

Consolidated  
Annual Report  
of the KAD Group



KAPITALSKA DRUŽBA

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### List of abbreviations used

AED	Automated external defibrillator
ISA	Insurance Supervision Agency
GDP	Gross domestic product
BAMC	Bank Assets Management Company
ECB	European Central Bank
EIR	Effective interest rate
EUR	Euro – currency of the European Union
FARS	Financial Administration of the Republic of Slovenia
IASB	International Accounting Standards Board
KAD	Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.
KDD	Central Securities Clearing Corporation
KPNG	Collective agreement for the non-economic sector of the Republic of Slovenia
KPOPNU	Collective agreement on the creation of a pension plan for public-sector employees
KS MR	Modra Renta Guarantee Fund
KS PPS	First Pension Fund Guarantee Fund
KS SODPZ	Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
KVPS	Mutual Equity Pension Fund
MLFSAEO	Ministry of Labour, Family, Social Affairs and Equal Opportunities
MKPS	Modri Umbrella Pension Fund
MDP	Modri Dynamic Sub-Fund
MPP	Modri Conservative Sub-Fund
MZP	Modri Guaranteed Sub-Fund
MDRS	Ministry of Defence of the Republic of Slovenia
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
VSPI	Voluntary supplementary pension insurance
PN1 K	Pension plan for collective voluntary supplementary pension insurance
PN1 P	Pension plan for individual voluntary supplementary pension insurance
PNJU K	Pension plan for collective supplementary pension insurance for public-sector employees
PPS	First Pension Fund of the Republic of Slovenia
SBI TOP	Central Slovenian stock market index
SDH	Slovenski državni holding, d. d. (or Slovenski državni holding)
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
USD	US dollar
VaR	Value At Risk
ZDDPO-2	Corporate Income Tax Act (Official Gazette of the Republic of Slovenia, Nos. 117/2006, 90/2007, 76/2008, 56/2008, 92/2008, 5/2009, 96/2009, 110/2009 – ZDavP-2B, 43/2010, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013, 50/2014, 23/2015 and 82/2015)
ZFPPIP	Financial Operations, Insolvency and Compulsory Dissolution Act (Official Gazette of the Republic of Slovenia, Nos. 126/2007, 40/2009, 59/2009, 52/2010, 106/2010 – ORZFPPIP21, 26/2011, 47/2011 – ORZFPPIP21-1, 87/2011 – ZPUOOD, 23/2012 – Constitutional Court ruling, 48/2012 – Constitutional Court ruling, 47/2013, 100/2013 and 10/2015 – amended)
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 – amended, 26/2007 – ZSDU-B, 33/2007 – ZSReg-B, 67/2007 – ZTFI, 10/2008, 68/2008, 42/2009, 33/2011, 91/2011, 100/2011 – Constitutional Court ruling, 32/2012, 57/2012 and 44/2013 – Constitutional Court ruling, 82/2013 and 55/2015)
ZIPRS1415	Implementation of the Budget of the Republic of Slovenia for 2014 and 2015 Act (Official Gazette of the Republic of Slovenia, Nos. 101/2013, 9/2014 – ZRTVS-1A, 25/2014 – ZSDH-1, 38/2014, 84/2014, 95/2014, 95/2014 – ZUJF-C, 14/2015, 46/2015 and 55/2015)
ZIPRS1617	Implementation of the Budget of the Republic of Slovenia for 2016 and 2017 Act (Official Gazette of the Republic of Slovenia, No. 96/2015)
ZKDPZJU	Act Governing Collective Supplementary Pension Insurance for Public Sector Employees (Official Gazette of the Republic of Slovenia, Nos. 126/2003 and 32/2015)
ZPIZ	Pension and Disability Insurance Institute
ZPIZ-1	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 109/2006 [official consolidated text] – ZPIZ-1 UPB 4, 112/2006 – Constitutional Court ruling, 114/2006 – ZUTPG, 17/2007, 5/2008, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZIUZGK, 27/2010 – Constitutional Court ruling, 38/2010 – ZUKN, 56/2010, 79/2010 – ZPKDPIZ, 94/2010 – ZIU, 57/2011, 94/2011 – Constitutional Court ruling, 105/2011 – Constitutional Court ruling, 61/2010 – ZSVarPre, 40/2011 – ZSVarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 96/2012 – ZPIZ-2)
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 96/2012, 39/2013, 46/2013 – ZIPRS1314-A, 63/2013 – ZIUPTDSV, 99/2013 – ZSVarPre-C, 101/2013 – ZIPRS1415, 111/2013 – ZMEPIZ-1, 44/2014, 85/2014 – ZUJF-B, 95/2014 – ZIUPTDSV-A, 97/2014 – ZMEPIZ-1A, 95/2014 – ZIPRS1415-C, 95/2014 – ZUPPJS15, 95/2014 – ZUJF-C, 31/2015 – ZISDU-3, 90/2015 – ZIUPTD, 90/2015 – ZUPPJS16, 96/2015 – ZIPRS1617 and 102/2015)
ZPIZ-2B	Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/2015)
ZPPOGD	Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010 and 8/2011 and 23/2014 – ZDIJZ-C)
ZPZPŠ	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, Nos. 41/2014 and 47/2015)
ZPZPŠ-1	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, No. 82/2015)
ZPZRTH	Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (Official Gazette of the Republic of Slovenia, Nos. 61/2000, 42/2003, 71/2004, 43/2010, 49/2010 – amended, 40/2012 – ZUJF, 25/2014, 46/2014 and 82/2015)
ZSDH	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 105/2012, 39/2013, 101/2013 – ZIPRS1415, and 25/2014 – ZSDH-1)
ZSDH-1	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 25/2014 and 96/2015)
ZUJIK	Act Governing the Promotion of Public Interest in Culture (Official Gazette of the Republic of Slovenia, Nos. 96/2002, 123/2006 – ZFO-1, 7/2007 – Constitutional Court ruling, 53/2007, 65/2007 – Constitutional Court ruling, 56/2008, 4/2010, 20/2011, 100/2011 – Constitutional Court ruling, 111/2013)
ZVPSJU	Closed Mutual Pension Fund for Public-Sector Employees
ZZavar	Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 13/2000, 31/2000 – ZP-L, 91/2000 – amended, 12/2001 – Constitutional Court ruling, 21/2002, 52/2002 – ZJA, 91/2002 – Constitutional Court ruling, 29/2003 – Constitutional Court ruling, 40/2004 – ZDDPO-1, 50/2004, 65/2004 – Constitutional Court ruling, 76/2005 – ZVZZ-H, 8/2006 – ORZZavar62, 79/2006, 114/2006 – ZUE, 9/2007, 102/2007, 69/2008, 19/2009, 49/2009, 83/2009, 79/2010, 90/2012, 102/2012, 56/2013, 63/2013 – ZS-K, 66/2014, 92/2014 and 93/2015 – ZZavar-1)
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015)

## Presentation of the Kapitalska družba Group

The Kapitalska družba Group comprises the parent company Kapitalska družba, d. d., Modra zavarovalnica, d. d. and Steklarska nova Rogaška Slatina, d. o. o. (in bankruptcy). Each of the aforementioned companies is described in more detail below.

### 1.1 KAPITALSKA DRUŽBA, D. D.

#### Company

**Company name:** Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.

**Abbreviated company name:** Kapitalska družba, d. d. (hereinafter: Kapitalska družba)

**Company name in English:** Pension Fund Management

**Registered office:** Dunajska cesta 119, Ljubljana

**Registration number:** 5986010000

**VAT ID number:** SI59093927

**Entry in companies register:** Ljubljana District Court, reg. no. 1/28739/00

#### Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba's sole shareholder as at 31 December 2015.

The Company's share capital, amounting to EUR 364,809,523.15, is divided into 874,235 ordinary registered no-par-value shares. Each no-par-value share represents the same stake and corresponding amount in the share capital.

#### Activities of the Company

Kapitalska družba's principle activity is the provision of supplementary funding for pension and disability insurance through the management of its own assets, and the management of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the SODPZ) and the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the KS SODPZ). Kapitalska družba also performs other activities related to asset management and asset management support services.

Kapitalska družba's activities are defined by the law and the Company's Articles of Association, according to which Kapitalska družba performs the following activities:

58.110 Book publishing

- 58.120 Publishing of directories and mailing lists
- 58.130 Publishing of newspapers
- 58.140 Publication of magazines and other periodicals
- 58.190 Other publishing activities
- 58.290 Other software publishing
- 59.200 Sound recording and music publishing activities
- 62.010 Computer programming activities
- 62.020 Computer consultancy activities
- 62.030 Computer facilities management activities
- 62.090 Other information technology and computer service activities
- 63.110 Data processing, hosting and related activities
- 63.120 Web portals
- 64.200 Activities of holding companies
- 64.300 Trusts, funds and similar financial entities
- 64.990 Other financial service activities, except insurance and pension funding activities n.e.c.
- 65.300 Pension fund activities
- 66.210 Risk and claims assessment
- 66.290 Other auxiliary activities for insurance and pension funding
- 68.100 Buying and selling of own real estate
- 68.200 Renting and operating of own or leased real estate
- 69.200 Accounting, bookkeeping and auditing activities; tax consultancy
- 70.100 Activities of head offices
- 70.220 Business and other management consultancy activities
- 73.200 Market research and public opinion polling
- 85.590 Other education n.e.c.
- 85.600 Educational support activities

## Company bodies

### Management Board

Kapitalska družba was run by its Management Board in 2015 in the following composition:

- ♦ Bachtiar Djalil, President,
- ♦ Anja Strojín Štampar, MSc, member, and
- ♦ Dr Boris Žnidarič, member.

The term of office of Anja Strojín Štampar, MSc expired on 30 November 2015. Dr Boris Žnidarič, the current Deputy Chairman of Kapitalska družba's Supervisory Board, began a temporary term of office as member of the Management Board on 23 November 2015.

The President and member of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the Slovenian Sovereign Holding Company Act (hereinafter: the ZSDH-1), on the basis of a public tender procedure. The temporary member of the Management Board was likewise appointed by the Kapitalska družba's Supervisory Board pursuant to the second paragraph of Article 273 of the Companies Act (hereinafter: the ZGD-1).

One of the members of the Management Board is appointed president thereof. Members of the Management Board serve a four-year term of office and may be re-appointed. The Management Board or its individual members may be recalled prior to the end of their term of office, but only for the reasons set out in the second paragraph of Article 268 of the ZGD-1. A violation of the Articles of Association of Kapitalska družba that is deemed to be a serious violation of obligations may constitute a reason of culpability resulting in recall.

The Management Board of Kapitalska družba has no powers to issue or purchase treasury shares.

## Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2015:

- ◆ Samo Lozej, Chairman,
- ◆ Aldo Ternovec, Deputy Chairman (until 31 January 2015),
- ◆ Aleksander Mervar, MSc,
- ◆ Stanislav Seničar,
- ◆ Ana Bilbija,
- ◆ Ladislav Rožič, MSc,
- ◆ Dr Boris Žnidarič, Deputy Chairman (from 5 March 2015 to 22 November 2015), and
- ◆ Cirila Surina Zajc, Deputy Chairwoman (since 23 November 2015).

The terms of office of the following three members of the Supervisory Board expired on 31 January 2015:

- ◆ Aldo Ternovec,
- ◆ Ana Bilbija,
- ◆ Ladislav Rožič, MSc.

The following three new members began their four-year term of office on 1 February 2015:

- ◆ Dr Boris Žnidarič, (until he assumed his function as member of the Management Board),
- ◆ Cirila Surina Zajc, and
- ◆ Ladislav Rožič, MSc.

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH,<sup>1</sup> while two members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners. One member is appointed on the basis of a proposal by national-level representative trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent SDH is formulated by SDH's Management Board, which informs the Supervisory Board of its choice. The proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions is voted upon by representatives (electors) of national-level representative federations/confederations, which inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation elects one representative for every 10 thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

## General Meeting

The rights of the sole shareholder are exercised by the Slovenian government.

<sup>1</sup> The current three members of the Supervisory Board were appointed based on a proposal by Slovenska odškodninska družba, d. d. in accordance with the previously valid ZSDH.

## MODRA ZAVAROVALNICA, D. D.

### Company

**Name:** Modra zavarovalnica, d. d. (hereinafter: Modra zavarovalnica)

**Registered office:** Dunajska cesta 119, Ljubljana

**Registration number:** 6031226

**VAT ID number:** SI21026912

### Ownership structure and data regarding capital

Kapitalska družba was Modra zavarovalnica's sole shareholder as at 31 December 2015.

The insurance company's share capital amounts to EUR 152,200,000 and is divided into 152,200,000 no-par-value shares. Each share represents the same stake and corresponding amount in the share capital. The stake of individual no-par-value shares in the nominal capital is determined with respect to the number of no-par-value shares issued.

### Activities of the company

Modra zavarovalnica provides life insurance services in accordance with the Insurance Act (hereinafter: the ZZavar) and the decision issued by the Insurance Supervision Agency (hereinafter: the ISA), by which it authorised the former to provide the following types of insurance transactions:

- ♦ accident insurance – point 1 of the second paragraph of Article 2 of the ZZavar; and
- ♦ life insurance – point 19 of the second paragraph of Article 2 of the ZZavar.

Modra zavarovalnica's activities are defined by the law and the company's Articles of Association, according to which Modra zavarovalnica performs the following activities:

- 65.110 Life insurance
- 65.120 Non-life insurance (only accident and health insurance transactions)
- 65.300 Pension funding
- 66.210 Risk and damage evaluation
- 66.220 Activities of insurance agents and brokers
- 66.290 Other activities auxiliary to insurance and pension funding
- 66.300 Fund management activities

### Company bodies

#### Management Board

The Management Board has two members in accordance with the company's Articles of Association. The Supervisory Board appoints the members of the Management Board for a five-year term of office. Modra zavarovalnica was run by its Management Board in 2015 in the following composition:

- ♦ Borut Jamnik, President, whose five-year term of office began on 29 August 2011. Mr Jamnik's second five-year term of office begins on 29 August 2016; and
- ♦ Matija Debelak, member, whose five-year term of office began on 14 September 2011. Mr Debelak's second five-year term of office begins on 14 September 2016.

The Management Board manages the company in the interests thereof, independently and at its own risk. The Management Board represents Modra zavarovalnica without limitations. In legal transactions, the company is always represented collectively by the President and member of the Management Board. The company's Articles of Association set out the transactions and decisions for which the Management Board must obtain the consent of the Supervisory Board.

The Management Board exercised its competences in 2015 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1, in accordance with the Articles of Association.

### Supervisory Board

Policyholders or their representatives help co-formulate the business policy of Modra zavarovalnica.

The Supervisory Board comprises six members appointed to a five-year terms of office by the insurance company's General Meeting on 9 December 2011. Half of the members of the supervisory board were proposed by policyholders based on a public call to propose candidates. Two members were proposed by the Committee of the Closed Mutual Pension Fund for Public-Sector Employees (hereinafter: the ZVPSJU) on behalf of ZVPSJU policyholders, while a third member was proposed by the Committee of the Mutual Equity Pension Fund (hereinafter: the KVPS) on the behalf of other policyholders.

The Supervisory Board comprises the following members:

- ◆ Branimir Štrukelj served as Chairman from 1 January 2015 to 22 December 2015, and has served as Deputy Chairman since 23 December 2015,
- ◆ Dr Aleš Groznik served as Deputy Chairman from 1 January 2015 to 22 December 2015, and has served as Chairman since 23 December 2015,
- ◆ Dario Radešič, member,
- ◆ Goran Bizjak, member,
- ◆ Bojan Zupančič, member, and
- ◆ Marino Furlan, member.

The responsibilities of the Supervisory Board are set out in the company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2015 is given in the Report of the Supervisory Board.

Two committees functioned within the Supervisory Board in 2015: an audit committee and a human resource committee.

### General Meeting

Kapitalska družba exercised its rights in 2015 at the General Meeting as the company's sole shareholder.

## STEKLARSKA NOVA, PROIZVODNJA STEKLA ROGAŠKA SLATINA, D. O. O. (IN BANKRUPTCY)

### General information

**Company name:** Steklarska nova, proizvodnja stekla Rogaška Slatina, d. o. o. (in bankruptcy)

**Abbreviated company name:** Steklarska nova Rogaška Slatina, d. o. o. (in bankruptcy; hereinafter: Steklarska nova Rogaška Slatina)

**Registered office:** Steklarska ulica 1, 3250 Rogaška Slatina

**Registration number:** 18606674

**VAT ID number:** 30186323

The company is entered in the companies register at the Celje District Court, under registration number: 1/07987/00

### Ownership structure

Kapitalska družba was 100% owner of Steklarska nova Rogaška Slatina on 21 May 2009, when bankruptcy proceedings were initiated against the latter.

### Company bodies

Bankruptcy proceedings were initiated against Steklarska nova Rogaška Slatina on 21 May 2009. Štefan Rola, s.p. was initially appointed official receiver, but was relieved of his function on 6 July 2011. Dr Irena Lesjak was appointed as official receiver on the same day. Bankruptcy proceedings are still in progress.

Kapitalska družba does not include the subsidiary Steklarska nova Rogaška Slatina in its consolidated financial statements, as the inclusion of the financial statements of the aforementioned subsidiary is not materially significant for a true and fair presentation of the financial statements of the Kapitalska družba Group as a whole.

## Statement of the Management Board of the parent company

Despite the economic growth recorded in Slovenia, economic conditions remain uncertain. Operations were hindered last year by structural imbalances in Slovenia and numerous problems in the wider environment, from threats to the euro due to the crisis in Greece, which has dragged on for many years, and the unexpected wave of refugees, to the escalation of armed conflicts, terrorist attacks and the cooling of the Chinese economy. Historically low interest rates were accompanied by large fluctuations on stock and bond markets and falling oil prices. Volatile economic and political conditions persist, while forecasts of global economic growth are not encouraging. In the context of these unfavourable external circumstances, Kapitalska družba remains loyal to its mission of providing additional funds for compulsory pension and disability insurance, and the provision of occupational pension insurance for specific categories of workers. We are aware that we can only pursue our mission in these uncertain and difficult economic conditions by working together with all stakeholders and striving to understand their needs, using all of the knowledge and competences of our employees. At the same time, we focus constantly on the effective management of risks and the exploitation of business opportunities.

We managed funds in excess of EUR 675 million in the SODPZ during 2015, representing the savings of more than 45,600 policyholders. Despite the highly volatile financial markets, we achieved a solid yield through the management of the second largest pension fund in Slovenia, which ranked the Company third among pension fund managers in 2015. The KS SODPZ is also demonstrating stable growth. As at 31 December 2015, a total of 133 retirees received an occupational pension from the aforementioned fund, while gross pensions amounted to nearly EUR 2 million. Despite the still small number of occupational pensioners, retirement-related activities were particularly demanding last year, as we continued to deal with a special type of occupational retirement set out in the Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH), which includes the state, as co-financier, via the ministry responsible for the infrastructure. Due to insufficient legal provisions and the need to include external institutions in the aforementioned special form of retirement and complex documentary channels, the establishment of an appropriate business process was very demanding. Kapitalska družba successfully addressed those and other challenges in the area of pension insurance in 2015, when 19 retirees began receiving an occupational pension in accordance with the special provisions of the ZPZRTH.

The Bridging Insurance for Professional Athletes Act (hereinafter: the ZPZPŠ) tasked Kapitalska družba with the implementation of bridging insurance, which represents an opportunity to partially fill the financial gap between the end of a professional athlete's active sporting career and the beginning and a new career. Since 2014, Kapitalska družba has warned of the unenforceability of legal provisions linked to the implementation of bridging insurance and has drawn up proposed solutions accordingly. Inappropriate and unenforceable legal provisions were rectified during the second half of 2015 with the new Bridging Insurance for Professional Athletes Act (ZPZPŠ-1). Kapitalska družba must establish a bridging fund for athletes by 1 September 2016. The Company will set up a special project group that will draw up the technical-operational bases of business processes for the provision of bridging insurance for athletes, a completely new field in Slovenia. The implementation of the aforementioned legally prescribed task is hindered on the one hand by the lack of systematic regulation of the employment relations of professional athletes, which in turn means a great deal of uncertainty regarding the success of the bridging fund for athletes.

In addition to the project aimed at the implementation of bridging insurance for athletes, Kapitalska družba also began implementing a project in 2015 to replace its information system. Due to the size, complexity and risks of such projects, that replacement will be carried out gradually and continue for some time. The replacement of the information system will also be accompanied by the optimisation of key business processes and their adaptation to numerous changes in the business and financial environments.

The difficult conditions that characterised the 2015 financial year were a good opportunity for Kapitalska družba to pursue its vision and strengthen its role in the economy and pension system. Our capital stability and innovative strength in the implementation of new pension solutions, and the Company's commitment to its mission represent a guarantee for the continued successful operations of Kapitalska družba for the benefit of current and future retirees in Slovenia.

In 2015, Modra zavarovalnica was the first on the Slovenian market to offer savers the possibility of saving in life-cycle funds. The company gained an important competitive advantage on the supplementary pension insurance market with the introduction of the Modri Umbrella Pension Fund. The Modri Umbrella Pension Fund comprises three sub-funds with different investment policies depending on the age of fund participants. It is available to all employers and their employees who are aware of the advantage of savings via the selection of an investment policy adapted to the individual. The performance of the Modri Umbrella Pension Fund exceeded our expectations, as the fund had nearly nine thousand savers at the end of December, with a total of EUR 23 million in assets under management.

Modra zavarovalnica's capital, which ensures the security of policyholders' assets, amounted to EUR 201 million at the end of 2015, which is EUR 58 million more than when the insurance company began operating four years ago. The security of policyholders' assets and the high-quality of its services will continue to be Modra zavarovalnica's core guidelines. The value of assets under management also recorded growth to stand at EUR 1.3 billion at the end of 2015: assets under management in mutual pension funds totalled EUR 914 million, while assets under management in guarantee funds totalled EUR 140 million. The company's own assets amounted to EUR 223 million.

Uncertainty on the financial markets and major fluctuations in the prices of financial instruments were characteristic of 2015. The value of European government bonds rose slightly, while the value of corporate bonds was down on average. The share indices of developed markets were up by an average of 6.6%. Japanese and German shares recorded the highest average gains. Unfortunately, Slovenian shares lost 11.2% of their value during the same period, which had a significant affect on the performance of the First Pension Fund, as domestic equity investments account for 58% of that fund's portfolio. The insurance company created provisions in the amount of EUR 4.8 million in 2015 due to the aforementioned fund's failure to achieve the guaranteed return.

The returns of other pension funds managed by Modra zavarovalnica were also lower than the previous year in 2015, but were comparable with the returns of competitive Slovenian pension funds. The majority of Slovenian pension funds did not achieve their respective guaranteed returns. This was due to the difficult market conditions on the one hand and due to the relatively high guaranteed return target, which was 1.94% annually for funds managed by Modra zavarovalnica, on the other hand. The ZVPSJU achieved a return of 3.68%, while the KVPS achieved a return of 1.39%. The 11-month return of the Modri Umbrella Pension Fund's sub-funds ranged from -1.97% on the guaranteed sub-fund to 3.59% on the dynamic sub-fund.

One of Modra zavarovalnica's most important market objectives in 2015 was increased recognition and the positioning of the insurance company as the largest and leading provider of supplementary pension insurance on the Slovenian market. We carried out three major advertising campaigns and TV advertising, which were accompanied by online and print advertising, and presented Modra zavarovalnica's mission and the need for supplementary pension savings. We thanked policyholders for their trust and called on others to make the intelligent choice, even though retirement remains far away. The annual measurement of the recognition of Modra zavarovalnica indicated that planned marketing activities were the right ones, as recognition of the insurance company improved significantly.

In 2016, Modra zavarovalnica will continue to pursue strategies that focus on the security of supplementary pension insurance policyholders. That security will be ensured through a sufficient level of capital, prudent operations and an increase in the value of supplementary pension savings. Major business objectives in 2016 include growth in market share in the area of supplementary pension savings and in the payment of supplementary pension annuities. Increased marketing activities during the second half of the year will be aimed at the planned transformation of the ZVP-SJU into a sub-fund with a guaranteed return and the establishment of an umbrella life-cycle fund, where the formulation of higher-risk investment policies for both funds can be expected in 2017.

Through the development and updating of supplementary pensions in accordance with the new features of the ZPIZ-2 and the implementing regulation issued by the Ministry of Finance, we will offer a range of pension annuities in 2016, taking into account the expectations of policyholders and prescribed limits on the level and type of assets under management. In accordance with adopted guidelines, we will continue to strengthen our focus on the customer, offer the most personal treatment possible, monitor customers' needs and advise them accordingly.

We expect a difficult year in 2016 in terms of the management of investments, as the result of extremely low interest rates, and low yields on bonds and relatively high-value, higher-risk investment categories. The guaranteed return in 2016 was cut from 1.94% to 1.08% annually. We nevertheless assess that the achievement of such a return will be difficult.

The insurance company's communication concept will continue to focus on linking supplementary pension insurance with Modra zavarovalnica in 2016, and the more intensive positioning of the insurance company as the leading and safest manager of pension savings and payer of supplementary pension annuities. The key messages will emphasise Modra zavarovalnica as a trustworthy long-term partner, where the security of savings and responsibility for fund participants take priority. We will continue to operate as a family-friendly company, while demonstrating our social responsibility through responsibility for the environment, transparent and responsible operations, and by public awareness about the fact that supplementary pension savings are an intelligent solution, as they facilitate a decent standard of living following retirement.



**Dr Boris Žnidarič**  
Member of the Management Board



**Bachtiar Djalil**  
President of the Management Board

# Report of the Supervisory board on the verification of the Audited Consolidated Annual Report of the Kapitalska družba Group for 2015

Pursuant to the provisions of Article 282 of the Companies Act (hereinafter: the ZGD-1), the Supervisory Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. (hereinafter: Kapitalska družba) hereby submits the following report to the Company's General Meeting:

## **a) Report of the Supervisory Board on the method and extent of the verification of the Company's management during the financial year**

The Supervisory Board of Kapitalska družba functioned in the following composition up to and including 31 January 2015: Samo Lozej (Chairman), Aldo Ternovec (Deputy Chairman), Aleksander Mervar, MSc, Stanislav Seničar, Ana Bilbija and Ladislav Rožič, MSc. The terms of office of the following members of the Supervisory Board ended on 31 January 2015: Aldo Ternovec, Ana Bilbija and Ladislav Rožič, MSc. The following persons were therefore appointed as new members of the Supervisory Board at the Company's General Meeting on 30 January 2015: Dr Boris Žnidarič, Cirila Surina Zajc and Ladislav Rožič, MSc. The four-year term of office of the three aforementioned members of the Supervisory Board began on 1 February 2015. At the 84th session of the Supervisory Board on 5 March 2015, Dr Boris Žnidarič was appointed Deputy Chairman of the Supervisory Board. He performed that function until he assumed his function as member of Kapitalska družba's Management Board. For this reason, Cirila Surina Zajc was appointed Deputy Chairwoman of the Supervisory Board at the 96th session of the aforementioned body on 13 November 2015. Ms Zajc's term of office began on 23 November 2015.

The Supervisory Board met at 17 sessions during the 2015 financial year as follows: 10 regular session and seven correspondence sessions. The Supervisory Board met at one regular session and one correspondence session in the composition in which it functioned until 31 January 2015.

The Kapitalska družba Group comprises the parent company Kapitalska družba, Modra zavarovalnica, d. d. (hereinafter: Modra zavarovalnica) and Steklarska nova Rogaska

Slatina, d. o. o. (in bankruptcy). In addition to the operations of Kapitalska družba, the Supervisory Board also continuously monitored the operations of Modra zavarovalnica.

A review of the important matters discussed by the Supervisory Board in 2015 follows:

- Particular attention in the monitoring of Kapitalska družba's operations in 2015 was given to monitoring the management of the Company's assets, and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) and the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (KS SODPZ), which are managed by Kapitalska družba.
- Confirmation of the annual reports of Kapitalska družba and the Kapitalska družba Group for the 2014 financial year and the proposal to the General Meeting for the appointment of an auditor for the 2015 financial year.
- Consent to Kapitalska družba's business-financial plan for 2016.
- In accordance with the provisions of the Company's Articles of Association, the Supervisory Board also gave the Management Board its consent to conclude transactions for the purchase and sale of securities and participating interests in cases when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution.
- At its 96th session on 13 November 2015, the Supervisory Board relieved Anja Stojin Štampar, MSc of her function as member of the Management Board, effective 30 November 2015, based on the resignation submitted by Ms Stojin Štampar, and appointed Dr Boris Žnidarič to serve as member of the Management Board for a term of office of one year. The appointment of a temporary member to the Management Board from the members of the Supervisory Board was carried out based on the provisions of Article 33 of the Company's Articles of Association and the second paragraph of Article 273 of the ZGD-1. During his term of office as a member of Kapitalska družba's Management Board, Dr Žnidarič's functions as member and Deputy Chairman of the Company's Supervisory Board are suspended.
- For the purpose of appointing a member to the Supervisory Board on the basis of a proposal by a national-level federation/organisation of pensioners for the period in which the function of existing Supervisory Board member Dr Boris Žnidarič is suspended, the Supervisory Board drew up a proposal for the appointment of a member based on the proposal received from the Association of Pensioner Societies of Slovenia.

An accreditation committee also functioned as an advisory body to the Supervisory Board in 2015. The aforementioned committee's task was to provide support to the Supervisory Board in the supervision of the management of the Company's transactions as they relate to the governance of companies in which Kapitalska družba holds capital investments.

The four-member audit committee is a permanent working body of the Supervisory Board, and closely monitors the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. The Supervisory Board's audit committee functioned in the following composition in 2015: Ladislav Rožič, MSc (chairman), Aleksander Mervar, MSc and Ana Bilbija (members until 31 January 2015), Cirila Surina Zajc (member since 5 March 2015), and Mojca Verbič (external member). The audit committee met at ten sessions in 2015, one of which was held in the composition that functioned until 31 January 2015. In its work, the audit committee applied the recommendations of the Slovenian Directors' Association for audit committees and the recommendations of the Slovenian Institute of Auditors, as well as the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee represented a permanent working body of the Supervisory Board, and closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. In addition to its legally prescribed tasks, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiaries and the pension funds under Kapitalska družba's management (SODPZ and KS SODPZ). It also monitored the work of the internal audit department.

The audit committee also carried out a self-assessment. The audit committee regularly briefed the Supervisory Board on its work during the latter's sessions.

#### **Assessment of the work of the Management Board and Supervisory Board**

On the basis of the aforementioned continuous monitoring and supervision of the operations of Kapitalska družba and its subsidiaries during the 2015 financial year, and based on a review of the consolidated annual report of the Kapitalska družba Group for 2015 compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of the Kapitalska družba Group. The Supervisory Board finds that the Management Board prepared materials in a timely manner, which facilitated quality information and the thorough discussion of the most important operational matters. The Management Board also provided exhaustive responses to the Supervisory Board's additional questions and initiatives. The Management Board's reporting to the Supervisory Board during the 2015 financial year enabled the latter to carry out its supervisory role satisfactorily.

#### **b) Supervisory Board's position on the audit report**

Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of Kapitalska družba Group for 2015, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana. The Supervisory Board finds that the auditor performed its task in accordance with the law, auditing rules and international auditing standards. The Supervisory Board has no remarks regarding the audit report.

#### **c) Decision regarding the approval of the annual report for 2015**

Pursuant to the provisions of Article 282 of the Companies Act, the Supervisory Board hereby approves the consolidated annual report of the Kapitalska družba Group for 2015.

#### **d) Proposal to the General Meeting on the discharge of the Management Board and the Supervisory Board**

Taking into account points a), b) and c) of this report, the Supervisory Board proposes that the General Meeting of Kapitalska družba adopt a decision granting discharge to the Company's Management Board and Supervisory Board for their work during the 2015 financial year pursuant to the provision of Article 294 of the ZGD-1.



**Stanislav Seničar**  
Chairman of the Supervisory Board



# Business Report



## Organisational structure of the Kapitalska družba Group

The Kapitalska družba Group comprises the parent company Kapitalska družba, Modra zavarovalnica and Steklarska nova Rogaška Slatina.

As the parent company, Kapitalska družba includes the Modra zavarovalnica in its consolidated financial statements.

Kapitalska družba's capital investment in shares of PDP, d. d. was sold to SDH in 2015 in accordance with the provision of the first paragraph of Article 82 of the ZSDH-1. PDP, d. d. is thus no longer a subsidiary of Kapitalska družba.

Kapitalska družba does not include the subsidiary Steklarska nova Rogaška Slatina in its consolidated financial statements, as the inclusion of the financial statements of the aforementioned subsidiary is not materially significant for a true and fair presentation of the financial statements of the Kapitalska družba Group as a whole.

### 4.1 REPORTING ON EMPLOYEES

At the end of 2015 the Kapitalska družba Group had 115 employees broken down as follows: 59 employees at Kapitalska družba and 56 employees at Modra zavarovalnica.

Table 1: **Number of employees in the Kapitalska družba Group**

	Balance as at 31 December 2015
Kapitalska družba Group	115

## Macroeconomic background of operations

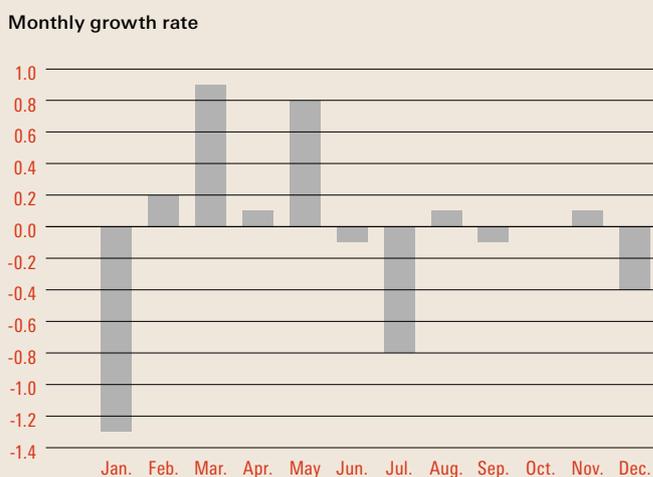
### 5.1 INFLATION

Annual and average inflation rates were negative at the end of 2015, with both standing at  $-0.5\%$ , while average and annual inflation were  $0.2\%$  at the end of 2014.

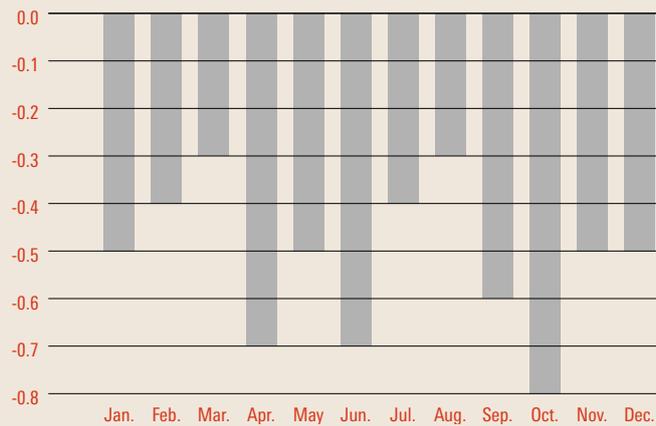
Prices in the following categories recorded the sharpest decline in 2015: transportation (down  $5.2\%$ ), recreation and culture (down  $2.3\%$ ), household equipment (down  $1.1\%$ ) and housing (down  $1.0\%$ ). The following categories recorded a rise in prices: communication services (up  $5.3\%$ ), food and non-alcoholic beverages (up  $1.5\%$ ), catering and accommodation services (up  $1.4\%$ ), miscellaneous goods and services (up  $1.1\%$ ), clothing and footwear (up  $0.8\%$ ), health-care services (up  $0.7\%$ ) and alcoholic beverages and tobacco products (up  $0.1\%$ ). There was no change, on average, in the prices of education services.

Lower prices of refined petroleum products contributed most ( $0.89$  percentage points) to deflation. The prices of liquid fuel were down  $16.3\%$ , while the prices of other fuels and lubricants were down  $12.7\%$ . Higher prices of telephone and internet services (which were up  $5.8\%$ ) contributed  $0.25$  percentage points to annual price growth, while higher food prices contributed  $0.23$  percentage points.

Figure 1: **Change in monthly and annual growth in consumer prices in 2015 (in %)**  
Source: Statistical Office of the Republic of Slovenia



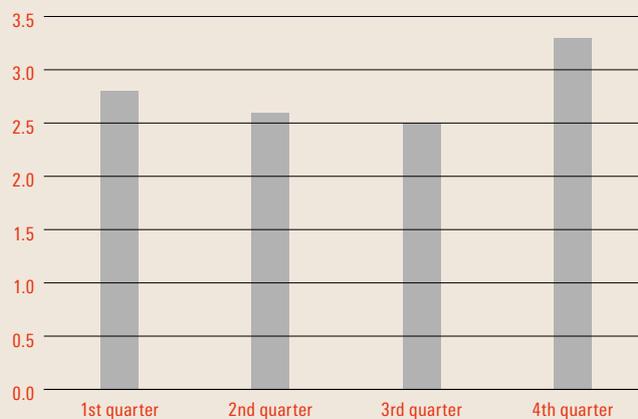
### Annual growth rate



## 5.2 GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) was up 3.3% in real terms in the final quarter of 2015 relative to the final quarter of 2014. Economic activity, adjusted for the season and number of working days, was up 0.6% relative to the third quarter of 2015. According to initial estimates, GDP was up by 2.9% overall in real terms in 2015.

Figure 2: **Real year-on-year growth in GDP by quarter in 2015 (in %)**  
Source: Statistical Office of the Republic of Slovenia



## 5.3 EMPLOYMENT AND WAGES

According to figures from the Statistical Office of the Republic of Slovenia, the total workforce stood at 917 thousand in December 2015. The workforce in employment totalled 804 thousand, up 0.5% on the end of December 2014. The number of registered unemployed persons stood at 113 thousand at the end of December 2015, a decrease of 5.3% relative to the number of registered unemployed persons a year earlier. The registered unemployment rate stood at 12.3% in December 2015, compared with 10.7% in the final quarter of 2014.

The average monthly gross wage was EUR 1,594.93 in December 2015, while the net wage was EUR 1,035.58.

## 5.4 MONEY MARKET

### 5.4.1 Interest rates

The reference interbank interest rate for the euro area, the six-month EURIBOR, fluctuated between  $-0.051\%$  and  $0.171\%$  in 2015. The key interest rate of the European Central Bank (ECB) was unchanged, while the interest rate on the deposit facility stood at  $-0.3\%$  and represents the rate at which excess liquidity placed at the ECB bears interest.

The yield-to-maturity on 10-year German government bonds rose by 0.088 percentage points in 2015 to stand at  $0.629\%$ . The lowest yield of  $0.075\%$  was achieved in the middle of April.

Figure 3: **Movement in the yield-to-maturity on 10-year German government bonds and the 6-month EURIBOR in 2015 (in %)**  
Source: Bloomberg



### 5.4.2 Exchange rate

The US dollar depreciated by around 10.3% against the euro in the period January to December 2015. The US dollar/euro exchange rate stood at 1.0862 at the end of the year, and averaged 1.1102 for 2015.

Figure 4: **Movement in the US dollar/euro exchange rate in 2015**  
Source: Bloomberg



5.5 CAPITAL MARKET

5.5.1 Equity market

The values of share indices measured in euros rose in 2015. The Japanese Nikkei 225 index rose by 20.4% during the year, followed by the MSCI global index, which recorded growth of 11%, the German DAX, which recorded growth of 9.6% and the US Dow Jones, which recorded growth of 8.9% measured in euros. The Slovenian SBI TOP index recorded the sharpest decline, of 11.2%.

Figure 5: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2015 in euros (index: 1 January 2015 = 100)  
Source: Bloomberg



5.5.2 Debt market

The IBOXX EUR Sovereigns TR government bond index gained 1.63% in 2015, while the IBOXX EUR Corporates TR corporate bond index was down 0.66%.

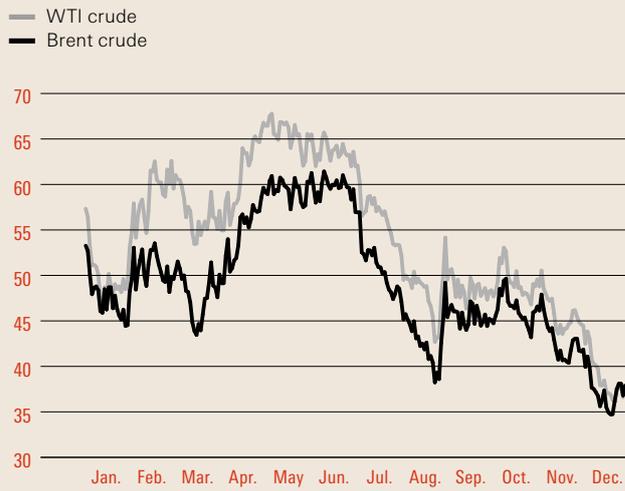
Figure 6: Movement in the IBOXX EUR Corporates TR corporate bond index and the IBOXX EUR Sovereigns TR government bond index in 2015 (index: 1 January 2015 = 100)  
Source: Bloomberg



## 5.6 PRICE OF OIL

The price of West Texas Intermediate (WTI) crude oil fell from USD 53.27 per barrel (159 litres) at the beginning of 2015 to USD 37.04 at the end of the year. The price of WTI crude averaged USD 48.80 in 2015, down on the average price in 2014 of USD 92.89. The price of Brent crude averaged USD 53.56 a barrel in 2015, 9.8% higher than WTI crude.

Figure 7: **Movement in prices of WTI crude and North Sea Brent crude in 2015 (in USD per 159-litre barrel)**  
Source: Bloomberg



## Performance of the Kapitalska družba Group by segment in 2015

The Kapitalska družba Group comprises the parent company Kapitalska družba, Modra zavarovalnica and Steklarska nova Rogaška Slatina (in bankruptcy). The associates of Kapitalska družba are presented in Note no. 17 of the financial report.

### 6.1 KAPITALSKA DRUŽBA, D. D.

#### 6.1.1 Capital investment management

Kapitalska družba classifies investments to the following two groups with regard to the method of management:

- ♦ capital investments, and
- ♦ portfolio investments.

Table 2 illustrates the composition of financial assets, while a detailed description of the aforementioned groups follows.

Table 2: **Composition of Kapitalska družba's financial assets as at 31 December 2015 with regard to management**  
in EUR 000

Type of investment	Value	Proportion
Capital investments	528,603	56.8%
- Strategic investments	180,754	19.4%
- Material investments	295,536	31.7%
- Portfolio investments	51,039	5.5%
- Investments in bankruptcy or liquidation	1,274	0.1%
Portfolio investments	402,417	43.2%
- Equity portfolio investments	171,337	18.4%
- Debt portfolio investments	105,159	11.3%

Type of investment	Value	Proportion
- Money market <sup>2</sup>	125,921	13.5%
<b>Total financial assets</b>	<b>931,020</b>	<b>100.0%</b>

#### 6.1.1.1 Composition of capital investments

Kapitalska družba's capital investments comprise domestic equity investments in corporate shares and participating interests that the Company primarily obtained in corporate ownership transformation processes.

The Company held a total of 45 such investments at the end of 2015. Of those investments, Kapitalska družba had 37 so-called active investments, including 32 investments in public limited companies and five investments in limited liability companies. In addition to active investments, Kapitalska družba also held six investments in bankruptcy proceedings and two investments in liquidation proceedings. Final bankruptcy proceeding were initiated against Steklarska nova Rogaška Slatina on 21 May 2009.

The value of capital investments was EUR 528,603 thousand as at 31 December 2015, a decrease of EUR 31,729 thousand on the previous year.

In accordance with the classification of investments set out in the Decree on the Strategy for Managing State Capital Investments (OdSUKND) adopted by the National Assembly of the Republic of Slovenia in July 2015, Kapitalska družba classifies its capital investments as strategic, material and portfolio.

Table 3: Breakdown of Kapitalska družba's capital investments as at 31 December 2015 in accordance with the Decree on the Strategy for Managing State Capital Investments in EUR 000

Type of investment	No. of investments	Value	Proportion of capital investment portfolio
Strategic investments	10	180,754	34.2%
Material investments	9	295,536	55.9%
Portfolio investments	18 <sup>3</sup>	51,039	9.7%
Investments in bankruptcy or liquidation	8	1,274	0.2%
<b>Total capital investments</b>	<b>45</b>	<b>528,603</b>	<b>100.0%</b>

Table 4: Breakdown of Kapitalska družba's capital investments as at 31 December 2014 in accordance with Kapitalska družba's asset management strategy in EUR 000

Type of investment	No. of investments	Value	Proportion of capital investment portfolio
Strategic investments	2	360,385	64.3%
Marketable investments	15	168,562	30.1%
Non-marketable investments	25 <sup>4</sup>	30,106	5.4%
Investments in bankruptcy or liquidation	9	1,279	0.2%
<b>Total capital investments</b>	<b>51</b>	<b>560,332</b>	<b>100.0%</b>

<sup>2</sup> Money market investments also include cash in the amount of EUR 38,602 thousand.

<sup>3</sup> Kapitalska družba holds both preference shares and ordinary shares in one company classified in portfolio investments. Both forms of shares are deemed one investment in the aforementioned company.

<sup>4</sup> Kapitalska družba holds both preference shares and ordinary shares in one company classified in non-marketable investments. Both forms of shares are deemed one investment in the aforementioned company.

Investments were classified in 2014 based on Kapitalska družba's internal classification.

The Company's ten largest capital investments and the proportion of the respective companies' share capital accounted for by those investments are disclosed in Table 5.

Table 5: **Ten largest capital investments of Kapitalska družba by value as at 31 December 2015**  
in %

Company name	Proportion of company's share capital
Krka, d. d.	10.65
Modra zavarovalnica, d. d.	100.00
Petrol, d. d.	8.27
Telekom Slovenije, d. d.	5.59
Gorenje, d. d.	16.37
Luka Koper, d. d.	4.98
Hit, d. d.	20.32
Terme atez, d. d.	23.79
Union hoteli, d. d.	18.75
Elektro Maribor, d. d.	1.61

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 30 such investments, as well as four investments in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in Table 6.

Table 6: **Composition of capital investments in terms of size of ownership stake as at 31 December 2015**

Ownership stake in share capital	Active investments	Investments in bankruptcy or liquidation
Up to 9.99%	22	3
From 10.00% to 19.99%	9	1
From 20.00% to 49.99% (associate)	5	3
From 50.00% to 100.00% (subsidiary)	1	1
<b>Total number of investments</b>	<b>37</b>	<b>8</b>

#### 6.1.1.2 Sales of companies by Kapitalska družba

With the aim of ensuring the transparency of sales procedures and the equal treatment of bidders, the sale of capital investments is carried out via public tender. Kapitalska družba published two public tenders for the purchase of shares and participating interests in 2015.

In 2015 Kapitalska družba received 10 bids for the purchase of shares and participating interests relating to nine different capital investments held by the Company. The majority of bids were unacceptable for Kapitalska družba because the bid prices were too low.

Kapitalska družba sold off four capital investments in their entirety in 2015 in the total amount of EUR 22,354 thousand. The capital investment in shares of Pivovarna Laško, d. d. was sold in the scope of a joint sale by shareholders who held a majority interest. Two results were achieved

through the cooperation agreement with Pivovarna Laško, d. d.: the recapitalisation of the company and the repayment of its debt, as well as the simultaneous sale of the shares of majority owners. Kapitalska družba and the BAMC conducted the sale, with the help of financial and legal advisors, on behalf of the entire consortium of sellers. The capital investment in shares of Velana, d. d. was sold in the scope of a takeover bid. The capital investment in shares of HTG, d. d. was sold through direct negotiations with the buyer. The capital investment in shares of PDP, d. d. was sold to SDH in accordance with the provision of the first paragraph of Article 82 of the ZSDH-1.

The capital investment in shares of Cimos, d. d. was excluded from Kapitalska družba's books of account in accordance with the final decision confirming compulsory composition, which also included the expropriation of the shares of current shareholders, while the capital investment in Casino Ljubljana, d. d. was excluded from Kapitalska družba's books of account based on the conclusion of bankruptcy proceedings.

#### 6.1.1.3 Purchases of companies

Kapitalska družba did not participate in any corporate recapitalisations in 2015, nor did it accept any bids for the purchase of capital investments.

#### 6.1.1.4 Dividends of domestic companies

Dividend income was up in 2015. Kapitalska družba recorded EUR 24,782 thousand in domestic corporate dividends in 2015, an increase of EUR 6,031 thousand relative to 2014, when dividends totalled EUR 18,751 thousand. The ten largest capital investments in terms of dividends accounted for 98.2% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2015 was approved by the general meetings of 25 companies in which Kapitalska družba held a capital investment, compared with 2014, when the payment of dividends was approved by the general meetings of 21 companies in which Kapitalska družba held a capital investment.

Table 7 illustrates the highest dividend income generated in 2015 by capital investments held by Kapitalska družba.

Table 7: Capital investments that generated the highest dividend income in 2015 and 2014

Issuer	Dividends per share in 2015 (EUR)	Dividends per share in 2014 (EUR)	Total dividends in 2015 (in EUR 000)	Total dividends in 2014 (in EUR 000)
Krka, d. d.	2.50	2.10	8,733	7,335
Telekom Slovenije, d. d.	10.00	10.00	3,652	3,652
Petrol, d. d.	11.70	10.10	2,020	1,744
Luka Koper, d. d.	0.94	0.16	655	111
Gorenje, d. d.	0.06	0.00	240	0
Hoteli Union, d. d.	0.33	0.85	111	286
Elektro Maribor, d. d.	0.12	0.09	65	49

#### 6.1.1.5 Corporate Governance Code for Companies with State Capital Investments and the exercising of voting rights at general meetings

In connection with the management of its capital investments in the period 1 January 2015 to 31 December 2015, Kapitalska družba applied, *mutatis mutandis*, the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014 (hereinafter: the Code).

As an active player on the Slovenian capital market, Kapitalska družba strives to introduce in practice a contemporary form of corporate governance, the aim of which is to ensure clear, predefined and publicly known principles, procedures and criteria by which the Company acts in exercising its ownership rights. To that end, the Corporate Governance Code of Kapitalska družba was used from 2009 until December 2014, and defined the policy and procedures for exercising Kapitalska družba's management rights in companies in which it holds an ownership stake. In December 2014, SDH adopted the aforementioned Code, which Kapitalska družba also applies *mutatis mutandis* to ensure uniform operations. The document is published on SDH's website.

In addition to the Code, Kapitalska družba also applied its own bases for voting at the general meetings of companies when managing capital investments in 2015. Kapitalska družba updates the bases for voting at general meetings every year, prior to the convening thereof. These bases, *inter alia*, define the remuneration policy for supervisory boards, management committees and management boards, the dividend policy, the use of distributable profit, recapitalisations via authorised capital, the acquisition of treasury shares and the introduction of a single-tier governance system. The aforementioned document is published on Kapitalska družba's website.

Kapitalska družba exercised its management rights at all general meetings of companies with a registered office in Slovenia in which the Company has an equity holding that it manages on its own behalf or on behalf of the SODPZ.

Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 50 general meetings of shareholders or partners of companies in 2015. Representatives of Kapitalska družba participated in 16 general meetings with authorisation to vote. In accordance with Article 53 of the ZSDH-1, SDH exercised the voting rights of Kapitalska družba at 32 general meetings in the name and on account of the latter. Two general meetings were cancelled prior to the date of the meeting or rescheduled to another date.

When assessing proposed general meeting resolutions and formulating opinions for voting at general meetings, Kapitalska družba complied with the Code and internal bases for voting at general meetings. With respect to the remuneration of supervisory boards and management boards, Kapitalska družba applied, *mutatis mutandis*, the recommended level of wages for the performance of a particular function and for session fees set out in the Code, and took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD), as regards the earnings and other rights of management boards, executive directors and the management staff of companies.

Kapitalska družba acted in accordance with the Code at all general meetings attended by its representatives in 2015. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

Table 8: **Participation at the general meetings**

Form of participation	No. of general meetings
Participation by employees of Kapitalska družba with authorisation to vote	16
Participation by SDH (authorisation to vote by SDH)	32
Cancelled or rescheduled general meetings	2
<b>Total</b>	<b>50</b>

#### 6.1.1.6 Code of Conduct of the Kapitalska družba Group

In addition to Kapitalska družba, the Kapitalska družba Group includes the subsidiary Modra zavarovalnica.

In 2015 Kapitalska družba adopted amendments to the Code of Conduct of the Kapitalska družba Group (hereinafter: the Code of the Group) due to the sale of the subsidiary PDP. The Code of the Group is a document that includes the minimum standards of operations of Group companies, and that defines cooperation in specific areas of operations and the monitoring of the Group's operations by the parent company.

The Guidelines on the Reporting of Subsidiaries to the Parent Company also represent an integral part of the Code of the Group. The aforementioned guidelines set out the content, deadlines and methods of reporting to the parent company by the Group's subsidiaries.

#### 6.1.1.7 Management of capital investments in the future

The new Slovenian Sovereign Holding Company Act (ZSDH-1) entered into force at the end of April 2014. The management of investments on behalf and on the account of the Republic of Slovenia remained the responsibility of SDH, even following the entry into force of the ZSDH-1. There was a partial change in Kapitalska družba's annual obligation to provide funding to the ZPIZ: based on the provision of the third paragraph of Article 52 of the ZSDH-1, the Company must transfer funds in the amount of EUR 50 million every year to the ZPIZ by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower.

Article 79 of the ZSDH-1 states that Kapitalska družba must be transformed into an independent and autonomous demographic reserve fund by no later than 31 December 2015, as set out in the law governing pension and disability insurance, following the prior adoption of the relevant law. The same article also states that 10% of proceeds from the sale of capital investments held by the Republic of Slovenia must be transferred to a special account at the Ministry of Finance. The aforementioned funds may be used exclusively to finance the demographic reserve fund. Alongside the formulation of a demographic reserve fund, the ZSDH-1 also envisages the transfer of the ZPIZ's investment in Zavarovalnica Triglav, d. d. to Kapitalska družba. No act governing the transformation of Kapitalska družba into a demographic reserve fund has been adopted to date.

SDH will manage investments in accordance with the ZSDH-1, the OdSUKND, the relevant investment management policy and the Corporate Governance Code, and on the basis of the annual investment management plan. The OdSUKND also includes the classification of investments (the definition and classification of capital investments into strategic, material and portfolio investments), to which Kapitalska družba is also bound when managing investments. The annual investment management plan, which must be adopted by no later than the end of November for the next calendar year, defines SDH's precise objectives in the management of specific investments, as well as measures and guidelines for achieving those objectives.

### 6.1.2 Management of portfolio investments

#### 6.1.2.1 Equity portfolio investments

Equity portfolio investments include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of equity portfolio investment assets was EUR 171,337 thousand as at 31 December 2015.

Table 9: **Composition of equity portfolio investments as at 31 December 2015**  
in EUR 000

Type of investment	Value	Proportion of equity portfolio investments
Foreign shares	8,338	4.9%
Investment funds	162,999	95.1%
domestic investment funds	10	0.0%
foreign investment funds	162,989	95.1%
<b>Total equity portfolio investments</b>	<b>171,337</b>	<b>100.0%</b>

The five largest investments accounted for a total of 58.5% of the portfolio of equity investments as at 31 December 2015. These investments included index funds represented by the MSCI World global stock indices (SMSWLD GY and XMWO GY), an index fund represented by the US S&P 500 (SPY US), an index fund represented by the US IXT technology sector index (XLK US) and an index fund represented by the German DAX (DAXEX GR).

#### 6.1.2.2 Debt portfolio investments

The balance of debt portfolio investments stood at EUR 105,159 thousand at the end of 2015. At 86.5%, domestic bonds accounted for the highest proportion of debt portfolio investments. Investments in domestic bonds totalled EUR 90,936 thousand, while investments in foreign bonds totalled EUR 11,241 thousand. The remainder was accounted for by claims for accrued interest.

The primary focus of Kapitalska družba's investment activities in 2015 was on security and maintaining the value of assets due to an increase in the general level of risk.

Table 10: **Composition of debt investments as at 31 December 2015**  
in EUR 000

Type of investment	Value	Proportion of debt portfolio investments
Domestic bonds	90,936	86.5%
- domestic government bonds	78,096	74.3%
- domestic corporate and bank bonds	12,840	12.2%
Foreign bonds	11,241	10.7%
- foreign government bonds	1,172	1.1%
- foreign corporate and bank bonds	10,069	9.6%
Claims for interest	2,982	2.8%
<b>Total debt portfolio investments</b>	<b>105,159</b>	<b>100.0%</b>

The five largest investments, together with accrued interest, accounted for a total of 56.9% of the portfolio of debt investments as at 31 December 2015. All five investments were in different issues (nos. 59, 66, 67, 69 and 70) of Slovenian government bonds.

#### 6.1.2.3 Money market investments

The balance of money market investments was EUR 125,921 thousand at the end of 2015. Loans granted (deposits) account for the majority of the aforementioned investments.

Table 11: **Composition of money market investments as at 31 December 2015**  
in EUR 000

Type of investment	Value	Proportion of the portfolio of money market investments
Loans granted (deposits)	86,509	68.7%
Cash and cash equivalents	38,602	30.7%
- Cash on transaction accounts at banks	38,585	30.7%
- Euro call deposits	17	0.0%
Commercial paper	810	0.6%
<b>Total money market investments</b>	<b>125,921</b>	<b>100.0%</b>

### 6.1.3 Transfers to the Pension and Disability Insurance Institute

In accordance with the third paragraph of Article 52 of the ZSDH-1, Kapitalska družba's annual obligation to the ZPIZ depends on the amount of the adjustment to pensions, which is limited to EUR 50 million. In accordance with the provisions of the Implementation of the Budget of the Republic of Slovenia for 2014 and 2015 Act (ZIPRS1415), Kapitalska družba transferred EUR 19 million to the ZPIZ in 2015 for the annual bonus paid to pensioners. Kapitalska družba has transferred a total of EUR 664,321 thousand to the budget of the ZPIZ.

In accordance with Article 67 of the ZIPRS1617, Kapitalska družba must transfer EUR 50 million a year to the ZPIZ in 2016 and 2017.

### 6.1.4 Investment property

Kapitalska družba holds investment property in the following commercial buildings:

- ♦ Stekleni dvor, Dunajska cesta 119, Ljubljana;
- ♦ Bežigranski dvor, Dunajska cesta 56 and 58, and Kržičeva ulica 3, Ljubljana;
- ♦ Nebotičnik, Štefanova ulica 1, 3 and 5, Ljubljana; and
- ♦ Smelt, Dunajska cesta 160, Ljubljana.

All of the aforementioned properties are currently leased, except the conference hall in the Bežigranski dvor commercial building, which Kapitalska družba will lease for the organisation of various events.

### 6.1.5 Pension fund management

#### 6.1.5.1 Operations of the SODPZ

Pursuant to the law, Kapitalska družba has been the manager of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) since its establishment in 2001. The SODPZ is a mutual pension fund that provides occupational insurance in accordance with the ZPIZ-2.

The SODPZ is intended for policyholders who perform especially difficult work and work that is harmful to the health, and for policyholders who perform work that can no longer be performed successfully after a certain age. The SODPZ comprises assets that are financed by funds collected through the payment of occupational insurance contributions and revenues generated by the management of those funds, and are earmarked exclusively to cover liabilities to occupational insurance policyholders.

The SODPZ had 45,664 policyholders as at 31 December 2015. The actual return on the SODPZ was 1.84% in 2015, compared with the guaranteed return of 2.30% in the same period. The net value of SODPZ assets was EUR 672,098 thousand at the end of 2015, and exceeded the guaranteed value of SODPZ assets (EUR 620,039 thousand) by EUR 52,059 thousand. The SODPZ held 798,762,486 units in circulation in 2015.

As the manager of the SODPZ, Kapitalska družba is entitled to the reimbursement of subscription and redemption costs, and annual management fees. The subscription fee amounts to 2.3%, the redemption fee amounts to 0.5% and the annual management fee amounts to 1.0%. Kapitalska družba's revenues from the management of the SODPZ totalled EUR 7,814 thousand in 2015, broken down as follows: EUR 6,528 thousand in management fees, EUR 1,239 thousand in subscription fees and EUR 47 thousand in redemption fees.

Table 12: **Kapitalska družba's revenues from management of the SODPZ in 2015**  
in EUR 000

Revenues from management activities	2015	2014
Management fees	6,528	5,834
Subscription fees	1,239	1,210
Redemption fees	47	29
<b>Total</b>	<b>7,814</b>	<b>7,073</b>

On 6 November 2015, Kapitalska družba received decree no. 1032-5/2013-26 of 30 October 2015 from the Ministry of Labour, Family, Social Affairs and Equal Opportunities approving amendments to the occupational pension insurance plan. The aforementioned amendments relate to a reduction in management fees with respect to the net value of assets under management. Application of the provisions of the occupational pension insurance plan begins with the entry into force of amendments to the Rules on the management of the compulsory supplementary pension insurance fund of the Republic of Slovenia. Entry into force is linked to consent obtained from the Securities Market Agency, but will take place within 90 days from the delivery of the decision to the fund manager confirming the amendments to the pension plan. Kapitalska družba sent a request to the Securities Market Agency on 4 December 2015 for the issue of consent to the amendments to the Rules on the management of the compulsory supplementary pension insurance fund of the Republic of Slovenia.

The Act Amending the Pension and Disability Insurance Act (ZPIZ-2B) entered into force on 1 January 2016. The second paragraph of Article 38 of the ZPIZ-2B states that Kapitalska družba must harmonise the occupational pension insurance plan and the occupational pension payment plan with the provisions of the ZPIZ-2B within 12 months following the entry into force of the aforementioned act. The provisions of valid pension plans at the time the ZPIZ-2B entered into force apply until the new pension plan applies. The KS SODPZ will be liquidated with the entry into force of the new pension plan, while occupational pensions will be paid from the SODPZ as partial redemption values.

#### 6.1.5.2 SODPZ investments

The manager will manage fund assets in such a way as to achieve, at a minimum, the guaranteed return in the context of minimal risk, while taking into account liquidity criteria. The manager will allocate the investments of the fund to ensure that they will be appropriately diversified and that they will not exceed legal limits regarding the types of investments allowed and the level of assets in specific types of investments, with the exceptions set out in the relevant fund management rules.

The measure of the fund's success (benchmark index) is the latter's guaranteed return, which is ensured on a monthly and annual basis.

The basic objectives of fund management were as follows in 2015:

- ♦ to increase the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk.

The manager applied an active management strategy with the aim of achieving its objectives at the fund level. It applied a combination of active and passive investment strategies at the level of investment categories. The manager used a top-down approach to manage fund assets.

In assessing the success of fund asset management, the manager made a comparison with the benchmark index, with the fund's guaranteed return and with the success of other mutual pension fund managers.

The value of SODPZ assets stood at EUR 674,960 thousand as at 31 December 2015, an increase of 7.8% relative to 2014.

Investments in debt securities account for the highest proportion (45.4%) of SODPZ assets. The proportion accounted for by the aforementioned assets was down slightly in 2015 compared with the previous year. Bonds account for the majority of this class of investments, followed by investment coupons (26.7%) and investments in loans and deposits (23.4%). The proportion accounted for by the three aforementioned classes was down relative to 2014. The proportion accounted for by other forms of investments was up relative to 2014.

Table 13: **Composition of the investments of the SODPZ as at 31 December 2015**  
in EUR 000

Class	Value		Proportion of fund assets	
	2015	2014	2015	2014
Shares	4,455	6,333	0.7%	1.0%
Debt securities	306,656	311,964	45.4%	49.8%
Loans and deposits	157,588	157,932	23.4%	25.2%
Investment coupons	180,407	135,822	26.7%	21.7%
Cash and cash equivalents	25,674	13,996	3.8%	2.2%
Other claims	180	326	0.0%	0.1%
<b>Total</b>	<b>674,960</b>	<b>626,373</b>	<b>100.0%</b>	<b>100.0%</b>

Due to the limited size of the Slovenian financial market and a wider selection of investment opportunities, a portion of the fund's assets were initially channelled abroad. The fund's exposure to currency risk was down in 2015, as the proportion of securities denominated in foreign currencies declined from 7.4% to 5.5%.

### 6.1.5.3 Operations of the KS SODPZ

With the transfer of the first policyholder to the KS SODPZ in May 2013, Kapitalska družba created and became the manager of the KS SODPZ. The Company began paying occupational pensions in June 2013.

An occupational pension is paid from the time that right is earned until old-age or early retirement. SODPZ policyholders earn the right to an occupational pension when they fulfil the condi-

tions set out in the plan for the payment of occupational pensions. When policyholders exercise their rights to an occupational pension, the funds on their personal account in the SODPZ are transferred to the KS SODPZ and the policyholders are issued an occupational pension policy.

A total of 123 policyholders were transferred to the KS SODPZ in 2015. The total value of funds transferred for those policyholders was EUR 4,350 thousand. Kapitalska družba is entitled to a fee of 1.5% of each pension payment. Pension payment fees totalled EUR 29 thousand in 2015.

#### 6.1.5.4 KS SODPZ investments

The value of KS SODPZ assets was EUR 3,624 thousand as at 31 December 2015.

Investments in bonds accounted for the highest proportion (58.4%) of KS SODPZ assets, followed by investments in deposits (23.5%) and other claims (15.8%).

Table 14: **Composition of the KS SODPZ investments as at 31 December 2015**  
in EUR 000

Class	Value		Proportion of fund assets	
	2015	2014	2015	2014
Debt securities	2,118	629	58.4%	59.6%
Loans and deposits	851	231	23.5%	21.9%
Cash and cash equivalents	84	8	2.3%	0.8%
Other claims	571	187	15.8%	17.7%
<b>Total</b>	<b>3,624</b>	<b>1,055</b>	<b>100.0%</b>	<b>100.0%</b>

Despite its relatively small size, the structure of the guarantee fund's investments was in line with legal provisions and focused on ensuring liquidity for the payment of pension annuities. The ISA agency issued a decision in November 2015 allowing Kapitalska družba certain deviations in the structure of KS SODPZ investments from those prescribed by the law, as follows:

- ♦ for investments in deposits and certificates of deposit at banks of up to 50% of insurance technical provisions on certain days, where the total of such investments at a specific bank may total 10% of insurance technical provisions; and
- ♦ for investments in cash on hand and on sight accounts of up to 20% of insurance technical provisions on certain days.

The aforementioned deviations are permitted until the value of KS SODPZ assets reaches EUR 7,200 thousand, but until no more than 26 November 2017.

#### 6.1.6 Activities in the implementation of the ZPIZ-2 in 2015

Kapitalska družba was actively involved again in 2015 with the business processes of the SODPZ, in particular occupational retirement, the payment of occupational pensions, active notification of liable persons and policyholders regarding developments in the area of occupational insurance, regular meetings of the SODPZ Committee and activities relating to the resolution of current occupational retirement issues. There was active communication in that regard with the Ministry of Labour, Family, Social Affairs and Equal Opportunities (MLFSAEO), the Pension and Disability Insurance Institute (ZPIZ), the Ministry of Defence of the Republic of Slovenia (MDRS), the Ministry of Infrastructure, the Ministry of Culture, the Ministry of Finance (MF), the Financial Administration of the Republic of Slovenia (FARS), the Trbovlje-Hrastnik mine, the SODPZ Committee, the media, policyholders and liable persons.

The new Act Governing the Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH-E) entered into force in June 2014 and set out the conditions for obtaining the right to an occupational pension for specific categories of employees of the Trbovlje-Hrastnik Mine. Since the entry into force of the new act and again in 2015, Kapitalska družba worked intently to carry out activities that would facilitate the unimpeded occupational retirement of Trbovlje-Hrastnik mine policyholders on the basis of the ZPZRTH. Due to the deficient nature of the aforementioned act, a great deal of coordination was required with the ZPIZ, the MLFSAEO, the Ministry of Infrastructure, the MF, the Trbovlje-Hrastnik mine, trade unions and policyholders. The Republic of Slovenia provided co-financing in accordance with the law for all policyholders with insufficient funds on their personal account for the payment of occupational pensions, and ensured that those policyholders are able to exercise all rights to which they are entitled based on the ZPZRTH. An agreement was reached with the Ministry of Infrastructure in April 2015 on the transfer of funds lacking for occupational retirement based on Article 16c of the ZPZRTH. In June 2015, Kapitalska družba paid the first occupational pensions in accordance with the ZPZRTH. It also paid contributions to the ZPIZ on time for the buyout of years of service and, in addition to contributions for compulsory health insurance and tax prepayments from occupational pensions, also paid contributions for voluntary inclusion in compulsory pension and disability insurance.

Kapitalska družba was actively involved in the formulation and adoption of the new Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH-F). The new act entered into force on 4 November 2015 and brings certain new features in the area of occupational retirement for certain groups of employees at the Trbovlje-Hrastnik mine, including a newly defined occupational pension. The new occupational pension now includes contributions for compulsory health insurance and contributions for voluntary inclusion in compulsory pension and disability insurance. Because the ZPZRTH-F does not set out the basis for the calculation of contributions for compulsory health insurance according to the third paragraph of Article 413 of the ZPIZ-2, the opinions of the MF and FARS had to be obtained. Kapitalska družba drew up a proposal for three possible variations of the calculation of the occupational pension and sent it to the MF and FARS for approval. Due to the urgency of the matter, the Company consulted on numerous occasions with the MF, FARS and MLFSAEO. Because the opinion received remains somewhat unclear, we went ahead and performed a calculation of the occupational pension anyway for one policyholder who meets the conditions for occupational retirement. The possibility therefore exists of a recalculation or new assessment of the occupational pension.

The possibility of the buyout of years of service is available to occupational insurance policyholders and the recipients of an occupational pension on the basis of the eleventh paragraph of Article 202 of the ZPIZ-2. Kapitalska družba worked with the MLFSAEO and ZPIZ in connection with the buyout of years of service, and meetings were held with the aforementioned institutions in an attempt to find the common bases for the aforementioned process. Kapitalska družba made five transfers of the redemption value to the ZPIZ in 2015 due to the buyout of years of service.

The Act Amending the Act Governing the Promotion of Public Interest in Culture (ZUJIK-E) entered into force in January 2014. The fourth paragraph of Article 12 of the aforementioned act states that a ballet worker is to be allocated one half of the period in which they were included in occupational insurance. Due to ambiguities regarding the implementation of the aforementioned article, a new Act Governing the Promotion of Public Interest in Culture is being drawn up. In 2015, Kapitalska družba submitted its comments regarding the provision of occupational insurance, and attended a joint meeting with representatives of the Ministry of Culture and the MLFSAEO, where problems relating to occupational insurance and the occupational retirement of ballet workers were presented.

For the purpose of drafting the new ZPIZ-2B, which introduces the creation of solidarity reserves to co-finance the payment of occupational pensions to policyholders without insufficient funds on their personal accounts, Kapitalska družba's certified actuary followed the initiative of the MLFSAEO and drew up a concept for the creation and functioning of solidarity reserves, as well as calculations and a simulation of the collection and disbursement of those reserves, which were presented to the MLFSAEO's working group. On this basis, Kapitalska družba participated in the drafting of proposed articles of the aforementioned act.

Kapitalska družba regularly informed the MLFSAEO in 2015 about current occupational insurance and retirement issues, and worked with the aforementioned ministry to develop proposed solutions and initiatives in connection with the implementation of the ZPIZ-2. Kapitalska družba also put forth initiatives and proposals for changes and amendments aimed at the comprehensive regulation of the area of occupational insurance, and actively participated in the MLFSAEO's working groups.

Kapitalska družba informs all occupational insurance stakeholders regularly via its website about all of the latest developments and the operations of the fund. The Company communicates with policyholders and liable persons throughout the year, both personally through the contact centre and through a toll-free telephone number and email. In 2015 Kapitalska družba organised seven presentations for policyholders, liable persons, trade unions and human resource departments.

Kapitalska družba also regularly informed the SODPZ Committee with regard to activities in the area of occupational insurance, the operations of the fund and issues associated with occupational retirement. The SODPZ Committee actively participated in the search for occupational retirement solutions and continuously put forth initiatives to address this issue. The SODPZ Committee met five times in 2015.

## 6.2 MODRA ZAVAROVALNICA, D. D.

Modra zavarovalnica's financial assets include the insurance company's own assets and the assets of both guarantee funds.

Modra zavarovalnica, d. d.'s own assets and the assets of both guarantee funds are deemed the insurance company's financial assets.

Table 15: **Financial assets Modra zavarovalnica as at 31 December 2015**  
in EUR 000

Financial assets	Amount
Own financial assets	221,407
Financial assets of the KS PPS	97,458
Financial assets of the KS MR	39,714
<b>Total</b>	<b>358,579</b>

### 6.2.1 Management of own financial assets

Modra zavarovalnica's own financial assets totalled EUR 221,407 thousand at the end of 2015. The company breaks down its financial assets by the items in Table 16. The largest proportion is accounted for by the portfolio of equity investments, followed by debt investments.

Table 16: **Composition of Modra zavarovalnica's financial assets as at 31 December 2015**  
in EUR 000

Financial assets	Amount
Equity portfolio investments	117,310
Equity non-portfolio investments	21,635
Portfolio of debt investments	77,872
Cash and cash equivalents	4,590
<b>Total</b>	<b>221,407</b>

### 6.2.1.1 Equity portfolio investments

Equity portfolio investments include foreign shares and investments in the investment funds of domestic and foreign issuers. The value of the aforementioned investments was EUR 117,310 thousand as at 31 December 2015. The five largest investments in the portfolio of equity investments as at 31 December 2015 were as follows: an index fund represented by the MSCI global index (XMWO GY), the shares of the Coca-Cola Company, an index fund represented by the MSCI global index (SMSWLD GY), an investment fund that invests in the agriculture sector (MOO US) and an index fund that invests in the shares of emerging markets (MXFS LN).

Table 17: **Composition of equity portfolio investments as at 31 December 2015**  
in EUR 000

Investment	Amount
Shares	31,428
- Domestic shares	0
- Foreign shares	31,428
Investment funds	85,882
- Domestic investment funds	412
- Foreign investment funds	85,470
<b>Total</b>	<b>117,310</b>

Share indices measured in euros were up by an average of 6.6% in 2015. The portfolio was most exposed to the financial sector at the end of 2015, followed by the sectors of non-cyclical consumer goods and information technology. In terms of currencies, the portfolio was most exposed to the US dollar and the euro at the end of 2015. More than half of the aforementioned portfolio is invested in the equities of issuers from North America, while close to one third is invested in European issuers. The remainder is accounted for by investments in issuers from more developed Asian countries and from emerging economies.

### 6.2.1.2 Equity non-portfolio investments

As at 31 December 2015, Modra zavarovalnica held two equity investments in domestic issuers that require a different approach to management than portfolio investments on account of the size of the associated participating interest: investments in shares of Cinkarna Celje, d. d. and Pozavarovalnica Sava, d. d. The value of the aforementioned investments totalled EUR 21,635 thousand at the end of 2015.

The sale of shares in Žito, d. d. was completed on 5 October 2015 with the transfer of those shares and the receipt of consideration. Efforts to sell shares of Cinkarna Celje, d. d. were concluded in August without an actual sale being completed.

### 6.2.1.3 Debt investments

The balance of debt investments stood at EUR 77,872 thousand at the end of 2015. Corporate bonds accounted for the highest proportion of debt investments, followed by government bonds and deposits.

Table 18: **Composition of debt investments as at 31 December 2015**  
in EUR 000

Investment	Amount
<b>Bonds</b>	<b>57,568</b>
Government bonds	24,479
- Domestic government bonds	11,003
- Foreign government bonds	13,476
Corporate bonds	33,089
- Domestic corporate bonds	5,320
- Foreign corporate bonds	27,769
<b>Deposits</b>	<b>17,500</b>
Commercial paper	434
Treasury bills	2,370
<b>Total</b>	<b>77,872</b>

The value of Modra zavarovalnica's government bond portfolio was EUR 24,479 thousand as at 31 December 2015. The aforementioned portfolio primarily comprises the government bonds of euro area countries. The proportion of bonds accounted for by domestic issuers was 45% at the end of 2015, while foreign issuers accounted for 55%. More than 90% of bonds are denominated in euros, while a minor proportion are denominated in US dollars and Norwegian kroner. The majority of investments are accounted for by Slovenian government bonds, and by index funds of euro area government bonds. Nearly one half of bonds have a maturity of between five and 10 years, while the majority of bonds bear a fixed coupon rate.

Modra zavarovalnica primarily holds corporate bonds from euro area countries. Domestic corporate bonds accounted for 16% of the corporate bond portfolio as at 31 December 2015, while foreign corporate bonds accounted for 84%. All corporate bonds and funds that invest in corporate bonds are denominated in euros. The largest investments as at 31 December 2015 were accounted for by funds comprising European corporate bonds. Modra zavarovalnica was most exposed to the bonds of issuers from the sectors of finance, telecommunications services and public services.

### 6.2.1.4 Investments in cash and cash equivalents

Modra zavarovalnica held EUR 4,590 thousand in cash and cash equivalents at the end of 2015.

Table 19: **Composition of cash and cash equivalents as at 31 December 2015**  
in EUR 000

Investment	Amount in EUR
Cash on accounts at banks and cash in hand	4,590
<b>Total</b>	<b>4,590</b>

## 6.2.2 Management of guarantee funds

Modra zavarovalnica is the largest payer of supplementary pensions in Slovenia, and managed two guarantee funds in 2015 intended for that purpose:

- ♦ the First Pension Fund Guarantee Fund, from which supplementary pension annuities are paid since August 2004 from converted pension certificates to all persons who have reached 60 years of age; and
- ♦ the Modra Renta Guarantee Fund, which offers a comprehensive selection of supplementary pension insurance annuities since December 2011 in accordance with the ZPIZ-2.

Modra zavarovalnica paid EUR 15.2 million in supplementary pensions to 17,335 policyholders in 2015. A total of 7,345 policyholders received a pension annuity from supplementary pension insurance (Modra renta), while 9,990 policyholders received a pension annuity from supplementary pension insurance in the scope of the First Pension Fund (in exchange for pension certificates).

Table 20: Basic data regarding the guarantee funds of Modra zavarovalnica

Guarantee fund	No. of recipients of annuities in 2015	Assets under management EUR million	Expenditure annuities in 2015 EUR million
KS PPS – First Pension Fund Guarantee Fund	9,990	100	6.2
KS MR – Modra Renta Guarantee Fund	7,345	40	9
<b>Total</b>	<b>17,335</b>	<b>140</b>	<b>15.2</b>

### 6.2.2.1 First Pension Fund Guarantee Fund

The KS PPS comprises separate assets formulated on 13 July 2004 for all policyholders who have reached a minimum of 60 years of age and thus obtained the right to an annuity. When they obtain the right to an annuity on the basis of an informative calculation by Modra zavarovalnica, each policyholder selects the relevant form of pension annuity. Policyholders with 2,000 or less points may receive a pension annuity in a lump-sum amount. A policyholder with more than 2,000 points on their insurance policy may choose between a lifetime pension annuity and a lifetime pension annuity with a guaranteed payment period. Policyholders with between 2,000 and 5,000 points may also be paid an annual pension annuity. The guaranteed payment period is set at 5, 10 or 15 years. Should the policyholder die during the guaranteed payment period, the pension annuity is paid to their beneficiaries or heirs until the expiration of that period.

Policyholders who receive a PPS pension annuity are entitled to the surplus return of the guarantee fund over the guaranteed return in accordance with the general terms and conditions of supplementary pension insurance under the First Pension Fund of the Republic of Slovenia – conversion for pension certificates (PPS-SP01). The proportion of the surplus earmarked for the permanent increase in annuities is determined once a year by the fund manager's management board. Half of the surplus return from 2014 in the amount of EUR 2,215 thousand was allocated in 2015 for a permanent increase in annuities. The annuities received by all policyholders/recipients of PPS pension annuities who entered into an insurance policy by December 2014 in the form of a monthly or annual annuity were 2.3% higher on average in June. The annuities of 9,691 policyholders or their beneficiaries were increased. The difference for the period January to May 2015 was paid together with the June payment of increased annuities.

A total of 1,308 policyholders who reached the age of 60 years obtained the right to an annuity in 2015. Those persons paid a total of EUR 3,628 thousand into the KS PPS for supplementary pensions.

The value of fund assets stood at EUR 99,593 thousand as at 31 December 2015. The majority or 65% of assets are accounted for by bonds, followed by shares and deposits.

Table 21: **Composition of KS PPS assets as at 31 December 2015**  
in EUR 000

Assets	Amount
Shares	13,435
Bonds	64,451
Commercial paper	1,723
Treasury bills	310
Loans and deposits	10,800
Investment coupons	6,188
Cash and cash equivalents	551
Other claims	2,135
<b>Total</b>	<b>99,593</b>

As at 31 December 2015, a total of 65% of KS PPS assets were invested in the Republic of Slovenia, while 35% of all assets were invested in foreign issuers. Bonds accounted for the highest proportion of investments in foreign issuers.

Table 22: **Geographical distribution of KS PPS investments as at 31 December 2015**  
in EUR 000

Area	Amount
Domestic investments	64,388
Foreign investments	35,205
<b>Total</b>	<b>99,593</b>

#### 6.2.2.2 Modra Renta Guarantee Fund

Annuity pension insurance is intended for the payment of pension annuities to policyholders/participants in supplementary pension insurance plans who have exercised their right to a pension from compulsory insurance via the ZPIZ.

When concluding an annuity pension insurance policy, each policyholder may choose one form of lifetime annuity, and thus exercise their right to a supplementary old-age pension. Policyholders were able to choose from 24 different supplementary pension forms in 2015.

The **traditional Modra renta** is a lifetime pension annuity paid on a monthly basis without a guaranteed payment period.

The **Modra renta with a guaranteed payment period** is a lifetime pension annuity paid on a monthly basis with a guaranteed payment period of 5, 10, 15 or 20 years.

The **accelerated Modra renta with a full guarantee** is a lifetime pension annuity with a guaranteed monthly payment period of between 1 and 10 years (accelerated monthly payment and guarantee in the event of death), followed by the annual payment of an annuity equal to the previous month's amount.

The **accelerated Modra renta with a limited guarantee** is a lifetime pension annuity with a guaranteed monthly payment period of between 2 and 10 years (accelerated monthly payment and guarantee in the event of death in between 1 to 9 years), followed by the annual payment of an annuity in the amount of EUR 12.

By 31 December 2015, a total of 7,902 policyholders/participants had exercised their right to a supplementary old-age pension and opted to receive a monthly pension annuity. The 2,143 policyholders who exercised their right to an old-age pension in 2015 paid in a total EUR 20,469 thousand to the guaranteed fund.

Table 23: **Number of policyholders/participants and amount paid into the KS MR in 2015**

Pension fund	Number of participants/ policyholders	Redemption value of assets (in EUR 000)
KVPS	295	3,267
ZVPSJU	1,539	10,175
MKPS	13	48
Pension funds of other managers	296	6,979
<b>Total</b>	<b>2,143</b>	<b>20,469</b>

The amount of an individual's pension annuity depends on the selected assets of the supplementary pension insurance, the technical interest rate, mortality tables separated by gender, the policyholder's date of birth, the policyholder's age when the annuity insurance entered into force and the costs of the payment of the annuity. The average age of annuity recipients is 61 years, while a total of 53% of annuity recipients are male.

Table 24: **Structure of KS MR supplementary pension annuities as at 31 December 2015**

Type of annuity	Proportion of policyholders	Average amount of annuity (in EUR)
Traditional Modra renta	1%	52
Modra renta with a guarantee	2%	70
Accelerated Modra renta with a full guarantee	20%	117
Accelerated Modra renta with a limited guarantee	77%	173
<b>Total</b>	<b>100%</b>	<b>159</b>

The value of fund assets stood at EUR 39,976 thousand as at 31 December 2015. The majority of assets are accounted for by bonds, investment coupons and investment-grade deposits.

Table 25: **Composition of KS MR assets as at 31 December 2015**  
in EUR 000

Assets	Amount
Bonds	23,945
Loans and deposits	5,730
Commercial paper	1,287
Treasury bills	2,440

Assets	Amount
Investment coupons	5,908
Cash and cash equivalents	404
Other claims	262
<b>Total</b>	<b>39,976</b>

As at 31 December 2015, 40% of KS MR assets were invested in the Republic of Slovenia, while 60% of all assets were invested in foreign issuers.

Table 26: **Geographical distribution of KS MR investments as at 31 December 2015**  
in EUR 000

Area	Amount
Domestic investments	15,977
Foreign investments	23,999
<b>Total</b>	<b>39,976</b>

### 6.2.3 Management of mutual equity pension funds

Modra zavarovalnica is the largest provider of supplementary pension insurance in Slovenia, and is an important provider of old-age savings in the scope of the second pension pillar. More than 270 thousand individuals held savings in the company's mutual pension funds in December 2015, while the assets of the aforementioned funds totalled EUR 914 million. Paid-in supplementary pension insurance premiums, excluding transfers of assets between the KVPS and MKPS, totalled EUR 46 million in 2015, an increase of 7% relative to 2014.

Modra zavarovalnica manages four mutual pension funds, which are managed and disclosed separately as assets held by the policyholders/participants in the following funds:

- ◆ the Closed Mutual Pension Fund for Public-Sector Employees,
- ◆ the Mutual Equity Pension Fund,
- ◆ Modri Umbrella Pension Fund, and
- ◆ the First Pension Fund of the Republic of Slovenia.

Table 27: **Data regarding mutual pension funds managed by Modra zavarovalnica as at 31 December 2015**

Fund	Number of participants/ policyholders	Number of employers/ liable persons	Amount of assets under management (EUR million)
KVPS – Mutual Equity Pension Fund	27,085	230	174
ZVPSJU – Closed Mutual Pension Fund for Public-Sector Employees	210,908	1,920	696
MKPS – Modri Umbrella Pension Fund	8,839	96	23
PPS – First Pension Fund	23,651	Intended only for individuals	22
<b>Total</b>	<b>270,483</b>	<b>2,246</b>	<b>915</b>

Pursuant to Article 313 of the ZPIZ-2, Modra zavarovalnica must create provisions if the actual net value of pension fund assets is lower than the guaranteed value of fund assets during the accounting period by charging equity an amount equal to the sum of deficits in the value of

a participant's assets up to the guaranteed and actual value of that person's assets. At the end of 2015 Modra zavarovalnica created provisions in the amount of EUR 15,556 thousand for failure to achieve the guaranteed return on mutual pensions funds. EUR 15,342 thousand of that amount related to the PPS.

#### 6.2.3.1 Closed Mutual Pension Fund for Public-Sector Employees

The ZVPSJU was established through the collection of assets from the accounts of public-sector employees, which ensures the right to a supplementary old-age pension and other rights defined in the pension plan. In addition to the premiums paid into the fund by employers, public-sector employees may also pay premiums themselves, thus ensuring a higher supplementary pension and the exploitation of tax relief in the calculation of personal income tax. As fund manager, Modra zavarovalnica, d. d. ensures a minimum guaranteed return on savings.

Pursuant to the ZKDPZJU and KPOPNU, collective insurance under the PNJU K pension plan included all persons with the status of public-sector employee as at 1 August 2003 or to whom the KPNG applied. Individuals who concluded an employment contract with the Republic of Slovenia, a local community or public law entity as employer after 1 August 2003 were included in the PNJU K pension plan on the day the relevant employment contract was concluded or on the day the person in questions received the status of public-sector employee.

The agreement on measures to reduce the scope of funds for wages and other public-sector labour costs for 2015 included the extension of reduced supplementary pension insurance premiums for public-sector employees. In December 2014, the Slovenian government and representative public-sector trade unions signed an annex to the collective agreement for the non-economic sector of the Republic of Slovenia and set the level of premiums to be paid by employers for 2015. Premiums in the period 1 January 2015 to 30 June 2015 amounted to 10% of the premium applicable as at 1 January 2013 (the monthly premium for the highest premium grade was EUR 2.68). Premiums in the period 1 July 2015 to 31 October 2015 amounted to 15% of the premium applicable as at 1 January 2013 (the monthly premium for the highest premium grade was EUR 4.02). Premiums in the period 1 November 2015 to 31 December 2015 amounted to 30% of the premium applicable as at 1 January 2013 (the monthly premium for the highest premium grade was EUR 8.03).

On the basis of the PNJU K pension plan and ZVPSJU rules, Modra zavarovalnica, as manager of the ZVPSJU, is entitled to subscription and management fees associated with the ZVPSJU. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and are transferred to the fund manager's account. The fee amounted to 0.5% in 2015. The annual management fee for the ZVPSJU is 0.5% of the average annual net value of ZVPSJU assets. All other operating costs of the fund are borne by Modra zavarovalnica.

The ZVPSJU is the largest Slovenian pension fund, both in terms of the number of policyholders and assets under management. The aforementioned fund had 210,908 participants and assets totalling EUR 696 million at the end of 2015. At 3.68%, the return on the ZVPSJU was well above the guaranteed return of 1.94% in 2015 and ranked the ZVPSJU as the most profitable Slovenian pension fund.

Management of the ZVPSJU in 2015 was aimed at security, profitability, the liquidity and diversification of investments, and long-term growth in the value of ZVPSJU assets. The most significant changes in 2015 were an increase in the proportion of bonds and treasury bills, and a decrease in the proportion of equities and deposits. At 55%, the majority of fund assets were accounted for by investments in bonds at the end of 2015, followed by investments in investment coupons at 26%, investments in treasury bills at 9%, and bank deposits and certificates of deposit.

Supplementary pension insurance for public-sector employees may be terminated under regular or extraordinary circumstances. Regular termination of collective insurance under the PNJU K pension plan takes effect when the participant of the ZVPSJU exercises their right to a supplementary old-age pension or the right to an early supplementary old-age pension. Extraordinary termination may take effect when a public-sector employment contract is terminated, provided that 120 months have passed since an employee's inclusion in the insurance scheme, or by beneficiaries/heirs in the event of death. Special arrangements applied until 1 August 2013 for all ZVPSJU participants, who on 1 August 2003 were less than 10 years shy of fulfilling the minimum criteria to obtain the right to an old-age pension. In such cases, participants chose between the right to a supplementary old-age pension or the lump-sum payment of the redemption value under compulsory insurance at the time of retirement.

The insurance of 3,764 participants was terminated in 2015, while the redemption value paid was EUR 21 million.

#### 6.2.3.2 Mutual Equity Pension Fund

The KVPS is an open mutual pension fund intended for the implementation of voluntary supplementary pension insurance plans. Any employees included in the compulsory pension insurance scheme may participate in the KVPS. Since 2002, the KVPS includes separate pension plans for individual and collective voluntary supplementary pension insurance, designated PN1 P and PN1 K. As fund manager, Modra zavarovalnica ensures a minimum guaranteed return on savings.

In accordance with the PN1 P and PN1 K pension plans and the KVPS rules, the fund manager is entitled to subscription, redemption and fund management fees. In 2015, the fund management fee was 1% of the average annual net value of KVPS funds. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and amounted to 3% in 2015. Redemption fees are charged as a percentage of the paid-out value of funds and amounted to 1% in 2015.

The KVPS achieved a return of 1.39% in 2015, which was below the annual guaranteed return of 1.94% during the same period. The return achieved was comparable with those achieved by other Slovenian pension funds. The value of fund assets stood at EUR 174 million as at 31 December 2015.

Management of the KVPS in 2015 was aimed at security, profitability, the liquidity and diversification of investments, and long-term growth in the value of KVPS assets. The most significant changes in 2015 were an increase in the proportion of treasury bills and bonds, and a decrease in the proportion of deposits and equities. At 49%, the majority of fund assets were accounted for by investments in bonds at the end of 2015, followed by investments in investment coupons at 24%, investments in treasury bills at 12%, and bank deposits and certificates of deposit.

Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a policyholder obtains the right to a pension under compulsory insurance. Extraordinary termination applies when a fund participant withdraws from the insurance scheme on the basis of a written statement regarding withdrawal, or upon the death of the participant. The transfer of assets to another person represents a special way to terminate insurance. A participant/policyholder may exercise their right to the payment of funds paid in by their employer until 31 December 2012 when 10 years have passed since their inclusion in the insurance scheme.

The insurance of 1,711 participants/policyholders was terminated in 2015, while the redemption value paid was EUR 15 million. A total of 342 participants/policyholders opted for the payment of the redemption value of fund units financed by the employer until 31 December 2012, in the total amount of EUR 2.5 million.

### 6.2.3.3 First Pension Fund of the Republic of Slovenia

The PPS is intended exclusively for the coverage of payments of pension annuities from supplementary pension insurance policies that were created through the conversion of pension certificates. Since 1 January 2003, the PPS is a closed mutual pension fund, to which additional payments or the inclusion of additional participants is not possible. Since August 2004, the accumulated assets of all policyholders/participants at least 60 years of age are transferred to the KS PPS, the purpose of which is to cover payments of supplementary pension annuities. If a PPS policyholder/participant dies before they obtain the right to a pension annuity, their heirs have the right to the payment of the redemption value of the policy in question.

Modra zavarovalnica is entitled to an annual fee for managing the PPS, which amounted to 1% of the average annual net value of assets in 2015. It is also entitled to a redemption fee, which is calculated as a percentage of the redemption value paid to heirs.

The actual return of the PPS was -20.0% in 2015, while the guaranteed annual return was 1.0%. The negative return of the aforementioned was the result of falling prices of Slovenian shares, in particular shares of Telekom Slovenije, d. d. as the result of the unsuccessful sale of that company. PPS assets totalled EUR 22 million at the end of 2015.

The primary objective of the fund manager in 2015 was the restructuring of the PPS portfolio with the aim of the greater diversification and liquidity of investments, in particular a reduction in exposure to non-marketable equity investments, which also required a decision issued by the ISA in April 2014, under which the aforementioned body tasked Modra zavarovalnica with harmonising the structure of PPS investments with legal requirements by 31 October 2016 and the disposal of investments in participating interests in limited liability companies. To that end, Modra zavarovalnica began the sale of its participating interest in Geoplin, d. o. o. in 2015, the latter being the insurance company's largest investment in a limited liability company. The sales process is currently suspended due to the coordination of activities with the aforementioned company's other owners. The participating interest in Elan, d. o. o. was sold in 2015, while participating interests in other limited liability companies remain in the portfolio due to a lack of market interest and relatively low values.

Sales activities continued in 2015 aimed at the joint sale of a majority package of shares of Telekom Slovenije, d. d. That process was halted in August 2015, without the aforementioned sale being completed. In 2015, we reduced our exposure, in part or full, to four non-marketable equity investments.

The fund manager disclosed impairments in the amount of EUR 15,342 thousand at the end of 2015 due to failure to achieve the guaranteed return of the fund. A significant portion of the aforementioned amount relates to provisions created in 2013 and 2014 due to the impairment of the investment in Cimos, d. d. Additional provisions of EUR 4,767 thousand were created in 2015 on account of falling prices of Slovenian equities.

A total of 1,308 policyholders obtained the right to a pension annuity in 2015. The corresponding PPS assets in the amount of EUR 3,628 thousand were transferred to the KS PPS. A total of 25 payments of the redemption value in the amount of EUR 86 thousand were made due to the death of policyholders/participants.

### 6.2.3.4 Modri Umbrella Pension Fund

The MKPS is an open fund intended for the implementation of voluntary supplementary pension insurance plans. Any employees included in the compulsory pension insurance scheme may participate in the MKPS. A pension plan for collective supplementary pension insurance (the PNMZ K) has been in place since 2015 and includes policyholders via their employers, as has an individual supplementary pension plan (the PNMZ P) intended for individual policyholders.

The MKPS comprises three sub-funds that are created as separate assets, where each sub-fund defines its own investment policy and objective, and each sub-fund is intended for a target age group of participants. The Modri Dynamic Sub-Fund is intended for younger participants up to 50 years of age and pursues a higher-risk investment policy. The Modri Conservative Sub-Fund is intended for participants aged 50 to 60 years, while the Modri Guaranteed Sub-Fund is intended for participants above 60 years of age. As the manager of the Modri Guaranteed Sub-Fund, Modra zavarovalnica ensures a minimum guaranteed return on savings.

On the basis of the detailed rules of the Modri Umbrella Pension Fund, Modra zavarovalnica, as manager of the MKPS, is entitled to subscription and management fees associated with the MKPS, which are paid from the aforementioned fund's assets. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and are transferred to the fund manager's account. The fee amounted to 3% in 2015. The annual management fee for the MKPS is 1% of the average annual net value of an individual sub-fund's assets.

The return of the Modri Guaranteed Sub-Fund was -1.97% over an 11-month period in 2015, while the guaranteed return during the same period was 1.77%. In the period February to December 2015, the Modri Conservative Sub-Fund achieved a return of 2.61%, while the Modri Dynamic Sub-Fund achieved a return of 3.59%. The returns achieved by the Modri Conservative and Modri Dynamic Sub-Funds were among the best among providers of supplementary pension insurance in 2015.

As the manager of the Modri Guaranteed Sub-Fund, Modra zavarovalnica takes an active approach to asset management, the aim of which is to meet the operational objective of management, i.e. to achieve and exceed the average return of competitive pension funds while maintaining the actual value of fund assets above the guaranteed value. In managing the Modri Conservative and Modri Dynamic Sub-Funds, it pursues the operational objectives of management, i.e. to achieve and exceed the average return of competitive pension funds. This means that the manager actively deviates from the asset structure of competitive funds and from the long-term strategic allocation of assets, and invests in categories or individual investments that it assesses are undervalued according to certain investment criteria.

The assets of the Modri Guaranteed Sub-Fund totalled EUR 15,378 thousand at the end of 2015. At 44%, the highest proportion of the sub-fund's assets were accounted for by bonds, followed by bank deposits at 16%, investments in investment funds that invest in bonds at 13% and additional liquid funds at 11%. Investments in investment funds that invest in shares, and treasury bills and commercial paper account for a smaller portion of fund assets.

The assets of the Modri Conservative Sub-Fund totalled EUR 3,275 thousand at the end of 2015. At 40%, the highest proportion of the sub-fund's assets were accounted for by investments in investment funds that invest in shares, followed by investments in investment funds that invest in bonds at 22%, bank deposits at 14% and additional liquid funds at 13%. Investments in bonds and commercial paper account for a smaller portion of fund assets.

The assets of the Modri Dynamic Sub-Fund totalled EUR 3,793 thousand at the end of 2015. At 62%, the highest proportion of the sub-fund's assets were accounted for by investments in investment funds that invest in shares, followed by investments in investment funds that invest in bonds at 12%, while additional liquid funds and bank deposits each account for 9% of sub-fund assets. Investments in bonds and commercial paper account for a smaller portion of fund assets.

Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a policyholder obtains the right to a pension under compulsory insurance. Extraordinary termination applies when a

fund participant withdraws from the insurance scheme on the basis of a written statement regarding withdrawal, or upon the death of the participant. The transfer of assets to another person represents a special way to terminate insurance. A participant/policyholder may exercise their right to the payment of funds paid in by their employer until 31 December 2012 when 10 years have passed since their inclusion in the insurance scheme.

The insurance of 17 participants/policyholders was terminated in 2015, while the redemption value totalled EUR 57 thousand. A total of 12 participants/policyholders opted for the payment of the redemption value of fund units financed by the employer until 31 December 2012, in the total amount of EUR 106 thousand.

### 6.3 STEKLARSKA NOVA ROGAŠKA SLATINA

Pursuant to the Financial Operations, Insolvency and Compulsory Dissolution Act, bankruptcy proceedings were initiated against Steklarska nova Rogaška Slatina on 21 May 2009. It is evident from the final list of tested claims of 3 June 2014 that claims totalling EUR 9,765,732.25 were registered. Of that amount, claims totalling EUR 209,800.27 were contested.

The official receiver Dr Irena Lesjak drafted four periodic reports in 2015 regarding the progress of bankruptcy proceedings against Steklarska nova Rogaška Slatina. Current activities linked to the sale of assets and activities associated with litigation, etc. were carried out in 2015.

The unredeemed bankruptcy estate comprises holiday facilities that have not yet been entered in the land register and three parcels in Rogaška Slatina. The estimated value of unredeemed assets is around EUR 60,000.

The company recorded inflows of EUR 342,343.49 and outflows of EUR 36,325.52 from 1 January to 31 December 2015. The largest inflow was from the sale of a commercial building in Rogaška Slatina for EUR 307,800.00 and from the sale of an apartment on Rogla for EUR 34,002.00. The largest outflow in the amount of EUR 31,211.07 was accounted for by a payment to Banka Celje from the distribution of the special bankruptcy estate.

The company had an account balance of EUR 383,837.02 as at 31 December 2015.

## Risk management

Risk management is explained in Chapter 17.2 Accounting policies in the financial report section of Kapitalska družba's annual report.

## Significant business events after the end of 2015

The Slovenian government, in its role as Kapitalska družba's General Meeting, appointed Janez Bedina as member of the Supervisory Board on 8 January 2016 until Dr Boris Žnidarič's function as member of the Management Board ceases.

The new Pension and Disability Insurance Act (ZPIZ-2B) entered into force on 1 January 2016, bringing changes for Kapitalska družba, too. In accordance with the new act, occupational pensions will be paid directly from the SODPZ, while the KS SODPZ will cease to function. The management fees charged by Kapitalska družba will rise with the transfer of assets from the KS SODPZ to the SODPZ, as the Company did not charge management fees for the KS SODPZ.

Amendments to the occupational pension insurance plan approved by the MLFSAEO in its decision of 30 October 2015 entered into force on 4 February 2016 and relate to a reduction in management fees with respect to the net value of assets under management.

Based on Kapitalska družba's request, the Securities Market Agency issued consent on 4 February 2016 to the amendments to the Rules on the management of the compulsory supplementary pension insurance fund of the Republic of Slovenia. The amendments enter into force on 9 March 2016, and relate to a reduction in management fees with respect to the net value of assets under management.

On 28 January 2016, the General Court of the European Union rejected in full the Slovenian government's motion to annul European Commission decision no. SA.26379 of 19 September 2012 on the measures in favour of Elan, d. o. o. The aforementioned ruling extinguished Kapitalska družba's contingent liability in connection with the potential repayment of state aid received. The Company thus reversed its off-balance-sheet liability to Elan, d. o. o. in the amount of EUR 6,457 thousand.

On 28 January 2016, the government, in its role as the BAMC's general meeting, adopted a decision based on the ZGD-1 and the Government Measures to Strengthen the Stability of Banks Act requiring the BAMC to transfer (for consideration) all claims against Sava, d. d. and all bonds of Sava, d. d. in its possession to SDH and KAD at the transfer values at which it received the aforementioned high-risks items, as part of the implementation of measures to strengthen the stability of banks, or at the fair values or book values of those items as at 30

June 2015, if the latter are higher than the transfer values. Those values are further increased for financing costs equal to the weighted cost of the BAMC's capital in the amount of 4.2% for the period it owned the aforementioned items.

As at 31 December 2015, Kapitalska družba held a capital investment in shares of Sava, d. d. valued at EUR 255 thousand. On 12 February 2016, the creditor committee of Sava, d. d. adopted a resolution, whereby the share capital of the aforementioned company is reduced from EUR 14.1 million to zero through the cancellation of all existing shares. The aforementioned resolution becomes valid with the final confirmation of compulsory composition. If the resolution confirming compulsory composition becomes final, Kapitalska družba will lose the entire value of its investment in shares of Sava, d. d.

The Securities Market Agency issued a declaratory decision on 5 February 2016 in which it ruled in favour of the request of SDH, the Slovenian government, Kapitalska družba, Nova Kreditna banka Maribor, d. d., Zavarovalnica Triglav, d. d. and the Fund for the Financing of the Decommissioning of Krško Nuclear Power Plant to issue a declaratory decision to lift the prohibition on the exercising of voting rights that was imposed on Telekom Slovenije, d. d., Ljubljana as the target company.

On 2 February 2016, a committee comprising the aforementioned creditors adopted a resolution, whereby the share capital of Pomurske mlekarne, d. d. is reduced from EUR 1.4 million to zero through the cancellation of all existing shares. The aforementioned resolution becomes valid with the final confirmation of compulsory composition.

The new Insurance Act (ZZavar-1) entered into force on 1 January 2016 and transposes the European Solvency II Directive into Slovenian law. The aforementioned directive defines the framework for the revised regulatory regime governing the insurance sector, reforms regarding capital requirements and the management of risks to which EU insurers and reinsurers are exposed.

The main solutions set out in the aforementioned act relate to the solutions set out in the Solvency II Directive, which includes 14 existing insurance and reinsurance directives, while new rules regarding solvency have been added. The main substantive changes relative to the previous arrangements may be found in the areas of quantitative and qualitative requirements, rules governing supervision, supervisory reporting and the public disclosure of information, as well as the supervision of groups. The Solvency II Directive, which is implemented with the ZZavar-1, requires insurance companies to calculate capital taking into account all risks to which they are exposed. In addition to insurance risks, they must also take into account market, credit and operational risks.

The aforementioned act places greater emphasis on the prudent management of risks by insurance companies and on sound internal controls, with the aim of increasing the level of security of policyholders. It also imposed new requirements regarding the capital adequacy of insurance companies, where the level of capital requirements will depend on the insurance company itself and its management of risks. The ultimate objective of Solvency II is to increase the protection and security of policyholders.

The transition to the new directive was a difficult process, and required significant human resources and the adaptation of information technology, all of which Modra zavarovalnica successfully completed. We adapted the organisational structure, appointed persons responsible for key functions at the insurance company, and adopted and/or amended all necessary bylaws. We thus enter 2016 prepared for the implementation of Solvency II.

Since January 2016, Modra zavarovalnica has offered updated forms of pension annuities based on the new pension plan, which was approved by the MLFSAEO in October 2015 and

which has also been entered in a special register of pension plans at the FARS. The ZPIZ-2 states that supplementary pensions in the form of a pension annuity can be paid on the basis of a special pension plan approved by the ministry responsible for labour. Detailed rules on the calculation and payment of pension annuities are defined by the ministry responsible for finance in cooperation with the ministry responsible for labour. Detailed rules and minimum requirements that insurance and pension companies must take into account in the calculation of pension annuities were published in 2015 and entered into force on 1 January 2016. To that end, we created a new guarantee fund in January 2016 for the payment of supplementary pension annuities, with policyholders' participation in profits.

Change to the aforementioned rules entered into force on 19 March 2016 and expanded the range of supplementary pensions that providers may offer to policyholders. The limit on the accelerated payment of savings exceeding EUR 20,000 now only applies to collective savings after 1 January 2013 (i.e. according to the ZPIZ-2). In this case, a monthly supplementary pension during accelerated payment may not exceed twice the amount of a monthly term pension annuity (form 2: 1). The aforementioned limit does not apply to all supplementary pension insurance assets accumulated from employer contributions until 31 December 2012 and from individual contributions. An individual may thus choose an accelerated form of monthly pension annuity in the period 1–20 years, and then a supplementary pension of EUR 30 for each three months until the end of their life.

## Expected development of the Kapitalska družba Group for 2016

Kapitalska družba was established with the aim of covering the deficit in the public pension and disability insurance system, which is financed according to the principle of intergenerational exchange. In accordance with its mission, the Company must transform itself into an independent and autonomous demographic reserve fund as set out in the ZSDH-1. Details will be set out in a separate act. As one source of financing, the ZSDH-1 states that 10% of proceeds from the sale of capital investments held by the Republic of Slovenia must be transferred to a special account at the Ministry of Finance, and that the aforementioned funds may be used exclusively to finance the demographic reserve fund. Alongside the formulation of a demographic reserve fund, the ZSDH-1 also envisages the transfer of the ZPIZ's investment in Zavarovalnica Triglav, d. d. to Kapitalska družba.

Technical studies carried out by Kapitalska družba to date with the help of external experts and presented to all important stakeholders, represent a quality basis, for both the act governing the demographic reserve fund and for the development of comprehensive and long-term sustainable pension solutions.

Kapitalska družba's mission has been the same since its inception and in conceptual terms entails performing the function of demographic reserve fund to the extent permitted by its assets. The Implementation of the Budget of the Republic of Slovenia for 2016 and 2017 Act (ZIPRS1617) envisages the adjustment of pensions and thus transfers by Kapitalska družba to the pension fund in the maximum possible amount envisaged by the ZSDH-1, i.e. EUR 50 million. The fulfilment of our legal obligation requires the effective management of capital investments and the continued transformation of Kapitalska družba into a portfolio investor. In 2016, we will continue the sale of Slovenian government equity investments and the placement of proceeds into liquid portfolio investments. We will adapt and update Kapitalska družba's asset management strategy due to the Company's transformation into a demographic reserve fund, the unstable conditions on the global financial markets, low interest rates and forecasts of weak economic growth.

Kapitalska družba's role in the structure of Slovenia's pension system is becoming increasingly important with the growth in SODPZ assets and the payment of pensions to the aforementioned fund's policyholders. Fundamental changes are occurring in the Slovenian pension system with the payment of occupational pensions from the aforementioned fund in accordance with the ZPIZ-2. Compulsory supplementary pension insurance, which is based on the

actual savings of policyholders in a given period, is replacing pensions that are financed on the fly, and therefore represents a modern form of pension payment founded on a capital basis. The aforementioned insurance facilitates early retirement for employees who perform especially difficult work and work that is harmful to their health, and work that can no longer be performed successfully after a certain age, and does not use general government and budget sources. These pensions, first paid in 2014, represent one of many possible sustainable forms that will become increasingly important due to the unfavourable demographic characteristics of Slovenian society. Kapitalska družba performs the function of demographic reserve fund not only because it covers the deficit in the public system, but also because it is a creative developer of comprehensive, long-term sustainable pension solutions.

As the manager of the SODPZ (the second largest mutual pension fund in terms of size, with the fastest growth in assets), Kapitalska družba will work actively with all stakeholders in the occupational insurance system, both via the fund's committee and directly. In providing compulsory supplementary pension insurance, the Company is guided by concern for policyholders and their employers, and for occupational pensioners. We will therefore continue to strive to be one of the most successful pension savings managers in Slovenia, and to ensure that systematic pension solutions are aimed at providing higher-quality and safer forms of insurance. In this way, we will contribute to the improved pension stability of occupational insurance policyholders and pensioners.

Due to legislative changes and with the aim of optimising business processes that are adapted to the actual requirements of the business environment, we will implement three major projects in 2016, in addition to the Company's transformation into a demographic reserve fund: 1. the implementation of the ZPIZ-2B; 2. the establishment of a bridging fund for athletes; and 3. the replacement of IT support for asset and fund management.

The provisions of the Pension and Disability Insurance Act (ZPIZ-2B) eliminate, to a great extent, the deficiencies that arose during the implementation of pension insurance and that were not governed by the law. Verification of the accuracy of paid-in contributions is now governed by the law, while higher fines for liable persons who fail to fulfil their obligations to policyholders have been set. Solidarity reserves are being established with the aim of eliminating problems in the payment of occupational pensions to policyholders who meet the conditions for occupational retirement but do not have sufficient funds on their accounts. The ZPIZ-2B imposes numerous new tasks and competences on Kapitalska družba. We will thus transform the SODPZ and adjust the occupational pension insurance plan in 2016 in accordance with the ZPIZ-2B. The ZPIZ-2B sets out a comprehensive SODPZ pension scheme in which the savings and payment elements will be linked. This requires the transformation of the current KS SODPZ and the transfer of the occupational pension payment function in the scope of an integrated occupational insurance pension plan. As a result, we will also update the SODPZ management strategy, as our guiding principle in 2016 remains the maximisation of Kapitalska družba's assets and the assets of occupational insurance policyholders. Kapitalska družba will assume new competences and obligations with the entry into force of the new pension plan, including control over the accuracy of contribution payments, and in 2018 the function of misdemeanours authority, which will increase the need for additional employees.

The second project, which carries over from 2015, includes the creation of a bridging insurance fund for professional athletes and the start of the provision of bridging insurance. The ZPZPŠ-1 repealed the original bridging insurance arrangements and set a deadline of 1 September 2016 for the creation of the bridging fund and a deadline of 30 June 2016 for the creation of a fund committee. The ZPZPŠ-1 states that from October 2016 sports associations, as employers, will be obliged to pay contributions for bridging insurance for professional athletes by the deadlines and in the amounts set out in the aforementioned act. Professional athletes will also be able to make voluntary payments to the fund up to a legally defined annual limit.

The biggest challenges, resulting in the highest costs, will arise due to urgent adaptations to IT support for the functioning of the bridging fund and due to the establishment of appropriate communication channels with the Ministry of Education, Science and Sport, as the body responsible for the register of policyholders, and with sports associations as those obliged to pay regular monthly contributions.

In 2016, we will continue the process of replacing the software used to support asset and fund management. The most important deadlines in the aforementioned project are linked to both of the previously described projects, i.e. the adaptation of the SODPZ to the provisions of the ZPIZ-2B and the establishment of and start of operations of the bridging fund for athletes. New software solutions are being introduced gradually, with the primary focus on the pursuit of project objectives that are linked to legally binding deadlines for Kapitalska družba. The upgrading of the information system will be accompanied by the optimisation of key business processes, which will be adapted to changes in the business environment and financial world.

Through the commitment and high level of motivation of all employees, we will fulfil our mission again in 2016, while building and increasing the Company's long-term value for its owner through prudent and reliable decisions. Through transformation into a demographic reserve fund, we will open new perspectives for the Slovenian pension system and support the sustainable and long-term economic development of Slovenia. This also represents an appropriate response to changing demographic conditions and the projected development of those conditions in Slovenia.

In 2016, Modra zavarovalnica will continue to pursue strategies that focus on the security of supplementary pension insurance policyholders. That security will be ensured through a sufficient level of capital, prudent operations and an increase in the value of supplementary pension savings. The most pressing problems associated with supplementary pension insurance include the proportion of employees not included in such a scheme, premiums that are absolutely too low, meaning that pension annuities will not cover the difference in lower pensions from compulsory insurance in the majority of cases, and the accelerated withdrawal of savings, although the optimal choice following retirement is an equally distributed annuity until the end of the policyholder's life. To reverse that negative trend, measures are required to promote the development of supplementary pension insurance. In addition to the active raising of awareness and promotions, those measures will comprise efforts to include collective supplementary pension insurance in negotiations on the harmonisation of collective agreements, including in the commercial sector, an increase in the amount of tax relief and the abolishment of the absolute limit on tax relief for supplementary pension insurance, with the entire pension annuity deducted from the personal income tax base.

It is evident from research carried out in 2015 that the key factor in selecting a supplementary pension insurance provider remains security: reliability and trust, economic stability and security, many years of experience and references. The importance of security is that much greater due to a generally low level of trust in financial institutions, which is still present and has a significant impact on market developments.

The focus of our development will be on alternative supplementary pension insurance sales channels, including online sales and other new market approaches. We will develop our market approach with the aim of providing customers a distinctly different experience compared with competitive products, and offering them a unique service in terms of preparing and exchanging information, and an up-to-date and competitive informative offer.

Major business objectives in 2016 include growth in market share in the area of supplementary pension savings and in the payment of supplementary pension annuities. Potential growth in premiums also lies in increasing the individual premiums of ZVPSJU policyholders. In addition to the premiums paid by their employers, which have been cut for four straight years as

the result of austerity measures, public-sector employees may also save for a supplementary pension on their own, but individually and no longer on account of a reduction in gross wages. The same conditions that apply to employers apply for the payment of individual premiums by ZVPSJU participants, and thus provide public-sector employees a more affordable form of individual supplementary pension insurance. Increased marketing activities during the second half of the year will be aimed at the planned transformation of the ZVPSJU into a sub-fund with a guaranteed return and the establishment of an umbrella life-cycle fund, where the formulation of higher-risk investment policies for both funds can be expected in 2017.

Through the development and updating of supplementary pensions in accordance with the new features of the ZPIZ-2 and the implementing regulation issued by the Ministry of Finance, we will offer a range of pension annuities in 2016, taking into account the expectations of policyholders and prescribed limits on the level and type of assets under management. In accordance with adopted guidelines, we will continue to strengthen our focus on the customer, offer the most personal treatment possible, monitor customers' needs and advise them accordingly.

The measurement of the recognition at the end of 2015 indicated that Modra zavarovalnica is relatively well-known among policyholders, although recall of the insurance company is poorer relative to other providers of supplementary pension insurance (consumers recognise Modra zavarovalnica, but fail to connect it with the core product that it offers). The insurance company's communication concept will therefore continue to focus on linking supplementary pension insurance with Modra zavarovalnica in 2016, and the more intensive positioning of the insurance company as the leading and securest manager of pension savings and payer of supplementary pension annuities. The key messages will emphasise Modra zavarovalnica as a trustworthy long-term partner, where the security of savings and responsibility for fund participants take priority.

Certain changes will be made to business processes to achieve all of the aforementioned objectives, and to achieve operational excellence and create an environment that promotes the innovativeness and creativity of employees.

Integrated information support for pension funds under management and the standardisation of processes for managing assets and liabilities will be completed in 2016, both in the area of mutual pension funds and guarantee funds for the payment of supplementary pensions. Development activities will focus on the upgrading of information services in the area of sales and marketing (Modri e-invoice, ModriNet and CRM), with the aim of maintaining a comprehensive overview of customers.

We expect a difficult year in 2016 in terms of the management of investments, as the result of record low interest rates, and low yields on bonds and relatively high-value, higher-risk investment categories. The guaranteed return in 2016 was cut from 1.94% to 1.08%. We nevertheless assess that the achievement of such a return will be difficult. Opportunities will have to be sought in new investment categories. We plan to achieve a return that is at least equal to the return of selected benchmark indices and to exceed the average return of competitive pension funds. In managing the First Pension Fund, we will pursue the objective of closing the negative gap between the guaranteed and actual value of assets, and thus reduce the level of required provisions as the result of failure to achieve the guaranteed return, which in turn will have a positive effect on operating results achieved in 2016.

Modra zavarovalnica will also dedicate special attention to the professional and personal development of its employees, who ensure the success, growth and development of the insurance company. We will continue to operate as a family-friendly company, while demonstrating our social responsibility through responsibility for the environment, transparent and responsible operations and activities aimed at raising public awareness about the fact that supplementary pension savings are inevitable and an urgent source of income to facilitate a decent standard of living following retirement.

## Social responsibility

### 10.1 RESPONSIBILITY TO THE WIDER SOCIAL COMMUNITY

Kapitalska družba's mission is the provision of supplementary funding for compulsory pension and disability insurance. Kapitalska družba transfers funds in the amount of EUR 50 million to the ZPIZ every year by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount required to adjust pensions is lower.

The ZSDH-1 resulted in a change to previous arrangements regarding the transfer to the budget of the ZPIZ. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment pensions, which is limited to EUR 50 million. Notwithstanding the aforementioned, Kapitalska družba transferred EUR 19,000 thousand to the ZPIZ in 2015 for the annual bonus paid to pensioners based on the provisions of the ZIPRS1415-C. Kapitalska družba has transferred the cumulative amount of EUR 664,321 thousand to the budget of the ZPIZ.

Table 28: Kapitalska družba, d. d.'s payments to the budget of the PDII

Year	Amount of transfer (in EUR)
1999	7,093,974
2000	55,499,916
2001	34,948,255
2002	41,729,261
2003	26,602,404
2004	26,602,404
2005	26,602,404
2006	39,121,182
2007	39,121,182
2008	49,000,000
2009	49,000,000

Year	Amount of transfer (in EUR)
2010	100,000,000
2011	50,000,000
2012	50,000,000
2013	50,000,000
2014	0
2015	19,000,000
<b>Total</b>	<b>664,320,982</b>

Because the Association of Pensioner Societies of Slovenia brings together and motivates individuals who choose to spend their time actively following retirement, Kapitalska družba donated written-off computers and mobile phones at the beginning of 2015.

Kapitalska družba donated written-off furniture to the Ministry of the Interior due to the lack and generally poor state of equipment at the aforementioned ministry.

In June 2015, Kapitalska družba opted to purchase a defibrillator intended for first aid in the event of cardiac arrest. It is located in the common area of the Company's commercial building and is publicly accessible to everyone in that building and the surrounding area. The defibrillator is entered in the AED database with the aim of raising public awareness about the importance and accessibility of the device by all those in the vicinity of the Company. The aim of the purchase was to contribute to improving the possibility of reviving persons suffering from cardiac arrest.

As a socially responsible company, Modra zavarovalnica also responds to the needs of the environment. We are developing a culture of donations, which is becoming engrained in our social responsibility. We support socially beneficial projects that educational institutions are unable to implement alone via internal sources, and respond to requests for financial aid from educational institutions in the event of natural disasters. In 2015, we supported the Balkan Express 2015 summer school organised by the Faculty of Economics in Ljubljana. The aim of the project was to educate Slovenian and foreign undergraduate and postgraduate students studying economic and business.

The company also responded throughout the year to the requests of individual associations and organisations that were provided promotional materials for raffles and gifts (sports associations and clubs, retiree associations, firefighter associations, etc.).

Modra zavarovalnica focuses a significant portion of its communication activities on raising the awareness of the population regarding the importance of old-age savings. The following activities were carried out with the aim of improving awareness about supplementary pension insurance: the organisation of numerous consultations, the drafting of information for publication on corporate websites and in internal newsletters, and the offering of professional help in the preparation of responses to questions about supplementary pension insurance posed to employers and unions by employees. The human resource and accounting departments of customers have been educated about the possibilities and advantages of pay-outs in the form of a supplementary pension, while information offices at corporate headquarters have been introduced. Representatives of the company attended the annual conference of companies under the auspices of the Family-Friendly Company Association and the financial days organised by UniCredit banka again last year, where they gave a presentation on supplementary pension insurance.

## 10.2 RESPONSIBILITY TO EMPLOYEES

### 10.2.1 Concern for employee training

Existing work areas and the development of new business functions at the Company are enhanced using various forms of pre-planned training adapted to the specific job requirements and knowledge required by each employee, and to the Company's developmentally established tasks. Employees thus receive additional training both in Slovenia and abroad by attending shorter or longer seminars and workshops, and through planned internal training carried out regularly for all employees.

During 2015, employees attended seminars on the following topics: tax regulations, wages, personnel and other documentation bearing personal data, occupational safety and health, public procurement, valuation, the Family-Friendly Company certificate, finance, current issues relating to commercial law, the latest developments in the prevention of money laundering, the Business Academy, the collection, archiving, management and retention of data, information technology and auditing.

In accordance with its education and training plan, Kapitalska družba also organised internal training programmes in 2015 on the following topics: the prevention of money laundering, personal data protection, conduct in the event of a fire or other disaster, the code of ethics, the latest development in legislation governing companies (ZGD-1) and the EFQM (European Foundation for Quality Management) excellence model. Kapitalska družba organised a workshop on the subject of business etiquette in September 2015 for all employees, and another workshop in October 2015 on effective communication and cooperation amongst employees. All employees were also afforded the opportunity to build on their knowledge of finance-related English and business German.

Kapitalska družba promotes continuing education and the acquisition of various licences in the employer's interest. This improves the quality of the work process and improves employees' qualifications for work in a specific position. In 2015 one employee attended master's degree courses (according to the Bologna model), three attended postgraduate courses (master's of science), while two employees attended training to receive professional qualifications.

Modra zavarovalnica is aware that only qualified employees are capable of achieving the insurance company's objectives and that the work of employees contributes to more successful operations. Modra zavarovalnica encourages its employees to continuously educate themselves in all areas, as the insurance company's success depends on their motivation, qualifications and knowledge. Education and training facilitate the acquisition of strategically important knowledge, more efficient work and the successful achievement of objectives, while in the long term they affect the commitment of employees and increase their loyalty to the insurance company, which in turn results in a lower or nearly zero turnover rate.

Almost 92% of employees attended various forms of education and training in 2015. Three employees were included in undergraduate studies, one in specialised studies and one in doctoral studies. In addition to external training, Modra zavarovalnica also organises internal employee training carried out independently by the company's experts.

Employees attended seminars, consultations, conferences and workshops at external institutions, primarily with the aim of enhancing their existing knowledge and acquiring new technical knowledge. Education and training are adapted to the needs of the individual job and to the specific knowledge required by each employee, and are coordinated with development-oriented tasks. The emphasis was primarily on the development of managerial and sales skills and skills required for improved effectiveness, and on increasing awareness regarding exposure to operational risks and training for the professional performance of all activities at the insurance company that ensure operational compliance with the law and mitigate all types of operational risks.

## 10.2.2 Concern for a safe and healthy work environment

Kapitalska družba ensures a safe and pleasant work environment by respecting all regulations governing workplace safety and by providing the appropriate working conditions. Tasks relating to occupational health and safety, and fire safety are carried out regularly. Among the most important tasks in this area are regular employee training in the area of occupational health and safety, participation in the assessment of risks in the workplace and working environment, regular periodic preventative medical examinations, the review of declarations of workplace safety, studies of the work environment (measurements of the micro-climate, lighting and noise in the workplace), measurements of electrical installations, inspections of work equipment and examinations of compliance with fire safety measures.

The Company is aware that maintaining and improving health is important, as only healthy and satisfied employees who work in a safe and stimulating work environment are effective and innovative, and are less prone to sick leave. We are therefore implementing systematically targeted activities with the aim of maintaining and strengthening the physical and mental health of employees. This is achieved by improving the organisation of work and the work environment. Good interpersonal relationships are the most important in this regard, as they have a decisive impact on the health and well-being of employees. We encourage employees to actively participate in activities to protect and strengthen their health, including the possibility of attending organised recreational activities, and facilitate the selection of a healthy lifestyle and promote their personal development.

Collective supplementary pension insurance is another important aspect of ensuring and increasing the future social security of employees. As a responsible company that cares for its employees, Kapitalska družba pays monthly premiums into the Modri Umbrella Pension Fund (MKPS) of the fund manager Modra zavarovalnica. The aforementioned insurance is also considered one of the most valued forms of motivation among employees. Under the agreement on the creation of a pension fund concluded in February 2015, all employees are eligible for inclusion in the MKPS under the same conditions.

Kapitalska družba pays the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, or a maximum of EUR 234.92 a month. The first premiums were paid into the MKPS in March 2015.

The costs of employee premiums for voluntary supplementary pension insurance (KVPS<sup>5</sup> and MKPS) totalled EUR 109 thousand in 2015.

Modra zavarovalnica also provides its employees a safe work environment and stimulating work conditions. Employees conduct themselves in accordance with the declaration of safety with risk assessment, the primary aim of which is to prevent workplace injuries, health issues, occupational diseases and work-related diseases. Employees regularly participate in occupational health and safety training and fire safety training, and are also included in a programme of preventive health examinations.

The company is aware of the importance of ensuring the health of all employees. Through the implementation of an action plan to promote health, employees are encouraged to pursue a healthy lifestyle and thus reduce the risks of disease, both in the workplace and in their private lives. A great deal of information on current health topics and useful articles about exercise and healthy eating are available on the ModriNet intranet site. Fresh seasonal fruit is available to all employees twice a week, while vaccinations against the flu and tick-borne meningoencephalitis are organised. The company also introduced a 30-minute morning exer-

<sup>5</sup> Premiums for employees were paid into the Mutual Equity Pension Fund (KVPS) until 1 March 2015.

cise programme in 2016. The aforementioned programme is held once a week, and emphasises the stretching of the neck shoulder and back, which are subject to the greatest burden in office work.

The company provides all of its employees social security following retirement, under the same conditions, through the payment of the maximum tax-deductible premiums into the collective pension insurance plan of the MKPS managed by the Modra zavarovalnica.

#### A family-friendly company

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team is diverse and includes many young parents with small children. The Company strives to further improve the working environment and to make it possible for all employees to balance their career development and family life, which has become part of the organisational culture. We thus maintained activities in the scope of the family-friendly company project in 2015. The following 12 measures were adopted during the acquisition of the basic and full certificates: communication with employees, opinion polls among employees, public relations, time account, children's time bonus, additional annual leave, the philosophy and concept of management, a reintegration plan following an extended absence, socialising among employees, the participation of employees' families in temporary jobs at the Company, the giving of gifts to celebrate newborns and New Year's gifts for children. The majority of employees who responded to an opinion poll indicated that the balance of their private and work lives has improved. Among the most popular measures are the time account, the children's time bonus for the first day of primary school, and New Year's gifts and gifts for newborns.

Modra zavarovalnica is also the proud holder of the full Family-Friendly Certificate. Concern for the right family and work life balance has become a part of the company's organisational culture. The company believes that satisfied employees are more successful and that they feel greater loyalty to the company, and that satisfaction helps reduce the burden of stress, all of which contributes to better work results. The company also ensures the good flow of information, employee satisfaction and a positive work climate.

#### Practical training of a student registered with the Institute for Blind or Partially Sighted Youth, Ljubljana

A student registered with the Institute for Blind or Partially Sighted Youth, Ljubljana completed a practical training programme at Kapitalska družba in 2015. We attempted to make the student's practical training as pleasant as possible, while familiarising him with the importance and work of Kapitalska družba, and with certain work processes at the Company. A great deal of emphasis was also placed on a personal approach and interaction with the student, who completed 76 hours of on-the-job training at Kapitalska družba in 2015. In this way, we made it possible for a partially sighted student to train in the work environment for the purpose of gaining some degree of independence and facilitating his inclusion in the broader social environment following the completion of his education.

### 10.3 ENVIRONMENTAL RESPONSIBILITY

The irrational use of natural resources and the pollution of the environment are becoming pressing issues that Kapitalska družba cannot overlook. The Company therefore established separate waste collection, which facilitates the further use and/or processing of waste. The processing of waste helps protect the environment. Because waste is used as a resource in the production of new products, we use less natural resources and significantly less energy. The Company pays particular attention to the collection of plastic bottle caps. We collected

a total of 40 kilograms during the year, which we donated to the Happy Feet Association for the Care of Persons with Developmental Disabilities in 2015.

Kapitalska družba collects empty printer cartridges and sends them for refilling. Each refilled printer cartridge represents additional savings for Kapitalska družba and is part of the project to reduce and optimise operating costs. It is also a reflection of Company's responsibility for protecting the environment.

A tender was issued in 2014 for the supply of electricity in accordance with the Decree on Green Public Procurement. The Company took into account the provisions and requirements of the aforementioned decree and signed an agreement on the supply of 100% of electricity produced from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels, while the production of energy from renewable sources does not drain natural resources. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

As a socially responsible company, Modra zavarovalnica also supports environmentally oriented activities. The company separates waste, works to reduce the use of paper, collects used printer cartridges and responds to charitable campaigns. To that end, it is also developing various web applications that reduce the need for printing and that facilitate faster and more reliable notification procedures.

By using the free Modri e-account web service, savers can access data regarding their own monthly contributions and the contributions of their employers at any time, and monitor the balance of supplementary pension savings. By introducing electronic notification channels, we are also saving paper and thus contributing to the conservation of nature.

Modra zavarovalnica also collected a large quantity of plastic bottle caps in 2015, which were donated to the Happy Feet Association to help children with different developmental disabilities. The founders of the aforementioned association are the parents of children with cerebral palsy and other development disabilities. Employees also responded to the 'Santa Clause for a Day' project to help numerous well-intentioned people provide Christmas presents to more than 8,500 children from Slovenia and Bosnia and Herzegovina. Employees were also actively involved in the collection of aid for socially disadvantaged families, and also remembered their four-legged animal friends.

In 2015 we supported the 'You, Me and Us for Slovenia' project, the aim of which is to raise the awareness of youth about the importance of a healthy environment and attitude to nature, and the recycling of materials that can be used as raw materials for further processing. The aforementioned project also strikes a charitable note, as the funds collected will be earmarked for the purpose of buying an incubator and resuscitation table for a Slovenian maternity hospital.

## Report on relations with subsidiaries

As the parent company, Kapitalska družba holds a 100% participating interest in Modra zavarovalnica, and held a 66.04% participating interest in PDP until 21 January 2015. No transactions were executed between the parent company and its subsidiaries in 2015 under conditions that deviated from market conditions.

### 11.1 REPORT ON RELATIONS WITH MODRA ZAVAROVALNICA

#### Lease of business premises

Modra zavarovalnica leases business premises from Kapitalska družba. A lease agreement was concluded in 2011 for a period of five years. The monthly rent for equipped business premises measuring 1,704.23 m<sup>2</sup> amounts to EUR 27,714. The aforementioned rental fee includes 46 parking places and electricity costs.

#### Use of computer programs

As the exclusive holder of material copyrights on software used to support pension funds, including the software packages KadSkladi, ProcScheduler for the ZVPSJU, ProcScheduler for the KVPS and Kad.Net, Kapitalska družba allows Modra zavarovalnica to use that software under the relevant agreement. As the holder of rights to use a software package to support asset management, Kapitalska družba also allows Modra zavarovalnica to use the AdTreasury and IteoNaložbe software, with the consent of the exclusive holders of material rights on those programs. Their use is permitted for the period of time set out in the mutual agreement on the lease of the aforementioned programs. The monthly contractual value is EUR 9,800, excluding VAT. That amount is being reduced gradually due to Modra zavarovalnica's transition to an independent software solution for asset and fund management.

#### Provision of IT services

Kapitalska družba provides IT services for Modra zavarovalnica. Those services include the maintenance of workstations and other users, help desk services, internet access services, reporting system services, data file and printing services, roaming services for business software in the test and production environments in Kapitalska družba's IT infrastructure, and maintenance of the latter. The monthly fee includes the cost of labour of experts, the cost of hardware maintenance, the costs of system software licences and internet costs. The monthly contractual value is EUR 10,752, excluding VAT.

### Agreement on the financing of the pension plan

Kapitalska družba had an agreement with Modra zavarovalnica until February 2015 on the financing of the PN1 K pension plan, which is implemented by the Mutual Equity Pension Fund; an agreement has been in place since February 2015 on the financing of the PNMZ K pension plan, which is implemented by the open Modri Umbrella Pension Fund. Kapitalska družba pays the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, or a maximum of EUR 234.92 a month.

## 11.2 REPORT ON RELATIONS WITH PDP

### Provision of HR services

Kapitalska družba provided HR and general services for the subsidiary PDP until the latter's merger with SDH on 1 July 2015. The aforementioned services included all activities in connection with recruitment and the termination of employment relationships, the keeping of HR records, the compilation of data for the calculation of salaries, expert assistance in the harmonisation of internal acts, responsibility for and execution of HRM and training, and all other HR-related tasks in accordance with the applicable labour legislation. The monthly fee was EUR 150, excluding VAT.

### Provision of financial-accounting services

Kapitalska družba provided the following services for the subsidiary PDP until it was merged with SDH: the management of the company's books of account, the compilation of financial statements in accordance with valid standards and legislation, the preparation of tax returns and the provision of other accounting-related services. An agreement on the provision of financial-accounting services was concluded for that purpose. The monthly fee was EUR 1,666, excluding VAT.

### Provision of IT services

Kapitalska družba provided IT services for the subsidiary PDP until its merger with SDH. Those services included the maintenance of workstations and other user devices, help desk services, messaging system services, data file services, fixed telephony services, the leasing of business software (licences), roaming services for business software in the production environment in Kapitalska družba's IT infrastructure, and the maintenance of the latter. The monthly fee included the labour of experts, the costs of system software licences and the cost of hardware maintenance. The monthly contractual value was EUR 688, excluding VAT. With the deletion of PDP from the companies register on 1 July 2015, the agreement on the provision of the aforementioned services was also terminated.

## Indicators

		in EUR 000			
		2015	2014	2015	2014
1.	<b>FINANCING RATIOS</b>				
<b>a)</b>	<b>Equity financing ratio</b>				
	equity	1,004,495	997,917		
	total equity and liabilities	1,184,036	1,249,082	0.85	0.80
<b>b)</b>	<b>Long-term financing ratio</b>				
	equity + long-term liabilities (including provisions) + long-term accrued costs and deferred revenues	1,179,507	1,146,088		
	total equity and liabilities	1,184,036	1,249,082	1.00	0.92
2.	<b>INVESTMENT RATIOS</b>				
<b>a)</b>	<b>Operating fixed asset investment ratio</b>				
	fixed assets (at carrying amount)	7,730	7,919		
	assets	1,184,036	1,249,082	0.01	0.01
<b>b)</b>	<b>Long-term investment ratio</b>				
	fixed assets + long-term deferred costs and accrued revenues (at carrying amount) + investment property + long-term financial assets + long-term operating receivables	1,012,425	851,402		
	assets	1,184,036	1,249,082	0.86	0.68
3.	<b>HORIZONTAL FINANCIAL STRUCTURE RATIOS</b>				
<b>a)</b>	<b>Equity to fixed assets ratio</b>				
	equity	1,004,495	997,917		
	fixed assets (at carrying amount)	7,730	7,919	129.95	126.02

	2015	2014	2015	2014
<b>b) Acid test ratio</b>				
liquid assets	44,146	37,040		
short-term liabilities	4,529	102,994	9.75	0.36
<b>c) Quick ratio</b>				
liquid assets + short-term receivables	50,290	39,424		
short-term liabilities	4,529	102,994	11.10	0.38
<b>d) Current ratio</b>				
short-term assets	157,843	391,102		
short-term liabilities	4,529	102,994	34.85	3.80
4. EFFICIENCY RATIOS				
<b>a) Operating efficiency</b>				
operating revenues	40,431	36,041		
operating expenses	45,908	39,220	0.88	0.92
5. PROFITABILITY RATIOS				
<b>a) Net return on equity</b>				
net profit for the period	29,351	73,460		
average equity (excluding net profit/loss for period)	949,801	937,482	0.03	0.08
<b>b) Dividends to share capital ratio</b>				
dividends for financial year	0	0		
average share capital	364,810	364,810	0.00	0.00

## Corporate governance statement

In accordance with the provisions of point 3.4 of the Corporate Governance Code for Companies with State Capital Investments, Kapitalska družba hereby issues its corporate governance statement for the period 1 January 2015 to 31 December 2015.

- 1.1 As a public limited company whose sole shareholder is the Republic of Slovenia, Kapitalska družba voluntarily complies with the Corporate Governance Code for Companies with State Capital Investments, which recommends the principles, procedures and criteria for conduct by members of the management and supervisory bodies of companies in which the Republic of Slovenia is a shareholder.

Kapitalska družba hereby issues its statement of compliance with the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014. The aforementioned code includes principles and recommended best practices for the corporate governance of companies with state capital investments. The code was published on the website of Slovenski državni holding at <http://www.sdh.si/sl-si/upravljanje-nalozb/kodeks-upravljanja-kapitalskih-nalozb-republike-slovenije>.

The statement of compliance with the Corporate Governance Code for Companies with State Capital Investments is published on the Company's website at <http://www.kapitalska-druzba.si>.

The Management Board and the Supervisory Board of Kapitalska družba hereby declare that they voluntarily comply with the Corporate Governance Code for Companies with State Capital Investments in their work and operations. Any deviations from the Corporate Governance Code for Companies with State Capital Investments are cited and explained below:

### 3. Corporate governance framework for companies with capital assets of the state

**3.1 The main goal of a company with state capital investments engaged in a profitable activity shall be to maximise the company's value and to generate the highest possible returns for its owner. Companies shall also pursue other goals that are defined by regulations or the articles of association of an individual company (e.g. providing a public service and providing access to the infrastructure by citizens). With the aim of ensuring the increased transparency of a company's goals and considering the fact that all shareholders must agree with the pursuit of non-economic goals, companies shall ensure that all such goals are clearly defined in their documents on incorporation, irrespective of whether those goals derive from statutory provisions or the will of shareholders and/or owners.**

**Note:** Given the specific purpose of its establishment and its planned transformation into an autonomous demographic reserve fund, and taking into account the state capital investment management strategy, Kapitalska družba's primary concern is the fulfilment of its legal obligation to provide funds to the ZPIZ.

**3.2 Notwithstanding the ownership structure, the management board of a public limited company with state capital investments and the management board of a large and medium-sized public limited company or limited liability company in which the state or SDH, individually or collectively, directly or indirectly, hold a controlling influence, shall formulate and adopt a corporate governance policy in conjunction with the supervisory board. That policy shall define the principal guidelines regarding corporate governance and the content set out in Recommendation no. 21 and Appendix A.14 of the Corporate Governance Code, taking into account the state capital investment management strategy. The governance policy shall be adopted for the future period and shall be updated by the company so that it is in line at all times with regulations, the company's article of association, the state capital investment management strategy and current corporate governance guidelines. The governance policy shall include the date of the last update and shall be accessible on the company's public web site.**

**Note:** Given its transformation into an autonomous demographic reserve fund, as envisaged by the law, Kapitalska družba has not yet adopted a corporate governance policy. The Company's corporate governance policy will be formulated taking into account the provisions of the law governing its transformation, which will define the functioning of the demographic reserve fund and additional permanent sources of financing, and taking into account the state capital investment management strategy.

## **6. Supervisory board**

**6.4 A supervisory board shall be composed in such a way as to ensure responsible supervision and decision-making in the interests of a company. The composition of a supervisory board shall take into account professional knowledge, experience and skills that differ from member to member but are complementary (in terms of knowledge and experience). The diverse composition of a supervisory board, in terms of characteristics such as age, gender, international composition, etc. (i.e. the heterogeneity of its composition), shall be ensured to the greatest extent possible.**

**Note:** Kapitalska družba complies with the aforementioned provisions of the code *mutatis mutandis*, taking into account the cogent provisions of Article 51 of the ZSDH-1 and the Company's Articles of Association, which set out a special composition of Kapitalska družba's Supervisory Board.

**6.6 If a general meeting elects members of a supervisory board, as proposed by the supervisory board, the substantiation of proposals for the adoption of resolutions shall include, in addition to the data required by law, at a minimum information regarding each proposed candidate's membership in other management or supervisory bodies and an assessment of (potential) conflicts of interests, where that assessment also shall take into account the individual criteria stated in Appendix C to the Corporate Governance Code. A supervisory board shall also disclose information as to whether a proposed candidate is independent in terms of the definition set out in the code and whether the procedures set out in the code were taken into account in the selection of a candidate.**

**Note:** The Company does not comply with the aforementioned provision of the code in full due to the cogent provisions of the Slovenian Sovereign Holding Company Act (ZSDH-1) and Kapitalska družba's Articles of Association, which envisage a special procedure for nominating members to Kapitalska družba's Supervisory Board.

**6.7.8 Immediately following the convening of a general meeting that will vote on new supervisory board members based on the proposal of the supervisory board of a company with state capital investments, the chairman of that company's supervisory**

**board shall invite candidates who have been proposed for election by the supervisory board to submit their applications to SDH's HR committee for accreditation. If their addresses are known, SDH's HR committee may also invite candidates to submit their applications for accreditation and nomination.**

**Note:** The Company does not comply with the aforementioned provision of the code in full, because the Republic of Slovenia represents Kapitalska družba's General Meeting. In accordance with the provisions of the ZDSH-1, three members are appointed to the supervisory board based on SDH's proposal.

## **7. Management board or senior management**

**7.3 The supervisory board of a company with state capital investments that is organised as a public limited company or as a large or medium-sized limited liability company shall draft a remuneration policy for governance bodies in accordance with the Corporate Governance Code for Companies with State Capital Investments and submit it to the general meeting for adoption. The drafting of such a proposal shall be the responsibility of the chairman of the supervisory board and the nomination committee, provided that the latter exists. At the general meeting, the chairman of the supervisory board shall present shareholders and other owners the current remuneration policy and the implementation thereof, and shall provide an assessment of the function and role of the aforementioned policy. The supervisory board shall ensure that the remuneration of members of the management board or senior management is in line with the policy adopted by the general meeting in accordance with the law.**

**Note:** The remuneration of members of the Management Board is governed by the ZSDH-1. In accordance with the fifth paragraph of Article 51 of the ZSDH-1, the same conditions and criteria that apply to the members of the Management Board of SDH, according to the provisions of the ZSDH-1, apply to the members of Kapitalska družba's Management Board. No remuneration policy has been adopted to date.

## **10. Adoption of a code of ethics and corporate integrity**

**10.2 Companies with state capital investments shall establish a system of corporate integrity with as many elements of the Slovenian Corporate Integrity Guidelines as possible, taking into account the size of a company and the severity of breaches of corporate integrity (known or suspected). SDH supports the solution that, large companies in particular, shall entrust the oversight of corporate integrity, as an independent function, to a corporate integrity officer who will be provided the requisite training and payment for their expert assistance, and the necessary material means and authorisations to ensure their unhindered work.**

**Note:** Kapitalska družba complies with the essential elements set out in the Slovenian Corporate Integrity Guidelines, although it has not yet established the independent function of corporate integrity officer.

### **1.2 Description of the main features of the Company's internal control and risk management systems in relation to the financial reporting process**

**Note:** Kapitalska družba manages risks and carries out internal controls at all levels. The purpose of internal controls is to ensure the accuracy, reliability and transparency of all processes, and to manage the risks associated with financial reporting.

Internal controls are carried out by the Finance and Accounting Sector, which is responsible for maintaining the books of account and for the compilation of financial statements in accordance with the valid financial reporting, tax and other regulations. Those regulations ensure that:

- ♦ business events are recorded on the basis of credible accounting documents, which in turn ensures that business events are recorded accurately and fairly and provides assurance that the Company disposes of its assets in an honest manner; and

- ♦ business events are recorded and the financial statements compiled in accordance with the applicable laws.

Kapitalska družba's financial statements for every financial year are verified and audited by an external auditor. On the basis of the resolution passed by General Meeting on 31 August 2015, the Company's financial statements for 2015 were audited by Deloitte revizija d. o. o., Ljubljana.

The Internal Audit Department is an independent organisational unit that reports directly to the Company's Management Board. This ensures the independence of its work and its segregation from the implementing functions that are subject to auditing. The verification of the Company's internal control systems and the provision of assurances regarding the functioning of those systems represent the core area of internal auditing work. Internal auditors assess the effectiveness of the functioning of internal controls in terms of the management of the risks to which the Company is exposed. In accordance with its annual work plan, which is approved by the Company's Management Board and Supervisory Board, the Internal Audit Department performs audits of individual areas of the Company's operations. The Internal Audit Department contributes to the improved performance of the Company through recommendations for improvements to business processes and procedures.

### 1.3 **Significant direct and indirect ownership of the Company's securities in terms of achieving a qualifying holding as set out in the act governing takeovers**

**Note:** Kapitalska družba's sole owner is the Republic of Slovenia, which holds all 874,235 ordinary registered no-par-value shares (100% of share capital).

### 1.4 **Holders of securities that provide special controlling rights**

**Note:** The Company does not have securities that would provide special controlling rights.

### 1.5 **Restrictions on voting rights**

**Note:** Kapitalska družba's sole owner is the Republic of Slovenia, which holds all 874,235 ordinary registered no-par-value shares. There are no restrictions on its voting rights.

### 1.6 **Company's rules on the appointment and replacement of members of the management and supervisory bodies, and changes to the Articles of Association**

**Note:** The rules on the appointment and replacement of members of the management and supervisory bodies and on status changes are defined in the Articles of Association.

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board were appointed on the basis of a proposal by SDH, while two members were appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member was appointed on the basis of a proposal by national-level representative trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent SDH is formulated by SDH's Management Board, which informs the Supervisory Board of its choice. The proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions is voted upon by representatives (electors) of national-level representative federations/confederations, which inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation shall each have one representative for every ten thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

Members of the Management Board are appointed by the Supervisory Board on the basis of a public tender. One of the members of the Management Board is appointed president thereof. Members of the Management Board serve a four-year term of office and may be re-appointed. The Management Board or its individual members may be recalled prior to the end of their term of office, but only for the reasons set out in the second paragraph of Article 268 of the ZGD-1. A violation of the Articles of Association of Kapitalska družba that is deemed to be a serious violation of obligations may constitute a reason of culpability resulting in recall.

The Articles of Association and amendments thereto are adopted by the General Meeting of Kapitalska družba at the proposal of the Management Board and Supervisory Board.

1.7 **Powers of senior management, in particular powers to issue or purchase treasury shares**

**Note:** The powers of senior management are set out the Company Articles of Association. The Management Board of Kapitalska družba has no powers to issue or purchase treasury shares.

1.8 **Information regarding the functioning of the Company's General Meeting and its key competences, and a description of the rights of shareholders and how those rights are exercised**

**Note:** The Company's sole shareholder exercises its rights arising from the ownership of shares at the General Meeting. The General Meeting is the Company's highest body and functions in accordance with the provisions of the ZGD-1, the ZSDH-1 and the Company's Articles of Association. The General Meeting is convened by the Company's Management Board, as defined by the law and the Articles of Association, and whenever its convening is in the interest of the Company. The General Meeting may also be convened by the Supervisory Board. The General Meeting must also be convened if the shareholder requests that the Management Board do so. The shareholder's written request to convene the General Meeting must include an agenda, a proposed resolution for each proposed item of the agenda to be decided upon by the General Meeting, or an explanation of the agenda item if the General Meeting will not decide on the item in question. The convening of the General Meeting must be published at least 30 days prior to the meeting. The convening of the General Meeting is published on the websites of the AJ PES and Kapitalska družba. The publication of the convening of the General Meeting must also include proposed resolutions and details of the place where all materials submitted for decision-making at the General Meeting may be accessed. A shareholder who is registered as such in the central register of book-entry securities at the end of the fourth day prior to the General Meeting is entitled to participate and exercise their voting rights at the General Meeting.

The General Meeting makes decisions on basic matters relating to Kapitalska družba, in particular the adoption of the Company's Articles of Association and amendments thereto. It adopts the annual report, if the Supervisory Board has not confirmed the annual report or if the Management Board and the Supervisory Board defer the decision regarding the adoption of the annual report to the General Meeting. It decides on the use of distributable profit at the proposal of the Management Board and Supervisory Board and on the granting of discharge to members of the Management Board and Supervisory Board. It appoints and recalls members of Kapitalska družba's Supervisory Board and appoints the Company's auditor. It decides on measures to increase or reduce share capital, unless the Articles of Association or the law determine otherwise. It decides on the winding-up of Kapitalska družba and on status changes thereto, and decides on other matters in accordance with the law and the Articles of Association.

1.9 **Information regarding the composition and functioning of management and supervisory bodies and their committees**

**Note:** The governance of Kapitalska družba is based on legal provisions and the provisions of the Company's Articles of Association. The Company has a two-tier governance system under which the Company is managed by its Management Board and the work of the latter is supervised by the Supervisory Board.

### 1.9.1 **Supervisory Board**

The responsibilities of the Supervisory Board are set out in the Company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2015 is given in the Report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2015:

- ♦ Samo Lozej, Chairman,
- ♦ Aldo Ternovec, Deputy Chairman (until 31 January 2015),
- ♦ Aleksander Mervar, MSc (member),
- ♦ Stanislav Seničar (member),
- ♦ Ana Bilbija (member until 31 January 2015),
- ♦ Ladislav Rožič, MSc (member),
- ♦ Dr Boris Žnidarič, (member since 1 February 2015; Deputy Chairman from 5 March 2015 to 22 November 2015); his function on the Supervisory Board has been suspended since 23 November 2015, and
- ♦ Cirila Surina Zajc (member since 1 February 2015; Deputy Chairwoman since 23 November 2015).

Two committees functioned within the Supervisory Board in 2015: an audit committee and an accreditation committee. The composition and work of the aforementioned committees are presented in the Report of the Supervisory Board.

### 1.9.2 **Management Board**

In accordance with the ZSDH-1 and the Company's Articles of Association, the Management Board has a minimum of two and a maximum of three members. The members of the Management Board are appointed to a four-year term of office by the Supervisory Board based on a public tender procedure. Kapitalska družba, d. d. was run by its Management Board in 2015 in the following composition:

- ♦ Bachtiar Djalil, President,
- ♦ Anja Strojín Štampar, MSc, member, and
- ♦ Dr Boris Žnidarič, member.

The President and member of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure. The President of the Management Board Bachtiar Djalil began a new four-year term of office on 2 January 2015. The term of office of Anja Strojín Štampar, MSc expired on 30 November 2015. The temporary member of Kapitalska družba's Management Board, Dr Boris Žnidarič, was appointed for a period of one year by Kapitalska družba's Supervisory Board pursuant to the second paragraph of Article 273 of the ZGD-1. Dr Žnidarič's term of office began on 23 November 2015.

The Management Board manages the company in the interests thereof, independently and at its own risk. The members of the Management Board represent Kapitalska družba independently and without restrictions. The company's Articles of Association set out the transactions and decisions for which the Management Board must obtain the consent of the Supervisory Board. The Management Board of Kapitalska družba is answerable to the Supervisory Board and the General Meeting for its work. In managing the Company's transactions, it must act with the due professional diligence of a good manager, safeguard the business secrets of Kapitalska družba and comply with the prohibition of competition clause.

The Management Board exercised its competences in 2015 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1 and ZSDH-1, in accordance with the Articles of Association.



# Financial Report



## Statement of the management's responsibility

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Kapitalska družba Group for the year ended 31 December 2015, and the accompanying notes and disclosures thereof on pages 90 to 149, which are an integral part of the financial statements.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and good management. The Management Board also confirms that the financial statements give true and fair presentation of the financial position of the Kapitalska družba Group and the results of its operation for the year ended 31 December 2015.

The Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the property and other assets. The Management Board confirms that the financial statements and notes thereof have been compiled under the assumption of a going concern, and in accordance with the current legislation and International Financial Reporting Standards (IFRS) adopted by the EU.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the Kapitalska družba Group's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that may result in a significant tax liability.



Dr **Boris Žnidarič**  
Member of the Management Board



**Bachtiar Djalil**  
President of the Management Board





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## INDEPENDENT AUDITOR'S REPORT to the General Meeting of the company Kapitalska družba pokojninskega in invalidskega zavarovanja d.d.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the KAD Group, which comprise the statement of financial position as at 31 December 2015, the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

The management is responsible for preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljevstva Velike Britanije in Severne Irske (v izvirniku vUK private company limited by guarantee), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na [www.deloitte.si](http://www.deloitte.si).

Member of Deloitte Touche Tohmatsu Limited

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*Opinion*

In our opinion, the consolidated financial statements give, in all material respects, a true and fair view of the financial position of the KAD Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

*Emphasis of matter*

The company KAD, d.d. is the controlling company in the KAD Group. Unconsolidated financial statements of the company, prepared in accordance with International Financial Reporting Standards as adopted by the EU, are presented separately. We have audited the unconsolidated financial statements of the company KAD, d.d. and issued an unqualified opinion on 4 April 2016.

Our opinion is not modified in respect of this matter.

**Report on Other Legal and Regulatory Requirements**

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj  
Certified Auditor

**Deloitte.**

DELOITTE REVIZIJA D.O.O.  
Ljubljana, Slovenija 3

*For signature please refer to the original  
Slovenian version.*

Ljubljana, 2 June 2016

**TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS**

## Financial Statements for 2015

### 16.1 CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

in EUR 000

Item	Notes	1.1. – 31.12.2015	1.1. – 31.12.2014
<b>Continued operations</b>			
1.	Net revenue from sales	1	
c)	Revenue from sales on the domestic market		39,942
	Total revenue from sales		39,942
4.	Other operating revenue (including revaluation revenue)	2	489
	<b>Total revenue</b>		<b>40,431</b>
5.	Costs of goods, materials and services	3	
b)	Costs of materials		-253
c)	Costs of services		-4,342
	Total costs of goods, materials and services		-4,595
6.	Labour costs	4	
a)	Payroll costs		-4,260
b)	Social security insurance costs		-683
c)	Pension insurance costs		-213
d)	Other labour costs		-482
	Total labour costs		-5,638

in EUR 000

	Item	Notes	1.1. – 31.12.2015	1.1. – 31.12.2014
7.	Amortisation, depreciation and write-offs	5		
a)	Depreciation and amortisation		-1,170	-1,168
c)	Operating expenses from revaluation of current assets		-31	-22
	Total write-downs		-1,201	-1,190
8.	Other operating expenses	6	-34,474	-28,617
	<b>Total expenses</b>		<b>-45,908</b>	<b>-39,220</b>
	<b>Operating profit (loss)</b>		<b>-5,477</b>	<b>-3,179</b>
9.	Financial revenue from shares and interests	7		
b)	Shares and interests in associates		2,999	3,046
c)	Financial revenue from other shares and interests		45,046	57,450
d)	Financial revenue from other investments		11,375	11,456
	Total financial revenue from shares and interests		59,420	71,952
10.	Financial revenue from loans	7		
b)	Financial revenue from loans to others		1,922	2,280
	Total financial revenue from loans		1,922	2,280
11.	Financial revenue from operating receivables	7		
b)	Financial revenue from operating receivables due from others		6,954	0
	Total financial revenue		6,954	0
	<b>Total financial revenue</b>		<b>68,296</b>	<b>74,232</b>
12.	Financial expenses due to write-off and impairment of financial assets	8		
b)	Financial expenses due to impairment and write-off of other investments		-9,297	-5,513
b)	Financial expenses due to impairment and write-off of associated companies		-1,569	0
	Total financial expenses due to impairment and write-off of financial assets		-10,866	-5,513
13.	Financial expenses for financial liabilities	8		
d)	Financial expenses for other financial liabilities		-19,001	0
	Total financial expenses for financial liabilities		-19,001	0

in EUR 000			
Item	Notes	1.1. – 31.12.2015	1.1. – 31.12.2014
<b>Total financial expenses</b>		<b>-29,867</b>	<b>-5,513</b>
<b>Profit (loss) from ordinary activity</b>		<b>32,952</b>	<b>65,540</b>
15. Other revenue	9	26	51
16. Other expenses	10	-4	-3
<b>Total profit (loss) from continued operations</b>		<b>32,974</b>	<b>65,588</b>
17. Income tax	11	0	-2,804
18. Deferred tax	12	-3,623	10,273
<b>19. Net profit/loss from continued operations for the period</b>		<b>29,351</b>	<b>73,057</b>
<b>Discontinued operations</b>			
20. Profit or loss from discontinued operations	13.1	0	403
<b>21. Net profit or loss for the period</b>	<b>13</b>	<b>29,351</b>	<b>73,460</b>
a) Net profit or loss of the majority shareholder for the period		29,351	72,751
b) Net profit or loss of the minority shareholder for the period		0	709

Disclosures and notes on pages 90 to 149 are a constituent part of financial statements.

## 16.2 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

in EUR 000			
		01/01 - 31/12/2015	01/01 - 31/12/2014
<b>19.</b>	<b>Net profit or loss for the period</b>	<b>29,351</b>	<b>73,460</b>
	Net profit or loss of the majority shareholder for the period	29,351	72,751
	Net profit or loss of the minority shareholder for the period	0	709
<b>21.</b>	<b>Gains (losses) on revaluation of AFS financial assets</b>	<b>-17,284</b>	<b>76,971</b>

in EUR 000

01/01 - 31/12/2015 01/01 - 31/12/2014

	Gains (losses) on revaluation of AFS financial assets	-17,284	76,971
<b>23.</b>	<b>Other comprehensive income</b>	<b>81</b>	<b>0</b>
<b>24.</b>	<b>Total comprehensive income for the period</b>	<b>12,148</b>	<b>150,431</b>
	Total comprehensive income of the majority shareholders for the period	12,148	149,722
	Total comprehensive income of the minority shareholders for the period	0	709

Disclosures and notes on pages 90 to 149 are a constituent part of financial statements.

### 16.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

in EUR 000

	Item	Notes	31. 12. 2015	31. 12. 2014
<b>ASSETS</b>				
<b>A.</b>	<b>Non-current assets</b>	<b>14</b>		
I.	Intangible assets and long-term deferred costs and accrued revenues			
5.	Other long-term deferred costs and accrued revenues		645	464
	<b>Total intangible assets</b>		<b>645</b>	<b>464</b>
II.	Property, plant and equipment	15		
2.	Buildings		6,862	7,180
4.	Other plant and equipment		223	275
	<b>Total property, plant and equipment</b>		<b>7,085</b>	<b>7,455</b>
<b>III.</b>	<b>Investment property</b>	<b>16</b>	<b>14,438</b>	<b>14,842</b>
IV.	Long-term financial assets			
1.	Long-term financial assets, except loans			
b.	Shares and interests in associated companies	17	34,374	21,334
c.	Other shares and interests	19	675,026	599,281
d.	Other long-term financial assets	19	221,395	198,593
	Total long-term financial assets, except loans		930,795	819,208
2.	Long-term loans	20		
b.	Long-term loans to others		59,359	9,380
	Total long-term loans		59,359	9,380
	<b>Total long-term financial assets</b>		<b>990,154</b>	<b>828,588</b>

	Item	Notes	31. 12. 2015	31. 12. 2014
V.	Long-term operating receivables	21		
3.	Long-term operating receivables due from others		103	53
	<b>Total long-term operating receivables</b>		<b>103</b>	<b>53</b>
<b>VI.</b>	<b>Deferred tax assets</b>		<b>13,768</b>	<b>6,578</b>
	<b>Total fixed assets</b>		<b>1,026,193</b>	<b>857,980</b>
<b>B.</b>	<b>Current assets</b>			
I.	Assets held for sale	18	6,574	197,739
III.	Short-term financial assets			
1.	Short-term financial assets except loans	19		
d.	Other short-term financial assets		39,104	46,262
	<b>Total short-term financial assets, except loans</b>		<b>39,104</b>	<b>46,262</b>
2.	Short-term loans	20		
b.	Short-term loans to others		61,180	107,432
	Total short-term loans		61,180	107,432
	<b>Total short-term financial assets</b>		<b>100,284</b>	<b>153,694</b>
IV.	Short-term operating receivables	21		
2.	Short-term operating trade receivables		1,227	1,660
3.	Short-term operating receivables due from others		4,917	724
	Total short-term operating receivables		6,144	2,384
<b>V.</b>	<b>Cash</b>	<b>22</b>	<b>44,146</b>	<b>37,040</b>
	<b>Total current assets</b>		<b>157,148</b>	<b>390,857</b>
<b>C.</b>	<b>Short-term deferred costs and accrued revenues</b>		<b>695</b>	<b>245</b>
	<b>Total assets</b>		<b>1,184,036</b>	<b>1,249,082</b>
	<b>EQUITY AND LIABILITIES</b>			
<b>A.</b>	<b>Equity</b>			
I.	Called-up capital	23	364,810	364,810
II.	Capital surplus	24	216,413	215,953
III.	Revenue reserves	25	0	0
IV.	Revaluation surplus		331,867	350,916
V.	Retained earnings		62,054	-9,447

in EUR 000

	Item	Notes	31. 12. 2015	31. 12. 2014
VI.	Net profit/loss for the year		29,351	72,751
	<b>Total majority interest</b>		<b>1,004,495</b>	<b>994,983</b>
VII.	MINORITY INTEREST		0	2,934
	<b>Total capital</b>		<b>1,004,495</b>	<b>997,917</b>
B.	Provisions and long-term accrued costs and deferred revenues	29		
I.	Provisions for pensions and similar obligations		324	315
II.	Other provisions		157,959	137,920
	<b>Total provisions and accrued costs and deferred revenues</b>		<b>158,283</b>	<b>138,235</b>
I.	Long-term financial liabilities	26	0	0
II.	Long-term operating liabilities	27		
4.	Long-term operating liabilities from advances		12	6
5.	Other long-term operating liabilities		36	12
	<b>Total long-term operating liabilities</b>		<b>48</b>	<b>18</b>
III.	<b>Deferred tax liabilities</b>		<b>16,681</b>	<b>9,918</b>
	<b>Total long-term liabilities</b>		<b>16,729</b>	<b>9,936</b>
D.	Short-term liabilities			
I.	<b>Liabilities included in disposal groups</b>	<b>28</b>	<b>0</b>	<b>92,784</b>
II.	Short-term financial liabilities	26	0	0
III.	Short-term operating liabilities	27		
2.	Short-term operating trade payables		3,412	6,169
4.	Short-term operating liabilities from advances		0	6
5.	Short-term liabilities to the State		131	2,792
6.	Other short-term operating liabilities		562	520
	<b>Total short-term operating liabilities</b>		<b>4,105</b>	<b>9,487</b>
	<b>Total short-term liabilities</b>		<b>4,105</b>	<b>102,271</b>
D.	<b>Short-term accrued costs and deferred revenues</b>		<b>424</b>	<b>723</b>
	<b>Total equity and liabilities</b>		<b>1,184,036</b>	<b>1,249,082</b>

Disclosures and notes on pages 90 to 149 are a constituent part of financial statements.

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

in EUR 000

01/01 - 31/12/2015    01/01 - 31/12/2014

<b>A.</b>	<b>Cash flows from operating activities</b>		
a)	Net profit or loss and adjustments		
	Profit or loss before tax	32,974	65,991
	Income tax and other taxes not included in operating expenses	0	-2,804
	Adjustments for amortisation and depreciation	1,170	1,179
	Adjustments for revaluation operating expenses	0	2,999
	Adjustments for financial revenue from financing	-45,776	-21,309
	Adjustments for financial expenses from financing	29,867	11,404
	Total cash flow derived from the income statement items	18,235	57,460
b)	Change in net current assets – operating items in the balance sheet		
	Opening less closing operating receivables	-3,810	1,135
	Opening less closing deferred costs and accrued revenues	-450	-5
	Opening less closing deferred tax assets	-7,190	28,236
	Opening less closing assets (disposal groups) held for sale	0	-13,429
	Closing less opening operating liabilities	-5,382	4,780
	Closing less opening accrued costs and deferred revenues, and provisions	19,749	10,301
	Closing less opening deferred tax liabilities	6,763	-25,462
	Total items of net current assets – operating items in the balance sheet	9,680	5,556
c)	Net cash from (used in) operating activities	27,915	63,016
<b>B.</b>	<b>Cash flows from investing activities</b>		
a)	Cash receipts from investing activities		
	Interest and dividends received from investing activities	39,161	41,317
	Cash receipts from disposal of long-term financial assets	54,842	44,071
	Cash receipts from disposal of short-term financial assets	53,410	0
	Total cash receipts from investing activities	147,413	85,388
b)	Cash disbursements from investing activities		
	Cash disbursements to acquire intangible assets	-252	-156
	Cash disbursements to acquire property, plant and equipment	-43	-179
	Cash disbursements to acquire investment property	-101	-70
	Cash disbursements to acquire long-term financial assets	-149,286	-46,742
	Cash disbursements to acquire short-term financial assets	0	-72,206

in EUR 000

01/01 - 31/12/2015 01/01 - 31/12/2014

	Total cash disbursements from investing activities	-149,682	-119,353
c)	Net cash from (used in) investing activities	-2,269	-33,965
<b>C.</b>	<b>Cash flows from financing activities</b>		
a)	Cash receipts from financing activities		
	Receipts from paid up capital	460	86
	Total cash receipts from financing activities	460	86
b)	Cash disbursements from financing activities		
	Cash repayments of long-term financial liabilities	-19,000	0
	Total cash disbursements from financing activities	-19,000	0
c)	Net cash from (used in) financing activities	-18,540	86
<b>D.</b>	<b>Closing balance of cash</b>		
a)	Net cash for the period	7,106	29,137
b)	Opening balance of cash	37,040	7,903
c)	Total closing balance of cash	44,146	37,040

Disclosures and notes on pages 90 to 149 are a constituent part of financial statements.

16.5

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

in EUR 000

		Share capital	Capital surplus	Revaluation surplus	Retained earnings	Net profit or loss for the year	Majority interest	Minority interest	Total
<b>A. 1.</b>	<b>As at 31 Dec. 2014</b>	<b>364,810</b>	<b>215,953</b>	<b>350,916</b>	<b>-9,447</b>	<b>72,751</b>	<b>994,983</b>	<b>2,934</b>	<b>997,917</b>
<b>A. 2.</b>	<b>As at 1 Jan. 2015</b>	<b>364,810</b>	<b>215,953</b>	<b>350,916</b>	<b>-9,447</b>	<b>72,751</b>	<b>994,983</b>	<b>2,934</b>	<b>997,917</b>
<b>B. 1.</b>	<b>Changes in equity – transactions with owners</b>	<b>0</b>	<b>460</b>	<b>-41</b>	<b>-3,055</b>	<b>0</b>	<b>-2,636</b>	<b>-2,934</b>	<b>-5,570</b>
d)	Additional payments of capital	0	460	0	0	0	460	0	460
j)	Other changes in equity	0	0	-41	-3,055		-3,096	-2,934	-6,030
<b>B. 2.</b>	<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>-17,203</b>	<b>0</b>	<b>29,351</b>	<b>12,148</b>	<b>0</b>	<b>12,148</b>
a)	Net profit or loss for the period	0	0	0	0	29,351	29,351	0	29,351

in EUR 000

		Share capital	Capital surplus	Revaluation surplus	Retained earnings	Net profit or loss for the year	Majority interest	Minority interest	Total
e)	Gains (losses) on revaluation of financial assets	0	0	-16,975	0	0	-16,975	0	-16,975
f)	Gains (losses) on revaluation of financial assets – associated companies	0	0	-309	0	0	-309	0	-309
g)	Other components of comprehensive income for the period	0	0	81	0	0	81	0	81
<b>B. 3.</b>	<b>Movements in equity</b>	<b>0</b>	<b>0</b>	<b>-1,805</b>	<b>74,556</b>	<b>-72,751</b>	<b>0</b>	<b>0</b>	<b>0</b>
a)	Allocation of the remaining net profit for the comparative period to other equity components	0	0	-1,805	74,556	-72,751	0	0	0
<b>C.</b>	<b>Closing balance as at 31 Dec. 2015</b>	<b>364,810</b>	<b>216,413</b>	<b>331,867</b>	<b>62,054</b>	<b>29,351</b>	<b>1,004,495</b>	<b>0</b>	<b>1,004,495</b>

Disclosures and notes on pages 90 to 149 are a constituent part of financial statements.

## 16.6 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2014 TO 31 DECEMBER 2014

in EUR 000

		Share capital	Capital surplus	Revaluation surplus	Retained earnings	Net profit or loss for the year	Majority interest	Minority interest	Total
<b>A. 1.</b>	<b>As at 31 Dec. 2013</b>	<b>364,810</b>	<b>215,867</b>	<b>277,932</b>	<b>4,155</b>	<b>-17,589</b>	<b>845,175</b>	<b>11,348</b>	<b>856,523</b>
<b>A. 2.</b>	<b>As at 1 Jan. 2014</b>	<b>364,810</b>	<b>215,867</b>	<b>277,932</b>	<b>4,155</b>	<b>-17,589</b>	<b>845,175</b>	<b>11,348</b>	<b>856,523</b>
<b>B. 1.</b>	<b>Changes in equity – transactions with owners</b>	<b>0</b>	<b>86</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>86</b>	<b>-9,123</b>	<b>-9,037</b>
d)	Additional payments of capital	0	86	0	0	0	86	0	86
j)	Other changes in equity	0	0	0	0	0	0	-9,123	-9,123
<b>B. 2.</b>	<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>76,971</b>	<b>0</b>	<b>72,751</b>	<b>149,722</b>	<b>709</b>	<b>150,431</b>
a)	Net profit or loss for the period	0	0	0	0	72,751	72,751	709	73,460
e)	Gains (losses) on revaluation of financial assets	0	0	77,440	0	0	77,440	0	77,440
f)	Gains (losses) on revaluation of financial assets – associated companies	0	0	-469	0	0	-469	0	-469
<b>B. 3.</b>	<b>Movements in equity</b>	<b>0</b>	<b>0</b>	<b>-3,987</b>	<b>-13,602</b>	<b>17,589</b>	<b>0</b>	<b>0</b>	<b>0</b>

in EUR 000

		Share capital	Capital surplus	Revalu- ation surplus	Retained earnings	Net profit or loss for the year	Majority interest	Minority interest	Total
a)	Allocation of the remaining net profit for the comparative period to other equity components	0	0	-3,987	-13,602	17,589	0	0	0
<b>C.</b>	<b>Closing balance as at 31 Dec. 2014</b>	<b>364,810</b>	<b>215,953</b>	<b>350,916</b>	<b>-9,447</b>	<b>72,751</b>	<b>994,983</b>	<b>2,934</b>	<b>997,917</b>

Disclosures and notes on pages 90 to 149 are a constituent part of financial statements.

## Disclosures and notes

### 17.1 GENERAL DISCLOSURES

#### Parent company profile

Kapitalska družba is a public limited company with its registered office at Dunajska cesta 119, Ljubljana, Slovenia. The sole shareholder of Kapitalska družba is the Republic of Slovenia. The share capital of the Company totals EUR 364,809,523.15 and is divided into 874,235 registered no-par value ordinary shares. Each share has the same interest and the attributed amount in the share capital. The rights of the sole shareholder, i.e. the Republic of Slovenia, are exercised by the Government of the Republic of Slovenia.

The activities of Kapitalska družba are defined by law and by the Company's Articles of Association. On the basis of the Standard Classification of Activities, according to the Company's Articles of Association and entry in the Companies Register, Kapitalska družba also performs other activities related to asset management and services related to support to asset management: other financial intermediation, pension funding, activities ancillary to pension funding, trade in own real estate, lease of own real estate, software supply and consultancy, data processing, network data services, other computer related activities, accounting and book-keeping services, tax consultancy, market research and public opinion polling, business and other management consultancy, activities of holding companies, publishing of journals and periodicals, and other educational services.

#### Amendments to the Articles of Association and the Rules on Appointing the Management Board and the Supervisory Board of the controlling company

The Articles of Association and its amendments and supplements are adopted by the Annual General Meeting of Kapitalska družba on the proposal of the Management Board and the Supervisory Board.

Members of the Management Board are appointed by the Supervisory Board on the basis of a public job announcement. One member of the Management Board is appointed President of the Management Board. The term of office of the Management Board members is four years with the possibility of re-appointment. The Management Board or any of its members may be dismissed early only due to the reasons referred to in Article 268(2) of the ZGD-1. The

breach of the Articles of Association of Kapitalska družba representing a severe dereliction of duties may constitute cause for dismissal.

The Management Board of Kapitalska družba is not authorised to issue or purchase treasury shares.

The Supervisory Board of Kapitalska družba is appointed by the Company's Annual General Meeting. In compliance with Article 51(6) of the ZSDH-1, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of Slovenski državni holding, d. d.<sup>6</sup> (Slovenian Sovereign Holding), two members on the proposal of the pensioners' governmental organisations and one member on the proposal of trade union associations or confederations which are representative of the country. If stakeholders do not formulate a proposal for the appointment of Supervisory Board members as defined below, the missing members of the Supervisory Board are appointed at the discretion of the Annual General Meeting. The candidates from among the representatives of the Slovenian Sovereign Holding are proposed by the Management Board of the Slovenian Sovereign Holding, which informs the Supervisory Board about the selection. The candidates from among the representatives of the pensioners are proposed by the pensioners' governmental organisations and associations, which inform the Supervisory Board about the selection. The candidates from among the representatives of the trade unions are elected by the representatives (electors) of the representative government-level trade union associations or confederations, which inform the Supervisory Board about the selection. Any representative association or confederation has the number of representatives equal to the number of the representative trade unions it comprises. In addition to the representatives referred to in the previous sentence, the association or confederation elects another representative for every ten thousand members. The term of office of the Supervisory Board members is four years with the possibility of re-appointment.

## Information about subsidiaries

Subsidiaries of Kapitalska družba are presented in the table below.

in EUR 000

Subsidiary	Country	Share in equity	Equity of the company as at 31 Dec. 2015	Net profit for 2015
Modra zavarovalnica, d. d.	Slovenia	100.00%	201,324	4,725
Steklarska nova Rogaška Slatina, d. o. o. – in bankructcy	Slovenia	100.00%	negative	n.a.

As the parent company, Kapitalska družba consolidates Modra zavarovalnica.

Kapitalska družba does not consolidate the subsidiary Steklarska nova Rogaška Slatina, d. o. o. in consolidated financial statements, since the integration of subsidiary's financial statements in consolidated statements is not relevant for a true and fair view of the financial statements of the Kapitalska družba Group as a whole.

## Data on consolidation

Consolidation of financial data is carried out for Kapitalska družba, as the highest level. The consolidated Annual Report of the Kapitalska družba Group is available at [http://www.kapitalska-druzba.si/o\\_kapitalski\\_druzbi/letna\\_porocila](http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila).

<sup>6</sup> The current three members of the Supervisory Board were appointed on the proposal of Slovenska odškodninska družba, d. d. according to the previously applicable ZSDH.

## Information about treasury shares

The Group has no treasury shares.

## Information about employees

At the end of 2015, the Kapitalska družba Group had 115 employees, of whom 59 in Kapitalska družba and 56 in Modra zavarovalnica.

Table 29: **Number of employees of the Kapitalska družba Group**

	As at Dec. 2015
The Kapitalska družba Group	115

## 17.2 ACCOUNTING POLICIES

### Basis of preparation

Data in financial statements are based on book-keeping documents and books of account kept in line with the International Financial Reporting Standards. Financial statements have been compiled by taking into account the fundamental accounting assumptions: going concern, consistency and accrual basis. Accounting policies have been formulated by taking into account qualitative characteristics: understandability, relevance, reliability and comparability.

### Significant accounting estimates and judgements

The preparation of financial statements requires the management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities of the Company as well as the amounts of revenues and expenses.

The adequacy of used assumptions and estimates is checked periodically.

Relevant estimates refer to the impairment of assets, the classification of financial instruments and the distinction between the financial instruments held to maturity and available for sale, and the establishment of provisions.

On the date of the statement of financial position the manager assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. If such evidence exists, the asset is impaired. Impairment loss is recognised in the profit or loss.

The estimates of asset value mainly depend on the current and expected macroeconomic situation in the EU and other relevant markets where the Company operates and that affect the future cash flow projection, the interest rates influencing the required return both on debt and equity capital, and the stock prices, which also influence the estimated value of the financial instruments.

The assessments and estimates are also applied in determining the (useful) life of fixed assets and investment property, the basis for impairment of financial assets exposed to credit risk and the setting of fair value of long-term provisions.

## Statement of compliance

The consolidated financial statements of Kapitalska družba, d. d., and all its subsidiaries (hereinafter: the Group) have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as the Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the European Union (EU).

In its financial statements, the Group applied all IFRS and IFRIC required in 2015. It did not apply any standard or interpretation before its application became obligatory in 2015.

## Amendments to standards and interpretations

### Standards and interpretations effective for the current period

In the current accounting period, the following amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- ◆ Amendments to various standards – ‘Improvements to IFRSs (2011-2013)’, resulting from the annual project for improvement of IFRSs (IFRS 3, IFRS 13 and IAS 40) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 18 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 January 2015),
- ◆ IFRIC 21 ‘Levies’, adopted by the EU on 13 June 2014 (effective for annual periods starting on or after 17 June 2014).

The adoption of these amendments to the existing standards and interpretations has not led to significant changes in the Company’s financial statements.

### Standards and interpretations issued by IASB and adopted by the EU but not yet effective

On the date of approval of these financial statements, the following amendments to the existing standards issued by IFRIC and adopted by the EU were in issue but not yet effective:

- ◆ Amendments to IFRS 11 ‘Joint Arrangements’ – Accounting for Acquisitions of Interests in Joint Operations, which the EU adopted on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- ◆ Amendments to IAS 1 ‘Impairment of Assets’ – Disclosure Initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- ◆ Amendments to IAS 16 ‘Property, Plant and Equipment’ and IAS 38 ‘Intangible Assets’ – Clarification of Acceptable Methods of Depreciation and Amortisation, adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- ◆ Amendments to IAS 16 ‘Property, Plant and Equipment’ and IAS 41 ‘Agriculture’ - Agriculture: Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- ◆ Amendments to IAS 19 ‘Employee Benefits’ - Defined Benefit Plans: Employee Contributions, adopted by the EU on 17 December 2014 (effective for annual periods starting on or after 1 February 2015),
- ◆ Amendments to IAS 27 ‘Separate Financial Statements’ – Equity Method in Separate Financial Statements, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- ◆ Amendments to various standards – ‘Improvements to IFRSs (2010-2012)’, resulting from the annual project for improvement of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to remove inconsistencies and to clarify wording adopted by the EU on 17 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 February 2015),

- ◆ Amendments to various standards – ‘Improvements to IFRSs (2012-2014)’, resulting from the annual project for improvement of IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 15 December 2015 (the amendments will need to be applied for annual periods beginning on or after 1 January 2016).

#### Standards and interpretations issued by the IASB, but not yet adopted by the EU

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following new standards and amendments to the existing standards, which were not endorsed for use in the EU on the day these financial statements were published (the effective dates indicated below apply for entire IFRS):

- ◆ IFRS 9 ‘Financial Instruments’ (effective for annual periods starting on or after 1 January 2018),
- ◆ IFRS 14 ‘Regulatory Deferral Accounts’ (effective for annual periods starting on or after 1 January 2016) – European Commission concluded not to start the procedure for endorsement of this interim standard and to wait for its final version to be issued,
- ◆ IFRS 15 ‘Revenue from Contracts with Customers’ and subsequent amendments (effective for annual periods starting on or after 1 January 2018),
- ◆ IFRS 16 ‘Leases’ (effective for annual periods starting on or after 1 January 2019),
- ◆ Amendments to IFRS 10 ‘Consolidated Financial Statements’, IFRS 12 ‘Disclosure of Interests in Other Entities’ and IAS 28 ‘Investments in Associates and Joint Ventures’ – Investment entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- ◆ Amendments to IFRS 10 ‘Consolidated Financial Statements’ and IAS 28 ‘Investments in Associates and Joint Ventures’ – Sales or contributions of assets between an investor and its associate/joint venture, and further amendments (the date of entry into force has been deferred indefinitely until the completion of the research project related to equity method),
- ◆ Amendments to IAS 12 ‘Income Taxes’ – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the consolidated financial statements in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not yet been adopted by the EU, is still unregulated.

According to the Group’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: ‘Financial Instruments: Recognition and measurement’ would not significantly impact the financial statements, if applied as at the date of the cash flow statement.

#### Foreign currency translation

The financial statements of the Group are presented in the euro (EUR), which is the functional and reporting currency of the Company. Assets and liabilities originally expressed in foreign currencies are retranslated into the domestic currency at the reference exchange rate of the ECB. Foreign currency transactions are initially recognised in the functional currency, translated at the exchange rate applicable on the transaction date. Monetary assets and liabilities in foreign currency are translated at the exchange rate of the functional currency prevailing on the date of the statement of financial position. Any differences arising on the translation of foreign currencies are recognised in profit or loss. Non-monetary assets and liabilities, rec-

ognised at historical cost in foreign currency, are translated at the exchange rate applicable on the day of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currency are translated at the exchange rate effective on the day when the fair value was established.

## Basic policies

The financial statements have been prepared on a going concern basis.

The financial statements have been compiled on historical cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, measured at fair value. The items in the separate financial statements are presented in the euro, rounded to the nearest thousand (000 EUR), except where specifically stated otherwise.

## Basis of consolidation

The consolidated financial statements comprise the financial statements of Kapitalska družba and its subsidiaries as at 31 December of a year. The financial statements of the subsidiaries have been prepared for the same financial year as those of the parent company and by applying the uniform accounting policies. In the event of any inconsistency of accounting policies, suitable adjustments have been made in consolidated financial statements.

All intra-group balances and transactions, including any unrealised income arising from intra-group balances and transactions, are eliminated in full.

All subsidiaries become subject to consolidation when control is transferred to the Group and the consolidation is abandoned when control of a subsidiary is transferred outside the Group. If the Group loses control of a subsidiary during the year, the consolidated financial statements include the results of such subsidiary up to the last day on which the control over it still existed.

## Intangible assets

Intangible assets, acquired individually, are recognised at cost. After initial recognition the cost model is applied. The useful life of an item of intangible assets is limited. The amortisation of intangible assets is recognised in profit or loss. Intangible assets generated within the Group, other than development costs, are not capitalised. Costs represent expenses of the period in which they are incurred.

The carrying amount of an intangible asset is reviewed annually for impairment, if the asset has not been put to use, or more frequently when there are indications of impairment. Disclosed intangible assets are impaired when their carrying amount exceeds their net recoverable amount. In the event of impairment, the carrying amount of the asset is decreased to its net recoverable amount and at the same time an expense arising from impairment is recognised directly in profit or loss.

The Group uses the straight line amortisation method for intangible assets according to the estimated useful life:

Asset	Amortisation rate in %
Software	10
Software applications obtained after 1 Jan. 2008	20.00–33.33

The amortisation of intangible assets is calculated on the straight-line basis over the estimated useful lives of the assets, which is 10 years. The estimated useful life of software applications acquired after 1 January 2008 is 3 to 5 years.

The Group reviews the value of its assets in order to establish the existence of and the amount of impairment. If the carrying amount of an asset exceeds its estimated recoverable amount, i.e. the value in use, it is written down to the recoverable amount against operating expenses.

Profit and loss arising from retirement or disposal of an intangible asset is determined as the difference between the sale value on disposal and the book value. The difference is recognised as income or expense in the income statement, when the underlying intangible asset is retired or disposed.

## Property, plant and equipment

Buildings and equipment are carried at cost, less depreciation and impairment losses. Depreciation is accounted for under the straight-line basis over the estimated useful life of the assets:

Asset	Depreciation rate in %
Buildings	3.00-3.33
Equipment	16.67–33.33
Building parts	6.00

Every year an impairment test is carried out on property, plant and equipment. Impairment is made if the asset's estimated recoverable amount is less than its carrying amount. The Group reduces the carrying amount of such assets to their recoverable amount. The decrease is disclosed as impairment loss directly in the income statement.

Buildings or equipment are derecognised when the relevant asset is sold or when the Group no longer expects economic benefits from the asset's continuing use. Profit and loss arising from derecognition of the asset is included in the income statement in the year when the asset is written off the books.

The residual value of the assets, the estimated useful life of assets and the depreciation/amortisation method are revised and, if necessary, changed upon the compilation of the annual financial statements.

An item of property, plant and equipment whose individual value as per supplier's invoice does not exceed EUR 500, may be carried as a group of low value assets. Low value assets whose individual cost does not exceed EUR 500 may be classified as materials.

## Maintenance Costs and Increase in Fixed Assets Value

Maintenance costs are the costs arising from the conclusion and execution of transactions required to maintain the conditions allowing the use and the achievement of the primary purpose of the building. Maintenance comprises all works according to the regulations on building of facilities and functioning of fire protection systems and other protection and rescue measures.

## Criteria for the Deferral of Maintenance Costs and the Increase in Fixed Assets Value

Maintenance costs include the costs of maintaining a fixed assets useful during its useful life. The increase in fixed asset comprises costs required to increase the future benefits of a fixed asset in comparison to past benefits.

### Investment property

Investment property that qualifies for recognition is initially measured at cost. The cost of investment property comprises the purchase price and all costs directly attributable to the acquisition. Such costs include costs of legal services, real estate transfer tax, and other transaction costs.

The Group recognises investment property when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably. Investment property includes the real property that is not used by the Group for its principal activity.

Investment property is measured at cost, reduced by depreciation and impairment losses. The depreciation rate of investment property is between 3.00 and 3.33 percent annually and the estimated useful life is 33.33 or 30 years. The depreciation rate of parts of investment property is 6.00 percent annually and the estimated useful life is 16.67 years.

Every year an impairment test is carried out on investment property. Impairment is made if the investment property's estimated recoverable amount is less than its carrying amount. The Group reduces the carrying amount of such investment property to its recoverable amount. The decrease is disclosed as impairment loss directly in the income statement.

Gains or losses arising on elimination or disposal of investment property are determined as the difference between the net return on disposal and the carrying amount, and are recognised in the profit or loss.

## Financial assets

### Classification of Financial Assets

The Group classifies financial assets in the following categories:

- ◆ financial assets measured at fair value through profit or loss;
- ◆ held-to-maturity financial investments;
- ◆ available-for-sale financial assets;
- ◆ loans.

The classification depends on the purpose for which an investment was acquired.

An asset is classified in the group of financial assets at fair value through profit or loss if:

- a. at least one of the following criteria is fulfilled:
  - a financial asset has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
  - a financial asset is part of a portfolio of identified financial instruments that are managed together and
  - for which there is evidence of a recent actual pattern of short-term profit-taking;
- b. it is a derivative (except for a derivative that is a designated and effective hedging instrument);
- c. it is any financial asset designated as such by the entity, if active market for such asset exists or if its value can be measured reliably.

An asset is classified in the group of held-to-maturity financial assets if the following criteria are fulfilled:

- a. a financial asset is a non-derivative financial asset with fixed or determinable payments;
- b. it has determinable maturity;
- c. which the Company has the positive intent and ability to hold to maturity.

The group of available-for-sale financial assets comprises the financial assets not classified in any other group.

Based on the prescribed classification criteria the shares listed on the stock exchange may be classified into the group of assets measured at fair value through profit or loss or in the group of available-for-sale financial assets. In addition to these two groups, bonds may be also classified into the group of assets held to maturity. Most of assets of the Group are classified under available-for-sale financial assets.

Long-term and short-term financial assets are disclosed separately in the statement of financial position. Long-term financial assets are investments that the Group intends to hold for a period longer than one year and which are not held for trading.

### Recognition of financial assets

Initially, all the Group's investments except financial assets classified at fair value through profit or loss are recognised at fair value, including the directly related costs of acquisition. Investments classified at fair value through profit or loss are recognised at fair value (direct costs of acquisition are not included in the cost).

#### 1. Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss are measured at fair value. Gains and losses on assets designated at fair value through profit or loss are recognised directly in the profit or loss.

The fair value of assets actively traded on regulated markets is determined at the quoted closing price on the stock exchange on the last trading day of the period. The fair value of assets whose market price is not quoted on financial markets is determined on the basis of a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and the discounted cash flow analysis.

Acquisition and sale of assets classified at fair value through profit or loss are recognised on the trading day i.e. on the day of commitment to buy or to sell a financial asset.

#### 2. Financial assets held to maturity

Financial assets with fixed or determinable payments and maturity, other than derivative financial instruments, are recognised as held-to-maturity financial assets if the Group has a positive intention and the ability to hold the investment to maturity. Investments held for an indefinite period of time are not classified in this group.

Investments which are recognised as held-to-maturity are carried at amortised cost using the effective interest rate method. The amortised cost is calculated by allocation of the premium or the discount on acquisition over the period until the maturity of the investment. Gains and losses on investments carried at amortised cost are recognised in the profit or loss (disposal, impairment or effects of the discount/premium amortisation). Investments designated as held-to-maturity are recognised on the settlement date.

### 3. Available-for-sale financial assets

After initial recognition all investments classified by the company within available-for-sale financial assets are carried at fair value or purchase cost if fair value cannot be determined reliably. Gains and losses on available-for-sale financial assets are recognised in the statement of comprehensive income as the net unrealised capital gains until the investment is sold or disposed of in some other manner. If an investment is impaired, the impairment is recognised in profit or loss.

Acquisition and sale of investments classified as available-for-sale financial assets are recognised on the trading date i.e. on the day of commitment to buy or to sell an individual financial asset.

### 4. Loans

Loans and receivables are financial assets with fixed or determinable payments that are not traded on a regulated market. They include loans and receivables acquired by the Company as well as those granted by the Company. Loans and receivables are measured at amortised cost using the effective interest rate method and are recognised on the settlement date.

## Financial assets measured at cost

Assets are measured at cost if the fair value cannot be reliably measured, because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

Available-for-sale financial assets are measured at stock prices. If a stock price is not available for a particular asset, the fair value is determined using the valuation models taking into account subjective variables that are not publicly available on markets or by making value estimates of particular assets. The following methods are applied in making the value estimates of particular assets: income-based valuation, asset-based valuation and the comparison approach, involving a comparison with the comparable listed companies.

## Investments in subsidiaries and associated companies

A consolidated subsidiary is an entity in which the controlling entity holds a controlling interest or a controlling influence associated with other reasons, and which is a member of the group for which the consolidated financial statements are prepared. An associate is a company in which the parent has a significant influence and which is neither a subsidiary nor a joint venture.

In the separate financial statements, investments in the equity of subsidiaries are measured at cost, less any impairment loss.

In the separate financial statements, investments in associates are measured at fair value (market value) or at cost if fair value cannot be determined reliably, reduced by impairment losses. Gains and losses on these investments are recognised in equity as a revaluation surplus from investments until the investment is sold or disposed of in some other manner. When an asset is impaired, the impairment is recognised in the profit or loss.

The Company discloses associates and joint ventures according to IAS 28. The reversal of impairment of associates and joint ventures is recognised as income, but only up to the amount of the investment impaired in the past.

## Financial asset valuation methods

The fair value of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

Share valuations are made according to the income-based approach, the discounted free cash flow method, asset-based approach, the regular liquidation method and the market comparison valuation method, involving a comparison with the comparable listed companies. Bond valuations were made according to the market comparison valuation method, involving a comparison with the comparable listed bonds.

## Determination of fair value

Fair value assessment of financial investments depends on availability of market data based on which the Company can assess fair value. Three levels are applied in fair value measurement:

- ◆ Level 1 input comprises quoted (unadjusted) prices for identical assets or liabilities in an active market which are available to the Company on the measurement date;  
This group includes the assets owned by Modra zavarovalnica, valued based on the CBBT price in an active market and valuation on the basis of transaction price in an active market. The assumption of an active market applies if the CBBT price has been quoted for at least half of the trading days in the past 30 days until valuation. If the trading or OTC market is active, the last known CBBT price is used, no older than 15 days, for fair value measurement. If the trading or OTC market is not active, the last known CBBT price is used, no older than 90 days, for fair value measurement. If the last known CBBT price is older than the last transaction price of the financial asset or if the CBBT price is not available, the last known transaction price is used, no older than 90 days, for fair value measurement, in which case the assumption of an active market applies if the transaction price is not older than 15 days. In other cases, the fair value of a financial asset is determined using a valuation technique. This group does not include the assets owned by Kapitalska družba, d. d., valued based on the prices adopted from the Bloomberg system.
- ◆ Level 2 input includes inputs other than the quoted prices included in Level 1 and which are observable either directly or indirectly for an asset or liability;  
Level 2 assets include the assets valued based on comparable market data (other than quoted prices of identical assets) obtained indirectly or directly for an identical or similar asset; the basis of valuation is the yield curve of comparable financial assets with similar maturity and credit risk. In addition, Level 2 also includes the investments owned by Modra zavarovalnica, valued based on the stock price on an inactive market, valued based on the CBBT price on an inactive market and the valuation on the basis of transaction price on an inactive market. For stock markets, the assumption of an active market applies if the average daily trading in the financial asset in the last 180 days until the fair value measurement exceeded EUR 0.5 million, taking into account the number of trading days. If the stock market is active, the last known stock price is used, no older than 15 days, for fair value measurement. If the stock market is not active, the last known stock price is used, no older than 90 days, for fair value measurement. In other cases, the fair value of a financial asset is determined using a valuation technique. The second group does not include the assets owned by Kapitalska družba, d. d., valued based on the prices adopted from the Bloomberg system.
- ◆ Level 3 input includes unobservable inputs for an asset or liability.  
Level 3 includes the assets, the fair value of which is determined using own valuation

models taking into account subjective variables that are not publicly available on markets. Moreover, Level 3 also includes debt instruments owned by Modra zavarovalnica, valued using a valuation technique (taking into account Level 3 inputs), debt securities, the CBBT price of which is not available on an (in)active market and whose value is determined using a valuation technique (taking into account Level 3 inputs) as well as debt instruments valued on the basis of the input provided by third parties. In addition to all these assets, Level 3 fair value includes all assets owned by Kapitalska družba, d. d., where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets owned by Kapitalska družba, d. d., are classified into Level 3 fair value hierarchy.

The fair value valuation of Level 3 assets was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the regular liquidation method.

The fair value of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

The entire IFRS 13 must be applied in fair value measurement assessment, in addition to the above stated levels.

### **Impairment of financial assets**

The Group regularly reviews the requirement for impairment of financial assets classified as available for sale. Investments whose value has significantly declined in the reporting period and/or such a decline is prolonged are impaired. The Group estimates that the assumption is met of a significant decline in the value of equity investments whose negative revaluation in equity, inclusive of exchange rate differences, reaches 40% of their cost. In this case such equity investments are impaired in the total amount of the cumulative unrealised net loss and exchange rate differences. When the amount of revaluation due to impairment and exchange rate differences recognised in the equity equals between 10% and 39%, the Company considers the need for impairment based on the time component and the relevance of investments in terms of the portfolio size. When the negative revaluation recognised in the equity equals between 10 and 39% of the investment's cost and the investment is not impaired, there must be relevant indicators to show that impairment is not required. The need for impairment of such financial assets is reviewed at least on the date of the statement of financial position or more often if necessary. Once an investment has been impaired, the total amount of the negative revaluation recognised in equity inclusive of exchange rate differences is impaired in future periods.

Modra zavarovalnica regularly reviews the requirement for impairment of financial assets classified as available for sale. Investments whose value has significantly declined in the reporting period and/or such a decline is prolonged are impaired. The insurance company considers a significant decline in the value of equity investments to be one in which the amount of the negative revaluation and exchange rate differences recognised in the equity reach 40% of the investment's cost. In this case such equity investments are impaired in the total amount of the cumulative unrealised net loss and exchange rate differences. The insurance company assesses that the decline is prolonged when the asset's value has been decreasing for straightforward 9–12 months. The need for impairment is reviewed as and when necessary or at least annually on the balance sheet date.

The Group only impairs debt instruments classified as available-for-sale whose principal amounts will not be recovered or will not be recovered in full on maturity according to the estimate made by the Company as a prudent manager. In the former case such debt instruments are impaired to zero, while in the latter case, debt instruments are impaired to the percentage of the principal which the Company estimates with certainty to be repaid on maturity. In the latter case, debt instruments that have no material effect on the financial statements are not carried at amortised costs but rather at estimated realisable value. The need for impairment of such financial assets is reviewed at least on the date of the statement of financial position or more often if necessary.

The above does not apply to non-marketable investments of Kapitalska družba whose fair value is determined by model. These investments are always subject to permanent impairment recognised in the income statement.

#### **Impairment and reversal of impairment of financial assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of that item of asset has to be decreased through the allowance account. Impairment losses have to be posted in operating result as revaluation financial expenses.

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 shall be reversed through the allowance account. The reversal of impairment losses shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been if the impairment loss had not been recognised at the date on which the impairment loss is reversed. The amount of the reversal of an impairment loss shall be recognised in profit or loss as revaluation financial revenue.

#### **Impairment and reversal of impairment of financial assets carried at cost**

If there is objective evidence that an impairment loss has incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses shall not be reversed. The Group is using the valuation model to determine if there is objective evidence of impairment.

#### **Impairment and reversal of impairment of available-for-sale financial assets**

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

### **Recoverable amount of non-current assets**

As at the reporting date the Group estimates if there exist any factors indicating that non-current assets need to be impaired. If events occur indicating that the asset's book value is higher than the estimated recoverable amount, the value of the asset is impaired to its recoverable amount or that of cash-generating unit. The recoverable amount is the greater of an asset's (or cash generating unit's) net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Losses arising from impairment are recognised under operating expenses from revaluation.

### **Derecognition of financial instruments**

A financial asset is derecognised when all the risks and benefits as well as the control over contractual rights related to the financial instrument are transferred. A financial liability is derecognised when it is settled, cancelled or expired.

### **Non-current assets (disposal groups) held for sale**

Non-current assets (disposal groups) held for sale are those whose carrying amount is justifiably expected to be settled predominantly with a sale in the next 12 months rather than with their continued use.

When an asset is designated as held for sale or classified as a disposal group held for sale or when the asset is derecognised, depending on the order of the events, the asset is no longer amortised or depreciated. Such non-current asset or disposal group held for sale shall be measured at the lower of its carrying amount or fair value, less costs to sell.

### **Operating and other receivables**

Operating receivables are recognised at the amount of invoices issued, less any allowances. The allowance assessments are based on the Group's reasonable expectations that a payment is no longer likely in full and/or in a specific amount.

### **Cash and cash equivalents**

Upon initial recognition, cash and cash equivalents are recognised at the amount arising from the underlying document. Cash and cash equivalents comprise bank balances, cash on hand, call deposits and short-term deposits with maturity of up to three months.

### **Deferred costs and accrued revenues**

Deferred costs and accrued revenues include short-term deferred costs and short-term accrued revenues.

## Equity

Kapitalska družba holds no treasury shares. Its sole shareholder is the Republic of Slovenia.

The Company's equity is share capital. The share capital of EUR 364,810 thousand is represented by 874,235 ordinary, registered, non-par value shares. Each share has the same interest and the attributed amount in the share capital. Kapitalska družba holds no treasury shares.

Total equity consists of: called-up capital, capital surplus, revenue reserves, retained net earnings or retained net loss, revaluation surplus and temporarily undistributed net profit or unsettled loss for the financial year.

Revenue reserves are recognised according to the ZGD-1. In line with Article 52(2) of the ZSDH-1 distributable profit of Kapitalska družba cannot be distributed to the shareholders.

Ordinary shares are classified as equity. Direct additional costs of new shares issue, less tax effects, are included in the equity.

## Revaluation surplus

Revaluation surplus arises solely from effects of valuation of financial assets available for sale at fair value. Amounts of revaluation surplus disclosed in the statement of financial position are corrected for amounts of deferred tax.

## Provisions

Provisions are recognised for current liabilities (legal or constructive) arising from past events when it is likely that an outflow of assets that generate economic benefits will be required to settle such an obligation, and when the amount of the liability can be reliably estimated. The amount recorded as a provision is the best estimate of expenses required to settle existing liabilities on the balance sheet date. When the time value of money is relevant, the provisions are determined on the basis of discounted cash flows at the discount rate (pre-tax) reflecting the time value of money; where appropriate, any risks specific to the liability are included. If the Group sets provisions based on discounted cash flows, the increases in net present value are over the years recognised as financial expenses.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by other parties, the reimbursement is recognised as a special asset, but only when it is virtually certain that reimbursement will be received. In this case the costs of provision are disclosed decreased by expected reimbursement.

The change in mathematical provisions is disclosed in the income statement as increase or decrease in other operating expenses.

The Group established long-term provisions:

- ♦ when the guaranteed value of assets exceeds the actual value of assets belonging to an individual insured person/member, namely in the amount of the established deficit, i.e. the sum of differences between the guaranteed assets of the insured person/member and the actual value of the assets of the insured person/member;
- ♦ if a law suit is filed against the Company or if the Company estimates a claim is very probable;
- ♦ for termination benefits and jubilee awards, calculated on the basis of assumption on the expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Company's internal regulations.

The recognition of provisions in the books of account and in the statement of financial position is reversed when the possible obligations for which the provisions were made no longer exist or such provisions are no longer needed. Provisions can only be used for items of the type for which they were originally recognised.

#### **Insurance contracts – guarantee funds**

According to the International Financial Reporting Standard 4 (IFRS 4) and the International Actuarial Standard of Practice No. 3 (IASP 3), the Guarantee Fund of the PPS (First Pension Fund) and the Guarantee Fund of MR (Modra zavarovalnica) are classified among insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Under IFRS 4, an event is uncertain, if at least one of the following is uncertain at the inception of an insurance contract:

- ♦ whether an insured event will occur;
- ♦ when it will occur; or
- ♦ how much the insurer will need to pay if it occurs.

Insurance contracts entailing significant insurance risk are in books of account treated according to IFRS 4. If insurance contracts do not entail significant insurance risk, they are in books of account treated as financial contracts under IAS 39.

#### **Insurance contract liabilities – technical provisions**

Technical provisions for insurance contracts are set aside in accordance with the Insurance Act and its implementing regulations, as well as in compliance with IFRS 4.

Modra zavarovalnica, d. d. is required to make an adequate amount of technical provisions which are designed to cover future liabilities from insurance contracts and potential risk losses arising from insurance operations.

Mathematical provisions are calculated for every insurance contract separately. The prospective method is applied in the calculation of these provisions.

The calculations take into account actuarial assumptions, the provisions of the applicable legislation and all contractual obligations to the insured persons according to the content of insurance contracts.

The calculation of technical provisions deriving from insurance contracts and their adequacy is on an annual basis inspected and commented on by an authorised actuary appointed by the Company's Management Board.

#### **Net technical provisions of the Guarantee Fund of MR**

Net technical provisions of the Guarantee Fund of MR represent mathematical provisions for insurance policies of the Guarantee Fund "Modra renta", concluded after the retirement of the insured persons who opted for regular termination of supplementary pension insurance. Mathematical provisions are calculated according to the Insurance Act, Technical basis for annuity pension insurance of Modra zavarovalnica, d. d. and the insurance-technical standards, prospectively for each insurance policy separately. German annuity tables DAV1994R were applied in the calculation. The accrued interest rate, the mortality tables and the costs are the same as applied in the calculation of supplementary pension.

### Net technical provisions of the Guarantee Fund of the PPS

Net technical provisions of the KS PPS (Guarantee Fund of the First Pension Fund) represent mathematical provisions composed of:

- ◆ mathematical provisions for policies of the PPS;
- ◆ provisions for smoothing the mortality experience of the PPS; and
- ◆ provisions for smoothing the return experience of the PPS.

### Mathematical provisions for the policies of the PPS

Mathematical provisions for the policies of the PPS are calculated based on Article 117 of the Insurance Act and the Rules on the Calculation of Mathematical Provisions.

The calculation is based on the most recent annuity mortality tables approved by the Insurance Supervision Agency.

The accrued interest rate and the costs are the same as applied in the annuity calculation. The mortality tables used in the calculation of mathematical provisions are more conservative than those used in annuity allocation.

### Provisions for smoothing the mortality experience of the PPS

Provisions for smoothing the mortality experience are determined upon the initial calculation of the mathematical provision as the difference between the value of the transferred assets and the value of mathematical provisions set aside for the PPS policy.

Provisions for smoothing the mortality experience that are calculated per individual policies upon transfer increase the provisions for smoothing the mortality experience of the PPS and are created aggregately for all insured persons.

They are calculated and recognised monthly upon the calculation of the mathematical provisions for the policies of the KS PPS for the current month. They are recorded on the mathematical provisions account under subgroup "provisions for smoothing the mortality experience".

The provisions for smoothing the mortality experience may be additionally established at the year-end from the surplus funds of the KS PPS, i.e.:

- ◆ if mathematical provisions are not established according to the most recent annuity tables, the following is entirely allocated to provisions:
  - surplus assets from return of the Guarantee Fund in excess of the guaranteed return;
  - surplus assets resulting from mortality of population with annuity insurance policies;
- ◆ however, if mathematical provisions are consistent with the most recent annuity tables, the surplus assets resulting from mortality of population with annuity insurance policies are allocated to provisions.

### Provisions for equalisation of the yield experience of the PPS

Provisions for equalisation of the yield experience are established at the year-end if mathematical provisions for the PPS policies are set aside according to the most recent annuity tables. If so, the surplus assets resulting from the surplus return of the KS PPS over the guaranteed return, are allocated to permanent increases of annuities or the whole or part of them are used for creating provisions for smoothing the return experience. The share of surplus earmarked for annuities is set by the management of the administrator.

### Claims provisions

Provisions for claims outstanding for guarantee funds are established in the amount of the liabilities that the guarantee fund has to pay out based on insurance contracts, with regard to which an event insured has occurred before the end of accounting period.

## Operating liabilities

Operating liabilities comprise trade payables for acquired assets or services, and liabilities to employees, the state, etc. Liabilities are recognised if it is probable that an outflow of resources embodying economic benefits will result from their settlement and the amount at which the settlement will take place can be measured reliably.

## Accrued costs and deferred revenues

Accrued costs and deferred revenues comprise accrued revenue and other accruals and income collected in advance. Accrued costs are the disclosed accrued costs from ordinary activity of the Group.

## Revenue

The revenue is recognised if the increase of economic benefits in the accounting period is related to the increase in assets or decrease in liabilities and if the increases can be measured reliably. Revenues and increases of assets or decreases of liabilities are recognised simultaneously. The Company recognises the following types of revenues:

### 1. Revenues from insurance premiums

Net revenues from insurance premiums are identical to gross premium written. Gross premium written is recognised in accounting records in the day it is accounted and not on the day it is paid.

### 2. Revenue from fees

The Group is entitled to entry and exit fees as well as an annual management fee for the management of the pension funds' assets. Entry fees are charged as a percentage of the premium paid, the exit fees represent a percentage of redemption value, whereas the management fee is calculated as a percentage of average annual net asset value of an individual fund during the saving period.

#### a. Entry fee

The Group charges entry fees for the performance of its activities in accordance with the pension scheme. This means that the assets collected and transferred to an individual pension fund are reduced by the amount of the entry fees and the fund manages the assets attributable to the net premium. The entry fees are charged in the percentage of the premium at the time of the payment.

#### b. Management fee

The Group manages mutual pension funds and charges management fee, thus the monthly value of assets of the funds is reduced by the cost of management fees. The management fee is calculated as a percentage of the average value of the fund's assets, determined as the arithmetic mean of the net value of the fund's assets on the conversion day of the current year.

#### c. Exit fee

In accordance with the pension scheme, the Group is entitled to exit fees, whereby the redemption value is reduced by the exit fees and the net value is paid to the individual who terminated the scheme. Exit fees are calculated in a percentage of the redemption value when the policy is paid.

### 3. Revenue from lease payments

The revenue from lease of investment property is recognised over the duration of individual lease contract.

## Financial revenue

### 1. Interest

Interest income is calculated and recognised at the effective interest rate. Interest on debt securities is disclosed in the Company's statement of financial position together with financial investments.

### 2. Dividends

Dividends are recognised when the Group obtains the right to payment.

### 3. Revenue from sale of financial assets

Revenues from the sale of financial assets (gains on the disposal of financial assets) are accounted for and recognised on the trading day.

## Costs

### Costs of materials and services

Costs of materials and services are classified by primary types. The Group does not classify costs by functional type, because the entire Group represents a single functional type.

### Borrowing costs

Costs of borrowings are recognised in the period to which they refer.

## Employee benefits

Labour costs include gross salaries, gross salary compensations paid by the Company, benefits in kind, gifts and awards to employees, severance pay, as well as the relevant taxes and duties paid by the payer. These costs are recognised as the current expenses of the period. The Group also recognises potential future employee-related costs based on the Collective Agreement. These expenses are recognised over the entire period of employment of an individual employee to whom the collective agreement refers.

### Expenses

Expenses are recognised if the decrease in economic benefits in the reporting period is associated with decreases in assets or increases in debt and if this decrease can be reliably measured. Expenses should therefore be recognised simultaneously with the recognition of a decrease of assets or of an increase of liabilities (debts).

### Financial expenses

Financial expenses comprise expenses for financing, mostly interest expenses. Revaluation financial expenses arise in association with the impairment of financial assets. Expenses from the sale of financial assets (losses on the disposal of financial assets) are accounted for and recognised on the trading day.

## Tax

### 1. Current tax

Current tax assets and liabilities in respect of present and past periods are recognised at amounts which the Group expects to pay to or receive from the tax administration. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.

## 2. Deferred tax

Deferred income tax assets and liabilities are calculated according to the balance sheet liability method. Only deferred tax assets and liabilities arising from temporary differences are recognised.

A deferred tax asset is also recognised on account of unused tax losses and unused tax credits carried forward to the next period, if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

On the balance sheet date, deferred tax assets are revised and impaired on account of those tax assets for which it is no longer probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are recognised using the tax rate applicable when the asset is expected to be realised or liabilities settled. Tax rates (and tax legislation) enacted or close to being enacted at the balance sheet date are used.

Deferred tax is charged or credited directly to comprehensive income, if it relates to items that are credited or charged directly to comprehensive income.

## Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31 December 2015 and 31 December 2014, income statement data for the year 2015, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

## Segment reporting

In 2015, the Kapitalska družba Group had no business segments.

## Risk management

In the economic crisis, risk management proved to be a very important area, because efficient risk management is a condition for successful and stable operations. Therefore, risk management is crucial in performing activities to achieve the goals of the Group. The use of standard methodologies for managing risk enables qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure. The Group observes legal regulations in the forefront while also regulating risk management through internal acts such as the Rules on risk management, which include in addition to individual risk description, internal risk management organisation, measures and methods used to mitigate the risks, as well as procedures of control and responses to individual risks.

With the aim of improving asset management in the long-term, the Group continues to develop and upgrade the entire risk management system. Especially in Modra zavarovalnica, the project of Solvency II is important, the strategic goal of which is to protect the assets of the insured persons and also to meet capital requirements, improve risk management, provide conditions for better capital allocation, increase transparency of operations and similar.

In the course of its activity, the Group is exposed to financial, operational and strategic risks. Financial risks include the important market risks (the risk of changes in securities prices, interest rate risk and currency risk) as well as credit and liquidity risk.

## Risk of securities price change

The risk of securities price change is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the regulated markets in financial instruments. The risk of securities price change is managed by regular monitoring of the market situation and macroeconomic indicators that affect the movement in the general level of market prices and by maximum possible dispersion of investments to eliminate most of the non-systematic risk. The dispersal of a part of investments abroad had decreased the Group's dependence of the portfolio of long-term investments on the movement of prices on the Slovenian capital market.

The monitoring and measurement of risk is carried out through the calculation of values at risk (VaR) applied to the portfolio as a whole as well as separately for equity and debt securities. The beta indicator is also calculated for equity securities, as a measure of systematic risk. The fluctuations in securities prices are regularly monitored.

## Interest rate risk

The very nature of investments in debt securities and deposits exposes the Group to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. Owing to the decrease in interest rates the assets were exposed to reinvestment risk. The exposure to interest rate risk is regularly measured by the modified duration indicator. Furthermore, the Company's internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, providing investment recommendations on this basis.

The Group minimises the risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of bond portfolios, by restructuring assets with fixed interest rate into assets with variable interest rate or vice versa, depending on the expected movement in market interest rates and by classifying assets into the group of financial assets held to maturity according to the IFRS. In 2015, the Group did not use derivative financial instruments for interest rate risk hedging.

## Currency risk

In managing a part of financial assets invested in foreign currencies, the Group is also exposed to currency risk.

Currency risk is monitored and managed daily by matching the currencies of financial assets with legal and internal restrictions. The basis for measuring currency risk is the monitoring and calculation of exposure to individual currencies. In 2015, the Group did not use derivative financial instruments for currency risk hedging.

## Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, certificates of deposit, deposits, cash assets) and entails the possibility of investments being only partly repaid or not at all. The management of credit risk for investments in debt securities is implemented by careful selection of business partners, regular monitoring of companies' operations and by establishing investment limits with regard to exposure to individual investments. Credit risk is also managed by dispersion of investments in terms of issuers, industries and geographical areas, by regular monitoring of credit margins and ratings of investments and issuers or contractual partners.

According to internal acts, business partners' credit rating is determined by ratings assigned by Standard&Poor's, Fitch and Moody's, and in-house analyses. The credit risk arising from foreign debt securities is normally managed through investing in the foreign debt securities that are given a credit rating BBB- or more by renowned credit rating agencies, as well as through adjustment of the credit rating structure of the portfolio to the adopted internal limitations. The maximum exposure, i.e. high yield, is set for debt securities.

With regards to investments in deposits, debentures and certificates of deposits, an internal model has been developed for determination of limits of such investments in individual banks. Internal limits for individual banks are regularly updated. The total exposure to a single bank is monitored on a regular basis and complies with the legal regulations.

## Liquidity risk

Liquidity risk is the risk related to the liquidity of the capital market or investment and the risk of solvency of the Group. The Group manages its assets and liabilities in such a manner as to be able at any time to settle its liabilities as they fall due. The policy prescribing regular liquidity management is pursued according to the law and secondary regulations.

Due to the low liquidity of the Slovenian capital market, liquidity risk is encountered in the majority of investments in association with domestic equity and debt securities, with the highest risk posed by non-listed investments. By dispersing a portion of investments abroad, the Group is able to reduce liquidity risk by investing only in the most liquid securities. Moreover, liquidity risk is managed by daily monitoring of the inflows and outflows and precise matching of maturity of assets and liabilities.

## Operational risk

Operational risk is the risk of a loss due to inappropriate internal processes or incorrect action by people or defective functioning of systems within the Company or as a result of external events and actions. Operational risk also includes legal and documentary risk as well as the risks arising from trading procedures, settlement and valuation of assets and liabilities. Operational risk is managed through a system of appropriate authority, internal controls and by defining business processes and ensuring the suitable employee qualifications. In order to minimise operational risks, companies established a system of recording loss events and regularly monitoring the implementation of the measures adopted.

In addition to the Risk Management Department there is also the Internal Audit Department, paying special attention to verifying the internal control system and making proposals for its improvement.

## Strategic risk

Strategic risk is the risk of a loss owing to incorrect business decisions, inappropriate organisation and strategy of the Company and insufficient response to the changes in the business environment. Significant strategic risks include legislative, tax and political risks, resulting from the state's discretionary right to adopt decisions, and may lead to changes in the business and tax environment. These risks also influence the processes involved in the sale of companies where the Group holds interests, the amount of liabilities to the pension budget and consequently the management of financial assets.

The Management Board is in charge of formulating appropriate organisation and strategy, and must adopt all measures suitable for achieving the strategic goals as well as to preserve and strengthen the Group's reputation. An appropriate supervision system is provided for managing this risk, enabling monitoring of the implementation of goals defined in the busi-

ness strategy and the prevention of errors that would result in dissatisfaction of business partners. Strategic risks are also managed by regular monitoring and participation in the drafting of legal bases and by outsourcing external consultants (tax consultants, auditors, legal consultants, IT consultants, etc.).

## 17.3 DISCLOSURES AND NOTES TO THE FINANCIAL STATEMENTS

### 17.3.1 Notes to the income statement

#### Note no. 1

##### Net sales revenues

	in EUR 000	
	2015	2014
Revenues from the sales of services	31,022	27,226
Revenues from management	7,843	7,079
Revenue from lease payments	1,062	992
Other revenue	15	0
<b>Total</b>	<b>39,942</b>	<b>35,297</b>

Revenues from the sale of services mostly refer to revenues from insurance premiums.

	in EUR 000	
	2015	2014
Revenue from the sales on the domestic market	39,942	35,297
<b>Total</b>	<b>39,942</b>	<b>35,297</b>

#### Note no. 2

##### Other operating revenue (including revaluation revenue)

	in EUR 000	
	2015	2014
Revenues from reversal of long-term provisions	11	716
Other operating revenues	477	28
Revaluation operating revenue	1	0
<b>Total</b>	<b>489</b>	<b>744</b>

Revenues from reversal of long-term provisions in the amount of EUR 11 thousand constitute revenues from the reversal of provisions for onerous contracts of Kapitalska družba.

Other operating revenues of EUR 477 thousand mainly refer to revenue from payment of the deficit in KS MR in the amount of EUR 363 thousand. Other operating revenues include revenues from derecognition of statute-barred liabilities in the amount of EUR 108 thousand and other minor items.

### Note no. 3

#### Costs of goods, materials and services

	2015	2014
Costs of materials	253	240
Costs of services	4,342	3,837
<b>Total</b>	<b>4,595</b>	<b>4,077</b>

#### Costs of materials

Costs of materials comprise costs of power supply, write-off of low value assets, costs of office stationery and professional literature, and other costs of materials.

#### Costs of services

Costs of services include costs of transport, maintenance work on business premises and property, plant and equipment, lease payments, reimbursement of costs associated with labour, costs of payment transactions, banking services and insurance premiums, costs of intellectual and personal services, costs of trade fairs, advertising and entertainment, costs of services provided by natural persons, and costs of other services.

#### Costs of audit

The costs of auditing the 2015 financial statements and Annual Report of the Kapitalska družba Group totalled EUR 13,100.

### Note no. 4

#### Labour costs

	2015	2014
Payroll costs	4,260	4,042
Social security costs	683	650
Pension insurance costs	213	206
Other labour costs	482	438
<b>Total labour costs</b>	<b>5,638</b>	<b>5,336</b>

### Note no. 5

#### Amortisation, depreciation and write-offs

	2015	2014
Depreciation/amortisation	1,170	1,168
Amortisation of intangible assets	244	287
Depreciation of buildings	307	308
Depreciation of garages	11	11
Depreciation of equipment and spare parts	103	62
Depreciation of investment property	505	500

in EUR 000

	2015	2014
Revaluation operating expenses	31	22
Revaluation operating expenses associated with current assets	31	22
<b>Total</b>	<b>1,201</b>	<b>1,190</b>

#### Amortisation of intangible assets

The costs refer to the amortisation of computer software and licences.

#### Depreciation of buildings

These costs include the costs of depreciation of business premises owned by Kapitalska družba.

#### Depreciation of equipment and spare parts

Depreciation of equipment and spare parts represents depreciation of electronic equipment, wooden furniture, cars and other equipment.

#### Note no. 6

##### Other operating expenses

in EUR 000

	2015	2014
Change in technical provisions	11,393	13,140
Provisions	6,031	26
Other operating expenses	17,050	15,451
<b>Total</b>	<b>34,474</b>	<b>28,617</b>

In 2015, Modra zavarovalnica increased mathematical provisions of EUR 11,393 thousand, established provisions for non-achievement of guaranteed rate of return of the managed fund equalling EUR 4,980 thousand and formed provisions for pensions and jubilee awards in the amount of EUR 17 thousand as well as made provisions for testing the adequacy of provisions totalling EUR 524 thousand.

In 2015, Kapitalska družba created EUR 13 thousand of provisions for non-achievement of guaranteed return of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), and provisions for contingent liability of the Company arising from Indemnity Agreement totalling EUR 497 thousand.

The major portion of other operating expenses includes gross claims paid for life insurance by Modra zavarovalnica equalling EUR 15,176 thousand, consisting of accounted pension annuities.

#### Note no. 7

##### Financial revenue

in EUR 000

	2015	2014
Financial revenue from shares and interests	48,045	60,496
Financial revenue from other investments and loans	13,297	13,736

in EUR 000

	2015	2014
Financial revenue from other investments	11,375	11,456
Financial revenue from loans	1,922	2,280
Financial revenue from operating receivables	6,954	0
<b>Total</b>	<b>68,296</b>	<b>74,232</b>

Financial revenue from operating receivables totalling EUR 6,954 thousand constitutes repayment of state aid from Elan, d. o. o., which did not happen in 2014.

#### Financial revenue from shares and interests

in EUR 000

	2015	2014
Dividends and shares in profits	21,243	25,234
Revaluation financial revenue from shares and interests	813	5,747
The effect of restatement of financial revenue from shares and interests due to the adjustment of associates to equity method	2,724	1,203
Gains from the disposal of financial assets	23,265	28,312
- available-for-sale financial assets	22,951	28,295
- financial assets measured at fair value through profit or loss	314	17
<b>Total</b>	<b>48,045</b>	<b>60,496</b>

#### Financial revenue from other investments and loans

in EUR 000

	2015	2014
Interest income	12,734	9,730
Revenue from the revaluation of receivables, liabilities and loans to retain their value	563	22
Exchange rate gains	563	22
Revenue from realised gains	0	3,984
Revenue from the sale of financial assets available for sale	0	3,981
Revenue from the sale of financial assets measured at fair value through profit or loss	0	3
Other financial revenue	0	0
<b>Total</b>	<b>13,297</b>	<b>13,736</b>

#### Revenue from sale of financial assets

in EUR 000

	2015	2014
Revenue from realised gains	23,265	32,296
- available-for-sale financial assets	22,951	32,276
- financial assets measured at fair value through profit or loss	314	20

Revenue from the sale of financial assets in the amount of EUR 22,951 thousand constitute realised capital gains from the disposal of available-for-sale financial assets. Revenue from the sale of financial assets in the amount of EUR 314 thousand constitute realised capital gains from the disposal of financial assets measured at fair value through profit or loss.

#### Interest income

	in EUR 000	
	2015	2014
Deposits	1,922	2,280
Bonds	10,686	7,437
- financial assets measured at fair value through profit or loss	931	0
- available-for-sale financial assets	6,811	4,469
- financial assets held to maturity	2,944	2,968
Other securities	126	13
- financial assets measured at fair value through profit or loss	120	13
- financial assets held to maturity	6	0
<b>Total</b>	<b>12,734</b>	<b>9,730</b>

#### Financial revenue from operating receivables

	in EUR 000	
	2015	2014
Financial revenue from operating receivables	6,954	0
<b>Total</b>	<b>6,954</b>	<b>0</b>

Financial revenue from operating receivables totalling EUR 6,954 thousand constitutes repayment of state aid from Elan, d. o. o., according to the Commission Decision SA.26379 of 19 September 2012.

#### Note no. 8

##### Financial expenses for long-term and short-term financial asset write-offs

	in EUR 000	
	2015	2014
Loss from disposal of financial assets	545	642
- at fair value through profit or loss	189	18
- held-to-maturity	0	275
- available-for-sale	356	349
Interest expense	1	0
Revaluation operating expenses	8,736	13,594
Expenses from the revaluation of financial assets measured at fair value through profit or loss	5,105	1,827
Impairment of equity investments at fair value through profit or loss	2,876	82
Impairment of shares and interests measured at cost	0	10,864
Expenses from the cancellation of shares and subordinated bank bonds	0	747

in EUR 000

	2015	2014
Exchange rate losses	656	50
Other revaluation expenses	99	24
Other financial expenses	16	0
Expenses for ZPIZ	19,000	0
Reversal of impairments	0	-8,723
The effect of restatement of financial expenses from shares and interests due to the adjustment of associates to equity method	1,569	0
<b>Total</b>	<b>29,867</b>	<b>5,513</b>

Expenses from the sale of financial assets in the amount of EUR 545 thousand constitute realised capital losses from the disposal of financial assets.

Impairment loss was recognised on available-for-sale equity investment carried at fair value through equity and classified under available-for-sale financial assets in the total amount of EUR 9 thousand. This investment had already been impaired in the past. Once an investment has been impaired, the total amount of the negative revaluation recognised in equity inclusive of exchange rate differences is impaired in future periods.

Shares and stakes classified as available-for-sale financial assets were impaired in the total amount of EUR 2,867 thousand. The Group assessed that there was impartial evidence of impairments of these assets. The fair value of assets was estimated based on internal valuations and one external valuation. Asset valuations were made according to the following methods: income-based approach, the discounted free cash flow method, the asset-based approach, the net asset valuation method under the assumption of a going concern and regular liquidation and the peer comparison method (comparable listed companies), where the procedure is based on selected multipliers and the value of the relevant company is assessed based on the comparison of performance indicators and stock price of comparable companies. The valuation models used in 2015 indicated a smaller need for impairments than in 2014.

The Group revalued equity investments carried at fair value through profit or loss in the amount of EUR 5,105 thousand.

On the basis of Article 67a(5) of the ZIPRS1415-C, Kapitalska družba in 2015 credited EUR 19 million to the ZPIZ (Pension and Disability Insurance Institute) for annual allowance for pensioners. To date, Kapitalska družba has paid EUR 664,321 thousand to the ZPIZ. These payments were included in the financial expenses from other financial liabilities in the income statement.

#### Foreign currency translation

in EUR 000

	2015	2014
Exchange rate gains	563	22
Exchange rate losses	-656	-50
<b>Net exchange rate gains/losses</b>	<b>-93</b>	<b>-28</b>

In 2015, the net exchange rate loss amounted to EUR 93 thousand.

## Profit or loss from financial assets

	in EUR 000	
	2015	2014
Income from financial assets	68,296	74,232
Expenses from financial assets	-29,867	-5,513
<b>Net profit or loss financial asset</b>	<b>38,429</b>	<b>68,719</b>

## Note no. 9

## Other revenue

	in EUR 000	
	2015	2014
Other unusual items	26	51
<b>Total</b>	<b>26</b>	<b>51</b>

A major amount of other unusual items represents revenue from previous periods.

## Note no. 10

## Other expenses

	in EUR 000	
	2015	2014
Other items	4	3
<b>Total</b>	<b>4</b>	<b>3</b>

The majority of other expenses is accounted for by tax paid on dividends from abroad.

## Note no. 11

## Income tax

	in EUR 000	
	2015	2014
Profit or loss before tax	45,919	56,727
Tax on dividends from abroad	225	0
Non-deductible expenses	5,039	13,147
Non-taxable revenue	-71,314	-36,045
Tax allowance	-109	-414
Tax loss	-625	-16,915
<b>Total</b>	<b>-20,865</b>	<b>16,500</b>
Tax rate	-	17%
<b>Income tax</b>	<b>-</b>	<b>2,804</b>
Tax on dividends from abroad	88	-

The Kapitalska družba Group does not prepare a consolidated tax balance sheet. In 2015, Kapitalska družba and Modra zavarovalnica d.d. had no corporate income tax liability.

In the Management Board's opinion the calculation of tax liability is suitable and made on the basis of views presented below and in accordance with the opinions provided by tax consultants. It is however possible that the competent tax authorities would adopt a different position on certain issues, which could result in a difference between the tax liabilities disclosed in the financial statements of consolidated companies and the amount assessed by the tax authorities.

On the basis of Article 67a(5) of the ZIPRS1415-C, Kapitalska družba in 2015 credited EUR 19 million to the ZPIZ (Pension and Disability Insurance Institute) for annual allowance for pensioners. To date, Kapitalska družba has paid EUR 664,321 thousand to the ZPIZ. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

The effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was not calculated, because the Kapitalska družba Group disclosed tax loss in 2015.

## Note no. 12

### Deferred tax

At 31 December 2015, deferred corporate income tax included the item stated in the table below.

	in EUR 000			
	Balance sheet		Income statement	
	31. Dec. 2015	31. Dec. 2014	2015	2014
Deferred income tax liabilities	44,046	48,408	313	19
<b>Total deferred income tax liabilities</b>	<b>44,046</b>	<b>48,408</b>	<b>313</b>	<b>19</b>
<b>Deferred income tax assets</b>	<b>41,131</b>	<b>45,068</b>	<b>-3,936</b>	<b>10,254</b>
Loss brought forward which can be used as tax allowance	11,624	4,167	7,457	272
Value adjustment of investments	29,394	40,828	-11,434	10,274
Dividend adjustment	33	34	0	-263
Provisions	80	39	41	-29
<b>Total deferred income tax assets</b>	<b>41,131</b>	<b>45,068</b>	<b>-3,936</b>	<b>10,254</b>
<b>Netting of deferred tax assets and liabilities</b>	<b>2,915</b>	<b>3,340</b>	<b>-3,623</b>	<b>10,273</b>

### Disclosure of tax loss

	in EUR 000	
	2015	2014
<b>Tax loss as at 31 December of the reporting period</b>	<b>441,084</b>	<b>405,855</b>
Tax loss not considered in the calculation of deferred taxes	415,507	401,688
Tax loss considered in the calculation of deferred taxes	25,577	4,167

Tax loss amounting to EUR 415,507 thousand does not comprise deferred tax assets, whereas tax loss of EUR 25,577 thousand includes deferred tax assets. Tax losses are transferable without time limitation.

In 2015, Kapitalska družba and Modra zavarovalnica disclosed no corporate income tax liabilities, because a tax loss was identified for 2015.

Disclosure of changes in deferred tax recognised directly in the statement of comprehensive income

in EUR 000

Changes in deferred tax	2015	2014
<b>Balance as at 1 January</b>	<b>48,408</b>	<b>35,380</b>
Changes during the year	4,362	13,028
<b>Balance as at 31 December</b>	<b>44,046</b>	<b>48,408</b>

Deferred tax liabilities of EUR 44,046 thousand at 31 December 2015 arose on revaluation of financial assets measured at fair value through the statement of comprehensive income.

**Note no. 13**

**Net earnings/loss per share**

The basic net earnings/loss per share is calculated by dividing the net profit/loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding is calculated on the basis of data about the number of ordinary shares outstanding, taking into account any acquisitions and disposals within the period and the time during which the shares participated in the generation of profit. Diluted net earnings/loss per share also includes all potential ordinary shares that originated in exchangeable bonds, options and futures. When calculated, earnings/loss and the number of ordinary shares outstanding are adjusted for effects of all adjustable potential ordinary shares that would occur if they were swapped for ordinary shares in the accounting period.

	2015	2014
Net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	29,351	72,751
Diluted net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	29,351	72,751
Weighted average number of ordinary shares for basic net earnings per share	874,235	874,235
Diluted average number of ordinary shares for diluted net earnings per share	874,235	874,235
Net earnings per share (EUR)	33.6	83.3

As at 31 December 2015, the Group held no financial instruments that would require adjustment of either the net profit or loss or the weighted average number of ordinary shares.

**Note no. 13.1**

**Profit or loss from discontinued operations**

The result from discontinued operations totalling EUR 403 thousand from 2014 refers to the companies that are intended to be sold.

## 17.3.2 Notes to the statement of financial position

### Note no. 14

#### Intangible assets and long-term deferred costs and accrued revenues

Table 30: Changes in intangible assets, and long-term deferred costs and accrued revenues in 2015

in EUR 000

31. Dec. 2015	Other long-term deferred costs and accrued revenues
<b>Cost</b>	
Cost as at 1 Jan. 2015	3,352
- Additions	425
- Disposals	-64
Cost as at 31 Dec. 2015	3,713
<b>Value adjustment</b>	
Value adjustment as at 1 Jan. 2015	2,888
- Disposals, write-offs	-64
- Depreciation/amortisation	244
Value adjustment as at 31 Dec. 2015	3,068
<b>Carrying amount</b>	
Carrying amount as at 1 Jan. 2015	464
Carrying amount as at 31 Dec. 2015	645

Table 31: Changes in intangible assets, and long-term deferred costs and accrued revenues in 2014

in EUR 000

31. 12. 2014	Other long-term deferred costs and accrued revenues
<b>Cost</b>	
Cost as at 1 Jan. 2014	3,196
- Additions	156
Cost as at 31 Dec. 2014	3,352
<b>Value adjustment</b>	
Value adjustment as at 1 Jan. 2014	2,601
- Depreciation/amortisation	287
Value adjustment as at 31 Dec. 2014	2,888
<b>Carrying amount</b>	
Carrying amount as at 1 Jan. 2014	595
Carrying amount as at 31 Dec. 2014	464

**Note no. 15****Property, plant and equipment**Table 32: **Changes in property, plant and equipment in 2015**

in EUR 000

31. 12. 2015	Buildings	Other plant and equipment	Total
<b>Cost</b>			
Cost as at 1 Jan. 2015	10,217	2,670	12,887
- Additions	0	51	51
- Disposals	0	-102	-102
Cost as at 31 Dec. 2015	10,217	2,619	12,836
<b>Value adjustment</b>			
Value adjustment as at 1 Jan. 2015	3,037	2,395	5,432
- Disposals, write-offs	0	-102	-102
- Depreciation/amortisation	318	103	421
Value adjustment as at 31 Dec. 2015	3,355	2,396	5,751
<b>Carrying amount</b>			
Carrying amount as at 1 Jan. 2015	7,180	275	7,455
Carrying amount as at 31 Dec. 2015	6,862	223	7,085

Table 33: **Changes in property, plant and equipment in 2014**

in EUR 000

31. 12. 2014	Buildings	Other plant and equipment	Total
<b>Cost</b>			
Cost as at 1 Jan. 2014	10,217	2,538	12,755
- Additions	0	179	179
- Disposals	0	-47	-47
Cost as at 31 Dec. 2014	10,217	2,670	12,887
<b>Value adjustment</b>			
Value adjustment as at 1 Jan. 2014	2,719	2,380	5,099
- Disposals, write-offs	0	-47	-47
- Depreciation/amortisation	318	62	380
Value adjustment as at 31 Dec. 2014	3,037	2,395	5,432
<b>Carrying amount</b>			
Carrying amount as at 1 Jan. 2014	7,498	158	7,656
Carrying amount as at 31 Dec. 2014	7,180	275	7,455

**Note no. 16**  
Investment property

Table 34: **Changes in investment property in 2015**

in EUR 000	
31. 12. 2015	Buildings
<b>Cost</b>	
Opening balance as at 1 Jan. 2015	18,939
- Acquisitions	123
- Disposals, transfers	-22
Closing balance as at 31 Dec. 2015	19,040
<b>Value adjustment</b>	
Opening balance as at 1 Jan. 2015	4,097
- Depreciation/amortisation	505
Closing balance as at 31 Dec. 2015	4,602
<b>Carrying amount</b>	
Opening balance as at 1 Jan. 2015	14,842
Closing balance as at 31 Dec. 2015	14,438

The fair value of investment property does not significantly deviate from its carrying amount as at 31 December 2015. The estimated fair value of investment property was assessed based on internal valuation. The appraised value of investment property was EUR 16,020 thousand as at 31 December 2015. The carrying amount of investment property was checked against the market value for signs of impairment, of which there were none.

Table 35: **Changes in investment property in 2014**

in EUR 000	
31. 12. 2014	Buildings
<b>Cost</b>	
Opening balance as at 1 Jan. 2014	18,869
- Acquisitions	70
Closing balance as at 31 Dec. 2014	18,939
<b>Value adjustment</b>	
Opening balance as at 1 Jan. 2014	3,596
- Depreciation/amortisation	501
Closing balance as at 31 Dec. 2014	4,097
<b>Carrying amount</b>	
Opening balance as at 1 Jan. 2014	15,273
Closing balance as at 31 Dec. 2014	14,842

Table 36: Rental income investment property and costs related to investment property

in EUR 000

	2015	2014
Rental income from investment property	1,051	982
Costs related to investment property	643	747

#### Information about encumbrances

Kapitalska družba is the co-owner of investment properties on which a pledge has been entered to secure liabilities of EUR 1,000 thousand. The remaining assets owned by the Group are free from mortgages, pledges or other encumbrances.

Fixed assets are not under finance lease not have they been acquired for the purpose of trading.

#### Note no. 17

##### Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries as at 31 December 2015 include:

Subsidiary	Registered office	Equity stake in %
Modra zavarovalnica, d. d.	Dunajska cesta 119, Ljubljana	100.00
Steklarska nova Rogaška Slatina, d. o. o. – in bankruptcy <sup>7</sup>	Steklarska ulica 1, Rogaška Slatina	100.00

As the parent company, Kapitalska družba consolidates Modra zavarovalnica. Kapitalska družba does not consolidate the subsidiary Steklarska nova Rogaška Slatina, d. o. o. in consolidated financial statements, since the integration of subsidiary's financial statements in consolidated statements is not relevant for a true and fair view of the financial statements of the Kapitalska družba Group as a whole.

As at 31 December 2015, the interests in the following associated companies were held:

Associated company	Registered office	Equity stake in %
Casino Maribor, d. d. – in bankruptcy <sup>8</sup>	Glavni trg 1, Maribor	20.00
Gio, d. o. o. – in liquidation	Dunajska cesta 160, Ljubljana	28.68
Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51
Hit, d. d. <sup>9</sup>	Delpinova ulica 7a, Nova Gorica	20.32
Kli Logatec, d. d. – in liquidation <sup>10</sup>	Tovarniška cesta 36, Logatec	27.70
Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00
Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79
Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79

<sup>7</sup> Pursuant to the ZFPPIPP, the bankruptcy administrator removed shares from the KDD records; prior to the bankruptcy procedure, Kapitalska družba held the equity stake as shown in the table above.

<sup>8</sup> The shares were according to the ZFPPIPP deleted from the KSS by the receiver. Prior to bankruptcy, Kapitalska družba held a stake presented in the table above.

<sup>9</sup> In Hit, d. d., the Company holds 20.32 % of voting rights. Preference shares became voting rights due to non-payment of preference dividends.

<sup>10</sup> Kapitalska družba already obtained funds from the liquidation estate. The company is expected to be deleted from the Companies Register in 2016.

Kapitalska družba consolidates the following companies in the consolidated financial statements using the equity method:

- ♦ Hit, d. d.,
- ♦ Gospodarsko razstavišče, d. o. o.,
- ♦ Loterija Slovenije, d. d., and
- ♦ Cinkarna Celje, d. d.

Cinkarna Celje, d. d., is an associate of Modra zavarovalnica, and is not preparing consolidated financial statements.

Other associated companies are not consolidated using the equity method, since the integration of their financial statements in consolidated financial statements is not relevant for a true and fair view of the financial statements of the Kapitalska družba Group as a whole.

Kapitalska družba, d. d., is not exposed to any risks arising from ownership stakes in subsidiary and associated companies Kapitalska družba, d. d., such as for instance:

- ♦ provision of funds for the operations/capital adequacy of the subsidiary or associate;
- ♦ participation in covering contingent liabilities of the subsidiary or associated company.

Table 37: **Changes in investments in associates**

	2015	2014
<b>Carrying amount as at 1 Jan.</b>	<b>21,334</b>	<b>13,391</b>
Changes	-667	1,557
- Attribution of net profit due to the acquisition of associates using the equity method	1,155	1,203
- Exclusion of dividends	-2,232	-836
- Exclusion of revaluation surplus	-227	-469
- Impairment/strengthening	637	1,659
Transfer of associates from available-for-sale assets	13,707	6,386
<b>Carrying amount as at 31 Dec.</b>	<b>34,374</b>	<b>21,334</b>

in EUR 000

	31. 12. 2015	31. 12. 2014
Shares and interests in associated companies	34,374	21,334
<b>Total</b>	<b>34,374</b>	<b>21,334</b>

in EUR 000

#### Note no. 18

##### Assets held for sale

	31. 12. 2015	31. 12. 2014
Assets held for sale	6,574	197,739
<b>Total</b>	<b>6,574</b>	<b>197,739</b>

in EUR 000

Non-current assets held for sale in the amount of EUR 6,574 thousand as at 31 December 2015 are held for sale in the next 12 months.

## Note no. 19

### Financial assets, excluding loans

in EUR 000

	Long-term		Short-term		Total	
	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014
Shares and interests in associated companies	34,374	21,334	0	0	34,374	21,334
Other shares and interests	675,026	599,281	0	0	675,026	599,281
Other financial assets	221,395	198,593	39,104	46,262	260,499	244,855
Assets held for sale	0	0	6,574	197,739	6,574	197,739
<b>Total</b>	<b>930,795</b>	<b>819,208</b>	<b>45,678</b>	<b>244,001</b>	<b>976,473</b>	<b>1,063,209</b>

Financial assets of the Group other than loans are classified into one of the following groups: financial assets at fair value through profit or loss, financial assets held to maturity, and available-for-sale financial assets. In addition, financial assets are also classified as non-current and current.

As at 31 December 2015, financial assets except loans were classified into the following categories:

in EUR 000

	Long-term		Short-term		Total	
	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014
Financial assets measured at fair value through profit or loss	49,634	36,080	9,021	16,796	58,655	52,876
Financial assets held to maturity	89,473	62,803	9,004	7,277	98,477	70,080
Available-for-sale financial assets	757,314	698,004	27,653	220,915	784,967	918,919
Investments in associates under the equity method	34,374	21,334	0	0	34,374	21,334
<b>Total</b>	<b>930,795</b>	<b>818,221</b>	<b>45,678</b>	<b>244,988</b>	<b>976,473</b>	<b>1,063,209</b>

### Investments in securities

in EUR 000

	31. 12. 2015	31. 12. 2014
Financial assets measured at fair value through profit or loss	58,655	52,876
Equity securities	31,910	29,603
Debt securities	26,745	23,273
Financial assets held to maturity	98,477	70,080
Available-for-sale financial assets	819,341	940,253
Equity securities	684,066	797,989
Debt securities	135,275	142,264
<b>Total</b>	<b>976,473</b>	<b>1,063,209</b>

## Financial assets at carrying amount and fair value as at 31 December 2015

in EUR 000

Asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	58,655	58,655
Financial assets held to maturity	98,477	109,744
Available-for-sale financial assets	819,341	824,784
Loans	120,539	120,539
Cash and cash equivalents	44,146	44,146
<b>Total</b>	<b>1,141,158</b>	<b>1,157,868</b>

## Financial assets at carrying amount and fair value as at 31 December 2014

in EUR 000

Asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	52,876	52,876
Financial assets held to maturity	70,080	81,082
Available-for-sale financial assets	940,253	940,253
Loans	116,812	116,812
Cash and cash equivalents	37,040	37,040
<b>Total</b>	<b>1,217,061</b>	<b>1,228,063</b>

According to its accounting policy, the Kapitalska družba Group carries assets at fair value which equals the market value of financial asset. The difference between the carrying amount and fair value appears on financial assets held until maturity that are measured at amortised cost. The fair value of financial assets comprising loans and receivables also equals their amortised cost.

## Changes in securities investments in 2015

in EUR 000

	31. 12. 2014	Acquisitions	Disposals, maturity	Revaluation	31. 12. 2015
Financial assets measured at fair value through profit or loss	52,876	40,450	-31,616	-3,055	58,655
Financial assets held to maturity	70,080	33,527	-8,080	2,950	98,477
Available-for-sale financial assets	940,253	62,875	-198,621	14,834	819,341
<b>Total</b>	<b>1,063,209</b>	<b>136,852</b>	<b>-238,317</b>	<b>14,729</b>	<b>976,473</b>

## Financial assets by type of interest rate as at 31 December 2015

in EUR 000

	31. 12. 2015	31. 12. 2014
Investments in debt instruments	260,497	235,617
- Fixed Rate	255,354	229,877
- Variable interest rate	5,143	5,740
Loans and deposits	120,556	150,612
- Fixed Rate	120,556	150,612
- Variable interest rate	0	0
<b>Total</b>	<b>381,053</b>	<b>386,229</b>

## Fair value hierarchy as at 31 December 2015

in EUR 000

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	36,956	17,004	4,695	58,655
Available-for-sale financial assets	678,846	39,208	101,287	819,341
<b>Total</b>	<b>715,802</b>	<b>56,212</b>	<b>105,982</b>	<b>877,996</b>

### Level 1

This group includes the assets owned by Modra zavarovalnica, valued based on the CBBT price in an active market and valuation on the basis of transaction price in an active market. The assumption on an active market applies is the CBBT price has been quoted for at least half of the trading days in the past 30 days until valuation. If the trading or OTC market is active, the last known CBBT price is used, no older than 15 days, for fair value measurement. If the trading or OTC market is not active, the last known CBBT price is used, no older than 90 days, for fair value measurement. If the last known CBBT price is older than the last transaction price of the financial asset or if the CBBT price is not available, the last known transaction price is used, no older than 90 days, for fair value measurement, in which case the assumption on an active market applies if the transaction price is not older than 15 days. In other cases, the fair value of a financial asset is determined using a valuation technique. This group does not include the assets owned by Kapitalska družba, d. d., valued based on the prices adopted from the Bloomberg system.

### Level 2

Level 2 assets include the assets valued based on comparable market data (other than quoted prices of identical assets) obtained indirectly or directly for an identical or similar asset; the basis of valuation is the yield curve of comparable financial assets with similar maturity and credit risk.

In addition, Level 2 also includes the investments owned by Modra zavarovalnica, valued based on the stock price on an inactive market, valued based on the CBBT price in an inactive market and the valuation on the basis of transaction price in an inactive market. Level 2 includes investments of Modra zavarovalnica measured using benchmark market data; the value of financial assets measured at fair value is EUR 9,232,322, and they include the bonds of SID banka, d. d., and SIJ, d. d., and treasury bills of the Republic of Slovenia as well as the

RS 33 government bond. The price of SID banka bond was calculated based on Slovenian government bond SLOVEN 4 03/22/18. The value of the RS 33 bond was calculated based on yield to maturity of a comparable liquid Slovenian government bond SLOREP2 1/4 03/22. The prices of bonds of SIJ, d. d., and treasury bills of the Republic of Slovenia were calculated on the basis of the average yield to maturity of comparable liquid bonds and treasury bills respectively. The valuation model applied to the bonds of SIJ, d. d., includes the bonds of ThyssenKrupp AG, ArcelorMittal S.A. and Smurfit Kappa Group PLC, and the model applied to the treasury bill of the Republic of Slovenia includes the treasury bills of the Republic of Italy, Portugal and the Kingdom of Spain. Level 2 also includes investments of Modra zavarovalnica in the shares of the companies Elektro Gorenjska Kranj, Elektro Maribor, Elektro Celje and Elektro Primorska totalling EUR 2,228,571. They are valued based on the market data of comparable companies listed on the stock market. The total capital approach and the EV/EBITDA multiplier were applied in the valuation.

Level 2 comprises investments of Kapitalska družba in the shares of Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., and Geoplin, d. o. o., whose fair value has been estimated based on the market comparison method using the comparable listed companies. Adjusted multipliers were used. The second group does not include the assets owned by Kapitalska družba, d. d., valued based on the prices adopted from the Bloomberg system.

### Level 3

Level 3 includes the assets, the fair value of which is determined using own valuation models taking into account subjective variables that are not publicly available on markets. Moreover, Level 3 also includes debt instruments owned by Modra zavarovalnica, valued using a valuation technique (taking into account Level 3 inputs), debt securities, the CBBT price of which is not available on an (in)active market and whose value is determined using a valuation technique (taking into account Level 3 inputs) as well as debt instruments valued on the basis of the input provided by third parties. Level 3 includes the shares of some Slovenian companies owned by Modra zavarovalnica, in the total amount of EUR 1,685,109. The major are the investments in Hit, d. d., Elektro Ljubljana, d. d., and Certa, d. d. The value of the said investments was primarily set by the present value of expected free cash flow model. The fair value of the investment in Hit, d. d., was EUR 780,656 as at 31 December 2015. The valuation was made based on a 7.8% discount rate. The fair value of the shares of Certa, d. d., was EUR 280,566 as at 31 December 2015; the valuation was made by taking into account a 2% long-term growth rate and a 15% discount rate. The fair value of the investment in Elektro Ljubljana, d. d., was EUR 260,126 as at 31 December 2015; the valuation was made by taking into account an 8.56% discount rate and a 2.5% long-term growth rate. Level 3 also includes deposits of Modra zavarovalnica in the amount of EUR 34,030,013 and commercial papers MEL08 and MEL09 totalling EUR 3,443,468. The prices of commercial papers are calculated based on the theoretical (amortised) value of commercial papers in view of the interest rate applicable to the relevant purchase. In 2015, Modra zavarovalnica reclassified deposits and commercial papers to Level 3, but this had no effect on the operating result. The investment in Slovenian government bonds RS 33 was reclassified from Level 3 to Level 2.

The fair value valuation of Level 3 assets owned by Kapitalska družba was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the regular liquidation method.

Moreover, Level 3 fair value includes all assets where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets are classified into Level 3 fair value hierarchy. The fair value

of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

The fair value of ordinary shares of Hit, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.80% discount rate. The remaining growth rate of normalised free cash flow is 2%. The estimated fair value of the shares of Pomurska mlekarina, d. d., is EUR 0.00, because the company is in compulsory settlement proceedings and the financial restructuring plan envisages deletion of ownership of existing shareholders. The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at an 7.8% discount rate. The remaining growth rate of normalised free cash flow is 2%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o., is the value of the company's real estate, which was classified as unnecessary property. The estimated value of this real estate is set using the regular liquidation method. The liquidation period is expected to last for 24 months and risk-free interest rate used for discounting is 1.7%. The fair value of the shares of Perutnina Ptuj, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 9.87% discount rate. The remaining growth rate of normalised free cash flow is 2%. The fair value of the shares of Terme Olimia, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.46% discount rate. The remaining growth rate of normalised free cash flow is 2%. The fair value of the shares of Talum, d. d., was determined using the income-based method, by means of the method of discounted free cash flow, partly corrected by the estimated share value using the comparable listed companies method. The discount rate for free cash flow in the income-based valuation method is 9.90%. The remaining growth rate of normalised free cash flow is 2%. The fair value of the shares of TKI Hrastnik, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 9.07% discount rate. The remaining growth rate of normalised free cash flow is 2%. The estimated fair value of the holding in GIO, d. o. o. – in liquidation, was estimated by applying the asset-based approach according to the regular liquidation method. The fair value of the equity stake in Elan Inventa, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method. The estimated free cash flow was discounted at an 9.47% discount rate. The remaining growth rate of normalised free cash flow is 1.5%. The investments in the shares of Modra zavarovalnica and Loterija Slovenije, d. d., are disclosed at cost, because a sufficiently reliable valuation is not possible due to certain expected legislative amendments that could significantly influence the estimated value of the companies.

#### Fair value hierarchy as at 31 December 2014

in EUR 000

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	40,395	10,176	2,305	52,876
Available-for-sale financial assets	705,047	13,222	221,984	940,253
<b>Total</b>	<b>745,442</b>	<b>23,398</b>	<b>224,289</b>	<b>993,129</b>

## Level 1

Level 1 comprises assets whose fair value is determined based on quoted prices of identical assets on an active market. This group includes the assets of Modra zavarovalnica, valued based on the prices obtained from the Bloomberg system, if the market value verification model indicated that model prices are set on the basis of market data. The prices obtained from the Bloomberg system, are not directly the prices at which the insurance company could, on the valuation date, sell securities, but their application provides for objective evaluation and the price reflects the actual market transactions and is an appropriate indicator of the price that the insurance company would gain upon the sale of the bond on the market. The providers' prices do not materially differ from the price applied. Assets were classified into Level 1, if the price was entirely based on market data and in more than 50% on directly enforceable quotations.

This group does not include the assets owned by Kapitalska družba, d. d., valued based on the prices adopted from the Bloomberg system.

## Level 2

Level 2 assets include the assets valued based on comparable market data (other than quoted prices of identical assets) obtained indirectly or directly for an identical or similar asset; the basis of valuation is the yield curve of comparable financial assets with similar maturity and credit risk.

Moreover, Level 2 also includes the investments in debt instruments owned by Modra zavarovalnica, valued based on the data from the Bloomberg system, for which the said market value verification model indicated that the price was mainly set on the basis of market data and in less than 50% based on directly enforceable quotations. Investments in debt instruments of Modra zavarovalnica, classified into Level 2 based on the market value verification model account for EUR 8,118,341. On 31 December 2014, these investments were transferred from Level 1. This transfer did not have an effect on the profit/loss. Among the investments of Modra zavarovalnica, the BCE14 bond was valued at EUR 2,053,337 on the basis of comparable market data. The price of the BCE14 bond is calculated according to the discount rate of bonds from a comparable industry, credit rating and currency. The discount rate is calculated based on average credit spreads of comparable bonds and the comparable Euro Swap curve taking into account the modified term of the BCE14 bond. Level 2 also includes assets investments of Modra zavarovalnica, d. d., in the shares of the companies Elektro Gorenjska Kranj, Elektro Maribor, Elektro Celje and Elektro Primorska totalling EUR 1,856,877. They are valued based on the market data of comparable companies listed on the stock market. The total capital approach and the EV/EBITDA multiplier were applied in the valuation. On 31 December 2014, these investments owned by Modra zavarovalnica were reclassified from Level 3 to Level 2. This reclassification did not have an effect on the profit/loss. In addition to all the said investments owned by Modra zavarovalnica, Level 2 also includes commercial papers GEN02 and IML01 worth EUR 4,172,352. Both investments are owned by Modra zavarovalnica. The prices are calculated based on the theoretical (amortised) value of commercial papers in view of the interest rate applicable to the relevant purchase.

The second group does not include the assets owned by Kapitalska družba, d. d., valued based on the prices adopted from the Bloomberg system.

The valuation of Level 2 fair value was applied to certain bonds owned by Kapitalska družba, d. d., according to the market comparison valuation method, involving a comparison with the comparable listed bonds. The valuation of certain Level 2 shares was made using the method involving a comparison with the comparable listed companies.

### Level 3

Level 3 includes the assets whose fair value was assessed based on own valuation models, taking into account subjective variables that are not publicly available on markets, and those investments in debt instruments of Modra zavarovalnica, which have been valued on the basis of data from the Bloomberg system, where the said market value verification model indicated that the prices were based on unobservable inputs.

On the basis of the market value verification model, Level 3 comprised bonds of some Slovenian banks and illiquid Slovenian government bonds owned by Modra zavarovalnica, totalling EUR 7,777,094. On 31 December 2014, these bonds were transferred from Level 1. This reclassification did not have an effect on the profit/loss. Level 3 also includes the shares of some Slovenian companies owned by Modra zavarovalnica, in the total amount of EUR 1,552,128. The major are the investments in Hit, d. d., Elektro Ljubljana, d. d., and Certa, d. d. The value of the said investments was primarily set by the present value of expected free cash flow model. The fair value of the investment in Hit, d. d., was EUR 780,656 as at 31 December 2014. The valuation was made based on a 7.8% discount rate. The fair value of the shares of Certa, d. d., was EUR 280,566 as at 31 December 2014; the valuation was made by taking into account a 2% long-term growth rate and a 15% discount rate. The fair value of the investment in Elektro Ljubljana, d. d., was EUR 260,126 as at 31 December 2014; the valuation was made by taking into account an 8.56% discount rate and a 2.5% long-term growth rate.

The fair value valuation of Level 3 assets involving the shares owned by Kapitalska družba, d. d., was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the regular liquidation method.

In addition to all these assets, Level 3 fair value includes all assets owned by Kapitalska družba, d. d., where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets owned by Kapitalska družba, d. d., are classified into Level 3 fair value hierarchy.

The fair value of shares owned by Kapitalska družba, d. d., is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

In 2014, assets owned by Kapitalska družba, d. d., whose fair value was calculated based on the assumptions stated below were impaired on the basis of the valuations made. The fair value of ordinary shares of HIT, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.6% discount rate. The remaining growth rate of normalised free cash flow is 2%. The fair value of the shares of Pomurske mlekarne, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.9% discount rate. The remaining growth rate of normalised free cash flow is 2%. The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at an 7.8% discount rate. The remaining growth rate of normalised free cash flow is 2%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o., is the value of the company's real estate. The valuation of real estate was made by using the income-based method, the income capitalisation approach and the development method. The direct sales comparison approach was also used in the valuation of real estate. The discount rate of 8.71% was applied under the

income capitalisation approach. The discount rates applied in the development method were 10.19%, 8.71% and 7.64%. The fair value of the shares of Elektro Gorenjska, d. d., was estimated by applying the market comparison valuation method, involving a comparison with the comparable listed companies. The fair value of the shares of Elektro Primorska, d. d., was estimated by applying the market comparison valuation method, involving a comparison with the comparable listed companies. The fair value of the shares of PDP, d. d., was estimated by applying the asset-based approach according to the regular liquidation method. The companies owned by PDP, d. d., were valued by applying the income-based approach, and using the discounted free cash flow method. The fair value of the shares of Cimos, d. d., was estimated by applying the asset-based approach to company valuation. Compulsory settlement proceedings were initiated against the company on 3 June 2014. There is a high probability that the existing shareholders will be expropriated in the scope of the compulsory settlement proceedings. The report on the operations of the insolvent debtor Cimos, d. d., shows that in 2014 the company continued operating at a loss and the company's equity as at 30 November 2014 was EUR -131.7 million.

Table 38: **Effective interest rates by asset group**

	2015	2014
Financial assets held to maturity	3.37%	4.60%
Financial investments in loans and deposits	5.16%	1.83%

#### Note no. 20

##### Loans to others

in EUR 000

	Long-term		Short-term		Total	
	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014
Loans to others	59,359	9,380	61,180	107,432	120,539	116,812
<b>Total</b>	<b>59,359</b>	<b>9,380</b>	<b>61,180</b>	<b>107,432</b>	<b>120,539</b>	<b>116,812</b>

As at 31 December 2015, loans by Kapitalska družba to others constituted deposits with Abanka, d. d., Gorenjska banka, d. d., Hypo Alpe-Adria-Banka, d. d., Nova Kreditna banka Maribor, d. d., Nova Ljubljanska banka, d. d., Ljubljana, Sberbank, d. d., UniCredit banka, d. d., Delavska hranilnica, d. d., and Hranilnica LON, d. d.

As at 31 December 2015, loans by Modra zavarovalnica to others constituted deposits with banks in Slovenia.

#### Note no. 21

##### Operating receivables

in EUR 000

	Long-term		Short-term		Total	
	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014
Operating trade receivable	0	0	1,227	1,660	1,227	1,660
Operating receivables due from others	103	53	4,917	724	5,020	777
<b>Total</b>	<b>103</b>	<b>53</b>	<b>6,144</b>	<b>2,384</b>	<b>6,247</b>	<b>2,437</b>

EUR 103 thousand of non-current operating receivables of Kapitalska družba due from others represent EUR 67 thousand paid into the reserve fund for the maintenance of real estate, receivables from a company in compulsory settlement proceedings equalling EUR 34 thousand, and EUR 2 thousand of loans granted to buyers of former state-owned apartments, which Kapitalska družba obtained under the Denationalization Act and sold under the Housing Act.

Short-term operating trade receivables of EUR 1,227 thousand relate to operating receivables from customers of Kapitalska družba equalling EUR 819 thousand and operating receivables from customers of Modra zavarovalnica d.d. totalling EUR 408 thousand.

Short-term operating receivables from others of EUR 4,917 thousand relate to operating receivables from others of Kapitalska družba equalling EUR 2,043 thousand and operating receivables from others of Modra zavarovalnica totalling EUR 2,874 thousand.

The Group has no value adjustments of receivables.

The Group has no collateralised receivables.

The Group's receivables are not subject to material risk.

#### Breakdown of operating trade receivables by maturity

							in EUR 000
31. 12. 2015	Outstanding	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days	
1,227	1,203	1	1	0	0	22	

#### Note no. 22

##### Cash and cash equivalents

			in EUR 000
		31. 12. 2015	31. 12. 2014
Bank balances and cash on hand		44,129	1,952
Call deposit		17	35,088
<b>Total</b>		<b>44,146</b>	<b>37,040</b>

#### Note no. 23

##### Equity

			31. 12. 2015	31. 12. 2014
Share capital (000 EUR)			364,810	364,810
Number of ordinary shares			874,235	874,235

The Group has no treasury shares. The share capital of EUR 364,810 thousand is divided into 874,235 ordinary, registered, non-par value shares. Each share has the same interest and the attributed amount in the share capital.

## Note no. 24

### Capital surplus

in EUR 000

#### Capital surplus

<b>1. 1. 2015</b>	<b>215,953</b>
Increase in capital surplus	460
<b>31. 12. 2015</b>	<b>216,413</b>

In 2015, the capital surplus increased by EUR 460 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2015, capital surplus totalled EUR 216,413 thousand.

## Note no. 25

### Revenue reserves

As at 31 December 2015, the Kapitalska družba Group reported no other revenue reserves.

## Note no. 26

### Financial liabilities

As at 31 December 2015, the Kapitalska družba Group had no financial liabilities.

## Note no. 27

### Operating liabilities

in EUR 000

	Long-term		Short-term			Total
	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014
Operating liabilities to suppliers	0	0	3,412	6,169	3,412	6,169
Operating liabilities from advances	12	6	0	6	12	12
Payables to the state	0	0	131	2,792	131	2,792
Other operating liabilities	36	12	562	520	598	532
<b>Total</b>	<b>48</b>	<b>18</b>	<b>4,105</b>	<b>9,487</b>	<b>4,153</b>	<b>9,505</b>

Long-term operating liabilities from advances in the amount of EUR 12 thousand relate to security deposits from the lessee of business premises of Kapitalska družba.

Other long-term operating liabilities of Modra zavarovalnica in the amount of EUR 36 thousand comprise liabilities for the payment of variable remuneration of the Management Board members.

Short-term operating liabilities in the amount of EUR 4,105 thousand comprise liabilities to domestic and foreign suppliers, liabilities from advances received and other short-term operating liabilities mainly including liabilities to employees, the state and other short-term liabilities.

in EUR 000

31. 12. 2015	Maturity of up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Operating liabilities to suppliers	3,412	0	0	0	3,412
Operating liabilities from advances	0	0	12	0	12
Payables to the state	131	0	0	0	131
Other operating liabilities	562	36	0	0	598
<b>Total</b>	<b>4,105</b>	<b>36</b>	<b>12</b>	<b>0</b>	<b>4,153</b>

**Note no. 28**

## Liabilities included in disposal groups

in EUR 000

	31. 12. 2015	31. 12. 2014
Liabilities included in disposal groups	0	92,784

Liabilities included in disposal groups totalling EUR 92,784 thousand from 2014 comprise liabilities from non-current assets held for sale in the next 12 months.

**Note no. 29**

## Provisions and long-term accrued costs and deferred revenue

in EUR 000

	Provisions for pensions and similar obligations	Other provisions	Technical provisions	Total
<b>1. 1. 2015</b>	<b>315</b>	<b>10,657</b>	<b>127,263</b>	<b>138,235</b>
Newly established during the year	17	7,813	12,237	20,067
Utilised provisions	-8	0	0	-8
Reversal of provisions	0	-11	0	-11
<b>31. 12. 2015</b>	<b>324</b>	<b>18,459</b>	<b>139,500</b>	<b>158,283</b>

In 2015, the Kapitalska družba Group made provisions for severance pay on retirement and jubilee awards in the amount of EUR 17 thousand and used EUR 8 thousand of provisions. At 2015 year-end, provisions for termination benefits and jubilee awards amounted to EUR 324 thousand. Provisions for termination benefits and jubilee awards are calculated on the basis of expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Company's internal regulations.

In 2015, the Kapitalska družba Group created EUR 4,993 thousand of provisions for non-achievement of guaranteed return, EUR 497 thousand of provisions for contingent liability arising from Indemnity Agreement, EUR 524 thousand of provisions for testing the adequacy of provisions, and provisions in the amount of EUR 1,799 thousand for the deficit of Modra zavarovalnica KS PPS assets, which is not disclosed in other operating expenses.

Reversal of other provisions in the amount of EUR 11 thousand refers to the provisions for onerous contracts of Kapitalska družba. In line with the prudence principle the Group establishes provisions for legal action started against it and legal disputes, on the basis of the best estimate of recoverability.

As at 31 December 2015, the technical provisions of Modra zavarovalnica, d. d., comprised mathematical provisions of the KS PPS (Guarantee Fund of the First Pension Insurance Fund) and the KS MR (Guarantee Fund Modra renta) in the amount of EUR 139,500 thousand, of which mathematical provisions of the KS PPS total EUR 99,579 thousand and of the KS MR EUR 39,921 thousand.

Table 39: Present gross value of future payments of the KS PPS and the KS MR

Types of payments	in EUR 000	
	31. 12. 2015	31. 12. 2014
KS PPS	96,520	95,602
KS MR	39,920	27,230
<b>Total</b>	<b>136,440</b>	<b>122,832</b>

Total present gross value of future payments of all types of pension annuities of the KS PPS deviates from the mathematical provisions of the KS PPS, which amount to EUR 98,735 thousand, by the amount of the provisions for the equalisation of yield experience in the amount of EUR 2,215 thousand.

The total present gross value of future disbursements of all types of KS PPS pension annuities stood at EUR 96,520 thousand as at 31 December 2015. The calculation of the value of future disbursements uses annuity tables DAV2004R and the statutory technical interest rate amounting to 1%. Any person insured who acquires the right to annuity can select one of available annuity products, thus exercising his/her right and finalise the method of enjoyment of the right. Any person insured with more than 2,000 points on their insurance policy can choose between pension annuity for life and pension annuity with guaranteed payment period of 5, 10 or 15 years. If the person insured dies before the expiry of the guaranteed payment period, the annuities are paid to the person appointed by the insured person (beneficiary) or his or her heirs. A person insured holding less than 2,000 points can choose to receive a monthly pension annuity or a one-off payment of the pension annuity, while an insured person holding between 2,001 and 5,000 points can opt to receive an annual pension annuity.

Mathematical provisions of the Modra renta Guarantee Fund are calculated pursuant to the Insurance Act, technical standards and technical bases. Mathematical provisions for the annuity insurance product are calculated prospectively, separately for each insurance contract. German annuity tables DAV1994R were applied in the calculation.

Annuity insurance may be taken out in a number of formats. The classic Modra renta is paid out monthly from the effective date of annuity insurance to the end of the insured person's life and cannot be inherited. The classic Modra renta with guarantee is paid out monthly from the beginning of the validity of annuity to the end of life. In the event of an insured person's death prior to the expiry of the guaranteed disbursement period, the annuity is paid to their beneficiary or heir until the expiry of the guaranteed period.

Accelerated Modra renta with full guarantee is paid out from the effective date of annuity insurance until the end of the insured person's life. During the guaranteed disbursement period, the annuity is higher and is paid out monthly, after which it converts to annual payments of the same amount. In the event of an insured person's death prior to the expiry of the guaranteed disbursement period, the annuity is paid to their beneficiary or heir until the expiry of the guaranteed period.

Accelerated Modra renta with limited guarantee is paid out from the beginning of the validity of annuity to the end of life. The annuity is higher during monthly payment, after which it converts to annual payments of EUR 12. In the event of an insured person's death prior to the expiry of the guaranteed disbursement period, the annuity is paid to their beneficiary or heir until the expiry of the guaranteed period. The guaranteed period is a year shorter than the period of monthly payments.

#### Liability adequacy

Modra zavarovalnica checks the adequacy of liabilities arising from the concluded insurance contracts or the sufficiency of established mathematical provisions by performing the LAT – Liability Adequacy Test. These checks are limited to annuity insurance contracts. The test involves the setting of the best liability estimate as the sum of the present value of expected cash flows (payments of annuities and insurance company's costs). This estimate is compared to the value of mathematical provisions determined according to the rules stated in insurance-technical bases for the respective insurance.

The liability adequacy test carried out per individual insurance contract by taking into account the monthly dynamics relied on the following assumptions:

- ◆ the expected mortality was set according to German annuity mortality tables D1994R, which, given the past experience, suitably indicate the actual mortality;
- ◆ early terminations were not expected, as they are not possible according to the provisions of insurance contracts;
- ◆ the expected costs equal the accrued costs;
- ◆ the discount rate was determined based on the yield curve of Slovenian debt securities.

The Liability Adequacy Test as at 31 December 2015 showed that mathematical provisions for KS PPS are adequate, whereas a deficit of EUR 524 thousand was determined for KS MR.

#### Change in interest rates/return

Table 40: **Change in interest rates/return for the KS PPS as at 31 December 2015**

in EUR 000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-2,928	3,084

Table 41: **Change in interest rates/return for the KS PPS as at 31 December 2014**

in EUR 000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-2,940	3,099

Table 42: **Change in interest rates/return for the KS MR as at 31 December 2015**

in EUR 000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-519	539

Table 43: **Change in interest rates/return for the KS MR as at 31 December 2014**

in EUR 000

<b>Change in return</b>	<b>Increase in return by 0.25 percentage point</b>	<b>Decrease in return by 0.25 percentage point</b>
<b>Change in liabilities (provisions)</b>	<b>-227</b>	<b>233</b>

**Change in mortality**Table 44: **Change in mortality as at 31 December 2015 for KS PPS**

in EUR 000

<b>Change in mortality</b>	<b>Increase in mortality probability by 10%</b>	<b>Decrease in mortality probability by 10%</b>
<b>Change in liabilities (provisions)</b>	<b>-3,194</b>	<b>3,626</b>

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,194 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 45: **Change in mortality as at 31 December 2014 for the KS PPS**

in EUR 000

<b>Change in mortality</b>	<b>Increase in mortality probability by 10%</b>	<b>Decrease in mortality probability by 10%</b>
<b>Change in liabilities (provisions)</b>	<b>-3,093</b>	<b>3,509</b>

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,093 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 46: **Change in mortality as at 31 December 2015 for KS MR**

in EUR 000

<b>Change in mortality</b>	<b>Increase in mortality probability by 10%</b>	<b>Decrease in mortality probability by 10%</b>
<b>Change in liabilities (provisions)</b>	<b>-244</b>	<b>272</b>

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 244 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 47: **Change in mortality as at 31 December 2014 for the KS MR**

in EUR 000

<b>Change in mortality</b>	<b>Increase in mortality probability by 10%</b>	<b>Decrease in mortality probability by 10%</b>
<b>Change in liabilities (provisions)</b>	<b>-126</b>	<b>137</b>

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 126 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

## Off-balance sheet receivables

In September 2015, according to the Commission Decision SA.26379 of 19 September 2012, Kapitálska družba received from Elan, d. o. o., repayment of state aid in the amount of EUR 6,954 thousand and recognised it as asset and revenue in the income statement. The Company posted off-balance sheet liability to Elan, d. o. o., in the amount of EUR 6,457 thousand, for the contingent liability arising from the repayment of the refunded state aid that would happen if the General Court of the European Union declared the said decision null and void.

### 17.3.3 Managing risks arising from financial assets

All risks to which the Group is exposed, and the risk management measures and criteria, are described in chapter 17.2 Accounting policies. It is estimated that the Group is not exposed to credit, market (interest rate, currency, price) and liquidity risk arising from financial assets.

#### Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, certificates of deposit, deposits, cash assets) and entails the possibility of investments being only partly repaid or not at all. Assets' and business partners' credit rating is determined by ratings assigned by Standard&Poor's, Fitch and Moody's, and in-house analyses. The highest exposure equals the book value of financial instruments. Equity securities are exempt from the analysis, because they do not entail direct credit risk.

Table 48: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2015

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Total
Financial assets at fair value through profit or loss	778	12,909	13,059	26,746
Financial assets held to maturity	20,155	76,212	2,111	98,478
Available-for-sale financial assets	11,423	102,602	21,251	135,276
Loans	0	800	119,739	120,539
Cash and cash equivalents	0	0	44,146	44,146
<b>Total</b>	<b>32,356</b>	<b>192,523</b>	<b>200,305</b>	<b>425,184</b>

Table 49: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2014

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Total
Financial assets at fair value through profit or loss	542	11,626	11,104	23,273
Financial assets held to maturity	13,417	56,462	201	70,080
Available-for-sale financial assets	16,142	107,622	18,499	142,264
Loans	0	19,830	96,982	116,812
Cash and cash equivalents	16	2,540	34,485	37,040
<b>Total</b>	<b>30,117</b>	<b>198,080</b>	<b>161,272</b>	<b>389,469</b>

Financial assets were classified into the stated groups based on credit ratings. Secure assets comprise all assets with the credit rating AAA to A-, medium secure assets include assets with the credit rating BBB+ do BBB-, whereas less secure assets comprise the assets with credit rating under BBB- and assets without a credit rating assigned by a renowned rating agency. Less secure assets mainly include assets of Slovenian issuers.

Loans represent deposits in banks in Slovenia. Deposits are classified into the rating class of the bank with which the respective deposit has been made.

Table 50: **Geographical concentration of credit exposure of financial assets**

in EUR 000		
Region	31. 12. 2015	31. 12. 2014
Slovenia	323,394	307,063
Other countries	101,790	82,406
<b>Total</b>	<b>425,184</b>	<b>389,469</b>

The share of financial assets exposed to credit risk in Slovenia decreased from 79% to 76% in 2015.

#### Currency risk

Table 51: **Currency structure of financial assets**

in EUR 000		
Currency	31. 12. 2015	31. 12. 2014
Assets denominated in EUR	994,345	1,080,161
Assets denominated in USD	141,636	130,898
Assets denominated in other currencies	5,177	6,002
<b>Total</b>	<b>1,141,158</b>	<b>1,217,061</b>

On 31 December 2015, 87.1% of financial assets were denominated in euros, 12.4% in US dollars and 0.5% in other currencies.

Table 52: **Currency risk of financial assets as at 31 December 2015**

in EUR 000		
USD exchange rate fluctuation in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 428	+/- 13,736

Table 53: **Currency risk of financial assets as at 31 December 2014**

in EUR 000		
USD exchange rate fluctuation in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 159	+/- 12,931

#### Interest rate risk

Interest rate risk is related to investments that respond to changes in market interest rates. These include assets of which revenues are related to the variable interest rate as well as assets of which interest income is related to a fixed interest rate, but their market value

changes upon the change in the market interest rates. Owing to the decrease in interest rates the assets were exposed to reinvestment risk. The exposure to interest rate risk is regularly measured by the modified duration indicator.

Table 54: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2015 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5%	+/- 3	-/+ 598	-/+ 595
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 4	-/+ 3,959	-/+ 3,955
Loans and receivables	+/- 0.5%	+/- 0	+/- 0	+/- 0
<b>Total</b>		<b>+/- 7</b>	<b>-/+ 4,557</b>	<b>-/+ 4,550</b>

Table 55: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2014 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5%	+/- 0	-/+ 1,121	-/+ 1,121
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 12	-/+ 4,888	-/+ 4,876
Loans and receivables	+/- 0.5%	+/- 0	+/- 0	+/- 0
<b>Total</b>		<b>+/- 12</b>	<b>-/+ 6,009</b>	<b>-/+ 5,997</b>

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the impact on fair value was calculated by talking into account the investments subject to fixed interest rate. If market interest rates change by 50 basis points, the value of the fund's assets would change by EUR 4,550 thousand as at 31 December 2015.

### Market risk

Market risk represents the possibility of the value of equity securities to change due to the changes in market indexes and market prices of specific equity instruments. The beta indicator is calculated for equity securities, as a measure of systematic risk. The value at risk indicator (VaR) is also monitored.

Table 56: Market risk of the equity securities portfolio as at 31 December 2015

in EUR 000

Index change in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 1,707	+/- 57,794

Table 57: **Market risk of the equity securities portfolio as at 31 December 2014**

in EUR 000

Index change in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 1,861	+/- 48,160

The table takes into account the investments in equity instruments excluding investment coupons related to bonds. The effect in the income statement is evident under equity securities measured at fair value through profit or loss, and the effect on equity is evident under investments in AFS equity instruments.

Table 58: **Financial instruments in terms of marketability**

in EUR 000

Financial instrument	31. 12. 2015	31. 12. 2014
Securities traded on the regulated market	926,909	905,978
Financial assets at fair value through profit or loss	52,887	46,640
Financial assets held to maturity	98,477	70,080
Available-for-sale financial assets	775,545	789,258
Securities not traded on the regulated market	49,564	157,231
Financial assets at fair value through profit or loss	5,768	6,236
Financial assets held to maturity	-	0
Available-for-sale financial assets	43,796	150,995
<b>Total</b>	<b>976,473</b>	<b>1,063,209</b>

At the end of 2015, assets traded on regulated stock markets accounted for 95% of financial instruments or 78% of all assets of the Group. Available-for-sale financial assets not traded on regulated market include non-marketable shares, stakes and investment coupons.

### Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2015, the Group recorded a total of EUR 1,038,701 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 59: **Expected actual non-discounted cash flows as at 31 December 2015**

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	42,311	131,630	129,752	703,981	1,007,674
- at fair value through profit or loss	8,164	14,893	3,745	31,910	58,711
- held-to-maturity	10,793	37,448	70,822	0	119,062
- available-for-sale	23,354	79,289	55,186	672,071	829,901
Loans and deposits	63,818	57,996	0	0	121,814
Cash and cash equivalents	44,146	0	0	0	44,146
Operating receivables	6,144	103	0	0	6,247

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
<b>Total assets</b>	<b>156,418</b>	<b>189,729</b>	<b>129,752</b>	<b>703,981</b>	<b>1,179,881</b>
Operating liabilities	4,105	48	0	0	4,153
Financial liabilities	0	0	0	0	0
Liabilities of PPS and MR Guarantee Funds	14,157	38,991	83,879	0	137,027
<b>Total liabilities</b>	<b>18,262</b>	<b>39,039</b>	<b>83,879</b>	<b>0</b>	<b>141,180</b>
<b>Difference</b>	<b>138,156</b>	<b>150,691</b>	<b>45,873</b>	<b>703,981</b>	<b>1,038,701</b>

Table 60: Expected actual non-discounted cash flows as at 31 December 2014

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	49,463	106,435	131,675	828,561	1,116,133
- at fair value through profit or loss	7,209	13,974	4,216	29,603	55,002
- held-to-maturity	7,536	27,812	51,035	0	86,384
- available-for-sale	34,717	64,649	76,424	798,958	974,748
Loans and deposits	110,165	9,743	0	0	119,908
Cash and cash equivalents	37,040	0	0	0	37,040
Operating receivables	2,384	53	0	0	2,437
<b>Total assets</b>	<b>199,052</b>	<b>116,231</b>	<b>131,675</b>	<b>828,561</b>	<b>1,275,519</b>
Operating liabilities	9,487	18	0	0	9,505
Financial liabilities	0	0	0	0	0
Liabilities of PPS and MR Guarantee Funds	12,550	32,543	92,905	0	137,999
<b>Total liabilities</b>	<b>22,037</b>	<b>32,561</b>	<b>92,905</b>	<b>0</b>	<b>147,504</b>
<b>Difference</b>	<b>177,014</b>	<b>83,670</b>	<b>38,770</b>	<b>828,561</b>	<b>1,128,015</b>

Shares, stakes and investment coupons are disclosed under item without maturity.

## OTHER DISCLOSURES

### Information on the Management

The names of the members of the Management Board and other bodies are stated in the introductory part of the Annual Report, under the section Corporate Profile of Kapitalska družba and Modra zavarovalnica. No operating receivables and long- or short-term liabilities to the members of the Management Board and Supervisory Board of Kapitalska družba were recorded in 2015.

### Receipts of the members of the Management Board, Supervisory Board and staff with management contracts of Kapitalska družba

In 2015, remunerations paid for the carrying out of responsibilities and duties of members of the Management Board, Supervisory Board and employees with individual contracts of employment for which the tariff section of the collective agreement does not apply, amounted to EUR 888 thousand.

Remunerations by category of beneficiaries are presented in the table below.

Table 61: Remunerations by category of beneficiaries in 2015

Category of beneficiaries	Amount
Members of the Management Board	284
Members of the Supervisory Board	122
Employees with management contract	482
<b>Total</b>	<b>888</b>

in EUR 000

No advances, loans or collateral were approved by the Company in 2015.

### Receipts of the members of the management and supervisory bodies of Kapitalska družba

Receipts of the members of the Management Board are regulated by the ZSDH-1. Pursuant to Article 51(5) of the ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of Slovenski državni holding, d.d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of the ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of managers of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, but it may not exceed 95% of the basic pay of the President of the Management Board of Slovenski državni holding, d. d., which is published. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous year are published. The revised basic salary is applicable from 1 July of the current year. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2015 in line with the aforementioned criteria. Pursuant to the contract, the members of the Management Board are entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 62: Receipts of the members of the Management Board of Kapitalska družba in 2015

EUR

Name and surname	Fixed income	Variable income	Bonuses	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other rewards	Other payments	Total
Bachtiar Djalil (President)	125,114	8,285	55	2,355	2,819	-	-	-	791	<b>139,419</b>
Dr Boris Žnidarič (Member since 23 November 2015)	2,830	-	-	61	165	-	-	-	85	<b>3,141</b>
Anja Strojín Štampar, MSc. (Member until 30 November 2015)	118,858	15,597	750	3,094	2,819	-	-	-	791	<b>141,909</b>
<b>Total</b>	<b>246,802</b>	<b>23,882</b>	<b>805</b>	<b>5,510</b>	<b>5,803</b>	-	-	-	<b>1,667</b>	<b>284,469</b>

Fixed income includes gross salary. Variable income includes performance bonus, which equals up to 30% of the annual basic gross salary for the business year, taking into account the performance criteria. Cost reimbursements include reimbursement of meal/travel/accommodation expense and daily allowance. Bonuses include collective accident insurance premiums and/or a company car. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave.

Table 63: Receipts of the members of the Supervisory Board of Kapitalska družba in 2015

EUR

Name and surname	Fixed income	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other rewards	Other payments	Total
Samo Lozej (Chairman of the Supervisory Board)	20,790	-	-	-	-	-	-	-	-	<b>20,790</b>
Cirila Surina Zajc (Member of the Supervisory Board since 1 February 2015 and Deputy Chair of the Supervisory Board since 23 November 2015)	16,607	-	864	-	-	-	-	-	-	<b>17,471</b>
Dr Boris Žnidarič <sup>11</sup> (Member of the Supervisory Board since 1 February 2015 and Deputy Chair of the Supervisory Board from 5 March 2015 to 22 November 2015, Member of the Management Board since 23 November 2015)	17,247	-	59	-	-	-	-	-	-	<b>17,306</b>
Aldo Ternovec (Member of the Supervisory Board and Deputy Chair of the Supervisory Board until 31 January 2015)	3,199	-	83	-	-	-	-	-	-	<b>3,282</b>
Aleksander Mervar, MSc. (Member of the Supervisory Board)	18,875	-	433	-	-	-	-	-	-	<b>19,308</b>

<sup>11</sup> While Dr Boris Žnidarič is occupying the office of the member of Management Board, his function in the Supervisory Board is suspended.

Name and surname	Fixed income	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other rewards	Other payments	Total
Stanislav Seničar (Member of the Supervisory Board)	19,526	-	722	-	-	-	-	-	-	<b>20,248</b>
Ladislav Rožič, MSc. (Member of the Supervisory Board)	20,640	-	-	-	-	-	-	-	-	<b>20,640</b>
Ana Bilbija (Member of the Supervisory Board until 31 January 2015)	3,007	-	104	-	-	-	-	-	-	<b>3,111</b>
<b>Total</b>	<b>119,891</b>	<b>-</b>	<b>2,265</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>122,156</b>

Fixed receipts of the Supervisory Board members include payment for the performance of function in the Supervisory Board (basic and extra pay for participation in the Supervisory Board committees) and session fees for attending the meetings of the Supervisory Board and its committees. Cost reimbursements include reimbursement of travel expenses.

In 2015, the members of management and supervisory bodies received no receipts for tasks performed in subsidiaries of Kapitalska družba.

#### Receipts of the members of the Management Board, Supervisory Board and staff with management contracts of Modra zavarovalnica

In 2015, the remuneration received by the members of the Management Board, Supervisory Board and employees with individual employment contracts who are not subject to the tariff part of the collective agreement totalled EUR 652 thousand.

In 2015, Modra zavarovalnica approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

Table 64: Gross receipts in 2015 by category, Modra zavarovalnica

in EUR 000

Category of beneficiaries	Amount
Members of the Management Board	315
Members of the Supervisory Board	77
Employees with management contract	260
<b>Total</b>	<b>652</b>

#### Receipts of the members of the management and supervisory bodies of Modra zavarovalnica

Table 65: Receipts of the members of the Management Board of Modra zavarovalnica in 2015

EUR

Name and surname	Fixed income	Past due payments	Bonuses	Allowance for annual leave	Cost reimbursement	Insurance premiums (PDPZ)	Total
Borut Jamnik	118,858	34,989	1,871	791	4,833	2,819	<b>164,161</b>
Matija Debelak	112,915	31,907	99	791	2,290	2,819	<b>150,821</b>

Fixed remuneration includes gross salaries. Outstanding payments include part 2 of the variable remuneration for 2011 and 2012 and part 1 of the variable remuneration for 2014. Reimbursements of costs include meal and/or travel allowances and/or other reimbursements of travel expenses (daily allowances, mileage expenses, costs of overnight stays, parking, taxi). Bonuses include company car and bonuses arising from collective accident insurance. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance.

Table 66: Receipts of the members of the Supervisory Board of Modra zavarovalnica in 2015

EUR

Name and surname	Fixed income	Monthly fee	Cost reimbursement	Total
Branimir Štrukelj	3,905	0	0	<b>3,905</b>
Aleš Groznik	3,630	11,495	466	<b>15,591</b>
Bojan Zupančič	2,805	10,450	0	<b>13,255</b>
Dario Radešič	3,905	10,450	1,066	<b>15,421</b>
Goran Bizjak	3,630	10,450	277	<b>14,357</b>
Marino Furlan	3,080	10,450	604	<b>14,134</b>

The fixed income comprises the fees for attendance at Supervisory Board meetings. Monthly remuneration includes the monthly receipt for the performance of the Supervisory Board member function. Cost reimbursements include reimbursement of travel expenses.

#### Related-party transactions

In 2015, the Kapitalska družba Group made no significant transactions with its related parties that were concluded under other than normal market conditions.

#### Disclosure related to the pension schemes

On 6 November 2015, Kapitalska družba received from the Ministry of Labour, Family, Social Affairs and Equal Opportunities the Decision approving amendments and supplements to the Occupational Pension Insurance Scheme, no. 1032-5/2013-26, dated 30 October 2015. The amendments and supplements to the Occupational Pension Insurance Scheme refer to decreasing the management fee in terms of net value of the assets under management. The provisions of the Occupational Pension Insurance Scheme will start being applied with the entry into force of the Rules on Management of the Fund for Compulsory Supplementary Pension Insurance Scheme of the Republic of Slovenia, which depends on the acquisition of approval of the Securities Market Agency, but no later than in 90 days of the serving of the decision approving the pension scheme amendments to the Fund manager. On 4 December 2015, Kapitalska družba filed with the Securities Market Agency a request for approval of the amendments to the Rules on Management of the Fund for Compulsory Supplementary Pension Insurance Scheme of the Republic of Slovenia.

On 1 January 2016 the Act Amending and Supplementing the Pension and Disability Insurance Act entered into force (Official Gazette of the RS, no. 102/2015; ZPIZ-2B). Article 38(2) of the ZPIZ-2B stipulates that Kapitalska družba has to align the Occupational Pension Insurance Scheme and the Occupational Pension Payment Scheme with the provisions of the ZPIZ-2B within twelve months of the entry into force of the ZPIZ-2B. Until the new pension scheme starts being applied, the provisions of the pension schemes valid at the time of entry into force of the ZPIZ-2B shall be applied. When the new pension scheme

is established, the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund (KS SODPZ) shall be liquidated and occupational pensions shall be paid as partial surrender value.

#### **Significant events after the date of the statement of financial position**

On 28 January 2016, the General Court of the European Union decided to fully reject the claim of the Republic of Slovenia to declare the Commission Decision SA.26379 of 19 September 2012 on the measures in favour of ELAN, d. o. o., null and void. With this judgement the contingent liability of Kapitalska družba ceased until the repayment of the refunded state aid, which is why Kapitalska družba derecognised off-balance sheet liability to Elan, d. o. o., in the amount of EUR 6,457 thousand.

The amendment to the Pension and Disability Insurance Act ZPIZ-2B entered into force on 1 January 2016, introducing changes also for Kapitalska družba. According to the amendment, occupational pensions shall be paid directly from the Compulsory Supplementary Pension Insurance Fund, while the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund shall cease to exist. Upon the transfer of the funds from KS SODPZ to SODPZ, the management fee charged by Kapitalska družba shall increase, because no management fee was charged for KS SODPZ.

On 2 February 2016, the Creditors' Committee consisting of ordinary creditors adopted a resolution that the share capital of Pomurske mlekarne, d. d., decrease from EUR 1.4 million to zero and that all existing shares be deleted. The resolution will become final after compulsory settlement has been finally approved.

On 31 December 2015, Kapitalska družba held an equity investment in the shares of Sava, d. d., valued at EUR 255 thousand. On 12 February 2016, the Creditors' Committee of Sava, d. d., adopted a resolution that the share capital of Sava, d. d., decrease from EUR 14.1 million to zero and that all existing shares be invalidated. The resolution will become final after compulsory settlement has been finally approved. If the decision approving compulsory settlement becomes final, Kapitalska družba will lose the full value of investment in shares of Sava, d. d.

Since the end of 2015 until the preparation of the Annual Report, Modra zavarovalnica recorded no significant events that could influence its financial statements for 2015.