealth Management segment consists of the investment service company Taaleri Wealth Management Ltd and its subsidiaries, as well as Taaleri Private Equity Funds Ltd Group. The segment also includes Taaleri Kapitaali Oy. Fee and commission income is the most significant income item in the Wealth Management segment. Costs mainly comprise personnel and other administrative expenses as well as fee and commission expenses. The most significant type of business risk is operative risk, but the business also entails market risk and credit risk.

The Financing segment comprises Garantia Insurance Company Ltd and Suomen Vuokravastuu Oy, acquired and merged into Garantia during 2018. Garantia is an insurance company specialising in guaranty insurance. Garantia guarantees funding and other liabilities for Finnish companies, and insures investment-related risks. The most significant income items in the Financing segment are fee and commission income from guaranty insurance and investment income. The most significant risks in the guaranty business are insurance risks and investment risks.

The Energy segment comprises Taaleri Energia Oy and its subsidiaries. Taaleri Energia works actively in international energy infrastructure markets seeking new investment opportunities. Operations are based on a life-cycle model, which begins by seeking and selecting targets of development, then continuing on through project development, construction and operation to the controlled shutdown of energy plants. Income from the Energy business is based on fund units from the Energy segment. The Energy business also develops projects whose income and costs are recorded in the financial period when the end result of the project can be reliably assessed. The Energy business also includes operating and maintenance services for wind farms from which annual fees are received. The most significant risks of the Energy business are country risks related to international projects and market risks and credit risks.

Other operations include the Group administration services of Taaleri Plc that support the segments and the investments on the Group's own balance sheet that are implemented through Taaleri Investments Ltd. The costs of services that support the business segments are allocated to the segments and charged monthly.

The segment reporting accounting principles are explained in greater detail in Note 2.

SEGMENT INFORMATION - EARNINGS

	Continuing operations				
1 January–31 December 2018, EUR 1,000	**WEALTH MANAGEMENT**	**FINANCING**	**ENERGY**	**OTHER**	**TOTAL**
Continuing earnings	35,818	13,223	2,280	706	52,028
Performance fees	8,102	-	-	-	8,102
Investment operations	4,821	-734	-	8,081	12,168
Total income	**48,742**	**12,489**	**2,280**	**8,787**	**72,298**
Fee and commission expense	-5,517	-128	-20	-110	-5,774
Interest expense	-43	-	-	-2,900	-2,943
Personnel costs [1)]	-13,600	-3,072	-2,056	-3,008	-21,735
Direct expenses	-9,659	-1,761	-1,943	-3,458	-16,820
Depreciation, amortisation and impairment	-984	-89	-27	-80	-1,181
Impairment losses on loans and other receivables	-	19	-	32	51
Operating profit before overhead costs	**18,938**	**7,459**	**-1,765**	**-736**	**23,895**
Overhead costs [1)]	-2,111	-348	-317	2,776	-
Allocation of financing expenses	-	-2,163	-247	2,410	-
Operating profit before valuations	**16,828**	**4,949**	**-2,330**	**4,449**	**23,895**
Change in fair value of investments	-31	-1,690	-	-	-1,721
Profit before taxes and non-controlling interests	**16,796**	**3,259**	**-2,330**	**4,449**	**22,174**

	Continuing operations				
1 January–31 December 2017, EUR 1,000	**WEALTH MANAGEMENT**	**FINANCING**	**ENERGY**	**OTHER**	**TOTAL**
Continuing earnings	35,733	9,818	1,786	1,610	48,947
Performance fees	15,806	-	-	-	15,806
Investment operations	3,064	11,933	-	1,822	16,820
Total income	**54,603**	**21,751**	**1,786**	**3,432**	**81,572**
Fee and commission expense	-6,190	-55	-97	-50	-6,391
Interest expense	-46	-	-	-3,087	-3,133
Personnel costs [1)]	-18,726	-4,208	-1,920	-4,449	-29,304
Direct expenses	-8,809	-1,367	-837	-2,805	-13,818
Depreciation, amortisation and impairment	-1,163	-91	-23	-39	-1,316
Operating profit before overhead costs	**19,670**	**16,030**	**-1,091**	**-6,997**	**27,611**
Overhead costs [1)]	-3,024	-549	-454	4,027	-
Allocation of financing expenses	-	-1,580	-	1,580	-
Operating profit before valuations	**16,646**	**13,902**	**-1,545**	**-1,391**	**27,611**
Change in fair value of investments	13	-3,604	-	-149	-3,739
Profit before taxes and non-controlling interests	**16,659**	**10,298**	**-1,545**	**-1,539**	**23,872**

1) From 1 January 2018 onwards expenses from share based incentive schemes have been presented in personnel costs, while they previously were in Overhead costs. Comparative figures have been amended accordingly.

Reconciliations

Reconciliation of total income	**2018**	**2017**
Total income of segments	72,298	81,572
Share of associates' profit or loss allocated to total income of segments	215	-583
Consolidated total income	**72,513**	**80,989**

Reconciliation of operating profit	**2018**	**2017**
Total earnings of segments before taxes and non-controlling interests	22,174	23,872
Change in fair value of investments	1,721	3,739
Consolidated operating profit	**23,895**	**27,611**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2018

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Taaleri Plc is a Finnish public limited liability company. It is domiciled in Helsinki, Finland and its registered office is at Kasarmikatu 21 B, 00100 Helsinki. The company's shares are listed on the Nasdaq Helsinki stock exchange. Taaleri Plc and its subsidiaries form the Taaleri Group ("Taaleri" or "the Group"). 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 Oy and Garantia Insurance Company Ltd. In addition, Taaleri has associated companies Fellow Finance Plc, Ficolo Oy, Munkkiniemi Group Oy and Turun Toriparkki Oy (see Group companies on page 123). Taaleri offices are located in Helsinki, Tampere, Turku, Pori, Oulu, and Nairobi. The operations of Taaleri are monitored by the Finnish Financial Supervisory Authority. Taaleri Group forms a financing and insurance conglomerate (RAVA conglomerate) and, therefore, it is within the scope of the Finnish Act on the Supervision of Financial and Insurance Conglomerates.

2. SUMMARY OF KEY ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS

Key accounting policies applied to these consolidated financial statements are presented below. They have been applied consistently during all presented financial periods, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Taaleri have been prepared according to the International Financial Reporting Standards (IFRS). In the preparation of the financial statements, the IAS and IFRS standards and the SIC and IFRIC interpretations which were valid on 31 December 2017 have been followed. IFRS refers to the standards and interpretations which have been approved in accordance with Regulation (EC) No. 1602/2002 of the European Parliament and of the Council. In addition to IFRS, regulations and guidelines on investment service companies have been applied to the consolidated financial statements of Taaleri.

The consolidated financial statements have been prepared over 12 months for the financial period of 1 January – 31 December 2018. The Board of Directors of Taaleri Plc approved the consolidated financial statements for public release on 14 February 201. Shareholders have the right to approve or reject the financial statements at the Annual General Meeting held after the release of the financial statements.

The information included in the financial statements is presented in EUR thousand, and prepared in accordance with an accounting model based on recoverable historical cost, unless otherwise stated in the accounting policies below. As the values presented in the financial statements have been rounded from their exact values, the sum of individual figures presented may differ from the sum total presented. Key figures have been calculated using exact values. The Board of Director's report and the financial statements are available in Finnish and English. The Finnish version is the official version that will apply if there is any discrepancy between the language versions.

The preparation of financial statements according to IFRS requires certain key accounting estimates to be used. In addition, it requires that members of the management use judgement when applying the accounting policies. Section 2.18 offers a more detailed description on complex matters that require judgement, and assumptions or estimates that have a material impact on the group financial statements.

2.2 Consolidation principles

The consolidated financial statements include Taaleri Plc and its subsidiaries that the parent company controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. If there are changes to one or more of the elements of control, the group will reassess whether it still controls the subsidiary. If the group loses control over a subsidiary, it recognises any investment retained in the former subsidiary at its fair value on the day control is lost, and any change in the carrying amount is recognised through profit or loss.

The profit for the period attributable to the owners of the parent company and the non-controlling interests is presented in the consolidated income statement, and the attribution of other comprehensive income is presented in the separate statement of comprehensive income. The profit for the period and comprehensive income are allocated to non-controlling interests also if the proportion of non-controlling interests became negative. The proportion of non-controlling interests has been presented in shareholders' equity on the consolidated balance sheet, separate from equity attributable to the shareholders of the parent company. Non-controlling interests in an acquiree are measured at either fair value or the proportionate share in the recognised amounts of the acquiree's net identifiable assets. The measurement principle is defined separately for each purchase.

Associates, in which the parent company holds 20–50 per cent of the votes provided by all shares or in which it otherwise has significant influence, but not control, are consolidated using the equity method. When applying the equity method, investments are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. If the Group's proportion of an associate's losses exceeds the carrying amount of the investment, the investment is recognised as zero on the balance sheet and the losses exceeding the carrying amount are not consolidated, unless the Group is committed to fulfilling the associate's obligations. The Group's share of the associate's profit for the period is presented before the operating profit. The Group's proportion from changes recognised in other comprehensive income is recognised in the Group's other comprehensive income. The Group's associates had no such items in financial periods 2016–2017. When the Group loses its significant influence, the remaining holding is recognised at fair value, and the difference between the carrying amount and the fair value of the remaining holding and any transfer gains/losses is recognised through profit or loss. At the end of each reporting period, it is evaluated whether or not there is objective evidence of any decrease in the value of the investment in the associate. If there is such evidence, an impairment loss is defined as the difference between the recoverable amount of the investment and its carrying amount, and it is recognised in the income statement line item "Share of associates' profit or loss".

Subsidiaries or associates acquired during the financial period are consolidated from the date on which the Group obtained control or significant influence, and subsidiaries or associates sold are correspondingly consolidated until the date on which control or significant influence is lost. If required, adjustments are made to the financial statements of subsidiaries so that their accounting policies correspond with those of the Group.

All intra-group transactions, as well as receivables, liabilities, unrealised profit and internal distribution of profit are eliminated. Unrealised losses are not eliminated if the losses are caused by impairment.

2.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Acquisition costs are defined as the acquisition-date fair value of the consideration transferred and any non-controlling interest in the acquired entity. For each business combination, the Group selects whether the non-controlling interests are measured at fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognised as expenses in the income statement over the periods, during which the costs are incurred and the corresponding services are received.

When the Group acquires a business, it evaluates assets and liabilities in the light of agreement terms, financial conditions and other related conditions prevailing on the acquisition date, to determine the correct classification. This evaluation includes the separation of embedded derivatives included in main agreements of the acquired business.

Any contingent consideration is recognised at fair value on the acquisition date. A contingent considerations which has been classified as an asset or liability, is a financial instrument and is within the scope of IFRS 9 (Financial Instruments), is measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with that IFRS. If a contingent considerations is not within the scope of IFRS 9, it is accounted for according to the applicable IFRS. A contingent consideration classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is recognised at the original acquisition cost, which corresponds to the amount that the consideration transferred and any non-controlling interest in the acquired business, exceeds the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the fair value of the acquired net assets exceeds the total transferred contribution, the Group will reassess whether it has correctly identified all of the assets acquired and liabilities assumed, and it will review the procedures used to measure the amounts to be recognised at the acquisition date. If the fair value of the acquired net assets, even after the reassessment, exceeds the total transferred contribution, profit is recognised through profit or loss.

After the original recognition, goodwill is recognised at the acquisition cost less accrued impairment losses. Goodwill acquired through business combinations is allocated, for impairment testing purposes starting from the acquisition date, to the Group's cash-generating units which are expected to benefit from the business combination, regardless of whether or not other assets or liabilities of the object of acquisition are allocated to these entities. Cash generating units are either business segments or companies thereof.

Goodwill is tested annually against any impairment by discounting estimated future net cash flows using market-based discount factors. If the recoverable assets of a cash-generating unit are lower than their carrying amount, an impairment loss is recognised. Impairment losses associated with goodwill are not reversed in future periods.

When goodwill has been allocated to a cash-generating unit and an operation of the unit is disposed of, the goodwill allocated to the operation disposed of is included in the carrying amount of that operation when defining gains or losses on the disposal. Goodwill transferred in such a situation is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 Segment reporting

Taaleri Group has three operating segments: Wealth Management, Financing and Energy. Operations not included in these three segments is presented under Other Operations. Operating segments are reported in a way which is consistent with internal reporting to the chief operating decision maker. The Group's Executive Management Team has been designated as the chief operating decision maker, who is responsible for the allocation of resources to operating segments and the evaluation of their results.

Segment reporting follows the Taaleri Group's accounting policies for financial statements. The income and expenses which are deemed to be directly attributable to each segment have been allocated to those segments. The segment reporting only includes group external income and expenses, so there is no need for group eliminations. Assets and liabilities are not monitored on a segment level and are therefore not presented in the group financial statements. The profitability and result of the segments are assessed before tax.

2.5 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, the asset is available for immediate sale in its present condition, and the sale is highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The management must be committed to the expected sale within one year after the classification.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or is part of a separate major line of business that has been disposed of, or classified as held for sale. Assets classified as held for sale are measured at the smaller of their carrying amount, and fair value less costs to sell. Assets that meet the requirements set for being held for sale are presented separately on the balance sheet and the result of discontinued operations are presented separately as a single amount in the statement of comprehensive income.

No depreciation is made on tangible or intangible assets if they have been classified as held for sale. Assets and liabilities held for sale are presented separately as current items on the balance sheet.

2.6 Foreign currency items

Items included in the financial statements of Group companies are measured in the currency of the economic environment in which the company is mainly operating (functional currency). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Group.

Transactions denominated in a foreign currency are translated at the exchange rate valid on the transaction date. Any receivables and liabilities denominated in a foreign currency and remaining open on the closing date are translated at the exchange rate valid on the closing date. Exchange rate gains and losses associated with actual business operations are recognised in the income statement line item Net gains or net losses on trading in foreign currencies.

Income statements and balance sheets of Group companies (none of which are operating in a country with hyperinflation), using a functional currency other than the presentation currency of the Group, are translated into the presentation currency as follows: assets and liabilities on the balance sheet are translated at the exchange rate valid on the closing date and income and expenses on the income statement are translated at the period's average exchange rate. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation, and translated at the closing rate. All translation differences are recognised in other comprehensive income. If a subsidiary is disposed of, the cumulative translation differences are transferred to the income statement as part of the gain or loss on disposal.

2.7 Financial assets and liabilities

Assets and liabilities are presented in the order of liquidity which, for the Taaleri Group, offers more reliable and significant information than the presentation of current and non-current items. Note 37 presents a more detailed maturity distribution for financial assets and liabilities.

On 1 January 2018, the Group started applying the IFRS 9 Financial Instruments standard, which comprises the classification, measurement and impairment of financial assets and liabilities. Comparative figures have not been amended. The accounting policies in effect in the comparative period are presented last in section 2.7. The section on Fair value measurement has not changed.

Financial assets from 1 January 2018

At initial recognition, the Group's financial assets are classified into the following categories: those measured at fair value through profit or loss, those measured at fair value through other comprehensive income and those measured at amortised cost. For the purpose of classification, financial assets are grouped into debt instruments, equity instruments and derivatives.

The classification of debt instruments depends on Taaleri's business model in the management of financial assets and the characteristics of the cash flows of the financial assets in question. Taaleri mainly manages its debt instruments according to two different business models. Due to the nature of the insurance operations, the objective of Garantia's investment operations is achieved by both collecting contractual cash flows and selling financial assets, i.e. applying the "hold to collect and sell" business model. Accordingly, debt instruments that pass the cash flow test are measured at fair value through other comprehensive income. For debt instruments other than those of insurance operations, the business model is mainly holding the debt instruments to collect contractual cash flows, meaning that debt instruments that pass the cash flow test are measured at amortised cost. This estimate is performed instrument-specifically, so the measurement basis is also determined instrument-specifically. In both insurance investment operations and the Group's other investment operations, debt instruments that do not pass the cash flow test are measured at fair value through profit or loss.

Changes in fair value from debt instruments measured at fair value through other comprehensive income are recognised in the fair value reserve. Interest income, impairment gains and losses as well as foreign exchange rate gains and losses are recognised in profit or loss. When a debt instrument is derecognised, the profit or loss in the fair value reserve is transferred, as an adjustment due to a change in the classification, from equity to profit or loss in the net gains from insurance investment operations, as the item belongs to the investment assets of insurance operations.

The carrying amount of debt instruments recognised at amortised cost includes the deductible item for expected credit losses, and interest income is recognised in interest income using the effective interest method. Sales gains and losses are recognised in profit or loss.

Debt instruments measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognised in profit or loss. Interest income, profits from funds, foreign exchange rate gains and losses as well as sales gains and losses are also recognised in profit or loss.

A business model indicates how financial assets are managed to achieve a certain business objective. In the "hold to collect" business model, the objective is to collect contractual cash flows; in the "hold to collect and sell" business model, the objective is achieved by both collecting contractual cash flows and selling financial assets; in the "trading" business model, the objective is achieved by actively trading in the financial assets. Determining the business model is based on estimating, for example, how the profitability of the financial assets is assessed, how the risks of the operations are managed and how often and to what extent the assets are traded in.

The characteristics of the cash flows of the debt instruments are evaluated in the cash flow test. If contractual cash flows do not consist solely of payments of principal and interest (basic lending arrangement), the instrument in question is measured at fair value through profit or loss. If the cash flows are subject to, for example, share prices or the debtor's financial situation, it is not a basic lending arrangement. At Taaleri, such debt instruments mainly consist of mutual fund investments, convertible bonds as well as profit-sharing and subordinated loans.

Investments in equity instruments are measured at fair value through profit or loss, meaning that changes in fair value, dividends, interest income, foreign exchange rate gains and losses as well as sales gains and losses are recognised in profit or loss. At the time of initial recognition, the management may make an irrevocable choice concerning a procedure according to which changes in fair value are recognised in other comprehensive income and will not later be recycled to profit or loss. In this case, dividend yields are recognised in profit or loss, but changes in fair value, foreign exchange rate gains and losses as well as sales gains and losses are recognised in other comprehensive income. Taaleri's non-strategic investments will be measured according to this procedure at fair value in other comprehensive income without recycling. Taaleri does not have significant non-strategic investments.

Investments in financial assets are originally recognised at fair value, to which transaction expenses are added, except if the financial asset in question is recognised at fair value through profit or loss, in which case the transaction expense is recognised in expenditure. When recognising financial instrument purchase and sales contracts, the date of the transaction is used as the basis for recognition.

Financial assets are derecognised when the Group has lost its contractual right to receive cash flows or moved the risks and profits outside the Group to a significant extent.

Cash and cash equivalents, which correspond to the "Receivables from credit institutions" item in the Group's balance sheet, comprise call deposits and fixed deposits.

Financial liabilities from 1 January 2018

At the time of initial recognition, the Group's financial liabilities are classified into those measured at fair value through profit or loss and those measured at amortised cost. The Group has not had any financial liabilities measured at fair value through profit or loss in the 2018 financial period.

Other loans are originally recognised at fair value, to which transaction expenses are added. Later, other loans are recognised at amortised cost using the effective interest method. Other liabilities are derecognised when their obligations have been met and their validity has expired.

Fair value measurement

The Group recognises the aforementioned financial instruments at fair value on the balance sheet or in the notes to the financial statements. The Group has no other assets or liabilities recognised at fair value. The fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments quoted in active markets is based on prices quoted on the measurement date, and the fair value of financial instruments not quoted on active markets is based on the group's own valuation methods. All financial instruments which have been recognised at fair value on the balance sheet or the fair value of which is presented in the notes, are classified into three hierarchical levels according to the valuation techniques.

Level 1 includes instruments, the fair value of which is based on quoted prices for identical assets or liabilities in active markets. Markets are deemed to be active if price quotations are easily and regularly available, and they represent actual and regular market transactions between independent parties. The fair value of financial assets is based on buy quotations on the measurement date. Level 1 instruments mainly consist of quoted equity investments, equity and interest fund investments and bond investments which have been classified to be available for sale or recognised at fair value through profit or loss.

Level 2 includes instruments, the fair value of which is based on information other than quoted prices, but still on directly or indirectly observable information. To measure the fair value these instruments, the Group uses generally accepted valuation models, the input data of which is largely based on verifiable market information.

Level 3 includes instruments, the fair value of which is measured based on other than observable significant input data. Level 3 instruments mainly consist of unquoted equity investments. The value of these instruments is based on the best information available in the prevailing conditions. Often, they are recognised at acquisition cost or price details are obtained from third parties. A significant amount of managerial judgement is included in these measurements. Note 26 offers a more detailed description of the measurement methods applied to Level 3 instruments.

With regard to assets and liabilities presented repeatedly in financial statements, the Group defines when transfers have occurred between the hierarchical levels of fair value by reassessing the classification (on the basis of input data available at the lowest level, which is significant considering the entire measurement process) at the end of each reporting period.

Impairment from 1 January 2018

Impairments are based on an expected credit loss (ECL) model and impairments are recognised on all loans and debt instruments that are not measured at fair value through profit or loss, and on off-balance sheet liabilities.

Impairment is calculated using an individual credit risk calculation model based on the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and the maturity (M): ECL = PD * LGD * EAD * M(min 1 or M).

For the purpose of impairment testing, assets to be tested are divided into three stages. On the first stage are instruments whose credit risk has not increased significantly; on the second stage are instruments whose credit risk has increased significantly; and on the third stage are instruments whose value has decreased. For instruments on the first stage, a loss allowance for 12 month expected credit losses is recorded. For instruments on the second and third stag-es, a loss allowance for lifetime expected credit losses is recognised. On every reporting date Taaleri estimates whether the credit risks of instruments has increased significantly compared to the credit risk at initial recognition, and based on this defines the expected credit loss.

A significant increase in credit risk is estimated based on changes (or expected changes) in the credit rating. The credit rating is deemed to take into account sensible and reasonable information to the necessary extent. Additionally, the credit risk is estimated to have increased significantly if payments are over 30 days due.

The credit risk is deemed to have increased significantly if the counterparty's credit rating declines as follows:

- Investment grade, so from AAA – (BBB-) to (BB-) or less;
- from BB+ – (BB-) to (B-) or less:
- from B+ – (B-) to C rating or less.

The expected credit loss for loans measured at amortised cost is recognised in the P/L line item "Expected credit loss from financial assets measured at amortised cost" and booked against the book value of the loan. The expected credit loss for financial assets measured at fair value through other comprehensive income is recognised in the P/L line item "Net income from insurance, investment operations", when the asset is part of the insurance business' investment port-folio, and booked against the fair value reserve in other comprehensive income.

Accounting policies regarding financial assets and liabilities in effect until 31 December 2017

Financial assets until 31 December 2017

The Group's financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the specific financial assets have been acquired.

Investments in financial assets are, at initial recognition, measured at fair value plus transaction costs, apart from financial assets recognised at fair value through profit or loss, in which case transaction costs are recognised as expenses. Regular way purchases or sales of financial assets are recognised using trade date accounting.

Financial assets are derecognised when the Group has lost its contractual right to cash flows or it has transferred significant parts of its risks and income outside the Group.

Financial assets recognised at fair value through profit or loss include derivatives, embedded derivatives and assets held for trading. Financial assets classified in this category are measured at fair value, and any changes in fair value are recognised in the income statement in Net gains or net losses on trading in securities and foreign currencies.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and other receivables are measured at amortised cost using the effective interest method less any impairment. Effective interest is recognised in the income statement under interest income or expenses.

Available-for-sale financial assets are non-derivative financial assets that are specifically designated as available for sale or not classified in any of the other categories. This category includes both equity and liability instruments, including private equity funds, equities, equity and interest mutual funds, bonds and other debt instruments. After the initial recognition, available-for-sale financial assets are recognised at fair value, and any changes in fair value are recognised in the fair value reserve in other comprehensive income less taxes. Fair value changes recognised in the fair value reserve is transferred to the income statement when the instrument is sold or when its value is impaired (see impairment below).

The Group’s cash and cash equivalents, which correspond to the balance sheet item Receivables from credit institutions, consist of cash and bank deposits withdrawable as required.

Financial liabilities until 31 December 2017

The Group's financial liabilities are classified as financial liabilities through profit or loss, or as other loans at initial recognition. The Group had no financial liabilities recognised at fair value through profit or loss in financial periods 2016 or 2017.

Other loans are originally recognised at fair value plus transaction costs. Subsequently, other loans are recognised at the amortised cost using the effective interest method. Other loans are derecognised when the obligations related to the loans have been fulfilled and the loans have expired.

Impairment until 31 December 2017

At the end of each reporting period, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or other financial reorganisation. For equity instruments a significant or prolonged decline in the fair value of the instrument below its cost is also objective evidence of impairment. The Group has defined a significant or prolonged decline for an equity instrument as a fair value that is 20 % below the acquisition cost or a fair value that has been below the acquisition cost for more than 12 months.

A significant and prolonged decline in the fair value of a financial instrument classified as available-for-sale, is reclassified from the fair value reserve in other comprehensive income, to profit or loss, although the financial asset has not been derecognized. Losses transferred to profit or loss are measured as the acquisition cost (adjusted with capital repayments and amortisations) less the fair value on the measurement date (less previously transferred losses on the particular instrument). If the value of a liability instrument later increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. For equity instruments, any later increase in value is recognised in other comprehensive income items.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced with the loss amount and amount of the loss is recognised in the income statement line item Impairment losses on loans and other receivables. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed so that it doesn’t result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2.8 Insurance assets and liabilities

Insurance contracts have been treated and valued according to the definition of the IFRS 4 standard. According to the definition, an insurance contract is a contract under which significant insurance risk has been passed from the policy holder to the insurer. The company has no financial contracts pertaining to the IFRS 4 standard which would deviate from insurance contracts in that a financial risk but no significant insurance risk is passed to the issuer of the contract.

Technical liabilities generated with regard to insurance contracts are mainly calculated according to national regulations. Deviating from national regulations, the equalisation provision is recognised, according to IFRS, in shareholders' equity adjusted with deferred taxes. Technical liabilities generated from insurance contracts consist of provision for unearned premium and claims provision. The provision for unearned premium includes the proportion of the insurance premium income accrued during the financial year and previous years, which is allocated to a period following the financial year relative to the risk. The claims provision consists of two parts: claims to be paid by the company after the financial year caused by known losses occurred during or before the financial year, and provisions made for unknown losses calculated using statistical methods for claims which have not been reported to the insurance company by the reporting date.

Starting 1 January 2018 investment assets of insurance operations are measured either at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model used for managing the financial assets and the characteristics of the cash flows of the financial assets in question. More detailed measurement principles are presented in Section 2.7 Financial assets and liabilities. Until 31 December 2017 investment assets from insurance activities were classified as available for sale, and their recognition principles are presented at the end of Section 2.7 Financial assets and liabilities.

Recognition and valuation of insurance contracts

Premiums have been recognized as revenue from those contracts defined in insurance agreements which have started during the financial period. The insurance premium receivables which are unlikely to be paid have been deducted from the premium income as credit losses. In addition to premiums, the premium income includes start-up fees, management fees, waiver fees and other such one-time payments, recoveries and credit losses. The full insurance premium is normally recognised to the profit and loss account in one go at the beginning of the insurance period. The provision for unearned premium includes the proportion of the insurance premium income accrued during the financial year and previous years, which is allocated to a period following the financial year relative to the risk. The provision for unearned premium mainly consists of residential mortgage guarantees and construction defect insurance agreements, which normally have an insurance period exceeding one year.

Claims expenses include claims paid during the financial period, regardless of the loss occurrence date. Claims expenses also include operating and depreciation expenses allocated to claims management during the financial year as well as costs arising from debt collection. According to the guarantee insurance agreement, the insurance company has the right for a claim recovery from the insured, after paying a claim. Therefore, the claims expenses can be adjusted with collaterals causing, part of the claims paid to be recognised as claims of recourse. Recourse receivables based on insurance claims are recognised in Garantia accounting at such probable values which can be calculated on the basis of the best possible information available on the evaluation date. The valuation of receivables is updated in conjunction with financial statements and half-year financial statements.

Reinsurance receivables

“Reinsurance” refers to insurance contracts defined in the IFRS 4 standard, with which an insurance company can obtain compensation from another insurance company in case of an insurance event. The company utilises facultative reinsurance for loan guarantees in those agreements which exceed the retention share of the insurance risk as defined by the company and in situations where collaterals cannot be utilised to sufficiently reduce the insurance risk. Commercial guarantees have mainly been reinsured using Quota Share reinsurance, under which all insurance contracts entered into force during the calendar year are reinsured. According to the IFRS 4 standard, the reinsurers’ share of technical provisions are handled as an asset. If an insurance liability has been reinsured, the reinsurers’ share of the claims paid is simultaneously recognised in a separate account as receivables from reinsurers reducing the amount of claims expenses. Similar recognitions are made for reinsurers’ share of claims of recourse.

Adequacy testing for liabilities associated with insurance contracts

On the closing date, the adequacy of the insurance liabilities recognised on the balance sheet is evaluated. The testing is based on current estimates of future cash flows from insurance contracts.

2.9 Tangible assets

Tangible assets are recognised on the balance sheet if their acquisition cost can be measured reliably and it is probable that future economic benefits associated with the assets will flow to the company. Tangible assets are carried on the balance sheet at cost less any accumulated depreciation and accumulated impairment losses. Tangible assets mainly consist of machinery and equipment which are depreciated in four years. Depreciation of an asset begins when it is available for use. When an asset is classified as available for sale in accordance with IFRS 5, depreciation ceases.

The residual values and useful lives of assets are reviewed on every closing date, and they are changed as required. If the carrying amount of an asset is higher than the estimated recoverable amount, the carrying amount is immediately reduced to correspond to the recoverable amount. The gain or loss arising from the derecognition of an asset is included in profit or loss. Gains are recognised in other operating income and losses in depreciation and impairment. Gains or losses are determined as the difference between the net disposal proceeds and the carrying amount of the asset.

If there are indications that a tangible asset is impaired, the assets recoverable amount is estimated. If the recoverable amount is less than the assets carrying amount, the carrying amount is reduced to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

2.10 Intangible assets

Other intangible assets

Intangible assets are recognised on the balance sheet if their acquisition cost can be measured reliably and it is probable that future economic benefits associated with the assets will flow to the company. Other intangible assets are carried on the balance sheet at cost less any accumulated depreciation and accumulated impairment losses. Intangible assets mainly consist of IT software development costs and licences, the useful life of which are 3–5 years. No internally generated intangible assets have been recognised on the balance sheet.

The gain or loss arising from the derecognition of an asset is included in profit or loss. Gains are recognised in other operating income and losses in depreciation and impairment. Gains or losses are determined as the difference between the net disposal proceeds and the carrying amount of the asset.

If there are indications that an intangible asset is impaired, the assets recoverable amount is estimated. If the recoverable amount is less than the assets carrying amount, the carrying amount is reduced to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

Goodwill

Goodwill accounting policies have been presented in Section 2.3 (Business combinations and goodwill).

2.11 Lease agreements

Lease agreements where the lessor largely holds the risks and benefits of ownership are classified as other lease agreements. Rents paid on the basis of other lease agreements are recognised as costs through profit or loss in the income statement through fixed instalments over the lease period. The Group has no financial lease agreements.

2.12 Employee benefits

Management long-term remuneration

All full-time Taaleri Group employees in Finland (except for the Group CEO, the Deputy CEO and senior advisors, as well as employees of Taaleri Kapitaali Oy, Taaleri Energia Oy, Taaleri Energia Operations Oy and ClarkApps Oy) belong to Taaleri Group's remuneration fund (Taaleri Palkkiorahasto hr.). Part of the Group's annual remuneration is transferred to the remuneration fund according to predefined criteria.

The Group uses long-term remuneration systems for personnel based on which persons belonging to them may receive a bonus settled in Taaleri shares or cash for work performed during the vesting period. Depending on the payment method, these remuneration programmes are recognised either in equity or as cash-settled share-based payment transactions.

Share-based employee benefits paid in equity are measured at fair value at the moment of granting. The amount recognised in expenditure is amortised in personnel costs and as an increase in equity during the vesting period. Also in arrangements settled in the net amount – in which the Group is obliged to pay withholding tax on the bonus to be paid, due to which part of the bonus earned is spent on paying taxes – the bonus earned is treated as an asset fully paid in equity instruments, despite the tax part paid in money.

The estimated number of shares to be implemented is checked quarterly. The possible effects of adjustments made to the original estimates are recognised in the income statement as personnel costs, and the corresponding adjustment is made in equity.

Pensions

The statutory pension cover of the company's employees and management has been arranged using TyEL (employee pension) insurance agreements. Voluntary additional pension insurance has been taken out for members of the company's management. All of the Group's pension arrangements are defined-contribution plans. Expenses arising from statutory pension arrangements are recognised in the income statement under personnel costs and those arising from voluntary additional pension insurance is recognised under other administrative expenses. Insurance premiums are paid to the insurance company and recognised as expenses over the financial period, which the premiums cover. The defined-contribution plans have no other payment obligations.

2.13 Contingent liabilities

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed by the occurrence of an uncertain event not wholly in the control of the Group. In addition, an existing obligation which probably does not require that the payment obligation is met, or the amount of which cannot be estimated reliably, is considered to be a contingent liability. The Group's contingent liabilities are presented in the notes to the financial statements.

2.14 Income taxes and deferred taxes

Tax expenses consist of taxes based on the taxable income for the period, taxes for previous periods and deferred taxes. Taxes are recognised through profit or loss, unless they are associated with items recognised directly in shareholders' equity or other comprehensive income. In this case, taxes are recognised in the items in question. Taxes based on the taxable income for the period is calculated from the taxable income on the basis of tax rates valid in the specific country.

Deferred taxes are calculated on temporary differences between the carrying amount and taxable value. However, deferred tax liabilities are not recognised on the original recognition of goodwill. Deferred tax assets are recognised up to the amount at which it is likely that taxable income will be generated in the future, against which the temporary difference can be utilised. The Group's most significant temporary differences are generated from the elimination of the equalisation amount of guaranty liabilities in insurance activities and the measurement of investments at fair value. Deferred taxes are calculated using the tax rates regulated by the closing date or tax rates which have been approved in practice before the closing date.

2.15 Revenue recognition principles

Revenue recognition principles for wealth management

Fee and commission income is based, for example, on fund units, asset management, securities brokerage and the issuance of securities. Taaleri Group's most significant commission income consists of fund units and asset management. Fee and commission expenses include commissions paid to others related to income recognised in commission income. Wealth management commissions are invoiced beforehand every quarter and accrued as income over every month. Securities brokerage transactions are recognised according to the trading date. The above mentioned revenues are recognised in Fee and commission income.

Project income and expenses are recognised during the financial period when the project outcome can be evaluated reliably. Short-term unfinished project expenses are activated on the balance sheet. Project income is presented in other operating income and, correspondingly, project expenses are recognised in other operating expenses.

Net income from securities trading includes changes in fair value of all financial instruments recognised at fair value through profit or loss. Net income from trading in foreign currencies includes net gains from foreign exchange transactions, as well as positive and negative foreign exchange differences from translating assets and liabilities into euros.

Revenue recognition principles for insurance activities

Revenue recognition principles for insurance activities have been described in Section 2.8 (Assets and liabilities from insurance activities). All income from insurance activities are presented in net income from insurance activities, apart from changes in fair value from financial assets measured at fair value through other comprehensive income, which are presented in the statement of comprehensive income.

Revenue recognition principles for the Energy business

Fee and commission income for the Energy business is based on Energy segment fund units. The Energy business also develops projects whose income and costs are recognised in the financial period when the end result of the project can be reliably assessed. Incomplete project costs are activated on the balance sheet. Fee and commission expenses include commissions paid to others related to income recognised in fee and commission income.

The Energy business also includes operating and maintenance services for wind farms, whose invoicing is based on a pre-agreed annual payment, which is recognised as income within the year as the year progresses.

Other income

Income from equity investments mainly includes dividend income from equity investments and transfer gains/losses from associates and subsidiaries, as well as available-for-sale financial assets. Dividends are mainly recognised after the Annual General Meeting of the distributing company has made its decision on the distribution of dividends.

Interest income and expenses on interest bearing assets and liabilities are recognized on an accrual basis. On receivables, the difference between the acquisition cost and the nominal value is recognised in interest income on an accrual basis, and on liabilities the difference is recognised in interest expenses on an accrual basis. The difference between the nominal value and acquisition cost of fixed-rate bonds is recognised in interest income and expenses over the loan term on an accrual basis.

The effective interest method has been applied to the recognition of interest income and expenses over the agreement term. When calculating the effective interest rate, the expected life of the financial instrument and the future cash flows are estimated based on all contractual terms. Received commissions, transaction costs and possible premiums or discounts, which are an integral part of the effective interest rate of the financial instrument, have been taken into account when recognising interest income and expenses.

2.16 Shareholders' equity

The Group classifies instruments it has issued, into equity or liabilities (financial liabilities) on the basis of their characteristics. Equity instruments include any contracts which indicate a right to obtain a proportion of an entity's assets after deducting all of its liabilities. Costs related to the issuance or acquisition of equity instruments are accounted for as a deduction from equity. If the company reacquires its own equity instruments, those instruments are deducted from equity.

2.17 Operating profit and income

The IAS 1 (Presentation of Financial Statements) standard does not define the concept of operating profit. The Group has defined it as follows: operating profit is the net amount of Total income, Fee and commission expenses, Interest expenses, Administrative expenses, Negative goodwill, Depreciation and Impairments, Other operating expenses and the Share of associate’s profit or loss. All income statement items other than those listed above are presented below the operating profit.

Income included in the operating profit have been presented as a gross amount, apart from income from securities and currency trading, which are presented as a net amount to offer a fair view.

2.18 Accounting policies requiring management’s judgment and key uncertainties regarding estimations

When preparing the financial statements, estimates and assumptions concerning the future need to be made, and their outcome may differ from the estimates and assumptions made. In addition, applying the accounting policies requires judgement.

In 2015 Taaleri acquired Garantia insurance company. The purchase price paid, compared to the actual market value includes uncertainty and managerial judgement. The Group has measured assets and liabilities of the acquired company at fair value according to best estimates, but future guaranty losses involve significant uncertainties, particularly in a poor market situation. The fact that EUR 28.6 million was recognised in negative goodwill on the acquisition date of 31 March 2015, does not mean that no guaranty losses relating to the outstanding guaranties on the acquisition date, could occur in the future. On the acquisition date, the company was not aware of any guaranty losses which the company had not taken into account on its balance sheet and, according to IFRS, general unallocated provisions cannot be made.

The measurement of the liabilities associated with the guaranty operations offered by Garantia involve a number of factors and uncertainties subject to judgement. In addition to assumptions concerning the external operating environment, the evaluation is mainly based on the insurance mathematical analysis of its loss statistics. The managerial judgement is particularly required to define risks and the capital required for business operations, to price risks according to profitability and solvency objectives, to fulfil the obligations required by insurance agreements and to evaluate provisions for outstanding claims caused by loss events that have already occurred.

When assessing the Group's control in structured entities, the power of the Group to affect relevant activities and its exposure to variable returns are evaluated. The assessment of control is subject to judgement. The assessment of control is done in more detail, when the Group's share in the structured entity's net assets and returns exceeds 20 percent. The investee is consolidated as a subsidiary at the latest, when the Group's exposure to variable returns is significant and the Groups is able to use its power over the investee to affect the amount of the variable returns.

When recognising and measuring the acquired assets and liabilities in business acquisitions (Evervest Oy and Suomen Vuokravastuu Oy in 2018), thus affecting the recognised goodwill, managerial judgement has been used.

The values of businesses acquired through business combinations are based on estimated future development, estimated cash flows and the discount rate used. Goodwill is tested annually for impairment. The recoverable amount defined in impairment testing is often based on the value in use, the calculation of which requires estimates of future cash flows and the discount rate used.

Managerial judgement is needed when measuring the unfinished projects of the Wealth Management and Energy segments. External costs associated with active projects have been recognised on the balance sheet if the net present value of the project is positive. Project expenses have been recognised through profit or loss if a project has ended or its net present value is negative.

When classifying and measuring financial assets managerial judgement is needed, i.e. when deciding whether an equity instrument is strategic or not, which affects whether the instrument is measured through profit or loss or other comprehensive income without recycling. Evaluating expected credit loss requires judgement, i.e. when choosing which credit loss models and parameters to use.

Management must evaluate when the markets of financial instruments are no longer deemed to be active. When the fair value of a financial instrument is measured using valuation methods, the management's judgement is required for the selection of the applicable valuation method. International Valuation Standards (IVS) and valuation methods based on their applications have been used to measure the fair value of private equity fund investments and unquoted shares and units. The valuations take a number of different factors into consideration, such as when an investment was made and at what price, the price development of quoted reference companies, local market conditions in the specific industry, realised and estimated operating results, and additional investments. Value analyses have usually been prepared for finished projects using a cash flow-based income approach and a comparative market-based measurement method. Funds including unfinished project have been measured at their acquisition cost. Estimates and managerial judgement is required in the valuations. Illiquid investments include uncertainty regarding the future realised gains or losses, compared to the estimated fair value.

Managerial judgement has been applied when measuring the fair value of synthetic options, and the amount recognised in profit or loss, from share-based payment schemes. Hence, deferred taxes from the synthetic options have been recognised in profit or loss and on the balance sheet.

Deferred taxes have been recognised from the equalisation amount of Garantia, the amount of which is based on loss statistics confirmed by the management and estimated future losses which involve judgement. Managerial judgement is needed when comparing the current period's loss ratio with the long-term expected average, on the basis of which the equalisation amount is either increased or decreased through profit or loss, which has a direct impact on the amount of deferred tax liabilities.

2.19 Applied new and revised standards

Starting from 1 January 2018, the Group has applied the following new and revised standards and interpretations with an impact on the financial statements:

- IFRS 9 Financial Instruments, which has replaced IAS 39 Financial Instruments: Recognition and Measurement. The effects of adopting the new standard have been explained below and the accounting policies section 2.7 Financial assets and liabilities has changed starting 1 January 2018, except for the part on Fair value measurement. In addition section 2.8 Insurance assets and liabilities and section 2.18 Accounting policies requiring management's judgment and key uncertainties regarding estimations have been updated.
- IFRS 15 Revenue from contracts with customers, which has replaced IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The effects of adopting the new standard have been explained below.
- The amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions became applicable on 1 January 2018. The effects of adopting the amendments have been explained below and the accounting policies section 2.12 Employee benefits has been updated.
- Improvements to IFRS. Annual improvements to standards are performed collectively once a year. The impact of these changes varies according to standard, but these changes have not had any significant impact on consolidated financial statements.

IFRS 9 Financial instruments

On 1 January 2018, the Group started applying the IFRS 9 Financial Instruments standard, which comprises the classification, measurement and impairment of financial assets and liabilities. The standard affects the classification and measurement of the Group's financial instruments as well as impairment. The Group does not apply hedge accounting. Below, we present the key effects of the standard in the Group and the conversion calculation of financial instruments per 1 January 2018. Taaleri does not amend comparative figures.

Key effects in the Group – classification and measurement

At initial recognition, the Group's financial assets are classified into the following categories: those recognised at fair value through profit or loss, those recognised at fair value through other comprehensive income and those recognised at amortised cost. For the classification, financial assets are grouped into debt instruments, equity instruments and derivatives. Taaleri has reclassified its financial assets based on this grouping and, where debt instruments are concerned, also based on the business model and the cash flow characteristics of the instruments. The changes are presented in the table below.

IFRS 9 did not bring any changes to the classification and measurement of financial liabilities.

Conversion table for financial assets and liabilities as of 1 January 2018, without the effect of expected credit losses

Financial assets 1/1/2018, EUR 1 000	IFRS 9 classification					
IAS 39 classification	Amortised cost	At fair value through other comprehensive income	At fair value through other comprehensive income (without recycling)	At fair value through profit or loss	TOTAL	Note
Loans and receivables	**52 020**	**-**	**-**	**564**	**52 583**	
Receivables from credit institutions	34 567				34 567	1)
Receivables from the public and general government	5 634			564	6 198	2)
Other financial assets	11 819				11 819	1)
At fair value through profit or loss	**-**	**-**	**-**	**20 470**	**20 470**	
Shares and units				20 470	20 470	3)
Available-for-sale	**-**	**67 735**	**390**	**70 006**	**138 132**	
Shares and units			390	5 023	5 413	4)
Receivables from the public and general government				400	400	5)
Insurance assets		67 735		64 583	132 318	6)
Assets in total	**52 020**	**67 735**	**390**	**91 040**	**211 185**	
Excepted credit loss	71	204				

Financial liabilities 1/1/2018, EUR 1 000	IFRS 9 classification			
IAS 39 classification	Amortised cost	At fair value through profit or loss	TOTAL	
Other liabilities	**79 164**	**-**	**79 164**	
Liabilities to credit institutions	7 982	-	7 982	1)
Debt securities issued to the public	54 758	-	54 758	1)
Other financial liabilities	16 424	-	16 424	1)
Liabilities in total	**79 164**	**-**	**79 164**	

1) Receivables from credit institutions, other financial assets and all liabilities are measured as before, at amortised cost.

2) Receivables from the public and general government previously classified as loans and receivables will continue to be measured at amortised cost. However, receivables whose cash flow characteristics are not consistent with a basic lending arrangement are measured at fair value through profit or loss. At Taaleri, such receivables consist of subordinated loans, among other things.

3) Shares previously measured at fair value through profit or loss will continue to be measured at fair value through profit or loss.

4) Shares and units previously classified as available-for-sale will now be measured at fair value through profit or loss. However, at the time of initial recognition, the management may make an irrevocable choice concerning a procedure according to which changes in fair value are recognised in other comprehensive income and will not later be recycled to profit or loss. Taaleri's non-strategic investments are measured according to this procedure at fair value through other comprehensive income without recycling.

5) Receivables from the public and general government previously classified as available-for-sale will now be measured at fair value through profit or loss. At Taaleri, such receivables consist of profit-sharing loans, among other things.

6) Financial assets of insurance operations, previously classified as available-for-sale, will now be measured either at fair value through other comprehensive income or at fair value through profit or loss. Debt instruments that pass the cash flow test are measured at fair value through other comprehensive income. This category includes normal bonds. Equity instruments and debt instruments that do not pass the cash flow test are measured at fair value through profit or loss. This category includes mutual funds, private equity funds and hybrid loans.

Key effects in the Group – impairment

With regard to impairment, through IFRS 9 a model based on expected credit losses was introduced, replacing the model based on actual losses accordant with IAS 39. Impairment is recognised from all loans and debt instruments not recognised at fair value through profit or loss and from all off-balance sheet liabilities.

For the purposes of impairment testing, assets to be tested are divided into three levels. On the first level, there are instruments whose credit risk has not increased significantly; on the second level, there are instruments whose credit risk has increased significantly; and, on the third level, there are instruments whose value has decreased. For instruments on the first level, a deductible item is recognised that corresponds to the expected credit losses from 12 months. For instruments on the second and third levels, a deductible item is recognised to the amount which corresponds to the expected credit losses over the entire period of validity.

The majority of the items for which the expected credit loss is recognised are in Garantia's investment portfolio. The expected credit loss for debt instruments in Garantia's investment portfolio is calculated based on an individual credit risk calculation model (PDxLGDxEAD) , where the credit risk calculation model from Garantia's economic capital model is utilized. The Group's other debt instruments are very few in number, and their expected credit loss is also mainly calculated according to the corresponding individual credit risk calculation model. Expected credit loss is recognised for 12 months when the credit risk has not increased significantly and for the entire period of validity when the credit risk has increased significantly. A significant increase in credit risk is estimated on the basis of a change in credit rating; the credit rating is deemed to take into account reasonable and justifiable information to the necessary extent. In addition, the credit risk is estimated to have increased significantly if the payment is over 30 days due.

It is expected that the application of the expected credit loss model will increase and bring forward credit loss allowances, but the impact is not expected to be significant. In connection with the IFRS 9 conversion, expected credit losses amounting to EUR 204,000 were recognised for financial assets in insurance operations and EUR 71,000 for receivables from the public and general government.

IFRS 15 Revenue from contracts with customers

The Group applies IFRS 15 Revenue from contracts with customers as of 1 January 2018. The new standard does not affect Taaleri's revenue recognition principles. Revenue is recognised when (or as) the company transfers control of goods or services to a customer and the customer thus can control its use and receive benefit from it. 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 does not have customer contracts, where the revenue recognition changes due to the implementation of the new standard. The new notes to the financial statements required in the standard are presented in the group financial statements.

IFRS 2 Share-based payments

Taaleri has applied amendments to IFRS 2 Share-based payments prospectively as of 1 January 2018. At Taaleri, as of 1 January 2018, all share-based bonuses are recognised in equity at fair value at the moment of granting, and the expense is not measured at market value during the earning period. When a bonus is paid, its actual cost is recognised by adjusting the amount recognised in equity.

In accordance with the amended standard, share bonus plans are treated as arrangements fully paid in equity, and the expense is amortised according to the gross shares granted, even though the employee receives a net payment and the Group pays withholding tax to the tax authorities as a monetary payment. The withholding tax paid by the Group to the tax authorities is recognised directly in equity. The adoption of the IFRS 2 amendments increased the equity in Taaleri's opening balance 2018 by EUR 783,000. The change in the measurement bases for transactions paid in cash has no significant effect on personnel costs in the reporting period.

Conversion calculation for initial balances

Due to the adoption of the IFRS 9 Financial Instruments standard and amendments to the IFRS 2 Share-based Payment standard, Taaleri's opening balances for the reporting period have changed. The changes are presented hereunder.

Conversion calculation for opening balances 1 January 2018

CONSOLIDATED BALANCE SHEET

Assets, EUR 1,000	1/1/2018	Changed 1/1/2018	Change	
Receivables from credit institutions	34,567	34,567		
Receivables from the public and general government	6,598	6,527	-71	1)
Shares and units	25,883	25,883		
Participating interests	7,606	7,606		
Insurance assets	135,586	135,586		
Insurance receivables	3,268	3,268		
Investments	132,318	132,318		
Intangible assets	2,205	2,205		
Goodwill	627	627		
Other intangible assets	1,577	1,577		
Tangible assets	361	361		
Other assets	10,081	10,081		
Accrued income and prepayments	5,322	3,925	-1,397	2)
Deferred tax assets	1,113	1,127	14	3)
	229,322	**227,867**	**-1,454**	

Liabilities, EUR 1,000	1/1/2018	Changed 1/1/2018	Change	
LIABILITIES	**123,238**	**121,058**		
Liabilities to credit institutions	7,982	7,982		
Debt securities issued to the public	54,758	54,758		
Insurance liabilities	20,336	20,336		
Other liabilities	2,131	2,131		
Accrued expenses and deferred income	22,143	19,951	-2,192	4)
Deferred tax liabilities	15,887	15,899	12	5)
EQUITY CAPITAL	**106,084**	**106,809**	**726**	
Share capital	125	125		
Reserve for invested non-restricted equity	35,814	35,814		
Fair value reserve	-4,280	-1,036	3,244	6)
Retained earnings or loss	52,594	50,076	-2,518	7)
Profit or loss for the period	21,447	21,447		
Non-controlling interest	384	384		
	229,322	**227,867**	**-1,454**	

In item 1), the expected credit loss for receivables from the public and general government is recognised, mainly measured at amortised cost according to IFRS 9.

In item 2), accrued income relating to share-based payment is transferred to retained earnings in equity capital.

In item 3), the deferred tax asset from expected credit loss is recognised.

In item 4), EUR 2,180,000 of accrued expenses relating to share-based payments is transferred to retained earnings in equity capital and EUR 12,000 of tax liabilities is transferred to deferred tax liabilities.

In item 5), EUR 12,000 of tax liabilities relating to share-based payment is transferred to deferred tax liabilities.

In item 6), EUR 3,244,000 of cumulative changes in fair value from financial assets previously measured at fair value through other comprehensive income and measured at fair value through profit or loss according to IFRS 9, is transferred from the fair value reserve to retained earnings (item 7). In addition, a EUR –57,000 (net) deductible item for expected credit losses is recognised in retained earnings.

In item 7), EUR 783,000 (net) of accrued income and liabilities relating to share-based payment is transferred to equity, in addition to the IFRS 9 changes mentioned in item 6.

2.20 New and revised standards to be applied later

Several new standards and amendments to and interpretations of standards will only be adopted later than in the financial periods beginning 1 January 2018, and they have not been applied in the preparation of these consolidated financial statements. It is expected that the following revisions will have some impact on Taaleri's financial statements:

IFRS 16 *Leases* was issued in January 2016 and will become applicable on 1 January 2019. The standard replaces the IAS 17 standard. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for nearly all leases. For lessees there will no longer be a distinction between operative and financial leases. According to the new standard, an asset (the right to use the object leased) and the financial liability concerning the payment of leases will be recognised. The only exceptions are short-term lease agreements and those concerning low value assets.

Taaleri plans to apply the standard retrospectively on 1 January 2019. Comparative figures will not be amended, and the possible effects of the application will be recognised in retained earnings. On 1 January 2019 a financial liability concerning the payment of leases will be recognised for former operative lease agreements. The financial liability reflects the present value of future lease payments, discounted using Taaleri's rate of additional credit. The corresponding asset will be the same amount as the liability, adjusted for leases paid in advance.

Taaleri's operative leases on 31 December 2019 have been analysed. At the end of the year Taaleri has a total of future minimum lease payments under non-cancellable operating leases amounting to 6.0 million euros. Of these 0.1 million euros are short term agreements and 0.1 million euros are agreements concerning low value assets. These will be recognised as expenses during the lease time. Of the remaining leasing agreements Taaleri expects to recognise leased assets amounting 5.3 million euros and financial lease liabilities amounting to 5.3 million euros on 1 January 2019.

IFRS 17 *Insurance Contracts* was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts.* The standard will become applicable on 1 January 2022. The overall objective of IFRS 17 is to provide better information on the financial position and profitability of insurance companies. The purpose is to increase the transparency and improve the comparability of financial statements. The accounting in IFRS 17 differs to some extent from the Solvency II capital adequacy calculations that insurance companies currently use, and the technical provisions will therefore not be the same. IFRS 17 harmonizes the accounting for insurance liabilities and the application of local accounting policies will no longer be allowed. Under IFRS 17 the measurement of the insurance liability will be at fair value. The Group is assessing the impact of IFRS 17. The standard has not yet been endorsed by the EU.

No other IFRS standard or IFRIC interpretation already published but not yet valid is expected to have a material impact on the Group.

NOTES TO THE INCOME STATEMENT

3 FEE AND COMMISSION INCOME

1/1-31/12/2018, EUR 1,000	WEALTH MANAGEMENT	FINANCING	ENERGY	OTHER	TOTAL
Wealth management fees and commissions	34,357	72	1,854	1,246	37,529
Performance fees	8,102	-	-	-	8,102
Total	**42,459**	**72**	**1,854**	**1,246**	**45,631**

1/1-31/12/2017, EUR 1,000	WEALTH MANAGEMENT	FINANCING	ENERGY	OTHER	TOTAL
Wealth management fees and commissions	35,266	-	1,581	362	37,209
Performance fees	15,806	-	-	-	15,806
Total	**51,071**	**-**	**1,581**	**362**	**53,015**

From 1/1/2018 all fee and commission income from trading are recognised in Fee and commission income. Previoulsy they were partly recognised in net gains or net losses on trading in securities and foreign currencies. Comparative figures have been amended accordingly.

4 NET INCOME FROM INSURANCE

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Earned premiums, net		
Premiums written	17,377	15,235
Reinsurers' share	-1,035	-1,008
Change in provision for unearned premiums	-4,205	-3,669
Reinsurers' share	140	79
Total	**12,277**	**10,638**
Claims incurred, net		
Claims paid	147	-105
Reinsurers' share	241	21
Change in provision for outstanding claims	1,170	-1,754
Reinsurers' share	-815	1,018
Total	**744**	**-820**
Net income from investment operations		
Financial assets at fair value through other comprehensive income (Available for sale)	**2,670**	**11,930**
Interest income	1,130	2,967
From dividends	-	299
Profit or loss from sales	1,713	8,681
Others	-172	-18
- of which change in expected credit loss	-172	-
Financial assets at fair value through profit or loss	**-3,405**	**-**
Financial assets that need to be measured at fair value through profit or loss	-	-
Change in fair value	-5,937	-
From dividends	1,648	-
Profit or loss from sales	884	-
Total	**-734**	**11,930**
Net income from insurance, total	**12,287**	**21,748**

5 NET GAINS OR NET LOSSES ON TRADING IN SECURITIES AND FOREIGN CURRENCIES

Net gains or net losses on trading in securities, EUR 1,000	**1/1-31/12/2018**	**1/1-31/12/2017**
From financial assets measured at fair value through profit or loss	-	-
Financial assets that need to be measured at fair value through profit or loss	-3,125	146
Total	**-3,125**	**146**

Net gains or net losses on trading in securities and foreign currencies,	**1/1-31/12/2018**	**1/1-31/12/2017**
Net gains or net losses on trading in securities by type		
From shares and units	-3,125	146
Sales profit and loss	28	229
Changes in fair value	-3,153	-83
Net gains or let losses on trading in securities, total	-3,125	146
Net gains or net losses on trading in foreign currencies	311	388
Total	**-2,814**	**534**

From 1/1/2018 all fee and commission income from trading are recognised in Fee and commission income. Previoulsy they were partly recognised in net gains or net losses on trading in securities and foreign currencies. Comparative figures have been amended accordingly.

6 INCOME FROM EQUITY INVESTMENTS

EUR 1,000	**1/1-31/12/2018**	**1/1-31/12/2017**
From financial assets recognised at fair value in profit or loss	358	-
Profit or loss from divestments	358	-
From financial assets measured at fair value through other comprehensive income	-	1,875
Dividend income	-	80
Profit or loss from divestments	-	1,795
From associated companies	13,717	128
Change in classification to assets held for sale	8,662	
Dividend income	-	128
Profit or loss from divestments	5,055	
From group companies	-2,240	-703
Impairment losses	-2,240	-
Profit or loss from divestments	-	-703
Total	**11,835**	**1,301**

7 INTEREST INCOME

EUR 1,000	**1/1-31/12/2018**	**1/1-31/12/2017**
Interest income from other loans and receivables		
From receivables from credit institutions	-	51
From receivables from the public and general government	670	510
Other interest income	8	1
Total	**678**	**562**

Interest income do not include income from financial assets that are impaired.

8 OTHER OPERATING INCOME

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Rental income	4	5
Project sales	4,294	3,767
Other income	598	58
Total	**4,896**	**3,829**

9 FEE AND COMMISSION EXPENSE

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Wealth management fee and commission expenses	5,580	6,183
Other commission expenses	194	208
Total	**5,774**	**6,391**

10 INTEREST EXPENSE

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Interest expenses from other liabilities		
From liabilities to credit institutions	286	311
From receivables from credit institutions	10	58
From debt securities issued to the public	2,645	2,760
Other interest expenses	3	3
Total	**2,943**	**3,133**

11 PERSONNEL COSTS

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Wages, salaries and fees	16,926	21,958
- whereof variable fees	794	7,101
Pension expenses - from defined contribution plans	3,430	3,002
Share-based payments	1,561	2,614
Payable in equity	-	21
Payable in cash	1,561	2,594
Social security contributions	-181	1,730
Total	**21,735**	**29,304**

12 OTHER ADMINISTRATIVE EXPENSES

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
ICT expenses	3,591	2,601
Marketing and communication expenses	1,491	1,199
Other expenses	3,349	3,279
Total	**8,430**	**7,079**

13 DEPRECIATION, AMORTISATION AND IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Intangible assets		
Planned depreciation	893	1,100
Tangible goods		
Planned depreciation	288	216
Total	**1,181**	**1,316**

14 OTHER OPERATING EXPENSES

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Premises and other rental expenses	2,021	1,677
External services	3,772	2,535
Equipment rental and leasing	366	430
Fees paid to the company's auditors	228	350
Auditing fees	147	293
Tax services	48	-
Other	33	57
Other expenses	2,004	1,746
Total	**8,390**	**6,738**

15 EXPECTED CREDIT LOSSES

EUR 1,000	Amortised cost	At fair value through other comprehensive income[1)]	Total
ECL 1/1/2018	71	204	275
Additions due to purchases	5	185	190
Deductions due to derecognitions	-56	-58	-114
Changes in risk parameters	-	44	44
Recognised in profit or loss	**-51**	**172**	**121**
Additions due to acquisition of subsidiaries	19	-	19
ECL 31/12/2018	**39**	**376**	**415**

All financial assets subject to ECL calculations are on level 1, i.e. the credit risk has not increased significantly. There are no realised credit losses recognised in the presented financial periods.

1) Expected credit losses from financial assets measured at fair value through other comprehensive income all pertain to the insurance business, and therefore the expected credit loss has been recognised in net income from insurance investment operations. See note 4.

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Expected credit losses from financial assets measured at amortised cost	51	-
Recognised in profit or loss	**51**	**-**

16 INCOME TAXES

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
From profit for the financial period	3,847	6,575
Taxes from previous periods	8	-
Deferred taxes	-1,597	-751
Total	**2,258**	**5,824**

Reconciliation of taxes on the income statement with profit before taxes	1/1-31/12/2018	1/1-31/12/2017
Operating profit (profit before taxes)	23,895	27,611
Taxes calculated at the tax rate of the parent company (20%)	4,779	5,522
Tax-free income	-2,827	-42
Non-deductible expenses	873	303
The use of taxable losses not previously booked	-321	-3
Unbooked deferred tax receivables from taxable losses	-176	-98
Share of the profits of associated and joint venture companies with taxes deducted	-43	117
Taxes from previous financial periods	-8	
Other items	-20	25
Taxes on the income statement	**2,258**	**5,824**

The effective tax rate in 2018 was 9 % (2017: 21 %).

17 OTHER COMPREHENSIVE INCOME ITEMS

Taxes concerning other comprehensive income			1/1-31/12/2018			1/1-31/12/2017
EUR 1,000	**Pre-tax**	**Tax effect**	**After taxes**	**Pre-tax**	**Tax effect**	**After taxes**
Changes in the fair value reserve	-1,721	343	-1,378	-3,739	748	-2,991
Items that may be reclassified to profit or loss	-1,690	338	-1,352	-3,739	748	-2,991
Items that may not be reclassified to profit or loss	-31	5	-26	-	-	-
Translation differences	21	-	21	248	-	248
Total	**-1,700**	**343**	**-1,356**	**-3,491**	**748**	**-2,743**

18 EARNINGS PER SHARE

Basic earnings per share
Basic earnings per share is calculated by dividing the profit or loss attributable to the company's shareholders by the weighted average of the number of shares outstanding - with the exception of repurchased own shares (Note 35 Equity).

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Profit from continuing operations attributable to the owners of the parent company	21,626	21,447
Total	**21,626**	**21,447**
Weighted average number of ordinary shares outstanding (1,000 pcs)	28,306	28,306
Basic earnings per share, continuing operations, EUR	**0.76**	**0.76**

Diluted earnings per share
Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding so that all dilutive potential ordinary shares are assumed to be converted into ordinary shares. The Group's dilutive potential ordinary shares consist of share-based incentive arrangements (options) payable as shares. They are taken into account like options, from the date of their granting when calculating the diluted earnings per share.

EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Profit from continuing operations attributable to the owners of the parent company	21,626	21,447
Total	**21,626**	**21,447**
Weighted average number of ordinary shares outstanding (1,000 pcs)	28,306	28,306
The dilutive effect of share options (1,000 pcs)	214	43
The weighted average of the number of shares when calculating the diluted earnings per share (1,000 pcs)	**28,520**	**28,348**
Diluted earnings per share, continuing operations, EUR	**0.76**	**0.76**

NOTES TO THE BALANCE SHEET

19 RECEIVABLES FROM CREDIT INSTITUTIONS

EUR 1,000	31/12/2018	31/12/2017
Repayable on demand	26,060	34,553
From domestic credit institutions	25,250	34,553
From foreign credit institutions	810	-
Other than repayable on demanded	73	14
From domestic credit institutions	-	14
From foreign credit institutions	73	-
Total	**26,133**	**34,567**

Receivables from credit institutions correspond fully to the Group's cash balances. All cash balances are available for use by the group.

20 RECEIVABLES FROM THE PUBLIC AND GENERAL GOVERNMENT

EUR 1,000	31/12/2018	31/12/2017
Other than repayable on demanded		
Companies and housing associations	7,930	4,607
Households	272	125
Foreign	1,177	1,866
Total	**9,379**	**6,598**

The group has subordinated receivables amounting to 5.6 (0,2) million euros. Information about impairment losses is presented in note 15 to the income statement. The maturity dates of receivables are presented in note 37.

21 SHARES AND UNITS

Shares and units, EUR 1,000	31/12/2018	31/12/2017
Fair value through profit or loss	11,947	-
Fair value through other comprehensive income	478	-
Held for trading	-	20,470
Available-for-sale	-	5,413
Total	**12,424**	**25,883**
- of which publicly quoted	36	33
- of which shares in funds	6,367	20,437

Participating interests, EUR 1,000	31/12/2018	31/12/2017
Acquisition cost	6,652	6,778
Share of the associates' profits	-513	828
Total	**6,140**	**7,606**
Total	**18,564**	**33,489**

22 ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale, EUR 1,000	31/12/2018	31/12/2017
Investments in associated companies	12,007	-
Yhteensä	**12,007**	**-**

As Taaleri's associated company Fellow Finance Plc was listed on the First North exchange in October 2018 Taaleri Plc sold 813,262 shares in the company. Taaleri's share holding was thus reduced from 45.7 to 25.9 percent. Taaleri recognised a 5,156 thousand euro profit from the sale. After the IPO the Board of Directors of Taaleri Plc decided to sell the rest of the shares in Fellow Finance Plc held directly by Taaleri Plc and the holding was reclassified as an asset held for sale. The sale is expected to happen in 2019. In conjunction to the reclassification, a one-time mark-up of the shares amounting to 8,662 thousand euros was recognised. Fellow Finance Plc is part of Taaleri's Other operations.

23 INSURANCE ASSETS AND LIABILITIES

Insurance assets, EUR 1,000	**31/12/2018**	**31/12/2017**
Investments		
Loans and other receivables	114,948	100,079
Shares and units	16,884	32,240
Total	**131,832**	**132,318**
Receivables		
Arising out of direct insurance operations	669	523
Arising out of reinsurance operations	1,133	1,844
Other receivables	-	901
Total	**1,802**	**3,268**
Total	**133,634**	**135,586**

Insurance liabilities, EUR 1,000	**31/12/2018**	**31/12/2017**
Provision for unearned premiums	21,123	16,918
Claims outstanding	1,880	3,051
Liabilities arising out of direct insurance operations	1	55
Liabilities arising out of reinsurance operations	289	313
Total	**23,293**	**20,336**

24 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities 31 December 2018, EUR 1 000

		At fair value through other comprehensive income		At fair value through profit or loss			
Financial assets	Amortised cost	Equity instruments [3]	Others	Equity instruments	Others	Total	Fair value
Receivables from credit institutions [1]	26,133	-	-	-	-	26,133	26,133
Receivables from the public and general government [1]	3,425	-	-	-	5,953	9,379	9,379
Shares and units	-	478	-	5,580	6,367	12,424	12,424
Insurance assets	-	-	80,014	39,475	12,342	131,832	131,832
Other financial assets	10,537	-	-	-	-	10,537	
Financial assets total	**40,095**	**478**	**80,014**	**45,055**	**24,663**	**190,305**	
Participating interests						6,140	
Other than financial assets						41,564	
Assets in total 31 December 2018						**238,009**	

Financial liabilities	At fair value through profit or loss	Other liabilities	Yhteensä	Käypä arvo
Liabilities to credit institutions [1]		6,996	6,996	6,996
Debt securities issued to the public [2]		54,815	54,815	56,941
Other financial liabilities		13,991	13,991	
Financial liabilities total		**75,802**	**75,802**	
Other than financial liabilities			39,826	
Liabilities in total 31 December 2018			**115,628**	

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) At initial recognition the Group's non-strategic investments are specifically classified as measured at fair value through profit or loss. Thus, dividend yields are recognised in profit or loss, but changes in fair value, foreign exchange rate gains and losses as well as sales gains and losses are recognised in other comprehensive income. These are not later recycled to profit or loss. The classification as a non-strategic investment is made instrument-by-instrument by management. Non-strategic investments include small investments in limited partnerships associated to Taaleri's private equity funds and equity investments in private companies not directly associated to Taaleri's business strategy. On 31/12/2018 the fair value of non-strategic investments was 478 thousand euros, of which none paid dividends in 2018. No non-strategic investments were derecognised in 2018.

Financial assets and liabilities 31 December 2017, EUR 1 000

Financial assets	Loans and receivables	At fair value through profit	Available-for-sale	Total	Fair value
Receivables from credit institutions [1]	34,567			34,567	34,567
Receivables from the public and general government [1]	6,198		400	6,598	6,598
Shares and units		20,470	5,413	25,883	25,883
Insurance assets			132,318	132,318	132,318
Other financial assets	11,819			11,819	
Financial assets total	**52,583**	**20,470**	**138,132**	**211,185**	
Participating interests				7,606	
Other than financial assets				10,530	
Assets in total 31 December 2017				**229,322**	

Financial liabilities	At fair value through profit or loss	Other liabilities	Total	Fair value
Liabilities to credit institutions [1]		7,982	7,982	7,982
Debt securities issued to the public [2]		54,758	54,758	57,605
Other financial liabilities		16,424	16,424	
Financial liabilities total		**79,164**	**79,164**	
Other than financial liabilities			44,074	
Liabilities in total 31 December 2017			**123,238**	

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.

25 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Fair value of assets 31 December 2018, EUR 1,000	Level 1	Level 2	Level 3	Fair value total
Receivables from credit institutions	-	26,133	**-**	26,133
Receivables from the public and general government	-	8,981	**398**	9,379
Shares and units	6,403	-	6,022	12,424
Insurance assets	127,290	-	4,542	131,832
Total	**133,692**	**35,114**	**10,961**	**179,768**

Fair value of liabilities 31 December 2018, EUR 1,000	Level 1	Level 2	Level 3	Fair value total
Liabilities to credit institutions	-	6,996	**-**	6,996
Debt securities issued to the public	-	54,815	-	54,815
Total	**-**	**61,811**	**-**	**61,811**

Fair value of assets 31 December 2017, EUR 1,000	Level 1	Level 2	Level 3	Fair value total
Receivables from credit institutions	-	34,567	**-**	34,567
Receivables from the public and general government	-	6,198	**400**	6,598
Shares and units	20,470	-	5,413	25,883
Insurance assets	128,058	-	4,261	132,318
Total	**148,527**	**40,764**	**10,074**	**199,366**

Fair value of liabilities 31 December 2017, EUR 1,000	Level 1	Level 2	Level 3	Fair value total
Liabilities to credit institutions	-	7,982	**-**	7,982
Debt securities issued to the public	-	57,605	-	57,605
Total	**-**	**65,588**	**-**	**65,588**

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	1/1-31/12/2018	1/1-31/12/2017
Fair value January 1	10,074	7,641
Purchases	4,380	3,652
Sales and deductions	-1,269	-1,962
Change in fair value - income statement	-2,799	-3
Change in fair value - comprehensive income statement	-31	745
Change of associated company or subsidiary to an investment	607	-
Fair value at end of period	**10,961**	**10,074**

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	1/1-31/12/2018	1/1-31/12/2017
Net income from insurance	229	-3
Net gains or net losses on trading in securities and foreign currencies	-3,028	-
Total	**-2,799**	**-3**

26 INTANGIBLE ASSETS

EUR 1,000	31/12/2018	31/12/2017
Goodwill	5,097	627
Other intangible assets	1,479	1,577
IT systems and software	1,479	1,577
Total	**6,575**	**2,205**

2018	Goodwill	Other intangible assets	Total
Acquisition cost 1 January 2018	627	5,102	5,729
Increases	4,469	743	5,212
Business combinations	-	52	52
Acquisition cost 31 December 2018	5,097	5,896	10,993
Accumulated depreciation, amortisation and impairment 1 January 2018	-	3,524	3,524
Depreciation during the financial period	-	893	893
Accumulated depreciation, amortisation and impairment 31 December 2018	-	4,418	4,418
Book value 1 January 2018	627	1,577	2,205
Book value 31 December 2018	**5,097**	**1,479**	**6,575**

2017	Goodwill	Other intangible assets	Total
Acquisition cost 1 January 2017	627	4,310	4,937
Increases	-	792	792
Acquisition cost 31 December 2017	627	5,102	5,729
Accumulated depreciation, amortisation and impairment 1 January 2017	-	2,424	2,424
Depreciation during the financial period	-	1,100	1,100
Accumulated depreciation, amortisation and impairment 31 December 2017	-	3,524	3,524
Book value 1 January 2017	627	1,886	2,514
Book value 31 December 2017	**627**	**1,577**	**2,205**

Goodwill allocation and impairment testing

Goodwill amounted to 5,097 (627) thousand euros on 31 December 2018. 4,750 thousand euros was allocated to the Wealth Management segment and 347 thousand euros to the Financing segment. The increase of 4,469 thousand euros during the financial period was due to the acquisitions of Evervest Oy and Suomen Vuokravastuu Oy. See note 43 for details.

In impairment testing, the recoverable amount of the unit is determined based on its value in use. Cash flow forecasts are based on predictions for a three-year period. Cash flows after the forecast period are extrapolated using an even 0.5% growth factor, which is assessed as being suitable for a growing business. Future cash flows are discounted using the weighted average cost of capital. Parameters used in determining the discount rate 8.4 percent (risk-free interest, risk coefficient, risk premium and capital structure) are based on factors observed in companies engaged in similar or competing business and on the prevailing market conditions at the end of 2018. The impairment testing of goodwill did not lead to recognition of impairment losses.

In conjunction with impairment testing, sensitivity analyses were carried out with regard to key assumptions, the discount rate and residual value growth factor. The variables used in the calculations are an increase of two percentage points in the discount rate and a decrease of one percentage points in growth following the forecast period. Separately examined, the sensitivity analyses did not show any risk of impairment.

27 TANGIBLE ASSETS

EUR 1,000	31/12/2018	31/12/2017
Other tangible assets	692	361
Total	**692**	**361**

	2018	2017
Acquisition cost 1 January	1,962	1,888
Increases	619	81
Decreases	-	8
Acquisition cost 31 December	2,581	1,962
Accumulated depreciation, amortisation and impairment 1 January	1,601	1,385
Depreciations during the financial period	288	216
Accrued depreciation, amortisation and impairment 31 December	1,888	1,601
Book value on 1 January	361	503
Book value on 31 December	**692**	**361**

28 OTHER ASSETS

EUR 1,000	31/12/2018	31/12/2017
Fee and commission income receivables	5,723	9,324
Other	817	757
Total	**6,540**	**10,081**

29 ACCRUED INCOME AND PREPAYMENTS

EUR 1,000	31/12/2018	31/12/2017
Pension and employer insurance premiums	472	93
Cash settled share options	-	1,397
Interest receivables	1,945	1,487
Tax receivables	321	68
Development projects	16,559	1,207
Other accrued income	2,866	1,071
Total	**22,163**	**5,322**

30 LIABILITIES TO CREDIT INSTITUTIONS

EUR 1,000	31/12/2018	31/12/2017
Other liabilities to credit institutions	6,996	7,982
Total	**6,996**	**7,982**

31 DEBT SECURITIES ISSUED TO THE PUBLIC

EUR 1,000	31/12/2018	31/12/2017
Publicly issued bonds	54,815	54,758
Total	**54,815**	**54,758**

Taaleri Plc has issued one bond in 2016 and two in 2014. The bond issued in 2016 is listed on the Nasdaq HEL Corporate Bond market and the bonds issued in 2014 are listed on the Nasdaq First North Bond Market Finland. The bond 01/2014 with a capital of EUR 10,000,000 was repaid in April 2017.

Key conditions of the bonds:

Taaleri Plc bond 01/2016

Bond organiser(s):	Danske Bank Oyj
Bond capital and currency:	EUR 35,000,000.00
Number of bond shares:	35.000
Priority position of bond:	Same as issuer’s other unsecured commitments
Settlement of bond:	Euroclear Finland Ltd:s value-share system
Unit size of bond shares:	EUR 1,000.00
Minimum subscription of bond:	EUR 100,000.00
Date of issue:	20/12/2016
Date of maturity:	20/12/2021
Repayment amount:	Nominal value of bond capital
Date(s) of repayment:	20/12/2021 The bond will be repaid in one instalment
Interest:	Fixed interest, 4.25% p.a. Interest payment dates: Each year on 20 December, beginning 20 December 2017 and ending 20.12.2021
Basis of interest calculation:	Actual/actual (ICMA)
Assumed banking day:	Following
Issuing agent and payment agent:	Danske Bank Oyj
Bond ISIN code:	FI4000232970

Taaleri Plc bond 01/2014

Bond organiser(s):	Nordea Bank Finland Plc and Taaleri Wealth Management Ltd
Bond capital and currency:	EUR 10,000,000.00
Number of bond shares:	10,000
Priority position of bond:	Same as issuer's other unsecured commitments
Settlement of bond:	EFI's OM value share system
Unit size of bond shares:	EUR 1,000.00
Minimum subscription of bond:	EUR 10,000.00
Date of issue:	03/04/2014
Date of maturity:	03/04/2017
Repayment amount:	Nominal value of bond capital
Date(s) of repayment:	03/04/2017 The bond will be repaid in one instalment
Interest:	Fixed interest, 4.5% p.a. Interest payment dates: Each year on 3 April, beginning 3 April 2015 and ending 3 April 2017
Basis of interest calculation:	Actual/actual (ICMA)
Assumed banking day:	Following
Issuing agent and payment agent:	Nordea Bank Finland Plc
Bond ISIN code:	FI4000088026

Taaleri Plc bond 02/2014

Bond organiser(s):	Taaleri Wealth Management Ltd
Bond capital and currency:	EUR 20,000,000.00
Number of bond shares:	20,000
Priority position of bond:	Same as issuer's other unsecured commitments
Settlement of bond:	EFI's OM value share system
Unit size of bond shares:	EUR 1,000.00
Minimum subscription of bond:	EUR 10,000.00
Date of issue:	19/09/2014
Date of maturity:	19/09/2019
Repayment amount:	Nominal value of bond capital
Date(s) of repayment:	19/09/2019 The bond will be repaid in one instalment
Interest:	Fixed interest, 5.5% p.a. Interest payment dates: Each year on 19 September, beginning 19 September 2015 and ending 19 September 2019
Basis of interest calculation:	Actual/actual (ICMA)
Assumed banking day:	Following
Issuing agent and payment agent:	Svenska Handelsbanken
Bond ISIN code:	FI4000108543

The covenants for the bonds are described in Note 36 'Principles for managing Group risk and capital adequacy'.

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

32 OTHER LIABILITIES

EUR 1,000	31/12/2018	31/12/2017
Accounts payable	1,596	723
Accounts payable - purchases of financial instruments	307	-
Fee and commission liabilities	813	1,063
Tax account liabilities	144	131
Other liabilities	21	214
Total	**2,882**	**2,131**

33 ACCRUED EXPENSES AND DEFERRED INCOME

EUR 1,000	31/12/2018	31/12/2017
Accrued personnel costs	2,980	2,459
Cash settled share options	144	4,743
Accrued interest	369	361
Accrued tax	1,179	2,977
Other accrued expenses	8,327	11,604
Total	**12,999**	**22,143**

34 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets, EUR 1,000	31/12/2018	31/12/2017
From employment benefits	450	673
From unused tax losses	1,231	413
From other IFRS adjustments	640	27
Total	**2,322**	**1,113**

Deferred tax liabilities, EUR 1,000	31/12/2018	31/12/2017
From financial assets measured at fair value through other comprehensive income	170	170
From insurance equalisation provision	14,473	15,717
Total	**14,643**	**15,887**

35 EQUITY

Share capital
The company’s share capital on 31 December 2018 was EUR 125,000 and the amount of shares 28,350,620. The company’s shares do not have a nominal value. Trading in Taaleri Plc’s shares are traded on the Nasdaq Helsinki main market. The shares' trading code is “TAALA” and ISIN code FI4000062195.

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.

Share rights and restrictions

Shareholders’ priority for new shares when increasing share capital	Shareholders have priority for new shares in relation to the shares they already own.
Voting right	Each share entitles to one vote
Dividend right	Equal for all

Other authorisations
At the General Meeting on 21 March 2018, the Board of Directors was authorised to acquire in one or more instalments a total of 2,000,000 shares. The purchase price per share is the price on the Helsinki stock exchange on the date of purchase of the shares, or another market-based price. Shares can be acquired to improve the company's capital structure, to finance business acquisitions and investments or to finance or complete arrangements of other companies. Shares can also be acquired to to be used as part of the company's employee incentive scheme or to be canceled if its in the best interest of the company and the shareholders. The authorisation issued to the Board includes the right to decide whether the shares will be acquired in a targeted way or in relation to the shares owned by shareholders. The purchase may only be targeted if there is an important financial reason for it from the company’s perspective. This authorisation is valid for 18 months from the date of the decision made at the meeting. The authorisation supersedes the authorisation for the company to purchase its own shares issued at the Annual General Meeting on 29 March 2017.

At the Annual General Meeting on 21 March 2018, the Board of Directors was authorised to decide on the issuance of new shares and on the conveyance of own shares held by the company (treasury shares). The Board of Directors may issue new shares and convey treasury shares up to a maximum 2,500,000 shares. New shares may be issued and treasury shares conveyed to the company’s shareholders in proportion to their current shareholdings or in derogation of the pre-emptive subscription right of the shareholders by means of a directed share issue if there is a weighty financial reason for the company to do so, such as the shares are to be used as consideration in possible company acquisitions or in other arrangements that are part of the company’s business or to finance investments or as part of the company’s incentive scheme. The Board of Directors may also decide on the issuance of shares without payment to the company itself. The new shares may be issued and treasury shares may be conveyed either against payment or without payment. A directed share issue may be executed without payment only if there is an especially weighty financial reason for the company to do so, taking the interests of all shareholders into account. The Board of Directors will decide on all other factors relating to the issuance and conveyance of shares. This authorisation is valid for one year from the date of the decision made at the meeting, but no longer than 30 June 2019. The authorisation supersedes the authorisation for the company to purchase its own shares issued at the Annual General Meeting on 21 March 2017.

Changes in number of shares 2018	Total
Number of shares 1 January 2018	28,350,620
Number of shares 31 December 2018	28,350,620
Number of votes 31 December 2018	28,350,620

Changes in number of shares 2017	Total
Number of shares 1 January 2017	28,350,620
Number of shares 31 December 2017	28,350,620
Number of votes 31 December 2017	28,350,620

Issuer's reserves within equity
The following are descriptions of the reserves within equity.

Reserve for invested non-restricted equity
Cash received in the share issues in 2013 and 2015 were recognized in the reserve for invested non-restricted equity.

Translation differences
Translation differences caused by the conversion of the financial statements of foreign units.

Fair value reserve
The change in fair value of financial assets measured at fair value through other comprehensive income is recognised in the fair value reserve. The fair value change of debt instruments is reclassified to profit or loss, when the instrument is derecognised or an expected credit loss is recognised. The fair value change of equity instruments is not reclassified to profit or loss at any time.

Changes in the fair value reserve 2018	At fair value through other comprehensive income		
	Shares and units	Insurance assets	Total
EUR 1,000			
Fair value reserve 31 December 2017	672	-4,952	-4,280
Effects of adopting IFRS 9 1 January 2018	-675	3,919	3,244
Fair value reserve 1 January 2018	-3	-1,033	-1,036
Changes in fair value	-31	-1,862	-1,893
Changes in expected credit losses	-	172	172
Deferred taxes	5	338	343
Fair value reserve 31 December 2018	-29	-2,385	-2,414

Changes in the fair value reserve 2017	Financial assets available for sale		
	Shares and units	Insurance assets	Total
EUR 1,000			
Fair value reserve 1 January 2017	780	-2,069	-1,288
Changes in fair value	-136	-3,604	-3,739
Deferred taxes	27	721	748
Fair value reserve 31 December 2017	672	-4,952	-4,280

NOTES CONCERNING RISK POSITION

36. GROUP’S RISK MANAGEMENT PRINCIPLES AND CAPITAL ADEQUACY

1. The Group's risk management

General

Based on the values, strategy and business plan of the Group, targets are set for Taaleri Group that take into account the future prospects and risks of Taaleri’s businesses and the industries they operate in. The Group's values and strategic and operational objectives create a foundation for the management of the Group's risks and capital adequacy. Taaleri Group's risk appetite and risk capacity are defined in connection with its strategy, business plans and budgeting process. In addition to the strategy, business plan and annual budget, the Board of Directors of Taaleri Plc approves the Group structure and business organisation which strives to achieve the objectives.

The aim of internal control and risk management is to support and promote business by systematically taking care of risk control of the group and its companies and functions, by reviewing and following up risks and by treating the risks in an appropriate manner. Internal control is an integrated part of the operational management of Taaleri Group, and risk management is part of the Group’s internal control.

The task of risk management is to identify, assess, measure, treat and control risks in all Taaleri Group’s businesses that influence the realisation of the Group’s strategic and operative goals, as well as to oversee that the principles approved by the Taaleri Plc Board of Directors are complied with. Risk management aims to reduce the likelihood of unexpected risks being realised and their impact to Taaleri Group’s business operations. Risk management supports achievement of strategic goals by promoting better utilisation of opportunities in all activities and more efficient distribution of risk-taking capacity to the different functions and projects within the defined risk appetite framework.

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). In addition, Taaleri follows the development of political risks. Taaleri uses in its evaluation a report Nordic West Office publishes quarterly on political risk. The report is based on a Global Scenarios Matrix.

Risk and capital adequacy management aims to assure Taaleri Group’s risk tolerance and liquidity and ensure the continuity of the Group’s operations.

According to the rules of procedure of Taaleri Plc's Board of Directors, the Board confirms the Group's common objectives and targets, and approves the principles for internal control, risk and capital adequacy management.

Risk management is based on a systematic process. Risks are regularly assessed in risk reviews aiming to identify, assess, measure and treat risks that could affect the achievement of the Group's objectives and the amount of own capital.

Group Risk Officer is responsible for organising risk reviews in all Group companies and operations. Risks are continuously monitored and risk events reported to the Board of Directors and the Executive Management Team on a quarterly basis.

Laws and regulations concerning the entire Group

In addition to the Investment Services Act, Credit Institutions Act and Insurance Companies Act, Taaleri Group is operating under the Act on Alternative Fund Managers and the Act on the Supervision of Financing and Insurance Conglomerates (699/2004), known as the RaVa-act, according to which the parent company of the group must have proper corporate governance that enables the group to effectively manage its risk, adequate internal control and risk management systems, as well as adequate arrangements and plans for the recovery or dissolution of the group.

Taaleri is a financial group, whose parent company Taaleri Plc is listed on Nasdaq Helsinki's main market. The Taaleri Group comprises three business areas: Wealth Management, Financing, and Energy. The Group's operational subsidiaries are: Taaleri Wealth Management Ltd and its subsidiaries, Taaleri Private Equity Funds Group, Taaleri Investments Group, Taaleri Energia Group and Garantia Insurance Company Ltd.

Taaleri Wealth management Ltd and its subsidiary Evervest Ltd are investment management companies operating under supervision of the Finnish Financial Supervisory Authority (FSA) and Taaleri Fund Management Ltd is a fund management company operating under supervision of the FSA. In addition, Taaleri Private Equity Funds Ltd and Taaleri Energia Funds Management Ltd have licences to act as alternative funds managers granted by the FSA. Garantia Insurance Company Ltd is an insurance company operating under supervision of the FSA.

All other Group companies belong to the RaVa Conglomerate, apart from Taaleri Tax Services Ltd and Kultataaleri Ltd, but the latter two are, however, included in the conglomerate as part of the Wealth Management consolidation group. Taaleri's Wealth Management consolidation group includes Taaleri Wealth Management Ltd and its subsidiaries Taaleri Fund Management Ltd and Evervest Ltd. Taaleri Tax Services Ltd and Kultataaleri Ltd are also taken into account in the Taaleri Wealth Management consolidation group. The Financing sector comprises the Taaleri Wealth Management consolidation group, Taaleri Private Equity Funds Group, Taaleri Investments Group and Taaleri Energia Group. The conglomerate's insurance sector comprises Garantia Insurance Company Ltd. The structure of the RaVa conglomerate and different consolidation groups are illustrated in the figure below in section Capital adequacy management.

1. Risk management organisation

The Board of Directors of Taaleri Plc take care of the Group's corporate governance and the appropriate organisation of its operations, which includes organising and maintaining adequate and effective internal control framework.

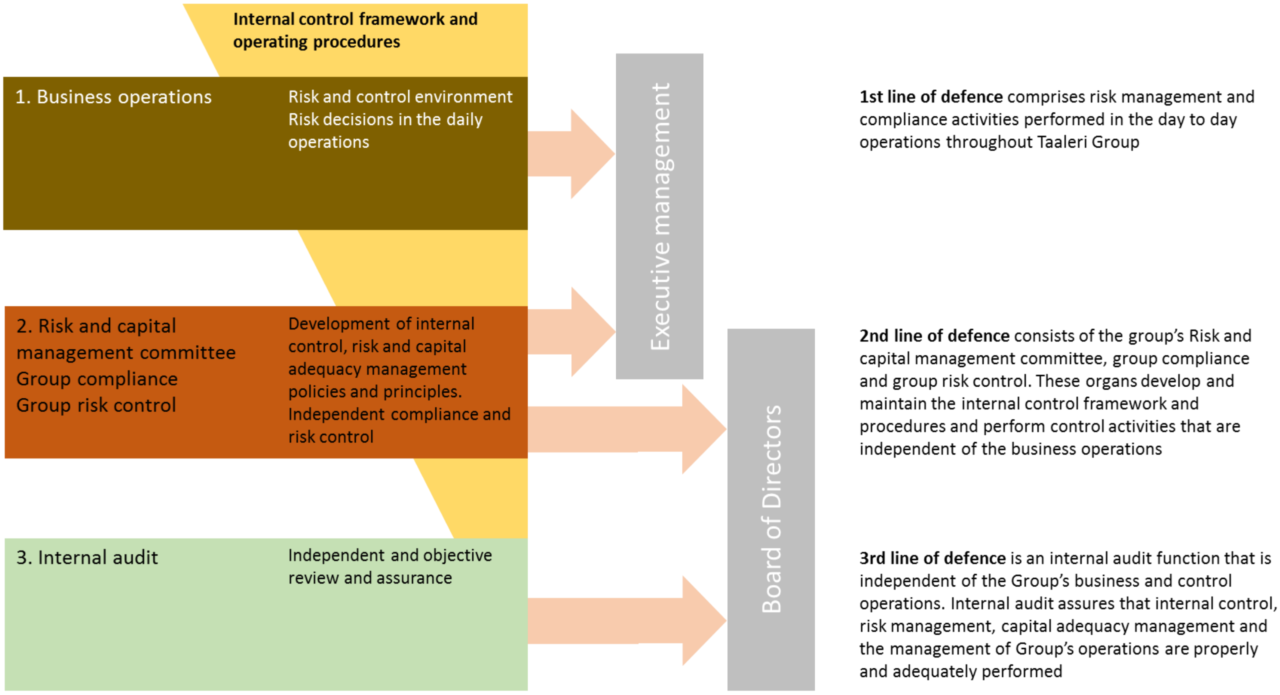
In matters concerning internal control and risk management, the highest decision-making body is the Board of Directors of Taaleri Plc, which is responsible for:

- ensuring that the Group always has sufficient own funds of adequate quality and distribution to cover regulatory minimum capital requirements and internal risk based capital requirements
- approving the group risk strategy and risk appetite based on group strategy and annual planning
- approving plans to maintain capital adequacy in line with the risk strategy
- approving the definitions of risk appetite and risk capacity, setting a target level for capital adequacy and approving the levels and quality of capital required by the risk profile
- monitoring the integrity of the internal control system, including an efficient and robust risk management framework
- supervising the implementation of the Internal Audit Plan after the initial participation of the Audit Committee
- approving the Group's internal control, risk and capital management principles

- approving the liquidity management strategy and liquidity risk management principles
- approving the Group's general policies and principles (including dividend policy and financial strategy and policy)
- annually approving the principles for internal audit and the Group's continuity and recovery plans
- regularly monitoring the development of the Group's businesses, risk capacity, risk situation, and capital adequacy as part of the company's general financial situation using quarterly risk management reports

The three lines of defence describe the structure and operation of risk management in the Taaleri Group. Taaleri Group's first line of defense consists of the Group's business operations, which perform daily risk management duties and ensure compliance with internal and external requirements. The Group's second line of defence consists of the risk control function, the compliance function and the Group's risk and capital management committee, whose task is to develop, maintain and monitor the general operating and risk management principles and the internal control framework at Group level. The Group's third line of defence consists of the internal audit function.

The second and third lines of defence are independent of the controlled businesses, and report directly to the Board.



The Group executive management team is responsible for the operational management of risk management as instructed by the Board of Directors. In matters related to internal control and risk management, the Group executive management team is responsible for promoting a culture within the Group that accepts regulatory compliance, internal control and risk management as a normal and necessary part of the Group's operations.

The Group's risk management is performed by the risk control function and the risk and capital management committee both operating under the Group CEO. The risk control function is responsible for the independent control of the Group's risks, supported by personnel responsible for the risk management of the segments. The risk control function:

- maintains, develops and prepares the Group's internal control, risk and capital adequacy management principles
- supports business operations in risk management measures
- ensures that all material risks are identified, assessed and managed in the Group and Group companies and regularly reported to the Group management team and the Board of Directors
- ensures that the Group's risks remain within established limits and ensures that risk measurement and risk control methods are appropriate and reliable
- Produces Group-level reporting on risks and risk management and ensures that the management team, the Audit Committee and the Board of Directors receive a reliable overall picture of the Group's risks
- supports Group companies in risk reviews and in development and implementation of risk and capital adequacy management
- assists management in planning the risk strategy and risk appetite of the Group and its businesses during the strategic goal setting
- ensures that risk management issues are properly taken into consideration in key business decisions.

The risk and capital management committee is responsible for the effectiveness and efficiency of the Group's risk and capital adequacy management and it regularly reports to the Management Team, the Board's Audit Committee and the Board of Directors. The risk and capital management committee supports business operations in risk management measures if needed, ensures that the Board of Directors has an overall picture of the risks faced by the entire Group, reviews and finalizes Group-level risk analyses, stress tests and risk reports prepared by the group risk officer, annually reviews and finalizes the Group's continuity and recovery plans, and processes new product and service descriptions.

The tasks of the Group Compliance function are to:

- monitor compliance with regulations and internal guidelines
- advise the management team and the Board and other personnel on compliance with regulatory and internal guidelines
- assist Taaleri Plc's Board of Directors, the management team and other relevant bodies in regulatory compliance issues and related compliance risk management by keeping heads of businesses aware of the essential changes in regulations and the potential impact on business
- monitor and regularly evaluate the adequacy and effectiveness of the Group's measures and procedures to ensure compliance
- be responsible for management of anti-money laundering and AML training in the Group

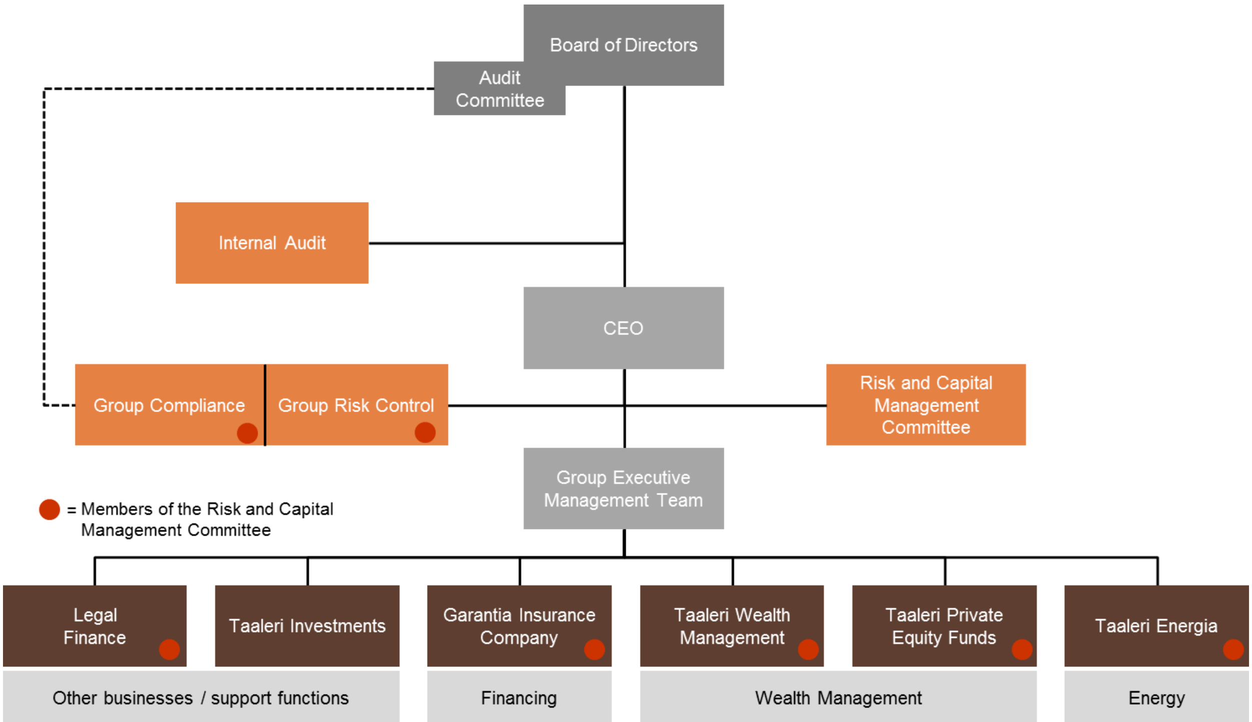
The Group compliance officer is responsible for the compliance function. The Group's compliance function consists of the Group compliance officer, compliance & risk managers and a compliance task group, which includes the Group compliance officer and the persons responsible for compliance related issues in the Group companies.

Internal Audit is an assurance function independent of the operational functions of the Taaleri Group companies. The internal audit function is set up by the Board of Directors and operates under the authority of the Group CEO. The Taaleri Group has outsourced the practical implementation of the Group's internal audit to an external service provider.

Internal auditing is an independent, objective assurance and consulting activity designed to check the adequacy, effectiveness and efficiency of internal control. Internal audit supports the Group's senior and operational management (board, CEO, line managers) in managing and supervising operations.

The objective of the Group's internal audit is to support the Group in achieving its goals by providing a systematic approach to assessing and developing the effectiveness of risk management, risk control and management processes. Internal audit aims to add value to the organization and improve its performance.

Internal audit work is guided by national and international regulations as well as international standards of professional practice in the field, including ethical rules, professional standards, and practical guidelines.



Taaleri Group's risk and capital adequacy management is an integral part of the Group's management, decision-making and business planning. Capital adequacy management is based on a proactive approach that includes a group strategy taking into account the impact of the operating environment, annual plans, capital plans and risk strategies.

The Group's strategic planning process (strategy process) covers setting strategic goals, defining development projects, and preliminary financial forecasts for the coming years. Decisions on risk strategy and risk appetite in relation to the Group's risk capacity and expected returns are also made in the strategy process. Capital targets and risk and capital limits are also set in the internal capital adequacy assessment process which is part of the strategy process. Risk management development issues and projects are also agreed upon in the process.

The annual plans generated in the Group's strategy process include financial analyses of the impact of planned business developments on capital adequacy and risk-based capital requirements as well as on the capital plan.

The capital plan includes targets for the level of own funds of the Group and its affiliated companies for the current and at least the next two years. In the capital plan and risk-based capital calculations, the adequacy of own funds and the solvency of the Group is assessed in relation to the business plan and the risk profile of the business. The assessment also takes into account deteriorating market conditions and, for example, situations where operations are extended to new markets or new products and their impact on the amount of capital. If the amount of own funds seems inadequate, the Group's Board of Directors will decide on the necessary measures to improve capital adequacy. As such, the aspects of capital adequacy management and capital requirements are integral parts of the strategy process and are taken into account when deciding on the implementation of the measures.

In addition to the Group CEO, the Group management team and the risk officer participate in the strategy process. Taaleri Plc's Board of Directors approves the Group's strategy, annual plan and capital plan presented by the CEO.

2.1 Continuity and recovery plans

Business continuity planning is a holistic process that identifies the factors that threaten the continuity of the Group's operations and their consequences, and provides the basis for resilience and effective countermeasures to safeguard the Group's stakeholders, reputation, brand, and operations. The aim of Taaleri Group's continuity planning is to prepare for possible disturbances in advance and to ensure the continuity and reliability of the Group's operations. Continuity planning is used to prepare for business interruptions so that operations can be continued and losses can be limited in various business-related disruptions.

The Group risk officer maintains continuity planning support material, on the basis of which the Group, its businesses and companies make their continuity plans, supported by the risk officer, if needed.

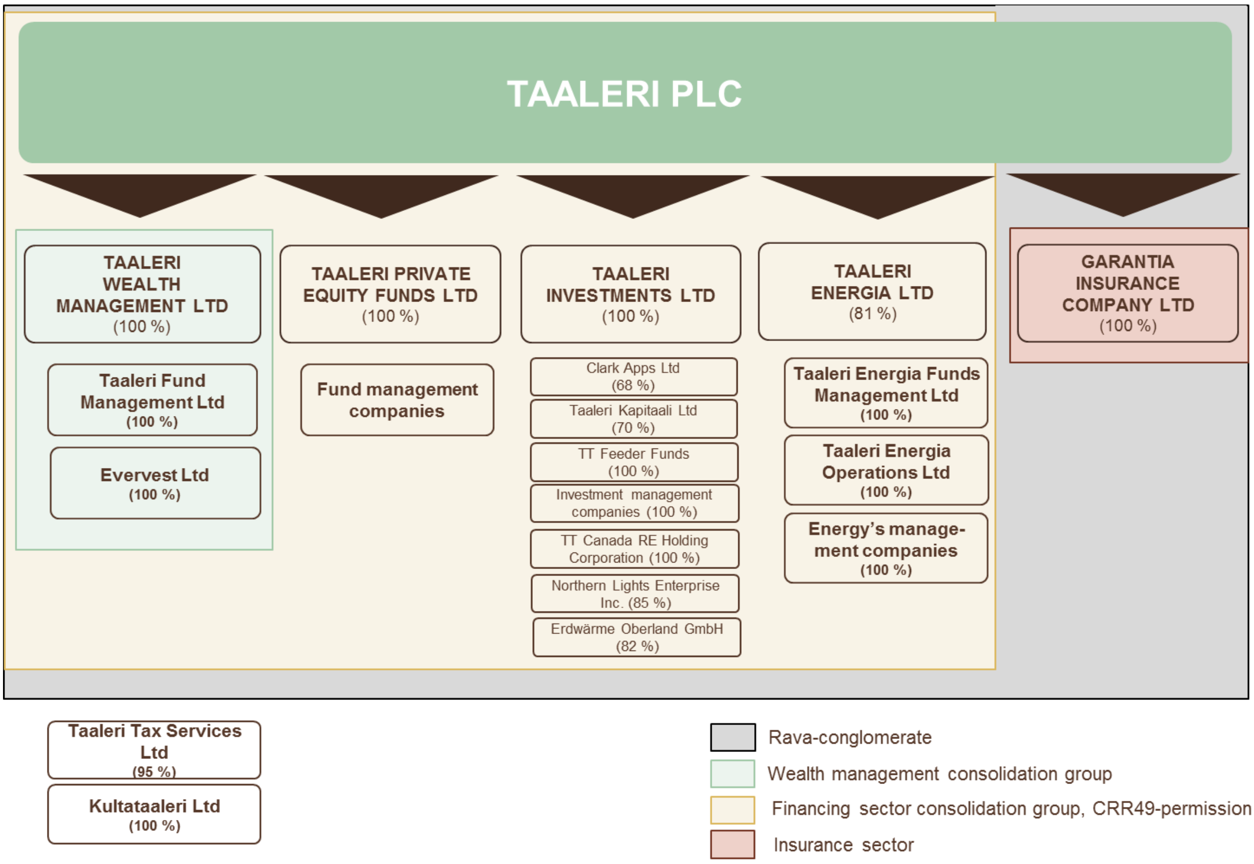
Based on the threat and vulnerability analyses, Taaleri Group's continuity plan reviews operating models for different situations in different business processes and analyses processes and disruptions. The continuity plan guides operations in various continuity situations and also takes into account disruptions in the processes of external partners and suppliers.

The recovery plan sets out the measures to be taken in order to safeguard the continuation of operations in a situation where the financial position of the Group or its affiliated companies has significantly deteriorated. In addition, the Recovery Plan defines clear thresholds and qualitative criteria to identify situations where a plan needs to be implemented to ensure the continuity of the operations of the Group or its affiliated companies.

The continuity and recovery plans are annually reviewed by the Board. The Group risk officer is responsible for drafting the continuity and recovery plans and organising their annual updates. The plans are approved by Taaleri Plc's Board of Directors.

3. Capital adequacy management

Taaleri Group's capital adequacy calculation groups



Risk capacity and risk appetite

The risk capacity of the Taaleri Group consists of a properly optimised capital structure, profitability of business operations and qualitative factors, including good corporate governance, internal control and proactive risk and capital adequacy management. Through effective risk management, the Taaleri Group strives to ensure the continuity of the operations of the Group and its companies and the risk capacity required to achieve set strategic goals.

Taaleri Group's attitude towards risk-taking is based on careful consideration of adequate risk/return relationship.

Taaleri Plc's Board of Directors has decided that the Group may not in its activities take a risk that jeopardises the target level set for the company's own funds.

Taaleri Plc's Board of Directors has separately defined Group internal limits for real estate, equity, country, exchange rate, interest rate and industry sector risks.

Capital management

The objective of Taaleri Group's capital management is to maintain an efficient capital structure that enables the management of usual financial obligations and ensures the continuity of the business also in exceptional circumstances. The Group's capital structure, i.e. how the Group's financing is organized and how it is divided into debt and equity is regularly monitored in connection with balance sheet management. The Group's strategic objective is to have at least 30 per cent equity ratio and a 15 per cent return on equity over the long term. The development of the Group's net gearing is also followed up.

Taaleri Plc has strengthened the Group's own funds by arranging two share issues in 2013 and 2015, which have raised a total of EUR 37.5 million to increase equity and strengthen the balance sheet structure.

Capital plan

The capital plan includes targets for the level of Group's own funds. In the capital plan and risk-based capital calculations, the adequacy of own funds and the solvency of the Group is assessed in relation to the business plan and the risk profile of the business. If necessary, the Group's Board of Directors decides on measures to improve capital adequacy. The aspects capital adequacy management and capital requirements are integral parts of the strategy process and are taken into account when deciding on the implementation of the measures.

In Taaleri Group, the adequacy of own funds is regularly monitored by means of capital adequacy calculations carried out in connection with the monitoring of Group finances. Taaleri Group's Board of Directors sets a target level and a threshold level requiring corrective action for the amount of own funds in relation to the statutory minimum requirement. If own funds fall below the action level, measures to strengthen the capital base and/or reduce risks will be taken immediately.

Taaleri's goal is to keep the own funds at a level determined by the following:

The minimum level of own funds shall be the highest of:

- the minimum capital (€ 730,000 / € 125,000) for an Investment Firm, an Investment Management Company or an Alternative Fund Manager (for licensed group companies) defined in the legislation for such companies, or
- the regulatory minimum capital requirement (calculated using the standardized approach for credit risk, market risk and operational risks), i.e. Pillar 1; or
- the risk-based capital requirement (Pillar 1 capital plus additional risk-based capital requirement, i.e. Pillars 1 + 2)

Taaleri Plc's Board of Directors has decided that the internal target level of own funds is 1.3 times the above defined minimum level of own funds and the own funds of the finance and insurance conglomerate (RaVa Group) formed by the Taaleri Group must not fall below 1.1 times the minimum level of own funds. The financial sector's and the insurance sector's consolidation groups' own funds target levels are consistent with the group-level capital management objectives.

The Board of Directors has set the threshold level requiring corrective action for own funds to be at 1.2 times the minimum level of own funds. The monitoring of the level of own funds covers the capital adequacy outcomes and the different phases of the capital adequacy management process, including the effect of stress tests scenarios to own funds. The results of stress tests are taken into account in proactive capital planning.

Taaleri Group's capital plans are updated at least once a year in connection with annual planning. Capital plans are also updated if the risk situation, risk capacity or business profitability substantially changes.

In 2015, the Finnish Financial Supervisory Authority confirmed that Taaleri has become a financing and insurance conglomerate. The consolidated conglomerate solvency requirement for the whole group is prepared in accordance with the Act on the Supervision of Financing and Insurance Conglomerates (so-called Rava Act), and stress test scenarios with the same assumptions are made for the financial and insurance sectors.

On 29 November 2016, the Financial Supervisory Authority granted Taaleri Plc permission not to deduct its holding in Garantia from the Common Equity Tier 1 consolidated in the investment service company as of 1 January 2017. Instead of deducting them, investments in insurance companies must be risk-weighted in accordance with CRR Article 49 Paragraph 4. The permission was valid from 1 January 2017 until 31 December 2018. Garantia's acquisition cost of EUR 60 million can be left undeducted. Neither is the impact of the accumulated profits by the insurance company included in the consolidated Common Equity Tier 1 of the financing sector consolidation group. When using this method allowed by the permission, the insurance company investment is treated as a risk-weighted item in the capital adequacy calculations for the financing sector consolidation group.

The Finnish Financial Supervisory Authority has 31.1.2019 given Taaleri Plc. permission pursuant to Article 49 (1) of the EU Capital Requirements Regulation (EU) 575/2013 (CRR).

The permission entitles Taaleri Plc. to not deduct the investments in the own funds instruments of Garantia Insurance Company Limited from the consolidated core capital (CET1) of the investment services firm. Garantia is part of Taaleri Plc's financing and insurance conglomerate supervised by the Financial Supervisory Authority. Instead of deduction, investments in insurance company should be risk-weighted in accordance with CRR Article 49 (4). The permit is for a fixed term and is valid until 31.12.2020.

Adjustment measures and sources of capital

Taaleri can use adjustment measures and sources of capital specified in the internal capital adequacy assessment principles and recovery plan in a situation where the amount of own funds falls below the set threshold level in regular solvency monitoring. If necessary, measures can also be taken if the outcome of the stress scenario analysis shows an obvious possibility that the level of own funds will be lower than the threshold level in the near future.

Taaleri has access to back-up funding facilities and possibilities to reduce risk positions, cut costs and limit the distribution of profits when the situation so requires.

4. Key risks and Risk Management of the Wealth Management segment (Financing sector)

Strategic risk and business risk

In Taaleri Group, strategic risk is defined as the risk of unexpected change in the business or operating environment, which affects the achievement of the Group's long-term goals, profitability or continuity of operations. Business risk is defined as the uncertainty in achieving Taaleri Group's current operational targets.

Strategic risks may arise, for example, from competition, changes in the operating environment, financial markets or customer behaviour, or unexpected fluctuations in earnings. Business risks may arise from, for example, choosing the wrong strategy, lack of leadership or slow response to changes in the operating environment.

The most significant strategic and business risks in Taaleri Group are: focusing in wrong issues in the business plan, major changes in the operating and regulatory environment, acquisition of new businesses and the integration of acquired companies into the Group, as well as the risks in internationalization of the operations. Strategic and business risks have been assessed by analysing the development of earnings, balance sheet and capital adequacy in different scenarios set in the strategy process; the baseline scenario, bad scenario and stress scenario. In addition, strategic and business risks are assessed in connection with risk reviews and annual planning.

Strategic and business risk management aims to allocate risk-taking capacity to businesses and projects that have the best risk / return relationship, reduce the likelihood and impact of unexpected losses and reduce the threats to Group's reputation.

The management of these risks is based on the general principles and guidelines approved by the Group and adequate allocation of resources into risk management. In addition, efforts are made to reduce uncertainty arising from strategic risks by actively monitoring legislative and regulatory changes and maintaining sufficient resilience to changes in the economy, business cycle and operating environment. Attempting to react proactively to potential risks aims at reducing the likelihood of the risk realising, impact of the risk if it realises, and vulnerability of the company when the risk realises.

Credit risk

Credit risk in general refers to the risk that the borrower or other counterparty is unable to meet its obligation to the financial institution or that the value of the collateral is insufficient to cover the liability. Credit risks in Taaleri Group can be divided into credit risk (counterparty creditworthiness) and collateral risk.

Credit risk means that the counterparty is unable or unwilling to fulfil its contractual obligations. Collateral risk means that the collateral provided is not sufficient to cover the claim. Loans granted to customers are the largest source of credit risk, but credit risk also arises from other receivables, such as fee receivables from customers, liquid assets and investments, and off-balance sheet assets, such as issued guarantees and commitments made on behalf of the Group or Group companies.

The counterparties of the Taaleri Group companies are the Group's debtors, customers of the services of the Group companies, partners and subcontractors as well as banks and fixed income funds, to which the liquid funds of the Taaleri Group companies have been deposited.

In the financing sector, credit risk arises mainly from investments made by the parent company Taaleri Plc and Taaleri Investments Ltd, loans granted and bank receivables.

Taaleri Asset Management Ltd does not engage in lending activities, so the company's credit risk is comprised of counterparty risk. Taaleri Asset Management Ltd may invest its own funds only in financial institutions with high credit ratings or in liquid fixed income funds. The financial standing and development of business of Taaleri Asset Management's main counterparties is continuously monitored and changes in their risk standing are reported to the management team and the Board of Directors. The aim is to always diversify both credit risk and counterparty risk to more than one counterparty, depending on the market and the situation.

Taaleri calculates its minimum regulatory capital requirement for credit risks using the standardised approach.

Taking into account Taaleri's business model and the low amount of realised credit losses, the pillar 1 capital requirement is considered to adequately reflect the risk-based capital requirements of the financing sector, with the exception of the credit risk items of the Taaleri Investments Group and Garantia. For these items, the pillar 2 risk-based capital requirement for Taaleri Investments Group includes all balance sheet items, with the exception of receivables from credit institutions, weighed at a higher risk weight of 150%.

For Garantia's credit risk items, an additional pillar 2 risk-based capital requirement is added for Taaleri Ltd's investment in the insurance company by using Garantia's internal risk model (confidence level 99,5%, without diversification benefits) for those periods when the pillar 2 capital requirement becomes higher than the pillar 1 requirement.

Liquidity risk

Liquidity risk is the risk associated with the availability of refinancing that arises when the maturities of the receivables and liabilities are different. Liquidity risk also arises if receivables and liabilities are too concentrated on individual counterparties. Taaleri's liquidity is monitored daily and Taaleri has credit account that it can utilise in liquidity management. Liquidity is maintained by investing the excess liquidity buffer in low risk money market instruments that can be rapidly converted into cash.

Taaleri's cash flow consists of easily predictable management fees from funds and private equity funds, interest income on loans granted by Taaleri Plc and Taaleri Sijoitus Oy, relatively predictable performance related fees, and equity investments made by Taaleri Sijoitus Oy. Investment and exit activities may have a significant impact on cash flows. The management fees paid by alternative investment funds and co-investments are based on long-term contracts, and management fees from existing funds and projects can be relatively reliably forecasted for the next 12 months. The management fees of the mutual funds managed by Taaleri Fund Management Company Ltd and the amount of funds in the mutual funds are susceptible to changes in market values of the funds and customer subscriptions and redemptions.

The clientele of Taaleri's operations prone to liquidity risk is highly diversified and the risk concentrations are monitored regularly. In addition, the income stream is smoothed by the steady long-term inflow of income from existing alternative investment fund and co-investment projects. The aim is to reduce the concentration of Taaleri's operations by further expanding the customer base.

Taaleri's financial administration is responsible for the continuous monitoring of Taaleri's financial situation and balance sheet. The Chief Financial Officer monitors balance sheet items and the financial situation on a monthly basis and reports on the situation to the management team and the Group CEO. In addition, financial administration regularly conducts analytical reviews to monitor the items in the income statement and balance sheet.

Market risk

Market risk refers to the impact of market price fluctuations on the market value of financial assets and liabilities. Different types of market risk include interest rate, currency, equity, real estate and commodity risks.

Interest rate risk refers to the impact of changes in interest rates on the market value or net interest income of items in the Group's balance sheet or off-balance sheet, and thereby their impact on solvency. Currency risk refers to the effect of changes in exchange rates. Equity risk refers to the effect of changes in share prices. Commodity risk refers to the effect of changes in commodity prices.

The main items exposed to market risk in the financing sector are Taaleri Investment Ltd's investments and development projects. In addition, market risk arises from other interest rate and currency positions in the Group's balance sheet.

In Taaleri Asset Management Ltd, market risk arises mainly during settlement of customer trades. Taaleri Asset Management Ltd does not take positions in financial instruments or commodities for its own account and does not have a trading book or external debt, except for a credit account for trade settlements.

The equity investments of Taaleri Investments Group are mainly unlisted companies whose development is closely monitored by the management. Taaleri calculates a risk-based capital requirement for this market risk as 10% of the estimated investment assets of Taaleri Investments Group.

The market risks of Taaleri's liquidity buffer are limited as it is invested in short-term fixed income instruments and bank accounts. Therefore, Taaleri does not calculate risk-based capital for the market risk of the liquidity buffer.

Operational risk

Operational risk refers to the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes legal, compliance and security risks but. It is typical for operational risks that the loss caused by the risk is not always measurable. Operational risk effects may also be delayed and indirectly manifested, for example, as a loss of reputation and appreciation.

In Taaleri, operational risks are primarily managed by developing internal processes and by providing good operating instructions and adequate training of personnel. The aim is to reduce the losses due to operational risks by reducing the likelihood and impact of the risks and reducing the company's vulnerability when the risk realises. Taaleri has comprehensive insurance coverage for operational, criminal, property, interruption and liability risks, which contributes to reducing the impact of potential risks. The adequacy of the insurance cover is assessed annually.

Efforts are made to manage the risks caused by abuse or fraud by setting up internal procedures and arranging responsibilities so that proper segregation of duties is achieved where possible. Control points assigned to different processes also play a key role in preventing abuse and errors. The Group's crime insurance covers damage caused by various internal and external misconduct. In addition, Taaleri's assets and premises are protected by, for example, monitoring and access rights.

Taaleri is dependent on leadership and the skills of key personnel and their commitment to Taaleri. Good reputation is important to Taaleri in order to maintain good customer and employee confidence. Legal risks can be associated with contractual agreements with customers, partners, suppliers and other external parties. The aim is to identify these risks through a detailed review of the contracts, using external expertise when necessary. The group companies and units are responsible for managing the operational risks in their operations.

In the annual self-assessment of operational risks, Taaleri's personnel identify and assess the key operational risks in Group’s operations. According to the self-assessment, the main sources of operational risk in Taaleri are legal and compliance, personnel and processes.

Taaleri calculates its regulatory pillar 1 operational risk capital requirement from the end of 2018 according to the standardised approach. This amount is much higher than the actual realised operational risk losses and also higher than the risk-based pillar 2 capital requirement for operational risks estimated in the annual risk reviews.

Taaleri’s principles of operational risk management, approved by the Board of Directors of Taaleri Group, describe in more detail the organisation of operational risk management and the methods for assessing, monitoring and reporting operational risk to the Board of Directors and the Financial Supervisory Authority.

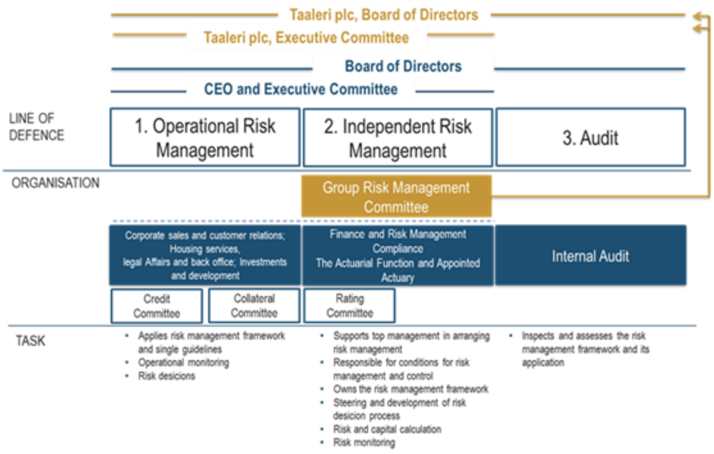
5. Key risks and Risk Management of the Financing segment (Insurance sector)

The company’s risk management and solvency management are based on Garantia’s values, Code of Conduct, strategy and business objectives. The purpose of risk management is to support the achievement of the company’s objectives by identifying the company’s threats and opportunities and ensuring that they remain within the limits of risk appetite and risk-bearing capacity. Internal control that has been reliably organised ensures the observance of the company’s business strategy, the set targets and the principles and procedures related to risk and solvency management.

At Garantia, the principal goal of internal control and risk management is to secure the company’s risk-bearing capacity and thus ensure the continuity of operations. Internal control covers the activities of all of the company’s units and this includes the arrangement of appropriate reporting on all of the company’s organisational levels. Risk management includes the identification, measurement, monitoring, management and reporting of the individual risks and combined effect of risks that the company is exposed to. Risk and solvency management is also integrated as a fixed part of Garantia's business processes and planning and monitoring of operations.

Organisation, responsibilities and control of risk management

Internal control and risk management in Garantia are organised in accordance with a model in which internal control has three lines of defence. In accordance with this model, the tasks have been assigned to (1) units that take business risks in their operations by processing insurance policies, by making decisions binding on the company and by operating at the client interface (Operational risk management); (2) units that are responsible for risk control, carry out independent risk assessments and ensure that company guidelines and acts and other legal provisions are complied with (Independent risk management); and (3) independent internal audit (Internal audit). External control is the responsibility of the auditors and supervisory authorities.



Picture 1: The organisation of Garantia's risk management, Picture 2: Decision-making bodies and reporting relations

The Group Risk Management Committee of the Taaleri Group is responsible for the functioning and effectiveness of the group's risk management process. The Group Risk Management Committee, which is independent of the risk-generating business lines, supports and steers internal control and risk and solvency management at Garantia in order to ensure that group-level principles and guidelines are also applied in the company. The committee re-ports to the Taaleri Group's Management Team and Taaleri Plc's Board of Directors.

Garantia's Board of Directors is the supreme decision-making body in matters concerning Garantia's internal con-trol, risk management and solvency management. The Board approves the principles and policies (incl. the risk-taking limits) concerning internal control and risk management and their organisation and monitors and controls their effectiveness and the development of the risk and solvency position. Garantia's CEO, supported by the Management Team, is responsible for the arrangement of internal control and risk management practices in accordance with internal control and risk management principles.

The Board has appointed a Credit Committee, Collateral Committee and a Rating Committee, which, in accordance with the decision-making system approved by the Board, decide on matters within their purview. The Credit Committee is responsible for decisions relating to guaranty, claims and investments. The Collateral Committee is responsible for collateral assessment and for ensuring the quality and effectiveness of the collateral assessment process. The independent Rating Committee is responsible for approving credit ratings and for ensuring the quality and effectiveness of the ratings process. The Collateral Committee and Rating Committee report to the CEO and the Credit Committee reports to the Board of Directors.

The units in Garantia's organisation that are responsible for risk control carry out independent risk assessments and ensure that company guidelines and acts and other legal provisions are complied with, and thus form a so-called independent risk management function. The task of the independent risk management function is to assist the Board of Directors and other functions to ensure efficient risk management, to monitor the functioning of the risk management system and the company's general risk profile as a whole, to report on exposure to risks and to advise the Board in risk management matters, to identify and assess developing risks and to ensure the appropriateness of the risk models used to measure risks. The independent risk management function reports its activities to the Taaleri Group Risk Management Committee, and Garantia's Board of Directors and CEO.

Internal audit is an assessment, verification and consulting function that is independent of the company's operational activities. The task of internal audit is to support the company's management in the achievement of targets by providing a systematic approach to the assessment and development of the adequacy and efficiency of the organisation's risk management, control, management and administration processes. Internal audit's activities are based on an action plan that is compiled annually. Internal audit reports on its observations, conclusions and recommendations to the Board of Directors of Taaleri Plc and Garantia.

Risk management process

Garantia's risk management process is made up of the following areas:

- Operational planning;
- Capital management;
- Risk appetite;
- Identification and assessment of risks;
- Measurement of risks; and
- Control and reporting of risks.

Garantia's operational planning is made up of long-term (about 3 years) strategic planning and short-term (1 year) annual planning. Operational planning is based on an analysis of the operating environment, the competitive environment and own operations and also on the Taaleri Group strategy. Profit and solvency scenarios, and stress tests, risk survey results, and a risk and solvency assessment are used to define the company's goals, projects supporting achievement of these goals and risk appetite. Every year the actuary presents the statements required by the Insurance Companies Act to the Board of Directors to support operational planning. The strategy and annual plan, including the own risk and solvency assessment, are confirmed by the company's Board of Directors, and the entire personnel are involved in its preparation.

Garantia's goal is to be a reliable partner and the company maintains strong solvency to ensure the continuity and stability of its operations. The Board has set Garantia's target level for capitalisation above the statutory solvency capital requirement, the minimum capital requirement required by credit rating agency Standard & Poor's for an AAA credit rating, and the economic capital model defined at a confidence level of 99.9%. Garantia only distributes dividends or returns capital to the owner when this does not put the A- credit rating at risk. The purpose of capital management is to ensure in an anticipatory way that the company has adequate capital reserves for exceptional situations. The principal means to maintain balance between risks and actual capitalisation is to ensure profitable business operations and active risk management. If an imbalance is detected, balance is restored with management of profit and risk position or by acquiring new capital.

Risk appetite means the amount and type of risks that the company is prepared to take in order to achieve the targets set for its business. Garantia has moderate risk appetite and this is defined with so-called "risk-taking lim-its / risk indicators". The Board of Directors approves the risk-taking limits / risk indicators annually as part of the capital plan (solvency limits), credit risk policy (concentration risks and risk-taking limits concerning insurance operations), reinsurance policy (risk-taking limits concerning reinsurance) and the investment plan (risk-taking limits concerning investment activities).

Constant identification and assessment of risks in the business and operating environment are part of Garantia's risk and solvency management process. The principal risks associated with Garantia's business operations are credit risks arising from guaranty operations, investment risks regarding assets covering technical provisions, strategic risks and operational and compliance risks. The identification and assessment of risks are described separately for each risk later in this note.

Garantia defines and assesses its capital requirement / measures the risk of its business operations with three different Value-at-Risk-based risk indicators. The primary indicator used in the steering of operations, measure-ment of risk and assessment of capital adequacy is economic capital ("Internal risk capital") at a confidence level of 99.9 or 99.5%. When estimating its capital requirement, the company also uses the solvency capital requirement (SCR) based on the Solvency II standard formula at a confidence level of 99.5% including and excluding the capi-tal add-on and the minimum capital requirement corresponding to AAA credit rating that is in accordance with the S&P's Insurance Capital Model. In addition to VaR-based risk indicators, Garantia measures, monitors and as-sesses the risks of its business operations and their development with other quantitative and qualitative risk indi-cators. The measurement of risks is described separately for each risk later in this note.

Garantia's monitoring and reporting of risk and solvency position is divided into internal and external monitoring and reporting. External reporting means the information published for all stakeholders and reporting to the authorities. Garantia also reports on its operations to external credit rating agency Standard & Poor's. Internal reporting of risk and solvency position means reporting to Garantia's Management Team and Board of Directors at least once a month and quarterly reporting to the Taaleri Group Risk Management Committee and further to the Board of Directors of the Taaleri Group. The target of internal monitoring and reporting is to ensure that the company's risk and solvency position are within the limits of risk appetite.

Insurance risk

Insurance risk means a risk of loss arising from inadequate assumptions concerning pricing and technical provisions or an unfavourable change in the value of insurance liabilities. In guaranties, the insurance risk mostly consists of credit risk, i.e. the inability of the guaranteed counterparty to manage its financial and/or operational obligations under the contract in relation to the insured party. This may be the result of the default of the guaranteed counterparty (default risk) or the guaranteed counterparty may fail to fulfil a contractual obligation on time (delivery risk). The credit risk is also considered to include the counterparty risk of the reinsurers or the party providing other counter guaranties, which results from the default of the reinsurer or the party providing other counter guaranties, and the value change risk, which is caused by changes in the fair value of the collateral.

The aim in the management of insurance risk related to guarantee insurance i.e credit risk is to ensure that the negative profit impacts arising from client and counterparty risks remain at acceptable levels and that the returns are adequate in relation to the risks taken. In guaranty insurance credit risks are reduced by means of client selection, active management of client relationships, monitoring of changes in the clients' operations, pricing, diversification and also typically with reinsurance and with collateral and covenant arrangements. Central to the management of credit risks is the process of underwriting insurance policies, which is controlled by the credit risk policy, reinsurance policy and decision-making system confirmed by the Board of Directors and the complementary process descriptions and guidelines on credit risk assessment, auditing of distribution partners, pricing, collateral and covenants approved by the Management Team. The risk management function monitors the functioning and quality of the insurance process. In addition to the daily insurance process, credit risks are identified and assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

The amount of insurance risk is measured by amount of the economic capital model, the solvency capital requirement (SCR) including and excluding the capital add-on and S&P's insurance capital model. The insurance risk's economic capital is defined separately for each contract with internal ratings-based approach according to Basel II which considers the exposure at default (EAD), the instrument's credit rating (probability of default, PD), duration, and the loss given default (LGD), which depends on counter-collateral and reinsurance. The economic capital model also includes concentration risk. Garantia regularly assesses its economic capital model and the functionality of the parameters used in the calculation of the amount of economic capital, including the effectiveness of risk mitigating techniques as part of assessment of the accuracy of the LGD parameter. Credit risk specific to clients and groups of connected clients are also assessed with the following indicators: client's rating and background variables, gross insurance exposure, the proportion reinsured and amount and type of other collateral, uncovered exposure, covenants and risk client status. The credit risk of insurance exposure is assessed with the following indicators including: gross exposure, proportion reinsured and other collateral, and uncovered exposure and economic capital figures by product group, rating class, industry, average maturity of exposure, claims incurred in relation to earned premiums and insurance exposure. The insurance risk position is monitored and reported to the Management Team and the Board of Directors every month.

Quantitative information on insurance risks and technical provisions are presented in note 40.

Actuarial assumptions

Under the Insurance Companies Act, insurance companies must adopt prudent calculation criteria for determining the technical provisions. The value of the technical provisions must always be adequate so that the company can be reasonably assumed to be able to manage its commitments. The criteria for calculating the technical provisions must be submitted to the Financial Supervisory Authority before the end of the financial year.

The provision for unearned premiums is determined as ‘pro rata parte temporis’. The proportion of the premiums written of the valid insurance policies assigned to future financial years is determined on a guarantee basis. The outstanding claims provision consists of known and unknown claims. The individual claims due after the closing date are allocated on a claims basis as part of the known outstanding claims. A proportion of the premiums written accrued by the company during a financial year is allocated to outstanding claims unknown to the company on the closing date as part of unknown outstanding claims, using a specific coefficient. Actual technical provisions are not discounted.

The purpose of the equalization provision is to balance the impact of years with exceptional technical results. The equalization provision acts as a buffer, especially against growth in claims incurred. In Garantia’s calculation bases for the equalization provision an amount corresponding to the claims incurred for the period in question of the provision is recognized annually into profit and loss until the equalization provision reaches the targeted amount. In the long term the equalization provision will gravitate to its target amount. The calculation of the target amount has been defined in the Insurance Companies Act.

Investment risks

The company's investments are used for covering the technical provisions and the equity capital, and their primary purpose is to secure the liquidity of insurance operations also in years with exceptionally high claims. Garantia’s investment activities are long-term and the objective is primarily to secure capital and achieve stable and steadily increasing asset growth. The principle of prudence is observed in investment activities, according to which assets are only invested in the type of property where the company is able to identify, measure, monitor, manage, supervise and report the related risks. Market, counterparty (credit risk) and liquidity risk are the risks affecting the in-vestment activities.

Market risk means the possibility of losses or an unfavourable change in the economic situation due directly or indirectly to the fluctuation in the market prices and volatility of assets, liabilities and financial instruments. Changes in prices affect the value of investment assets and annual returns. The principal market risks are equity risk, interest rate risk, currency risk and property risk. The credit risk of investments is made up of counterparty risk and credit spread risk. Counterparty risk means the risk of default pertaining to the contractual counterparty. Credit spread risk describes the difference in price of risky interest rate instruments and risk-free interest rate instruments, in other words, the risk arising from a change in the credit margin.

The main aim in the management of investment risks is to keep the negative profit impacts arising from investments and the changes in the values of investments at acceptable levels in the long term, to ensure that investment returns are adequate in relation to the risks taken and to safeguard the company's liquidity. Garantia follows the principle of prudence defined in the Insurance Companies Act in its investment activities. Assets are only invested in the type of assets where the company is able to identify, measure, monitor, manage, control and report the related risks. Investment activities should aim to ensure the security, convertibility into cash, rate of return and availability from location of investments, and to consider the nature of insurance agreements and the interests of the insured.

Investment risks are managed through effective diversification of the investments by asset class, sector, geographical area, credit category and counterparty, and by ensuring adequate liquidity of the investments. Central to the management of investment risks is the daily implementation of investment activity, which is controlled by the investment plan and decision-making powers approved by the Board. In addition to the daily investment activities and monthly reporting, investment risks are assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

Capital requirements for investment risks are measured by means of the economic capital model, the Solvency Capital Requirement (SCR) and S&P's insurance capital model. In the economic capital model, investment risks are measured on an instrument-specific basis with Value-at-Risk calculation models for equity risk, currency risk, interest rate risk and credit risk. The credit risk with fixed income and private equity investments is defined with internal ratings-based method according to Basel II which considers the amount of investment, the instrument's credit rating, the loss given default and duration. In addition to economic capital investment risks are measured based on asset class, by country, credit category, counterparty, modified duration, interest rate sensitivity and the amount of foreign currency denominated investments. The investment risk position is monitored and reported to the Management Team and the Board of Directors every month.

Quantitative information on insurance investment risks is presented in note 41.

Operational risks

Operational risks mean the risk of loss resulting from deficient or faulty processes, human error, systems or external events.

Successful management of operational risks helps to ensure that the company's operations are properly organised and that the risks do not cause any unexpected direct or indirect financial losses. Garantia is determined to maintain and strengthen a corporate culture that is positively disposed towards management of operational risks and internal control by continuously providing personnel with training and guidelines.

In order to manage the operational risks, it is central to identify and evaluate risks as well as to ensure the adequacy of the control and management methods. The principal tools in the management of operational risks are risk surveys at least once a year on each unit, continuous registration of operational risks, identification of corrective measures and the monitoring and reporting of these, continuity planning, principles for outsourcing, the planning and implementation of new products, knowing your customer (KYC) and prevention of money laundering and terrorist financing, and process descriptions and other working instructions and operating guidelines.

The extent of the operational risks is measured by the solvency capital requirement (SCR) and the amount of economic capital employed by operational risks, which is determined on the basis of the annual survey of risks. Actual risk events and near misses are monitored and registered, the corrective measures concerning these are specified and the implementation of the measures is followed. Operational risks are reported to the Management Team and the Board of Directors on a quarterly basis.

Other risks

Strategic risks are the risks that result from changes in the operating and competitive environment, slow reaction to changes, selection of the wrong strategy or business model or the unsuccessful implementation of a strategy. Reputational and regulatory risks are part of strategic risks. Reputational risk means the risk that unfounded or founded unfavourable publicity related to the company’s business operations or relations weakens confidence in the company. Reputational risk is usually a consequence of a materialised operative or compliance risk which results in the deterioration of the company’s reputation among its customers and other stakeholders. Regulatory risk means the risk that changes in laws or regulations will materially weaken the company’s ability to carry out its business operations.

The principal method in the management of strategic risks is a systematic and continuous operational planning and monitoring process which makes it possible to identify and assess potential risks in the operating, competitive and regulatory environment and to update the strategy and manage the measures launched to manage risks. Reputational risk is managed in an anticipatory and long-term way by conforming with Garantia’s values, observing regulation and the Code of Conduct confirmed by the Board of Directors and by openly communicating with different stakeholders in an impartial way. Strategic risks are monitored and assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

Compliance risks are the risks pertaining to legal or administrative consequences, economic losses or loss of reputation that result from the failure of the company to comply with laws, decrees or other regulations applicable to its operations. Legislative changes are actively monitored and ongoing projects are regularly reported to the Board of Directors. The survey of risks conducted at Garantia in conjunction with annual planning also includes the identification and assessment of regulatory risks and the definition and monitoring of development measures to reduce the risks. Providing the personnel with guidelines and training is also central to managing compliance risks.

Concentration risk means all types of risks that if there were to materialise, the associated losses could be so large that they would endanger the solvency of insurance or reinsurance companies or financial position. The principal concentration risk in Garantia's business operations arises from the concentration risk of direct and indirect credit and counterparty risk in guaranty and/or investment operations. Garantia’s total exposures contain large, individual group of connected clients and industry-specific credit risk concentrations. In addition, Garantia’s guaranties and investments are concentrated in Finland. The selection of clients and investment targets and the continuous monitoring of changes in the situation of clients is emphasised above all in the management of the credit risk concentration risk. Concentration risk is measured and assessed in the economic capital model with a separate concentration risk model, according to large exposures, as laid down in the Capital Requirements Regulation of the EU and with risk limits specific to groups of connected clients.

Liquidity risk means the risk that insurance and reinsurance companies are unable to convert their investments or other assets into cash in order to meet their financial obligations that fall due for payment. Liquidity risk is limited at Garantia as premiums written is collected before claims are paid and the largest individual payments are insurance compensation payments to beneficiaries or distribution of profit / repayment of capital to shareholders and the payment dates for these payments are usually known well in advance. Garantia has no financial liabilities. Gar-antia’s principle measures in liquidity risk management are sufficient amount of cash for managing daily payments and the liquidity of the investment portfolio.

6. Key risks and Risk Management of the Energy segment

Main risks in Energy segment's operations include: market risk (significant failure in the selection or exit of individual or multiple investments and the resulting depreciation in value), exchange rate risk (potential significant changes in exchange rates for non-euro area investments), country risk (country and destination-specific legal and political risks, and their impact on individual investments); profitability risk (business risks of the fund's investments during construction and production phase). The energy price risk can also affect the value of the energy projects being developed and the profits of the energy funds. However, a significant part of the energy price risk is mitigated with fixed price energy contracts.

Taaleri Energia Ltd's subsidiary Taaleri Energia Funds Management Ltd has been authorized by the Finnish Financial Supervisory Authority to act as an alternative investment fund manager and is the manager of alternative investment funds in the Energy segment and arranges risk management for the funds.

The Energy segment's investment-specific and especially international energy infrastructure investment risk management has been integrated into the Energy segment's operational processes that define quality criteria for investment projects and their review. International investment activities emphasize the need to commission external due diligence reports in addition to the analyses done by Energy segment personnel. Each project or transaction is reviewed by the Energy segment Investment Committee where experienced, independent infrastructure investment professionals challenge the investment proposals by Energia's investment managers. Each project or transaction is usually reviewed three times in the Investment Committee before the final investment decision is made. After the investment has been completed, the personnel of the Energy segment actively participate in project implementation and decision-making, from the investment to the exit. The Energy segment also continuously monitors the key factors that may affect the value of projects as part of risk management and investor reporting processes, and annually updates fund-specific risk analyses and stress tests.

Taaleri Energia Oy also invests its own funds in development projects and its investment risk positions are monitored as part of the Rava-Group risk management.

37 MATURITY SPREAD OF FINANCIAL ASSETS AND LIABILITIES

Financial assets 31/12/2018, EUR 1,000	< 3 m.	3–12 m.	1–5 years	5–10 years	> 10 years	Total
Receivables from credit institutions	26,060	-	73	-	-	26,133
Receivables from the public and general government [1]	8	61	8,462	1,089	-	9,620
Other financial assets	10,537	-	-	-	-	10,537
Interest	30	761	2,549	274	-	3,614
Financial assets total	**36,636**	**822**	**11,084**	**1,363**	**-**	**49,905**

Financial liabilities 31/12/2018, EUR 1,000	< 3 m.	3–12 m.	1–5 years	5–10 years	> 10 years	Total
Liabilities to credit institutions	-	1,000	6,000	-	-	7,000
Debt securities issued to the public [1]	-	20,000	35,000	-	-	55,000
Other financial liabilities	13,991	-	-	-	-	13,991
Interest	51	2,739	3,097	-	-	5,887
Financial liabilities total	**14,043**	**23,739**	**44,097**	**-**	**-**	**81,878**

Financial assets 31/12/2017, EUR 1,000	< 3 m.	3–12 m.	1–5 years	5–10 years	> 10 years	Total
Receivables from credit institutions	34,553	14	-	-	-	34,567
Receivables from the public and general government [1]	122	701	6,753	555	-	8,131
Other financial assets	11,819	-	-	-	-	11,819
Financial assets total	**46,494**	**715**	**6,753**	**555**	**-**	**54,517**

Financial liabilities 31/12/2017, EUR 1,000	< 3 m.	3–12 m.	1–5 years	5–10 years	> 10 years	Total
Liabilities to credit institutions	**60**	8,103	-	-	-	8,163
Debt securities issued to the public [1]	-	2,588	60,563	-	-	63,150
Other financial liabilities	16,424	-	-	-	-	16,424
Financial liabilities total	**16,484**	**10,691**	**60,563**	**-**	**-**	**87,737**

1) The maturity of financial assets are shown at their original value before impairments.

The maturity spread for insurance assets and liabilities is presented in Notes 40 and 41.

38 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	01/01/2018	Cash flows	Change in fair value	31/12/2018
Liabilities to credit institutions	7,982	-1,000	**14**	6,996
Debt securities issued to the public	54,758	-	57	54,815
Total	**62,740**	**-1,000**	**71**	**61,811**

	01/01/2017	Cash flows	Change in fair value	31/12/2017
Liabilities to credit institutions	8,967	-1,000	**15**	7,982
Debt securities issued to the public	64,691	-10,000	66	54,758
Total	**73,659**	**-11,000**	**82**	**62,740**

39 MARKET RISK SENSITIVITY ANALYSIS

A market risk sensitivity analysis has been prepared for the Group's significant market risks, which are interest rate risk and price risk. Sensitivity analyses are prepared by evaluating how each possible change in interest rate or prices might influence balance sheet items that are sensitive to them. The effect is calculated before taxes. Separate sensitivity analyses have been prepared for insurance assets and liabilities and are presented in Notes 40 and 41.

			31/12/2018		31/12/2017	
EUR 1,000	Risk variable	Change	Effect on earnings	Effect on equity	Effect on earnings	Effect on equity
Interest rate risk [1)	Interest	1 %-pt.	196	196	269	269
Price risk [2)						
Shares and units	Fair value	10%	1,195	1,242	2,047	2,588
Receivables from the public and general government	Fair value	10%	595	595	-	-

1) In the interest rate risk sensitivity analysis financial assets and liabilities on the balance sheet with a variable interest rate have been taken into account.

2) In the price risk sensitivity analysis financial instruments that are measured at fair value have been taken into account.

40 QUANTITATIVE INFORMATION ABOUT INSURANCE RISK AND TECHNICAL PROVISIONS

Taaleri's insurance operations consist only of the business of Garantia Insurance Company Ltd. Below is a presentation of quantitative information from Garantia from 2018 and the comparison periods. Garantia Insurance Co Ltd was merged with the Group on 1 April 2015.

Trend in claims incurred, EUR 1,000	Claims paid*	provision for outstandin	Claims incurred	%, of insurance exposure	Claims ratio, %
2018	427	355	783	-0.05%	-6.4 %
2017	-343	-736	-1,079	0.07%	10.1 %
2016	-934	-240	-1,174	0.09%	12.4 %
2015	-1,421	-71	-1,492	0.13%	15.1 %
2014	-569	157	-412	0.03%	3.7 %
2013	-2,526	121	-2,405	0.18%	22.2 %
2012	-1,772	504	-1,268	0.09%	11.7 %
2011	-4,827	-753	-5,580	0.44%	50.8 %
2010	-2,098	26	-2,072	0.15%	18.7 %

* incl. reinsurers' share

Insurance exposure by product, MEUR	31/12/2018	31/12/2017
Loan guarantees	368	365
Commercial bonds	513	462
Residential mortgage guaranties	655	579
Other guarantees	130	85
Total	**1,666**	**1,491**

Collateral position of insurance exposure, MEUR	31/12/2018	31/12/2017
Reinsured	290	259
Collateral classes 1 and 2	105	86
Collateral classes 3 and 4	147	127
Uncovered position	1,124	1,019
Total	**1,666**	**1,491**

Insurance exposure by credit rating*, MEUR	31/12/2018	31/12/2017
AAA - BBB-	101	178
BB+ - BB-	648	452
B+ - B-	177	182
C+ or weaker	16	22
Total	**941**	**834**

* Insurance exposure not including residetial mortgage guaranties, assumed reinsurance and residual value insurance

Insurance exposure by industry*, MEUR	31/12/2018	31/12/2017
Construction	487	364
Manufacturing	203	205
Machinery and equipment industry (incl. repair)	50	52
Chemicals	47	22
Metal	46	47
Food	36	55
Other	25	29
Finance and insurance	71	40
Wholesale and retail trade	37	44
Services	34	58
Water and waste	30	17
Information and communication	29	21
Other industries	50	84
Total	**941**	**834**

* Insurance exposure not including residential mortgage-guaranties, assumed reinsurance and residual value insurance.

Technical provisions (FAS), EUR 1,000	31/12/2018	31/12/2017
Provision for unearned premiums	20,579	16,514
Provision for claims outstanding	1,291	1,646
Known provision for claims outstanding	474	935
Unknown provision for claims outstanding	817	711
Equalisation provision	73,318	72,536
Total	**95,188**	**90,696**

Provision for unearned premiums and claims outstanding by estimated maturity 31 December 2018

EUR 1,000	< 1 year	1–2 years	2–3 years	> 3 years	Total
Provision for unearned premiums	7,651	4,106	3,021	5,801	20,579
Provision for claims outstanding	1,291	-	-	-	1,291
Total	**8,942**	**4,106**	**3,021**	**5,801**	**21,870**

Provision for unearned premiums and claims outstanding by estimated maturity 31 December 2017

EUR 1,000	< 1 year	1–2 years	2–3 years	> 3 years	Total
Provision for unearned premiums	6,056	2,846	2,269	5,344	16,514
Provision for claims outstanding	1,646	-	-	-	1,646
Total	**7,702**	**2,846**	**2,269**	**5,344**	**18,161**

The modified duration of the cash flow distribution of technical provisions (not including the equalisation provision) is 2.5 (2.0) years.

Sensitivity analysis of insurance operations 31 December 2018*

Risk parameter	Total amount	Change in risk parameter	Effect on equity	Effect on combined ratio, percentage point
Premium revenue	12,282	increase of 10%	983	+ 3,09 %-yksikköä
Claims incurred	-783	increase of 10%	-	-0,64 %-yksikköä
Large claim, EUR 10 million	-	EUR 10 million	-	-81,4 %-yksikköä
Operating expenses	4,954	increase of 10%	-396	-4,03 %-yksikköä

* Sensitivity analysis is based on Garantia Insurance Company Ltd's FAS financial statements.

Sensitivity analysis of insurance operations 31 December 2017*

Risk parameter	Total amount	Change in risk parameter	Effect on equity	Effect on combined ratio, percentage point
Premium revenue	10,638	increase of 10%	851	+ 5,48 %-yksikköä
Claims incurred	1,079	increase of 10%	-	-1,01 %-yksikköä
Large claim, EUR 10 million	-	EUR 10 million	-	-94,0 %-yksikköä
Operating expenses	5,330	increase of 10%	-426	-5,01 %-yksikköä

* Sensitivity analysis is based on Garantia Insurance Company Ltd's FAS financial statements.

41 QUANTITATIVE INFORMATION ABOUT INSURANCE INVESTMENT RISKS

Taaleri’s insurance operations consist only of the business of Garantia Insurance Company Ltd. Below is a presentation of quantitative information from Garantia from 2018 and the comparison periods, based on the figures in Garantia’s FAS financial statements.

Investment distribution at fair value, EUR million	31/12/2018	31/12/2017
Fixed income investments*	118	102
Equity investments	15	31
Land and buildings	2	2
Total	**134**	**134**

* includes cash and bank balances. Fixed income investments include mainly bonds issued by Finnish corporates and Nordic banks.

Investment sensitivity analysis, 31 December 2018*

Investment class	Invest-ments at fair value, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	116.6	Change in interest rate	1%	3.17
Shares	12.3	Fair value	10%	0.99
Capital investments	4.5	Fair value	10%	0.36

* The sensitivity analysis is based on Garantia’s FAS financial statements. When calculating the effects of changes, the market valuationhas, however, been assumed before and after the change.

Investment sensitivity analysis, 31 December 2017*

Investment class	Invest-ments at fair value, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	101.5	Change in interest rate	1%	2.97
Shares	28.0	Fair value	10%	2.24
Capital investments	4.3	Fair value	10%	0.34

* The sensitivity analysis is based on Garantia’s FAS financial statements. When calculating the effects of changes, the market valuationhas, however, been assumed before and after the change.

Fixed-income portfolio (excl. Bond funds) by maturity* and credit rating 31 December 2017**

EUR million	< 1 year	1–3 years	3–5 years	> 5 years	Total	%
AAA - AA-	1	14	-	4	18	16%
A+ - A-	0	-	8	-	8	7%
BBB+ - BBB-	-	2	28	3	34	29%
BB+ or weaker	3	21	20	13	57	49%
Total	**3**	**37**	**56**	**21**	**117**	**100%**

Fixed-income portfolio (excl. Bond funds) by maturity* and credit rating 31 December 2016**

EUR million	< 1 year	1–3 years	3–5 years	> 5 years	Total	%
AAA - AA-	0	-	1	8	10	10%
A+ - A-	0	11	-	2	12	12%
BBB+ - BBB-	-	-	19	14	33	32%
BB+ or weaker	6	19	22	-	47	46%
Total	**6**	**29**	**43**	**23**	**102**	**100%**

* The maturity is presented until the end of the term to maturity. If the paper includes call option, the maturity is presented until the first possible call date.

** Rating is based on 1. Garantia's internal credit rating and 2. External rating affirmed by an external rating agency.

OTHER NOTES

42 NOTES CONCERNING PERSONNEL AND MANAGEMENT

	2018		2017	
Number of personnel	**Average no.**	**Change**	**Average no.**	**Change**
Permanent full-time personnel	183	8	175	8
Temporary part-time personnel	10	1	9	-3
Total	193	9	184	5

Share option plans and share based incentive schemes for key employees

Share option plan 2013

On 4 December 2013, the Board of Directors of Taaleri Plc decided on a share-based incentive scheme for the Group's key employees. Under the incentive scheme, key employees are issued synthetic option rights, and a potential bonus will be paid in 2017–2018 partly in the company's Series B shares and partly in cash. The payment in cash aims to cover tax and tax-like payments incurred by key persons from bonuses. If the employment of a key person ends before 2017, in principle no bonus will be paid. Shares paid as a bonus may not be surrendered to shareholders during the one-year waiting period. At the moment of granting, the bonuses paid based on the incentive scheme will correspond to the value increase of a total of no more than about 200,000 Taaleri Plc shares, including the part paid in cash. The dilution caused by the incentive scheme on a company share will be no more than 3.08%. The given value of a share was set at EUR 13.00, which will be reduced by dividends distributed and by capital repayments. The final value of a share will be the average price on the First North Finland market weighted by transaction amounts concluded in the 20 trading days prior to the synthetic option excercise date.

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. The technical changes due to the share transfer to the main list on Helsinki Excanges were taken into account in 2016. Therefore a maximum of the value increase of 800,000 Taaleri shares can be granted, including the part paid in cash. The final value of a share will be the average price on the Helsinki Main list.

On the date of granting of 4 December 2013, the fair value of an option was set at EUR 1.17 (before split: EUR 4.69), on 22 October 2014 at EUR 2.69 (before split: EUR 10.74) and on 12 January 2015 EUR 3.35 (before split: EUR 13.39). Because the recipient of an option is not entitled to receive dividends or capital repayments during the earnings period, the dividends expected have been deducted from the share price on the date of granting when setting the fair value.

Taaleri's Board of Director's has on 16 December 2016 and 27 February 2017 decided that the synthetic options in full will be paid in cash. Thus outstanding synthetic options in full have been measured at fair value on 31 December 2017 and are recognized as debt on 31 December 2017. On 31 December 2018 there were no more options outstanding.

Options outstanding (number of options)	1/1-31/12/2018	1/1-31/12/2017
Outstanding at the beginning of the period	332,000	584,000
Excercised during the period	332,000	252,000
Outstanding at the end of the period	**0**	**332,000**
Excercisable at the end of the period	**0**	**332,000**

Share option plan 2015

On 28 October 2015, the Board of Directors of Taaleri Plc decided on a share-based incentive scheme for the Group's key employees. Under the incentive scheme, key persons are issued synthetic option rights, and a potential bonus will be paid in 2019–2020 in cash. The company's Board of Directors may oblige a key employee to acquire company shares comprising up to 50% of the bonus. The payment in cash aims to cover tax and tax-like payments incurred by key employees from bonuses. If the employment of a key employee ends before 2018, in principle no bonus will be paid. The Board of Directors may oblige that person to purchase Taaleri shares, and to set a possible one-year limitation period for the shares. At the moment of granting, the bonuses paid based on the incentive scheme will correspond to the value increase of a total of no more than about 800,000 Taaleri Plc shares, including the part paid in cash. The given value of a share was set at EUR 9.00, which will be reduced by dividends distributed and by capital repayments before the usage date. The final value of a share will be the average price weighted by transaction amounts concluded in the 20 trading days prior to the synthetic option excercise date.

On the date of granting of 25 February 2016, the fair value of an option was set at EUR 1.77, on 12 May 2016 at EUR 2.07, on 22 June 2016 at EUR 1.80, on 16 December 2016 at EUR 1.36 and on 30 October 2017 at EUR 2.83. Because the recipient of an option is not entitled to receive dividends or capital repayments during the earnings period, the dividends expected have been deducted from the share price on the date of granting when setting the fair value.

The fair value of the payments to be settled in cash were reassessed on each reporting day up to the end of 2017. On 1 January 2018 the amendments to IFRS 2 came into force and since then the expense is recognised according to the initial date of granting until the end of the earnings period.

Options outstanding (number of options)	1/1-31/12/2018	1/1-31/12/2017
Outstanding at the beginning of the period	685,000	610,000
Granted during the period	-	150,000
Returned during the period	70,000	75,000
Outstanding at the end of the period	**615,000**	**685,000**
Excercisable at the end of the period	**-**	**-**

Share based incentive scheme 2017

On 30 October 2017, the Board of Directors of Taaleri Plc decided on a share-based incentive scheme for the Group’s key employees. The scheme consists of three three-year earnings periods, namely 1/11/2017 – 31/10/2020, 1/11/2018 – 31/10/2021, and 1/11/2019 – 31/10/2022. At the beginning of each period, the Board of Directors decides on the earnings criteria and sets performance targets. Approximately ten persons, including the members of the group’s executive board, are part of the scheme in the earnings period 2017-2020. The potential bonus from the scheme in the earnings period 2017-2020 is based on the total return of Taaleri Plc’s share. The potential bonus for the earnings period 2017-2020 corresponds to a maximum of the value of 180,000 shares, including the part paid in cash, and for the earnings period 2018-2021 240,000 shares. The possible bonus from the earnings period 2017-2020 will be paid within approximately four years from the end of the earnings period in four instalments. The bonus is paid partly in shares and partly in cash. The payment in cash aims to cover tax and tax-like payments incurred by key employees from bonuses. If the employment of a key employee ends before the payment of the bonus, in principle no bonus will be paid. Shares received as a bonus may not be surrendered during a one-year waiting period. Shares received under the scheme must be held by the key employee until the value of the shareholding in the company corresponds to the key employee’s yearly gross salary. This amount of shares must be held by the key employee as long as the employment in one of the group companies lasts.

On the date of granting on 30 October 2017, the fair value of a unit was set at EUR 5.07 and on 29 October 2018 at EUR 0.11. Because the recipient of a unit is not entitled to receive dividends or capital repayments during the earnings period, the dividends expected have been deducted from the share price on the date of granting when setting the fair value.

Units outstanding	1/1-31/12/2018	1/1-31/12/2017
Outstanding at the beginning of the period	180,000	0
Granted during the period	240,000	180,000
Returned during the period	22,500	0
Outstanding at the end of the period	**397,500**	**180,000**
Excercisable at the end of the period	**0**	**0**

Determining fair value

In order to determine fair value, the Group uses the Black-Scholes model in option arrangements in which there are no special conditions for creating rights, ie. the 2013 and 2015 share option plans. The expected volatility is determined based on the actual price development of the parent company’s shares, taking into account the validity period of the options still remaining. The fair value of shares in these option arrangements, based on which the shares are granted, is based on the quoted share price. Since 1 January 2018 the recongnised expenses are based on the valuation at the time the rights were granted.

The valuations of synthetic options and share based incentive schemes on 31 December 2018 are based on accrued expenses based on fair values up until 1 January 2018, and from then on based on the valuations on the date the rights were granted. During 2018 expenses from options and other share based incentive schemes amounting to 1.6 (2.6) million euros were recognised in personnel costs.

Share Options 2013, assumptions used [1]	granted 1/2015	granted 10/2014	granted 12/2013
Weighted price of Series B shares on the date of granting, EUR	6.30	5.72	4.13
Share price on 31 December 2018	7.10	7.10	7.10
Share price on 31 December 2017	10.35	10.35	10.35
Original issue price, EUR	3.25	3.25	3.25
Dividend-adjusted issue price, EUR (after share issue)	3.05	3.05	3.05
Expected volatility, %	27.42	27.42	27.42
Validity period on date of granting, years	4.0	4.2	5.1
Risk-free interest, %	-0.229	-0.229	-0.229
Fair value of option at the time of granting, EUR	3.35	2.69	1.17
Fair value of option on 31 December 2017, EUR	7.28	7.28	7.28

[1] All share and option specific assumptions have been adjusted in relation to the bonus issue in March 2015 (1:3).

Share Options 2015, assumptions used	granted 2/2016	granted 5/2015	granted 6/2016	granted 12/2016
Weighted price of shares on the date of granting, EUR	8.76	9.18	8.78	8.31
Share price on 31 December 2018	7.10	7.10	7.10	7.10
Share price on 31 December 2017	10.35	10.35	10.35	10.35
Original issue price, EUR	9.00	9.00	9.00	9.00
Dividend-adjusted issue price, EUR	8.58	8.58	8.58	8.58
Expected volatility, %	0.24	0.24	0.24	0.24
Validity period on date of granting, years	4.85	4.6	4.5	4.0
Risk-free interest, %	0.00	0.0004	0.0004	-0.0052
Fair value of option at the time of granting, EUR	1.77	2.07	1.80	1.36
Fair value of option on 31 December 2018, EUR	0,00	0,00	0,00	0,00
Fair value of option on 31 December 2017, EUR	2.52	2.52	2.52	2.52

Share Options 2015, assumptions used	granted 10/2017
Weighted price of shares on the date of granting, EUR	10.75
Share price on 31 December 2018	7.1
Share price on 31 December 2017	10.35
Original issue price, EUR	9.00
Dividend-adjusted issue price, EUR	8.58
Expected volatility, %	23.4 %
Validity period on date of granting, years	3.17
Risk-free interest, %	-0.43%
Fair value of option at the time of granting, EUR	2.83
Fair value of option on 31 December 2018, EUR	0,00
Fair value of option on 31 December 2017, EUR	2.52

Share based incentive scheme 2017, assumptions used	granted 10/2017	granted 10/2018
Maximum value on the date of granting, EUR	1,717,200	1,629,540
Share price on 31 December 2018	7.10	7.10
Share price on 31 December 2017	10.35	-
Allocation price of share	10.60	8.23
Expected actualisation rate	59.15%	1.49%
Discount rate	10.0 %	10.0 %

The excpected actualisation rate is determined based on the future share price estimated using the Capital Asset Pricing Model, where Taaleri’s company specific beta coefficient and the market risk is used. The risk free rate is based on government loans.

43 INVESTMENTS IN SUBSIDIARIES

Changes in subsidiary shareholdings 2018

On 5 July 2018 Taaleri Wealth Management Ltd acquired the entire share capital of asset management company Evervest Oy, after approval by the Finnish Financial Supervisory Authority. Evervest is Finland's first robo-advisor, and its earnings in 2017 were 78 thousand euros. Evervest's functioning digital platform will extend Taaleri's service offering for customers and the service and its further development has a clear strategic position in the transformation of the wealth management sector. The acquisition price of 4,215 thousand euros was paid in cash and a contingent consideration is structured on the basis of an earn-out model. The range of the outcome of the contingent consideration is between zero and 1.6 million euros.

At the acquisition date Evervest Oy's assets amounted to 152 thousand euros, of which 86 thousand euros were receivables from credit institutions. The liabilities amounted to 60 thousand euros. Goodwill, based on the knowledge of Evervest Oy's personnel, amounting to 4,122 thousand euros was recognised.

Since the acquisition date income amounting to 20 thousand euros and a loss of 20 thousand euros have been included in the consolidated financial statement. Evervest's income for the whole 2018 accounting period was 88 thousand euros and the loss was 428 thousand euros. Evervest Oy is part of the Wealth Management Segment and the goodwill is tested yearly on a segment level.

On 31 August 2018 Garantia Insurance Company Ltd acquired the entire share capital of Suomen Vuokravastuu Oy (SVV) and at the end of the year the company was merged into Garantia. SVV was founded in 2015 and did guaranty business under two brands, Takaamo and Securent. In addition to this, SVV created customized solutions to satisfy customers' needs. The business complements Garantia's existing housing guaranty products and a successful growth scenario creates a new support leg for the business. Garantia's ownership gives SVV appropriate credibility to make use of the market opportunities. The acquisition price of 350 thousand euros was paid in cash and a contingent consideration is structured on the basis of an earn-out model. The range of the outcome of the contingent consideration is between zero and 0.8 million euros.

At the acquisition date SVV's assets amounted to 109 thousand euros, of which 13 thousand euros were receivables from credit institutions. The liabilities amounted to 106 thousand euros. Goodwill, based on the knowledge of SVV's personnel and on expected synergies, amounting to 347 thousand euros was recognised.

Since the acquisition date income amounting to 88 thousand euros and a profit of 36 thousand euros have been included in the consolidated financial statement. SVV's income for the whole 2018 accounting period was 318 thousand euros and the profit was 12 thousand euros. SVV is part of the Financing Segment and the goodwill is tested yearly on a segment level. SVV's former owner is a related party of Taaleri's (see note 48). A fair value estimation of SVV was made by an independent expert.

Taaleri Investments acquired an 82.47 percent stake in Erdwärme Oberland GmbH in March 2018. The acquisition price of 1,240 thousand euros was paid in cash. The company's net assets were 1,240 thousand euros on the acquisition date.

In March 2018 Taaleri reduced its ownership in Taaleri Energia by 19.4 percent to commit its Energia segment's key operative individuals. At the end of the financial period Taaleri had an 80.6 percent stake in the company. The effect on the equity attributable to owners of the parent company of the directed share issue is included in the table below.

In December Taaleri Wealth Management acquired a 20 percent minority shareholding in Taaleri Tax Services, giving Taaleri Wealth Management a 95 percent share in the company. The effect on the equity attributable to owners of the parent companyt is included in the table below.

Additionally, during the financial period, management and project companies were established under Taaleri Private Equity Funds and Taaleri Energia. All group companies are listed on page 123.

Changes in subsidiary shareholdings 2017

The group has on 31 December 2017 sold a 66 percent share of its former subsidiary Taaleri Portföy Yönetimi A.Ş. at a sales price of TRY 1.65 million (EUR 363 thousand). A loss of EUR 0.7 million was recognized in the income statement item "Income from equity investments". The group's shareholding after the sale is 18.83 percent. The shareholding is included in the balance sheet item "Shares and units".

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.

In August a 7 percent share of subsidiary Bonus Solutions Oy was sold after which the group's shareholding is 68 percent.

In May the subsidiary Taaleri Energia Funds Management Ltd, was established and in June the subsidiary TT Canada RE Holding Corporation was established in Canada.

In december the demerger of Taaleri Sijoitus Oy was completed, as a result of which the 100 % ownership of Taaleri Energia Operations Oy was transfered to Taaleri Energia Oy from Taaleri Sijoitus Oy. The demerger had no effect on the group's own capital.

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	2018	2017
From an addition to the share owned in subsidiaries	-291	147
From a reduction in the share owned in subsidiaries without loss of control	397	53
Net effect on equity	**105**	**200**

There is not a material non-controlling interest in the group.

44 INVESTMENTS IN ASSOCIATED COMPANIES

On 31 December 2018 the group had four associated companies; Fellow Finance Plc, Ficolo Oy, Munkkiniemi Group Oy and Turun Toriparkki Oy. None of these is considered material to the group. The associated companies, except for Fellow Finance Plc, are consolidated using the equity method. A loss of 215 thousand euros from continuing operations of the associated companies has been recognised in the Group in the income statement item 'Share of associates' profit or loss'. The associated companies have neither discontinued operations nor comprehensive income items.

Taaleri sold part of its share in Inderes Oy on 6 March 2018 and the Groups ownership decreased from 40 percent to 15 percent. Inderes Oy has been consolidated as an associated company until this date and after this as a strategic equity investment. The Group purchased 47 percent of the shares in Munkkiniemi Group Oy established in March, and on 11 June 2018 the Group acquired 48.15 percent of the shares in Turun Toriparkki Oy in a directed share issue. Both are consolidated in the Group as associated companies from the acquisition date. In October, when Taaleri's associated company Fellow Finance Plc was listed on the First North market place, Taaleri Plc sold 813,262 of its shares. Taaleri's ownership share thus declined from 45.7 percent to 25.9 percent. The rest of the shares in Fellow Finance Plc in direct ownership of Taaleri Plc were classified as held for sale (see note 22). Until then Fellow Finance was consolidated as an associated company according to the equity method.

On 31 December 2017 the group had three associated companies; Fellow Finance Plc, Inderes Oy and Ficolo Oy. None of these is considered material to the group. All associated companies are consolidated using the equity method. A total of EUR 583 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.

The group has on 19 September 2017 acquired 38.85 percent of Ficolo Oy, which has since been consolidated as an associated company. There have been no other changes in investments in associated companies during 2017.

45 CONTINGENT LIABILITIES

Commitments not recognised as liabilities, EUR 1,000	31/12/2018	31/12/2017
Total gross exposures of guaranty insurance	1,666,515	1,491,279
Guarantees	4,620	219
Investment commitments	6,111	14,874
Pledged securities	11,667	13,333
Credit limits (unused)	10,000	10,000
Total	**1,698,912**	**1,529,706**

Garantia has received information that a matter concerning a potential insurance event and a 5 million euro claim with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund which was a loan guaranty customer of Garantia in 2011, and was placed in liquidation in December 2011 under the Pension fund act (1164/1992, as amended) and filed for bankruptcy on 5 February 2018, related to which Garantia originally received a claim on 30 December 2011. Garantia still considers the claim to be unfounded, which is why it has not been entered in the profit and loss account as a provision for outstanding claims.

46 PENSION LIABILITIES

Statutory pension cover for the company's employees and management is arranged through a TyEL insurance policy. Additional voluntary pension insurance has been taken out for the company's management. The company has no unrecognised pension liabilities. All the company's pension arrangements are defined contribution plans.

47 OPERATING LEASES

The group has leased the office premises it uses. The lengths of lease agreements vary from one to three years, and they normally include the possibility to extend the agreement after the original date of expiry. Some companies in the group have also leased cars and office machinery through leasing agreements. Of the above-mentioned items, EUR 2.1 million in leasing expenses was recorded in other operating costs in 2018 (EUR 1.9 million in 2017).

The total of future minimum lease payments under non-cancellable operating leases

EUR 1,000	31/12/2018	31/12/2017
Within one year	1,730	1,616
In over one year and within five years maximum	4,290	5,766
Total	**6,019**	**7,382**

48 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. Companies belonging to the Group are listed on page 123.

On 31 August 2018 Garantia Insurance Company Ltd acquired the entire share capital of Suomen Vuokravastuu Oy (SVV). The former owner of SVV is an other related party of Taaleri. The transaction has been included in the table below on related party transactions. Further information on the acquisition can be found in note 43.

On 31 December 2018 board member Peter Fagernäs is among the 10 largest shareholders of the company through a company he owns. The company's CEO Juhani Elomaa, Deputy CEO Karri Haaparinne and member of the Executive Board Petri Lampinen were also amongst the company's 10 largest shareholders on 31 December 2018.

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

2018	**Sales**	**Purchases**	**Receivables**	**Liabilities**
Associated companies	1,588	13	7,981	-
Other related parties	295	315	4,471	-

2017	**Sales**	**Purchases**	**Receivables**	**Liabilities**
Associated companies	632	91	4,148	-
Other related parties	391	46	4,580	-

Garantia has, in the course of its normal business, granted a guarantee amounting to EUR 10 million to a related party. The guarantee was paid back during 2018.

Management shareholdings

At the end of 2018, members of the company's Board of Directors and Senior Management Team owned a total of 7,515,007 of the company's shares, which corresponds to 26.5% of the shares and the voting rights attached to all shares. The shareholdings of the members of the company's Board of Directors and Senior Management Team in the company, including related party holdings:

Name	Position	Number of shares
Peter Fagernäs [1)]	Chairman of the Board of Directors	2,503,128
Juhani Elomaa [2)]	CEO	2,030,093
Karri Haaparinne [3)]	Deputy CEO	1,760,338
Petri Lampinen [4)]	Taaleri Wealth Management Ltd, Managing Director	517,112
Samu Lang	Head of Wealth Management	256,530
Esa Kiiskinen [5)]	Member of the Board of Directors	232,496
Vesa Puttonen [6)]	Member of the Board of Directors	182,224
Janne Koikkalainen	Legal and Compliance	10,000
Minna Smedsten	CFO	17,586
Hanna Maria Sievinen	Member of the Board of Directors	3,000
Tuomas Syrjänen	Member of the Board of Directors	2,500
Total		**7,515,007**
Total of share capital, %		26.5 %

[1)] Peter Fagernäs' shareholding consists of 2,503,128 shares owned by Oy Hermitage Ab, in which he has a controlling interest.

[2)] Juhani Elomaa's shareholding consists of 2,030,093 shares, 266,656 of which are owned by E-Capital Oy, in which he has a controlling interest, and 45,875 are owned by other related parties.

[3)] Karri Haaparinne's shareholding consists of 1,760,338 shares, 167,683 of which are owned by Xabis Oy, in which he has a controlling interest, and 142,442 are owned by other related parties.

[4)] Petri Lampinen's shareholding consists of 517,112 shares, of which 8,268 shares are owned by other related parties.

[5)] Esa Kiiskinen's shareholding consists of 232,496 shares, 78,891 of which are owned by Saija ja Esa Kiiskinen Oy, and 74,714 are owned by Saija Kiiskinen Oy, in both of which he has a controlling interest,

[6)] Vesa Puttonen's shareholding consists of 182,224 shares owned by Enabla Oy, in which he has a controlling interest.

Fringe benefits of senior management

Senior management consists of the Board of Directors and the Executive Board[1)]. Compensation paid or payable to them for their work consists of the following items:

EUR 1,000	2018	2017
Salaries, bonuses and other fringe benefits	2,108	2,098
Benefits to be paid at the end of employment	944	886
Total	**3,051**	**2,984**

1) The composition of Taaleri's Executive Board changed during the 2017 and 2018 financial periods. The benefits of those who left the Executive Board are included in the table from the time when they belonged to the team.

PARENT COMPANY INCOME STATEMENT

EUR	Note	1/1-31/12/2018	1/1-31/12/2017
Fee and commission income	2	7,762.50	5,175.00
Net gains or net losses on trading in securities and foreign currencies		-17,686.99	13,738.27
Net gains or let losses on trading in securities	3	-17,686.99	13,738.27
Income from equity investments	4	11,617,511.56	11,000,000.00
Interest income	5	1,080,534.98	294,261.47
Other operating income	6	3,862,711.68	3,655,833.02
INCOME FROM INVESTMENT SERVICES		**16,550,833.73**	**14,969,007.76**
Fee and commission expense	7	-103,920.69	-44,889.68
Interest expense	8	-2,899,043.33	-3,078,545.98
Administrative expenses			
Personnel costs	9		
Wages, salaries and fees		-2,442,451.91	-3,466,093.21
Other benefits		-333,451.33	-636,931.91
Pension expenses		-428,009.64	-361,285.58
Social security contributions		94,558.31	-275,646.33
Personnel costs, total		-2,775,903.24	-4,103,025.12
Other administrative expenses	10	-1,052,693.68	-1,074,397.31
Depreciation, amortisation and impairment of tangible and intangible assets	11	-21,414.66	-17,862.06
Other operating expenses	12	-960,511.71	-1,170,460.37
Expected credit losses from financial assets measured at amortised cost	13	26,644.47	0.00
OPERATING PROFIT (LOSS)		**8,763,990.89**	**5,479,827.24**
Appropriations	14	2,850,000.00	7,800,000.00
Income taxes	15	-22,892.98	-464,684.92
PROFIT (LOSS) FOR THE PERIOD		**11,591,097.91**	**12,815,142.32**

PARENT COMPANY BALANCE SHEET

Assets	Note	31.12.2018	31.12.2017
Receivables from credit institutions	15, 25, 26, 27, 28, 29	7,440,994.82	12,268,305.04
Receivables from the public and general government	16, 25, 26, 27, 28, 29	22,472,596.63	5,925,210.00
Shares and units	17, 25, 26	5,009,089.53	15,033,434.51
Participating interests	17, 25, 26	2,997,624.48	2,380,012.00
Shares and units in group entities	17, 25, 26	77,976,286.42	77,883,946.42
Intangible assets	18	29,687.54	51,102.20
Other assets	19	137,104.34	411,028.25
Accrued income and prepayments	20	1,460,832.78	1,726,776.04
Deferred tax assets	21	3,247.48	0.00
		117,527,464.02	**115,679,814.46**

Liabilities	Note	31.12.2018	31.12.2017
LIABILITIES		63,867,997.47	66,190,993.96
Liabilities to credit institutions	22, 26, 27, 28, 29	6,996,300.88	8,000,000.00
Debt securities issued to the public	23, 26, 27, 28, 29	54,814,835.53	55,000,000.00
Other liabilities	24	283,416.57	352,707.30
Accrued expenses and deferred income	25	1,773,444.49	2,838,286.66
EQUITY	30	53,659,466.55	49,488,820.50
Share capital		125,000.00	125,000.00
Non-restricted reserves		36,139,665.20	36,139,665.20
Reserve for invested non-restricted equity		36,139,665.20	36,139,665.20
Retained earnings or loss		5,803,703.44	409,012.98
Profit (loss) for the period		11,591,097.91	12,815,142.32
		117,527,464.02	**115,679,814.46**

PARENT COMPANY CASH FLOW STATEMENT

	1/1-31/12/2018	1/1-31/12/2017
Cash flow from operating activities:		
Operating profit (loss)	8,763,990.89	5,479,827.24
Depreciation	21,414.66	17,862.06
Other adjustments		
Changes in fair value of investments		
- at fair value through profit or loss	9,158.33	-13,738.27
Cash flow before change in working capital	8,794,563.88	5,483,951.03
Change in working capital		
Increase (-)/decrease (+) in loan receivables	-16,563,624.00	-1,925,210.00
Increase (-)/decrease (+) in current interest-free receivables	429,802.49	-1,198,163.02
Increase (+)/decrease (-) in current interest-free liabilities	-1,056,535.52	1,375,832.37
Cash flow from operating activities before financial items and taxes	-8,395,793.15	3,736,410.38
Direct taxes paid (-)	-212,103.39	-25,840.56
Cash flow from operating activities (A)	**-8,607,896.54**	**3,710,569.82**
Cash flow from investing activities:		
Investments in tangible and intangible assets	-	-28,420.80
Investments in subsidiaries and associated companies	-709,952.48	-
Other investments	10,000,000.00	-15,000,000.00
Cash flow from investing activities (B)	**9,290,047.52**	**-15,028,420.80**
Cash flow from financing activities:		
Debt securities issued to the public		-10,000,000.00
Increase (+)/decrease (-) in non-current liabilities	-1,000,000.00	-1,000,000.00
Paid and received group contributions	2,850,000.00	7,800,000.00
Dividends paid and other distribution of profit	-7,359,461.20	-6,227,236.40
Cash flow from financing activities (C)	**-5,509,461.20**	**-9,427,236.40**
Increase/decrease in cash and cash equivalents (A+B+C)	-4,827,310.22	-20,745,087.38
Cash assets at the beginning of the financial period	12,268,305.04	33,013,392.42
Cash assets at the end of the financial period	7,440,994.82	12,268,305.04
Difference in cash assets	-4,827,310.22	-20,745,087.38

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

Taaleri Plc's financial statements have been prepared in accordance with the principles of Finnish bookkeeping legislation, the Act on Investment Services, the Ministry of Finance decree on the financial statements of an investment service company, the Accounting Act and regulations and guidelines of the Finnish Financial Supervisory Authority concerning accounting, financial statements and annual reports in the financial sector. The financial statements have been prepared for the 12-month period 1 January – 31 December 2018.

Revenue recognition principles

Capital gains and losses and changes in value of shares and units have been recorded as net gains from securities trading.

"Income from equity investments" mainly consists of dividend yield from equity investments and capital gains/losses from associates and Group companies. Dividends are primarily recognised as income when the annual general meeting of the company distributing the dividends has made a decision on the distribution of dividends.

Interest income and expenses are recorded on a payment basis from interest-bearing assets and liabilities.

Foreign currency items

Foreign currency transactions are recorded based on the exchange rate on the day of the transaction. Foreign currency receivables and liabilities outstanding at the end of the financial period are measured based on the exchange rate on the date of closing the books. Exchange rate gains and losses related to actual business are recorded in the income statement under net gains on trading in foreign currencies.

Taxes

Tax expense consists of taxes based on taxable income in the period, tax from previous financial periods, and deferred tax assets and liabilities.

Financial instruments

From 1 January onwards IFRS 9 is applied when classifying and measuring financial instruments, instead of IAS 39. The accounting principles have been presented in detail in note 2 of the group financial statements, as well as the effects on a group level of adopting the new standard. The classification of Taaleri Plc’s financial assets and liabilities according to IFRS 9 has been presented in note 27. The comparative figures have not been amended and are thus presented according to IAS 39.

Until 31 December 2017 Taaleri Plc’s financial assets are classified as held-until-maturity, held-for-trading, available-for-sale and loans and other receivables. Changes in fair value are recorded through profit or loss from financial assets and liabilities held-for-trading and in the fair value reserve when a financial instrument is classified as available-for-sale. Loans and other receivables are measured at acquisition cost minus any impairment loss. Financial instruments held-for-trading and available-for-sale are measured at their fair values.

When recording financial instrument purchase and sales contracts, the date of the transaction is used as the basis for recognition.

The necessity of financial asset impairment losses for other than assets measured at fair value are assessed at least on each day of the closing of the books. If there is objective proof that the value of an item or a group of items belonging to loans and other receivables has decreased, the book value of the asset or liability is reduced. The amount of loss is recognized in profit or loss.

Receivables from credit institutions includes receivables from credit institutions referred to in the Act on Credit Institutions and from similar foreign credit institutions, deposits made in them and sums paid to creditors based on guarantees and other off-balance sheet commitments.

Receivables from the public and general government includes credit issued to parties other than credit institutions and central banks, other such receivables and sums paid to creditors based on guarantees and other off-balance sheet commitments.

Shares, investment units and other such units, excluding shares in subsidiaries and associates, which give the right to the equity of an organisation are recognised in the balance sheet item "Shares and units".

Liabilities to credit institutions includes liabilities to credit institutions and to central banks. A liability is considered payable on demand, if it can be terminated immediately or within no more than one banking day.

Liabilities to the public and general government includes liabilities to parties other than credit institutions and central banks.

Debt securities issued to the public includes bonds issued by Taaleri Plc in 2014–2016. Loan interest and transaction expenses are amortised over the maturity period of the loans.

Transaction expenses from liabilities to credit institutions and from debt securities issued to the public are presented in the income statement item "Interest expense".

Tangible assets

Intangible assets are carried on the balance sheet at cost less any accumulated depreciation. IT project and system costs, among other things, realised during the financial period are activated as other long-term expenditure. Tangible assets are carried on the balance sheet at cost less any accumulated depreciation. If, at the end of the financial period, the estimated recoverable amount from intangible or tangible assets is found to be fundamentally and permanently lower than their carrying amount, the difference is recorded in profit or loss as an impairment loss.

The depreciation plan is as follows:

Computer software – straight-line depreciation, 4 years
Other intangible rights – straight-line depreciation, 3 years
Other long-term expenditure – straight-line depreciation, 3 years
Machinery and equipment – straight-line depreciation, 4 years

NOTES TO THE INCOME STATEMENT

2 FEE AND COMMISSION INCOME

	1/1-31/12/2018	1/1-31/12/2017
Other fees	7,762.50	5,175.00
Total	7,762.50	5,175.00

3 NET GAINS OR NET LOSSES ON TRADING IN SECURITIES AND FOREIGN CURRENCIES

Net gains or net losses on trading in securities	1/1-31/12/2018	1/1-31/12/2017
From financial assets measured at fair value through profit or loss		
Financial assets that need to be measured at fair value through profit or loss	-17,545.75	13,738.27
Total	-17,545.75	13,738.27

Net gains or net losses on trading in securities and foreign currencies	1/1-31/12/2018	1/1-31/12/2017
Net gains or net losses on trading in securities by type		
From shares and units	-17,545.75	13,738.27
Sales profit and loss	18,257.05	-
Changes in fair value	-35,802.80	13,738.27
Net gains or let losses on trading in securities, total	-17,545.75	13,738.27
Net gains or net losses on trading in foreign currencies	-141.24	0.00
Total	-17,686.99	13,738.27

4 INCOME FROM EQUITY INVESTMENTS

	1/1-31/12/2018	1/1-31/12/2017
From group companies	6,000,000.00	11,000,000.00
Dividend income	6,000,000.00	11,000,000.00
From associated companies	5,617,511.56	-
Dividend income	196,743.80	-
Profit or loss from divestments	5,420,767.76	-
Total	11,617,511.56	11,000,000.00

5 INTEREST INCOME

	1/1-31/12/2018	1/1-31/12/2017
From receivables from the public and general government	733,102.53	292,406.90
Other interest income	802.31	144.98
From group companies	346,630.14	1,709.59
Total	1,080,534.98	294,261.47

6 OTHER OPERATING INCOME

	1/1-31/12/2018	1/1-31/12/2017
From other companies	-	5,950.00
From group companies	3,862,711.68	3,649,883.02
Total	3,862,711.68	3,655,833.02

7 FEE AND COMMISSION EXPENSE

	1/1-31/12/2018	1/1-31/12/2017
From other operations	103,920.69	44,889.68
Total	103,920.69	44,889.68

8 INTEREST EXPENSES

	1/1-31/12/2018	1/1-31/12/2017
From liabilities to credit institutions	253,299.59	278,807.01
From receivables from credit institutions	873.39	25,442.85
From debentures issued	2,644,670.35	2,774,223.75
Other interest expenses	200.00	72.37
To group companies	0.00	0.00
Total	2,899,043.33	3,078,545.98

9 PERSONNEL COSTS

	1/1-31/12/2018	1/1-31/12/2017
Wages, salaries and fees	2,442,451.91	3,466,093.21
Pension expenses	428,009.64	361,285.58
Social security contributions	-94,558.31	275,646.33
Total	2,775,903.24	4,103,025.12

During the 2018 financial period, a total of EUR 1055.8 (900.7) thousand in salaries and fees were paid to the Board of Directors, the CEO and Deputy CEO including the voluntary pension insurance. During the financial period, the average number of personnel employed by the parent company was 16 (16).

The salaries and bonuses paid to the company’s CEO in 2018 including fringe benefits and pension insurance amounted to EUR 526 thousand. If his employment is terminated by the company, the CEO is entitled to severance pay corresponding to 12 months salary. The CEO is entitled to a statutory pension and his retirement age is determined within the framework of the statutory pension system. The company’s CEO is entitled to a voluntary pension insurance paid for by the company, which cost EUR 84 thousand in 2018.

10 OTHER ADMINISTRATIVE EXPENSES

	1/1-31/12/2018	1/1-31/12/2017
Voluntary personnel expenses	193,696.66	238,183.89
Marketing and communication expenses	287,856.24	250,679.27
Group internal administrative services	335,074.00	328,524.00
Other expenses	236,066.78	257,010.15
Total	1,052,693.68	1,074,397.31

11 DEPRECIATION, AMORTISATION AND IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS

	1/1-31/12/2018	1/1-31/12/2017
Intangible assets		
Planned depreciation	21,414.66	17,862.06
Total	21,414.66	17,862.06

12 OTHER OPERATING EXPENSES

	1/1-31/12/2018	1/1-31/12/2017
Premises and other leasing expenses	17,808.46	12,436.30
Equipment rental and leasing	90,902.91	93,992.52
Fees paid to the company’s auditors	56,482.00	141,302.26
Auditing fees	45,260.00	125,302.00
Other	11,222.00	16,000.26
Other expenses	768,673.87	922,729.29
Total	933,867.24	1,170,460.37

13 EXPECTED CREDIT LOSSES

	Amortised cost
ECL 1/1/2018	42,881.84
Additions due to purchases	4,783.36
Deductions due to derecognitions	-31,427.83
Changes in risk parameters	0.00
Recognised in profit or loss	-26,644.47
ECL 31/12/2018	16,237.37

All financial assets subject to ECL calculations are on level 1, i.e. the credit risk has not increased significantly. There are no realised credit losses recognised in the presented financial periods.

	1/1-31/12/2018	1/1-31/12/2017
Expected credit losses from financial assets measured at amortised cost	26,644.47	-
Recognised in profit or loss	26,644.47	-

14 APPROPRIATIONS

	1/1-31/12/2018	1/1-31/12/2017
Group contributions received	6,000,000.00	7,800,000.00
Group contributions paid	3,150,000.00	-
Total	2,850,000.00	7,800,000.00

15 TAXES

	1/1-31/12/2018	1/1-31/12/2017
From profit for the financial period	18,460.63	465,490.91
Taxes from previous periods	-896.54	-805.99
Deferred taxes	5,328.89	-
Total	22,892.98	464,684.92

NOTES TO THE BALANCE SHEET

16 RECEIVABLES FROM CREDIT INSTITUTIONS

	31/12/2018	31/12/2017
Repayable on demand		
From domestic credit institutions	7,440,994.82	12,268,305.04
Receivables from credit institutions, total	7,440,994.82	12,268,305.04

17 RECEIVABLES FROM THE PUBLIC AND GENERAL GOVERNMENT

	31/12/2018	31/12/2017
Other than repayable on demanded		
Group **)	15,350,000.00	1,800,000.00
Personnel	271,596.63	125,210.00
Other companies	6,851,000.00	4,000,000.00
Total	22,472,596.63	5,925,210.00
Total amount of subordinated receivables:		
**) Group internal	15,350,000.00	1,800,000.00

18 SHARES AND UNITS

	31/12/2018	31/12/2017
Shares and units	**5,009,089.53**	**15,033,434.51**
Fair value through profit or loss	5,004,854.82	-
Fair value through other comprehensive income	4,234.71	-
Held for trading	-	15,029,199.80
Available for sale	-	4,234.71
- of which publicly quoted	17,832.32	16,527.97
- of which shares in funds	4,987,022.50	15,012,671.83
Shares and units in associated companies	**2,997,624.48**	**2,380,012.00**
Shares and units in group companies	**77,976,286.42**	**77,883,946.42**
Carrying amount total	**85,983,000.43**	**95,297,392.93**
- of which at acquisition cost	80,978,145.61	80,268,193.13

19 INTANGIBLE ASSETS

2018	IT systems	Total
Acquisition cost 1 January	85,658.63	85,658.63
Acquisition cost 31 December	**85,658.63**	**85,658.63**
Accumulated depreciation, amortisation and impairment 1 January	34,556.43	34,556.43
Depreciation during the financial period	21,414.66	21,414.66
Accrued depreciation 31 December	**55,971.09**	**55,971.09**
Carrying amount 1 January	51,102.20	51,102.20
Carrying amount 31 December	**29,687.54**	**29,687.54**

2017	IT systems	Total
Acquisition cost 1 January	57,237.83	57,237.83
Increases	28,420.80	28,420.80
Acquisition cost 31 December	**85,658.63**	**85,658.63**
Accumulated depreciation, amortisation and impairment 1 January	16,694.37	16,694.37
Depreciation during the financial period	17,862.06	17,862.06
Accrued depreciation 31 December	**34,556.43**	**34,556.43**
Carrying amount 1 January	40,543.46	40,543.46
Carrying amount 31 December	**51,102.20**	**51,102.20**

20 OTHER ASSETS

	31/12/2018	31/12/2017
Group internal receivables	29,590.03	120,618.29
VAT receivables	94,867.92	248,722.97
Other	12,646.39	41,686.99
Total	137,104.34	411,028.25

21 ACCRUED INCOME AND PREPAYMENTS

	31/12/2018	31/12/2017
Group internal	700,462.14	1,258,383.31
Accrued interest	426,351.98	357,253.36
Tax accruals	194,539.30	17,960.27
Other accrued income	139,479.36	93,179.10
Total	1,460,832.78	1,726,776.04

22 LIABILITIES TO CREDIT INSTITUTIONS

	31/12/2018	31/12/2017
Other than repayable on demanded	6,996,300.88	8,000,000.00
Total	6,996,300.88	8,000,000.00

23 DEBT SECURITIES ISSUED TO THE PUBLIC

	31/12/2018	31/12/2017
Publicly issued bonds	54,814,835.53	55,000,000.00
Total	54,814,835.53	55,000,000.00

Taaleri Plc has issued one bond in 2016 and two in 2014. The bond issued in 2016 is listed on the Nasdaq HEL Corporate Bond market and the bonds issued in 2014 are listed on the Nasdaq First North Bond Market Finland. See note *31 Debt securities issued to the public* to the consolidated financial statements.

24 OTHER LIABILITIES

	31/12/2018	31/12/2017
Accounts payable	154,899.75	54,408.49
Other liabilities	8,605.37	74,635.00
Other group internal liabilities	119,911.45	223,663.81
Total	283,416.57	352,707.30

25 ACCRUED EXPENSES AND DEFERRED INCOME

	31/12/2018	31/12/2017
Group internal accrued expenses	481,000.57	216,105.80
Holiday pay liability	426,683.98	343,622.81
Accrued interest	368,906.40	360,684.17
Accrued tax	-	439,650.35
Other accrued expenses	496,853.54	1,478,223.53
Total	1,773,444.49	2,838,286.66

26 ITEMS DENOMINATED IN DOMESTIC AND FOREIGN CURRENCY AND CONSOLIDATED ITEMS

2018	EUR	Other than EUR	Total	Group internal
Receivables from credit institutions	7,440,994.82	-	7,440,994.82	-
Receivables from the public and general governmei	22,472,596.63	-	22,472,596.63	-
Shares and units	85,983,000.43	-	85,983,000.43	77,976,286.42
Other assets	1,627,624.66	-	1,627,624.66	730,052.17
Total	117,524,216.54	-	117,524,216.54	78,706,338.59
Liabilities to credit institutions	6,996,300.88	-	6,996,300.88	-
Debt instruments issued to the public	54,814,835.53	-	54,814,835.53	-
Other liabilities	2,056,861.06	-	2,056,861.06	616,764.99
Total	63,867,997.47	-	63,867,997.47	616,764.99

2017	EUR	Other than EUR	Total	Group internal
Receivables from credit institutions	12,268,305.04	-	12,268,305.04	-
Receivables from the public and general governmei	5,925,210.00	-	5,925,210.00	-
Shares and units	95,297,392.93	-	95,297,392.93	77,883,946.42
Other assets	2,188,906.49	-	2,188,906.49	1,379,001.60
Total	115,679,814.46	-	115,679,814.46	79,262,948.02
Liabilities to credit institutions	8,000,000.00	-	8,000,000.00	-
Debt instruments issued to the public	55,000,000.00	-	55,000,000.00	-
Other liabilities	3,190,993.96	-	3,190,993.96	1,701,887.34
Total	66,190,993.96	-	66,190,993.96	1,701,887.34

27 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities 31 December 2018, EUR 1 000

		At fair value through other comprehensive income		At fair value through profit or loss		
Financial assets	Amortised cost	Equity instruments [4]	Others	Equity instruments	Others	Total
Receivables from credit institutions [1]	7,440,994.82	0.00	0.00	0.00	0.00	7,440,994.82
Receivables from the public and general government [1]	8,312,596.63	0.00	0.00	14,160,000.00	0.00	22,472,596.63
Shares and units [3]	0.00	4,234.71	0.00	17,832.32	4,987,022.50	5,009,089.53
Other financial assets	1,182,493.14	0.00	0.00	0.00	0.00	1,182,493.14
Financial assets total	16,936,084.59	4,234.71	0.00	14,177,832.32	4,987,022.50	36,105,174.12
Participating interests						80,973,910.90
Other than financial assets						448,379.00
Assets in total 31 December 2018						117,527,464.02

Financial liabilities	At fair value through profit or loss	Other liabilities	Yhteensä
Liabilities to credit institutions [1]		6,996,300.88	6,996,300.88
Debt securities issued to the public [2]		54,814,835.53	54,814,835.53
Other financial liabilities		2,048,319.39	2,048,319.39
Financial liabilities total		63,859,455.80	63,859,455.80
Other than financial liabilities			8,541.67
Liabilities in total 31 December 2018			63,867,997.47

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. Their fair value on 31 December 2018 was 56,941,089.73 euros.

3) Shares and units are measured at fair value.

4) At initial recognition the company's non-strategic investments are specifically classified as measured at fair value through profit or loss. Thus, dividend yields are recognised in profit or loss, but changes in fair value, foreign exchange rate gains and losses as well as sales gains and losses are recognised in other comprehensive income. These are not later recycled to profit or loss. The classification as a non-strategic investment is made instrument-by-instrument by management. Non-strategic investments include small investments in limited partnerships associated to Taaleri's private equity funds and equity investments in private companies not directly associated to Taaleri's business strategy. On 31/12/2018 the fair value of non-strategic investments was 4 thousand euros, of which none paid dividends in 2018. No non-strategic investments were derecognised in 2018.

Financial assets and liabilities 31 December 2017, EUR 1 000

Financial assets	Loans and receivables	At fair value through profit or	Available-for-sale	Total
Receivables from credit institutions [1]	12,268,305.04	0.00	0.00	12,268,305.04
Receivables from the public and general government [1]	5,925,210.00	0.00	0.00	5,925,210.00
Shares and units [3]	0.00	15,029,199.80	4,234.71	15,033,434.51
Other financial assets	1,788,048.55	0.00	0.00	1,788,048.55
Financial assets total	19,981,563.59	15,029,199.80	4,234.71	35,014,998.10
Participating interests				80,263,958.42
Other than financial assets				400,857.94
Assets in total 31 December 2017				115,679,814.46

Financial liabilities	At fair value through profit or loss	Other liabilities	Total
Liabilities to credit institutions [1]		8,000,000.00	8,000,000.00
Debt securities issued to the public [2]		55,000,000.00	55,000,000.00
Other financial liabilities		2,751,343.61	2,751,343.61
Financial liabilities total		65,751,343.61	65,751,343.61
Other than financial liabilities			439,650.35
Liabilities in total 31 December 2017			66,190,993.96

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. Their fair value on 31 December 2017 was 57,605,239.73 euros.

3) Shares and units are measured at fair value.

28 FAIR VALUES AND CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES, AND FAIR VALUE HIERARCHY

2018	Carrying amount	Fair value
Financial assets		
Receivables from credit institutions	7,440,994.82	7,440,994.82
Receivables from the public and general government	22,472,596.63	25,439,602.21
Shares and units	8,006,714.01	8,006,714.01
Shares and units in group companies	77,976,286.42	77,976,286.42
Total	115,896,591.88	118,863,597.46
Financial liabilities		
Liabilities to credit institutions	6,996,300.88	7,152,741.23
Debt securities issued to the public	54,814,835.53	60,511,503.32
Total	61,811,136.41	67,664,244.55

2017	Carrying amount	Fair value
Financial assets		
Receivables from credit institutions	12,268,305.04	12,268,305.04
Receivables from the public and general government	5,925,210.00	6,909,313.17
Shares and units	17,413,446.51	17,413,446.51
Shares and units in group companies	77,883,946.42	77,883,946.42
Total	113,490,907.97	114,475,011.14
Financial liabilities		
Liabilities to credit institutions	8,000,000.00	8,406,893.88
Debt securities issued to the public	55,000,000.00	62,724,671.81
Total	63,000,000.00	71,131,565.69

Financial instruments measured at fair value

2018	Level 1	Level 2	Level 3	Total
Shares and units				
Fair value through profit or loss	5,004,854.82	-	-	5,004,854.82
Fair value through other comprehensive income	-	-	4,234.71	4,234.71
Total	5,004,854.82	-	4,234.71	5,009,089.53

2017	Level 1	Level 2	Level 3	Total
Shares and units				
Held for trading	15,029,199.80	-	-	15,029,199.80
Available for sale	-	-	4,234.71	4,234.71
Total	15,029,199.80	-	4,234.71	15,033,434.51

Levels of 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.

29 MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

31/12/2018	Receivables from credit institutions	Receivables from the public and general government	Liabilities to credit institutions	Debt securities issued to the public
less than 3 months	7,440,994.82	-	-	-
3–12 months	-	6,550,000.00	1,000,000.00	20,000,000.00
1–5 years	-	7,138,834.00	6,000,000.00	35,000,000.00
5–10 years	-	8,800,000.00	-	-
more than 10 years	-	-	-	-
Total	7,440,994.82	22,488,834.00	7,000,000.00	55,000,000.00

31/12/2017	Receivables from credit institutions	Receivables from the public and general government	Liabilities to credit institutions	Debt securities issued to the public
less than 3 months	12,268,305.04	-	-	-
3–12 months	-	-	8,000,000.00	-
1–5 years	-	4,125,210.00	-	55,000,000.00
5–10 years	-	1,800,000.00	-	-
more than 10 years	-	-	-	-
Total	12,268,305.04	5,925,210.00	8,000,000.00	55,000,000.00

1) The maturity of financial assets are shown at their original value before impairments.

30 INCRESES AND DECREASES OF EQUITY DURING THE FINANCIAL PERIOD

	01/01/2018	**Increase**	**Decrease**	**31/12/2018**
Share capital	125,000.00	0.00	0.00	125,000.00
Reserve for invested non-restricted equity	36,139,665.20	0.00	0.00	36,139,665.20
Retained earnings or loss	13,224,155.30	0.00	0.00	13,224,155.30
Profit (loss) for the period	0.00	11,591,097.91	0.00	11,591,097.91
Total	49,488,820.50	11,591,097.91	0.00	61,079,918.41

Parent company distributable assets 31 December 2018 60,954,918.41

	01/01/2017	**Increase**	**Decrease**	**31/12/2017**
Share capital	125,000.00	0.00	0.00	125,000.00
Reserve for invested non-restricted equity	36,139,665.20	0.00	0.00	36,139,665.20
Retained earnings or loss	6,636,249.38	0.00	6,227,236.40	409,012.98
Profit (loss) for the period	0.00	12,815,142.32	0.00	12,815,142.32
Total	42,900,914.58	12,815,142.32	6,227,236.40	49,488,820.50

Parent company distributable assets 31 December 2017 49,363,820.50

NOTES CONCERNING GUARANTEES AND CONTINGENT LIABILITIES

31 GUARANTEES AND CONTINGENT LIABILITIES

Off balance sheet items	31/12/2018	31/12/2017
Pledged securities	11,666,666.67	13,333,333.33
Credit limits (unused)	5,000,000.00	5,000,000.00
Total	16,666,666.67	18,333,333.33

32 PENSION LIABILITIES

Statutory pension cover for the company's employees and management is arranged through a TyEL insurance policy. Additional voluntary pension insurance has been taken out for the company's management. The company has no unrecognised pension liabilities.

33 LEASING AND OTHER RENTAL LIABILITIES

31.12.2018	< 1 year	1–5 years
Leasing payments	148,793.37	216,524.97
Total	148,793.37	216,524.97

31.12.2017	< 1 year	1–5 years
Leasing payments	77,726.02	93,610.81
Total	77,726.02	93,610.81

LIST OF ACCOUNTING BOOKS

Income Statement	in paper form
Balance sheet	in paper form
Journal	in paper form
General ledger	in paper form
Purchases ledger	in electronic form
Salary bookkeeping	outsourced

DOCUMENT TYPES AND MEANS OF STORAGE

TITO	Bank statements	in paper form
NRD	Nordea bank statements	in paper form
DANSKE	Danske Bank statements	in paper form
OTHER	Other bank statements	in paper form
EL	Electronic purchase invoices	in electronic form
M2	Travel expense entries	in electronic form
PT	General ledger entries	in paper form
JT	Accrual entries	in paper form
MT	Memo vouchers	in paper form

All bookkeeping material is kept at the company’s own premises as required by law.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Parent company	Registered office	Business ID	Group ownership
Taaleri Plc	Helsinki	2234823-5	

Parent company's direct shareholdings	Registered office	Business ID	Group ownership
Taaleri Energia Oy	Helsinki	2772984-6	100.00%
Taaleri Private Equity Funds Ltd	Helsinki	2264327-7	100.00%
Taaleri Investments Ltd	Helsinki	2432616-0	100.00%
Taaleri Wealth Management Ltd	Helsinki	2080113-9	100.00%
Garantia Insurance Company Ltd	Helsinki	0944524-1	100.00%

Other group companies	Registered office	Business ID	Group ownership	
Evervest Oy	Helsinki	2710163-7	100.00%	
Kultataaleri Oy	Helsinki	2436455-4	100.00%	
Taaleri Aurinkotuuli GP Oy	Helsinki	2787459-2	100.00%	
Taaleri Aurinkotuuli II GP Oy [1)]	Helsinki	2948690-5	100.00%	new
Taaleri Energia Operations Oy	Helsinki	2710646-2	100.00%	
Taaleri Energia Fund Management Oy	Helsinki	2833245-3	100.00%	
Taaleri Kapitaali Oy	Helsinki	2772994-2	70.00%	
Taaleri Tax Services Ltd	Helsinki	2504066-6	95.00%	
Taaleri Fund Management Ltd	Helsinki	2062840-1	100.00%	
Bonus Solutions Oy	Helsinki	2714418-6	68.00%	
Taaleri Afrikka Rahaston hallinnointiyhtiö Oy	Helsinki	2606112-7	100.00%	
Taaleri Afrikka Rahasto II GP Oy [1)]	Helsinki	2772992-6	100.00%	
Taaleri Porin Asuntorahaston hallinnointiyhtiö Oy	Helsinki	2364138-8	100.00%	
Taaleritehtaan Rauman Asuntorahaston hallinnointiyhtiö Oy	Helsinki	2373394-4	100.00%	
Taaleri Asuntorahasto VI hallinnointiyhtiö Oy	Helsinki	2481017-1	100.00%	
Taaleri Datacenter GP Oy [1)]	Helsinki	2859905-1	100.00%	
Taaleri Datacenter Ky [1)]	Helsinki	2842816-4	100.00%	
Galubaltis GP Oy [1)]	Helsinki	2840499-8	100.00%	
Taaleri Geoenergia GP Oy [1)]	Helsinki	2808431-4	100.00%	
Taaleri Kiertotalous GP Oy	Helsinki	2745010-8	100.00%	
Taaleri Kiinteistökehitysrahaston hallinnointiyhtiö Oy	Helsinki	2689264-1	100.00%	
Taaleri Linnainmaankulman hallinnointiyhtiö Oy	Helsinki	2413559-1	100.00%	
Taaleri Biotehtaan hallinnointiyhtiö Oy	Helsinki	2459599-3	100.00%	
Taaleri Merenkulku GP Oy	Helsinki	2766357-6	100.00%	
Taaleri Metsärahaston hallinnointiyhtiö Oy	Helsinki	2512332-2	100.00%	
Taaleri Metsärahasto III hallinnointiyhtiö Oy	Helsinki	2652535-8	100.00%	
Taaleri Georahasto I GP Oy	Helsinki	2873880-8	100.00%	new
Taaleri Monitoimitilat GP Oy [1)]	Helsinki	2873880-8	100.00%	
Taaleri Oaktree Syöttörahaston hallinnointiyhtiö Oy	Helsinki	2442491-6	100.00%	
Taaleri Ovitehtaan hallinnointiyhtiö Oy	Helsinki	2577306-9	100.00%	
Taaleri Tallikiinteistöt GP Oy	Helsinki	2921262-1	100.00%	new
Taaleri Telakka GP Oy	Helsinki	2743458-9	100.00%	
Taaleri Tonttirahaston hallinnointiyhtiö Oy	Helsinki	2669135-6	100.00%	
Taaleri Tonttirahasto II GP Oy [1)]	Helsinki	2781839-8	100.00%	
Taaleri Tuulitehtaan hallinnointiyhtiö Oy	Helsinki	2382657-7	80.00%	
Taaleri Tuulitehdas II hallinnointiyhtiö Oy	Helsinki	2623494-8	100.00%	
Taaleri Tuulitehdas III GP Oy	Helsinki	2748305-7	100.00%	
Taaleri Varustamo GP Oy [1)]	Helsinki	2870420-2	100.00%	
Taaleri Vuokrakoti GP Oy [1)]	Helsinki	2787453-3	100.00%	
TT Syöttörahasto GP Oy	Helsinki	2504070-3	100.00%	
TT Syöttörahasto II GP Oy	Helsinki	2677052-1	100.00%	
TT Syöttörahasto III GP Oy	Helsinki	2637390-5	100.00%	

1) Exceptional financial period, first financial period shortened/lengthened

Other group companies	Registered office	ID	ownership	
TT Canada RE Holding Corporation [1)]	Vancouver, Canada	BC1125063	100.00%	
Northern Lights Enterprise Inc.	Vancouver, Canada	BC1142689	85.00%	new
Erdwärme Oberland GmbH	Munich, Germany	HRB 180649	82.47%	new
Taaleri Energia Holding S.a.r.l.	Luxemburg	B223063	100.00%	new
TGE Taaleri LLC	Delaware, USA	6716095	100.00%	new
Taaleri Energia North America LLC	Delaware, USA	6716103	100.00%	new
TG East Wind Project LLC	Delaware, USA	6514766	100.00%	new

1) Exceptional financial period, first financial period shortened/lengthened

Associated companies	Registered office	Business ID	Group ownership	
Fellow Finance Plc	Helsinki	2568782-2	25.91%	
Ficolo Oy	Helsinki	1574703-5	38.85%	
Munkkiniemi Group Oy	Helsinki	2910063-8	47.00%	new
Turun Toriparkki Oy	Turku	2034713-2	48.15%	new

SIGNATURES FOR THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Helsinki 14th February 2019

Peter Fagernäs
Chairman of the Board of Directors

Juha Laaksonen
Vice Chairman of the Board of Directors

Esa Kiiskinen
Member of the Board of Directors

Vesa Puttonen
Member of the Board of Directors

Hanna Maria Sievinen
Member of the Board of Directors

Tuomas Syrjänen
Member of the Board of Directors

Juhani Elomaa
CEO

THE AUDITOR'S NOTE

Our auditor’s report has been issued today.

Helsinki, 14th February 2019

Ernst & Young Oy
Authorized audit firm

Ulla Nykky
Authorised Public Accountant

Building a better
working world

Ernst & Young Oy
Alvar Aallon katu 5 C
FI-00100 Helsinki
FINLAND

Tel. +358 207 280 190
www.ey.com/fi
Business ID 2204039-6,
domicile Helsinki

AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Taaleri Plc

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Taaleri Plc (business identity code 2234823-5) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 14 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

EY

Building a better working world

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition of fee and commission income *We refer to the point 2.15 in Summary of key accounting policies on the financial statements and the note 3.* Fee and commission income in the consolidated group accounts amounted to 45,6 million euros. Fee and commission income is based, for example, fund units, asset management, securities brokerage and the issuance of securities. Some of the fees and commissions are performance based. Revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/2014 point (c) of Article 10(2) in terms of its timely recognition and at proper amount.	Our audit procedures included, among other things, assessing the compliance of the Group's accounting policies over revenue recognition of the fees and commissions with applicable accounting standards. We also identified and tested the key controls relating to revenue recognition. We tested the sales cutoff with analytical procedures. We supplemented our procedures with test of details on a transaction level in order to assure that the fees and commissions have been recognized in a right accounting period and they are in compliance with the corresponding agreements. In addition, we also assessed the adequacy of disclosures relating to the fee and commission income of the group.
Valuation of technical provisions *We refer to the point 2.8 in Summary of key accounting policies on the financial statements and Note 23.* At the balance sheet date 31.12.2018 the value of technical provisions amounted to 23,3 million euros. The amount comprises mostly provisions from unearned premiums and claims outstanding relating the guaranty services of the group. The assessment of technical provisions includes management assumptions and estimates relating to future amounts to be paid and still unknown claims.	Our audit procedures included, among other things, the assessment of the process relating to the identification and evaluation of the provisions as well as identification of key controls. In connection with the audit, we also assessed the methodologies and assumptions used. We involved our own internal actuarial specialist to assist us in assessing the estimates and assumptions used. We also assessed the adequacy of disclosures relating to insurance liabilities.

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

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

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

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Building a better
working world

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors in 2007, and our appointment represents a total period of uninterrupted engagement of 12 years. Taaleri Plc has been a Public Interest Entity since April 1st 2016.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Helsinki 14. February 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Ulla Nykky
Authorized Public Accountant