# *Consolidated Annual Report of the Kapitalska družba Group for 2017*

KAPITALSKA DRUŽBA

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# List of abbreviations used

| | |
|---|---|
| ISA | Insurance Supervision Agency |
| GDP | Gross domestic product |
| BVAL | Bloomberg Valuation Service |
| CBBT | Composite Bloomberg Bond Trader |
| CPR | Central Population Register |
| ECB | European Central Bank |
| 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 |
| KS MR | Modra Renta Guarantee Fund |
| KS MR II | Modra Renta Guarantee Fund II |
| 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 |
| KPSJU | Umbrella Pension Fund for Public-Sector Employees |
| MLFSAEO | Ministry of Labour, Family, Social Affairs and Equal Opportunities |
| MKPS | Modri Umbrella Pension Fund |
| IFRS | International Financial Reporting Standards |
| IAS | International Accounting Standard |
| OdSUKND | Decree on the Strategy for Managing State Capital Investments |
| IFRIC | International Financial Reporting Interpretations Committee |
| OTC | Over-the-counter market |
| VSPI | Voluntary supplementary pension insurance |
| PSŠ | Bridging insurance fund for professional athletes (bridging fund for athletes) |
| 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 voluntary supplementary pension insurance for public-sector employees |
| PNMZ K | Pension plan for collective supplementary pension insurance (MKPS) |
| PNMZ P | Pension plan for individual voluntary supplementary pension insurance (MKPS) |
| PPS | First Pension Fund of the Republic of Slovenia |
| SBI TOP | Central Slovenian stock market index |
| SDH | Slovenski državni holding, d. d. |
| 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, 82/2015, 68/2016 and 69/2017) |
| ZFPPIPP | 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 – ORZFPPIPP21, 26/2011, 47/2011 – ORZFPPIPP21-1, 87/2011 – ZPUOOD, 23/2012 – Constitutional Court ruling, 48/2012 – Constitutional Court ruling, 47/2013, 100/2013, 10/2015 – amended, 27/2016, 31/2016 – Constitutional Court ruling, 38/2016 – Constitutional Court ruling, 63/2016 – ZD-C) |
| ZGD-1 | Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 |

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|---|---|
| | – 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, 44/2013 – Constitutional Court ruling, 82/2013, 55/2015, 15/2017) |
| ZIPRS1617 | Implementation of the Budget of the Republic of Slovenia for 2016 and 2017 Act (Official Gazette of the Republic of Slovenia, Nos. 96/2015, 46/2016, 80/2016) |
| ZIPRS1718 | Implementation of the Budget of the Republic of Slovenia for 2017 and 2018 Act (Official Gazette of the Republic of Slovenia, Nos. 80/2016, 33/2017, 59/2017, 71/2017 – ZIPRS1819) |
| ZIPRS1819 | Implementation of the Budget of the Republic of Slovenia for 2018 and 2019 Act (Official Gazette of the Republic of Slovenia, No. 71/2017) |
| ZNVP-1 | Act amending the Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 – ORZNVP48, 5/2017) |
| ZPIZ | Pension and Disability Insurance Institute |
| 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, 102/2015, 102/2015, 42/2016 – Constitutional Court ruling, 80/2016 – ZIPRS1718, 88/2016 – ZUPPJS17, 40/2017, 23/2017, 75/2017 – ZIUPTD-A, 65/2017, 71/2017 – ZIPRS1819) |
| 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. 21/2010and 8/2011 and 23/2014 – ZDIJZ-C) |
| 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, 96/2015 – ZIPRS1617, 80/2016 – ZIPRS1718, 71/2017 – ZIPRS1819) |
| ZVPSJU | Closed Mutual Pension Fund for Public-Sector Employees |
| ZZavar-1 | Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015) |
| ZZZS | Zavod za zdravstveno zavarovanje Slovenije (Health Insurance Institute of Slovenia) |

# I

# Presentation of the Kapitalska družba Group



The Kapitalska družba Group comprises the parent company Kapitalska družba and Modra zavarovalnica. Each of the aforementioned companies is described in more detail below.

## 1.1 Kapitalska družba, d. d.

### 1.1.1 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

### 1.1.2 Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba's sole shareholder as at 31 December 2017.

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.

### 1.1.3 Activities of the Company

Kapitalska družba's principal 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 Bridging Fund for Athletes (hereinafter: the PSŠ). Kapitalska družba also performs other activities related to asset management and provides 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 |



### 1.1.4 Company bodies

#### 1.1.4.1 Management Board

Kapitalska družba was run by its Management Board in 2017 in the following composition:
- Bachtiar Djalil, President,
- Goranka Volf, member, and
- Gregor Bajraktarević, member (since 6 February 2017).

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. In accordance with the Company's Articles of Association, the Supervisory Board also appointed a temporary member to the Management Board for a period of no more than one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund. Gregor Bajraktarević began his term of office as member of the Management Board on 6 February 2017.[1]

One of the members of the Management Board is appointed the President thereof. Members of the Management Board serve a four-year term of office and may be re-appointed.

1 The term of office of member of the Management Board Gregor Bajraktarević ran from 6 February 2017 until 6 February 2018. In accordance with the Company's Articles of Association and the provisions of the ZSDH-1, and on the basis of a public call for candidates, the Supervisory Board appointed Gregor Bajraktarević to a four-year term of office, which began on 7 February 2018.

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.

### *1.1.4.2 Supervisory Board*

The Supervisory Board of Kapitalska družba functioned in the following composition in 2017[2]:

- Stanislav Seničar, Chairman,
- Dr Boris Žnidarič, Deputy Chairman,
- Cirila Surina Zajc, member,
- Aleksander Mervar, MSc, member,
- Ladislav Rožič, MSc, member, and
- Natalija Stošicki, member.

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, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level 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, 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 on 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 each has one representative for every 10 thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.



### *1.1.4.3 General Meeting*

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

## *1.1.5 Diversity policy*

Kapitalska družba does not implement a diversity policy in connection with representation on the Company's management and supervisory bodies in terms of gender, age and education.

2 The four-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2017. Both, however, were reappointed to new one-year terms of office at the General Meeting. At the first session of the Supervisory Board following the start of his new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

## 1.2 Modra zavarovalnica, d. d.

### 1.2.1 Company

**Name:** Modra zavarovalnica, d. d.
**Registered office:** Dunajska cesta 119, Ljubljana
**Registration number:** 6031226
**VAT ID number:** SI21026912

### 1.2.2 Ownership structure and data regarding capital

Kapitalska družba was Modra zavarovalnica's sole shareholder as at 31 December 2017.

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 share capital is determined with respect to the number of no-par-value shares issued.

### 1.2.3 Registered business activities

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 the ISA authorised the company to provide the following types of insurance transactions:

- accident insurance – point 1 of the second paragraph of Article 7 of the ZZavar-1; and
- life insurance – point 19 of the second paragraph of Article 7 of the ZZavar-1.

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



### 1.2.4 Company bodies

#### 1.2.4.1 Management Board

The Management Board has two members in accordance with the company's Articles of Association. Modra zavarovalnica was run by its Management Board in 2017 in the following composition:

- Borut Jamnik, President, whose five-year term of office began on 29 August 2016; and
- Matija Debelak, member, whose five-year term of office began 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 2017 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.

### 1.2.4.2 Supervisory Board

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

The Supervisory Board comprises six members. On 9 June 2017, following the resignation of the Chairwoman of the Supervisory Board, Goranka Volf, the General Meeting appointed two members to the insurance company's Supervisory Board (representatives of the sole shareholder, Kapitalska družba) for a term of office of four years. 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 pension fund for public-sector employees on behalf of that fund's policyholders, while a third member was proposed by the committees of the KVPS and MKPS on behalf of other policyholders.

The Supervisory Board comprised the following members in 2017:

- Goranka Volf, Chairwoman of the Supervisory Board (from 9 December 2016 to 9 June 2017),
- Natalija Stošicki, member since 9 December 2016, Chairwoman of the Supervisory Board from 9 June 2017 to 22 December 2017, and Deputy Chairwoman of the Supervisory Board since 23 December 2017,
- Branimir Štrukelj, member since 9 December 2016, Deputy Chairman of the Supervisory Board from 23 December 2016 to 22 December 2017, and Chairman of the Supervisory Board since 23 December 2017,
- Goran Bizjak, member since 9 December 2016,
- Bojan Zupančič, member since 9 December 2016,
- Dr Janez Prašnikar, member since 9 June 2017, and
- Dr Boris Žnidarič, member since 9 June 2017.

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. The Supervisory Board had a functioning audit committee in 2017.



### 1.2.4.3 General Meeting

Kapitalska družba exercised its rights in 2017 at the General Meeting as the company's sole shareholder.

### 1.2.5 Diversity policy

Modra zavarovalnica does not implement a diversity policy.

# II

# *Statement of the Management Board of the parent company*



The 2017 financial year was very successful for the Kapitalska družba Group. The Group's comprehensive income totalled EUR 103 million excluding the transfer to the Pension and Disability Insurance Institute, and EUR 53 million taking into account that transfer. Kapitalska družba thus successfully fulfilled its mission again in 2017: the provision of supplementary funding for pension and disability insurance, and the effective management of the Compulsory Supplementary Pension Insurance Fund (SODPZ). Kapitalska družba transferred EUR 50 million to the Pension and Disability Insurance Institute in 2017.

We fulfil our mission with a high degree of integrity and transparency. We are aware of our responsibilities in the mosaic of the Slovenian pension system. We have therefore been providing supplementary funding for the financial needs of the Pension and Disability Insurance Institute for nearly twenty years. Kapitalska družba has transferred EUR 764.3 million to the aforementioned institute to date, which exceeds the two-month cost of all Slovenian pensions.

Through the sustained fulfilment of our commitments, we contribute to a reliable and sound Slovenian public pension system, although total payments to the Pension and Disability Insurance Institute exceed the assets at the Company's disposal. A significant proportion of Kapitalska družba's investments are classified as strategic investments. On the other hand, Kapitalska družba is dependent when selling companies on Slovenski državni holding, which in the name and on account of the Company conducts sales procedures involving investments to which SDH and/or the Republic of Slovenia are party. Notwithstanding the above facts, Kapitalska družba remains committed to fulfilling its obligations and mission for the benefit of Slovenian pensioners.

We are aware that our mission is in the service of the sustainable development of Slovenian society, which faces the challenge of adverse demographic trends. Our efforts are thus not simply for the benefit of the public pension system, but are also focused on providing supplementary pensions to employees in particularly difficult jobs. We managed funds in excess of EUR 701 million in the SODPZ at the end of 2017, representing the savings of 46,901 policyholders. As at 31 December 2017, a total of 243 retirees

**Gregor Bajraktarević**
Member of the Management Board

**Goranka Volf**
Member of the Management Board

**Bachtiar Djalil**
President of the Management Board



received an occupational pension from the aforementioned fund, while gross pensions exceeded EUR 4 million in 2017. In accordance with the provisions of the Pension and Disability Insurance Act (ZPIZ-2), 126 retirees began receiving an occupational pension in 2017, while eight persons qualified for occupational retirement in accordance with the provisions of the Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH). In 2017, a total of 574 policyholders requested a lump-sum payment or the transfer of funds to the supplementary pension insurance system, in the total amount of more than EUR 11 million. Through the successful management of the retirement savings of policyholders included in the SODPZ and the payment of occupational pensions, we perform tasks associated with the second pillar of the pension system, which is becoming increasingly important due to the rapid ageing of the Slovenian population. In the provision of compulsory supplemental insurance, we are guided by the awareness that by providing such insurance we contribute decisively to the security and quality of the life of current and future occupational pensioners.

Numerous challenges in the business environment require adaptations to the information system. Due to the size, complexity and risks of such projects, the upgrading of that system is being carried out gradually. The replacement of the information system will be accompanied by the optimisation of key business processes and their adaptation to changes in the business environment. Efforts to implement that project were accelerated in 2017, with the partial migration to new IT support carried out on 1 January 2018. We are planning to complete the project to upgrade the information system in 2018.

The partial transition to new IT support also included adaptations to new International Financial Reporting Standard (IFRS) 9. Adaptations to IFRS 9 were carried out in the scope of a separately organised project due to the numerous and unclear requirements of the new standard, and short deadlines. That project included organisational, personnel and IT adaptations required by IFRS 9. We thus ensured the compliance of the Company's operations with the aforementioned standard at the beginning of 2018.

We carried out final activities in 2017 in the scope of the project to establish a bridging insurance fund for professional athletes (PSŠ). The aforementioned fund was established back in 2016 by the legally prescribed deadline. Despite tremendous efforts to introduce bridging insurance in practice, that has not happened to date. Kapitalska družba supports all efforts concerning that insurance, which would significantly improve the existential security of athletes following the end of their active careers. Nevertheless, the risks associated with the commercial success of the PSŠ remain high, and cannot be managed by Kapitalska družba, as they derive from the systemic arrangement of the area of sports in Slovenia.

Kapitalska družba not only strives for the compliance of its operations, but also aims to achieve a high level of business excellence. To that end, Kapitalska družba carried out a self-assessment in 2017 as the first step on the path to business excellence. The associated project represented the fulfilment of Recommendation no. 5 of SDH, through which Kapitalska družba aims to achieve the comprehensive and sustainable excellence of its operations, and to become a model of cultural excellence for all companies in its portfolio and the wider business environment. A management document was drafted as part of the project and includes a numerical rating of the Company's operations. Based on identified opportunities, the project team defined six priority tasks aimed at improving the effectiveness of business processes and achieving a higher level of risk management. The comprehensive and sustained achievement of business excellence remains the basic paradigm of Kapitalska družba's operations.

Together with our partners and other stakeholders, we are setting the standards for high-quality and reliable operations in the area of pension insurance. We thus remain committed to high values: stability, security, quality and integrity. We are aware of Kapitalska družba's long-term importance, mission and role in the Slovenian pension system. We achieve sustainable and future-oriented operations through efforts to achieve superior short-term and medium-term results. We see our strengths and advantages in trust, diversity and continuous development.



Modra zavarovalnica enjoyed a successful year in 2017. The insurance company's capital, which serves as the basis for the security of policyholders' assets, was up sharply during the year. The value of assets under management was up, as was the number of participants in mutual pension funds and the number of annuity recipients. The insurance company achieved a significant milestone in 2017, as the value of mutual pension fund assets under management exceeded EUR 1 billion.

Modra zavarovalnica's capital, which ensures the security of policyholders' assets, amounted to EUR 244 million at the end of 2017, an increase of EUR 102 million on the balance of capital when the company began operating six 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 more than EUR 1.4 billion at the end of 2017: assets under management in mutual pension funds totalled more than EUR 1 billion, while assets under management in guarantee funds totalled EUR 169 million and the company's own assets amounted to EUR 270 million.

The returns on the Modri Guaranteed Sub-Fund, the Mutual Equity Pension Fund and the Guaranteed Pension Sub-Fund for Public-Sector Employees exceeded their guaranteed returns in 2017 and were comparable with the returns of competitive Slovenian pension funds, while the Modri Dynamic Sub-Fund and Modri Conservative Sub-Fund (both life-cycle sub-funds) achieved favourable returns of 6.03% and 3.70% respectively.

The 2017 financial year was characterised by the establishment of the Umbrella Pension Fund for Public-Sector Employees and the associated marketing activities. This revised form of savings is adapted to an individual's age and risk appetite, and requires the fund manager's effective communication and awareness, which encourages primarily younger persons to save in higher-risk funds.

Marketing and communication activities in 2017 focused on the achievement of established sales targets and the improved recognition of Modra zavarovalnica as the largest provider of supplementary pension insurance.

In 2018, 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 2018 include maintaining our market share in the area of supplementary pension savings and in the payment of supplementary pension annuities. Through digital transformation, the company will develop marketing approaches by improving the user experience at all contacts with customers, and will adapt its business models through the innovative use of contemporary information technologies. All employees require the appropriate skills in order to successfully follow those changes. We will therefore place particular attention on education and training, and on the identification of new opportunities that contemporary technologies will bring in the insurance sector. We have seen that encouraging innovation, making the best use of the creative abilities of employees, cooperation and team work have a positive impact on the insurance company's operations. We will therefore continue to build our mutual communication on trust and the open exchange of opinions.

Financial analysts are forecasting moderate growth in share and bond indices in 2018. In the context of favourable developments on the financial markets, we are planning to exceed the guaranteed returns on mutual pension funds with a guaranteed component, and to exceed the average returns on competitive pension funds.

**Gregor Bajraktarević**
Member of the
Management Board

**Goranka Volf**
Member of the
Management Board

**Bachtiar Djalil**
President of the
Management Board

# III

# *Report of the Supervisory Board of the parent company*

# REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE AUDITED CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP FOR 2017

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 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, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. The same conditions and criteria that apply to members of SDH's Supervisory Board apply to the members of Kapitalska družba's Supervisory Board. Members of Kapitalska družba's Supervisory Board serve a four-year term of office and may be reappointed.

The Supervisory Board of Kapitalska družba functioned in the following composition in 2017: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc, Natalija Stošicki, Cirila Surina Zajc and Ladislav Rožič, MSc. The four-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired on 28 August 2017. Both, however, were reappointed to new one-year terms of office at the Company's 70th General Meeting held on 28 July 2017. Those terms of office began on 29 August 2017. Stanislav Seničar was reappointed Chairman of the Supervisory Board at the 129th session of the aforementioned body held on 7 September 2017, the first session following the start of his new term of office.



All members were actively included in the work of the Supervisory Board, in particular through their regular attendance at sessions, and through their participation in discussions and the adoption of decisions. In connection with the adoption of decisions by the Supervisory Board, the rules of procedure of Kapitalska družba's Supervisory Board include provisions regarding steps to be taken in the event of a potential conflict of interests.

The Supervisory Board met at 17 sessions during the 2017 financial year as follows: 11 regular session and six correspondence sessions.

The Kapitalska družba Group comprises the parent company Kapitalska družba and Modra zavarovalnica. In addition to the operations of Kapitalska družba, the Supervisory Board also continuously monitored the operations of the subsidiary Modra zavarovalnica.

A review of the important matters discussed by the Supervisory Board in 2017 follows:

- particular attention in the monitoring of Kapitalska družba, d. d.'s operations in 2017 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), which is managed by Kapitalska družba;
- confirmation of the annual reports of Kapitalska družba and the Kapitalska Družba Group for the 2016 financial year and the proposal to the General Meeting for the appointment of an auditor for the 2017 financial year;
- consent to Kapitalska družba's business-financial plan for the 2018 financial year;
- 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 131st session held on 7 November 2017, the Supervisory Board appointed Gregor Bajraktarević to a four-year term as member of the Management Board based on a previous call for candidates for that function. Mr Bajraktarević began his term of office as member of the Management Board on 7 February 2018; and
- the Supervisory Board carried out a self-assessment of the effectiveness of its work. In order to assess its effectiveness, the Supervisory Board relied on the self-assessment matrix published in the Manual for Assessing the Effectiveness of Supervisory Boards, adopted by the Slovenian Directors' Association. That assessment serves as the basis for the drafting of proposals to improve the future work of the Supervisory Board.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2017.

The Supervisory Board's audit committee functioned in the following composition in 2017: Ladislav Rožič, MSc (chair), Aleksander Mervar MSc, Cirila Surina Zajc and Natalija Stošicki (members), and Mojca Verbič (external member). The audit committee met at six sessions in 2017. In its work, the audit committee complied with the provisions of the ZGD-1 regarding its competences, as well as the provisions of 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 subsidiary and the SODPZ under Kapitalska družba's management. 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 sessions of the Supervisory Board.



The Supervisory Board's accreditation committee functioned in the following composition in 2017: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc and Ladislav Rožič, MSc (members), and Dr Alenka Stanič and Irena Prijović, MSc (external members). The accreditation committee met at six sessions in 2017. The accreditation 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 Supervisory Board's HR committee functioned in the following composition in 2017: Aleksander Mervar MSc (chair), and Cirila Surina Zajc and Natalija Stošicki (members). The HR committee met at one session in 2017. Its main tasks were to review applications and formulate a proposal for the Supervisory Board for the appointment of a member to the Management Board based on a public call for candidates.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the annual report in Tables 81 and 82.

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

On the basis of the above-described continuous monitoring and supervision of the operations and management of Kapitalska družba and its subsidiary during the 2017 financial year, and based on a review of the consolidated annual report of the Kapitalska Družba Group for 2017 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 2017 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 2017, 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 consolidated annual report for 2017**

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 2017.

**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 2017 financial year pursuant to the provision of Article 294 of the ZGD-1.

Stanislav Seničar
Chairman of the Supervisory Board



Ljubljana, 13 June 2018

*Business Report*

# IV

# *Organisational structure of the Kapitalska družba Group*



The Kapitalska družba Group comprises the parent company Kapitalska družba and Modra zavarovalnica.

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

## *4.1 Reporting on employees*

At the end of 2017 the Kapitalska družba Group had 118 employees broken down as follows: 60 employees at Kapitalska družba and 58 employees at Modra zavarovalnica.

Table 1: Number of employees in the Kapitalska družba Group

| | Balance as at 31 December 2017 | Balance as at 31 December 2016 |
|---|---|---|
| Kapitalska družba Group | **118** | **118** |

# V

# Macroeconomic background of operations

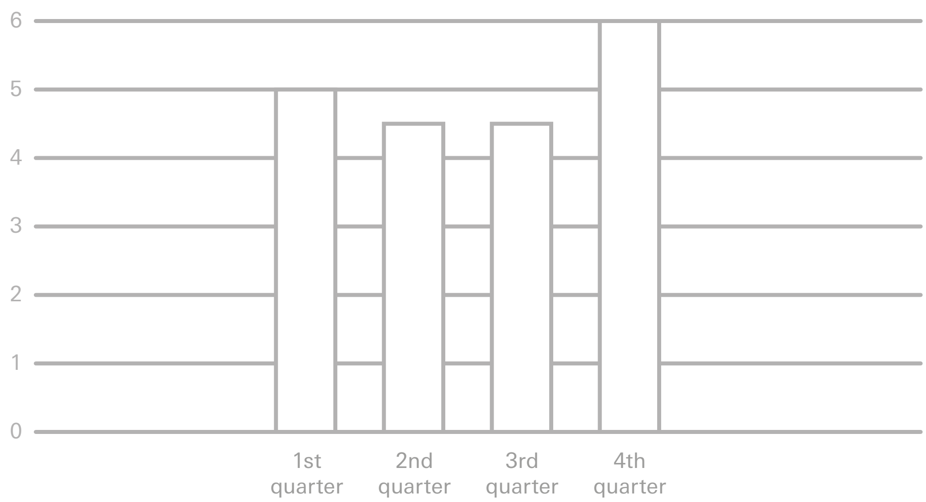


## 5.1 Economic environment in Slovenia

### 5.1.1 Gross domestic product

Gross domestic product (GDP) measured in current prices amounted to EUR 43.3 billion in 2017, and was up by 6.0% in the final quarter of 2017 relative to the final quarter of the previous year. GDP adjusted for the season and number of working days was up by 2.0% in the final quarter of 2017 relative to the previous quarter and by 6.2% relative to the final quarter of 2016.

Figure 1: Real year-on-year growth in GDP by quarter in 2017 (in %)
Source: Statistical Office of the Republic of Slovenia



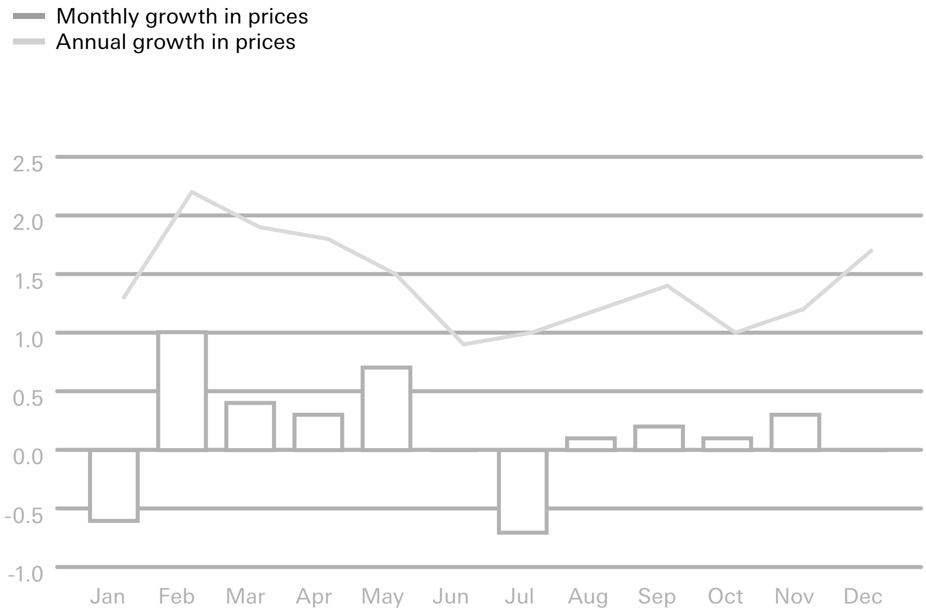
### 5.1.2 Inflation

Growth in consumer prices was 1.7% in 2017, while average 12-month price growth was 1.4%.

Contributing the most (0.5 percentage points) to annual inflation in 2017 were higher food prices (with fresh fruit and meat prices recording the sharpest rises, of 12.4% and 6.5% respectively) and higher prices of refined petroleum products (the prices of liquid fuels, diesel and petrol were up by 13.4%, 10.6% and 6.1% respectively).

On the other hand, lower car prices (by 2.7%) acted to reduce annual price growth in 2017.

Figure 2: Change in monthly and annual growth in consumer prices in 2017 (in %)
Source: Statistical Office of the Republic of Slovenia






### 5.1.3 Employment and wages

The surveyed unemployment rate was 5.8% in 2017, the first time it has been below 6% since 2009. The workforce in employment totalled 986,000 in 2017, the highest level since 2008, and an increase of 2.8% or 27,000 relative to 2016.

The average monthly gross wage was EUR 1,723.13 in December 2017, while the net wage was EUR 1,129.76.

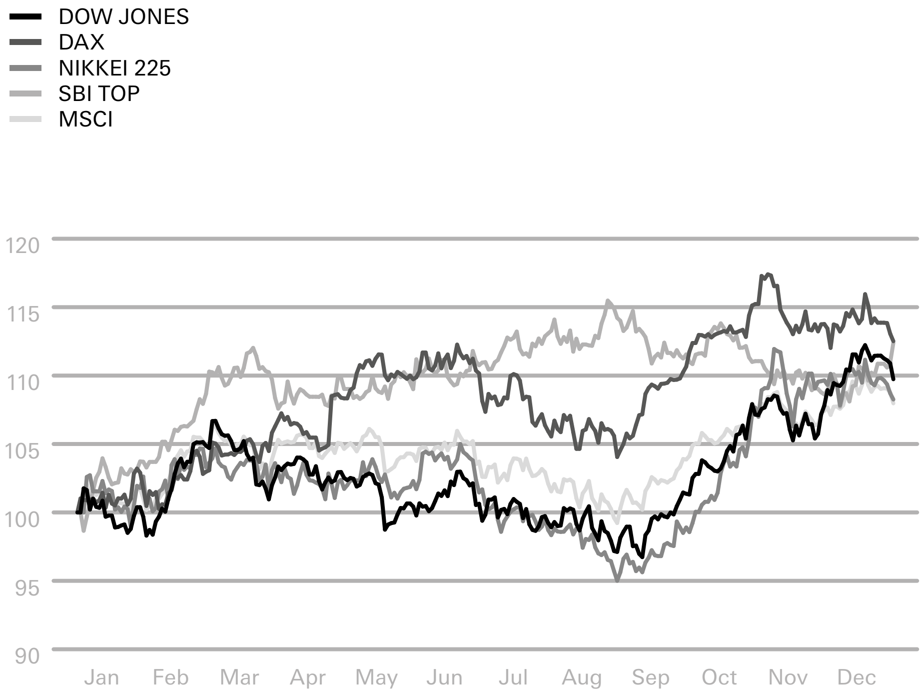
## 5.2 Developments on the financial markets

### 5.2.1 Capital market

#### 5.2.1.1 Equity market

The values of share indices measured in euros rose in 2017. The MSCI World Index achieved a yield of 8.0%, while the US Dow Jones achieved a yield of 9.7%, the Japanese Nikkei 225 a yield of 8.3% and the German DAX a yield of 12.5%, all measured in euros. The Slovenian SBI TOP recorded growth of 12.4% over the same period.

Figure 3: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2017 in euros (index: 1 January 2017 = 100)
Source: Bloomberg






#### 5.2.1.2 Debt market

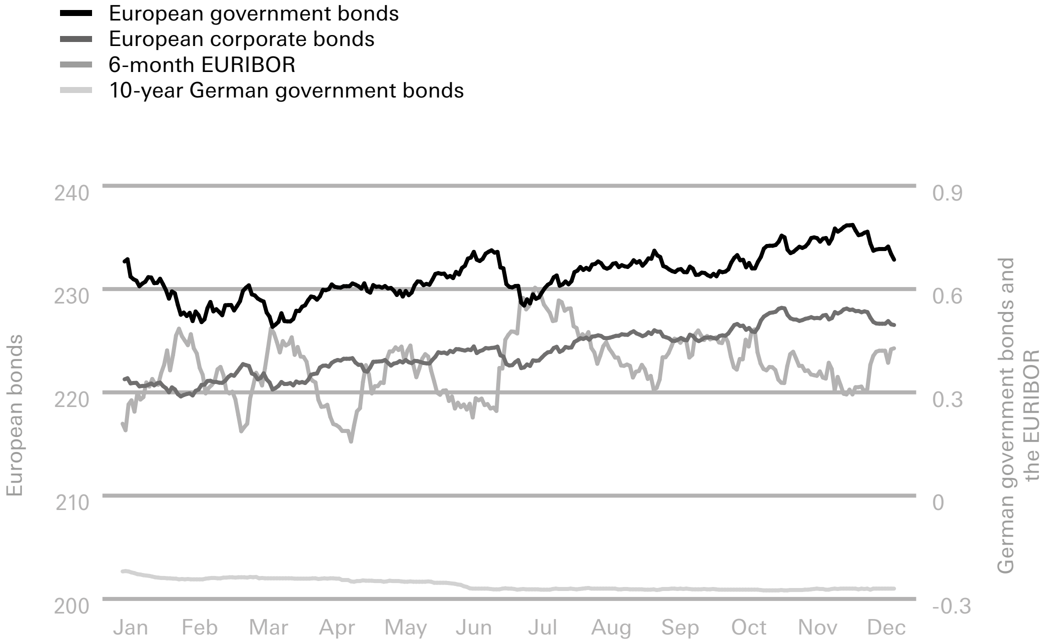
The monetary policies of major central banks turned less stimulating in 2017. The US Federal Reserve (FED) began implementing a restrictive monetary policy in December 2015. It raised interest rates three times in 2017, and indicated additional increases in 2018 at its meetings. The Bank of England also raised its interest rates, while the European Central Bank (ECB) announced in 2017 that it would reduce the scope of its bond purchases, beginning in January 2018.

The reference interbank interest rate for the euro area, the six-month EURIBOR, fluctuated between -0.276% and -0.220% in 2017. The ECB's key interest rate was 0% in 2017, while the interest rate on the deposit facility, the rate at which excess liquidity placed at the ECB bears interest, stood at -0.4% in 2017.

The yield on 10-year German government bonds fluctuated in 2017 between its lowest value of 0.156% in April 2017 and its highest value of 0.603% in July 2017.

The IBOXX EUR Sovereigns TR government bond index gained 0.1% in 2017, while the IBOXX EUR Corporates TR corporate bond index gained 2.4%.

Figure 4: Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR Index) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR Index), yield to maturity on ten-year German government bonds, and the six-month EURIBOR in 2017
Source: Bloomberg






## 5.2.2 Oil prices and exchange rates

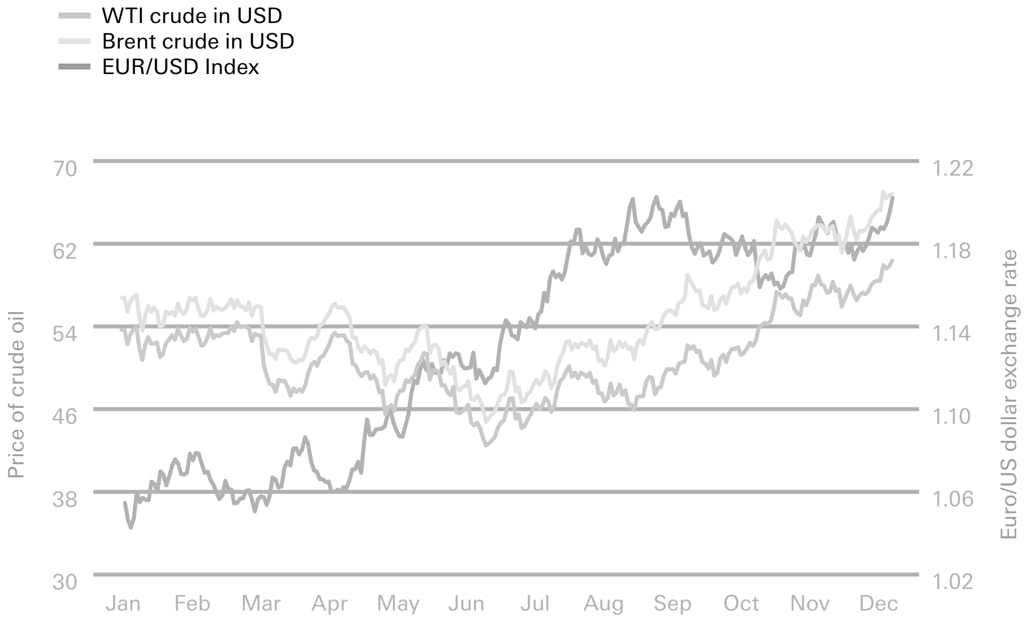
The price of West Texas Intermediate (WTI)[3] crude oil rose by 12.5% in 2017 to stand at USD 60.42 per barrel. The average price of West Texas Intermediate (WTI) crude oil was USD 50.92 per barrel in 2017.

The price of Brent crude oil had risen by 17.7% by the end of 2017 to stand at USD 66.87 per barrel. The average price of Brent crude oil was USD 54.80 per barrel in 2017.

The euro/US dollar exchange rate fluctuated between 1.0427 and 1.2026 in 2017, and ended the year at 1.2022 and averaged 1.1294 during 2017.

3 Kapitalska družba monitors movement in the price of WTI crude oil using the maturity of the first generic future transaction in the Bloomberg system, designated CL1 COMB COMDTY.

Figure 5: Movement in prices of WTI crude and North Sea Brent crude (in USD per 159-litre barrel), and the euro/US dollar exchange rate in 2017
Source: Bloomberg



# VI

# *Performance of the Kapitalska družba Group in 2017*



The Kapitalska družba Group comprises the parent company Kapitalska družba and Modra zavarovalnica. The associates of Kapitalska družba are presented in Note no. 17 of the financial report.

## *6.1 Kapitalska družba, d. d.*

Kapitalska družba classifies investments to the following three groups with regard to the method of management:
- capital investments,
- waived securities,[4] and
- portfolio investments.

The table below 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 2017 and 31 December 2016 with regard to management (in EUR 000)

| Type of investment | Value | Proportion | Value | Proportion |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| **Capital investments** | **552,479** | **57.3%** | **523,670** | **56.2%** |
| Strategic investments[5] | 193,449 | 20.1% | 190,535 | 20.5% |
| Material investments[6] | 297,748 | 30.9% | 276,798 | 29.7% |

4 Waived securities obtained in accordance with Article 48a of the ZNVP-1.
5 Strategic investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.
6 Material investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

| Type of investment | Value | Proportion | Value | Proportion |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| Portfolio investments | 59,859 | 6.2% | 55,073 | 5.9% |
| Investments in bankruptcy or liquidation | 1,423 | 0.1% | 1,264 | 0.1% |
| **Waived securities** | **217** | **0.0%** | **0** | **0.0%** |
| **Portfolio investments** | **411,011** | **42.7%** | **407,385** | **43.8%** |
| Equity portfolio investments | 240,054 | 24.9% | 200,071 | 21.5% |
| Debt portfolio investments | 84,436 | 8.8% | 85,130 | 9.2% |
| Money market[7] | 52,641 | 5.5% | 87,620 | 9.4% |
| Investments in financial claims | 33,880 | 3.5% | 34,564 | 3.7% |
| **Total financial assets** | **963,707** | **100.0%** | **931,055** | **100.0%** |

### *6.1.1 Capital investment management*

*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 40 such investments at the end of 2017. Of those investments, Kapitalska družba had 35 so-called active investments, including 29 investments in public limited companies and six investments in limited liability companies. In addition to active investments, Kapitalska družba also held four investments in bankruptcy proceedings and one investment in liquidation proceedings. Final bankruptcy proceeding were initiated against Casino Maribor, d. d. (in bankruptcy) on 11 March 2009.



The value of capital investments was EUR 552,479 thousand as at 31 December 2017, an increase of EUR 28,809 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 2017 and 31 December 2016 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 | No. of investments | Value | Proportion of capital investment portfolio |
|---|---|---|---|---|---|---|
| | | 2017 | | | 2016 | |
| Strategic investments[8] | 10 | 193,449 | 35.0% | 10 | 190,535 | 36.4% |
| Material investments[9] | 9 | 297,748 | 53.9% | 9 | 276,798 | 52.9% |
| Portfolio investments[10] | 16 | 59,859 | 10.8% | 17 | 55,073 | 10.5% |
| Investments in bankruptcy or liquidation | 5 | 1,423 | 0.3% | 5 | 1,264 | 0.2% |
| **Total capital investments** | **40** | **552,479** | **100.0%** | **41** | **523,670** | **100.0%** |

7 Money market investments also include cash, which totalled EUR 33,127 thousand as at 31 December 2017.
8 Strategic investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.
9 Material investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.
10 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.

Table 4: Ten largest capital investments of Kapitalska družba by value as at 31 December 2017 (in %)

| Seq. no. | Company name | Proportion of company's share capital |
|---|---|---|
| 1. | Krka, d. d. | 10.65 |
| 2. | Modra zavarovalnica, d. d. | 100.00 |
| 3. | Petrol, d. d. | 8.27 |
| 4. | Telekom Slovenije, d. d. | 5.59 |
| 5. | Luka Koper, d. d. | 4.98 |
| 6. | Gorenje, d. d. | 16.37 |
| 7. | Loterija Slovenije, d. d. | 25.00 |
| 8. | Hit, d. d. | 20.32 |
| 9. | Sava, d. d. | 22.56 |
| 10. | Union hoteli, d. d. | 18.75 |

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 28 such investments, as well as three investments in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in the table below.

Table 5: Composition of capital investments in terms of size of ownership stake as at 31 December 2017



| Ownership stake in share capital | Active investments | Investments in bankruptcy or liquidation |
|---|---|---|
| Up to 9.99% | 20 | 2 |
| From 10.00% to 19.99% | 8 | 1 |
| From 20.00% to 49.99% (associate) | 6 | 2 |
| From 50.00% to 100.00% (subsidiary) | 1 | 0 |
| **Total number of investments** | **35** | **5** |

### *Sales and deletion 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 three public tenders for the purchase of shares and participating interests in 2017.

Kapitalska družba received 25 bids from buyers for the purchase of shares and participating interests relating to 10 different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low.

Kapitalska družba sold two capital investments in their entirety in 2017 in the total amount of EUR 938 thousand, comprising a capital investment in the shares of Intertrade ITA, d. d. and a capital investment in Snežnik, d. d., which was sold based on the exclusion of minority shareholders.

Kapitalska družba also concluded an agreement on the instalment sale of shares in KDD, d. d. for consideration in the amount of EUR 675 thousand, with the final payment falling due in 2019, and an agreement on the sale and purchase of a participating interest in

Geoplin, d. o. o. for consideration in the amount of EUR 410 thousand, which is linked to the fulfilment of contractually defined suspensive conditions. Both of the aforementioned procedures were conducted by SDH in accordance with the ZSDH-1.

Two other sales procedures were in progress as at 31 December 2017. One of those procedures is being conducted by SDH in accordance with the ZSDH-1.

### *Purchases of companies*

Kapitalska družba did not participate in any corporate recapitalisations in 2017, nor did it accept any bids for the purchase of capital investments.

Kapitalska družba received five bids from sellers for the purchase of shares and participating interests relating to four different capital investments.

Kapitalska družba acquired a strategic investment in Plinhold, d. o. o. as the result of the latter's demerger from Geoplin, d. o. o.

### *Dividends of domestic companies*

Kapitalska družba recorded EUR 21,367 thousand in domestic corporate dividends in 2017, an increase of EUR 3,107 thousand relative to 2016, when dividends totalled EUR 18,260 thousand. The ten largest capital investments in terms of dividends accounted for 98.0% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2017 was approved by the general meetings of 25 companies in which Kapitalska družba held a capital investment, compared with 2016, when the payment of dividends was approved by the general meetings of 22 companies in which Kapitalska družba held a capital investment.



Table 6: Capital investments that generated the highest dividend income in 2017 and 2016

| Issuer | Dividends per share in 2017 (EUR) | Dividends per share in 2016 (EUR) | Total dividends in 2017 (in EUR 000) | Total dividends in 2016 (in EUR 000) |
|---|---|---|---|---|
| Krka, d. d. | 2.75 | 2.65 | 9,606 | 9,257 |
| Petrol, d. d. | 14.00 | 12.60 | 2,417 | 2,175 |
| Telekom Slovenije, d. d. | 5.00 | 5.00 | 1,826 | 1,826 |
| Luka Koper, d. d. | 1.40 | 1.13 | 975 | 787 |
| Gorenje, d. d. | 0.10 | 0.00 | 400 | 0 |
| Elektro Maribor, d. d. | 0.12 | 0.16 | 65 | 88 |
| Hoteli Union, d. d. | 0.17 | 0.17 | 57 | 57 |

Kapitalska družba also received dividends in the amount of EUR 21 thousand in 2017 from three companies in its portfolio as the result of claims received for the allocation of distributable profit from previous years.

Table 7: Dividend income based on claims received for the distribution of profit and the payment of residual dividends on preference shares (in EUR 000)

| Issuer | Dividends for the year | Dividends per share | Total dividends |
|---|---|---|---|
| TKI Hrastnik, d. d. | Distributable profit for 2012 | 0.16 | 13 |
| Cimos, d. d. | Distributable profit for 2010 | 0.06 | 8 |

In connection with the management of its capital investments in the period 1 January 2017 to 31 December 2017, Kapitalska družba applied, *mutatis mutandis*, the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014. In May 2017, SDH adopted certain amendments to that document (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 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 2017. 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 57 general meetings of shareholders or partners of companies in 2017. Representatives of Kapitalska družba participated in 18 general meetings, at which the Company independently exercised its voting rights. In accordance with Article 53 of the ZSDH-1, SDH exercised the voting rights of Kapitalska družba at 35 general meetings in the name and on account of the latter. Employees of Kapitalska družba were authorised to participate and exercise all shareholder rights, except voting rights. Four 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 the 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 2017. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

Table 8: Participation at general meetings

| Form of participation | No. of general meetings |
|---|---|
| Participation and voting by employees of Kapitalska družba | 18 |
| Participation by employees of Kapitalska družba; voting by SDH | 35 |
| Cancelled or rescheduled general meetings | 4 |
| **Total** | **57** |

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

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

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.

### *Management taking into account systemic regulation and the transformation of Kapitalska družba into a demographic reserve fund*

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. In the name of Kapitalska družba, SDH exercises voting rights and conducts sales in the event of joint investments.

Kapitalska družba's maximum annual obligation to provide funding to the ZPIZ was defined in the aforementioned act: based on the provision of the third paragraph of Article 52 of the ZSDH-1, the Company must now 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. As a result, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2017 in accordance with the provisions of the ZIPRS1617 and ZIPRS1718. In accordance with Article 65 of the ZIPRS1819, Kapitalska družba must transfer EUR 50 million a year to the ZPIZ in 2018 and 2019.



Article 79 of the ZSDH-1 states that Kapitalska družba should have been 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 Pension and Disability Insurance Institute'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.

### *6.1.1.2 Waived securities in accordance with Article 48a of the ZNVP-1*

The Act amending the Book-Entry Securities Act (ZNVP-1) entered into force in February 2017, and introduced a new Article 48a, which states that the Central Securities Clearing Corporation must credit all book-entry securities waived by their holders to a special account held by Kapitalska družba.

Article 48a of the ZNVP-1 also states that, notwithstanding the provisions of the act governing acquisitions, voting rights in a target company attached to book-entry securities acquired by Kapitalska družba in accordance with the aforementioned article are not taken into account in determining the proportion of voting rights held by Kapitalska družba and companies deemed to be acting in concert with Kapitalska družba. Kapitalska družba is also prohibited from exercising voting rights attached to shares that it acquired based on the aforementioned article.

From the entry into force of the ZNVP-1 until 31 December 2017, the Company received investments from 152 different issuers as the result of waived securities. Of those issuers, Kapitalska družba obtained new investments in 140 companies that were not included in its portfolio prior to the entry into force of the aforementioned act. Securities obtained from four issuers (KD Group, d. d., Kompas RAC, d. d., Ljubljana (in liquidation), Pivka, pooblaščenka, d. d. and Zdravilišče Rogaška, d. d.) included both ordinary shares and preference shares, as well as bonds.

With regard to waived securities, Kapitalska družba received 42 bids from buyers for the purchase of shares and participating interests relating to 27 different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low. The Company also received six bids from buyers for the purchase of shares relating to six different securities.



During the period, Kapitalska družba sold 22 investments acquired in connection with waived securities in the total amount of EUR 5 thousand. The Company also sold six investments (Elma TT, d. d., Gozdarstvo Grča, d. d., Gozdno gospodarstvo Novo mesto, d. d., SIP Šempeter, d. d., Telemach Pobrežje, d. d. and Telemach Tabor, d. d.) through the conclusion of a direct agreement, as well as seven investments through the acceptance of a takeover bid (Nama, d. d., Paloma, d. d., Panvita, d. d., Panvita mesnine, d. d., Telemach Tezno, d. d., Zdravilišče Dobrna d. d. and Žičnice Vogel Bohinj, d. d.) and nine investments based on the squeeze-out of minority shareholders (Eti, d. d., GP Ljubljana, d. d., Herz, d. d., Hidrotehnik, d. d., Kompas hoteli Bled, d. d., Koratur, d. d., Kovonoplastika Lož, d. d., Lisca, d. d. and Tekstina, d. d.)

Kapitalska družba received dividends in the amount of EUR 1,652.65 from waived securities in 2017.

The Company only participates exceptionally in the general meetings of companies that it acquired on the basis of Article 48a of the ZNVP-1. It decides on its potential participation at a general meeting based on the size of its acquired participating interest and on an assessment of the issues to be decided on by a company's general meeting (particularly if a general meeting decides on the squeeze-out of minority shareholders).

During the previous year, Kapitalska družba participated in three general meetings of shareholders (Mladina, d. d., Vizija holding, d. d. and Vizija holding ena, d. d.), at which it did not exercise its voting rights in accordance with the law. At two general meetings, Kapitalska družba announced the filing of a challenging action in connection with a general meeting resolution on the squeeze-out of minority shareholders, and announced the court verification of the price that the majority shareholder intended to pay other shareholders.

### 6.1.1.3 Management of portfolio investments

*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 240,054 thousand as at 31 December 2017.

Table 9: Composition of equity portfolio investments as at 31 December 2017 and 31 December 2016 (in EUR 000)

| Type of investment | Value | Proportion of equity portfolio investments | Value | Proportion of equity portfolio investments |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| **Foreign shares** | **1,947** | **0.8%** | **6,534** | **3.3%** |
| **Investment funds** | **238,107** | **99.2%** | **193,537** | **96.7%** |
| - domestic investment funds | 13 | 0.0% | 12 | 0.0% |
| - foreign investment funds | 238,094 | 99.2% | 193,525 | 96.7% |
| **Total equity portfolio investments** | **240,054** | **100.0%** | **200,071** | **100.0%** |

The five largest investments accounted for a total of 42.2% of equity portfolio investments as at 31 December 2017. These investments included index funds that track the MSCI World Index (SMSWLD GY and XMWO GY), an index fund that tracks the US S&P 500 (SPY US), an index fund that tracks the IXT technology sector index (XLK US) and an index fund that tracks the global MSCI Emerging Markets Index (MXFS LN).



*Debt portfolio investments*

The balance of debt portfolio investments stood at EUR 84,436 thousand at the end of 2017. At 86.6%, domestic bonds accounted for the highest proportion of debt portfolio investments. Investments in domestic bonds totalled EUR 73,142 thousand, while investments in foreign bonds totalled EUR 9,056 thousand. The remainder was accounted for by claims for accrued interest.

The primary focus of Kapitalska družba's investment activities in 2017 was on security and maintaining the value of assets due to low (negative) interest rates and low credit spreads on the bond market.

Table 10: Composition of debt portfolio investments as at 31 December 2017 and 31 December 2016 (in EUR 000)

| Type of investment | Value | Proportion of debt portfolio investments | Value | Proportion of debt portfolio investments |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| **Domestic bonds** | **73,142** | **86.6%** | **75,854** | **89.1%** |
| - domestic government bonds | 62,558 | 74.1% | 64,838 | 76.2% |
| - domestic corporate and bank bonds | 10,584 | 12.5% | 11,016 | 12.9% |
| **Foreign bonds** | **9,056** | **10.7%** | **6,820** | **8.0%** |
| - foreign government bonds | 4,931 | 5.8% | 0 | 0.0% |
| - foreign corporate and bank bonds | 4,125 | 4.9% | 6.820 | 8.0% |
| **Claims for interest** | **2,238** | **2.7%** | **2,456** | **2.9%** |
| **Total debt portfolio investments** | **84,436** | **100.0%** | **85,130** | **100.0%** |

The four largest investments, together with accrued interest, accounted for a total of 74.0% of debt portfolio investments as at 31 December 2017. All four investments were in different issues (nos. 66, 67, 69 and 70) of Slovenian government bonds.

*Money market investments*

The balance of money market investments was EUR 52,641 thousand at the end of 2017. Cash accounts for the majority of the aforementioned investments.

Table 11: Composition of money market investments as at 31 December 2017 and 31 December 2016 (in EUR 000)

| Type of investment | Value | Proportion of the portfolio of money market investments | Value | Proportion of the portfolio of money market investments |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| **Loans granted (deposits)** | **18,917** | **35.9%** | **58,654** | **66.9%** |
| **Cash and cash equivalents** | **33,127** | **62.9%** | **28,138** | **32.2%** |
| Cash on transaction accounts at banks | 4,105 | 7.8% | 4,689 | 5.4% |
| Euro call deposits | 29,022 | 55.1% | 23,449 | 26.8% |
| **Commercial paper** | **597** | **1.2%** | **828** | **0.9%** |
| **Total money market investments** | **52,641** | **100.0%** | **87,620** | **100.00%** |



## 6.1.1.4 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 ZIPRS1617 and ZIPRS1718, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2017. Kapitalska družba has transferred the cumulative amount of EUR 764,321 thousand to the budget of the ZPIZ.

In accordance with Article 65 of the ZIPRS1819, Kapitalska družba must transfer EUR 50 million a year to the ZPIZ in 2018 and 2019.

## 6.1.1.5 Investment property

Kapitalska družba holds investment property in the following commercial buildings:
- Stekleni dvor, Dunajska cesta 119, Ljubljana;
- Glavarjeva rezidenca, Pegamova ulica G, Ljubljana;
- Bežigrajski 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 were leased out as at 31 December 2017.

## 6.1.1.6 Pension fund management

*Operations of the SODPZ*

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 46,901 policyholders as at 31 December 2017. The actual return on the SODPZ was 1.12% in 2017, compared with the guaranteed return of 0.60% in the same period. Created solidarity reserves are deducted in the calculation of the net value of SODPZ assets, which reduces the actual return of the aforementioned fund. The net value of SODPZ assets was EUR 697,016 thousand on the final accounting day of 2017 (29 December 2017), and exceeded the guaranteed value of assets (EUR 642,098 thousand) by EUR 54,918 thousand. The SODPZ held 801,050,065 units in circulation in 2017.

As the manager of the SODPZ, Kapitalska družba was entitled in 2017 to the reimbursement of subscription and redemption fees, an annual management fee and fees for the payment of occupational pensions. Subscription fees are charged as a percentage of the incoming payments and amounted to 2.3%. Redemption fees are charged as a percentage of the outgoing payments and amounted to 0.5%. Redemption fees are not charged in the event of a transfer to supplementary insurance or due to the buyout of years of service. Taking into account the net value of SODPZ assets, the maximum annual management fee is equal to 1.0% of the average annual net value of fund assets. Fees for the payment of occupational pensions amounted to 0.5% of the monthly occupational pension.

Revenues from the management of the SODPZ totalled EUR 7,918 thousand in 2017, broken down as follows: EUR 6,748 thousand in management fees, EUR 1,144 thousand in subscription fees, EUR 5 thousand in redemption fees and EUR 21 thousand in fees for the payment of occupational pensions. The reason for the lower revenues generated in 2017 relative to the previous year lies primarily in lower subscription fees due to the lower value of paid-in contributions, as the result of a lower contribution rate, which has been 8% since 1 January 2017. Redemption fees were also down considerably due to fewer requests for the payment of redemption values in 2017, while fees for the payment of occupational pensions were also down due to the lower percentage of related fees in 2017.



Table 12: Kapitalska družba's revenues from management of the SODPZ in 2017 and 2016 (in EUR 000)

| Revenue from management activities | 2017 | 2016 |
|---|---|---|
| Management fees | 6,748 | 6,721 |
| Subscription fees | 1,144 | 1,250 |
| Redemption fees | 5 | 413 |
| Fees for the payment of occupational pensions | 21 | 60[11] |
| **Total** | **7,918** | **8,444** |

The Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/15; the ZPIZ-2B) entered into force on 1 January 2016, bringing with it significant changes to occupational insurance and occupational retirement. Kapitalska družba drafted amendments to the occupational insurance pension plan to bring the latter in line with the provisions of the ZPIZ-2B. The Minister of Labour, Family, Social Affairs and Equal Opportunities issued decision no. 1031-160/2016-3 of 23 November

11 Revenues in 2016 in the amount of EUR 60 thousand comprised revenues from the payment of occupational pensions from the Guarantee Fund of the SODPZ.

2016, approving a new occupational insurance pension plan, which entered into force on 1 January 2017. Amended rules on the management of the SODPZ (to which the Securities Market Agency gave its consent on 30 November 2016) also entered into force on 1 January 2017. Payments of occupational pensions from the SODPZ began as partial redemption values on 1 January 2017, while the KS SODPZ was liquidated and its portfolio transferred to the SODPZ on the same date.

### *SODPZ investments*

The manager manages 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 allocates the investments of the fund to ensure that they are appropriately diversified and that they do 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 is the latter's guaranteed return, which is determined on a monthly and annual basis.

The main objective of management in 2017 was 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 the management of fund assets, the manager made a comparison with the relevant benchmark of success, with the fund's guaranteed return and with the success of other mutual pension fund managers.



The value of SODPZ assets stood at EUR 701,185 thousand as at 31 December 2017, an increase of 5.5% relative to 2016. The overall portfolio comprises a globally diversified portfolio of equity and debt investments, with investments in debt securities accounting for the highest proportion of assets.

Table 13: Composition of the investments of the SODPZ as at 31 December 2017 and 31 December 2016 (in EUR 000)

| Class | Value | | Proportion of fund assets | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Shares | 5,070 | 4,457 | 0.7% | 0.7% |
| Debt securities | 296,090 | 266,897 | 42.2% | 40.2% |
| Loans and deposits | 150,365 | 162,073 | 21.5% | 24.4% |
| Investment coupons | 197,524 | 188,804 | 28.2% | 28.4% |
| Cash and cash equivalents | 52,106 | 39,936 | 7.4% | 6.0% |
| Other claims | 30 | 2,189 | 0.0% | 0.3% |
| **Total** | **701,185** | **664,356** | **100.0%** | **100.0%** |

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 up slightly in 2017, as the proportion of securities denominated in foreign currencies rose from 2.4% to 2.9%, excluding the effect of changes in exchange rates associated with securities that form a specific investment fund. The currency in which the underlying instrument is denominated is taken into account when monitoring the composition of financial assets in terms of currency.

### *6.1.2 Activities in the implementation of the ZPIZ-2 in 2017*

Kapitalska družba was actively involved in 2017 in the updating of 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, including communication with all occupational insurance stakeholders.

The Act Amending the Pension and Disability Insurance Act (ZPIZ-2B) entered into force on 1 January 2016, bringing with it significant changes to occupational insurance and occupational retirement, including the liquidation of the KS SODPZ. Kapitalska družba upgraded IT support in the scope of the project aimed at the implementation of the ZPIZ-2B, in which it adapted processes linked to the provision of occupational insurance and the payment of occupational pensions. The main objectives of the aforementioned project pursued by Kapitalska družba were as follows: the establishment of a system of control over the calculation and payment of contributions, the calculation of default interest and collection activities, the establishment of a system for calculating the proportionate part of the appended period, the establishment of a system of solidarity reserves, the establishment and management of records, the liquidation of the KS SODPZ, the establishment of a system for the payment of premiums from the SODPZ and IT support for processes. The achievement of the aforementioned objectives required the drafting and harmonisation of legal bases, including the occupational insurance pension plan, the rules on the management of the SODPZ, the investment policy statement and the risk management plan.



Payments of occupational pensions from the SODPZ began as partial redemption values on 1 January 2017, while the KS SODPZ was liquidated and its portfolio transferred to the SODPZ.

During the course of the project, Kapitalska družba took an active approach to the harmonisation and drafting of the appropriate bases for the dissemination and exchange of data and the associated application support, with the aim of establishing records and integrating them with the CPR and with external institutions such as the ZPIZ, ZZZS and FARS.

In order to establish a system of control over the calculation and payment of contributions, Kapitalska družba organised several meetings in 2017 with representatives of the MLFSAEO, MF, FARS and ZPIZ, at which it presented problems that hinder the implementation of control due to inadequate and/or insufficient legal provisions, and requested that the aforementioned stakeholders participate in the search for the appropriate solutions. Under currently valid legislation, Kapitalska družba has very limited options in terms of the control and collection of contributions.

With the entry into force of the new pension plan on 1 January 2018, urgent and immediate upgrades and amendments to application support for certain business processes associated with pension insurance (e.g. a change in the contribution rate, and management and subscription fees) were required already in 2017.

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.

Kapitalska družba also regularly informed the SODPZ Committee, which met five times in 2017, with regard to activities in the area of occupational insurance, the operations of the fund and issues the Company faces in the area of occupational retirement.

### 6.1.3 Bridging insurance fund for professional athletes

The bridging insurance fund for professional athletes or bridging fund for athletes (PSŠ) is intended for the inclusion of professional athletes in bridging insurance, and provides for their social security following the end of their active sporting career. In accordance with the requirements of the Bridging Insurance for Professional Athletes Act (ZPZPŠ-1), Kapitalska družba carried out necessary activities for the establishment and functioning of the PSŠ, which was established on 1 September 2016. One financing agreement was concluded in 2017. However, no contributions for bridging insurance were received by the PSŠ. The PSŠ thus had no assets at the end of 2017.

## 6.2 Modra zavarovalnica, d. d.

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

Table 14: Composition of Modra zavarovalnica's financial assets as at 31 December 2017 (in EUR 000)

| Financial assets | Amount |
|---|---|
| Own financial assets | 267,334 |
| Financial assets of the KS PPS | 102,246 |
| Financial assets of the KS MR | 25,235 |
| Financial assets of the KS MR II | 39,241 |
| **Total** | **434,056** |



### 6.2.1 Management of own financial assets

Modra zavarovalnica's own financial assets totalled EUR 267,334 thousand at the end of 2017. The company breaks down its financial assets by the items shown in the table below. The largest proportion is accounted for by the portfolio of equity investments, followed by the portfolio of debt investments.

Table 15: Composition of Modra zavarovalnica's own assets as at 31 December 2017 (in EUR 000)

| Financial assets | Amount |
|---|---|
| Equity portfolio investments | 143,288 |
| Equity non-portfolio investments | 46,649 |
| Portfolio of debt investments | 76,615 |
| Cash and cash equivalents | 782 |
| **Total** | **267,334** |

#### 6.2.1.1 Equity portfolio investments

Equity portfolio investments include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of the aforementioned investments was EUR 143,288 thousand as at 31 December 2017. The five largest investments in the portfolio of equity investments as at 31 December 2017 were as follows: an index fund represented by the MSCI global index (XMWO GY), an index fund represented by the MSCI global index (SMSWLD GY), exchange-traded funds (ETFs) linked to government bonds (XGLE 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 16: Composition of equity portfolio investments as at 31 December 2017 (in EUR 000)

| Investment | Amount |
|---|---|
| **Shares** | **30,292** |
| Foreign shares | 30,292 |
| **Investment funds** | **112,996** |
| Domestic investment funds | 1,797 |
| Foreign investment funds | 111,199 |
| **Total** | **143,288** |

Share indices measured in euros were up by an average of 6.7% in 2017. The portfolio was most exposed to the information technology sector as at 31 December 2017, followed by the financial and healthcare sectors. In terms of currencies, the portfolio was most exposed to the US dollar and the euro at the end of 2017. 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 2017, Modra zavarovalnica held two equity investments in domestic issuers that require a different approach to management than portfolio investments, primarily on account of the size of the associated participating interest. They are Cinkarna Celje, d. d. and Pozavarovalnica Sava, d. d. The total value of the aforementioned investments was EUR 46,649 thousand as at 31 December 2017.

### 6.2.1.3 Debt investments

The balance of debt investments stood at EUR 76,615 thousand at the end of 2017. Corporate bonds accounted for the highest proportion of debt investments, followed by government bonds and deposits.

Table 17: Composition of debt investments as at 31 December 2017 (in EUR 000)

| Investment | Amount |
|---|---|
| **Bonds** | **59,673** |
| Government bonds | 28,665 |
| - Domestic government bonds | 15,497 |
| - Foreign government bonds | 13,168 |
| Corporate bonds | 31,008 |
| - Domestic corporate bonds | 4,667 |
| - Foreign corporate bonds | 26,341 |

| Investment | Amount |
|---|---|
| **Deposits** | **13,535** |
| **Commercial paper** | **497** |
| **Treasury bills** | **2,910** |
| **Total** | **76,615** |

The value of Modra zavarovalnica's government bond portfolio was EUR 28,665 thousand as at 31 December 2017. The aforementioned portfolio primarily comprises the government bonds of euro area countries. The proportion of bonds accounted for by domestic issuers was 55% at the end of 2017, while foreign issuers accounted for 45%. The majority of bonds are denominated in euros, while a minor proportion are denominated in US dollars.

The majority of investments are accounted for by Slovenian 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.

The value of the corporate bond portfolio was EUR 31,008 thousand at the end of 2017. Domestic issuers accounted for 15% of the aforementioned portfolio as at 31 December 2017, while foreign issuers accounted for 85%. All bonds are denominated in euros. Bonds with a fixed coupon rate accounted for the majority. The average modified duration of corporate bonds was 4.25 years at the end of 2017.

At the end of 2017, the majority of issuers of corporate bonds were from the sectors of finance, energy and public services.



#### 6.2.1.4 Investments in cash and cash equivalents

Modra zavarovalnica held EUR 782 thousand in cash and cash equivalents at the end of December 2017.

### 6.2.2 Management of guarantee funds for supplementary pension insurance during the payment of annuities

Modra zavarovalnica is the largest payer of supplementary pensions/pension annuities in Slovenia, and separately managed three guarantee funds in 2017 for the payment of pension annuities:

- the Modra Renta Guarantee Fund, which collected insurance premiums from December 2011 to December 2015;
- the Modra Renta Guarantee Fund II, which was established on 1 January 2016 based on the ZPIZ-2. Since January 2016, assets are only paid into this fund and no longer into the Modra Renta Guarantee Fund, while annuities are paid from both funds; and
- 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.

In accordance with the provisions of the ZZavar-1, the KS MR II and KS PPS are deemed restricted funds.

Modra zavarovalnica paid EUR 17 million in supplementary pensions to 21,008 policyholders in 2017. A total of 10,742 policyholders received a pension annuity from supplementary pension insurance (Modra Renta and Modra Renta II), while 10,266 policyholders received a pension annuity from supplementary pension insurance in the scope of the First Pension Fund (in exchange for pension certificates).

Table 18: Basic data regarding the guarantee funds of Modra zavarovalnica

| Guarantee fund | No. of annuity recipients at the end of 2017 | Assets under management (EUR million) | Expenses for annuities (EUR million) |
|---|---|---|---|
| KS MR – Modra Renta Guarantee Fund | 7,270 | 25.5 | 6.8 |
| KS MR II – Modra Renta Guarantee Fund II | 3,472 | 41.0 | 3.6 |
| KS PPS – First Pension Fund Guarantee Fund | 10,266 | 102.5 | 6.6 |
| **Total** | **21,008** | **169,0** | **17.0** |

### *6.2.2.1 Modra Renta Guarantee Fund*

The KS MR comprises separate assets intended for the payment of pension annuities from voluntary supplementary pension insurance. The latter is intended for the payment of pension annuities to participants in supplementary pension insurance plans who have exercised their right to a pension from compulsory insurance via the ZPIZ.

Payments were made to the KS MR until the end of 2015, while the KS MR has only paid lifetime pension annuities since 2016. 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. When concluding an insurance policy, KS MR policyholders may choose between 24 different forms of supplementary pensions. Worthy of note amongst those are lifetime annuities with or without a guaranteed payment period, and accelerated annuities with a full or limited guarantee.



Table 19: Composition of KS MR assets as at 31 December 2017 (in EUR 000)

| Assets | Amount |
|---|---|
| Bonds | 18,176 |
| Deposits | 750 |
| Investment claims | 1,083 |
| Commercial paper | 2,160 |
| Investment coupons | 2,905 |
| Cash and cash equivalents | 161 |
| Other claims | 244 |
| **Total** | **25,479** |

As at 31 December 2017, a total of 42% of KS MR assets were invested in the Republic of Slovenia, while 58% of all assets were invested in foreign issuers.

Table 20: Geographical distribution of KS MR investments as at 31 December 2017 (in EUR 000)

| Area | Amount |
|---|---|
| Domestic investments | 10,798 |
| Foreign investments | 14,681 |
| **Total** | **25,479** |

### *6.2.2.2 Modra Renta Guarantee Fund II*

The KS MR II comprises separate assets intended for the payment of pension annuities from supplementary pension insurance. The latter is intended for the payment of pension annuities to 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 pension annuity, and thus exercise their right to a supplementary old-age pension.

Modra zavarovalnica offers policyholders a wide range of different forms of pension annuities:
- lifetime Modra Renta: a supplementary pension without a guaranteed payment period; it is paid until the death of the policyholder. It may be paid monthly, quarterly, half-yearly or annually, while the payment period depends on the amount of accumulated assets. An individual payment may not be less than EUR 30;
- lifetime Modra Renta with a guaranteed payment period: a supplementary pension with a guaranteed payment period of 1 to 20 years. It is paid until the death of the policyholder or at a minimum until the expiry of the selected guaranteed payment period. It may be paid monthly, quarterly, half-yearly or annually, while the payment period depends on the amount of accumulated assets. An individual payment may not be less than EUR 30;
- lifetime Modra Renta with accelerated payment: a supplementary pension with a guaranteed payment period of 1 to 20 years, where the majority of accumulated savings are paid out over the selected guaranteed payment period, and then monthly (quarterly, half-yearly or annually) until the death of the policyholder in an amount of at least EUR 30; and
- lifetime Modra Renta with accelerated payment 2/1: a supplementary pension with a guaranteed payment period of 1 to 20 years, where the high monthly pension annuity during the accelerated period does not exceed twice the amount of the lifetime pension annuity following the end of the accelerated period.



Since the KS MR II began functioning on 1 January 2016 until 31 December 2017, a total of 4,651 participants with accumulated assets in the amount of EUR 45,117 thousand had opted to receive a selected monthly pension annuity. The majority of policyholders selected accelerated annuity payments.

Table 21: Number of participants and amount paid into the KS MR II in 2017

| Pension fund | No. of participants/ policyholders | Redemption value of assets (in EUR 000) |
|---|---|---|
| KVPS | 401 | 4,117 |
| KPSJU | 1,927 | 13.540 |
| MKPS | 118 | 517 |
| Pension funds of other managers | 460 | 10,378 |
| **Total** | **2,906** | **28,552** |

The amount of an individual's pension annuity depends on accumulated supplementary pension insurance assets, the technical interest rate, mortality tables broken down 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 60 years, while a total of 55% of annuity recipients are male.

The KS MR II comprised 3,472 insurance policies as at 31 December 2017, while average accumulated assets per policyholder amounted to EUR 11,293.

In accordance with the pension plan for the payment of pension annuities, insurance policies for the payment of lifetime annuities participate in the annual positive results generated from the management of the portfolio associated with those insurance policies during the period in which annuities are paid. The insurance company earmarks at least 90% of the positive technical result from the previous accounting period to the allocation of profit. At least 50% of the aforementioned 90% of the positive technical result from the previous accounting period is allocated every year to policyholders in the form of an increase in pension annuities.

In 2017, profit in the amount EUR 10,560 was allocated to policyholders with a valid policy as at 31 December 2016 as a permanent increase in pension annuities. Increased pension annuities were paid in August 2017, together with the difference for all previously paid pension annuities in 2017.

Table 22: Composition of KS MR II assets as at 31 December 2017 (in EUR 000)

| Assets | Amount |
|---|---|
| Bonds | 18,563 |
| Deposits | 2,652 |
| Investment claims | 1,495 |
| Commercial paper | 2,246 |
| Investment coupons | 13,679 |
| Cash and cash equivalents | 605 |
| Other claims | 1,754 |
| **Total** | **40,994** |



As at 31 December 2017, a total of 34% of KS MR II assets were invested in the Republic of Slovenia, while 66% of all assets were invested in foreign issuers.

Table 23: Geographical distribution of KS MR II investments as at 31 December 2017 (in EUR 000)

| Area | Amount |
|---|---|
| Domestic investments | 14,110 |
| Foreign investments | 26,884 |
| **Total** | **40,994** |

### *6.2.2.3 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, 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 KS PPS pension annuity are entitled to the surplus return on the annuity 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). The proportion of the surplus earmarked for the permanent increase in annuities is determined once a year by the fund manager's management board. The surplus return in the amount of EUR 2,268 thousand was allocated in 2017 for a permanent increase in annuities. The annuities received by all policyholders/recipients of KS PPS pension annuities who entered into an insurance policy by December 2016 in the form of a monthly or annual annuity were 2.3% higher on average in May. The difference for the period January to April 2017 was paid together with the May payment of increased annuities.

A total of 1,257 policyholders who reached the age of 60 years obtained the right to an annuity in 2017. Those persons paid a total of EUR 3,127 thousand into the KS PPS for supplementary pensions.

Table 24: Composition of KS PPS assets as at 31 December 2017 (in EUR 000)

| Assets | Amount |
|---|---|
| Shares | 21,266 |
| Bonds | 68,586 |
| Commercial paper | 1,488 |
| Treasury bills | 43 |
| Deposits | 3,702 |
| Investment coupons | 6,659 |
| Cash and cash equivalents | 502 |
| Other claims | 259 |
| **Total** | **102,505** |



As at 31 December 2017, 56% of KS PPS assets were invested in the Republic of Slovenia, while 44% of all assets were invested in foreign issuers.

Table 25: Geographical distribution of KS PPS investments as at 31 December 2017 (in EUR 000)

| Area | Amount |
|---|---|
| Domestic investments | 57,035 |
| Foreign investments | 45,470 |
| **Total** | **102,505** |

### *6.2.3 Management of mutual equity pension funds*

Modra zavarovalnica is the largest provider of supplementary pension insurance in Slovenia, and is the main provider of old-age savings in the scope of the second pension pillar. More than 279 thousand individuals held savings in the company's mutual pension funds in December 2017, while the assets of the aforementioned funds exceeded EUR 1 billion. Paid-in supplementary pension insurance premiums, excluding transfers of assets between the KVPS and MKPS, totalled EUR 56.6 million in 2017.

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

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

Table 26: Data regarding mutual pension funds managed by Modra zavarovalnica as at 31 December 2017

| Fund | Number of participants/ policyholders | Number of employers/ liable persons | Amount of assets under management (EUR million) |
|---|---|---|---|
| KVPS – Mutual Equity Pension Fund | 25,577 | 192 | 179.5 |
| KPSJU – Umbrella Pension Fund for Public-Sector Employees | 222,187 | 1,912 | 745.1 |
| MKPS – Modri Umbrella Pension Fund | 11,051 | 173 | 57.5 |
| PPS – First Pension Fund | 20,976 | 0 | 20.1 |
| **Total** | **279,791** | **2,277** | **1,002.2** |

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 in 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 2017, Modra zavarovalnica created provisions in the amount of EUR 10,977 thousand for failure to achieve the guaranteed return on mutual pension funds. EUR 10,958 thousand of that amount related to the PPS.



### *6.2.3.1 Umbrella Pension Fund for Public-Sector Employees*

The Closed Mutual Pension Fund for Public-Sector Employees was transformed on 1 January 2017 into a guaranteed sub-fund of the newly established Umbrella Pension Fund for Public-Sector Employees. The Umbrella Pension Fund for Public-Sector Employees implements a life-cycle investment policy, and comprises three different sub-funds:

- a dynamic public-sector sub-fund intended for participants up to 50 years of age;
- a conservative public-sector sub-fund intended for middle-aged participants aged 50 to 60 years; and
- a guaranteed public-sector sub-fund (transformed existing fund) intended for participants over 60 years of age.

The Umbrella Pension Fund for Public-Sector Employees (KPSJU) is a closed mutual pension fund intended exclusively for public-sector employees. It was established for the purpose of collecting assets from income on the accounts of public-sector employees, and through the management of those assets 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.

On the basis of the PNJU K pension plan and KPSJU rules, Modra zavarovalnica is entitled to subscription and management fees associated with the KPSJU as the manager of that fund. 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 2017. The annual management fee for the KPSJU is 0.5% of the average annual net value of KPSJU assets. All other operating costs of the fund are borne by Modra zavarovalnica.

The KPSJU is the largest Slovenian pension fund, both in terms of the number of policyholders and assets under management. The aforementioned fund had 222,187 participants and assets totalling EUR 745 million at the end of 2017.

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 a participant of the KPSJU exercises their right to a supplementary old-age pension or the right to an early supplementary old-age pension under the PNJU K, while a public-sector employee may exercise their right to extraordinary termination if a public-sector employment contract was terminated prior to 31 December 2016 and 120 months have passed since inclusion, and in the event of payments to beneficiaries/heirs.

The insurance of 2,846 participants was terminated in 2017, while the redemption value paid was EUR 18 million.

### 6.2.3.2 Mutual Equity Pension Fund

The KVPS is an open mutual pension fund intended for the implementation of 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 2017, 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 2017. Redemption fees are charged as a percentage of the redemption value of funds and amounted to 1% in 2017.



Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a participant obtains the right to a pension under compulsory insurance or exercises the right to payment in accordance with Article 221 of the ZPIZ-2. 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 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 1,472 participants was terminated in 2017, while the redemption value paid was EUR 13 million. A total of 538 participants 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 a pension fund that accumulated its assets 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 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 participant dies before they obtain the right to a pension annuity, their heirs have the right to the payment of the redemption value of their policy.

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 2017. It is also entitled to a redemption fee, which is calculated as a percentage of the redemption value paid to heirs.

A total of 1,257 participants obtained the right to a pension annuity in 2017. The corresponding PPS assets in the amount of EUR 3.1 million were transferred to the KS PPS. A total of 16 payments of the redemption value in the amount of EUR 60 thousand were made due to the death of participants.

#### *6.2.3.4 Modri Umbrella Pension Fund*

The MKPS is an open fund intended for the implementation of 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 pension plan (the PNMZ P) intended for individuals.

The MKPS comprises three sub-funds that are created as separate assets, where each sub-fund defines its own investment objective and policy, 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.
- The Modri Guaranteed Sub-Fund is intended for participants above 60 years of age. As 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 2017. The annual management fee for the MKPS is 1% of the average annual net value of an individual sub-fund's assets.



Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a participant obtains the right to a pension under compulsory insurance or exercises the right to payment in accordance with Article 221 of the ZPIZ-2. 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 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 183 participants was terminated in 2017, while the redemption value totalled EUR 800 thousand. A total of 32 participants 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 205 thousand.

# VII

# *Risk management*



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

# VIII

# *Significant business events after the end of 2017*



Based on a public call for candidates, Gregor Bajraktarević began his four-year term of office as member of the Management Board on 7 February 2018.

The Minister of Labour, Family, Social Affairs and Equal Opportunities approved amendments to the occupational insurance pension plan on 29 November 2017. The new pension plan entered into force on 1 January 2018, except the provisions of Article 29, which entered into force on 1 February 2018. The aforementioned amendments relate to a change in the contribution rate, a reduction in management fees with respect to the net value of assets according to the scale set out in the pension plan, and a reduction in subscription fees. Amendments to the rules on the management of the SODPZ (to which the Securities Market Agency gave its consent on 20 December 2017) also entered into force on 1 February 2018.

In February 2018, 95 SODPZ policyholders (members of the Slovenian armed forces), who were paid the redemption value of fund units based on the fifth paragraph of Article 206 of the ZPIZ-2 valid at the time of payment, filed a claim against Kapitalska družba for default interest due to the alleged late payment of the redemption value based on the decision adopted by the Constitutional Court of the Republic of Slovenia.[12] Kapitalska družba responded to all claims by the legally prescribed deadline.

Kapitalska družba signed an agreement in April 2018 on the purchase of real estate (additional business premises located at Dunajska cesta 119). That agreement was implemented in May 2018.

Kapitalska družba also concluded an agreement in 2017 on the sale and purchase of a participating interest in Geoplin, d. o. o. for consideration in the amount of EUR 410 thousand, which is linked to the fulfilment of contractually defined suspensive conditions. That agreement was implemented in April 2018.

12 In its decision published on 10 June 2016, the Constitutional Court of the Republic of Slovenia ruled that the fifth paragraph of Article 206 of the ZPIZ-2, in the part stating that policyholders who have served in the Slovenian armed forces for at least 10 years and who do not intend to exercise their right to an occupational pension have the right to demand the payment of assets held on account at the fund in a lump-sum only after their employment contract with the Ministry of Defence has expired, is unconstitutional.

Public-sector austerity measures were abolished in January 2018. Those measures related to the amount of the collective premium for supplementary pension insurance. With their abolishment, the collective premium returned to its original amount from 2013, together with an indexation using the coefficient of the average wage paid to employees at legal entities for the period January to October for all years from 2014 to 2017. The minimum premium, valid as at 1 January 2013 in the amount of EUR 26.78, was increased to EUR 28.31 on 1 January 2018. The amounts of the indexed premium for specific premium grades will be applied with the calculation and payment of premiums for collective supplementary pension insurance for public-sector employees for January 2018 (payment of premiums in February 2018).

# IX

# *Expected development of the Kapitalska družba Group for 2018*

Kapitalska družba represents an important pillar of the stability of the pension system, both through the management of its own assets for the purpose of providing resources to the pension insurance fund and through the management of the Compulsory Supplementary Pension Insurance Fund, while the Kapitalska Družba Group represents the largest provider of voluntary supplementary pension insurance in Slovenia through its subsidiary Modra zavarovalnica. In 2016, Kapitalska družba created the bridging insurance fund for professional athletes or bridging fund for athletes, which is intended for the inclusion of professional athletes in bridging insurance with the aim of providing for their social security following the end of their active sporting career.



The dynamic conditions on the financial markets, the implementation of new software to support asset and fund management, the planned amendment to the occupational insurance pension plan and the resulting harmonisation of the operations of the SODPZ, the initial application of International Financial Reporting Standard 9 (IFRS 9), the digitalisation of the Company's physical archive, the establishment of a documentation system and the upgrading of the remuneration system are indications that 2018 will once again be a demanding and dynamic year for Kapitalska družba.

The Implementation of the Budget of the Republic of Slovenia Act (ZIPRS1819) once again envisages the adjustment of pensions and thus transfers by Kapitalska družba to the pension fund in 2018 in the maximum possible amount envisaged by the ZSDH-1, i.e. EUR 50 million.

The business objectives of the SODPZ in 2018 will continue to focus on the optimal management of policyholders' assets, where a great deal of attention will be given to the principles of security and liquidity. The underlying objectives will be 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, and to achieve and exceed the average return of comparable pension funds in the context of minimal risk. Fundamental changes are occurring in the Slovenian pension system with the payment of occupational pensions from the SODPZ. 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 2013, represent one of many possible sustainable forms that will become increasingly important due to the unfavourable demographic characteristics of Slovenian society.

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 the optimisation of business processes that are adapted to the actual requirements of the business environment and to achieve comprehensive and sustained business excellence, we will continue with a project in 2018 aimed at the comprehensive overhaul of the information system for asset and fund management, and complete the adaptation of operations to IFRS 9. We will optimise operations in areas that we have identified as the most important in the scope of a self-assessment project.

The development of relations between employees and the development of employees themselves will play an important role in the future. Existing work areas and development will be enhanced using various forms of training. Emphasis will be placed on the search for training programmes adapted to employees' needs and objectives, in cooperation with external experts and the Company's own employees, which will contribute to the more effective acquisition of new knowledge at reduced costs. Emphasis will also be placed on joint training programmes at the Group level with the aim of sharing specific knowledge within the Group. We will encourage the acquisition of professional licences relating to the core areas of the Company's operations and only those licences that are in the employer's interest.



Through the commitment and high level of motivation of all employees, we will fulfil our mission again in 2018, while building and increasing the Company's long-term value for its owner through prudent and reliable decisions.

Modra zavarovalnica will continue to strengthen its focus on customers, monitor their needs, offer the most personal treatment possible, and advise them accordingly. Crucial in focusing on customers is adapting to new technological solutions, as relying exclusively on existing communication tools and sales channels is no longer the most effective approach. Through digital transformation, the insurance company will develop marketing approaches by improving the user experience in all contacts with customers. Improving the user experience will also play a key role in the comprehensive make-over of its online presence. At the same time, the redesigning of the insurance company's website will pursue the objective of making the website the most important sales tool and no longer simply an information point, as that role will be assumed by the online Modri e-account and Modrinet services, which will be adapted to the needs of specific target groups. The aim of the digitalisation of marketing processes will be to ensure contemporary digital communication with customers in all phases of the decision-making process: appealing to needs, searching for information, insurance underwriting, the cultivation of relations with existing policyholders, other sales activities and an additional range of products.

The insurance company is expecting a difficult year in 2018 in terms of the asset management as the result of the continuation of record low interest rates, and relatively high-value, higher-risk investment categories. The guaranteed return will be 0.61% in 2018. Even so, the achievement of that return will not be easy. Opportunities will have to be sought in new investment categories, such as venture capital funds, real estate funds, funds comprising non-performing claims and infrastructure funds. During the previous two years, the insurance company studied various possibilities for entering new investment categories via alternative investment funds that invest in those categories. It gained a great deal of experience for assessing and investing in various funds, both those that are in line with the UCITS Directive and those that are not, in particular investment coupons. The advantages of investing in funds instead of direct investments lie in the greater diversification of investments, the specialisation of the fund manager and in the increased liquidity of investments, as a fund can be more effective than an individual investment, particular in the case of an open investment fund. The plan is to gradually increase the proportion of capital invested in alternative investments in 2018.

In managing the First Pension Fund, the insurance company 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 2018.

The insurance company's strategic objectives are the security of policyholders and their assets, as well as the fulfilment of capital requirements, improved risk management, ensuring conditions for the improved allocation of capital, the increased transparency of operations, etc. It will also continue to develop and upgrade the entire risk management system in 2018 with the aim of improving asset management over the long term. Of key importance is the fulfilment of requirements under the Solvency II Directive (ZZavar-1), where investments and liabilities will be assessed in terms of the use of capital, i.e. using a risk-based approach.

# X

# *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, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting 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 of pensions, which is limited to EUR 50 million. Notwithstanding the aforementioned, Kapitalska družba transferred EUR 50,000 thousand to the ZPIZ in 2017 based on the provisions of the ZIPRS1617 and ZIPRS1718. Kapitalska družba has transferred the cumulative amount of EUR 764,321 thousand to the budget of the ZPIZ.

Table 27: Kapitalska družba's payments to the budget of the ZPIZ

| 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 |

| Year | Amount of transfer (in EUR) |
|---|---|
| 2006 | 39,121,182 |
| 2007 | 39,121,182 |
| 2008 | 49,000,000 |
| 2009 | 49,000,000 |
| 2010 | 100,000,000 |
| 2011 | 50,000,000 |
| 2012 | 50,000,000 |
| 2013 | 50,000,000 |
| 2014 | 0 |
| 2015 | 19,000,000 |
| 2016 | 50,000,000 |
| 2017 | 50,000,000 |
| **Total** | **764,320,982** |

## *10.2 Responsibility to employees*

### *10.2.1 Concern for employee training*

Existing work areas and the development of new business functions at Kapitalska družba 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.



Employees attended seminars in the following areas in 2017: internal auditing, finance, accounting, financial reporting, taxes, public procurement, risk management, valuation, information technology, personal data protection and business English. Special emphasis in the area of training was placed on the introduction of IFRS 9 in the Company's operations, while Kapitalska družba also organised training in this area in conjunction with Modra zavarovalnica. Special attention was also given to preparations for harmonisation with the European General Data Protection Regulation (GDPR).

In accordance with its training plan, Kapitalska družba organised four internal training programmes in 2017 with regard to the implementation of due diligence measures in accordance with the Prevention of Money Laundering and Terrorism Financing Act, the latest arrangements and provision of occupational retirement processes, the risk management process and the presentation of internal public procurement rules. Those training programmes were carried out by experts from specific areas. The advantage of such training programmes lies in the rationalisation of costs and the fact that they are accessible to all employees of Kapitalska družba.

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 2017, one employee continued their Bologna master's studies at the Faculty of Economics in Ljubljana (in the business informatics programme), while another employee continued their final semester of Bologna master's studies in the field of computer and information science at The Open University in the United Kingdom, and successfully completed their studies in October 2017.

Three employees continued training in 2017 to receive professional qualifications, one to perform the tasks of certified machinery and equipment valuer, and the other two to perform the tasks of certified business valuer. In 2017, two employees passed the test of knowledge required to perform the tasks of stockbroker (investment consulting).

One employee was successfully certified in 2017 as a Veeam Certified Engineer (VMCE) in the field of computer and information science, while a second employee began their judicial apprenticeship with the aim of taking the state bar exam.

In addition to training courses organised by external service providers, knowledge is also exchanged in the scope of internal training events at Modra zavarovalnica. Regular training regarding the prevention of money laundering and terrorist financing is also organised. A thematic team workshop was organised for all employees in 2017 with the aim of strengthening mutual cooperation, work in groups and project management. Employees learned about and tested certain simple methods for improving mutual relations through open and respectful communication, the management of conflicts and team work.

We also provide for the systematic development of employees through individual annual interviews, in the scope of which managers and employees set objectives and define employees' development paths once a year, and through appraisal interviews that are conducted twice a year. The latter are aimed at the assessment of quantitative and qualitative objectives and behaviour, and at the provision of feedback regarding work performance during the previous six months. We also established a special remuneration system for employees from the areas of sales and asset management. Performance is verified and measured using special predefined indicators, while team performance is rewarded financially. A stimulating work environment is ensured through clear guidelines, management by objectives and motivation, and the inclusion of employees in various projects.

An employee satisfaction survey is conducted annually with the aim of measuring progress from year to year regarding efforts to maintain and improve performance, and regarding the creation of a work environment in which employees are able to demonstrate their potential. Feedback also helps improve the quality of relations and employee satisfaction, and thus the satisfaction of customers.



Employees are kept abreast of current events at the insurance company and with regard to new content. Relationships and two-way communication are cultivated through regular meetings of employees, the collection of ideas, the intranet, internal media, electronic notification, colleges, personal interviews, internal education and training, and through informal meetings and annual interviews with employees.

### *10.2.2 Concern for a safe and healthy work environment*

Kapitalska družba ensures a safe and healthy work environment by respecting all regulations governing occupational health and safety, and by ensuring 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 work environment, regular periodic preventive 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 2015, all employees are eligible for inclusion in the MKPS under the same conditions.

The costs of employee premiums for voluntary supplementary pension insurance (MKPS) totalled EUR 117 thousand in 2017.

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, with an average employee age of 46, and includes many young parents with small and school-age children. The balancing of career development and family life has become part of the organisational culture, which today is frequently a challenge. Kapitalska družba received the Family-Friendly Company certificate in 2010, which was subsequently upgraded to the full certificate. Following an audit of the three-year period following the receipt of the full certificate, the Company received special recognition for spreading the family-friendly company culture in Slovenia. Through the adoption of measures, the Company aims to ensure short-term and long-term positive effects on the lives of its employees. The following 13 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 hiring of employees' families for temporary jobs at the Company, the giving of gifts to celebrate newborns and New Year's gifts for children, and the education of managers in the area of balancing work and family. Among the most frequently employed measures are the time account, the children's time bonus (i.e. a day off for the first day of primary school for the parents of children in grades 1 to 3), meetings between employees and the Management Board and New Year's gifts and gifts for newborns. The Company organised its first open house, intended for all children of employees, in August 2017.



Modra zavarovalnica ensures the occupational health and safety of employees, and carries out all necessary activities in accordance with the safety statement and risk assessment. Training in the areas of occupational health and safety, and fire safety represents an integral element of the professional training of all employees. The aforementioned training must be attended by all employees and that knowledge periodically refreshed. In accordance with the law, the company provided for preliminary and periodic medical examinations, and for vaccinations against the flu and tick-borne meningoencephalitis. 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 supplementary pension insurance plan of the MKPS managed by the Modra zavarovalnica. It also offers employees collective accident insurance and insurance for specialist outpatient treatment.

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 intranet site. Fresh seasonal fruit is available to all employees twice a week as a healthy way to start the day. A 30-minute morning exercise programme is also organised once a week. The aforementioned programme emphasises the stretching of the neck, shoulders and back, which are subject to the greatest burden in office work.

Modra zavarovalnica has been a holder of the full Family-Friendly Company certificate since 2013. Concern for the right family and work life balance has become a part of the aforementioned company's organisational culture. It 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.

## *10.3 Environmental responsibility*

A tender was issued in 2017 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 80% 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 and information. Plastic bottle caps are collected throughout the year. We supported the 'You, Me and Us for Slovenia' project again in 2017. The aim of that project 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.

# XI

# *Report on relations with the subsidiary*

As the parent company, Kapitalska družba holds a 100% participating interest in Modra zavarovalnica. No transactions were executed between the parent company and the aforementioned subsidiary in 2017 under conditions that deviated from market conditions.



### *Lease of business premises*

Modra zavarovalnica leases business premises from Kapitalska družba. The aforementioned lease agreement was concluded in 2011, and subsequently extended until 2019 with the conclusion of an annex. The monthly rent for equipped business premises measuring 1,704.23 m$^2$ amounts to EUR 27,714. The aforementioned rental fee includes 50 parking places and electricity costs.

### *Use of computer programs*

As the exclusive holder of material copyrights on the Kad.Net software solution, Kapitalska družba allows Modra zavarovalnica to use that software under the associated agreement. As the holder of rights to use software support for asset management, Kapitalska družba also allows Modra zavarovalnica to use the AdTreasury software solution, with the consent of the exclusive holders of material rights on that program. 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 2,610, excluding VAT. That amount is being reduced gradually due to Modra zavarovalnica's transition to an independent software solution.

### *Provision of IT services*

Kapitalska družba provides IT services for Modra zavarovalnica. Those services include the maintenance of workstations and other user devices, help desk services, internet access services, messaging 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 the 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 8,943, excluding VAT.

### *Agreement on the financing of the pension plan*

Kapitalska družba has an agreement with Modra zavarovalnica 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.

# XII

## *Indicators*



in EUR 000

| | | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|---|
| 1. | FINANCING RATIOS | | | | |
| **a)** | **Equity financing ratio** | | | | |
| | equity | 1,077,066 | 1,016,437 | **0.77** | **0.80** |
| | total equity and liabilities | 1,407,286 | 1,270,462 | | |
| **b)** | **Long-term financing ratio** | | | | |
| | equity + long-term liabilities (including provisions) + long-term accruals and deferred income | 1,346,690 | 1,212,388 | **0.96** | **0.95** |
| | total equity and liabilities | 1,407,286 | 1,270,462 | | |
| 2. | INVESTMENT RATIOS | | | | |
| **a)** | **Operating fixed asset investment ratio** | | | | |
| | fixed assets (at carrying amount) | 7,912 | 8,038 | **0.01** | **0.01** |
| | total assets | 1,407,286 | 1,270,462 | | |
| **b)** | **Long-term investment ratio** | | | | |
| | fixed assets + long-term deferred expenses and accrued revenue (at carrying amount) + investment property + long-term financial assets + long-term operating receivables | 1,179,530 | 1,051,913 | **0.84** | **0.83** |
| | total assets | 1,407,286 | 1,270,462 | | |

in EUR 000

| | | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|---|
| 3. | HORIZONTAL FINANCIAL STRUCTURE RATIOS | | | | |
| **a)** | **Equity to fixed assets ratio** | | | | |
| | equity | 1,077,066 | 1,016,437 | **136.13** | **126.45** |
| | fixed assets (at carrying amount) | 7,912 | 8,038 | | |
| **b)** | **Acid test ratio** | | | | |
| | liquid assets | 35,177 | 34,711 | **0.58** | **0.60** |
| | short-term liabilities | 60,596 | 58,074 | | |
| **c)** | **Quick ratio** | | | | |
| | liquid assets + short-term receivables | 37,925 | 36,606 | **0.63** | **0.63** |
| | short-term liabilities | 60,596 | 58,074 | | |
| **d)** | **Current ratio** | | | | |
| | short-term assets | 148,806 | 193,517 | **2.46** | **3.33** |
| | short-term liabilities | 60,596 | 58,074 | | |

| | | | | | |
|---|---|---|---|---|---|
| 4. | EFFICIENCY RATIOS | | | | |
| **a)** | **Operating efficiency** | | | | |
| | operating revenue | 48,100 | 35,141 | **0.97** | **0.98** |
| | operating expenses | 49,563 | 35,701 | | |



| | | | | | |
|---|---|---|---|---|---|
| 5. | PROFITABILITY RATIOS | | | | |
| **a)** | **Net return on equity** | | | | |
| | net profit for the period | 15,800 | -286 | **0.02** | **0.00** |
| | average equity (excluding net profit/loss for the period) | 1,038,995 | 995,933 | | |
| **b)** | **Dividends to share capital ratio** | | | | |
| | dividends for financial year | 0 | 0 | **0.00** | **0.00** |
| | average share capital | 364,810 | 364,810 | | |

# XIII

# *Corporate governance statement*



In accordance with the provision of the fifth paragraph of Article 70 of the ZGD-1 and 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 2017 to 31 December 2017.

**I. 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 includes 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 also complies with the valid Recommendations and Expectations of SDH.**

Kapitalska družba hereby issues its statement of compliance with the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH in December 2014 and amended in part for the first time in March 2016 and for the second time in May 2017. The Code includes principles and recommended best practices for the corporate governance of companies with capital assets of the State. The Code is published on SDH's website at http://www.sdh.si/sl-si/upravljanje-nalozb/kljucni-dokumenti-upravljanja.

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 (hereinafter: the Code). Deviations from individual recommendations of the Code are cited and explained below:

**Point 3.1 of the Code:** The core objective of a company with capital assets of the State shall be to maximise the value of the company and generate the highest possible returns for owners, unless otherwise stated by the law or articles of association. In addition to the core objective, companies shall pursue other objectives that are defined for a specific company by the law or articles of association of that company. Companies shall ensure that all objectives are clearly defined in their articles of association in order to ensure increased transparency with respect to those objectives. If a company has conflicting objectives, its articles of association or another relevant legal document (e.g. the company's governance policy) shall define the relationships between objectives and the resolution of conflicts between those objectives.

**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 concerns are the fulfilment of its legal obligation to provide funds to the Pension and Disability Insurance Institute, and the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) and Bridging Fund for Athletes (PSŠ).

Point 3.2 of the Code: Notwithstanding the ownership structure, the management boards of a public limited companies with capital assets of the state and the management boards of large and medium-sized public limited companies and limited liability companies in which SDH has 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 other content set out in Chapter II of the Slovenian Corporate Governance Code as regards the definition of the concept of 'governance policy'. 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 asset management strategy, applying Recommendation no. 3.1.1 of this Code *mutatis mutandis*, and current corporate governance guidelines. The governance policy shall include the date of the last update and shall be accessible on a company's public website.



**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. That 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.

Point 3.6 of the Code: The management board of a company bound by the ZGD-1 to compile a business report shall, in conjunction with the supervisory board, formulate and adopt a diversity policy in the form of a special act that is implemented in connection with representation on its management and supervisory bodies in terms of gender, age, education and professional profile. The diversity policy shall be published on the company's publicly accessible website or in another form accessible to all shareholders.

**Note:** Kapitalska družba is unable to formulate a diversity policy in connection with the establishment of the Supervisory Board and has not yet adopted such a policy in connection with its Management Board, as regards representation on the Company's management and supervisory bodies in terms of gender, age, education and professional experience. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by national-level federations/organisations of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.

Point 4.3 of the Code: Management and supervisory bodies shall refrain from all communication with representatives of ministries or the State regarding matters that relate to the exercising of membership rights arising from the capital assets of the state at a particular company with such assets.

**Note:** Kapitalska družba does not comply with the aforementioned provision of the Code in full because it is not a company managed by SDH. In accordance with the law, Kapitalska družba is also the manager of the SODPZ and PSŠ, which represent elements of compulsory insurance.

**Point 6.4 of the Code:** The supervisory board shall be comprised in such a way as to ensure responsible supervision and decision-making for the benefit of a company. Regardless of whether a company has adopted a diversity policy or not, the composition of the 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 continuity and diverse composition of the supervisory board, in terms of characteristics such as age, international composition and gender representation (i.e. the heterogeneity of its composition), shall be ensured to the greatest extent possible.

**Note:** Kapitalska družba complies with the aforementioned provision 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.

**Point 6.7 of the Code:** If the general meeting elects members of the supervisory board based on a proposal from that body, the substantiation of proposals for the adoption of resolutions shall include, in addition to the data required by the 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 shall also take into account the individual circumstances stated in Appendix 3 to the Code. Moreover, the supervisory board shall disclose all information regarding whether a proposed candidate is independent in terms of the definition set out in this Code and whether procedures defined by this Code have been taken into account by the supervisory board in the selection of that candidate.

**Sub-point 6.7.1 of the Code:** In the justification of its proposal (subject to voting), the supervisory board shall also provide a description of the competence profile for a member of the supervisory board and information regarding a candidate that allows shareholders to assess whether that candidate meets the characteristics of the profile being sought.



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

**Point 6.8 of the Code:** The selection procedure for supervisory board members and the formulation of a proposal for a general meeting resolution on the appointment of supervisory board members shall be transparent and defined in advance.

**Sub-point 6.8.8 of the Code:** Immediately following the convening of the general meeting that will vote on new supervisory board members based on a proposal of the supervisory board of a company with capital assets of the State, 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 human resource committee for accreditation and nomination. Candidates may also be invited by SDH's human resource committee to submit their application for accreditation and nomination. This recommendation shall not apply when the proposal of candidates by SDH is the only recruitment channel.

**Note:** Kapitalska družba does not comply with the recommendation under sub-point 6.8.8 of the Code in full, because the Government of 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. Thus, in accordance with the Articles of Association, a proposal for candidates who are representatives of SDH is drafted by the latter's Management Board and the Supervisory Board informed of its selection. Two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners, while one member is appointed on the basis of a proposal by national-level trade union federations or confederations.

**Point 8.5 of the Code:** Prior to the beginning of the year, large and medium-sized companies shall prepare a financial calendar of the planned dates of their significant announcements (general meetings, date of dividend payment, annual and interim reports, etc.) in the forthcoming financial year. The financial calendar shall be published and publicly accessible on a company's web site.

**Note:** The Company cannot comply with the aforementioned provision of the code due to the specifics set out in the provisions of the ZSDH-1 with regard to Kapitalska družba (in accordance with the second paragraph of Article 52 of the ZSDH-1, the company's distributable profit may not be allocated to shareholders, while the role of the Company's General Meeting is performed by the general meeting of SDH, i.e. the Government of the Republic of Slovenia in accordance with Article 51 of the ZSDH-1).

**Point 10.2 of the Code:** Companies with capital investments of the state 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 an appropriately trained and qualified corporate integrity officer who will be provided assistance in the form of appropriately trained and paid experts, and the necessary material means and authorisations to ensure their unhindered work. The latter shall also include the autonomous right of reporting, first to management bodies and then to the supervisory bodies of a company, and to other internal and external bodies.

**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. Kapitalska družba plans to establish a comprehensive corporate integrity system by the end of 2019.



### II. Main features of internal control systems and risk management in relation to financial reporting procedures

**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 28 July 2017, the Company's financial statements for 2017 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 and is also subordinated in functional terms to the audit committee. 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.

### III. 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).

### IV. Holders of securities that provide special controlling rights

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

### V. 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.

### VI. Company's rules on the appointment and replacement of members of management and supervisory bodies, and change 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 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 on 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 the 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.

### VII. 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.

## VIII. Information regarding the functioning of the Company's General Meeting of Shareholders 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 AJPES 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.



## IX. 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.

a) 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 2017 is given in the Report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2017[13]:

- Stanislav Seničar, Chairman,
- Dr Boris Žnidarič, Deputy Chairman,
- Cirila Surina Zajc, member,
- Aleksander Mervar, MSc, member,
- Ladislav Rožič, MSc, member, and
- Natalija Stošicki, member.

13 The four-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2017. Both, however, were reappointed to new one-year terms of office at the General Meeting. At the first session of the Supervisory Board following the start of his new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

Three committees functioned within the Supervisory Board in 2017: an audit committee, an accreditation committee and an HR committee. The composition and work of the aforementioned committees are presented in the Report of the Supervisory Board.

b) 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 2017 in the following composition:
- Bachtiar Djalil, President,
- Goranka Volf, member, and
- Gregor Bajraktarević, member (since 6 February 2017).

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 his four-year term of office on 2 January 2015, while member of the Management Board Goranka Volf began her four-year term of office on 24 November 2016. Gregor Bajraktarević began his term of office as temporary member of the Management Board on 6 February 2017. That term of office was for a period of one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first. Based on a public call for candidates, Gregor Bajraktarević began his four-year term of office as member of the Management Board on 7 February 2018.

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 2017 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.

Table 28: Composition of the Management Board during the 2017 financial year

| Name | Function (President, member) | Area of work on the Management Board | First appointment to function | Completion of function / term of office | Gender |
|---|---|---|---|---|---|
| Bachtiar Djalil | President | Legal, HR and General Affairs, Internal Audit, Risk Management and advisers to the Management Board | 1 January 2010 | 2 January 2019 | M |
| Goranka Volf | Member | Development and Strategic Communication, Insurance, Finance and Accounting | 24 November 2016 | 24 November 2020 | F |
| Gregor Bajraktarević | Member | Asset Management, Information Technology | 6 February 2017 | 7 February 2022 | M |

Table 29: Composition of the Supervisory Board and its committees during the 2017 financial year

| Name | Function (Chairman, Deputy Chairman, member) | First appointment to function | Completion of function / term of office | Shareholder / employee representative | Participation in Supervisory Board sessions with respect to total number (e.g. 5/7) | Gender | Nationality |
|---|---|---|---|---|---|---|---|
| Stanislav Seničar | Chairman | 28 August 2013 | 29 August 2018 | Shareholder representative | 17/17 | M | Slovene |
| Boris Žnidarič | Deputy Chairman | 1 February 2015 | 1 February 2019 | Pensioner representative | 17/17 | M | Slovene |
| Aleksander Mervar | Member | 28 August 2013 | 29 August 2018 | Shareholder representative | 14/17 | M | Slovene |
| Natalija Stošicki | Member | 8 April 2016 | 8 April 2020 | Pensioner representative | 16/17 | F | Slovene |
| Cirila Surina Zajc | Member | 1 February 2015 | 1 February 2019 | Pensioner representative | 16/17 | F | Slovene |
| Ladislav Rožič | Member | 31 January 2011 | 1 February 2019 | Trade union representative | 17/17 | M | Slovene |



Table 30: External members of Supervisory Board committees during the 2017 financial year

| Name | Committee | Participation in committee sessions with respect to total number (e.g. 5/7) | Gender | Nationality |
|---|---|---|---|---|
| Mojca Verbič | Audit | 2/6 | F | Slovene |
| Irena Prijović | Accreditation | 5/6 | F | Slovene |
| Alenka Stanič | Accreditation | 6/6 | F | Slovene |

| Nationality | Year of birth | Level of education | Professional profile | Membership in supervisory bodies of unaffiliated companies |
|---|---|---|---|---|
| Slovene | 1975 | Bachelor's degree in law | Corporate governance, management of pension and investment funds, economic and financial law | Gorenje, d. d., Loterija Slovenije, d. d. |
| Slovene | 1959 | Bachelor's degree in economics | Pension fund management, corporate governance, corporate communications | Terme Čatež d. d. |
| Slovene | 1975 | Master's of science | Asset management, corporate governance, investment banking and corporate restructuring | HIT d. d. |

| Year of birth | Level of education | Professional profile | Independence in accordance with point 6.6 of the Code (YES / NO) | Existence of conflicts of interest during the financial year (YES / NO) | Membership in supervisory bodies of other companies | Membership on committees (e.g. audit, human resource or remuneration) | Chair / member | Participation in committee sessions with respect to total number (e.g. 5/7) |
|---|---|---|---|---|---|---|---|---|
| 1942 | Bachelor's degree in sociology | Corporate governance | Yes | No | / | / | / | / |
| 1948 | Doctorate of science | Master's degree in law and other social sciences, qualified university professor | Yes | No | Krka, d. d., Modra zavarovalnica, d. d. | Accreditation | Chair | 6/6 |
| 1962 | Master's of science | Finance, accounting, corporate governance, governance systems | Yes | No | Stelkom, d. o. o. | HR, audit, accreditation | Chair Member, Member | 1/1 3/6 2/6 |
| 1966 | Bachelor's degree in economics | Financial services expert | Yes | No | Modra zavarovalnica, d. d. | Audit, HR | Member, Member | 5/6 1/1 |
| 1949 | Bachelor's degree in economics | Finance | Yes | No | / | Audit, HR | Member, Member | 6/6 1/1 |
| 1957 | Master's of science | Finance, corporate governance | Yes | No | / | Audit, accreditation | Chair Member | 6/6 5/6 |

| Level of education | Year of birth | Professional profile | Membership in supervisory bodies of unaffiliated companies |
|---|---|---|---|
| Bachelor's degree in economics | 1975 | Director of Finance and Business Support Sector | / |
| Master's of science | 1968 | Corporate governance | Petrol d. d. (until April 2017) |
| Doctorate of science | 1963 | Adviser for key personnel | / |

## X. Description of the diversity policy that is implemented in connection with representation on the Company's management and supervisory bodies

Kapitalska družba is unable to formulate a diversity policy in connection with the establishment of the Supervisory Board and has not yet adopted such a policy in connection with its Management Board, as regards representation on the Company's management and supervisory bodies in terms of gender, age, education and professional experience. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by national-level federations/organisations of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.

| | | |
|---|---|---|
| **Gregor Bajraktarević**<br>Member of the<br>Management Board | **Goranka Volf**<br>Member of the<br>Management Board | **Bachtiar Djalil**<br>President of the<br>Management Board |

Ljubljana, 6 June 2018

# *Financial Report*

# XIV

## *Statement of management's responsibility*



The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Company for the year ended 31 December 2017, and the accompanying notes and disclosures thereof on pages 84 to 158, 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 2017.

The Management Board is also responsible for an appropriate accounting system and adoption of suitable measures to secure assets and other funds and hereby confirms that financial statements and therewith related notes have been compiled under the assumption of going concern and in accordance with the applicable 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.

| | | |
|---|---|---|
| **Gregor Bajraktarević**<br>Member of the<br>Management Board | **Goranka Volf**<br>Member of the<br>Management Board | **Bachtiar Djalil**<br>President of the<br>Management Board |

Ljubljana, 6 June 2018

# XV

# *Auditor's Report*

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

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# INDEPENDENT AUDITOR'S REPORT
## to the owners of Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d.

### Opinion

We have audited the consolidated financial statements of the company Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

### Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Other information

The other information comprises the Business Report, which is an integral part of the Annual Report of the Group, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

**Responsibilities of Management and Supervisory board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so

Supervisory board is responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With supervisory board we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

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

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

Ljubljana, 6nd June 2018

**TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS**

# XVI

# *Financial statements for 2017*



## *16.1 Consolidated income statement for the period from 1 January 2017 to 31 December 2017*

in EUR '000

| | Item | Note | 1 Jan.–31 Dec. 2017 | 1 Jan.–31 Dec. 2016 |
|---|---|---|---|---|
| 1. | Net revenue from sales | 1 | | |
| c) | Revenue from sales on the domestic market | | 45,416 | 32,772 |
| | Total revenue from sales | | 45,416 | 32,772 |
| 4. | Other operating revenue (including revaluation revenue) | 2 | 2,684 | 2,369 |
| | **Total revenue** | | **48,100** | **35,141** |
| 5. | Costs of goods, materials and services | 3 | | |
| b) | Costs of materials | | -289 | -227 |
| c) | Costs of services | | -3,217 | -3,343 |
| | Total costs of goods, materials and services | | -3,506 | -3,570 |
| 6. | Labour costs | 4 | | |
| a) | Payroll costs | | -4,713 | -4,470 |
| b) | Social security insurance costs | | -763 | -723 |
| c) | Pension insurance costs | | -229 | -226 |
| d) | Other labour costs | | -546 | -586 |
| | Total labour costs | | -6,251 | -6,005 |
| 7. | Amortisation, depreciation and write-offs | 5 | | |

in EUR '000

| | Item | Note | 1 Jan.–31 Dec. 2017 | 1 Jan.–31 Dec. 2016 |
|---|---|---|---|---|
| a) | Amortisation and depreciation | | -1,377 | -1,186 |
| b) | Operating expenses from revaluation of fixed assets | | 0 | -771 |
| | Total write-downs | | -1,377 | -1,957 |
| 8. | Other operating expenses | 6 | -38,429 | -24,169 |
| | **Total costs** | | **-49,563** | **-35,701** |
| | **Operating profit (loss)** | | **-1,463** | **-560** |
| 9. | Financial revenue from shares and interests | 7 | | |
| b) | Financial revenue from shares and interests in associates | | 9,143 | 6,084 |
| c) | Financial revenue from other shares and interests | | 48,675 | 30,851 |
| d) | Financial revenue from other investments | | 9,496 | 9,704 |
| | Total financial revenue from shares and interests | | 67,314 | 46,639 |
| 10. | Financial revenue from loans | 7 | | |
| b) | Financial revenue from loans to others | | 450 | 1,002 |
| | Total financial revenue from loans | | 450 | 1,002 |
| | **Total financial revenue** | | **67,764** | **47,641** |
| 12. | Financial expenses due to impairment and write-off of financial assets | 8 | | |
| b) | Financial expenses due to impairment and write-off of other investments | | -3,795 | -3,705 |
| b) | Financial expenses due to impairment and write-off of associates | | 0 | -86 |
| | Total financial expenses due to impairment and write-off of financial assets | | -3,795 | -3,791 |
| 13. | Financial expenses for financial liabilities | 8 | | |
| d) | Financial expenses for other financial liabilities | | -50,005 | -50,003 |
| | Total financial expenses for financial liabilities | | -50,005 | -50,003 |
| | **Total financial expenses** | | **-53,800** | **-53,794** |
| | **Profit (loss) from ordinary activity** | | **12,501** | **-6,713** |
| 15. | Other revenue | 9 | 230 | 51 |
| 16. | Other expenses | 10 | -64 | -5 |
| | **Total profit (loss)** | | **12,667** | **-6,667** |
| 17. | Income tax | 11 | -536 | -382 |
| 18. | Deferred tax | 12 | 3,669 | 6,763 |
| **19.** | **Net profit or loss for the period** | **13** | **15,800** | **-286** |

Disclosures and notes on pages 94 to 158 are an integral part of these financial statements.

## *16.2 Consolidated statement of other comprehensive income for the period from 1 January 2017 to 31 December 2017*

in EUR '000

| | | 1 Jan.–31 Dec. 2017 | 1 Jan.–31 Dec. 2016 |
|---|---|---|---|
| **19** | **Net profit or loss for the period** | **15,800** | **-286** |
| | Net profit or loss of the majority shareholder for the period | 15,800 | -286 |
| | Items that may be reclassified subsequently to profit or loss | 37,332 | 12,022 |
| **21** | **Change in fair value reserve of available-for-sale financial assets** | **37,542** | **12,167** |
| | Change in fair value reserve of available-for-sale financial assets | 37,542 | 12,167 |
| **23** | **Other components of comprehensive income** | **-210** | **-145** |
| **24** | **Total comprehensive income for the period** | **53,132** | **11,736** |
| | Total comprehensive income of the majority shareholders for the period | 53,132 | 11,736 |

Disclosures and notes on pages 94 to 158 are an integral part of these financial statements.

# *16.3 Consolidated statement of financial position as at 31 December 2017*

in EUR '000

| | Item | Note | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|---|---|
| | ASSETS | | | |
| A. | Non-current assets | | | |
| I. | Intangible assets and long-term deferred costs and accrued revenues | 14 | | |
| 1 | Long-term property rights | | 1,503 | 1,231 |
| 5 | Other long-term deferred costs and accrued revenues | | 50,000 | 0 |
| | **Total intangible assets** | | **51,503** | **1,231** |
| II. | Property, plant and equipment | 15 | | |
| 2 | Buildings | | 6,226 | 6,543 |
| 4 | Other plant and equipment | | 183 | 264 |
| | **Total property, plant and equipment** | | **6,409** | **6,807** |
| **III.** | **Investment property** | **16** | **13,030** | **13,196** |
| IV. | Long-term financial assets | | | |
| 1 | Long-term financial assets, except loans | | | |
| b. | Shares and interests in associates | 17 | 79,229 | 55,629 |
| c. | Other shares and interests | 19 | 800,731 | 695,372 |
| d. | Other long-term financial assets | 19 | 272,555 | 250,107 |
| | **Total long-term financial assets, except loans** | | **1,152,515** | **1,001,108** |
| 2 | Non-current loans | 20 | | |
| b. | Non-current loans to others | | 6,000 | 29,454 |
| | Total non-current loans | | 6,000 | 29,454 |
| | Total non-current financial assets | | 1,158,515 | 1,030,562 |
| V. | Long-term operating receivables | 21 | | |
| 3 | Long-term operating receivables due from others | | 73 | 117 |
| | **Total long-term operating receivables** | | **73** | **117** |
| **VI.** | **Deferred tax assets** | **12** | **28,950** | **25,032** |
| | **Total fixed assets** | | **1,258,480** | **1,076,945** |
| | Current assets | | | |
| I. | Assets held for sale | 18 | 1,940 | 7,307 |
| III. | Current financial assets | | | |
| 1 | Current financial assets, except loans | 19 | | |
| d. | Other current financial assets | | 20,701 | 39,274 |
| | **Total current financial assets, except loans** | | **20,701** | **39,274** |
| 2 | Current loans | 20 | | |
| b. | Current loans to others | | 36,134 | 59,200 |
| | Total current loans | | 36,134 | 59,200 |
| | **Total current financial assets** | | **56,835** | **98,474** |

in EUR '000

| | Item | Note | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|---|---|
| IV. | Short-term operating receivables | 21 | | |
| 2 | Short-term operating trade receivables | | 1,461 | 1,233 |
| 3 | Short-term operating receivables due from others | | 1,287 | 662 |
| | **Total short-term operating receivables** | | **2,748** | **1,895** |
| **V.** | **Cash and cash equivalents** | **22** | **35,177** | **34,711** |
| | **Total current assets** | | **96,700** | **142,387** |
| **C.** | **Short-term deferred costs and accrued revenues** | **29** | **52,106** | **51,130** |
| | **Total assets** | | **1,407,286** | **1,270,462** |
| | EQUITY AND LIABILITIES | | | |
| A. | Equity | | | |
| I. | Called-up capital | 23 | 364,810 | 364,810 |
| II. | Capital surplus | 24 | 216,761 | 216,619 |
| III. | Revenue reserves | 25 | 0 | 0 |
| V. | Revaluation surplus | | 379,912 | 343,311 |
| VI. | Retained earnings | | 99,783 | 85,539 |
| VII. | Net profit/loss for the year | | 15,800 | 6,158 |
| | **Total majority interest** | | **1,077,066** | **1,016,437** |
| VII. | MINORITY INTEREST | | 0 | 0 |
| | **Total capital** | | **1,077,066** | **1,016,437** |
| | Provisions and long-term accrued costs and deferred revenue | 28 | | |
| I. | Provisions for pensions and similar obligations | | 506 | 407 |
| II. | Other provisions | | 177,836 | 160,306 |
| III. | Long-term accrued costs and deferred revenue | | 1,544 | 2,672 |
| | **Total provisions and long-term accrued costs and deferred revenue** | | **179,886** | **163,385** |
| C. | Long-term liabilities | | | |
| I. | Long-term financial liabilities | 26 | | |
| 4 | Other long-term financial liabilities | | 50,582 | 371 |
| | Total long-term financial liabilities | | 50,582 | 371 |
| II. | Long-term operating liabilities | 27 | | |
| 4 | Long-term operating liabilities from advances | | 364 | 12 |
| 5 | Other long-term operating liabilities | | 24 | 33 |
| | **Total long-term operating liabilities** | | **388** | **45** |
| **III.** | **Deferred tax liabilities** | **12** | **38,768** | **32,150** |
| | **Total long-term liabilities** | | **89,738** | **32,566** |
| D. | Short-term liabilities | | | |
| II. | Short-term financial liabilities | 26 | 0 | 0 |
| III. | Short-term operating liabilities | 27 | | |
| 2 | Short-term operating liabilities to suppliers | | 3,579 | 3,424 |
| 5 | Short-term liabilities to the State | | 50,576 | 50,429 |

in EUR '000

| | Item | Note | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|---|---|
| 6 | Other short-term operating liabilities | | 590 | 597 |
| | **Total short-term operating liabilities** | | **54,745** | **54,450** |
| | **Total short-term liabilities** | | **54,745** | **54,450** |
| **E.** | **Short-term accrued costs and deferred revenues** | **29** | **5,851** | **3,624** |
| | **Total equity and liabilities** | | **1,407,286** | **1,270,462** |

Disclosures and notes on pages 94 to 158 are an integral part of these financial statements.

# 16.4 Consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017

in EUR '000

| | | 1 Jan.–31 Dec. 2017 | 1 Jan.–31 Dec. 2016 |
|---|---|---|---|
| **A.** | **Cash flows from operating activities** | | |
| A) | Net profit or loss and adjustments | | |
| | Profit (loss) before tax | 12,667 | -6,667 |
| | Income taxes and other taxes not included in operating expenses | -536 | -382 |
| | Adjustments for amortisation and depreciation | 974 | 1,186 |
| | Adjustments for financial revenue from financing | -72,359 | -47,641 |
| | Adjustments for financial expenses from financing | 53,800 | 53,794 |
| | **Total income statement items** | **-5,454** | **290** |
| b) | Change in net current assets – operating items in the balance sheet | | |
| | Opening less closing operating receivables | -809 | 4,235 |
| | Opening less closing deferred costs and accrued revenues | -976 | -50,435 |
| | Opening less closing deferred tax assets | -3,918 | -11,264 |
| | Opening less closing assets (disposal groups) held for sale | 5,367 | -733 |
| | Closing less opening operating liabilities | 295 | 50,345 |
| | Closing less opening accrued costs and deferred revenues, and provisions | 18,728 | 8,302 |
| | Closing less opening deferred tax liabilities | 6,618 | 15,469 |
| | **Total items of net current assets – operating items in the balance sheet** | **25,305** | **15,919** |
| c) | Net cash from (used in) operating activities | 19,851 | 16,209 |
| **B.** | **Cash flows from investing activities** | | |
| a) | Receipts from investing activities | | |
| | Receipts from Interest and dividends received from investing activities | 35,556 | 35,352 |
| | Receipts from disposal of property, plant and equipment | 7 | 0 |
| | Receipts from disposal of non-current financial assets | 54,481 | 57,932 |
| | Receipts from disposal of current financial assets | 106,008 | 40,006 |
| | **Total cash receipts from investing activities** | **196,052** | **133,290** |
| b) | Disbursements from investing activities | | |
| | Cash disbursements to acquire intangible assets | -717 | -818 |
| | Disbursements to acquire property, plant and equipment | -44 | -168 |
| | Disbursements to acquire investment property | -324 | 0 |
| | Disbursements to acquire non-current financial assets | -142,096 | -73,100 |
| | Disbursements to acquire current financial assets | -21,595 | -36,368 |
| | **Total cash disbursements from investing activities** | **-164,776** | **-110,454** |
| c) | Net cash from (used in) investing activities | 31,276 | 22,836 |
| **C.** | **Cash flows from financing activities** | | |
| a) | Cash receipts from financing activities | | |
| | Receipts from paid-up capital | 141 | 206 |

| | | 1 Jan.–31 Dec. 2017 | 1 Jan.–31 Dec. 2016 |
|---|---|---|---|
| | | | in EUR '000 |
| | Receipts from increase in non-current financial liabilities | 2,396 | 3,650 |
| | **Total cash receipts from financing activities** | **2,537** | **3,856** |
| b) | Cash disbursements from financing activities | | |
| | Disbursements for interest related to financing activities | 0 | 0 |
| | Disbursements for repayment of non-current financial liabilities | -50,233 | -50,204 |
| | Disbursements for repayment of current financial liabilities | 0 | 0 |
| | Disbursements for dividends and other profit participation | -2,965 | -2,132 |
| | **Total cash disbursements from financing activities** | **-53,198** | **-52,336** |
| c) | Net cash from (used in) financing activities | -50,661 | -48,480 |
| **D.** | **Closing balance of cash** | | |
| a) | Net cash for the period | 466 | -9,435 |
| b) | Opening balance of cash | 34,711 | 44,146 |
| **c)** | **Total closing balance of cash** | **35,177** | **34,711** |

Disclosures and notes on pages 94 to 158 are an integral part of these financial statements.

## 16.5 Consolidated statement of changes in equity for the period from 1 January 2017 to 31 December 2017

in EUR '000

| | | Share capital | Capital surplus | Reserves from valuation at fair value | Retained earnings | Net profit or loss for the year | Majority interest | Total |
|---|---|---|---|---|---|---|---|---|
| **A. 1.** | **As at 31 Dec. 2016** | **364,810** | **216,619** | **343,311** | **85,539** | **6,158** | **1,016,437** | **1,016,437** |
| **A. 2.** | **As at 1 Jan. 2017** | **364,810** | **216,619** | **343,311** | **85,539** | **6,158** | **1,016,437** | **1,016,437** |
| **B. 1.** | **Changes in equity – transactions with owners** | **0** | **142** | **0** | **0** | **0** | **142** | **142** |
| d) | Additional payments of capital | 0 | 142 | 0 | 0 | 0 | 142 | 142 |
| **B. 2.** | **Total comprehensive income for the reporting period** | **0** | **0** | **37,332** | **0** | **15,800** | **53,132** | **53,132** |
| a) | Net profit or loss for the reporting period | 0 | 0 | 0 | 0 | 15,800 | 15,800 | 15,800 |
| d) | Change in surplus arising on revaluation of investments | 0 | 0 | 36,430 | 0 | 0 | 36,430 | 36,430 |
| e) | Change in surplus arising on revaluation of investments – associates | 0 | 0 | 1,112 | 0 | 0 | 1,112 | 1,112 |
| f) | Other components of comprehensive income for the reporting period | 0 | 0 | -210 | 0 | 0 | -210 | -210 |
| **B. 3.** | **Changes in equity** | **0** | **0** | **-731** | **14,244** | **-6,158** | **7,355** | **7,355** |
| a) | Allocation of the remaining net profit for the comparative period to other equity components | 0 | 0 | -731 | 14,244 | -6,158 | 7,355 | 7,355 |
| **C.** | **Closing balance as at 31 Dec. 2017** | **364,810** | **216,761** | **379,912** | **99,783** | **15,800** | **1,077,066** | **1,077,066** |



Disclosures and notes on pages 94 to 158 are an integral part of these financial statements.

## *16.6 Consolidated statement of changes in equity for the period from 1 January 2016 to 31 December 2016*

in EUR '000

| | | Share capital | Capital surplus | Revaluation surplus | Retained earnings | Net profit or loss for the year | Majority interest | Total |
|---|---|---|---|---|---|---|---|---|
| **A. 1.** | **As at 31 Dec. 2015** | **364,810** | **216,413** | **331,867** | **62,054** | **29,351** | **1,004,495** | **1,004,495** |
| **A. 2.** | **As at 1 Jan. 2016** | **364,810** | **216,413** | **331,867** | **62,054** | **29,351** | **1,004,495** | **1,004,495** |
| **B. 1.** | **Changes in equity – transactions with owners** | **0** | **206** | **0** | **0** | **0** | **206** | **206** |
| d) | Additional payments of capital | 0 | 206 | 0 | 0 | 0 | 206 | 206 |
| **B. 2.** | **Total comprehensive income for the period** | **0** | **0** | **12,022** | **0** | **-286** | **11,736** | **11,736** |
| a) | Net profit or loss for the period | 0 | 0 | 0 | 0 | -286 | -286 | -286 |
| d) | Change in surplus arising on revaluation of investments | 0 | 0 | 12,232 | 0 | 0 | 12,232 | 12,232 |
| e) | Change in surplus arising on revaluation of investments – associates | 0 | 0 | -65 | 0 | 0 | -65 | -65 |
| f) | Other components of comprehensive income of the reporting period | 0 | 0 | -145 | 0 | 0 | -145 | -145 |
| **B. 3.** | **Changes in equity** | **0** | **0** | **-578** | **23,485** | **-22,907** | **0** | **0** |
| a) | Allocation of the remaining net profit for the comparative period to other equity components | 0 | 0 | -578 | 29,929 | -29,351 | 0 | 0 |
| b) | Allocation of a portion of net profit for the period to other components of equity under the decision of management and supervisory bodies | 0 | 0 | 0 | -6,444 | 6,444 | 0 | 0 |
| **C.** | **Closing balance as at 31 Dec. 2016** | **364,810** | **216,619** | **343,311** | **85,539** | **6,158** | **1,016,437** | **1,016,437** |

Disclosures and notes on pages 94 to 158 are an integral part of these financial statements.

# XVII

# *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 bookkeeping 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.

Separate financial statements of Kapitalska družba, d. d. were issued on 29 March 2018; the auditor issued the unmodified opinion thereon on 24 April 2018.

### *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 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. (Slovenian Sovereign Holding – SDH), 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 SDH 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 the subsidiary*

The subsidiary of Kapitalska družba, d. d. is presented in the table below.

in EUR '000

| Subsidiary | Country | Share in equity | Equity of the Company as at 31 Dec. 2017 | Net profit for 2017 |
|---|---|---|---|---|
| Modra zavarovalnica, d. d. | Slovenia | 100.00% | 244,040 | 7,780 |

As the parent company, Kapitalska družba consolidates Modra zavarovalnica, d. d.

### *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 published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

### *Information about treasury shares*

The company has no treasury shares.

*Information about employees*

At the end of 2017, the Kapitalska družba Group had 118 employees, of whom 59 in Kapitalska družba and 58 in Modra zavarovalnica.

Table 31: Number of employees of the Kapitalska družba Group

| | As at 31 Dec. 2017 | As at 31 Dec. 2016 |
|---|---|---|
| The Kapitalska družba Group | 118 | 118 |

## 17.2 Accounting policies

*Basis for preparation*

The financial statements for 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and the Companies Act.

The data in the financial statements are based on book-keeping documents and books of account kept in line with the International Financial Reporting Standards. The financial statements have been compiled by taking into account the fundamental accounting assumptions: going concern, consistency and accrual basis. The 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 2017. It did not apply any standard or interpretation before its application became obligatory in 2017.

### *Amendments to standards and interpretations*

#### *Initial application of new amendments to the existing standards effective for the current reporting period*

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- Amendments to various standards – "Improvements to IFRSs (2014–2016)", resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12 and IAS 28), primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 8 February 2018 (IFRS 12 amendments are to be applied for annual periods beginning on or after 1 January 2017).

#### *Standards and amendments to the existing standards issued by the IASB and adopted by the EU but not yet effective*

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:
- IFRS 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).



IFRS 9, effective for annual periods beginning on 1 January 2018, will bring about changes in the classification and measurement of financial instruments, which will depend on the characteristics of cash flows and the business model for managing them. It introduces a new impairment method in relation to the expected loss or recognition of expected credit losses from the first recognition and for the lifetime period. It also introduces a significantly amended hedge accounting model with the disclosures of hedging activities. The new standard requires extensive additional disclosures on risk management.

In 2017, the Group started to prepare for the implementation of the new standard, introduced the project and adjusted its IT support and policies. Assessments of the impact of the transition to a new standard have also been drawn up, showing that the new standard will have no material impact on the Group's total equity.
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 'Effective date of IFRS 15', adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 - "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time).
- Amendments to various standards – "Improvements to IFRSs (2014–2016)", resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12 and IAS 28), primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 8 February 2018 (effective for annual periods beginning on or after 1 January 2018).

### *New standards and amendments to the existing standards 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 the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in the EU as at the issuing date of these financial statements (the effective dates indicated below apply for entire IFRS):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015–2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).



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

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

### *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 the profit or loss. Non-monetary assets and liabilities, recognised 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 eh financial statements of Kapitalska družba and its subsidiary as at 31 December of a year. The financial statements of the subsidiary 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 the 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 the 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 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 properly are determined as the difference between the net return on disposal and the carrying amount, and are recognised in the profit or loss.

The cash generating unit includes investment property by locations.

### *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 assets of the Group are classified into the group of 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 available-for-sale financial assets revaluation reserve until the investment is sold or disposed of in some other manner. If an investment is impaired, the impairment loss is recognised in the 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. Investments in 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 associated companies*

An associate is a company in which the parent has a significant influence and which is neither a subsidiary nor a joint venture.

The Group allocates and measures associates and joint ventures in accordance with IAS 39 and values them at fair value.

Kapitalska družba, d. d., may not exercise voting rights arising from dematerialized securities acquired on the basis of the Dematerialized Securities Act (ZNVP-1), in accordance with the said law. Due to the above, investments in these companies are not consolidated.

### *Fair value measurement*

Pursuant to IFRS 13, the Group determines fair value of investments as if it were the amount received form disposal of an asset or paid for transfer of liabilities in regular transaction between market participants on the measurement day. The measurement date is the date of the preparation of the Group's financial statements. In case of such a transaction, fair value is measured based on the assumption that the transaction is taking place on the principal market or, if principal market does not exist, on the most advantageous market.

Upon investment acquisition, the Group determines on of the following as the principal market for that investment:
- stock exchange market (for equity and debt instruments and collective investment trusts), or
- traders' market or OTC[14] (market for debt investments).



At the measurement date, the Group checks again the market that was defined as the principal market of that investment upon acquisition.

At the measurement date, the Group verifies if the relevant market is active.

In case of exchange trading, the assumption of active market is fulfilled if the average amount of individual investment traded in a day over the last 180 days from the date of fair value measurement exceeds EUR 0.5 million by taking into account the number of trading days (in case of Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account). In the event of an active exchange, fair value is measured using the last known quoted price. In the event of less liquid exchange markets, fair value is measured using the most recent quoted price of not more than 90 days. If neither of the above applies, fair value of the investment is measured on the basis of the valuation technique.

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT[15] price is quoted for at least a half of trading days in the last 30 days from the measurement date. In the event of an active OTC market, fair value is measured using the last known CBBT price. If the OTC market is less liquid, fair value is measured using the most recent CBBT price of not more than 90 days. When the CBBT price is not available, fair value may be measured using the BVAL[16] price, if available. If neither of

14 OTC (Over-The-Counter) market, transactions involving securities and agreed bilaterally between two parties outside the organised market.
15 Composite Bloomberg Bond Trader is Bloomberg information on real-time prices of bonds. Bloomberg calculates the price of a bond based on the weighted average price (both indicative and binding) drawn from by a larger number of different dealers.
16 Bloomberg Valuation Service refers to Bloomberg information about the price of an individual bond at the end of trade date. The BVAL price is calculated based on the information about the price of concluded transactions and binding quotations, whereas the majority of BVALs is calculated applying models.

the above applies, fair value of the investment is measured on the basis of the valuation technique.

For bonds, a valuation model is used which includes benchmark against the current fair value of another instrument with similar main characteristics. Amortised cost model is applied when determining fair value of treasury and commercial bills.

Value of shares can be estimated using the following valuation techniques: market based valuation approach, income approach and, in certain cases, asset approach. Valuation is based on the most recent information on a company's performance, which must not be older than 3 to 6 months from the fair value measurement date to which the value estimate will be applied. Market data and parameters used in the valuation process must include the most recent information and must be compliant with the date the estimated value will be applied to. If 3 to 6 months old information on the company's performance cannot be obtained, or if the information does not suffice for valuation, the value can be exceptionally estimated by using older data, which however must not be older than 12 months. When applying the market approach, comparative companies should be selected taking into account their comparability in the context of industry, size, growth potential, the availability of historical data on operations and other possible elements affecting comparability of individual companies.

In line with IFRS 13.69, the Group measures fair value applying unadjusted, quoted prices in active markets.

For valuation, the Group uses as unadjusted, quoted price exclusively the closing quote on stock exchange or closing CBBT or BVAL price.

### *Criteria for classification of investments based the level of the fair value hierarchy*



Investments at fair value are classified based on the fair value level pursuant to IFRS 13. To increase consistency and comparability in fair value measurements, IFRS 13 defines fair value hierarchy, which categorises the inputs used in valuation techniques into three levels:

- Level 1 inputs are (unadjusted) quoted prices in active markets for identical investments that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Pursuant to IFRS 13.82, level 2 inputs include:
  - quoted prices for similar investments in active markets,
  - quoted prices for identical or similar assets in less liquid markets,
  - inputs other than quoted prices that are observable for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals (implied volatiles, credit spreads, etc.),
  - inputs corroborated by market.
- Level 3 inputs are unobservable inputs:
  - BVAL price.

Pursuant to IFRS 13.74, in measuring fair value the Company favours the inputs used in valuation techniques rather than valuation techniques.

In line with IFRS 13.97, the fair value hierarchy includes also the investments that are not measured at fair value in the statement of financial position (normally measured at amortised cost) but for which the fair value is disclosed.

Investments are classified into levels based on the characteristics of the input used to determine fair value of investments and to assess whether the principal market is active.

### *Classification of equity investments*

Table 32: Equity investment classification in case of exchange as the principal market (quoted equity investments)

| | |
|---|---|
| Level 1 | Equity investments with fair value measured on the basis of quoted prices in active markets |
| Level 2 | Equity investments with fair value measured on the basis of quoted prices in less liquid markets |
| | Equity investments for which quoted prices are not available and their fair value is measured using the valuation technique (taking into account level 2 inputs) |
| Level 3 | Equity investments for which quoted prices are not available and their fair value is measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties |

Table 33: Classification of unquoted equity investments

| | |
|---|---|
| Level 1 | - |
| Level 2 | Equity instruments with fair value measured using the valuation technique (taking into account level 2 inputs) |
| Level 3 | Equity instruments with fair value measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties |

Table 34: Classification of collective investment funds

| | |
|---|---|
| Level 1 | Collective investments with fair value measured on the basis of quoted prices in active market |
| Level 2 | Collective investments with fair value measured on the basis of quoted prices in less liquid market |
| Level 3 | Collective investment funds for which quoted prices are not available and their fair value is measured on the basis of quoted value per subfund unit |



Table 35: Classification of mutual funds coupons

| | |
|---|---|
| Level 1 | Mutual fund units with fair value measured on the basis of quoted value per subfund unit |
| Level 2 | - |
| Level 3 | - |

### *Classification of debt investments*

The fair value hierarchy includes also debt instruments which are not measured at fair value in the statement of financial position otherwise. These normally include bonds at amortised cost that are measured at fair value for disclosure purposes. For these bonds, the same classification rules apply as for debt securities measured at fair value in the statement of financial position.

Table 36: Classification of debt investments with exchange as the principal market

| | |
|---|---|
| Level 1 | Debt investments with fair value measured on the basis of quoted prices in active markets |
| Level 2 | Debt investments with fair value measured on the basis of quoted prices in less liquid markets |
| | Debt securities measured using the valuation technique (taking into account level 2 inputs) |
| Level 3 | Debt securities measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties |

Table 37: Classification of debt investments with OTC market as the principal market

| | |
|---|---|
| Level 1 | Debt investments with fair value measured using CBBT price in active markets |
| Level 2 | Debt investments with fair value measured using CBBT price in less liquid markets |
| | Debt investments with fair value measured on the basis of transaction prices in less liquid markets |
| | Debt securities without CBBT price in (in)active markets and fair value measured using the valuation technique (taking into account level 2 inputs) |
| Level 3 | Debt securities without CBBT price in (in)active markets and with fair value measured using the BVAL valuation technique (taking into account level 3 inputs) or prices provided by third parties |

For debt securities whose principal is due in the current year and for which market price, CBBT price or BVAL price of less than 90 days are not available, are valued at the last available price and classified as Level 3.

Commercial bills of Slovenian issues are valued at amortised cost and classified as Level 3.

### *Classification of loans and deposits*

Bank deposits are disclosed at amortised cost in the statement of financial position. As there is no market for deposit interest rates with directly observable prices, the Company measures deposits for the fair value disclosure purposes using the initial or contractual interest rate, which are categorised within level 3 as unobservable inputs.

Interest is accrued daily on debentures, certificates of deposits, loans and cash deposits in line with the underlying contractual provisions.



### *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 20% 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 20%, 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 20% 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.

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 the 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 the 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 the 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 the 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 the profit or loss.

Impairment losses recognised in the 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 is 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.

The total equity consists of: called-up capital, capital surplus, retained net earnings or retained net loss, reserve from valuation at fair value 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.

### *Reserves from valuation at fair value*

Reserves from valuation at fair value arise solely from the effects of carrying available-for-sale financial assets at fair value. Disclosed in the statement of financial position, amounts of revaluation reserve are adjusted 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*

Pursuant to International Financial Reporting Standard 4 (IFRS 4) and International Standard on Actuarial Practice 3 (ISAP 3), the Guarantee Funds PPS (First Pension Fund), MR (Modra renta) and MR II (Modra renta II) are classified as insurance contracts. An insurance contract is a contract under which one party (insurer) accepts significant insurance risk from another party (policyholder) by agreeing to compensate the policyholder for the loss incurred by the policyholder in a specific uncertain future event (insured event).

Under IFRS 4, an event is uncertain if 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*

Long-term technical provisions for insurance contracts are created pursuant to the Insurance Act, its implementing regulations and IFRS 4.

Modra zavarovalnica, d. d., is required to form adequate technical provisions intended for covering future liabilities arising from insurance contracts and potential risk losses from insurance operations.

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

Calculations are based on actuarial assumptions, legislative provisions and all contractual obligations towards the insured according the contents of the underlying insurance contract.

The calculation of technical provisions deriving from insurance contracts and their adequacy is on an annual basis inspected and commented on by a person in charge of key actuarial function who is appointed by the Company's Management Board.

### *Technical provisions of the KS PPS Guarantee Fund*

Technical provisions of the KS PPS (Guarantee Fund of the First Pension Fund) represent mathematical provisions composed of:
- mathematical provisions for the KS PPS policies,
- equalisation provisions for KS PPS mortality experience, and
- equalisation provisions for KS PPS yield experience.

Mathematical provisions for the KS PPS policies are calculated based on 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 imputed interest rate and costs equal those used in the calculation of annuities, while the mortality tables used in the calculation of mathematical provisions are more conservative than in the calculation of annuities.



Equalisation provisions for mortality experience are identified upon the first calculation of mathematical provision as the difference between the value of transferred assets and the value of mathematical provisions set aside for the KS PPS policy. Equalisation provisions for mortality experience are calculated by individual policy upon the transfer, increase the balance of provisions set aside for the equalisation of the KS PPS mortality experience and are formed aggregately for all the insured.

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

Equalisation provisions for mortality experience can be additionally created at the year-end from the surplus of KS PPS assets, i.e.:
- if mathematical provisions are not formed pursuant to the most recent annuity tables, the following is fully allocated to provisions:
  - surplus of assets as a result of surplus return of the Guarantee Fund return over guaranteed return,
  - surplus of assets as a result of mortality within the population with annuity insurance policies;
- however, if mathematical provisions comply with the most recent annuity tables, the surplus of assets as a result of over-mortality within the population with annuity insurance is allocated to provisions.

Equalisation provisions for yield experience are formed at year-end, provided that mathematical provisions from the KS PPS policies have been formed pursuant to the most recent annuity tables. In this case, the surplus of assets, which a result of surplus return of KS PPS over the guaranteed return, can be allocated to permanent annuity increases or is used, partially or entirely, to create equalisation provisions for yield experience. The share of surplus earmarked for annuity increase is specified by the management of the fund manager.

*Technical provisions of the KS MR Guarantee Fund*

The KS MR technical provisions are mathematical provisions for the Guarantee Fund Modra Renta policies concluded after retirement of the insured that exercised regular termination of additional pension insurance. These provisions are calculated in accordance with the technical bases for annuity insurances, prospectively for each insurance policy. The calculation was made on the basis of German tables for annuities DAV1994R. The imputed interest rate, mortality tables and costs equal those used in the calculation of additional pension.

*Technical provisions of the KS MR II Guarantee Fund*

The KS MR II technical provisions are mathematical provisions for the Guarantee Fund Modra Renta II policies concluded after retirement of the insured that exercised regular termination of additional pension insurance. These provisions are calculated in accordance with the technical bases for annuity insurance, prospectively for each insurance policy. The technical provisions comprise also mathematical provisions arising from the gains of the guarantee fund, whereas at least a half of each gain from guarantee fund is allocated to the insured segment, while the other half remains unallocated to cover potential losses. The calculation was made on the basis of German tables for annuities DAV1994R. The imputed interest rate, mortality tables and costs equal those used in the calculation of additional pension.

*Provisions for claims*



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 revenue*

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 Group 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 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 Company does not classify costs by functional type, because the entire Company 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 Group, 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 accounted for using the liability method in the statement of financial position. 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 statement of financial position 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 2017 and 31 December 2016, income statement data for the year 2017, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

### *Segment reporting*

In 2017, the Kapitalska družba Group had no business segments.

### *Risk management*

In the time of the economic crisis in particular, risk management proved to be a very important area, since efficient risk management contributes to successful and stable operations in the long term. Therefore, risk management is crucial throughout the performance of 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 its operations in the long term, the Group continues to develop and upgrade the entire risk management system. Especially in Modra zavarovalnica, operating in accordance with the Solvency II directive 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.

Modra zavarovalnica, d. d. has assessed to have sufficient own resources at its disposal considering its total capital requirement. The table below discloses the amounts estimated for 2017; the insurance company does not expect significant deviations from those amounts.



Table 38: Capital adequacy as per Solvency II

in EUR '000

| Item | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Entire capital requirement | 121,550 | 105,859 |
| Sufficient own resources available | 265,988 | 199,603 |
| Surplus (+)/deficit (-) of own resources available | 144,439 | 93,744 |
| **Ratio between sufficient own resources and entire capital requirement** | **219%** | **189%** |

The annual information on solvency as at 31 December 2017 will be presented in the Report on the Solvency and Financial Position which will be published on the insurance company's website.

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*

Changes in price of securities, which are due to various factors, have a material impact especially on the value of the portfolio of equity investments. 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 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 Company's internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, preparing investment recommendations on this basis. The exposure to interest rate risk is regularly measured by the modified duration indicator.

The Group minimises the risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of debt portfolio, by classification of investments into held-to-maturity financial assets, and 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. In 2017, 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 by taking into account the currency in which the instrument is denominated initially, not the currency of the securities that constitute a specific instrument or investment fund. In 2017, the Group did not use derivative financial instruments for currency rate 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 business objectives 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

| | 2017 | 2016 |
|---|---|---|
| Revenue from the sales of services | 36,403 | 23,250 |
| Revenue from asset management | 7,918 | 8,444 |
| Revenue from leases | 1,095 | 1,078 |
| **Total** | **45,416** | **32,772** |

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

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Revenue from sales on the domestic market | 45,416 | 32,772 |
| **Total** | **45,416** | **32,772** |



#### Note no. 2

*Other operating revenue (including revaluation revenue)*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Revenue from reversal of long-term provisions | 2,592 | 2,252 |
| Other operating revenue | 85 | 117 |
| Revaluation operating revenue | 7 | 0 |
| **Total** | **2,684** | **2,369** |

In 2017, Modra zavarovalnica, d. d. reversed the provisions for the non-realisation of the guaranteed return of the funds under management totalling EUR 2,397 thousand.

Most of the operating revenue refers to revenues from statute barred annuities in the amount of EUR 53 thousand and other minor items.

Revaluation operating revenue in the amount of EUR 7 in 2017 thousand represents gains from the sale of fixed assets.

## *Note no. 3*

### *Costs of goods, materials and services*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Costs of materials | 289 | 227 |
| Costs of services | 3,217 | 3,343 |
| **Total** | **3,506** | **3,570** |

### *Costs of materials*

Costs of materials comprise costs of power supply, write-off of small tools, 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 cost of the 2017 Annual Report audit amounted to EUR 16,982. The amount paid for the auditor for non-audit services in 2017 amounted to EUR 23,017. The cost of the auditor for tax consultancy services in 2017 amounted to EUR 2,440.

## *Note no. 4*

### *Labour costs*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Payroll costs | 4,713 | 4,470 |
| Social security costs | 763 | 723 |
| Pension insurance costs | 229 | 226 |
| Other labour costs | 546 | 586 |
| **Total labour costs** | **6,251** | **6,005** |

## *Note no. 5*

### *Amortisation, depreciation and write-offs*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| **Depreciation/amortisation** | **1,377** | **1,186** |
| Amortisation of intangible assets | 445 | 232 |

| | 2017 | 2016 |
|---|---|---|
| Depreciation of buildings | 306 | 308 |
| Depreciation of garages | 11 | 11 |
| Depreciation of equipment and spare parts | 125 | 127 |
| Depreciation of investment property | 490 | 508 |
| **Revaluation operating expenses** | **0** | **771** |
| Revaluation operating expenses associated with fixed assets | 0 | 771 |
| **Total** | **1,377** | **1,957** |

### *Amortisation of intangible non-current 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, d. d.

### *Depreciation of equipment and spare parts*

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

### *Revaluation operating expenses related to fixed assets*



The comparison of the carrying amounts and assessed value of the investment property items as at 31 December 2017 showed that impairments of investment property are not necessary in 2017. In 2016, Kapitalska družba impaired the investment property in the amount of EUR 771 thousand.

## *Note no. 6*

### *Other operating expenses*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Changes in technical provisions | 18,930 | 4,866 |
| Provisions | 1,094 | 1,430 |
| Other operating expenses | 18,405 | 17,873 |
| **Total** | **38,429** | **24,169** |

In 2017, Modra zavarovalnica, d. d. increased mathematical provisions by EUR 18,930 thousand, created provisions for testing the adequacy of provisions in the amount of EUR 985 thousand and created EUR 109 thousand of employee-related provisions.

The major portion of other operating expenses includes gross claims paid for life insurance by Modra zavarovalnica, d. d. equalling EUR 16,948 thousand, which consist of accounted for pension annuities, expenses of the manager for paying the difference to the guaranteed return on mutual pension funds and other minor items.

## *Note no. 7*

*Financial revenue*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| **Financial revenue from shares and interests** | **57,818** | **36,935** |
| **Financial revenue from other investments and loans** | **9,946** | **10,706** |
| Financial revenue from other investments | 9,496 | 9,704 |
| Financial revenue from loans | 450 | 1,002 |
| **Total** | **67,764** | **47,641** |

*Financial revenue from shares and interests*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Dividends and shares in profits | 21,093 | 20,281 |
| Revaluation financial revenue from shares and interests | 4,096 | 4,134 |
| Foreign exchange gains | 136 | 431 |
| The effect of restatement of financial revenue from shares and interests due to the adjustment of associates to equity method | 9,147 | 3,779 |
| Gains from the disposal of financial assets | 21,995 | 2,625 |
| - available-for-sale financial assets | 21,797 | 988 |
| - financial assets measured at fair value through profit or loss | 198 | 1,637 |
| Revenues from reversal of impairments of investments | 0 | 2,228 |
| Revenue from transfer of accrued costs and deferred revenue, and acquisition of shares | 1,128 | 3,457 |
| Revenue from the acquisition of abandoned securities | 223 | 0 |
| **Total** | **57,818** | **36,935** |



Revenues from the sale of financial assets constitute realized capital gains from the disposal of financial assets, which increased compared to 2016 mostly due to the recognized effects from the sale of foreign shares and investment coupons.

The amount of EUR 1,128 thousand represents the value of the transfer of a proportionate part of the difference between the fair value and transaction value of the investment in the financial asset into revenues.

Revenues from the acquisition of abandoned securities in the amount of EUR 223 thousand are recognized in accordance with Article 48a of ZNVP-1, which stipulates that the Central Securities Depository shall credit all dematerialized securities cancelled by the holders to a special account held by Kapitalska družba, d. d.

*Financial revenue from other investments and loans*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| **Interest income** | **8,773** | **9,712** |
| **Revenue from the revaluation of receivables, liabilities and loans to retain their value** | **165** | **108** |
| Exchange rate gains | 165 | 108 |
| Revenue from realised gains | 1,008 | 886 |
| Revenue from the sale of financial assets available for sale | 1,008 | 886 |
| **Total** | **9,946** | **10,706** |

*Revenue from sale of financial assets*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| **Revenue from realised gains** | **23,003** | **3,511** |
| - available-for-sale financial assets | 22,805 | 1,874 |
| - financial assets measured at fair value through profit or loss | 198 | 1,637 |

Revenues from the sale of financial assets in the amount of EUR 22,805 thousand constitute realized capital gains from the disposal of available-for-sale financial assets, which increased compared to 2016 mostly due to the recognized effects from the sale of foreign shares and investment coupons.



Revenue from the sale of financial assets in the amount of EUR 198 thousand constitute capital gains realised on disposal of financial assets measured at fair value through profit or loss.

*Interest income*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| **Deposits** | **450** | **1,002** |
| **Bonds** | **7,835** | **8,687** |
| - financial assets measured at fair value through profit or loss | 422 | 710 |
| - available-for-sale financial assets | 3,808 | 4,526 |
| - held-to-maturity | 3,605 | 3,451 |
| **Other securities** | **14** | **23** |
| - financial assets measured at fair value through profit or loss | 11 | 18 |
| - held-to-maturity | 3 | 5 |
| **Other** | **474** | **0** |
| **Total** | **8,773** | **9,712** |

The second refers to interest arising from investments in financial receivables.

## *Note no. 8*

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

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| **Loss from disposal of financial assets** | **143** | **1,732** |
| - at fair value through profit or loss | 95 | 705 |
| - available-for-sale | 48 | 1,027 |
| **Interest expense** | **5** | **16** |
| **Revaluation financial expenses** | **3,646** | **2,010** |
| Expenses from the revaluation of financial assets measured at fair value through profit or loss | 290 | 804 |
| Expenses from impairment of equity investments at fair value through equity | 1,422 | 922 |
| Expenses from the cancellation of shares | 0 | 86 |
| Foreign exchange losses | 1,778 | 167 |
| Other revaluation expenses | 156 | 31 |
| **Other finance expenses** | **6** | **36** |
| **Expenses for ZPIZ** | **50,000** | **50,000** |
| **Total** | **53,800** | **53,794** |

Expenses from the sale of financial assets in the amount of EUR 143 thousand constitute realised capital losses from the disposal of financial assets.



In 2017, shares and stakes classified as available-for-sale financial assets were impaired in the total amount of EUR 1,321 thousand. The Company assessed that there was impartial evidence of impairments of these assets. The fair value of assets was estimated based on internal valuations. 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 determined based on the comparison of performance indicators and stock price of comparable companies.

In 2017, the Group impaired the investment in shares of a Brazilian company from the basic raw material sector in the amount of EUR 101 thousand; the share was classified as available-for-sale investment, while its marked value dropped significantly in 2017.

The Group revalued equity investments carried at fair value through profit or loss in the amount of EUR 290 thousand.

Pursuant to provision of ZIPRSS1617 and ZIPRS1718 respectfully, Kapitalska družba credited EUR 50 million to ZPIZ in 2017. These payments were included in the financial expenses from other financial liabilities in the income statement.

*Foreign exchange differences*

| | 2017 | 2016 |
|---|---|---|
| | | in EUR '000 |
| Exchange rate gains | 301 | 539 |
| Foreign exchange losses | -1,778 | -167 |
| **Net exchange rate gains/losses** | **-1,477** | **372** |

In 2017, the net exchange rate loss amounted to EUR 1,477 thousand.

*Gains or losses on investments*

| | 2017 | 2016 |
|---|---|---|
| | | in EUR '000 |
| Gains on financial assets | 67,764 | 47,641 |
| Loss on financial assets | -53,800 | -53,794 |
| **Net profit or loss financial asset** | **13,964** | **-6,153** |

## Note no. 9

*Other revenue*

| | 2017 | 2016 |
|---|---|---|
| | | in EUR '000 |
| Other unusual items | 230 | 51 |
| **Total** | **230** | **51** |

The largest portion of other items are revenues from monetary compensations in the amount of EUR 161 thousand, revenues from the previous years in the amount of EUR 30 thousand and revenues in the amount of EUR 34 thousand paid to the Company from SODPZ arising from the retained earnings of KS SODPZ.

## Note no. 10

*Other expenses*

| | 2017 | 2016 |
|---|---|---|
| | | in EUR '000 |
| Other items | 64 | 5 |
| **Total** | **64** | **5** |

The majority of other items are the expenses for the non-achievement of the guaranteed rate of return and expenses for tax paid on dividends from abroad.

## *Note no. 11*

*Income tax*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Profit or loss before tax | 10,511 | -6,255 |
| Tax on dividends from abroad | 145 | 195 |
| Non-deductible expenses | 3,202 | 2,484 |
| Non-taxable revenue | -27,519 | -42,030 |
| Tax allowance | -316 | -578 |
| Tax loss | -3,537 | -3,334 |
| **Total** | **-17,514** | **-49,518** |
| **Corporate income tax** (19% for 2017, 17% for 2016) | **536** | **382** |
| **Tax on dividends from abroad until agreement** | **76** | **86** |

The Kapitalska družba Group does not prepare a consolidated tax balance sheet. As at 31 December 2017, Kapitalska družba, d. d. reported no corporate income tax liabilities. Modra zavarovalnica, d. d. disclosed EUR 536 thousand of corporate income tax in 2017.

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.



Pursuant to provision of ZIPRSS1617 and ZIPRS1718 respectfully, Kapitalska družba credited EUR 50 million to ZPIZ in 2017. To date, Kapitalska družba has already paid EUR 764,321 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 negative tax base in 2017.

## *Note no. 12*

*Deferred tax*

At 31 December December 2017, deferred corporate income tax included the items presented in the table below.

in EUR '000

| | Statement of financial position | | Income statement | |
|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 2017 | 2016 |
| Deferred income tax – liabilities | 61,369 | 55,173 | 172 | -160 |
| **Total deferred income tax liabilities** | **61,369** | **55,173** | **172** | **-160** |
| **Deferred income tax – assets** | **51,552** | **48,055** | **3,497** | **6,924** |

| | Statement of financial position | | Income statement | |
|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 2017 | 2016 |
| Loss brought forward which can be used as tax allowance | 26,724 | 22,674 | 4,050 | 11,050 |
| Value adjustment of investments | 24,727 | 25,252 | -525 | -4,142 |
| Dividend adjustment | 0 | 38 | -38 | 5 |
| Provisions | 101 | 91 | 10 | 11 |
| **Total deferred income tax assets** | **51,552** | **48,055** | **3,497** | **6,924** |
| **Netting of deferred income tax assets and liabilities** | **15,091** | **13,106** | **3,669** | **6,764** |

*Disclosure of tax loss*

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| **Tax loss as at 31 December of the reporting period** | **507,224** | **490,025** |
| Tax loss not considered in the calculation of deferred taxes | 366,572 | 370,691 |
| Tax loss considered in the calculation of deferred taxes | 140,652 | 119,334 |

Tax loss amounting to EUR 366,572 thousand does not comprise deferred tax assets, whereas tax loss of EUR 140,652 thousand includes deferred tax assets. Tax losses are transferable without time limitation.



Due to identified tax loss, Kapitalska družba, d. d. disclosed no corporate income tax liabilities in 2017. Modra zavarovalnica, d. d. disclosed liabilities arising from corporate income tax in 2017.

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

in EUR '000

| Changes in deferred tax | 2017 | 2016 |
|---|---|---|
| **Balance as at 1 January** | **55,173** | **44,046** |
| Changes during the year | 6,196 | 11,127 |
| **Balance as at 31 December** | **61,369** | **55,173** |

Deferred tax liabilities of EUR 61,369 thousand at 31 December 2017 arose on revaluation of financial assets 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.

| | 2017 | 2016 |
|---|---|---|
| Net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR) | 15,800 | -286 |
| Diluted net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR) | 15,800 | -286 |
| 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) | 18.1 | -0.3 |

As at 31 December 2017, 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.

## 17.3.2 Notes to the statement of financial position

### Note no. 14

*Intangible assets and long-term deferred costs and accrued revenue*



Table 39: Changes in intangible assets and long-term accrued revenue and deferred costs in 2017

in EUR '000

| 31 Dec. 2017 | Long-term property rights | Long-term accrued revenue and deferred costs | Total |
|---|---|---|---|
| COST | | | |
| **Cost as at 1 Jan. 2017** | **4,425** | **0** | **4,425** |
| New purchases | 958 | 50,000 | 50,958 |
| Disposals | -241 | 0 | -241 |
| **Cost as at 31 Dec. 2017** | **5,142** | **50,000** | **55,142** |
| VALUE ADJUSTMENT | | | |
| **Value adjustment as at 1 Jan. 2017** | **3,194** | **0** | **3,194** |
| Disposals, write-offs | 0 | 0 | 0 |
| Amortisation | 445 | 0 | 445 |
| **Value adjustment as at 31 Dec. 2017** | **3,639** | **0** | **3,639** |
| CARRYING AMOUNT | | | |
| **Carrying amount as at 1 Jan. 2017** | **1,231** | **0** | **1,231** |
| **Carrying amount as at 31 Dec. 2017** | **1,503** | **50,000** | **51,503** |

Long-term deferred costs and accrued revenues in the amount of EUR 50,000 thousand relate to long-term deferred costs in connection with settling the liabilities of Kapitalska družba, d. d., to ZPIZ for 2019, pursuant to Paragraph 2 of Article 65 of ZIPRS1819.

Table 40: Changes in intangible assets and long-term accrued revenue and deferred costs in 2016

in EUR '000

| 31 Dec. 2016 | Long-term property rights |
|---|---|
| COST | |
| **Cost as at 1 Jan. 2016** | **3,713** |
| New purchases | 1,251 |
| Disposals | -539 |
| **Cost as at 31 Dec. 2016** | **4,425** |
| VALUE ADJUSTMENT | |
| **Value adjustment as at 1 Jan. 2016** | **3,068** |
| Disposals, write-offs | -106 |
| Amortisation | 232 |
| **Value adjustment as at 31 Dec. 2016** | **3,194** |
| CARRYING AMOUNT | |
| **Carrying amount as at 1 Jan. 2016** | **645** |
| **Carrying amount as at 31 Dec. 2016** | **1,231** |

# *Note no. 15*

## *Property, plant and equipment*



Table 41: Changes in property, plant and equipment in 2017

in EUR '000

| 31 Dec. 2017 | Buildings | Other plant and equipment | Total |
|---|---|---|---|
| COST | | | |
| **Cost as at 1 Jan. 2017** | **10,217** | **2,215** | **12,432** |
| New acquisitions | 0 | 47 | 47 |
| Disposals | 0 | -287 | -287 |
| **Cost as at 31 Dec. 2017** | **10,217** | **1,975** | **12,192** |
| VALUE ADJUSTMENT | | | |
| **Value adjustment as at 1 Jan. 2017** | **3,674** | **1,951** | **5,625** |
| Disposals, write-offs | 0 | -286 | -286 |
| Amortisation | 317 | 127 | 444 |
| **Value adjustment as at 31 Dec. 2017** | **3,991** | **1,792** | **5,783** |
| CARRYING AMOUNT | | | |
| **Carrying amount as at 1 Jan. 2017** | **6,543** | **264** | **6,807** |
| **Carrying amount as at 31 Dec. 2017** | **6,226** | **183** | **6,409** |

Table 42: Changes in property, plant and equipment in 2016

in EUR '000

| 31 Dec. 2016 | Buildings | Other plant and equipment | Total |
|---|---|---|---|
| COST | | | |
| **Cost as at 1 Jan. 2016** | **10,217** | **2,619** | **12,836** |
| New acquisitions | 0 | 168 | 168 |
| Disposals | 0 | -572 | -572 |
| **Cost as at 31 Dec. 2016** | **10,217** | **2,215** | **12,432** |
| VALUE ADJUSTMENT | | | |
| **Value adjustment as at 1 Jan. 2016** | **3,355** | **2,396** | **5,751** |
| Disposals, write-offs | 0 | -572 | -572 |
| Amortisation | 319 | 127 | 446 |
| **Value adjustment as at 31 Dec. 2016** | **3,674** | **1,951** | **5,625** |
| CARRYING AMOUNT | | | |
| **Carrying amount as at 1 Jan. 2016** | **6,862** | **223** | **7,085** |
| **Carrying amount as at 31 Dec. 2016** | **6,543** | **264** | **6,807** |

## *Note no. 16*

### *Investment property*



Table 43: Changes in investment property in 2017

in EUR '000

| 31 Dec. 2017 | Buildings |
|---|---|
| COST | |
| **Opening balance as at 1 Jan. 2017** | **18,306** |
| Acquisitions | 324 |
| Disposals, transfers, impairments | 0 |
| **Closing balance as at 31 Dec. 2017** | **18,630** |
| VALUE ADJUSTMENT | |
| **Opening balance as at 1 Jan. 2017** | **5,110** |
| Depreciation | 490 |
| **Closing balance as at 31 Dec. 2017** | **5,600** |
| CARRYING AMOUNT | |
| **Opening balance as at 1 Jan. 2017** | **13,196** |
| **Closing balance as at 31 Dec. 2017** | **13,030** |

The fair value of investment property does not significantly deviate from the carrying amount as at 31 December 2017, except for the Nebotičnik office building, whose fair value exceeds its carrying amount. The fair value of investment property was estimated based on internal appraisal. The estimated value of investment property as at 31 December 2017 amounts to EUR 14,472 thousand. The comparison of the carrying amounts and assessed value of the investment property items as at 31 December 2017 showed that impairments of investment property are not necessary.

Table 44: Changes in investment property in 2016

in EUR '000

| 31 Dec. 2016 | Buildings |
|---|---|
| COST | |
| **Opening balance as at 1 Jan. 2016** | **19,040** |
| Acquisitions | 37 |
| Disposals, transfers, impairments | -771 |
| **Closing balance as at 31 Dec. 2016** | **18,306** |
| VALUE ADJUSTMENT | |
| **Opening balance as at 1 Jan. 2016** | **4,602** |
| Depreciation | 508 |
| **Closing balance as at 31 Dec. 2016** | **5,110** |
| CARRYING AMOUNT | |
| **Opening balance as at 1 Jan. 2016** | **14,438** |
| **Closing balance as at 31 Dec. 2016** | **13,196** |

Table 45: Rental income investment property and costs related to investment property

in EUR '000

| | 2017 | 2016 |
|---|---|---|
| Rental income from investment property | 1,081 | 1,066 |
| Costs related to investment property | 676 | 666 |



### *Guarantees*

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 not encumbered with mortgages, pledges or other encumbrances.

Fixed assets are not acquired for the purpose of trading. Fixed assets have not been pledged.

## *Note no. 17*

### *Investments in associates and joint ventures*

As the parent company, Kapitalska družba, d. d. consolidates Modra zavarovalnica, d. d.. As at 31 December 2017, the parent company held stakes in the following associates:

| No. | Associate | Registered office | Equity stake in % |
|---|---|---|---|
| 1. | Casino Maribor, d. d. – v stečaju[17] | Glavni trg 1, Maribor | 20.00 |
| 2. | Gio, d. o. o. – v likvidaciji | Dunajska cesta 160, Ljubljana | 28.68 |
| 3. | Gospodarsko razstavišče, d. o. o. | Dunajska cesta 18, Ljubljana | 29.51 |
| 4. | Hit, d. d.[18] | Delpinova ulica 7a, Nova Gorica | 20.32 |
| 5. | Loterija Slovenije, d. d. | Gerbičeva ulica 99, Ljubljana | 25.00 |

17 Pursuant to the ZFPPIPP, the bankruptcy manager deleted these shares from KDD. Prior to the Company's bankruptcy, Kapitalska družba held the stake as presented above.
18 The share in Hit, d. d., includes 33.33% of voting rights. Preference shares do not hold any voting rights, as the dividend was paid in 2017.

| No. | Associate | Registered office | Equity stake in % |
|---|---|---|---|
| 6. | Sava, d. d. | Dunajska cesta 152, Ljubljana | 22.56 |
| 7. | Terme Čatež, d. d. | Čatež ob Savi, Topliška cesta 35, Brežice | 23.79 |
| 8. | Terme Olimia, d. d. | Zdraviliška cesta 24, Podčetrtek | 24.79 |

Kapitalska družba, d. d. 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.,
- Sava, d. d. and
- Cinkarna Celje, d. d.

Cinkarna Celje, d. d., is an associate of Modra zavarovalnica, d. d. and is not preparing consolidated financial statements.

Kapitalska družba is not exposed to any risks arising from ownership stakes in subsidiary and associated companies Kapitalska družba, such as:
- 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 46: Changes in investments in associates

in EUR '000



| | 2017 | 2016 |
|---|---|---|
| **Carrying amount as at 1 Jan.** | **55,629** | **34,374** |
| **Changes** | **6,806** | **7,240** |
| Attribution of net profit due to the acquisition of associates using the equity method | 9,147 | 3,779 |
| Exclusion of dividends | -4,103 | -2,127 |
| Exclusion of fair value reserves | 426 | -149 |
| Impairments / Enhancements | 1,336 | 5,737 |
| **Reclassification of existing investments to associates** | **7,831** | **0** |
| **Changes in reserves from valuation at fair value** | **8,963** | **14,015** |
| **Carrying amount as at 31 Dec.** | **79,229** | **55,629** |

## *Note no. 18*

*Assets held for sale*

in EUR '000

| | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Assets held for sale | 1,940 | 7,307 |
| **Total** | **1,940** | **7,307** |

Non-current assets held for sale in the amount of EUR 1,940 thousand as at 31 December 2017 are held for sale in the next 12 months.

## *Note no. 19*

*Financial assets, excluding loans*

in EUR '000

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 |
| Shares and interests in associated companies | 79,229 | 55,629 | 0 | 0 | 79,229 | 55,629 |
| Other shares and interests | 800,731 | 695,372 | 0 | 0 | 800,731 | 695,372 |
| Other financial assets | 272,555 | 250,107 | 20,701 | 39,274 | 293,256 | 289,381 |
| Assets held for sale | 0 | 0 | 1,940 | 7,307 | 1,940 | 7,307 |
| **Total** | **1,152,515** | **1,001,108** | **22,641** | **46,581** | **1,175,156** | **1,047,689** |

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. Financial assets are also classified as non-current and current.

At 31 December 2017, financial assets except loans were classified into the following categories:

in EUR '000

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 |
| Financial assets measured at fair value through profit or loss | 71,661 | 47,816 | 6,802 | 12,235 | 78,463 | 60,051 |
| Financial assets held to maturity | 120,465 | 104,673 | 8,795 | 11,430 | 129,260 | 116,103 |
| Available-for-sale financial assets | 881,160 | 792,990 | 7,044 | 22,916 | 888,204 | 815,906 |
| Investments in associates using the equity method | 79,229 | 55,629 | 0 | 0 | 79,229 | 55,629 |
| **Total** | **1,152,515** | **1,001,108** | **22,641** | **46,581** | **1,175,156** | **1,047,689** |



*Investments in securities*

in EUR '000

| | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Financial assets measured at fair value through profit or loss** | **78,463** | **60,051** |
| Equity securities | 58,820 | 34,894 |
| Debt securities | 19,643 | 25,157 |
| **Financial assets held to maturity** | **129,260** | **116,103** |
| **Available-for-sale financial assets** | **933,553** | **836,971** |
| Equity securities | 823,080 | 723,413 |
| Debt securities | 110,473 | 113,558 |
| **Total** | **1,141,276** | **1,013,125** |

*Financial assets at carrying amount and fair value as at 31 December 2017*

in EUR '000

| Financial asset | Carrying amount | Fair value |
|---|---|---|
| Financial assets measured at fair value through profit or loss | 78,463 | 78,463 |
| Financial assets held to maturity | 129,260 | 141,944 |
| Available-for-sale financial assets | 967,433 | 967,433 |
| Investments in loans | 42,134 | 42,134 |
| Cash and cash equivalents | 35,177 | 35,177 |
| **Total** | **1,252,467** | **1,265,151** |

*Financial assets at carrying amount and fair value as at 31 December 2016*

in EUR '000

| Financial asset | Carrying amount | Fair value |
|---|---|---|
| Financial assets measured at fair value through profit or loss | 60,051 | 60,051 |
| Financial assets held to maturity | 116,103 | 129,786 |
| Available-for-sale financial assets | 871,535 | 871,535 |
| Investments in loans | 88,654 | 88,654 |
| Cash and cash equivalents | 34,711 | 34,711 |
| **Total** | **1,171,054** | **1,184,737** |



*Changes in securities investments in 2017*

in EUR '000

| | 31 Dec. 2016 | Acquisitions | Disposals, maturity | Revaluation | 31 Dec. 2017 |
|---|---|---|---|---|---|
| Financial assets measured at fair value through profit or loss | 60,051 | 37,841 | 23,037 | 3,608 | 78,463 |
| Financial assets held to maturity | 116,103 | 25,740 | 15,052 | 2,469 | 129,260 |
| Available-for-sale financial assets | 836,971 | 96,513 | 78,229 | 78,299 | 933,554 |
| **Total** | **1,013,125** | **160,094** | **116,318** | **84,376** | **1,141,277** |

*Financial assets by type of interest rate as at 31 December 2017*

in EUR '000

| | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Investments in debt instruments** | **292,659** | **258,877** |
| Fixed interest rate | 288,274 | 254,818 |
| Variable interest rate | 4,385 | 4,059 |
| **Loans and deposits** | **71,152** | **112,103** |
| Fixed interest rate | 71,152 | 112,103 |

| | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Variable interest rate | 0 | 0 |
| **Total** | **363,811** | **370,980** |

## *Fair value hierarchy as at 31 December 2017*

in EUR '000

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets measured at fair value through profit or loss | 48,265 | 23,195 | 7,002 | 78,462 |
| Available-for-sale financial assets | 689,391 | 176,574 | 101,470 | 967,435 |
| **Total** | **737,656** | **199,769** | **108,472** | **1,045,897** |

### *Level 1*

Level 1 includes investments owned by Kapitalska družba, d. d. and Modra zavarovalnica, d. d. with a fair value determined on the basis of the published prices achieved on an active market. An active market can be a stock exchange market (for equity and debt instruments) or an off-exchange or OTC market (for debt investments). In this sense, level 1 comprises investments whose main market is the stock exchange and whose average daily trading in the 180 days prior to fair value measurement exceeded EUR 0.5 million, taking into account the number of trading days (in case of Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account). Level 1 also includes investments whose main market is the traders' market or OTC, if the CBBT (Composite Bloomberg Bond Trader) price was published for at least half of trading days in the 30 days preceding the valuation.



### *Level 2*

Level 2 comprises investments to which the active market assumption does not apply, meaning the investments whose average daily trading on the stock exchange in the 180 days prior to fair value measurement was below EUR 0.5 million, taking into account the number of trading days (in case of Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account), and the investments in the OTC market whose CBBT price was published for less than half of trading days in the 30 days preceding the valuation.

Level 2 also includes debt securities of companies and financial institutions as well as government securities measured using benchmark market data in the amount of EUR 15,763 thousand.

Level 2 also includes investments in the shares of some Slovenian companies in the amount of EUR 16,509 thousand, measured using benchmark market data of comparable listed companies.

Investments in collective investment trusts which do not fulfil the active market conditions are also classified as level 2.

### *Level 3*

Level 3 includes investments where fair value is determined based on own valuation models that take into account the subjective variables not publicly available on markets, debt securities with fair value measured based on BVAL price, and the securities investments, the prices of which are provided by third parties.

Level 3 also includes investments in commercial papers of Slovenian issuers totalling EUR 6,987 thousand. 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 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 fair value of ordinary shares of Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d. and Elektro Maribor, d. d., owned by Kapitalska družba, d. d., was estimated by applying the market approach and using the comparable listed companies approach. Adjusted ratios were applied. The fair value of the investment in Elektro Ljubljana, d. d., owned by Modra zavarovalnica, 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 a 7.2% discount rate until 2020 and at 7.6% after this year. The long-term growth rate taken into account is 2%.

The used fair value of the shares of Perutnina Ptuj, d. d., was determined by applying the market approach and using the method of comparable transactions.

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.30% 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 a 6.37% 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 non-core 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 1.427%.



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 a 6.97% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Talum, 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 a 8.71% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the holding in GIO, d. o. o. – v likvidaciji (in liquidation) was estimated by applying the asset-based approach according to the regular liquidation method.

The fair value of the business interest in Elan Inventa, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 11.54% discount rate. The remaining growth rate of normalised free cash flow is 2.0%.

The fair value of the shares of Loterija Slovenije, 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 a 8.20% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The value of the Certa, d. d. investment was determined primarily using the method of present value of future cash flows. The estimated free cash flow is discounted at a 12% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of shares of Sava, d. d. was estimated on the basis of the asset-based approach and using the net value of assets method upon the assumption of regular liquidation of the Company. The estimated cash flow was discounted at a 10.2% discount rate.

The fair value of investments in financial receivables is determined on the basis of the estimated fair value of pledged assets by taking into account the nominal amount of individual financial receivables. The fair value of pledged assets was assessed based on the income approach, the discounted free cash flow method, the market approach, and the comparable listed companies approach.

The fair value of certain shares, which represent pledged assets, 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 investments in financial receivables is measured at Level 3 of the fair value hierarchy.

Gains from the Level 3 financial assets comprise dividends, coupons received from bonds and profits from the sale of investments disclosed under financial revenues.

Table 47: Transition between the levels of fair value hierarchy as at 31 December 2017

in EUR '000

| Transition between levels, portfolio as at 31 Dec. 2017 | From Level 1 to Level 2 | From Level 2 to Level 1 | From Level 2 to Level 3 | Total |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | **0** | **0** | **0** | **0** |
| Shares and other equity instruments | 0 | 0 | 0 | 0 |
| Debt securities | 0 | 0 | 0 | 0 |
| Units and shares of open-end funds | 0 | 0 | 0 | 0 |
| Money market instruments | 0 | 0 | 0 | 0 |
| **Available-for-sale financial assets** | **71** | **16,731** | **16,966** | **33,768** |
| Shares and other equity instruments | 0 | 16,731 | 12,911 | 29,642 |
| Units and shares of open-end funds | 71 | 0 | 0 | 71 |
| Debt securities | 0 | 0 | 4,055 | 4,055 |
| **Total** | **71** | **16,731** | **16,966** | **33,768** |

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### *Fair value hierarchy as at 31 December 2016*

in EUR '000

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 29,555 | 23,075 | 7,421 | 60,051 |
| Available-for-sale financial assets | 596,771 | 202,101 | 72,663 | 871,535 |
| Financial assets at fair value held to maturity | 125,737 | 1,478 | 2,571 | 129,786 |
| **Total** | **752,063** | **226,654** | **82,655** | **1,061,372** |

### *Level 1*

Level 1 includes investments with a fair value determined entirely on the basis of the published prices achieved on the active market. An active market can be a stock exchange market (for equity and debt instruments) or an off-exchange or OTC market (for debt investments). In this sense, level 1 comprises investments whose main market is the stock exchange and whose average daily trading in the 180 days prior to fair value measurement exceeded EUR 0.5 million, taking into account the number of trading days (in case of Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account). Level 1 also includes investments whose main market is the traders' market or OTC, if the CBBT (Composite Bloomberg Bond Trader) price was published for at least half of trading days in the 30 days preceding the valuation.

This group includes debt investments owned by Modra zavarovalnica, d. d. whose main market is the traders' market, with fair value measured on the basis of transaction prices on the active market.

This group also includes investments owned by Modra zavarovalnica, d. d. in collective investment trusts which fulfil the active market conditions.

*Level 2*

Level 2 comprises investments to which the active market assumption does not apply, meaning the investments whose average daily trading on the stock exchange in the 180 days prior to fair value measurement was below EUR 0.5 million, taking into account the number of trading days (in case of Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account), and the investments in the OTC market whose CBBT price was published for less than half of trading days in the 30 days preceding the valuation.

Level 2 also includes debt securities of companies and financial institutions as well as government securities measured using benchmark market data in the amount of EUR 17,648 thousand.

Level 2 also includes investments in the shares of some Slovenian companies in the amount of EUR 15,866 thousand, measured using benchmark market data of comparable listed companies.



Investments owned by Modra zavarovalnica, d. d. which do not fulfil the active market conditions are also classified as level 2.

*Level 3*

Level 3 includes investments where fair value is determined based on own valuation models that take into account the subjective variables not publicly available on markets, debt securities with fair value measured based on BVAL price, and the securities investments, the prices of which are provided by third parties.

Level 3 also includes investments in commercial papers of Slovenian issuers totalling EUR 8,459 thousand. 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 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 fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.90% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the investment in preference shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method.

The estimated free cash flow was discounted at a 7.8% 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 a 6.7% 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 non-core 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 2.04%.

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 a 8.25% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Talum, 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 a 8.24% discount rate. 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 a 11.00% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the holding in GIO, d. o. o. – v likvidaciji (in liquidation) was estimated by applying the asset-based approach according to the regular liquidation method.

The fair value of the business interest in Elan Inventa, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.44% discount rate. The remaining growth rate of normalised free cash flow is 1.0%.



The fair value of the business interest in Geoplin, d. o. o. was estimated based on the received proposal for acquisition/exchange of a part of the business share.

The fair value of ordinary shares of KDD, d. d. was estimated on the basis of the income-based approach and using the capitalisation of normalised free cash flow method, which is a shorter version of the present value of future cash flows method. The required rate of return on equity was 11.20%, while the applied growth rate of normalised cash flow amounted to 1.5%.

The fair value of the shares of Loterija Slovenije, 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 a 7.90% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Certa, 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 a 15.00% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Elektro Ljubljana, 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 a 7.20% discount rate until 2020 and at 7.6% after this year. The long-term growth rate taken into account is 2.00%.

The fair value of shares of Sava, d. d. was estimated on the basis of the asset-based approach and using the net value of assets method upon the assumption of regular liquidation of the Company. The estimated cash flow was discounted at a 11.6% discount rate.

The fair value of investments in financial receivables is determined on the basis of the estimated fair value of pledged assets by taking into account the nominal amount of individual financial receivables. The fair value of pledged assets was assessed based on the income approach, the discounted free cash flow method, the market approach, and the comparable listed companies approach.

The fair value of certain shares, which represent pledged assets, 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 investments in financial receivables is measured at Level 3 of the fair value hierarchy.

Gains from the Level 3 financial assets comprise dividends, coupons received from bonds and profits from the sale of investments disclosed under financial revenues.

Table 48: Fair value hierarchy as at 31 December 2017 in the event the assets classification method does not change

in EUR '000

| Item | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets measured at fair value through profit or loss | 29,555 | 23,075 | 7,421 | 60,051 |
| Available-for-sale financial assets | 679,539 | 62,051 | 129,345 | 871,535 |
| **Total** | **709,094** | **85,726** | **136,766** | **931,586** |



Table 49: Transition between the levels due to change of methodology

in EUR '000

| Transition between levels, portfolio as at 31 Dec. 2016 | from Level 1 to Level 2 | from Level 1 to Level 3 | from Level 2 to Level 3 | from Level 3 to Level 1 | from Level 3 to Level 2 | Total |
|---|---|---|---|---|---|---|
| **Financial assets measured at fair value through profit or loss** | **0** | **0** | **0** | **0** | **0** | **0** |
| Shares and other equity instruments | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Money market instruments | 0 | 0 | 0 | 0 | 0 | 0 |
| **Available-for-sale financial assets** | **135,862** | **2,953** | **1,014** | **56,046** | **4,603** | **200,478** |
| Shares and other equity instruments | 84,664 | 2,953 | 1,014 | 0 | 4,603 | 93,235 |
| Debt securities | 3,114 | 0 | 0 | 56,046 | 0 | 59,160 |
| Units and shares of open-end funds | 48,083 | 0 | 0 | 0 | 0 | 48,083 |
| **Total** | **135,862** | **2,953** | **1,014** | **56,046** | **4,603** | **200,478** |

The most frequent reclassifications was from Level 1 to Level 2, and from Level 3 to Level 1.

The Level 1 to Level 2 reclassification is due to the fact that the scope of trading of a particular instrument did not meet the active market requirement.

The reclassification from Level 3 to Level 1 arises from reclassification of debt securities which, as a result of change in the methodology, were measured at the CBBT price and traded on a market that meets the active market requirements; these securities were previously valuated using the Bloomberg Generic rate (BGN) or Bloomberg Valuation Service (BVAL) and classified as Level 3.

Table 50: Effective interest rate by investment groups

| | 2017 | 2016 |
|---|---|---|
| Financial assets held to maturity | 2.75% | 3.01% |
| Available-for-sale financial assets | 4.65% | 5.12% |

## *Note no. 20*

### *Loans to others*

in EUR '000

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 |
| Loans to others | 6,000 | 29,454 | 36,134 | 59,200 | 42,134 | 88,654 |
| **Total** | **6,000** | **29,454** | **36,134** | **59,200** | **42,134** | **88,654** |

Current loans by Kapitalska družba, d. d. to others comprise the short-term part of long-term deposits which were given to Abanka, d. d., Addiko banka, d. d., Sberbanka, d. d., and Nova Ljubljanska banka, d. d., and a loan given to PS za avto, d. o. o.

As at 31 December 2017, loans by Modra zavarovalnica, d. d. to others constituted investments in loans and deposits with banks in Slovenia.

Loans to others were not pledged.



## *Note no. 21*

### *Operating receivables*

in EUR '000

| | Long-term | | Short-term | | Total | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 |
| Operating trade receivables | 0 | 0 | 1,461 | 1,233 | 1,461 | 1,233 |
| Operating receivables due from others | 73 | 117 | 1,287 | 662 | 1,360 | 779 |
| **Total** | **73** | **117** | **2,748** | **1,895** | **2,821** | **2,012** |

EUR 73 thousand of non-current operating receivables due from others represent EUR 39 thousand paid into the reserve fund for the maintenance of real estate and receivables from a company in compulsory settlement proceedings equalling EUR 34 thousand.

Short-term operating trade receivables of EUR 1,461 thousand relate to operating receivables from customers of Kapitalska družba equalling EUR 807 thousand and operating receivables from customers of Modra zavarovalnica d.d. totalling EUR 654 thousand.

Short-term operating receivables from others of EUR 1,287 thousand relate to operating receivables from customers of Kapitalska družba, d. d. equalling EUR 354 thousand and operating receivables from customers of Modra zavarovalnica d. d. totalling EUR 933 thousand.

The Group has no value adjustments of receivables.

The Group has no collateralised operating receivables.

The Group's receivables are not subject to material risk.

*Breakdown of operating trade receivables by maturity*

in EUR '000

| 31 Dec. 2017 | 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 |
|---|---|---|---|---|---|---|
| 1,461 | 1,448 | 3 | 0 | 0 | 0 | 10 |

## *Note no. 22*

*Cash and cash equivalents*

in EUR '000

| | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Cash on bank accounts and cash on hand | 6,155 | 11,262 |
| Demand deposit | 29,022 | 23,449 |
| **Total** | **35,177** | **34,711** |

## *Note no. 23*



*Equity*

| | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Share capital (000 EUR) | 364,810 | 364,810 |
| Ordinary shares (number) | 874,235 | 874,235 |

The company has no treasury shares. 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.

## *Note no. 24*

*Capital surplus*

in EUR '000

| Capital surplus | |
|---|---|
| **1 Jan. 2017** | **216,619** |
| Increase in capital surplus | 142 |
| **31 Dec. 2017** | **216,761** |

In 2017, the capital surplus increased by EUR 142 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2017, capital surplus totalled EUR 216,761 thousand.

## *Note no. 25*

*Revenue reserves*

As at 31 December 2017, Kapitalska družba reported no other revenue reserves.

## *Note no. 26*

*Financial liabilities*

in EUR '000

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 |
| Other non-current financial liabilities | 50,582 | 371 | 0 | 0 | 50,582 | 371 |
| **Total** | **50,582** | **371** | **0** | **0** | **50,582** | **371** |

As at 31 December 2017, Kapitalska družba discloses EUR 50,000 thousand of financial liabilities, which relate to settling the liabilities of Kapitalska družba, d. d., to ZPIZ for 2019 pursuant to Paragraph 2 of Article 65 of ZIPRS1819. The financial liability to ZPIZ is non-interest bearing.

As at 31 December 2017, Modra zavarovalnica discloses EUR 582 thousand of financial liabilities relating to the lease of intangible assets.



### *Financial liabilities maturity*

| | 31 Dec. 2017 |
|---|---|
| Up to 1 year overdue | 233 |
| From 1 to 2 years | 50,349 |
| From 2 to 5 years | 0 |
| Over 5 years | 0 |
| **Total** | **50,582** |

## *Note no. 27*

*Operating liabilities*

in EUR '000

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2017 | 31 Dec. 2016 |
| Trade liabilities | 0 | 0 | 3,579 | 3,424 | 3,579 | 3,424 |
| Operating liabilities from advances | 364 | 12 | 0 | 0 | 364 | 12 |
| Liabilities to the state | 0 | 0 | 50,576 | 50,429 | 50,576 | 50,429 |
| Other operating liabilities | 24 | 33 | 590 | 597 | 614 | 630 |
| **Total** | **388** | **45** | **54,745** | **54,450** | **55,133** | **54,495** |

EUR 12 thousand of long-term operating liabilities relates to collateral deposit from the lessee of business premises and an advance received for the purchase of securities of KDD in the amount of EUR 352 thousand.

Other long-term operating liabilities of Modra zavarovalnica in the amount of EUR 24 thousand comprise liabilities for the payment of variable remuneration of the Management Board members.

Short-term operating liabilities comprise liabilities to suppliers in the amount of EUR 3,579 thousand, the bulk of which refers to the payment for investment property in the amount of EUR 2,849 thousand; liabilities to the state in the amount of EUR 50,576 thousand, which mostly arise from the payments to ZPIZ (Pension and Disability Insurance Institute of Slovenia) in 2018 and total EUR 50,000 thousand, and other short-term liabilities in the amount of EUR 590 thousand.

in EUR '000

| 31 Dec. 2017 | Maturity of up to 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Operating liabilities to suppliers | 3,579 | 0 | 0 | 0 | 3,579 |
| Operating liabilities from advances | 0 | 6 | 358 | 0 | 364 |
| Liabilities to the state | 50,576 | 0 | 0 | 0 | 50,576 |
| Other operating liabilities | 590 | 24 | 0 | 0 | 614 |
| **Total** | **54,745** | **30** | **358** | **0** | **55,133** |

## *Note no. 28*



### *Provisions and long-term accrued costs and deferred revenue*

in EUR '000

| | Provisions for pensions and similar obligations | Other provisions | Technical provisions | Long-term accrued costs and deferred revenues | Total |
|---|---|---|---|---|---|
| **1 Jan. 2017** | **407** | **15,940** | **144,366** | **2,672** | **163,385** |
| Newly established during the year | 109 | 1,225 | 18,973 | 0 | 20,307 |
| Utilised provisions | -10 | 0 | 0 | 0 | -10 |
| Reversal of provisions | 0 | -2,668 | 0 | 0 | -2,668 |
| Transfer of long-term acc. costs and def. revenue to P&L | 0 | 0 | 0 | -1,128 | -1,128 |
| **31 Dec. 2017** | **506** | **14,497** | **163,339** | **1,544** | **179,886** |

In 2017, the Kapitalska družba Group created EUR 109 thousand of provisions for severance pay on retirement and jubilee benefits. EUR 10 thousand of provisions were used. At the end of 2017, provisions for severance pay on retirement and jubilee benefits amounted to EUR 506 thousand. Provisions for retirement benefits and long-service awards are calculated according to expected staff turnover, period of service and an estimated number of years until retirement, taking into account the regulations of individual and collective employment agreements as well as the Company's internal rules.

The Group created EUR 985 thousand of other provisions for testing the adequacy of provisions and EUR 240 thousand of provisions for the deficit of the guarantee funds. In 2017, the Group reversed EUR 2,396 thousand of provisions for non-achievement of guaranteed return, EUR 77 thousand of provisions for the deficit of the guarantee funds, and reversed the provisions for testing the adequacy of provisions in the amount of EUR 195.

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.

Accrued costs and deferred revenue comprise deferred revenue from the acquisition of the investment in accounts receivable and are calculated as the difference between the historical cost of that investment in its fair value. Long-term deferred revenues are proportionally recognised in the income statement throughout the repayment period. A total of EUR 1,128 thousand of accrued costs and deferred revenue were transferred to or reversed from the income statements in 2017, which at the end of the year amount to EUR 1,544 thousand.

### *Structure of technical provisions*

in EUR '000

| Item | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Technical provisions for the KS PPS | 102,491 | 100,246 |
| Technical provisions for the KS MR | 25,461 | 31,721 |
| Technical provisions for the KS MR II | 35,387 | 12,399 |
| **Total** | **163,339** | **144,366** |

Technical provisions consist of life insurance provisions by policies, unclassified technical provisions and provisions for claims, which are described in the chapter Disclosures of insurance contracts.

### *Disclosures of insurance contracts*



#### *Structure of long-term insurance contracts*

Table 51: Present gross value of future payments

in EUR '000

| Types of payments | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| KS PPS | 97,231 | 97,055 |
| KS MR | 25,459 | 31,721 |
| KS MR II | 35,276 | 12,377 |
| **Total** | **157,966** | **141,153** |

Present gross value of future payments includes technical provisions by policies.

Table 52: Structure of technical provisions as at 31 December 2017

in EUR '000

| Fund | TP for life insurance by policies | TP for life insurance – unallocated | Provisions for claims | Total |
|---|---|---|---|---|
| KS PPS | 97,231 | 4,296 | 964 | 102,491 |
| KS MR | 25,459 | 0 | 2 | 25,461 |
| KS MR II | 35,276 | 111 | 0 | 35,387 |
| **Total** | **157,966** | **4,407** | **966** | **163,339** |

Technical provisions by individual KS PPS policies differ from total technical provisions by EUR 4,296 thousand of equalisation provisions for yield experience and by EUR 964 thousand of provision for claims. Future payments were calculated based on annuity tables DAV2004R and 1% statutory technical interest rate.

Technical provisions by individual KS MR policies as at 31 December 2017 differ from total technical provisions by EUR 2 thousand of provisions for claims. The calculation of future payments was made on the basis of German tables for annuities DAV1994R.

Technical provisions by individual KS MR II policies as at 31 December 2017 differ from total KS MR II technical provisions totalling EUR 35,276 thousand by EUR 111 thousand. Half of the net profit for 2017 in the amount of EUR 50 thousand is used for a permanent increase in annuities, while the other half remains unallocated. The calculation of future payments was made on the basis of DAV1994R annuity tables.

### *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 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 equalling the risk-free interest rate as at 31 December 2017, published by EIOPA.



The liability adequacy test as at 31 December 2017 showed that mathematical provisions for KS PPS are adequate, whereas a deficit of 1,161 thousand was determined for KS MR and of 1,580 thousand for KS MR II.

### *Change in interest rates/return*

Table 53: Change in interest rates/return for the KS PPS as at 31 December 2017

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) | -2,875 | 3,025 |

Table 54: Change in interest rates/return for the KS PPS as at 31 December 2016

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) | -2,906 | 3,059 |

Table 55: Change in interest rates/return for the KS MR as at 31 December 2017

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) | -381 | 397 |

Table 56: Change in interest rates/return for the KS MR as at 31 December 2016

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) | -431 | 449 |

Table 57: Change in interest rates/return for the KS MR II as at 31 December 2017

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) | -644 | 672 |

Table 58: Change in interest rates/return for the KS MR II as at 31 December 2016

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) | -225 | 234 |



### *Change in mortality*

Table 59: Change in mortality as at 31 December 2017 for the KS PPS

in EUR '000

| Change in mortality | Increase in mortality probability by 10% | Decrease in mortality probability by 10% |
|---|---|---|
| Change in liabilities (provisions) | -3,375 | 3,833 |

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,375 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV2004R annuity tables.

Table 60: Change in mortality as at 31 December 2016 for the KS PPS

in EUR '000

| Change in mortality | Increase in mortality probability by 10% | Decrease in mortality probability by 10% |
|---|---|---|
| Change in liabilities (provisions) | -3,289 | 3,734 |

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,289 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV2004R annuity tables.

Table 61: Change in mortality as at 31 December 2017 for the KS PPS

in EUR '000

| Change in mortality | Increase in mortality probability by 10% | Decrease in mortality probability by 10% |
|---|---|---|
| Change in liabilities (provisions) | -240 | 268 |

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 240 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV1994R annuity tables.

Table 62: Change in mortality as at 31 December 2016 for the KS MR

in EUR '000

| Change in mortality | Increase in mortality probability by 10% | Decrease in mortality probability by 10% |
|---|---|---|
| Change in liabilities (provisions) | -234 | 261 |

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 234 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV1994R annuity tables.



Table 63: Change in mortality as at 31 December 2017 for the KS MR II

in EUR '000

| Change in mortality | Increase in mortality probability by 10% | Decrease in mortality probability by 10% |
|---|---|---|
| Change in liabilities (provisions) | -250 | 279 |

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 250 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV1994R annuity tables.

Table 64: Change in mortality as at 31 December 2016 for the KS MR II

in EUR '000

| Change in mortality | Increase in mortality probability by 10% | Decrease in mortality probability by 10% |
|---|---|---|
| Change in liabilities (provisions) | -85 | 95 |

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 85 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV1994R annuity tables.

## *Note no. 29*

### *Short-term accruals and deferrals*

Short-term accruals and deferrals in the amount of EUR 52,106 thousand relate mainly to the recognized liability to ZPIZ in the amount of EUR 50,000 thousand for 2018.

Short-term accruals and deferrals in the amount of EUR 5,851 thousand relate to accrued costs and deferred income from leases and premiums of those insured persons who have already expressed their intention to purchase an annuity at Modra zavarovalnica, d. d., but have not yet returned a signed contract.

## *17.3.3 Managing the 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. The Group's own assets and the assets of the guarantee funds (KS PPS, KS MR and KS MR II) are presented in the tables below.

### *Capital management – Solvency II*

Modra zavarovalnica, d. d. has assessed to have sufficient own resources at its disposal considering its total capital requirement. The table below discloses the amounts estimated for 2017; the insurance company does not expect significant deviations from those amounts.

Table 65: Capital adequacy as per Solvency II



in EUR '000

| Item | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Solvency II** | | |
| Total capital requirement | 121,550 | 105,859 |
| Sufficient own resources | 265,988 | 199,603 |
| Surplus (+)/ deficit (-) of own resources available (EUR) | 144,439 | 93,744 |
| **Ratio between sufficient own resources and entire capital requirement (%)** | **219%** | **189%** |

The annual information on solvency as at 31 December 2017 will be presented in the Report on the Solvency and Financial Position which will be published on the insurance company's website.

### *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 66: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2017

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 measured at fair value through profit or loss | 5,260 | 7,210 | 7,173 | 19,643 |
| Financial assets held to maturity | 84,879 | 37,163 | 7,219 | 129,260 |
| Available-for-sale financial assets | 76,843 | 24,103 | 43,407 | 144,353 |
| Loans | 0 | 0 | 42,134 | 42,134 |
| Cash and cash equivalents | 0 | 0 | 35,177 | 35,177 |
| **Total** | **166,982** | **68,476** | **135,109** | **370,567** |

Table 67: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2016

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 measured at fair value through profit or loss | 5,672 | 6,881 | 12,604 | 25,157 |
| Financial assets held to maturity | 62,423 | 50,542 | 3,138 | 116,102 |
| Available-for-sale financial assets | 23,035 | 71,858 | 53,229 | 148,122 |
| Loans | 0 | 800 | 87,854 | 88,654 |
| Cash and cash equivalents | 0 | 0 | 34,711 | 34,711 |
| **Total** | **91,130** | **130,081** | **191,535** | **412,746** |



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 corporate and banking issuers and the investment in accounts receivable.

Loans represent deposits in banks in Slovenia. Deposits and cash are classified into the rating class of the bank at which the respective assets are held.

Table 68: Geographical concentration of credit exposure of financial assets

in EUR '000

| Region | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Slovenia | 255,794 | 308,005 |
| Other countries | 114,773 | 104,741 |
| **Total** | **370,567** | **412,746** |

The share of financial assets exposed to credit risk in Slovenia decreased from 75% to 69% in 2017.

### *Currency risk*

Table 69: Currency structure of financial assets

in EUR '000

| Currency | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Assets denominated in EUR | 1,062,454 | 1,007,052 |
| Assets denominated in USD | 184,080 | 158,486 |
| Assets denominated in other currencies | 5,933 | 5,516 |
| **Total** | **1,252,467** | **1,171,054** |

As at 31 December 2017, 84.8% of financial assets were denominated in euro, 14.7% in US dollars and 0.5% in other currencies. Currency structure of financial assets is monitored considering the currency in which original instrument is denominated. Currency risk increased because of higher exposure of financial assets in foreign currencies, whereas the effect of currency fluctuation for securities constituting a specific instrument or investment fund was not taken into account.

Table 70: Currency risk of financial assets as at 31 December 2017

in EUR '000

| USD exchange rate fluctuation in % | Impact on the income statement | Impact on equity |
|---|---|---|
| +/- 10% | +/- 618 | +/- 17,790 |

Table 71: Currency risk of financial assets as at 31 December 2016

in EUR '000

| USD exchange rate fluctuation in % | Impact on the income statement | Impact on equity |
|---|---|---|
| +/- 10% | +/- 681 | +/- 15,168 |



### *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 72: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2017 – 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 measured at fair value through profit or loss | +/- 0.5% | +/- 45 | +/- 915 | +/- 870 |
| Financial assets held to maturity | +/- 0.5% | +/- 0 | +/- 0 | +/- 0 |
| Available-for-sale financial assets | +/- 0.5% | +/- 26 | +/- 4,003 | +/- 3,977 |
| Loans and receivables | +/- 0.5% | +/- 0 | +/- 0 | +/- 0 |
| **Total** | | **+/- 71** | **+/- 4,918** | **+/- 4,847** |

Table 73: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2016 – 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 measured at fair value through profit or loss | +/- 0.5% | +/- 3 | +/- 599 | +/- 596 |
| Financial assets held to maturity | +/- 0.5% | +/- 0 | +/- 0 | +/- 0 |
| Available-for-sale financial assets | +/- 0.5% | +/- 3 | +/- 3,650 | +/- 3,647 |
| Loans and receivables | +/- 0.5% | +/- 0 | +/- 0 | +/- 0 |
| **Total** | | **+/- 6** | **+/- 4,249** | **+/- 4,243** |

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the fair value impact 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 assets would change by EUR 4,847 thousand as at 31 December 2017. Interest rate risk increased in 2017 thanks to increased exposure to the investments sensitive to changes in market interest rates.

### *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 74: Market risk of the equity securities portfolio as at 31 December 2017

in EUR '000

| Index change in % | Impact on the income statement | Impact on equity |
|---|---|---|
| +/- 10% | +/- 1,539 | +/- 49,033 |

Table 75: Market risk of the equity securities portfolio as at 31 December 2016

in EUR '000

| Index change in % | Impact on the income statement | Impact on equity |
|---|---|---|
| +/- 10% | +/- 1,849 | +/- 58,553 |

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. The risk was calculated in 2017 using the beta indicator against the world stock index, while in 2016 the beta indicator is calculated according to local indices. If the beta indicator in 2016 was calculated using the same method as in 2017, the impact on equity in 2016 would amount to EUR 39,544 thousand, meaning that the risk in 2017 actually increased, mainly as a result to higher exposure to investments in equity instruments.

Table 76: Financial instruments in terms of marketability

in EUR '000

| Financial instrument | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Securities traded on the regulated market** | **1,065,792** | **951,661** |
| Financial assets at fair value through profit or loss | 68,658 | 52,363 |
| Financial assets held to maturity | 128,126 | 116,102 |
| Available-for-sale financial assets | 869,009 | 783,195 |
| **Securities not traded on the regulated market** | **75,484** | **61,464** |
| Financial assets at fair value through profit or loss | 9,804 | 7,687 |
| Financial assets held to maturity | 1,135 | - |
| Available-for-sale financial assets | 64,545 | 53,777 |
| **Total** | **1,141,276** | **1,013,125** |

At the end of 2017, assets traded on regulated stock markets accounted for 93% of financial instruments or 76% 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 2017, the Group recorded a total of EUR 1,015,489 thousand of surplus of expected non-discounted cash inflows over outflows.



Table 77: Expected actual non-discounted cash flows as at 31 December 2017

in EUR '000

| Item | Up to 1 year | From 1 to 5 years | Over 5 years | No maturity | Total |
|---|---|---|---|---|---|
| Investments in securities | 23,112 | 145,499 | 117,918 | 881,900 | 1,168,430 |
| - at fair value through profit or loss | 6,459 | 9,805 | 4,583 | 125,470 | 146,317 |
| - held-to-maturity | 10,350 | 65,621 | 76,718 | 0 | 152,690 |
| - available-for-sale | 6,304 | 70,074 | 36,616 | 756,430 | 869,423 |
| Investment in financial receivable | - | 33,880 | - | - | 33,880 |
| Loans/deposits given | 36,258 | 6,017 | 0 | 0 | 42,275 |
| Cash and cash equivalents | 35,177 | 0 | 0 | 0 | 35,177 |
| Operating receivables | 2,748 | 73 | 0 | 0 | 2,821 |
| **Total assets** | **97,296** | **185,470** | **117,918** | **881,900** | **1,282,583** |
| Operating liabilities | 54,745 | 388 | 0 | 0 | 55,133 |
| Financial liabilities | - | 50,582 | 0 | 0 | 50,582 |
| Liabilities of PPS and MR Guarantee Funds | 16,061 | 45,309 | 100,009 | 0 | 161,379 |
| **Total liabilities** | **70,806** | **96,279** | **100,009** | **0** | **267,094** |
| **Difference** | **26,490** | **89,191** | **17,909** | **881,900** | **1,015,489** |

Table 78: Expected actual non-discounted cash flows as at 31 December 2016

in EUR '000

| Item | Up to 1 year | From 1 to 5 years | Over 5 years | No maturity | Total |
|---|---|---|---|---|---|
| Investments in securities | 42,616 | 130,211 | 110,446 | 732,194 | 1,015,467 |
| - at fair value through profit or loss | 15,454 | 10,655 | 2,994 | 34,894 | 63,997 |
| - held-to-maturity | 10,738 | 55,143 | 71,559 | 0 | 137,440 |
| - available-for-sale | 16,424 | 64,413 | 35,893 | 697,300 | 814,030 |
| Investment in financial receivable | 0 | 34,564 | 0 | 0 | 34,564 |
| Loans/deposits given | 59,638 | 29,548 | 0 | 0 | 89,186 |
| Cash and cash equivalents | 34,711 | 0 | 0 | 0 | 34,711 |
| Operating receivables | 1,895 | 117 | 0 | 0 | 2,012 |
| **Total assets** | **138,860** | **194,440** | **110,446** | **732,194** | **1,175,940** |
| Operating liabilities | 54,450 | 45 | 0 | 0 | 54,495 |
| Financial liabilities | 0 | 0 | 0 | 0 | 0 |
| Liabilities of PPS and MR Guarantee Funds | 14,020 | 39,937 | 88,511 | 0 | 142,468 |
| **Total liabilities** | **68,470** | **40,352** | **88,511** | **0** | **197,333** |
| **Difference** | **70,390** | **154,088** | **21,935** | **732,194** | **978,607** |

Shares, interests and investment coupons are disclosed under item *without maturity.*



## *17.4 Other disclosures*

### *Information on employee groups*

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. The Group did not approve any advance payments or loans to members of management nor assumed any obligations in their 2017.

### *Receipts of the members of the Management Board, Supervisory Board and staff with management contracts of Kapitalska družba*

In 2017, remunerations paid for the carrying out of responsibilities and duties of members of the Kapitalska družba, d. d. 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 995 thousand.

Remunerations by category of beneficiaries are presented in the table below.

Table 79: Receipts by category of beneficiaries in Kapitalska družba, d. d. in 2017

in EUR '000

| Category of beneficiaries | Amount |
|---|---|
| Members of the Management Board | 365 |
| Members of the Supervisory Board | 132 |
| Employees with management contract | 498 |
| **Total** | **995** |

No advances, loans or collateral were approved by the Group in 2017.

*Receipts of the members of the management and supervisory bodies of Kapitalska družba, d. d.*

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 concluded with the 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, however, the basic pay of the President of the Board calculated that way may not exceed 95% of the basic pay of the President of the Management Board of SDH, d. d., as published, while the basic pay of members of the Management Board amounts to 95% of individual basic pay of the President of the Board of Kapitalska družba. 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 2017 in line with the aforementioned criteria. Pursuant to the contract, each member of the Management Board is 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 80: Receipts of the members of the Management Board of Kapitalska družba, d. d. in 2017



in EUR

| Name and surname | Fixed income | Variable income | Bonuses | Cost reimbursement | Insurance premiums (PDPZ) | Participation in profit | Options | Other rewards | Other payments | Total gross | Total net | Deferred income |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bachtiar Djalil (President) | 124,450 | 8,285 | 55 | 1,715 | 2,819 | - | - | - | 1,000 | 138,324 | 71,632 | 3,128 |
| Goranka Volf (Member) | 117,593 | - | 55 | 2,414 | 2,819 | - | - | - | 1,000 | 123,881 | 62,985 | - |
| Gregor Bajraktarević (Member since 6 February 2017) | 97,562 | - | 32 | 1,717 | 2,349 | - | - | - | 901 | 102,561 | 54,197 | - |
| **Total** | **339,605** | **8,285** | **142** | **5,846** | **7,987** | **-** | **-** | **-** | **2,901** | **364,766** | **188,814** | **3,128** |

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. The variable income received by the President of the Management Board refers to the income from business performance for 2014, which was paid in 2017 on the basis of a combination of quantitative and qualitative criteria. Cost reimbursements include reimbursement of meal and travel and/or accommodation expense and/or per diems. Bonuses include collective accident insurance premiums. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave. The deferred income received by the President of the Management Board refers to the deferred payment which will be received by the President in 2018 arising from business performance for 2015.

Table 81: Receipts of the members of the Supervisory Board of Kapitalska družba, d. d. in 2017

in EUR

| Name and surname | Fixed income – payment for the performance of duties | Fixed income – attendance fees | Variable income | Cost reimbursement | Insurance premiums | Commissions | Participation in profit | Options | Other rewards | Other payments | Total gross | Total net |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stanislav Seničar (President of the Supervisory Board) | 16,364 | 4,345 | - | 611 | - | - | - | - | - | - | 21,320 | 15,506 |
| Boris Žnidarič, PhD (Deputy Chair and President of the Accreditation Committee) | 16,224 | 5,500 | - | 83 | - | - | - | - | - | - | 21,807 | 15,860 |
| Cirila Surina Zajc (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee) | 16,500 | 5,500 | - | 810 | - | - | - | - | - | - | 22,810 | 16,590 |
| Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, President of the HR Committee) | 16,500 | 4,840 | - | 366 | - | - | - | - | - | - | 21,706 | 15,787 |
| Ladislav Rožič, MSc (Member of the Supervisory Board, President of the Audit Committee, Member of the Accreditation Committee since 23 February 2017) | 16,500 | 5,500 | - | 0 | - | - | - | - | - | - | 22,000 | 16,001 |
| Natalija Stošicki (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee) | 16,500 | 5,390 | - | 673 | - | - | - | - | - | - | 22,563 | 16,410 |
| **Total** | **98,588** | **31,075** | **-** | **2,543** | **-** | **-** | **-** | **-** | **-** | **-** | **132,206** | **96,154** |

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.

Table 82: Receipts of the external members of the Supervisory Board committees of Kapitalska družba, d. d. in 2017

in EUR

| Name and surname | Fixed income – payment for the performance of duties | Fixed income – attendance fees | Variable income | Cost reimbursement | Insurance premiums | Commissions | Participation in profit | Options | Other rewards | Other payments | Total gross | Total net |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mojca Verbič (External Member of the Audit Committee) | 3,600 | 440 | - | 67 | - | - | - | - | - | - | 4,107 | 2,987 |
| Irena Prijović, MSc (External Member of the Accreditation Committee) | 3,600 | 1,100 | - | 0 | - | - | - | - | - | - | 4,700 | 3,418 |
| Alenka Stanič, PhD (External Member of the Accreditation Committee) | 3,600 | 1,320 | - | 0 | - | - | - | - | - | - | 4,920 | 3,578 |
| **Total** | **10,800** | **2,860** | **-** | **67** | **-** | **-** | **-** | **-** | **-** | **-** | **13,727** | **9,983** |

Fixed income of the external members of the Supervisory Board committees consists of the remuneration for the work performed in the relevant committee of the Supervisory Board and attendance fees for attendance at the Supervisory Board committees' meetings. Cost reimbursements include reimbursement of travel expenses.

In 2017, the following members of management and supervisory bodies received remuneration for their work in the subsidiary Modra zavarovalnica, d. d. On 9 December 2016, Goranka Volf and Natalija Stošicki were appointed to the Supervisory Board of Modra zavarovalnica, d. d. Goranka Volf resigned from the Supervisory Board of Modra zavarovalnica, d. d. On 9 June at the General Meeting of the Company, Boris Žnidarič, PhD was appointed a Member of the Supervisory Board of Modra zavarovalnica, d. d.

Table 83: Receipts of the members of management and supervisory bodies of Kapitalska družba, d. d. in Modra zavarovalnica, d. d. in 2017

in EUR

| Name and surname | Fixed income – payment for the performance of duties | Fixed income – attendance fees | Variable income | Cost reimbursement | Insurance premiums | Commissions | Participation in profit | Options | Other rewards | Other payments | Total gross | Total net |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Goranka Volf (President of the Supervisory Board of Modra zavarovalnica until 9 June 2017) | 6,880 | 2,420 | - | - | - | - | - | - | - | - | 9,300 | 6,764 |
| Natalija Stošicki (Member of the Supervisory Board of Modra zavarovalnica until 27 August 2017, President of the Supervisory Board of Modra zavarovalnica since 28 August 2017 and Member of the Audit Committee of Modra zavarovalnica) | 14,872 | 5,005 | - | 433 | - | - | - | - | - | - | 20,310 | 14,771 |
| Boris Žnidarič, PhD (Member of the Supervisory Board of Modra zavarovalnica since 9 June 2017) | 5,864 | 1,320 | - | 9 | - | - | - | - | - | - | 7,193 | 5,231 |
| **Total** | **27,616** | **8,745** | - | **442** | - | - | - | - | - | - | **36,803** | **26,766** |



Fixed income consists of the remuneration for the work performed in the Supervisory Board and its Committees and attendance fees for attendance at the meetings. Cost reimbursements include reimbursement of travel expenses.

### *Activities of the Kapitalska družba, d. d. Supervisory Board and its Committees*

The Supervisory Board held 17 meetings in 2017. The members attended the Supervisory Board meetings regularly; Members Cirila Surina Zajc and Natalija Stošicki, MSc, could not attend one of the meetings due to justifiable reasons. Aleksander Mervar was absent three times.

The Audit Committee had six meetings. The members attended the Audit Committee meetings regularly. For justifiable reasons, Member of the Audit Committee and Supervisory Board Natalija Stošicki could not attend one of the meetings, Aleksander Mervar was absent three times and External Member of the Committee Mojca Verbič could not participate at four meetings.

The Accreditation Committee held 6 meetings. The members attended the Accreditation Committee meetings regularly. For legitimate reasons, the external member, Irena Prijovič, MSc, and Aleksander Mervar, MSc, could no attend one and four of the meetings, respectively.

The HR Committee had one meeting, which was attended by all three members.

### *Receipts of the members of the Management Board, supervisory bodies and staff with management contracts of Modra zavarovalnica, d. d.*

In 2017, the remuneration received by the members of the Management Board, supervisory bodies and employees with individual employment contracts who are not subject to the tariff part of the collective agreement totalled EUR 716 thousand.

In 2017, Modra zavarovalnica, d. d. approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

Table 84: Gross receipts in 2016 by category, Modra zavarovalnica, d. d.

in EUR '000

| Category of beneficiaries | Amount |
|---|---|
| Members of the Management Board | 279 |
| Members of supervisory boards | 86 |
| Employees with individual contracts | 351 |
| **Total** | **716** |

### *Receipts of the members of the management and supervisory bodies of Modra zavarovalnica, d. d.*

Table 85: Receipts of the members of the Management Board of Modra zavarovalnica, d. d. in 2017

in EUR

| Name and surname | Fixed income | Past due payments | Bonuses | Annual leave allowance | Cost reimbursement | Other rewards | Insurance premiums (PDPZ) | Total |
|---|---|---|---|---|---|---|---|---|
| Borut Jamnik | 118,591 | 0 | 5,541 | 1,115 | 5,286 | 0 | 2,819 | 133,352 |
| Matija Debelak | 112,915 | 25,003 | 1,387 | 1,115 | 1,415 | 689 | 2,819 | 145,343 |



Fixed remuneration includes gross salaries. Outstanding payments include part 2 of the variable remuneration for 2014 and part 1 of the variable remuneration for 2016. 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 premiums and collective specialist outpatient treatment. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other benefits represent jubilee benefits.

Table 86: Receipts of the members of the Supervisory Board and the external members of the Supervisory Board committees of Modra zavarovalnica, d. d. in 2017

in EUR

| Name and surname | Fixed income of the SB | Fixed income of the Audit Committee | Monthly remuneration of the SB | Monthly remuneration of the AC | Cost reimbursement | Total |
|---|---|---|---|---|---|---|
| Branimir Štrukelj | 3,740 | 0 | 0 | 0 | 0 | 3,740 |
| Bojan Zupančič | 3,465 | 0 | 10,450 | 0 | 0 | 13,915 |
| Janez Prašnikar | 1,320 | 0 | 5,864 | 0 | 0 | 7,184 |

| Name and surname | Fixed income of the SB | Fixed income of the Audit Committee | Monthly remuneration of the SB | Monthly remuneration of the AC | Cost reimbursement | Total |
|---|---|---|---|---|---|---|
| Goran Bizjak | 3,190 | 1,760 | 10,450 | 3,919 | 453 | 19,772 |
| Boris Žnidarič | 1,320 | 0 | 5,864 | 0 | 9 | 7,193 |
| Goranka Volf | 2,420 | 0 | 6,880 | 0 | 0 | 9,300 |
| Natalija Stošicki | 3,465 | 1,540 | 12,259 | 2,613 | 433 | 20,310 |
| Dragan Martinović (external member of the SB Audit Committee) | 0 | 1,760 | 0 | 2,521 | 0 | 4,281 |

The fixed income comprises attendance fees for the Supervisory Board and Audit Committee meetings. Monthly remuneration includes monthly receipt for the performance of the functions of members of the Supervisory Board and the Audit Committee. Cost reimbursements include reimbursement of travel expenses.

### *Related-party transactions*

In 2017, the Kapitalska družba Group made no significant transactions with its related parties that were concluded under other than normal market conditions.

### *Disclosure regarding the pension scheme*

Pursuant to the Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/15; ZPIZ-2B), Kapitalska družba, d. d. drew up amendments and supplements to the Occupational Retirement Pension Scheme. Pursuant to the decision on approving the amendments and supplements to the Occupational Health Insurance Plan No. 1031-160/2016-3 of 23 November 2016, issued by the Ministry of Labor, Family, Social Affairs and Equal Opportunities, a new Occupational Retirement Pension Scheme entered into force on 1 January 2017. On that date, the amended Rules on the Management of the SODPZ entered into force, to which the Securities Market Agency issued a consent on 30 November 2016.



### *Events after the date of the statement of financial position*

In April 2018, Kapitalska družba, d. d. signed a property purchase agreement (purchase of additional business premises at Dunajska cesta 119). The agreement was carried out in May 2018.

Since the end of 2017, the Group recorded no other significant business events prior to the preparation of the annual report, which could have an impact on its 2017 financial statements.