

Consolidated Annual Report of the Kapitalska družba Group 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
KAD	Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.
KDD	Central Securities Clearing Corporation
KPNG	Collective agreement for the non-economic sector of the Republic of Slovenia
KPOPNU	Collective agreement on the creation of a pension plan for public-sector employees
KS MR	Modra Renta Guarantee Fund
KS MR II	Modra Renta Guarantee Fund II
KS PPS	First Pension Fund Guarantee Fund
KS SODPZ	Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
KVPS	Mutual Equity Pension Fund
MLFSAEO	Ministry of Labour, Family, Social Affairs and Equal Opportunities
MKPS	Modri Umbrella Pension Fund
MDP	Modri Dynamic Sub-Fund
MPP	Modri Conservative Sub-Fund
MZP	Modri Guaranteed Sub-Fund
MDRS	Ministry of Defence of the Republic of Slovenia
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard
OdSUKND	Decree on the Strategy for Managing State Capital Investments
IFRIC	International Financial Reporting Interpretations Committee
OTC	Over-the-counter market
VSPI	Voluntary supplementary pension insurance
PSŠ	Bridging insurance fund for professional athletes (bridging fund for athletes)
PN1 K	Pension plan for collective voluntary supplementary pension insurance
PN1 P	Pension plan for individual voluntary supplementary pension insurance
PNJU K	Pension plan for collective voluntary supplementary pension insurance for public-sector employees
PPS	First Pension Fund of the Republic of Slovenia
SBI TOP	Central Slovenian stock market index
SDH	Slovenski državni holding, d. d. (or Slovenski državni holding)
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
USD	US dollar
VaR	Value At Risk
ZDDPO-2	Corporate Income Tax Act (Official Gazette of the Republic of Slovenia, Nos. 117/2006, 90/2007, 76/2008, 56/2008, 92/2008, 5/2009, 96/2009, 110/2009 – ZDavP-2B, 43/2010, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013, 50/2014, 23/2015, 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)
ZKDPZJU	Act Governing Collective Supplementary Pension Insurance for Public Sector Employees (Official Gazette of the Republic of Slovenia, Nos. 126/2003 and 32/2015)
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 and 8/2011 and 23/2014 – ZDIJZ-C)
ZPZPŠ	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, Nos. 41/2014 and 47/2015)
ZPZPŠ-1	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, No. 82/2015)
ZPZRTH	Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (Official Gazette of the Republic of Slovenia, Nos. 61/2000, 42/2003, 71/2004, 43/2010, 49/2010 – amended, 40/2012 – ZUJF, 25/2014, 46/2014 and 82/2015)
ZSDH	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 105/2012, 39/2013, 101/2013 – ZIPRS1415, and 25/2014 – ZSDH-1)
ZSDH-1	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 25/2014, 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)
ZVPSJU	Closed Mutual Pension Fund for Public-Sector Employees
ZZavar	Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 13/2000, 31/2000 – ZP-L, 91/2000 – amended, 12/2001 – Constitutional Court ruling, 21/2002, 52/2002 – ZJA, 91/2002 – Constitutional Court ruling, 29/2003 – Constitutional Court ruling, 40/2004 – ZDDPO-1, 50/2004, 65/2004 – Constitutional Court ruling, 76/2005 – 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)

1 PRESENTATION OF THE KAPITALSKA DRUŽBA GROUP

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

1.1 Kapitalska družba, d. d.

1.1.1 Company

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

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

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

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

Registration number: **5986010000**

VAT ID number: **SI59093927**

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

1.1.2 Ownership structure and data regarding capital

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

1.1.3 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)¹ 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
69.200	Accounting, bookkeeping and auditing activities; tax consultancy
70.100	Activities of head offices
70.220	Business and other management consultancy activities
73.200	Market research and public opinion polling
85.590	Other education n.e.c.
85.600	Educational support activities

1.1.4 Company bodies

1.1.4.1 Management Board

Kapitalska družba was run by its Management Board in 2016 in the following composition:

- ♦ Bachtar 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 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.

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

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

1.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 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,² 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 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.

1.1.4.3 General Meeting

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

1.1.5 Diversity policy

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

1.2 Modra zavarovalnica, d. d.

1.2.1 Company

Company name: **Modra zavarovalnica, d. d.** (hereinafter: Modra zavarovalnica)

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

Registration number: **6031226**

VAT ID number: **SI21026912**

1.2.2 Ownership structure and data regarding capital

Kapitalska družba was Modra zavarovalnica's sole shareholder as at 31 December 2016.

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

² 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.

1.2.3 Registered business activities

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

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

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

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

1.2.4 Company bodies

1.2.4.1 Management Board

The Management Board has two members in accordance with the company's Articles of Association. The Supervisory Board appoints the members of the Management Board for a five-year term of office. Modra zavarovalnica was run by its Management Board in 2016 in the following composition:

- ♦ Borut Jamnik, President, and
- ♦ Matija Debelak, member.

1.2.4.2 Supervisory Board

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

The Supervisory Board comprises six members. On 9 December 2016, the General Meeting appointed five members to the insurance company's Supervisory Board for a term of office of four years. Half of the members of the Supervisory Board were proposed by policyholders based on a public call to propose candidates. Two members were proposed by the committee of the pension fund for public-sector employees on behalf of that fund's policyholders, while a third member was proposed by the committees of the KVPS and MKPS on behalf of other policyholders.

The Supervisory Board comprises the following members:

- ♦ Dr Aleš Groznik, Chairman of the Supervisory Board (from 1 January 2016 to 9 December 2016),
- ♦ Goranka Volf, Chairwoman of the Supervisory Board (since 9 December 2016),
- ♦ Branimir Štrukelj, Deputy Chairman (from 1 January 2016 to 9 December 2016; reappointed to a new term of office in the same function, effective 9 December 2016),
- ♦ Dario Radešič, member (from 1 January 2016 to 9 December 2016),
- ♦ Goran Bizjak, member (from 1 January 2016 to 9 December 2016; reappointed to a new term of office in the same function, effective 9 December 2016),
- ♦ Bojan Zupančič, member (from 1 January 2016 to 9 December 2016; reappointed to a new term of office in the same function, effective 9 December 2016),
- ♦ Marino Furlan, member (from 1 January 2016 to 9 December 2016), and
- ♦ Natalija Stošicki, member (since 9 December 2016).

The responsibilities of the Supervisory Board are set out in the Company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure.

The Supervisory Board had a functioning audit committee in 2016.

1.2.4.3 General Meeting

Kapitalska družba exercised its rights in 2016 at the General Meeting as the company's sole shareholder.

1.2.5 Diversity policy

Modra zavarovalnica does not implement a diversity policy.

2 STATEMENT OF THE MANAGEMENT BOARD OF THE PARENT COMPANY

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.

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 vast 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. 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.

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 during the compilation of this report, 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 will also be 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.

Modra zavarovalnica enjoyed a good year in 2016. The insurance company's capital, which serves as the basis for the security of policyholders' assets, was up sharply during the year. The value of assets under management was up, as was the number of members of mutual pension funds and the number of annuity recipients. The returns on mutual pension funds under management are amongst the highest in Slovenia.

Modra zavarovalnica's capital, which ensures the security of policyholders' assets, amounted to EUR 226 million at the end of 2016, an increase of EUR 75 million on the balance of capital five years ago. The security of policyholders' assets and the high-quality of its services will continue to be Modra zavarovalnica's core guidelines. The value of assets under management also recorded growth to stand at slightly less than EUR 1.4 billion at the end of 2016: assets under management in mutual pension funds totalled EUR 955 million, while assets under management in guarantee funds totalled EUR 148 million. The company's own assets amounted to EUR 250 million.

The returns on the Modri Guaranteed Sub-Fund, the Mutual Equity Pension Fund and the Closed Mutual Pension Fund for Public-Sector Employees exceeded their guaranteed returns in 2016 and were comparable with the returns on competitive Slovenian pension funds, while the Modri Dynamic Sub-Fund and Modri Conservative Sub-Fund (both life-cycle sub-funds) achieved high returns of 8.8% and 5.9% respectively.

The Solvency II Directive also entered into force in 2016 and had a significant effect on Modra zavarovalnica's business processes. The risk management culture has permeated all areas of operations, as

the assessment of risks is involved in all business decisions. The insurance company's objectives in that regard are the security of policyholders and their assets, as well as the fulfilment of capital requirements, ensuring conditions for the improved allocation of capital, the transparency of operations and last but not least an improved risk management process.

Marketing and communication activities in 2016 focused on the achievement of established sales targets and the improved recognition of Modra zavarovalnica as the largest provider of supplementary pension insurance. With the aim of improving the recognition of supplementary pension insurance and awareness of the need for supplementary pension savings, we launched the *Modre zgodbe* (Wise Stories) project, in the scope of which we illustrate through real-life stories how the environment and life styles change over time. We encourage young people, for the most part, to begin thinking about their future, to set objectives and to secure the funds needed to achieve them.

We completed an important project in 2016 aimed at the implementation of an integrated business-information solution to support pension fund management. Support is thus provided to mutual pension funds with a guaranteed return, the umbrella fund with a life-cycle investment policy, annuity funds and our own assets. By carrying out this project, we have significantly reduced the costs associated with the use of the information solution and established standard support for fund management processes.

In 2017, Modra zavarovalnica will continue to pursue strategies that focus on the security of supplementary pension insurance policyholders. That security will be ensured through a sufficient level of capital, prudent operations and an increase in the value of supplementary pension savings. Major business objectives in 2017 include maintaining our market share in the area of supplementary pension savings and in the payment of supplementary pension annuities.

Modra zavarovalnica will continue activities in 2017 aimed at improving the recognition and reputation of and trust in the insurance company. Strategic communication will focus on increasing the trust of various segments of the public in the insurance company, and in its management and services, while increased marketing activities during the first half of 2017 will be linked to the new life-cycle fund for public-sector employees. This revised form of savings is adapted to an individual's age and risk appetite. Policyholders are expected to take an active approach to savings, while the fund manager faces the challenge of ensuring effective communication and awareness, which will encourage primarily young persons to save in higher-risk funds.


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 ON THE VERIFICATION OF THE AUDITED CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP FOR 2016

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

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

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

¹ 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.

Mervar, MSc, Ladislav Rožič, MSc and Natalija Stošicki. 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.

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

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

A review of the important matters discussed by the Supervisory Board in 2016 follows:

- 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 were managed by Kapitalska družba in 2016;
- confirmation of the annual reports of Kapitalska družba and the Kapitalska Družba Group for the 2015 financial year and the proposal to the General Meeting for the appointment of an auditor for the 2016 financial year;
- consent to Kapitalska družba's business-financial plan for 2017;
- in accordance with the provisions of the Company's Articles of Association, the Supervisory Board also gave the Management Board its consent to conclude transactions for the purchase and sale of securities and participating interests in cases when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution;
- at its 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; and
- the Supervisory Board carried out a self-assessment of the effectiveness of its work. In order to assess its effectiveness, the Supervisory Board relied on the self-assessment matrix published in the Manual for Assessing the Effectiveness of Supervisory Boards, adopted by the Slovenian Directors' Association. That assessment serves as the basis for the drafting of proposals to improve the future work of the Supervisory Board.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2016. The Supervisory Board's audit committee functioned in the following composition in 2016: Ladislav Rožič, MSc (chairman), Aleksander Mervar MSc, Cirila Surina Zajc and Natalija Stošicki (members 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. 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 75 and 76.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the aforementioned continuous monitoring and supervision of the operations of Kapitalska družba and its subsidiaries during the 2016 financial year, and based on a review of the consolidated annual report of the Kapitalska Družba Group for 2016 compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of the Kapitalska Družba Group. The Supervisory Board finds that the Management Board prepared materials in a timely manner, which facilitated quality information and the thorough discussion of the most important operational matters. The Management Board also provided exhaustive responses to the Supervisory Board's additional questions and initiatives. The Management Board's reporting to the Supervisory Board during the 2016 financial year enabled the latter to carry out its supervisory role satisfactorily.

b) Supervisory Board's position on the audit report

Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of Kapitalska Družba Group for 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 Companies Act, the Supervisory Board hereby approves the consolidated annual report of the Kapitalska Družba Group 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 decision 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.

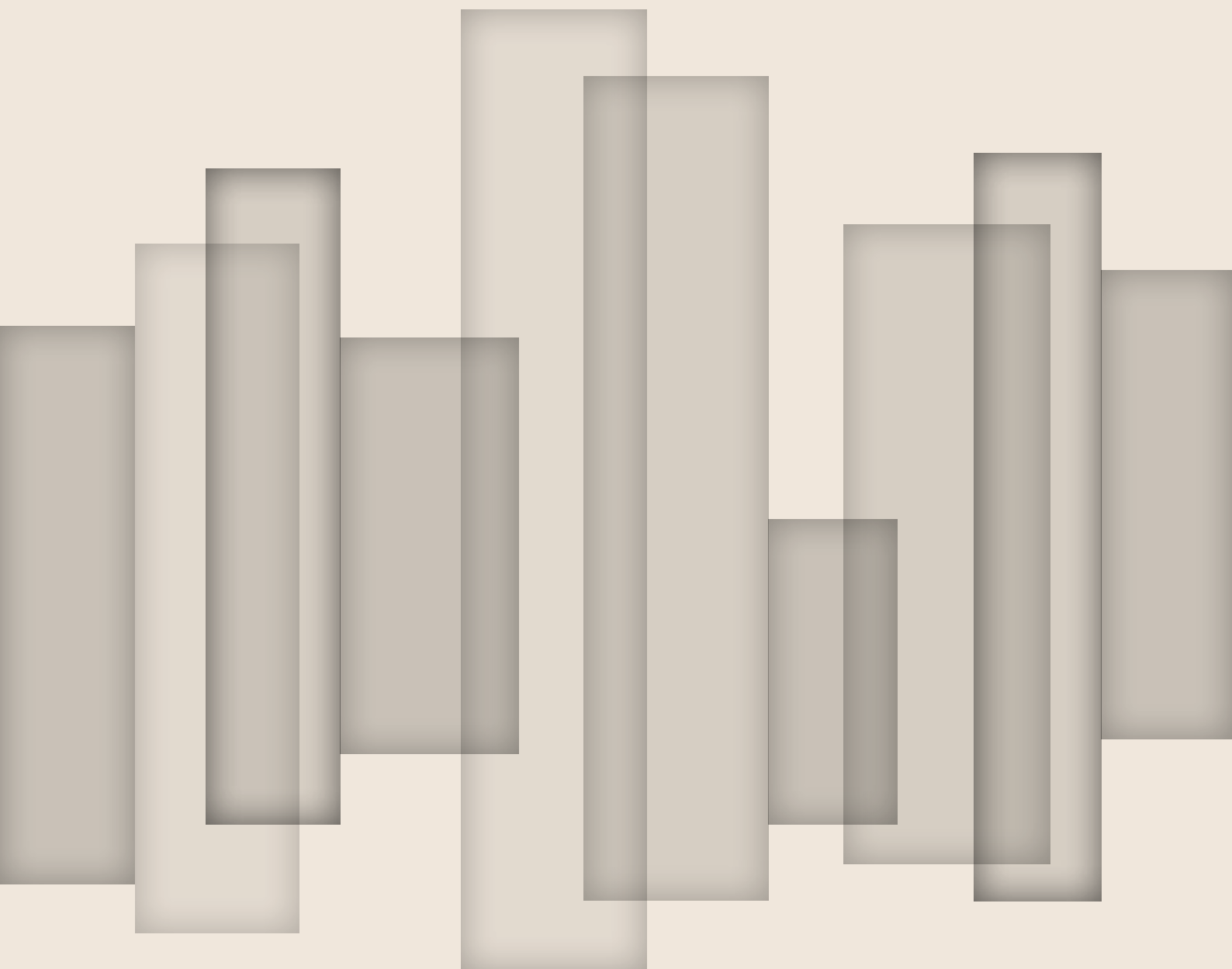
Stanislav Senjear
Chairman of the Supervisory Board

Ljubljana, 14 June 2017





Business Report



4 ORGANISATIONAL STRUCTURE OF THE KAPITALSKA DRUŽBA GROUP

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

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

4.1 Reporting on employees

At the end of 2016 the Kapitalska družba Group had 118 employees broken down as follows: 60 employees at Kapitalska družba and 58 employees at Modra zavarovalnica.

Table 1: Number of employees in the Kapitalska družba Group

	Balance as at 31 December 2016
Kapitalska družba Group	118

5 MACROECONOMIC BACKGROUND OF OPERATIONS

5.1 Inflation

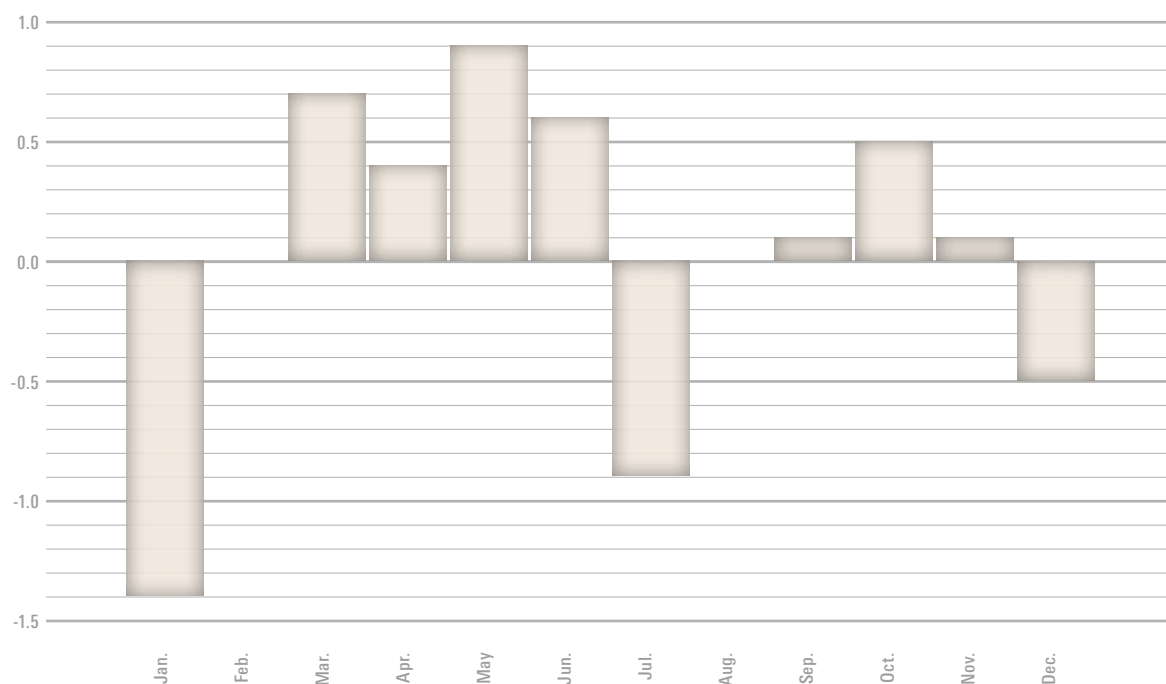
Annual inflation stood at 0.5% at the end of 2016, while average annual inflation was negative at -0.1%. At the end of 2015, average and annual inflation were both negative in the amount of -0.5%.

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%).

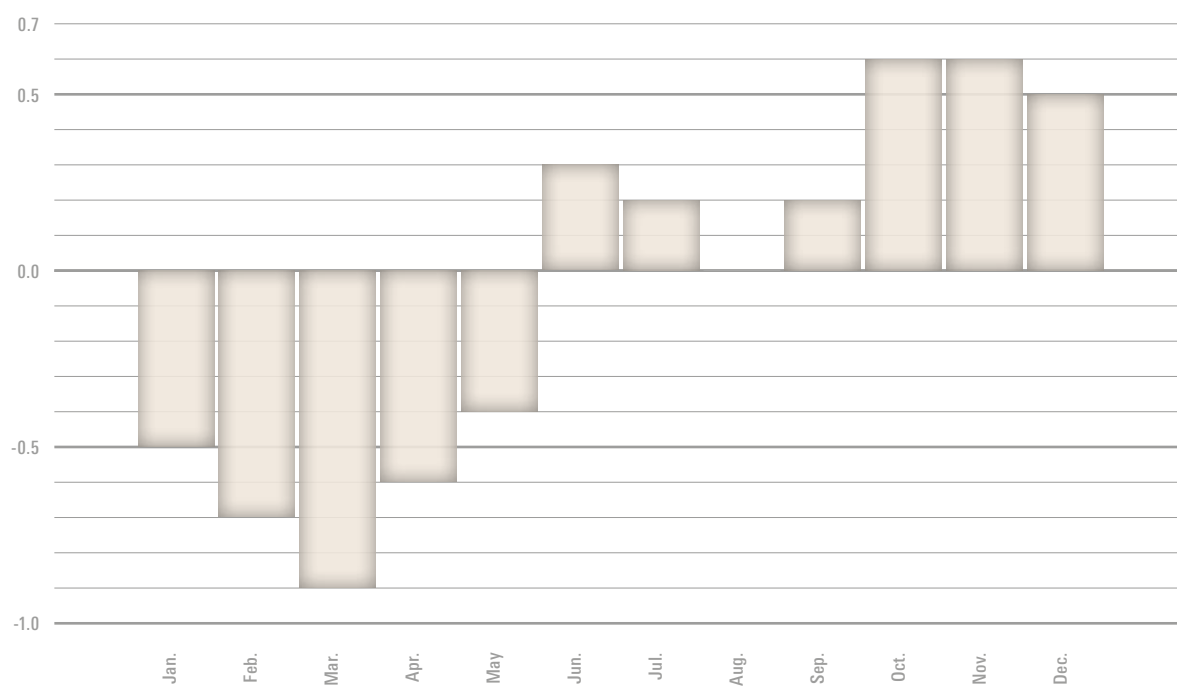
On the other hand, lower prices of clothing and cars acted to reduce annual inflation (both categories by 0.2 percentage points) in 2016, as did lower district heating prices (by 0.1 percentage points). Clothing prices were down by 4.1% in year-on-year terms, while the prices of cars and district heating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

Figure 1: **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

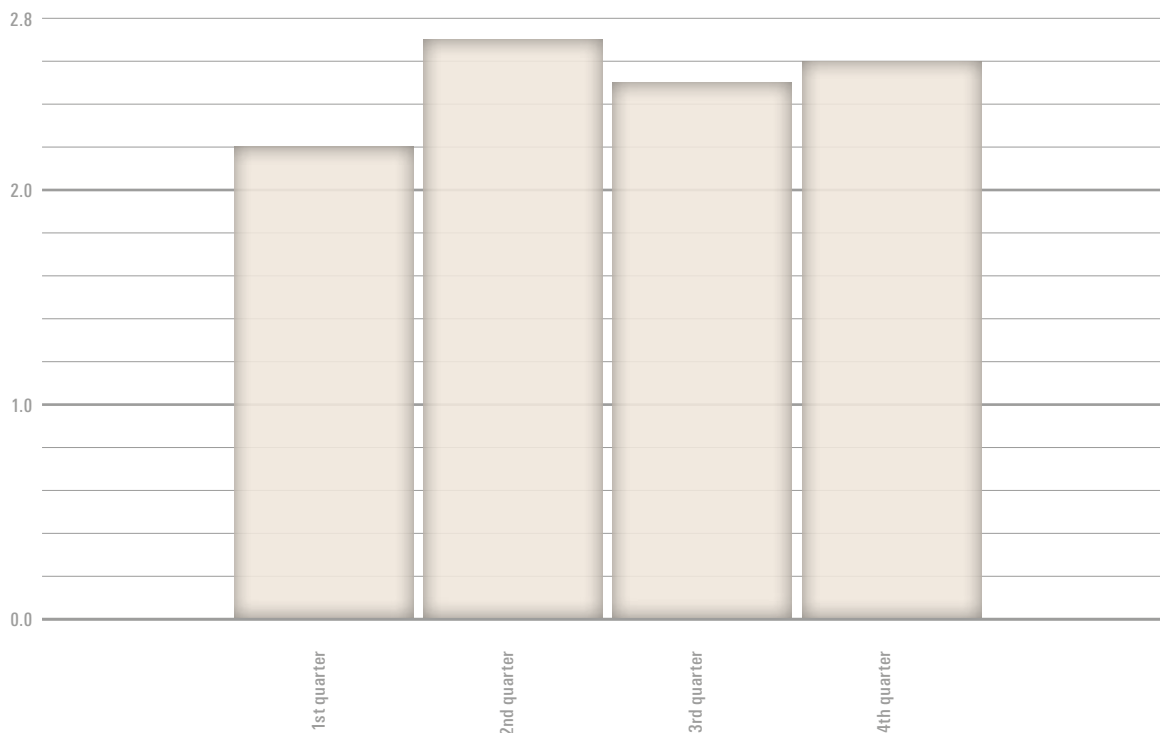


5.2 Gross domestic product

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 2: Real year-on-year growth in GDP by quarter in 2016 (in %)

Source: Statistical Office of the Republic of Slovenia



5.3 Employment and wages

According to figures from the Statistical Office of the Republic of Slovenia, the total workforce stood at 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.

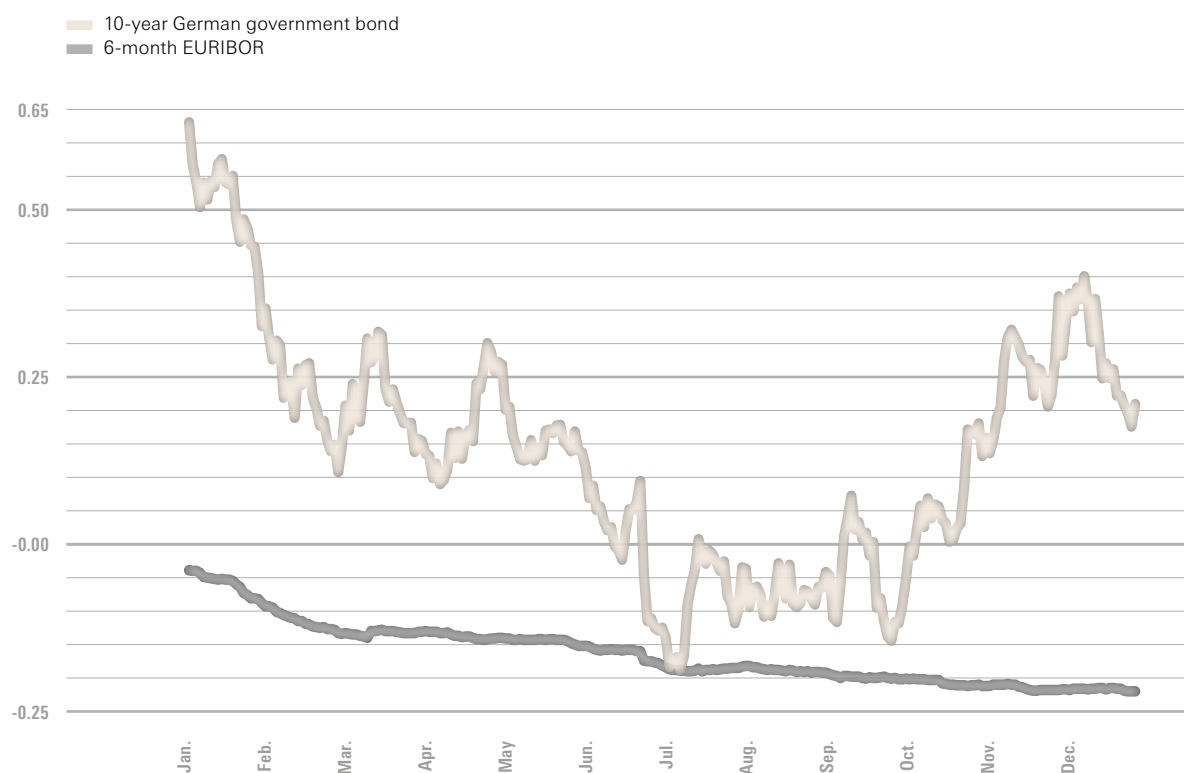
5.4 Money market

5.4.1 Interest rates

The reference interbank interest rate for the euro area, the six-month EURIBOR, fluctuated between -0.040% 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.

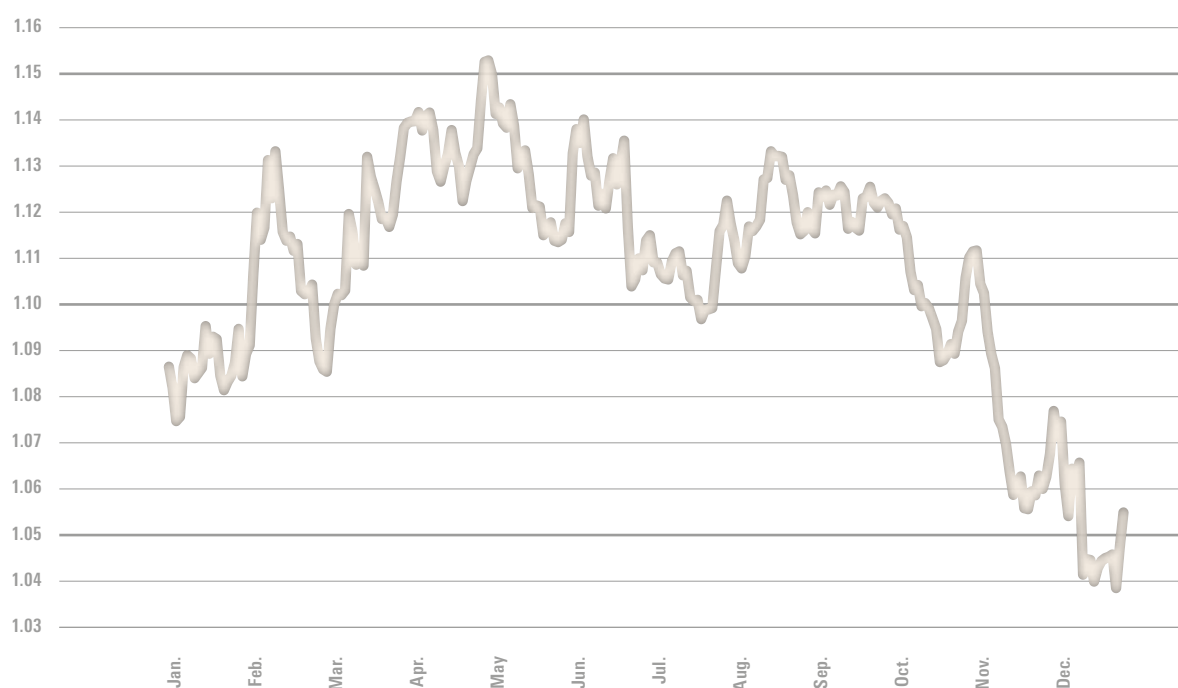
Figure 3: Movement in the yield-to-maturity on 10-year German government bonds and the 6-month EURIBOR in 2016 (in %)
Source: Bloomberg



5.4.2 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 4: Movement in the US dollar/euro exchange rate in 2016
Source: Bloomberg

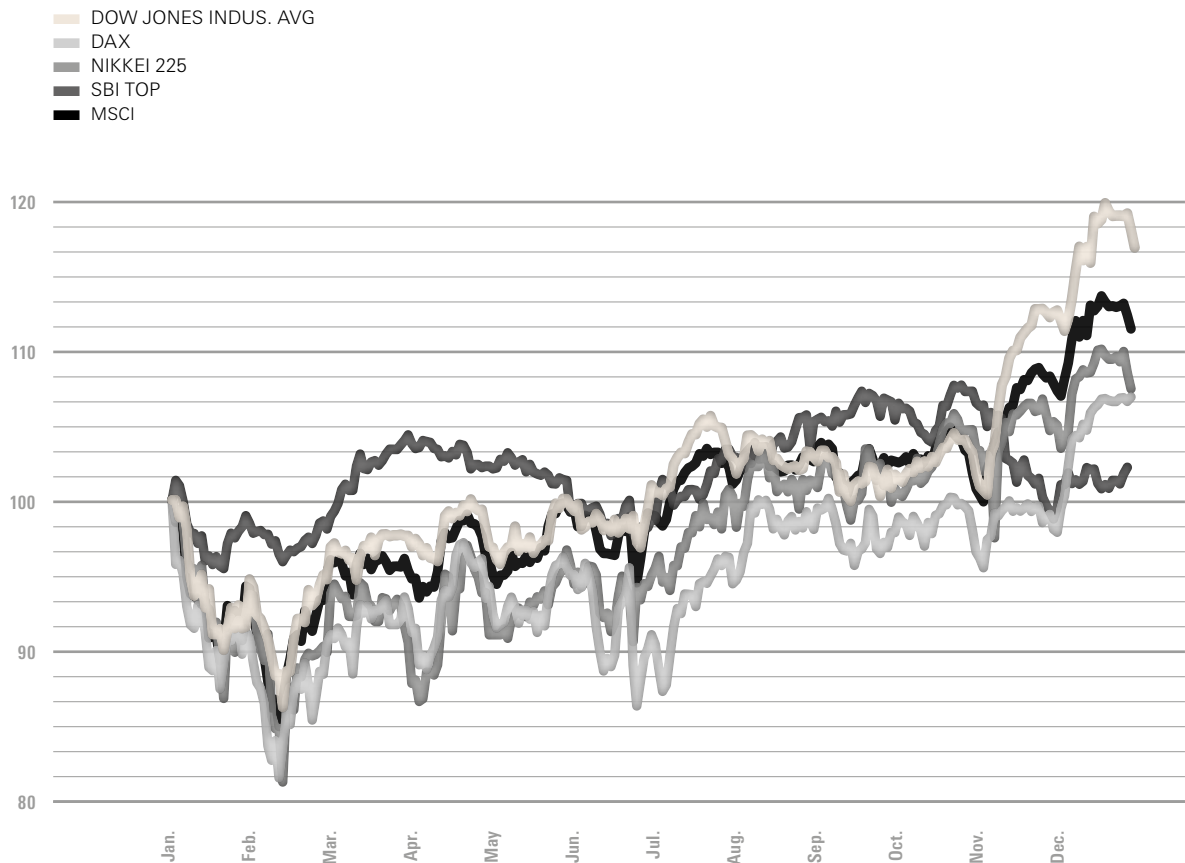


5.5 Capital market

5.5.1 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 5: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2016 in euros (index: 1 January 2016 = 100)
Source: Bloomberg



5.5.2 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 6: 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)

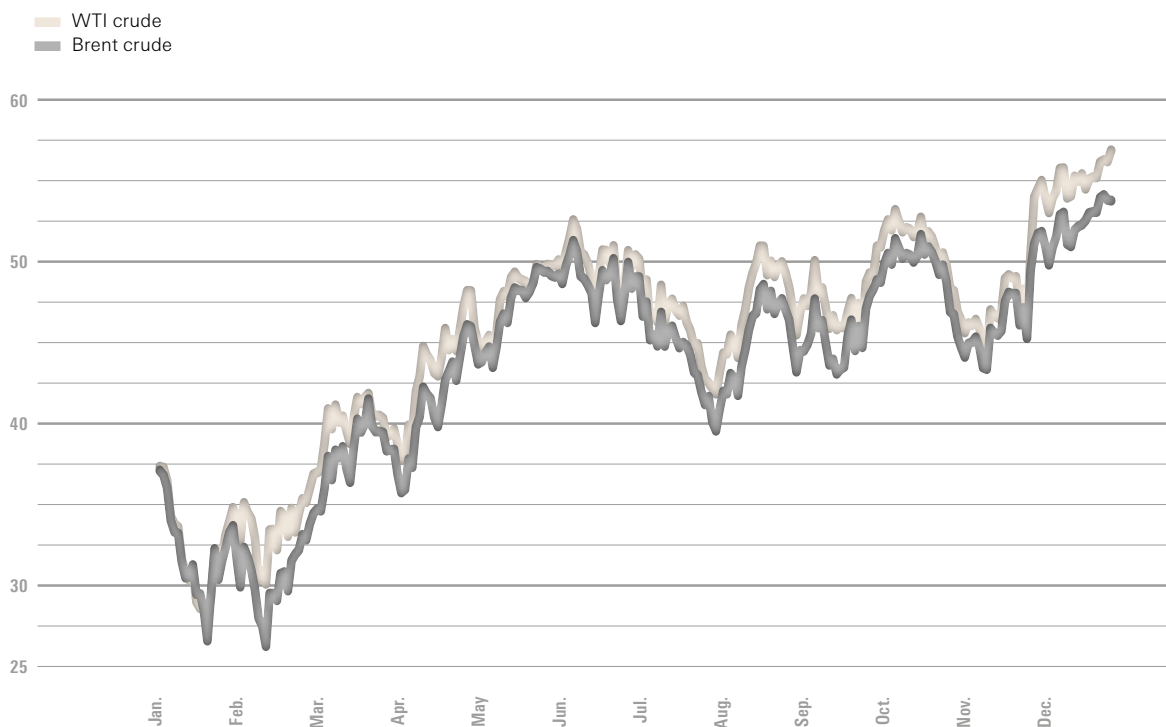
Source: Bloomberg



5.6 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 7: Movement in prices of WTI crude and North Sea Brent crude in 2016 (in USD per 159-litre barrel)



6 PERFORMANCE OF THE KAPITALSKA DRUŽBA GROUP IN 2016

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

6.1 Kapitalska družba

6.1.1 Capital investment management

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

- ♦ capital investments, and
- ♦ portfolio investments.

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
Capital investments	523,670	56.2%	528,603	56.8%
- Strategic investments ³	190,535	20.5%	180,754	19.4%
- Material investments ⁴	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%

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

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

Type of investment	Value	Proportion	Value	Proportion
		2016		2015
Portfolio investments	407,385	43.8%	402,417	43.2%
Equity portfolio investments	200,071	21.5%	171,337	18.4%
Debt portfolio investments	85,130	9.2%	105,159	11.3%
Money market ⁵	87,620	9.4%	125,921	13.5%
Investments in financial claims	34,564	3.7%	0	0.0%
Total financial assets	931,055	100.0%	931,020	100.0%

6.1.1.1 Composition of capital investments

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

The Company held a total of 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 was up minimally (by EUR 35 thousand) relative to 2015. The composition of financial assets in terms of type was little changed in 2016. The proportion 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: Composition 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 ⁶	10	190,535	36.4%	10	180,754	34.2%
Material investments ⁷	9	276,798	52.9%	9	295,536	55.9%
Portfolio investments	17 ⁸	55,073	10.5%	18 ⁹	51,039	9.7%
Investments in bankruptcy or liquidation	5	1,264	0.2%	8	1,274	0.2%
Total capital investments	41	523,670	100.0%	45	528,603	100.0%

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

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

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

⁸ 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.

⁹ 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.

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. (hereinafter: Modra zavarovalnica)	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.

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
Total number of investments	36	5

6.1.1.2 Sales and deletion of companies by Kapitalska družba

With the aim of ensuring the transparency of sales procedures and the equal treatment of bidders, the sale of capital investments is carried out via public tender. Kapitalska družba published 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.

6.1.1.3 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.

6.1.1.4 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.

6.1.1.5 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: 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
Telekom Slovenije, d. d.	5.00	10.00	1,826	3,652
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

6.1.1.6 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, Kapitalska družba's own Corporate Governance Code 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 7: 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
Total	55

6.1.1.7 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.

6.1.1.8 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.

6.1.2 Management of portfolio investments

6.1.2.1 Equity portfolio investments

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

Table 8: 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).

6.1.2.2 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 Kapitalska 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 9: 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%
Total debt portfolio investments	85,130	100.0%	105,159	100.0%

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.

6.1.2.3 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 10: 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	66.94%	86,509	68.7%
Cash and cash equivalents	28,138	32.11%	38,602	30.7%
- Cash on transaction accounts at banks	4,689	5.35%	38,585	30.7%
- Euro call deposits	23,449	26.76%	17	0.0%
Commercial paper	828	0.94%	810	0.6%
Total money market investments	87,620	100.00%	125,921	100.00%

6.1.3 Transfers to the Pension and Disability Insurance Institute

In accordance with the third paragraph of Article 52 of the ZSDH-1, Kapitalska družba's annual obligation to the ZPIZ depends on the amount of the adjustment to pensions, which is limited to EUR 50 million. In accordance with the ZIPRS1617, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2016. Kapitalska 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.

6.1.4 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 leases for the organisation of various events.

6.1.5 Pension fund management

6.1.5.1 Operations of the SODPZ

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

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

The SODPZ had 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 11: **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
Total	8,384	7,814

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.

6.1.5.2 SODPZ investments

The manager manages fund assets in such a way as to achieve, at a minimum, the guaranteed return in the context of minimal risk, while taking into account liquidity criteria. The manager 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 SODPZ assets 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 by debt securities was down relative to 2015, while the proportion accounted for by the remaining classes was up relative to 2015.

Table 12: 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%
Total	664,356	674,960	100.0%	100.0%

Due to the limited size of the Slovenian financial market and a wider selection of investment opportunities, a portion of the fund's assets were initially channelled abroad. The fund's exposure to currency risk was 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 composition of financial assets in terms of currency.

6.1.5.3 Operations of the KS SODPZ

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

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.

6.1.5.4 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 13: 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%
Total	5,568	3,624	100.0%	100.0%

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.

6.1.6 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 were 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 in 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.

6.1.7 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.

6.2 Modra zavarovalnica

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

Table 14: Composition of Modra zavarovalnica's financial assets as at 31 December 2016 (in EUR 000)

Financial assets	Amount
Own financial assets	248,475
Financial assets of the KS PPS	99,968
Financial assets of the KS MR	31,654
Financial assets of the KS MR II	15,041
Total	395,138

6.2.1 Management of own financial assets

Modra zavarovalnica's own financial assets totalled EUR 248,475 thousand at the end of 2016. The company breaks down its financial assets by the items shown in the table below. The largest proportion is accounted for by the portfolio of equity investments, followed by debt investments.

Table 15: Composition of Modra zavarovalnica's own assets as at 31 December 2016 (in EUR 000)

Financial assets	Amount
Equity portfolio investments	124,080
Equity non-portfolio investments	35,843
Portfolio of debt investments	83,267
Cash and cash equivalents	5,285
Total	248,475

6.2.1.1 Equity portfolio investments

Equity portfolio investments include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of equity portfolio investment assets was EUR 124,080 thousand as at 31 December 2016. The five largest investments in equity portfolio investments as at 31 December 2016 were as follows: an index fund represented by the MSCI global index (XMWO GY), an index fund represented by the MSCI global index (SMSWLD GY), an exchange traded fund (ETF) invested in government bonds (XGLE GY), an investment fund that invests in the agriculture sector (MOO US) and an index fund that invests in the shares of emerging markets (MXFS LN).

Table 16: Composition of Modra zavarovalnica's equity portfolio investments as at 31 December 2016 (in EUR 000)

Investment	Amount
Shares	31,513
Domestic shares	0
Foreign shares	31,513
Investment funds	92,567
Domestic investment funds	0
Foreign investment funds	92,567
Total	124,080

Share indices measured in euros were up by an average of 11.4% in 2016. The portfolio was most exposed to the information technology sector as at 31 December 2016, followed by the financial sector and the non-cyclical consumer goods sector. In terms of currencies, the portfolio was most exposed to the US dollar and the euro at the end of 2016. More than half of the aforementioned portfolio is invested in the equities of issuers from North America, while close to one third is invested in European issuers. The remainder comprises investments in issuers from more developed Asian countries and from emerging economies.

6.2.1.2 Equity non-portfolio investments

As at 31 December 2016, Modra zavarovalnica held two equity investments in domestic issuers that require a different approach to management than portfolio investments, primarily on account of the size of the associated participating interest. They are Cinkarna Celje, d. d. and Pozavarovalnica Sava, d. d. The total value of the aforementioned investments was EUR 35,843 thousand as at 31 December 2016.

6.2.1.3 Debt investments

The balance of debt investments stood at EUR 83,267 thousand at the end of 2016. Corporate bonds accounted for the highest proportion of debt investments, followed by government bonds and deposits.

Table 17: Composition of Modra zavarovalnica's debt portfolio investments as at 31 December 2016 (in EUR 000)

Investment	Amount
Bonds	58,847
Government bonds	26,942
- Domestic government bonds	13,413
- Foreign government bonds	13,529
Corporate bonds	31,905
- Domestic corporate bonds	4,529
- Foreign corporate bonds	27,376
Deposits	20,150
Commercial paper	695
Treasury bills	3,575
Total	83,267

The value of Modra zavarovalnica's government bond portfolio was EUR 26,942 thousand as at 31 December 2016. The aforementioned portfolio primarily comprises the government bonds of euro area countries. The proportion of bonds accounted for by domestic issuers was 49% at the end of 2016, while foreign issuers accounted for 51%. More than 90% of bonds are denominated in euros, while a minor proportion are denominated in US dollars and Norwegian kroner.

The majority of investments are accounted for by Slovenian government bonds. Nearly one half of bonds have a maturity of between five and 10 years, while the majority of bonds bear a fixed coupon rate.

The majority of corporate bonds are likewise accounted for by bonds from euro area countries. The value of the corporate bond portfolio was EUR 31,905 thousand at the end of 2016. Domestic issuers accounted for 14% of the aforementioned portfolio as at 31 December 2016, while foreign issuers accounted for 86%. All bonds are denominated in euros. Bonds with a fixed coupon rate accounted for the majority. The average modified duration of corporate bonds was 3.9 years at the end of 2016.

At the end of 2016, the majority of issuers of corporate bonds were from the sectors of finance, energy and public services.

6.2.1.4 Investments in cash and cash equivalents

Modra zavarovalnica held EUR 5,285 thousand in cash and cash equivalents at the end of 2016.

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

Modra zavarovalnica is the largest payer of supplementary pensions in Slovenia, and separately managed three guarantee funds in 2016 for the payment of annuities from supplementary pension insurance:

- ♦ the Modra Renta Guarantee Fund, which collected insurance premiums from December 2011 to December 2015;
- ♦ the Modra Renta Guarantee Fund II, which was established on 1 January 2016 based on the ZPIZ-2. Since January 2016, assets are only paid into this fund and no longer into the Modra Renta Guarantee Fund, while annuity payments are made from both funds; and
- ♦ the First Pension Fund Guarantee Fund, from which supplementary pension annuities are paid since August 2004 from converted pension certificates to all persons who have reached 60 years of age.

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

Modra zavarovalnica paid EUR 16.2 million in supplementary pensions to 18,632 policyholders in 2016. A total of 8,501 policyholders received a pension annuity from supplementary pension insurance (Modra Renta and Modra Renta II), while 10,131 policyholders received a pension annuity from supplementary pension insurance in the scope of the First Pension Fund (in exchange for pension certificates).

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

Guarantee fund	No. of annuity recipients at the end of 2016	Assets under management (EUR million)	Expenses for annuities (EUR million)
KS MR – Modra Renta Guarantee Fund	7,310	32	8.7
KS MR II – Modra Renta Guarantee Fund II	1,191	16	0.8
KS PPS – First Pension Fund Guarantee Fund	10,131	100	6.5
Total	18,632	148	16.0

6.2.2.1 Modra Renta Guarantee Fund

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

Payments were made to the KS MR until the end of 2015, while the KS MR only paid annuities in 2016. When concluding an annuity pension insurance policy, each policyholder may choose one form of lifetime annuity, and thus exercise their right to a supplementary old-age pension. When concluding an insurance policy, KS MR policyholders may choose between 24 different forms of supplementary pensions. Worthy of note amongst those are lifetime annuities with or without a guaranteed payment period, and accelerated annuities with a full or limited guarantee.

KS MR assets totalled EUR 31,735 thousand as at 31 December 2016. At 66%, bonds account for the highest proportion of all assets, followed by investment coupons at 14%, commercial paper at 12% and deposits at 7%.

Table 19: Composition of KS MR assets as at 31 December 2016 (in EUR 000)

Assets	Amount
Bonds	20,844
Deposits	2,150
Commercial paper	3,848
Investment coupons	4,376
Cash and cash equivalents	437
Other claims	80
Total	31,735

As at 31 December 2016, a total of 42% of KS MR assets were invested in the Republic of Slovenia, while 58% of all assets were invested in foreign issuers.

Table 20: Geographical distribution of KS MR investments as at 31 December 2016 (in EUR 000)

Area	Amount
Domestic investments	13,337
Foreign investments	18,398
Total	31,735

6.2.2.2 Modra Renta Guarantee Fund II

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

When concluding an annuity pension insurance policy, each policyholder may choose one form of life-time annuity, and thus exercise their right to a supplementary old-age pension.

Modra zavarovalnica offers policyholders a wide range of different forms of supplementary pensions:

- ♦ lifetime Modra Renta: a supplementary pension without a guaranteed payment period; it is paid until the death of the policyholder. It may be paid monthly, quarterly, half-yearly or annually, while the payment period depends on the amount of accumulated assets. An individual payment may not be less than EUR 30;
- ♦ lifetime Modra Renta with a guaranteed payment period: a supplementary pension with a guaranteed payment period of 1 to 20 years. It is paid until the death of the policyholder or at a minimum until the expiry of the selected guaranteed payment period. It may be paid monthly, quarterly, half-yearly or annually, while the payment period depends on the amount of accumulated assets. An individual payment may not be less than EUR 30; and
- ♦ lifetime Modra Renta with accelerated payment: a supplementary pension with a guaranteed payment period of 1 to 20 years, where the majority of accumulated savings are paid out over the selected guaranteed payment period, and then monthly (quarterly, half-yearly or annually) until the death of the policyholder in amounts of at least EUR 30.

By 31 December 2016, a total of 1,745 policyholders/participants with accumulated assets in the amount of EUR 16,567 thousand had exercised their right to a supplementary old-age pension and opted to receive a monthly pension annuity. The vast majority of policyholders selected accelerated annuity payments.

Table 21: Number of policyholders/participants and amount paid into the KS MR II in 2016

Pension fund	No. of participants/ policyholders	Redemption value of assets (in EUR 000)
KVPS	358	3,753
ZVPSJU	1,059	7,235
MKPS	68	238
Pension funds of other managers	260	5,341
Total	1,745	16,567

The amount of an individual's pension annuity depends on accumulated supplementary pension insurance assets, the technical interest rate, mortality tables broken down by gender, the policyholder's date of birth, the policyholder's age when the annuity insurance entered into force and the costs of the payment of the annuity. The average age of annuity recipients is 60 years, while a total of 55% of annuity recipients are male.

The KS MR II comprised 1,191 insurance policies as at 31 December 2016, while average accumulated assets per policyholder amounted to EUR 11 thousand.

KS MR II assets totalled EUR 15,781 thousand as at 31 December 2016. At 67%, bonds account for the highest proportion of all assets, followed by commercial paper at 10%, investment coupons at 8% and deposits at 6%.

Table 22: Composition of KS MR II assets as at 31 December 2016 (in EUR 000)

Assets	Amount
Bonds	10,564
Loans and deposits	1,000
Commercial paper	1,683
Investment coupons	1,312
Cash and cash equivalents	482
Other claims	740
Total	15,781

As at 31 December 2016, a total of 54% of KS MR II assets were invested in the Republic of Slovenia, while 46% of all assets were invested in foreign issuers.

Table 23: Geographical distribution of KS MR II investments as at 31 December 2016 (in EUR 000)

Area	Amount
Domestic investments	8,565
Foreign investments	7,216
Total	15,781

6.2.2.3 First Pension Fund Guarantee Fund

The KS PPS comprises separate assets formulated on 13 July 2004 for all policyholders who have reached a minimum of 60 years of age and thus obtained the right to an annuity. When they obtain the right to an annuity on the basis of an informative calculation, each policyholder selects the relevant form of pension annuity. Policyholders with 2,000 or less points may receive a pension annuity in a lump-sum amount. A policyholder with more than 2,000 points on his or her insurance policy may choose between

a lifetime pension annuity and a lifetime pension annuity with a guaranteed payment period. Policyholders with between 2,000 and 5,000 points may also be paid an annual pension annuity. The guaranteed payment period is set at 5, 10 or 15 years. Should the policyholder die during the guaranteed payment period, the pension annuity is paid to his or her beneficiaries or heirs until the expiration of that period.

Policyholders who receive a KS PPS pension annuity are entitled to the surplus return on the annuity fund over the guaranteed return in accordance with the general terms and conditions of supplementary pension insurance under the First Pension Fund of the Republic of Slovenia – conversion for pension certificates (PPS-SPO1). The proportion of the surplus earmarked for the permanent increase in annuities is determined once a year by the fund manager's management board. Half of the surplus return from 2014 in the amount of EUR 2,215 thousand was allocated in 2016 for a permanent increase in annuities. The annuities received by all policyholders/recipients of PPS pension annuities who entered into an insurance policy by December 2015 in the form of a monthly or annual annuity were 2.3% higher on average in April. The annuities of 9,873 policyholders or their beneficiaries were increased. The difference for the period January to March 2016 was paid together with the April payment of increased annuities.

A total of 1,315 policyholders who reached the age of 60 years obtained the right to an annuity in 2016. Those persons paid a total of EUR 3,424 thousand into the KS PPS for supplementary pensions.

The value of fund assets stood at EUR 100,260 thousand as at 31 December 2016. At 65%, bonds account for the highest proportion of all fund assets, followed by shares at 18% and deposits at 7%.

Table 24: Composition of KS PPS assets as at 31 December 2016 (in EUR 000)

Assets	Amount
Shares	18,237
Bonds	64,845
Commercial paper	2,993
Treasury bills	966
Deposits	6,700
Investment coupons	5,857
Cash and cash equivalents	370
Other claims	292
Total	100,260

As at 31 December 2016, a total of 60% of KS PPS assets were invested in the Republic of Slovenia, while 40% of all assets were invested in foreign issuers.

Table 25: Geographical distribution of KS PPS investments as at 31 December 2016 (in EUR 000)

Area	Amount
Domestic investments	60,550
Foreign investments	39,710
Total	100,260

6.2.3 Management of mutual equity pension funds

Modra zavarovalnica is the largest provider of supplementary pension insurance in Slovenia, and is the main provider of old-age savings in the scope of the second pension pillar. More than 275 thousand individuals held savings in the company's mutual pension funds in December 2016, while the assets of the aforementioned funds totalled EUR 955 million. Paid-in supplementary pension insurance premiums, excluding transfers of assets between the KVPS and MKPS, totalled EUR 40 million in 2016.

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

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

Table 26: Data regarding mutual pension funds managed by Modra zavarovalnica as at 31 December 2016

Fund	Number of participants/ policyholders	Number of employers/ liable persons	Amount of assets under management EUR million
KVPS – Mutual Equity Pension Fund	26,496	199	179
ZVPSJU – Closed Mutual Pension Fund for Public-Sector Employees	215,942	1,907	716
MKPS – Modri Umbrella Pension Fund	10,592	139	39
PPS – First Pension Fund	22,293	0	21
Total	275,323	2,246	955

Pursuant to Article 313 of the ZPIZ-2, Modra zavarovalnica must create provisions if the actual net value of pension fund assets is lower than the guaranteed value of fund assets during the accounting period by charging equity an amount equal to the sum of deficits in the value of a participant's assets up to the guaranteed and actual value of that person's assets. At the end of 2016, Modra zavarovalnica created provisions in the amount of EUR 13,373 thousand for failure to achieve the guaranteed return on mutual pension funds. EUR 13,313 thousand of that amount related to the PPS.

6.2.3.1 Closed Mutual Pension Fund for Public-Sector Employees

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

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

The agreement on measures to reduce the scope of funds for wages and other public-sector labour costs for 2016 included the extension of reduced supplementary pension insurance premiums for public-sector employees. In December 2015, the Slovenian government and representative public-sector trade unions signed an annex to the collective agreement for the non-economic sector of the Republic of Slovenia and set the level of premiums to be paid by employers for 2016. Premiums in the period 1 January 2016 to 30 June 2016 amounted to 10% of the premium applicable as at 1 January 2013 (the monthly premium for the highest premium grade was EUR 2.68). Premiums in the period 1 July 2016 to 31 October 2016 amounted to 15% of the premium applicable as at 1 January 2013 (the monthly premium for the highest premium grade was EUR 4.02). Premiums in the period 1 November 2016 to 31 December 2016 amounted to 30% of the premium applicable as at 1 January 2013 (the monthly premium for the highest premium grade was EUR 8.03).

On the basis of the PNJU K pension plan and ZVPSJU rules, Modra zavarovalnica, as manager of the ZVPSJU, is entitled to subscription and management fees associated with the ZVPSJU. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and are transferred to

the fund manager's account. The fee amounted to 0.5% in 2016. The annual management fee for the ZVPSJU is 0.5% of the average annual net value of ZVPSJU assets. All other operating costs of the fund are borne by Modra zavarovalnica.

The ZVPSJU is the largest Slovenian pension fund, both in terms of the number of policyholders and assets under management. The aforementioned fund had 215,942 participants and assets totalling EUR 716 million at the end of 2016.

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

The insurance of 3,405 participants was terminated in 2016, while the redemption value paid was EUR 19 million.

6.2.3.2 Mutual Equity Pension Fund

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

In accordance with the PN1 P and PN1 K pension plans and the KVPS rules, the fund manager is entitled to subscription, redemption and fund management fees. In 2016, the fund management fee was 1% of the average annual net value of KVPS funds. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and amounted to 3% in 2016. Redemption fees are charged as a percentage of the paid-out value of funds and amounted to 1% in 2016.

Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a policyholder obtains the right to a pension under compulsory insurance or exercises the right to payment in accordance with Article 221 of the ZPIZ-2. Extraordinary termination applies when a fund participant withdraws from the insurance scheme on the basis of a written statement regarding withdrawal, or upon the death of the participant. The transfer of assets to another person represents a special way to terminate insurance. A participant/policyholder may exercise their right to the payment of funds paid in by their employer until 31 December 2012 when 10 years have passed since their inclusion in the insurance scheme.

The insurance of 1,377 participants/policyholders was terminated in 2016, while the redemption value paid was EUR 8 million. A total of 511 participants/policyholders opted for the payment of the redemption value of fund units financed by the employer until 31 December 2012, in the total amount of EUR 3 million.

6.2.3.3 First Pension Fund of the Republic of Slovenia

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

Modra zavarovalnica is entitled to an annual fee for managing the PPS, which amounted to 1% of the average annual net value of assets in 2016. It is also entitled to a redemption fee, which is calculated as a percentage of the redemption value paid to heirs.

A total of 1,315 policyholders obtained the right to a pension annuity in 2016. The corresponding PPS assets in the amount of EUR 3,424 thousand were transferred to the KS PPS. A total of 23 payments of the redemption value in the amount of EUR 87,014 thousand were made due to the death of policyholders/participants.

6.2.3.4 Modri Umbrella Pension Fund

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

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

On the basis of the detailed rules of the Modri Umbrella Pension Fund, Modra zavarovalnica, as manager of the MKPS, is entitled to subscription and management fees associated with the MKPS, which are paid from the aforementioned fund's assets. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and are transferred to the fund manager's account. The fee amounted to 3% in 2016. The annual management fee for the MKPS is 1% of the average annual net value of an individual sub-fund's assets.

Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a policyholder obtains the right to a pension under compulsory insurance or exercises the right to payment in accordance with Article 221 of the ZPIZ-2. Extraordinary termination applies when a fund participant withdraws from the insurance scheme on the basis of a written statement regarding withdrawal, or upon the death of the participant. The transfer of assets to another person represents a special way to terminate insurance. A participant/policyholder may exercise their right to the payment of funds paid in by their employer until 31 December 2012 when 10 years have passed since their inclusion in the insurance scheme.

The insurance of 223 participants/policyholders was terminated in 2016, while the redemption value totalled EUR 690 thousand. A total of 31 participants/policyholders opted for the payment of the redemption value of fund units financed by the employer until 31 December 2012, in the total amount of EUR 173 thousand.

6.3 Steklarska nova Rogaška Slatina

Bankruptcy proceedings were completed on 5 December 2016, with the deletion of the debtor from the companies register.

7 RISK MANAGEMENT

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

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, occupational 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 Kapitalska družba's 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.

On 1 January 2017, the Closed Mutual Pension Fund for Public-Sector Employees, in which all public-sector employees were included, was transformed into a newly established guaranteed sub-fund of the public-sector umbrella fund. With the transformation of the existing pension fund, all participants, together with accumulated assets, were transferred to the guaranteed public-sector sub-fund. Two new funds were also established: a dynamic public-sector sub-fund intended for participants up to 50 years of age, where the majority of the sub-fund's assets are invested in shares, and a conservative sub-fund intended for participants aged 50 to 60 years. The latter pursues a balanced asset structure, with investments in shares and bonds. A life-cycle fund allows primarily younger policyholders to save in more dynamic investments in shares. The composition of investments is adjusted to the age group of savers, from more dynamic in their younger years to more conservative and safer in their later years. For all public-sector employees disinclined to change or older than 60 years of age, supplementary pensions savings remain unchanged, even after the transformation of the ZVPSJU. From the end of January to April 2017, Modra zavarovalnica will inform all public-sector employees in writing about the possibility of selecting one of the other two sub-funds. The decision to change sub-funds in which a participant will save going forward is a personal selection that may also be changed once a year. When making a change, the only limitation for saving in a specific sub-fund is the age requirement.

9 EXPECTED DEVELOPMENT OF THE KAPITALSKA DRUŽBA GROUP FOR 2017

Kapitalska družba is 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, are 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 an increase in 2017 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.

The guiding principle in Modra zavarovalnica's operations in 2017 will remain the security of policyholders' assets, which gained special importance in 2016 with the introduction of the Solvency II framework in the insurance company's operations. The risk management culture is evident in all areas of operations, as the assessment of risks is involved in all business decisions.

Modra zavarovalnica will continue activities in 2017 aimed at improving the recognition and reputation of and trust in the insurance company. Strategic communication will focus on increasing the trust of various segments of the public in the insurance company as the leading provider of supplementary pension insurance, and in its management and services, while marketing communication will focus on support for the achievement of marketing objectives and on managing the trust of policyholders.

In accordance with current trends and developments on the market, the insurance company will also focus on digital transformation, which is changing internal and external processes through the use of modern advanced technologies. We are digitalising marketing processes with the aim of ensuring contemporary digital communication with clients in all phases of the decision-making process: appealing to needs, searching for information, insurance underwriting, the cultivation of relations with existing policyholders, other sales activities and an additional range of products. The ever-increasing linking of new technologies with the internet, social networks and smart phones facilitates simple and quick access to information by clients. For this reason, digital communication is becoming an increasingly important marketing tool that also facilitates the in-depth analysis of the behavioural patterns of potential clients and opportunities for more effective content marketing.

Increased marketing activities during the first half of 2017 will be aimed at the transformation of the ZVPSJU into a sub-fund with a guaranteed return and the establishment of an umbrella life-cycle fund.

Through the implementation of a new integrated system, which was largely completed in 2016, Modra zavarovalnica will achieve an important objective aimed at the long-term management of the costs associated with the use of IT support. In 2017, it will begin defining starting points for defining the future user experience, and on that basis will plan the introduction of state-of-the-art technologies and organisational concepts. For the needs of automating and/or computerising IT support for individual phases of business processes, the document system will be integrated with key application support for the insurance company's business processes.

10 SOCIAL RESPONSIBILITY

10.1 Responsibility to the wider social community

Kapitalska družba's mission is the provision of supplementary funding for compulsory pension and disability insurance. Kapitalska družba transfers funds in the amount of EUR 50 million to the ZPIZ every year by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount 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 27: Kapitalska družba's payments to the budget of the ZPIZ

Year	Amount of transfer (in EUR)
1999	7,093,974
2000	55,499,916
2001	34,948,255
2002	41,729,261
2003	26,602,404
2004	26,602,404
2005	26,602,404
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
Total	714,320,982

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 computer equipment 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.

Slovenes generally save a great deal less than is required for old age. Our expectations about how we will live following retirement remain overly optimistic, and retirement itself seems so far away that we do not give it enough attention. Our expectations regarding the level of supplementary pension we expect to receive are also frequently unrealistic. We cannot expect to receive a pension annuity that will cover the difference between our final salary and first pension payment if we only save EUR 20 a month for the final 10 years prior to retirement. Young persons have the most to lose by postponing savings. They must make up for lost time in later years with significantly higher monthly payments to save a sufficient amount. They must therefore make deliberate changes to their savings habits and be aware of their needs, even though retirement is still very far away.

Modra zavarovalnica thus focuses a significant portion of its communication activities on raising the awareness of the population regarding the importance of and need for old-age savings. The following activities were carried out with the aim of improving awareness about supplementary pension insurance and promoting a new life-cycle investment policy for both existing policyholders and the general public: the organisation of or participation in numerous consultations, the drafting of information for publication on corporate websites and in internal newsletters, and the provision of professional help in the preparation of responses to questions about supplementary pension insurance posed by employees. The human resource and accounting departments of customers have been educated about the possibilities and advantages of pay-outs in the form of a supplementary pension, while information offices at corporate headquarters have been introduced.

Modra zavarovalnica is an active member of the European Association of Public Sector Pension Institutions (EAPSPI), which includes 26 public pension institutions from 16 European countries. The main objectives of the aforementioned association are mutual assistance amongst members and the exchange of knowledge, experience and information regarding the implementation of pension plans for public-sector employees and regarding experiences relating to the pensions systems of members' home countries.

We are aware that good relations with the media are an important element of the insurance company's reputation and recognition in the eyes of the public. We strive for professionalism and responsiveness

in communication with the media, while providing technical assistance in the drafting of articles on the subject of supplementary pension savings and the insurance company's operations. As partners in the Moja pokojnina (My Pension) project organised by Moje finance, we helped advise individuals on the most appropriate form of supplementary pensions savings.

We also respond every year to the needs of the environment by supporting socially beneficial projects in the field of education. In 2016, we provided financial support for the participation of students from the Milojka Štrukelj Primary School in Nova Gorica at the World Scholar's Cup (WSC), where they performed at the highest level of the competition. We supported UniCredit Banka's traditional Finance Days, where we presented our range of products and services to the financial public.

10.2 Responsibility to employees

10.2.1 Concern for employee training

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

Employees 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, 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.

Modra zavarovalnica earmarked EUR 92 thousand for education and training in 2016. In addition to training courses organised by external service providers, knowledge is also exchanged in the scope of internal training events. We carry out regular training regarding the prevention of money laundering and terrorist financing. A total of 776 training hours were completed in 2016. Each employee received an average of 17.84 hours of education and training, while the average training cost per employee was EUR 672.

We also provide for the systematic develop of employees through individual annual interviews, in the scope of which managers and employees set objectives and define employees' development paths once a year, and through appraisal interviews that are conducted twice a year. The latter are aimed at the assessment of quantitative and qualitative objectives and behaviour, and at the provision of feedback regarding work performance during the previous six months. A special remuneration system has been

established for employees from the areas of sales and asset management. Performance is measured using special predefined indicators, while team performance is rewarded financially. A stimulating work environment is ensured through clear guidelines, management by objectives and motivation, and the inclusion of employees in various projects.

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

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

10.2.2 Concern for a safe and healthy work environment

Kapitalska družba ensures a safe and healthy work environment by respecting all regulations governing 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.

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 participation of employees' families in 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.

Modra zavarovalnica ensures the occupational health and safety of employees, and carries out all necessary activities in accordance with the safety statement and risk assessment. Training in the areas of occupational health and safety, and fire safety represents an integral element of the professional training of all employees. The aforementioned training must be attended by all employees and that knowledge periodically refreshed. In accordance with the law, the Company provided for preliminary and periodic medical examinations, and for vaccinations against the flu and tick-borne meningoencephalitis. All employees are provided social security following retirement, under the same conditions, through the payment of the maximum tax-deductible premiums into the collective pension insurance plan of the MKPS. They are also offered collective accident insurance.

Through the implementation of an action plan to promote health, employees are encouraged to pursue a healthy lifestyle and thus reduce the risks of disease, both in the workplace and in their private lives. A great deal of information on current health topics and useful articles about exercise and healthy eating are available on the intranet site. Fresh seasonal fruit is available to all employees twice a week as a healthy way to start the day. A 30-minute morning exercise programme is also organised once a week. The aforementioned programme emphasises the stretching of the neck, shoulders and back, which are subject to the greatest burden in office work.

Modra zavarovalnica has been a holder of the full Family-Friendly Company certificate since 2013. Concern for the right family and work life balance has become a part of the aforementioned company's organisational culture. It believes that satisfied employees are more successful and that they feel greater loyalty to the company, and that satisfaction helps reduce the burden of stress, all of which contributes to better work results. The company also ensures the good flow of information, employee satisfaction and a positive work climate.

10.3 Environmental responsibility

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.

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 not drain natural resources. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

As a socially responsible company, Modra zavarovalnica also supports environmentally oriented activities. It separates waste, works to reduce the use of paper, collects used printer cartridges and responds to charitable campaigns. To that end, it is also developing various web applications that reduce the need for printing and that facilitate faster and more reliable notification and communication procedures. Plastic bottle caps are collected throughout the year. In 2016, we supported the 'You, Me and Us for Slovenia' project, the aim of which is to raise the awareness of youth about the importance of a healthy environment and attitude to nature, and the recycling of materials that can be used as raw materials for further processing.

Similar to previous years, employees responded in 2016 to the 'Santa Clause for a Day' and 'Helpers of the Three Winter Godfathers' charitable projects, and joined numerous well-intentioned people who fulfilled the wishes of children from socially disadvantaged backgrounds. We also provided financial assistance to a woman who unexpectedly found herself in serious health and financial difficulties.

11 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 m² 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.

12 INDICATORS

in EUR 000

		Value		Value of indicator	
		2016	2015	2016	2015
1.	FINANCING RATIOS				
a)	Equity financing ratio				
	equity	1,016,437	1,004,495	0.80	0.85
	total equity and liabilities	1,270,462	1,184,036		
b)	Long-term financing ratio				
	equity + long-term liabilities (including provisions) + long-term accruals and deferred income	1,212,388	1,179,507	0.95	1.00
	total equity and liabilities	1,270,462	1,184,036		
2.	INVESTMENT RATIOS				
a)	Operating fixed asset investment ratio				
	fixed assets (at carrying amount)	8,038	7,730	0.01	0.01
	total assets	1,270,462	1,184,036		
b)	Long-term investment ratio				
	fixed assets + long-term deferred expenses and accrued revenue (at carrying amount) + investment property + long-term financial assets + long-term operating receivables	1,051,913	1,012,425	0.83	0.86
	total assets	1,270,462	1,184,036		

		Value		Value of indicator	
		2016	2015	2016	2015
3.	HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a)	Equity to fixed assets ratio				
	equity	1,016,437	1,004,495	126.45	129.95
	fixed assets (at carrying amount)	8,038	7,730		
b)	Acid test ratio				
	liquid assets	34,711	44,146	0.60	9.75
	short-term liabilities	58,074	4,529		
c)	Quick ratio				
	liquid assets + short-term receivables	36,606	50,290	0.63	11.10
	short-term liabilities	58,074	4,529		
d)	Current ratio				
	short-term assets	193,517	157,843	3.33	34.85
	short-term liabilities	58,074	4,529		
4.	EFFICIENCY RATIOS				
a)	Operating efficiency				
	operating revenue	35,141	40,431	0.98	0.88
	operating expenses	35,701	45,908		
5.	PROFITABILITY RATIOS				
a)	Net return on equity				
	net profit for the period	-286	29,351	0.00	0.03
	average equity (excluding net profit/loss for the period)	995,933	949,801		
b)	Dividends to share capital ratio				
	dividends for financial year	0	0	0.00	0.00
	average share capital	364,810	364,810		

13 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. The Company's corporate governance policy will be formulated taking into account the provisions of the law governing its transformation, which will define the functioning of the demographic reserve fund and additional permanent sources of financing, and taking into account the state capital investment management strategy.

4. Relationship between shareholders or partners, SDH, 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.

1.2.1 Description of the main features of the internal control and risk management systems at the Group level

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. The Group's subsidiary has its own Internal Audit Department as an independent organisational unit. The two Internal Audit Departments exchange professional knowledge and best practices, and are kept abreast of the latest developments in the field of auditing in accordance with the applicable code of the Group and with the aim of ensuring a higher level of harmonisation at the Group level in the area of internal auditing.

Kapitalska družba has a Risk Management Department that is responsible for monitoring and coordinating the risk management system at the Company and at the Group level. The main characteristics of risk management are described in the chapters Risk management and Management of risks associated with financial assets.

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 AJ PES and Kapitalska družba. The publication of the convening of the General Meeting must also include proposed resolutions and details of the place where all materials submitted for decision-making at the General Meeting may be accessed. A shareholder who is registered as such in the central register of book-entry securities at the end of the fourth day prior to the General Meeting is entitled to participate and exercise their voting rights at the General Meeting.

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

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

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

1.9.1 Supervisory Board

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

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

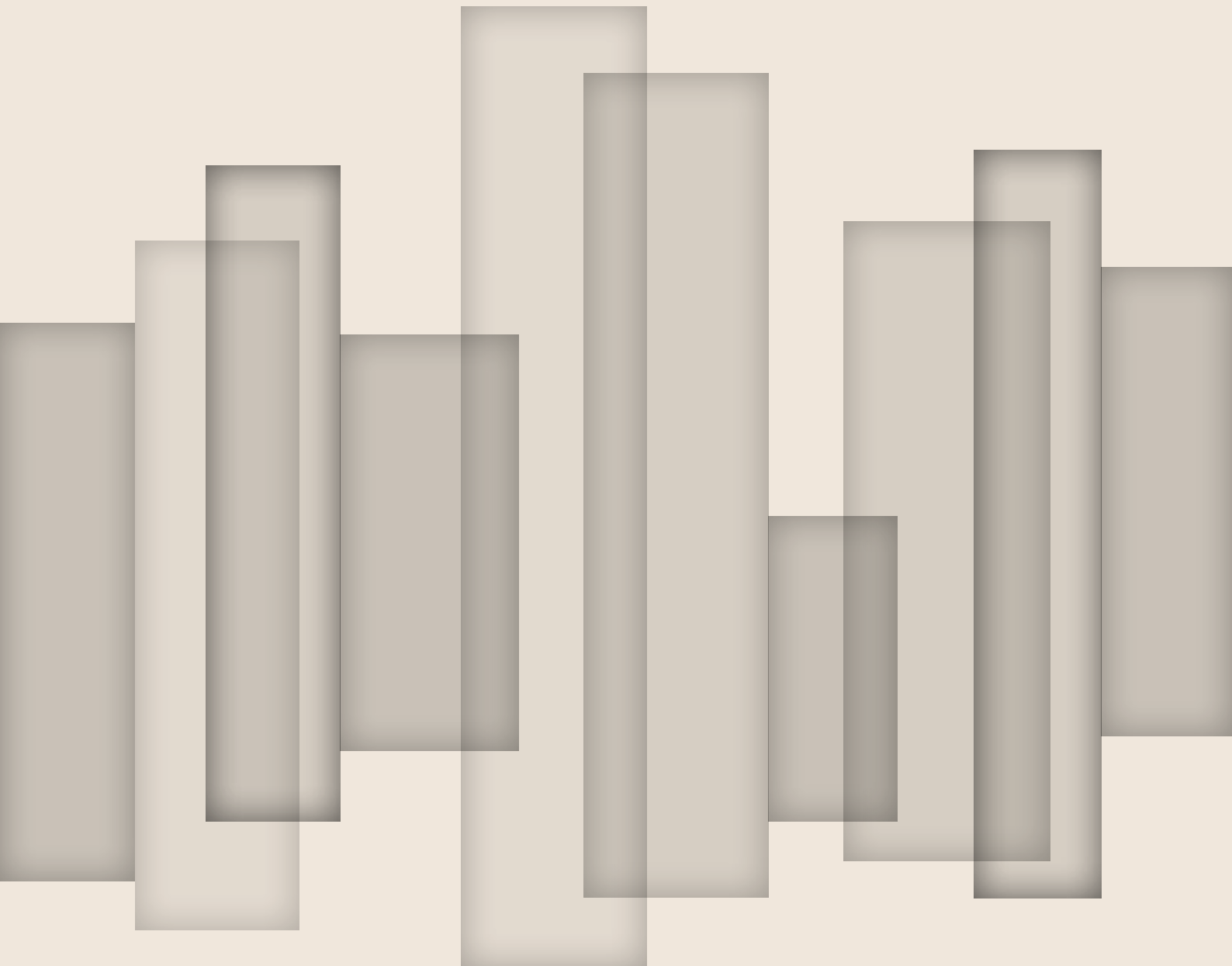
The President and member of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure. The President of the Management Board Bachtiar Djalil began his four-year term of office on 2 January 2015, while member of the Management Board Goranka Volf began her four-year term of office on 24 November 2016. 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



14 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Kapitalska družba Group for the year ended 31 December 2016, and the accompanying notes and disclosures thereof on pages 78 to 151, which are an integral part of the financial statements.

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

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

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



Gregor Bajraktarević
Member of the
Management Board



Goranka Volf
Member of the
Management Board



Bachtiar Djalil
President of the
Management Board

Ljubljana, 2 June 2017



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

Opinion

We have audited the consolidated financial statements of the company Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for 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 Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information

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

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

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

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljevstva Velike Britanije in Severne Irske (v izvirniku »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 Revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105000 - ID št. za DDV: SI62360085 - Osnovni kapital: 74.214,30 EUR

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

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

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

Responsibilities of Management and Supervisory board for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

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

Ljubljana, 2nd June 2017

16 FINANCIAL STATEMENTS FOR 2016

16.1 Consolidated 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
	Continued operations			
1.	Net revenue from sales	1		
c)	Revenue from sales on the domestic market		32,772	39,942
	Total revenue from sales		32,772	39,942
4.	Other operating revenue (including revaluation revenue)	2	2,369	489
	Total revenue		35,141	40,431
5.	Costs of goods, materials and services	3		
b)	Costs of materials		-227	-253
c)	Costs of services		-3,343	-4,342
	Total costs of goods, materials and services		-3,570	-4,595
6.	Labour costs	4		
a)	Payroll costs		-4,470	-4,260
b)	Social security insurance costs		-723	-683
c)	Pension insurance costs		-226	-213
d)	Other labour costs		-586	-482
	Total labour costs		-6,005	-5,638
7.	Amortisation, depreciation and write-offs	5		
a)	Depreciation and amortisation		-1,186	-1,170
b)	Operating expenses from revaluation of fixed assets		-771	0
c)	Operating expenses from revaluation of current assets		0	-31
	Total write-downs		-1,957	-1,201
8.	Other operating expenses	6	-24,169	-34,474
	Total expenses		-35,701	-45,908
	Operating profit (loss)		-560	-5,477

	Item	Note	1/1/ - 31/12/2016	1/1/ - 31/12/2015
9.	Financial revenue from shares and interests	7		
b)	Financial revenue from shares and interests in associates		6,084	2,999
c)	Financial revenue from other shares and interests		30,851	45,046
d)	Financial revenue from other investments		9,704	11,375
	Total financial revenue from shares and interests		46,639	59,420
10.	Financial revenue from loans	7		
b)	Financial revenue from loans to others		1,002	1,922
	Total financial revenue from loans		1,002	1,922
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
	Total financial revenue		47,641	68,296
12.	Financial expenses due to write-off and impairment of financial assets	8		
b)	Financial expenses due to impairment and write-off of other investments		-3,705	-9,297
b)	Financial expenses due to impairment and write-off of associates		-86	-1,569
	Total financial expenses due to impairment and write-off of financial assets		-3,791	-10,866
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
	Total financial expenses		-53,794	-29,867
	Profit (loss) from ordinary activity		-6,713	32,952
15.	Other revenue	9	51	26
16.	Other expenses	10	-5	-4
	Total profit (loss) from continued operations		-6,667	32,974
17.	Income tax	11	-382	0
18.	Deferred tax	12	6,763	-3,623
19.	Net profit/loss from continued operations for the period		-286	29,351
	Discontinued operations			
20.	Profit or loss from discontinued operations		0	0
21.	Net profit or loss for the period	13	-286	29,351
a)	Net profit or loss of the majority shareholder for the period		-286	29,351
b)	Net profit or loss of the minority shareholder for the period		0	0

Disclosures and notes on pages 87 to 151 are a constituent part of financial statements.

16.2 Consolidated statement of other comprehensive income for the period from 1 January 2016 to 31 December 2016

in EUR '000

	1/1/ - 31/12/2016	1/1/ - 31/12/2015
Net profit or loss for the period	-286	29,351
Net profit or loss of the majority shareholder for the period	-286	29,351
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Gains (losses) on revaluation of AFS financial assets	12,167	-17,284
Gains (losses) on revaluation of AFS financial assets	12,167	-17,284
Items subsequently not reclassified to profit or loss		
Other components of comprehensive income	-145	81
Total comprehensive income for the period	11,736	12,148
Total comprehensive income of the majority shareholders for the period	11,736	12,148
Total comprehensive income of the minority shareholders for the period	0	0

Disclosures and notes on pages 87 to 151 are a constituent part of financial statements.

16.3 Consolidated statement of financial position as at 31 December 2016

in EUR '000

	Item	Note	31/12/2016	31/12/2015
	ASSETS			
A.	Non-current assets	14		
I.	Intangible assets and long-term deferred costs and accrued revenues			
1.	Long-term property rights		1,231	0
5.	Other long-term deferred costs and accrued revenues		0	645
	Total intangible assets		1,231	645
II.	Property, plant and equipment	15		
2.	Buildings		6,543	6,862
4.	Other plant and equipment		264	223
	Total property, plant and equipment		6,807	7,085
III.	Investment property	16	13,196	14,438
IV.	Long-term financial assets			
1.	Long-term financial assets, except loans			
b.	Shares and interests in associates	17	55,629	34,374
c.	Other shares and interests	19	695,372	675,026
d.	Other long-term financial assets	19	250,107	221,395
	Total long-term financial assets, except loans		1.001.108	930,795

	Item	Note	31/12/2016	31/12/2015
2.	Long-term loans	20		
b.	Long-term loans to others		29,454	59,359
	Total long-term loans		29,454	59,359
	Total long-term financial assets		1,030,562	990,154
V.	Long-term operating receivables	21		
3.	Long-term operating receivables due from others		117	103
	Total long-term operating receivables		117	103
VI.	Deferred tax assets		25,032	13,768
	Total fixed assets		1,076,945	1,026,193
B.	Current 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		39,274	39,104
	Total short-term financial assets, except loans		39,274	39,104
2.	Short-term loans	20		
b.	Short-term loans to others		59,200	61,180
	Total short-term loans		59,200	61,180
	Total short-term financial assets		98,474	100,284
IV.	Short-term operating receivables	21		
2.	Short-term operating receivables due from suppliers		1,233	1,227
3.	Short-term operating receivables due from others		662	4,917
	Total short-term operating receivables		1,895	6,144
V.	Cash and cash equivalents	22	34,711	44,146
	Total current assets		142,387	157,148
C.	Short-term deferred costs and accrued revenues		51,130	695
	Total assets		1,270,462	1,184,036
	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
IV.	Revaluation surplus		0	0

	Item	Note	31/12/2016	31/12/2015
V.	Reserves from valuation at fair value		343,311	331,867
VI.	Retained earnings		85,539	62,054
VII.	Net profit/loss for the year		6,158	29,351
	Total majority interest		1,016,437	1,004,495
VII.	MINORITY INTEREST		0	0
	Total capital		1,016,437	1,004,495
B.	Provisions and long-term accrued costs and deferred revenue	28		
I.	Provisions for pensions and similar obligations		407	324
II.	Other provisions		160,306	157,959
III.	Long-term accrued costs and deferred revenue		2,672	0
	Total provisions and accrued costs and deferred revenue		163,385	158,283
C.	Long-term liabilities			
I.	Long-term financial liabilities	26		
4.	Other long-term financial liabilities		371	0
	Total long-term financial liabilities		371	0
II.	Long-term operating liabilities	27		
4.	Long-term operating liabilities from advances		12	12
5.	Other long-term operating liabilities		33	36
	Total long-term operating liabilities		45	48
III.	Deferred tax liabilities		32,150	16,681
	Total long-term liabilities		32,566	16,729
D.	Short-term liabilities			
III.	Short-term operating liabilities	27		
2.	Short-term trade liabilities		3,424	3,412
5.	Short-term liabilities to the State		50,429	131
6.	Other short-term operating liabilities		597	562
	Total short-term operating liabilities		54,450	4,105
	Total short-term liabilities		54,450	4,105
D.	Short-term accrued costs and deferred revenues		3,624	424
	Total equity and liabilities		1,270,462	1,184,036

Disclosures and notes on pages 87 to 151 are a constituent part of financial statements.

16.4 Consolidated cash flow statement for the period from 1 January 2016 to 31 December 2016

in EUR '000

	1/1/ - 31/12/2016	1/1/ - 31/12/2015
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	-6,667	32,974
Income tax and other taxes not included in operating expenses	-382	0
Adjustments for amortisation and depreciation	1,186	1,170
Adjustments for financial revenue from financing	-47,641	-45,776
Adjustments for financial expenses from financing	53,794	29,867
Total income statement items	290	18,235
b) Change in net current assets – operating items in the balance sheet		
Opening less closing operating receivables	4,235	-3,810
Opening less closing deferred costs and accrued revenues	-50,435	-450
Opening less closing deferred tax assets	-11,264	-7,190
Opening less closing assets (disposal groups) held for sale	-733	0
Closing less opening operating liabilities	50,345	-5,382
Closing less opening accrued costs and deferred revenues, and provisions	8,302	19,749
Closing less opening deferred tax liabilities	15,469	6,763
Total items of net current assets – operating items in the balance sheet	15,919	9,680
c) Net cash from (used in) operating activities	16,209	27,915
B. Cash flows from investing activities		
a) Receipts from investing activities		
Receipts from interest and dividends received from investing activities	35,352	39,161
Receipts from disposal of long-term financial assets	57,932	54,842
Receipts from disposal of short-term financial assets	40,006	53,410
Total cash receipts from investing activities	133,290	147,413
b) Disbursements from investing activities		
Disbursements to acquire intangible assets	-818	-252
Disbursements to acquire property, plant and equipment	-168	-43
Disbursements to acquire investment property	0	-101
Disbursements to acquire long-term financial assets	-73,100	-149,286
Disbursements to acquire short-term financial assets	-36,368	0
Total cash disbursements from investing activities	-110,454	-149,682
c) Net cash from (used in) investing activities	22,836	-2,269

	1/1/ - 31/12/2016	1/1/ - 31/12/2015
C. Cash flows from financing activities		
a) Cash receipts from financing activities		
Receipts from paid up capital	206	460
Receipts from increase in long-term financial liabilities	3,650	0
Total cash receipts from financing activities	3,856	460
b) Cash disbursements from financing activities		
Repayments of long-term financial liabilities	-50,204	-19,000
Disbursements for dividends and other profit participation	-2,132	0
Total cash disbursements from financing activities	-52,336	-19,000
c) Net cash from (used in) financing activities	-48,480	-18,540
D. Closing balance of cash		
a) Net cash for the period	-9,435	7,106
b) Opening balance of cash	44,146	37,040
c) Total closing balance of cash	34,711	44,146

Disclosures and notes on pages 87 to 151 are a constituent part of financial statements.

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

in EUR '000

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

Disclosures and notes on pages 87 to 151 are a constituent part of financial statements.

16.6 Consolidated statement of changes in equity for the period from 1 January 2015 to 31 December 2015

in EUR '000

		Share capital	Capital surplus	Revaluation surplus	Retained earnings	Net profit or loss for the year	Majority interest	Minority interest	Total
A. 1.	As at 31 Dec. 2014	364,810	215,953	350,916	-9,447	72,751	994,983	2,934	997,917
A. 2.	As at 1 Jan. 2015	364,810	215,953	350,916	-9,447	72,751	994,983	2,934	997,917
B. 1.	Changes in equity – transactions with owners	0	460	-41	-3,055	0	-2,636	-2,934	-5,570
d)	Additional payments of capital	0	460	0	0	0	460	0	460
j)	Other changes in equity	0	0	-41	-3,055		-3,096	-2,934	-6,030
B. 2.	Total comprehensive income for the period	0	0	-17,203	0	29,351	12,148	0	12,148
a)	Net profit or loss for the period	0	0	0	0	29,351	29,351	0	29,351
e)	Gains (losses) on revaluation of financial assets	0	0	-16,975	0	0	-16,975	0	-16,975
f)	Gains (losses) on revaluation of financial assets – associated companies	0	0	-309	0	0	-309	0	-309
g)	Other components of comprehensive income for the period	0	0	81	0	0	81	0	81
B. 3.	Movements in equity	0	0	-1,805	74,556	-72,751	0	0	0
a)	Allocation of the remaining net profit for the comparative period to other equity components	0	0	-1,805	74,556	-72,751	0	0	0
C.	Closing balance as at 31 Dec. 2015	364,810	216,413	331,867	62,054	29,351	1,004,495	0	1,004,495

Disclosures and notes on pages 87 to 151 are a constituent part of financial statements.

17 DISCLOSURES AND NOTES

17.1 General disclosures

Parent company profile

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

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

Separate financial statements of Kapitalska družba, d. d. were issued on 30 March 2017; the auditor issued unmodified opinion thereon on 4 May 2017.

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

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

Members of the Management Board are appointed by the Supervisory Board on the basis of a public job announcement. One member of the Management Board is appointed President of the Management Board. The term of office of the Management Board members is four years with the possibility of re-appointment. The Management Board or any of its members may be dismissed early only due to the reasons referred to in Article 268(2) of the ZGD-1. The breach of the Articles of Association of Kapitalska družba representing a severe dereliction of duties may constitute cause for dismissal.

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting In compliance with Article 51(6) of the ZSDH-1, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of SDH, d. d.¹⁰ (Slovenian Sovereign Holding), two members on the proposal of the pensioners' governmental organisations and one member on the proposal of trade union associations or confederations which are representative of the country. If a group of stakeholders does 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 SDH, d. d. are proposed by the Management Board of SDH, d. d., 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 10 thousand members. The term of office of the Supervisory Board members is four years with the possibility of re-appointment.

Information about subsidiary

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

in EUR '000

Subsidiary	Country	Share in equity	Equity of the company as at 31/12/2016	Net profit for 2016
Modra zavarovalnica, d. d.	Slovenia	100.00%	225,990	6,570

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

Data on consolidation

Consolidation of financial data is carried out for Kapitalska družba, as the highest level. The consolidated Annual Report of the Kapitalska družba Group is available at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Information about treasury shares

The Group has no treasury shares.

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

Information about employees

At the end of 2015, the Kapitalska družba Group had 118 employees, of whom 59 in Kapitalska družba and 58 in Modra zavarovalnica.

Table 28: Number of employees of the Kapitalska družba Group

	As at Dec. 2016
The Kapitalska družba Group	118

17.2 Accounting policies

Basis of preparation

The 2016 financial statements have been prepared in line with International Financial Reporting Standards (IFRSs) as adopted by the EU, and with 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 consolidated financial statements of Kapitalska družba, d. d., and all its subsidiaries (hereinafter: the Group) have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as the Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the European Union (EU).

In its financial statements, the Group applied all IFRS and IFRIC required in 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 Group'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, amend-

ments to the existing standards and new interpretations, which were not endorsed for use in the EU on the day these financial statements were published (the effective dates indicated below apply for entire IFRS):

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

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

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

Foreign currency translation

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

Basic policies

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

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

Basis of consolidation

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

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

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

Intangible assets

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Maintenance Costs and Increase in Fixed Assets Value

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

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

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

Investment property

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

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

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

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

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

The cash generating unit includes investment property by locations.

Financial assets

Classification of financial assets

The Group classifies financial assets in the following categories:

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

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

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

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

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

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

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

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

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

Recognition of financial assets

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

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

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

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

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

2. Financial assets held to maturity

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

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

3. Available-for-sale financial assets

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

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

4. 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.

The Group 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.

Kapitalska družba values its subsidiaries and associates using the equity method.

Fair value measurement

Pursuant to IFRS 13, the Group measures the fair value of investments as if it were the amounts 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 the Group. In case of such a transaction, fair value is measured based on the assumption that the transaction is taking place on the principal market or, if principal market does not exist, on the most advantageous market.

Upon investment acquisition, the Group determines one 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 OTC¹¹ market (for debt investments).

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

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

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

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT¹² 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 BVAL¹³ 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

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

12 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

13 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

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

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

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

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

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

Pursuant to IFRS 13.74, in measuring fair value the Group 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 to 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 29: 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 on the markets that are less liquid
	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 30: 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 31: Classification of collective investment funds

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

Table 32: 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 33: 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 34: 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 fair value of deposits is measured for disclosure purposes using the initial or contractual interest rate, which are categorised within level 3 as unobservable inputs.

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

Impairment of financial assets

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the

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

Impairment and reversal of impairment of financial assets carried at cost

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

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

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

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

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

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

Recoverable amount of non-current assets

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

Derecognition of financial instruments

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

Non-current assets (disposal groups) held for sale

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

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

Operating and other receivables

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

Cash and cash equivalents

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

Deferred costs and accrued revenues

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

Equity

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

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

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

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

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

Reserves from valuation at fair value

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

Provisions

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

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

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

The Group established long-term provisions:

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

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

Insurance contracts

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

Under IFRS 4, an event is uncertain if the following is uncertain at the inception of an insurance contract: whether an insured event will occur, when it will occur; or how much the insurer will need to pay if it occurs.

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

Insurance contract liabilities — technical provisions

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

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

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

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

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

Technical provisions of the KS PPS Guarantee Fund

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

- mathematical provisions for the KS PPS policies,
- equalisation provisions for KS PPS mortality experience, and
- equalisation provisions for KS PPS yield experience.

Mathematical provisions for the KS PPS policies are calculated based on the Rules on the Calculation of Mathematical Provisions. The calculation is based on the most recent annuity mortality tables approved by the Insurance Supervision Agency. The imputed interest rate and costs equal those used in the calculation of annuities, while the mortality tables used in the calculation of mathematical provisions are more conservative than in the calculation of annuities.

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

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

Equalisation provisions for mortality experience can be additionally created at the year-end from the surplus of KS PPS assets, i.e.:

- if mathematical provisions are not formed pursuant to the most recent annuity tables, the following is fully allocated to provisions:
 - surplus of assets as a result of surplus return of the Guarantee Fund return over guaranteed return,
 - surplus of assets as a result of mortality within the population with annuity insurance policies;
- however, if mathematical provisions comply with the most recent annuity tables, the surplus of assets as a result of over-mortality within the population with annuity insurance is allocated to provisions.

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

Technical provisions of the KS MR Guarantee Fund

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

Technical provisions of the KS MR II Guarantee Fund

The KS MR II technical provisions are mathematical provisions for the Guarantee Fund Modra Renta II policies concluded after retirement of the insured that exercised regular termination of additional pension insurance. These provisions are calculated in accordance with the technical bases for annuity insurance, prospectively for each insurance policy. The technical provisions comprise also mathematical provisions arising from the gains of the guarantee fund, whereas at least a half of each gain

from guarantee fund is allocated to the insured segment, while the other half remains unallocated to cover potential losses. The calculation was made on the basis of German tables for annuities DAV1994R. The imputed interest rate, mortality tables and costs equal those used in the calculation of additional pension.

Provisions for claims

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

Operating liabilities

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

Accrued costs and deferred revenues

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

Revenue

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

1. Revenues from insurance premiums

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

2. Revenue from fees

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

a. Entry fee

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

b. Management fee

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

c. Exit fee

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

3. Revenue from lease payments

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

Financial revenue

1. Interest

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

2. Dividends

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

3. Revenue from sale of financial assets

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

Costs

Costs of materials and services

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

Borrowing costs

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

Employee benefits

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

Expenses

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

Financial expenses

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

Tax

1. Current tax

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

2. Deferred tax

Deferred income tax assets and liabilities are accounted for using the liability method in the statement of financial position. Only deferred tax assets and liabilities arising from temporary differences are recognised.

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

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

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

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

Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31 December 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.

Segment reporting

In 2016, the Kapitalska družba Group had no business segments.

Risk management

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

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

Modra zavarovalnica, d. d. has assessed to have sufficient own resources at its disposal considering its total capital requirement. The table below discloses the 2016 information in the amounts that the insurance company reported to the Insurance Supervision Agency within the framework of regular annual reporting to the regulator for the last quarter of 2016.

Table 35: Capital adequacy as per ZZvar-1 or Solvency II requirements

Item	in EUR '000	
	31/12/2016	31/12/2015
Entire capital requirement	92,961	86,107
Sufficient own resources available	206,057	201,490
Surplus (+)/deficit (-) of own resources available	113,095	115,383
Ratio between sufficient own resources and entire capital requirement	222%	234%

The annual information on solvency as at 31 December 2016 will be presented in the Report on the Solvency and Financial Position which will be published on the insurance company's website.

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

Risk of securities price change

Changes in price of securities, which are due to various factors, have a material impact especially on the value of the portfolio of equity investments. The risk of securities price change is managed by regular monitoring of the market situation and macroeconomic indicators that affect the movement in the general level of market prices and by maximum possible dispersion of investments to eliminate most of the non-systematic risk. The dispersal of a part of investments abroad had decreased the Group's dependence of the portfolio of investments on the movement of prices on the Slovenian capital market.

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

Interest rate risk

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

The Group minimises the risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of debt portfolio, by classification of investments into held-to-maturity financial assets, and by restructuring assets with fixed interest rate into assets with variable interest rate or vice versa, depending on the expected movement in market interest rates. In 2016, the Group did not use derivative financial instruments for interest rate risk hedging.

Currency risk

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

Currency risk is monitored and managed daily by matching the currencies of financial assets with legal and internal restrictions. The basis for measuring currency risk is the monitoring and calculation of exposure to individual currencies by taking into account the currency in which the instrument is denominated initially, while changes in the exchange rates of securities that constitute a specific instrument or investment fund are not monitored. In 2016, the Group did not use derivative financial instruments for currency risk hedging.

Credit risk

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

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

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

Liquidity risk

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

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

Operational risk

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

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

Strategy risk

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

The Management Board is in charge of formulating appropriate organisation and strategy, and must adopt all measures suitable for achieving the strategic goals as well as to preserve and strengthen the Group's reputation. An appropriate supervision system is provided for managing this risk, enabling monitoring of the implementation of goals defined in the business strategy and the prevention of errors that would result in dissatisfaction of business partners. Strategic risks are also managed by regular monitoring and participation in the drafting of legal bases and by outsourcing external consultants (tax consultants, auditors, legal consultants, IT consultants, etc.).

17.3 Disclosures and notes to the financial statements

17.3.1 Notes to the income statement

Note no. 1

Net sales revenues

in EUR '000

	2016	2015
Revenue from the sales of services	23,250	31,022
Revenue from management	8,444	7,843
Revenue from leases	1,078	1,062
Other revenue	0	15
Total	32,772	39,942

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

in EUR '000

	2016	2015
Revenue from the sales on the domestic market	32,772	39,942
Total	32,772	39,942

Note no. 2

Other operating revenue (including revaluation revenue)

in EUR '000

	2016	2015
Revenue from reversal of long-term provisions	2,252	11
Other operating revenue	117	477
Revaluation operating revenue	0	1
Total	2,369	489

In 2016, Kapitalska družba, d. d. 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. In 2016, Modra zavarovalnica, d. d. reversed provisions for non-achievement of guaranteed rate of return of the funds under management in the amount of EUR 2,184 thousand.

Other operating revenues of EUR 117 thousand mainly refer to revenue from payment of the deficit in KS MR in the amount of EUR 54 thousand and payments into KS PPS in the amount of EUR 31 thousand. Other operating revenues include revenues from statute barred annuities in the amount of EUR 27 thousand and other minor items.

Note no. 3

Costs of goods, materials and services

	in EUR '000	
	2016	2015
Costs of materials	227	253
Costs of services	3,343	4,342
Total	3,570	4,595

Costs of materials

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

Costs of services

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

Costs of audit

The costs of auditing the 2016 financial statements and Annual Report of the Kapitalska družba Group totalled EUR 24,278.

Note no. 4

Labour costs

	in EUR '000	
	2016	2015
Payroll costs	4,470	4,260
Social security costs	723	683
Pension insurance costs	226	213
Other labour costs	586	482
Total labour costs	6,005	5,638

Note no. 5

Amortisation, depreciation and write-offs

	in EUR '000	
	2016	2015
Depreciation/amortisation	1,186	1,170
Amortisation of intangible assets	232	244
Depreciation of buildings	308	307

in EUR '000

	2016	2015
Depreciation of garages	11	11
Depreciation of equipment and spare parts	127	103
Depreciation of investment property	508	505
Revaluation operating expenses	771	31
Revaluation operating expenses associated with fixed assets	771	0
Revaluation operating expenses associated with current assets	0	331
Total	1,957	1,201

Amortisation of intangible assets

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

Depreciation of buildings

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

Depreciation of equipment and spare parts

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

Revaluation operating expenses associated with fixed assets

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

Note no. 6

Other operating expenses

in EUR '000

	2016	2015
Change in technical provisions	4,866	11,393
Provisions	1,430	6,031
Other operating expenses	17,873	17,050
Total	24,169	34,474

In 2016, Modra zavarovalnica, d. d. increased mathematical provisions by EUR 4,866 thousand, created provisions for testing the adequacy of provisions in the amount of EUR 1,428 thousand, and created EUR 2 thousand of provisions for non-achievement of guaranteed return of the fund under management.

The major portion of other operating expenses includes gross claims paid for life insurance by Modra zavarovalnica, d. d. equalling EUR 16,101 thousand, which consist of accounted for pension annuities, expenses of the manager for paying the difference to the guaranteed return on the transfer from PPS to KS PPS in the amount of EUR 1,421 thousand, provisions created for severance pay upon retirement and jubilee benefits totalling EUR 28 thousand, and other minor items.

Note no. 7

Financial revenue

in EUR '000

	2016	2015
Financial revenue from shares and interests	36,935	48,045
Financial revenue from other investments and loans	10,706	13,297
Financial revenue from other investments	9,704	11,375
Financial revenue from loans	1,002	1,922
Financial revenue from operating receivables	0	6,954
Total	47,641	68,296

Financial revenue from shares and interests

in EUR '000

	2016	2015
Dividends and shares in profits	20,281	21,243
Revaluation financial revenue from shares and interests	4,134	813
Foreign exchange gains	431	0
The effect of restatement of financial revenue from shares and interests due to the adjustment of associates to equity method	3,779	2,724
Gains from the disposal of financial assets	2,625	23,265
- available-for-sale financial assets	988	22,951
- financial assets measured at fair value through profit or loss	1,637	314
Revenue from reversal of impairments of investments	2,228	0
Revenue from the transfer of accrued costs and deferred revenue, and acquisition of shares	3,457	0
Total	36,935	48,045

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	9,712	12,734
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
Total	10,706	13,297

Revenue from sale of financial assets

in EUR '000

	2016	2015
Revenue from realised gains	3,511	23,265
- available-for-sale financial assets	1,874	22,951
- financial assets measured at fair value through profit or loss	1,637	314

Revenue from the sale of financial assets in the amount of EUR 1,874 thousand constitute realised capital gains from the disposal of available-for-sale financial assets. Revenue from the sale of financial assets in the amount of EUR 1,637 thousand constitute capital gains realised on disposal of financial assets measured at fair value through profit or loss. No company was sold in 2016, while in the previous period the Group disposed of four companies, of which the sales of Pivovarna Laško, d. d. represented major transaction.

Interest income

in EUR '000

	2016	2015
Deposits	1,002	1,922
Bonds	8,687	10,686
- financial assets measured at fair value through profit or loss	710	931
- available-for-sale financial assets	4,526	6,811
- financial assets held to maturity	3,451	2,944
Other securities	23	126
- financial assets measured at fair value through profit or loss	18	120
- financial assets held to maturity	5	6
Total	9,712	12,734

Financial revenue from operating receivables

in EUR '000

	2016	2015
Financial revenue from operating receivables	0	6,954
Total	0	6,954

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.

Note no. 8

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

	in EUR '000	
	2016	2015
Loss from disposal of financial assets	1,732	545
- at fair value through profit or loss	705	189
- available-for-sale	1,027	356
Interest expense	16	1
Revaluation operating expenses	2,010	8,736
Expenses from the revaluation of financial assets measured at fair value through profit or loss	804	5,105
Expenses from impairment of equity investments at fair value through equity	922	2,876
Expenses from the cancellation of shares	86	0
Foreign exchange losses	167	656
Other revaluation expenses	31	99
Other financial expenses	36	16
Expenses for ZPIZ	50,000	19,000
Effect of adjustment of financial expenses from shares due to restatement of associates using the equity method	0	1,569
Total	53,794	29,867

Expenses from the sale of financial assets in the amount of EUR 1,732 thousand constitute realised capital losses from the disposal of financial assets.

Shares and stakes classified as available-for-sale financial assets were impaired in the total amount of EUR 344 thousand. The Group assessed that there was impartial evidence of impairments of these assets. The fair value of assets was estimated based on internal valuations and one external valuation. Asset valuations were made according to the following methods: income-based approach, the discounted free cash flow method, the asset-based approach, the net asset valuation method under the assumption of a going concern and regular liquidation and the peer comparison method (comparable listed companies), where the procedure is based on selected multipliers and the value of the relevant company is assessed based on the comparison of performance indicators and stock price of comparable companies. The valuation models used in 2016 indicated a smaller need for impairments than in 2015.

The group impaired the investment in shares of a Spanish telecommunications company in the amount of EUR 578 thousand; the share was classified as available-for-sale investment, while its marked value dropped significantly in 2016.

The Group revalued equity investments carried at fair value through profit or loss in the amount of EUR 804 thousand.

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 exchange differences

in EUR '000

	2016	2015
Exchange rate gains	539	563
Exchange rate losses	-167	-656
Net exchange rate losses/gains	372	-93

In 2016, the net exchange rate gains of the Group amounted to EUR 372 thousand.

Gains or losses on investments

in EUR '000

	2016	2015
Gains on financial assets	47,641	68,296
Loss on financial assets	-53,794	-29,867
Net profit or loss financial asset	-6,153	38,429

Note no. 9

Other revenue

in EUR '000

	2016	2015
Other unusual items	51	26
Total	51	26

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
Total	5	4

The majority of other expenses arises from the shortfall of 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	-6,255	45,919
Tax on dividends from abroad	195	225
Non-deductible expenses	2,484	5,039
Non-taxable revenue	-42,030	-71,314
Tax allowance	-578	-109
Tax loss	-3,334	-625
Total	-49,518	-20,865
Corporate income tax (17%)	382	-
Tax on dividends from abroad	86	88

The Kapitalska družba Group does not prepare a consolidated tax balance sheet. As at 31 December 2016, Kapitalska družba, d. d. reported no corporate income tax liabilities. Modra zavarovalnica, d. d. disclosed EUR 382 thousand of corporate income tax in 2016.

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

Pursuant to Article 67(2) of the ZIPRSS1617, Kapitalska družba, d. d. 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 recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

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

Note no. 12

Deferred tax

At 31 December 2016, deferred corporate income tax included the items presented in the table below.

in EUR '000

	Statement of financial position		Income statement	
	31/12/2016	31/12/2015	2016	2015
Deferred income tax – liabilities	55,173	44,046	-160	313
Total deferred income tax liabilities	55,173	44,046	-160	313
Deferred income tax – assets	48,055	41,131	6,924	-3,936
- Loss brought forward which can be used as tax allowance	22,674	11,624	11,050	7,457
- Value adjustment of investments	25,252	29,394	-4,142	-11,434

in EUR '000

	Statement of financial position		Income statement	
	31/12/2016	31/12/2015	2016	2015
- Dividend adjustment	38	33	5	0
- Provisions	91	80	11	41
Total deferred income tax assets	48,055	41,131	6,924	-3,936
Netting of deferred tax assets and liabilities	13,106	2,915	6,764	-3,623

Disclosure of tax loss

in EUR '000

	2016	2015
Tax loss as at 31 December of the reporting period	490,025	441,084
Tax loss not considered in the calculation of deferred taxes	370,691	415,507
Tax loss considered in the calculation of deferred taxes	119,334	25,577

Tax loss amounting to EUR 370,691 thousand does not comprise deferred tax assets, whereas tax loss of EUR 119,334 thousand includes deferred tax assets. Tax losses are transferable without time limitation.

Due to identified tax loss, Kapitalska družba, d. d. disclosed no corporate income tax liabilities in 2016. Modra zavarovalnica, d. d. disclosed liabilities arising from corporate income tax in 2016.

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

in EUR '000

	2016	2015
Changes in deferred tax		
Balance as at 1 January	44,046	48,408
Changes during the year	11,127	4,362
Balance as at 31 December	55,173	44,046

Deferred tax liabilities of EUR 55,173 thousand at 31 December 2016 arose on revaluation of financial assets at fair value through the statement of comprehensive income.

Note no. 13

Net earnings/loss per share

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

	2016	2015
Net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	-286	29,351
Diluted net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	-286	29,351
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)	-0.3	33.6

As at 31 December 2016, the Group held no financial instruments that would require adjustment of either the net profit or loss or the weighted average number of ordinary shares.

17.3.2 Notes to the statement of financial position

Note no. 14

Intangible assets and long-term deferred costs and accrued revenue

Table 36: Changes in intangible assets, and long-term deferred costs and accrued revenue in 2016

	in EUR '000
31/12/2016	Long-term property rights
Cost	
Cost as at 1 Jan. 2016	3,713
- New purchases	1,251
- Disposals	-539
Cost as at 31 Dec. 2016	4,425
Value adjustment	
Value adjustment as at 1 Jan. 2016	3,068
- Disposals, write-offs	-106
- Amortisation	232
Value adjustment as at 31 Dec. 2016	3,194
Carrying amount	
Carrying amount as at 1 Jan. 2016	645
Carrying amount as at 31 Dec. 2016	1,231

Table 37: Changes in intangible assets, and long-term deferred costs and accrued revenue in 2015

	in EUR '000
31/12/2015	Other long-term deferred costs and accrued revenue
Cost	
Cost as at 1 Jan. 2015	3,352
- New purchases	425
- Disposals	-64

31/12/2015	Other long-term deferred costs and accrued revenue
Cost as at 31 Dec. 2015	3,713
Value adjustment	
Value adjustment as at 1 Jan. 2015	2,888
- Disposals, write-offs	-64
- Amortisation	244
Value adjustment as at 31 Dec. 2015	3,068
Carrying amount	
Carrying amount as at 1 Jan. 2015	464
Carrying amount as at 31 Dec. 2015	645

Note no. 15

Property, plant and equipment

Table 38: Changes in property, plant and equipment in 2016

in EUR 000

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

Table 39: Changes in property, plant and equipment in 2015

in EUR '000

31/12/2015	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2015	10,217	2,670	12,887
- New acquisitions	0	51	51

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

Note no. 16**Investment property**

Table 40: Changes in investment property in 2016

31/12/2016	Buildings
Cost	
Opening balance as at 1 Jan. 2016	19,040
- Acquisitions	37
- Disposals, transfers, impairments	-771
Closing balance as at 31 Dec. 2016	18,306
Value adjustment	
Opening balance as at 1 Jan. 2016	4,602
- Depreciation	508
Closing balance as at 31 Dec. 2016	5,110
Carrying amount	
Opening balance as at 1 Jan. 2016	14,438
Closing balance as at 31 Dec. 2016	13,196

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 14,448 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 41: Changes in investment property in 2015

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

Table 42: Rental income and costs related to investment property

in EUR '000		
	2016	2015
Rental income from investment property	1,066	1,051
Costs arising from investment property	666	643

Guarantees

Kapitalska družba is the co-owner of investment property on which a pledge has been entered to secure liabilities of EUR 1,000 thousand. The remaining assets owned by the Group are not encumbered with mortgages, pledges or other encumbrances.

Fixed assets are not acquired for the purpose of trading.

Note no. 17

Investments in subsidiary, associates and joint ventures

Kapitalska družba, d. d. investments in subsidiaries as at 31 December 2016 include:

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

As the parent company, Kapitalska družba, d. d. consolidates Modra zavarovalnica, d. d.. As at 31 December 2016, the parent company held stakes in the following associates:

Associate	Registered office	Equity stake in %
Casino Maribor, d. d. – v stečaju ¹⁴	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. ¹⁵	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, d. d. consolidates the following companies in the consolidated financial statements using the equity method:

- ♦ Hit, d. d.,
- ♦ Gospodarsko razstavišče, d. o. o.,
- ♦ Loterija Slovenije, d. d. in
- ♦ Cinkarna Celje, d. d.

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

On 19 December 2016, Sava, d. d. became an associated company of the Kapitalska družba Group; due to insignificant stake, the company is not consolidated. Other associated companies are not consolidated using the equity method, since the integration of their financial statements in consolidated financial statements is not relevant for a true and fair view of the financial statements of the Kapitalska družba Group as a whole.

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

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

Table 43: Changes in investments in associates

	in EUR '000	
	2016	2015
Carrying amount as at 1 Jan.	34,374	21,334
Changes	7,240	-667
- Attribution of net profit due to the acquisition of associates using the equity method	3,779	1,155
- Exclusion of dividends	-2,127	-2,232
- Exclusion of revaluation surplus	-149	-227
- Impairment / Revaluation	5,737	637
Transfer of associates from available-for-sale assets	0	13,707
Changes in revaluation surplus	14,015	0
Carrying amount as at 31 Dec.	55,629	34,374

¹⁴ The shares were according to the ZFPPIPP deleted from the KSS by the receiver. Prior to bankruptcy, Kapitalska družba held a stake presented in the table above.

¹⁵ In Hit, d. d., the Company holds 33.33% of voting rights. Preference shares do not include voting rights, as dividend was paid out in 2016.

in EUR '000

	31/12/2016	31/12/2015
Shares and interests in associated companies	55,629	34,374
Total	55,629	34,374

Note no. 18**Assets held for sale**

in EUR '000

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

Non-current assets held for sale in the amount of EUR 7,307 574 thousand as at 31 December 2016 are held for sale in the next 12 months.

Note no. 19**Financial assets, excluding loans**

in EUR '000

	Long-term		Short-term		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Shares and interests in associated companies	55,629	34,374	0	0	55,629	34,374
Other shares and interests	695,372	675,026	0	0	695,372	675,026
Other financial assets	250,107	221,395	39,274	39,104	289,381	260,499
Assets held for sale	0	0	7,307	6,574	7,307	6,574
Total	1,001,108	930,795	46,581	45,678	1,047,689	976,473

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

As at 31 December 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	47,816	49,634	12,235	9,021	60,051	58,655
Financial assets held to maturity	104,673	89,473	11,430	9,004	116,103	98,477
Available-for-sale financial assets	792,990	757,314	22,916	27,653	815,906	784,967
Investments in associates using the equity method	55,629	34,374	0	0	55,629	34,374
Total	1,001,108	930,795	46,581	45,678	1,047,689	976,473

Investments in securities

in EUR '000

	31/12/2016	31/12/2015
Financial assets measured at fair value through profit or loss	60,051	58,655
Equity securities	34,894	31,910
Debt securities	25,157	26,745
Financial assets held to maturity	116,103	98,477
Available-for-sale financial assets	836,971	819,341
Equity securities	723,413	684,066
Debt securities	113,558	135,275
Total	1,013,125	976,473

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

in EUR '000

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

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

in EUR '000

Asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	58,655	58,655
Financial assets held to maturity	98,477	109,744
Available-for-sale financial assets	819,341	824,784
Loans	120,539	120,539
Cash and cash equivalents	44,146	44,146
Total	1,141,158	1,157,868

Changes in securities investments in 2016

in EUR '000

	31/12/2015	Acquisitions	Disposals, maturity	Revaluation	31/12/2016
Financial assets at fair value through profit and loss	58,655	27,661	30,178	3,913	60,051
Financial assets held to maturity	98,477	24,915	10,547	3,258	116,103
Available-for-sale financial assets	819,341	33,333	48,090	32,387	836,971
Total	976,473	85,909	88,815	39,558	1,013,125

Financial assets by type of interest rate as at 31 December 2016

in EUR '000

	31/12/2016	31/12/2015
Investments in debt instruments	254,818	260,497
- Fixed interest rate	254,818	255,354
- Variable interest rate	4,059	5,143
Loans and deposits	112,103	120,556
- Fixed interest rate	112,103	120,556
- Variable interest rate	0	0
Total	366,921	381,053

Fair value hierarchy as at 31 December 2016

in EUR '000

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

Level 1

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

This group comprises also debt instruments of Modra Zavarovalnica, d. d. whose main market is the traders' market with fair value measured based on the transaction price reached on an active market.

Investments of Modra Zavarovalnica, d. d. in collective investment trusts fulfilling the active market conditions are also classified as level 1.

Level 2

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

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

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

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

Level 3

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

Level 3 also includes investments in commercial papers of Slovenian issuers totalling EUR 8,459 thousand. The prices are calculated based on the theoretical (amortised) value of commercial papers in view of the interest rate applicable to the relevant purchase.

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

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

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

The fair value of the investment in preference shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.8% discount rate. The remaining growth rate of normalised free cash flow is 2%.

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

The fair value of shares of Terme Olimia, 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 8.25% discount rate. The remaining growth rate of normalised free cash flow is 2%.

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

The fair value of shares of TKI Hrastnik, 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 11.00% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the business interest in GIO, d. o. o. – v likvidaciji (in liquidation proceeding) 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 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 the investment in shares of Certa, 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 15.00% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the investment in shares of Elektro Ljubljana, 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 is discounted at a 7.20% discount rate until 2020, and at 7.6% afterwards, while the rate of long-term growth 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 an 11.6% discount rate.

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

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

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

Table 44: 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 at fair value through profit and loss	29,555	23,075	7,421	60,051
Available-for-sale financial assets	679,539	62,051	129,345	871,535
Total	709,094	85,726	136,766	931,586

Table 45: 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	0
Shares and other equity instruments	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0
Money market instruments	0	0	0	0	0	0
Available-for-sale financial assets	135,862	2,953	1,014	56,046	4,603	200,478
Shares and other equity instruments	84,664	2,953	1,014	0	4,603	93,235
Debt securities	3,114	0	0	56,046	0	59,160
Units and shares of open-end funds	48,083	0	0	0	0	48,083
Total	135,862	2,953	1,014	56,046	4,603	200,478

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

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

The reclassification from Level 3 to Level 1 arises from reclassification of debt securities which, as a result of change in the methodology, were measured at the CBBT price and traded on a market that meets the active market requirements; these securities were previously 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	36,956	17,004	4,695	58,655
Available-for-sale financial assets	678,846	39,208	101,287	819,341
Total	715,802	56,212	105,982	877,996

Levels below were used in financial year 2015.

Level 1

This group includes the assets owned by Modra zavarovalnica, valued based on the CBBT price in an active market and valuation on the basis of transaction price in an active market. The active market assumption applies if the CBBT price has been quoted for at least half of the trading days in the past 30 days until valuation. If the OTC market is active, fair value is measured using the most recent CBBT price of not more than 15 days. If the traders' market or OTC market is not active, fair value is measured using the most recent CBBT price of not more than 90 days. In the event that the most recent CBBT price is older than the last transaction price of the financial instrument, or the CBBT price is not available, fair value is measured based on the most recent transaction price of not more than 90 days, whereas the active market assumption is fulfilled only if the transaction price is not more than 15 days old. If neither of the above applies, fair value of the investment is measured on the basis of the valuation technique. This group does not include the assets owned by Kapitalska družba, d. d. valued based on the prices obtained from the Bloomberg system.

Level 2

Level 2 assets include the assets valued based on comparable market data (other than quoted prices of identical assets) obtained indirectly or directly for an identical or similar asset; the basis of valuation is the yield curve of comparable financial assets with similar maturity and credit risk.

In addition, Level 2 also includes the investments owned by Modra zavarovalnica, valued based on the stock price on an inactive market, valued based on the CBBT price in an inactive market and the valuation on the basis of transaction price in an inactive market. Level 2 includes investments of Modra zavarovalnica measured using benchmark market data; the value of financial assets measured at fair value is EUR 9,232,322, and they include the bonds of SID banka, d. d., and SIJ, d. d., and treasury bills of the Republic of Slovenia as well as the RS 33 government bond. The price of SID banka bond was calculated based on Slovenian government bond SLOVEN 4 03/22/18. The value of the RS 33 bond was calculated based on yield to maturity of a comparable liquid Slovenian government bond SLOREP2 1/4 03/22. The prices of bonds of SIJ, d. d., and treasury bills of the Republic of Slovenia were calculated on the basis of the average yield to maturity of comparable liquid bonds and treasury bills respectively. The valuation model applied to the bonds of SIJ, d. d., includes the bonds of ThyssenKrupp AG, ArcelorMittal S.A. and Smurfit Kappa Group PLC, and the model applied to the treasury bill of the Republic of Slovenia includes the treasury bills of the Republic of Italy, Portugal and the Kingdom of Spain. Level 2 also includes investments of Modra zavarovalnica in the shares of the companies Elektro Gorenjska Kranj, Elektro Maribor, Elektro Celje and Elektro Primorska totalling EUR 2,228,571. They are valued based on the market data of comparable companies listed on the stock market. The total capital approach and the EV/EBITDA multiplier were applied in the valuation.

Level 2 comprises investments of Kapitalska družba in the shares of Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., and Geoplin, d. o. o., whose fair value has been estimated based on the market comparison method using the comparable listed companies. Adjusted multipliers were used. The second group does not include the assets owned by Kapitalska družba, d. d., valued based on the prices obtained from the Bloomberg system.

Level 3

Level 3 includes the assets, the fair value of which is determined using own valuation models taking into account subjective variables that are not publicly available on markets. Moreover, Level 3 also includes debt instruments owned by Modra zavarovalnica, valued using a valuation technique (taking into account Level 3 inputs), debt securities, the CBBT price of which is not available on an (in)active market and whose value is determined using a valuation technique (taking into account Level 3 inputs) as well as debt instruments valued on the basis of the input provided by third parties. Level 3 includes the shares of some Slovenian companies owned by Modra zavarovalnica, in the total amount of EUR 1,685,109. The major are the investments in Hit, d. d., Elektro Ljubljana, d. d., and Certa, d. d. The value of the said investments was primarily set by the present value of expected free cash flow model. The fair value of the investment in Hit, d. d., was EUR 780,656 as at 31 December 2015. The valuation was made based on a 7.8% discount rate. The fair value of the shares of Certa, d. d., was EUR 280,566 as

at 31 December 2015; the valuation was made by taking into account a 2% long-term growth rate and a 15% discount rate. The fair value of the investment in Elektro Ljubljana, d. d., was EUR 260,126 as at 31 December 2015; the valuation was made by taking into account an 8.56% discount rate and a 2.5% long-term growth rate. Level 3 also includes deposits of Modra zavarovalnica in the amount of EUR 34,030,013 and commercial papers MEL08 and MEL09 totalling EUR 3,443,468. The prices of commercial papers are calculated based on the theoretical (amortised) value of commercial papers in view of the interest rate applicable to the relevant purchase. In 2015, Modra zavarovalnica reclassified deposits and commercial papers to Level 3, but this had no effect on the operating result. The investment in Slovenian government bonds RS 33 was reclassified from Level 3 to Level 2.

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

Moreover, Level 3 fair value includes all assets where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets are classified into Level 3 fair value hierarchy. The fair value of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

The fair value of ordinary shares of Hit, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.80% discount rate. The remaining growth rate of normalised free cash flow is 2%. The estimated fair value of the shares of Pomurska mlekaria, d. d., is EUR 0.00, because the company is in compulsory settlement proceedings and the financial restructuring plan envisages deletion of ownership of existing shareholders. The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at an 7.8% discount rate. The remaining growth rate of normalised free cash flow is 2%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o., is the value of the company's real estate, which was classified as unnecessary property. The estimated value of this real estate is set using the regular liquidation method. The liquidation period is expected to last for 24 months and risk-free interest rate used for discounting is 1.7%. The fair value of the shares of Perutnina Ptuj, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at 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 Talam, d. d., was determined using the income-based method, by means of the method of discounted free cash flow, partly corrected by the estimated share value using the comparable listed companies method. The discount rate for free cash flow in the income-based valuation method is 9.90%. The remaining growth rate of normalised free cash flow is 2%. The fair value of the shares of TKI Hrastnik, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at an 9.07% discount rate. The remaining growth rate of normalised free cash flow is 2%. The estimated fair value of the holding in GIO, d. o. o. – in liquidation, was estimated by applying the asset-based approach according to the regular liquidation method. The fair value of the equity stake in Elan Inventa, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.47% discount rate. The remaining growth rate of normalised free cash flow is 1.5%. The investments in the shares of Modra zavarovalnica and Loterija Slovenije, d. d., are disclosed at cost, because a sufficiently reliable valuation is not possible due to certain expected legislative amendments that could significantly influence the estimated value of the companies.

Table 46: Effective interest rates by asset group

	2016	2015
Financial assets held to maturity	3.01%	3.37%
Available-for-sale financial assets	5.12%	4.79%

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	29,454	59,359	59,200	61,180	88,654	120,539
Total	29,454	59,359	59,200	61,180	88,654	120,539

Loans to others include deposits Kapitalska družba, d. d. gave to Abanka, d. d., Gorenjska banka, d. d., Addiko banka, d. d., Nova Kreditna banka Maribor, d. d., Nova Ljubljanska banka, d. d., Sberbank, d. d., UniCredit bank, d. d., and Deželna banka Slovenije, d. d..

As at 31 December 2016, loans by Modra zavarovalnica to others constituted deposits with banks in Slovenia.

Note no. 21**Operating receivables**

in EUR '000

	Long-term		Short-term		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Operating trade receivable	0	0	1,233	1,227	1,233	1,227
Operating receivables due from others	117	103	662	4,917	779	5,020
Total	117	103	1,895	6,144	2,012	6,247

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.

Short-term operating trade receivables of EUR 1,233 thousand relate to operating receivables from customers of Kapitalska družba equalling EUR 847 thousand and operating receivables from customers of Modra zavarovalnica d.d. totalling EUR 386 thousand.

Short-term operating receivables from others of EUR 662 thousand relate to operating receivables from customers of Kapitalska družba, d. d. equalling EUR 314 thousand and operating receivables from customers of Modra zavarovalnica d. d. totalling EUR 348 thousand.

The Group has no value adjustments of receivables.

The Group has no collateralised operating receivables.

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

Breakdown of operating trade receivables by maturity

in EUR '000

31/12/2016	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
1,233	1,209	4	0	0	0	20

Note no. 22

Cash and cash equivalents

in EUR '000

	31/12/2016	31/12/2015
Cash on bank accounts and cash on hand	11,262	44,129
Demand deposit	23,449	17
Total	34,711	44,146

Note no. 23

Equity

	31/12/2016	31/12/2015
Share capital (000 EUR)	364,810	364,810
Number of ordinary shares	874,235	874,235

The Group has no treasury shares. The share capital of EUR 364,810 thousand is divided into 874,235 ordinary, registered, non-par value shares. Each share has the same interest and the attributed amount in the share capital.

Note no. 24

Capital surplus

in EUR '000

Capital surplus	
1 Jan. 2016	216,413
Increase in capital surplus	206
31 Dec. 2016	216,619

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, the Kapitalska družba Group reported no other revenue reserves.

Note no. 26

Financial liabilities

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
Liabilities from finance lease	371	0	0	0	371	0
Total	371	0	0	0	371	0

Finance lease liabilities comprise liabilities to Modra zavarovalnica, d. d. relating to the lease of intangible assets.

Note no. 27

Operating liabilities

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
Trade liabilities	0	0	3,424	3,412	3,424	3,412
Operating liabilities from advances	12	12	0	0	12	12
Liabilities due to the state	0	0	50,429	131	50,429	131
Other operating liabilities	33	36	597	562	630	598
Total	45	48	54,450	4,105	54,495	4,153

Long-term operating liabilities from advances in the amount of EUR 12 thousand relate to security deposits from the lessee of business premises of Kapitalska družba.

Other long-term operating liabilities of Modra zavarovalnica in the amount of EUR 33 thousand comprise liabilities for the payment of variable remuneration of the Management Board members.

Short-term operating liabilities comprise liabilities to suppliers in the amount of EUR 3,424 thousand, the bulk of which refers to the payment for investment property in the amount of EUR 2,849 thousand; liabilities to the state in the amount of EUR 50,429 thousand, which mostly arise from the payments to ZPIZ (Pension and Disability Insurance Institute of Slovenia) in 2017 and total EUR 50,000 thousand, and other short-term liabilities in the amount of EUR 597 thousand.

31/12/2016	Maturity of up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Operating liabilities to suppliers	3,424	0	0	0	3,424
Operating liabilities from advances	0	0	12	0	12
Payables to the state	50,429	0	0	0	50,429
Other operating liabilities	597	33	0	0	630
Total	54,450	33	12	0	54,495

Note no. 28**Provisions and long-term accrued costs and deferred revenue**

	Provisions for pensions and similar obligations	Other provisions	Technical provisions	Long-term accrued costs and deferred revenue	Total
1/1/2016	324	18,459	139,500	0	158,283
Newly established during the year	122	1,505	4,866	3,389	9,882
Utilised provisions	-11	0	0	0	-11
Reversal of provisions	-28	-4,024	0	0	-4,052
Transfer of long-term acc. costs and def. revenue to P&L	0	0	0	-717	-717
31/12/2016	407	15,940	144,366	2,672	163,385

In 2016, the Kapitalska družba Group created EUR 122 thousand of provisions for severance pay on retirement and jubilee benefits; EUR 11 thousand of provisions were used and reversed EUR 28 thousand of provisions. At the end of 2016, provisions for severance pay on retirement and jubilee benefits amounted to EUR 407 thousand. Provisions for severance pay on retirement and jubilee benefits are calculated on the basis of expected employee fluctuation, period of service and an estimated number of years until retirement, taking into account the provisions of individual and collective employment agreements as well as the company's internal rules.

The Group created EUR 1,428 thousand of other provisions for testing the adequacy of provisions, EUR 2 thousand of provisions for non-achievement of guaranteed return of the fund under management, and EUR 75 thousand of provisions for the deficit of the KS MR. In 2016, the Group reversed EUR 2,197 thousand of provisions for non-achievement of guaranteed return of the managed funds, EUR 1,797 thousand of provisions for the deficit of the KS PPS, and EUR 30 thousand of provisions for onerous contracts.

In line with the prudence principle the Group establishes provisions for legal action started against it and legal disputes, on the basis of the best estimate of recoverability.

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.

Structure of technical provisions

in EUR '000

Item	31/12/2016	31/12/2015
Technical provisions for the KS PPS	100,246	99,580
Technical provisions for the KS MR	31,721	39,920
Technical provisions for the KS MR II	12,399	0
Total	144,366	139,500

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

Disclosures of insurance contracts

Structure of long-term insurance contracts

Table 47: Present gross value of future payments

in EUR '000

Types of payments	31/12/2016	31/12/2015
KS PPS	97,055	96,520
KS MR	31,721	39,920
KS MR II	12,377	0
Total	141,153	136,440

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

Table 48: Technical provisions as at 31 December 2016

Fund	TP for life insurance by policies	TP for life insurance - unallocated	Provision for claims	Total
KS PPS	97,055	2,268	923	100,246
KS MR	31,721	0	1	31,722
KS MR II	12,377	21	0	12,398
Total	141,153	2,289	924	144,366

Technical provisions by individual KS PPS policies differ from total technical provisions by EUR 2,268 thousand of equalisation provisions for yield experience and by EUR 923 thousand of provision for claims. Future payments were calculated based on annuity tables DAV2004R and 1% statutory technical interest rate.

Technical provisions by individual KS MR policies as at 31 December 2016 differ from total technical provisions by EUR 1 thousand of provisions for claims. The calculation of future payments was made on the basis of German tables for annuities DAV1994R.

Technical provisions by individual KS MR II policies as at 31 December 2016 differ from total KS MR II technical provisions totalling EUR 12,398 thousand by EUR 21 thousand of provisions for unallocated profit; half of that amount is used for increase in annuities, while the other half remains unallocated. The calculation of future payments was made on the basis of DAV1994R annuity tables.

Liability adequacy

Modra zavarovalnica checks the adequacy of liabilities arising from the concluded insurance contracts or the sufficiency of established mathematical provisions by performing the adequacy test. These checks are limited to annuity insurance contracts. The test involves the setting of the best liability estimate as the sum of the present value of expected cash flows (payments of annuities and insurance company's costs). This estimate is compared to the value of mathematical provisions determined according to the rules stated in insurance-technical bases for the respective insurance.

The liability adequacy test carried out per individual insurance contract by taking into account the monthly dynamics relied on the following assumptions:

- the expected mortality was set according to German annuity mortality tables DAV1994R, which, given the past experience, suitably indicate the actual mortality;
- early terminations were not expected, as they are not possible according to the provisions of insurance contracts;
- the expected costs equal the accrued costs;
- the discount rate was determined based on the yield curve of Slovenian debt securities.

The liability adequacy test as at 31 December 2016 showed that mathematical provisions for KS PPS are adequate, whereas a deficit of 1,357 thousand was determined for KS MR and of 595 thousand for KS MR II.

Change in interest rates/return

Table 49: Change in interest rates/return for the KS PPS as at 31 December 2016

in EUR '000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-2,906	3,059

Table 50: Change in interest rates/return for the KS PPS as at 31 December 2015

in EUR '000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-2,928	3,084

Table 51: Change in interest rates/return for the KS MR as at 31 December 2016

in EUR '000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-431	449

Table 52: Change in interest rates/return for the KS MR as at 31 December 2015

in EUR '000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-519	539

Table 53: Change in interest rates/return for the KS MR II as at 31 December 2016

in EUR '000

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-225	234

Change in mortality

Table 54: Change in mortality as at 31 December 2016 for the KS PPS

in EUR '000

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

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

Table 55: Change in mortality as at 31 December 2015 for the KS PPS

in EUR '000

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-3,194	3,626

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,194 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV2004R annuity tables.

Table 56: Change in mortality as at 31 December 2016 for the KS MR

in EUR '000

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

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

Table 57: Change in mortality as at 31 December 2015 for the KS MR

in EUR '000

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-244	272

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 244 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on DAV1994R annuity tables.

Table 58: Change in mortality as at 31 December 2016 for the KS MR II

in EUR '000

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

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

17.3.3 Managing risks arising from financial assets

All risks to which the Group is exposed, and the risk management measures and criteria, are described in chapter 17.2 Accounting policies. It is estimated that the Group is not exposed to credit, market (interest rate, currency, price) and liquidity risk arising from financial assets. The Group's own assets and the assets of the guarantee funds (KS PPS, KS MR and KS MR II) are presented in the tables below.

Capital management – Solvency II

The table below discloses the 2016 information in the amounts that Modra zavarovalnica, d. d. reported to the Insurance Supervision Agency within the framework of regular annual reporting to the regulator for the last quarter of 2016.

Table 59: Capital adequacy pursuant to Solvency II

in EUR '000

Item	31/12/2016
Solvency II	
Total capital requirement (EUR)	92,961
Sufficient own resources (EUR)	206,057
Surplus (+)/ deficit (-) of own resources available (EUR)	113,095
Ratio between sufficient own resources and entire capital requirement (%)	221.7%

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, certificates of deposit, deposits, cash assets) and entails the possibility of investments being only partly repaid or not at all. Assets' and business partners' credit rating is determined by ratings assigned by Standard&Poor's, Fitch and Moody's, and in-house analyses. The highest exposure equals the book value of financial instruments. Equity securities are exempt from the analysis, because they do not entail direct credit risk.

Table 60: 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	5,672	6,881	12,604	25,157
Financial assets held to maturity	62,423	50,542	3,138	116,102
Available-for-sale financial assets	23,035	71,858	53,229	148,122
Loans	0	800	87,854	88,654
Cash and cash equivalents	0	0	34,711	34,711
Total	91,130	130,081	191,535	412,746

Table 61: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2015

in EUR '000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Total
Financial assets at fair value through profit or loss	778	12,909	13,059	26,746
Financial assets held to maturity	20,155	76,212	2,111	98,478
Available-for-sale financial assets	11,423	102,602	21,251	135,276
Loans	0	800	119,739	120,539
Cash and cash equivalents	0	0	44,146	44,146
Total	32,356	192,523	200,305	425,184

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 62: Geographical concentration of credit exposure of financial assets

in EUR '000		
Region	31/12/2016	31/12/2015
Slovenia	308,005	323,394
Other countries	104,741	101,790
Total	412,746	425,184

The share of financial assets exposed to credit risk in Slovenia decreased from 76% to 75% in 2016.

Currency risk

Table 63: Currency structure of financial assets

in EUR '000		
Currency	31/12/2016	31/12/2015
Assets denominated in EUR	1,007,052	994,345
Assets denominated in USD	158,486	141,636
Assets denominated in other currencies	5,516	5,177
Total	1,171,054	1,141,158

As at 31 December 2016, 86.0 of financial assets were denominated in euro, 13.5% in US dollars and 0.5% in other currencies. Currency structure of financial assets is monitored considering the currency in which original instrument is denominated. Currency risk increased because of higher exposure of financial assets in foreign currencies, whereas the effect of currency fluctuation for securities constituting a specific instrument or investment fund was not taken into account.

Table 64: Currency risk of financial assets as at 31 December 2016

in EUR '000		
USD exchange rate fluctuation in %	Impact on the income statement	Impact on equity
+/- 10%	+/- 681	+/- 15,168

Table 65: Currency risk of financial assets as at 31 December 2015

in EUR '000		
USD exchange rate fluctuation in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 428	+/- 13,736

Interest rate risk

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

Table 66: 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%	+/- 3	-/+ 599	-/+ 596
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 3	-/+ 3,650	-/+ 3,647
Loans and receivables	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 6	-/+ 4,249	-/+ 4,243

Table 67: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2015 – change in interest rates by 50 basis points

in EUR '000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5%	+/- 3	-/+ 598	-/+ 595
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 4	-/+ 3,959	-/+ 3,955
Loans and receivables	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 7	-/+ 4,557	-/+ 4,550

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the impact on fair value was calculated by taking into account the investments subject to fixed interest rate. If market interest rates change by 50 basis points, the value of the fund's assets would change by EUR 4,243 thousand as at 31 December 2016.

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

in EUR '000

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

Table 69: Market risk of the equity securities portfolio as at 31 December 2015

in EUR '000

Index change in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 1,707	+/- 57,794

The table takes into account the investments in equity instruments excluding investment coupons related to bonds. The effect in the income statement is evident under equity securities measured at fair value through profit or loss, and the effect on equity is evident under investments in AFS equity instruments.

Table 70: Financial instruments in terms of marketability

in EUR '000

Financial instrument	31/12/2016	31/12/2015
Securities traded on the regulated market	951,661	926,909
Financial assets at fair value through profit or loss	52,363	52,887
Financial assets held to maturity	116,102	98,477
Available-for-sale financial assets	783,195	775,545
Securities not traded on the regulated market	61,464	49,564
Financial assets at fair value through profit or loss	7,687	5,768
Financial assets held to maturity	-	-
Available-for-sale financial assets	53,777	43,796
Total	1,013,125	976,473

At the end of 2016, assets traded on regulated stock markets accounted for 94% of financial instruments or 75% of all assets of the Group. Available-for-sale financial assets not traded on regulated market include non-marketable shares, stakes and investment coupons.

Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2016, the Group recorded a total of EUR 978,607 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 71: Expected actual non-discounted cash flows as at 31 December 2016

in EUR '000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	42,616	130,211	110,446	732,194	1,015,467
- at fair value through profit or loss	15,454	10,655	2,994	34,894	63,997
- held-to-maturity	10,738	55,143	71,559	0	137,440
- available-for-sale	16,424	64,413	35,893	697,300	814,030
Investments in financial receivables	0	34,564	0	0	34,564

in EUR '000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Loans and deposits	59,638	29,548	0	0	89,186
Cash and cash equivalents	34,711	0	0	0	34,711
Operating receivables	1,895	117	0	0	2,012
Total assets	138,860	194,440	110,446	732,194	1,175,940
Operating liabilities	54,450	45	0	0	54,495
Financial liabilities	0	0	0	0	0
Liabilities of PPS and MR Guarantee Funds	14,020	39,937	88,511	0	142,468
Total liabilities	68,470	40,352	88,511	0	197,333
Difference	70,390	154,088	21,935	732,194	978,607

Table 72: Expected actual non-discounted cash flows as at 31 December 2015

in EUR '000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	42,311	131,630	129,752	703,981	1,007,674
- at fair value through profit or loss	8,164	14,893	3,745	31,910	58,711
- held-to-maturity	10,793	37,448	70,822	0	119,062
- available-for-sale	23,354	79,289	55,186	672,071	829,901
Loans and deposits	63,818	57,996	0	0	121,814
Cash and cash equivalents	44,146	0	0	0	44,146
Operating receivables	6,144	103	0	0	6,247
Total assets	156,418	189,729	129,752	703,981	1,179,881
Operating liabilities	4,105	48	0	0	4,153
Financial liabilities	0	0	0	0	0
Liabilities of PPS and MR Guarantee Funds	14,157	38,991	83,879	0	137,027
Total liabilities	18,262	39,039	83,879	0	141,180
Difference	138,156	150,691	45,873	703,981	1,038,701

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

17.4 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 and Modra zavarovalnica. The Group 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 management contracts of Kapitalska družba

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

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

Table 73: Receipts by category of beneficiaries in Kapitalska družba, d. d.

in EUR '000	
Category of beneficiaries	Amount
Members of the Management Board	265
Members of the Supervisory Board	125
Employees with management contract	497
Total	887

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

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

Receipts of the members of the Management Board are regulated by the ZSDH-1. Pursuant to Article 51(5) of the ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of SDH, d. d. apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of the ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of managers of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the legal grounds. 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 trainings in Slovenia and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of the Company.

Table 74: Receipts of the members of the Management Board of Kapitalska družba in 2016

v EUR

Name and surname	Fixed income	Variable income	Bonuses	Cost re-imbursement	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	133,797
Boris Žnidarič, PhD (Member until 23 November 2016)	116,607	71	50	2,081	2,819	-	-	-	791	122,419
Goranka Volf (Member since 24 November 2016)	2,251	-	-	56	53	-	-	-	-	2,360
Anja Strojín Štampar, MSc (Member until 30 November 2015) ¹⁶	-	5,943	-	-	-	-	-	-	-	5,943
Total	243,972	9,142	105	4,027	5,691	-	-	-	1,582	264,519

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.

Table 75: Receipts of the members of the Supervisory Board of Kapitalska družba in 2016

v EUR

Name and surname	Fixed income	Variable income	Fringe benefits	Cost re-imbursement	Insurance premiums	Participation in profit	Options	Other rewards	Other payments	Total
Samo Lozej (President and member of the Supervisory Board until 8 April 2016)	6,142	-	-	-	-	-	-	-	-	6,142
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	-	-	-	-	-	-	21,730
Boris Žnidarič, PhD (Member of the Supervisory Board and Deputy Chair ¹⁷ , President of the Accreditation Committee since 24 November 2016)	1,800	-	30	-	-	-	-	-	-	1,830

¹⁶ 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.

¹⁷ 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 re-imburse-ment	Insurance premiums	Partici-pation in profit	Options	Other rewards	Other pay-ments	Total
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	-	-	-	-	-	-	22,599
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	-	-	-	-	-	-	21,957
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	-	-	-	-	-	-	-	-	22,000
Janez Bedina (Member of the Supervisory Board from 8 January 2016 until 23 November 2016)	13,296	-	355	-	-	-	-	-	-	13,651
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	-	-	-	-	-	-	15,528
Total	122,392	-	3,045	-	-	-	-	-	-	125,437

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 76: Receipts of the external members of the Supervisory Board committees of Kapitalska družba, d. d. in 2016

v EUR

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	-	-	-	-	-	-	4,507
Irena Prijović, MSc (External Member of the Accreditation Committee)	6,045	-	0	-	-	-	-	-	-	6,045
Alenka Stanič, PhD (External Member of the Accreditation Committee)	6,265	-	0	-	-	-	-	-	-	6,265
Total	16,717	-	100	-	-	-	-	-	-	16,817

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 77: Receipts of the members of management and supervisory bodies of Kapitalska družba, d. d. in Modra zavarovalnica, d. d. in 2016

v 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
Total	2,249	-	24	-	-	-	-	-	-	2,273

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.

Members of Kapitalska družba, d. d. Management Board and Supervisory Board who are also members of the management and supervisory bodies of related and non-related entities

The President of the Board of Kapitalska 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 of Kapitalska družba, d. d. 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 no attend one and three of the meetings, respectively.

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

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

In 2016, the remuneration received by the members of the Management Board, supervisory bodies and employees with individual employment contracts who are not subject to the tariff part of the collective agreement totalled EUR 729 thousand.

In 2016, Modra zavarovalnica, d. d. approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

Table 78: Gross receipts in 2016 by category, Modra zavarovalnica, d. d.

in EUR '000	
Category of beneficiaries	Amount
Members of the Management Board	290
Members of supervisory bodies	96
Employees with management contract	343
Total	729

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

Table 79: Receipts of the members of the Management Board of Modra zavarovalnica, d. d. in 2016

in EUR

Name and surname	Fixed income	Past due payments	Bonuses	Allowance for annual leave	Cost reimbursement	Insurance premiums (PDPZ)	Total
Borut Jamnik	118,858	20,013	2,729	1,092	5,717	2,819	151,228
Matija Debelak	112,915	18,742	226	1,092	2,638	2,819	138,432

Fixed remuneration includes gross salaries. Outstanding payments include part 2 of the variable remuneration for 2013 and part 1 of the variable remuneration for 2015. Reimbursements of costs include meal and/or travel allowances and/or other reimbursements of travel expenses (daily allowances, mileage expenses, costs of overnight stays, parking, taxi). Bonuses include company car and bonuses arising from collective accident insurance. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance.

Table 80: Receipts of the members of supervisory bodies of Modra zavarovalnica, d. d. in 2016

in EUR

Name and surname	Fixed income of the SB	Fixed income of the Audit Committee	Monthly remuneration of the SB	Monthly remuneration of the AC	Cost reimbursement	Total
Branimir Štrukelj	4,015	0	0	0	0	4,015
Aleš Groznik	3,740	0	14,748	0	0	18,488
Bojan Zupančič	3,740	0	10,449	0	0	14,189
Dario Radešič	3,740	1,320	9,832	2,458	1,598	18,948
Goran Bizjak	3,740	1,540	10,449	3,919	478	20,126
Marino Furlan	2,915	0	9,832	0	679	13,426
Goranka Volf	275	0	927	0	0	1,202
Natalija Stošicki	275	0	617	155	24	1,071
Dragan Martinović	0	1,540	0	2,613	0	4,153

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

Related-party transactions

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

Disclosure regarding the pension 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.

Modra zavarovalnica, d. d. did not record any significant transactions after the end of 2016 that could impact its financial statements for 2016.