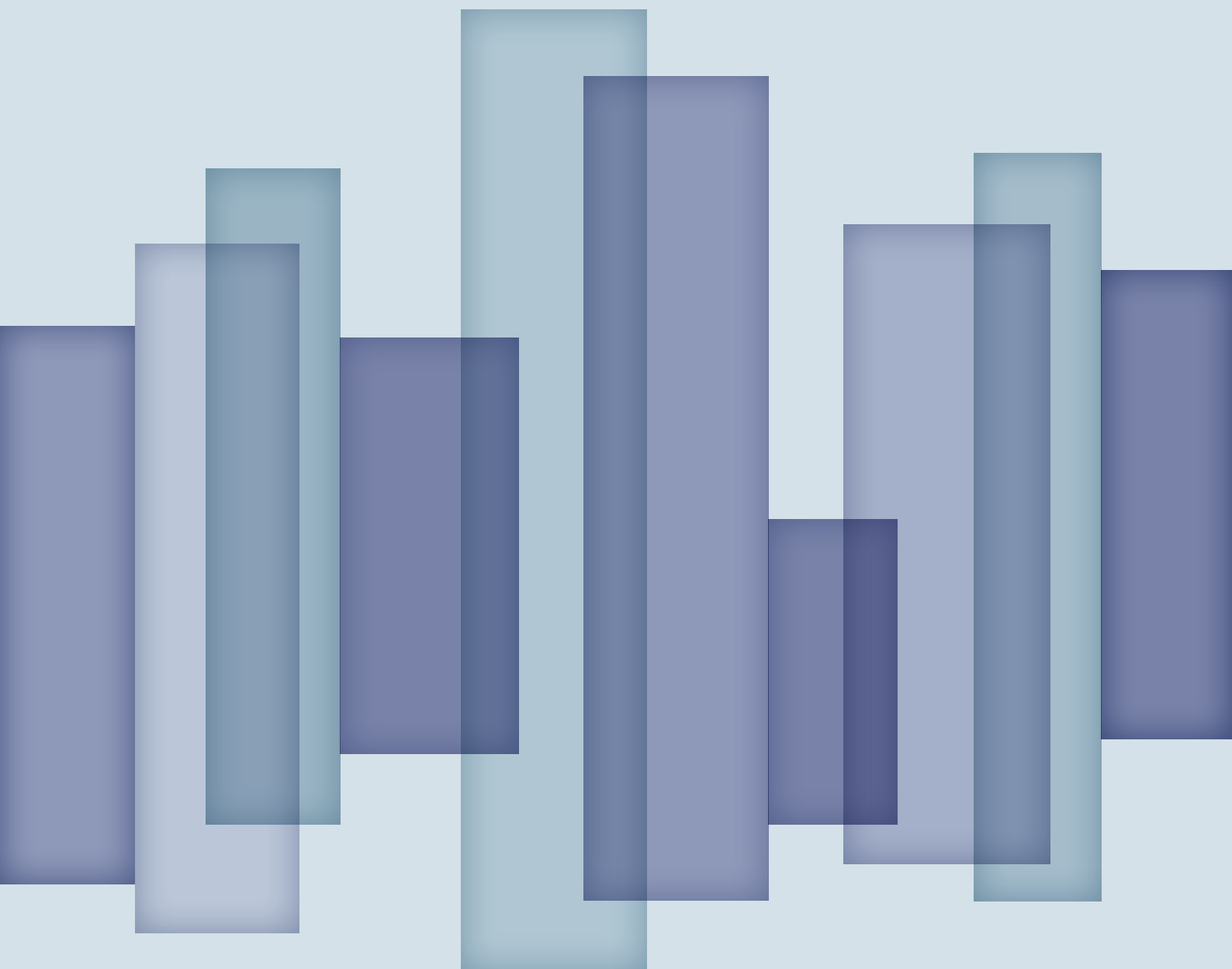


# Annual Report

## 2016



KAPITALSKA DRUŽBA

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## List of Abbreviations used

ISA	Insurance Supervision Agency
GDP	Gross domestic product
BVAL	Bloomberg Valuation Service
CBBT	Composite Bloomberg Bond Trader
BAMC	Bank Assets Management Company
ECB	European Central Bank
EFQM	European Foundation for Quality Management
EIR	Effective interest rate
EUR	Euro – currency of the European Union
FARS	Financial Administration of the Republic of Slovenia
IASB	International Accounting Standards Board
ITIL	Information Technology Infrastructure Library
KAD	Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.
KaD.Net	Website for the secure exchange of data
KDD	Central Securities Clearing Corporation
KS SODPZ	Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
MLFSAEO	Ministry of Labour, Family, Social Affairs and Equal Opportunities
MF	Ministry of Finance
MKPS	Modri Umbrella Pension Fund
MDRS	Ministry of Defence of the Republic of Slovenia
IFRS	International Financial Reporting Standards
OdSUKND	Decree on the Strategy for Managing State Capital Investments
IFRIC	International Financial Reporting Interpretations Committee
OTC	Over-the-counter market
VSPI	Voluntary supplementary pension insurance
PSS	Bridging insurance fund for professional athletes (bridging fund for athletes)
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 and 68/2016)
ZODPol-C	Act Amending the Organisation and Work of the Police Act (Official Gazette of the Republic of Slovenia, No. 77/2016)
ZFPPIPP	Financial Operations, Insolvency and Compulsory Dissolution Act (Official Gazette of the Republic of Slovenia, Nos. 126/2007, 40/2009, 59/2009, 52/2010, 106/2010 – ORZFPPIPP21, 26/2011, 47/2011 – ORZFPPIPP21-1, 87/2011 – ZPUOOD, 23/2012 – Constitutional Court ruling, 48/2012 – Constitutional Court ruling, 47/2013, 100/2013, 10/2015 – amended, 27/2016, 31/2016 – Constitutional Court ruling, 38/2016 – Constitutional Court ruling, 63/2016 – ZD-C)
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 – 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 and 55/2015)
ZIPRS1617	Implementation of the Budget of the Republic of Slovenia for 2016 and 2017 Act (Official Gazette of the Republic of Slovenia, Nos. 96/2015, 46/2016, 80/2016)
ZIPRS1718	Implementation of the Budget of the Republic of Slovenia for 2017 and 2018 Act (Official Gazette of the Republic of Slovenia, No. 80/2016)
ZNVP-1A	Act Amending the Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, No. 5/2017)
ZPIZ	Pension and Disability Insurance Institute
ZPIZ-1	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 109/2006 [official consolidated text] – ZPIZ-1 UPB 4, 112/2006 – Constitutional Court ruling, 114/2006 – ZUTPG, 17/2007, 5/2008, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZIUZGK, 27/2010 – Constitutional Court ruling, 38/2010 – ZUKN, 56/2010, 79/2010 – ZPKDPIZ, 94/2010 – ZIU, 57/2011, 94/2011 – Constitutional Court ruling, 105/2011 – Constitutional Court ruling, 61/2010 – ZSVarPre, 40/2011 – ZSVarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 96/2012 – ZPIZ-2, 30/2015 – 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, 102/2015, 42/2016 – Constitutional Court ruling, 80/2016 – ZIPRS1718, 88/2016 – ZUPPJS17)
ZPIZ-2B	Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/2015)
ZPPOGD	Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010, 8/2011 and 23/2014 – ZDIJZ-C)
ZPZPŠ	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, Nos. 41/2014 and 47/2015)
ZPZPŠ-1	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, No. 82/2015)
ZPZRTH	Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (Official Gazette of the Republic of Slovenia, Nos. 61/2000, 42/2003, 71/2004, 43/2010, 49/2010 – amended, 40/2012 – ZUJF, 25/2014, 46/2014 and 82/2015)
ZSDH	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 105/2012, 39/2013, 101/2013 – ZIPRS1415, and 25/2014 – ZSDH-1)
ZSDH-1	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 25/2014, 96/2015 – ZIPRS1617, 80/2016 – ZIPRS1718)
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)
ZZavar	Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 13/2000, 31/2000 – ZP-L, 91/2000 – amended, 12/2001 – Constitutional Court ruling, 21/2002, 52/2002 – ZJA, 91/2002 – Constitutional Court ruling, 29/2003 – Constitutional Court ruling, 40/2004 – ZDDPO-1, 50/2004, 65/2004 – Constitutional Court ruling, 76/2005 – ZZVZZ-H, 8/2006 – ORZZavar62, 79/2006, 114/2006 – ZUE, 9/2007, 102/2007, 69/2008, 19/2009, 49/2009, 83/2009, 79/2010, 90/2012, 102/2012, 56/2013, 63/2013 – ZS-K, 66/2014, 92/2014 and 93/2015 – ZZavar-1)
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015)



Operating revenue totalled  
EUR 10.1 million in 2016.

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Financial revenue totalled  
EUR 33.4 million in 2016.

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A net loss in the amount of EUR 6.4 million  
was generated during the 2016 financial  
year. Excluding the transfer to the ZPIZ,  
net profit for 2016 would have been EUR  
50 million higher at EUR 43.6 million,  
without taking into account tax effects.

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Total assets stood at EUR  
1 billion at the end of 2016.

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The value of assets under management  
by Kapitalska družba in the SODPZ was  
EUR 664.4 million at the end of 2016.

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The value of assets under management  
by Kapitalska družba in the KS SODPZ  
was EUR 5.6 million at the end of 2016.

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A total of 46,150 policyholders held  
savings in the SODPZ at the end of 2016.

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Kapitalska družba transferred a total  
of EUR 714.3 million to the budget  
of the ZPIZ between 1999 and 2016,  
including EUR 50 million in 2016.

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The Company had 60 employees  
at the end of 2016.

## 2 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 2016.

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), the Guarantee Fund of the Compulsory





Supplementary Pension Insurance Fund (hereinafter: the KS SODPZ)<sup>1</sup> and the Bridging Fund for Athletes (hereinafter: the PSS). Kapitalska družba also performs other activities related to asset management and asset management support services.

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

- 58.110 Book publishing
- 58.120 Publishing of directories and mailing lists
- 58.130 Publishing of newspapers
- 58.140 Publication of magazines and other periodicals
- 58.190 Other publishing activities
- 58.290 Other software publishing
- 59.200 Sound recording and music publishing activities
- 62.010 Computer programming activities
- 62.020 Computer consultancy activities
- 62.030 Computer facilities management activities
- 62.090 Other information technology and computer service activities
- 63.110 Data processing, hosting and related activities
- 63.120 Web portals
- 64.200 Activities of holding companies
- 64.300 Trusts, funds and similar financial entities
- 64.990 Other financial service activities, except insurance and pension funding activities n.e.c.
- 65.300 Pension fund activities
- 66.210 Risk and claims assessment
- 66.290 Other auxiliary activities for insurance and pension funding
- 68.100 Buying and selling of own real estate
- 68.200 Renting and operating of own or leased real estate

<sup>1</sup> The Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia was liquidated on 1 January 2017.

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 2016 in the following composition:

- ♦ Bachtiar Djalil, President,
- ♦ Dr Boris Žnidarič, member (until 23 November 2016), and
- ♦ Goranka Volf, member (since 24 November 2016).

Dr Boris Žnidarič's temporary term of office as member of the Management Board (a function to which he was appointed in accordance with the second paragraph of Article 273 of the ZGD-1) expired on 23 November 2016. Goranka Volf began her four-year term as member of the Management Board on 24 November 2016.

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

One of the members of the Management Board is appointed 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 2016:

- ♦ Samo Lozej, Chairman (until 8 April 2016),
- ♦ Stanislav Seničar, member (until 14 April 2016); Chairman (since 15 April 2016),
- ♦ Dr Boris Žnidarič, Deputy Chairman (since 24 November 2016),
- ♦ Cirila Surina Zajc, Deputy Chairwoman (until 23 November 2016; member (since 24 November 2016),
- ♦ Aleksander Mervar, MSc, member,
- ♦ Ladislav Rožič, MSc, member,
- ♦ Janez Bedina, member (from 8 January 2016 to 23 November 2016), and
- ♦ Natalija Stošicki, member (since 8 April 2016).

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH,<sup>2</sup> while two members are appointed on the basis of a proposal by a 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

<sup>2</sup> Two of the current three members of the Supervisory Board were appointed based on a proposal by Slovenska odškodninska družba in accordance with the previously valid ZSDH.

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 shall be voted upon by representatives (electors) of national-level representative federations/confederations, who shall inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation each has one representative for every 10 thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

#### **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.

### 3 STATEMENT OF THE MANAGEMENT BOARD

Economic conditions in Slovenia were relatively stable in 2016. Strengthening economic activity was fuelled by an increase in exports and rising household consumption. Slovenia was among EU Member States with the highest economic growth. It is thus closing the gap in terms of the average degree of development. It nevertheless remains part of a smaller group of countries whose GDP lags most behind pre-crisis levels. Conditions on the labour market are improving in the context of moderately optimistic economic conditions. Positive results were also characteristic of the Slovenian tourism sector, which ranked above the European and global averages in terms of the number of guests and overnight stays in a record year for that sector. The general government deficit according to cash flows was nearly halved during the first nine months of the year relative to the same period the previous year.

Despite relatively favourable economic developments in the EU and Slovenia, 2016 was characterised by political shocks: the unresolved refugee crisis, Brexit and the results of the US election. Political and economic challenges intertwine with humanitarian and environmental problems in a globalised world. What those challenges and problems have in common is the way they spread across national borders and cause general instability.

The operations of Kapitalska družba are a reflection of conditions in the Slovenian and international economic and political environment. The comprehensive management of risk 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.

In the context of numerous challenges from the external environment, the ageing of the Slovenian population is becoming increasingly important. Slovenia is one of the most at-risk countries in terms of the projected ageing of its population. This in turn means growing pressure on expenditure for social protection. Although there have been delays in the establishment of an independent and autonomous demographic reserve fund, Kapitalska družba fulfils its obligations to the public pension system in full. The Company transferred EUR 50 million to the Pension and Disability Insurance Institute in 2016, an increase of EUR 31 million relative to the previous year.



**Gregor Bajraktarević**  
Member of the Management Board



**Goranka Volf**  
Member of the Management Board



**Bachtiar Djalil**  
President of the Management Board

Kapitalska družba's total transfers to the public pension insurance system thus exceeded EUR 714 million last year. Here it should be noted that Kapitalska družba's prescribed liability to the Pension and Disability Insurance Institute of EUR 50 million exceeds the assets at its disposal, as a significant portion of the Company's investments are classified as strategic and are thus not for sale. On the other hand, Kapitalska družba is dependent when selling companies on Slovenski državni holding, d. d. (SDH), 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.

At EUR 3.7 million, the Company's operating profit was up on the previous year, while a net loss in the amount of EUR 6.4 million was generated during the 2016 financial year. Excluding the transfers to the ZPIZ, net profit for 2016 would have been EUR 50 million higher at EUR 43.6 million, without taking into account tax effects.

We managed funds in excess of EUR 664 million in the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) at the end of 2016, representing the savings of more than 46,000 policyholders. As at 31 December 2016, a total of 220 retirees received an occupational pension from the aforementioned fund, while gross pensions exceeded EUR 4 million in 2016. In accordance with the provisions of the Pension and Disability Insurance Act (ZPIZ-2), 180 retirees began receiving an occupational pension in 2016, while 17 persons qualified for occupational retirement in accordance with the provisions of the Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH). In 2016, a total of 3,452 policyholders requested a lump-sum payment or the transfer of funds to the supplementary pension insurance system, in a total amount of more than EUR 82 million. The majority of those payments comprise lump-sum payments of redemption values made to policyholders by the Ministry of Defence in accordance with the fifth paragraph of Article 206 of the ZPIZ-2. A total of 3,011 policyholders from the Ministry of Defence thus received in excess of EUR 73 million in 2016.

The Act Amending the Pension and Disability Insurance Act (ZPIZ-2B) entered into force on 1 January 2016, bringing with it significant changes to occupational insurance and occupational retirement. Due

to the large number of new tasks and competences imposed on Kapitalska družba (as manager of the SODPZ) by the ZPIZ-2B, and on account of the short deadlines for the implementation of those tasks and competences, the Company established a project in 2016 aimed at the implementation of the ZPIZ-2B in order to adapt processes linked to the provision of occupational insurance and the payment of occupational pensions, and to upgrade the associated IT support. Kapitalska družba harmonised the occupational pension insurance plan and the occupational pension payment plan with the provisions of the ZPIZ-2B within the 12-month deadline following the entry into force of the aforementioned act. On 23 November 2016, the Minister of Labour, Family, Social Affairs and Equal Opportunities approved a new occupational insurance pension plan, which entered into force on 1 January 2017. New rules on the management of the SODPZ also entered into force on 1 January 2017. The KS SODPZ was liquidated with the entry into force of the new pension plan, while payments of occupational pensions from the SODPZ began as partial redemption values.

The Bridging Insurance for Professional Athletes Act (ZPZPŠ-1) tasked Kapitalska družba with the implementation of bridging insurance, which represents an opportunity to partially fill the financial gap between the end of a professional athlete's active sporting career and the beginning of a new career. Kapitalska družba fulfilled all of its obligations and created the bridging insurance fund for professional athletes (PSŠ) by the legally prescribed deadline of 1 September 2016. Also created as a preliminary step was a fund committee which, in the absence of representative trade unions in the field of sports, comprises representatives of the Slovenian government and the Olympic Committee. The two-year project, which also included an urgent change because the law was initially unenforceable, was very costly and required employees' commitment to work. The PSŠ was empty at the time this report was compiled, i.e. it had no policyholders or assets. The creation of the PSŠ means the establishment of an infrastructure appropriate for the provision of insurance to cover the existential needs of Slovenia's greatest athletes. Due to the systemic disorganisation of employment relations in the field of sport, there exists a significant risk that the fund will continue to remain empty. A great opportunity would thus be missed for athletes and their employers to generate savings specifically for the period following the end of athletes' active sporting careers. Everything must be done to ensure the fund can begin serving its function as a form of bridging insurance, not only due to the high costs incurred by Kapitalska družba in the fulfilment of its obligation to create the PSŠ, but also due to the huge importance sports represent to the Slovenian public and on account of the significant promotional effects generated by Slovenian sporting achievements.

In addition to the project aimed at the implementation of bridging insurance for athletes, Kapitalska družba also began implementing a project in 2016 to replace its information system. Due to the size, complexity and risks of such projects, that replacement will be carried out gradually and continue for some time. The replacement of the information system is accompanied by the optimisation of key business processes and their adaptation to numerous changes in the business and financial environments. Kapitalska družba thus tracks the rapid and frequently hectic changes in the environment that require insightful responses. We further enhance our strengths and improve the quality of operations through the use of state-of-the-art information technologies.

We are aware every day that the future begins now. And that future will need Kapitalska družba, which pays pensions to its policyholders and facilitates a fair pension for Slovenian retirees through supplemental payments. Our talents, time and commitment are dedicated to Slovenian retirees: to everyone who throughout their life dedicated their own time, talents and commitment to their work and job. We have thus helped co-create that which we live today. The demographic reserve fund model must thus combine more than just financial resources; it must also combine the efforts of all Slovenian generations for a better tomorrow. For a tomorrow that begins today.

  
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 for 2016

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,<sup>1</sup> 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 7 January 2016: Samo Lozej (Chairman), Cirila Surina Zajc (Deputy Chairwoman), Aleksander Mervar, MSc, Stanislav Seničar, and Ladislav Rožič, MSc. Because Dr Boris Žnidarič assumed his function as member of the Management Board, Janez Bedina was appointed to serve as member of the Supervisory Board at the Company's General Meeting held on 8 January 2016. Mr Bedina's term of office ran from 8 January 2016 until 23 November 2016 (inclusive), as he was only appointed to serve as member of the Supervisory Board while Dr Žnidarič served as member of the Management Board. The Supervisory Board functioned in the following composition from 8 January 2016 to 8 April 2016: Samo Lozej (Chairman), Cirila Surina Zajc (Deputy Chairwoman), Aleksander Mervar, MSc, Stanislav Seničar, and Ladislav Rožič, MSc and Janez Bedina. Samo Lozej was recalled from his function as member of the Supervisory Board at the Company's General Meeting held on 8 April 2016. At that time, Natalija Stošički was appointed as new member. Stanislav Seničar was elected Chairman of the Supervisory Board at the 101st session of the Supervisory Board held on 15 April 2016. The Supervisory Board functioned in the following composition from 8 April 2016 to 23 November 2016: Stanislav Seničar (Chairman since 15 April 2016), Cirila Surina Zajc (Deputy Chairwoman), Aleksander Mervar, MSc, Ladislav Rožič, MSc, Janez Bedina and Natalija Stošički. Due to the expiration of his one-year term of office as member of the Management Board, the suspension of Dr Žnidarič's function as member and Deputy Chairman of the Supervisory Board was lifted, effective 24 November 2016. The Supervisory Board functioned in the following composition from 24 November 2016 to 31 December 2016: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Cirila Surina Zajc, Aleksander Mervar, MSc, Ladislav Rožič, MSc and Natalija Stošički. 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, 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.

<sup>1</sup> Two of the current three members of the Supervisory Board were appointed based on a proposal by Slovenska odškodninska družba in accordance with the previously valid ZSDH1.



The Supervisory Board met at 18 sessions during the 2016 financial year as follows: 13 regular session and five correspondence sessions.

Particular attention in the monitoring of Kapitalska družba's operations in 2016 was given to monitoring the management of the Company's assets, and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) and the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (KS SODPZ), which are managed by Kapitalska družba.

At its 102nd session on 6 May 2016, the Supervisory Board approved the annual report of Kapitalska družba for the 2015 financial year, adopted the report on the verification of the Company's annual report for 2015, and was briefed on the audited annual report of the SODPZ for 2015, the audited annual report of the KS SODPZ for 2015 and the actuary's report. At its 106th session of 22 June 2016, the Supervisory Board approved the consolidated annual report of the Kapitalska Družba Group for the 2015 financial year, adopted the report on the verification of the consolidated annual report of the Kapitalska Družba Group for 2015 and submitted a proposal to the General Meeting on the appointment of an audit firm.

The Supervisory Board was continuously briefed on the operations of the subsidiary Modra zavarovalnica. Special attention was given to the Company's management activities, in the scope of which specific investments were presented and discussed in detail at sessions of the Supervisory Board. For specific 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 114th session of 16 December 2016, the Supervisory Board gave its consent to Kapitalska družba's business-financial plan for the 2017 financial year.

At its 110th session of 12 October 2016, the Supervisory Board appointed Goranka Volf to a four-year term as member of the Management Board based on a previous call for candidates for that function. Ms Volf began her term of office on 24 November 2016. At its 114th session of 16 December 2016, the Supervisory Board appointed Gregor Bajraktarevič as temporary member of the Management Board. Mr Bajraktarevič's term of office is to be a maximum of one year from the day he assumes his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first. His term of office began 6 February 2017.

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. That

assessment serves as the basis for the drafting of proposals to improve the future work of the Supervisory Board.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2016. The accreditation committee's task was to provide support to the Supervisory Board in the supervision of the management of the Company's transactions as they relate to the governance of companies in which Kapitalska družba holds capital investments. The HR committee was created in August 2016 as a permanent committee. Its main tasks were to review applications and formulate a proposal for the Supervisory Board based on a public call for candidates for the function of member of the Management Board.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in Tables 50 and 51.

#### **Work of the Supervisory Board's audit committee**

The Supervisory Board's audit committee functioned in the following composition in 2016:

- Ladislav Rožič, MSc (chairman),
- Aleksander Mervar, MSc (member),
- Cirila Surina Zajc (member),
- Natalija Stošički, (member since 15 April 2016), and
- Mojca Verbič (external member).

The audit committee met at six sessions in 2016, one of which was a correspondence session. In its work, the audit committee complied with the provisions of the ZGD-1 regarding its competences, as well as the provisions of the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee represented a permanent working body of the Supervisory Board, and closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. In addition to its legally prescribed tasks, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiaries and the pension funds under Kapitalska družba's management (SODPZ and KS SODPZ). It also monitored the work of the internal audit department. The audit committee also carried out a self-assessment. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

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

On the basis of the aforementioned 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 assesses that the Management Board of Kapitalska družba successfully and properly managed the Company's transactions during the 2016 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 2016.

**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 2016, 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 2016**

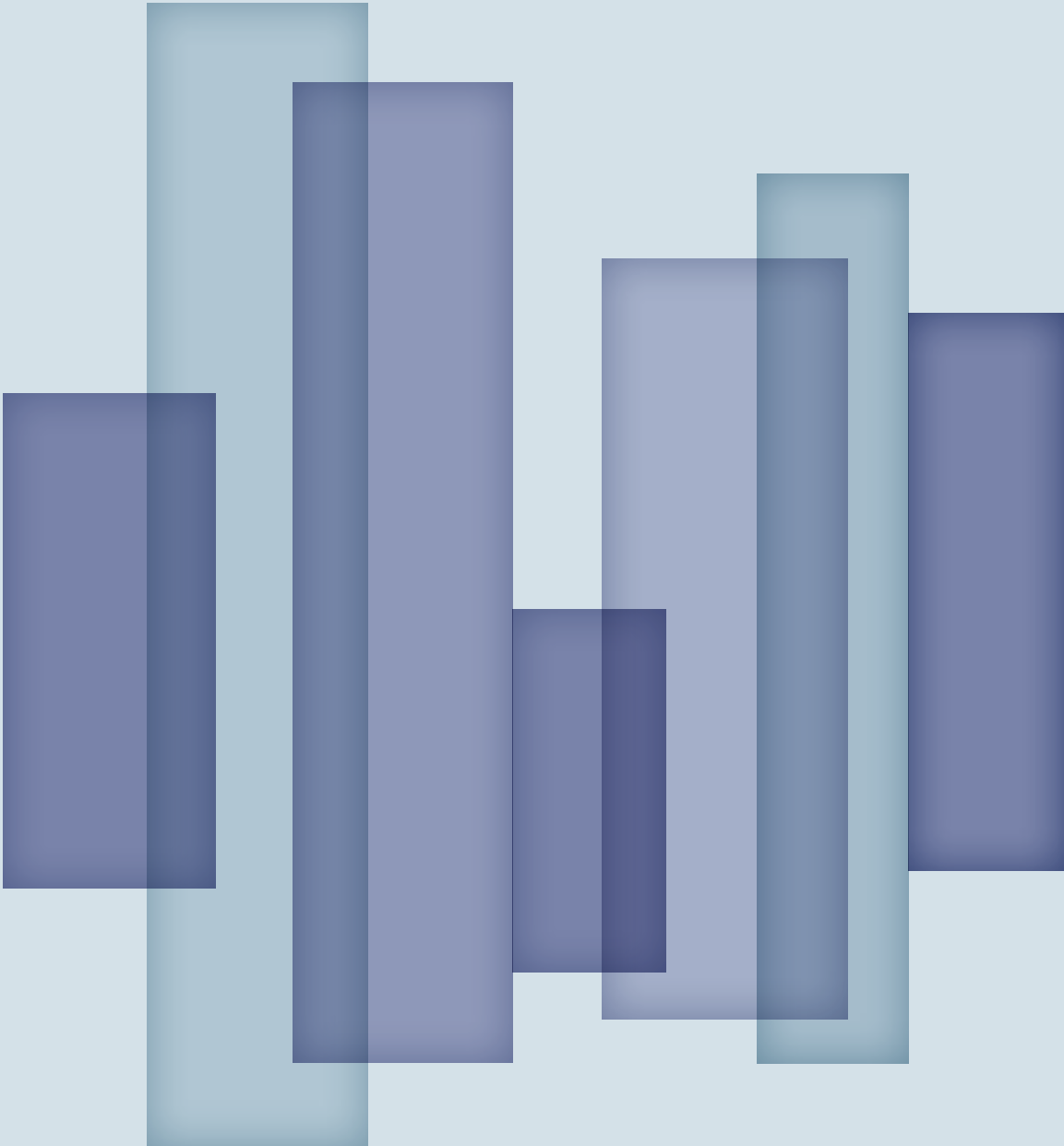
Pursuant to the provisions of Article 282 of the ZGD-1, the Supervisory Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. hereby approves the annual report for 2016.

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

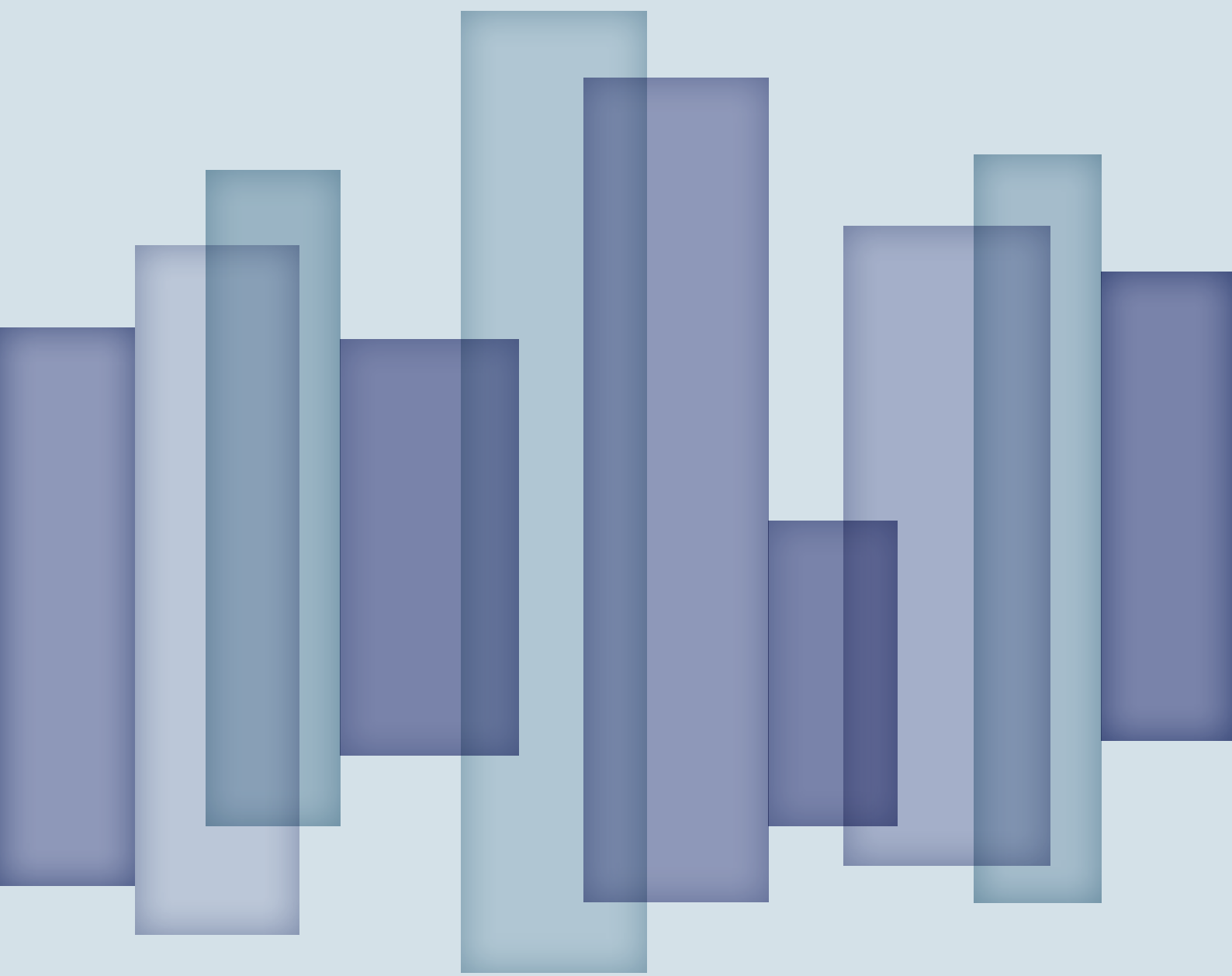
Taking into account points a), b) and c) of this report, the Supervisory Board proposes that the General Meeting of Kapitalska družba adopt a resolution granting discharge to the Company's Management Board and Supervisory Board for their work during the 2016 financial year pursuant to the provision of Article 294 of the ZGD-1.

Stanislav Seničar  
Chairman of the Supervisory Board

Ljubljana, 17 May 2017



# Business Report



## 5 ORGANISATIONAL STRUCTURE OF KAPITALSKA DRUŽBA

The existing internal organisational structure of Kapitalska družba was established with the Company's transformation through the demerger of Modra zavarovalnica, d. d. in October 2011 in order to ensure the necessary adaptations and changes, and was in line with the reduction in the scope of business functions, work and tasks, and also maintained the heterogeneity of activities (e.g. management of the Company's own assets, the SODPZ and KS SODPZ, and the PSŠ since September 2016). The internal organisational structure was established as such to ensure the effective implementation of all core business processes in the context of a reduction in the number of employees. Kapitalska družba's role as the parent company of the insurance group was also taken into account. Kapitalska družba has provided IT services for the insurance company since the latter's establishment.

The existing internal organisation provides for a flexible organisational structure that facilitates an effective decision-making process at two organisational levels and ensures the optimal implementation in key work areas organised into five organisational units or sectors:

- ♦ Asset Management,
- ♦ Fund Management and Strategic Communication,
- ♦ Finance and Accounting,
- ♦ Legal, HR and General Affairs, and
- ♦ Information Technology.

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

- ♦ the Internal Audit Department, and
- ♦ the Risk Management Department.

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

Figure 1: Organisational structure of Kapitalska družba, d. d.



## 5.1 Reporting on employees

The Company had 60 employees as at 31 December 2016. Of that amount, 58 were permanent employees and two were temporary employees. Four workers were absent in 2016 due to maternity and child care leave.

The employment contracts of four employees expired in 2016, two through the expiry of temporary employment contracts, one through retirement and one through the regular termination of the employment relationship. The number of employees by organisational unit is presented in the table below.

Table 1: Number of employees by organisational unit as at 31 December 2016 and 31 December 2015

Organisational unit	31 December 2016	31 December 2015
Management Board	2	2
Advisors to the Management Board	2	2
Finance and Accounting	10	10
Asset Management	9	8
Fund Management and Strategic Communication	15	14
Legal, HR and General Affairs	11	12
Information Technology	7	7
Internal Audit	2	2
Risk Management	2	2
<b>Total</b>	<b>60</b>	<b>59</b>

As at 31 December 2016, a total of 56.67% of Kapitalska družba's employees had completed a minimum of Level VII education. Of those, 35.00% had completed their master's degree and 1.67% their doctorate. Women account for 71.66% of employees and men for 28.34%.

The overall average length of service was 20 years, five months and 13 days as at 31 December 2016, where the average length of service amongst men was 19 years, five months and 13 days, and 21 years, five months and 13 days amongst women.

The average age of both male and female employees was 45 years.

## 6 OPERATIONS OF KAPITALSKA DRUŽBA, D. D.

### 6.1 Macroeconomic background of operations

#### 6.1.1 Inflation

Annual inflation stood at 0.5% at the end of 2016, while average annual inflation was negative at -0.1%. At the end of 2015, average and annual inflation were both negative in the amount of -0.5%.

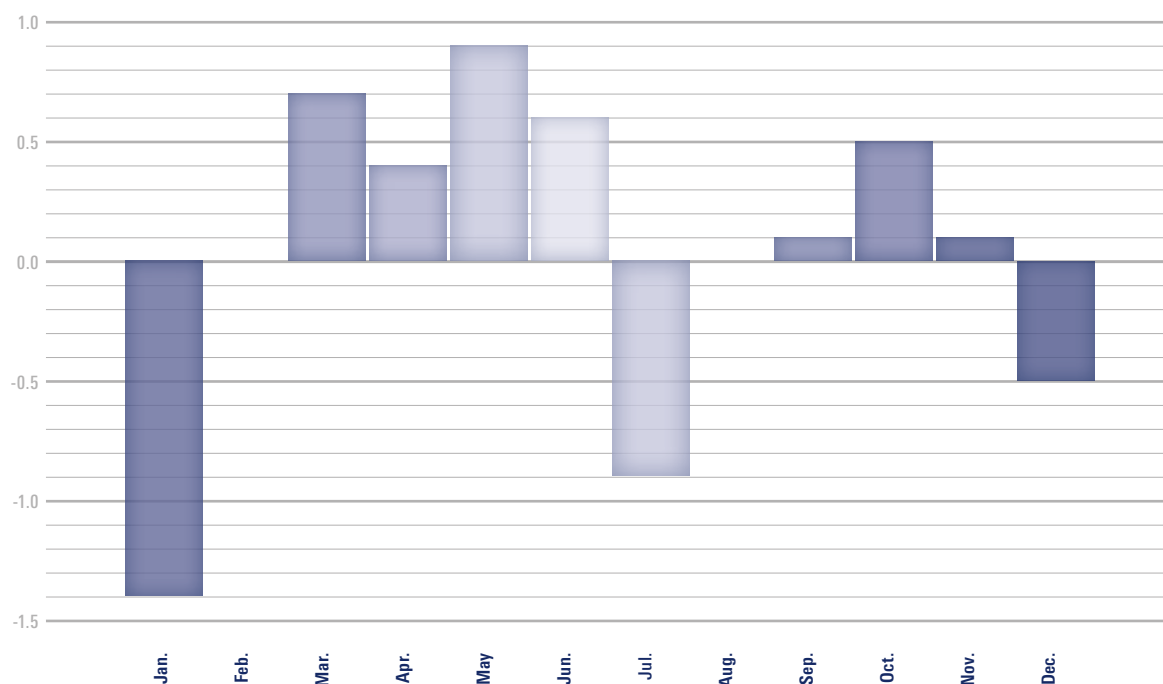
Contributing the most (0.3 percentage points) to annual inflation in 2016 were higher food prices (with vegetables prices recording the sharpest rise of 8.7%), while contributing 0.1 percentage points were higher telephony and internet prices (which were up by 3.2%), motor fuels (which rose by 1.8%), and the prices of miscellaneous goods and services (which were up by 1.6%).

On the other hand, lower prices of clothing and cars acted to reduce annual inflation (both categories by 0.2 percentage points) in 2016, as did lower district heating prices (by 0.1 percentage points). Clothing prices were down by 4.1% in year-on-year terms, while the prices of cars and district heating were down by 3.4% and 8.4% respectively.

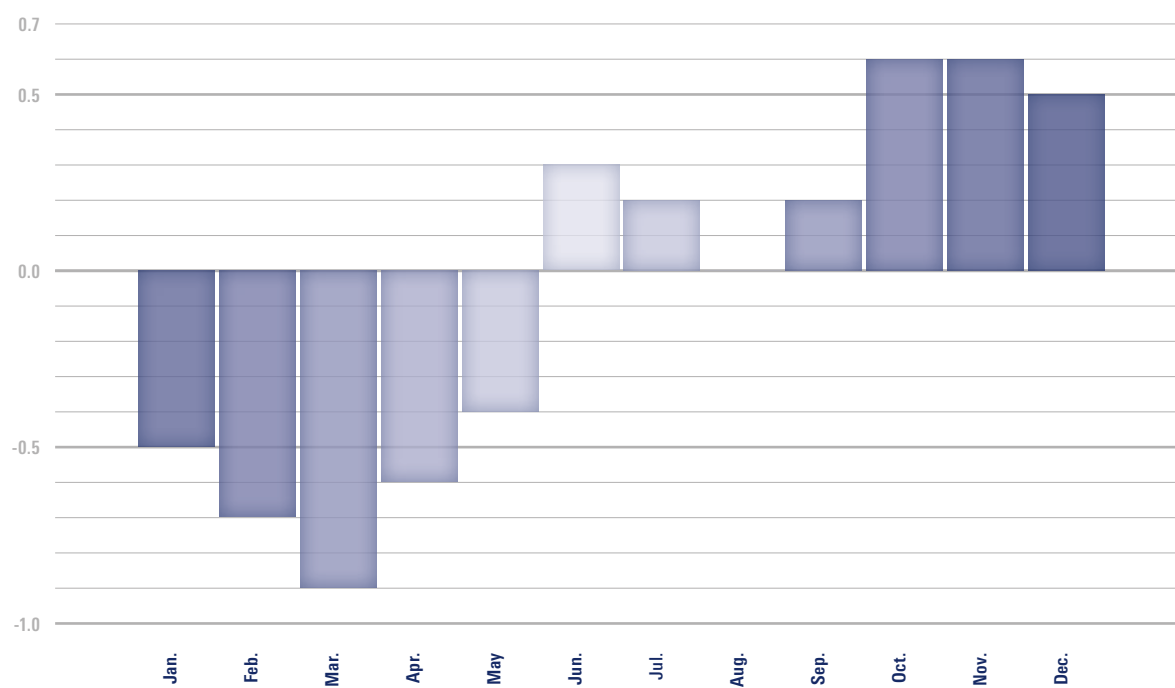


Figure 2: **Change in monthly and annual growth in consumer prices in 2016 (in %)**  
Source: Statistical Office of the Republic of Slovenia

**Monthly growth in prices**



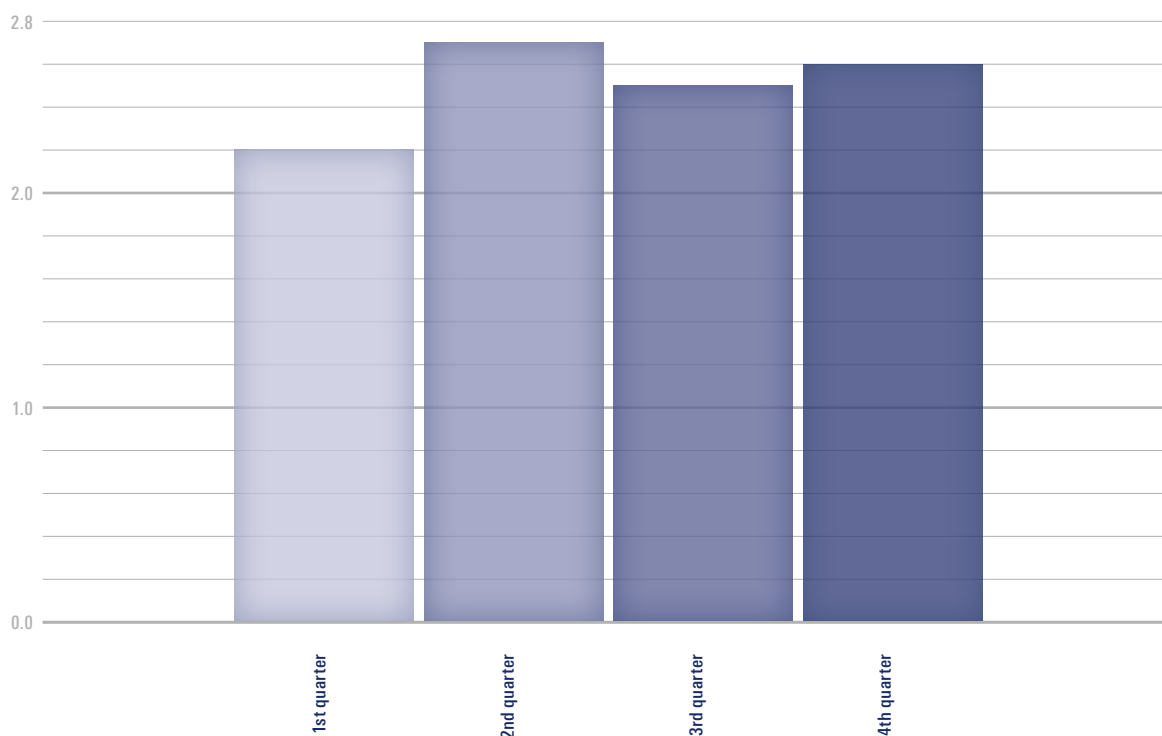
**Annual growth in prices**



## 6.1.2 GDP

Gross domestic product (GDP) was up by 2.6% in the final quarter of 2016 relative to the final quarter of the previous year. GDP adjusted for the season and number of working days was up by 1.2% in the final quarter of 2016 relative to the previous quarter and by 3.6% relative to the final quarter of 2015. According to initial estimates, GDP was up by 2.5% overall in real terms in 2016.

Figure 3: Real year-on-year growth in GDP by quarter in 2016 (in %)  
Source: Statistical Office of the Republic of Slovenia



## 6.1.3 Employment and wages

According to figures from the Statistical Office of the Republic of Slovenia, the total workforce stood at 924 thousand in December 2016. The workforce in employment totalled 824 thousand, up 2.4% on the end of December 2015. The number of registered unemployed persons stood at 97 thousand at the end of December 2016, a decrease of 16.5% on the number of registered unemployed persons a year earlier. The registered unemployment rate stood at 8.1% in December 2016, compared with 8.4% in the final quarter of 2015.

The average monthly gross wage was EUR 1,653.67 in December 2016, while the net wage was EUR 1,074.27.

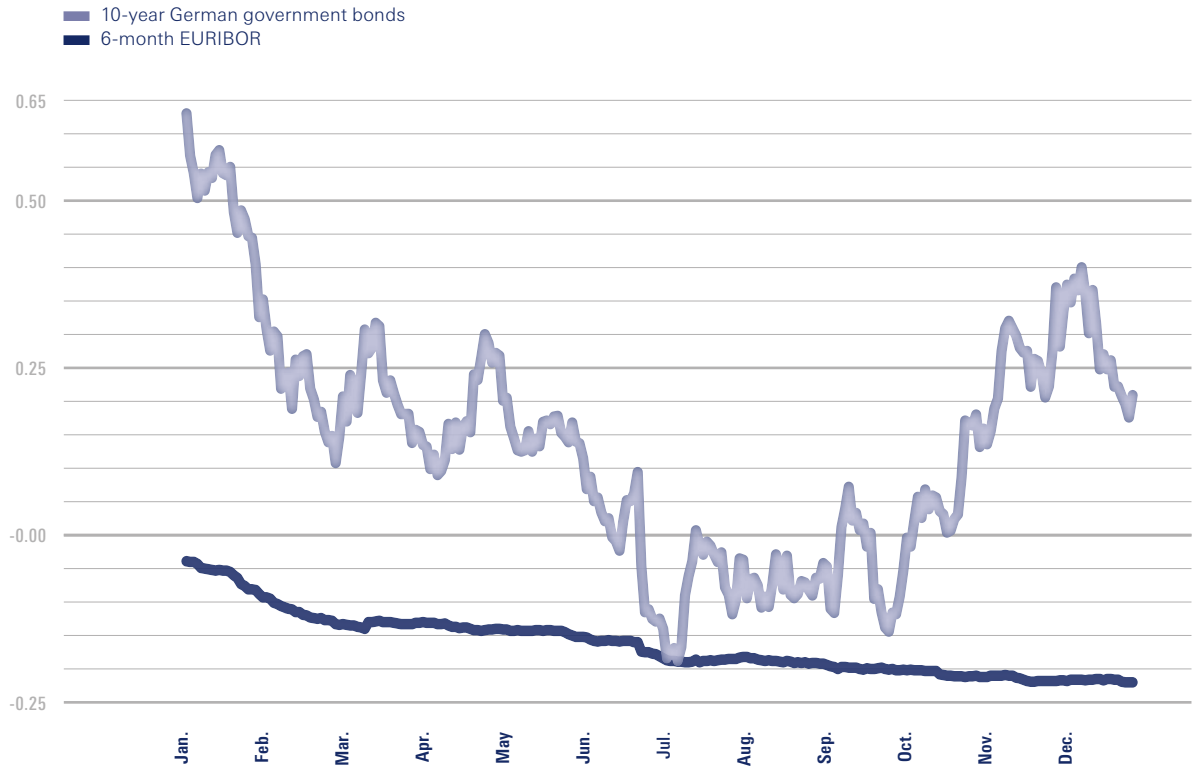
## 6.1.4 Money market

### 6.1.4.1 Interest rates

The reference interbank interest rate for the euro area, the six-month EURIBOR, fluctuated between -0.040% and -0.221% in 2016. The key interest rate of the European Central Bank (ECB) was cut and now stands at 0%, while the interest rate on the deposit facility was also cut from -0.3% to -0.4%, and represents the rate at which excess liquidity placed at the ECB bears interest.

The yield-to-maturity on 10-year German government bonds fell from 0.63% in 2016 to stand at 0.21%. The lowest yield of -0.19% was achieved at the beginning of July.

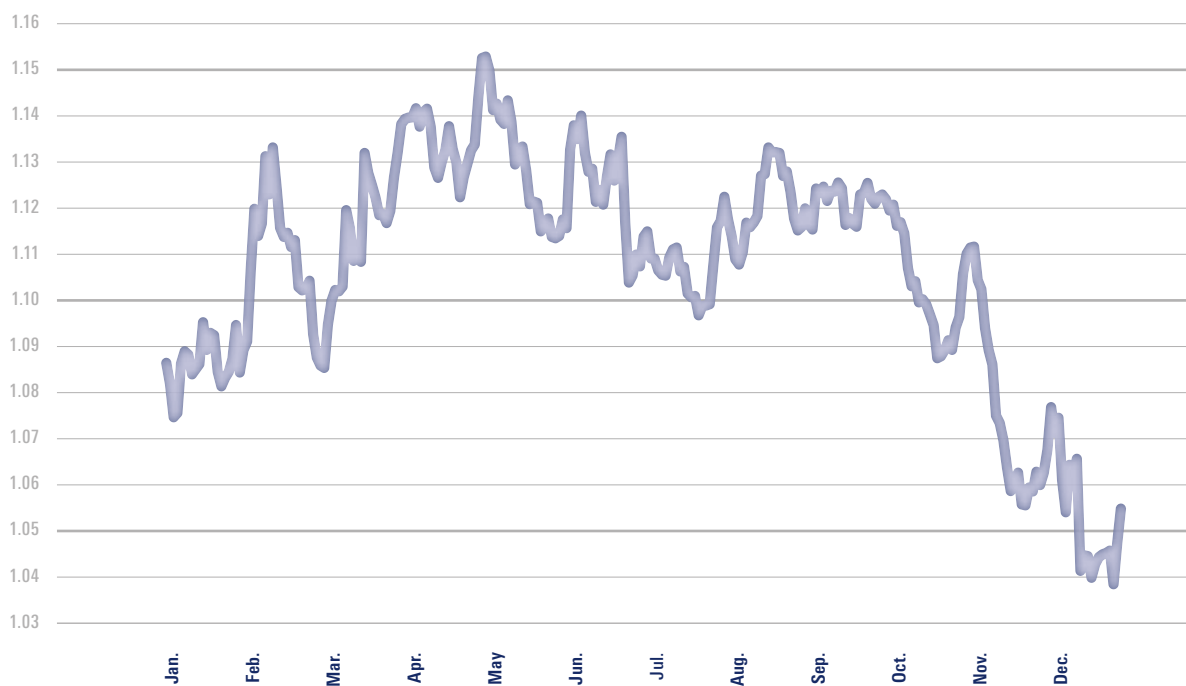
Figure 4: Movement in the yield-to-maturity on 10-year German government bonds and the 6-month EURIBOR in 2016 (in %)  
Source: Bloomberg



#### 6.1.4.2 Exchange rate

The US dollar depreciated by around 3% against the euro in the period January to December 2016. The US dollar/euro exchange rate stood at 1.0547 at the end of the year, and averaged 1.1067 for 2016.

Figure 5: Movement in the US dollar/euro exchange rate in 2016  
Source: Bloomberg

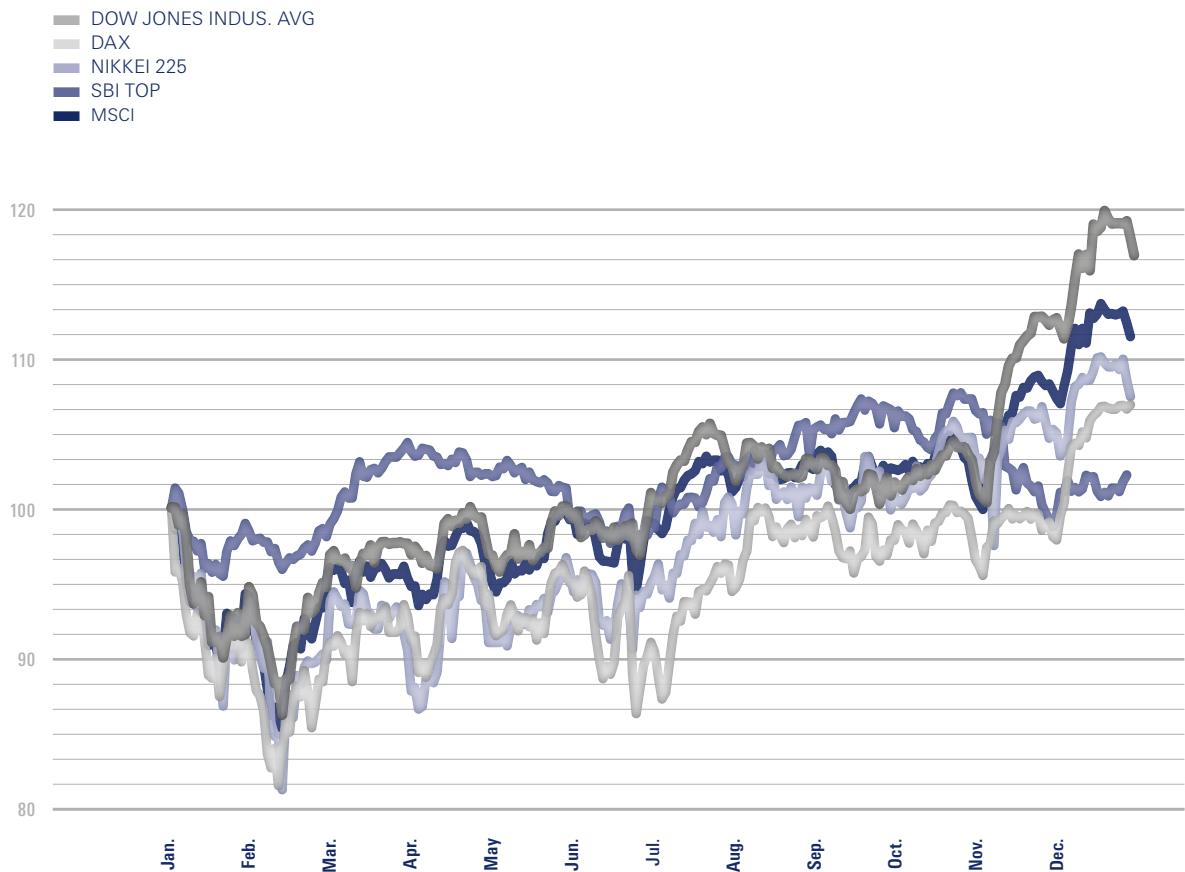


## 6.1.5 Capital market

### 6.1.5.1 Equity market

The values of share indices measured in euros rose in 2016. The MSCI World Index achieved a yield of 11.4%, while the US Dow Jones achieved a yield of 16.8%, the Japanese Nikkei 225 a yield of 7.4% and the German DAX a yield of 6.9%, all measured in euros. The Slovenian SBI TOP recorded growth of 3.1% over the same period.

Figure 6: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2016 in euros (index: 1 January 2016 = 100)  
Source: Bloomberg



### 6.1.5.2 Debt market

The IBOXX EUR Sovereigns TR government bond index gained 3.27% in 2016, while the IBOXX EUR Corporates TR corporate bond index gained 4.72%.

Figure 7: Movement in the IBOXX EUR Corporates TR corporate bond index and the IBOXX EUR Sovereigns TR government bond index in 2016 (index: 1 January 2016 = 100)

Source: Bloomberg



## 6.1.6 Price of oil

The price of West Texas Intermediate (WTI) crude oil rose from USD 37.04 per barrel (159 litres) at the beginning of 2016 to USD 53.72 at the end of the year. The price of WTI crude averaged USD 43.42 in 2016, down on the average price in 2015 of USD 48.80. The price of Brent crude averaged USD 45.12 a barrel in 2016, 3.8% higher than WTI crude.

Figure 8: Movement in prices of WTI crude and North Sea Brent crude in 2016 (in USD per 159-litre barrel)



## 6.2 Investment management

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

- ♦ capital investments, and
- ♦ portfolio investments.

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

Table 2: Composition of Kapitalska družba's financial assets as at 31 December 2016 and 31 December 2015 with regard to management (in EUR 000)

Type of investment	Value	Proportion	Value	Proportion
		2016		2015
<b>Capital investments</b>	<b>523,670</b>	<b>56.2%</b>	<b>528,603</b>	<b>56.8%</b>
- Strategic investments <sup>3</sup>	190,535	20.5%	180,754	19.4%
- Material investments <sup>4</sup>	276,798	29.7%	295,536	31.7%
- Portfolio investments	55,073	5.9%	51,038	5.5%
- Investments in bankruptcy or liquidation	1,264	0.1%	1,274	0.1%
<b>Portfolio investments</b>	<b>407,385</b>	<b>43.8%</b>	<b>402,417</b>	<b>43.2%</b>
Equity portfolio investments	200,071	21.5%	171,337	18.4%
Debt portfolio investments	85,130	9.2%	105,159	11.3%
Money market <sup>5</sup>	87,620	9.4%	125,921	13.5%
Investments in financial claims	34,564	3.7%	0	0.0%
<b>Total financial assets</b>	<b>931,055</b>	<b>100.0%</b>	<b>931,020</b>	<b>100.0%</b>

### 6.2.1 Capital investment management

#### 6.2.1.1 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 41 such investments at the end of 2016. Of those investments, Kapitalska družba had 36 so-called active investments, including 31 investments in public limited companies and five investments in limited liability companies. In addition to active investments, Kapitalska družba also held four investments in bankruptcy proceedings and one investment in liquidation proceedings. Final bankruptcy proceeding were initiated against Casino Maribor, d. d. (in bankruptcy) on 11 March 2009.

The value of capital investments was EUR 523,670 thousand as at 31 December 2016, a decrease of EUR 4,933 thousand on the previous year.

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

The value of Kapitalska družba's financial assets were up minimally (by EUR 35 thousand) relative to 2015. The breakdown of financial assets in terms of type was little changed in 2016. The proportion

<sup>3</sup> Strategic investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

<sup>4</sup> Material investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

<sup>5</sup> Money market investments also include cash in the amount of EUR 28,138 thousand.

of capital investments accounted for by strategic investments was up by 1.1 percentage points, while the proportion of portfolio investments accounted for by equity portfolio investments was up by 3.1 percentage points. The proportions accounted for by debt portfolio investments and money market investments were down accordingly.

Table 3: Breakdown of Kapitalska družba's capital investments as at 31 December 2016 and 31 December 2015 in accordance with the Decree on the Strategy for Managing State Capital Investments (in EUR 000)

Type of investment	No. of investments	Value	Proportion of capital investment portfolio	No. of investments	Value	Proportion of capital investment portfolio
			2016			2015
Strategic investments <sup>6</sup>	10	190,535	36.4%	10	180,754	34.2%
Material investments <sup>7</sup>	9	276,798	52.9%	9	295,536	55.9%
Portfolio investments	17 <sup>8</sup>	55,073	10.5%	18 <sup>9</sup>	51,039	9.7%
Investments in bankruptcy or liquidation	5	1,264	0.2%	8	1,274	0.2%
<b>Total capital investments</b>	<b>41</b>	<b>523,670</b>	<b>100.0%</b>	<b>45</b>	<b>528,603</b>	<b>100.0%</b>

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

Table 4: Ten largest capital investments of Kapitalska družba by value as at 31 December 2016 (in %)

Company name	Proportion of company's share capital
Krka, d. d.	10.65
Modra zavarovalnica, d. d.	100.00
Petrol, d. d.	8.27
Telekom Slovenije, d. d.	5.59
Gorenje, d. d.	16.37
Luka Koper, d. d.	4.98
Loterija Slovenije, d. d.	25.00
Hit, d. d.	20.32
Union hoteli, d. d.	18.75
Terme Čatež, d. d.	23.79

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 29 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.

<sup>6</sup> Strategic investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

<sup>7</sup> Material investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

<sup>8</sup> Kapitalska družba holds both preference shares and ordinary shares in one company classified in portfolio investments. Both forms of shares are deemed one investment in the aforementioned company.

<sup>9</sup> Kapitalska družba holds both preference shares and ordinary shares in one company classified in portfolio investments. Both forms of shares are deemed one investment in the aforementioned company.

Table 5: Composition of capital investments in terms of size of ownership stake as at 31 December 2016

Ownership stake in share capital	Active investments	Investments in bankruptcy or liquidation
Up to 9.99%	21	2
From 10.00% to 19.99%	8	1
From 20.00% to 49.99% (associate)	6	2
From 50.00% to 100.00% (subsidiary)	1	0
<b>Total number of investments</b>	<b>36</b>	<b>5</b>

### 6.2.1.2 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 two public tenders for the purchase of shares and participating interests in 2016.

Four companies that were classified as investments in liquidation and bankruptcy were deleted from the companies register in 2016: Kli Logatec, d. d. (in liquidation), Casino Ljubljana, d. d. (in bankruptcy), Tekstilna tovarna Prebold, d. d. (in bankruptcy) and Steklarska nova Rogaška Slatina, d. o. o. (in bankruptcy).

No sales were made in 2016. Kapitalska družba received 20 bids from buyers for the purchase of shares and participating interests relating to 11 different capital investments held by the Company. The aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low.

The sale of five investments in companies is in progress, with SDH conducting proceedings in three cases in accordance with the ZSDH-1.

### 6.2.1.3 Purchases of companies

Kapitalska družba did not participate in any corporate recapitalisations in 2016, nor did it accept any bids for the purchase of capital investments.

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

### 6.2.1.4 Purchase of claims against Sava, d. d.

An agreement was concluded on 15 July 2016 on the transfer of claims against and the bonds of Sava, d. d. (for payment) from the BAMC to Kapitalska družba and SDH (hereinafter: the Agreement). With the conclusion of the Agreement, SDH and Kapitalska družba each received up to one half of claims with an associated principal of EUR 122,962 thousand for a total price of EUR 68,890 thousand, with half of that amount or EUR 34,445 thousand pertaining to Kapitalska družba.

In accordance with the financial restructuring plan of Sava, d. d., Kapitalska družba and SDH, together with York and certain minor creditors, converted ordinary claims into equity as follows: during the process of increasing share capital in the context of a simultaneous simplified reduction of the same, Kapitalska družba converted ordinary unsecured claims in the amount of EUR 14,675 thousand into equity in exchange for which it received 4,891,651 SAVR shares or 22.57% of the aforementioned company's equity. Old shares designated SAVA were deleted with final compulsory composition.

### 6.2.1.5 Dividends of domestic companies

Dividend income was down in 2016. Kapitalska družba recorded EUR 18,260 thousand in domestic corporate dividends in 2016, a decrease of EUR 6,522 thousand relative to 2015, when dividends totalled EUR 24,782 thousand. The ten largest capital investments in terms of dividends accounted for 96.6% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2016 was approved by the general meetings of 23 companies in which Kapitalska družba held a capital investment, compared with 2015, when the payment of dividends was approved by the general meetings of 25 companies in which Kapitalska družba held a capital investment.



The table below illustrates the highest dividend income generated in 2016 by capital investments held by Kapitalska družba.

Table 6: Ten capital investments that generated the highest dividend income in 2016 and 2015

Issuer	Dividends per share in 2016 (EUR)	Dividends per share in 2015 (EUR)	Total dividends in 2016 (in EUR 000)	Total dividends in 2015 (in EUR 000)
Krka, d. d.	2.65	2.50	9,257	8,733
Petrol, d. d.	12.60	11.70	2,175	2,020
Modra zavarovalnica, d. d.	0.01401	0.05169	2,132	7,867
Telekom Slovenije, d. d.	5.00	10.00	1,826	3,652
Loterija Slovenije, d. d.	62.68	45.00	1,164	836
Luka Koper, d. d.	1.13	0.94	787	655
Elektro Maribor, d. d.	0.16	0.12	88	65
Terme Olimia, d. d.	0.49	0.22	86	38
Elektro Gorenjska, d. d.	0.16	0.12	70	52
Elektro Primorska, d. d.	0.17	0.08	63	30

Kapitalska družba also received dividends in the amount of EUR 17 thousand in 2016 from three companies in its portfolio as the result of claims received for the allocation of distributable profit from previous years. Hit, d. d. paid dividends on preference shares in the amount of EUR 3 thousand for the previous year.

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

Issuer	Dividends for the year	Dividends per share	Total dividends
Elektro Gorenjska, d. d.	Distributable profit for 2014	0.0053	2
Elektro Celje, d. d.	Distributable profit for 2014	0.0369	7
Elektro Maribor, d. d.	Distributable profit for 2014	0.0154	8
Hit, d. d. – preference shares	Distributable profit for 2012	0.0564	1
Hit, d. d. – preference shares	Distributable profit for 2013	0.0600	1
Hit, d. d. – preference shares	Distributable profit for 2014	0.0600	1

#### 6.2.1.6 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 2016 to 31 December 2016, 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 March 2016, SDH adopted certain amendments to that document (hereinafter: the Code).

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

In addition to the Code, Kapitalska družba also applied its own bases for voting at the general meetings of companies when managing capital investments in 2016. Kapitalska družba updates the bases for voting at general meetings every year, prior to the convening thereof. These bases, *inter alia*, define the remuneration policy for supervisory boards, management committees and management boards, the dividend policy, the use of distributable profit, recapitalisations via authorised capital, the acquisition of treasury shares and the introduction of a single-tier governance system. The aforementioned document is published on Kapitalska družba's website.

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

Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 55 general meetings of shareholders or partners of companies in 2016. Representatives of Kapitalska družba participated in 17 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 33 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. Five general meetings were cancelled prior to the date of the meeting or rescheduled to another date.

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

Kapitalska družba acted in accordance with the Code at all general meetings attended by its representatives in 2016. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

Table 8: Participation at general meetings

Form of participation	No. of general meetings
Participation and voting by employees of Kapitalska družba	17
Participation by employees of Kapitalska družba; voting by SDH	33
Cancelled or rescheduled general meetings	5
<b>Total</b>	<b>55</b>

#### 6.2.1.6 Code of Conduct of the Kapitalska Družba Group

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

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

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

The new Slovenian Sovereign Holding Company Act (ZSDH-1) entered into force at the end of April 2014. The management of investments on behalf and on the account of the Republic of Slovenia remained the responsibility of SDH, even following the entry into force of the ZSDH-1. In the name of Kapitalska družba, SDH exercises voting rights and conducts sales in the event of joint investments.

Kapitalska družba's annual obligation to provide funding to the ZPIZ was redefined: based on the provision of the third paragraph of Article 52 of the ZSDH-1, the Company must now transfer funds in the amount of EUR 50 million every year to the ZPIZ by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower. Notwithstanding the above, Kapitalska družba or its legal successor must transfer EUR 50 million a year to the ZPIZ in 2016 and 2017 based on the second paragraph of Article 67 the Implementation of the Budget of the Republic of Slovenia for 2016 and 2017 Act.

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

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

## 6.2.2 Management of portfolio investments

### 6.2.2.1 Equity portfolio investments

Equity portfolio investments include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of equity portfolio investment assets was EUR 200,071 thousand as at 31 December 2016.

Table 9: Composition of equity portfolio investments as at 31 December 2016 and 31 December 2015 (in EUR 000)

Type of investment	Value	Proportion of equity portfolio investments	Value	Proportion of equity portfolio investments
		2016		2015
Foreign shares	6,534	3.3%	8,338	4.9%
Investment funds	193,537	96.7%	162,999	95.1%
- domestic investment funds	12	0.0%	10	0.0%
- foreign investment funds	193,525	96.7%	162,989	95.1%
Total equity portfolio investments	200,071	100.0%	171,337	100.0%

The five largest investments accounted for a total of 60.2% of equity portfolio investments as at 31 December 2016. These investments included index funds that track the MSCI World Index (SMSWLD GY and XMWO GY), an index fund that tracks the US S&P 500 (SPY US), an index fund that tracks the US IXT technology sector index (XLK US) and an index fund that tracks the German DAX (DAXEX GR).

### 6.2.2.2 Debt portfolio investments

The balance of debt portfolio investments stood at EUR 85,130 thousand at the end of 2016. At 89.1%, domestic bonds accounted for the highest proportion of debt portfolio investments. Investments in

domestic bonds totalled EUR 75,854 thousand, while investments in foreign bonds totalled EUR 6,820 thousand. The remainder was accounted for by claims for accrued interest.

The primary focus of Kapitalaska družba's investment activities in 2016 was on security and maintaining the value of assets due to an increase in the general level of risk.

Table 10: Composition of debt portfolio investments as at 31 December 2016 and 31 December 2015 (in EUR 000)

Type of investment	Value	Proportion of debt portfolio investments	Value	Proportion of equity portfolio investments
		2016		2015
Domestic bonds	75,854	89.1%	90,936	86.5%
- domestic government bonds	64,838	76.2%	78,096	74.3%
- domestic corporate and bank bonds	11,016	12.9%	12,840	12.2%
Foreign bonds	6,820	8.0%	11,241	10.7%
- foreign government bonds	0	0.0%	1,172	1.1%
- foreign corporate and bank bonds	6,820	8.0%	10,069	9.6%
Claims for interest	2,456	2.9%	2,982	2.8%
<b>Total debt portfolio investments</b>	<b>85,130</b>	<b>100.0%</b>	<b>105,159</b>	<b>100.0%</b>

The five largest investments, together with accrued interest, accounted for a total of 65.2% of debt portfolio investments as at 31 December 2016. All five investments were in different issues (nos. 59, 66, 67, 69 and 70) of Slovenian government bonds.

### 6.2.2.3 Money market investments

The balance of money market investments was EUR 87,620 thousand at the end of 2016. Loans granted (deposits) account for the majority of the aforementioned investments.

Table 11: Composition of money market investments as at 31 December 2016 and 31 December 2015 (in EUR 000)

Type of investment	Value	Proportion of the portfolio of money market investments	Value	Proportion of the portfolio of money market investments
		2016		2015
Loans granted (deposits)	58,654	66.9%	86,509	68.7%
Cash and cash equivalents	28,138	32.2%	38,602	30.7%
- Cash on transaction accounts at banks	4,689	5.4%	38,585	30.7%
- Euro call deposits	23,449	26.8%	17	0.0%
Commercial paper	828	0.9%	810	0.6%
<b>Total money market investments</b>	<b>87,620</b>	<b>100.00%</b>	<b>125,921</b>	<b>100.00%</b>

Long-term invested funds comprise secured financial claims.

## 6.3 Transfers to the Pension and Disability Insurance Institute

In accordance with the third paragraph of Article 52 of the ZSDH-1, Kapitalaska 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 ZIPRS1617, Kapitalaska družba transferred EUR 50 million to the ZPIZ in 2016. Kapitalaska družba has transferred the cumulative amount of EUR 714,321 thousand to the budget of the ZPIZ.

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

## 6.4 Investment property

Kapitalska družba holds investment property in the following commercial buildings:

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

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

## 6.5 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.

## 6.6 Pension fund management

### 6.6.1 Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia

#### 6.6.1.1 Operations of the SODPZ

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

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

The SODPZ had 46,150 policyholders as at 31 December 2016. The actual return on the SODPZ was 2.27% in 2016, compared with the guaranteed return of 1.33% in the same period. The net value of SODPZ assets was EUR 651,102 thousand on the final accounting day of 2016 (30 December 2016), and exceeded the guaranteed value of assets (EUR 599,017 thousand) by EUR 52,085 thousand. The SODPZ held 756,613,879 units in circulation in 2016.

As the manager of the SODPZ, Kapitalska družba was entitled to the reimbursement of subscription and redemption costs, and management fees in 2016. Subscription fees are charged as a percentage of the incoming payments and amounted to 2.3%. Redemption fees are charged as a percentage of the outgoing payments and amounted to 0.5%. Redemption fees are not charged in the event of a transfer to supplementary insurance or due to the buyout of years of service. Taking into account the net value of SODPZ assets, the annual management fee is equal to 1.0% of the average annual net value of fund assets.

Revenues from the management of the SODPZ totalled EUR 8,384 thousand in 2016, broken down as follows: EUR 6,721 thousand in management fees, EUR 1,250 thousand in subscription fees and EUR 413 thousand in redemption fees.

Table 12: Kapitalska družba's revenue from management of the SODPZ in 2016 and 2015 (in EUR 000)

Revenue from management activities	2016	2015
Management fees	6,721	6,528
Subscription fees	1,250	1,239
Redemption fees	413	47
<b>Total</b>	<b>8,384</b>	<b>7,814</b>

Based on decision no. 1032-5/2013-26 of 30 October 2015 under which the Ministry of Labour, Family, Social Affairs and Equal Opportunities approved amendments to the occupational pension insurance plan, the aforementioned changes entered into force on 4 February 2016 and relate to a reduction in management fees with respect to the net value of assets under management. The Securities Market Agency issued consent on 4 February 2016 to an amendment to the Rules on the Management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia. That amendment, which related to a reduction in management fees with respect to the net value of assets under management, entered into force on 9 March 2016.

The Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/15; ZPIZ-2B) entered into force on 1 January 2016, bringing with it significant changes to occupational insurance and occupational retirement. Kapitalska družba was required to harmonise the occupational pension insurance plan and the occupational pension payment plan with the provisions of the ZPIZ-2B within the 12 months that followed the entry into force of the aforementioned act. The provisions of valid pension plans at the time the ZPIZ-2B entered into force were applied until the new pension plan went into use. The Minister of Labour, Family, Social Affairs and Equal Opportunities issued decision no. 1031-160/2016-3 of 23 November 2016, approving a new occupational insurance pension plan, which entered into force on 1 January 2017. Amended rules on the management of the SODPZ also entered into force on 1 January 2017. The KS SODPZ was liquidated with the entry into force of the new pension plan, while payments of occupational pensions from the SODPZ began as partial redemption values.

#### 6.6.1.1 SODPZ investments

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

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

The main objective of management in 2016 was to increase the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk.

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

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

The value of assets in the SODPZ stood at EUR 664,356 thousand as at 31 December 2016, a decrease of 1.6% relative to 2015. The decrease in the value of assets was the result of payment to the Ministry of Defence's policyholders under the decision of the Constitutional Court of the Republic of Slovenia of 12 May 2016.

Investments in debt securities account for the highest proportion (40.2%) of SODPZ assets. The proportion accounted for by the aforementioned assets was down slightly in 2016 compared with the previous year. Bonds and money market instruments account for the majority of this class of investments, followed by investment coupons (28.4%) and investments in loans and deposits (24.4%). The proportion accounted for debt securities was down relative to 2015. The proportion accounted for the remaining classes was up relative to 2015.

Table 13: Composition of the investments of the SODPZ as at 31 December 2016 and 31 December 2015 (in EUR 000)

Class	Value		Proportion of fund assets	
	2016	2015	2016	2015
Shares	4,457	4,455	0.7%	0.7%
Debt securities	266,897	306,656	40.2%	45.4%
Loans and deposits	162,073	157,588	24.4%	23.4%
Investment coupons	188,804	180,407	28.4%	26.7%
Cash and cash equivalents	39,936	25,674	6.0%	3.8%
Other claims	2,189	180	0.3%	0.0%
<b>Total</b>	<b>664,356</b>	<b>674,960</b>	<b>100.0%</b>	<b>100.0%</b>

Due to the limited size of the Slovenian financial market and a wider selection of investment opportunities, a portion of the fund's assets were initially channelled abroad. The fund's exposure to currency risk was down in 2016, as the proportion of securities denominated in foreign currencies declined from 5.5% to 2.4%, excluding the effect of changes in exchange rates associated with securities that form a specific investment fund. The currency in which the underlying instrument is denominated is taken into account when monitoring the currency breakdown of financial assets.

## 6.6.2 Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (KS SODPZ)

### 6.6.2.1 Operations of the KS SODPZ

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

SODPZ policyholders earn the right to an occupational pension when they have fulfilled the conditions set out in the pension plan. For policyholders who have exercised their rights to an occupational pension, the funds on their personal account in the SODPZ are transferred to the KS SODPZ and the policyholders are issued an occupational pension policy.

A total of 180 retirees exercised the right to receive an occupational pension in 2016. Of that number, 17 persons qualified for occupational retirement in accordance with the provisions of the Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH). The total value of funds transferred to the KS SODPZ was EUR 5,929 thousand. As at 31 December 2016, a total of 220 retirees received an occupational pension from the aforementioned fund, while gross pensions amounted to EUR 4,092 thousand.

Kapitalska družba was entitled to a fee of 1.5% of each pension payment in 2016. Kapitalska družba received EUR 60 thousand in the aforementioned fees in 2016.

### 6.6.2.2 KS SODPZ investments

The value of KS SODPZ assets was EUR 5,568 thousand as at 31 December 2016.

Investments in bonds accounted for the highest proportion (53.0%) of KS SODPZ assets, followed by investments in other claims (24.6%), and loans and deposits (21.7%).



Table 14: Composition of the investments of the KS SODPZ as at 31 December 2016 and 31 December 2015 (in EUR 000)

Class	Value		Proportion of fund assets	
	2016	2015	2016	2015
Debt securities	2,953	2,118	53.0%	58.4%
Loans and deposits	1,206	851	21.7%	23.5%
Cash and cash equivalents	40	84	0.7%	2.3%
Other claims	1,369	571	24.6%	15.8%
<b>Total</b>	<b>5,568</b>	<b>3,624</b>	<b>100.0%</b>	<b>100.0%</b>

Despite its relatively small size, the structure of the guarantee fund's investments was in line with legal provisions and focused on ensuring liquidity for the payment of pension annuities.

The Insurance Supervision Agency issued a decision in November 2015 allowing Kapitalska družba certain deviations in the structure of KS SODPZ investments from those prescribed by the law, as follows:

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

The aforementioned deviations were permitted until the value of KS SODPZ assets reaches EUR 7,200 thousand, but until no later than 26 November 2017. The assets of the KS SODPZ were transferred to the SODPZ on 1 January 2017.

### 6.6.3 Activities in the implementation of the ZPIZ-2 in 2016

Kapitalska družba was actively involved again in 2016 with the business processes of the SODPZ, in particular occupational retirement, the payment of occupational pensions, active notification of liable persons and policyholders regarding developments in the area of occupational insurance, regular meetings of the SODPZ Committee and activities relating to the resolution of current occupational retirement issues, including communication with all occupational insurance stakeholders.

The claims from the Ministry of Defence's policyholders for the lump-sum payment of funds based on the fifth paragraph of Article 206 of the ZPIZ-2 represented a major challenge for Kapitalska družba in 2016. On 10 June 2016, the Constitutional Court of the Republic of Slovenia published a decision issued on 12 May 2016 in which it ruled that the fifth paragraph of Article 206 of the ZPIZ-2, with the content provided by the authentic interpretation thereof adopted on 12 June 2014, was unconstitutional. In its decision, the Constitutional Court ruled that it is not evident from the legal wording of the fifth paragraph of Article 206 of the ZPIZ-2 that the termination of an employment contract with the Ministry of Defence is a condition to exercise the right to the lump-sum payment of funds. Following the publication of the Constitutional Court's decision, Kapitalska družba recorded a very high number of personal visits and phone calls from the policyholders of the Ministry of Defence, as well as a sharp increase in the number of claims for the lump-sum payment of funds. In response, the Company immediately began carrying out all activities necessary to execute such a large number of lump-sum payments.

Based on the decision of the Constitutional Court, Kapitalska družba paid funds to all policyholders of the Ministry of Defence who fulfilled the conditions set out in the fifth paragraph of Article 206 of the ZPIZ-2 prior to the entry into force of the new pension plan and who filed a complete request with the Company for the payment of redemption value. Kapitalska družba received 3,011 claims in 2016 from the Ministry of Defence's policyholders for a lump-sum payment based on the fifth paragraph of Article 206 of the ZPIZ-2. The Company paid redemption values in the total amount of EUR 73 million based on those claims.



The Act Amending the Pension and Disability Insurance Act (ZPIZ-2B) entered into force on 1 January 2016, bringing with it significant changes to occupational insurance and occupational retirement. Due to the large number of new tasks and competences imposed on Kapitalska družba (as manager of the SODPZ) by the ZPIZ-2B, and on account of the short deadlines for the implementation of those tasks and competences, the Company established a project in 2016 aimed at the implementation of the ZPIZ-2B in order to adapt processes linked to the provision of occupational insurance and the payment of occupational pensions, and to upgrade the associated IT support.

Kapitalska družba also worked with the Pension and Disability Insurance Institute in the drafting of a new agreement on the exchange of data, which is the final coordination phase. In October 2016, the Company concluded a new protocol with the Health Insurance Institute on cooperation in the exchange of data in connection with compulsory health insurance for the recipients of occupational pensions.

An amendment to the Act Governing the Promotion of Public Interest in Culture (ZUJIK-F) was adopted on 20 October 2016. Article 92a of the ZUJIK states that from 1 December 2016 one half of the period in which a ballet dancer was included in occupational insurance (appended period) is added to that person's actual insurance period for the purpose of fulfilling the conditions to earn the right to an early or old-age pension from compulsory insurance. Also amended was the contribution rate for occupational insurance, which stood at 12% of the base as at 31 December 2016 and then raised to 16% of the base effective 1 January 2017.

The Act Amending the Organisation and Work of the Police Act (ZODPol-C) entered into force on 17 December 2016. The new sixth paragraph of Article 84 of the Organisation and Work of the Police Act states that the rights of a police officer from occupational insurance are not to be suspended if that person is absent from work due to a workplace injury or occupational disease; rather contributions for occupational insurance are paid by the employer during this period at the rate applicable on the day the liability for contributions arose, while the basis for those contributions is compensation from health insurance.

The possibility of the buyout of years of service is available to occupational insurance policyholders and the recipients of an occupational pension based on the sixth paragraph of Article 202 of the ZPIZ-2. Kapitalska družba made six transfers of the redemption value to the ZPIZ in 2016 due to the buyout of years of service.

Kapitalska družba informs all occupational insurance stakeholders regularly via its website about all of the latest developments and the operations of the fund. The Company communicates with policyholders and liable persons throughout the year, both personally through the contact centre and through a toll-free telephone number and email.

Kapitalska družba also regularly informed the SODPZ Committee with regard to activities in the area of occupational insurance, the operations of the fund and issues associated with occupational retirement. The SODPZ Committee actively participated in the search for occupational retirement solutions and continuously put forth initiatives to address this issue. The SODPZ Committee met five times in 2016.

#### 6.6.4 Bridging insurance fund for professional athletes

The bridging insurance fund for professional athletes or bridging fund for athletes (PSŠ) is intended for the inclusion of professional athletes in bridging insurance, and provides for their social security following the end of their active sporting career. In accordance with the requirements of the Bridging Insurance for Professional Athletes Act (ZPZPŠ-1), Kapitalska družba carried out necessary activities for the establishment and functioning of the PSŠ, which was established on 1 September 2016. No financing agreements were concluded in 2016. As a result, no policyholders have been included in the PSŠ to date and no contributions for bridging have been received. Thus, Kapitalska družba does not yet manage PSŠ funds. The PSŠ Committee monitors the functioning of the PSŠ and supervises the work of the manager. The PSŠ Committee was established at its first meeting on 9 June 2016.

## 6.7 Information Technology Sector

Kapitalska družba focused in 2016 on a high-quality link between the IT function and operations, in particular on a transparent relationship with all users on the basis of the relevant service-level agreement. Ensuring the required levels of availability and reliability is one of the Information Technology Sector's tasks, and was achieved by employing highly qualified internal and external experts. Enhancing the knowledge of employees was also important for achieving the aforementioned objective. The requisite quality of services was achieved through service management processes in the scope of limited costs, while required resources were also optimised.

One of Kapitalska družba's most important functions in the area of information technology in 2016 was the performance of service centre functions for the Company's users and the users of the subsidiary Modra zavarovalnica. The sector actively followed ongoing changes in business processes as the result of legislative changes, and also ensured the optimisation of existing business processes that it supported with existing and new, commercially justified IT support. As part of the computerisation and optimisation of business processes, it followed the important principle of cost reduction, of course without reducing the quality of the execution of business processes. The high-quality maintenance and development of the information system followed the objective of ensuring a high level of availability and reliability of information solutions. Through its service centre, the sector performed technical support tasks, and also monitored the functioning of services and communication between users and IT support. The service centre played a central role in the provision and improvement of high-quality IT services. Recommendations from the collection of best practices based on the ITIL V3 are followed in the implementation of internal processes.

Kapitalska družba also dedicated special attention to the security of the information system, as both the Company and Modra zavarovalnica serve in the role of personal data processors, meaning they have a great deal of responsibility to society in general.

Through the high-quality management of the business continuity system set up in 2016, the satisfactory availability of the information was ensured, even in the event of the failure of the information system at the primary location as the result of some catastrophe.

Through the implementation of the project aimed at the replacement of the information system for asset and fund management, we continued the process of mitigating risks associated with failure of external contractors to fulfil their contractual obligations to Kapitalska družba, and thus mitigated the risk of the Company's failure to fulfil its obligations to external regulators and policyholders. The project to replace the information system was launched in the first quarter of 2015. In the scope of fund management, we successfully included the bridging fund for athletes in new software support prior to 1 September 2016. We continued with activities in connection with the establishment of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia in accordance with the new ZPIZ-2B, and with the establishment of new software support for asset management. The objective of the aforementioned replacement is to ensure the requisite reliability and availability of software support for asset and fund management over the long term, and thus the uninterrupted implementation of Kapitalska družba's long-term strategy.

In order to ensure the high availability of the information system and thus the business continuity of the Company's subscribers and the settlement of all obligations to their customers, we successfully replaced part of the obsolete server infrastructure in 2016 with new equipment. The aforementioned replacement did not cause any disruptions to business processes.

Kapitalska družba's IT infrastructure is used to a certain extent by the subsidiary Modra zavarovalnica, while the latter also leases part of the Company's business software. All mutual relationships between Kapitalska družba and Modra zavarovalnica are defined in the relevant agreements. Key business software is also maintained and developed together with the subsidiary Modra zavarovalnica. The scope of those activities is gradually diminishing due to Modra zavarovalnica's transition to independent software solutions.

## 6.8 Significant business events after the end of 2016

The KS SODPZ was liquidated, effective 1 January 2017. In accordance with the new ZPIZ-2B, which entered into force on 1 January 2016, occupation pensions are paid directly from the SODPZ on the day the new occupational insurance pension plan enters into force, i.e. 1 January 2017.

The ZPIZ-2B states that occupational pensions are to be paid directly from the SODPZ, resulting in the winding-up of the KS SODPZ. The entire portfolio of the KS SODPZ was thus transferred to the SODPZ on 1 January 2017.

The term of office of member of the Management Board Gregor Bajraktarević began on 6 February 2017. His term of office is to be one year from the day he assumes his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first.

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

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

Based on Article 48a of the ZNVP-1A, Kapitalska družba received the first tranche of such securities on 28 February 2017. Those securities included the shares of 137 different issuers.

Kapitalska družba created provisions in 2015 for contingent liabilities arising from an indemnity agreement in the amount of EUR 497 thousand. In January and February 2017, Kapitalska družba was informed that two lawsuits included in the aforementioned indemnity agreement and resulting in contingent liabilities for the company in the amount of EUR 180 thousand were settled in favour of Kapitalska družba.

## 7 EXPECTED DEVELOPMENT OF KAPITALSKA DRUŽBA, D. D. IN 2017

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 Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), while the Kapitalska Družba Group, through its subsidiary Modra zavarovalnica, represents the largest provider of voluntary supplementary pension insurance in Slovenia. In 2016, Kapitalska družba created the bridging insurance fund for professional athletes or bridging fund for athletes (PSŠ), which is intended for the inclusion of professional athletes in bridging insurance with the aim of providing for their social security following the end of their active sporting career.

The unstable conditions on the financial markets, the planned transformation of Kapitalska družba into an independent demographic reserve fund, the final adaptation of the operations of the SODPZ and the Company itself to changes in pension legislation with the assumption of new functions, and the project to implement new software to support pension and fund management are indications that 2017 will once again be a demanding and dynamic year for Kapitalska družba.

Kapitalska družba was established with the aim of covering the deficit in the public pension and disability insurance system, which is financed according to the principle of intergenerational exchange. In accordance with its mission, the Company must transform itself into an independent and autonomous demographic reserve fund as set out in the Slovenian Sovereign Holding Company Act (ZSDH-1). Details will be set out in a separate act. The ZSDH-1 has already defined 10% of proceeds from the sale of capital investments held by the Republic of Slovenia and assets in the form of the ZPIZ's investment in Zavarovalnica Triglav as sources of financing.

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. The following are thus still unknown: the structure of the future demographic reserve fund, new sources, future liabilities and the composition of assets (i.e. the fund's investment policy).

Although no act governing its transformation into an independent demographic reserve fund has been adopted to date, Kapitalska družba's mission has been the same since its inception and in conceptual terms entails performing the function of demographic reserve fund to the extent permitted by its assets.

The Implementation of the Budget of the Republic of Slovenia for 2017 and 2018 Act (ZIPRS1718) envisages the adjustment of pensions this year (and in 2018), and thus transfers by Kapitalska družba to the pension fund in the maximum possible amount envisaged by the ZSDH-1, i.e. EUR 50 million.

The business objectives of the SODPZ in 2017 will continue to focus on the optimal management of policyholders' assets, where a great deal of attention will be given to the principles of security and liquidity. The underlying objectives will be to increase the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk, and to achieve and exceed the average return of comparable pension funds in the context of minimal risk.

Fundamental changes are occurring in the Slovenian pension system with the payment of occupational pensions from the SODPZ. Compulsory supplementary pension insurance, which is based on the actual savings of policyholders in a given period, is replacing pensions that are financed on the fly, and therefore represents a modern form of pension payment founded on a capital basis. The aforementioned insurance facilitates early retirement for employees who perform especially difficult work and work that is harmful to their health, and work that can no longer be performed successfully after a certain age, and does not use general government and budget sources. These pensions, first paid in 2013, represent one of many possible sustainable forms that will become increasingly important due to the unfavourable demographic characteristics of Slovenian society. Kapitalska družba performs the function of demographic reserve fund not only because it covers the deficit in the public system, but also because it is a creative developer of comprehensive, long-term sustainable pension solutions. In 2017, occupational insurance and pensions are provided for in accordance with the provisions of the ZPIZ-2B and on the basis of the new occupational insurance pension plan, which entered into force on 1 January 2017. Due to the implementation of the provisions of the new pension plan, we are expecting increased activity in the area of occupational insurance, and the upgrading and adaptation of existing business processes. Due to the complexity of the occupational insurance and pension system, and associated unanswered questions regarding the implementation thereof, regular activities in 2017 will be accompanied by additional activities relating to cooperation with the Ministry of Labour, Family, Social Affairs and Equal Opportunities. We are also expecting to see in 2017 an increase in the number of informative calculations for policyholders and liable persons regarding the fulfilment of conditions for an occupational pension and the fulfilment of conditions for the suspension of payment of contributions for occupational insurance, as the conditions to obtain the right to an occupational pension will be re-verified after 1 January 2017 for all policyholders who according to current calculations meet the conditions for occupational retirement due to changes to the relevant provisions.

In providing compulsory supplementary pension insurance, the Company is guided by concern for policyholders and their employers, and for occupational pensioners. We will therefore continue to strive to be one of the most successful pension savings managers in Slovenia, and to ensure that systematic pension solutions are aimed at providing higher-quality and safer forms of insurance. In this way, we will contribute to the improved pension stability of occupational insurance policyholders and pensioners.

Due to legislative changes and the optimisation of business processes that are adapted to the actual requirements of the business environment and to achieve comprehensive and sustained business excellence, we will implement three major projects in 2017, in addition to the Company's transformation into a demographic reserve fund: the previously mentioned replacement of IT support for asset and fund management, a self-assessment according to the EFQM principles and the adaptation of operations to International Financial Reporting Standard (IFRS) 9.

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

Through the commitment and high level of motivation of all employees, we will fulfil our mission again in 2017, while building and increasing the Company's long-term value for its owner through prudent and reliable decisions. Through transformation into a demographic reserve fund, we will open new perspectives for the Slovenian pension system and support the sustainable and long-term economic development of Slovenia. This also entails an appropriate response to changing demographic conditions and the projected development of those conditions in Slovenia.

## 8 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.

The ZSDH-1 resulted in a change to previous arrangements regarding the transfer to the budget of the ZPIZ. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment pensions, which is limited to EUR 50 million. Notwithstanding the aforementioned, Kapitalska družba transferred EUR 50,000 thousand to the ZPIZ in 2016 based on the provisions of the ZIPRS1617. Kapitalska družba has transferred the cumulative amount of EUR 714,321 thousand to the budget of the ZPIZ.

Table 15: Kapitalska družba's payments to the budget of the ZPIZ

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

Year	Amount of transfer (in EUR)
2007	39,121,182
2008	49,000,000
2009	49,000,000
2010	100,000,000
2011	50,000,000
2012	50,000,000
2013	50,000,000
2014	0
2015	19,000,000
2016	50,000,000
<b>Total</b>	<b>714,320,982</b>

Because the Association of Pensioner Societies of Slovenia brings together and motivates individuals who choose to spend their time actively following retirement in the scope of the "Senior Citizens for Senior Citizens" programme, Kapitalska družba donated written-off computers in April 2016.

In the spring of 2016, Kapitalska družba donated used mobile phones in the scope of the '*Halo, si za to?*' (Hello, are you up for this?) charitable campaign organised by the Rotary Club and Slovenian Friends of Youth Association. The purpose of the campaign was to raise funds to finance various projects for children and adolescents.

## 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 and workshops, and through planned internal training carried out regularly for all employees.

Employees participated in training programmes in the following areas in 2016: finance and accounting, corporate governance, real estate management, public procurement, the prevention of money laundering and terrorist financing, archiving, corporate restructuring practices, access to information of a public nature and the protection of trade secrets, risk management and the balancing of work and family life.

In accordance with its education and training plan, Kapitalska družba also organised internal training programmes in 2016 on the following topics: the prevention of money laundering and terrorist financing, personal data protection, information security in the workplace, the latest developments in the field of law, the classification plan and conduct in the event of a fire or other disaster. All employees were also afforded the opportunity to build on their knowledge of business and financial English, and German.

Kapitalska družba promotes continuing education and the acquisition of various licences in the employer's interest. This improves the quality of the work process and improves employees' qualifications for work in a specific position. Two employees thus attended master's degree courses (according to the Bologna model) in 2016, while three attended postgraduate courses (master's of science), with two of those persons successfully completing their studies.

Two employees attended training to receive professional qualifications, with one of those persons successfully completing their training. Three employees successfully passed tests of professional knowledge in the areas of customer order execution, insurance brokerage and assessment according to the EFQM (European Foundation for Quality Management) excellence model.



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

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

Collective supplementary pension insurance is another important aspect of ensuring and increasing the future social security of employees. As a responsible company that cares for its employees, Kapitalska družba pays monthly premiums into the Modri Umbrella Pension Fund (MKPS) of the fund manager Modra zavarovalnica. The aforementioned insurance is also considered one of the most valued forms of motivation among employees. Under the agreement on the creation of a pension fund concluded in 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 117 thousand in 2016.

### A family-friendly company

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team is diverse and includes many young parents with small and school-age children. The Company strives to further improve the working environment and to make it possible for all employees to balance their career development and family life, which has become part of the organisational culture. We thus maintained activities in the scope of the family-friendly company project in 2016. The following 12 measures were adopted during the acquisition of the basic and full certificates: communication with employees, opinion polls among employees, public relations, time account, children's time bonus, additional annual leave, the philosophy and concept of management, a reintegration plan following an extended absence, socialising among employees, the hiring of employees' families for temporary jobs at the Company, the giving of gifts to celebrate newborns and New Year's gifts for children. Among the most popular and frequently employed measures are the time account, the children's time bonus (i.e. a day off for the first day of primary school for the parents of children in grades 1 to 3), meetings between employees and the Management Board and New Year's gifts and gifts for newborns.

## 8.3 Environmental responsibility

### Waste separation

The irrational use of natural resources and the pollution of the environment are becoming pressing issues that Kapitalska družba cannot overlook. The Company therefore established separate waste



collection, which facilitates the further use and/or processing of waste. The processing of waste helps protect the environment. Because waste is used as a resource in the production of new products, we use less natural resources and significantly less energy.

The Company also collects plastic bottle caps separately and, together with Modra zavarovalnica, uses those caps for charitable purposes.

#### **Use of electricity from renewable sources**

A tender was issued in 2016 for the supply of electricity in accordance with the Decree on Green Public Procurement. The Company took into account the provisions and requirements of the aforementioned decree and signed an agreement on the supply of 100% of electricity produced from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels, while the production of energy from renewable sources does drain natural resources. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

## 9 REPORT ON RELATIONS WITH THE SUBSIDIARY

As the parent company, Kapitalska družba holds a 100% participating interest in Modra zavarovalnica. No transactions were executed between the parent company and the aforementioned subsidiary in 2016 under conditions that deviated from market conditions.

### **Lease of business premises**

Modra zavarovalnica leases business premises from Kapitalska družba. A lease agreement was concluded in 2011 for a period of five years. The monthly rent for equipped business premises measuring 1,704.23 m<sup>2</sup> amounts to EUR 27,714. The aforementioned rental fee includes 50 parking places and electricity costs.

### **Use of computer programs**

As the exclusive holder of material copyrights on the Kad.Net software solution, Kapitalska družba allows Modra zavarovalnica to use that software under the associated agreement. As the holder of rights to use software support for asset management, Kapitalska družba also allows Modra zavarovalnica to use the AdTreasury software solution, with the consent of the exclusive holders of material rights on that program. Their use is permitted for the period of time set out in the mutual agreement on the lease of the aforementioned programs. The monthly contractual value is EUR 2,610, excluding VAT. That amount is being reduced gradually due to Modra zavarovalnica's transition to an independent software solution for asset and fund management.

### **Provision of IT services**

Kapitalska družba provides IT services for Modra zavarovalnica. Those services include the maintenance of workstations and other user devices, help desk services, internet access services, messaging system services, data file and printing services, roaming services for business software in the test and production environments in Kapitalska družba's IT infrastructure, and the maintenance of the latter. The monthly fee includes the cost of labour of experts, the cost of hardware maintenance, the costs of system software licences and internet costs. The monthly contractual value is EUR 8,943, excluding VAT.

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

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

## 10 INDICATORS

in EUR 000

		Value		Value of indicator	
		2016	2015	2016	2015
1.	FINANCING RATIOS				
a)	Equity financing ratio				
	equity	945,586	951,612	0.92	0.99
	total equity and liabilities	1,022,677	964,584		
b)	Long-term financing ratio				
	equity + long-term liabilities (including provisions) + long-term accruals and deferred income	969,245	961,224	0.95	1.00
	total equity and liabilities	1,022,677	964,584		
2.	INVESTMENT RATIOS				
a)	Operating fixed asset investment ratio				
	fixed assets (at carrying amount)	3,711	3,928	0.00	0.00
	total assets	1,022,677	964,584		
b)	Long-term investment ratio				
	fixed assets + long-term deferred expenses and accrued revenues (at carrying amount) + investment property + long-term financial assets + long-term operating receivables	861,887	840,042	0.84	0.87
	total assets	1,022,677	964,584		

		Value		Value of indicator	
		2016	2015	2016	2015
3.	HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a)	<b>Equity to fixed assets ratio</b>				
	equity	945,586	951,612	254.81	242.26
	fixed assets (at carrying amount)	3,711	3,928		
b)	<b>Acid test ratio</b>				
	liquid assets	28,138	38,602	0.53	11.77
	short-term liabilities	53,311	3,281		
c)	<b>Quick ratio</b>				
	liquid assets + short-term receivables	29,333	41,504	0.55	12.65
	short-term liabilities	53,311	3,281		
d)	<b>Current ratio</b>				
	short-term assets	90,525	115,636	1.70	35.25
	short-term liabilities	53,311	3,281		
4.	EFFICIENCY RATIOS				
a)	<b>Operating efficiency</b>				
	operating revenue	10,129	9,553	1.58	1.55
	operating expenses	6,416	6,156		
5.	PROFITABILITY RATIOS				
a)	<b>net return on equity</b>				
	net profit for the period	-6,444	37,572	-0.01	0.04
	average equity (excluding net profit/loss for period)	933,035	896,634		
b)	<b>Dividends to share capital ratio</b>				
	dividends for financial year	0	0	0.00	0.00
	average share capital	364,810	364,810		

## 11 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 2016 to 31 December 2016.

1.1 As a public limited company whose sole shareholder is the Republic of Slovenia, Kapitalska družba voluntarily complies with the Corporate Governance Code for Companies with State Capital Investments, which 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 hereby issues its statement of compliance with the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014 and amended on 2 March 2016. 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/kodeks-upravljanja-kapitalskih-nalozb-republike-slovenije>.

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

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

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

3.1 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 associa-

tion in order to ensure increased transparency with respect to those objectives. If a company has conflicting objectives, its articles of association or another relevant legal document (e.g. the company's governance policy) shall define the relationships between objectives and the resolution of conflicts between those objectives.

**Note:** Given the specific purpose of its establishment and its planned transformation into an autonomous demographic reserve fund, and taking into account the state capital investment management strategy, Kapitalska družba's primary concerns are the fulfilment of its legal obligation to provide funds to the Pension and Disability Insurance Institute, and the management of the SODPZ, KS SODPZ and PSS.

**3.2** 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 the State has a prevailing 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 the Corporate Governance Code for Joint Stock Companies, in Recommendation no. 2.1 and in Appendix A14. The governance policy shall be adopted for the future period and shall be updated by the company so that it is in line at all times with regulations, the company's article of association, the state capital asset management strategy, applying Recommendation no. 3.1.1 of this Code *mutatis mutandis*, and current corporate governance guidelines. The governance policy shall include the date of the last update and shall be accessible on a company's public website.

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

#### **4. Relationship between shareholders or partners, ssh, the state and a company with capital assets of the state**

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

**Note:** The Company does not comply with the aforementioned provision of the code in full because it is not a company managed by SDH. In accordance with Article 51 of the ZSDH-1, the role of Kapitalska družba's General Meeting is performed by the Government of the Republic of Slovenia.

### **6. Supervisory Board**

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

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

**6.5.1** The supervisory board shall draw up a competence profile for its members, in terms of the optimal size and composition of the supervisory board, and publish it on the company public website. The line composition envisaged in the second paragraph of Article 21 of ZSDH-1 shall be taken into account for that purpose.

**Note:** Kapitalska družba complies with the aforementioned provision of the Code *mutatis mutandis*, taking into account the cogent provisions of Article 51 of the ZSDH-1 and the Company's Articles of Association, which set out the special composition and number of members of Kapitalska družba's Supervisory Board. However, no competence profile has been drawn up to date.

**6.7** 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 criteria stated in Appendix C to the Corporate Governance Code for Joint Stock Companies. 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.

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

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

**6.7.8** 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.

**Note:** The Company does not comply with the aforementioned provision 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.

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

**7.3** The supervisory board of a company with capital assets of the State shall draw up a draft remuneration policy for the management body in accordance with the Recommendations and Expectations of Slovenian Sovereign Holding and submit it to the general meeting for adoption.

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

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

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

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

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

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



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

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

Kapitalska družba's financial statements for every financial year are verified and audited by an external auditor. On the basis of the resolution passed by General Meeting on 22 July 2016, the Company's financial statements for 2016 were audited by Deloitte revizija d. o. o., Ljubljana.

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

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

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

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

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

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

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

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board were appointed on the basis of a proposal by SDH, d. d., while two members were appointed on the basis of a proposal by a national-level federation/organisation of pensioners. One member was appointed on the basis of a proposal by national-level trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent SDH is formulated by SDH's Management Board, which informs the Supervisory Board of its choice. The proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions shall be voted upon by representatives (electors) of national-level representative federations/confederations, who shall 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.

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

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

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

**Note:** The Company's sole shareholder exercises its rights arising from the ownership of shares at the General Meeting. The General Meeting is the Company's highest body and functions in accordance with the provisions of the ZGD-1, the ZSDH-1 and the Company's Articles of Association. The General Meeting is convened by the Company's Management Board, as defined by the law and the Articles of Association, and whenever its convening is in the interest of the Company. The General Meeting may also be convened by the Supervisory Board. The General Meeting must also be convened if the shareholder requests that the Management Board do so. The shareholder's written request to convene the General Meeting must include an agenda, a proposed resolution for each proposed item of the agenda to be decided upon by the General Meeting, or an explanation of the agenda item if the General Meeting will not decide on the item in question. The convening of the General Meeting must be published at least 30 days prior to the meeting. The convening of the General Meeting is published on the websites of the 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.

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

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

##### **1.9.1 Supervisory Board**

The responsibilities of the Supervisory Board are set out in the Company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2016 is given in the Report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2016:

- ♦ Samo Lozej, Chairman (until 8 April 2016),
- ♦ Stanislav Seničar, member; Chairman (since 15 April 2016),
- ♦ Dr Boris Žnidarič, member and Deputy Chairman (suspension of both functions until 23 November 2016, inclusive),
- ♦ Cirila Surina Zajc, member; Deputy Chairwoman (until 24 November 2016),
- ♦ Aleksander Mervar, MSc, member,
- ♦ Ladislav Rožič, MSc (member),
- ♦ Janez Bedina, member (from 8 January 2016 to 23 November 2016), and
- ♦ Natalija Stošicki, member (since 8 April 2016).

Three committees functioned within the Supervisory Board in 2016: 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.

### 1.9.2 Management Board

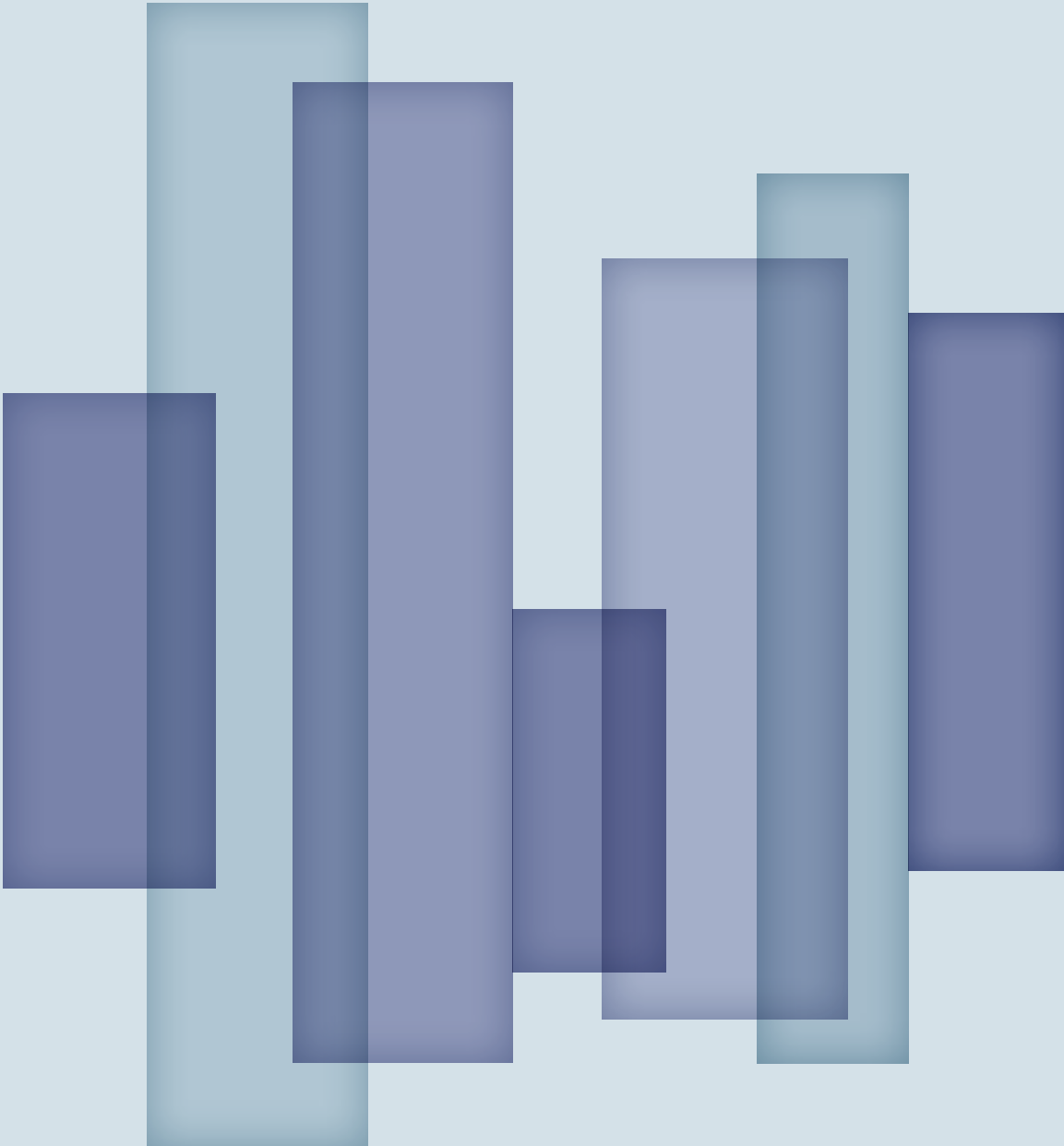
In accordance with the ZSDH-1 and the Company's Articles of Association, the Management Board has a minimum of two and a maximum of three members. The members of the Management Board are appointed to a four-year term of office by the Supervisory Board based on a public tender procedure. Kapitalska družba, d. d. was run by its Management Board in 2016 in the following composition:

- ♦ Bachtar Djalil, President,
- ♦ Dr Boris Žnidarič, member (until 23 November 2016, inclusive), and
- ♦ Goranka Volf, member (since 24 November 2016).

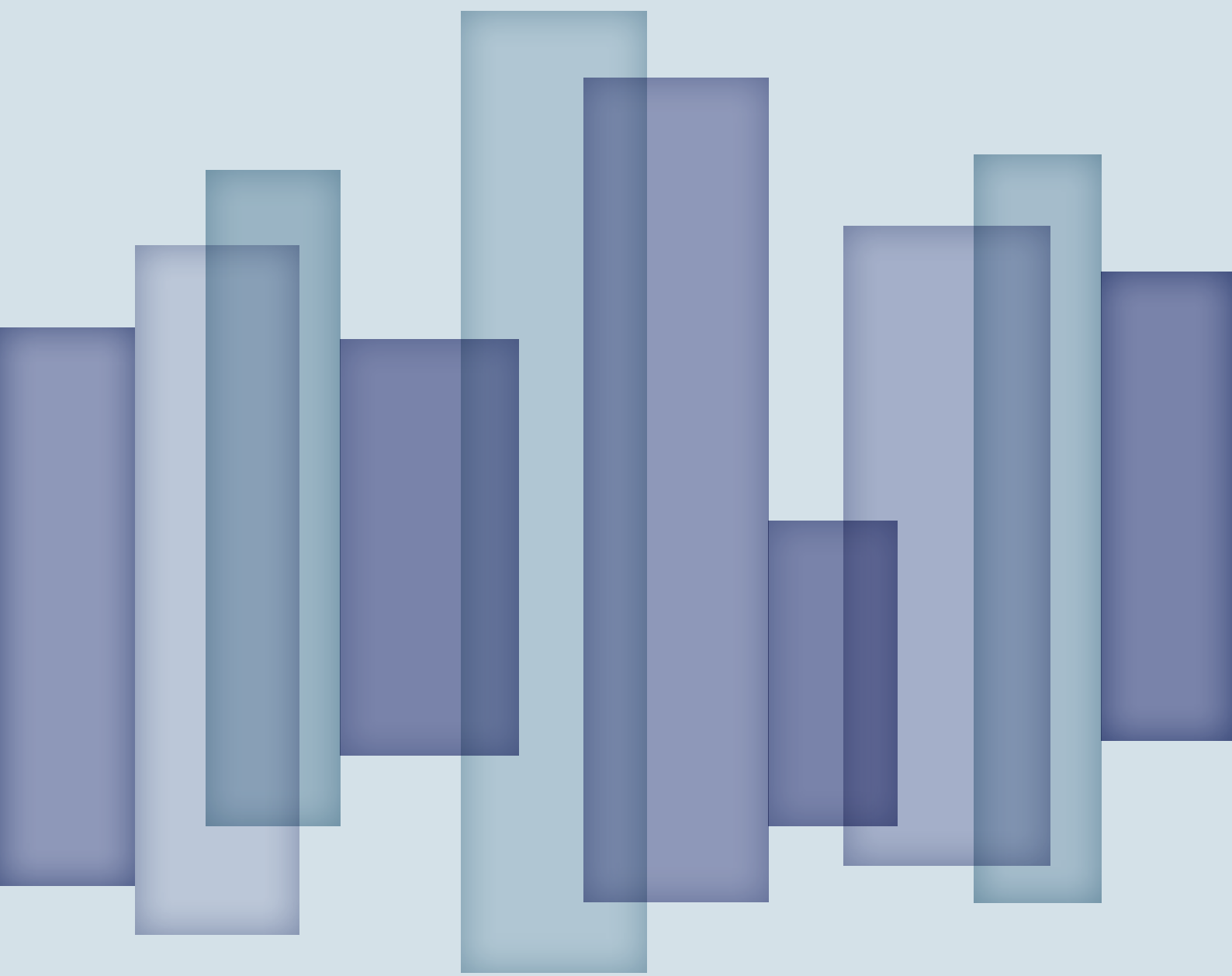
The President and member of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure. The President of the Management Board Bachtar Djalil began his four-year term of office on 2 January 2015, while member of the Management Board Goranka Volf began her four-year term of office on 24 November 2016. The temporary member of the Management Board, Dr Boris Žnidarič, was appointed to a term of office of one year pursuant to the second paragraph of Article 273 of the ZGD-1. Dr Žnidarič's term of office began on 23 November 2015 and ended on 23 November 2016.

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 2016 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1 and ZSDH-1, in accordance with the Articles of Association.



# Financial Report



## 12 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Company for the year ended 31 December 2016, and the accompanying notes and disclosures thereof on pages 69 to 152, which are an integral part of the financial statements.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and good management. The Management Board also confirms that the financial statements give true and fair presentation of the Company's financial position and the results of its operation for the year ended 31 December 2016.

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

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 material liability in this respect.



**Gregor Bajraktarević**  
Member of the Board



**Goranka VOLF**  
Member of the Board



**Bachtiar DJALIL**  
President of the Board

Ljubljana, 30 March 2017



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

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

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

### Opinion

We have audited the accompanying 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 2016, 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 2016, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

### Basis for Opinion

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

### Consolidated financial statements

We draw your attention to Note 15.1. 'General disclosures' to the financial statements where it is explained that Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. is the parent company in the Kapitalska družba pokojninskega in invalidskega zavarovanja Group and that the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as adopted by the EU have not been issued yet. Note 15.1 to the financial statements also explains when the consolidated financial statements and other disclosures regarding unconsolidated statements of the subsidiary will be issued. Our opinion is not modified in respect of this matter.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske in v izvirniku »UK private company limited by guarantee«, in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www2.deloitte.com/si/en/pages/about-deloitte/articles/about-deloitte.html>.

Družba članica Deloitte Touche Tohmatsu Limited.

Deloitte Revidirja d.o.o. - Družba vpisana pri Okrednem sodišču v Ljubljani - Matična številka: 1647125000 - ID št. za DDV: S62560085 - Osnovni kapital: 74.214,30 EUR



### Other information

The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date. Management is responsible for the other information.

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

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

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

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

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

### Responsibilities of Management and Supervisory Board for the 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, management is responsible for assessing the Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so

Supervisory Board is responsible for overseeing the Company's financial reporting process.

### 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.
- 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 Supervisory Board we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj  
Certified auditor

Ljubljana, 4<sup>th</sup> May 2017

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

**Deloitte.**

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

**TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS**

## 14 FINANCIAL STATEMENTS FOR 2016

### 14.1 Income statement for the period from 1 January 2016 to 31 December 2016

in EUR 000

	Item	Note	1/ 1/ - 31/ 12/ 2016	1/ 1/ - 31/ 12/ 2015
1.	Net revenue from sales	1		
a)	Sales to local companies in the Group		539	636
c)	Revenue from sales on the domestic market		9,522	8,905
	Total revenue from sales		10,061	9,541
4.	Other operating revenue (including revaluation revenue)	2	68	12
	<b>Total revenue</b>		<b>10,129</b>	<b>9,553</b>
5.	Costs of goods, materials and services	3		
b)	Costs of materials		-120	-125
c)	Costs of services		-1,391	-1,659
	Total costs of goods, materials and services		-1,511	-1,784
6.	Labour costs	4		
a)	Payroll costs		-2,336	-2,141
b)	Social security insurance costs		-377	-341
c)	Pension insurance costs		-117	-109
d)	Other labour costs		-252	-207
	Total labour costs		-3,082	-2,798
7.	Amortisation, depreciation and write-offs	5		
a)	Depreciation and amortisation		-1,052	-1,064

	Item	Note	1/ 1/ - 31/ 12/ 2016	1/ 1/ - 31/ 12/ 2015
b)	Operating expenses from revaluation of fixed assets		-771	0
	Total write-downs		-1,823	-1,064
8.	Other operating expenses	6	0	-510
	<b>Total expenses</b>		<b>-6,416</b>	<b>-6,156</b>
	<b>Operating profit (loss)</b>		<b>3,713</b>	<b>3,397</b>
9.	Financial revenue from shares and interests	7		
a)	Shares and interests in the Group		2,132	7,867
b)	Shares and interests in associates		3,749	5,111
c)	Financial revenue from other shares and interests		21,508	33,679
d)	Financial revenue from other investments		5,328	5,584
	Total financial revenue from shares and interests		32,717	52,241
10.	Financial revenue from loans	7		
b)	Financial revenue from loans to others		635	995
	Total financial revenue from loans		635	995
11.	Financial revenue from operating receivables	7		
b)	Financial revenue from operating receivables due from others		0	6,954
	Total financial revenue		0	6,954
	<b>Total financial revenue</b>		<b>33,352</b>	<b>60,190</b>
12.	Financial expenses from impairment and write-off of investments	8		
b)	Financial expenses from impairment and write-off of other investments		-568	-3,513
	Total financial expenses from impairment and write-off of investments		-568	-3,513
13.	Financial expenses for financial liabilities	8		
d)	Financial expenses for other financial liabilities		-50,003	-19,001
	Total financial expenses for financial liabilities		-50,003	-19,001
	<b>Total financial expenses</b>		<b>-50,571</b>	<b>-22,514</b>
	Profit (loss) from ordinary activities		-13,506	41,073
15.	Other revenue	9	51	26
16.	Other expenses	10	-5	-4
	Total profit (loss)		-13,460	41,095
17.	Income tax	11	0	0
18.	Deferred tax	12	7,016	-3,523
19.	<b>Net profit or loss for the period</b>	<b>13</b>	<b>-6,444</b>	<b>37,572</b>

Disclosures and notes on pages 74 to 131 are an integral part of these financial statements.

## 14.2 Statement of other comprehensive income for the period from 1 January 2016 until 31 December 2016

in EUR 000

		1/1/ - 31/12/2016	1/1/ - 31/12/2015
<b>19.</b>	<b>Net profit or loss for the period</b>	<b>-6,444</b>	<b>37,572</b>
21.	Gains (losses) on revaluation of AFS financial assets	273	-12,397
23.	Other components of comprehensive income	-61	0
<b>24.</b>	<b>Total comprehensive income for the period</b>	<b>-6,232</b>	<b>25,175</b>

Disclosures and notes on pages 74 to 131 are an integral part of these financial statements.

## 14.3 Statement of financial position as at 31 December 2016

in EUR 000

	Item	Notes	31/12/2016	31/12/2015
	<b>ASSETS</b>			
A.	Long-term assets			
I.	Intangible fixed assets and long-term accrued revenues and deferred costs	14		
1.	Long-term property rights		88	0
5.	Other long-term accrued revenues and deferred costs		0	152
	<b>Total intangible assets</b>		<b>88</b>	<b>152</b>
II.	Property, plant and equipment	15		
2.	Buildings		3,405	3,575
4.	Other plant and equipment		218	201
	<b>Total property, plant and equipment</b>		<b>3,623</b>	<b>3,776</b>
III.	<b>Investment property</b>	<b>16</b>	<b>16,334</b>	<b>17,725</b>
IV.	Long-term financial assets			
1.	Long-term financial assets, except loans			
a.	Shares and interests in the Group	17	152,200	152,200
b.	Shares and interests in associated companies	17	32,168	18,230
c.	Other shares and interests	19	532,067	522,935
d.	Other long-term financial assets	19	110,386	86,112
	Total long-term financial assets, except loans		826,821	779,477
2.	Long-term loans	20		
b.	Long-term loans to others		14,904	38,809
	Total long-term loans		14,904	38,809
	<b>Total long-term financial assets</b>		<b>841,725</b>	<b>818,286</b>

	Item	Notes	31/12/2016	31/12/2015
V.	Long-term operating receivables	21		
3.	Long-term operating receivables due from others		117	103
	<b>Total long-term operating receivables</b>		<b>117</b>	<b>103</b>
<b>VI.</b>	<b>Deferred tax assets</b>		<b>20,223</b>	<b>8,865</b>
	<b>Total fixed assets</b>		<b>882,110</b>	<b>848,907</b>
B.	Short-term assets			
I.	Assets held for sale	18	7,307	6,574
III.	Short-term financial assets			
1.	Short-term financial assets except loans	19		
d.	Other short-term financial assets		10,135	19,858
	<b>Total short-term financial assets, except loans</b>		<b>10,135</b>	<b>19,858</b>
2.	Short-term loans	20		
b.	Short-term loans to others		43,750	47,700
	Total short-term loans		43,750	47,700
	<b>Total short-term financial assets</b>		<b>53,885</b>	<b>67,558</b>
IV.	Short-term operating receivables	21		
1.	Short-term operating receivables from group companies		34	40
2.	Short-term operating trade receivables		847	819
3.	Short-term operating receivables due from others		314	2,043
	<b>Total short-term operating receivables</b>		<b>1,195</b>	<b>2,902</b>
V.	Cash	22	28,138	38,602
	<b>Total short-term assets</b>		<b>90,525</b>	<b>115,636</b>
C.	Short-term accrued revenue and deferred costs		50,042	41
	<b>Total assets</b>		<b>1,022,677</b>	<b>964,584</b>
EQUITY AND LIABILITIES				
A.	Equity			
I.	Called-up capital	23	364,810	364,810
II.	Capital surplus	24	216,619	216,413
III.	Revenue reserves	25	0	0
V.	Revaluation revenue	26	286,280	286,068
VI.	Retained earnings		77,877	46,749
VII.	Net profit/loss for the year		0	37,572
	<b>Total equity</b>		<b>945,586</b>	<b>951,612</b>
B.	Provisions and long-term accrued costs and deferred revenue			
I.	Provisions for pensions and similar obligations	27	214	154

	Item	Notes	31/12/2016	31/12/2015
II.	Other provisions		538	581
III.	Long-term accrued costs and deferred revenue		2,672	0
	<b>Total provisions and long-term accrued costs and deferred revenues</b>		<b>3,424</b>	<b>735</b>
C.	Long-term liabilities			
I.	Long-term financial liabilities	29	0	0
II.	Long-term operating liabilities	28		
4.	Long-term operating liabilities from advances		12	12
	<b>Total long-term operating liabilities</b>		<b>12</b>	<b>12</b>
III.	<b>Deferred tax liabilities</b>		<b>20,223</b>	<b>8,865</b>
	<b>Total long-term liabilities</b>		<b>20,235</b>	<b>8,877</b>
D.	Short-term liabilities			
II.	Short-term financial liabilities	29	0	0
III.	Short-term operating liabilities	28		
2.	Short-term operating trade liabilities		2,996	2,986
5.	Short-term liabilities to the State		50,011	12
6.	Other short-term operating liabilities		304	283
	<b>Total short-term operating liabilities</b>		<b>53,311</b>	<b>3,281</b>
	<b>Total short-term liabilities</b>		<b>53,311</b>	<b>3,281</b>
E.	Short-term accrued costs and deferred revenue		121	79
	<b>Total equity and liabilities</b>		<b>1,022,677</b>	<b>964,584</b>

Disclosures and notes on pages 74 to 131 are an integral part of these financial statements.

## 14.4 Cash flow statement for the period from 1 January 2016 to 31 December 2016

	Item	1/ 1/ - 31/ 12/ 2016	1/ 1/ - 31/ 12/ 2015
<b>A.</b>	<b>Cash flows from operating activities</b>		
a)	Net profit or loss and adjustments		
	Profit or loss before tax	-13,460	41,095
	Adjustments for amortisation and depreciation	1,052	1,064
	Adjustments for financial revenue from financing	-30,897	-34,319
	Adjustments for financial expenses from financing	50,571	22,514
	<b>Total cash flow derived from the income statement items</b>	<b>7,266</b>	<b>30,354</b>

	Item	1/ 1/ - 31/ 12/ 2016	1/ 1/ - 31/ 12/ 2015
b)	Changes in net operating assets in the balance sheet items		
	Opening less closing operating receivables	1,693	-1,699
	Opening less closing deferred costs and accrued revenues	-50,001	-21
	Opening less closing deferred tax assets	-11,358	3,523
	Opening less closing assets (disposal groups) held for sale	-733	0
	Closing less opening operating liabilities	50,030	-1,872
	Closing less opening accrued costs and deferred revenues, and provisions	2,731	483
	Closing less opening deferred tax liabilities	11,358	-3,523
	Total net operating assets in the operating balance sheet items	3,720	-3,109
c)	Net cash from operating activities	10,986	27,245
<b>B.</b>	<b>Cash flows from investing activities</b>		
a)	Cash receipts from investing activities		
	Interest and dividends received from investing activities	25,943	28,186
	Cash receipts from disposal of long-term financial assets	23,909	46,803
	Cash receipts from disposal of short-term financial assets	9,465	8,874
	<b>Total cash receipts from investing activities</b>	<b>59,317</b>	<b>83,863</b>
b)	Cash disbursements from investing activities		
	Cash disbursements to acquire intangible assets	-54	-41
	Cash disbursements to acquire property, plant and equipment	-124	-43
	Cash disbursements to acquire investment property	0	-101
	Cash disbursements to acquire long-term financial assets	-34,445	-88,234
	<b>Total cash disbursements from investing activities</b>	<b>-34,623</b>	<b>-88,419</b>
c)	Net cash from investing activities	24,694	-4,556
<b>C.</b>	<b>Cash flows from financing activities</b>		
a)	Cash receipts from financing activities		
	Capital increase and effect of free acquisition of investments	206	460
	Cash from increase in long-term financial liabilities	3,650	0
	<b>Total cash receipts from financing activities</b>	<b>3,856</b>	<b>460</b>
b)	Cash disbursements from financing activities		
	Cash repayments of long-term financial liabilities	-50,000	-19,000
	<b>Total cash disbursements from financing activities</b>	<b>-50,000</b>	<b>-19,000</b>
c)	Net cash from financing activities	-46,144	-18,540
<b>D.</b>	<b>Closing balance of cash</b>		
a)	Net cash for the period	-10,464	4,149
b)	Opening balance of cash	38,602	34,453
c)	<b>Total closing balance of cash</b>	<b>28,138</b>	<b>38,602</b>

Disclosures and notes on pages 74 to 131 are an integral part of these financial statements.

## 14.5 Statement of changes in equity for the period from 1 January 2016 to 31 December 2016

in EUR 000

		Share capital	Capital surplus	Revaluation reserve	Retained earnings	Net profit or loss for the year	Total
<b>A. 1.</b>	<b>As at 31 December 2015</b>	<b>364,810</b>	<b>216,413</b>	<b>286,068</b>	<b>46,749</b>	<b>37,572</b>	<b>951,612</b>
<b>A. 2.</b>	<b>As at 1 January 2016</b>	<b>364,810</b>	<b>216,413</b>	<b>286,068</b>	<b>46,749</b>	<b>37,572</b>	<b>951,612</b>
<b>B. 1.</b>	<b>Changes in equity – transactions with owners</b>	<b>0</b>	<b>206</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>206</b>
d)	Additional paid-in capital	0	206	0	0	0	206
<b>B. 2.</b>	<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>212</b>	<b>0</b>	<b>-6,444</b>	<b>-6,232</b>
a)	Net profit or loss for the period	0	0	0	0	-6,444	-6,444
d)	Gains (losses) on revaluation of financial assets	0	0	273	0	0	273
d)	Other components of comprehensive income of the reporting period	0	0	-61	0	0	-61
<b>B. 3.</b>	<b>Changes in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>31,128</b>	<b>-31,128</b>	<b>0</b>
a)	Allocation of the remaining net profit for the comparative period to other equity components	0	0	0	37,572	-37,572	0
b)	Allocation of portion of net profit for the period to other equity components pursuant to the decision of management and supervisory bodies	0	0	0	-6,444	6,444	0
<b>C.</b>	<b>Closing balance as at 31 December 2016</b>	<b>364,810</b>	<b>216,619</b>	<b>286,280</b>	<b>77,877</b>	<b>0</b>	<b>945,586</b>

Disclosures and notes on pages 74 to 131 are an integral part of these financial statements.

In 2016, the capital surplus increased by EUR 206 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 2015 to 31 December 2015

in EUR 000

		Share capital	Capital surplus	Revaluation surplus	Retained earnings	Net profit or loss for the year	Total
<b>A. 1.</b>	<b>As at 31 December 2014</b>	<b>364,810</b>	<b>215,953</b>	<b>298,465</b>	<b>0</b>	<b>46,749</b>	<b>925,977</b>
<b>A. 2.</b>	<b>As at 1 January 2015</b>	<b>364,810</b>	<b>215,953</b>	<b>298,465</b>	<b>0</b>	<b>46,749</b>	<b>925,977</b>
<b>B. 1.</b>	<b>Changes in equity – transactions with owners</b>	<b>0</b>	<b>460</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>460</b>
d)	Additional payments of capital	0	460	0	0	0	460
<b>B. 2.</b>	<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>-12,397</b>	<b>0</b>	<b>37,572</b>	<b>25,175</b>
a)	Net profit or loss for the period	0	0	0	0	37,572	37,572
d)	Gains (losses) on revaluation of financial assets	0	0	-12,397	0	0	-12,397
<b>B. 3.</b>	<b>Changes in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46,749</b>	<b>-46,749</b>	<b>0</b>
a)	Allocation of the remaining net profit for the comparative period to other equity components	0	0	0	46,749	-46,749	0
<b>C.</b>	<b>Closing balance as at 31 December 2015</b>	<b>364,810</b>	<b>216,413</b>	<b>286,068</b>	<b>46,749</b>	<b>37,572</b>	<b>951,612</b>

Disclosures and notes on pages 74 to 131 are an integral part of these financial statements.

## 14.7 Distributable profit for 2016

in EUR 000

		31/12/2016	31/12/2015
a	Net profit/loss for the year	-6,444	37,572
b	+ Net profit/loss brought forward	84,321	46,749
<b>e</b>	<b>Distributable profit (a+b+c-d-e), distributed by the AGM</b>	<b>77,877</b>	<b>84,321</b>

In 2016, Kapitalska družba disclosed distributable profit in the amount of EUR 77,877 thousand.

## 15 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 the ZGD-1. The breach of the Articles of Association of Kapitalska družba representing a severe dereliction of duties may constitute cause for dismissal.

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

The Supervisory Board of Kapitalska družba is appointed by the Company's Annual General Meeting. In compliance with Article 51(6) of the ZSDH-1, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of Slovenski državni holding, d. d.<sup>10</sup> (Slovenian Sovereign Holding – SDH), two members on the proposal of the pensioners' governmental organisations and one member on the proposal of trade union associations or confederations which are representative of the country. If stakeholders do not formulate a proposal for the appointment of Supervisory Board members as defined below, the missing members of the Supervisory Board are appointed at the discretion of the Annual General Meeting. The candidates from among the representatives of the SDH are proposed by the Management Board of the Slovenian Sovereign Holding, which informs the Supervisory Board about the selection. The candidates from among the representatives of the pensioners are proposed by the pensioners' governmental organisations and associations, which inform the Supervisory Board about the selection. The candidates from among the representatives of the trade unions are elected by the representatives (electors) of the representative government-level trade union associations or confederations, which inform the Supervisory Board about the selection. Any representative association or confederation has the number of representatives equal to the number of the representative trade unions it comprises. In addition to the representatives referred to in the previous sentence, the association or confederation elects another representative for every ten thousand members. The term of office of the Supervisory Board members is four years with the possibility of re-appointment.

#### Information on the controlling company

Kapitalska družba, d. d., does not have a controlling company.

#### Information on subsidiary

Subsidiary of Kapitalska družba as at 31 December 2016 is presented in the table below.

in EUR 000

Subsidiary	Country	Share in equity	Equity of the company as at 31 December 2016	Net profit for 2016
Modra zavarovalnica, d. d.	Slovenia	100.00%	225,990	6,570

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

#### Basic data on 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 2016, the sole shareholder of Modra zavarovalnica, d. d., was Kapitalska družba. The share capital of the insurance company amounts to EUR 152,200,000. The 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.

<sup>10</sup> Two of three members of the Supervisory Board were appointed on the proposal of Slovenska odškodninska družba, d. d. according to the previously applicable ZSDH.

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

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

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 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. Furthermore, Kapitalska družba is not obligated to provide financial support to companies in the future.

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

#### 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 2016 are presented in a special document entitled the Consolidated Annual Report of the Kapitalska družba Group for 2016.

The Annual Report of Kapitalska družba, d. d. for 2016 has to be read in conjunction with the Consolidated Annual Report of the Kapitalska družba Group for 2016, which will be prepared upon the drafting of the Annual Report of Kapitalska družba for 2016 and the annual report of its subsidiary for 2016.

The consolidated Annual Report of the Kapitalska družba Group will be available at [http://www.kapitalska-druzba.si/o\\_kapitalski\\_druzbi/letna\\_porocila](http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila) untile the end of August 2017.

#### Information about employees

At the end of 2016, Kapitalska družba had 60 employees inclusive of the two members of the Management Board. In 2016, the Company had 62 employees on average. The number of employees of Kapitalska družba as at 31 December 2016 and the average number of employees in 2016 according to the level of education is presented in the table below.

Table 16: Number of employees and average number of employees by educational level in 2016

Level of education	Number of employees as at 31/12/2016	Average number of employees in 2016
Level 8(8/1, 8/2)	13	10
Level 7	21	26
Level 6 (6/1, 6/2)	13	12
Level 5	12	13
Level 4	1	1
<b>Total</b>	<b>60</b>	<b>62</b>

## 15.2 Accounting policies

### Basis for preparation

The financial statements for 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and the Companies Act.

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

### Significant accounting estimates and judgements

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

The adequacy of used assumptions and estimates is checked periodically.

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

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

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

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

### Statement of compliance

The 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 2016. It did not apply any standard or interpretation before its application became obligatory in 2016.

### Amendments to standards and interpretations

#### Standards and interpretations effective for the current period

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

- ♦ Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities' and IAS 28 'Investments in associates and joint ventures', – Investment entities: Applying the consolidation exception, adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- ♦ Amendments to IFRS 11 'Joint arrangements', – Accounting for acquisitions of Interests in joint operations, adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- ♦ Amendments to IAS 1 'Presentation of financial statements' – Disclosure initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- ♦ Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' – Acceptable methods of depreciation and amortisation, adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- ♦ Amendments to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture' – Agriculture: Bearer plants, as adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- ♦ Amendments to IAS 19 'Employee Benefits' – Defined benefit plans: Employee Contributions, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- ♦ Amendments to IAS 27 'Separate financial statements' – Equity method in separate financial statements, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- ♦ Amendments to various standards – 'Improvements to IFRSs (2010-2012)', resulting from the annual project for improvement of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 17 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 February 2015),
- ♦ Amendments to various standards – 'Improvements to IFRSs (2012-2014)', resulting from the annual project for improvement of IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34 and) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 15 December 2015 (the amendments will need to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards had no significant effect on the Company's financial statements.

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

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by the IASB and adopted by the EU are not yet effective:

- ♦ IFRS 9 'Financial Instruments', adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- ♦ IFRS 15 'Revenue from Contracts with Customers' and amendments to IFRS 15 'Effective date of IFRS 15', adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

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

- ♦ IFRS 14 'Regulatory deferral accounts' (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- ♦ IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019),
- ♦ Amendments to IFRS 2 'Share-based Payment' – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- ♦ Amendments to IFRS 4 'Insurance Contracts' – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 'Financial Instruments' is applied first time),
- ♦ 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 subsequent amendments (the effective date has been postponed to a later date until the research project on capital method is concluded),
- ♦ Amendments to IFRS 15 'Revenue from Contracts with Customers' – Clarifications to IFRS 15

Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- ♦ Amendments to IAS 7 'Statement of Cash Flows' – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017),
- ♦ Amendments to IAS 12 'Income taxes' – Recognition of deferred tax assets for unrealised losses (effective for annual periods starting on or after 1 January 2017).
- ♦ Amendments to IAS 40 'Investment Property' – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- ♦ Amendments to various standards 'Improvements to IFRSs (cycle 2014-2016)', resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- ♦ IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018).

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 for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

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

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

### **Basic policies**

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

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

### **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 disposition of net profits for creation of the Company's reserves according to provisions of the Public Utilities Act. Such disposition of profits is included in statements of the current year, whereas the Company's Assembly determines the distribution of distributable profit. In line with Article 52(2) of the 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	Amortisation 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 fixed assets useful during its useful life. The increase in fixed asset comprises costs required to increase the future benefits of a fixed asset in comparison to past benefits.

## **Investment property**

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

The 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 is disclosed as impairment loss directly in the income statement.

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

The cash generating unit includes investment property by locations.

## **Financial assets**

### **Classification of financial assets**

Financial assets of Kapitalska družba are classified into the following groups:

- ♦ financial assets at fair value through profit or loss,
- ♦ held-to-maturity financial assets,
- ♦ loans, and
- ♦ available-for-sale financial assets.

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

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

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

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

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

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

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

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

### Recognition of financial assets

Initially, all the Company's investments except financial assets classified at fair value through profit or loss are recognised at cost, plus transaction costs. Assets classified at fair value through profit or loss are recognised at fair value, with direct costs of acquisition not included in the cost, but rather charged directly against profit or loss under investment expense.

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

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

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

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

#### 2. Financial assets held to maturity

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

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

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

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

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

#### **4. Investments in loans**

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

#### **Financial assets measured at cost**

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

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

#### **Investments in subsidiaries and associated companies**

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

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

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

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

#### **Determining fair value of investments**

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

Upon investment acquisition, the company determines on of the following as the principal market for that investment:

- ♦ stock exchange market (for equity and debt instruments and collective investment trusts), or
- ♦ off-exchange or OTC<sup>11</sup> (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.

<sup>11</sup> OTC (Over-The-Counter) market, transactions involving securities and agreed bilaterally between two parties outside the organised market.

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

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT<sup>12</sup> price is quoted for at least a half of trading days in the last 30 days from the measurement date. In the event of an active OTC market, fair value is measured using the last known CBBT price. If the OTC market is less liquid, fair value is measured using the most recent CBBT price of not more than 90 days. When the CBBT price is not available, fair value may be measured using the BVAL<sup>13</sup> 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, valuation model is used which includes benchmark against the current fair value of another instrument with similar main characteristics. Amortised cost model is applied when determining fair value of treasury and commercial bills.

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

In line with IFRS 13.69, the 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. Based to IFRS 13.82, level 2 input 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.

<sup>12</sup> 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 hundreds of different dealers.

<sup>13</sup> 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.

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

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

Table 18: Classification of unquoted equity investments

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

Table 19: Classification of collective investment funds

Level 1	Collective investments with fair value measured on the basis of quoted prices in active markets
Level 2	Collective investments with fair value measured on the basis of quoted prices in less liquid assets
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 20: 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 21: Classification of debt investments with exchange as the principal market

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

Table 22: Classification of debt investments with OTC market as the principal market

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

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

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

### Classification of loans and deposits

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

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

### Impairment of financial assets

The Company is regularly checking if there is a need for impairment of financial assets. Investments whose value has significantly declined in the reporting period and/or such a decline is prolonged are impaired. The Company considers a significant decline in the value of equity investments to be one in which the amount of the negative revaluation and exchange rate differences recognised in the equity reach 20% of the investment's cost. In this case such equity investments are impaired in the total amount of the cumulative unrealised net loss and exchange rate differences. When the amount of revaluation due to impairment and exchange rate differences recognised in the equity equals between 10% and 20%, the Company considers the need for impairment based on the time component and the relevance of investments in terms of the portfolio size. When the negative revaluation recognised in the equity equals between 10 and 20% of the investment's cost and the investment is not impaired, there must be relevant indicators to show that impairment is not required. The need for impairment of such financial assets is reviewed at least on the date of the statement of financial position or more often if necessary. Once an investment has been impaired, the total amount of the negative revaluation recognised in equity inclusive of exchange rate differences is impaired in future periods.

The Company only impairs debt instruments classified as available-for-sale whose principal amounts will not be recovered or will not be recovered in full on maturity according to the estimate made by the Company as a prudent manager. In the former case such debt instruments are impaired to zero, while in the latter case, debt instruments are impaired to the percentage of the principal which the Company

estimates with certainty to be repaid on maturity. In the latter case, debt instruments that have no material effect on the financial statements are not carried at amortised costs but rather at estimated realisable value. The need for impairment of such financial assets is reviewed at least on the date of the statement of financial position or more often if necessary.

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed through the allowance account. The reversal of impairment losses shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been if the impairment loss had not been recognised at the date on which the impairment loss is reversed. The amount of the reversal of an impairment loss shall be recognised in profit or loss as revaluation financial revenue.

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

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

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

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

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

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

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

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

As at the reporting date the Company estimates if there exist any factors indicating that non-current assets need to be impaired. If events occur indicating that the asset's book value is higher than the estimated recoverable amount, the value of the asset is impaired to its recoverable amount or that of cash-generating unit. The recoverable amount is the greater of an asset's (or cash generating unit's) net selling price and value in use. In assessing the value in use, the estimated future cash flows are dis-



counted 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 the revaluation operating expenses.

### **Derecognition of financial instruments**

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

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

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

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

### **Operating receivables**

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

### **Cash and cash equivalents**

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

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

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

### **Equity**

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

The Company's equity is share capital. The share capital of EUR 364,810 thousand is represented by 874,235 ordinary, registered, non-par value shares. Each share has the same interest and the attributed amount in the share capital.

The total equity consists of: called-up capital, capital surplus, 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 the ZGD-1. In line with Article 52(2) of the ZSDH-1 distributable profit of Kapitalska družba cannot be distributed to the shareholders.

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

### **Reserves from valuation at fair value**

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



## Provisions

Provisions are recognised for current liabilities (legal or constructive) arising from past events when it is likely that an outflow of assets that generate economic benefits will be required to settle such an obligation, and when the amount of the liability can be reliably estimated. The amount recorded as a provision is the best estimate of expenses required to settle existing liabilities on the 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 provision are disclosed decreased by expected reimbursement.

The Company established long-term provisions:

- when the guaranteed value of assets exceeds the actual value of assets belonging to an individual insured person/member, namely in the amount of the established deficit, i.e. the sum of differences between the guaranteed assets of the insured person/member and the actual value of the assets of the insured person/member;
- if a law suit is filed against 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.

## Accrued costs and deferred revenues

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

## Revenue

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

### 1. 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. Entry fees are charged as a percentage of the premium paid, the exit fees represent a percentage of redemption value, whereas the management fee is calculated as a percentage of total average net asset value of an individual fund during the saving period.

#### **a. Entry fee**

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 fee**

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 revenue**

#### **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 when they are declared.

#### **5. Revenue from sale of financial assets**

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

### **Costs**

#### **Costs of materials and services**

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

#### **Borrowing costs**

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

#### **Employee benefits**

Labour costs include gross salaries, gross salary compensations paid by the 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. Revaluation financial expenses arise in association with the impairment of financial assets. Expenses from the sale of financial assets (losses on the disposal of financial assets) are accounted for and recognised on the trading day.

## Tax

### 1. Current tax

Current tax assets and liabilities in respect of present and past periods are recognised at amounts which the 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 tax is provided using the statement of financial position liability method. Only deferred tax assets and liabilities arising from temporary differences are recognised.

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

On the 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 2016 and 31 December 2015, income statement data for the year 2016, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

## Risk management

Particularly in the economic crisis, risk management proved to be a very important area, because efficient risk management is a condition for successful and stable operations. Therefore, risk management is crucial in performing activities to achieve the goals of Kapitalska družba. The use of standard methodologies for managing risk enables qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure.

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 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 2016 updated the register of risks to which the Company is or could be exposed in operations.

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 issuers' financial position, 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 through the calculation of values 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 securities portfolios, by classifying investments in the group of assets held to maturity, 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.

### **Foreign exchange 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 instrument is denominated initially, while changes in the exchange rates of securities that constitute a specific instrument or investment fund are not monitored.

### **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 for investments in debt securities is implemented by careful selection of business partners, regular monitoring of companies' operations and by establishing and complying with investment limits with regard to exposure to 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 exposure, i.e. high yield, is set for 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, and units or shares of open-end investment funds investing in such debt securities.

### **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 large share of investments of Kapitalska družba, which includes 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 more 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 also a system of recording loss events and regular monitoring of the implementation of measures adopted. Internal audit function performs regular examinations of operating processes and provides recommendations to help strengthening internal controls and mitigating risks.

### **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 goals 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 the period from 2013 to 2016, 19 lawsuits were filed against Kapitalska družba in relation to the exercise of the right to receive one-off redemption value of the funds held in the personal capital account pursuant to Article 206(5) of the ZPIZ-2 (18 lawsuits filed by MORS insured persons and one by a MNZ insured person). Three lawsuits are class actions, with the first one involving 194 insured persons on the side of the plaintiff, the second one 37, and the third 8 insured persons on the side of the plaintiff. In 2014 and 2015, two separate lawsuits were withdrawn.

The decision of the Constitutional Court of the Republic of Slovenia, issued on 10 June 2016, ruling that Article 206(5) of the Pension and Disability Insurance Act (ZPIZ-2) with the content provided by an authentic interpretation of the said provision of 12 June 2014 is inconsistent with the Constitution, had

an important impact on Kapitalska družba actions in relation to fulfilment of claims in lawsuits filed by MORS against Kapitalska družba. The Constitutional Court ruled that it cannot be derived from the text of Article 206(5) of the ZPIZ-2 that the termination of employment agreement with MORS is the condition for exercising the right to receive one-off payment of funds. After the decision, Kapitalska družba paid the funds to all the insured who had filed duly completed claim for payment of the funds. As a result, the insured persons started to withdraw their lawsuits. One of the said proceedings was concluded with the force of res judicata in 2016, as well as the class action involving 194 of MORS insured persons. At the end of 2016 and beginning of 2017, the remainder of open lawsuits filed by MORS insured persons were withdrawn. Since in most of cases the plaintiffs filed appealed against the decision on payment of legal expenses, the final judgement on these procedures has not been reached yet.

#### **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 business of the subsidiary is monitored by the Asset Management Department, with a manager assigned to each equity investment. 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 meetings of the Management Board and the Supervisory Board 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, SDH adopted and amended in March 2016 the Corporate Governance Code for Companies with a State Capital Investment, 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 EUR 000	
	2016	2015
Revenue from fund's management	8,444	7,843
- management fee	6,721	6,528
- entry fee	1,250	1,239
- exit fee	413	47
- revenues from pension annuities	60	29
Revenue from lease payments	1,410	1,395
Other revenue from sales	207	303
<b>Total</b>	<b>10,061</b>	<b>9,541</b>

Net sales of EUR 10,061 thousand were realised on the domestic market. A major part of revenue from lease payments represents lease payments for investment property.

#### Note no. 2

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

	in EUR 000	
	2016	2015
Revenue from reversal of long-term provisions	68	11
Revaluation operating revenue	0	1
<b>Total</b>	<b>68</b>	<b>12</b>

In 2016, Kapitalska družba reversed provisions for onerous contracts in the amount of EUR 30 thousand, provisions for non-achievement of guaranteed rate of return of the SODPZ pension fund in the amount of EUR 13 thousand, and provisions for severance pay and jubilee benefits in the amount of EUR 25 thousand.

Revaluation operating revenue represents gains from the sale of fixed assets.

#### Note no. 3

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

	in EUR 000	
	2016	2015
Costs of materials	120	125
Costs of services	1,391	1,659
<b>Total</b>	<b>1,511</b>	<b>1,784</b>

### Costs of materials

Costs of materials comprise costs of power supply, write-off of low value assets, costs of office supplies and professional literature, and other costs of materials, the predominant part of which refers to energy costs in the amount of EUR 70 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 associated with labour, costs of payment transactions, banking services and insurance premiums, costs of intellectual and personal services, costs of entertainment, costs of services provided by natural persons, and costs of other services, the major part of which comprises costs of maintenance of office buildings and fixed assets in the amount of EUR 394 thousand, costs of intellectual services in the amount of EUR 270 thousand, and costs of other services, such as ATVP control (Securities Market Agency) and management of the KDD register in the amount of EUR 230 thousand.

Costs of companies sales procedures amounted to EUR 27 thousand in 2016.

### Costs of audit

The costs of auditing the 2016 financial statements and Annual Report of Kapitalska družba, d. d. totalled EUR 10,600.

## Note no. 4

### Labour costs

	in EUR 000	
	2016	2015
Payroll costs	2,303	2,108
Salary substitutes	33	33
Supplementary pension insurance costs	117	109
Pay for annual leave, reimbursements and other receipts	252	207
Other employer's contributions on salaries, salary substitutes, bonuses, reimbursements and other receipts of employees	377	341
<b>Total</b>	<b>3,082</b>	<b>2,798</b>

## Note no. 5

### Amortisation, depreciation and write-offs

	in EUR 000	
	2016	2015
Amortisation/Depreciation	1,052	1,064
Amortisation of long-term intangible assets	118	157
Depreciation of buildings	159	159
Depreciation of garages	11	11
Depreciation of equipment and spare parts	107	84
Depreciation of investment property	657	653



	2016	2015
Revaluation operating expenses related to fixed assets	771	0
Impairment of investment property	771	0
<b>Total</b>	<b>1,823</b>	<b>1,064</b>

#### Amortisation of long-term intangible assets

Total amortisation expense of EUR 118 thousand represents amortisation of software.

#### Depreciation of buildings

Depreciation of buildings represents depreciation of offices owned by Kapitalska družba in the "Stekleni dvor" building in the amount of EUR 159 thousand.

#### Depreciation of garages

Total costs of EUR 11 thousand represent depreciation of garages in the "Glavarjeva rezidenca" building.

#### Amortizacija opreme in nadomestnih delov

A major part of depreciation of equipment and spare parts represents depreciation of computers and electronic equipment (EUR 92 thousand), wooden furniture (EUR 7 thousand), and other equipment (EUR 8 thousand).

#### Depreciation of investment property

Investment property depreciation charge refers to the depreciation of business premises leased out in the amount of EUR 622 thousand, and EUR 28 thousand of depreciation expense relating to leased out parking spaces as well as depreciation of part of investment property totalling EUR 7 thousand.

#### Revaluation operating expenses related to fixed assets

In 2016, Kapitalska družba impaired the investment property in the amount of EUR 771 thousand.

#### Note no. 6

#### Other operating expenses

in EUR 000

	2016	2015
Provisions	0	510
<b>Total</b>	<b>0</b>	<b>510</b>

In 2015, Kapitalska družba, d. d. created provisions for non-achievement of guaranteed rate of return on fund SOPDZ in the amount of EUR 13 thousand, and contingent liability arising from Indemnity Agreement in the amount of EUR 497 thousand.

## Note no. 7

### Financial revenue

in EUR 000

	2016	2015
Financial revenue from shares and interests	27,389	46,657
Financial revenue from other investments and loans	5,963	6,579
- Financial revenue from other investments	5,328	5,584
- Financial revenue from loans	635	995
Financial revenue from operating receivables	0	6,954
<b>Total</b>	<b>33,352</b>	<b>60,190</b>

Financial revenue from interests decreased in 2016 due to revenue from the sale of available-for-sale financial assets, which in 2016 totalled EUR 679 thousand compared with EUR 15,920 thousand in 2015 as a result of EUR 13,403 thousand of gains on the sale of Pivovarna Laško, d. d. shares, due to lower dividend income from Modra zavarovalnica, d. d. in 2016, which amounted to EUR 2,132 thousand because of lower distributable profit of the company in 2015 (dividend income in 2015 was EUR 7,867 thousand), and due to lower gains from the reversal of impairment of associate companies in the amount of EUR 2,228 thousand, which in 2015 amounted to EUR 4,000 thousand.

Financial revenue from operating receivables totalling EUR 6,954 thousand in 2015 constitutes repayment of state aid from Elan, d. o. o., pursuant to decision of the European Commission SA.26379 dated 19 September 2012.

### Financial revenue from shares and interests

in EUR 000

	2016	2015
Dividends and shares in profits	20,998	26,618
Revaluation financial revenue	27	119
Revenue from the sale of financial assets available for sale	679	15,920
Revenues from reversal of impairments	2,228	4,000
Revenue from transfer of accrued costs and deferred revenue, and acquisition of shares	3,457	0
<b>Total</b>	<b>27,389</b>	<b>46,657</b>

Revenue from dividends and shares in profit of companies decreased with respect to the previous year, mostly because of a lower Modra zavarovalnica, d. d. dividend, which in 2016 amounted to EUR 2,132 thousand compared to EUR 7,867 thousand in 2015.

Revaluation operating revenue comprises revenue from exchange rate differences on receivables and liabilities.

Revenue from the sale of financial assets in the amount of EUR 679 thousand constitute realised capital gains from the disposal of available-for-sale financial assets, which lowered from the last year mostly as a result of the sale of Pivovarna Laško, d. d. shares in 2015.

In 2016, Kapitalska družba reversed the impairment of associated companies in the amount of EUR 2,228 thousand, which had been impaired in the past.

EUR 3,457 thousand of revenues represent revenue from the transfer of a proportionate part of the difference between fair value and transaction value of investment in financial asset in the amount of EUR 717 thousand into revenues. The identified difference was recognised upon the acquisition of the investment in financial asset. The amount is subject to a long-term deferral throughout the repayment period. The remaining EUR 2,740 thousand arise from acquisition of new shares.

#### Financial revenue from other investments and loans

	in EUR 000	
	2016	2015
Interest income	4,969	6,016
Revenue from the revaluation of receivables, liabilities and loans to retain their value	108	563
Exchange rate gains	108	563
Revenue from realised gains	886	0
Revenue from the sale of financial assets available for sale	886	0
<b>Total</b>	<b>5,963</b>	<b>6,579</b>

#### Interest income

	in EUR 000	
	2016	2015
Deposits	635	995
Bonds	4,311	4,895
Available for sale	3,262	3,862
Held to maturity	1,049	1,033
Other securities	23	126
At fair value through profit or loss	18	120
Held to maturity	5	6
<b>Total</b>	<b>4,969</b>	<b>6,016</b>

#### Revenue from sale of financial assets

	in EUR 000	
	2016	2015
Revenue from realised gains	1,565	15,920
Available-for-sale financial assets	1,565	15,920

#### Financial revenue from operating receivables

	in EUR 000	
	2016	2015
Financial revenue from operating receivables	0	6,954
<b>Total</b>	<b>0</b>	<b>6,954</b>

Financial revenue from operating receivables totalling EUR 6,954 thousand from 2015 constitutes repayment of state aid from Elan, d. o. o., according to the Commission Decision SA.26379 of 19 September 2012.

## Note no. 8

### Financial expenses

	in EUR 000	
	2016	2015
Interest expense	3	1
Revaluation financial expenses- impairment	568	3,513
Impairment of equity investments at fair value through equity	413	2,876
Expenses from the cancellation of shares	86	0
Foreign exchange losses	39	538
Other revaluation expenses	30	99
Expenses for ZPIZ	50,000	19,000
<b>Total</b>	<b>50,571</b>	<b>22,514</b>

All impairments of financial assets in the amount of EUR 413 thousand refer to available-for-sale financial assets.

Shares and stakes classified as available-for-sale financial assets were impaired in the total amount of EUR 413 thousand. The Company assessed that there was impartial evidence of impairments of these assets. The fair value of assets was estimated based on internal valuations and one external valuation. Asset valuations were made according to the following methods: income-based approach, the discounted free cash flow method, the asset-based approach, the net asset valuation method under the assumption of a going concern and regular liquidation and the peer comparison method (comparable listed companies), where the procedure is based on selected multipliers and the value of the relevant company is assessed based on the comparison of performance indicators and stock price of comparable companies. The valuation models used in 2016 indicated a smaller need for impairments than in 2015.

Pursuant to Article 67(2) of the ZIPRSS1617, Kapitalska družba in 2016 credited EUR 50 million to the ZPIZ (Pension and Disability Insurance Institute). To date, Kapitalska družba has paid EUR 714,321 thousand to the ZPIZ. These payments were included in the financial expenses from other financial liabilities in the income statement.

### Foreign currency translation

	in EUR 000	
	2016	2015
Exchange rate gains	108	563
Exchange rate losses	39	538
<b>Net exchange rate gains/losses</b>	<b>69</b>	<b>25</b>

In 2016, the net exchange rate gains amounted to EUR 69 thousand.

## Profit or loss from financial assets

in EUR 000

	2016	2015
Income from financial assets	33,352	60,190
Expenses from financial assets	-50,571	-22,514
<b>Net profit or loss financial asset</b>	<b>-17,219</b>	<b>37,676</b>

## Note no. 9

### Other revenue

in EUR 000

	2016	2015
Other items	51	26
<b>Total</b>	<b>51</b>	<b>26</b>

A major amount of other items represents revenue from previous periods in the amount of EUR 22 thousand and revenue from the KS SODPZ profit distribution in the amount of EUR 18 thousand.

## Note no. 10

### Other expenses

in EUR 000

	2016	2015
Other items	5	4
<b>Total</b>	<b>5</b>	<b>4</b>

The majority of other expenses arises from the shortfall of the KS SODPZ assets and from tax paid on dividends from abroad.

## Note no. 11

### Income tax

in EUR 000

	2016	2015
Profit or loss before tax	-13,460	41,095
Non-deductible expenses	1,610	4,590
Allowances for bad debt and inventories	0	0
Provisions formation	0	0
Non-taxable revenue	40,425	67,067
Tax allowance	0	0
Tax loss	0	0
<b>Total</b>	<b>-52,275</b>	<b>-21,382</b>
Tax rate	-	-
Income tax	-	-

The largest items of untaxed revenue are excluded received and paid domestic dividends in 2016 and a decrease due to expenses for impairments from investments in previous years, which were deleted from the records of Kapitalska družba in 2016.

At 31 December 2016, Kapitalska družba reported no income tax liabilities. Considering the revenue and expenses included in the income statement in accordance with the IFRS and the Corporate Income Tax Act (ZDDPO-2), the Company recognised tax loss of EUR 52,275 thousand.

The Management Board believes that the calculation of the tax liability for 2016 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 Article 67(2) of the ZIPRSS1617, Kapitalska družba in 2016 paid EUR 50 million to the ZPIZ (Pension and Disability Insurance Institute). To date, Kapitalska družba has paid EUR 714,321 thousand to the ZPIZ. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

The effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was not calculated, because Kapitalska družba disclosed tax loss in 2016.

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

in EUR 000

	2016	2015
Profit or loss before tax	-13,460	41,095
Tax calculated at the general tax rate	-2,288	6,986
Change in tax based on:		
1. Revenue exempt from the tax base	6,872	15,876
Untaxed dividends received	3,104	4,213

in EUR 000

	2016	2015
Adjustment of revenues to the level recognised for tax purposes (decrease)	3,768	11,663
2. Expenses exempt from the tax base	274	780
Increase in expenses (unrecognised in previous periods)	3,375	10,934
Adjustment of expenses to the level recognised for tax purposes (decrease)	-3,102	-10,154
3. Tax reliefs used in current year	0	0
4. Other changes in differed taxes in the income statement	0	0
Total corporate income tax in the income statement	0	0
<b>Total effective tax</b>	<b>0</b>	<b>0</b>

In 2016, Kapitalska družba disclosed no corporate income tax liabilities, because a tax loss was identified for 2016.

## Note no. 12

### Deferred tax

At 31 December 2016, deferred corporate income tax included the following:

in EUR 000

	Statement of financial position		Income statement	
	31/12/2016	31/12/2015	2016	2015
Deferred income tax liabilities	43,246	36,229	0	0
<b>Total deferred income tax liabilities</b>	<b>43,246</b>	<b>36,229</b>	<b>0</b>	<b>0</b>
<b>Deferred income tax assets</b>	<b>43,246</b>	<b>36,229</b>	<b>7,017</b>	<b>-3,523</b>
Loss brought forward to be used as tax allowance	20,113	8,766	11,348	7,563
Value adjustments of fixed assets	0	0	0	0
Value adjustment of receivables	0	0	0	0
Dividend adjustment	38	33	4	0
Value adjustment of investments	23,022	27,364	-4,342	-11,126
Provisions	73	66	7	40
<b>Total deferred income tax assets</b>	<b>43,246</b>	<b>36,229</b>	<b>7,017</b>	<b>-3,523</b>
<b>Netting of deferred tax assets and liabilities arising from financial assets</b>	<b>20,224</b>	<b>27,364</b>	<b>-</b>	<b>-</b>

In 2016, Kapitalska družba had a negative tax base of EUR 52,275 thousand. As at 31 December 2016, the unused tax loss totalled EUR 476,548 thousand and is freely transferable.

## Disclosure of changes in deferred tax recognised directly in equity

in EUR 000

Changes in deferred tax	2016	2015
Balance as at 1 January	36,230	39,753
Changes as at 1 January	0	0
Changes during the year	7,016	-3,523
Balance as at 31 December	43,246	36,230

Deferred tax liabilities of EUR 43,246 thousand at 31 December 2016 arose on revaluation of financial assets at fair value through equity.

### Note no. 13

#### 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.

	2016	2015
Net profit or loss attributable to holders of ordinary shares (000 EUR)	-6,444	37,572
Diluted net profit or loss attributable to holders of ordinary shares (000 EUR)	-6,444	37,572
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)	-7.4	43.0

At 31 December 2016, Kapitalska družba held 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. 14

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

Table 23: Changes in intangible assets and long-term accrued revenue and deferred costs in 2016

in EUR 000

31/12/2016	Software and other intangible assets
<b>Cost</b>	
<b>Cost as at 1 January 2016</b>	<b>3,023</b>
Additions	54
Disposals	0
<b>Cost as at 31 December 2016</b>	<b>3,077</b>
<b>Value adjustment</b>	
<b>Value adjustment as at 1 January 2016</b>	<b>2,871</b>
New purchases, transfers	0
Disposals, write-offs	0
Amortisation	118
<b>Value adjustment as at 31 December 2016</b>	<b>2,989</b>
<b>Carrying amount</b>	
<b>Carrying amount as at 1 January 2016</b>	<b>152</b>
<b>Carrying amount as at 31 December 2016</b>	<b>88</b>

Table 24: Changes in intangible assets and long-term accrued revenue and deferred costs in 2015

in EUR 000

31/12/2015	Software and other intangible assets
<b>Cost</b>	
<b>Cost as at 1 January 2015</b>	<b>2,982</b>
Additions	41
Disposals	0
<b>Cost as at 31 December 2015</b>	<b>3,023</b>
<b>Value adjustment</b>	
<b>Value adjustment as at 1 January 2015</b>	<b>2,714</b>
New purchases, transfers	0
Disposals, write-offs	0
Depreciation/amortisation	157
<b>Value adjustment as at 31 December 2015</b>	<b>2,871</b>
<b>Carrying amount</b>	
<b>Carrying amount as at 1 January 2015</b>	<b>268</b>
<b>Carrying amount as at 31 December 2015</b>	<b>152</b>

Intangible assets refer to software applications and licences.

## Note no. 15

### Property, plant and equipment

Table 25: Changes in property, plant and equipment in 2016

in EUR 000

31/12/2016	Buildings	Other plant and equipment	Total
<b>Cost</b>			
<b>Cost as at 1 January 2016</b>	<b>5,408</b>	<b>2,533</b>	<b>7,941</b>
New acquisitions	0	124	124
Disposals	0	-572	-572
<b>Cost as at 31 December 2016</b>	<b>5,408</b>	<b>2,085</b>	<b>7,493</b>
<b>Value adjustment</b>			
<b>Value adjustment as at 1 January 2016</b>	<b>1,833</b>	<b>2,332</b>	<b>4,165</b>
Additions, transfers	0	0	0
Disposals, write-offs	0	-572	-572
Depreciation	170	107	277
<b>Value adjustment as at 31 December 2016</b>	<b>2,003</b>	<b>1,867</b>	<b>3,870</b>
<b>Carrying amount</b>			
<b>Carrying amount as at 1 January 2016</b>	<b>3,575</b>	<b>201</b>	<b>3,776</b>
<b>Carrying amount as at 31 December 2016</b>	<b>3,405</b>	<b>218</b>	<b>3,623</b>

Table 26: Changes in property, plant and equipment in 2015

in EUR 000

31/12./2015	Buildings	Other plant and equipment	Total
<b>Cost</b>			
<b>Cost as at 1 January 2015</b>	<b>5,408</b>	<b>2,591</b>	<b>7,999</b>
New acquisitions	0	43	43
Disposals	0	-101	-101
<b>Cost as at 31 December 2015</b>	<b>5,408</b>	<b>2,533</b>	<b>7,941</b>
<b>Value adjustment</b>			
<b>Value adjustment as at 1 January 2015</b>	<b>1,663</b>	<b>2,349</b>	<b>4,012</b>
Additions, transfers	0	0	0
Disposals, write-offs	0	-101	-101
Depreciation/amortisation	170	84	254
<b>Value adjustment as at 31 December 2015</b>	<b>1,833</b>	<b>2,332</b>	<b>4,165</b>
<b>Carrying amount</b>			
<b>Carrying amount as at 1 January 2015</b>	<b>3,745</b>	<b>242</b>	<b>3,987</b>
<b>Carrying amount as at 31 December 2015</b>	<b>3,575</b>	<b>201</b>	<b>3,776</b>

## Note no. 16

### Investment property

Table 27: Changes in investment property in 2016

in EUR 000	
31/12/2016	Buildings
<b>Cost</b>	
<b>Cost as at 1 January 2016</b>	<b>23,849</b>
New acquisitions, transfers	37
Disposals, transfers, impairments	-771
<b>Cost as at 31 December 2016</b>	<b>23,115</b>
<b>Value adjustment</b>	
<b>Value adjustment as at 1 January 2016</b>	<b>6,124</b>
Additions, transfers	0
Disposals, write-offs	0
Depreciation	657
<b>Value adjustment as at 31 December 2016</b>	<b>6,781</b>
<b>Carrying amount</b>	
<b>Carrying amount as at 1 January 2016</b>	<b>17,725</b>
<b>Carrying amount as at 31 December 2016</b>	<b>16,334</b>

The fair value of investment property does not significantly deviate from its carrying amount as at 31 December 2016, except for the Nebotičnik office building, whose fair value exceeds its carrying amount. The fair value of investment property was estimated based on internal appraisal, except for the Smelt office building, for which an external assessment of market value was prepared for the sale purposes. The estimated value of investment property as at 31 December 2016 amounts to EUR 18,045 thousand. The comparison of carrying amounts and assessed value of the investment property items as at 31 December 2016 showed that investment property should be impaired in the amount of EUR 771 thousand.

Table 28: Changes in investment property in 2015

in EUR 000	
31/12/2015	Buildings
<b>Cost</b>	
<b>Cost as at 1 January 2015</b>	<b>23,748</b>
New acquisitions	123
Disposals	-22
<b>Cost as at 31 December 2015</b>	<b>23,849</b>
<b>Value adjustment</b>	
<b>Value adjustment as at 1 January 2015</b>	<b>5,471</b>
Additions, transfers	0
Disposals, write-offs	0

in EUR 000

31/12/2015	Buildings
Depreciation/amortisation	653
<b>Value adjustment as at 31 December 2015</b>	<b>6,124</b>
<b>Carrying amount</b>	
<b>Carrying amount as at 1 January 2015</b>	<b>18,277</b>
<b>Carrying amount as at 31 December 2015</b>	<b>17,725</b>

Table 29: Rental income investment property and costs related to investment property

in EUR 000

	2016	2015
Rental income from investment property	1,399	1,383
Costs related to investment property	823	801

## Information about encumbrances

Kapitalska družba is the co-owner of investment properties on which a pledge has been entered to secure liabilities of EUR 1,000 thousand. The remaining assets owned by Kapitalska družba are free from mortgages, pledges or other encumbrances.

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

### Note no. 17

#### Investments in subsidiary and associated companies

Investments in the subsidiary as at 31 December 2016 include:

Subsidiary	Registered office	Equity stake in %
Modra zavarovalnica, d. d.	Dunajska cesta 119, Ljubljana	100.00

in EUR 000

	31/12/2016	31/12/2015
Shares and interests in group companies	152,200	152,200
<b>Total</b>	<b>152,200</b>	<b>152,200</b>

Investments in associates as at 31 December 2016 include:

Associated company	Registered office	Equity stake in %
Casino Maribor, d. d. – v stečaju <sup>14</sup>	Glavni trg 1, Maribor	20.00
Gio, d. o. o. – v likvidaciji	Dunajska cesta 160, Ljubljana	28.68
Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51
Hit, d. d. <sup>15</sup>	Delpinova ulica 7a, Nova Gorica	20.32
Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00
Sava, d. d.	Dunajska cesta 152, Ljubljana	22.57
Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79
Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79

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

- ♦ provision of funds for the operations/capital adequacy of the subsidiary or associate;
- ♦ participation in covering contingent liabilities of the subsidiary or associated company.

At the end of 2016, Kapitalska družba used internal valuation models and external valuations to verify the value as at 31 December 2016, taking into account the most recent available data on companies' performance in 2016. The following effects were recognised in the income statement based on verifications: reversal of impairments of financial assets totalling EUR 2,228 thousand and newly recognised impairments of financial assets in the amount of EUR 413 thousand.

	31/12/2016	31/12/2015
Shares and interests in associated companies	32,168	18,230
<b>Total</b>	<b>32,168</b>	<b>18,230</b>

in EUR 000

The increase in investment in shares and interests in associates arises from revaluation of investments and acquisition of new shares.

## Note no. 18

### Assets held for sale

Non-current assets held for sale include the following items as at 31 December 2016:

	31/12/2016	31/12/2015
Assets held for sale	7,307	6,574
<b>Total</b>	<b>7,307</b>	<b>6,574</b>

in EUR 000

Non-current assets held for sale in the amount of EUR 7,307 thousand as at 31 December 2016 include equity investments for sale.

<sup>14</sup> Pursuant to the ZFPPIPP, the bankruptcy manager deleted these shares from KDD. Prior to the company's bankruptcy, Kapitalska družba held the stake as presented above.

<sup>15</sup> The share in Hit, d. d., includes 33.33% of voting rights. Preference shares do not hold any voting rights, as the dividend was paid in 2016.

## Note no. 19

### Financial assets, excluding loans

in EUR 000

	Long-term		Short-term	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Other shares and interests	532,067	522,935	0	0
Other financial assets	110,386	86,112	10,135	19,858
<b>Total</b>	<b>642,453</b>	<b>609,047</b>	<b>10,135</b>	<b>19,858</b>

Financial assets of the Company other than loans are classified into one of the following groups: financial assets at fair value through profit or loss, financial assets held to maturity, and available-for-sale financial assets. In addition, financial assets are also classified as non-current and current.

At 31 December 2016, financial assets except loans were classified into the following categories:

in EUR 000

	Long-term		Short-term		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Financial assets measured at fair value through profit or loss	0	0	622	362	622	<b>362</b>
Financial assets held to maturity	16,953	16,722	927	1,168	17,880	<b>17,890</b>
Available-for-sale financial assets	809,868	762,755	15,893	24,902	825,761	<b>787,657</b>
<b>Total</b>	<b>826,821</b>	<b>779,477</b>	<b>17,442</b>	<b>26,432</b>	<b>844,263</b>	<b>805,909</b>

### Investments in securities

in EUR 000

	31/12/2016	31/12/2015
Financial assets measured at fair value through profit or loss	622	362
Equity securities	0	0
Debt securities	622	362
Financial assets held to maturity	17,880	17,890
Available-for-sale financial assets	791,197	787,657
Equity securities	723,741	699,940
Debt securities	67,456	87,717
<b>Total</b>	<b>809,699</b>	<b>805,909</b>

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

in EUR 000

Financial asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	622	622
Financial assets held to maturity	17,880	23,313
Available-for-sale financial assets	825,761	825,761
Loans	58,654	58,654
Cash and cash equivalents	28,138	28,138
<b>Total</b>	<b>931,055</b>	<b>936,488</b>

## Financial assets at carrying amount and fair value as at 31 December 2015

in EUR 000

Financial asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	362	362
Financial assets held to maturity	17,890	23,319
Available-for-sale financial assets	787,657	787,657
Loans	86,509	86,509
Cash and cash equivalents	38,602	38,602
<b>Total</b>	<b>931,020</b>	<b>936,449</b>

According to its accounting policy, Kapitalska družba carries assets at fair value which equals the market value of financial asset. The difference between the carrying amount and fair value appears on financial assets held until maturity that are measured at amortised cost. The fair value of financial assets comprising loans and receivables also equals their amortised cost. The assumptions applied in fair value estimates of Level 3 financial assets are presented in the fair value hierarchy.

## Changes in securities investments in 2016

in EUR 000

	31/12/2015	Acquisitions	Disposals, maturity	Revaluation	31/12/2016
Financial assets measured at fair value through profit or loss	362	3,610	3,368	18	622
Financial assets held to maturity	17,890	206	1,270	1,054	17,880
Available-for-sale financial assets	787,657	19,387	29,344	13,497	791,197
<b>Total</b>	<b>805,909</b>	<b>23,203</b>	<b>33,982</b>	<b>14,569</b>	<b>809,699</b>

## Changes in securities investments in 2015

in EUR 000

	31/12/2014	Acquisitions	Disposals, maturity	Revaluation	31/12/2015
Financial assets measured at fair value through profit or loss	0	6,142	5,900	120	362
Financial assets held to maturity	17,225	443	817	1,039	17,890
Available-for-sale financial assets	794,531	37,831	52,549	7,844	787,657
<b>Total</b>	<b>811,756</b>	<b>44,415</b>	<b>59,266</b>	<b>9,003</b>	<b>805,909</b>

## Financial assets by type of interest rate as at 31 December

in EUR 000

	31/12/2016	31/12/2015
Investments in debt instruments	119,694	105,969
- Fixed interest rate	119,472	104,661
- Variable interest rate	222	1,308
Loans and deposits	82,103	86,526
- Fixed interest rate	82,103	86,526
- Variable interest rate	0	0
<b>Total</b>	<b>201,797</b>	<b>192,495</b>

## Fair value hierarchy as at 31 December 2016

in EUR 000

Item	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	0	0	622	<b>622</b>
Shares and other equity instruments	0	0	0	<b>0</b>
Debt securities	0	0	0	<b>0</b>
Money market instruments	0	0	622	<b>622</b>
Available-for-sale financial assets	448,678	149,977	227,107	<b>825,761</b>
Shares and other equity instruments	247,178	97,457	185,569	<b>530,204</b>
Debt securities	56,046	4,436	6,974	<b>67,456</b>
Units and shares of open-end funds	145,454	48,083	0	<b>193,537</b>
Investment in financial receivable	0	0	34,564	<b>34,564</b>
<b>Total</b>	<b>448,678</b>	<b>149,977</b>	<b>227,729</b>	<b>826,383</b>

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 assets was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the regular liquidation method.



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

The fair value of ordinary shares of Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., in Perutnina Ptuj, d. d., was estimated by applying the market approach and using the comparable listed companies approach. Adjusted ratios were applied.

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 an 7.90% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at a 6.7% discount rate. The remaining growth rate of normalised free cash flow is 2%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o., is the value of the company's real estate, which was classified as unnecessary property. The estimated value of this real estate is set using the regular liquidation method. The liquidation period is expected to last for 24 months and risk-free interest rate used for discounting is 2.04%.

The fair value of the shares of Terme Olimia, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.25% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Talum, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.24% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of TKI Hrastnik, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 11.00% discount rate. The remaining growth rate of normalised free cash flow is 2%.

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

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

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

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

The fair value of shares of Loterija Slovenije, d. d., was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.90% discount rate. The remaining growth rate of normalised free cash flow is 2%.

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

The investment in shares of Modra zavarovalnica, d. d., is disclosed at cost.

The fair value of investments in financial receivables is determined on the basis of the estimated fair value of pledged assets by taking into account the nominal amount of individual financial receivables.

The fair value of pledged assets was assessed based on the income approach, the discounted free cash flow method, the market approach, and the comparable listed companies approach.

The fair value of certain shares, which represent pledged assets, is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies. The fair value of investments in financial receivables is measured at Level 3 of the fair value hierarchy.

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

Table 30: Fair value hierarchy as at 31 December 2016 in the event the assets classification method does not change

in EUR 000

Item	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	0	0	622	<b>622</b>
Shares and other equity instruments	0	0	0	<b>0</b>
Debt securities	0	0	0	<b>0</b>
Money market instruments	0	0	622	<b>622</b>
Available-for-sale financial assets	531,446	10,526	283,789	<b>825,761</b>
Shares and other equity instruments	334,795	9,204	186,205	<b>530,204</b>
Debt securities	3,114	1,322	63,020	<b>67,456</b>
Units and shares of open-end funds	193,537	0	0	<b>193,537</b>
Investment in financial receivable	0	0	34,564	<b>34,564</b>
<b>Total</b>	<b>531,446</b>	<b>10,526</b>	<b>284,411</b>	<b>826,383</b>

Table 31: Transition between the levels due to change of methodology

in EUR 000

Transition between levels, portfolio as at 31/12/2016	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2	Total
Financial assets at fair value through profit and loss	0	0	0	0	0	<b>0</b>
Shares and other equity instruments	0	0	0	0	0	<b>0</b>
Debt securities	0	0	0	0	0	<b>0</b>
Money market instruments	0	0	0	0	0	<b>0</b>
Available-for-sale financial assets	135,862	2,953	1,014	56,046	4,603	<b>200,478</b>
Shares and other equity instruments	84,664	2,953	1,014	0	4,603	<b>93,235</b>
Debt securities	3,114	0	0	56,046	0	<b>59,160</b>
Units and shares of open-end funds	48,083	0	0	0	0	<b>48,083</b>
<b>Total</b>	<b>135,862</b>	<b>2,953</b>	<b>1,014</b>	<b>56,046</b>	<b>4,603</b>	<b>200,478</b>

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

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

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

#### Fair value hierarchy as at 31 December 2015

in EUR 000

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	362	0	0	<b>362</b>
- Equity securities	0	0	0	<b>0</b>
- Debt securities	362	0	0	<b>362</b>
Available-for-sale financial assets	527,564	9,190	250,903	<b>787,657</b>
- Equity securities	354,646	9,190	173,105	<b>536,941</b>
- Debt securities	9,919	0	77,798	<b>87,717</b>
- Target funds	162,999	0	0	<b>162,999</b>
<b>Total</b>	<b>527,926</b>	<b>9,190</b>	<b>250,903</b>	<b>788,019</b>

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 assets was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the regular liquidation method.

Moreover, Level 3 fair value includes all assets where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets are classified into Level 3 fair value hierarchy.

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

The fair value of ordinary shares of HIT, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.80% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The estimated fair value of the shares of Pomurska mlekarna, d. d., is EUR 0.00, because the company is in compulsory settlement proceedings and the financial restructuring plan envisages deletion of ownership of existing shareholders.

The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at a 7.8% discount rate. The remaining growth rate of normalised free cash flow is 2%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o., is the value of the company's real estate, which was classified as unnecessary property. The estimated value of this real estate is set using the regular liquidation method. The liquidation period is expected to last for 24 months and risk-free interest rate used for discounting is 1.7%.

The fair value of the shares of Perutnina Ptuj, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.87% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Terme Olimia, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.46% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Talum, d. d., was determined using the income-based method, by means of the method of discounted free cash flow, partly corrected by the estimated share value using the comparable listed companies method. The discount rate for free cash flow in the income-based valuation method is 9.90%. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of TKI Hrastnik, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.07% discount rate. The remaining growth rate of normalised free cash flow is 2%.

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

The fair value of the equity stake in Elan Inventa, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.47% discount rate. The remaining growth rate of normalised free cash flow is 1.5%.

The fair value of Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., and Geoplin, d. o. o., was estimated based on the market comparison method using the comparable listed companies. Adjusted multipliers were used.

The investments in the shares of Modra zavarovalnica, d. d., and Loterija Slovenije, d. d., are disclosed at cost, because a sufficiently reliable valuation is not possible due to certain expected legislative amendments that could significantly influence the estimated value of the companies.

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

The management is of the opinion that data that have not been disclosed do not contain information relevant to the users of the Annual Report which could influence decisions.

There were no reclassifications among hierarchy levels in 2015.

Table 32: Effective interest rate by investment groups

	2016	2015
Held-to-maturity investments	6.21%	6.17%
Loans given	0.42%	0.84%
Available-for-sale financial assets	5.19%	5.37%
<b>Cash and cash equivalents</b>	<b>0.00%</b>	<b>0.00%</b>

Table 33: Yield by investment groups

	2016	2015
Financial assets at fair value through profit and loss	1.75%	2.51%
Held-to-maturity investments	6.21%	6.19%
Available-for-sale financial assets	4.51% <sup>16</sup>	2.17%
Investments in loans and deposits	0.65%	1.18%
<b>Total</b>	<b>3.99%</b>	<b>2.29%</b>

<sup>16</sup> Without investments in accounts receivable.

## Note no. 20

### Loans to others

in EUR 000

	Long-term		Short-term		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Loans to others	14,904	38,809	43,750	47,700	58,654	86,509
<b>Total</b>	<b>14,904</b>	<b>38,809</b>	<b>43,750</b>	<b>47,700</b>	<b>58,654</b>	<b>86,509</b>

At the end of 2016, Kapitalska družba had long-term deposits disclosed in its books of account in the amount of EUR 14,904 thousand.

Short-term loans to others comprise short-term part of long-term deposits. At the end of 2016, short-term loans to others totalled EUR 43,750 thousand.

Loans to others were given to Abanka, d. d., Gorenjska banka, d. d., Addiko banka, d. d., Nova Kreditna banka Maribor, d. d., Nova Ljubljanska banka, d. d., Sberbanka, d. d., UniCredit bank, d. d., and Deželna banka Slovenije, d. d.

## Note no. 21

### Operating receivables

in EUR 000

	Long-term		Short-term	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Receivables due from the Group companies	0	0	34	40
Receivables due from local customers	0	0	847	819
Operating receivables due from others	117	103	314	2,043
<b>Total</b>	<b>117</b>	<b>103</b>	<b>1,195</b>	<b>2,902</b>

EUR 117 thousand of non-current operating receivables due from others represent EUR 82 thousand paid into the reserve fund for the maintenance of real estate, receivables from a company in compulsory settlement proceedings equalling EUR 34 thousand, and EUR 1 thousand of loans granted to buyers of former state-owned apartments, which Kapitalska družba obtained under the Denationalization Act and sold under the Housing Act.

In 2017, EUR 1,195 thousand of operating receivables will fall due, whereas operating receivables of EUR 117 thousand mature in future years.

Operating receivables of Kapitalska družba are not secured. The Company's operating receivables are not subject to material risk.

### Breakdown of operating trade receivables by maturity

31/12/ 2016	Outstanding	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
847	823	4	0	0	0	20

## Note no. 22

### Cash and cash equivalents

	In EUR 000	
	31/12/2016	31/12/2015
Cash on transaction bank account	4,689	38,585
Euro redeemable deposits	23,449	17
<b>Total</b>	<b>28,138</b>	<b>38,602</b>

## Note no. 23

### Equity

	31/12/2016	31/12/2015
Share capital (000 EUR)	364,810	364,810
Ordinary shares (number)	874,235	874,235

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

## Note no. 24

### Capital surplus

	in EUR 000
<b>Capital surplus</b>	
<b>01/01/2016</b>	<b>216,413</b>
Increase in capital surplus	206
Decrease in capital surplus	0
<b>31/12/2016</b>	<b>216,619</b>

In 2016, the capital surplus increased by EUR 206 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2016, capital surplus totalled EUR 216,619 thousand.

## Note no. 25

### Revenue reserves

As at 31 December 2016, Kapitalska družba reported no other revenue reserves.

## Note no. 26

### Changes in reserves from valuation at fair value

in EUR 000

Changes in reserves from valuation at fair value and deferred tax in equity	2016	2015
As at 1 January – gross reserves from valuation at fair value (gross revaluation reserve)	322,298	338,218
As at 1 January – deferred tax	36,230	39,753
<b>As at 1 January – net reserves from valuation at fair value</b>	<b>286,068</b>	<b>298,465</b>
Changes during the year – gross increase in reserves	108,445	124,440
Changes during the year – gross decrease in reserves	-101,217	-140,360
<b>As at 31 December – gross revaluation reserve</b>	<b>329,526</b>	<b>322,298</b>
Adjustments (criteria: 8%, 6 months)	-101,915	-109,184
<b>As at 31 December – gross balance after adjustment</b>	<b>227,611</b>	<b>213,114</b>
<b>As at 31 December – deferred tax</b>	<b>43,246</b>	<b>36,230</b>
<b>As at 31 December – net revaluation reserve</b>	<b>286,280</b>	<b>286,068</b>

## Note no. 27

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

in EUR 000

	Provisions for pensions and similar obligations	Other provisions	Accrued costs and deferred revenue	Total
<b>1/1/2016</b>	<b>154</b>	<b>581</b>	<b>0</b>	<b>735</b>
New provisioning through P&L	30	0	0	<b>30</b>
New provisioning through equity	64	0	0	<b>64</b>
Creation of accrued costs and deferred revenue	0	0	3,389	<b>3,389</b>
Utilisation of provisions	6	0	0	<b>6</b>
Reversal of provisions through P&L	25	43	0	<b>68</b>
Reversal of provisions through equity	3	0	0	<b>3</b>
Transfer of accrued costs and deferred revenue in P&L	0	0	717	<b>717</b>
<b>31/12/2016</b>	<b>214</b>	<b>538</b>	<b>2,672</b>	<b>3,424</b>

In 2016, the Company reversed provisions for non-achievement of guaranteed rate of return of the SODPZ fund in the amount of EUR 13 thousand. At the end of 2016, provisions for non-achievement of guaranteed rate of return of the SODPZ pension fund amounted to EUR 2 thousand. The Company reversed EUR 30 thousand of provisions for onerous contracts in 2016. At the end of the year, provisions for legal actions and legal disputes reached EUR 536 thousand.

The Company utilised EUR 6 thousand of provisions for severance pay and jubilee benefits and created EUR 94 thousand of new provisions. EUR 28 thousand of provisions were reversed. At the end of 2016, provisions for severance pay on retirement and jubilee benefits amounted to EUR 214 thousand.

Provisions for retirement benefits and long-service awards are calculated according to expected staff turnover, period of service and an estimated number of years until retirement, taking into account the regulations of individual and collective employment agreements as well as the Company's internal rules.

The Company utilised EUR 6 thousand of provisions for severance pay on retirement and jubilee benefits, which were not planned in 2016. The Company created EUR 94 thousand of provisions for severance pay and jubilee benefits, which were not planned for 2016. As for other provisions, there is no difference between the planned and actual utilisation or provisioning.

The Company recorded EUR 3,389 thousand of accrued costs and deferred revenue, which comprise deferred revenue from the acquisition of the investment in accounts receivable and are calculated as the difference between the historical cost of that investment in its fair value. Long-term deferred revenues are proportionally recognised in the income statement throughout the repayment period. A total of EUR 717 thousand of accrued costs and deferred revenue were transferred to or reversed from the income statements in 2016, which at the end of the year amount to EUR 2,672 thousand.

## Note no. 28

### Operating liabilities

in EUR 000

	Long-term		Short-term	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Operating liabilities to suppliers	0	0	2,996	2,986
Operating liabilities from advances	12	12	0	0
Payables to the state	0	0	50,011	12
Other operating liabilities	0	0	304	283
<b>Total</b>	<b>12</b>	<b>12</b>	<b>53,311</b>	<b>3,281</b>

EUR 12 thousand of long-term operating liabilities relates to collateral deposit from the lessee of business premises.

Short-term operating liabilities comprise: EUR 2,996 thousand of liabilities to suppliers, the majority of which, EUR 2,849 thousand, arise from the purchase of investment property; EUR 50,011 thousand, the majority of which, EUR 50,000 thousand, regard the payment made to ZPIZ in 2017; and other operating liabilities in the amount of EUR 304 thousand.

### Maturity structure of operating liabilities

in EUR 000

31/12/2016	Operating liabilities to suppliers	Operating liabilities from advances	Liabilities to the state	Other operating liabilities	Total
Up to 1 year	2,996	0	50,011	304	<b>53,311</b>
1 to 2 years	0	0	0	0	<b>0</b>
2 to 5 years	0	12	0	0	<b>12</b>
Over 5 years	0	0	0	0	<b>0</b>
<b>Total</b>	<b>2,996</b>	<b>12</b>	<b>50,011</b>	<b>304</b>	<b>53,323</b>
<b>Collateralised liabilities (pledges and similar)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



## Note no. 29

### Financial liabilities

As at 31 December 2016, Kapitalska družba had no financial liabilities.

### Collateralised loans

As at 31 December 2016, Kapitalska družba disclosed no loans.

### Off-balance sheet receivables

As at 31 December 2016, Kapitalska družba had no off-balance sheet receivables.

## 15.3.3 Management of risks arising from financial assets

All risks Kapitalska družba is exposed to, as well as the risk management measures and criteria are described in detail in chapter 15.2 Accounting policies. According to our assessments, financial assets are exposed to credit, market (interest, currency, price) and liquidity risks.

### Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, deposits, cash) and entails the possibility of investments being repaid only partly or not paid at all. The credit rating of investments and business partners is determined based on the 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 34: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2016

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Total
Financial assets at fair value through profit or loss	0	0	622	<b>622</b>
Financial assets held to maturity	0	17,674	206	<b>17,880</b>
Available-for-sale financial assets	1,645	55,489	44,886	<b>102,020</b>
Loans	0	0	58,653	<b>58,653</b>
Cash and cash equivalents	0	0	28,138	<b>28,138</b>
<b>Total</b>	<b>1,645</b>	<b>73,163</b>	<b>132,505</b>	<b>207,313</b>

Table 35: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2015

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Total
Financial assets at fair value through profit or loss	0	0	362	<b>362</b>
Financial assets held to maturity	0	17,442	448	<b>17,890</b>
Available-for-sale financial assets	1,199	75,400	11,119	<b>87,718</b>
Loans	0	0	86,509	<b>86,509</b>
Cash and cash equivalents	0	0	38,602	<b>38,602</b>
<b>Total</b>	<b>1,199</b>	<b>92,842</b>	<b>137,040</b>	<b>231,080</b>

Financial assets were classified into the stated groups based on credit ratings. Secure assets comprise all assets with the credit rating AAA to A-, medium secure assets include assets with the credit rating BBB+ do BBB-, whereas less secure assets comprise the assets with credit rating under BBB- and assets without a credit rating assigned by a renowned rating agency. Less secure assets mainly include assets of Slovenian corporate and banking issuers and the investment in accounts receivable.

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

Table 36: Geographical concentration of credit exposure of financial assets

in EUR 000

Region	31/12/2016	31/12/2015
Slovenia	200,263	219,570
Other countries	7,050	11,510
<b>Total</b>	<b>207,313</b>	<b>231,080</b>

The share of financial assets exposed to credit risk in Slovenia rose from 95% to 97% in 2016.

### Sector concentration

Sector concentration of financial assets reveals the dispersion of assets by industry sector and refers to the risk arising from excessive exposure of assets to a specific sector. Sector concentration of assets influences credit and market risk of the portfolio.

Table 37: Sector concentration of financial assets

In %

Industry	31/12/2016	31/12/2015
Financial	31	33
Pharmaceutical	23	26
Cyclical consumer goods	14	11
Government securities	9	10

In %

Industry	31/12/2016	31/12/2015
Other industries	19	17
Undefined	4	3
<b>Total</b>	<b>100</b>	<b>100</b>

At the end of 2016, 31% of financial assets were invested in the financial sector, 23% in the pharmacy industry, 14% in cyclical consumer goods, 9% in government securities (bonds, treasury bills, investment coupons linked to government bonds) and 23% in other sectors (including undefined).

### Currency risk

Table 38: Currency structure of financial assets

in EUR 000

Currency	31/12/2016	31/12/2015
Assets denominated in EUR	832,727	845,032
Assets denominated in USD	96,005	83,793
Assets denominated in other currencies	2,323	2,195
<b>Total</b>	<b>931,055</b>	<b>931,020</b>

As at 31 December 2016, 89.4% of financial assets were denominated in euro, 10.3% in US dollars and 0.3% in other currencies. Currency structure of financial assets is monitored considering the currency in which original instrument is denominated. Currency risk increased because of higher exposure of financial assets in foreign currencies, whereas the effect of currency fluctuation for securities constituting a specific instrument or investment fund was not taken into account.

Table 39: Currency risk of financial assets as at 31 December 2016

in EUR 000

USD exchange rate fluctuation in %	Effect on P&L	Effect on equity
+/- 10 %	+/- 0	+/- 9,601

Table 40: Currency risk of financial assets as at 31 December 2015

in EUR 000

USD exchange rate fluctuation in %	Effect on P&L	Effect on equity
+/- 10 %	+/- 0	+/- 8,379

### 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 41: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2016 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5 %	+/- 0	+/- 0	<b>+/- 0</b>
Financial assets held to maturity	+/- 0.5 %	+/- 0	+/- 0	<b>+/- 0</b>
Available-for-sale financial assets	+/- 0.5 %	+/- 0	-/+ 1,887	<b>-/+ 1,887</b>
Loans	+/- 0.5 %	+/- 0	+/- 0	<b>+/- 0</b>
<b>Total</b>		<b>+/- 0</b>	<b>-/+ 1,887</b>	<b>-/+ 1,887</b>

Table 42: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2015 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0. %	+/- 0	+/- 0	<b>+/- 0</b>
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	<b>+/- 0</b>
Available-for-sale financial assets	+/- 0.5%	+/- 2	-/+ 2,255	<b>-/+ 2,253</b>
Loans	+/- 0.5%	+/- 0	+/- 0	<b>+/- 0</b>
<b>Total</b>		<b>+/- 2</b>	<b>-/+ 2,255</b>	<b>-/+ 2,253</b>

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the fair value impact was calculated by taking into account the investments subject to fixed interest rate. If market interest rates change by 50 basis points, the value of the fund's assets would change by EUR 1,887 thousand as at 31 December 2016. Interest rate risk decreased in 2016 thanks to reduced exposure to the investments sensitive to changes in market interest rates.

### Market risk

Market risk represents the possibility of the value of equity securities to change due to the changes in market indexes and market prices of specific equity instruments. The beta indicator is calculated for equity securities, as a measure of systematic risk. The value at risk indicator (VaR) is also monitored.

Table 43: Market risk of the equity securities portfolio as at 31 December 2016

in EUR 000

Index change in %	Effect on P&L	Effect on equity
+/- 10%	+/- 0	+/- 48,022

Table 44: Market risk of the equity securities portfolio as at 31 December 2015

in EUR 000

Index change in %	Effect on P&L	Effect on equity
+/- 10%	+/- 0	+/- 48,241

All of the Company's investments in equity instruments are taken into account in the table. The table takes into account the Company's investments in equity instruments. The effect in the income statement is evident under equity securities measured at fair value through profit or loss, and the effect on equity is evident under investments in AFS equity instruments. The risk did not change significantly in 2016.

Table 45: Financial instruments in terms of marketability

in EUR 000

Financial instrument	31/12/2016	31/12/2015
<b>Securities traded on the regulated market</b>	<b>601,478</b>	<b>614,106</b>
Financial assets at fair value through profit or loss	622	362
Financial assets held to maturity	17,880	17,890
Available-for-sale financial assets	582,976	595,854
<b>Securities not traded on the regulated market</b>	<b>208,221</b>	<b>191,803</b>
Financial assets at fair value through profit or loss	0	0
Financial assets held to maturity	0	0
Available-for-sale financial assets	208,221	191,803
<b>Total</b>	<b>809,699</b>	<b>805,909</b>

At the end of 2016, assets traded on regulated stock markets accounted for 74% of financial instruments or 59% of all assets of Kapitalska družba (this group includes OTC investments and investments on the interbank market). Available-for-sale financial assets not traded on regulated market include non-marketable shares, stakes and investment coupons.

### Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2016, Kapitalska družba recorded a total of EUR 888,119 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 46: Expected actual non-discounted cash flows as at 31 December 2016

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	11,405	52,218	30,782	724,028	<b>818,433</b>
- at fair value through profit or loss	629	0	0	0	<b>629</b>
- held-to-maturity	1,026	15,289	7,661	0	<b>23,975</b>
- available-for-sale	9,750	36,930	23,122	724,028	<b>793,829</b>
Investment in account receivable	0	34,564	0	0	<b>34,564</b>
Loans and deposits	44,043	14,952	0	0	<b>58,995</b>
Cash and cash equivalents	28,138	0	0	0	<b>28,138</b>
Operating receivables	1,195	117	0	0	<b>1,312</b>
<b>Total assets</b>	<b>84,780</b>	<b>101,851</b>	<b>30,782</b>	<b>724,028</b>	<b>941,442</b>
Operating liabilities	53,311	12	0	0	<b>53,323</b>
Financial liabilities	0	0	0	0	<b>0</b>
<b>Total operating and financial liabilities</b>	<b>53,311</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>53,323</b>
<b>Difference</b>	<b>31,469</b>	<b>101,839</b>	<b>30,782</b>	<b>724,028</b>	<b>888,119</b>

Table 47: Expected actual non-discounted cash flows as at 31 December 2015

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	20,755	49,549	56,912	700,331	<b>827,547</b>
- at fair value through profit or loss	368	0	0	0	<b>368</b>
- held-to-maturity	1,270	5,096	17,092	0	<b>23,458</b>
- available-for-sale	19,117	44,453	39,820	700,331	<b>803,721</b>
Loans and deposits	48,356	39,018	0	0	<b>87,374</b>
Cash and cash equivalents	38,602	0	0	0	<b>38,602</b>
Operating receivables	2,902	103	0	0	<b>3,005</b>
<b>Total assets</b>	<b>110,615</b>	<b>88,670</b>	<b>56,912</b>	<b>700,331</b>	<b>956,528</b>
Operating liabilities	3,281	12	0	0	<b>3,293</b>
Financial liabilities	0	0	0	0	<b>0</b>
<b>Total operating and financial liabilities</b>	<b>3,281</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>3,293</b>
<b>Difference</b>	<b>107,334</b>	<b>88,658</b>	<b>56,912</b>	<b>700,331</b>	<b>953,235</b>

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

## 15.4 Other disclosures

### Information on the employee groups

The names of the members of the Management Board and other bodies are stated in the introductory part of the Annual Report, under the section Corporate Profile of Kapitalska družba, d. d. The Company did not approve any advance payments or loans to members of management nor assumed any obligations in their 2016.

### Receipts of the members of the Management Board, Supervisory Board and staff with individual contracts

In 2016, remunerations paid for the carrying out of responsibilities and duties of members of the Management Board, Supervisory Board and employees with individual contracts of employment for which the tariff section of the collective agreement does not apply, amounted to EUR 887 thousand.

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

Table 48: Receipts by category of beneficiaries in 2016

in EUR 000

Category of beneficiaries	Amount
Members of the Management Board	265
Members of the Supervisory Board	125
Employees with individual contract	497
<b>Total</b>	<b>887</b>

No advances, loans or collateral were approved by the Company in 2016.

## Receipts of the members of management and supervisory bodies

Receipts of the members of the Management Board are regulated by the ZSDH-1. Pursuant to Article 51(5) of the ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of Slovenski državni holding, d. d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of the ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of managers of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts concluded with the Board members are consistent with the legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, however, the basic pay of the President of the Board calculated that way may not exceed 95% of the basic pay of the President of the Management Board of SDH, d. d., as published, while the basic pay of members of the Management Board amounts to 95% of individual basic pay of the President of the Board of Kapitalska družba. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous year are published. The revised basic salary is applicable from 1 July of the current year. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2016 in line with the aforementioned criteria. Pursuant to the contract, the members of the Management Board are entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 49: Receipts of members of the Management Board in 2016

in EUR

Name and surname	Fixed income	Variable income	Fringe benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other rewards	Other payments	Total
Bachtiar Djalil (President)	125,114	3,128	55	1,890	2,819	-	-	-	791	<b>133,797</b>
Boris Žnidarič, PhD (Member until 23 November 2016)	116,607	71	50	2,081	2,819	-	-	-	791	<b>122,419</b>
Goranka Volf (Member since 24 November 2016)	2,251	-	-	56	53	-	-	-	-	<b>2,360</b>
Anja Strojín Štampar, MSc (Member until 30 November 2015) <sup>17</sup>	-	5,943	-	-	-	-	-	-	-	<b>5,943</b>
<b>Total</b>	<b>243,972</b>	<b>9,142</b>	<b>105</b>	<b>4,027</b>	<b>5,691</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,582</b>	<b>264,519</b>

Fixed income includes gross salary. Variable income includes performance bonus, which equals up to 30% of the annual basic gross salary for the business year, taking into account the performance criteria. Cost reimbursements include reimbursement of meal/travel/accommodation expense and travel expenses/mileage. Bonuses include collective accident insurance premiums. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave.

<sup>17</sup> The term of office of Anja Strojín Štampar, MSc, as a Member of the Management Board ended on 30 November 2015; the variable income refers to the remuneration for the 2015 financial year performance, which was paid in 2016.

Table 50: Receipts of members of the Supervisory Board in 2016<sup>18</sup>

in EUR

Name and surname	Fixed income	Variable income	Fringe benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other rewards	Other payments	Total
Samo Lozej (President and member of the Supervisory Board until 8 April 2016)	6,142	-	-	-	-	-	-	-	-	<b>6,142</b>
Cirila Surina Zajc (Member of the Supervisory Board, Deputy Chair until 24 November 2016, Member of the Audit Committee, Member of the HR Committee since 16 August 2016)	20,920	-	810	-	-	-	-	-	-	<b>21,730</b>
Boris Žnidarič, PhD (Member of the Supervisory Board and Deputy Chair <sup>5</sup> , President of the Accreditation Committee since 24 November 2016)	1,800	-	30	-	-	-	-	-	-	<b>1,830</b>
Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, President of the Accreditation Committee from 15 April 2016 to 23 November 2016, Member of the Accreditation Committee since 24 November 2016, President of the HR Committee since 16 August 2016)	22,000	-	599	-	-	-	-	-	-	<b>22,599</b>
Stanislav Seničar (Member of the Supervisory Board, President of Supervisory Board since 15 April 2016, President of the Accreditation Committee until 14 April 2016)	21,235	-	722	-	-	-	-	-	-	<b>21,957</b>
Ladislav Rožič, MSc. (Member of the Supervisory Board, President of the Audit Committee, Member of the Accreditation Committee since until 24 November 2016)	22,000	-	-	-	-	-	-	-	-	<b>22,000</b>

<sup>18</sup> Suspension of the function of Supervisory Board member and deputy chair until 23 November 2016.



Name and surname	Fixed income	Variable income	Fringe benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other rewards	Other payments	Total
Janez Bedina (Member of the Supervisory Board from 8 January 2016 until 23 November 2016)	13,296	-	355	-	-	-	-	-	-	<b>13,651</b>
Natalija Stošicki (Member of the Supervisory Board since 8 April 2016, Member of the Audit Committee since 15 April 2016, Member of the HR Committee since 16 August 2016)	14,999	-	529	-	-	-	-	-	-	<b>15,528</b>
<b>Total</b>	<b>122,392</b>	<b>-</b>	<b>3,045</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>125,437</b>

Fixed receipts of the Supervisory Board members include payment for the performance of function in the Supervisory Board (basic and extra pay for participation in the Supervisory Board committees) and session fees for attending the meetings of the Supervisory Board and its committees. Cost reimbursements include reimbursement of travel expenses.

Table 51: Receipts of the external members of the Supervisory Board committees in 2016

Name and surname	Fixed income	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other rewards	Other payments	Total
Mojca Verbič (External Member of the Audit Committee)	4,407	-	100	-	-	-	-	-	-	<b>4,507</b>
Irena Prijović, MSc (External Member of the Accreditation Committee)	6,045	-	0	-	-	-	-	-	-	<b>6,045</b>
Alenka Stanič, PhD (External Member of the Accreditation Committee)	6,265	-	0	-	-	-	-	-	-	<b>6,265</b>
<b>Total</b>	<b>16,717</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,817</b>

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.

The table below discloses the members of the management or supervisory bodies who in 2016 received remuneration for their work in the subsidiary Modra zavarovalnica, d. d. Goranka Volf and Natalija

Stošicki were respectively appointed the President and the Member of Modra zavarovalnica, d. d. Supervisory Board on 9 December 2016.

Table 52: Receipts of the members of management and supervisory bodies of Modra zavarovalnica, d. d. in 2016

in EUR

Name and surname	Fixed income	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other rewards	Other payments	Total
Goranka Volf (President of the Supervisory Board of Modra zavarovalnica)	1,202	-	-	-	-	-	-	-	-	1,202
Natalija Stošicki (Member of the Supervisory Board and audit Committee of Modra zavarovalnica)	1,047	-	24	-	-	-	-	-	-	1,071
<b>Total</b>	<b>2,249</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,273</b>

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

#### Management Board and Supervisory Board members who as at 31 December 2016 are also members of the management and supervisory bodies of related and non-related entities

The President of the Board of Kapialska družba, Mr Bachtiar Djalil, is a Member of the Supervisory Board of Gorenje, d. d. and of Loterija Slovenije, d. d.

Member of the Management Board of Kapitalska družba, Mrs Goranka Volf, is also the Presindet of the Supervisory Board of Modra zavarovalnica, d. d., and a member of the Supervisory Board of Terme Čatež, d. d.

Member of the Supervisory Board of Kapitalska družba, Mrs Natalija Stošicki, is a Member of the Supervisory Board of Modra zavarovalnica, d. d.

Member of the Supervisory Board of Kapitalska družba, Mrs Cirila Surina Zajc, is the procurator of Trinidad, d. o. o.

Member of the Supervisory Board of Kapitalska družba, Aleksander Mervar, MSc, is the Managing Director Eles, d. o. o.

Member of the Supervisory Board of Kapitalska družba, Boris Žnidarič, PhD, is Member of the Supervisory Board of Krka, d. d.

#### Activities of the Supervisory Board and its Committees

The Supervisory Board held 18 meeting in 2016. The members attended the Supervisory Board meetings regularly; the following members could not attend one of the meetings due to justifiable reasons: Cirila Surina Zajc, Aleksander Mervar, MSc, Natalija Stošicki, Ladislav Rožič, MSc, and Samo Lozej.

The Audit Committee had 6 meetings. The members attended the Audit Committee meetings regularly. For justifiable reasons, Cirila Surina Zajc, Aleksander Mervar, MSc, and Natalija Stošicki could not attend one of the meetings, while Ladislav Rožič, MSc, and the external member, Mojca Vrebič, could not participate at two meetings.

The Accreditation Committee held 12 meetings. The members attended the Accreditation Committee meetings regularly. For legitimate reasons, the external member, Irena Prijovič, MSc, and Aleksander Mervar, MSc, could not attend one and three of the meetings, respectively.

The HR Committee had 2 meetings, which were attended by all three members.

### **Related-party transactions**

In 2016, Kapitalska družba made no significant transactions with its related parties that were concluded under other than normal market conditions.

### **Disclosure related to the pension schemes**

Pursuant to the Decision approving amendments and supplements to the Occupational Pension Insurance Scheme, no. 1032-5/2013-26, issued by the Ministry of Labour, Family, Social Affairs and Equal Opportunities on 30 October 2015, the amendments and supplements to the Occupational Pension Insurance Scheme became effective on 4 February 2016 that reduce the management fee in terms of net value of the assets under management.

The Act Amending and Supplementing the Pension and Disability Insurance Act (Official Gazette of the RS, no. 102/15; ZPIZ-2B) entered into force on 1 January 2016. Accordingly, Kapitalska družba had to align the Occupational Pension Insurance Scheme and the Occupational Pension Payment Scheme with the provisions of the ZPIZ-2B within twelve months of the entry into force of the ZPIZ-2B. The new version of the was endorsed by the Minister of Labour, Family, Social Affairs and Equal Opportunities with decision no. 1031-160/2016-3 dated 23 November 2016, and became applicable on 1 January 2017.

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

The KS SODPZ fund was repealed on 1 January 2017, because pursuant to the amending ZPIZ-2B, which entered into force on 1 January 2016, occupational pensions are paid directly from SODPZ since the date of entry into force of the new Occupational Insurance Pension Scheme, i.e. 1 January 2017.

According to the ZPIZ-2B provisions, all occupational pensions shall be paid directly from the SODPZ fund, while the KS SODPZ ceases to exist. The KS SODPZ fund portfolio was fully transferred to SODPZ as of 1 January 2017.

On 6 February 2017, Gregor Bajraktarević assumed the office of member of the Management Board. His term of office lasts up to one year from the day of assuming the function or until conversion of Kapitalska družba into a Demographic Reserve Fund, depending on which occurs earlier.

In February 2017, the Act amending the Book Entry Securities Act (ZNVP-1A) entered into force, adding a new Article 48a. to the ZNVP, which stipulates that KDD (Central Securities Clearing Corporation) shall credit all dematerialised securities renounced by the holders the account held by Kapitalska družba.

Moreover, Article 48a. of the ZNVP-1A stipulates that notwithstanding the provisions of the law governing takeovers, when determining the number of voting rights of Kapitalska družba and of the companies considered to act in concert with Kapitalska družba, the voting rights arising from dematerialised securities that Kapitalska družba obtained in line with this Article shall not be taken into account by the offeree. Furthermore, Kapitalska družba shall not exercise the voting rights from the shares acquired on the basis of the said Article.

In accordance with Article 48a. of the ZNVP-1A, on 28 February 2017 Kapitalska družba received the first tranche of the discussed securities, which include shares from 137 issuers.

In 2015, Kapitalska družba created EUR 497 thousand of provisions for potential liabilities regarding Indemnity Agreement. In January and February 2017, Kapitalska družba was informed of the Court decisions rendered in favour of Kapitalska družba regarding two lawsuits included in the Indemnity Agreement, which would result in EUR 180 thousand of contingent liabilities for Kapitalska družba.