

An aerial photograph of a paved area, possibly a walkway or plaza, featuring a series of vertical slats. The slats are spaced evenly and create a rhythmic pattern. Through the slats, a bright blue sky with white clouds is visible. The shadows of several people walking are cast across the pavement, creating a sense of movement and depth. The overall composition is clean and modern, with a strong geometric structure.

step towards the future



step towards the future

Annual Report of Kapitalska družba, d. d.
for 2019

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List of abbreviations used

ISA	Insurance Supervision Agency
GDP	Gross Domestic Product
BOE	Bank of England
BOJ	Bank of Japan
BVAL	Bloomberg Valuation Service
CBBT	Composite Bloomberg Bond Trader
ECB	European Central Bank
FED	US Federal Reserve
EUR	Euro – currency of the European Union
IMF	International Monetary Fund
KDD	Central Securities Clearing Corporation
MKPS	Modri Umbrella Pension Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
OdSUKND	Decree on the Strategy for Managing State Capital Investments
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
OTC	Over-the-counter market
PBOC	People's Bank of China
VSPI	Voluntary supplementary pension insurance
RS	Republic of Slovenia
SBI TOP	Central Slovenian stock market index
SDH	Slovenski državni holding, d. d. (or Slovenski državni holding)
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
USD	US dollar
VaR	Value At Risk
ZDDPO-2	Corporate Income Tax Act (Official Gazette of the Republic of Slovenia, Nos. 117/2006, 90/2007, 76/2008, 56/2008, 92/2008, 5/2009, 96/2009, 110/2009 – ZdavP-2B, 43/2010, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013, 50/2014, 23/2015, 82/2015, 68/2016, 69/2017, 79/2018 and 66/2019)
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, 30/2018 – ZPPDID, 54/2018 – Constitutional Court ruling and 69/2019 – Constitutional Court ruling)

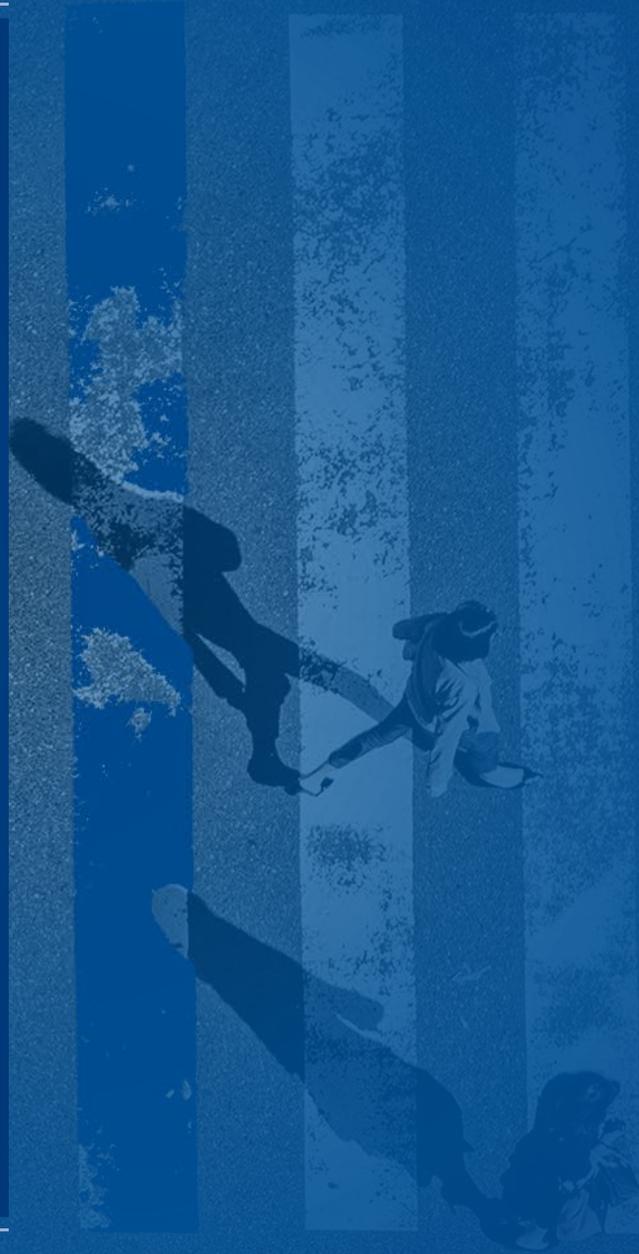
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 – amended, 26/2007 – ZSDU-B, 33/2007 – ZSReg-B, 67/2007 – ZTFI, 10/2008, 68/2008, 42/2009, 33/2011, 91/2011, 100/2011 – Constitutional Court ruling, 32/2012, 57/2012, 44/2013 – Constitutional Court ruling, 82/2013, 55/2015, 15/2017, 22/2019 – ZPosS)
ZIPRS1819	Implementation of the Budget of the Republic of Slovenia for 2018 and 2019 Act (Official Gazette of the Republic of Slovenia, Nos. 71/2017, 13/2018 – ZJF-H, 83/2018, 19/2019, 75/2019 – ZIPRS2021)
ZNVP-1	Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 – ORZNVP48, 5/2017, 15/2018 – Constitutional Court Ruling and 43/2019)
ZODPol	Organisation and Work of the Police Act (Official Gazette of the Republic of Slovenia Nos. 15/2013, 11/2014, 86/2015, 77/2016, 77/2017, 36/2019 and 66/2019 – ZDZ)
ZPIZ	Pension and Disability Insurance Institute
ZPIZ-1	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia Nos. 106/1999, 72/2000, 81/2000 – ZPSV-C, 124/2000, 52/2001, 109/2001, 11/2002, 108/2002, 114/2002, 110/2002 – ZISDU-1, 29/2003, 40/2003 – Constitutional Court ruling, 63/2003 – ZIPRS0304-A, 63/2003 – Constitutional Court ruling, 133/2003, 135/2003, 25/2004, 63/2004 – ZZRZI, 136/2004 – Constitutional Court ruling, 2/2004 – ZDSS-1, 54/2004 – ZDoh-1, 8/2005, 72/2005, 111/2005, 23/2006, 69/2006, 112/2006 – Constitutional Court ruling, 114/2006 – ZUTPG, 17/2007, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZIUZGK, 27/2010 – Constitutional Court ruling, 38/2010 – ZUKN, 56/2010, 79/2010 – ZPKDPIZ, 94/2010 – ZIU, 57/2011, 94/2011 – Constitutional Court ruling, 105/2011 – Constitutional Court ruling, 61/2010 – ZSVarPre, 40/2011 – ZSVarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 96/2012 – ZPIZ-2, 9/2017 – Constitutional Court ruling)
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, 42/2016 – Constitutional Court decision, 80/2016 – ZIPRS1718, 88/2016 – ZUPPJS17, 40/2017, 23/2017, 75/2017 – ZIUPTD-A, 65/2017, 71/2017 – ZIPRS1819, 28/2019, 75/2019 – ZIPRS2021, 75/2019 – ZUPPJS2021 and 75/2019)
ZPIZ-2G	Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 75/2019)
ZPPOGD	Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010, 8/2011 and 23/2014 – ZDIJZ-C)
ZPre-1	Takeovers Act (Official Gazette of the Republic of Slovenia Nos. 79/2006, 67/2007 – ZTFI, 1/2008, 68/2008, 35/11 – ORZPre75, 105/2011 – Constitutional Court ruling, 10/2012, 38/2012, 56/2013, 63/2013 – ZS-K, 25/2014 and 75/2015)
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 and 51/2018 – ZIUJGD)
ZUJIK	Act Governing the Promotion of Public Interest in Culture (Official Gazette of the Republic of Slovenia, Nos. 96/2002, 123/2006 – ZFO-1, 7/2007 – Constitutional Court ruling, 53/2007, 65/2007 – Constitutional Court ruling, 56/2008, 4/2010, 20/2011, 100/2011 – Constitutional Court ruling, 111/2013, 68/2016, 61/2017 and 21/2018 – ZNOrg)
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015 and 9/2019)

Highlights from the annual report

- | Kapitalska družba is a capially sound and stable company, with more than EUR 1 billion in assets as at 31 December 2019.
- | Operating revenue totalled EUR 10.6 million in 2019.
- | Financial revenue totalled EUR 42.4 million in 2019.
- | Net operating profit amounted to EUR 4.4 million. Excluding the transfer to the ZPIZ, net profit for 2019 would have amounted to EUR 33.8 million.
- | The net loss following the transfer to the ZPIZ, and taking into account deferred taxes and corporate income tax amounted to EUR 16.2 million, while the Company's pre-tax loss was EUR 5.8 million.
- | Kapitalska družba, d. d. transferred a total of EUR 864.3 million to the budget of the ZPIZ between 1999 and 2019, including EUR 50 million in 2019.

- | The value of assets under management by Kapitalska družba in the SODPZ was EUR 795.2 million at the end of 2019.
- | The actual return on the SODPZ was 4.97% in 2019.
- | A total of 48,356 policyholders held savings in the SODPZ at the end of 2019,
| while 213 policyholders retired during 2019.
- | A total of 286 retirees received an occupational pension as at 31 December 2019.
- | The Company had 60 employees at the end of 2019.

Introduction to the Annual Report



Presentation of Kapitalska družba, d. d.

2.1 GENERAL INFORMATION

2.1.1 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

2.1.2 Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba's sole shareholder as at 31 December 2019.

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.

2.1.3 Activities of the Company

Kapitalska družba's principle activity is the provision of supplementary funding for pension and disability insurance through the management of its own assets and the management of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the SODPZ). 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

2.1.4 Company bodies

2.1.4.1 Management Board

Kapitalska družba was run by its Management Board in 2019 in the following composition:

- | President of the Management Board Bachtiar Djalil who began his term of office on 3 January 2019;¹
- | Member of the Management Board Goranka Volf began her term of office on 24 November 2016.
- | Member of the Management Board Gregor Bajraktarević began his term of office on 7 February 2018.

The President and members 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.

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

2.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2019:

- | Stanislav Seničar, Chairman,
- | Dr Boris Žnidarič, Deputy Chairman,
- | Cirila Surina Zajc, member (until 1 February 2019),
- | Aleksander Mervar, MSc, member,
- | Ladislav Rožič, MSc, member,
- | Natalija Stošički, member, and
- | Mirko Miklavčič, member (since 2 February 2019).

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 Company's General Meeting appoints missing members at its own discretion. The proposal for candidates to represent SDH is formu-

¹ Mr Djalil began his previous four-year term of office on 2 January 2015.

lated 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 ten thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

The four-year terms of office of the following three members of the Supervisory Board ended on 1 February 2019: Dr Boris Žnidarič, Ladislav Rožič, MSc and Cirila Surina Zajc. The following persons were appointed as members of the Supervisory Board at the Company's General Meeting on 31 January 2019: Dr Boris Žnidarič, Ladislav Rožič, MSc and Mirko Miklavčič. The four-year term of office of the three aforementioned members of the Supervisory Board began on 2 February 2019. Dr Boris Žnidarič was re-elected Deputy Chairman of the Supervisory Board at the 158th session of the Supervisory Board held on 21 February 2019.

2.1.4.3 General Meeting

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

2.1.5 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.

Statement of the Management Board

In accordance with its balanced and cost-effective governance policy, Kapitalska družba generated an operating profit in the amount of EUR 4.4 million in 2019. Comprehensive income totalled EUR 96.7 million, and EUR 146.7 million excluding the transfer to the ZPIZ. A net operating loss in the amount of EUR 16.2 million was generated during the 2019 financial year. Excluding the transfer to the ZPIZ, net profit for 2019 would have been EUR 50 million higher at EUR 33.8 million, without taking into account tax effects.

Slovenia recorded relatively favourable economic growth in 2019. That growth began to slow due to pessimistic international outlooks. The gap in economic development relative to the EU average has been closed significantly in the ten years since the great economic crisis, but there are still major gaps in the areas of economic productivity, digitalisation and the green economy. Social security systems have also failed to adapt to Slovenia's demographic reality.

The operations of Kapitalska družba were a reflection of conditions in the Slovenian and international economic and political environment in 2019. The comprehensive management of risks is becoming increasingly more demanding, and is being transformed from a more traditional form into a key strategic function. The formulation of a strong internal culture of comprehensive risk management has become a basic component of contemporary corporate governance. We made a significant step in that direction last year with the adoption of the Internal Audit Department's strategic plan. Through the establishment of a fraud prevention system, we improved the level of corporate integrity ensured by Kapitalska družba.

Kapitalska družba once again achieved its dual mission in 2019: the provision of supplementary funding for the public pension and disability insurance system and the effective provision of occupational insurance. The Company's development is built on satisfying the needs of all stakeholders, the most important of those being Slovenian retirees, and the SODPZ's policyholders and occupational retirees. We are led in that regard by our keen awareness of Kapitalska družba's importance, role and responsibilities in the mosaic of the Slovenian pension system.

Kapitalska družba transferred EUR 50 million to the ZPIZ in 2019. The total amount of the twenty transfers made by Kapitalska družba to the ZPIZ since 1999 reached EUR 864.3 million in 2019. This represents 94% of the amount paid into the ZPIZ by the state budget in 2019. Through the sustained fulfilment of our commitments, we contribute to a reliable Slovenian pension system, although those total payments exceed the assets at Kapitalska družba's disposal. In accordance with the strategy for managing state



Gregor BAJRAKTAREVIĆ
Member of the Management Board



Goranka VOLF
Member of the Management Board



Bachtiar DJALIL
President of the Management Board

capital investments, a significant portion of those investments are classified as strategic or material, and thus represent difficult-to-sell assets. When selling companies, Kapitalska družba is largely dependent 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.

Also impacting the operations of Kapitalska družba is the postponement of the establishment of an autonomous and independent demographic reserve fund, which should have been completed five years ago. Since as early as 2013, pension law has defined the demographic reserve fund as one of the sources of financing for the public pension system. The establishment of that fund is unavoidable and necessary due to the demographic situation in Slovenia. The implementation of that legal solution would result in the significant adaptation of the social security system to the very sharp increase in expenditure expected due to Slovenia's long-lived society. Pressures to ensure sustainable and permanent sources to finance pensions are rising and limiting possibilities for the continued successful development of Slovenian society. In terms of the content of its activities and with regard to its business objectives, Kapitalska družba has functioned as a demographic reserve fund since its establishment, makes regular payments to the public pension system and thus helps cover the pension costs incurred by the ZPIZ. In the third decade since the Company's establishment and in a period in which the population is ageing at an accelerated rate, the fulfilment of its mission in this way is no longer enough. Postponing the transformation of Kapitalska družba into an independent and autonomous demographic reserve fund, the identification of new sources of financing and the definition of a period for the accumulation of assets poses a long-term threat to the high quality of life of all generations in Slovenia. We expect that challenges in connection with the continued development of the pension system will force stakeholders to address issues associated with the further strategic development of Kapitalska družba and its transformation into a demographic reserve fund.

Because our mission is the permanent and sustainable development of a long-lived Slovenian society, our efforts are not simply for the benefit of the public pension system, but also focus on providing occupational pensions to employees in particularly difficult jobs. Occupational 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

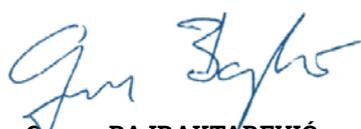
general government and budget sources. These pensions are one of many possible sustainable forms that will become increasingly important due to the unfavourable demographic characteristics of Slovenian society. We managed funds in the amount of EUR 795 million in the SODPZ at the end of 2019.

The savings of more than 48,000 policyholders are accumulated in the SODPZ, which is the second largest pension fund in Slovenia. The Company achieved a return of 4.97% in 2019 through the management of policyholders' assets. At the end of 2019, 286 retirees received an occupational pension, while gross occupational pensions paid amounted to EUR 3.8 million during the year. In 2019, a total of 740 policyholders requested a lump-sum payment or the transfer of funds to the supplementary pension insurance system in the combined amount of EUR 16.6 million. Of those 740 policyholders, 45 policyholders from the Ministry of Defence requested a lump-sum payment in the amount of EUR 514 thousand based on the seventh paragraph of Article 206 of the ZPIZ-2.

Kapitalska družba completed the upgrading of its information system in 2019. The challenges of a digital society and continuous regulatory changes require constant adaptations to information support in all areas of operations. The paradigm of constant changes requires the continuous transformation, updating and upgrading of business processes.

The mission of Kapitalska družba is to co-create the Slovenian pension system of the future. Meeting the expectations of all stakeholders requires the constant transformation of the Company's business model. Employing our vast experiences, we will continue to build our advantages in the future based on business excellence and committed and highly competent employees. Using agile management techniques, we are forming committed teams that function in accordance with the Company's culture and values. Recruiting and developing talented employees ensure that everyday challenges and development-related challenges are addressed successfully. Through the effective combination of youthful enthusiasm and the experiences of older employees, we are formulating innovative approaches to intergenerational cooperation. This facilitates creative and timely responses to continuous changes in the external environment and the creation of commercial advantages. Investments in management skills, key knowledge and abilities will ensure our continued success in the future.

We are aware every day that the future begins now. And that future will need Kapitalska družba, which pays occupational pensions and contributes to the pensions of Slovenian retirees through supplemental payments.



Gregor BAJRAKTAREVIĆ

Member of the
Management Board



Goranka VOLF

Member of the
Management Board



Bachtiar DJALIL

President of the
Management Board

Report of the Supervisory Board of Kapitalska družba

REPORT OF THE SUPERVISORY BOARD OF KAPITALSKA DRUŽBA for 2019

Pursuant to Article 282 of the ZGD-1, the Supervisory Board of 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 up to and including 1 February 2019: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc (member), Natalija Stošicki (member), Cirila Surina Zajc (member) and Ladislav Rožič, MSc (member). The terms of office of Deputy Chairman of the Supervisory Board Dr Boris Žnidarič and members Ladislav Rožič and Cirila Surina Zajc expired on 1 February 2019. The following persons were appointed to serve as members of the Supervisory Board at the Company's General Meeting held on 31 January 2019: Dr Boris Žnidarič, Ladislav Rožič, MSc and Mirko Miklavčič. Those persons' terms of office began on 2 February 2019. Dr Boris Žnidarič was reappointed Deputy Chairman of the Supervisory Board at the 158th session of the aforementioned body held on 21 February 2019, 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 22 sessions during the 2019 financial year as follows: nine regular sessions and 13 correspondence sessions.

Particular attention in the monitoring of Kapitalska družba's operations in 2019 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.

At its 166th session of 30 May 2019, the Supervisory Board approved the annual report of Kapitalska družba for the 2018 financial year, adopted the report on the verification of the Company's annual report for 2018 and was briefed on the audited annual report of the SODPZ for 2018. At its 169th session of 25 July 2019, the Supervisory Board approved the consolidated annual report of the Kapitalska Družba Group for the 2018 financial year, adopted the report on the verification of the consolidated annual report of the Kapitalska Družba Group for 2018 and submitted a proposal to the General Meeting on the appointment of an audit firm for 2019, 2020 and 2021.

2 Kapitalska družba, d. d.

The Supervisory Board was regularly briefed on the operations of the subsidiary Modra zavarovalnica, d. d. Special attention was given to the Company's management activities, in the scope of which individual investments of significant value were presented and discussed in detail at sessions of the Supervisory Board. For certain investments, the Management Board also obtained the Supervisory Board's consent with regard to the voting positions it formulated, prior to exercising the Company's voting rights at the general meetings of the companies involved. In accordance with the provisions of the Company's Articles of Association, the members of the Supervisory Board also gave the Management Board their consent to conclude transactions for the purchase and sale of securities and participating interests when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution.

At its 175th session of 13 December 2019, the Supervisory Board gave its consent to Kapitalska družba's business-financial plan for the 2020 financial year.

The Supervisory Board carried out a self-assessment of the effectiveness of its work. In assessing 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. Based on that self-assessment, the Supervisory Board adopted a set of measures to improve its work.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2019.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the annual report in Tables 54 and 55.

Work of the Supervisory Board's audit committee

The audit committee of Kapitalska družba's Supervisory Board functioned in the following composition in 2019 until 1 February 2019: Ladislav Rožič, MSc (chair), Aleksander Mervar MSc, Cirila Surina Zajc and Natalija Stošički (members), and Mojca Verbič (external member). The audit committee functioned in the following composition from 21 February 2019 on: Natalija Stošički (chair), Aleksander Mervar MSc, Ladislav Rožič, MSc and Mirko Miklavčič (members), and Mojca Verbič (external member).

The audit committee met at six sessions in 2019, two of which were correspondence sessions. In its work, the audit committee complied with the provisions of the ZGD-1 with respect to 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 interim reports on the operations of Kapitalska družba, its subsidiary and the SODPZ under Kapitalska družba's management, and was briefed on the performance of individual investments of significant value. It also monitored the work of the internal audit department. The audit committee carried out a self-assessment of its work. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

Work of the Supervisory Board's accreditation committee

The Supervisory Board's accreditation committee functioned in the following composition in 2019: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc and Ladislav Rožič, MSc (members) and Dr Alenka Stanič, Irena Prijović, MSc and Gorazd Žmavc (external members).

The accreditation committee met at four sessions in 2019, one of which was a correspondence session. 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. In its work, the accreditation committee complied with the provisions of the rules of procedure of the accreditation committee as adopted by the Supervisory Board.

Work of the HR committee

The Supervisory Board's HR committee functioned in the following composition in 2019 until 1 February 2019: Aleksander Mervar, MSc (chair), and Cirila Surina Zajc and Natalija Stošički (members). The HR committee functioned in the following composition from 21 February 2019 on: Aleksander Mervar, MSc (chair), and Natalija Stošički and Mirko Miklavčič (members).

The HR committee met at two sessions in 2019, both of which were correspondence sessions. The committee's primary task was to support the Supervisory Board in the definition of new criteria for setting the variable component of remuneration of the members of the Company's Management Board, while it also participated in the calculation of the variable component of remuneration for the previous financial year.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the continuous monitoring and supervision of Kapitalska družba's operations and management during the financial year, and based on a review of the annual report 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 Kapitalska družba. The Supervisory Board also assesses that the Management Board of Kapitalska družba successfully and properly managed the Company's transactions during the 2019 financial year and successfully achieved established business objectives. 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 enabled the latter to carry out its supervisory role satisfactorily in 2019.

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 for 2019, which was conducted by the audit firm Deloitte revizija, d. o. o., Ljubljana. The Supervisory Board finds that the auditor performed its task in accordance with the law, auditing rules and international auditing standards. The Supervisory Board has no remarks regarding the audit report.

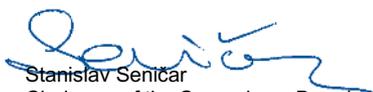
c) Decision regarding the approval of the annual report for 2019

Pursuant to the provisions of Article 282 of the ZGD-1, the Supervisory Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. hereby approves the annual report for 2019.

4 Kapitalska družba, d. d.

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 2019 financial year pursuant to the provision of Article 294 of the ZGD-1.


Stanislav Seničar
Chairman of the Supervisory Board

Ljubljana, 14 May 2020

Business Report

A good mosaic comes from a multitude of pieces, delicately assembled into a whole.

Each part has its own mission and is a key building block of the final image.



Organisational structure of Kapitalska družba

The current internal organisational structure of Kapitalska družba was established in October 2018, when a comprehensive reorganisation was carried out taking into account new processes as the result of new financial reporting requirements, the rationalisation of operations and new, legally prescribed competences. That structure ensures the effective implementation of all core business processes in the context of the appropriate number of employees. Also taken into account is Kapitalska družba's role as the parent company of an insurance group, which includes the subsidiaries Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o.² The Company has provided the aforementioned insurance company IT services since the latter's establishment.

The current internal organisation maintains a flexible structure, while at the same time providing the basis for the clearer segregation of competences and responsibilities, and thus contributes to increased transparency, the shortening of time required for decisions and the resulting improved quality and efficiency of work. An effective decision-making process ensures successful performance in key work areas that are organised into four main organisational units or sectors:

- | Asset Management Sector;
- | Occupational Insurance Sector, comprising:
 - Insurance Services Division, and
 - Contribution Monitoring and Development Division;
- | Operational Support Sector, comprising:
 - Accounting and Controlling Division, and
 - Back-Office Support Division; and
- | Legal and HR Affairs Sector.

² In accordance with the International Financial Reporting Standards and the Company's accounting policies, Hotelske nepremičnine, d. o. o. is treated as a joint venture.

Support business processes are carried out in departments that report directly to the Company's Management Board:

- | Internal Audit Department,
- | Risk Management and Analysis Department,
- | IT Support and Business Process Organisation Department, and
- | General Affairs Department.

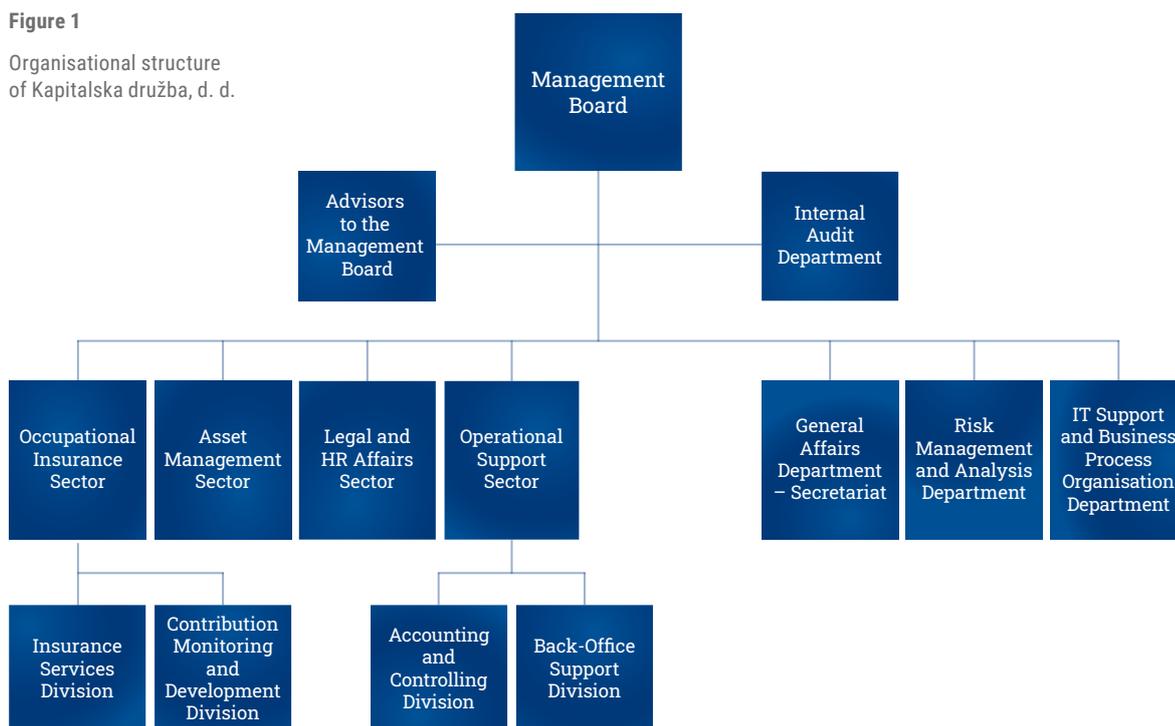
Advisers to the Management Board, who report directly to that body in organisational terms, are also responsible for carrying out support business processes.

The existing organisational structure results in the redefined competences of the heads of internal organisational units at two management levels, where a portion of responsibilities and decision-making authority are entrusted to the executive directors of sectors.

The Management Board also appointed a prevention of money laundering officer, a personal data protection officer and an access to public information officer, all of whom report directly to the Management Board in the performance of their tasks.

Figure 1

Organisational structure of Kapitalska družba, d. d.



5.1 REPORTING ON EMPLOYEES

The Company had 60 employees as at 31 December 2019. Four of those were temporary employees, while the others were permanent employees. The Company entered into four new employment contracts in 2019. One of those persons was hired on a temporary basis due to the increased scope of work, while the other three persons were hired to replace employees on maternity or parental leave. The employment contracts of two employees expired through the regular termination of the employment relationship.

Table 1: Number of employees by organisational unit as at 31 December 2018 and 31 December 2019

Organisational unit	31 December 2019	31 December 2018
Management Board	3	3
Advisors to the Management Board	2	1
Asset Management	8	10
Occupational Insurance	14	12
Legal and HR Affairs	6	6
Operational Support	7	9
Internal Audit	2	2
Risk Management and Analysis	4	4
General Affairs	9	7
IT Support and Business Process Organisation	5	5
Total	60	59

As at 31 December 2019, a total of 42% of Kapitalska družba's employees had completed Level 7 education, while 17% had completed Level 8/1 and 2% had completed Level 8/2.

A total of 67% of the Company's employees are women, while 33% are men. The overall average length of service was 20 years and five months amongst both men and women as at 31 December 2019. The average age of male employees was 46 years, while the average age of female employees was 44 years.

Operations of Kapitálska družba

6.1 MACROECONOMIC BACKGROUND OF OPERATIONS

Forecasts of macroeconomic indicators do not include the negative effects on the economy due to the contagious SARS-CoV-2 (COVID-19) epidemic. Market conditions following the outbreak of the coronavirus epidemic are described in the section 'Significant business events after the end of 2019'.

6.1.1 Gross domestic product, inflation and unemployment rate

The financial markets entered 2020 optimistically following a very successful 2019. The outbreak of the coronavirus in Europe triggered a sharp drop in the prices of shares and corporate bonds. Taking into account the actions of central banks and low interest rates, economic growth in the ten years since the end of the financial crisis never reached exceptionally high levels, but it was the longest period of economic growth since World War Two.

The atmosphere was relatively positive at the end of 2019. The financial markets generated high returns, economic indicators pointed to a rebound in economic growth, trade war tensions eased and central banks announced that they would continue to ensure liquidity through low interest rates.

In its January forecast, the International Monetary Fund (IMF) cut its forecast of global economic growth for 2019 to 2.9%, which is its lowest forecast since 2008/2009. The IMF stated the following as reasons for the synchronous cutting of its forecast global economic growth rate: a drop in car production and sales, weak corporate confidence as the result of trade and technological tensions between the US and China, falling demand in China (as the result of deleveraging by Chinese corporations and the trade war) and falling domestic consumption in India. Weather-related disasters also contributed to lower economic growth. Published economic indicators paint a better picture in the services sector than in the manufacturing sector. The manufacturing sector recorded a drop in activity in 2019 to the level of the great financial crisis. Weakness was particularly evident in Europe. The US economy was in better shape (economic growth was positive, unemployment had reached its lowest level of the last half century and inflation fluctuated near the target level) than Europe (Germany, France and Italy were all on the brink of a recession after one quarter of negative growth). In its January forecast for 2020, the IMF forecasted economic growth of 3.3%. It attributed higher forecast economic growth in 2020 than in 2019 primarily to expected improvements in economic conditions in Latin America, the Middle East and on the emerging markets of Europe.

Following 4.1% real economic growth in Slovenia in 2018, declining economic growth continued in 2019. That figure was 2.4% in 2019, which is lower than forecast for 2019 and lower than the long-term average of 2.7%. Slowing growth in 2019 was primarily a reflection of slowing economic growth in Slovenia's main trading partners and uncertainty in the international environment, while growth in construction investments stalled during the year. Growth in private consumption remained relatively high. According to the IMAD's autumn forecast, economic growth will be 3.0% in 2020 and 2.7% in 2021. Those forecasts, however, do not take into account actual data regarding economic growth in 2019 and the effects of the spread of the coronavirus.

The majority of countries closed their output gaps between 2016 and 2018. There was no growth in inflation, however, despite wage growth (in the context of falling unemployment). According to the IMF, this is the result of shrinking corporate profit margins. As a result, low inflation rates facilitate the implementation of loose monetary policies by central banks.

The table below presents macroeconomic aggregates (GDP, the inflation rate and the unemployment rate) in Slovenia and major global countries and/or regions for 2019.

Table 2: Gross domestic product, inflation and unemployment rate (data for 2019)

	Annual inflation rate (in %)	Annual GDP growth (in %)	Unemployment rate (in %)
Slovenia	1.8	2.4	4.6
Germany	1.4	0.6	5.0
Euro area	1.2	1.2	7.6
US	1.8	2.3	3.7
China	2.9	6.1	3.6

Source: Bloomberg, IMAD; data obtained on: 11 March 2020

6.1.2 Interest rates

The rhetoric of major central banks swung sharply in 2019, from a strategy of monetary policy tightening to a strategy of monetary policy easing. Both the US Federal Reserve (FED) and European Central Bank (ECB) cut their interest rates in 2019. The FED cut its interest rate three times, in July, September and December, each time by 25 basis points (from 2.25%–2.50% to 1.50%–1.75%). The ECB followed the actions of the FED. It cut the rate on its deposit facility in September by 10 basis points (to -0.50%), re-introduced its asset purchase programme at a monthly level of EUR 20 billion beginning on 1 November 2019 for an indefinite period, changed the system for implementing a new series of quarterly targeted longer-term refinancing operations (TLTRO III) and introduced a two-tier system for remunerating the excess liquidity holdings of banks. In its address, the ECB highlighted the fact there is no longer a great deal of manoeuvring room in the area of monetary policy measures, and that fiscal policy measures will also be required to preserve economic growth.

The Bank of England (BOE), Bank of Japan (BOJ) and the People's Bank of China (PBOC) did not amend their key interest rates in 2019.

Table 3: Key interest rates of major central banks

	Level of key interest rate as at 31 December 2019
Euro area	0.0% (key interest rate) -0.50% (deposit interest rate)
US	1.50% to 1.75%
England	0.75%
Japan	-0.10%
Canada	1.75%
China	4.35%

Source: Bloomberg; data obtained on: 6 February 2020

6.2 DEVELOPMENTS ON THE FINANCIAL MARKETS

The financial markets recorded significant growth in 2019. Nearly all investment categories recorded high positive returns during the year. The MSCI World Index (MSCI Daily TR Gross World) gained 30.9% expressed in euros, while the iBoxx Sovereign TR Index (European government bonds) and iBoxx Corporates TR Index (European corporate bonds) gained 6.7% and 6.3% respectively. The yield curve of risk-free government bonds in Europe and the US slid sharply during 2019. In August, the yield curve of US government bonds was actually inverted (the yield on 10-year government bonds was lower than the yield on 2-year bonds, which according to many analysts indicates a looming recession), while the yield curve of risk-free government bonds in Europe was negative. Ten-year Slovenian government bonds also traded in August at a price that translates to a negative yield to maturity. The yields on government bonds rose again from September on, with a more intensive increase on bonds of longer maturity.

The high returns in 2019 on both the equity and debt markets were primarily the result of extraordinarily loose monetary policies, as major central banks cut their key interest rates again during the year and implemented other monetary stimulus measures. The central banks of emerging markets followed those actions. In addition to monetary reasons, the fate of the financial markets was also shaped by geopolitical events. Information regarding the trade war between the US and China, positive trends in connection with Brexit and the formation of the Italian government brought a certain degree of optimism to the financial markets and thus overshadowed the majority of publications of weaker macroeconomic data.

Worthy of note in terms of commodities was movement in the prices of gold and oil, which were up by 21.2% and 25.1% respectively in 2019.

Table 4: Returns on major financial markets

Returns in 2019 measured in euros (in %)	
Share indices	
SBITOP – Slovenia	22.1
DAX – Germany	25.5
Dow Jones – US	27.8
NIKKEI 225 – Japan	24.9
MSCI World TR – global	30.9
Bond indices	
IBOXX EUR Sovereigns TR index – euro government bonds	6.7
IBOXX EUR Corporates TR Index – euro corporate bonds	6.3
Exchange rates and commodities	
EUR/USD	-2.2
Brent crude oil	25.1
Gold	21.2

Note: Returns include dividend yields.

Source: Bloomberg; data obtained on: 6 February 2020

Graph 1:

Movement in the Slovenian SBITOP and selected foreign stock indices in 2019 in euros (index: 31 December 2018 = 100)



Source: Bloomberg; data obtained on: 6 February 2020



Graph 2:

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 10-year German government bonds, and the 6-month EURIBOR in 2019

Source: Bloomberg; data obtained on: 6 February 2020

6.3 INVESTMENT MANAGEMENT

Kapitalska družba classifies investments to the following three categories with regard to the method of management:

- I capital investments,
- I waived securities,³ and
- I portfolio investments.

³ Waived securities obtained in accordance with Article 48a of the ZNVP-1.

The table below illustrates the composition of financial assets, while a detailed description of the aforementioned groups follows.

Table 5: Composition of Kapitalska družba's financial assets as at 31 December 2019 and 31 December 2018 with regard to the method of management

Type of investment	in 000 EUR			
	Value	Proportion (in %)	Value	Proportion (in %)
	2019		2018	
Capital investments	593,737	56.1	529,717	56.3
Strategic investments ⁴	186,348	17.6	191,472	20.3
Material investments	345,536	32.6	277,426	29.5
Portfolio investments	60,429	5.7	59,396	6.3
Investments in bankruptcy or liquidation	1,424	0.2	1,423	0.2
Waived securities	224	0.0	231	0.0
Portfolio investments	464,542	43.9	411,401	43.7
Equity portfolio investments	303,747	28.7	243,370	25.8
Debt portfolio investments	103,629	9.8	80,723	8.6
Money market ⁵	34,739	3.3	52,358	5.6
Investments in financial claims	22,427	2.1	34,950	3.7
Total financial assets	1,058,503	100.0	941,349	100.0

6.3.1 Capital investment management

6.3.1.1 Composition of capital investments

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

The Company held a total of 38 such investments at the end of 2019. Of those investments, Kapitalska družba, d. d. had 33 so-called active investments, including 26 investments in joint stock companies and seven 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.

The value of capital investments was EUR 593,737 thousand as at 31 December 2019, an increase of EUR 64,020 thousand relative to 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.

⁴ Strategic, material and portfolio investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

⁵ Money market investments also include cash, which totalled EUR 15,605 thousand as at 31 December 2019.

Table 6: Breakdown of Kapitalska družba's capital investments as at 31 December 2019 and 31 December 2018 in accordance with the Decree on the Strategy for Managing State Capital Investments

Type of investment	Number of investments	2019		Number of investments	2018	
		Value	Proportion of capital investment portfolio (in %)		Value	Proportion of capital investment portfolio (in %)
		in 000 EUR			in 000 EUR	
Strategic investments	10	186,348	31.4	10	191,472	36.1
Material investments	6	345,536	58.2	7	277,426	52.4
Portfolio investments ⁶	17	60,429	10.2	17	59,396	11.2
Investments in bankruptcy or liquidation	5	1,424	0.2	5	1,423	0.3
Total capital investments	38	593,737	100.0	39	529,717	100.0

Table 7: Ten largest capital investments of Kapitalska družba by value as at 31 December 2019

Seq. no.	Company name	Proportion of company's share capital
		in %
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.	Loterija Slovenije, d. d.	25.00
7.	Sava, d. d.	28.05
8.	Hit, d. d.	20.32
9.	Union hoteli, d. d.	18.75
10.	Terme Olimia, d. d.	24.79

⁶ 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.

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 25 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 8: Composition of capital investments in terms of size of ownership stake as at 31 December 2019

Ownership stake in share capital	Active investments	Investments in bankruptcy or liquidation
Up to 9.99%	18	2
From 10.00% to 19.99%	7	1
From 20.00% to 49.99% (associate)	6	2
From 50.00% to 100.00% (subsidiary and joint venture)	2	0
Total number of investments	33	5

6.3.1.2 Sales and deletion of companies

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 one public call to submit bids for the purchase of participating interests in 2019, together with Modra zavarovalnica, specifically for the sale of participating interests in SM Strojkoplast, d. o. o. The bid received was unacceptable for Kapitalska družba because the bid price was too low.

Based on an instalment payment agreement, a capital investment in KDD, d. d. in the amount of EUR 675 thousand was sold in 2019. A takeover bid for the sale of shares in Perutnina Ptuj, d. d. was accepted on 27 May 2019, with total consideration in the amount of EUR 13,100 thousand.

There were no active sales procedures in progress as at 31 December 2019.

6.3.1.3 Purchases of companies

Kapitalska družba participated in the recapitalisation of Sava, d. d. in 2019, when it paid up EUR 815 thousand for new shares, bringing its participating interest in the share capital of the aforementioned company to 28.05%.

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

6.3.1.4 Dividends of domestic companies

Kapitalska družba recorded EUR 22,183 thousand in domestic corporate dividends in 2019, a decrease of EUR 2,688 thousand relative to 2018, when dividends totalled EUR 24,871 thousand. The ten largest capital investments in terms of dividends accounted for 98.9% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2019 was approved by the general meetings of 21 companies in which Kapitalska družba held a capital investment, compared with 2018, when the payment of dividends was approved by the general meetings of 23 companies in which Kapitalska družba held a capital investment.

Table 9: Ten capital investments that generated the highest dividend income in 2019 and 2018

Seq. no.	Issuer	Dividends per share in 2019 (EUR)	Dividends per share in 2018 (EUR)	Total dividends in 2019 (in 000 EUR)	Total dividends in 2018 (in 000 EUR)
1.	Krka, d. d.	3.2	2.9	11,178	10,130
2.	Modra zavarovalnica, d. d.	0.02086	0.02306	3,175	3,511
3.	Petrol, d. d.	18	16	3,108	2,762
4.	Telekom Slovenije, d. d.	4.5	14.3	1,643	5,222
5.	Loterija Slovenije, d. d.	68	46.8	1,263	869
6.	Luka Koper, d. d.	1.33	1.23	926	857
7.	Terme Olimia, d. d.	1.65	0	289	0
8.	Hit, d. d.	0.17	0.17	235	231
9.	Elektro Maribor, d. d.	0.14	0.13	76	70
10.	Elektro Gorenjska, d. d.	0.15	0.14	65	60

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

In connection with the management of its capital investments in the period 1 January 2019 to 31 December 2019, 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, with the most recent changes coming in November 2019 (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 general meetings when managing capital investments in 2019. 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

In 2019, Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 48 general meetings of shareholders or partners of companies. Representatives of Kapitalska družba participated in 16 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 28 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. Two general meetings were cancelled prior to the date of the meeting, while Kapitalska družba did not participate in two others.

Table 10: Participation at general meetings

Form of participation	Number of general meetings
Participation and voting by employees of Kapitalska družba	16
Participation by employees of Kapitalska družba; voting by SDH	28
Cancelled general meetings	2
No participation	2
Total	48

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 as 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 2019. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

6.3.1.6 Code of Conduct of the Kapitalska Družba Group

In addition to Kapitalska družba, the Kapitalska Družba Group includes the subsidiary Modra zavarovalnica and the joint venture Hotelske nepremičnine, d. o. o.

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

6.3.1.7 Management taking into account the systemic regulation and 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 following the entry into force of the ZSDH-1. In the name of Kapitalska družba, SDH also exercises voting rights and conducts sales in the event of joint investments.

The ZSDH-1 defines Kapitalska družba's maximum annual obligation to provide funding to the ZPIZ: based on the provision of the third paragraph of Article 52 of the ZSDH-1, the Company must transfer funds in the amount of EUR 50 million every year to the ZPIZ by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower. Notwithstanding that adjustment, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2019 in accordance with the ZIPRS1819.

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 ZPIZ's investment in Zavarovalnica Triglav, d. d. to Kapitalska družba. No act governing the transformation of Kapitalska družba into a demographic reserve fund has been adopted to date.

SDH will manage investments in accordance with the ZSDH-1, the OdsUKND, the relevant investment management policy and the Corporate Governance Code, and on the basis of the annual investment management plan. The OdsUKND also includes the classification of investments (the definition and classification of capital investments into strategic, material and portfolio investments). 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.

6.3.2 Waived securities obtained in accordance with Article 48a of the ZNVP-1

The new ZNVP-1B was adopted in June 2019 and entered into force on 13 July 2019. That new act amended existing Article 48a and added a new Article 48b. Both articles are significant for Kapitalska družba.

Amended Article 48a states that, after 31 December 2021, KDD will transfer remaining book-entry securities, for which requests were not filed for transfer to the account of a KDD member, from a joint dedicated account at KDD to a special account at Kapitalska družba, together with dividends received, payments and fees. Because Kapitalska družba will not obtain those book-entry securities based on sales according to its own free will and because costs in connection with managing a special account are disproportionately high (given the actual value of assets received), the law states that KDD may not charge Kapitalska družba costs and fees for the book-entry securities credited to its special account. Moreover, the law

tasks Kapitalska družba with informing the Securities Market Agency about the acquisition of shares of target companies in accordance with the fifth paragraph of Article 48a within three days of that acquisition. The eighth and ninth paragraphs of the same article set out sanctions for Kapitalska družba and the responsible person at the Company in the event of a breach of the aforementioned obligation.

New Article 48b assigns Kapitalska družba a special status that differs from its rights and obligations under the provisions of the ZPre-1. With the entry into force of the amendment to the aforementioned law, Kapitalska družba may not exercise voting rights solely from the shares of the target companies that it acquires based on Article 48a and for which the provisions of the ZPre-1 apply. It is, however, entitled to exercise the voting rights from all shares of companies that it acquires in accordance with Article 48a and for which the provisions of the ZPre-1 do not apply, taking into account the situation of the day of the transfer of book-entry securities to the special account of Kapitalska družba.

As at 31 December 2019, the Company had 123 investments in the waived securities of 121 different issuers with a total value of EUR 224 thousand.

6.3.3 Management of portfolio investments

Kapitalska družba uses active and passive strategies in the management of portfolio investments, where it combines the top-down approach with the bottom-up approach. Decisions regarding the composition of the portfolio by investment category (top-down approach) are made by the investment committee, which meets at least twice a year. The comparable share portfolio index is the globally diversified share portfolio index, while the comparable bond portfolio indices (government and corporate bonds) are the indices of diversified European government and corporate bonds.

For mixed funds, 2019 was one of the most profitable years to date, as very high returns were recorded on both the share and bond markets. Shares actually recorded one of their best years since the financial crisis, where rising values were the main factor in higher returns. Growth in corporate profits was low in the US and Europe, and negative in Japan and on emerging markets. Bond indices also performed very well. The trend of rising bond prices continued from the previous year, while credit spreads narrowed sharply. Yields on government bonds reached their lowest values in August, but bond yields did not record significant growth until the end of the year, despite continuing growth on share markets.

The year was characterised most by the trade war between the US and China, which swung from harsh words and measures during the first half of the year to a change in the dynamics of negotiations in several stages during the second half of the year, and subsequently to the lowering of tariffs. Also having a significant impact on the markets was the policy reversal of central banks, which after the tightening of conditions on the financial markets at the end of 2018, began to talk about looser monetary policy. The FED began to reduce interest rates, which it cut a further three times in 2019, while the ECB cut its key rate once and restarted its quantitative easing programme.

The value of portfolio investments was up by more than EUR 53.1 million in 2019. The proportion of the portfolio accounted for by equities and debt investments was up, while the proportion of money market instruments and receivables was down. The proportion of Kapitalska družba's total portfolio investments accounted for by equity investments rose from 25.8% at the beginning of 2019 to 28.7% at the end of 2019.

The proportion of debt portfolio investments rose from 8.6% to 9.8%. The portfolio of money market instruments primarily comprises investments in the form of cash deposits at Slovenian banks and accounted for 3.3% of assets at the end of the year.⁷ The majority of those deposits are placed for the purpose of covering Kapitalska družba's obligation to the ZPIZ. The five largest investments in the portfolio of equity investments as at 31 December 2019 were as follows: index funds represented by MSCI World global stock indices (SMSWLD GY, XMWO GY, IWDA LN and XDWD GY) and an index fund represented by the US S&P 500 (SPY US). The five largest investments in the portfolio of debt investments as at 31 December 2019 comprised Slovenian government bonds of various maturities, from 2020 to 2026, and German government bonds maturing in 2029.

Table 11: Composition of portfolio-managed financial assets as at 31 December 2019 and 31 December 2018

Type of investment	in 000 EUR			
	2019		2018	
	Value	Proportion (in %)	Value	Proportion (in %)
Foreign shares	0	0.0	1,529	0.4
Investment funds	303,747	65.4	241,841	58.8
Bonds	103,631	22.3	80,723	19.6
Commercial paper	2,174	0.5	1,848	0.4
Investments in financial claims	22,427	4.8	34,950	8.5
Deposits	16,960	3.6	32,328	7.9
Cash and cash equivalents	15,605	3.4	18,182	4.4
Total portfolio managed financial assets	464,544	100.0	411,401	100.0

6.4 TRANSFERS TO THE PENSION AND DISABILITY INSURANCE INSTITUTE OF SLOVENIA

In accordance with the third paragraph of Article 52 of the ZSDH-1, Kapitalska družba's annual obligation to the ZPIZ depends on the amount of the adjustment to pensions, which is limited to EUR 50 million. In accordance with the provisions of the ZIPRS1819, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2019. Kapitalska družba has transferred a total of EUR 864,321 million to the budget of the ZPIZ.

⁷ Changes in the proportions of investments are presented in Table 4: Composition of Kapitalska družba's financial assets as at 31 December 2019 and 31 December 2018 with regard to the method of management. Investments are presented in such a way that all units in collective investment undertakings are classified as equity investments.

6.5 INVESTMENT PROPERTY

Kapitalska družba holds investment property in the following commercial buildings:

- | Stekleni dvor, Dunajska cesta 119, Ljubljana;
- | Glavarjeva rezidenca, Pegamova ulica G, Ljubljana;
- | Bežigranski dvor, Dunajska cesta 56, 58 and Kržičeva ulica 3, Ljubljana;
- | Nebotičnik, Štefanova ulica 1, 3 and 5, Ljubljana; and
- | Smelt, Dunajska cesta 160, Ljubljana.

All business premises and parking places located at all investment properties that Kapitalska družba manages itself were leased out as at 31 December 2019. The exception is the Smelt commercial building, which D.S.U., družba za svetovanje in upravljanje, d. o. o. is authorised to lease out on behalf of Kapitalska družba based on a management agreement. The aforementioned company is the co-owner of that investment property.

6.6 RISK MANAGEMENT

Risk management is explained in Chapter 15.2 Accounting policies and Chapter 15.3.3 Management of risks associated with financial assets in the financial report section of Kapitalska družba's annual report.

6.7 PENSION FUND MANAGEMENT

6.7.1 Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia

6.7.1.1 Operations of the SODPZ

Pursuant to the Pension and Disability Insurance Act (ZPIZ-1), Kapitalska družba has been the manager of the SODPZ since its establishment in 2001. The SODPZ is a mutual pension fund that provides occupational insurance in accordance with the provisions of the Pension and Disability Insurance Act (ZPIZ-2), the Organisation and Work of the Police Act (ZODPol) and the Act Governing the Promotion of Public Interest in Culture (ZUJIK).

Policyholders who perform especially difficult work and work that is harmful to the health, and policyholders who perform work that can no longer be performed successfully after a certain age are included in occupational insurance, which replaced the insurance period increased by a bonus in 2001.

The SODPZ comprises assets that are financed by funds collected through the payment of occupational insurance contributions (and any default interest on contributions not paid by the prescribed deadline) and gains generated through the management of those funds. The assets of the SODPZ are the property of occupational insurance policyholders and are intended solely for the coverage of liabilities to policy-

holders and other beneficiaries. Kapitalska družba manages the SODPZ in the name and on behalf of policyholders separately from the Company's own assets.

Occupational insurance is provided on the basis of the occupational insurance pension plan (hereinafter: the pension plan), which is drawn up based on the provisions of the ZPIZ-2. The pension plan was amended in 2019 due to the one-year extension of the transitional period in which a differentiated contribution rate applies, and takes into account the proportion of the net value of SODPZ assets up to which unallocated solidarity reserves are created. The Minister of Labour, Family, Social Affairs and Equal Opportunities issued decision no. 1032-9/2019-2 of 20 May 2019 approving the amended pension plan, which entered into force on 1 July 2019.

A differentiated contribution rate is applied in the transitional period until 30 June 2020. The contribution rate remains 8% for policyholders whose insurance period was increased by a bonus until 31 December 2000. For policyholders whose insurance period was not increased by a bonus until 31 December 2000, a differentiated contribution rate is applied as follows: 8.2% for positions in categories 1 and 2; 8.4% for positions in category 3; and 8.8% for positions in categories 4 and 5. During the transitional period until 30 June 2020, unallocated solidarity reserves are created based on the second paragraph of Article 213b of the ZPIZ-2 until 0.6% of the net value of SODPZ assets is reached or exceeded.

The rules on the management of the SODPZ (hereinafter: the management rules) govern the content of legal relationships between Kapitalska družba and SODPZ policyholders. The management rules were amended in 2019 due to a change in the section on the investment policy. The Securities Market Agency issued consent on 3 July 2019 to an amendment to the management rules, which entered into force on 6 August 2019.

The SODPZ had 48,356 policyholders as at 31 December 2019. The actual return on the SODPZ was 4.97% in 2019, compared with the guaranteed return of 0.40% in the same period. The balance of solidarity reserves was EUR 4,823,630 as at 31 December 2019 broken down as follows: EUR 4,815,188 in unallocated solidarity reserves and EUR 8,442 in allocated solidarity reserves. The net value of SODPZ assets was EUR 787,883 thousand on the final accounting day of 2019 (31 December 2019), and exceeded the guaranteed value of assets (EUR 715,391 thousand) by EUR 72,492 thousand. The SODPZ held a total of 874,013,929 units in circulation at the end of 2019.

Based on the pension plan, Kapitalska družba was entitled in 2019 to the reimbursement of subscription and redemption fees, an annual fee for management of the SODPZ and fees for the payment of occupational pensions. Subscription fees are charged as a percentage of the incoming payments and amounted to 2.0%. 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. Fees for the payment of occupational pensions amounted to 0.5% of the monthly occupational pension. Taking into account the net value of SODPZ assets, the maximum annual management fee is equal to 0.88% of the average annual net value of SODPZ assets.

Kapitalska družba's revenue from management of the SODPZ amounted to EUR 7,833 thousand in 2019, broken down as follows: EUR 6,683 thousand in management fees, EUR 1,123 thousand in subscription fees, EUR 9 thousand in redemption fees and EUR 18 thousand in fees for the payment of occupational

pensions. The reason for the higher revenue in 2019 relative to the previous year lies in higher revenue from the management, subscription and redemption fees. Revenue from management and subscription fees was up due to an increase in the number of policyholders, which resulted in higher premiums paid, and due to successful management and resulting growth in the value of SODPZ assets. Revenue from redemption fees was up due to the increased number of payments of redemption values for which redemption fees are charged.

Table 12: Kapitalska družba's revenue from management of the SODPZ in 2019 and 2018

	in 000 EUR	
Revenue from management activities	2019	2018
Management fees	6,683	6,297
Subscription fees	1,123	1,046
Redemption fees	9	5
Fees for the payment of occupational pensions	18	18
Total	7,833	7,366

6.7.1.2 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 ensures that the fund's investments are appropriately diversified.

The measure of the fund's performance is the latter's guaranteed return, which is determined on a monthly and annual basis.

The main objective of management in 2019 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 compared the fund's guaranteed return with performance criteria by individual investment category and with the performance of other managers of mutual pension funds with a guaranteed return, adjusted for solidarity reserves created.

The value of SODPZ assets stood at EUR 795,226 thousand as at 31 December 2019, an increase of 9.8% relative to 2018. The overall portfolio comprises a globally diversified portfolio of equity and debt investments, with investments in debt securities (bonds and units of bond investment funds) accounting for the highest proportion of assets in terms of content.

Table 13: Composition of SODPZ investments as at 31 December 2019 and 31 December 2018

Class	in 000 EUR			
	Value	Proportion (in %)	Value	Proportion (in %)
	2019		2018	
Shares	5,878	0.7	4,885	0.7
Debt securities	320,681	40.3	303,558	41.9
Deposits and loans	121,015	15.3	96,862	13.4
Investment coupons	341,230	42.9	284,893	39.3
Cash and cash equivalents	6,390	0.8	34,089	4.7
Receivables	32	0.0	74	0.0
Total	795,226	100.0	724,361	100.0

6.7.2 Activities in the provision of occupational insurance in 2019

The new pension plan entered into force on 1 July 2019. That plan serves as the basis for the extension of the transitional period until 30 June 2020. Applying during that period are a differentiated contribution rate and the proportion of the net value of SODPZ assets up to which unallocated solidarity reserves are created. The amended management rules, in which the section regarding the investment policy was amended, entered into force on 6 August 2019.

Kapitalska družba carried out limited activities in 2019 in connection with control over the calculation and the payment of contributions for occupational insurance. In the scope of deficient legal provisions and powers, the Company regularly controlled and verified the accuracy of the contributions paid by liable parties already included in occupational insurance, including warnings and reminders that liable parties are obliged to comply with agreements on the financing of occupational insurance in full, and perform other tasks that require cooperation and the exchange of data with various external institutions. Due to a lack of relevant data regarding the bases of the payment of occupational insurance contributions, Kapitalska družba was unable to verify the accuracy of calculations by liable parties and unable to determine liabilities itself when liable parties failed to submit calculations or when submitted calculations included errors. As a result, it was unable to collect occupational insurance contributions. Due to its awareness that the area of control can only be improved by amending the law, Kapitalska družba worked with other occupational insurance stakeholders to draft amendments to the provisions of the ZPIZ-2 that the Company believes will facilitate the more effective control and collection of occupational insurance contributions. The new and amended provisions of the ZPIZ-2 will enter into force with the new pension plan, i.e. by no later than 1 October 2020.

Kapitalska družba strove again in 2019 for high-quality and regular communication with policyholders and liable parties by receiving customers in the contact centre, by answering policyholders' questions via the Company's toll-free telephone line and email, and by preparing and presenting occupational insurance at the request of policyholders. Representatives of Kapitalska družba also participated in information day activities for the employees of the Ministry of Defence. Kapitalska družba's objective is to

ensure that policyholders and liable parties are informed in a timely manner about the content of occupational insurance, primarily by providing information regarding the fulfilment of occupational retirement conditions urgently needed by liable parties for HR planning, and for the planning of the secure future of policyholders. In addition to regular notification, the Company communicated with other occupational insurance stakeholders primarily in connection with changes in occupational insurance based on the amended ZPIZ-2, which entered into force on 1 January 2020.

Kapitalska družba also regularly informed the SODPZ Committee, which met five times in 2019, with regard to all activities and challenges in the area of occupational insurance.

Final court rulings were handed down in 2019 in connection with three lawsuits filed by SODPZ policyholders, who filed a total of 145 lawsuits against Kapitalska družba in 2018 and 2019 demanding the payment of legally prescribed default interest relating to the one-time payment of the redemption value of fund units.

Kapitalska družba handled one complaint from a policyholder in 2019 in connection with the provision of occupational insurance. The Company determined that the complaint was unfounded.

6.8 INFORMATION TECHNOLOGY

Kapitalska družba continued to successfully provide IT services for the Kapitalska Družba Group in 2019. The high-quality maintenance and development of the information system ensured a high level of availability and reliability of information solutions. Continuous support and the optimisation and computerisation of work processes continued to contribute significantly to the achievement of the Company's business objectives and to maintaining and improving its competitive position.

With regard to the provision of software support for Kapitalska družba's business processes, the development of business intelligence continued, following the replacement of software solutions for asset and fund management, and will provide useful information for business analysis purposes. The use of new information will allow Kapitalska družba to create new strategic business opportunities.

Kapitalska družba did not make any major steps in terms of developing the IT infrastructure in 2019, except for increasing the bandwidth of the internet connection. That increase was necessary due to the needs of the subsidiary Modra zavarovalnica for the transfer of larger quantities of data to its cloud service.

In addition to ensuring the availability and reliability of the information system, the IT Department is dedicating an increasing amount of attention to information security. For that reason, two employees successfully completed information security officer training in 2019. The Company contracted a new external security review with the aim of eliminating in the shortest time possible potential security vulnerabilities in the IT infrastructure accessible via the internet.

6.9 SIGNIFICANT BUSINESS EVENTS AFTER THE END OF 2019

Very negative trends were seen on the financial markets in February 2020, as investors opted to shift their capital from high-risk to safer investment categories due to fear of the spread of the coronavirus and its potential negative impact on economic growth. Global stock indices fell by more than 20% in February 2020, which in turn affects the return on the mutual pension fund managed by Kapitalska družba (SODPZ) and the return on the Company's own assets. The impact of changes in share indices on the operating results and capital of Kapitalska družba is presented under the risk management section in the financial section of the annual report. In this context, a drop in economic activity could have a negative impact on net revenue from the management of the SODPZ and on the payment of premiums into the SODPZ.

The financial markets entered 2020 optimistically following a very successful 2019. The outbreak of the coronavirus in Europe triggered a sharp drop in the prices of shares and corporate bonds. The financial market reacted strongly to the global spread and awareness of the scope of the virus. Bringing additional uncertainty to the markets was the drop in oil prices due to the cancellation of the agreement between Russia and the members of OPEC regarding the continued reduction in oil pumping. Share indices fell sharply (recording historical one-day drops of as much as 10%), while the yields to maturity on government bonds fell sharply. The yield on the 10-year German government bond reached an historically low level on 9 March 2020 when it stood at -0.86%, while the credit spreads on both government and corporate bonds rose sharply. Market volatility increased considerably: the volatility index rose from 13.8 at the end of 2019 to an historically high level of 82.7 on 16 March 2020. Central banks reacted strongly to market conditions by cutting interest rates and introducing new bond purchasing programmes. Governments also responded and announced comprehensive fiscal stimulus measures.

This year (from 31 December 2019 to 23 April 2020), the return on the global share index was -12.2%, while the returns on the corporate and government bond indices were -3.9% and -0.9% respectively. The return on Kapitalska družba's assets was -5.25% in the period 31 December 2019 to 23 April 2020.

Based on an assessment of the impact of the pandemic on transactions in capital investments, we have determined that the impact on individual companies will vary depending on the sector in which companies operate. We assess that companies from the tourism and gaming sector (e.g. Sava, d. d. and Hit, d. d.) will be hit hardest. The Act Governing Intervention Measures to Contain the SARS-CoV-2 (COVID-19) Epidemic will mitigate the negative effects of the epidemic on operating results in 2020.

With the outbreak of COVID-19 in Europe, Kapitalska družba initially adopted numerous measures to protect employees, customers and other stakeholders, including:

- | the purchase of disinfectants and sensor-operated dispensers for disinfectant, and protective masks for employees who receive customers in the contact centre;
- | the disinfection of business premises;
- | limitations regarding the provision of contact centre services and the organisation of meetings; and
- | the accelerated digitalisation of processes.

At the same time, a crisis team was trained for work from home in order to carry out all urgent activities for the operations of Kapitalska družba. Following the declaration of an epidemic in Slovenia, work from home was made possible for all employees, taking into account the latest information regarding the scope and duration of the new conditions, through the use of technology that facilitates remote work, while following the strict safety rules. Work at the Company's registered office is only performed by employees who cannot work from home due to the nature of their work duties or due to their personal circumstances.

Through the organisation of work processes primarily by electronic means, Kapitalska družba has ensured a smooth and undisturbed work flow, while protecting the health of employees to the maximum extent possible.

The Act Amending the Pension and Disability Insurance Act (ZPIZ-2G) entered into force on 1 January 2020 and affects the area of occupational insurance. In accordance with the transitional provisions of the ZPIZ-2G, the manager of the SODPZ must harmonise the pension plan and management rules with the provisions of the aforementioned law and regulations adopted on the basis thereof by no later than 30 September 2020.

The provisions of the amended Labour Market Regulation Act entered into force on 27 March 2020. Based on that amended act, a policyholder who meets the conditions for occupational retirement may no longer exercise the right to cash benefits. Based on the amended provisions, the Employment Service of Slovenia has the right to obtain data from Kapitalska družba in connection with the fulfilment of conditions for occupational retirement by policyholders.

In January and February 2020, Kapitalska družba reached court settlements in proceedings regarding the payment of legally prescribed default interest in connection with the one-time payment of the redemption value of fund units to SODPZ policyholders. Those proceedings were ongoing in 2019. With the conclusion of those settlements, the majority of court proceedings due to the payment of legally prescribed default interest were completed.

A lien entered on investment property (a commercial building) co-owned by Kapitalska družba as collateral for liabilities in the amount of EUR 1 million was deleted in March 2020, while a lien remains in place on a smaller lot that is part of the functional land associated with that commercial building.

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. At its 15th session on 18 February 2020, the Council of the ZPIZ adopted a decision regarding the regular increase in pensions and other receipts by 3.2%. Because that adjustment exceeds EUR 50 million in nominal terms, Kapitalska družba's obligation for 2020 is EUR 50 million.

Expected development of Kapitalska družba, d. d. in 2020

Kapitalska družba represents an important pillar of the stability of the pension system, through the management of its own assets for the purpose of providing resources to the pension insurance fund and through the management of the SODPZ, while the Kapitalska Družba Group also represents the largest provider of voluntary supplementary pension insurance in Slovenia through its subsidiary Modra zavarovalnica.

In 2020, we will achieve the strategic objectives set out in the Company's strategy. Through the professional, successful and effective management of the Company's own assets and the assets of the SODPZ, and through the effective provision of pension insurance, our aim is to become a socially responsible and sustainability-oriented company focused on achieving business excellence. By responding agilely to changes in the external environment, we will continue to contribute to the strengthening and modernisation of the Slovenian pension system.

We will introduce in daily operations best practices, innovative approaches and techniques in the area of portfolio management, and actively participate in the continued development of pension insurance. The business objectives of the SODPZ in 2020 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 main 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.

The biggest challenges in the area of pension insurance lie before us due to amendments to the ZPIZ-2G, which will bring changes in the basis for the payment of contributions, and task Kapitalska družba with stringent controls over payments by employers and the consistent collection of unpaid contributions with the help of the Financial Administration of the Republic of Slovenia (FARS). The new tasks in this area will bring a number of challenges, particularly in terms of defining and obtaining the relevant data from the FARS, the Ministry of Labour, Family, Social Affairs and Equal Opportunities and the ZPIZ. An effective link and the coordination of data from different sources is a precondition for determining

the correct payment obligations. The successful performance of legally defined tasks will require investments in information support and the hiring of new staff. All of the changes described above will require changes in the management rules and the pension plan.

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 as much as possible to the improved pension stability of occupational insurance policyholders and pensioners.

Despite the provisions of the ZSDH-1, which envisages the transformation of Kapitalska družba into an independent and autonomous demographic reserve fund by no later than the end of 2015, no separate act to serve as the basis for that transformation has been adopted to date. Thus, both the framework of future arrangements and the timing of that transformation remain unknown. The main characteristics of the future demographic reserve fund, new sources, future liabilities, the composition of assets and thus the fund's investment policy remain undefined. Nevertheless, Kapitalska družba's mission has been the same since its inception and in conceptual terms entails performing the function of a demographic reserve fund to the extent set out in regulations. A transfer to the pension fund by Kapitalska družba in the maximum possible amount envisaged by the ZSDH-1, i.e. EUR 50 million, is planned this year. The fulfilment of our legal obligation requires the effective management of capital investments and the continued accelerated transformation of Kapitalska družba into a portfolio investor. In 2020, we will continue the sale of Slovenian government equity investments and the placement of proceeds into liquid portfolio investments. We will adapt our activities to the unstable conditions on the global financial markets, low interest rates and lower forecasts of economic growth due to the consequences of the SARS-CoV-2 (COVID 19) epidemic. We will also update our umbrella investment policies and portfolio management investment policies.

Due to legislative changes and the optimisation of business processes that are adapted to the actual requirements of the business environment and with the aim of achieving comprehensive and sustained business excellence, the activities described above will be accompanied by the digitalisation of physical materials and the establishment of a document system in 2020. The digitalisation of the large volume of physical materials will ensure the secure, reliable and centralised storage of the Company's data and documents. We will also kick-off a project to establish a document system that will facilitate the gradual transition to paperless operations. Through a centralised document system, we will ensure the continuous accessibility of documentation and the proper storage thereof.

A commitment to excellence remains the core strategic paradigm of Kapitalska družba's operations. For that reason, we will continue to perform self-assessments in 2020 according to EFQM principles. As a starting point, we will review the opportunities for improvement identified in the first self-assessment in 2017, and classify them in terms of importance and impact on Kapitalska družba. Based on the priority tasks identified as such, and in connection with the Company's strategic objectives and the core princi-

ples of excellence of the EFQM, we will define target results and measures that must be implemented to achieve the desired objectives (e.g. a range of improvements, and approaches and a plan for implementing improvements). During the second half of 2020, we will perform a new self-assessment and update the management document.

The dynamic conditions on the financial markets, the uncertain economic situation, planned amendments to the pension plan and the rules on the management of the SODPZ, the digitalisation of the Kapitalska družba's physical archive and the establishment of a documentation system are indications that 2020 will once again be a demanding and dynamic year for Kapitalska družba. We will thus dedicate the appropriate amount of attention in 2020 to the multi-faceted development of employees in terms of professional competences and more effective interpersonal interaction. 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 successful 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.

Through the commitment and high level of motivation of all employees, we will fulfil our mission again in 2020, while building and increasing the Company's long-term value for its owner through prudent and reliable decisions. Through continued cooperation in the implementation of the structural reforms dictated by the Slovenian demographic picture, we will open new perspectives for the Slovenian pension system and support the sustainable and long-term economic development of Slovenia. This also entails an appropriate response to changing demographic conditions and the projected development of those conditions in Slovenia.

Social responsibility

8.1 RESPONSIBILITY TO THE WIDER SOCIAL COMMUNITY

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

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 million to the ZPIZ in 2019 based on the provisions of the ZIPRS1819. Kapitalska družba has transferred the cumulative amount of EUR 864,321 thousand to the budget of the ZPIZ.

8.2 RESPONSIBILITY TO EMPLOYEES

8.2.1 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, conferences and workshops, and through planned internal training organised for all employees.

Employees participated in training programmes in the following areas in 2019: finance and accounting, corporate governance, portfolio-based asset management, public procurement, the prevention of money laundering and terrorist financing, archiving, internal controls, legal issues, information security and risk management. Three employees obtained an international language certificate for English.

In accordance with its education and training plan, Kapitalska družba organised internal training programmes in 2019 on the following topics: the prevention of money laundering and terrorist financing, personal data protection, information security in the workplace and fraud prevention. We organised a

workshop on the subject of tourism in conjunction with Slovenski državni holding and Modra zavarovalnica. We organised a workshop for all employees on the subject of improved cooperation and understanding according to the SDI methodology.

Kapitalska družba promotes continuing education and the acquisition of higher levels of education and 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.

One employee began training in 2019 to perform the tasks of certifier business valuer.

8.2.2 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, fire safety and health care 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.

Kapitalska družba pays the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, or a maximum of EUR 234.92 a month.

The costs of employee premiums for voluntary supplementary pension insurance (MKPS) totalled EUR 121 thousand in 2019.

A family-friendly company

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team is diverse, with an average employee age of 45, and includes many parents with small and school-age children who benefit from the effects of the Family-Friendly Company certificate to the maximum extent possible. The balancing of career development and family life has become part of our organisational culture, which today is frequently a challenge, as the boundaries between career and private life are becoming increasingly blurred. 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 13 adopted measures include: 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 new-borns 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 new-borns. In August 2019, we opened our doors to the children of employees for the third year in a row, and made one day of their summer holidays exciting in a different way.

8.3 ENVIRONMENTAL RESPONSIBILITY

Use of electricity from renewable sources

A tender was issued in 2019 for the supply of electricity in accordance with the Decree on Green Public Procurement. Taking into account the provisions of the aforementioned decree, the Company 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.

Sanitary materials with the Ecolabel environmental sticker

When purchasing sanitary materials in 2019, we ordered products bearing the Ecolabel environmental sticker, also known as the 'environmental daisy' in Slovenia. Products or services that are recognised within a specific category as meeting predefined conditions and environmental criteria are eligible for the Ecolabel sticker. The environmental criteria for the awarding of the Ecolabel are in line with the requirements of the ISO 14024 standard, and are prescribed in the decisions of a committee that defines precise environmental criteria for a specific group of products or services. The method for implementing the scheme is defined in Regulation (EC) No 66/2010 on the EU Ecolabel

Report on relations with the subsidiary

Kapitalska družba is the parent company of an insurance group that includes the subsidiaries Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o.⁸ The Company holds a 100% participating interest in Modra zavarovalnica. No transactions were executed between the parent company and the aforementioned subsidiary in 2019 under conditions that deviated from market conditions. As the Group's parent company, Kapitalska družba holds a 50% participating interest in Hotelske nepremičnine, d. o. o. No transactions were executed between the parent company and the aforementioned joint venture in 2019 under conditions that deviated from market conditions.

Lease of business premises

Modra zavarovalnica leases business premises from Kapitalska družba. A new lease agreement was concluded in 2019 and is valid until September 2024. The total monthly lease payment for business and warehouse premises measuring 1,799.17 m², 39 indoor parking places, two outdoor parking places and 12 parking places at Glavarjeva rezidenca amounts to EUR 28,594. The aforementioned rental fee also includes electricity costs.

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, 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.

Agreement on the financing of the pension plan

Kapitalska družba has an agreement with Modra zavarovalnica on the financing of the PNMZK pension plan, which is implemented by the open Modri Umbrella Pension Fund (MKPS).

⁸ In accordance with the International Financial Reporting Standards and the Company's accounting policies, Hotelske nepremičnine, d. o. o. is treated as a joint venture.

Indicators

	in 000 EUR			
	Value		Value of indicator	
	2019	2018	2019	2018
1. FINANCING RATIOS				
a) Equity financing ratio				
equity	1,060,720	963,888	0.96	0.92
total equity and liabilities	1,102,331	1,047,335		
b) Long-term financing ratio				
equity + long-term liabilities (including provisions) + long-term accruals and deferred income	1,098,450	992,866	1.00	0.95
total equity and liabilities	1,102,331	1,047,335		
2. INVESTMENT RATIOS				
a) Operating fixed asset investment ratio				
fixed assets (at carrying amount)	3,155	3,517	0.00	0.00
equipment	1,102,331	1,047,335		
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	1,000,310	859,581	0.91	0.82
equipment	1,102,331	1,047,335		
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a) Equity to fixed assets ratio				
equity	1,060,720	963,888	336.20	274.07
fixed assets (at carrying amount)	3,155	3,517		
b) Acid test ratio				
liquid assets	15,605	18,182	4.02	0.33
short-term liabilities	3,881	54,469		

			in 000 EUR	
		Value	Value of indicator	
c) Quick ratio				
liquid assets + short-term receivables	16,910	71,492	4.36	1.31
short-term liabilities	3,881	54,469		
d) Current ratio				
short-term assets	83,469	159,701	21.51	2.93
short-term liabilities	3,881	54,469		
4. EFFICIENCY RATIOS				
a) Operating efficiency				
operating revenue	10,564	9,564	1.72	1.41
operating expenses	6,140	6,771		
5. PROFITABILITY RATIOS				
a) Net return on equity				
net profit/loss for the period	-16,240	-31,131	-0.02	-0.03
average equity (excluding net profit/loss for the period)	1,035,989	983,739		
b) Dividends to share capital ratio				
dividends for financial year	0	0	0.00	0.00
average share capital	364,810	364,810		

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 2019 to 31 December 2019.

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 adopted by SDH. 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 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 (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.

Explanation: Given the specific purpose of its establishment and its planned transformation into an autonomous and independent 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 ZPIZ, and the management of the SODPZ.

Point 3.2 of the Code: Notwithstanding the ownership structure, the management board of a public limited company 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 articles 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.

Explanation: Given its transformation into an autonomous and independent demographic reserve fund, as envisaged by the law, Kapitalska družba (in which SDH does not exercise a controlling influence) 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 thereof, 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.

Explanation: 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 a national-level federation/organisation 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: The management and supervisory bodies of companies with capital assets of the State shall refrain from all communication with representatives of ministries 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.

Explanation: 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 the manager of the SODPZ, which represents an element of compulsory insurance. For this reason, communication with representatives of the competent ministries regarding the provision of occupational insurance is necessary.

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.

Explanation: 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.

Explanation: 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.

Explanation: 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 ZSDH-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.

Explanation: 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 assets 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 the 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 aforementioned authorisations 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.

Explanation: 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 during 2020.

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

Explanation: 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 Operational Support Sector, which is responsible for maintaining the books of account and for the compilation of financial statements in accordance with valid financial reporting, tax and other regulations. Those controls ensure that:

- I 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
- I 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 the General Meeting on 6 September 2019, the Company's financial statements for 2019 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 a company's securities in terms of achieving a qualifying holding as set out in the act governing takeovers

Explanation: 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

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

V. Restrictions on voting rights

Explanation: 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 changes to the Articles of Association

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

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'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

Explanation: The powers of senior management are set out in 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

Explanation: 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

Explanation: 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 2019 is given in the report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2019:

- | Stanislav Seničar, Chairman,
- | Dr Boris Žnidarič, Deputy Chairman,
- | Cirila Surina Zajc, member (until 1 February 2019),
- | Aleksander Mervar, MSc, member,
- | Ladislav Rožič, MSc, member,
- | Natalija Stošički, member, and
- | Mirko Miklavčič, member (since 2 February 2019).

Three committees functioned within the Supervisory Board in 2019: 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 2019 in the following composition:

- | President of the Management Board Bachtiar Djalil who began his term of office on 3 January 2019;⁹
- | Member of the Management Board Goranka Volf who began her term of office on 24 November 2016; and
- | Member of the Management Board Gregor Bajraktarević who began his term of office on 7 February 2018.

The President and members 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 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 2019 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 14: Composition of the Management Board during the 2019 financial year

Name	Function (President, member)	Work area as member of the Management Board	First appointment to function	Completion of function / term of office	Gender	Nationality	Year of birth	Education	Professional profile	Membership in supervisory bodies of unaffiliated companies
Bachtiar Djalil	President	Legal and HR affairs, internal audit, risk management	1 January 2010	3 January 2023	M	Slovene	1975	Bachelor's degree in law	Corporate governance, management of pension and investment funds, economic and financial law	Loterija Slovenije, d. d.
Goranka Volf	Member	Pension fund management, finance and accounting, general affairs	24 November 2016	24 November 2020	F	Slovene	1959	Bachelor's degree in economics	Pension fund management, corporate governance, corporate communications	Terme Čatež, d. d.
Gregor Bajraktarević	Member	Asset management, IT and business processes	6 February 2017	7 February 2022	M	Slovene	1975	Master's of science	Asset management, corporate governance, investment banking and corporate restructuring	Hit, d. d.

⁹ Mr Djalil began his previous four-year term of office on 2 January 2015.

Table 15: Composition of the Supervisory Board and its committees during the 2019 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	Year of birth	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)
Stanislav Seničar	Chairman	28 August 2013	30 August 2022	Shareholder representative	22/22	M	Slovene	1942	Bachelor's degree in sociology	Corporate governance	Yes	No	/	/	/	/
Boris Žnidarič	Deputy Chairman	1 February 2015	1 February 2023	Pensioner representative	22/22	M	Slovene	1948	Doctorate of science	Master's degree in law and other social sciences, qualified university professor	Yes	No	Krka, d. d.	Accreditation	Chair	4/4
Aleksander Mervar	Member	28 August 2013	30 August 2022	Shareholder representative	19/22	M	Slovene	1962	Master's of science	Finance, accounting, corporate governance, governance systems	Yes	No	Stelkom, d. o. o., SŽ, d. o. o. (since 12 September 2019)	HR, audit, accreditation	Chair, member	2/2 4/6 1/4
Natalija Stošički	Member	8 April 2016	8 April 2020	Pensioner representative	20/22	F	Slovene	1966	Bachelor's degree in economics	Financial services expert	Yes	No		audit, HR	Chair, member	6/6 2/2
Cirila Surina Zajc	Member (until 1 February 2019)	1 February 2015	1 February 2019	Pensioner representative	3/3	F	Slovene	1949	Bachelor's degree in economics	Finance	Yes	No	/	audit, HR	Member	1/1 /
Ladislav Rožič	Member	31 January 2011	1 February 2023	Trade union representative	22/22	M	Slovene	1957	Master's of science	Finance, corporate governance	Yes	No	/	audit, accreditation	Member	6/6 4/4
Mirko Miklavčič	Member	2 February 2019	1 February 2023	Pensioner representative	19/19	M	Slovene	1947	Bachelor's degree in labour organisation	Finance, corporate governance and insurance	Yes	No	/	Audit, HR	Member	5/5 2/2

Table 16: External members of Supervisory Board committees during the 2019 financial year

Name	Committee	Participation in committee sessions with respect to total number (e.g. 5/7)	Gender	Nationality	Education	Year of birth	Professional profile	Membership in supervisory bodies of unaffiliated companies
Mojca Verbič	Audit committee	3/6	F	Slovene	Bachelor's degree in economics	1975	Director of Finance and Business Support Sector	/
Irena Prijovič	Accreditation committee	4/4	F	Slovene	Master's of science	1968	Corporate governance	Uradni list, d. o. o., Športna loterija, d. d. (since 27 August 2019)
Alenka Stanič	Accreditation committee	4/4	F	Slovene	Doctorate of science	1963	Adviser for key personnel	/
Gorazd Žmavc	Accreditation committee	4/4	M	Slovene	Lawyer	1947	Legal affairs	/

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 a national-level federation/organisation 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

Member of the
Management Board



Goranka VOLF

Member of the
Management Board



Bachtiar DJALIL

President of the
Management Board

Ljubljana, 28 April 2020

Financial Report

A tree that can barely be
embraced grew from a seed.
A tower nine stories high started
on a lump of soil.
A journey thousands of
kilometres long starts with a step...



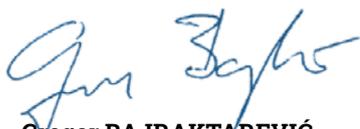
Statement of the Management's Responsibility

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 2019, and the accompanying notes and disclosures.

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 Company's financial position and the results of its operation for 2019.

The Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the property and other assets. The Management Board confirms that the financial statements and notes thereof have been compiled under the assumption of a going concern, and in accordance with the applicable legislation and International Financial Reporting Standards (IFRS) as 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 Company'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 could give rise to possible material liability in this respect.



Gregor BAJRAKTAREVIĆ

Member of the
Management Board



Goranka VOLF

Member of the
Management Board



Bachtiar DJALIL

President of the
Management Board

Ljubljana, 28 April 2020

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Deloitte revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
VAT ID: SI62560085

Tel: +386 (0) 1 3072 800
Fax: +386 (0) 1 3072 900
www.deloitte.si

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

Opinion

We have audited the financial statements of the company Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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.

Emphasis of matter

We draw attention to Note 15.1. "General Disclosures" to the separate financial statements which states that Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. is the parent company of Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. Group and that consolidated financial statements of Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. prepared in accordance with International Financial Reporting Standards have not been prepared yet. Note 15.1. "General Disclosures" states when the consolidated financial statements will be published and the method of accounting and other disclosures relating to non-consolidated subsidiaries. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the

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financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- Other information are, in all material respects, consistent with the financial statements;
- Other information are prepared in compliance with applicable law or regulation; and
- Based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements of the Company, management is responsible for assessing its 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

DELOITTE REVIZIJA d.o.o.

Nina Kravanja Novak
Certified auditor

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

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

Ljubljana, 28 April 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Financial Statements

for 2019

14.1 INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

Item	Note	in 000 EUR	
		1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
1. Net sales revenue	1		
a) Sales to local companies in the Group		451	478
c) Revenue from sales on the domestic market		9,707	8,744
Total sales revenue		10,158	9,222
4. Other operating revenue (including operating revenues from revaluation)	2	406	342
Total revenue		10,564	9,564
5. Costs of goods, materials and services	3		
b) Costs of materials		-130	-116
c) Costs of services		-1,621	-1,470
Total costs of goods, materials and services		-1,751	-1,586
6. Labour costs	4		
a) Payroll costs		-2,437	-2,481
b) Social security insurance costs		-393	-424
c) Pension insurance costs		-121	-118
d) Other labour costs		-218	-386
Total labour costs		-3,169	-3,409
7. Amortisation, depreciation and write-offs	5		
a) Depreciation and amortisation		-1,160	-1,066
b) Operating expenses from revaluation of fixed assets		-3	-388
Total write-downs		-1,163	-1,454
8. Other operating expenses	6	-57	-322
Total costs		-6,140	-6,771
Operating profit (loss)		4,424	2,793

Item	Note	in 000 EUR	
		1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
9. Financial income from participating interests	7		
a) Financial income from shares and interests in Group companies		3,175	3,511
b) Financial income from shares and interests in associates		1,782	1,218
c) Financial income from other shares and interests		32,540	26,443
d) Financial income from other investments		4,790	5,880
Total financial income from shares and interests		42,287	37,052
10. Financial income from loans granted	7		
b) Financial income from loans granted to others		147	129
Total financial income from loans granted		147	129
Total financial income		42,434	37,181
12. Financial expenses due to write-off and impairment of investments	8		
b) Financial expenses due to impairment and write-off of other investments		-2,673	-2,249
Total financial expenses due to impairment and write-off of investments		-2,673	-2,249
13. Financial expenses for financial liabilities	8		
d) Financial expenses for other financial liabilities		-50,000	-50,007
Total financial expenses for financial liabilities		-50,000	-50,007
Total financial expenses		-52,673	-52,256
Profit (loss) from ordinary activity		-5,815	-12,282
Total profit (loss)		-5,815	-12,282
15. Income tax	9	-919	0
16. Deferred tax	10	-9,506	-18,849
17. Net profit or loss for the period	11	-16,240	-31,131

Disclosures and notes on pages 84 to 162 are a constituent part of financial statements.

14.2 STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

Item	in 000 EUR	
	1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
Profit or loss for the period	-16,240	-31,131
Items not to be reclassified subsequently to profit or loss	114,207	18,155
Actuarial gains/losses	0	-15
Net change in fair value reserves not to be reclassified subsequently to profit or loss	76,892	28,235
Other changes (profits/losses from derecognition of equity investments measured at fair value through other comprehensive income)	37,315	-10,065
Items that may be reclassified subsequently to profit or loss	-1,298	-1,964
Net change in fair value reserves that may be reclassified subsequently to profit or loss	-1,298	-1,964
Other comprehensive income for the year	96,669	-14,940

Disclosures and notes on pages 84 to 162 are a constituent part of financial statements.

14.3 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

Item	Note	in 000 EUR	
		31 Dec. 2019	31 Dec. 2018
ASSETS			
A. Non-current assets			
I. Intangible assets and long-term deferred costs and accrued revenues	12		
1 Long-term property rights		446	587
5 Other long-term deferred costs and accrued revenues		33	0
Total intangible assets		479	587
II. Property, plant and equipment			
2 Buildings	13	2,444	2,776
4 Other plant and equipment		232	154
Total property, plant and equipment		2,676	2,930
III. Investment property	14	20,649	20,982
IV. Long-term investments			
1. Long-term investments, except loans			
a. Shares and interests in Group companies	15	152,200	152,200
b. Shares and interests in associated companies	15	57,052	41,979
c. Joint ventures	15	5,963	4,963
d. Other shares and interests	17	682,491	559,759
e. Other long-term investments	17	78,633	76,057
Total long-term investments, except loans		976,339	834,958
Total long-term investments		976,339	834,958
V. Long-term operating receivables			
3 Long-term operating receivables due from others	19	167	124
Total long-term operating receivables		167	124
VI. Deferred tax assets	10	18,552	28,053
Total fixed assets		1,018,862	887,634
B. Current assets			
I. Assets held for sale	16	0	14,418
III. Short-term investments			
1 Short-term investments, except loans	17		
d. Other short-term investments		49,599	41,463
Total short-term investments, except loans		49,599	41,463
2 Short-term loans	18		
b. Short-term loans to others		16,960	32,328
Total short-term loans		16,960	32,328
Total short-term investments		66,559	73,791

				in 000 EUR	
Item	Note	31 Dec. 2019	31 Dec. 2018		
IV. Short-term operating receivables	19				
1 Short-term operating receivables due from Group companies		50	3		
2 Short-term trade receivables		836	751		
3 Short-term operating receivables due from others		333	2,493		
4 Other short-term operating receivables		86	50,063		
Total short-term operating receivables		1,305	53,310		
V. Cash	20	15,605	18,182		
Total current assets		83,469	159,701		
Total assets		1,102,331	1,047,335		

				in 000 EUR	
Item	Note	31 Dec. 2019	31 Dec. 2018		
EQUITY AND LIABILITIES					
A. Equity					
I. Called-up capital	21	364,810	364,810		
II. Capital surplus	22	217,494	217,331		
III. Revenue reserves	23	0	0		
V. Fair value reserves	24	295,578	219,984		
VI. Net profit or loss brought forward		199,078	192,894		
VII. Net profit or loss for the year		-16,240	-31,131		
Total equity		1,060,720	963,888		
B. Provisions and long-term accrued costs and deferred revenues					
I. Provisions for pensions and similar obligations		229	233		
II. Other provisions		409	677		
Total provisions and long-term accrued costs and deferred revenue		638	910		
C. Non-current liabilities					
II. Non-current operating liabilities					
4 Non-current operating liabilities from advances	26	15	15		
5 Other non-current operating liabilities		33	0		
Total non-current operating liabilities		48	15		
III. Deferred tax liabilities	10	37,044	28,053		
Total non-current liabilities		37,092	28,068		
D. Current liabilities					
II. Current financial liabilities					
4 Other current financial liabilities	27	0	3		
Total current financial liabilities		0	3		

Item	Note	in 000 EUR	
		31 Dec. 2019	31 Dec. 2018
III. Current operating liabilities	26		
2 Current trade payables		2,427	2,855
4 Current operating liabilities from advances		0	513
5 Current liabilities to the state		33	50,019
6 Current corporate income tax liabilities		919	0
7 Other current operating liabilities		502	1,079
Total current operating liabilities		3,881	54,466
Total current liabilities		3,881	54,469
Total equity and liabilities		1,102,331	1,047,335

Disclosures and notes on pages 84 to 162 are a constituent part of financial statements.

14.4 CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

Item	in 000 EUR	
	1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	-5,815	-12,282
Income taxes and other taxes not included in operating expenses	-919	0
Adjustments for amortisation and depreciation	1,092	1,066
Adjustments for revaluation operating expenses	0	388
Adjustments for financial income from financing	-42,434	-37,181
Adjustments for financial expenses from financing	34,232	52,256
Total income statement items	-13,844	4,247
b) Changes in net operating current assets – operating items in the balance sheet		
Opening less closing operating receivables	51,962	-2,145
Opening less closing deferred tax assets	9,501	-3,145
Opening less closing assets (disposal groups) held for sale	14,418	-12,478
Closing less opening operating liabilities	-50,585	-739
Closing less opening provisions	-272	159
Closing less opening deferred tax liabilities	8,991	3,145
Total items of net current assets – operating items in the balance sheet	34,015	-15,203
c) Net cash from (used in) operating activities	20,171	-10,956

Item	in 000 EUR	
	1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
B. Cash flows from investing activities		
a) Cash receipts from investing activities		
Receipts from interest and dividends received from investing activities	27,707	27,400
Receipts from disposal of property, plant and equipment	38	4
Receipts from disposal of long-term investments	132,041	65,445
Receipts from disposal of short-term investments	34,950	4,695
Total cash receipts from investing activities	194,736	97,544
b) Cash disbursements for investing activities		
Disbursements to acquire intangible assets	-3	-431
Disbursements to acquire property, plant and equipment	-137	-79
Disbursements to acquire investment property	-295	-5,795
Disbursements to acquire long-term investments	-148,034	-29,553
Disbursements to acquire short-term investments	-19,178	-17,481
Total cash disbursements for investing activities	-167,647	-53,339
c) Net cash from (used in) investing activities	27,089	44,205
C. Cash flows from financing activities		
a) Cash receipts from financing activities		
Capital increase and effect of free acquisition of investments	163	570
Receipts from increase in non-current financial liabilities	0	1,236
Total cash receipts from financing activities	163	1,806
b) Cash disbursements for financing activities		
Cash repayments of financial liabilities	-50,000	-50,000
Total cash disbursements for financing activities	-50,000	-50,000
c) Net cash from (used in) financing activities	-49,837	-48,194
D. Closing balance of cash		
a) Net cash for the period	-2,577	-14,945
b) Opening balance of cash	18,182	33,127
c) Total closing balance of cash	15,605	18,182

Disclosures and notes on pages 84 to 162 are a constituent part of financial statements.

14.5 STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

in 000 EUR

	Share capital	Capital surplus	Reserves arising from valuation at fair value	Net profit or loss brought forward	Net profit or loss for the year	Total
A. 1. Balance as at 31 Dec. 2018	364,810	217,331	219,984	192,894	-31,131	963,888
A. 2. Balance as at 1 Jan. 2019	364,810	217,331	219,984	192,894	-31,131	963,888
B. 1. Changes in equity – transactions with owners	0	163	0	0	0	163
d) Additional payments of capital	0	163	0	0	0	163
B. 2. Total comprehensive income for the period	0	0	75,594	37,315	-16,240	96,669
a) Net profit or loss for the period	0	0	0	0	-16,240	-16,240
d) Changes in reserves arising from valuation of investments at fair value	0	0	75,594	0	0	75,594
e) Other components of comprehensive income for the period	0	0	0	37,315	0	37,315
B. 3. Changes in equity	0	0	0	-31,131	31,131	0
a) Allocation of the remaining net profit for the comparative period to other equity components	0	0	0	-31,131	31,131	0
C. Closing balance as at 31 Dec. 2019	364,810	217,494	295,578	199,078	-16,240	1,060,720

Disclosures and notes on pages 84 to 162 are a constituent part of financial statements.

In 2019, the capital surplus increased by EUR 163 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act.

14.6 STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

in 000 EUR

	Share capital	Capital surplus	Reserves arising from valuation at fair value	Net profit or loss brought forward	Net profit or loss for the year	Total
A. 1. Balance as at 31 Dec. 2017	364,810	216,761	313,011	77,877	5,864	978,323
b) Retrospective adjustments (change in accounting policies)	0	0	-119,283	119,218	0	-65
A. 2. Balance as at 1 Jan. 2018	364,810	216,761	193,728	197,095	5,864	978,258
B. 1. Changes in equity – transactions with owners	0	570	0	0	0	570
d) Additional payments of capital	0	570	0	0	0	570
B. 2. Total comprehensive income for the period	0	0	26,256	-10,065	-31,131	-14,940
a) Net profit or loss for the period	0	0	0	0	-31,131	-31,131
d) Changes in reserves arising from valuation of investments at fair value	0	0	26,271	0	0	26,271
e) Other components of comprehensive income for the period	0	0	-15	-10,065	0	-10,080
B. 3. Changes in equity	0	0	0	5,864	-5,864	0
a) Allocation of the remaining net profit for the comparative period to other equity components	0	0	0	5,864	-5,864	0
C. Closing balance as at 31 Dec. 2018	364,810	217,331	219,984	192,894	-31,131	963,888

Disclosures and notes on pages 84 to 162 are a constituent part of financial statements.

14.7 DISTRIBUTABLE PROFIT FOR 2019

in 000 EUR

	31 Dec. 2019	31 Dec. 2018
a Net profit or loss for the year	-16,240	-31,131
b + Net profit or loss brought forward	199,078	192,894
e Distributable profit (a+b) distributed by the General Meeting of Shareholders	182,838	161,763

In 2019, Kapitalska družba, d. d. disclosed distributable profit in the amount of EUR 182,837,931.69.

Disclosures and notes

15.1 GENERAL DISCLOSURES

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.

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

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 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 of Shareholders. In compliance with Article 51(6) of 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' organisations at the state level 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 General Meeting of Shareholders. The candidates from among the representatives of SDH, d. d. 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' organisations and associations at the state level, 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 controlling entity

Kapitalska družba does not have a controlling entity.

Information about the subsidiary

A subsidiary of Kapitalska družba, d. d. as at 31 December 2019 is disclosed in the table below.

Subsidiary	Country	Share in equity	Equity as at 31 Dec. 2019	in 000 EUR
				Net profit/loss for 2019
Modra zavarovalnica, d. d.	Slovenia	100,00%	269,237	12,242

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

Basic information about Modra zavarovalnica, d. d.

Name: Modra zavarovalnica, d. d.

Registered office: Dunajska cesta 119, Ljubljana

Company ID number: 6031226

Tax number: SI21026912

As at 31 December 2019, the sole shareholder of Modra zavarovalnica, d. d., was Kapitalska družba. Share capital of the insurance company amounts to EUR 152,200,000. Share capital is divided into 152,200,000 ordinary registered no-par value shares. Each share has the same interest and the corresponding amount in the share capital.

Modra zavarovalnica, d. d. is performing the activities within the group of life insurance products pursuant to the Insurance Act (ZZavar-1) and the decision issued by the Insurance Supervision Agency allowing the company to perform insurance transactions for the following types of insurance:

- I accident insurance – Article 7, paragraph 2, item 1 of ZZavar-1;
- I life insurance – Article 7, paragraph 2, item 19 of ZZavar-1.

The activities of Modra zavarovalnica, d. d. are defined by law and by the company's Articles of Association. Under the Articles of Association, Modra zavarovalnica, d. d. engages in the activities listed below in line with the purpose of its incorporation:

65.110	Life insurance
65.120	Non-life insurance (only the insurance business under the classes of insurance involving accident and health insurance)
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

Kapitalska družba is subject to no restrictions related to the payment of dividend to which it is entitled as the controlling company. Kapitalska družba is also not obligated to provide financial support to the company in the future.

Kapitalska družba is not exposed to any additional risks arising from its interests in the subsidiary.

Joint venture information

A joint venture of Kapitalska družba, d. d. as at 31 December 2019 is shown in the table below.

Joint venture	Country	Share in equity	in 000 EUR	
			Equity as at 31 Dec. 2019	Net profit/loss for 2019
Hotelske nepremičnine, d. o. o.	Slovenia	50,00%	12,418	435

Basic information about Hotelske nepremičnine, d. o. o.

On 2 October 2018, Kapitalska družba, d. d. and Modra zavarovalnica, d. d. founded Hotelske nepremičnine, d. o. o. The share capital of the latter equals EUR 25,000.00 and each founder holds a 50% interest. The company was founded for the purchase of real estate of San Simon resort.

Data on consolidation

Kapitalska družba is, as the controlling company, obligated to prepare consolidated financial statements. The consolidated financial statements of the Kapitalska družba Group for 2019 are presented in a special document entitled the Consolidated Annual Report of the Kapitalska družba Group for 2019.

The Annual Report of Kapitalska družba, d. d. for 2019 has to be read in conjunction with the Consolidated Annual Report of the Kapitalska družba Group for 2019, which will be prepared upon the drafting of the Annual Report of Kapitalska družba, d. d. for 2019 and the annual report of its subsidiary for 2019.

The consolidated Annual Report of the Kapitalska družba Group will be published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila by the end of August 2020.

Information about employees

At the end of 2019, Kapitalska družba had 60 employees, inclusive of the three members of the Management Board. In 2019, the Company had 60 employees on average. The number of employees as at 31 December 2019 and the average number of employees in 2019 according to the level of education are presented in the table below.

Table 17: Number of employees and average number of employees by educational level as at 31 December 2019 and in 2019

Level of education	Number of employees as at 31 Dec. 2019	Average number of employees in 2019
Level 8 (8/1, 8/2)	11	11
Level 7	25	25
Level 6 (6/1, 6/2)	15	14
Level 5	8	9
Level 4	1	1
Total	60	60

15.2 ACCOUNTING POLICIES

Basis for preparation

The financial statements for 2019 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. Financial statements have been compiled by taking into account the fundamental accounting assumptions: going concern, consistency and accrual basis. Accounting policies have been formulated by taking into account qualitative characteristics: understandability, relevance, reliability and comparability.

Significant accounting estimates and judgements

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

The adequacy of used assumptions and estimates is checked periodically.

Relevant estimates refer to the impairment of assets, the classification of financial instruments based on adopted business models and the cash flow test, 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 financial investment is revalued for impairment.

The estimates of asset fair 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 fair 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 value of long-term provisions.

Statement of compliance

The financial statements of Kapitalska družba 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, Kapitalska družba applied all IFRS and IFRIC required in 2019. It did not apply any standard or interpretation before its application became obligatory in 2019.

Amendments to standards and interpretations

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

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

- | 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 9 *Financial instruments – Prepayment Features with Negative Compensation*, adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- | Amendments to IAS 19 *Employee Benefits – Plan Amendment, Curtailment or Settlement*, adopted by the EU on 13 March 2019 (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*, adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),

- I 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 – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- I IFRIC 23 *Uncertainty over Income Tax Treatments*, adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretations has not led to any material changes in the company's financial statements.

Standard IFRS 16 is effective for annual periods beginning on or after 1 January 2019. When applying IFRS 16, a lessee may elect to apply the full or limited retrospective approach. The transitional provisions of the standard allow for some reliefs. Early application is permitted only if the entity also already applies IFRS 15. IFRS 16 includes leases of all assets, but with some exemptions. At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability. Interest expenses for lease liabilities and depreciation costs for right-of-use asset need to be recognised. The standard provides two exemptions, i.e. short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less, while in leases of low-value assets, the value of a new asset is less than USD 5,000. The Company analysed lease agreements and established that the introduction of IFRS 16 has no impact on its financial statements.

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

At the date of publication of the financial statements, the following amendments to the existing standards were issued by the IASB and adopted by the EU, but were not yet effective:

- I Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*, adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- I Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*, adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- I Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

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 IASB except from the following new standards and amendments to the existing standards, which were not endorsed for use in the EU on the day these financial statements were published (the effective dates indicated below apply for entire IFRS issued by the IASB):

- | IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods starting on or after 1 January 2016) – the European Commission concluded not to start the procedure for endorsement of this interim standard and to wait for its final version to be issued,
- | IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IFRS 3 *Business combinations – Definition of a Business* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisition of assets occurring at the beginning of this period or after),
- | 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).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company 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 Company 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 income statement. 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 items in the separate financial statements are presented in the euro, rounded to the nearest thousand (000 EUR), except where specifically stated otherwise.

Annual report adoption procedure

Annual Report is compiled by the Management Board of the Company, which submits it for approval to the Supervisory Board. The Management Board and the Supervisory Board also decide on the use of net profits for creation of the Company's reserves according to the provisions of the Companies Act. Such use

of profit is included in the statements for the current year, while the distribution of distributable profit is decided by the Company's General Meeting of Shareholders. In line with Article 52(2) of ZSDH-1 distributable profit of Kapitalska družba cannot be distributed to the shareholders.

Intangible assets

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

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

Asset	Depreciation rate in %
Software	10
Software applications obtained after 1 January 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 Company 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.

Gains and losses from elimination or disposal of an intangible asset are determined as the difference between the sales value on disposal and the asset's carrying amount, and are recognised as revenue or expense in the income statement when the asset is eliminated or disposed of.

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 Company reduces the carrying amount of such assets to their recoverable amount. The decrease is disclosed as impairment loss directly in the income statement.

Land, buildings or equipment are derecognised when the relevant asset is sold or when the Company no longer expects economic benefits from the asset's continuing use. Gains and losses arising from derecognition of the asset are included in the income statement in the year in which the asset is eliminated from the books of account.

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

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

Maintenance costs and increase in fixed assets value

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

Criteria for the deferral of maintenance costs and the increase in fixed assets value

Maintenance costs include the costs of maintaining a fixed asset 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 Company 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 Company 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 Company reduces the carrying amount of such investment property to its recoverable amount. The decrease represents a loss due to impairment that the company recognises directly in its 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 and measurement of financial assets

The Company classifies financial assets based on:

- a. the business model for managing financial assets:
 - holding financial assets for the purpose of collecting contractual cash flows,
 - holding financial assets for the purpose of collecting contractual cash flows and selling financial assets,
 - holding financial assets for the purpose of selling,
- b. the characteristics of contractual cash flows of the financial asset.

The business model for obtaining contractual cash flows includes bonds and short-term securities intended for reducing the volatility of the entire portfolio that are upon acquisition expected not to be sold prior to the maturity date.

The business model aimed at holding assets with the purpose of obtaining contractual cash flows and selling investments comprises investments that are neither held for trading nor intended to reduce the volatility of the entire portfolio.

The business model intended for holding assets for sale encompasses investments that are at the time of acquisition identified as having been obtained in order to exploit price fluctuations in financial markets and create cash flows through the sale of assets that are upon purchase expected to be sold within 12 months from the date of purchase.

After initial recognition the Company measures financial assets:

- a. at amortised cost, AC;
- b. at fair value through other comprehensive income, FVTOCI; or
- c. at fair value through profit or loss, FVTPL, namely:
 - financial assets held for trading (including derivatives);
 - financial assets mandatorily measured through profit or loss – assets that do not pass the cash flow test (SPPI, solely payments of principal and interest);
 - financial assets designated as measured through profit or loss on the basis of the business model.

Upon initial recognition, a financial asset (except for trade receivables) is measured at fair value; if a financial asset is not measured at fair value through profit or loss, the transaction costs that arise directly from the acquisition or issue of a financial instrument must be added or deducted.

The Company discloses investments in the equity of other companies that are of the same type and of the same issuer using the weighted average price method, separately for each group of investments. Investments in purchased bonds that comprise investments in financial liabilities of other companies are stated according to the classification of investments as follows:

- | financial assets measured at fair value through profit or loss are recorded using the weighted average price method;
- | financial assets measured at amortised cost are stated at amortised cost;
- | financial assets measured at fair value through other comprehensive income are disclosed using the FIFO method;
- | loans are stated at amortised cost.

Debt instruments have to be measured at amortised cost if both of the following conditions are met:

- | the financial instrument is held in the context of a business model intended for holding financial assets to collect the contractual cash flows; and
- | the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt financial instrument should be measured at fair value through other comprehensive income if it meets the following two conditions:

- | the financial instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- | the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss if:

- | it is a debt instrument and is not classified in any of the above measurement categories, provided one of the conditions specified below is fulfilled:
 - i. according to the business model, the financial instrument was upon initial recognition classified into the category at fair value through profit or loss;
 - ii. the financial instrument did not pass the cash flow test;
- | it is an equity instrument and is not classified in the category measured at fair value through other comprehensive income;
- | doing so eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- | it is a derivative.

The Company may decide to measure certain investments in equity instruments at fair value through other comprehensive income.

Gains and losses on financial assets

A gain or a loss on a financial asset that is measured at fair value is recognised in profit or loss.

A gain or a loss on a financial asset measured at fair value through other comprehensive income (except for shares and equity interests) is recognised in other comprehensive income, net of gains or losses arising from impairment and exchange rate gains or losses, until the financial asset is derecognised or reclassified. Upon derecognition of a financial asset, cumulative gains or losses that were previously recognised in other comprehensive income are reclassified from equity to profit or loss. If a financial asset is reclassified out of the fair value through other comprehensive income measurement category, the Company accounts for the cumulative gain or loss previously recognised in other comprehensive income according to IFRS 9 5.6.5. and 5.6.7. Interest calculated by using the effective interest method is recognised in profit or loss.

Investments in equity instruments

At initial recognition, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this standard that is not held for trading and is also not contingent consideration of an acquirer in a business combination to which IFRS 3 applies. If the Company chooses to do so, it recognises dividends from that investment when the financial asset is derecognised, while the cumulative gain or loss is reclassified from other comprehensive income to other equity items.

Investments in subsidiary companies

A consolidated subsidiary is an entity in which the controlling company holds a controlling interest or a controlling influence associated with other reasons, and which is a member of the group for which the consolidated financial statements are prepared.

The Company classifies and measures investments in subsidiaries in accordance with IAS 27, states them at cost and impairs them in line with IAS 36.

Investments in associated companies

An associated company is a company in which the parent company has a significant influence.

The Company classifies and measures investments in associated companies in accordance with IFRS 9 and states them at fair value through other comprehensive income.

Investments in joint ventures

Joint control is contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company measures investments in joint ventures at cost according to IAS 27.

Investments in abandoned securities

Kapitalska družba, d. d., may not exercise the voting rights arising from dematerialised securities acquired in line with Article 48.a of the Book Entry Securities Act (ZNVP-1) that represent the target company's securities as at the day of transfer in line with paragraph 2 of Article 48.b of the said act. Due to the above, investments in these companies are not consolidated.

Assessment of contractual cash flows

The Company classifies a debt instrument based on its contractual cash flow characteristics:

- a. if the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows;
- b. if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Company has to verify if the contractual cash flows from the financial asset are solely payments of principal and interest on the principal amount outstanding. For this purpose the Company carries out the SPPI test (solely payments of principal and interest).

If a contractual cash flow characteristic could have an effect on the contractual cash flows that is more than de minimis (in each reporting period or cumulatively) but that cash flow characteristic is not genuine, it does not affect the classification of a financial asset.

A feature of contractual cash flows is non-genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

Changes in cash flows and derecognition of a financial asset

The Company derecognises a financial asset only when:

- a. the contractual rights to the cash flows from the financial asset expire; or
- b. it transfers the financial asset as set out in IFRS 9 3.2.4 and 3.2.5 and the transfer qualifies for derecognition.

If a new agreement on the contractual cash flows of a financial asset has been concluded or the contractual cash flows have been modified in any other way, and the renegotiated agreement or the modifications do not lead to derecognition, the Company must recalculate the modification gain/loss in profit or loss calculated as the difference between gross carrying amount before and after the modification.

The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial instrument's original effective interest rate (or at the credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when reasonable, at changed effective interest rate.

The carrying amount of the modified financial asset is adjusted by any costs and fees amortised over the remaining term of the financial asset (IFRS 9 5.4.3).

If the Company cannot establish a system for calculating modification gain/loss without undue costs or effort, it may nevertheless derecognise all financial instruments that are not eligible for derecognition.

Measurement and classification of exposures into groups for the purpose of assessing credit losses

For the purpose of assessing credit losses subject to impairment requirements, the Company classifies the following as at the reporting date:

- | financial assets measured at amortised cost;
- | debt financial assets measured at fair value through other comprehensive income;
- | off-balance sheet liabilities from credit commitments and financial guarantee contracts;

taking into account:

- a. exposures where no significant increase in credit risk has occurred since initial recognition, for which value adjustments or provisions for credit losses are measured on the basis of 12-month expected credit losses (stage 1);
- b. exposures where a significant increase in credit risk has occurred since initial recognition until the reporting date, for which value adjustments or provisions for credit losses are measured on the basis of lifetime expected credit losses (stage 2);
- c. exposures in the position of significantly decreased solvency and default (stage 3).

Phase 3 includes financial assets purchased or originated upon initial recognition defined as unpaid exposures, i.e. purchased or originated credit-impaired financial assets (POCI). In subsequent reporting periods the Company applies an individual approach to the financial assets recognised as POCI with interest recognised only based on payment. If this is not the exposure in question, the Company classifies the exposure in stage 1 at initial recognition.

The Company does not calculate expected credit losses for cash and cash equivalents. In defining the increase in credit risk, the Company classifies operating liabilities into stages based on the number of days in default according to the recommendations of IFRS 9. A receivable is automatically classified in stage 2, when the payment is more than 30 days past due; a receivable is automatically classified in stage 3, when the payment is more than 90 days past due. The Company applies the simplified model to operating receivables and follows these rules in case of credit risk increase: a) when the receivable moves to stage 2, the Company makes an impairment for 50% of the original amount and b) when the receivable moves to stage 3, the Company makes an impairment for 100% of the original amount.

Upon subsequent measurement, the Company assesses according to IFRS 9 5.5.9 whether the credit risk of exposure has increased significantly since initial recognition until the reporting date.

If the credit risk has not increased significantly or in the case of low credit risk exposure, the exposure remains classified in stage 1 in accordance with IFRS 9 5.5.5 and 5.5.10.

If the credit risk has increased significantly and the exposure has not yet been designated unpaid, the Company classifies it in stage 2 according to IFRS 9 5.5.3.

In accordance with IFRS 9 5.5.4 the Company assesses significant increase in credit risk considering all reasonable and supportable information at the level of an exposure. Under IFRS 9 B 5.5.16, the Company may assess a significant increase in credit risk also on a group exposure level, but only if reasonable and supportable information (factors or indicators) for a particular exposure cannot be obtained without undue cost or effort or cannot be assessed at the level of a particular exposure.

The assessment of a significant increase in credit risk is based on clearly predefined quantitative and qualitative criteria which may vary for individual exposure groups, i.e. relevant portfolios, groups of portfolios, or elements of portfolios.

The basic criterion considered by the Company for classification into stages is the credit rating or internal rating of a particular financial instrument. The internal rating is defined by use of an algorithm in the information system and is based on international credit ratings, or, in the absence of international credit ratings, it is determined internally. The Company uses the Bloomberg Credit Rating as the primary source for determining the internal credit rating.

It regularly checks the international ratings of investment grade financial instruments and financial instruments with non-investment grade rating in the accounting period.

The Company must measure the expected losses on a debt financial instrument by using the approach that reflects the following:

- | an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- | the time value of money; and
- | reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company classifies exposures by group according to the common characteristics of credit risk. Upon initial recognition, financial instruments are classified into the following segments:

- | country;
- | companies; and
- | financial institutions,

If the Company were to obtain new relevant information or if the changed expectations about credit risk indicated that a permanent change was needed, exposures could be segmented differently.

The Company classifies exposures in stages 1, 2 and 3 by employing its own methodology for estimating expected credit losses based on risk parameters:

- | exposure at default (EAD);
- | probability of default (PD); and
- | loss given default (LGD).

The estimates of the risk parameters that the Company takes into account when assessing expected credit losses are based on past events, current conditions and forecasts regarding future economic circumstances.

If the Company does not have sufficient data to provide reliable estimates of the risk parameters for calculating expected credit losses, it can use commercially available data (e.g. data from credit rating agencies) or a combination of own and external data.

In cases where the Company does not have sufficient data about a particular investment or transaction, it may use:

- | the parameters of the controlling company;
- | the parameters of a comparable financial instrument;
- | the parameters of a country, if the financial instrument has been issued by a central/regional/local government, a public sector entity or a central bank.

The Company uses the EAD risk parameters as derived from the amortisation plans (use of contractual cash flows). EAD risk parameters are not corrected for the impact of macro-economic risk factors.

The EAD risk parameter represents the exposure estimate at the future default date, taking into account expected changes in exposure after the reporting date, including repayment of principal and interest. This is the expected credit exposure at a specific time.

The Company applies its own PD risk parameter for each segment (country, company, financial institutions) and for each credit rating.

It calculates risk parameters based on the PD data from the S&P credit rating agency, separately for countries, companies and financial institutions. Historical PD by individual rating (credit rating) is used for the calculation.

For exposures to central governments and central banks, financial institutions, regional governments or local governments, and to public sector entities, the Company uses Moody's issuer-weighted average recovery rates (LGD – country). For exposures to companies, the Company uses Moody's issuer-weighted average recovery rates (LGD – companies).

In the process of integrating future information in determining a significant increase in credit risk and calculating expected credit losses, the Company takes into account macroeconomic scenarios.

In order to consider the economic cycles in calculating the probability of default, the Company takes into account forecasts of future economic performance and an adjustment for the economic cycle for the first three years in all classes of investments (government and corporate bonds and bonds of financial institutions).

Determining fair value of investments

Pursuant to IFRS 13, the Company determines fair value of investments as the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date. The measurement date is the date on which an investment is valued, which is the last day of the month. 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 in the absence of a principal market, on the most advantageous market.

Upon investment acquisition, the Company determines one of the following as the principal market for that investment:

- I stock exchange market (for equity and debt instruments and collective investment trusts), or
- I traders' market or OTC¹⁰ (market for debt investments).

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

At the measurement date, the Company 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 CBBT¹¹ 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 BVAL¹² price, if available. If neither of 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 by use of the effective interest rate.

Commercial papers of Slovenian issuers are stated using the amortised cost model, automatically considering the effective interest rate.

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

10 OTC (Over-The-Counter) market, transactions involving securities and agreed bilaterally between two parties outside the organised market.

11 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.

12 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.

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 company measures fair value applying unadjusted, quoted prices in active markets.

For valuation, the Company 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 (the Bloomberg Valuation Service).

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 18: 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 for which the fair value is measured using a 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 Quoted price older than 90 days may be used if the materiality criterion is not fulfilled

Table 19: Classification of unquoted equity investments

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

Table 20: 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 21: 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 22: Classification of debt investments if an exchange acts 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 a valuation technique (taking into account level 3 inputs) or prices provided by third parties Quoted price older than 90 days may be used if the materiality criterion is not fulfilled

Table 23: Classification of debt investments if an OTC market acts 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 unless they do not pass the SPPI test. In such case, they are classified in the category at fair value through profit or loss. 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 is unobservable input, and thus categorises them within Level 3.

Recoverable amount of non-current (non-financial) assets

As at the reporting date the Company estimates if there exist any factors indicating that non-current (non-financial) 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 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. Impairment loss is recognised in 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 through selling in the next 12 months, with the sale being highly probable, 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 receivables

Operating receivables are recognised at the amount of invoices issued, less any allowances. Making allowances of receivables is a process of recognising an adjustment to their carrying amount due to expected credit losses; contractual increases or decreases of their carrying amount are not considered as revaluation. It may be performed during or at the end of the financial year. The calculation of credit losses is described in the subchapter "Measurement and classification of exposures into groups for the purpose of assessing credit losses".

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, call deposits and short-term deposits with maturity of up to three months.

Equity

Kapitalska družba has 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, revenue reserves, 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 ZGD-1. In line with Article 52(2) of 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 arising from valuation at fair value

Reserves from valuation at fair value arise from the effects of valuation of financial assets at fair value through other comprehensive income and actuarial gains and losses arising from severance pay upon retirement. The amounts of reserves arising from valuation at fair value disclosed in the statement of financial position 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 date of the statement of financial position. When the value of money over time must be considered, provisions are determined on the basis of a discounted cash-flow using a discount rate (before taxes) which reflects the value of money over time and, where appropriate, includes potential risks associated with an individual liability. If provisions are made on the basis of a discounted cash-flow, an increase in the net present value is recognised over the years 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 provisions are decreased by expected reimbursement.

The Company establishes 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 legal action is filed against Kapitalska družba 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.

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.

Revenue

The Company recognises revenues from the transfer of the promised goods or services to the buyer, in an amount that reflects the expected consideration to which the Company will be entitled in exchange for these goods or services. The Company considers the terms of the contract and all relevant facts and circumstances. The buyer is a customer who has concluded a contract with the Company on the acquisition of goods or services that are the result of the Company's ordinary activities, in exchange for consideration.

Revenues are classified into the following categories:

1. Revenue from fees

Kapitalska družba is entitled to entry and exit fees as well as an annual management fee for the management of the pension funds' assets.

a. Entry fees

The Company 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 Company manages a pension fund and charges management fee, thus the monthly value of assets of the fund 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 fees

In accordance with the pension scheme, the Company 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.

2. Revenue from lease payments

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

Financial income

3. Interest

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

4. Dividends

Dividends are recognised in the income statement when the Company obtains the right to payment.

5. Revenue from sale of investments

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.

Employee benefits

Labour costs include gross salaries, gross salary compensations paid by the Company, benefits in kind, gifts and awards to employees, severance pay, as well as the relevant taxes and duties paid by the payer. These costs are recognised as the current expenses of the period. The Company also recognises contingencies based on collective agreements concerning the employees. 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. Financial expenses from revaluation arise in association with the impairment of investments. Expenses from the disposal of investments (losses on the disposal of investments) are accounted for and recognised on the trading day. Financial expenses also include expenses from recognised credit losses from financial assets.

Taxes

1. Current tax

Current tax assets and liabilities in respect of present and past periods are recognised at amounts which the Company expects to pay to the tax authorities or amounts of income tax credits that will be available in future periods. Current tax assets or liabilities are measured using the tax rates enacted at the date of the statement of financial position.

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 date of the statement of financial position, 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 at the date of the statement of financial position are used.

Deferred tax assets and liabilities are offset if, and only if, the Company has the legal right to offset current tax assets against current tax liabilities and if deferred tax assets and deferred tax liabilities relate to the income tax levied by the same tax authority.

Deferred tax assets and liabilities arising from transactions recognised directly in equity should be recognised in equity.

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 2019 and 31 December 2018, income statement data for the year 2019, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Risk management

Therefore, risk management is crucial in performing activities of Kapitalska družba. Particularly in the economic crisis, risk management proved to be a very important area, since successful and stable operations are conditional on efficient risk management. The use of standard methodologies of risk management ensures the qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure.

Kapitalska družba 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. Kapitalska družba has organised a Risk Management and Analysis Department, subordinate directly to the Company's Management Board, coordinating and monitoring the risk management process. On the basis of the risk inventory and updated risk assessments as well as the consequences of loss events, the Company in 2019 started to update the register of risks to which the Company is or could be exposed in the course of its business.

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

Risk of securities price change

The risk of securities price change is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the regulated markets in financial instruments. The risk of securities price change is managed by regular monitoring of the financial position of the issuers, 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 decreases the dependence of Kapitalska družba's portfolio of long-term investments on the movement of prices on the Slovenian capital market.

The monitoring and measurement of risk is carried out on a weekly basis through the calculation of value at risk (VaR) applied to the portfolio as a whole as well as separately for equity and debt securities portfolios. The beta indicator is also calculated for equity securities, as a measure of systematic risk.

Interest rate risk

The very nature of investments in debt instruments exposes Kapitalska družba to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. The exposure to interest rate risk is regularly measured by the modified duration indicator. The Company's internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, providing investment recommendations on this basis.

Kapitalska družba endeavours to minimise risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of debt portfolios, by classifying investments in the group of investments at amortised cost, by disposing of debt securities with fixed interest rates and by purchasing securities with variable rate of interest, or vice versa, depending on the expected movement in market interest rates.

Currency risk

In managing assets invested in foreign currencies, Kapitalska družba is also exposed to currency risk. Currency risk is monitored and managed on a daily basis. 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 underlying instrument is denominated initially, not the currency of the securities that constitute a specific instrument or investment fund.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, deposits, cash assets) and entails the possibility of investments being only partly repaid or not at all. The management of credit risk is implemented by careful selection of business partners, regular monitoring of companies' operations and by establishing and complying with investment limits with regard to permitted exposure of individual investments. Credit risk is managed also by dispersion of investments and regular monitoring of credit margins and credit ratings of investments and issuers or contractual partners. According to internal acts, the business partners' and assets' credit rating is determined by ratings assigned by Standard & Poor's, Fitch and Moody's, and in-house analyses. The maximum permitted exposure, i.e. high yield, is set for debt securities and units/shares of open-end investment funds that invest in these debt securities.

With regards to investments in deposits, debentures and certificates of deposits, Kapitalska družba has developed an internal model for determination of limits of such investments in individual banks. Internal limits set for individual banks are reviewed and updated quarterly to account for changes in credit ratings and the capital amount.

For the purpose of identifying and monitoring credit risk, Kapitalska družba adopted the Methodology of classification, measurement and assessment of credit losses on financial instruments (hereinafter referred to as the Methodology). According to the Methodology, the Company assesses significant increases in credit risk by use of reasonable and supportable information at the level of a particular exposure, but also on a group exposure level, but only if reasonable and supportable information (factors or indicators) for a particular exposure cannot be obtained without undue cost or effort or cannot be

assessed at the level of a particular exposure. The assessment of a significant increase in credit risk is based on clearly predefined quantitative and qualitative criteria which may vary for individual exposure groups, i.e. relevant portfolios, groups of portfolios, or elements of portfolios. The basic criterion considered by an institution for classification into stages is the credit rating or internal rating of a particular financial instrument. The internal rating is defined by use of an algorithm that is based on international credit ratings, or, in the absence of international credit ratings, it is determined internally according to the Methodology.

Liquidity risk

Liquidity risk is the risk related to the liquidity of the capital market or investment and the risk of solvency of Kapitalska družba. Due to the low liquidity of the Slovenian capital market, liquidity risk is encountered in a major portion of investments of Kapitalska družba in association with domestic equity and debt securities, with the highest risk posed by non-listed investments. By dispersing a portion of investments abroad, Kapitalska družba is able to reduce liquidity risk by investing only in highly liquid foreign instruments. Moreover, liquidity risk is managed by daily monitoring of the inflows and outflows of the Company 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.

The Company manages operational risk through a system of authority, internal controls and by defining business processes and ensuring the suitable employee qualifications. In order to minimise operational risk, Kapitalska družba established a system of recording loss events and regular monitoring of the implementation of measures adopted. The Internal Audit Department conducts regular audits of business processes and by making recommendations contributes to the improved internal controls and risk mitigation.

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 Kapitalska družba holds interests, the amount of liabilities to the pension budget and consequently the management of financial assets.

The Management Board, who is in charge of formulating appropriate organisation and strategy of the Company, must adopt all measures suitable for achieving the strategic goals as well as to preserve and strengthen the Company'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.).

In 2018 and 2019, there were 145 legal actions filed by persons insured under the SODPZ fund (Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia) against Kapitalska družba, d. d. for the payment of legal default interest related to the payment of a one-off redemption value of the units. In 2019, 3 legal actions became final.

Risks related to investments where Kapitalska družba holds a significant share

Kapitalska družba devotes special attention to the management of risks, which arise from investments where the Company holds a significant share. Kapitalska družba for the first time adopted the Corporate Governance Code of the Group in March 2012, which includes the Group's governance policies and as such provides the basis for efficient management of subsidiary company. The adopted Corporate Governance Code of the Group, which defines new standards that are complied with and abided by all companies in the Kapitalska družba Group, lays down new guidelines on risk management. Corporate governance of the Kapitalska družba Group is carried out by functional area. Also adopted were the Guidelines on Subsidiary's Reporting to the Parent Company, which specifically define the reporting type and method as well as deadlines. The operations of the companies constituting the Kapitalska družba Group are monitored by the Asset Management Department. Among other, the manager monitors the content and method of reporting as well as reporting deadlines defined in the Guidelines on Subsidiary's Reporting to the Parent Company. The Management Board of the subsidiary company is in charge of reporting. It presents various reports at the Management Board and Supervisory Board meetings of the parent company. The manager may report to the Management Board, at its meeting, or to the Investment Committee about any specificities in the operations and/or major deviations from the planned results and, if needed, propose appropriate measures to the Management Board.

In December 2014, Slovenian Sovereign Holding adopted and in May 2017 and November 2019 supplemented the Corporate Governance Code for Companies with State Capital Investment (current Corporate Governance Code for State-Owned Enterprises), which has been reasonably applied also by Kapitalska družba due to unification. Every year Kapitalska družba adopts at the general meetings of shareholders of companies the Voting Positions of Kapitalska družba. The purpose of these positions is to increase the efficiency and transparency of equity investment management and they form an element of reducing risks arising from equity investments.

15.3 DISCLOSURES AND NOTES TO THE FINANCIAL STATEMENTS

15.3.1 Notes to the income statement

Note no. 1

Net sales revenues

	in 000 EUR	
	2019	2018
Revenue from fund management	7,833	7,366
• management fee	6,683	6,297
• entry fee	1,123	1,046
• exit fee	9	5
• revenues from pension annuities	18	18
Revenue from lease payments	2,020	1,715
Other revenue from sales	305	141
Total	10,158	9,222

All net sales revenues of EUR 10,158 thousand were realised on the domestic market. Revenues from fund management increased in 2019 compared to the previous year, mainly due to an increase in the management fee and entry fees, which raised due to a larger number of insured members, which increased the amount of the premium paid, due to successful management and thus the growth in the value of SODPZ assets. Revenues from exit fees increased due to a larger number of payments of redemption value, for which exit fees are charged.

The largest part of rental income comprises rents from investment property, which are higher in comparison with the year before due to the purchase of additional business premises in the "Stekleni dvor" commercial building and due to higher lease payments.

Other revenue from sales includes revenues from the provided information services to Modra zavarovalnica, d. d. and revenue from considerations received.

Note no. 2

Other operating revenue (including operating revenues from revaluation)

	in 000 EUR	
	2019	2018
Revenues from reversal of long-term provisions	320	180
Operating revenues from revaluation	31	0
Other items	55	162
Total	406	342

Revenues from reversal of long-term provisions in the amount of EUR 320 thousand constitute reversal of provisions for non-achievement of guaranteed return of the SODPZ fund. Operating revenues from revaluation amounting to EUR 31 thousand represent gains from the sale of fixed assets. Other items comprise revenue from compensations in the amount of EUR 46 thousand and revenue from previous periods totalling EUR 9 thousand.

Revenues from reversal of long-term provisions in the amount of EUR 180 thousand in 2018 constitute revenues from the reversal of provisions for onerous contracts. Other items in 2018 comprise revenue from compensations in the amount of EUR 123 thousand, revenue from previous periods totalling EUR 29 thousand and other revenue amounting to EUR 10 thousand.

Note no. 3

Costs of goods, materials and services

	in 000 EUR	
	2019	2018
Costs of materials	130	116
Costs of services	1,621	1,470
Total	1,751	1,586

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, the bulk of which is accounted for by energy costs in the amount of EUR 81 thousand (2018: EUR 72 thousand).

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 to employees associated with labour, costs of payment transactions, banking services and insurance premiums, costs of intellectual and personal services, entertainment costs, costs of services provided by natural persons, and costs of other services, of which the highest amount, i.e. EUR 371 thousand, is due to maintenance of business premises and property, plant and equipment, followed by the costs of intellectual services equalling EUR 508 thousand (2018: EUR 371 thousand) the costs of intellectual services of EUR 221 thousand (2018: EUR 311 thousand) and the costs of other services, such as keeping the KDD register and SMA supervision costs of EUR 241 thousand (2018: EUR 244 thousand).

Costs of audit

The cost of the 2019 Annual Report audit amounted to EUR 22,045 (2018: EUR 16,836). In 2019, Kapitalska družba paid EUR 1 thousand to auditor for other non-audit services.

Note no. 4

Labour costs

	in 000 EUR	
	2019	2018
Payroll costs	2,371	2,417
Compensations for salaries/wages of employees	66	64
Supplementary pension insurance costs	121	118
Holiday allowance, reimbursements and other receipts of employees	218	366
Other employer's contributions on salaries, wage compensation, bonuses, reimbursements and other receipts of employees	393	424
Provisions for jubilee benefits and termination benefits	0	20
Total	3,169	3,409

Labour costs under the item "Holiday allowance, reimbursements and other receipts of employees" in 2019 are lower compared to the previous year, as labour costs in 2018 also include termination benefits for employees upon termination of their employment relationship.

Note no. 5

Amortisation, depreciation and write-offs

	in 000 EUR	
	2019	2018
Depreciation/amortisation	1,160	1,066
Amortisation of intangible assets	142	89
Depreciation of buildings	151	159
Depreciation of equipment and spare parts	58	65
Depreciation of investment property	809	753
Revaluation operating expenses associated with fixed assets	3	388
Revaluation operating expenses	3	0
Impairment of investment property	0	388
Total	1,163	1,454

Amortisation of intangible assets

Total amortisation expense of EUR 142 thousand represents amortisation of software.

Depreciation of buildings

Depreciation of buildings represents depreciation of offices owned by Kapitalska družba in the "Stekleni dvor" commercial building in the amount of EUR 151 thousand.

Depreciation of equipment and spare parts

A major part of depreciation of equipment and spare parts represents depreciation of computers and electronic equipment in the amount of EUR 48 thousand (2018: EUR 53 thousand), wooden furniture of EUR 4 thousand (2018: EUR 6 thousand)) and other equipment of EUR 6 thousand (2018: EUR 6 thousand).

Depreciation of investment property

Investment property depreciation charge refers to the depreciation of business premises leased out in the amount of EUR 741 thousand (2018: 687 thousand), and EUR 39 thousand of depreciation expense relating to leased out parking spaces (2018: EUR 39 thousand) as well as depreciation of part of investment property totalling EUR 29 thousand (2018: EUR 27 thousand). Depreciation charges relating to investment property are higher in 2019 compared to 2018 due to the purchase of new business premises in the "Stekleni dvor" commercial building, Ljubljana.

Operating expenses from revaluation of fixed assets

Operating expenses from revaluation amounting to EUR 3 thousand represent expenses for the disposal of fixed assets.

In 2018, Kapitalska družba impaired the investment property in the amount of EUR 388 thousand.

Note no. 6

Other operating expenses

	in 000 EUR	
	2019	2018
Provisions	52	319
Sponsorship	0	1
Costs of a secondary-school student on mandatory practical training	1	0
Other items	4	2
Total	57	322

In 2019, Kapitalska družba created EUR 52 thousand of provisions for legal actions filed by insured members of the SODPZ fund, and in 2018, it created provisions for non-achievement of guaranteed return of the SODPZ fund totalling EUR 319 thousand. Other items in 2019 represent expenses arising from compensations. The majority of other items in 2018 is accounted for by expenses from enforcement.

Note no. 7

Financial income

	in 000 EUR	
	2019	2018
Financial income from participating interests	37,497	31,172
Financial income from other investments and loans	4,937	6,009
Financial income from other investments	4,790	5,880
Financial income from loans granted	147	129
Total	42,434	37,181

In 2019, financial income from participating interests increased compared to 2018, mainly because of the valuation of investments allocated at fair value through profit or loss.

Financial income from participating interests

	in 000 EUR	
	2019	2018
Dividends and shares in profits	23,833	27,506
Financial income from revaluation	209	46
Exchange rate gains	260	20
Income from the valuation of investments at fair value through profit or loss	11,887	2,711
Income from financial receivable	667	877
Income from the disposal of investments at fair value through profit or loss	624	0
Income from the acquisition of abandoned securities	17	12
Total	37,497	31,172

Financial income from revaluation in the amount of EUR 209 thousand comprises exchange rate gains on receivables and liabilities.

Income totalling EUR 11,887 thousand constitutes valuation of investments measured at fair value through profit or loss.

The amount of EUR 667 thousand represents the value transferred to income of a proportionate part of the difference between the fair value and transaction value of the investment in accounts receivable.

Income from the disposal of investments in the amount of EUR 624 thousand represents income from realized investment gains, distributed at fair value through profit or loss.

Income from the acquisition of abandoned securities in the amount of EUR 17 thousand is recognised in accordance with Article 48a of ZNVP-1, which stipulates that KDD shall credit all dematerialised securities cancelled by the holders to a special account held by Kapitalska družba.

Financial income from other investments and loans

	in 000 EUR	
	2019	2018
Interest income	4,119	4,221
Exchange rate gains	712	1,717
Income from the valuation of investments at fair value through profit or loss	22	0
Income from realised gains	0	28
Income from the sale of investments through other comprehensive income – debt securities	0	28
Income from a decrease in credit losses	84	43
Income from a decrease in credit losses on assets measured at amortised cost	81	35
Income from a decrease in credit losses on assets measured through other comprehensive income	3	8
Total	4,937	6,009

Interest income

	in 000 EUR	
	2019	2018
Deposits	75	92
• At amortised cost	75	92
Bonds, commercial papers	3,698	3,733
• Through other comprehensive income	2,586	2,669
• At amortised cost	1,100	1,064
• At fair value through profit or loss	12	0
Other investments	346	396
• At fair value through profit or loss	346	396
Total	4,119	4,221

Note no. 8

Financial expenses

	in 000 EUR	
	2019	2018
Interest expense	0	7
Operating expenses from revaluation	2,525	2,120
Expenses from valuation of investments at fair value through profit or loss	1,453	471
Exchange rate losses	732	1,562
Other expenses from revaluation	340	87
Expenses from credit losses	83	92
Expenses from credit losses on assets measured at amortised cost	55	83
Expenses from credit losses on assets measured through other comprehensive income	28	1
Expenses from credit losses from operating receivables	0	8
Expenses from sales	13	37
Expenses from sale of shares and mutual funds measured through profit or loss	13	0
Expenses from sale of debt investments measured through other comprehensive income	0	37
Expenses from write-off of financial receivable	52	0
Expenses for the Pension and Disability Insurance Institute	50,000	50,000
Total	52,673	52,256

Pursuant to the provision of ZIPRSS1819, Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2019. These payments were stated under financial expenses from other financial liabilities in the income statement.

Exchange rate differences

	in 000 EUR	
	2019	2018
Exchange rate gains	972	1,737
Exchange rate losses	732	1,562
Net exchange rate gains/losses	240	175

In 2019, the net exchange rate gains amounted to EUR 240 thousand.

Gains/losses on financial assets

	in 000 EUR	
	2019	2018
Income from investments	42,434	37,181
Expenses from investments	-52,673	-52,256
Net profit or loss financial asset	-10,239	-15,075

Note no. 9

Income tax

	in 000 EUR	
	2019	2018
Profit or loss before tax	-5,815	-12,282
Increase due to profit from previous periods	38,724	8,662
Decrease due to loss from previous periods	-1,409	-7,800
Total	31,500	-11,420
Non-deductible expenses	1,450	1,575
Provisions creation	-2	-34
Non-taxable revenue	22,294	25,005
Tax allowance	492	0
Tax loss	5,327	0
Total	4,835	-34,884
Tax rate	19%	-
Income tax	919	-

The largest items of untaxed revenue are excluded received and paid domestic dividends in 2019 and a decrease due to expenses for impairments of investments in previous years.

As at 31 December 2019, Kapitalska družba, d. d. reported an income tax liability in the amount of EUR 919 thousand. The Management Board believes that the calculation of the tax liability for 2019 is appropriate, based on the views presented below and in accordance with the opinions of tax advisors. 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 and the amount assessed by the tax authorities.

Pursuant to the provision of ZIPRSS1819, Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2019. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

In 2019, the effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was 2.92% (in 2018, Kapitalska družba, d. d. disclosed a tax loss).

Harmonisation of the actual and the calculated corporate income tax expense taking into account the effective tax rate

	in 000 EUR	
	2019	2018
Profit or loss before tax	-5,815	-12,282
Increase due to profit from previous periods	38,724	8,662
Decrease due to loss from previous periods	-1,409	-7,800
Total	31,500	-11,420
Tax calculated at the general tax rate	5,985	-2,170
Change in tax based on:		
1 Revenue exempt from the tax base	4,237	4,757
Untaxed dividends received	4,215	4,725
Adjustment of revenues to the level recognised for tax purposes (decrease)	22	32
2 Expenses exempt from the tax base	276	300
Increase in expenses (unrecognised in previous periods)	5	687
Adjustment of expenses to the level recognised for tax purposes (decrease)	271	-387
3 Tax reliefs used in current year	93	0
4 Utilisation of tax losses from previous years	1,012	0
Total corporate income tax in the income statement	919	0
Total effective tax	2.92	0

In 2019, Kapitalska družba, d. d. reported an income tax liability in the amount of EUR 919 thousand.

Note no. 10

Deferred tax

Deferred income tax liabilities as at 31 December 2019 include:

	Statement of financial position		Income statement	
	31 Dec. 2019	31 Dec. 2018	2019	2018
Deferred income tax liabilities	37,646	28,660	0	0
Total deferred income tax liabilities	37,646	28,660	0	0
Deferred income tax assets	19,154	28,660	-9,506	-18,849
Loss brought forward to be used as tax allowance	18,491	27,995	-9,504	3,160
Value adjustment of receivables	0	2	-2	2
Value adjustment of investments	602	607	-5	-21,994
Provisions	61	56	5	-17
Total deferred income tax assets	19,154	28,660	-9,506	-18,849
Netting of assets and liabilities	602	607	-	-
Stanje terjatev za odloženi davek po netiranju	18,552	28,053	-	-
Deferred income tax liabilities after netting	37,044	28,053	-	-

The decrease in deferred income tax in the income statement in the amount of EUR 9,506 thousand is due to a decrease in value adjustments of receivables in the amount of EUR 2 thousand, a decrease in credit losses in the amount of EUR 5 thousand, an increase in provisions in the amount of EUR 5 thousand and a decrease in deferred tax from unused tax losses in the amount of EUR 9,504 thousand. Deferred income tax assets from unused tax losses are disclosed in the amount of up to a half of future taxable profits. As at 31 December 2019, the unused tax loss totalled EUR 526,840 thousand and is freely transferable.

Disclosure of changes in deferred tax recognised directly in equity

Changes in deferred tax	in 000 EUR	
	2019	2018
Balance as at 1 Jan.	28,660	47,509
Changes at 1 Jan.	0	0
Changes during the year	8,986	-18,849
Balance as at 31 Dec.	37,646	28,660

Deferred tax liabilities of EUR 37,646 thousand as at 31 December 2019 arose on revaluation of investments measured at fair value through other comprehensive income.

Note no. 11

Net profit or loss for the period

Basic earnings per share are calculated by dividing net profit for the accounting period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the accounting period. The weighted average of ordinary shares in issue during the year is calculated by reference to shares in issue during the period, considering any potential redemptions and sales in that period and the period during which these shares generated profit. Diluted earnings per share depend also on any ordinary shares from convertible bonds, options and forward contracts. When calculated, earnings and the number of shares are adjusted for effects of all adjustable potential ordinary shares that would occur if they were swapped for ordinary shares in the accounting period.

	2019	2018
Net profit or loss attributable to holders of ordinary shares (000 EUR)	-16,240	-31,131
Diluted net profit or loss attributable to holders of ordinary shares (000 EUR)	-16,240	-31,131
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)	-18.6	-35.6

As at 31 December 2019, Kapitalska družba, d. d. issued no financial instruments that would require adjustment of either the net profit or loss or the weighted average number of ordinary shares.

15.3.2 Notes to the statement of financial position

Note no. 12

Intangible assets and long-term deferred costs and accrued revenues

Table 24: Changes in intangible assets and long-term deferred costs and accrued revenues in 2019

in 000 EUR			
31 December 2019	Software and other intangible assets	Long-term accrued revenue and deferred costs	Total
Cost			
Cost as at 1 Jan. 2019	3,722	0	3,722
Additions	3	33	36
Disposals	-2,016	0	-2,016
Cost as at 31 Dec. 2019	1,709	33	1,742
Value adjustment			
Value adjustment as at 1 Jan. 2019	3,135	0	3,135
Additions, transfers	2	0	2
Disposals, write-offs	-2,016	0	-2,016
Depreciation/amortisation	142	0	142
Value adjustment as at 31 Dec. 2019	1,263	0	1,263
Carrying amount			
Carrying amount as at 1 Jan. 2019	587	0	587
Carrying amount as at 31 Dec. 2019	446	33	479

Intangible assets refer to software applications and licences.

Table 25: Changes in intangible assets and long-term deferred costs and accrued revenues in 2018

in 000 EUR			
31 Dec. 2018	Software and other intangible assets	Long-term accrued revenue and deferred costs	Total
Cost			
Cost as at 1 Jan. 2018	3,295	50,000	53,295
Additions	431	0	431
Disposals	-4	-50,000	-50,004
Cost as at 31 Dec. 2018	3,722	0	3,722
Value adjustment			

in 000 EUR

31 Dec. 2018	Software and other intangible assets	Long-term accrued revenue and deferred costs	Total
Value adjustment as at 1 Jan. 2018	3,050	0	3,050
Additions, transfers	0	0	0
Disposals, write-offs	-4	0	-4
Depreciation/amortisation	89	0	89
Value adjustment as at 31 Dec. 2018	3,135	0	3,135
Carrying amount			
Carrying amount as at 1 Jan. 2018	245	50,000	50,245
Carrying amount as at 31 Dec. 2018	587	0	587

Note no. 13

Property, plant and equipment

Table 26: Changes in property, plant and equipment in 2019

in 000 EUR

31 Dec. 2019	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2019	5,003	1,855	6,858
New acquisitions, transfers	0	137	137
Disposals, transfers	-270	-386	-656
Cost as at 31 Dec. 2019	4,733	1,606	6,339
Value adjustment			
Value adjustment as at 1 Jan. 2019	2,227	1,701	3,928
Additions, transfers	0	1	1
Disposals, write-offs	-89	-386	-475
Depreciation/amortisation	151	58	209
Value adjustment as at 31 Dec. 2019	2,289	1,374	3,663
Carrying amount			
Carrying amount as at 1 Jan. 2019	2,776	154	2,930
Carrying amount as at 31 Dec. 2019	2,444	232	2,676

Table 27: Changes in property, plant and equipment in 2018

	in 000 EUR		
31 Dec. 2018	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2018	5,408	1,836	7,244
New acquisitions, transfers	7	73	80
Disposals, transfers	-412	-54	-466
Cost as at 31 Dec. 2018	5,003	1,855	6,858
Value adjustment			
Value adjustment as at 1 Jan. 2018	2,172	1,690	3,862
Additions, transfers	0	0	0
Disposals, write-offs	-104	-54	-158
Depreciation/amortisation	159	65	224
Value adjustment as at 31 Dec. 2018	2,227	1,701	3,928
Carrying amount			
Carrying amount as at 1 Jan. 2018	3,236	146	3,382
Carrying amount as at 31 Dec. 2018	2,776	154	2,930

Note no. 14

Investment property

Table 28: Changes in investment property in 2019

	in 000 EUR		
31 Dec. 2019	Buildings	Buildings in the course of construction or manufacturing	Total
Cost			
Cost as at 1 Jan. 2019	29,091	0	29,091
New acquisitions, transfers	312	253	565
Disposals, transfers, impairments	0	0	0
Cost as at 31 Dec. 2019	29,403	253	29,656
Value adjustment			
Value adjustment as at 1 Jan. 2019	8,109	0	8,109
Additions, transfers	89	0	89
Disposals, write-offs	0	0	0
Depreciation/amortisation	809	0	809
Value adjustment as at 31 Dec. 2019	9,007	0	9,007
Carrying amount			
Carrying amount as at 1 Jan. 2019	20,982	0	20,982
Carrying amount as at 31 Dec. 2019	20,396	253	20,649

In 2019, Kapitalska družba, d. d. impaired no investment properties.

Given that the fair value of investment property as at 31 December 2018 was estimated based on an external evaluation amounting to EUR 23,303 thousand and that property prices stagnated in 2019, we estimate that the fair value of investment property as at 31 December 2019 does not significantly deviate from the fair value of investment property as at 31 December 2018.

The investment property's fair value does not significantly deviate from its carrying amount as at 31 December 2019, with the exception of the "Nebotičnik" office building, whose fair value greatly exceeds its carrying amount.

Table 29: Changes in investment property in 2018

	in 000 EUR
31 Dec. 2018	Buildings
Cost	
Cost as at 1 Jan. 2018	23,439
New acquisitions, transfers	6,207
Disposals, transfers, impairments	-555
Cost as at 31 Dec. 2018	29,091
Value adjustment	
Value adjustment as at 1 Jan. 2018	7,419
Additions, transfers	104
Disposals, write-offs	-167
Depreciation/amortisation	753
Value adjustment as at 31 Dec. 2018	8,109
Carrying amount	
Carrying amount as at 1 Jan. 2018	16,020
Carrying amount as at 31 Dec. 2018	20,982

Table 30: Rental income from investment property and costs related to investment property

	in 000 EUR	
	2019	2018
Rental income from investment property	2,020	1,687
Costs related to investment property	1,044	939

Information about encumbrances

Kapitalska družba, d. d. is the co-owner of investment properties on which a pledge has been entered to secure liabilities of EUR 1 million. The remaining assets owned by Kapitalska družba are free from mortgages, pledges or other encumbrances. In March 2020, the pledge to secure liabilities in the amount of EUR 1 million was lifted. The pledge was entered to secure investment property (commercial building) co-owned by Kapitalska družba, d. d. The said insurance remained entered only on a smaller plot, which is part of the functional land of the commercial building.

Fixed assets are not under finance lease not have they been acquired for the purpose of trading. Fixed assets have not been pledged.

Note no. 15

Investments in subsidiary, associated companies and joint venture

Investment in subsidiary as at 31 December 2019 includes:

in 000 EUR					
No.	Subsidiary	Registered office of the company	Equity stake in %	Equity as at 31 Dec. 2019	Net profit/loss for 2019
1.	Modra zavarovalnica, d. d.	Dunajska cesta 119, Ljubljana	100.00	269,237	12,242

				in 000 EUR	
				31 Dec. 2019	31 Dec. 2018
Shares and interests in Group companies				152,200	152,200
Total				152,200	152,200

The investment in the shares of Modra zavarovalnica, d. d. is stated at cost. An impairment test was carried out, showing that the investment need not be impaired.

Investments in associates as at 31 December 2019 include:

in 000 EUR					
No.	Associated company	Registered office of the company	Equity stake in %	Equity as at 31 Dec. 2019 ¹³	Net profit or loss for 2019 ¹⁴
1.	Casino Maribor, d. d. – in bankruptcy ¹⁵	Glavni trg 1, Maribor	20.00	-	-
2.	Gio, d. o. o. – in bankruptcy	Dunajska cesta 160, Ljubljana	28.68	-	-
3.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51	18,666	765
4.	Hit, d. d. ¹⁶	Delpinova ulica 7a, Nova Gorica	20.32	58,022	7,551
5.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00	18,764	3,897
6.	Sava, d. d.	Dunajska cesta 152, Ljubljana	28.05	55,452	696
7.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79	101,559	553
8.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79	37,663	3,078

in 000 EUR		
	31 Dec. 2019	31 Dec. 2018
Shares and interests in associated companies	57,052	41,979
Total	57,052	41,979

Table 31: Changes in investments in associated companies in 2019

in 000 EUR					
	31 Dec. 2018	Acquisitions and transfers	Disposals, maturity	Revaluation	31 Dec. 2019
Investments at fair value through other comprehensive income	41,979	815	0	14,258	57,052
Total	41,979	815	0	14,258	57,052

¹³ The data for associated companies equity as at 31 December 2019 are unaudited.

¹⁴ The 2019 data for associated companies net profit or loss are unaudited.

¹⁵ Pursuant to the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act (ZFPPIPP), the bankruptcy manager deleted these shares from KDD. Prior to the Company's bankruptcy, Kapitalska družba held the stake as presented above.

¹⁶ The share in Hit, d. d., carries 33.33% of voting rights. Preference shares do not carry any voting rights, as the dividend was paid in 2019.

Table 32: Changes in investments in associated companies in 2018

	in 000 EUR				
	31 Dec. 2017	Acquisitions and transfers	Disposals, maturity	Revaluation	31 Dec. 2018
Investments at fair value through other comprehensive income	36,962	2,450	0	2,567	41,979
Total	36,962	2,450	0	2,567	41,979

Investment in joint venture as at 31 December 2019 includes:

in 000 EUR					
No.	Joint venture	Registered office of the company	Equity stake in %	Equity as at 31 Dec. 2019	Net profit/loss for 2019
1.	Hotelske nepremičnine, d. o. o.	Dunajska cesta 119, Ljubljana	50.00	12,418	435

in 000 EUR					
				31 Dec. 2019	31 Dec. 2018
Shares and interests in joint ventures				5,963	4,963
Total				5,963	4,963

The investment in Hotelske nepremičnine, d. o. o. is carried at cost. An impairment test was carried out, showing that the investment need not be impaired.

Table 33: Change in investment in joint venture in 2019

	in 000 EUR				
	31 Dec. 2018	Acquisitions and transfers	Disposals, maturity	Revaluation	31 Dec. 2019
Investments at cost	4,963	1,000	0	0	5,963
Total	4,963	1,000	0	0	5,963

Table 34: Change in investment in joint venture in 2018

	in 000 EUR				
	31 Dec. 2017	Acquisitions and transfers	Disposals, maturity	Revaluation	31 Dec. 2018
Investments at cost	0	4,963	0	0	4,963
Total	0	4,963	0	0	4,963

Kapitalska družba is not exposed to any risks arising from ownership stakes in subsidiary and associated companies and joint venture, such as for instance:

- I provision of funds for the operations/capital adequacy of the subsidiary, associated companies or joint venture;
- I participation in covering contingent liabilities of the subsidiary, associated companies or joint venture.

At the end of 2019, Kapitalska družba used internal valuation models and external valuations to verify, assess and appraise the companies' value as at 31/12/2019, taking into account the most recent available data on companies' performance in 2019.

Note no. 16

Assets held for sale

Non-current assets available for sale as at 31 December 2019 include:

	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Assets held for sale	0	14,418
Total	0	14,418

Non-current assets available for sale as at 31 December 2018 in the amount of EUR 14,418 thousand included equity investments held for sale.

Note no. 17

Investments, excluding loans

	in 000 EUR			
	Long-term		Short-term	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Other shares and interests	682,491	559,759	0	0
Other investments	78,633	76,057	49,599	41,463
Total	761,124	635,816	49,599	41,463

Carrying amount of financial assets

As at 31 December 2019, Kapitalska družba, d. d. classified financial assets into one of the following groups according to IFRS 9: financial assets at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost. In addition, financial assets are also classified as non-current and current. Financial assets also include investments in associated companies, which are disclosed in Note no. 15.

	in 000 EUR					
	Non-current		Current		Total	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
At fair value through profit or loss	147,499	3,073	23,567	36,884	171,066	39,957
Set upon initial recognition	147,499	3,073	23,567	36,884	171,066	39,957
Mandatory measurement at fair value through profit or loss	0	0	0	0	0	0
At fair value through other comprehensive income	654,698	657,803	22,110	16,207	676,808	674,010
Debt instruments	51,173	59,136	22,110	3,722	73,283	62,858
Equity instruments	603,525	598,667	0	12,485	603,525	611,152
At amortised cost	15,979	16,919	3,922	2,790	19,901	19,709
Total	818,176	677,795	49,599	55,881	867,775	733,676

Changes in securities investments in 2019

	in 000 EUR				
	31 Dec. 2018	Acquisitions and transfers	Disposals, maturity	Revaluation	31 Dec. 2019
Investments at fair value through profit or loss	39,957	137,203	-16,528	10,434	171,066
Investments at amortised cost	19,709	1,788	-1,872	276	19,901
Investments at fair value through other comprehensive income	674,010	64,287	-182,814	121,325	676,808
Total	733,676	203,278	-201,214	132,035	867,775

Changes in securities investments in 2018

	in 000 EUR				
	31 Dec. 2017	Acquisitions and transfers	Disposals, maturity	Revaluation	31 Dec. 2018
Investments at fair value through profit or loss	5,358	39,402	-410	-4,393	39,957
Investments at amortised cost	17,520	1,953	-817	1,053	19,709
Investments at fair value through other comprehensive income	702,705	35,999	-68,204	3,510	674,010
Total	725,583	77,354	-69,431	170	733,676

Investments by type of interest rate as at 31 December

	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Debt investments	103,629	80,723
Fixed interest rate	103,629	80,723
Variable interest rate	0	0
Loans, deposits	16,960	32,828
Fixed interest rate	16,960	32,828
Variable interest rate	0	0
Total	120,589	113,051

Investments in equity instruments measured at fair value through other comprehensive income as at 31 December 2019

EUR					
ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019
ELAN INVENTA, D. O. O.	714,000	SI0021100134	95	SI0031102047	0
GIO, D. O. O.	1,423,243	SI0021110083	638	SI0031102070	0
GOSPODARSKO RAZSTAVIŠČE, D. O. O.	1,668,000	SI0021110323	74	SI0031102120	255,699,312
IE0032523478	4,382,736	SI0021110513	15,138	SI0031102153	64,740,750
IE00B3DWVS88	13,588,125	SI0021111313	7,066	SI0031102187	108
IE00B3F81R35	859,200	SI0021111651	6,394	SI0031102773	4
IE00B4L5Y983	8,947,857	SI0021112105	2,974	SI0031102799	0
IE00B60SX394	30,786,562	SI0021112212	93	SI0031103151	3,179
IE00B87RLX93	1,653,825	SI0021113111	3,254	SI0031103367	1,082
IE00BC7GZW19	389,419	SI0021113855	13,829	SI0031103375	5
IE00BJ0KDQ92	20,581,383	SI0031100082	76	SI0031103706	2,698,920
JE00B1VS3770	1,289,478	SI0031100090	1,029,474	SI0031103748	0
LU0274208692	28,879,008	SI0031100181	335	SI0031104183	0
LU0290355717	9,057,927	SI0031100215	305	SI0031104290	19,865,574
LU1650488494	3,270,312	SI0031100637	4,730,480	SI0031104399	1,546
LU1681044480	1,057,944	SI0031100793	0	SI0031104431	0
LU1681044563	1,708,163	SI0031101346	15,742,685	SI0031104514	420
LU1923627092	723,922	SI0031101494	184	SI0031104555	0
PLINHOLD, D. O. O.	667,490	SI0031101577	0	SI0031104597	559,423
PS ZA AVTO, D. O. O.	280,496	SI0031101700	0	SI0031104621	51,725
		SI0031101999	0	SI0031104829	1,095,100
		SI0031102005	183	SI0031104845	0

ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019
SI0031105024	11,123,430	SI0031109646	264,188	SI0031114604	47
SI0031105271	0	SI0031109661	0	SI0031114794	726
SI0031105396	1	SI0031109711	0	SI0031114893	299
SI0031105495	1,887	SI0031109737	464	SI0031114901	67
SI0031105529	661,956	SI0031109786	0	SI0031114976	9,519
SI0031105529	69	SI0031109927	1,783	SI0031114984	6,549
SI0031105602	9	SI0031110016	0	SI0031115031	7,113
SI0031105677	1,207,634	SI0031110248	19,228	SI0031115080	0
SI0031106907	0	SI0031110271	182	SI0031115767	12,303
SI0031107079	18	SI0031110412	4,865	SI0031115866	2,596
SI0031107293	4,414	SI0031110495	31	SI0031115940	0
SI0031107459	624	SI0031110677	0	SI0031116062	1,000
SI0031107582	0	SI0031110743	31	SI0031116104	3
SI0031107673	1,174,858	SI0031111048	1,085	SI0031116138	72
SI0031107772	12,986	SI0031111279	0	SI0031116591	369
SI0031107913	0	SI0031111485	9	SI0031116815	0
SI0031107954	6,474,963	SI0031111576	3	SI0031117144	0
SI0031107996	0	SI0031111816	227	SI0031117169	21,689
SI0031108184	38,675	SI0031112053	68	SI0031117268	0
SI0031108200	77	SI0031112772	553	SI0031117318	18,597,319
SI0031108259	187	SI0031113143	13,034,179	SI0031117441	3,876
SI0031108358	0	SI0031113184	6,593	SI0031117649	6,761
SI0031108556	0	SI0031113309	12,254	SI0031200239	115,199
SI0031108564	0	SI0031113432	0	SI0031200304	0
SI0031108580	1,916,301	SI0031113481	11	SI0031200429	898
SI0031108655	6,459,533	SI0031113549	649	SI0031200791	2,420
SI0031108846	3,007	SI0031113770	0	SM STROJKOPLAST MARIBOR, D. O. O.	98,356
SI0031108887	0	SI0031113788	857	US4642864007	1,377,165
SI0031108994	2,127,222	SI0031113879	0	US46434G1031	5,838,277
SI0031109034	40	SI0031113929	0	US46434G8226	7,329,856
SI0031109109	0	SI0031114182	0	US78462F1030	14,868,477
SI0031109380	0	SI0031114281	76	US81369Y6059	3,318,015
SI0031109463	21	SI0031114307	0	US81369Y8030	7,956,049
SI0031109539	2,408	SI0031114455	172	US81369Y8600	1,193,111
SI0031109562	0	SI0031114596	0	Total	603,525,474

Due to favourable market conditions and provision of liquidity, Kapitalska družba in 2019 disposed of equity investments in the total fair value of EUR 130,033 thousand. The cumulative effect of the sale of equity instruments measured at fair value through other comprehensive income is EUR 37,315 thousand and is recognised under profit/loss brought forward.

Dividends recognised on investments measured at fair value through other comprehensive income amount to EUR 19,877 thousand, whereas those from disposed investments equal EUR 180 thousand.

Overview of financial assets by carrying amount and fair value as at 31 December 2019

Asset	in 000 EUR	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	171,066	171,066
Financial assets at amortised cost	19,901	22,812
Financial assets at fair value through other comprehensive income	676,808	676,808
Investments in loans	16,960	16,960
Cash and cash equivalents	15,605	15,605
Total	900,340	903,251

Overview of financial assets by carrying amount and fair value as at 31 December 2018

Asset	in 000 EUR	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	39,957	39,957
Financial assets at amortised cost	19,709	23,591
Financial assets at fair value through other comprehensive income	674,010	674,010
Investments in loans	32,328	32,328
Cash and cash equivalents	18,182	18,182
Total	784,186	788,068

In line with its accounting policy, Kapitalska družba measures its financial assets at fair value, which equals the market value of the investment. The difference between the carrying amount and fair value appears on investments measured at amortised cost. The fair value of investments comprising loans and receivables also equals their amortised cost. The assumptions applied in fair value estimates of Level 3 investments are presented in the fair value hierarchy.

Fair value hierarchy as at 31 December 2019

	in 000 EUR			
	Level 1	Level 2	Level 3	Total
Financial assets measured at amortised cost	649,790	107,456	90,628	847,874
Investments measured at fair value through profit or loss	116,289	31,259	23,518	171,066
Investments at fair value through other comprehensive income	533,501	76,197	67,110	676,808
Financial assets for which the fair value is disclosed	53,464	835	1,078	55,377
Investments at amortised cost	20,899	835	1,078	22,812
Investments in loans	16,960	0	0	16,960
Cash and cash equivalents	15,605	0	0	15,605
Total	703,254	108,291	91,706	903,251

The valuation of certain shares at Level 2 of the fair value hierarchy was made using the method involving a comparison with the comparable listed companies.

The fair value valuation of Level 3 investments (shares and equity stakes) was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the net asset method (adjusted carrying amount). The below assumptions used do not anticipate or take into account the potential effects of COVID-19, which is a non-adjusting event. However, the assumptions for evaluation in 2020 may still be different.

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 shares of Elektro Ljubljana, d. d. was estimated as an average of six different scenarios using the discounted dividend method and the capitalization of normalized cash flow method.

The fair values of the shares of Elektro Maribor, d. d., Elektro Primorska, d. d., Elektro Celje, d. d. and Elektro Gorenjska, d. d. were estimated based on a market comparison of each company with Elektro Ljubljana, d. d. A multiple (value of total equity) / (earnings before interest, taxes, depreciation and amortization) of 4.5 was used.

The fair value of ordinary shares of HIT, d. d. is estimated using the capitalization of normalized cash flow method taking into account the value of the first quarter of the estimated value range, which is between 8.43 and 13.1 euros.

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 6.7% discount rate. The remaining growth rate of normalised cash flow is 1%.

The fair value of the holding in Plinhold, d. o. o. was estimated applying the method involving comparable listed companies and using a multiple (value of total equity) / (earnings before interest, taxes, depreciation and amortization). A median multiple of comparable companies of 11.40 was used.

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 8.1% discount rate. The remaining growth rate of normalised 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 asset method under the going concern assumption. The values of the investments in Sava Turizem, d. d. and Hoteli Bernardin, d. d., which represent the biggest investments of the company, were estimated by applying the income-based approach and using the discounted free cash flow method. The free cash flow of Sava Turizem, d. d. is discounted at a discount rate of 9.53%, and the remaining normalized cash flow growth is 2%. The free cash flow of Hoteli Bernardin, d. d. is discounted at a discount rate of 9.84%, while the remaining normalized cash flow growth is 2%.

The fair value of investment in account receivable is determined on the basis of the estimated fair value of pledged assets by taking into account the nominal amount of individual account receivable. 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 investment in account receivable is measured at Level 3 of the fair value hierarchy.

Gains from the Level 3 investments comprise dividends, coupons received from bonds and profits from the sale of investments.

Fair value hierarchy as at 31 December 2018

	in 000 EUR			
2018	Level 1	Level 2	Level 3	Total
Financial assets measured at amortised cost	515,363	101,776	96,828	713,967
Investments measured at fair value through profit or loss	3,071	1,251	35,635	39,957
Investments at fair value through other comprehensive income	512,292	100,525	61,193	674,010
Financial assets for which the fair value is disclosed	72,197	88	1,816	74,101
Investments at amortised cost	21,687	88	1,816	23,591
Investments in loans	32,328	0	0	32,328
Cash and cash equivalents	18,182	0	0	18,182
Total	587,560	101,864	98,644	788,068

The valuation of certain shares at Level 2 of the fair value hierarchy was made using the method involving a comparison with the comparable listed companies.

The fair value valuation of Level 3 investments (shares and equity stakes) was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the net asset method (adjusted carrying amount).

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 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 6.4% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Maribor, 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 7.1% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Primorska, 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 6.9% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Celje, 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 6.6% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Gorenjska, 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 6.4% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Perutnina Ptuj, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.3% discount rate. The remaining growth rate of normalised cash flow is 2%.

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 8.64% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the business interest in Gospodarsko razstavišče, 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 8.07% discount rate. The remaining growth rate of normalised cash flow is 1.5%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o. is the value of the company's redundant real estate. The estimated value of this real estate is set using the comparable method.

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 7.6% discount rate. The remaining growth rate of normalised 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 8.74% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the holding in Plinhold, d. o. o. was estimated by applying the asset-based approach according to the net asset method. The value of the investment in Plinovodi, d. o. o., which accounts for 99.9% of the company's assets, 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 6.76% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

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 11.92% discount rate. The remaining growth rate of normalised cash flow is 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 8.72% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of shares of Sava, d. d., was estimated on the basis of the asset-based approach and using the net asset method under the assumption of regular liquidation of the company. The value of the investment in Sava Turizem, d. d., which accounts for the biggest investment of the company, 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 8.64% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of investment in account receivable is determined on the basis of the estimated fair value of pledged assets by taking into account the nominal amount of individual account receivable. 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 investment in account receivable is measured at Level 3 of the fair value hierarchy.

Gains from the Level 3 investments comprise dividends, coupons received from bonds and profits from the sale of investments.

Table 35: Changes in Level 3 investments

Item	
Balance as at 31 Dec. 2018	98,644
Disposals, maturity	-9,439
Acquisitions	2,190
Revaluation	-2,096
Reclassifications	2,407
Balance as at 31 Dec. 2019	91,706

Table 36: Transition between the levels of fair value hierarchy as at 31 December 2019

Transition between hierarchy levels, portfolio as at 31 Dec. 2019	in 000 EUR		
	From Level 1 to Level 2	From Level 2 to Level 1	From Level 3 to Level 2
Investments at fair value through other comprehensive income	13,737	26,645	714
Total	13,737	26,645	714

Table 37: Transition between the levels of fair value hierarchy as at 31 December 2018

Transition between hierarchy levels, portfolio as at 31 Dec. 2018	in 000 EUR			
	From Level 1 to Level 2	From Level 2 to Level 3	From Level 3 to Level 2	Total
Investments at fair value through other comprehensive income	1,884	6,834	18	8,736
Shares and other equity instruments	0	6,834	18	0
Units and shares of open-end funds	1,884	0	0	0
Total	1,884	6,834	18	8,736

Effective interest rate by investment groups

	2019	2018
Investments measured at amortised cost	6.19%	6.29%
Investments measured at fair value through other comprehensive income	4.15%	5.17%
Cash and cash equivalents	0.00%	0.00%

Note no. 18

Loans to others

	in 000 EUR					
	Long-term		Short-term		Total	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Deposits	0	0	16,960	32,328	16,960	32,328
Total	0	0	16,960	32,328	16,960	32,328

At the end of 2019, Kapitalska družba had no long-term deposits disclosed in its books of account.

Short-term loans comprise short-term deposits to Addiko banka, d. d. and Gorenjska banka, d. d. At the end of 2019, short-term loans to others totalled EUR 16,960 thousand.

All deposits are classified in the category at amortised cost.

Deposits are not pledged.

Note no. 19

Operating receivables

	in 000 EUR			
	Non-current		Current	
	31. 12. 2019	31. 12. 2018	31. 12. 2019	31. 12. 2018
Operating receivables due from Group companies	0	0	50	3
Operating receivables due from local customers	0	0	836	751
Operating receivables due from others	167	124	333	2,493
Other operating receivables	0	0	86	50,063
Total	167	124	1,305	53,310

EUR 167 thousand of non-current operating receivables due from others represent EUR 133 thousand paid into the reserve fund for the maintenance of real estate (2018: EUR 90 thousand) and receivables from a company in compulsory settlement proceedings equalling EUR 34 thousand (2018: EUR 34 thousand).

In 2019, operating receivables in the amount of EUR 1,305 thousand will fall due, whereas EUR 167 thousand of operating receivables will fall due in the subsequent years.

Kapitalska družba has no secured operating receivables. The Company's operating receivables are not subject to material risk.

Changes in credit losses from operating receivables

in 000 EUR

Credit losses from operating receivables

1 1 2019	-8
Write-off of receivables	7
31 Dec. 2019	-1

In 2019, Kapitalska družba, d. d. wrote off operating receivables in the amount of EUR 7 thousand, as collection was not possible.

Breakdown of operating trade receivables by maturity

in 000 EUR

31 Dec. 2019	Not due	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
836	831	2	0	0	0	3

Note no. 20

Cash and cash equivalents

in 000 EUR

	31 Dec. 2019	31 Dec. 2018
Bank balances	3,945	1,973
Euro redeemable deposits	11,660	16,209
Total	15,605	18,182

All call deposits are classified in the category at amortised cost.

Note no. 21

Equity

	31 Dec. 2019	31 Dec. 2018
Share capital (000 EUR)	364,810	364,810
Ordinary shares (number)	874,235	874,235

Kapitalska družba 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. 22

Capital surplus

in 000 EUR

Capital surplus

1 Jan. 2019	217,331
Increase in capital surplus	163
31 Dec. 2019	217,494

In 2019, the capital surplus increased by EUR 163 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2018, capital surplus totalled EUR 217,494 thousand.

in 000 EUR

Capital surplus

1 Jan. 2018	216,761
Increase in capital surplus	570
31 Dec. 2018	217,331

In 2018, the capital surplus increased by EUR 570 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2018, capital surplus totalled EUR 217,331 thousand.

Note no. 23

Revenue reserves

As at 31 December 2019, Kapitalska družba, d. d. had no other revenue reserves.

Note no. 24

Changes in reserves arising from valuation at fair value

	in 000 EUR	
Changes in reserves arising from valuation at fair value and deferred taxes in equity	2019	2018
Gross reserves from valuation at fair value as at 1 January	248,644	360,520
Changes due to the transition to IFRS 9 as at 1 January	0	119,283
Deferred tax as at 1 January	28,660	47,509
Net reserves arising from valuation at fair value as at 1 January	219,984	193,728
Changes during the year – gross increase in reserves	466,116	611,940
Changes during the year – gross decrease in reserves	-381,536	-604,533
Gross reserves arising from valuation at fair value as at 31 December	333,224	248,644
Adjustments (criteria: 8%, 6 months)	-135,089	-97,802
Gross balance after adjustment as at 31 December	198,135	150,842
Deferred tax as at 31 December	37,646	28,660
Net reserves arising from valuation at fair value as at 31 December	295,578	219,984

Note no. 25

Provisions and long-term accrued costs and deferred revenue

	in 000 EUR		
	Provisions for pensions and similar obligations	Other provisions	Total
1 Jan. 2019	233	677	910
Newly created provisions	0	52	52
Utilised provisions	4	0	4
Reversal of provisions	0	320	320
31 Dec. 2019	229	409	638

In 2019, the Company reversed EUR 320 thousand of provisions for non-achievement of guaranteed return of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), and created provisions for legal actions filed by insured members of the SODPZ fund in the amount of EUR 52 thousand. At the end of 2019, EUR 409 thousand of provisions for legal actions and legal disputes were formed.

In 2019, the Company created provisions for termination benefits upon retirement and jubilee benefits in the amount of EUR 4 thousand. At the end of 2019, provisions for termination benefits and jubilee awards amounted to EUR 229 thousand.

Provisions for termination benefits and jubilee awards are calculated on the basis of expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Company's internal regulations.

The Company utilised EUR 4 thousand of provisions for termination benefits and jubilee benefits, which were not planned in 2019. The Company formed EUR 52 thousand of provisions for legal actions filed by insured members of the SODPZ fund, which were not planned in 2019. In other provisions, there was no difference between the planned and the actual amount used and established.

in 000 EUR

	Provisions for pensions and similar obligations	Other provisions	Accrued costs and deferred revenue	Total
1 Jan. 2018	213	538	1,544	2,295
Newly established through profit or loss	22	319	0	341
Newly established through equity	26	0	0	26
Utilised provisions	-2	0	0	-2
Reversal of provisions through profit or loss	0	-180	0	-180
Reversal of provisions through equity	-26	0	0	-26
Transfer to short-term part	0	0	-1,544	-1,544
31 Dec. 2018	233	677	0	910

Note no. 26

Operating liabilities

in 000 EUR

	Non-current		Current	
	31. 12. 2019	31. 12. 2018	31. 12. 2019	31. 12. 2018
Trade payables	0	0	2,427	2,855
Operating liabilities from advances	15	15	0	513
Liabilities to the state	0	0	33	50,019
Corporate income tax liabilities	0	0	919	0
Other operating liabilities	33	0	502	1,079
Total	48	15	3,881	54,466

Non-current operating liabilities from advances comprise the security deposit received from the lessee of business premises in the amount of EUR 12 thousand (2018: EUR 12 thousand) and the security deposit due to work in progress on the office building "Stekleni dvor" in the amount of EUR 3 thousand (2018: EUR 3 thousand). Other operating liabilities in the amount of EUR 33 thousand represent a liability for the payment of variable remuneration of the Management Board for company performance.

Current operating liabilities in 2019 comprise trade payables in the amount of EUR 2,427 thousand, of which the largest part (EUR 2,240 thousand) refers to the liability for the payment of investment property; liabilities to the state equal EUR 33 thousand and corporate income tax liabilities amount to EUR 919 thousand. Other operating liabilities stand at EUR 502 thousand and mostly comprise liabilities for salaries.

Current operating liabilities in 2018 comprise trade payables in the amount of EUR 2,855 thousand, of which the largest portion in the amount of 2,527 thousand refers to the liability for the payment of investment property; advance received for the purchase of securities from KDD in the amount of EUR 513 thousand; liabilities to the state totalling EUR 50,019 thousand, of which the largest part in the amount of EUR 50,000 thousand relates to the payment obligation to the Pension and Disability Insurance Institute in 2019 and other operating liabilities equalling EUR 1,079 thousand, of which the bulk in the amount of EUR 667 thousand refers to deferred revenue recognised on acquisition of an investment in accounts receivable, calculated as the difference between the cost and fair value of the investment acquired.

Maturity structure of operating liabilities

in 000 EUR

31 Dec. 2019	Trade payables	Operating liabilities from advances	Liabilities to the state	Corporate income tax liabilities	Other operating liabilities	Total
Dospelost do 1 leta	2.427	0	33	919	502	3.881
Od 1 do 2 let	0	6	0	0	33	39
Od 2 do 5 let	0	6	0	0	0	6
Nad 5 let	0	3	0	0	0	3
Skupaj	2.427	15	33	919	535	3.929
Obveznosti, zavarovane s stvarnim jamstvom (zastavna pravica ipd.)	0	0	0	0	0	0

Note no. 27

Financial liabilities

	in 000 EUR			
	Non-current		Current	
	31. 12. 2019	31. 12. 2018	31. 12. 2019	31. 12. 2018
Other financial liabilities	0	0	0	3
Total	0	0	0	3

As at 31 December 2019, Kapitalska družba, d. d. has no financial liabilities. As at 31 December 2018, it disclosed EUR 3 thousand of financial liabilities from interest owed to KDD.

Financial liabilities maturity

	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Up to 1 year overdue	0	3
1 to 2 years	0	0
2 to 5 years	0	0
Over 5 years	0	0
Total	0	3

Collateralised borrowings

As at 31 December 2019, Kapitalska družba, d. d. had no borrowings.

Off-balance sheet receivables

As at 31 December 2019, Kapitalska družba, d. d. had no off-balance sheet receivables.

15.3.3 Managing the risks arising from financial assets

All risks to which Kapitalska družba is exposed, and the risk management measures and criteria, are described in Chapter 15.2 "Accounting policies". It is estimated that financial assets give rise to exposure to credit, market (interest, currency, price) and liquidity risk.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, 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 38: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2019

in 000 EUR

Financial assets at amortised cost				Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total		
Internal rating	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)	Net exposure	Net exposure	Total net exposure
	AAA	0		0	0	4,787	5,024	9,811
Low-risk investments	AA	0	12-month expected losses	0	0	1,850	5,005	6,855
	A	-2		18,023	18,021	46,803	0	64,824
	BBB	0		0	0	16,402	1,500	17,902
Total secure investments		-2		18,023	18,021	69,842	11,529	99,392
	BB	-43		17,701	17,658	320	0	17,978
	B	-13		1,195	1,182	3,121	1,091	5,394
Less secure investments	CCC	0	12-month / lifetime expected losses	0	0	0	0	0
	CC	0		0	0	0	0	0
	C	0		0	0	0	0	0
	without credit rating	0		11,660	11,660	0	2	11,662
Total less secure investments		-56		30,556	30,500	3,441	1,093	35,034
Impaired investments	D	0	Impairment through profit or loss in the amount of expected loss	0	0	0	22,427	22,427
Total impaired		0		0	0	0	22,427	22,427
Total		-58		48,579	48,521	73,283	35,049	156,853

Financial assets were classified into the stated groups based on credit ratings. Secure investments include all AAA to BBB rated investments, less secure investments comprise investments with a credit rating below BB to C and investments that do not have a rating assigned to them by a recognised credit rating agency, while impaired investments are given a D credit rating. Among less secure investments are mainly investments in deposits and cash assets of Slovenian banks.

Impaired investments represent an investment in accounts payable.

Table 39: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2018

in 000 EUR								
Financial assets at amortised cost						Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Internal rating	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)	Net exposure	Net exposure	Total net exposure
	AAA	0		0	0	0	0	0
Low-risk invest- ments	AA	0	12-month expected losses	0	0	1,778	0	1,778
	A	-2		17,764	17,762	49,821	0	67,583
	BBB	0		0	0	7,411	0	7,411
Total secure invest- ments		-2		17,764	17,762	59,010	0	76,772
	BB	-75		35,559	35,484	3,849	0	39,333
	B	-8		798	790	0	0	790
Less secure invest- ments	CCC	0	12-month / lifetime expected losses	0	0	0	0	0
	CC	0		0	0	0	0	0
	C	0		0	0	0	0	0
	without credit rating	0		14,210	14,210	0	2	14,212
Total less secure invest- ments		-83		50,567	50,484	3,849	2	54,335
Impaired invest- ments	D	0	Impairment through profit or loss in the amount of expected loss	0	0	0	34,950	34,950
Total impaired		0		0	0	0	34,950	34,950
Total		-85		68,331	68,246	62,859	34,952	166,057

Table 40: Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2019

Category	in 000 EUR		
	Stage 1	Stage 2	Stage 3
Allowances for losses as at 31 Dec. 2018	106	0	0
Transfer to stage 1	0	0	0
Transfer to stage 2	-10	35	0
Transfer to stage 3	0	0	0
Financial assets derecognised in the period	-76	0	0
Financial assets acquired in the period	56	0	0
Other changes	-6	0	0
Allowances for losses as at 31 Dec. 2019	70	35	0

Table 41: Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2018

Category	in 000 EUR		
	Stage 1	Stage 2	Stage 3
Allowances for losses as at 1 January 2018	61	0	0
Transfer to stage 1	0	0	0
Transfer to stage 2	0	0	0
Transfer to stage 3	0	0	0
Financial assets derecognised in the period	-38	0	0
Financial assets acquired in the period	83	0	0
Other changes	0	0	0
Allowances for losses as at 31 Dec. 2018	106	0	0

Table 42: Changes in gross carrying amount of investments measured at amortised cost and investments measured through other comprehensive income and changes in allowances for losses in 2019

Category	in 000 EUR	
	Gross carrying amount	Allowances for losses
As at 31 Dec. 2018	131,190	106
Transfer to stage 1	0	0
Transfer to stage 2	0	25
Transfer to stage 3	0	0
Financial assets derecognised in the period	-40,419	-76
Financial assets acquired in the period	32,577	56
Other changes	-1,487	-6
As at 31 Dec. 2019	121,861	105

Table 43: Changes in gross carrying amount of investments measured at amortised cost and investments measured through other comprehensive income and changes in allowances for losses in 2018

Category	in 000 EUR	
	Gross carrying amount	Allowances for losses
As at 1 Jan. 2018	132,980	61
Transfer to stage 1	0	0
Transfer to stage 2	0	0
Transfer to stage 3	0	0
Financial assets derecognised in the period	-40,848	-38
Financial assets acquired in the period	40,842	83
Other changes	-1,784	0
As at 31 Dec. 2018	131,190	106

Table 44: Geographical concentration of credit exposure of financial assets

Region	in 000 EUR	
	31. Dec. 2019	31. Dec. 2018
Slovenia	125,632	158,498
Other countries	31,221	7,314
Total	156,853	165,812

The share of financial assets exposed to credit risk in Slovenia decreased from 96% to 80% in 2019.

Currency risk

Table 45: Currency structure of financial assets

Currency	in 000 EUR	
	31. Dec. 2019	31. Dec. 2018
Assets denominated in EUR	932,414	824,621
Assets denominated in USD	126,089	113,693
Assets denominated in other currencies	0	3,035
Total	1,058,503	941,349

As at 31 December 2019, 88% of financial assets of the Company were denominated in EUR and 12% in USD. Currency structure of financial assets is monitored considering the currency in which the underlying instrument is denominated. Currency risk somewhat increased due to a higher exposure of investments in USD. As regards investments in investment fund units, the effect of currency fluctuation in securities representing investments of investment funds was not taken into account.

Table 46: Currency risk of financial assets

	in 000 EUR	
USD exchange rate fluctuation by +/- 10%	31. Dec. 2019	31. Dec. 2018
Impact on the income statement	+/- 6,762	+/- 0
Effect on equity	+/- 5,847	+/- 11,369

Interest rate risk

Interest rate risk is related to investments in debt instruments that respond to changes in market interest rates. These include assets of which revenues are related to the variable interest rate as well as debt instruments of which interest income is related to a fixed interest rate, but their market value changes upon the change in the market interest rates. The exposure to interest rate risk is regularly measured by the modified duration indicator.

Table 47: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2019 – change in interest rates by 100 basis points

	in 000 EUR			
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	+/- 1%	+/- 0	+/- 3,301	+/- 3,301
Financial assets measured at amortised cost	+/- 1%	+/- 0	+/- 0	+/- 0
Financial assets measured at fair value through other comprehensive income	+/- 1%	+/- 0	+/- 4,263	+/- 4,263
Total		+/- 0	+/- 7,564	+/- 7,564

Table 48: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2018 – change in interest rates by 100 basis points

	in 000 EUR			
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	+/- 1%	+/- 0	+/- 0	+/- 0
Financial assets measured at amortised cost	+/- 1%	+/- 0	+/- 0	+/- 0
Financial assets measured at fair value through other comprehensive income	+/- 1%	+/- 0	+/- 3,923	+/- 3,923
Total		+/- 0	+/- 3,923	+/- 3,923

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the impact on fair value was calculated by taking into account the investments subject to fixed interest rate, including investments in bond investment funds. If market interest rates changed by 100 basis points, the value of the investments as at 31 December 2019 would have changed by EUR 7,564 thousand. Interest rate risk increased in 2019 thanks to increased exposure

arising from the investments sensitive to changes in market interest rates and due to an increase in the average duration of the debt investment portfolio.

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 49: Market risk of the equity securities portfolio

Change of index by +/- 10%	in 000 EUR	
	31. Dec. 2019	31. Dec. 2018
Impact on the income statement	+/- 7,199	+/- 218
Effect on equity	+/- 13,552	+/- 27,672

The table takes into account the market investments in equity instruments excluding investment coupons of bond investment funds. The impact on profit or loss arises from equity investments measured at fair value through profit or loss, whilst the impact on equity arises from equity investments measured at fair value through other comprehensive income. The risk was calculated using the beta indicator of the world stock index. The market risk of equity investments reduced in 2019 due to the lower beta compared to 2018.

Table 50: Financial instruments in terms of marketability

Financial instrument	in 000 EUR	
	31. Dec. 2019	31. Dec. 2018
Securities traded on the regulated market	765,715	632,109
Investments at fair value through profit or loss	131,030	4,321
Investments at amortised cost	19,203	19,709
Investments at fair value through other comprehensive income	615,482	608,079
Securities not traded on the regulated market	79,632	66,616
Investments at fair value through profit or loss	17,608	685
Investments at amortised cost	698	0
Investments at fair value through other comprehensive income	61,326	65,931
Total	845,347	698,725

At the end of 2019, assets traded on regulated stock markets accounted for 76% of financial instruments or 72 % of all assets of Kapitálska družba, d. d. (this group includes OTC investments and investments on the interbank market). Available-for-sale financial assets measured at fair value through other comprehensive income 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 2019, Kapitalska družba, d. d. recorded a total of EUR 1,058,290 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 51: Expected actual non-discounted cash flows as at 31 December 2019

Item	in 000 EUR				
	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	27,704	35,836	44,455	897,705	1,005,701
• Investments at fair value through profit or loss	1,217	460	11,379	136,017	149,073
• Investments at amortised cost	3,844	12,717	6,284	0	22,845
• Investments at fair value through other comprehensive income	22,643	22,659	26,792	603,525	675,619
• Investments at cost	0	0	0	158,163	158,163
Investment in financial receivable	22,427	0	0	0	22,427
Loans and deposits given	17,014	0	0	0	17,014
Cash and cash equivalents	15,605	0	0	0	15,605
Operating receivables	1,305	167	0	0	1,472
Total assets	84,055	36,003	44,455	897,705	1,062,219
Operating liabilities	3,881	48	0	0	3,929
Financial liabilities	0	0	0	0	0
Total operating and financial liabilities	3,881	48	0	0	3,929
Difference	80,174	35,955	44,455	897,705	1,058,290

Table 52: Expected actual non-discounted cash flows as at 31 December 2018

in 000 EUR					
Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	6,392	50,675	29,554	773,319	859,940
• Investments at fair value through profit or loss	0	1	2	5,004	5,007
• Investments at amortised cost	1,991	14,346	6,576	0	22,913
• Investments at fair value through other comprehensive income	4,401	36,328	22,976	611,152	674,857
• Investments at cost	0	0	0	157,163	157,163
Investment in financial receivable	0	34,950	0	0	34,950
Loans and deposits given	32,461	0	0	0	32,461
Cash and cash equivalents	18,182	0	0	0	18,182
Operating receivables	53,310	124	0	0	53,434
Total assets	110,345	85,749	29,554	773,319	998,967
Operating liabilities	54,466	15	0	0	54,481
Financial liabilities	3	0	0	0	3
Total operating and financial liabilities	54,469	15	0	0	54,484
Difference	55,876	85,734	29,554	773,319	944,483

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

15.4 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 General information about Kapitalska družba. In 2019, Kapitalska družba approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

Receipts of the members of the Management Board, Supervisory Board and staff with executive employment contracts

In 2019, remunerations paid for carrying out of the responsibilities and duties of members of the Management Board, Supervisory Board and employees with executive employment contracts to which the tariff section of the collective agreement does not apply, amounted to EUR 947 thousand.

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

Table 53: Receipts by category of beneficiaries in 2019

Category of beneficiaries	in 000 EUR
	Amount
Members of the Management Board	411
Members of the Supervisory Board	134
Employees with executive employment contract	402
Total	947

No advances, loans or collateral were approved to members of the Management Board, the Supervisory Board and employees under individual contracts by Kapitalska družba, d. d. in 2019.

Receipts of the members of management and supervisory bodies

Receipts of the members of the Management Board are regulated by ZSDH-1. Pursuant to Article 51(5) of ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of SDH, d. d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of 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 supervisory body members of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the said 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 Management 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 Management 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 financial 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 2019 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 54: Receipts of members of the Management Board in 2019

Name and surname	in EUR											
	Fixed remuneration	Variable income	Benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net	Deferred remuneration
Bachtiar Djalil (President of the Management Board)	124.910	9.921	55	1.791	2.819	-	-	-	1.000	140.496	72.705	9.921
Goranka Volf (Member of the Management Board)	118.858	9.396	55	2.367	2.819	-	-	-	1.000	134.495	68.115	9.396
Gregor Bajraktarević (Member of the Management Board)	118.686	9.441	55	4.236	2.819	-	-	-	1.000	136.237	72.553	9.441
Skupaj	362.454	28.758	165	8.394	8.457	-	-	-	3.000	411.228	213.373	28.758

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 Management Board refers to the bonus for company business performance for 2018 on the basis of a combination of quantitative and qualitative criteria. Benefits include collective accident insurance premiums. Cost reimbursements include reimbursement of meal and travel and/or accommodation expense and/or per diems. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave. Deferred remuneration refers to the second part of the payment of variable remuneration to the Management Board for 2018, which will be paid in 2021.

Table 55: Receipts of members of the Supervisory Board in 2019

Name and surname											in EUR	
	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Stanislav Seničar (Chairman of the Supervisory Board)	16,500	5,335	-	500	-	-	-	-	-	-	22,335	16,244
Boris Žnidarič, PhD (Deputy Chairman of the Supervisory Board, President of the Accreditation Committee)	15,929	5,500	-	65	-	-	-	-	-	-	21,494	15,632
Cirila Surina Zajc (Member of the Supervisory Board until 1 February 2019, Member of the Audit Committee and Member of the HR Committee)	2,799	935	-	108	-	-	-	-	-	-	3,842	2,794
Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, President of the HR Committee)	16,500	5,500	-	351	-	-	-	-	-	-	22,351	16,256
Ladislav Rožič, MSc (Member of the Supervisory Board, President of the Audit Committee, Member of the Accreditation Committee)	16,422	5,500	-	84	-	-	-	-	-	-	22,006	16,005
Natalija Stošički (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee)	16,500	5,500	-	529	-	-	-	-	-	-	22,529	16,385
Mirko Miklavčič (Member of the Supervisory Board since 2 February 2019, Member of the Audit Committee and Member of the HR Committee)	13,390	5,280	-	824	-	-	-	-	-	-	19,494	14,178
Total	98,040	33,550	-	2,461	-	-	-	-	-	-	134,051	97,494

Fixed receipts of the Supervisory Board members include payment for the performance of duties of 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 56: Receipts of external members of the Supervisory Board's committees in 2019

Name and surname											in EUR	
	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Mojca Verbič (External Member of the Audit Committee)	3,600	572	-	33	-	-	-	-	-	-	4,205	3,059
Irena Prijović, MSc (External Member of the Accreditation Committee)	3,600	836	-	-	-	-	-	-	-	-	4,436	3,226
Alenka Stanič, PhD (External Member of the Accreditation Committee)	3,600	836	-	-	-	-	-	-	-	-	4,436	3,226
Gorazd Žmavc (External Member of the Accreditation Committee)	3,600	836	-	289	-	-	-	-	-	-	4,725	3,436
Total	14,400	3,080	-	322	-	-	-	-	-	-	17,802	12,947

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 2019, the members of management and supervisory bodies received receipts for duties performed in the subsidiary Modra zavarovalnica, d. d.

Table 57: Receipts of the members of management and supervisory bodies in the subsidiary Modra zavarovalnica, d. d. in 2019

Name and surname											in EUR	
	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Benefits	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Natalija Stošicki (President of the Supervisory Board until 9 April 2019)	5,029	1,485	-	96	-	-	-	-	-	-	6,610	4,808
dr. Boris Žnidarič (Member of the Supervisory Board until 14 January 2019)	393	275	-	3	-	-	-	-	-	-	671	488
Bachtiar Djalil (Member of the Supervisory Board since 14 January 2019, President or the Supervisory Board from 11 April 2019 to 22 December 2019 and Deputy President of the Supervisory Board since 23 December 2019)	13,729	2,915	-	-	243	-	-	-	-	-	16,887	12,039
Total	19,151	4,675	-	99	243	-	-	-	-	-	24,168	17,335

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. The benefits are linked to the insurance of liability of members of supervisory bodies.

Activities of the Supervisory Board of Kapitalska družba and its committees

The Supervisory Board held 22 meetings in 2019. The members attended the Supervisory Board meetings regularly; member Natalija Stošicki could not attend two of the meetings for justifiable reasons and Aleksander Mervar, MSc, was absent three times.

The Audit Committee of the Supervisory Board had six meetings. The members attended the meetings regularly. Member of the Audit Committee Aleksander Mervar, MSc, could not attend two of the meetings and external member of the Committee Mojca Verbič was absent three times; both members for justifiable reasons.

The Accreditation Committee held four meetings. The members attended the meetings regularly. Member of the Accreditation Committee Aleksander Mervar, MSc, could not attend three of the meetings for justifiable reasons.

The HR Committee had two meetings, which were attended by all three members.

Related-party transactions

In 2019 Kapitalska družba 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 decision on approving the amendments and supplements to the Occupational Health Insurance Plan No. 1032-9/2019-2 of 20 May 2019, issued by the Ministry of Labour, Family, Social Affairs and Equal Opportunities, a new Occupational Retirement Pension Scheme entered into force on 1 July 2019. On 6 August 2019, the amended Rules on the Management of the SODPZ entered into force, to which the Securities Market Agency issued a consent on 3 July 2019.

Events after the date of the statement of financial position

Financial markets recorded markedly negative trends in February 2020, as investors decided to move equity from risky to safer investment categories due to fears of the spread of coronavirus and its potential negative impact on economic growth. The global stock market index thus fell by more than 20% in February 2020, which affects the performance of the mutual pension fund managed by Kapitalska družba, d. d. (SODPZ) as well as the return on the Company's own funds. The impact of changes in stock indices on the profit or loss or equity of Kapitalska družba, d. d. is presented within the risk management section in the financial part of the Annual Report. The economic downturn may also negatively impact the net revenue from the management of the SODPZ fund and payments of premiums to SODPZ.

After a very successful 2019, financial markets had an optimistic start in 2020. The outbreak of coronavirus in Europe has led to a sharp drop in stock and corporate bond prices. Aware of the implications of the virus, financial markets have reacted strongly to the global spread. The markets were faced with additional uncertainties due to a drop in oil prices as a result of the terminated agreement between Russia and members of OPEC on the further reduction of the quantity of oil pumped. Stock market indices fell sharply (recording historical daily declines of up to 10%), while yields to maturity of government bonds also decreased significantly. On 9 March 2020, the Germany 10Y Bond Yield reached its all-time low at -0.86%, while both government and corporate bond credit spreads rose sharply. On 16 March 2020, the market's volatility increased substantially, with the volatility index level rising from 13.8 at the end of 2019 to an all-time record of 82.7. Central banks reacted strongly to the market conditions, lowering interest rates and introducing new bond repurchase programmes. Countries have also responded, announcing extensive fiscal stimulus measures.

This year (from 31 December 2019 to 23 April 2020), the return of the global stock market index was -12.2%, the return of the corporate bond index was -3.9% and the return of the government bond index was -0.9%. In the period from 31 December 2019 to 23 April 2020, the return on assets of Kapitalska družba, d. d. was -5.25%.

We estimate that the pandemic will differently affect equity investment performance, depending on the industry in which an individual company operates. We expect that companies in the tourism and gaming industry (Sava, d. d. and Hit, d. d.) will be impacted the most. The negative effects of the SARS-CoV-2 epidemic on the 2020 profit or loss will be mitigated and reduced respectively by an act on the intervention measures to mitigate the consequences of the communicable disease SARS-CoV-2 (COVID-19) epidemic.

When COVID-19 first emerged in Europe, Kapitalska družba, d. d. adopted a number of measures to protect its employees, clients and other stakeholders, including:

- | the purchase of hand disinfectants, disinfection sensors and protective masks for employees who worked with clients in the contact centre,
- | disinfection of business premises,
- | restrictions on the provision of services in the contact centre and restrictions on holding meetings,
- | promoting the digitization of processes.

It also mobilised a crisis management group for work from home that would carry out all the activities necessary for the operations of Kapitalska družba, d. d. After the declaration of the epidemic in the Republic of Slovenia and in view of new information about the scale and duration of the new situation, the Company enabled all employees to work from home using the technology that enables teleworking and subject to strict safety rules. Work at the Company headquarters is thus performed only by those employees who, due to their individual circumstances or the nature of their work, are unable to work from home.

For maximum maximum safety and health of its employees, Kapitalska družba, d. d. ensured a smooth and uninterrupted workflow by virtualising most work processes.

In March 2020, the pledge to secure liabilities in the amount of EUR 1 million was lifted. The pledge was entered to secure investment property (commercial building) co-owned by Kapitalska družba, d. d. The said insurance remained entered only on a smaller plot, which is part of the functional land of the commercial building.

Pursuant to paragraph 3 of Article 52 of the Slovenian Sovereign Holding Act (ZSDH-1), the annual liability to the Pension and Disability Insurance Institute of the Republic of Slovenia depends on the amount of pension adjustment. This amount is limited to EUR 50 million. At its 15th session on 18 February 2020, the Council of the Pension and Disability Insurance Institute adopted a decision on regular adjustment of pensions and other benefits by 3.2%. Because the nominal amount of this adjustment exceeds EUR 50 million, the liability of Kapitalska družba, d. d. in 2020 is EUR 50 million.

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Kapitalska družba, d. d. strives to operate in a sustainable manner –
commercially, socially and environmentally.

Annual Report of Kapitalska družba, d. d.
for 2019



KAPITALSKA DRUŽBA