



KAPITALSKA DRUŽBA

For today and tomorrow

CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP
FOR 2018



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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
ECB	European Central Bank
EUR	Euro - currency of the European Union
FED	US Federal Reserve
KDD	Central Securities Clearing Corporation
KS MR	Modra Renta Guarantee Fund
KS MR II	Modra Renta Guarantee Fund II
KS PPS	First Pension Fund Guarantee Fund of the Republic of Slovenia
KVPS	Mutual Equity Pension Fund
KPSJU	Umbrella Pension Fund for Public-Sector Employees
MLFSAEO	Ministry of Labour, Family, Social Affairs and Equal Opportunities
MKPS	Modri Umbrella Pension Fund
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
OdSUKND	Decree on the Strategy for Managing State Capital Investments
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
OTC	Over-the-counter market
VSPI	Voluntary supplementary pension insurance
PSŠ	Bridging insurance fund for professional athletes (bridging fund for athletes)
PN1 K	Pension plan for collective voluntary supplementary pension insurance
PN1 P	Pension plan for individual voluntary supplementary pension insurance

PNJU K	Pension plan for collective voluntary supplementary pension insurance for public-sector employees
PNMZ K	Pension plan for collective supplementary pension insurance (MKPS)
PNMZ P	Pension plan for individual voluntary supplementary pension insurance (MKPS)
PPS	First Pension Fund of the Republic of Slovenia
RS	Republic of Slovenia
SBI TOP	Central Slovenian stock market index
SDH	Slovenski državni holding, d. d.
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
USD	US dollar
VaR	Value At Risk
ZDDPO-2	Corporate Income Tax Act (Official Gazette of the Republic of Slovenia, Nos. 117/2006, 90/2007, 76/2008, 56/2008, 92/2008, 5/2009, 96/2009, 110/2009 - ZdavP-2B, 43/2010, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013, 50/2014, 23/2015, 82/2015, 68/2016, 69/2017 and 79/2018)
ZFPPIPP	Financial Operations, Insolvency and Compulsory Dissolution Act (Official Gazette of the Republic of Slovenia, Nos. 126/2007, 40/2009, 59/2009, 52/2010, 106/2010 - ORZFPPIPP21, 26/2011, 47/2011 - ORZFPPIPP21-1, 87/2011 - ZPUOOD, 23/2012 - Constitutional Court ruling, 48/2012 - Constitutional Court Ruling, 47/2013, 100/2013, 10/2015 - amended, 27/2016, 31/2016 - Constitutional Court ruling, 38/2016 - Constitutional Court ruling, 63/2016 - ZD-C, 30/2018 - ZPPDID and 54/2018 - Constitutional Court ruling)
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 - amended, 26/2007 - ZSDU-B, 33/2007 - ZSReg-B, 67/2007 - ZTFI, 10/2008, 68/2008, 42/2009, 33/2011, 91/2011, 100/2011 - Constitutional Court ruling, 32/2012, 57/2012, 44/2013 - Constitutional Court ruling, 82/2013, 55/2015, 15/2017)
ZIPRS1819	Implementation of the Budget of the Republic of Slovenia for 2018 and 2019 Act (Official Gazette of the Republic of Slovenia, Nos. 71/2017, 13/2018 - ZJF-H, 83/2018 and 19/2019)
ZNVP-1	Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 - ORZNVP48, 5/2017, 15/2018 - Constitutional Court Ruling)
ZPIZ	Pension and Disability Insurance Institute
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 96/2012, 39/2013, 46/2013 - ZIPRS1314-A, 63/2013 - ZIUPTDSV, 99/2013 - ZSVarPre-C, 101/2013 - ZIPRS1415, 111/2013 - ZMEPIZ-1, 44/2014, 85/2014 - ZUJF-B, 95/2014 - ZIUPTDSV-A, 97/2014 - ZMEPIZ-1A, 95/2014 - ZIPRS1415-C, 95/2014 - ZUPPJS15, 95/2014 - ZUJF-C, 31/2015 - ZISDU-3, 90/2015 - ZIUPTD, 90/2015 - ZUPPJS16, 96/2015 - ZIPRS1617, 102/2015, 42/2016 - Constitutional Court decision, 80/2016 - ZIPRS1718, 88/2016 - ZUPPJS17, 40/2017, 23/2017, 75/2017 - ZIUPTD-A, 65/2017, and 71/2017 - ZIPRS1819)
ZPPOGD	Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010, 8/2011 and 23/2014 - ZDIJZ-C)
ZPZPŠ-1	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, No. 82/2015)
ZSDH-1	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 25/2014, 96/2015 - ZIPRS1617, 80/2016 - ZIPRS1718, 71/2017 - ZIPRS1819 and 51/2018 - ZIUJDT)
ZVPSJU	Closed Mutual Pension Fund for Public-Sector Employees
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015)





Introduction to the Business Report

Presentation of the Kapitalska družba Group

The Kapitalska družba Group comprises the parent company Kapitalska družba and two subsidiaries: Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o. Both of the aforementioned companies are presented 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 2018.

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) and the Bridging Fund for Athletes (hereinafter: the PSS).¹ Kapitalska družba also performs other activities related to asset management and provides asset management support services.

1 The PSS was liquidated in July 2018.

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 2018 in the following composition:

- The President of the Management Board Bachtiar Djalil began his first term of office on 2 January 2015.²
- Member of the Management Board Goranka Volf began her term of office on 24 November 2016.
- Member of the Management Board Gregor Bajraktarević began his term of office on 7 February 2018.³

The President and members of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure.

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

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

2 Mr Djalil began a new four-year term of office on 3 January 2019.

3 Gregor Bajraktarević began his first term of office as temporary member of the Management Board on 6 February 2017. That term of office was for a period of one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first.

1.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2018⁴:

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

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

1.1.4.3 General Meeting

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

1.1.5 Diversity policy

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

1.2 MODRA ZAVAROVALNICA, D. D.

1.2.1 Company

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

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 6031226000

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 2018.

⁴ The one-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2018. Both, however, were reappointed to new four-year terms of office by the Company's General Meeting. At the first session of the Supervisory Board following the start of his new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

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

1.2.3 Activities of the company

Modra zavarovalnica provides life insurance services in accordance with the Insurance Act (hereinafter: the ZZavar) and the decision issued by the Insurance Supervision Agency (hereinafter: the ISA), by which 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 three members in accordance with the company's Articles of Association. Modra zavarovalnica was run by its Management Board in 2018 in the following composition:

- Borut Jamnik, President, whose five-year term of office began on 29 August 2016;
- Matija Debelak, member, whose five-year term of office began on 14 September 2016; and
- Boštjan Vovk, member, whose four-year term of office began on 1 October 2018.

The Management Board manages the Company in the interests thereof, independently and at its own risk. The Management Board represents Modra zavarovalnica without limitations. In legal transactions, the company is represented jointly by two members of the Management Board as follows: the President and one member jointly, or a member with the President or another member. The company's Articles of Association set out the transactions and decisions for which the Management Board must obtain the consent of the Supervisory Board.

The Management Board exercised its competences in 2018 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1, in accordance with the Articles of Association.

1.2.4.2 Supervisory Board

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

The Supervisory Board comprises six members. Kapitalska družba proposes three members of the Supervisory Board according to the procedure and in the manner set out in the company's bylaws. 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 Umbrella Pension Fund for Public-Sector Employees on behalf of that fund's policyholders, while a third member was proposed by the committees of the Mutual Equity Pension Fund and the Modri Umbrella Pension Fund on behalf of other policyholders.

The Supervisory Board comprised the following members in 2018:

- Branimir Štrukelj, member since 9 December 2016, Chairman of the Supervisory Board from 22 December 2017 to 22 December 2018, and Deputy Chairman of the Supervisory Board since 23 December 2018,

- Natalija Stošicki, member since 9 December 2016, Deputy Chairwoman of the Supervisory Board from 22 December 2017 to 22 December 2018, and Chairwoman of the Supervisory Board since 23 December 2018,
- Goran Bizjak, member since 9 December 2016,
- Bojan Zupančič, member since 9 December 2016,
- Dr Janez Prašnikar, member since 9 June 2017, and
- Dr Boris Žnidarič, member since 9 June 2017.

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

1.2.4.3 General Meeting

Kapitalska družba exercised its rights in 2018 at the General Meeting as the company's sole shareholder.

1.2.5 Diversity policy

Modra zavarovalnica does not implement a diversity policy.

1.3 HOTELSKE NEPREMIČNINE, D. O. O.

1.3.1 Company

Name: Hotelske nepremičnine, d. o. o. (hereinafter: Hotelske nepremičnine)

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 8290130000

VAT ID number: SI86977334

1.3.2 Ownership structure and data regarding capital

Kapitalska družba and its subsidiary Modra zavarovalnica established Hotelske nepremičnine on 2 October 2018. That company's share capital amounted to EUR 25,000.00 as at 31 December 2018, while its founders each hold a 50% participating interest.

1.3.3 Activities of the company

Hotelske nepremičnine was established for the purpose of purchasing the real estate of the San Simon Hotel Resort.

The company's principle activity is:

68.200 Renting and operating of own or leased real estate

1.3.4 Management of the company

Hotelske nepremičnine was headed by two directors in 2018:

- Zoran Perše, and
- Roman Jerman.

1.3.5 Diversity policy

Hotelske nepremičnine does not implement a diversity policy.

Statement of the Management Board of the parent company

The Kapitalska družba Group comprises Kapitalska družba, the subsidiary Modra zavarovalnica and the newly established company Hotelske nepremičnine. The Kapitalska družba Group's total assets amount to nearly EUR 3 billion, and comprise own assets and pension fund assets under management. The Kapitalska družba Group is thus the largest provider of supplementary pension insurance in Slovenia. Responsible governance of the Group, focused on the achievement of strategic objectives, represents an opportunity and also means that the Group faces numerous challenges that derive from the external environment. Together with partners and stakeholders, the Kapitalska družba Group has been setting the standards for high-quality and reliable operations in the area of pension insurance and the management of own assets since its inception.

Slovenia was characterised in 2018 by parliamentary elections and growing tensions in the international economic environment. Uncertainty due to Brexit and fears of a tightening trade war cooled economic growth in the fourth quarter and resulted in unfavourable trends on the stock markets. This had a negative effect on the Group's financial assets and on the profitability of the funds we manage.

Slovenia has been gradually reducing its gap to the EU average since 2016. Long-term factors to progress, such as innovation, digitalisation, research and development and the green economy, indicate weak growth despite the economic recovery. Slovenian society remains vulnerable, making long-term sustainable economic growth an increasingly more difficult challenge to tackle. In the context of numerous challenges from the external environment, the ageing of the Slovenian population is becoming increasingly important. Slovenia's inability to adjust to its own demographic situation results in increasing risks for the Kapitalska družba Group, as well. Although Kapitalska družba, should have been transformed into an independent demographic reserve fund years ago, it is committed to continuing the pursuit of its mission, which is the provision of supplementary funding for the public pension system and additional pension sources for policyholders included in the Compulsory Supplementary Pension Insurance Fund (SODPZ), and to the responsible governance of the Kapitalska družba Group.

Through the sustained fulfilment of our commitments, we contribute to a reliable and sound Slovenian public pension system, although total payments to the Pension and Disability Insurance Institute exceed the assets at the Company's disposal. A significant proportion of Kapitalska družba's investments are classified as strategic investments. On the other hand, Kapitalska družba is, to a significant extent, dependent on Slovenski državni holding, d. d. (SDH) when selling companies. SDH conducts sales procedures involving investments to which SDH and/or the Republic of Slovenia are party, in the name and on account of the Company. Notwithstanding the above facts, Kapitalska družba remains committed to fulfilling its obligations and mission for the benefit of Slovenian pensioners. We are aware that we can only pursue our mission in these less-than-optimal conditions by working together with all stakeholders and striving to understand their needs, using the wealth of knowledge, experience and competences of employees to that end. Following our vision requires the effective management of financial assets and the continued transformation of Kapitalska družba into a portfolio investor. We focus constantly on the effective management of risks and the exploitation of business opportunities, while at the same time developing and updating the bases for the portfolio management of financial assets.

The amount paid to the Pension and Disability Insurance Institute once again represented Kapitalska družba's most significant expense in 2018. That payment amounted to EUR 50 million. Kapitalska družba's total transfers to the ZPIZ already exceed EUR 814.3 million. In the context of an operating profit of EUR 2.6 million, the Company generated a net profit prior to that transfer of EUR 18.9 million, and a net loss of EUR 31.1 million following the transfer to the ZPIZ and taking into account deferred taxes.

Another important area is management of the SODPZ. The value of the aforementioned fund's assets exceeded EUR 724 million in 2018. As at 31 December 2018, a total of 261 retirees received an occupational pension from the aforementioned fund, while gross pensions amounted to EUR 3.7 million in 2018. Through the successful management of the retirement savings of policyholders included in the SODPZ and the payment of occupational pensions, we perform tasks associated with the second pillar of the pension system, which is becoming increasingly important due to the rapid ageing of the Slovenian population. In the provision of compulsory supplemental insurance, we are guided by the awareness that by providing such insurance we contribute decisively to the security and quality of the life of current and future occupational pensioners.

The subsidiary Modra zavarovalnica generated insurance revenues of EUR 52.8 million in 2018, comprising revenues from insurance premiums and other insurance revenues. Revenues from insurance premiums comprise payments to annuity pension funds and were up by 48% relative to 2017, primarily as the result of a competitive offer of annuities and a change in operating conditions that prevent the one-time withdrawal of funds by members when the amount saved exceeds EUR 5,000. Revenues from fund management were up by 10% in year-on-year terms, primarily due to growth in mutual pension fund assets and higher premiums paid into the fund for public-sector employees. Insurance expenses, which include paid annuities, operating costs and other insurance costs, amounted to EUR 24.1 million, while technical provisions were up by EUR 26.7 million. Also contributing significantly to operating results was financial revenue in the amount of EUR 15.7 million, while expenses in connection with investments totalled EUR 4.3 million. Modra zavarovalnica thus generated a net profit of EUR 6.3 million. Unfavourable conditions on the financial markets had a significant effect on the value of the insurance company's financial assets measured at fair value through comprehensive income. The value of those assets was down by EUR 13.3 million. Specifically, there was a sharp decrease in the value of equities of Slovenian issuers in the insurance company's portfolio. Comprehensive income for the financial year after taxes was thus negative in the amount of EUR 6.9 million. The insurance company's capital was down by EUR 8.3 million during the period to stand at EUR 236 million at the end of the year, an increase of EUR 90 million relative to the start of operations seven years ago.

Hotelske nepremičnine was established by Kapitalska družba and its subsidiary Modra zavarovalnica in October 2018 for the purpose of purchasing the real estate of the San Simon Hotel Resort. Immediately after that purchase, the San Simon Hotel Resort in Izola was leased to Hoteli Bernardin, d. d. for management by the latter. The accommodation capacities of that resort comprise the Haliaetum and Mirta hotels, the Korala, Palma, Sirena and Perla annexes, and holiday houses. The San Simon Hotel Resort has 215 rooms available to guests.

An environment of rapid changes and unfavourable demographic conditions present the Kapitalska družba Group a number of opportunities and challenges. In our operations, we face a complicated reality full of mutual interactions and new risks. For this reason, we introduced the strategic planning process in 2018 and set objectives for the next three-year period. Modra zavarovalnica also made significant changes to its strategic policies last year. With a focus on objectives and a commitment to business excellence, the aim of the Kapitalska družba Group is to actively participate in the formulation of Slovenia's future pension system, remain a professional and successful manager of assets and the assets of pension funds, and to operate in a socially responsible and sustainable manner. The Company's firm position in the overall pension system scheme determines Kapitalska družba's main business strategies and operations in the future. Strongly anchored in the present, but with a view to the future, our aim is to co-formulate the right solutions for a lasting Slovenian society.



Gregor BAJRAKTAREVIĆ
Member of the
Management Board



Goranka VOLF
Member of the
Management Board



Bachtiar DJALIL
President of the
Management Board

Report of the Supervisory Board of the parent company

REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE AUDITED CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP FOR 2018

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. The same conditions and criteria that apply to members of SDH's Supervisory Board apply to the members of Kapitalska družba's Supervisory Board. Members of Kapitalska družba's Supervisory Board serve a four-year term of office and may be reappointed.

The Supervisory Board of Kapitalska družba functioned in the following composition in 2018: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc, Natalija Stošički, Cirila Surina Zajc and Ladislav Rožič, MSc. The one-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired on 29 August 2018. Both, however, were reappointed to new four-year terms of office by the Company's General Meeting held on 14 June 2018. Those terms of office began on 30 August 2018. Stanislav Seničar was reappointed Chairman of the Supervisory Board at the 146th session of the aforementioned body held on 4 September 2018, the first session following the start of his new term of office.

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

The Supervisory Board met at 22 sessions during the 2018 financial year as follows: 14 regular sessions and 8 correspondence sessions.

The Kapitalska družba Group comprises the parent company Kapitalska družba and two subsidiaries: Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o.

A review of the important matters discussed by the Supervisory Board in 2018 follows:

- particular attention in the monitoring of Kapitalska družba's operations in 2018 was given to monitoring the management of the Company's assets and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), which is managed by Kapitalska družba;
- confirmation of the annual reports of Kapitalska družba and the Kapitalska družba Group for the 2017 financial year and the proposal to the General Meeting for the appointment of an auditor for the 2018 financial year;
- consent to Kapitalska družba's business-financial plan for the 2019 financial year;
- in accordance with the provisions of the Company's Articles of Association, the Supervisory Board also gave the Management Board its consent to conclude transactions for the purchase and sale of securities and participating interests in cases when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution;
- at its 149th session of 11 October 2018, the Supervisory Board reappointed Bachtiar Djalil to a four-year term as President of the Management Board based on a previous public call for candidates for that function. Mr Djalil began a new four-year term of office as President of the Management Board on 3 January 2019; 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. Based on that self-assessment, the Supervisory Board adopted a set of measures to improve its work.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2018.

The Supervisory Board's audit committee functioned in the following composition in 2018: Ladislav Rožič, MSc (chair), Aleksander Mervar MSc, Cirila Surina Zajc and Natalija Stošicki (members), and Mojca Verbič (external member). The audit committee met at five sessions in 2018. In its work, the audit committee complied with the provisions of the ZGD-1 with respect to its competences, as well as the provisions of the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee represented a permanent working body of the Supervisory Board, and closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. In addition to its legally prescribed tasks, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiary and the SODPZ under Kapitalska družba's management. It also monitored the work of the internal audit department. The audit committee also carried out a self-assessment. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

The Supervisory Board's accreditation committee functioned in the following composition in 2018: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc and Ladislav Rožič, MSc (members), Dr Alenka Stanič and Irena Prijović, MSc (external members), and Gorazd Žmavc (external member since 27 September 2018). The accreditation committee met at three sessions in 2018. The accreditation committee's task was to provide support to the Supervisory Board in the supervision of the management of the Company's transactions as they relate to the governance of companies in which Kapitalska družba holds capital investments. In its work, the

accreditation committee complied with the provisions of the rules of procedure of the accreditation committee as adopted by the Supervisory Board.

The Supervisory Board's HR committee functioned in the following composition in 2018: Aleksander Mervar, MSc (chair), and Cirila Surina Zajc and Natalija Stošicki (members). The HR committee met at six sessions in 2018. Its main tasks were to review applications and formulate a proposal for the Supervisory Board for the appointment of the President of the Management Board based on a public call for candidates for that function. The committee was also involved in activities in connection with the formulation of the proposal of a candidate who is a representative of national-level representative trade union federations/confederations for appointment to Kapitalska družba's Supervisory Board, and the review of the proposal of candidates who are representatives of national-level federations/organisations of pensioners for appointment to Kapitalska družba's Supervisory Board.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the consolidated annual report in Tables 77 and 78.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the above-described continuous monitoring and supervision of the operations and management of Kapitalska družba and its subsidiary during the 2018 financial year, and based on a review of the consolidated annual report of the Kapitalska družba Group for 2018 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 2018 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 the Kapitalska družba Group for 2018, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana. The Supervisory Board finds that the auditor performed its task in accordance with the law, auditing rules and international auditing standards. The Supervisory Board has no remarks regarding the audit report.

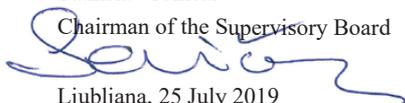
c) Decision regarding the approval of the consolidated annual report for 2018

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 2018.

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 2018 financial year pursuant to the provision of Article 294 of the ZGD-1.

Stanislav Seničar
Chairman of the Supervisory Board

A handwritten signature in blue ink, appearing to read 'Seničar', written over the printed name and title.

Ljubljana, 25 July 2019



A good mosaic comes from a multitude of pieces, delicately assembled into a whole. Each part has its own mission and is a key building block of the final image.



Business Report

4

Organisational structure of the Kapitalska družba Group

The Kapitalska družba Group comprises the parent company Kapitalska družba and two subsidiaries: Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o.

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

4.1 REPORTING ON EMPLOYEES

At the end of 2018 the Kapitalska družba Group had 119 employees broken down as follows: 59 employees at Kapitalska družba and 60 employees at Modra zavarovalnica.

Table 1: Number of employees in the Kapitalska družba Group

	Balance as at 31 December 2018	Balance as at 31 December 2017
Kapitalska družba Group	119	119

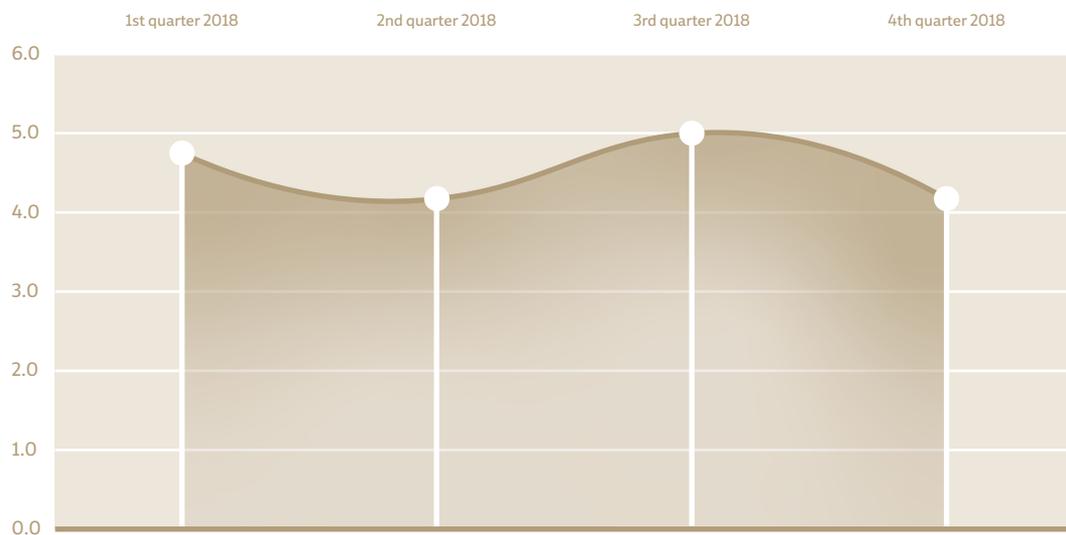
Operating environment

5.1 ECONOMIC ENVIRONMENT IN SLOVENIA

5.1.1 Gross domestic product

Gross domestic product (GDP) measured in current prices amounted to EUR 45.9 billion in 2018, and was up by 4.1% in the final quarter of 2018 relative to the final quarter of the previous year. GDP adjusted for the season and number of working days was up by 0.8% in the final quarter of 2018 relative to the previous quarter and by 3.6% relative to the same period the previous year.

Figure 1: Real year-on-year growth in GDP by quarter in 2018 (in %)



Source: Statistical Office of the Republic of Slovenia

5.1.2 Inflation

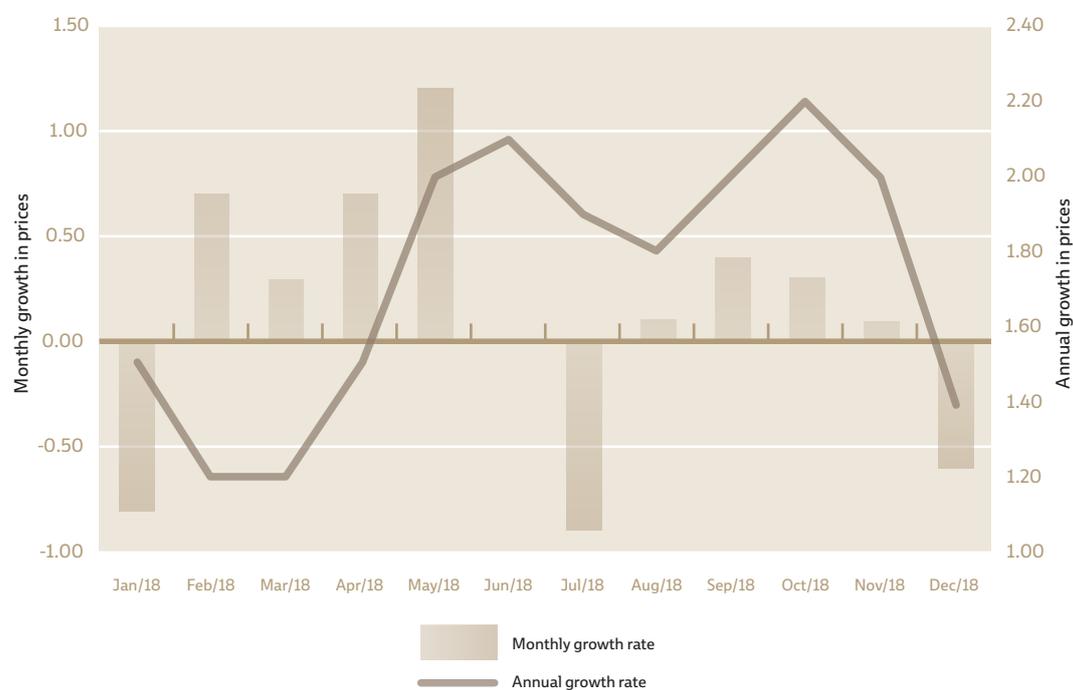
Growth in consumer prices was 1.4% in 2018, while average 12-month price growth was 1.7%.

The main factor in inflation in 2018 was rising energy prices, which contributed a total of 0.5 percentage points. Recording the highest growth in prices amongst energy products was thermal energy (the prices of which were up by 14.8%), followed by solid fuels (12.0% growth in prices) and liquid fuels (10.4% growth in prices). Electricity recorded the lowest price growth amongst energy products, at 3.3%.

The main factor in the decline in headline inflation in 2018 were car prices, which contributed 0.2 percentage points to that decrease. Car prices fell by an average of 2.8%.

The prices of the following other categories of products and services rose on average in 2018: services (by 3.0%), merchandise (by 0.7%) and goods for daily consumption (by 1.5%). The prices of consumer durables and semi-durable goods were down by 1.5% and 0.3% respectively.

Figure 2: Change in monthly and annual growth in consumer prices in 2018 (in %)

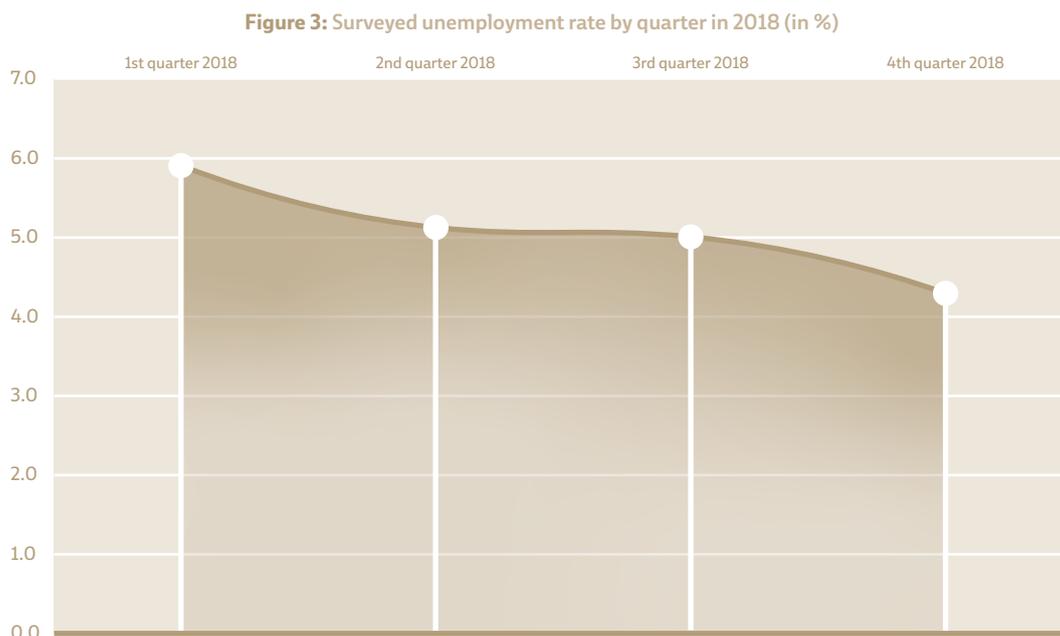


Source: Statistical Office of the Republic of Slovenia

5.1.3 Employment and wages

The surveyed unemployment rate stood at 4.4% in the final quarter of 2018, compared with 5.8% during the same period in 2017. The workforce in employment stood at 984 thousand during the final quarter of 2018, an increase of 1.2% relative to the previous year, when that figure was 972 thousand. The active population was 1,030 thousand, a decrease of 0.2% relative to the previous year, when the active population totalled 1,032 thousand.

The average monthly gross wage was EUR 1,782.12 in December 2018, while the net wage was EUR 1,162.67. On an annual basis, the average monthly gross wage was EUR 1,681.15 in 2018, while the net wage was EUR 1,092.47.



Source: Statistical Office of the Republic of Slovenia

5.2 DEVELOPMENTS ON THE FINANCIAL MARKETS

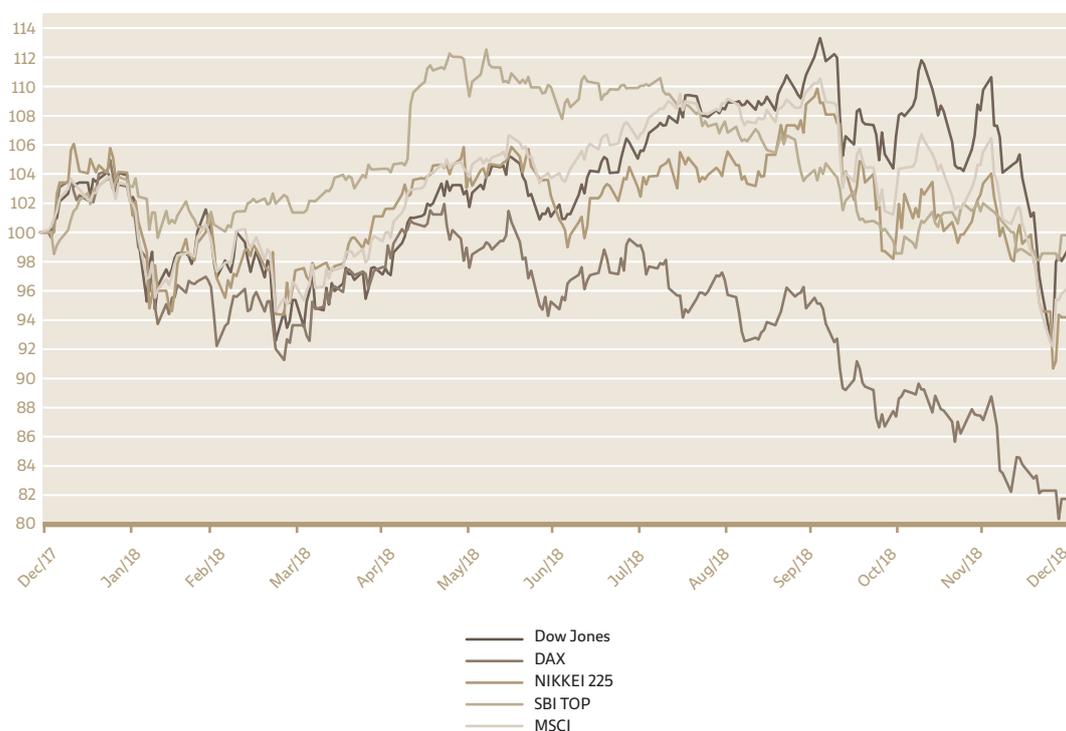
5.2.1 Capital market

5.2.1.1 Equity market

The values of all presented share indices measured in euros fell in 2018. The MSCI World Index was down by 4.17%, while the US Dow Jones lost 0.93% of its value, the Japanese Nikkei 225 lost 5.80% and the German DAX lost 18.26%, all measured in euros. The Slovenian SBI TOP lost 0.18% of its value during 2018.

At 5,427.54 points, the MSCI World Index achieved its highest value (measured in euros) in 2018 at the beginning of October, and its lowest value of 4,520.09 points at the end of December. The MSCI World Index lost 12.93% of its value (measured in euros) from its highest value in 2018 until the end of the year.

Figure 4: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2018 in euros (index: 31 December 2017 = 100)



Source: Bloomberg

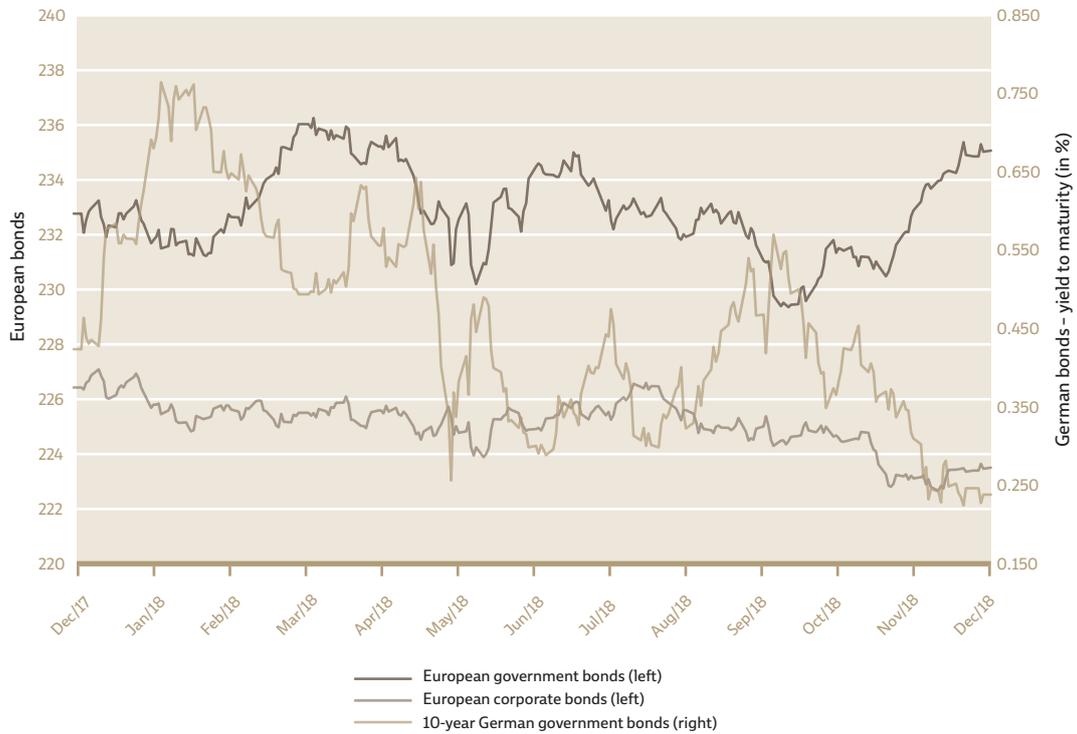
5.2.1.2 Debt market

Viewed in relative terms, the monetary policies of major central banks remained loose in 2018. We did, however, witness a gradual tightening of monetary policy. That tightening was most evident at the US Federal Reserve (FED), while the European Central Bank (ECB), Bank of England and Bank of Canada all began to normalise monetary policy. The US Federal Reserve (FED) began implementing a restrictive monetary policy in December 2015. It raised its benchmark interest rate four times in 2018, with that rate now in the range of 2.25% to 2.5%. Since its last rate hike in December 2018, the FED has issued various statements that have calmed the increasingly fractious capital markets, as well as the domestic and wider economic and political public. The FED's statements indicated that it will closely monitor both the domestic and international economic and political situation in 2019. Through its statements, the FED made it clear to the professional public that future hikes in the benchmark interest rate will be conditional on a stable domestic and international economic situation, and on conditions on the capital markets. The Bank of England also raised its interest rate in 2018, while the ECB did not raise any of the three short-term reference interest rates in 2018. The ECB adopted a decision to wind up its sovereign and corporate bond purchase programme, effective 1 January 2019, but will continue to reinvest all maturing annuities and principal on bonds purchased in its quantitative easing programme. The Bank of Japan did not raise its interest rate in 2018, with that rate remaining -0.10%, the same as the rate throughout all of 2017. Amongst major central banks, the Bank of Canada also raised its interest rate in 2018, three times, from 1.00% to 1.75%. The reference interbank interest rate for the euro area, the six-month EURIBOR, fluctuated between -0.279% and -0.236% in 2018. The ECB's key interest rate was 0% in 2018, while the interest rate on the deposit facility, the rate at which excess liquidity placed at the ECB bears interest, stood at -0.4% in 2018.

The yield to maturity on 10-year German government bonds fluctuated in 2018 between its lowest value of 0.228% in December 2018 and its highest value of 0.767% in February 2018.

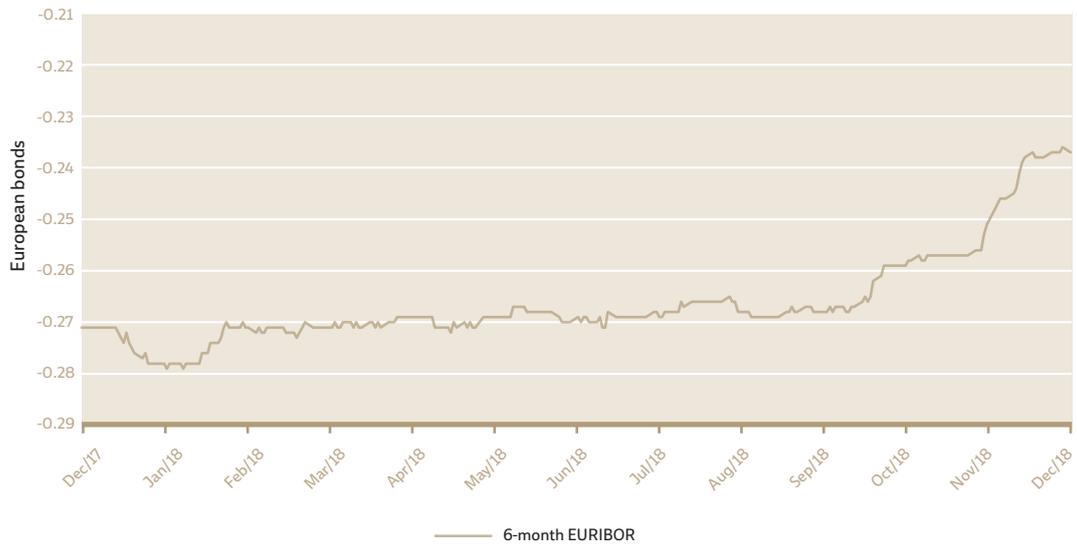
The IBOXX EUR Sovereigns TR government bond index gained 0.99% in 2018, while the IBOXX EUR Corporates TR corporate bond index lost 1.29%

Figure 5: Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR Index) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR Index) and yield to maturity on ten-year German government bonds in 2018



Source: Bloomberg

Figure 6: Change in EURIBOR in 2018



Source: Bloomberg

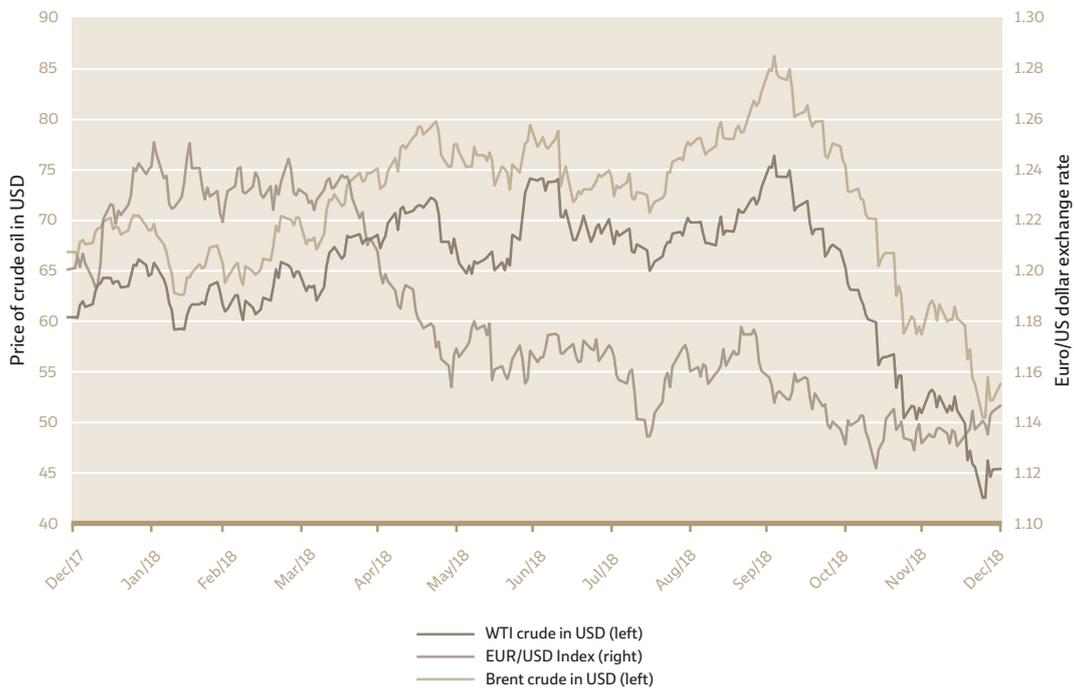
5.2.2 Oil prices and exchange rates

The price of West Texas Intermediate (WTI)⁵ crude oil fell by 24.8% in 2018 to stand at USD 45.41 per barrel at the end of the year. The average price of West Texas Intermediate (WTI) crude oil was USD 64.88 per barrel in 2018.

The price of Brent crude oil⁶ fell by 19.6% in 2018, measured in US dollars, to stand at USD 53.80 per barrel at the end of the year. The average price of Brent crude oil was USD 71.67 per barrel in 2018.

The euro/US dollar exchange rate fluctuated between 1.1218 and 1.2510 in 2018, and ended the year at 1.1467 and averaged 1.1809 during 2018.

Figure 7: Movement in prices of WTI crude and North Sea Brent crude (in USD per 159-litre barrel), and the euro/US dollar exchange rate in 2018



Source: Bloomberg

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

6 Kapitalka družba monitors movement in the price of Brent crude oil using the maturity of the first generic future transaction in the Bloomberg system, designated Co1 COMB COMDTY.

Performance of the Kapitalska družba Group in 2018

The Kapitalska družba Group comprises the parent company Kapitalska družba and two subsidiaries: Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o. Both of the aforementioned companies are presented in more detail below in Note no. 17.

6.1 KAPITALSKA DRUŽBA, D. D.

6.1.1 Investment management

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

- capital investments,
- waived securities,⁷ 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 2018 and 31 December 2017 with regard to the method of management

TYPE OF INVESTMENT	Value	Proportion	Value	Proportion
	(in EUR 000)		(in EUR 000)	
	2018		2017	
Capital investments	529,717	56.3%	552,479	57.3%
Strategic investments ⁸	191,472	20.3%	193,449	20.1%
Material investments	277,426	29.5%	297,748	30.9%
Portfolio investments	59,396	6.3%	59,859	6.2%
Investments in bankruptcy or liquidation	1,423	0.2%	1,423	0.1%

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

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

TYPE OF INVESTMENT	2018		2017	
	Value (in EUR 000)	Proportion	Value (in EUR 000)	Proportion
Waived securities	231	0.0%	217	0.0%
Portfolio investments	411,401	43.7%	411,011	42.7%
Equity portfolio investments	243,370	25.8%	240,054	24.9%
Debt portfolio investments	80,723	8.6%	84,436	8.8%
Money market ⁹	52,358	5.6%	52,641	5.5%
Investments in financial claims	34,950	3.7%	33,880	3.5%
Total financial assets	941,349	100.0%	963,707	100.0%

6.1.1.1 Capital investment management

6.1.1.1.1 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 39 such investments at the end of 2018. Of those investments, Kapitalska družba had 34 so-called active investments, including 28 investments in public limited companies and six investments in limited liability companies. In addition to active investments, Kapitalska družba also held four investments in bankruptcy proceedings and one investment in liquidation proceedings.

The value of capital investments was EUR 529,717 thousand as at 31 December 2018, a decrease of EUR 22,762 thousand on the previous year.

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

Table 3: Breakdown of Kapitalska družba's capital investments as at 31 December 2018 and 31 December 2017 in accordance with the Decree on the Strategy for Managing State Capital Investments

TYPE OF INVESTMENT	Number of investments	2018		2017		
		Value (in EUR 000)	Proportion of capital investment portfolio	Value (in EUR 000)	Proportion of capital investment portfolio	
Strategic investments ¹⁰	10	191,472	36.1%	10	193,449	35.0%
Material investments	7	277,426	52.4%	9	297,748	53.9%
Portfolio investments ¹¹	17	59,396	11.2%	16	59,859	10.8%
Investments in bankruptcy or liquidation	5	1,423	0.3%	5	1,423	0.3%
Total capital investments	39	529,717	100.0%	40	552,479	100.0%

9 Money market investments also include cash, which totalled EUR 18,182 thousand as at 31 December 2018.

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

11 Kapitalska družba holds both preference shares and ordinary shares in one company classified in portfolio investments. Both forms of shares are deemed one investment in the aforementioned company.

Table 4: Ten largest capital investments of Kapitalska družba by value as at 31 December 2018

Seq. no.	COMPANY NAME	Proportion of company's share capital	in %
1.	Krka, d. d.	10.65	
2.	Modra zavarovalnica, d. d.	100.00	
3.	Petrol, d. d.	8.27	
4.	Telekom Slovenije, d. d.	5.59	
5.	Luka Koper, d. d.	4.98	
6.	Loterija Slovenije, d. d.	25.00	
7.	Sava, d. d.	27.81	
8.	Hit, d. d.	20.32	
9.	Union hoteli, d. d.	18.75	
10.	Terme Olimia, d. d.	24.79	

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 26 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 2018

OWNERSHIP STAKE IN SHARE CAPITAL	Active investments	Investments in bankruptcy or liquidation
Up to 9.99%	19	2
From 10.00% to 19.99%	7	1
From 20.00% to 49.99% (associate)	6	2
From 50.00% to 100.00% (subsidiary)	2	0
Total number of investments	34	5

6.1.1.1.2 Sales and deletion of companies

With the aim of ensuring the transparency of sales procedures and the equal treatment of bidders, the sale of capital investments is carried out via public tender. Kapitalska družba published one public tender for the purchase of shares and participating interests in 2018.

Kapitalska družba received 18 bids from buyers for the purchase of shares and participating interests relating to three different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low.

Kapitalska družba sold two capital investments in their entirety in 2018 in the total amount of EUR 48,410 thousand, comprising the entire capital investment in Geoplin, d. o. o., which was sold on the basis of an agreement concluded in 2017, and a capital investment in Gorenje, d. d., which was sold based on a takeover bid. A portion of the capital investment in Casino Bled, d. d. was also sold.

Kapitalska družba also has an agreement from 2017 on the instalment sale of shares in KDD, d. d. for consideration in the amount of EUR 675 thousand, with the final payment falling due in 2019.

One sale was in progress as at 31 December 2018.

6.1.1.1.3 Purchases of companies

Kapitalska družba participated in the recapitalisation of Sava, d. d. in 2018, when it paid up EUR 2,449 thousand for new shares, bringing its participating interest in the share capital of the aforementioned company to 27.81%. Together with Modra zavarovalnica, the Company established Hotelske nepremičnine, in which each holds a participating interest of 50% of share capital after investing EUR 4,963 thousand.

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

6.1.1.1.4 Dividends of domestic companies

Kapitalska družba recorded EUR 24,647 thousand in domestic corporate dividends in 2018, an increase of EUR 3,280 thousand relative to 2017, when dividends totalled EUR 21,367 thousand. The ten largest capital investments in terms of dividends accounted for 98.8% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2018 was approved by the general meetings of 23 companies in which Kapitalska družba held a capital investment, compared with 2017, when the payment of dividends was approved by the general meetings of 25 companies in which Kapitalska družba held a capital investment.

Table 6: Highest dividend income received in 2018 and 2017

ISSUER	Dividends per share in 2018 (EUR)	Dividends per share in 2017 (EUR)	Total dividends in 2018 (in EUR 000)	Total dividends in 2017 (in EUR 000)
Krka, d. d.	2.90	2.65	10,130	9,257
Telekom Slovenije, d. d.	14.30	5.00	5,222	1,826
Petrol, d. d.	16.00	12.60	2,762	2,175
Luka Koper, d. d.	1.23	1.13	857	787
Perutnina Ptuj, d. d.	0.84017	0.00	493	0
Elan Inventa, d. o. o.	*	*	199	3
Elektro Maribor, d. d.	0.13	0.12	70	65

* Kapitalska družba's participating interest in Elan Inventa, d. o. o. is 19.8808%.

Kapitalska družba also received dividends in the amount of EUR 218 thousand in 2018 from two companies in its portfolio as the result of claims received for the allocation of distributable profit from previous years.

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

ISSUER	Dividends for the year	Dividends per share (EUR)	Total dividends (in EUR 000)
Terme Čatež, d. d.	Distributable profit for 2013	1.00	118
Perutnina Ptuj, d. d.	Distributable profit for 2016	0.17	100

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

In connection with the management of its capital investments in the period 1 January 2018 to 31 December 2018, Kapitalska družba applied, *mutatis mutandis*, the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014. In May 2017, SDH adopted certain amendments to that document (hereinafter: the Code).

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

In addition to the Code, Kapitalska družba also applied its own bases for voting at general meetings when managing capital investments in 2018. 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 58 general meetings of shareholders or partners of companies in 2018. Representatives of Kapitalska družba participated in 24 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 32 general meetings in the name and on account of the latter. Employees of Kapitalska družba were authorised to participate and exercise all shareholder rights, except voting rights. Two general meetings were cancelled prior to the date of the meeting.

Table 8: Participation at general meetings

FORM OF PARTICIPATION	Number of general meetings
Participation and voting by employees of Kapitalska družba	24
Participation by employees of Kapitalska družba; voting by SDH	32
Cancelled general meetings	2
Total	58

When assessing proposed general meeting resolutions and formulating opinions for voting at general meetings in 2018, 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 as set out in the Code, and took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD) as regards the earnings and other rights of management boards, executive directors and the management staff of companies.

Kapitalska družba acted in accordance with the Code at all general meetings attended by its representatives in 2018. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

6.1.1.1.6 Code of Conduct of the Kapitalska družba Group

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

The Guidelines on the Reporting of Subsidiaries to the Parent Company also represent an integral part of the 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.

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

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

The ZSDH-1 defines Kapitalska družba's maximum annual obligation to provide funding to the ZPIZ: based on the provision of the third paragraph of Article 52 of the ZSDH-1, the Company must 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 that adjustment, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2018 in accordance with the ZIPRS1819.

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

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

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

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

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

With regard to waived securities, Kapitalska družba received 134 bids from buyers for the purchase of shares and participating interests relating to 55 different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low. In 2018, Kapitalska družba published two public tenders in connection with waived

securities for the purchase of shares and participating interests.

During 2018, the Company held 135 investments in different issuers as the result of waived securities. Kapitalska družba already has 14 of those investments in its underlying portfolio. Securities obtained from four issuers (KD Group, d. d., Kompas RAC, d. d., Ljubljana (in liquidation), Pivka, pooblaščenka, d. d. and Zdravilišče Rogaška, d. d.) include both ordinary shares and preference shares, as well as bonds.

During the period, Kapitalska družba sold 21 investments acquired in connection with waived securities in the total amount of EUR 13 thousand, as follows:

- three investments (Agis Technologies, d. d., Koroške pekarne, d. d. and Sivent, d. d.) were sold through the conclusion of an agreement;
- six investments (Certa, d. d., Certa holding, d. d., Gea tovarna olja, d. d., Gorenje, d. d., RTC Krvavec, d. d. and Terme Dobrna, d. d.) were sold through the acceptance of a takeover bid;
- eight investments (AMZS, d. d., Galex, d. d., GG Maribor, d. d. (in liquidation), Goriške opekarne, d. d., ITEO, d. d., Sivent, d. d., Vizija holding ena, k. d. d. and Vizija holding, k. d. d.) were sold based on the squeeze-out of minority shareholders; and
- four investments (Doksa, d. d. (in bankruptcy), IMP TIO, d. d. (in liquidation), Lipa Ajdovščina, d. d. (in liquidation) and Prophetes, d. d. (in bankruptcy)) were deleted from AJ PES records.

Kapitalska družba received dividends in the amount of EUR 6,006 from waived securities in 2018.

Due to limitations on the exercising of voting rights, the Company only participates exceptionally in the general meetings of companies that it acquired on the basis of Article 48a of the ZNVP-1. It decides on its potential participation at a general meeting based on the size of its acquired participating interest and on an assessment of the matters to be decided on by a company's general meeting.

During the previous year, Kapitalska družba participated in three general meetings of shareholders (twice at Lameta, d. d. and once at Sivent, d. d.), at which it did not exercise its voting rights in accordance with the law.

6.1.1.3 Management of portfolio investments

The financial markets were characterised in 2018 by two major corrections on the equities market, in February and during the second half of December, and by increased volatility. Practically all share indices ended the year in negative territory, while bond indices (particularly the government bond index) ended the year with slightly better results. From the beginning of the year until mid-October 2018, we witnessed rising bond yields (i.e. falling prices), and the significant widening of the credit spreads on both corporate and government bonds. A sharp positive reversal in government bonds was recorded in mid-October 2018, with those bonds gaining significantly in value (i.e. yields to maturity fell) until the end of the year, primarily due to fears regarding the cooling of the global economy and uncertainty about the trade war between the US and China.

The year was characterised (as expected) by the tightening of the monetary policies of major central banks, a trade war and forecasts of lower global economic growth, and by events in Italy and Brexit in Europe.

Kapitalska družba uses active and passive strategies in the management of portfolio investments, where it combines the top-down approach with the bottom-up approach. Decisions regarding the composition of the portfolio by investment category (top-down approach) are made by the investment committee, which meets at least twice a year.

The comparable share portfolio index is the globally diversified share portfolio index, while the comparable bond portfolio indices (government and corporate bonds) are the indices of diversified European government and corporate bonds.

There was no significant change in the value of portfolio investments in 2018. The structure of the portfolio changed in such a way that the proportion of equities and money market instruments was down, while the proportion of corporate and government bonds was up. The proportion of Kapitalska družba's portfolio investments accounted for by equity investments fell from 58.7% at the beginning of 2018 to 55.2% at the end of the year, which given the target structure of the portfolio represents a neutral position. We shortened the duration of the debt securities portfolio in 2018 and partially reduced the Company's exposure to corporate bonds with a sub-investment-grade rating. The portfolio of money market instruments represents the most important element of portfolio investments and primarily comprises investments in the form of cash deposits at Slovenian banks. The majority of those

deposits are placed for the purpose of covering Kapitalska družba's annual obligation to the Pension and Disability Insurance Institute of Slovenia.

The five largest investments accounted for a total of 46% of equity portfolio investments under management as at 31 December 2018. These investments included index funds that track the MSCI World Index (SMSWLD GY, XMWO GY and XDWD GY), an index fund that tracks the technology sector index (XLK US) and an index fund that tracks the share index of large Chinese issuers (XLK US).

The five largest investments, together with accrued interest, accounted for a total of 47% of debt portfolio investments as at 31 December 2018. The top four investments comprise different issues of Slovenian government bonds (nos. 66, 67, 69 and 70), while the fifth largest investment is an index fund of European government bonds (XGLE GY).

6.1.1.3.1 Equity portfolio investments

Table 9: Composition of equity portfolio investments as at 31 December 2018 and 31 December 2017

TYPE OF INVESTMENT	Value	Proportion of equity	Value	Proportion of equity
	(in EUR 000)	portfolio investments	(in EUR 000)	portfolio investments
	2018		2017	
Foreign shares	1,529	0.6%	1,947	0.8%
Investment funds	241,841	99.4%	238,107	99.2%
- domestic investment funds	12	0.0%	13	0.0%
- foreign investment funds	241,829	99.4%	238,094	99.2%
Total equity portfolio investments	243,370	100.0%	240,054	100.0%

6.1.1.3.2 Debt portfolio investments

Table 10: Composition of debt investments as at 31 December 2018 and 31 December 2017

TYPE OF INVESTMENT	Value	Proportion of debt	Value	Proportion of debt
	(in EUR 000)	portfolio investments	(in EUR 000)	portfolio investments
	2018		2017	
Domestic bonds	71,010	88.0%	73,142	86.6%
- domestic government bonds	60,817	75.4%	62,558	74.1%
- domestic corporate and bank bonds	10,193	12.6%	10,584	12.5%
Foreign bonds	7,279	9.0%	9,056	10.7%
- foreign government bonds	3,261	4.0%	4,931	5.8%
- foreign corporate and bank bonds	4,018	5.0%	4,125	4.9%
Claims for interest	2,434	3.0%	2,238	2.7%
Total debt portfolio investments	80,723	100.0%	84,436	100.0%

6.1.1.3.3 Money market investments

Table 11: Composition of money market investments as at 31 December 2018 and 31 December 2017

TYPE OF INVESTMENT	Value	Proportion of the	Value	Proportion of the
	(in EUR 000)	portfolio of money market investments	(in EUR 000)	portfolio of money market investments
	2018		2017	
Loans granted (deposits)	32,328	61.7%	18,917	35.9%
Cash and cash equivalents	18,182	34.8%	33,127	62.9%
Cash on transaction accounts at banks	1,973	3.8%	4,105	7.8%
Euro call deposits	16,209	31.0%	29,022	55.1%
Commercial paper	1,848	3.5%	597	1.2%
Total money market investments	52,358	100.0%	52,641	100.0%

6.1.2 Transfers to the Pension and Disability Insurance Institute of Slovenia

In accordance with the third paragraph of Article 52 of the ZSDH-1, Kapitalska družba's annual obligation to the ZPIZ depends on the amount of the adjustment of pensions, which is limited to EUR 50 million. In accordance with the ZIPRS1819, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2018. Kapitalska družba has transferred the cumulative amount of EUR 814,321 thousand to the budget of the ZPIZ.

6.1.3 Investment property

The Kapitalska družba Group holds investment property in the following commercial buildings:

- Stekleni dvor, Dunajska cesta 119, Ljubljana,
- Glavarjeva rezidenca, Pegamova ulica G, Ljubljana,
- Bežigranski dvor, Dunajska cesta 56 and 58, and Kržičeva ulica 3, Ljubljana,
- Nebotičnik, Štefanova ulica 1, 3 and 5, Ljubljana,
- Smelt, Dunajska cesta 160, Ljubljana, and
- San Simon Hotel Resort, Morova ulica 6, 6310 Izola.

The majority of investment property was leased out as at 31 December 2018.

6.1.4 Pension fund management

6.1.4.1 Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia

6.1.4.1.1 Operations of the SODPZ

Pursuant to the ZPIZ-2, 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 provisions of the ZPIZ- 2

The collection of contributions on the personal accounts of policyholders in 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 revenue generated by the management of those funds, and are earmarked exclusively to cover liabilities to occupational insurance policyholders.

Occupational insurance is provided on the basis of the occupational insurance pension plan (hereinafter: pension plan), which was drafted in accordance with the provisions of the ZPIZ-2 and amended in 2018 due to a change in the contribution rate, and a reduction in the management and subscription fees.

Amendments to the pension plan were approved by the Minister of Labour, Family, Social Affairs and Equal Opportunities through a decision issued on 29 November 2017. That plan entered into force on 1 January 2018, with the exception of Article 29, which has been in force since 1 February 2018. The amended rules on the management of the SODPZ (to which the Securities Market Agency gave its consent on 20 December 2017) also entered into force on 1 February 2018.

In accordance with the amended pension plan, a differentiated contribution rate is in force for the period from 1 January 2018 to 30 June 2019. The contribution rate remains 8% for policyholders whose insurance period was increased by a bonus until 31 December 2000. For policyholders whose insurance period was not increased by a bonus until 31 December 2000, the contribution rate is as follows: 8.2% for positions in categories 1 and 2; 8.4% for positions in category 3; and 8.8% for positions in categories 4 and 5.

The SODPZ had 47,628 policyholders as at 31 December 2018. The actual return of the SODPZ was -1.30% in 2018, compared with the guaranteed return of 0.48% in the same period. The actual return of the SODPZ was reduced by the creation of solidarity reserves because the latter are deducted in the calculation of the net value of SODPZ assets. The balance of solidarity reserves was EUR 3,281,573 as at 31 December 2018. The net value of SODPZ assets was EUR 718,898 thousand on the final accounting day of 2018 (31 December 2018), and exceeded the guaranteed value of assets (EUR 677,770 thousand) by EUR 41,128 thousand. The SODPZ held a total of 837,059,819 units in circulation at the end of 2018.

As the manager of the SODPZ and in accordance with the pension plan, Kapitalaska družba was entitled in 2018 to the reimbursement of subscription and redemption fees, to an annual management fee and fees for the payment of occupational pensions. The percentages of subscription and management fees were lowered, effective 1 February 2018, under the new pension plan. Subscription fees are charged as a percentage of incoming payments, which was 2.3% until 31 January 2018 and 2.0% from 1 February 2018 on. Redemption fees are charged as a percentage of outgoing payments. That percentage was unchanged under the new pension plan and was 0.5% throughout 2018. Redemption fees are not charged in the event of a transfer to supplementary insurance or due to the buyout of years of service. Fees for the payment of occupational pensions were unchanged under the new pension plan and amounted to 0.5% throughout 2018. Taking into account the net value of SODPZ assets, the maximum annual management fee was 1.0% of the average annual net value of fund assets until 31 January 2018, and was 0.88% of the average annual net value of fund assets from 1 February 2018 on.

Kapitalaska družba's revenue from management of the SODPZ amounted to EUR 7,366 thousand in 2018, broken down as follows: EUR 6,297 thousand in management fees, EUR 1,046 thousand in subscription fees, EUR 5 thousand in redemption fees and EUR 18 thousand in fees for the payment of occupational pensions. The reason for the lower revenue in 2018 relative to the previous year lies in the lowering of the percentages of subscription and management fees, effective 1 February 2018.

Table 12: Kapitalaska družba's revenue from management of the SODPZ in 2018 and 2017

	in EUR 000	
REVENUE FROM MANAGEMENT ACTIVITIES	2018	2017
Management fees	6,297	6,748
Subscription fees	1,046	1,144
Redemption fees	5	5
Fees for the payment of occupational pensions	18	21
Total	7,366	7,918

6.1.4.1.2 SODPZ investments

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

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

The main objective of management in 2018 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 performance, with the fund's guaranteed return and with the success of other mutual pension fund managers.

The value of SODPZ assets stood at EUR 724,361 thousand as at 31 December 2018, an increase of 3.3% relative to 2017. The overall portfolio comprises a globally diversified portfolio of equity and debt investments, with investments in debt securities accounting for the highest proportion of assets.

Table 13: Composition of SODPZ investments as at 31 December 2018 and 31 December 2017

CLASS	2018		2017	
	Value (in EUR 000)	Proportion	Value (in EUR 000)	Proportion
Shares	4,885	0.7%	5,070	0.7%
Debt securities	303,558	41.9%	296,090	42.2%
Deposits and loans	96,862	13.4%	150,365	21.5%
Investment coupons	284,893	39.3%	197,524	28.2%
Cash and cash equivalents	34,089	4.7%	52,106	7.4%
Receivables	74	0.0%	30	0.0%
Total	724,361	100.0%	701,185	100.0%

The fund's exposure to currency risk was down slightly in 2018, as the proportion of securities denominated in foreign currencies declined from 2.9% to 1.1%, 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.

6.1.4.2 Activities in the provision of occupational insurance in 2018

Based on the decision under which the Ministry of Labour, Family, Social Affairs and Equal Opportunities approved amendments to the occupational pension insurance plan, those changes entered into force on 1 January 2018, with the exception of the provision regarding costs reimbursed to the manager, which entered into force on 1 February 2018. The new pension plan resulted in a change in the contribution rate (differentiated contribution rate), and lower subscription and management fees.

Kapitalska družba successfully replaced previous IT support in 2018 and began using new application support for the management of SODPZ policyholder records.

The provision of occupational insurance continued in 2018, together with the updating of SODPZ business processes, in particular occupational retirement and the payment of occupational pensions.

Using all communication channels, Kapitalska družba regularly notified policyholders and liable persons with regard to activities and changes in the area of occupational insurance, and communicated with all other stakeholders in the area of occupational insurance and notified them about activities and developments in the resolution of current occupational insurance issues. Kapitalska družba also regularly informed the SODPZ Committee, which met three times in 2018, with regard to all activities and challenges in the area of occupational insurance.

6.1.4.3 Bridging insurance fund for professional athletes

The bridging insurance fund for professional athletes or bridging fund for athletes (PSŠ) was established on 1 September 2016 with the aim of ensuring the social security of professional athletes following the end of their active sporting career.

In accordance with the Bridging Insurance for Professional Athletes Act (ZPZPŠ-1), Kapitalska družba carried out all necessary activities for the establishment and functioning of the PSŠ. Despite efforts to the contrary, no policyholders were included in the PSŠ and no contributions for bridging insurance were received by 30 June 2018.

Reasons for the liquidation of the PSŠ thus arose on 30 June 2018. Kapitalska družba informed the Securities Market Agency and the Ministry of Education, Science and Sport of the reasons for the liquidation of the PSŠ. The PSŠ was deleted from the Business Register of Slovenia at the Agency of the Republic of Slovenia for Public Records and Services on 19 July 2018, bringing to a conclusion the liquidation of the PSŠ.

6.2 MODRA ZAVAROVALNICA, D. D.

6.2.1 Management of mutual equity pension funds

6.2.1.1 Mutual pension funds under management

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 288 thousand individuals held savings in the company's mutual pension funds in December 2018, while the assets of the aforementioned funds amounted to almost EUR 1.06 billion. Paid-in supplementary pension insurance premiums, excluding transfers of assets between the KVPS and MKPS, totalled EUR 98.5 million in 2018.

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

- the Umbrella Pension Fund for Public-Sector Employees (KPSJU),
- the Mutual Equity Pension Fund (KVPS),
- the Modri Umbrella Pension Fund (MKPS), and
- the First Pension Fund of the Republic of Slovenia (PPS).

Table 14: Data regarding mutual pension funds managed by Modra zavarovalnica as at 31 December 2018

FUND	Number of participants/ policyholders	Number of employers/liable persons	Amount of assets under management (EUR million)
KVPS	24,878	178	176.8
KPSJU	228,741	1,866	786.0
MKPS	14,992	204	75.5
PPS	19,716	0	19.1
Total	288,327	2,248	1,057.4

Pursuant to Article 313 of the ZPIZ-2, Modra zavarovalnica must create provisions if the actual net value of pension fund assets is lower than the guaranteed value of fund assets during the accounting period by charging equity in an amount equal to the sum of deficits in the value of a participant's assets up to the guaranteed and actual value of that person's assets. At the end of 2018, Modra zavarovalnica created provisions in the amount of EUR 9,888 thousand for failure to achieve the guaranteed return on mutual pension funds. EUR 9,328 thousand of that amount related to the PPS.

6.2.1.2 Umbrella Pension Fund for Public-Sector Employees

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

- a dynamic public-sector sub-fund (DPJU) intended for participants up to 50 years of age,
- a conservative public-sector sub-fund (PPJU) intended for middle-aged participants aged 50 to 60 years, and
- a guaranteed public-sector sub-fund (ZPJU) intended for participants over 60 years of age.

The KPSJU is a closed mutual pension fund intended exclusively for public-sector employees. It was established for the purpose of collecting assets from income on the accounts of public-sector employees, and through the management of those assets ensures the right to a supplementary old-age pension and other rights defined in the pension plan. In addition to the premiums paid into the fund by employers, public-sector employees may also pay premiums themselves, thus ensuring a higher supplementary pension and the exploitation of tax relief.

On the basis of the PNJU K pension plan and KPSJU rules, Modra zavarovalnica is entitled to subscription and management fees associated with the KPSJU as the manager of that fund. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and are transferred to the fund manager's account. The fee amounted to 0.5% in 2018. The annual management fee for the KPSJU is 0.5% of the average annual net value of KPSJU assets. All other operating costs of the fund are borne by Modra zavarovalnica.

The KPSJU is the largest Slovenian pension fund, both in terms of the number of policyholders and assets under management. The aforementioned fund had 228,741 participants and assets totalling EUR 786 million at the end of 2018.

Supplementary pension insurance for public-sector employees may be terminated under regular or extraordinary circumstances. Regular termination of collective insurance under the PNJU K pension plan takes effect when a participant of the KPSJU exercises their right to a supplementary old-age pension, or the right to an early supplementary old-age pension or pay-out the PNJU K, while a public-sector employee may exercise their right to extraordinary termination if a public-sector employment contract was terminated prior to 31 December 2016 and 120 months have passed since inclusion, and in the event of payments to beneficiaries or heirs in case of death.

6.2.1.3 Mutual Equity Pension Fund

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

In accordance with the PN1 P and PN1 K pension plans and the KVPS rules, the fund manager is entitled to subscription, redemption and fund management fees. In 2018, 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 2018. Redemption fees are charged as a percentage of the redemption value of funds and amounted to 1% in 2018.

Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a participant obtains the right to a pension under compulsory insurance or exercises the right to payment in accordance with Article 221 of the ZPIZ-2. Extraordinary termination applies when a fund participant withdraws from the insurance

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

6.2.1.4 First Pension Fund of the Republic of Slovenia

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

Modra zavarovalnica is entitled to an annual fee for managing the PPS, which amounted to 1% of the average annual net value of assets in 2018. It is also entitled to a redemption fee, which is calculated as a percentage of the redemption value paid to heirs.

6.2.1.5 Modri Umbrella Pension Fund

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

The MKPS comprises three sub-funds that are created as separate assets, where each sub-fund defines its own investment objective and policy, and each sub-fund is intended for a target age group of participants.

- The Modri Dynamic Sub-Fund (MDP) is intended for younger participants up to 50 years of age and pursues a higher-risk investment policy.
- The Modri Conservative Sub-Fund (MPP) is intended for participants aged 50 to 60 years.
- The Modri Guaranteed Sub-Fund (MZP) is intended for participants above 60 years of age. As manager of the MZP, 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 2018. The annual management fee for the MKPS is 1% of the average annual net value of an individual sub-fund's assets.

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

6.2.2 Financial assets of Modra zavarovalnica

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

Table 15: Composition of Modra zavarovalnica's financial assets as at 31 December 2018

in EUR 000

FINANCIAL ASSETS	Own financial assets	Financial assets under the KS PPS	Financial assets under the KS MR	Financial assets under the KS MR II	Total
Investments in Group companies and associates	34,459	0	0	0	34,459
Financial assets	222,695	100,375	19,599	72,684	415,353
Cash and cash equivalents	1,744	609	450	862	3,665
Total	258,898	100,984	20,049	73,546	453,477

6.2.3 Management of guarantee funds for the payment of pension annuities

Modra zavarovalnica is the largest payer of supplementary pensions/pension annuities in Slovenia, and separately managed three guarantee funds in 2018 for the payment of pension annuities:

- the Modra Renta Guarantee Fund (KS MR), which collected insurance premiums from December 2011 to December 2015,
- the Modra Renta Guarantee Fund II (KS MR II), which was established on 1 January 2016 based on the ZPIZ-2. Since January 2016, assets are only paid into this fund and no longer into the Modra Renta Guarantee Fund, while annuities are paid from both funds, and
- the First Pension Fund Guarantee Fund (KS PPS), 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 20.4 million in supplementary pensions to 24,470 policyholders in 2018. A total of 14,144 policyholders received a pension annuity from supplementary pension insurance (Modra Renta and Modra Renta II), while 10,326 policyholders received a pension annuity from supplementary pension insurance in the scope of the First Pension Fund (in exchange for pension certificates).

Table 16: Basic data regarding the guarantee funds of Modra zavarovalnica

GUARANTEE FUND	No. of annuity recipients at the end of 2018	Assets under management (EUR million)	Expenses for annuities (EUR million)
KS MR	7,215	20.5	5.4
KS MR II	6,929	76.9	8.3
KS PPS	10,326	101.3	6.7
Total	24,470	198.7	20.4

6.2.3.1 Modra Renta Guarantee Fund

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

Payments were made to the KS MR until the end of 2015, while the KS MR has only paid lifetime pension annuities since 2016. When concluding an annuity pension insurance policy, each policyholder

may choose one form of lifetime annuity, and thus exercise their right to a supplementary old-age pension. When concluding an insurance policy, KS MR policyholders may choose between 24 different forms of supplementary pensions. Worthy of note amongst those are lifetime annuities with or without a guaranteed payment period, and accelerated annuities with a full or limited guarantee.

Table 17: Composition of KS MR assets as at 31 December 2018

ASSETS	in EUR 000
	Amount
Bonds	16,491
Investment claims	703
Treasury bills	199
Commercial paper	1,483
Investment coupons	723
Cash and cash equivalents	450
Other claims	472
Total	20,521

As at 31 December 2018, a total of 44% of KS MR assets were invested in domestic issuers, while 56% of all assets were invested in foreign issuers.

6.2.3.2 Modra Renta Guarantee Fund II

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

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

Modra zavarovalnica offers policyholders a wide range of different forms of pension annuities:

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

Since the KS MR II began functioning on 1 January 2016 until 31 December 2018, a total of 8,849 participants with accumulated assets in the amount of EUR 88,653 thousand had opted to receive a selected monthly pension annuity. The majority of policyholders selected accelerated annuity payments.

Table 18: Number of participants and amount paid into the KS MR II in 2018

PENSION FUND	Number of participants/ policyholders	Redemption value of assets (in EUR 000)
KVPS	369	4,228
KPSJU	2,980	22,954
MKPS	142	765
Pension funds of other managers	687	15,589
Total	4,178	43,536

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 61 years, while a total of 55% of all annuity recipients are female.

The KS MR II comprised 6,929 insurance policies as at 31 December 2018, while average accumulated assets per policyholder amounted to EUR 11,465.

In 2018, profit in the total amount EUR 50,235 was allocated to policyholders with a valid policy as at 31 December 2017, together with the balance of mathematical provisions, as a permanent increase in pension annuities. Increased pension annuities were paid in April 2018, together with the difference for all previously paid pension annuities in 2018.

Table 19: Composition of KS MR II assets as at 31 December 2018

ASSETS	in EUR 000 Amount
Bonds	40,365
Deposits	2,900
Investment claims	2,469
Commercial paper	2,841
Treasury bills	696
Investment coupons	23,413
Cash and cash equivalents	862
Other claims	3,400
Total	76,946

As at 31 December 2018, a total of 29% of KS MR II assets were invested in domestic issuers, while 71% of all assets were invested in foreign issuers.

6.2.3.3 First Pension Fund Guarantee Fund

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

Policyholders who receive a KS PPS pension annuity are entitled to the surplus return on the annuity fund over the guaranteed return in accordance with the general terms and conditions of supplementary pension insurance under the First Pension Fund of the Republic of Slovenia (conversion for pension certificates). The proportion of the surplus earmarked for the permanent increase in annuities is determined once a year by the fund manager's management board. The surplus return in the amount of EUR 2,148 thousand was allocated in 2018 for a permanent increase in annuities. All policyholders/recipients of KS PPS pension annuities who entered into an insurance policy by December 2017 in the form of a monthly or annual annuity received higher annuities in April. The difference for the period January to April 2018 was paid together with the April payment of increased annuities.

A total of 1,216 policyholders who reached the age of 60 years obtained the right to a pension annuity in 2018. Those persons paid a total of EUR 2,903 thousand into the KS PPS for supplementary pensions.

Table 20: Composition of KS PPS assets as at 31 December 2018

ASSETS	in EUR 000
	Amount
Shares	19,520
Bonds	71,632
Commercial paper	691
Deposits	2,304
Investment coupons	6,227
Cash and cash equivalents	609
Other claims	346
Total	101,329

As at 31 December 2018, a total of 51% of KS PPS assets were invested in domestic issuers, while 49% of all assets were invested in foreign issuers.

6.2.4 Management of own financial assets

Modra zavarovalnica's own financial assets totalled EUR 258,898 thousand at the end of 2018. The company breaks down its financial assets by the items shown in the table below. The largest proportion is accounted for by the portfolio of equity investments, followed by the portfolio of debt investments.

Table 21: Composition of Modra zavarovalnica's own assets as at 31 December 2018

FINANCIAL ASSETS	in EUR 000
	Amount
Equity portfolio investments	142,185
Equity non-portfolio investments	45,388
Portfolio of debt investments	69,581
Cash and cash equivalents	1,744
Total	258,898

6.2.4.1 Equity portfolio investments

Equities that are managed as a portfolio generally follow the composition of a global share index. This ensures a high level of diversification of investments and cost-efficient management. Diversification is

largely achieved by investing in funds that follow benchmark indices, while active deviations from those indices are achieved via direct investments in specific shares.

Table 22: Composition of equity portfolio investments as at 31 December 2018

INVESTMENT	in EUR 000
	Amount
Shares	27,797
Foreign shares	27,797
Investment funds	114,389
Domestic investment funds	4,294
Foreign investment funds	110,095
Total	142,186

The portfolio was most exposed to the information technology sector at the end of December 2018, followed by the financial and healthcare sectors. In terms of currencies, the portfolio was most exposed to the US dollar and the euro. More than half of the aforementioned portfolio is invested in the equities of issuers from North America, while slightly less than one third is invested in European issuers. The remainder is accounted for by investments in issuers from more developed Asian countries and from emerging economies.

6.2.4.2 Equity non-portfolio investments

As at 31 December 2018, Modra zavarovalnica held shares or participating interests in Cinkarna Celje, d. d., Pozavarovalnica Sava, d. d. and Hotelske nepremičnine. Due to the size of the associated equity holding, those investments require a more active approach to management. The total value of those investments was EUR 45,388 thousand at the end of 2018.

6.2.4.3 Debt investments

The balance of debt investments stood at EUR 69,581 thousand at the end of 2018. Corporate bonds accounted for the highest proportion of debt investments, followed by government bonds and deposits.

Table 23: Composition of debt investments as at 31 December 2018

INVESTMENT	in EUR 000
	Amount
Bonds	61,122
Government bonds	26,487
Domestic government bonds	13,966
Foreign government bonds	12,521
Corporate bonds	34,635
Domestic corporate bonds	3,508
Foreign corporate bonds	31,127
Deposits	7,090
Investment claims	1,021
Treasury bills	348
Total	69,581

The value of Modra zavarovalnica's government bond portfolio was EUR 26,487 thousand as at 31 December 2018. The aforementioned portfolio primarily comprises the government bonds of euro area countries. The proportion of bonds accounted for by domestic issuers was 53% at the end of 2018, while foreign issuers accounted for 47%. The majority of bonds are denominated in euros, while a minor proportion are denominated in US dollars.

The majority of investments are accounted for by Slovenian government bonds. Close to 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 34,635 thousand at the end of 2018. The proportion of bonds accounted for by domestic issuers was 10%, while foreign issuers accounted for 90%. All bonds are denominated in euros. Bonds with a fixed coupon rate accounted for the majority. At the end of 2018, the majority of issuers of corporate bonds were from the sectors of finance, energy and public services.

6.2.4.4 Investments in cash and cash equivalents

Modra zavarovalnica also held EUR 1,744 thousand in cash and cash equivalents at the end of 2018.

6.3 HOTELSKE NEPREMIČNINE

Hotelske nepremičnine was established in October 2018 by Kapitalska družba and its subsidiary Modra zavarovalnica. That company's principle activities are the buying and selling of own real estate, and the renting and operating of own or leased real estate.

Since the end of November 2018, the company has been the owner of the San Simon Hotel Resort in Izola, which was leased to Hoteli Bernardin, d. d. for management by the latter immediately after the purchase.

The San Simon Hotel Resort is located in Simon's Bay in Izola, where the remains of an ancient Roman port are still visible today. The accommodation capacities of that resort comprise the Haliaetum and Mirta hotels, the Korala, Palma, Sirena and Perla annexes, and holiday houses. The San Simon Hotel Resort has 215 rooms available to guests. The Haliaetum Hotel has an indoor pool with heated salt water and a fitness area, while the Mirta hotel has a wellness centre and spa. Also located at the resort are two restaurants, a bistro and a beach bar, as well as two halls that are appropriate for the organisation of larger events, such as weddings, receptions, dance and musical events, etc.

Risk management

Risk management is explained in Chapter 17.3 Accounting policies in the financial report section of the Kapitalska družba Group's annual report.

Significant business events after the end of 2018

Bachtiar Djalil began a new four-year term of office on 3 January 2019 as President of the Company's Management Board.

On 2 February 2019, the General Meeting appointed Dr Boris Žnidarič, Mirko Miklavčič and Ladislav Rožič, MSc to four-year terms of office as members of Kapitalska družba's Supervisory Board. Dr Žnidarič was elected Deputy Chairman of the Supervisory Board on 21 February 2019.

In January and February 2019, Kapitalska družba paid up EUR 815 thousand for the recapitalisation of Sava, d. d. and thus acquired 815 thousand new shares.

Based on an agreement on the instalment sale of shares concluded in 2017, the capital investment in KDD, d. d. was sold in its entirety in January 2019.

Kapitalska družba received a takeover bid on 24 May 2019 for shares in Perutnina Ptuj, d. d. That bid was published on 27 March 2019 by Hemiak Investments Limited, Cyprus, a subsidiary of MHP SE from Ukraine. The entire amount of consideration that Kapitalska družba will receive from the sale of shares in Perutnina Ptuj is EUR 13,121 thousand.

The general meeting of Modra zavarovalnica was briefed on the resignation of Dr Boris Žnidarič on 14 January 2019. Bachtiar Djalil was appointed as new member of the Supervisory Board, with a term of office from 14 January 2019 to 9 June 2021.

The strategic business plan of Modra zavarovalnica for the period 2019 to 2021 was approved by that company's Supervisory Board on 11 February 2019.

The Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 9-288/2019) entered into force on 26 February 2019. The structure of KS PSS investments is in line with the provisions of that act.

Expected development of the Kapitalska družba Group for 2019

The operations of the Kapitalska družba Group in 2019 will focus on the achievement of the strategic objectives set out in Kapitalska družba's strategy for the period 2019 to 2021 and the objectives set by the subsidiary Modra zavarovalnica in its strategic business plan for the period 2019 to 2021. Described below is the expected development of Kapitalska družba, which is followed by a description of the planned development of Modra zavarovalnica.

We have built the vision of Kapitalska družba's strategic development on business excellence, which facilitates the generation of long-term value for the pension system, policyholders and occupational pensioners. As a strategically oriented organisation, we ensure our future through operations that are based on a comprehensive vision, mission, values, ethics and corporate governance. The Company is a sound and reputable financial institution that has been setting the standards for high-quality and reliable operations in the area of pension insurance and asset management since its establishment. In part for that reason, Kapitalska družba will begin the establishment of a corporate integrity system in 2019 with the elements set out in the Slovenian Corporate Integrity Guidelines.

Kapitalska družba will again face a demanding and intensive year in 2019. Evidence of this are the dynamic conditions on the global financial markets and the eventful Slovenian political and economic environment. The latter is the result of the continuation of low interest rates, and relatively high-value, higher-risk investment categories. The Company's internal activities will focus on the upgrading and maintenance of new software to support asset and fund management, the digitalisation of the physical archive, the establishment of a document system and real estate management.

Despite the provisions of the ZSDH-1, which envisaged the transformation of Kapitalska družba into an independent and autonomous demographic reserve fund by no later than the end of 2015, no separate act to serve as the basis for that transformation has been adopted to date. Thus, both the framework of future arrangements and the timing of that transformation remain unknown. The main characteristics of the future demographic reserve fund, new sources, future liabilities, the composition of assets and thus the fund's investment policy remain undefined. Nevertheless, Kapitalska družba's mission has been the same since its inception and in conceptual terms entails performing the function of a demographic reserve fund to the extent set out in regulations. A transfer to the pension fund by Kapitalska družba in the maximum possible amount envisaged by the ZSDH-1, i.e. EUR 50 million, is planned this year. The fulfilment of our legal obligation requires the effective management of capital investments and the continued accelerated transformation of Kapitalska družba into a portfolio investor. In 2019, we will continue the sale of Slovenian government equity investments and the placement of proceeds into liquid portfolio investments. We will adapt our activities to the unstable conditions on the global financial markets, low interest rates and lower forecasts of economic growth. We will also update our umbrella investment policies and portfolio management investment policies.

In managing SODPZ assets, we will also take into account expected developments on the financial markets and the level of the guaranteed return. We will define changes to the target structure of investments taking into account assessments of developments on the financial markets and other factors that affect the fund's performance. The objective of investing is to achieve a higher-than-guaranteed return in the

context of an acceptable level of risk. The effective management of risks is of increasing importance in a globalised world of rapid changes and difficult business challenges. To that end, we will implement and upgrade a comprehensive risk management system during the strategic period with key building blocks for identifying and understanding assumed risks and measures to effectively manage those risks. We are integrating the effective risk management culture into the Company's organisational culture.

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

The development of employees represents a key area for the Company. We will therefore continue in the future with the development of the values required for the long-term success of the Company, and with the strengthening of the culture of commitment, cooperation and respect. Through the personal inclusion of employees in development and their contributions to the achievement of the Company's objectives, we will stimulate employees' sense of affiliation and cohesiveness, and their identification with the Company's mission and vision. Because employees are a key resource for achieving results, employee competences represent one of the Company's strategic assets. We will thus guide them to the achievement of established strategic objectives, and encourage their professional and personal growth. We will facilitate their successful career development through training, education and various forms of motivation. Special attention will be given to the development of management and other key staff, as we are aware that such employees are the most difficult to replace due to the specific knowledge, skills and competences that they possess. We will promote the transfer of knowledge within the Company, and formulate and implement measures for successful intergenerational cooperation and the sharing of knowledge between generations. We will establish a mentoring system that will facilitate the effective internal transfer of specific knowledge and experiences. In the scope of that system, we will also promote active intergeneration cooperation and integration, with the aim of exploiting the knowledge and strengths of every generation. Through the formulation of a diversity policy, we will take an even more effective approach to ensuring equal opportunities for all employees, and ensure their equal inclusion and authorisation. We will introduce the regular measurement of the organisational climate, and the satisfaction and commitment of employees, and update key HR indicators.

During the next three years, the subsidiary Modra zavarovalnica will take a project-based approach to the expansion of its range of services, either through internal development or based on insurance and credit intermediation. To that end, it is also planning the significant expansion of sales channels and the digitalisation of operations. The insurance company will continue to strengthen its focus on customers, monitor their needs, offer the most personal treatment possible, and advise them accordingly. Key to the focus on customers are adapting to new technological solutions and developing a marketing approach, by improving the user experience in all contacts with customers. Customer satisfaction is becoming an increasingly important factor in the insurance company's competitiveness and the most important basis for the development of loyalty. Modra zavarovalnica will therefore continue to monitor customer satisfaction in all contacts with the insurance company, to obtain the consent of users for the processing of personal data for which it has no basis, and to systematically collect data that will serve as the basis for developing customised products and services. An improved user experience and the monitoring of needs will serve as important guides in the insurance company's online presence.

Modra zavarovalnica is expecting another difficult year in 2019 in terms of asset management as the result of the continuation of low interest rates, and relatively high-value, higher-risk investment categories. Opportunities will thus have to be sought in new alternative investment categories, such as venture capital funds, real estate funds, funds comprising non-performing claims and infrastructure funds. The plan is to increase the proportion of capital invested in alternative investments in 2019 and gradually achieve strategically defined proportions.

The Kapitalska družba Group will continue to actively develop economic, financial and pension standards that relate to our operations. A rapid response to significant events and continuous adaptation to changes in the environment, as well as everyday business opportunities, will facilitate the Kapitalska družba Group's future positioning in the Slovenian pension system and in the broader business environment.

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. The ZSDH-1 affected arrangements regarding the transfer to the budget of the ZPIZ. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment of pensions, which is limited to EUR 50 million. Notwithstanding the aforementioned, Kapitalska družba transferred EUR 50,000 thousand to the ZPIZ in 2018 based on the provisions of the ZIPRS1819. Kapitalska družba has transferred the cumulative amount of EUR 814,321 thousand to the budget of the ZPIZ.

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 2018: finance and accounting, corporate governance, real estate management, public procurement, the prevention of money laundering and terrorist financing, archiving, internal controls, legal issues, information security and risk management. Six management employees participated in a training and management programme.

In accordance with its education and training plan, Kapitalska družba organised internal training programmes in 2018 on the following topics: external and internal reporting, the prevention of money laundering and terrorist financing, personal data protection in terms of the GDPR, information security in the workplace, and public procurement. Kapitalska družba and Modra zavarovalnica organised training regarding investment restrictions and the management of risks associated with the investment process, as set out in regulations and seen in practice.

Kapitalska družba promotes continuing education and the acquisition of higher levels of education and various licences in the employer's interest. This improves the quality of the work process and improves employees' qualifications for work in a specific position.

Two employees received training to obtain the professional knowledge required to perform the tasks of certified business valuer. One employee is completing training to obtain the professional knowledge

required to perform the tasks of certified machinery and equipment valuer. One employee began training activities to take the exam for first-level chartered financial analyst (CFA). One employee continued their judicial apprenticeship with the aim of taking the state bar exam.

The expected level of knowledge can be achieved through organised and planned training at Modra zavarovalnica, as well. Continuous changes on the market, the flexibility of the range of products and services for customers and product development require constant training. We are aware that investing in the knowledge and development of all employees is the path to success for Modra zavarovalnica. We therefore strive to include every employee in at least one form of training every year. Specialisation and training are organised in various forms of education that are adapted to the requirements of a specific job or specific needs for knowledge. Education and training are also harmonised with the development-oriented tasks of Modra zavarovalnica.

In 2018, we organised training in the form of the 'Academy for Sales and Communication Excellence and Effective Management of the Contact Centre' for all employees who come into contact with customers on a daily basis. Employees enhanced their sales and communication skills and learned about tools for proactive sales staff, while the heads of sales teams enhanced skills required for the independent planning of work, the motivation of co-workers and the joint achievement/exceeding of established objectives. We introduced the 360-degree assessment method for management staff with the aim of planning required changes in management and the development of management skills. We organised a joint workshop for all employees in the autumn with the aim of improving interpersonal communication, and encouraging coordinated work to achieve common objectives, openness to change and creativity. We concluded the workshop by linking ideas, presenting them on canvas and compiling them into a giant image as a permanent reminder of a jointly achieved objective.

We also organise internal employee training carried out by Modra zavarovalnica's experts, primarily in the area of legislative changes. We thus organised training for all employees in conjunction with the entry into force of the General Data Protection Regulation and changes to International Financial Reporting Standard (IFRS) 17. We also organise training every year regarding the prevention of money laundering and terrorist financing.

Employees obtain the most complex and newest knowledge at faculties, institutions and other organisations in Slovenia and abroad. Modra zavarovalnica supports employees through the co-financing of tuition and study leave.

10.2.2 Concern for a safe and healthy work environment

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

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

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

of motivation among employees. Under the agreement on the creation of a pension fund concluded in 2015, all employees are eligible for inclusion in the MKPS under the same conditions. Kapitalska družba pays the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, or a maximum of EUR 234.92 a month. The costs of employee premiums for voluntary supplementary pension insurance (MKPS) totalled EUR 118 thousand in 2018.

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team is diverse, with an average employee age of 45, and includes many young parents with small and school-age children who benefit from the effects of the Family-Friendly Company certificate to the maximum extent possible. The balancing of career development and family life has become part of our organisational culture, which today is frequently a challenge, as the boundaries between career and private life are becoming increasingly blurred. Kapitalska družba received the Family-Friendly Company certificate in 2010, which was subsequently upgraded to the full certificate. Following an audit of the three-year period following the receipt of the full certificate, the Company received special recognition for spreading the family-friendly company culture in Slovenia. Through the adoption of measures, the Company aims to ensure short-term and long-term positive effects on the lives of its employees.

Modra zavarovalnica is aware of the importance of ensuring the health of all employees. Through the implementation of an action plan to promote health, we encourage employees to pursue a healthy lifestyle and reduce the risks of disease, both in the workplace and in their private lives. We offer employees the opportunity to vaccinate themselves against the flu and tick-borne meningoencephalitis. A great deal of information on current health topics and useful articles about exercise and healthy eating are available on an internal site.

All employees are provided social security following retirement, under the same conditions. Through the payment of premiums into the supplementary pension insurance fund, we ensure employees receive additional income after retirement.

We are the proud holder of the full Family-Friendly Certificate. Concern for the right family and work life balance has become a part of the company's organisational culture. We follow the belief 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.

10.3 ENVIRONMENTAL RESPONSIBILITY

A tender was issued in 2018 for the supply of electricity in accordance with the Decree on Green Public Procurement. Taking into account the provisions of the aforementioned decree, the Company signed an agreement on the supply of 80% of electricity produced from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels, while the production of energy from renewable sources does not drain natural resources. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

A tender was issued in 2018 for the procurement of sanitary materials, based on which the Company will order products bearing the Ecolabel environmental sticker, in Slovenia also known as the 'environmental daisy'. Products or services that are recognised within a specific category as meeting predefined conditions and environmental criteria are eligible for the Ecolabel sticker. The environmental criteria for the awarding of the Ecolabel are in line with the requirements of the ISO 14024 standard, and are prescribed in the decisions of a committee that defines precise environmental criteria for a specific group of products or services. The method for implementing the scheme is defined in Regulation (EU) No 66/2010 on the EU Ecolabel.

Thus, both Kapitalska družba and Modra zavarovalnica support environmentally oriented activities and separate waste. We strive to reduce the use of paper, collect used printer cartridges and plastic bottle caps, and respond to charitable campaigns.

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 2018 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 and extended by annex until September 2019. Effective 1 January 2019, the lessee leased additional business premises on the fifth floor, such that the total monthly lease payment for equipped premises measuring 1,799.17 m², 39 outdoor parking places and 12 parking places at Glavarjeva rezidenca amounts to EUR 35,573.23. The aforementioned rental fee also includes electricity costs.

Use of computer programs

In 2018, Modra zavarovalnica migrated in full to independent software solutions, and no longer leases the Kad.Net and AdTreasury software solutions from Kapitalska družba.

Provision of IT services

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

Agreement on the financing of the pension plan

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

Indicators

	2018	2017	2018	2017
in EUR 000				
1. FINANCING RATIOS				
a) Equity financing ratio				
equity	1,051,346	1,077,066		
total equity and liabilities	1,362,343	1,407,286	0.77	0.77
b) Long-term financing ratio				
equity + long-term liabilities (including provisions) + long-term accruals and deferred income	1,297,966	1,346,690	0.95	0.96
total equity and liabilities	1,362,343	1,407,286		
2. INVESTMENT RATIOS				
a) Operating fixed asset investment ratio				
fixed assets (at carrying amount)	7,739	7,912		
equipment	1,362,343	1,407,286	0.01	0.01
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	1,136,620	1,179,530	0.83	0.84
equipment	1,362,343	1,407,286		

	2018	2017	2018	2017
in EUR 000				
2018				
2017				
2018				
2017				
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a) Equity to fixed assets ratio				
equity	1,051,346	1,077,066		
fixed assets (at carrying amount)	7,739	7,912	135.85	136.13
b) Acid test ratio				
liquid assets	21,859	35,177		
short-term liabilities	64,377	60,596	0.34	0.58
c) Quick ratio				
liquid assets + short-term receivables	81,036	90,031		
short-term liabilities	64,377	60,596	1.26	1.49
d) Current ratio				
short-term assets	194,439	148,806		
short-term liabilities	64,377	60,596	3.02	2.46
4. EFFICIENCY RATIOS				
a) Operating efficiency				
operating revenue	61,956	48,100		
operating expenses	63,733	49,563	0.97	0.97
5. PROFITABILITY RATIOS				
a) Net return on equity				
net profit for the period	-24,329	15,800		
average equity (excluding net profit/ loss for the period)	1,068,471	1,038,995	-0.02	0.02
b) Dividends to share capital ratio				
dividends for financial year	0	0		
average share capital	364,810	364,810	0.00	0.00

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 2018 to 31 December 2018.

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

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

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

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

Explanation: Given the specific purpose of its establishment and its planned transformation into an autonomous demographic reserve fund, and taking into account the state capital investment management strategy, Kapitalska družba's primary concerns are the fulfilment of its legal obligation to provide funds to the Pension and Disability Insurance Institute, and the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ).

Point 3.2 of the Code: The management boards of public limited companies with capital assets of the state regardless of their ownership structure, and the management of large and medium-sized public limited companies and limited liability companies in which SDH has a controlling influence shall formulate and adopt a corporate governance policy in conjunction with the supervisory board. That policy shall define the principal guidelines regarding corporate governance and the other content set out in Chapter II of the Slovenian Corporate Governance

Code as regards the definition of the concept of ‘governance policy’. The governance policy shall be adopted for the future period and shall be updated by the company so that it is in line at all times with regulations, the company’s article of association, the state capital asset management strategy, applying Recommendation no. 3.1.1 of this Code *mutatis mutandis*, and current corporate governance guidelines. The governance policy shall include the date of the last update and shall be accessible on a company’s public website.

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

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

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

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

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

Point 6.4 of the Code: The supervisory board shall be comprised in such a way as to ensure responsible supervision and decision-making for the benefit of a company. Regardless of whether a company has adopted a diversity policy or not, the composition of the supervisory board shall take into account professional knowledge, experience and skills that differ from member to member but are complementary (in terms of knowledge and experience). The continuity and diverse composition of the supervisory board, in terms of characteristics such as age, international composition and gender representation (i.e. the heterogeneity of its composition), shall be ensured to the greatest extent possible.

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

Point 6.7 of the Code: If the general meeting elects members of the supervisory board based on a proposal from that body, the substantiation of proposals for the adoption of resolutions shall, in addition to the data required by the law, include, at a minimum, information regarding each proposed candidate’s membership in other management or supervisory bodies and an assessment of potential conflicts of interests, where that assessment shall also take into account the individual circumstances stated in Appendix 3 to the Code. Moreover, the supervisory board shall disclose all information regarding whether a proposed candidate is independent in terms of the definition set out in this Code and whether procedures defined by this Code have been taken into account by the supervisory board in the selection of that candidate.

Sub-point 6.7.1 of the Code: In the justification of its proposal (subject to voting), the supervisory

board shall also provide a description of the competence profile for a member of the supervisory board and information regarding a candidate that allows shareholders to assess whether that candidate meets the characteristics of the profile being sought.

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

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

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

Explanation: Kapitalska družba does not comply with the recommendation under sub-point 6.8.8 of the Code in full, because the Government of the Republic of Slovenia represents Kapitalska družba's General Meeting. In accordance with the provisions of the ZSDH-1, three members are appointed to the Supervisory Board based on SDH's proposal. Thus, in accordance with the Articles of Association, a proposal for candidates who are representatives of SDH is drafted by the latter's Management Board and the Supervisory Board informed of its selection. Two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners, while one member is appointed on the basis of a proposal by national-level trade union federations or confederations.

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

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

Point 10.2 of the Code: Companies with capital assets of the State shall establish a system of corporate integrity with as many elements of the Slovenian Corporate Integrity Guidelines as possible, taking into account the size of the company and the severity of breaches of corporate integrity (known or suspected). SDH supports the solution that, large companies in particular, shall entrust the oversight of corporate integrity, as an independent function, to an appropriately trained and qualified corporate integrity officer who will be provided assistance in the form of appropriately trained and paid experts, and the necessary material means and authorisations, to ensure their unhindered work. The aforementioned authorisations shall also include the autonomous right of reporting, first to management bodies and then to the supervisory bodies of a company, and to other internal and external bodies.

Explanation: Kapitalska družba complies with the essential elements set out in the Slovenian Corporate Integrity Guidelines, although it has not yet established the independent function of corporate integrity officer. Kapitalska družba plans to establish a comprehensive corporate integrity system by the end of 2019.

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

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

Internal controls are carried out by the Operational Support Sector, which is responsible for maintaining the books of account and for the compilation of financial statements in accordance with 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 14 June 2018, the Company's financial statements for 2018 were audited by Deloitte revizija, d. o. o., Ljubljana.

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

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

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

IV. Holders of securities that provide special controlling rights

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

V. Restrictions on voting rights

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

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

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

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

Members of the Management Board are appointed by the Supervisory Board on the basis of a public tender. One of the members of the Management Board is appointed the President thereof. Members

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

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

VII. Powers of senior management, in particular powers to issue or purchase treasury shares

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

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

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

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

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

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

a) Supervisory Board

The responsibilities of the Supervisory Board are set out in the company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2018 is given in the Report of the

Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2018¹²:

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

Three committees functioned within the Supervisory Board in 2018: an audit committee, an accreditation committee and an HR committee. The composition and work of the aforementioned committees are presented in the Report of the Supervisory Board.

b) Management Board

In accordance with the ZSDH-1 and the Company's Articles of Association, the Management Board has a minimum of two and a maximum of three members. The members of the Management Board are appointed to a four-year term of office by the Supervisory Board based on a public tender procedure. Kapitalska družba, d. d. was run by its Management Board in 2018 in the following composition:

- The President of the Management Board Bachtiar Djalil began his term of office on 2 January 2015.¹³
- Member of the Management Board Goranka Volf began her term of office on 24 November 2016.
- Member of the Management Board Gregor Bajraktarevič began his term of office on 7 February 2018.¹⁴

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 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 2018 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.

12 The one-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2018. Both, however, were reappointed to new four-year terms of office, effective 30 August 2018, by the Company's General Meeting held on 14 June 2018. At the first session of the Supervisory Board following the start of his new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

13 Mr Djalil began a new four-year term of office on 3 January 2019.

14 Gregor Bajraktarevič began his first term of office as temporary member of the Management Board on 6 February 2017. That term of office was for a period of one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first.



Table 24: Composition of the Management Board during the 2018 financial year

NAME	Function (President, member)	Work area as member of the Management Board	First appointment to function	Completion of function/term of office	Gender
Bachtiar Djalil	President	Legal and HR affairs, internal audit, risk management	1 January 2010	3 January 2023	M
Goranka Volf	Member	Pension fund management, finance and accounting, general affairs	24 November 2016	24 November 2020	F
Gregor Bajraktarević	Member	Asset management, IT and business processes	6 February 2017	7 February 2022	M

Table 25: Composition of the Supervisory Board and its committees during the 2018 financial year

NAME	Function (Chairman, Deputy Chairman, member)	First appointment to function	Completion of function/term of office	Shareholder/employee representative	Participation in Supervisory Board sessions with respect to total number (e.g. 5/7)	Gender	Nationality	Year of birth
Stanislav Seničar	Chairman	28 August 2013	30 August 2022	Shareholder representative	22/22	M	Slovene	1942
Boris Žnidarič	Deputy Chairman	1 February 2015	1 February 2023	Pensioner representative	22/22	M	Slovene	1948
Aleksander Mervar	Member	28 August 2013	30 August 2022	Shareholder representative	20/22	M	Slovene	1962
Natalija Stošički	Member	8 April 2016	8 April 2020	Pensioner representative	19/22	F	Slovene	1966
Cirila Surina Zajc	Member	1 February 2015	1 February 2019	Pensioner representative	22/22	F	Slovene	1949
Ladislav Rožič	Member	31 January 2011	1 February 2023	Trade union representative	22/22	M	Slovene	1957

Table 26: External members of Supervisory Board committees during the 2018 financial year

NAME	Committee	Participation in committee sessions with respect to total number (e.g. 5/7)	Gender	Nationality
Mojca Verbič	Audit committee	3/5	F	Slovene
Irena Prijovič	Accreditation	2/3	F	Slovene
Alenka Stanič	Accreditation	3/3	F	Slovene
Gorazd Žmavc Member (since 27 September 2018)	Accreditation	/	M	Slovene

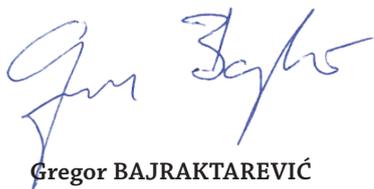
Nationality	Year of birth	Education	Professional profile	Membership in supervisory bodies of unaffiliated companies
Slovene	1975	Bachelor's degree in law	Corporate governance, management of pension and investment funds, economic and financial law	Gorenje, d. d. (until 17 September 2018), Loterija Slovenije, d. d., Modra zavarovalnica, d. d. (since 14 January 2019)
Slovene	1959	Bachelor's degree in economics	Pension fund management, corporate governance, corporate communications	Terme Čatež d. d.
Slovene	1975	Master's of science	Asset management, corporate governance, investment banking and corporate restructuring	Hit, d. d.

Education	Professional profile	Independence in accordance with point 6.6 of the Code (YES / NO)	Existence of conflicts of interest during the financial year (YES / NO)	Membership in supervisory bodies of other companies	Membership on committees (e.g. audit, human resource or remuneration)	Chair / member	Participation in committee sessions with respect to total number (e.g. 5/7)
Bachelor's degree in sociology	Corporate governance	Yes	No	/	/	/	/
Doctorate of science	Master's degree in law and other social sciences, qualified university professor	Yes	No	Krka, d. d., Modra zavarovalnica, d. d. (until 14 January 2019)	Accreditation	Chair	3/3
Master's of science	Finance, accounting, corporate governance, governance systems	Yes	No	Stelkom, d. o. o.	HR, audit, accreditation	Chair member, member	6/6 1/5 0/3
Bachelor's degree in economics	Financial services expert	Yes	No	Modra zavarovalnica, d. d. (until 9 April 2019)	Audit, HR	Member, member	5/5 6/6
Bachelor's degree in economics	Finance	Yes	No	/	Audit, HR	Member, member	4/5 6/6
Master's of science	Finance, corporate governance	Yes	No	/	Audit, accreditation	Chair, member	5/5 3/3

Education	Year of birth	Professional profile	Membership in supervisory bodies of unaffiliated companies
Bachelor's degree in economics	1975	Director of Finance and Business Support Sector	/
Master's of science	1968	Corporate governance	Uradni List, d. o. o. (since 14 November 2018)
Doctorate of science	1963	Adviser for key personnel	/
Lawyer	1947	Legal affairs	/

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

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



Gregor BAJRAKTAREVIĆ
Member of the
Management Board



Goranka VOLF
Member of the
Management Board



Bachtiar DJALIL
President of the
Management Board

Ljubljana, 26 June 2019





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



Financial Report

Statement of the Management's Responsibility

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Kapitalska družba Group for the year ended 31 December 2018, and the accompanying notes and disclosures.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and good management. The Management Board also confirms that the financial statements give a true and fair view of the Kapitalska družba Group's financial position and the results of its operation for 2018.

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

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the 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 could give rise to possible material liability in this respect.



Gregor BAJRAKTAREVIĆ
Member of the
Management Board



Goranka VOLF
Member of the
Management Board



Bachtiar DJALIL
President of the
Management Board

Ljubljana, 26 June 2019

Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

to the owner 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 2018, 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 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 2018, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

Management is responsible for the other information. The other information comprises the business report which is integral part of Annual report, but they do not include financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

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. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances. In relation to this and based on our procedures performed, we report that:

- Other information are, in all material respects, consistent with the consolidated financial statements;

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva 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.

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's Group's financial reporting process and for approving audited annual report.

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

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

- Identify and assess the risks of material misstatement of the 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 misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's 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.

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

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

For signature please refer to the original Slovenian version.

Deloitte.

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

Ljubljana, 26 June 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Financial Statements for 2018

16.1 CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

ITEM	Note	in EUR 000	
		1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
1. Net sales revenue	1		
c) Revenue from sales on the domestic market		59,917	45,416
Total sales revenue		59,917	45,416
4. Other operating revenue including operating revenues from revaluation	2	2,039	2,684
Total revenue		61,956	48,100
5. Costs of goods, materials and services	3		
b) Costs of materials		-278	-289
c) Costs of services		-3,585	-3,217
Total costs of goods, materials and services		-3,863	-3,506
6. Labour costs	4		
a) Payroll costs		-4,873	-4,713
b) Social security insurance costs		-812	-763
c) Pension insurance costs		-231	-229
d) Other labour costs		-729	-546
Total labour costs		-6,645	-6,251
7. Amortisation, depreciation and write-offs	5		
a) Depreciation and amortisation		-1,578	-1,377
b) Operating expenses from revaluation of fixed assets		-400	0
Total write-downs		-1,978	-1,377
8. Other operating expenses	6	-51,247	-38,429

ITEM	Note	in EUR 000	
		1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
Total costs		-63,733	-49,563
Operating profit (loss)		-1,777	-1,463
9. Financial income from participating interests	7		
b) Financial income from shares and interests in associates		12,957	9,143
c) Financial income from other shares and interests		29,966	48,675
d) Financial income from other investments		9,999	9,496
Total financial income from shares and interests		52,922	67,314
10. Financial income from loans granted	7		
b) Financial income from loans granted to others		397	450
Total financial income from loans granted		397	450
Total financial income		53,319	67,764
12. Financial expenses due to write-off and impairment of investments	8		
b) Financial expenses due to impairment and write-off of other investments		-6,543	-3,795
Total financial expenses due to impairment and write-off of investments		-6,543	-3,795
13. Financial expenses for financial liabilities	8		
d) Financial expenses for other financial liabilities		-50,007	-50,005
Total financial expenses for financial liabilities		-50,007	-50,005
Total financial expenses		-56,550	-53,800
Profit (loss) from ordinary activity		-5,008	12,501
15. Other revenue	9	162	230
16. Other expenses	10	-2	-64
Total profit (loss) from continued operations		-4,848	12,667
17. Income tax	11	-189	-536
18. Deferred tax	12	-19,292	3,669
19. Net profit or loss for the period	13	-24,329	15,800

Disclosures and notes on pages 91 to 164 are a constituent part of financial statements.

16.2 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

	in EUR 000	
	1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
Profit or loss for the period	-24,329	15,800
Items not to be reclassified subsequently to profit or loss	-24	-210
Actuarial gains/losses	-24	-210
Items that may be reclassified subsequently to profit or loss	1,477	37,542
Net change in fair value reserves	9,157	37,542
Other changes	-7,680	0
Other comprehensive income for the year	-22,876	53,132
Other comprehensive income for the year of majority shareholders	-22,876	53,132

Disclosures and notes on pages 91 to 164 are a constituent part of financial statements.

16.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

ITEM	Note	in EUR 000	
		31 Dec. 2018	31 Dec. 2017
ASSETS			
A. Long-term assets			
I. Intangible assets and long-term deferred costs and accrued revenues			
14			
1. Long-term property rights		1,442	1,503
5. Other long-term deferred costs and accrued revenues		0	50,000
Total intangible assets	15	1,442	51,503
II. Property, plant and equipment			
2. Buildings		5,618	6,226
4. Other plant and equipment		679	183
Total property, plant and equipment		6,297	6,409
III. Investment property	16	27,478	13,030
IV. Long-term investments			
1. Long-term investments, except loans			

ITEM	Note	in EUR 000	
		31 Dec. 2018	31 Dec. 2017
b. Shares and interests in associated companies	17	75,304	79,229
c. Other shares and interests	19	762,756	800,731
d. Other long-term investments	19	255,439	272,555
Total long-term investments, except loans		1,093,499	1,152,515
2. Long-term loans	20		
b. Long-term loans to others		7,780	6,000
Total long-term loans		7,780	6,000
Total long-term investments		1,101,279	1,158,515
V. Long-term operating receivables	21		
3. Long-term operating receivables due from others		124	73
Total long-term operating receivables		124	73
VI. Deferred tax assets	12	31,284	28,950
Total fixed assets		1,167,904	1,258,480
B. Short-term assets			
I. Assets held for sale	18	14,418	1,940
III. Short-term investments			
1. Short-term investments, except loans	19		
d. Other short-term investments		57,951	20,701
Total short-term investments, except loans		57,951	20,701
2. Short-term loans	20		
b. Short-term loans to others		41,034	36,134
Total short-term loans		41,034	36,134
Total short-term investments		98,985	56,835
IV. Short-term operating receivables	21		
2. Short-term trade receivables		1,543	1,461
3. Short-term operating receivables due from others		4,610	1,287
4. Other short-term operating receivables		53,024	52,106
Total short-term operating receivables		59,177	54,854
V. Cash	22	21,859	35,177
Total short-term assets		194,439	148,806
Total assets		1,362,343	1,407,286

ITEM	Note	in EUR 000	
		31 Dec. 2018	31 Dec. 2017
EQUITY AND LIABILITIES			
A. Equity			
I. Called-up capital	23	364,810	364,810
II. Capital surplus	24	217,331	216,761
III. Revenue reserves	25	0	0
V. Fair value reserves		259,809	379,912
VI. Net profit or loss brought forward		233,725	99,783
VII. Net profit or loss for the year		-24,329	15,800
Total majority interest		1,051,346	1,077,066
VII. MINORITY INTEREST		0	0
Total capital		1,051,346	1,077,066
B. Provisions and long-term accrued costs and deferred revenues			
	28		
I. Provisions for pensions and similar liabilities		544	506
II. Other provisions		206,568	177,836
III. Long-term accrued costs and deferred revenues		0	1,544
Total provisions and accrued costs and deferred revenues		207,112	179,886
C. Long-term liabilities			
I. Long-term financial liabilities			
	26		
4. Other long-term financial liabilities		349	50,582
Total long-term financial liabilities		349	50,582
II. Long-term operating liabilities			
	27		
4. Long-term operating liabilities from advances		15	364
5. Other long-term operating liabilities		34	24
Total long-term operating liabilities		49	388
III. Deferred tax liabilities	12	39,110	38,768
Total long-term liabilities		39,508	89,738
D. Short-term liabilities			
II. Short-term financial liabilities			
	26		
4. Other short-term financial liabilities		3	0
Total short-term financial liabilities		3	0
III. Short-term operating liabilities			
	27		
2. Short-term trade payables		3,254	3,579
4. Short-term operating liabilities from advances		513	0

ITEM	Note	in EUR 000	
		31 Dec. 2018	31 Dec. 2017
5. Short-term liabilities to the state		50,294	50,576
6. Short-term liabilities for corporate income tax		240	5,851
7. Other short-term operating liabilities		10,073	590
Total short-term operating liabilities		64,374	60,596
Total short-term liabilities		64,377	60,596
Total equity and liabilities		1,362,343	1,407,286

Disclosures and notes on pages 91 to 164 are a constituent part of financial statements.

16.4 CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

	1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	-4,848	12,667
Income taxes and other taxes not included in operating expenses	-189	-536
Adjustments for amortisation and depreciation	1,555	974
Adjustments for revaluation operating expenses	388	0
Adjustments for financial income from financing	-54,719	-72,359
Adjustments for financial expenses from financing	56,550	53,800
Total income statement items	-1,263	-5,454
b) Changes in net operating current assets - operating items in the balance sheet		
Opening less closing operating receivables	-6,417	-809
Opening less closing deferred costs and accrued revenues	2,043	-976
Opening less closing deferred tax assets	-522	-3,918
Opening less closing assets (disposal groups) available for sale	-12,478	5,367
Closing less opening operating liabilities	8,953	295
Closing less opening accrued costs and deferred revenues, and provisions	22,051	18,728
Closing less opening deferred tax liabilities	-1,470	6,618
Total items of net current assets - operating items in the balance sheet	12,160	25,305
c) Net cash from (used in) operating activities	10,897	19,851

1 Jan. to 31 Dec. 2018 1 Jan. to 31 Dec. 2017

B. Cash flows from investing activities		
a) Cash receipts from investing activities		
Receipts from interest and dividends received from investing activities	40,503	35,556
Receipts from disposal of property, plant and equipment	4	7
Receipts from disposal of long-term investments	150,098	54,481
Receipts from disposal of short-term investments	4,695	106,008
Total cash receipts from investing activities	195,300	196,052
b) Cash disbursements for investing activities		
Disbursements to acquire intangible assets	-964	-717
Disbursements to acquire property, plant and equipment	-116	-44
Disbursements to acquire investment property	-15,281	-324
Disbursements to acquire long-term investments	-137,479	-142,096
Disbursements to acquire short-term investments	-17,481	-21,595
Total cash disbursements for investing activities	-171,321	-164,776
c) Net cash from (used in) investing activities	23,979	31,276
C. Cash flows from financing activities		
a) Cash receipts from financing activities		
Receipts from paid up capital	570	141
Receipts from increase in long-term financial liabilities	1,236	2,396
Total cash receipts from financing activities	1,806	2,537
b) Cash disbursements for financing activities		
Cash repayments of long-term financial liabilities	-50,000	-50,233
Disbursements for the distribution of dividends and other profit participations	0	-2,965
Total cash disbursements for financing activities	-50,000	-53,198
c) Net cash from (used in) financing activities	-48,194	-50,661
D. Closing balance of cash		
a) Net cash for the period	-13,318	466
b) Opening cash balance	35,177	34,711
c) Total closing balance of cash	21,859	35,177

Disclosures and notes on pages 91 to 164 are a constituent part of financial statements.

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

in EUR 000

	Share capital	Capital surplus	Reserves arising from valuation at fair value	Net profit or loss brought forward	Net profit or loss for the year	Majority interest	Total
A. 1. Balance as at 31 Dec. 2017	364,810	216,761	379,912	99,783	15,800	1,077,066	1,077,066
b) Retrospective adjustments (change in accounting policies)	0	0	-128,820	129,578	0	758	758
A. 2. Balance as at 1 Jan. 2018	364,810	216,761	251,092	229,361	15,800	1,077,824	1,077,824
B. 1. Changes in equity – transactions with owners	0	570	0	0	0	570	570
d) Additional payments of capital	0	570	0	0	0	570	570
B. 2. Total comprehensive income for the period	0	0	9,133	-7,680	-24,329	-22,876	-22,876
a) Net profit or loss for the period	0	0	0	0	-24,329	-24,329	-24,329
e) Changes in reserves arising from valuation of investments at fair value	0	0	10,404	0	0	10,404	10,404
e) Changes in reserves arising from valuation of investments at fair value – associated companies	0	0	-1,247	0	0	-1,247	-1,247
f) Other components of comprehensive income for the period	0	0	-24	-7,680	0	-7,704	-7,704
B. 3. Changes in equity	0	0	-416	12,044	-15,800	-4,172	-4,172
a) Allocation of the remaining net profit for the comparative period to other equity components	0	0	-416	12,044	-15,800	-4,172	-4,172
C. Closing balance as at 31 Dec. 2018	364,810	217,331	259,809	233,725	-24,329	1,051,346	1,051,346

Disclosures and notes on pages 91 to 164 are a constituent part of financial statements.

16.6 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

in EUR 000

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

Disclosures and notes on pages 91 to 164 are a constituent part of financial statements.

Disclosures and notes

17.1 IMPACT OF TRANSITION FROM IAS 39 TO IFRS 9

17.1.1 Kapitalska družba, d. d.

Some investments that were classified as at 31 December 2017 as financial assets available for sale (AFS) in accordance with IAS 39 were reclassified as at 1 January 2018 due to the implementation of the new IFRS 9 standard to the category of fair value through profit or loss (FVTPL). For these investments, the accumulated reserves arising from valuation at fair value amounting to EUR 3,419 thousand were transferred to retained earnings as at 1 January 2018. For investments that were classified as at 31 December 2017 in accordance with IAS 39 as financial assets available for sale and that remained classified in accordance with IFRS 9 as at 1 January 2018 at fair value through other comprehensive income and were permanently impaired in previous years, Kapitalska družba recognised the mentioned impairments as a decrease in reserves arising from valuation at fair value and increased retained earnings by EUR 115,864 thousand. The transition to IFRS 9 as at 1 January 2018 also resulted in recognition of EUR 65 thousand credit losses from debt securities impacting retained earnings.

Table 27: Impact of transition from IAS 39 to IFRS 9 on retained earnings of Kapitalska družba as at 1 January 2018

	Reserves arising from valuation at fair value	Retained earnings
Reclassification of investments from available for sale (IAS 39) to fair value through profit or loss (IFRS 9)	-3,419	3,419
Transfer of permanent impairments	-115,864	115,864
Recalculation of credit losses	0	-65
Total	-119,283	119,218

in EUR 000

Table 28: Reconciliation of balances from the statement of financial position of Kapitalska družba, d. d. under IAS 39 to IFRS 9 as at 1 January 2018

FINANCIAL ASSETS	Carrying amount as at 31 Dec. 2017 (IAS 39)	Reclassifications	Remeasurements	Carrying amount as at 1 Jan. 2018 (IFRS 9)	in EUR 000 Profit or loss brought forward as at 1 January 2018
	1	2	3	(4)= (1)+(2)+(3)	
Deposits and successive deposits	47,939	0	0	0	0
Decreases:					
To amortised cost	0	-47,935	0	0	0
To fair value through profit or loss	0	-4	0	0	0
Total change in deposits and successive deposits	47,939	-47,939	0	0	0
Amortised cost	17,520	0	-2	65,419	-37
Increases:					
From deposits and successive deposits	0	47,935	-35	0	0
From available for sale	0	0	0	0	0
From fair value through profit or loss	0	0	0	0	0
Decreases:					
To fair value through other comprehensive income	0	0	0	0	0
To fair value through profit or loss	0	0	0	0	0
Total change in amortised cost	17,520	47,935	-37	65,419	-37
Fair value through profit or loss	5,358	0	0	35,824	0
Increases:					
From deposits and successive deposits	0	4	0	0	0
From held to maturity	0	0	0	0	0
From fair value through other comprehensive income	0	0	0	0	0
Equity instruments	0	35,818	0	0	3,419
Held for trading	0	0	0	0	0
Debt instruments	0	0	0	0	0
Mandatorily measured at fair value through profit or loss	0	0	0	0	0

	in EUR 000				
	Carrying amount as at 31 Dec. 2017 (IAS 39)	Reclassifica- tions	Remeasure- ments	Carrying amount as at 1 Jan. 2018 (IFRS 9)	Profit or loss brought forward as at 1 January 2018
FINANCIAL ASSETS					
Decreases:					
To fair value through other comprehensive income	0	0	0	0	0
Equity instruments	0	-4,759	0	0	0
Debt instruments	0	-596	0	0	0
To amortised cost	0	0	0	0	0
Total change in fair value through profit or loss	5,358	30,467	0	35,824	3,419
Fair value through other comprehensive income	888,785	0	0	858,322	115,836
Increases:					
From held to maturity	0	0	0	0	0
From fair value through profit or loss	0	0	0	0	0
Equity instruments	0	4,759	0	0	0
Debt instruments	0	596	0	0	0
Decreases:					
To fair value through profit or loss	0	0	0	0	0
Equity instruments	0	-35,818	0	0	0
Debt instruments	0	0	0	0	0
To amortised cost	0	0	0	0	0
Total change through other comprehensive income	888,785	-30,463	0	858,322	115,836

17.1.2 Modra zavarovalnica, d.d.

On the day the new standard entered into force, i.e. 1 January 2018, Modra zavarovalnica transferred the investments in the amount of EUR 8,321 thousand from the group measured at fair value through profit or loss to the group measured at fair value through other comprehensive income.

On that day, Modra zavarovalnica also impaired financial assets in the amount of EUR 326 thousand in accordance with the expected credit loss model. The expected credit losses on the day of transition are entirely disclosed under equity.

Modra zavarovalnica checked if permanent impairments had been made since the spin-off in 2011 until the end of 2017 and derecognised them in accordance with the provision of IFRS 9; as a result, Modra zavarovalnica recorded an increase in retained earnings equalling EUR 1,149 thousand.

The total effect of transition to IFRS 9 thus resulted in an increase in retail earnings of EUR 823 thousand.

Table 29: Classification and measurement of financial assets of Modra zavarovalnica upon transition to IFRS 9

in EUR 000

FINANCIAL ASSETS	Carrying amount as at 31 Dec. 2017 (IAS 39)	Reclassifications	Remeasurements	Carrying amount as at 1 Jan. 2018 (IFRS 9)	Effect on retained earnings as at 1 Jan. 2018
	1	2	3	4=1+2+3	5
FVTPL	73,105	-8,321	0	64,784	0
Decreases:	0	0	0	0	0
To FVTOCI	0	-8,321	0	-8,321	0
Equity instruments	0	-8,321	0	-8,321	0
Total change in FVTPL	0	-8,321	0	-8,321	0
FVTOCI	188,581	8,321	-101	196,801	-101
Increases:	0	0	0	0	0
From FVTPL	0	8,321	0	8,321	0
Equity instruments	0	8,321	0	8,321	0
Total change in FVTOCI	0	8,321	-101	8,321	-101
At amortised cost	134,957	0	-225	134,732	-225
Total change in amortised cost	0	0	-225	134,732	-225
Permanent impairments and deferred tax from impairments	-1,149	0	0	1,149	1,149
Total effect of transition	0	0	-326	1,149	823

17.2 GENERAL DISCLOSURES

Information about the controlling company

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 no-par-value share has an identical share and the pertaining 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 were issued on 28 March 2019 and the auditor gave an unmodified opinion on 14 May 2019.

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

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

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

Information about subsidiaries

The subsidiaries of Kapitalska družba are presented in the table below.

SUBSIDIARY	Country	Share in equity	Equity as at 31 Dec. 2018 (in EUR 000)	Net profit/loss for 2018 (in EUR 000)
Modra zavarovalnica, d. d.	Slovenia	100.00%	235,773	6,350
Hotelske nepremičnine, d. o. o.	Slovenia	50.00%	9,983	57

The remaining 50% of equity of Hotelske nepremičnine, d. o. o., is owned by Modra zavarovalnica-

As the parent company, Kapitalska družba consolidates Modra zavarovalnica, d. d., and Hotelske nepremičnine, d. o. o.

Data on consolidation

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

Information about treasury shares

The Group has no treasury shares.

Information about employees

At the end of 2018, the Kapitalska družba Group had 119 employees, of whom 59 in Kapitalska družba and 60 in Modra zavarovalnica.

Table 30: Number of employees in the Kapitalska družba Group

	Balance as at 31 Dec. 2018	Balance as at 31 Dec. 2017
Kapitalska družba Group	119	119

17.3 ACCOUNTING POLICIES

Basis for preparation

The financial statements for 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and the Companies Act.

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

Significant accounting estimates and judgements

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

The adequacy of used assumptions and estimates is checked periodically.

Relevant estimates refer to the impairment of assets, the classification of financial instruments based on adopted business models and the cash flow test, and the establishment of provisions.

On the date of the statement of financial position the manager assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. If such evidence exists, the financial investment is revalued for impairment.

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

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

Statement of compliance

The consolidated financial statements of Kapitalska družba have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting

Standards Board (IASB) as well as the Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the European Union (EU).

In its financial statements, the Group applied all IFRS and IFRIC required in 2018. It did not apply any standard or interpretation before its application became obligatory in 2018.

Amendments to standards and interpretations

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

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

- IFRS 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);
- Amendments to IFRS 2 “Share-based payment” – Classification and measurement of share-based payment transactions, adopted by the EU on 26 February 2018 (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 – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied for the first time);
- Amendments to IFRS 15 “Revenue from Contracts with Customers” - Clarifications to IFRS 15 “Revenue from Contracts with Customers” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 “Investment property” – Transfers of investment property adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 “Improvements to IFRSs (2014-2016)”, resulting from the annual project for improvement of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 7 February 2018 (the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 “Foreign currency transactions and advance consideration” adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The Group recorded significant impact of IFRS 9, which is clarified in Chapter 17.1 “Effects of transition from IAS 39 to IFRS 9”. The adoption of other new standards, amendments to the existing standards and interpretations had no effect on the financial statements of the Group.

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

At the date of authorisation of these financial statements, the following standard, amendments to the existing standard and interpretation issued by the IASB and adopted by the EU were not yet effective:

- IFRS 16 - “Leases” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 “Financial instruments” – Prepayment features with negative compensation adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);

- IFRIC 23 “Uncertainty over income tax treatments” adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group analysed lease agreements and established that the introduction of IFRS 16 has no impact on its financial statements.

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

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

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods starting on or after 1 January 2016) – European Commission concluded not to start the procedure for endorsement of this interim standard and to wait for its final version to be issued;
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 “Business combinations” – Definition of a business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisition of assets occurring at the beginning of this period or after);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 1 “Presentation of financial statements” and IAS 8 “Accounting policies, changes in accounting estimates and errors” – Definition of material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 19 “Employee Benefits” – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015–2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- Amendments to references to the Conceptual Framework in IFRS standards (effective for annual periods beginning on or after 1 January 2020).

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

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

Foreign currency translation

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

Any differences arising on the translation of foreign currencies are recognised in the income statement. Non-monetary assets and liabilities, recognised at historical cost in foreign currency, are translated at the exchange rate applicable on the day of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currency are translated at the exchange rate effective on the day when the fair value was established.

Basic policies

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

The items in the separate financial statements are presented in the euro, rounded to the nearest thousand (EUR 000), except where specifically stated otherwise.

Basis of consolidation

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

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

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

Intangible assets

Intangible assets, acquired individually, are recognised at cost. Subsequent to initial recognition, the cost model is applied. The useful life of an item of intangible assets is limited. The amortisation of an intangible asset is recognised in the profit or loss. Intangible assets generated within the 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.

Depreciation/Amortisation is accounted for under the straight-line basis over the estimated useful life of the assets:

ASSET	Depreciation/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.

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

Property, plant and equipment

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

ASSET	Depreciation/Amortisation 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. Gains and losses on derecognition of an asset are reported in the profit or loss in the year the individual 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 charge does not exceed EUR 500, may be carried as a group within small tools. Items of small tools with a cost not exceeding EUR 500 according to the supplier's charge may be classified among materials.

Maintenance costs and increase in fixed assets value

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

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

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

Investment property

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

The 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, if any. 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 and measurement of financial assets until 31 December 2017

The Group classifies financial assets in the following categories:

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

The classification depends on the purpose of acquisition.

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 investments 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. 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 investments. 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 investments are disclosed separately in the statement of financial position. Long-term investments 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 until 31 December 2017

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. Investments 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 trading date.

3. Available-for-sale financial assets

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

Acquisition and sale of investments allocated in the group of available-for-sale investments are recognised on the trading day, i.e. on the day of commitment to purchase or to sell a financial asset.

4. Loans

Loans and receivables are financial assets with fixed or determinable payments that are not traded on the 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.

Investments measured at cost until 31 December 2017

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.

Detailed accounting policies applicable to 2017 according to IAS 39 are given in the Consolidated Annual Report of the Kapitalska družba Group for 2017, which is published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Classification and measurement of financial assets from 1 January 2018

The effects of transition to IFRS 9 are given in Chapter “Effects of transition from IAS 39 to IFRS 9”.

In the continuation, accounting policies applicable to financial assets as of 1 January 2018 according to IFRS 9 are described.

The Group classifies financial assets based on:

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

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

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

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

After initial recognition the Group measures financial assets:

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

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

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

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

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

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

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

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

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

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

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

Gains and losses on financial assets

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

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

Investments in equity instruments

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

Investments in associated companies

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

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

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

Assessment of contractual cash flows

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

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

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

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

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

Changes in cash flows and derecognition of a financial asset

The Group derecognises a financial asset only when:

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

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

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

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

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

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

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

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

taking into account:

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

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

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

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

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

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

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

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

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

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

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

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

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

- country;
- companies; and
- financial institutions,

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

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

- exposure at default (EAD);

- probability of default (PD); and
- loss given default (LGD).

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

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

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

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

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

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

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

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

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

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

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

Fair value determination

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

Upon investment acquisition, the 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
- traders' market or OTC¹⁵ (market for debt investments).

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

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 an 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 the Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account for investments held by Kapitalska družba, whereas this does not apply to determining an active market for investments held by Modra zavarovalnica). 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 CBBT¹⁶ 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 BVAL¹⁷ price, if available. If neither of the above applies, fair value of the investment is measured on the basis of the valuation technique.

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

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

Value of shares can be estimated using the following valuation techniques: market based valuation approach, income approach and, in certain cases, asset approach. Valuation is based on the most recent information on a company's performance, which must not be older than 3 to 6 months from the fair value measurement date to which the value estimate will be applied. Market data and parameters used in the valuation process must include the most recent information and must be compliant with the date the estimated value will be applied to. If 3 to 6 months old information on the company's performance 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 fair value is measured based on the quoted price in active markets, without adjustments.

For valuation, exclusively closing quote on stock exchange or closing CBBT or BVAL price is used as unadjusted quoted 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:

16 Composite Bloomberg Bond Trader is Bloomberg information on real-time prices of bonds. Bloomberg calculates the price of a bond based on the weighted average price (both indicative and binding) drawn from by a larger number of different dealers.

17 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.

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

Pursuant to IFRS 13.74, in measuring fair value, priority is given to the inputs used in valuation techniques rather than valuation techniques.

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

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

Classification of equity investments

Table 31: Equity investment classification in case of exchange as the principal market (quoted equity investments)

Level 1	Equity investments with fair value measured on the basis of quoted prices in active markets
Level 2	Equity investments with fair value measured on the basis of quoted prices in less liquid markets Equity investments for which quoted prices are not available and for which the fair value is measured using a valuation technique (taking into account level 2 inputs)
Level 3	Equity investments for which quoted prices are not available and their fair value is measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties Quoted price older than 90 days may be used if the materiality criterion is not fulfilled

Table 32: Classification of unquoted equity investments

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

Table 33: Classification of collective investment funds

Level 1	Collective investment funds with fair value measured on the basis of quoted prices in active market
Level 2	Collective investment funds 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 34: 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 35: Classification of debt investments if an exchange acts as the principal market

Level 1	Debt investments with fair value measured on the basis of quoted prices in active markets
Level 2	Debt investments with fair value measured on the basis of quoted prices in less liquid markets Debt securities measured using the valuation technique (taking into account level 2 inputs)
Level 3	Debt securities measured using a valuation technique (taking into account level 3 inputs) or prices provided by third parties Quoted price older than 90 days may be used if the materiality criterion is not fulfilled

Table 36: Classification of debt investments if an OTC market acts as the principal market

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

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

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

Classification of loans and deposits

Bank deposits are disclosed at amortised cost in the statement of financial position unless they do not pass the SPPI test. In such case, they are classified in the category at fair value through profit or loss. As there is no market for deposit interest rates with directly observable prices, for the fair value disclosure purposes the deposits are measured using the initial or contractual interest rate, which is unobservable input, and thus categorised within Level 3.

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

As at the reporting date the Group estimates if there exist any factors indicating that non-current (non-financial) assets need to be impaired. If events occur indicating that the asset's book value is higher than the estimated recoverable amount, the value of the asset is impaired to its recoverable amount or that of cash-generating unit. The recoverable amount is the greater of an asset's (or cash generating unit's) net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. 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 through selling in the next 12 months, with the sale being highly probable, rather than with their continued use.

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

Operating receivables

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

Cash and cash equivalents

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

Equity

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

The Company's equity is share capital. The share capital of EUR 364,810 thousand is represented by 874,235 ordinary, registered, no-par value shares. Each no-par-value share has an identical share and the pertaining amount in the share capital.

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

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

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

Reserves arising from valuation at fair value

Reserves from valuation at fair value arise from the effects of valuation of financial assets at fair value through other comprehensive income and actuarial gains and losses arising from severance pay upon retirement. The amounts of reserves arising from valuation at fair value disclosed in the statement of financial position are adjusted for amounts of deferred tax.

Provisions

Provisions are recognised for current liabilities (legal or constructive) arising from past events when it is likely that an outflow of assets that generate economic benefits will be required to settle such an obligation, and when the amount of the liability can be reliably estimated. The amount recorded as a provision is the best estimate of expenses required to settle existing liabilities on the balance sheet date. When the value of money over time must be considered, provisions are determined on the basis of a discounted cash-flow using a discount rate (before taxes) which reflects the value of money over time and, where appropriate, includes potential risks associated with an individual liability. If provisions are made on the basis of a discounted cash-flow, an increase in the net present value is recognised over the years as financial expenses.

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

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

The Group establishes long-term provisions:

- when the guaranteed value of assets exceeds the actual value of assets belonging to an individual insured person/member, namely in the amount of the established deficit, i.e. the sum of differences between the guaranteed assets of the insured person/member and the actual value of the assets of the insured person/member;
- if a law suit is filed against a Group company or if such Group 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 of PPS and MR and MR II are classified as insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

IFRS 4 states that an event is uncertain if it is not clear upon the conclusion of the contract whether the insured event will take place, when the insured event will take place and what the compensation amount will be.

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.

Liabilities from insurance contracts – technical provisions

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

Modra zavarovalnica is required to form adequate technical provisions intended for covering future liabilities arising from insurance contracts and any losses due to risks deriving from the insurance transactions performed.

Technical provisions are calculated for every insurance contract separately. The calculation applies the prospective method.

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

The calculation of technical provisions arising from insurance contracts and their adequacy at the annual level are examined by a certified actuary who is appointed by the Management Board of Modra zavarovalnica to provide an opinion relating to the provisions.

Technical provisions of the KS PPS

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

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

Mathematical provisions from KS PPS policies are calculated by taking into account the Rules for the calculation of mathematical provisions. The calculation is based on the most recent annuity mortality tables approved by the Insurance Supervision Agency. The accrued interest rate and the costs are the same as applied in the annuity calculation. The mortality tables used in the calculation of mathematical provisions are more conservative than those used in annuity allocation.

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 for a 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 KS PPS mortality experience and are formed for all persons insured.

They are calculated and recognised on a monthly basis upon the calculation of mathematical provisions for 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 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 KS PPS policies have been formed pursuant to the most recent annuity tables. In this case, the surplus of assets, which is 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 Modra renta guarantee fund (KS MR)

Net KS MR technical provisions are mathematical provisions for KS MR policies concluded after retirement of the insured that exercised regular termination of additional pension insurance. They are calculated in accordance with the provisions of the Technical bases for annuity insurance, prospectively for each insurance policy. German annuity tables DAV1994R were applied in the calculation. The imputed interest rate, mortality tables and costs equal those used in the calculation of additional pension.

KS MR II technical provisions

Net KS MR II technical provisions are mathematical provisions for KS MR II policies concluded after retirement of the insured that exercised regular termination of additional pension insurance. They are calculated in accordance with the provisions of the Technical bases for annuity insurance, prospectively for each insurance policy. They also include mathematical provisions arising from the generated annuity fund profit. At least half of the profit at the time is attributed to the insured persons and the other half remains undistributed, intended for covering potential loss. German annuity tables DAV1994R were applied in the calculation. The imputed interest rate, mortality tables and costs equal those used in the calculation of additional pension.

Provisions for claims outstanding

Provisions for claims outstanding for annuity funds are established in the amount of the liabilities that the annuity 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.

Revenue

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

Revenues are classified into the following categories:

1. Premiums revenue

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.

a. Entry fees

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

c. Exit fees

In accordance with the pension scheme, the 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 income

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 in the income statement when the Group obtains the right to payment.

3. Revenue from sale of investments

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

Costs

Costs of materials and services

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

Employee benefits

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

Taxes

1. Current tax

Current tax assets and liabilities in respect of present and past periods are recognised at amounts which the Group expects to pay to or receive from the tax administration. Current tax assets or liabilities are measured using the tax rates enacted at the date of the statement of financial position.

2. Deferred tax

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

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

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

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

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

Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31 December 2018 and 31 December 2017, income statement data for the year 2018, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Segment reporting

In 2018, the Kapitalska družba Group had no business segments.

Risk management

Especially in the economic crisis, risk management proved to be a very important area, because efficient risk management is a condition for more stable and successful operations in the long run. Therefore, risk management is at all times crucial in performing activities to achieve the goals of the Group. The use of standard methodologies of risk management ensures the qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure. 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, it is important to operate in consistency with Solvency II Directive, 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.

According to its assessment, Modra zavarovalnica disposes with a sufficient volume of own assets with respect to its total need for capital.

Table 37: Capital adequacy according to Solvency II

ITEM	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Total capital need	122,828	125,268
Available eligible own funds	252,222	265,690
Surplus (+)/deficit (-) of available own funds (in EUR)	129,394	140,422
Eligible own funds to total capital need ratio	205%	212%

The annual data on the solvency position as at 31 December 2018 are presented in the Report on solvency and financial position of Modra zavarovalnica, which is published on its 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 securities prices, which are the result of various factors, largely influence the value of the equity investment portfolio in particular. The risk 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 the Group's investments abroad decreases the dependence of portfolio of investments on the movement of prices on the Slovenian capital market.

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

Interest rate risk

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

The Group minimises the risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of debt portfolio, by classifying investments in the group of investments held to maturity, and by restructuring investments with fixed interest rate into investments with variable interest rate or vice versa, depending on the expected movement in market interest rates. In 2018, 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 underlying instrument is denominated initially, not the currency of the securities that constitute a specific instrument or investment fund. In 2018, 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. The Internal Audit Department conducts regular audits of business processes and by making recommendations contributes to the improved internal controls and risk mitigation.

Strategic risk

Strategic risk is the risk of a loss owing to incorrect business decisions, inappropriate organisation and strategy of the Company and insufficient response to the changes in the business environment. Significant strategic risks include legislative, tax and political risks, resulting from the state's

discretionary right to adopt decisions, and may lead to changes in the business and tax environment. These risks also influence the processes involved in the sale of companies where the Group holds interests, the amount of liabilities to the pension budget and consequently the management of financial assets.

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

17.4 DISCLOSURES AND NOTES TO THE FINANCIAL STATEMENTS

17.4.1 Notes to the income statement

Note no. 1

Net sales revenues

	in EUR 000	
	2018	2017
Revenue from the sales of services	51,102	36,403
Revenues from management	7,366	7,918
Revenue from lease payments	1,449	1,095
Total	59,917	45,416

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

	in EUR 000	
	2018	2017
Revenue from sales on the domestic market	59,917	45,416
Total	59,917	45,416

Note no. 2

Other operating revenue (including operating revenues from revaluation)

	in EUR 000	
	2018	2017
Revenues from reversal of long-term provisions	1,904	2,592
Other operating revenues	105	85
Operating revenues from revaluation	30	7
Total	2,039	2,684

In 2018, Modra zavarovalnica derecognised provisions of EUR 1,724 thousand for non-achievement of guaranteed rate of return on funds managed. Revenues of Kapitalska družba from reversal of long-term provisions in the amount of EUR 180 thousand constitute revenues from the reversal of provisions for onerous contracts.

Other operating revenues include revenues from derecognition of statute-barred annuities in the amount of EUR 88 thousand and other minor items.

EUR 30 thousand of revaluation operating revenue represents gains from the disposal of fixed assets and small tools.

Note no. 3

Costs of goods, materials and services

	in EUR 000	
	2018	2017
Costs of materials	278	289
Costs of services	3,585	3,217
Total	3,863	3,506

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 cost of the 2018 Annual Report audit amounted to EUR 16,836. In 2018, Kapitalska družba paid no amount to auditor for other non-audit services.

Note no. 4

Labour costs

	in EUR 000	
	2018	2017
Payroll costs	4,873	4,713
Social security insurance costs	812	763
Pension insurance costs	231	229
Other labour costs	729	546
Total labour costs	6,645	6,251

Note no. 5

Amortisation, depreciation and write-offs

	in EUR 000	
	2018	2017
Depreciation/amortisation	1,578	1,377
Amortisation of intangible assets	557	445
Depreciation of buildings	307	306
Depreciation of garages	0	11
Depreciation of equipment and spare parts	95	125
Depreciation of investment property	619	490
Operating expenses from revaluation	400	0
Operating expenses from revaluation of fixed assets	400	0
Total	1,978	1,377

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 and other equipment.

Operating expenses from revaluation of fixed assets

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

Note no. 6

Other operating expenses

	in EUR 000	
	2018	2017
Change in technical provisions	26,689	18,930
Provisions	2,935	1,094
Other operating expenses	21,623	18,405
Total	51,247	38,429

In 2018, Modra zavarovalnica increased mathematical provisions of EUR 26,689 thousand, established provisions amounting to EUR 2,053 thousand for testing their adequacy and formed provisions for employees in the amount of EUR 22 thousand as well as for non-achievement of guaranteed rate of return equalling EUR 541 thousand.

The major portion of other operating expenses is represented by gross claims paid for life insurance by Modra zavarovalnica equalling EUR 20,374 thousand, consisting of accounted pension annuities, and expenses of the manager to cover the difference up to the guaranteed return of mutual pension funds in the amount of EUR 1,039 thousand.

Note no. 7

Financial income

	in EUR 000	
	2018	2017
Financial income from participating interests	42,923	57,818
Financial income from other investments and loans	10,396	9,946
Financial income from other investments	9,999	9,496
Financial income from loans granted	397	450
Total	53,319	67,764

Financial income from participating interests

	in EUR 000
	2018
Dividends and shares in profits	26,796
Financial income from revaluation of shares and interests	2,113
Exchange rate gains	445
The effect of restatement of financial income from shares and interests due to the adjustment of associates to equity method	9,331
Gains from the disposal of financial assets	3,349
- investments through other comprehensive income	177
- investments at fair value through profit or loss	3,172
Income from transfer of accrued costs and deferred revenue, and acquisition of shares	0
Income from financial receivable	877
Income from the acquisition of abandoned securities	12
Total	42,923

	in EUR 000
	2017
Dividends and shares in profits	21,093
Financial income from revaluation of shares and interests	4,096
Exchange rate gains	136
The effect of restatement of financial income from shares and interests due to the adjustment of associates to equity method	9,147

	in EUR 000
	2017
Gains from the disposal of financial assets	21,995
Available-for-sale investments	21,797
- investments measured at fair value through profit or loss	198
Income from transfer of accrued costs and deferred revenue, and acquisition of shares	1,128
Income from the acquisition of abandoned securities	223
Total	57,818

Financial income from other investments and loans

	in EUR 000
	2018
Interest income	8,450
Income from revaluation of receivables, debt and loans due to maintaining the value	1,717
Exchange rate gains	1,717
Income from realised gains	28
Income from the sale of investments measured through other comprehensive income	28
Income from a decrease in credit losses	201
Total	10,396

	in EUR 000
	2017
Interest income	8,773
Income from revaluation of receivables, debt and loans due to maintaining the value	165
Exchange rate gains	165
Income from realised gains	1,008
Income from the sale of investments available for sale	1,008
Total	9,946

Revenue from sale of investments

	in EUR 000
	2018
Income from realised gains	3,377
- investments through other comprehensive income	205
- investments at fair value through profit or loss	3,172

in EUR 000

2017

Income from realised gains	23,003
- available-for-sale investments	22,805
- investments measured at fair value through profit or loss	198

Income from the sale of investments in the amount of EUR 3,377 thousand constitutes realised capital gains from the disposal of investments measured through other comprehensive income and investments measured at fair value through profit or loss.

Interest income

in EUR 000

2018

Deposits	360
- at amortised cost	360
Bonds	7,694
- at fair value through profit or loss	380
- through other comprehensive income	5,262
- at amortised cost	2,052
Other investments	396
- at fair value through profit or loss	396
Total	8,450

in EUR 000

2017

Deposits	450
Bonds	7,835
- investments measured at fair value through profit or loss	422
- available-for-sale investments	3,808
- held-to-maturity	3,605
Other securities	14
- investments measured at fair value through profit or loss	11
- held-to-maturity	3
Other	474
Total	8,773

Note no. 8

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

	in EUR 000
	2018
Expenses from disposal of investments	-187
- at fair value through profit or loss	-138
- through other comprehensive income	-49
Interest expense	-7
Operating expenses from revaluation	-6,208
Expenses from the revaluation of investments at fair value through profit or loss	-4,355
Exchange rate losses	-1,766
Other expenses from revaluation	-87
Expenses from credit losses	-142
Other financial expenses	-6
Expenses for the Pension and Disability Insurance Institute	-50,000
Total	-56,550

	in EUR 000
	2017
Expenses from disposal of investments	143
- at fair value through profit or loss	95
- available-for-sale	48
Interest expense	5
Operating expenses from revaluation	3,646
Expenses from the revaluation of investments at fair value through profit or loss	290
Impairment of equity investments measured at fair value through equity	1,422
Expenses from the cancellation of shares	0
Exchange rate losses	1,778
Other expenses from revaluation	156
Other financial expenses	6
Expenses for the Pension and Disability Insurance Institute	50,000
Total	53,800

Expenses from the sale of financial assets in the amount of EUR 187 thousand constitute realised capital losses from the disposal of financial assets.

The Group revalued equity investments carried at fair value through profit or loss in the amount of EUR 4,355 thousand. In 2018, expenses from revaluation of investments at fair value through profit or loss were significantly higher than in 2017 due to more demanding situation in the securities market. The greatest impact on expenses from revaluation of investments was due to the drop in share price.

Pursuant to the provision of ZIPRSS1819, Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2018. These payments were stated under financial expenses from other financial liabilities in the income statement.

Exchange rate differences

	in EUR 000	
	2018	2017
Exchange rate gains	1,737	301
Exchange rate losses	-1,766	-1,778
Net exchange rate gains/losses	-29	-1,477

In 2018, the net exchange rate loss amounted to EUR 29 thousand.

Gains/Losses from investments

	in EUR 000	
	2018	2017
Income from investments	53,319	67,764
Expenses from investments	-56,550	-53,800
Net profit or loss financial asset	-3,231	13,964

Note no. 9

Other revenue

	in EUR 000	
	2018	2017
Other items	162	230
Total	162	230

Other items comprise revenue from compensations in the amount of EUR 123 thousand, revenue from previous periods totalling EUR 29 thousand and other revenue amounting to EUR 10 thousand.

Note no. 10

Other expenses

	in EUR 000	
	2018	2017
Other items	2	64
Total	2	64

The majority of other items is accounted for by expenses from enforcement.

Note no. 11

Income tax

	in EUR 000	
	2018	2017
Profit or loss before tax	-5,300	10,511
Tax on dividends from abroad	143	145
Non-deductible expenses	2,075	3,202
Changes in accounting policy	2,921	0
Provisions formation	-34	0
Non-taxable revenue	-30,913	-27,519
Tax allowance	-155	-316
Tax loss	-1,888	-3,537
Total	-33,151	-17,514
Income tax (19%)	189	536
Tax on foreign dividends until agreement	141	76

The Kapitalska družba Group does not prepare a consolidated tax balance sheet. As at 31 December 2018, Kapitalska družba had no corporate income tax liability. In 2018, Modra zavarovalnica assessed corporate income tax at EUR 189 thousand.

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 the provision of ZIPRSS1819, Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2018. 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 a negative tax base in 2018.

Note no. 12

Deferred tax

At 31 December 2018, deferred income tax included the items stated in the table below.

	Statement of financial position		Income statement		Retained profit/loss
	31. Dec. 2018	31. Dec. 2017	2018	2017	
Deferred income tax - liabilities	39,110	38,768	99	174	
Total deferred income tax liabilities	39,110	38,768	99	174	
Deferred income tax - assets	31,284	28,950	-19,391	3,495	
Losses brought forward that can be used for tax relief	29,525	26,724	2,802	4,050	

	Statement of financial position		Income statement		in EUR 000 Retained profit/loss
	31. Dec. 2018	31. Dec. 2017	2018	2017	
Value adjustment of investments	1,671	2,125	-22,180	-526	-269
Dividend adjustment	0	0	0	-38	
Value adjustment of receivables	2	0	2	0	
Provisions	86	101	-15	9	
Total deferred income tax assets	31,284	28,950	-19,391	3,495	-269
Netting of deferred tax assets and liabilities	-7,826	-9,818	-19,292	3,669	-269

Disclosure of tax loss

	in EUR 000	
	2018	2017
Tax loss as at 31 December of the reporting period	-540,285	507,224
Tax loss not considered in the calculation of deferred taxes	-384,823	366,572
Tax loss considered in the calculation of deferred taxes	-155,462	140,652

Tax loss amounting to EUR 384,823 thousand does not comprise deferred tax assets, whereas tax loss of EUR 155,462 thousand includes deferred tax assets. Tax losses are transferable without time limitation.

In 2018, Kapitalska družba disclosed no corporate income tax liabilities, because a tax loss was determined. Modra zavarovalnica reported corporate income tax liability in 2018.

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

	in EUR 000	
CHANGES IN DEFERRED TAX	2018	2017
Balance as at 1 January	61,369	55,173
Changes during the year	-21,652	6,196
Balance as at 31 December	39,717	61,369

Deferred tax liabilities of EUR 39,717 thousand at 31 December 2018 arose on revaluation of investments measured at fair value through the statement of comprehensive income.

Note no. 13

Net earnings/loss per share

Basic net earnings/loss per share are calculated by dividing net profit/loss for the accounting period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the accounting period. The weighted average of ordinary shares outstanding is calculated by reference to shares in issue during the period, considering any potential redemptions and sales in that period and the period during which these shares generated profit. Diluted net earnings/loss per share

also include all potential ordinary shares from convertible bonds, options and forward contracts. When calculated, net earnings/loss and the number of shares are adjusted for effects of all dilutive potential ordinary shares that would occur if they were swapped for ordinary shares in the accounting period.

	2018	2017
Net profit or loss attributable to holders of ordinary shares of the parent company (EUR 000)	-24,329	15,800
Diluted net profit or loss attributable to holders of ordinary shares of the parent company (EUR 000)	-24,329	15,800
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)	-27.83	18.1

As at 31 December 2018, 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.

17.4.2 Notes to the statement of financial position

Note no. 14

Intangible assets and long-term deferred costs and accrued revenues

Table 38: Changes in intangible assets and long-term deferred costs and accrued revenues in 2018

in EUR 000			
31. DEC. 2018	Long-term property rights	Long-term accrued revenue and deferred costs	Total
Cost			
Cost as at 1 Jan. 2018	5,141	50,000	55,141
Additions	496	0	496
Disposals	-4	-50,000	-50,004
Cost as at 31 Dec. 2018	5,633	0	5,633
Value adjustment			
Value adjustment as at 1 Jan. 2018	-3,638	0	-3,638
Disposals, write-offs	4	0	4
Depreciation/amortisation	-557	0	-557
Value adjustment as at 31 Dec. 2018	-4,191	0	-4,191
Carrying amount			
Carrying amount as at 1 Jan. 2018	1,503	50,000	51,503
Carrying amount as at 31 Dec. 2018	1,442	0	1,442

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

in EUR 000

31. DEC. 2017	Long-term property rights	Long-term accrued revenue and deferred costs	Total
Cost			
Cost as at 1 Jan. 2017	4,425	0	4,425
Additions	958	50,000	50,958
Disposals	-241	0	-241
Cost as at 31 Dec. 2017	5,142	50,000	55,142
Value adjustment			
Value adjustment as at 1 Jan. 2017	3,194	0	3,194
Disposals, write-offs	0	0	0
Depreciation/amortisation	445	0	445
Value adjustment as at 31 Dec. 2017	3,639	0	3,639
Carrying amount			
Carrying amount as at 1 Jan. 2017	1,231	0	1,231
Carrying amount as at 31 Dec. 2017	1,503	50,000	51,503

Note no. 15

Property, plant and equipment

Table 40: Changes in property, plant and equipment in 2018

in EUR 000

31. DEC. 2018	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2018	10,217	1,975	12,192
Additions	7	590	597
Disposals	-412	-59	-471
Cost as at 31 Dec. 2018	9,812	2,506	12,318
Value adjustment			
Value adjustment as at 1 Jan. 2018	-3,991	-1,791	-5,782
Disposals, write-offs	104	59	163
Depreciation/amortisation	-307	-95	-402
Value adjustment as at 31 Dec. 2018	-4,194	-1,827	-6,021
Carrying amount			
Carrying amount as at 1 Jan. 2018	6,226	184	6,410
Carrying amount as at 31 Dec. 2018	5,618	679	6,297

In 2018, Kapitalska družba transferred garages from "Glavarjeva rezidenca", Ljubljana, from buildings to investment property and leased them out.

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

in EUR 000

31. DEC. 2017	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2017	10,217	2,215	12,432
Additions	0	47	47
Disposals	0	-287	-287
Cost as at 31 Dec. 2017	10,217	1,975	12,192
Value adjustment			
Value adjustment as at 1 Jan. 2017	3,674	1,951	5,625
Disposals, write-offs	0	-286	-286
Depreciation/amortisation	317	127	444
Value adjustment as at 31 Dec. 2017	3,991	1,792	5,783
Carrying amount			
Carrying amount as at 1 Jan. 2017	6,543	264	6,807
Carrying amount as at 31 Dec. 2017	6,226	183	6,409

Note no. 16

Investment property

Table 42: Changes in investment property in 2018

in EUR 000

31. DEC. 2018	Land	Buildings	Total
Cost			
Opening balance as at 1 Jan. 2018	0	18,630	18,630
Acquisitions	3,669	11,890	15,559
Disposals, transfers, impairments	0	-555	-555
Closing balance as at 31 Dec. 2018	3,669	29,965	33,634
Value adjustment			
Opening balance as at 1 Jan. 2018	0	-5,600	-5,600
Additions, transfers	0	-104	-619
Disposals, write-offs	0	167	167
Depreciation/amortisation	0	-619	-104
Closing balance as at 31 Dec. 2018	0	-6,156	-6,156
Carrying amount			
Opening balance as at 1 Jan. 2018	0	13,030	13,030
Closing balance as at 31 Dec. 2018	3,669	23,809	27,478

In 2018, Kapitalska družba transferred garages from “Glavarjeva rezidenca”, Ljubljana, from buildings to investment property. In 2018, Kapitalska družba acquired new investment property in the office building “Stekleni dvor”, Ljubljana in the amount of EUR 5,738 thousand.

As at 31 December 2018, Kapitalska družba impaired investment properties “Smelt” and “Bežigranski dvor” in the amount of EUR 388 thousand.

The fair value of investment property does not significantly deviate from the carrying amount as at 31 December 2018, except for the “Nebotičnik” office building, whose fair value greatly exceeds its carrying amount. The fair value of investment property was estimated based on external appraisal.

The investment property of Hotelske nepremičnine, d. o. o., is the San Simon hotel resort.

Table 43: Changes in investment property in 2017

	in EUR 000
31. DEC. 2017	Buildings
Cost	
Opening balance as at 1 Jan. 2017	18,306
Acquisitions	324
Disposals, transfers, impairments	0
Closing balance as at 31 Dec. 2017	18,630
Value adjustment	
Opening balance as at 1 Jan. 2017	5,110
Depreciation/amortisation	490
Closing balance as at 31 Dec. 2017	5,600
Carrying amount	
Opening balance as at 1 Jan. 2017	13,196
Closing balance as at 31 Dec. 2017	13,030

Table 44: Rental income from investment property and costs related to investment property

	in EUR 000	
	2018	2017
Rental income from investment property	1,061	1,081
Costs related to investment property	672	676

Information about encumbrances

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

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

Note no. 17

Investments in associated companies and joint ventures

As the parent company, Kapitalska družba consolidates Modra zavarovalnica, d. d., and Hotelske ne-premičnine, d. o. o.

As at 31 December 2018, investments in associated companies include:

No.	ASSOCIATED COMPANY	REGISTERED OFFICE OF THE COMPANY	Equity stake in %	Equity as at 31 Dec. 2018	Net profit/loss for 2018
1.	Casino Maribor, d. d. - in bankruptcy ¹⁸	Glavni trg 1, Maribor	20.00	-	-
2.	Gio, d. o. o. - in liquidation	Dunajska cesta 160, Ljubljana	28.68	-	-
3.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51	17,901	400
4.	Hit, d. d. ¹⁹	Delpinova ulica 7a, Nova Gorica	20.32	52,852	2,141
5.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00	19,668	5,112
6.	Sava, d. d.	Dunajska cesta 152, Ljubljana	27.81	35,817	551
7.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79	72,790	1,677
8.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79	35,782	2,353

Kapitalska družba consolidates the following companies in the consolidated financial statements using the equity method:

- Hit, d. d.,
- Gospodarsko razstavišče, d. o. o.,
- Loterija Slovenije, d. d.,
- Sava, d. d., and
- Cinkarna Celje, d. d.

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

Kapitalska družba is not exposed to any risks arising from ownership stakes in subsidiaries and associated companies, 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.

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

19 In Hit, d. d., the Company holds 33.33% of voting rights. Preference shares do not carry any voting rights, as the dividend was paid in 2018.

Table 45: Changes in investments in associates

	in EUR 000	
	2018	2017
Carrying amount as at 1 Jan.	79,229	55,629
Changes	-2,203	6,806
<i>Attribution of net profit due to the acquisition of associates using the equity method</i>	9,331	9,147
<i>Exclusion of dividends</i>	-5,425	-4,103
<i>Exclusion of reserves arising from valuation at fair value</i>	-1,256	426
<i>Revaluation to fair value (downwards/upwards)</i>	-4,853	1,336
Reclassification of existing investments to associated companies	-1,722	7,831
Change in reserves arising from valuation at fair value	0	8,963
Carrying amount as at 31 Dec.	75,304	79,229

Note no. 18

Assets held for sale

	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Assets held for sale	14,418	1,940
Total	14,418	1,940

Non-current assets held for sale in the amount of EUR 14,418 thousand as at 31 December 2018 are held for sale in the next 12 months.

Note no. 19

Investments, excluding loans

	in EUR 000					
	Long-term		Short-term		Total	
	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017
Shares and interests in associated companies	75,304	79,229	0	0	75,304	79,229
Other shares and interests	762,756	800,731	0	0	762,756	800,731
Other investments	255,439	272,555	57,951	20,701	313,390	293,256
Assets held for sale	0	0	14,418	1,940	14,418	1,940
Total	1,093,499	1,152,515	72,369	22,641	1,165,868	1,175,156

Carrying amount of financial assets

As at 31 December 2018, the Group classified financial assets into one of the following groups according to IFRS 9: financial assets at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost. In addition, financial assets are also classified as long-term and short-term.

	in EUR 000		
31. DEC. 2018	Long-term	Short-term	Total
Financial assets at fair value through profit or loss	82,346	39,957	122,303
Set upon initial recognition	82,346	39,957	122,303
Mandatorily measured at fair value through profit or loss	0	0	0
Financial assets at amortised cost	141,903	12,218	154,121
Financial assets at fair value through other comprehensive income	869,250	20,194	889,444
Debt instruments	96,263	7,709	103,972
Equity instruments	772,987	12,485	785,472
Total	1,093,499	72,369	1,165,868

Investments of the Group other than loans were classified into one of the following groups as at 31 December 2017 according to IAS 39: financial assets measured at fair value through profit or loss, investments held to maturity, and available-for-sale financial assets. In addition, investments are also classified as long-term and short-term.

	in EUR 000		
31. DEC. 2017	Long-term	Short-term	Total
Investments measured at fair value through profit or loss	71,661	6,802	78,463
Investments held to maturity	120,465	8,795	129,260
Available-for-sale financial assets	881,160	7,044	888,204
Investments in associates under the equity method	79,229	0	79,229
Total	1,152,515	22,641	1,175,156

	in EUR 000	
	31. Dec. 2017	
Investments measured at fair value through profit or loss	78,463	
Equity securities	58,820	
Debt securities	19,643	
Investments held to maturity	129,260	
Available-for-sale financial assets	933,553	
Equity securities	823,080	
Debt securities	110,473	
Total	1,141,276	

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

ASSET	in EUR 000	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	122,303	122,303
Financial assets at amortised cost	154,121	163,395
Financial assets at fair value through other comprehensive income	889,444	889,444
Investments in loans	48,814	48,814
Cash and cash equivalents	21,859	21,859
Total	1,236,541	1,245,815

Overview of financial assets by carrying amount and fair value as at 31 December 2017

ASSET	in EUR 000	
	Carrying amount	Fair value
Investments at fair value through profit or loss	78,463	78,463
Investments held to maturity	129,260	141,944
Available-for-sale financial assets	967,433	967,433
Loans	42,134	42,134
Cash and cash equivalents	35,177	35,177
Total	1,252,467	1,265,151

Changes in securities investments in 2018

	in EUR 000				
	31 Dec. 2017	Acquisitions	Disposals, maturity	Revaluation	31 Dec. 2018
Investments at fair value through profit or loss	78,463	36,414	23,169	-4,355	87,353
Investments at amortised cost	152,478	44,125	46,109	3,627	154,121
Investments at fair value through other comprehensive income	836,971	53,857	34,432	33,048	889,444
Total	1,067,912	134,396	103,710	32,320	1,130,918

Investments by type of interest rate as at 31 December

Debt investments	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Debt investments	276,593	292,659
Fixed interest rate	271,692	288,274
Variable interest rate	4,901	4,385

	31. Dec. 2018	31. Dec. 2017
in EUR 000		
Loans and deposits	49,314	71,152
Fixed interest rate	49,314	71,152
Variable interest rate	0	0
Total	325,907	363,811

Investments in equity instruments measured at fair value through other comprehensive income as at 31 December 2018

Dividends of Kapitalska družba recognised on disposed investments measured at fair value through other comprehensive income amount to EUR 1 thousand. In 2018, Modra zavarovalnica received EUR 50 thousand in dividends from investments disposed in 2018 arising from equity investments measured at fair value through other comprehensive income.

ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	In EUR Value as at 31 Dec. 2018
AT0000607270	3,289,814	IE0032523478	4,646,863	LU0300357802	721,256
AT0000A0EY43	1,454,810	IE0032875985	1,549,284	LU0482910402	1,660,428
AT0000A0EYD6	1,553,375	IE00B2NSVP60	5,329,506	LU0524480265	4,841,471
BA100TLKMRA2	56,188	IE00B3DWVS88	19,838,340	LU0616840772	1,890,630
BMG5695X1258	752,635	IE00B3F81R35	6,468,346	LU0706717195	5,417,327
CH0012032048	768,927	IE00B4L5Y983	8,433,052	LU1650488494	3,234,272
CNE1000002H1	720,379	IE00B4L60045	1,498,849	LU1681044480	4,787,864
CNE1000003G1	891,408	IE00B4WXJJ64	2,956,181	LU1681044563	2,994,469
DE0005933931	9,459,649	IE00B5ZR2157	635,476	LU1769937829	3,102,577
DE0008404005	3,007,154	IE00B60SX394	35,252,835	LU1769939288	2,070,527
DE0008430026	2,299,176	IE00B66F4759	1,971,566	NL0000009538	1,174,783
DE000A0D8Q23	1,143,400	IE00B87RLX93	1,576,050	PLINHOLD D.O.O.	714,000
DE000A0H08M3	915,300	IE00BC7GZW19	1,496,964	PS ZA AVTO D.O.O.	227,141
DE000A0Q4R02	335,640	IE00BJ0K0Q92	15,678,474	SI0021100134	79
DE000A2GS401	584,004	IE00BSKRK281	3,557,016	SI0021110083	535
DSI000001003	2,198,398	IT0003132476	850,795	SI0021110323	74
ELAN INVENTA D.O.O.	714,000	JE00B1VS3770	1,070,830	SI0021110513	10,941,428
ES0178430E18	620,909	JP3304200003	955,034	SI0021111313	3,867
FR0000120578	1,531,737	LU0131211178	1,827,143	SI0021111651	5,575
FR0007068036	633,400	LU0179220412	424,828	SI0021112105	2,106
FR0010326140	472,227	LU0274208692	34,656,795	SI0021112212	93
GIO D.O.O.	1,423,243	LU0278087860	1,654,198	SI0021113111	3,469
GOSPODARSKO RAZSTAVIŠČE D.O.O.	1,668,000	LU0290355717	13,550,254	SI0021113855	12,854
HK2828013055	1,484,472	LU0290358224	1,853,695	SI0021401342	11,774
		LU0292107991	3,896,168	SI0031100082	92

		In EUR			
ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018
SI0031100090	1,871,771	SI0031107459	510	SI0031111576	3
SI0031100215	305	SI0031107582	0	SI0031111816	222
SI0031100637	3,689,774	SI0031107673	2,505,211	SI0031112053	68
SI0031100793	0	SI0031107772	12,540	SI0031112772	7
SI0031101346	18,111,054	SI0031107913	0	SI0031113143	9,775,634
SI0031101494	184	SI0031107954	5,809,967	SI0031113184	6,593
SI0031101577	0	SI0031107996	0	SI0031113309	8,411
SI0031101700	0	SI0031108184	36,869	SI0031113432	0
SI0031101999	0	SI0031108200	27	SI0031113481	11
SI0031102005	183	SI0031108259	187	SI0031113770	0
SI0031102047	0	SI0031108358	0	SI0031113788	635
SI0031102070	0	SI0031108556	0	SI0031113879	0
SI0031102120	201,904,648	SI0031108564	0	SI0031113929	0
SI0031102153	53,519,020	SI0031108580	2,483,094	SI0031114182	0
SI0031102187	108	SI0031108655	7,199,688	SI0031114281	59
SI0031102773	4	SI0031108846	4,974	SI0031114307	0
SI0031102799	0	SI0031108994	2,489,638	SI0031114455	172
SI0031103151	3,179	SI0031109034	40	SI0031114596	0
SI0031103367	1,082	SI0031109109	0	SI0031114604	6
SI0031103375	5	SI0031109380	0	SI0031114794	726
SI0031103706	2,698,920	SI0031109463	21	SI0031114802	0
SI0031103805	29,496,303	SI0031109539	2,408	SI0031114893	206
SI0031104183	0	SI0031109562	0	SI0031114901	67
SI0031104290	21,545,384	SI0031109646	264,188	SI0031114976	8,127
SI0031104399	1,546	SI0031109661	0	SI0031114984	6,549
SI0031104431	0	SI0031109711	0	SI0031115031	7,113
SI0031104555	0	SI0031109737	464	SI0031115080	0
SI0031104597	1,031,467	SI0031109786	0	SI0031115437	6,682
SI0031104621	168,668	SI0031109927	1,783	SI0031115767	12,303
SI0031104829	1,095,100	SI0031110016	0	SI0031115866	2,596
SI0031104845	0	SI0031110248	19,228	SI0031115940	0
SI0031105024	10,362,060	SI0031110263	0	SI0031116062	1,000
SI0031105271	0	SI0031110271	182	SI0031116104	3
SI0031105495	1,887	SI0031110412	4,653	SI0031116443	1,578
SI0031105529	789,012	SI0031110461	17,799	SI0031116815	0
SI0031105602	9	SI0031110495	31	SI0031117144	0
SI0031105677	2,182,018	SI0031110677	0	SI0031117169	21,689
SI0031106907	0	SI0031110743	31	SI0031117268	0
SI0031107079	11	SI0031111048	1,085	SI0031117318	9,249,955
SI0031107293	4,414	SI0031111279	0	SI0031117441	66
SI0031107350	6,929,998	SI0031111485	9	SI0031200239	65,703

ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018	In EUR	
				ISIN CODE	Value as at 31 Dec. 2018
SI0031200304	0	US4642867729	2,209,075	US61745C1053	1,303,565
SI0031200429	898	US4642871846	13,328,157	US68389X1054	1,989,755
SI0031200791	2,420	US4642873255	5,442,358	US78462F1030	11,327,378
SM STROJKOPLAST MARIBOR D.O.O.	118,017	US4642873339	3,774,777	US81369Y2090	2,807,457
US02079K1079	1,796,263	US4642873412	4,261,518	US81369Y3080	2,193,962
US02079K3059	1,807,918	US4642877397	2,388,917	US81369Y5069	2,754,803
US16941M1099	1,148,646	US4642886950	3,457,171	US81369Y6059	5,182,150
US17275R1023	1,106,599	US4642887297	5,940,975	US81369Y7040	1,687,598
US1912161007	3,237,996	US4642887370	1,686,236	US81369Y8030	15,616,795
US4642861037	1,060,011	US4642887453	8,661,560	US81369Y8600	938,420
US4642864007	1,087,783	US46434G1031	5,023,843	US91912E1055	343,562
US4642865095	1,648,615	US46434G8226	6,153,633	US92189F7006	3,815,032
US4642866085	1,886,197	US46434V7385	4,259,336		
		US5949181045	3,682,068		

Due to favourable market conditions and provision of liquidity, Kapitalska družba in 2018 disposed of equity investments in the total fair value of EUR 59,154 thousand. The cumulative effect of the sale of equity instruments measured at fair value through other comprehensive income is EUR -10,055 thousand and is recognised under profit/loss brought forward. Loss on sale is due to the mandatory transfer of permanent impairments to reserves arising from fair value accounting and to profit/loss brought forward as at 1 January 2018 in accordance with IFRS 9. On 1 January 2018, Kapitalska družba recognised EUR 115,864 thousand from permanent impairments under profit/loss brought forward.

Due to favourable market conditions and provision of liquidity, Modra zavarovalnica in 2018 disposed of investments in the total amount of EUR 11,059 thousand, generating EUR 2,385 thousand of profit, which was transferred to retained earnings.

Fair value hierarchy as at 31 December 2018

	in EUR 000			
	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss	53,508	22,744	46,051	122,303
Investments at fair value through other comprehensive income	678,391	148,795	62,258	889,444
Total	731,899	171,539	108,309	1,011,747

Level 1

Level 1 includes the investments owned by Kapitalska družba and Modra zavarovalnica the fair value of which is determined based on quoted prices in active markets. An active market is either a stock exchange market (for equity and debt instruments) or a traders' or OTC market (for debt investments). In this sense, Level 1 comprises investments, the principal market of which is defined as the stock market with the average daily turnover over the last 180 days from the date of fair value measurement exceeding EUR 0.5 million, taking into account the number of trading days (in case of the Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account for investments held by Kapitalska družba, whereas this does not apply to determining an active market for investments held by Modra zavarovalnica).

Level 1 also includes investments whose principal market is the traders' market or OTC, if the CBBT (Composite Bloomberg Bond Trader) price was published for at least half of trading days in the 30 days preceding the valuation.

Level 1 also includes mutual fund coupons the fair value of which is determined on the basis of the quoted unit value.

Level 2

Level 2 comprises investments the fair value of which is determined based on quoted prices and 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 the Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account for investments held by Kapitalska družba, whereas this does not apply to determining an active market for investments held by Modra zavarovalnica), 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 11,168 thousand.

Level 2 also includes investments in the shares of some Slovenian companies in the amount of EUR 5,443 thousand measured using benchmark market data of comparable listed companies.

Among other, this group comprises investments in target funds that do not fulfil the conditions of an active market.

Level 3

Level 3 includes investments the fair value of which is determined based on own valuation models that take into account the subjective variables not publicly available on markets, debt securities owned by Kapitalska družba with fair value measured based on BVAL price (this does not apply to investments held by Modra zavarovalnica), 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 5,023 thousand. 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.

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

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

The fair value of the shares of Elektro Ljubljana, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.4% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Maribor, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.1% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Primorska, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.9% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Celje, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.6% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Gorenjska, d. d. was estimated by applying the income-based

approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.4% discount rate. The remaining growth rate of normalised cash flow is 2%.

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

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.64% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the business interest in Gospodarsko razstavišče, d. o. o., was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.07% discount rate. The remaining growth rate of normalised cash flow is 1.5%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o. is the value of the company's redundant real estate. The estimated value of this real estate is set using the comparable method.

The fair value of the shares of Terme Olimia, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.6% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Talum, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.74% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

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

The fair value of the business interest in Elan Inventa, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 11.92% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the shares of Loterija Slovenije, d. d. was estimated by applying the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.72% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

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

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

The fair value of investments in accounts receivable is measured at Level 3 of the fair value hierarchy.

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

Table 46: Transition between the levels of fair value hierarchy as at 31 Dec. 2018

in EUR 000				
TRANSITION BETWEEN HIERARCHY LEVELS, PORTFOLIO AS AT 31 DEC. 2018	From Level 1 to Level 2	From Level 2 to Level 3	From Level 3 to Level 2	Total
Investments at fair value through other comprehensive income	1,884	6,834	18	8,736
Shares and other equity instruments	0	6,834	18	0
Units and shares of open-end funds	1,884	0	0	0
Total	1,884	6,834	18	8,736

Fair value hierarchy as at 31 Dec. 2017

in EUR 000				
	Level 1	Level 2	Level 3	Total
Investments measured at fair value through profit or loss	48,265	23,195	7,002	78,462
Available-for-sale financial assets	689,391	176,574	101,470	967,435
Total	737,656	199,769	108,472	1,045,897

Level 1

Level 1 includes the investments owned by Kapitalska družba and Modra zavarovalnica the fair value of which is determined based on quoted prices in active markets. An active market is either a stock exchange market (for equity and debt instruments) or a traders' or OTC market (for debt investments). In this sense, Level 1 comprises investments, the principal market of which is defined as the stock market with the average daily turnover over the last 180 days from the date of fair value measurement exceeding EUR 0.5 million, taking into account the number of trading days (in case of the Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account). Level 1 also includes investments whose principal market is the traders' market or OTC, if the CBBT (Composite Bloomberg Bond Trader) price was published for at least half of trading days in the 30 days preceding the valuation.

Level 2

Level 2 comprises investments to which the assumption of an active market 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 the 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 less than half of trading days in the 30 days preceding the valuation.

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

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

Among other, this group comprises investments in target funds that do not fulfil the conditions of an active market.

Level 3

Level 3 includes investments the fair value of which is determined based on own valuation models that take into account the subjective variables not publicly available on markets, debt securities with fair

value measured based on BVAL price, and the securities investments, the prices of which are provided by third parties.

Level 3 also includes investments in commercial papers of Slovenian issuers totalling EUR 6,987 thousand. The prices 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.

The fair value valuation of Level 3 investments (shares and equity stakes) was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the 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 Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d. and Elektro Maribor, d. d. owned by Kapitalska družba was estimated based on the market comparison method using the comparable listed companies approach. Adjusted multipliers were used. The fair value of the investment in Elektro Ljubljana, d. d. owned by Modra zavarovalnica was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.2% discount rate until 2020 and at 7.6% in subsequent years, with the long-term growth rate of 2%.

The fair value of the shares of Perutnina Ptuj, d. d., was estimated by applying the market comparison approach using the comparable transaction method.

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.30% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at a 6.37% discount rate. The remaining growth rate of normalised 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 redundant assets. The estimated value of this real estate is set using the regular liquidation method. The liquidation period is expected to last for 24 months and risk-free interest rate used for discounting is 1.427%.

The fair value of the shares of Terme Olimia, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.97% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Talum, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.71% discount rate. The remaining growth rate of normalised 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 business interest in Elan Inventa, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 11.54% discount rate. The remaining growth rate of normalised cash flow is 2.0%.

The fair value of the shares of Loterija Slovenije, d. d. was estimated by applying the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.20% discount rate. The remaining growth rate of normalised cash flow is 2%.

The value of the investment in Certa, d. d. was primarily set by the present value of expected free cash flow model. The estimated free cash flow was discounted at a 12% discount rate and the remaining growth rate of normalised cash flow is 2%.

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

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

The fair value of shares representing 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 accounts receivable is measured at Level 3 of the fair value hierarchy.

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

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

in EUR 000

TRANSITION BETWEEN HIERARCHY LEVELS, PORTFOLIO AS AT 31 DEC. 2017	From Level 1 to Level 2	From Level 2 to Level 1	From Level 2 to Level 3	Total
Investments measured at fair value through profit or loss	0	0	0	0
Shares and other equity instruments	0	0	0	0
Debt securities	0	0	0	0
Units and shares of open-end funds	0	0	0	0
Money market instruments	0	0	0	0
Available-for-sale financial assets	71	16,731	16,966	33,768
Shares and other equity instruments	0	16,731	12,911	29,642
Units and shares of open-end funds	71	0	0	71
Debt securities	0	0	4,055	4,055
Total	71	16,731	16,966	33,768

Table 48: Effective interest rate by investment groups

	2018	2017
Investments at amortised cost (held to maturity)	2.67%	2.75%
Investments at fair value through other comprehensive income (available for sale)	3.94%	4.65%

Note no. 20

Loans to others

in EUR 000

	Long-term		Short-term		Total	
	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017
Loans to others	7,780	6,000	41,034	36,134	48,814	42,134
Total	7,780	6,000	41,034	36,134	48,814	42,134

Short-term loans by Kapitalska družba to others comprise short-term deposits and the short-term part of long-term deposits to Addiko banka, d. d., Sberbanka, d. d., and Gorenjska banka, d. d. Loans by Modra zavarovalnica to others constitute loans and deposits with banks in Slovenia.

Loans to others are not pledged.

Note no. 21

Operating receivables

	in EUR 000					
	Long-term		Short-term		Total	
	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017
Trade receivables	0	0	1,543	1,461	1,543	1,461
Operating receivables due from others	124	73	4,610	1,287	4,734	1,360
Other operating receivables	0	0	53,024	52,106	53,024	52,106
Total	124	73	59,177	54,854	59,301	54,927

EUR 124 thousand of long-term operating receivables due from others represent EUR 90 thousand paid into the reserve fund for the maintenance of real estate and receivables from a company in compulsory settlement proceedings equalling EUR 34 thousand.

In 2019, operating receivables in the amount of EUR 59,177 thousand will fall due, of which most are accounted for by short-term deferred expenses of Kapitalska družba arising from the payment to the Pension and Disability Insurance Institute for 2019 in the amount of EUR 50,000 thousand.

Short-term trade receivables of EUR 1,543 thousand and short-term operating receivables from others amounting to EUR 4,610 thousand relate to operating receivables of Kapitalska družba, d. d., Modra zavarovalnica d. d. and Hotelske nepremičnine, d. o. o.

The Group has no value adjustments of receivables.

The Group has no collateralised operating receivables. The Group's operating receivables are not subject to material risk.

Breakdown of operating trade receivables by maturity

31. DEC. 2018	in EUR 000					
	Not due	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
1,543	1,539	2	0	0	0	2

Note no. 22

Cash and cash equivalents

	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Bank balances	5,650	6,155
Call deposit	16,209	29,022
Total	21,859	35,177

Note no. 23

Equity

	31. Dec. 2018	31. Dec. 2017
Share capital (EUR 000)	364,810	364,810
Ordinary shares (number)	874,235	874,235

The Group has no treasury shares. The share capital of EUR 364,810 thousand is represented by 874,235 ordinary, registered, no-par value shares. Each no-par-value share has an identical share and the pertaining amount in the share capital.

Note no. 24

Capital surplus

in EUR 000

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

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

Note no. 25

Revenue reserves

As at 31 December 2018, the Kapitalska družba Group reported no other revenue reserves.

Note no. 26

Financial liabilities

in EUR 000

	Long-term		Short-term		Total	
	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017
Other long-term financial liabilities	349	50,582	3	0	352	50,582
Total	349	50,582	3	0	352	50,582

As at 31 December 2018, Kapitalska družba disclosed EUR 3 thousand of financial liabilities from interest owed to KDD. As at 31 December 2017, Kapitalska družba reported EUR 50,000 thousand of financial liabilities, which related to settling the liabilities of Kapitalska družba to the Pension and Disability Insurance Institute for 2019. The financial liability to the Pension and Disability Insurance Institute is not subject to interest and was stated under short-term liabilities to the state in 2018.

As at 31 December 2018, Modra zavarovalnica disclosed EUR 349 thousand of liabilities from finance lease of intangible fixed assets.

Financial liabilities maturity

	in EUR 000 31. Dec. 2018
Up to 1 year	352
1 to 2 years	0
2 to 5 years	0
Over 5 years	0
Total	352

Note no. 27

Operating liabilities

	Long-term		Short-term		Total	
	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31. Dec. 2017
Trade liabilities	0	0	3,254	3,579	3,254	3,579
Operating liabilities from advances	15	364	513	0	528	364
Liabilities to the state	0	0	50,294	50,576	50,294	50,576
Liabilities for income tax	0	0	240	5,851	240	5,851
Other operating liabilities	34	24	10,073	590	10,107	614
Total	49	388	64,374	60,596	64,423	60,984

Long-term operating liabilities from advances comprise the security deposit received from the lessee of business premises in the amount of EUR 12 thousand and the security deposit due to work in progress on the office building "Stekleni dvor" in the amount of EUR 3 thousand. Other long-term operating liabilities of Modra zavarovalnica in the amount of EUR 34 thousand comprise liabilities for the payment of variable remuneration of the Management Board members.

Short-term operating liabilities comprise trade payables in the amount of EUR 3,254 thousand, of which the largest portion in the amount of 2,527 thousand refers to the liability for the payment of investment property; advance received for the purchase of securities from KDD in the amount of EUR 513 thousand; liabilities to the state totalling EUR 50,294 thousand, of which the largest part in the amount of EUR 50,000 thousand relates to the payment obligation to the Pension and Disability Insurance Institute in 2019, liabilities for corporate income tax in the amount of EUR 240 thousand and other operating liabilities in the amount of EUR 10,073 thousand. The major portion of other operating liabilities of Kapitalska družba in the amount of EUR 667 thousand refers to deferred revenue recognised on acquisition of an investment in accounts receivable, calculated as the difference between the cost and fair value of the investment acquired. Other short-term operating liabilities of Modra zavarovalnica include accrued costs that relate to the costs of unused holiday leave and other estimated costs for 2018 as well as short-term deferred revenues that comprise deferred revenues of KS MR II arising from the pension insurance annuity premiums received from persons insured who expressed their intention to take out insurance as at in 1 January 2019 based on an indicative calculation.

Operating liabilities maturity

	in EUR 000				
31. DEC. 2018	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Trade liabilities	3,254	0	0	0	3,254
Operating liabilities from advances	513	12	0	3	528
Liabilities to the state	50,294	0	0	0	50,294
Liabilities for income tax	240	0	0	0	240
Other operating liabilities	10,073	34	0	0	10,107
Total	64,374	46	0	3	64,423

Note no. 28

Provisions and long-term accrued costs and deferred revenue

	in EUR 000				
	Provisions for pensions and similar obligations	Other provisions	Technical provisions	Long-term accrued costs and deferred revenues	Total
1 Jan. 2018	506	14,497	163,339	1,544	179,886
Newly established during the year	70	3,947	47,037	0	51,054
Utilised provisions	-6	0	-20,348	0	-20,354
Reversal of provisions	-26	-1,904	0	0	-1,930
Transfer to short-term part	0	0	0	-1,544	-1,544
31. Dec. 2018	544	16,540	190,028	0	207,112

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

In 2018, the Kapitalska družba Group made provisions for termination benefits on retirement and jubilee awards in the amount of EUR 70 thousand and used, i.e. derecognised EUR 32 thousand of provisions. At the end of 2018, provisions for termination benefits on retirement and jubilee awards

amounted to EUR 544 thousand. Provisions for termination benefits and jubilee awards are calculated on the basis of expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Company's internal regulations.

In 2018, the Group created EUR 3,947 thousand of other provisions: Kapitalska družba established provisions in the amount of EUR 319 thousand for non-achievement of guaranteed return of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), and Modra zavarovalnica established provisions totalling EUR 3,628 thousand for testing the adequacy of liabilities and for the deficit of assets in the guarantee fund. In 2018, the Group derecognised provisions for non-achievement of guaranteed return in the amount of EUR 1,630 thousand, the provisions for testing the adequacy of liabilities totalling EUR 94 thousand and provisions for onerous contracts of EUR 180 thousand.

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

Accrued costs and deferred revenues equalling EUR 1,544 thousand were transferred to short-term operating liabilities in the amount of EUR 667 thousand and financial income in the amount of EUR 877 thousand.

Technical provisions

ITEM	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Technical provisions of the KS PPS	101,315	102,491
Technical provisions of the Modra renta guarantee fund (KS MR)	20,522	25,461
KS MR II technical provisions	68,191	35,387
Total	190,028	163,339

Technical provisions include life insurance provisions based on policies, unclassified technical provisions and claims provisions; they are presented in Disclosures of insurance contracts.

Disclosure of insurance contracts

Structure of long-term insurance contracts

Table 49: Present gross value of future disbursements

TYPES OF PAYMENTS	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
KS PPS	96,561	97,231
KS MR	20,518	25,459
KS MR II	68,190	35,276
Total	185,269	157,966

The total present gross value of future disbursements represents technical provisions based on policies.

Table 50: Structure of technical provisions as at 31 December 2018

in EUR 000

FUND	Technical provisions for life insurance based on policies	Technical provisions for life insurance - surplus	Provisions for claims outstanding	Total
KS PPS	96,561	3,773	981	101,315
KS MR	20,518	0	4	20,522
KS MR II	68,190	0	1	68,191
Total	185,269	3,773	986	190,028

Technical provisions based on policies of KS PPS deviate from the total technical provisions by the amount of the provisions for the equalisation of yield experience equalling EUR 3,773 thousand and claims provisions totalling EUR 981 thousand. The calculation of the value of future disbursements uses annuity tables DAV2004R and the statutory technical interest rate amounting to 1%.

Technical provisions based on policies of KS MR as at 31 December 2018 deviate from the total technical provisions by the amount of claims provisions totalling EUR 4 thousand. German annuity tables DAV1994R were applied in the calculation of future payments.

Technical provisions based on policies of KS MR as at 31 December 2018 deviate from the total technical provisions by the amount of claims provisions totalling EUR 1 thousand. German annuity tables DAV1994R were applied in the calculation of future payments.

Liability adequacy

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

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

- the expected mortality was set according to German annuity mortality tables D1994R, which, given the past experience, suitably indicate the actual mortality;
- early terminations were not expected, as they are not possible according to the provisions of insurance contracts;
- the expected costs equal the accrued costs;
- the discount rate equalling the risk-free interest rate as at 31 December 2018, published by the EIOPA.

The Liability Adequacy Test as at 31 December 2018 showed that mathematical provisions for KS PPS were adequate, whereas a deficit of EUR 1,067 thousand and EUR 3,633 thousand was determined for KS MR and KS MR II respectively.

Change in interest rates/return

Table 51: Change in interest rates/return for KS PPS

in EUR 000

CHANGE IN LIABILITIES/PROVISIONS	31. Dec. 2018	31. Dec. 2017
Increase in return by 0.25 percentage point	-2,820	-2,875
Decrease in return by 0.25 percentage point	2,965	3,025

Table 52: Change in interest rates/return for KS MR

CHANGE IN LIABILITIES/PROVISIONS	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Increase in return by 0.25 percentage point	-336	-381
Decrease in return by 0.25 percentage point	351	397

Table 53: Change in interest rates/return for KS MR II

CHANGE IN LIABILITIES/PROVISIONS	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Increase in return by 0.25 percentage point	-1,228	-644
Decrease in return by 0.25 percentage point	1,280	672

*Change in mortality***Table 54: Change in mortality for KS PPS**

CHANGE IN LIABILITIES/PROVISIONS	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
A 10% increase in mortality probability	-3,434	-3,375
A 10% decrease in mortality probability	3,900	3,833

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,434 thousand (2017: EUR 3,375 thousand). The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 55: Change in mortality for KS MR

CHANGE IN LIABILITIES/PROVISIONS	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
A 10% increase in mortality probability	-251	-240
A 10% decrease in mortality probability	283	268

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 251 thousand (2017: EUR 240 thousand). The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 56: Change in mortality for KS MR II

CHANGE IN LIABILITIES/PROVISIONS	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
A 10% increase in mortality probability	-499	-250
A 10% decrease in mortality probability	560	279

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 499 thousand (2017: EUR 250 thousand). The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

17.4.3 Managing the risks arising from financial assets

All risks to which the Group is exposed, and the risk management measures and criteria, are described in chapter 17.3 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 tables presented include own assets held by the Group and the assets held by guarantee funds (KS PPS, KS MR and KS MR II).

Capital management - Solvency II

According to its assessment, Modra zavarovalnica disposes with a sufficient volume of own assets with respect to its total need for capital.

Table 57: Capital adequacy according to Solvency II

ITEM	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Solvency II		
Total capital need	122,828	125,268
Eligible own funds	252,222	265,690
Surplus (+)/deficit (-) of available own funds (in EUR)	129,394	140,422
Ratio between eligible own funds and total capital requirement (in %)	205%	212%

The annual data on the solvency position as at 31 December 2018 are presented in the Report on solvency and financial position of Modra zavarovalnica, which is published on its website.

Credit risk

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

Table 58: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2018

INTERNAL RATING	Rating	Expected losses	Method of measuring expected losses	in EUR 000	
				Gross exposure	Net exposure (decreased by expected losses)
	AAA	0		3591	3591
Low-risk investments	AA	-1	12-month expected losses	18,606	18,605
	A	-12		148,734	148,722
	BBB	-38		85,203	85,165
Total secure investments		-51		256,134	256,083

in EUR 000

INTERNAL RATING	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)
	BB	-244		74,983	74,739
	B	-8		2,042	2,034
	CCC	0	12-month / lifetime expected losses	0	0
Less secure investments	CC	0		0	0
	C	0		0	0
	without credit rating	0		14,212	14,212
Total less secure investments		-252		91,237	90,985
Impaired investments	D	0	Impairment through profit or loss in the amount of expected loss	34,950	34,950
Total impaired investments		0		34,950	34,950
TOTAL		-303		382,321	382,018

Financial assets were classified into the stated groups based on credit ratings. In 2018, the classification of investments differs from the 2017 classification because of the entry into force of IFRS 9. At the time, low risk investments included investments with a credit rating ranging from AAA to A-, moderate risk investments included those with a credit rating ranging from BBB+ to BBB- and high risk investments comprised investments with a credit rating lower than BBB-. The current classification under IFRS 9 is presented in the table above. Less secure investments mainly include investments of Slovenian bank and corporate issuers, whereas impaired investments comprise an investment in accounts receivable.

Table 59: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2017

in EUR 000

FINANCIAL ASSET GROUP	Secure investments - high rating of the borrower	Medium secure investments - medium rating of the borrower	Less secure investments	Total
Investments at fair value through profit or loss	5,260	7,210	7,173	19,643
Investments held to maturity	84,879	37,163	7,219	129,260
Available-for-sale financial assets	76,843	24,103	43,407	144,353
Loans	0	0	42,134	42,134
Cash and cash equivalents	0	0	35,177	35,177
Total	166,982	68,476	135,109	370,567

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

Table 60: Allowance for loss in 2018

CATEGORY	in EUR 000		
	Stage 1	Stage 2	Stage 3
Allowance for loss as at 1 Jan. 2018	131	231	0
Transfer to stage 1	0	0	0
Transfer to stage 2	0	0	0
Transfer to stage 3	0	0	0
Financial assets derecognised in the period	-76	-47	0
Financial assets acquired in the period	131	0	0
Amortisation, depreciation and write-offs	0	0	0
Reversal of allowance for loss	0	-66	0
Currency and other changes	-1	0	0
Allowance for loss as at 31 Dec. 2018	185	118	0

Table 61: Changes in gross carrying amount and allowances in 2018

CATEGORY	in EUR 000	
	Gross carrying amount	Allowances for losses
Opening balance as at 1 Jan. 2018	171,213	261
Financial assets acquired in the period	87,233	129
Financial assets derecognised in the period	-39,503	-103
Other changes	285	-43
Closing balance as at 31 Dec. 2018	219,229	244

Table 62: Geographical concentration of credit exposure of financial assets

REGION	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Slovenia	245,292	255,794
Other countries	136,541	114,773
Total	381,833	370,567

The share of financial assets exposed to credit risk in Slovenia decreased from 69% to 64% in 2018.

Currency risk

Table 63: Currency structure of financial assets

CURRENCY	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Assets denominated in EUR	1,071,095	1,062,454
Assets denominated in USD	165,788	184,080
Assets denominated in other currencies	5,743	5,933
Total	1,242,626	1,252,467

As at 31 December 2018, 86.2% of financial assets were denominated in euro, 13.3% in US dollar and 0.5% in other currencies. Currency structure of financial assets is monitored considering the currency in which the underlying instrument is denominated. Currency risk decreased because of a lower exposure of investments in foreign currencies, whereas the effect of currency fluctuation in securities constituting a specific instrument or investment fund was not taken into account.

Table 64: Currency risk of financial assets

USD EXCHANGE RATE CHANGE BY +/- 10%	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Impact on the income statement	+/-170	+/- 618
Impact on capital	+/- 16,408	+/- 17,790

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 65: Sensitivity analysis of investments with respect to changes in market interest rates as at 31 December 2018 - change of interest rate by 50 basis points

FINANCIAL ASSET GROUP	Change in interest rate	Sensitivity of interest income	Impact on fair value	in EUR 000
				Total
Investments at fair value through profit or loss	+/- 0.5%	+/- 3	-/+ 1,237	-/+ 1,234
Investments at amortised cost	+/- 0.5%	+/- 0	+/- 0	+/- 0
Investments at fair value through other comprehensive income	+/- 0.5%	+/- 1	-/+ 4,231	-/+ 4,230
Total		+/- 4	-/+ 5,468	-/+ 5,464

Table 66: Sensitivity analysis of investments with respect to changes in market interest rates as at 31 December 2017 – change of interest rate by 50 basis points

in EUR 000

FINANCIAL ASSET GROUP	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Investments at fair value through profit or loss	+/- 0.5%	+/- 45	-/+ 915	-/+ 870
Investments held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 26	-/+ 4,003	-/+ 3,977
Loans and receivables	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 71	-/+ 4,918	-/+ 4,847

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 5,464 thousand as at 31 December 2018. Interest rate risk increased in 2018 thanks to increased exposure arising from the investments sensitive to changes in market interest rates. Liabilities from provisions for non-achievement of guaranteed return of the SODPZ fund in the manager's financial statements are not subject to interest rate and are immaterial.

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 67: Market risk of the equity securities portfolio as at 31 December 2018

in EUR 000

INDEX CHANGE IN %	Impact on the income statement	Impact on capital
+/- 10%	+/- 1,317	+/- 39,457

Table 68: Market risk of the equity securities portfolio as at 31 December 2017

in EUR 000

INDEX CHANGE IN %	Impact on the income statement	Impact on capital
+/- 10%	+/- 1,539	+/- 49,033

The table takes into account the investments in equity instruments excluding bond fund coupons. The impact on profit or loss arises from equity investments stated at fair value through profit or loss, whilst the impact on equity arises from equity investments stated at fair value through other comprehensive income. The risk was calculated using the beta indicator of the world stock index. The market risk of equity investments reduced in 2018 due to the lower beta and decreased exposure arising from equity investments compared to 2017.

Table 69: Financial instruments in terms of marketability

	in EUR 000
ASSET	31 Dec. 2018
Securities traded on the regulated market	1,046,986
Investments at fair value through profit or loss	70,809
Investments at amortised cost	153,728
Investments at fair value through other comprehensive income	822,449
Securities not traded on the regulated market	82,651
Investments at fair value through profit or loss	16,543
Investments at amortised cost	16,879
Investments at fair value through other comprehensive income	49,229
Total	1,129,637

Table 70: Financial instruments in terms of marketability

	in EUR 000
FINANCIAL INSTRUMENT	31 Dec. 2017
Securities traded on the regulated market	1,065,792
Investments at fair value through profit or loss	68,658
Investments held to maturity	128,126
Available-for-sale financial assets	869,009
Securities not traded on the regulated market	75,484
Investments at fair value through profit or loss	9,804
Investments held to maturity	1,135
Available-for-sale financial assets	64,545
Total	1,141,276

At the end of 2018, assets traded on regulated stock markets accounted for 93% of financial instruments or 77% of all assets of the Group. Investments measured at fair value through other comprehensive income not traded on regulated market include non-marketable shares, stakes and investment coupons.

Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2018, the Group recorded a total of EUR 1,020,283 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 71: Expected actual non-discounted cash flows as at 31 December 2018

EUR 000

ITEM	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments	34,975	166,620	123,592	824,116	1,149,303
- at fair value through profit or loss	3,061	9,541	9,501	62,043	84,146
- at amortised cost	23,068	89,716	83,627	0	196,411
- at fair value through other comprehensive income	8,846	67,363	30,464	762,073	868,746
Investment in accounts receivable	0	34,950	0	0	34,950
Loans and deposits given	32,461	0	0	0	32,461
Cash and cash equivalents	21,847	0	0	0	21,847
Operating receivables	56,031	124	0	0	56,155
Total assets	145,314	201,694	123,592	824,116	1,294,716
Operating liabilities	64,134	49	0	0	64,183
Financial liabilities	3	349	0	0	352
Liabilities of annuity funds	19,512	56,576	133,810	0	209,898
Total liabilities	83,649	56,974	133,810	0	274,433
Difference	61,665	144,720	-10,218	824,116	1,020,283

Table 72: Expected actual non-discounted cash flows as at 31 December 2017

in EUR 000

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

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

Table 73: Investments by type of interest rate as at 31 December 2018

	in EUR 000	
	31. Dec. 2018	31. Dec. 2017
Debt investments	276,593	292,659
Fixed interest rate	271,692	288,274
Variable interest rate	4,901	4,385
Loans and deposits	49,314	71,152
Fixed interest rate	49,314	71,152
Variable interest rate	0	0
Total	325,907	363,811

Table 74: Effective interest rate by investment groups

	2018	2017
Investments at amortised cost (held to maturity)	2.67%	2.75%
Investments at fair value through other comprehensive income (available for sale)	3.94%	4.65%

17.5 OTHER DISCLOSURES

Information on the management

The names of the members of the Management Board and other bodies are stated in the introductory part of the Annual Report, under the section Presentation of the Kapitalska družba Group. In 2018, the Kapitalska družba Group approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

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

In 2018, remunerations paid for carrying out of the responsibilities and duties of members of the Management Board, Supervisory Board and employees with executive employment contracts to which the tariff section of the collective agreement does not apply, amounted to EUR 1,098 thousand.

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

Table 75: Receipts by category of beneficiaries of Kapitalska družba in 2018

in EUR 000	
CATEGORY OF BENEFICIARIES	Amount
Members of the Management Board	431
Members of the Supervisory Board	135
Employees with executive employment contract	532
Total	1,098

No advances, loans or collateral were approved by Kapitalska družba in 2018.

Receipts of the members of the management and supervisory bodies of Kapitalska družba

Receipts of the members of the Management Board are regulated by ZSDH-1. Pursuant to Article 51(5) of ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of SDH, d. d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of supervisory body members of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the said legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, however, the basic pay of the President of the Management Board calculated that way may not exceed 95% of the basic pay of the President of the Management Board of SDH, d. d., as published, while the basic pay of members of the Management Board amounts to 95% of individual basic pay of the President of the Management Board of Kapitalska družba. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous financial year are published. The revised basic salary is applicable from 1 July of the current year. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2018 in line with the aforementioned criteria. Pursuant to the contract, each member of the Management Board is entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 76: Receipts of the members of the Management Board of Kapitalska družba in 2018

in EUR											
NAME AND SURNAME	Fixed remuneration	Variable income	Benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Bachtiar Djalil (President of the Management Board)	124,905	19,613	55	1,889	2,819	-	-	-	1,000	150,281	77,567
Goranka Volf (Member of the Management Board)	118,300	15,577	55	2,240	2,819	-	-	-	1,000	139,991	70,852
Gregor Bajraktarević (Member of the Management Board)	118,858	15,577*	55	2,153	2,819	-	-	-	1,000	140,462	73,637
Total	362,063	50,767	165	6,282	8,457	-	-	-	3,000	430,734	222,056

* The member of the Management Board of Kapitalska družba Gregor Bajraktarević was paid too high variable income. According to the resolution of the Supervisory Board of Kapitalska družba he should have received EUR 12,923.00. The overpayment was refunded in March 2019, as soon as the error was identified.

Fixed income includes gross salary. Variable income includes performance bonus, which equals up to 30% of the annual basic gross salary for the business year, taking into account the performance criteria. The variable income received by the Management Board refers to the bonus for company business performance for 2017 on the basis of a combination of quantitative and qualitative criteria. The President of the Management Board also received a bonus for company performance in 2015, which was paid in 2018. Benefits include collective accident insurance premiums. Cost reimbursements include reimbursement of meal and travel and/or accommodation expense and/or per diems. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave.

Table 77: Receipts of the members of the Supervisory Board of Kapitalska družba in 2018

in EUR

NAME AND SURNAME	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Stanislav Seničar (Chairman of the Supervisory Board)	16,408	5,500	-	832	-	-	-	-	-	-	22,740	16,539
Boris Žnidarič, PhD (Deputy Chairman of the Supervisory Board, President of the Accreditation Committee)	16,224	5,500	-	94	-	-	-	-	-	-	21,818	15,868
Cirila Surina Zajc (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee)	16,500	5,500	-	1,026	-	-	-	-	-	-	23,026	16,747
Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, President of the HR Committee)	16,500	5,500	-	466	-	-	-	-	-	-	22,466	16,340
Ladislav Rožič, MSc (Member of the Supervisory Board, President of the Audit Committee, Member of the Accreditation Committee)	16,500	5,500	-	0	-	-	-	-	-	-	22,000	16,000
Natalija Stošički (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee)	16,500	5,500	-	817	-	-	-	-	-	-	22,817	16,595
Total	98,632	33,000	-	3,235	-	-	-	-	-	-	134,867	98,089

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

Table 78: Receipts of external members of the Supervisory Board's committees of Kapitalska družba in 2018

in EUR

NAME AND SURNAME	Fixed income - payment for the performance of duties	Fixed income - attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Mojca Verbič (External Member of the Audit Committee)	3,600	616	-	67	-	-	-	-	-	-	4,283	3,114
Irena Prijovič, MSc (External Member of the Accreditation Committee)	3,600	440	-	0	-	-	-	-	-	-	4,040	2,938
Alenka Stanič, PhD (External Member of the Accreditation Committee)	3,077	660	-	0	-	-	-	-	-	-	3,737	2,718
Gorazd Žmavc (External Member of the Accreditation Committee from 27 September 2018)	640	0	-	0	-	-	-	-	-	-	640	465
Total	10,917	1,716	-	67	-	-	-	-	-	-	12,700	9,235

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

In 2018, the members of management and supervisory bodies received receipts for duties performed in the subsidiary Modra zavarovalnica, d. d.

Table 79: Receipts of the members of management and supervisory bodies of Kapitalska družba in the subsidiary Modra zavarovalnica in 2018

in EUR

NAME AND SURNAME	Fixed income - payment for the performance of duties	Fixed income - attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Natalija Stošički	14,107	5,280	-	385	-	-	-	-	-	-	19,772	14,380
Boris Žnidarič, PhD	10,450	4,180	-	35	-	-	-	-	-	-	14,665	10,666
Total	24,557	9,460	-	420	-	-	-	-	-	-	34,437	25,046

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

Activities of the Supervisory Board of Kapitalska družba and its committees

The Supervisory Board held 22 meetings in 2018. The members attended the Supervisory Board meetings regularly; the member Aleksander Mervar, MSc., was absent from two meetings, the member Natalija Stošički could not attend three of the meetings for justifiable reasons.

The Audit Committee of the Supervisory Board had five meetings. The members attended the Audit Committee meetings regularly. For justifiable reasons, the member of the Audit Committee of the Supervisory Board Cirila Surina Zajc could not attend one of the meetings, the external member Mojca Verbič two meetings and Aleksander Mervar four meetings.

The Accreditation Committee held 3 meetings. The members attended the Accreditation Committee meetings regularly. The external member, Irena Prijovič, MSc, was absent with justification from one meeting and Aleksander Mervar, MSc, could not attend three of the meetings for justified reasons.

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

Receipts of the members of the Management Board, supervisory bodies and staff with executive employment contracts of Modra zavarovalnica

In 2018, the remuneration received by the members of the Management Board, supervisory bodies and staff with executive employment contracts who are not subject to the tariff part of the collective agreement totalled EUR 779 thousand.

In 2018, Modra zavarovalnica approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

Table 80: Gross receipts by category of beneficiaries of Modra zavarovalnica in 2018

CATEGORY OF BENEFICIARIES	in EUR 000
	Amount
Members of the Management Board	326
Members of the supervisory bodies	92
Employees with executive employment contract	361
Total	779

Receipts of the members of the management and supervisory bodies of Modra zavarovalnica

Table 81: Receipts of the members of the Management Board of Modra zavarovalnica in 2018

NAME AND SURNAME	in EUR						Total
	Fixed remuneration	Past due payments	Benefits	Allowance for annual leave	Cost reimbursement	Insurance premiums	
Borut Jamnik	118,858	14,620	4,723	1,161	5,450	2,819	147,631
Matija Debelak	112,915	28,003	1,049	1,161	1,273	2,819	147,220
Boštjan Vovk	28,229	0	72	0	2,335	705	31,341

Fixed income includes gross salary. Outstanding payments include part 2 of the variable remuneration for 2015 and part 1 of the variable remuneration for 2017. 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 as well as collective insurance for specialist outpatient treatment. Insurance premiums represent payments for voluntary supplementary pension insurance.

Table 82: Receipts of the members of the Supervisory Board and external members of the Supervisory Board's committees of Modra zavarovalnica in 2018

in EUR

NAME AND SURNAME	Fixed remuneration of the SB	Fixed remuneration of the SB AC	Monthly allowance for the SB	Monthly allowance for the SB AC	Cost reimbursement	Total
Branimir Štrukelj	3,905	0	0	0	0	3,905
Bojan Zupančič	4,180	0	10,450	0	0	14,630
Janez Prašnikar, PhD	3,630	0	10,450	0	0	14,080
Goran Bizjak	3,905	1,100	10,450	3,919	1,113	20,487
Boris Žnidarič, PhD	4,180	0	10,450	0	35	14,665
Natalija Stošički	4,180	1,100	11,495	2,612	385	19,772
Dragan Martinović (external member of the SB's Audit Committee)	0	1,100	0	2,612	746	4,458

Fixed remuneration includes attendance fees for meetings of the Supervisory Board and its Audit Committee. Monthly allowance includes a monthly amount received for performing the function of a member of the Supervisory Board and a member of the Supervisory Board's Audit Committee. Cost reimbursements include reimbursement of travel expenses and training costs.

Related-party transactions

In 2018, the Kapitalska družba Group made no significant transactions with its related parties that were concluded under other than normal market conditions.

Disclosure regarding the pension scheme

Pursuant to the decision on approving the amendments and supplements to the Occupational Health Insurance Plan No. 1031-160/2016- of 29 November 2017, issued by the Ministry of Labour, Family, Social Affairs and Equal Opportunities, a new Occupational Retirement Pension Scheme entered into force on 1 January 2018, except for Article 29, which entered into effect on 1 February 2018. On that date, the amended Rules on the Management of the SODPZ entered into force, to which the Securities Market Agency issued a consent on 20 December 2017.

Events after the date of the statement of financial position

Since the end of 2018 until the preparation of the Annual Report, the Kapitalska družba Group recorded no significant business events that could influence its financial statements for 2018. Significant business events after the end of 2018 are disclosed in Chapter 8 of the business section of the Annual Report.

