

An aerial photograph of a zebra crossing on a dark asphalt road. Several people and dogs are crossing the road. Long shadows are cast across the white stripes of the crossing. The text 'step towards the future' is overlaid in a large, white, sans-serif font. The background of the entire page is a solid tan color, with a diagonal line separating the top image from the bottom text area.

step towards the future

step towards the future

Consolidated Annual Report
of the Kapitalska družba Group for 2019

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List of abbreviations used

ISA	Insurance Supervision Agency
GDP	Gross Domestic Product
BOE	Bank of England
BOJ	Bank of Japan
BVAL	Bloomberg Valuation Service
CBBT	Composite Bloomberg Bond Trader
ECB	European Central Bank
EUR	Euro – currency of the European Union
FED	US Federal Reserve
IMF	International Monetary Fund
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
PBOC	People's Bank of China
VSPI	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. (or Slovenski državni holding)
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia

USD	US dollar
VaR	Value At Risk
ZDDPO-2	Corporate Income Tax Act (Official Gazette of the Republic of Slovenia, Nos. 117/2006, 90/2007, 76/2008, 56/2008, 92/2008, 5/2009, 96/2009, 110/2009 – ZdavP-2B, 43/2010, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013, 50/2014, 23/2015, 82/2015, 68/2016, 69/2017, 79/2018 and 66/2019)
ZFPPIPP	Financial Operations, Insolvency and Compulsory Dissolution Act (Official Gazette of the Republic of Slovenia, Nos. 126/2007, 40/2009, 59/2009, 52/2010, 106/2010 – ORZFPPIPP21, 26/2011, 47/2011 – ORZFPPIPP21-1, 87/2011 – ZPUOOD, 23/2012 – Constitutional Court decision, 48/2012 – Constitutional Court decision, 47/2013, 100/2013, 10/2015 – amended, 27/2016, 31/2016 – Constitutional Court decision, 38/2016 – Constitutional Court decision, 63/2016 – ZD-C, 30/2018 – ZPPDID, 54/2018 – Constitutional Court decision and 69/2019 – Constitutional Court decision)
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 decision, 32/2012, 57/2012, 44/2013 – Constitutional Court decision), 82/2013, 55/2015, 15/2017 and 22/2019 – ZPosS)
ZIPRS1819	Implementation of the Budget of the Republic of Slovenia for 2018 and 2019 Act (Official Gazette of the Republic of Slovenia, Nos. 71/2017, 13/2018 – ZJF-H, 83/2018, 19/2019 and 75/2019 – ZIPRS2021)
ZNVP-1	Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 – ORZNVP48, 5/2017, 15/2018 – Constitutional Court decision and 43/2019)
ZODPol	Organisation and Work of the Police Act (Official Gazette of the Republic of Slovenia Nos. 15/2013, 11/2014, 86/2015, 77/2016, 77/2017, 36/2019 and 66/2019 – ZDZ)
ZPIZ	Pension and Disability Insurance Institute
ZPIZ-1	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 106/1999, 72/2000, 81/2000 – ZPSV-C, 124/2000, 52/2001, 109/2001, 11/2002, 108/2002, 114/2002, 110/2002 – ZISDU-1, 29/2003, 40/2003 – Constitutional Court decision, 63/2003 – ZIPRS0304-A, 63/2003 – Constitutional Court decision, 133/2003, 135/2003, 25/2004, 63/2004 – ZZRZI, 136/2004 – Constitutional Court decision, 2/2004 – ZDSS-1, 54/2004 – ZDoh-1, 8/2005, 72/2005, 111/2005, 23/2006, 69/2006, 112/2006 – Constitutional Court decision, 114/2006 – ZUTPG, 17/2007, 5/2008, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZIUZGK, 27/2010 – Constitutional Court decision, 38/2010 – ZUKN, 56/2010, 79/2010 – ZPKDPIZ, 94/2010 – ZIU, 57/2011, 94/2011 – Constitutional Court decision, 105/2011 – Constitutional Court decision, 61/2010 – ZSVarPre, 40/2011 – ZSVarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 96/2012 – ZPIZ-2 and 9/2017 – Constitutional Court decision)
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 96/2012, 39/2013, 46/2013 – ZIPRS1314-A, 63/2013 – ZIUPTDSV, 99/2013 – ZSVarPre-C, 101/2013 – ZIPRS1415, 111/2013 – ZMEPIZ-1, 44/2014, 85/2014 – ZUJF-B, 95/2014 – ZIUPTDSV-A, 97/2014 – ZMEPIZ-1A, 95/2014 – ZIPRS1415-C, 95/2014 – ZUPPJS15, 95/2014 – ZUJF-C, 31/2015 – ZISDU-3, 90/2015 – ZIUPTD, 90/2015 – ZUPPJS16, 96/2015 – ZIPRS1617, 102/2015, 42/2016 – Constitutional Court decision, 80/2016 – ZIPRS1718, 88/2016 – ZUPPJS17, 40/2017, 23/2017, 75/2017 – ZIUPTD-A, 65/2017, 71/2017 – ZIPRS1819, 28/2019, 75/2019 – ZIPRS2021, 75/2019 – ZUPPJS2021 and 75/2019)
ZPIZ-2G	Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 75/2019)
ZPPOGD	Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010, 8/2011 and 23/2014 – ZDIJZ-C)
ZPre-1	Takeovers Act (Official Gazette of the Republic of Slovenia Nos. 79/2006, 67/2007 – ZTFI, 1/2008, 68/2008, 35/11 – ORZPre75, 105/2011 – Constitutional Court decision, 10/2012, 38/2012, 56/2013, 63/2013 – ZS-K, 25/2014 and 75/2015)
ZSDH-1	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 25/2014, 96/2015 – ZIPRS1617, 80/2016 – ZIPRS1718, 71/2017 – ZIPRS1819 and 51/2018 – ZIUGDT)
ZUJIK	Act Governing the Promotion of Public Interest in Culture (Official Gazette of the Republic of Slovenia, Nos. 96/2002, 123/2006 – ZFO-1, 7/2007 – Constitutional Court ruling, 53/2007, 65/2007 – Constitutional Court decision, 56/2008, 4/2010, 20/2011, 100/2011 – Constitutional Court decision, 111/2013, 68/2016, 61/2017 and 21/2018 – ZNOrg)
ZVPSJU	Closed Mutual Pension Fund for Public-Sector Employees
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015 and 9/2019)

Introduction to the Business Report



Presentation of Kapitalska družba Group

The Kapitalska družba Group comprises the parent company Kapitalska družba, d. d. and two subsidiaries: Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o. All of the aforementioned companies are presented in more detail below.

1.1 KAPITALSKA DRUŽBA, D. D. (HEREINAFTER: KAPITALSKA DRUŽBA)

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 2019.

The Company's share capital, amounting to EUR 364,809,523.15, is divided into 874,235 ordinary registered no-par-value shares. Each no-par-value share represents the same stake and corresponding amount in the share capital.

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). Kapitalska družba also performs other activities related to asset management and provides asset management support services.

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

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

1.1.4 Company bodies

1.1.4.1 Management Board

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

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

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

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

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

1.1.4.2 Supervisory Board

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the Company's General Meeting appoints missing members at its own discretion. The proposal for candidates to represent SDH is formulated by SDH, which informs the Supervisory Board of its choice. The proposal for candidates to represent

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

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

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

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.

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 2019.

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 2019 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 2019 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1, 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 2019:

- | Bраниmir Štrukelj, member since 9 December 2016, Deputy Chairman of the Supervisory Board from 22 December 2018 to 22 December 2019, and Chairman of the Supervisory Board since 23 December 2019,
- | Natalija Stošicki, member from 9 December 2016 to 9 April 2019, Chairwoman of the Supervisory Board from 22 December 2018 to 9 April 2019,
- | Bachtiar Djalil, member since 14 January 2019, Chairman of the Supervisory Board from 11 April 2019 to 22 December 2019, and Deputy Chairman of the Supervisory Board since 23 December 2019,
- | Goran Bizjak, member since 9 December 2016,
- | Bojan Zupančič, member since 9 December 2016,
- | Dr Janez Prašnikar, member since 9 June 2017,
- | Dr Boris Žnidarič, member from 9 June 2017 to 14 January 2019, and
- | Roman Jerman, member since 9 April 2019.

The responsibilities of the Supervisory Board are set out in the company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2019 is given in the report of the Supervisory Board.

An audit committee functioned within the Supervisory Board in 2019. The composition and work of the aforementioned committee are presented in the report of the Supervisory Board.

1.2.4.3 General Meeting

GlasovKapitalska družba exercised its rights in 2019 at the General Meeting as the company's sole shareholder.

1.2.5 Diversity policy

Modra zavarovalnica 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.

1.3 HOTELSKE NEPREMIČNINE, D. O. O.

1.3.1 Company

Naziv: 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 2019, 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 2019:

- I Zoran Perše, and
- I 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 the parent company Kapitalska družba, and the subsidiaries Modra zavarovalnica and Hotelske nepremičnine. Together with its own assets, and the assets of pension funds and guarantee funds, the Kapitalska Družba Group has EUR 3.6 billion in assets under management. The year 2019 was one of the Kapitalska Družba Group's most successful, with a consolidated net profit of EUR 2.6 million and comprehensive income of EUR 126.1 million or EUR 176.1 before payment to the ZPIZ (excluding tax effects). This was primarily the result of Kapitalska družba's comprehensive income before payment to the ZPIZ in the amount of EUR 146.7 million and the comprehensive income of Modra zavarovalnica in the amount of EUR 36.6 million.

The Kapitalska družba Group is the largest provider of supplementary pension insurance and the largest payer of supplementary pensions/pension annuities in Slovenia. The Group has been setting the standards for high-quality operations in the area of pension funds since its establishment. It remains capitally sound and is once again demonstrating how important its role is in the stability of the pension system.

The parent company Kapitalska družba once again achieved its dual mission in 2019: the provision of supplementary funding for the public pension and disability insurance system and the effective provision of occupational insurance. The Company's development is built on satisfying the needs of all stakeholders, the most important of those being Slovenian retirees, and the SODPZ's policyholders and occupational retirees.

Kapitalska družba transferred EUR 50 million to the ZPIZ in 2019. The total amount of the twenty transfers made by Kapitalska družba to the ZPIZ since 1999 reached EUR 864.3 million in 2019. This represents 94% of the amount paid into the ZPIZ by the state budget in 2019. Through the sustained fulfilment of our commitments, we contribute to a reliable Slovenian pension system, although those total payments exceed the assets at Kapitalska družba's disposal. In accordance with the strategy for managing state capital investments, a significant portion of those investments are classified as strategic or material. The sale of those assets is thus limited. When selling companies, Kapitalska družba is largely dependent on Slovenski državni holding, which in the name and on account of the Company conducts sales procedures involving investments to which SDH and/or the Republic of Slovenia are party.

Also impacting the operations of Kapitalska družba is the postponement of the establishment of an autonomous and independent demographic reserve fund, which should have been completed five years ago. Since as early as 2013, pension law has defined the demographic reserve fund as one of the sources of financing for the public pension system. The establishment of that fund is unavoidable and necessary due to the demographic situation in Slovenia. The implementation of that legal solution would result in the significant adaptation of the social security system to the very sharp increase in expenditure

expected due to Slovenia's long-lived society. Pressures to ensure sustainable and permanent sources to finance pensions are rising and limiting possibilities for the continued successful development of Slovenian society. In terms of the content of its activities and with regard to its business objectives, Kapitalska družba has functioned as a demographic reserve fund since its establishment, makes regular payments to the public pension system and thus helps cover the pension costs incurred by the ZPIZ. In the third decade since the Company's establishment and in a period in which the population is ageing at an accelerated rate, the fulfilment of its mission in this way is no longer enough. Postponing the transformation of Kapitalska družba into an independent and autonomous demographic reserve fund, the identification of new sources of financing and the definition of a period for the accumulation of assets poses a long-term threat to the high quality of life of all generations in Slovenia. We expect that challenges in connection with the continued development of the pension system will force stakeholders to address issues associated with the further strategic development of Kapitalska družba and its transformation into a demographic reserve fund.

The savings of more than 48,000 policyholders in the amount of EUR 787.9 million are accumulated in the SODPZ, which is managed by Kapitalska družba. At the end of 2019, 286 retirees received an occupational pension, while gross occupational pensions paid amounted to EUR 3.8 million during the year. In 2019, a total of 740 policyholders requested a lump-sum payment or the transfer of funds to the supplementary pension insurance system in the combined amount of EUR 16.6 million.

Modra zavarovalnica's capital, which ensures the security of policyholders' assets, amounted to EUR 269 million at the end of 2019, an increase of 14% relative to the beginning of the year. The value of assets under management also recorded growth to stand at more than EUR 1.7 billion at the end of 2019: assets under management in mutual pension funds totalled EUR 1.2 billion, while assets under management in guarantee funds totalled EUR 232 million. The company's own assets amounted to EUR 299 million. In November 2019, Modra zavarovalnica successfully merged the Mutual Equity Pension Fund with the Modri Guaranteed Sub-Fund.

Hotelske nepremičnine was established in October 2018 by Kapitalska družba and its subsidiary Modra zavarovalnica. That company's principle activities are the buying, selling and leasing of 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 first phase of the investment in the San Simon Hotel Resort was implemented from January until the end of March 2019, while the second phase will be implemented in the coming years.

The Group's mission is to co-create the Slovenian pension system of the future. Meeting the expectations of all stakeholders requires the constant transformation of the Company's business model. Employing our vast experiences, we will continue to build our advantages in the future based on business excellence and committed and highly competent employees.



Gregor BAJRAKTAREVIČ
Member of the
Management Board



Goranka VOLF
Member of the
Management Board



Bachtiar DJALIL
President of the
Management Board

Report of the Supervisory Board of Kapitalska družba

REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE AUDITED CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP FOR 2019

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 up to and including 1 February 2019: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc (member), Natalija Stošički (member), Cirila Surina Zajc (member) and Ladislav Rožič, MSc (member). The terms of office of Deputy Chairman of the Supervisory Board Dr Boris Žnidarič and members Ladislav Rožič, MSc and Cirila Surina Zajc expired on 1 February 2019. The following persons were appointed to serve as members of the Supervisory Board at the Company's General Meeting held on 31 January 2019: Dr Boris Žnidarič, Ladislav Rožič, MSc and Mirko Miklavčič. Those persons' terms of office began on 2 February 2019. Dr Boris Žnidarič was reappointed Deputy Chairman of the Supervisory Board at the 158th session of the aforementioned body held on 21 February 2019, the first session following the start of his new term of office.

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

The Supervisory Board met at 22 sessions during the 2019 financial year as follows: nine regular sessions and 13 correspondence sessions.

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 2019 follows:

- particular attention in the monitoring of Kapitalska družba's operations in 2019 was given to monitoring the management of the Company's assets and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), which is managed by Kapitalska družba;
- confirmation of the annual reports of Kapitalska družba and the Kapitalska Družba Group for the 2018 financial year and the proposal to the General Meeting for the appointment of an auditor for the 2019, 2020 and 2021 financial years;
- consent to Kapitalska družba's business-financial plan for the 2020 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;
- 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 2019.

The audit committee of Kapitalska družba's Supervisory Board functioned in the following composition in 2019 until 1 February 2019: Ladislav Rožič, MSc (chair), Aleksander Mervar, MSc, Cirila Surina Zajc and Natalija Stošicki (members), and Mojca Verbič (external member). The audit committee functioned in the following composition from 21 February 2019 on: Natalija Stošicki (chair), Aleksander Mervar, MSc, Ladislav Rožič, MSc and Mirko Miklavčič (members), and Mojca Verbič (external member). The audit committee met at six sessions in 2019, two of which were correspondence sessions. In its work, the audit committee complied with the provisions of the ZGD-1 with respect to its competences, as well as the provisions of the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee represented a permanent working body of the Supervisory Board, and closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. In addition to its legally prescribed tasks, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiary and the SODPZ under Kapitalska družba's management. It was briefed on information regarding the performance of individual investments of significant value. It also monitored the work of the internal audit department. The audit committee carried out a self-assessment of its work. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

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

The accreditation committee met at four sessions in 2019, one of which was a correspondence session. The accreditation committee's task was to provide support to the Supervisory Board in the supervision of the management of the Company's transactions as they relate to the governance of companies in which Kapitalska družba holds capital investments. In its work, the accreditation committee complied with the provisions of the rules of procedure of the accreditation committee as adopted by the Supervisory Board.

The Supervisory Board's HR committee functioned in the following composition in 2019 until 1 February 2019: Aleksander Mervar, MSc (chair), and Cirila Surina Zajc and Natalija Stošicki (members). It functioned in the following composition from 21 February 2019 on: Aleksander Mervar, MSc (chair), and Natalija Stošicki and Mirko Miklavčič (members). The HR committee met at two sessions in 2019, both of which were correspondence sessions. The committee's primary task was to support the Supervisory Board in the definition of new criteria for setting the variable component of remuneration of the members of the Company's Management Board, while it also participated in the calculation of the variable component of remuneration for the previous financial year.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the consolidated annual report in Tables 74 and 75.

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 2019 financial year, and based on a review of the consolidated annual report of the Kapitalska Družba Group for 2019 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 2019 financial year enabled the latter to carry out its supervisory role satisfactorily.

b) Supervisory Board's position on the audit report

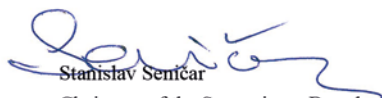
Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of the Kapitalska Družba Group for 2019, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana. The Supervisory Board finds that the auditor performed its task in accordance with the law, auditing rules and international auditing standards. The Supervisory Board has no remarks regarding the audit report.

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

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 2019.

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

Taking into account points a), b) and c) of this report, the Supervisory Board proposes that the General Meeting of Kapitalska družba adopt a decision granting discharge to the Company's Management Board and Supervisory Board for their work during the 2019 financial year pursuant to the provision of Article 294 of the ZGD-1.


Stanislav Semčar
Chairman of the Supervisory Board

Ljubljana, 17 July 2020

Business Report

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

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



Organisational structure of the Kapitalska družba Group

The Group is organised in accordance with the needs of the work process and requirements regarding the effectiveness and competitiveness of operations. Also taken into account is Kapitalska družba's role as the parent company of an insurance group, which includes the subsidiaries Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o.² The Company has provided the aforementioned insurance company IT services since the latter's establishment.

4.1 REPORTING ON EMPLOYEES

Employees represent a source of effort and knowledge that contribute to the achievement of the Group's long-term objectives and the satisfaction of its stakeholders. We therefore strive to create a work environment in which we promote mutual trust, respect and cooperation to achieve the Group's objectives.

At the end of 2019 the Kapitalska Družba Group had 120 employees broken down as follows: 60 employees at both Kapitalska družba and at Modra zavarovalnica. Hotelske nepremičnine has no employees. Both directors who manage the company based on management contracts are employees of Kapitalska družba and Modra zavarovalnica.

Table 1: Number of employees in the Kapitalska Družba Group by education level

Education level	Number of employees as at 31 December 2019	Number of employees as at 31 December 2018
Level 8 (8/1, 8/2)	21	21
level 7	48	50
Level 6 (6/1, 6/2)	29	24
Level 5	20	21
Level 4	2	3
Total	120	119

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

Operating environment

5.1 MACROECONOMIC BACKGROUND OF OPERATIONS

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

5.1.1 Gross domestic product, inflation and unemployment rate

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

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

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

to expected improvements in economic conditions in Latin America, the Middle East and on the emerging markets of Europe.

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

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

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

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

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

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

5.1.2 Interest rates

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

euving room in the area of monetary policy measures, and that fiscal policy measures will also be required to preserve economic growth.

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

Table 3: Key interest rates of major central banks

Level of key interest rate as at 31 December 2019	
Euro area	0.0% (key interest rate)
-0.50% (deposit interest rate)	1,50 % do 1,75 %
US	1.50% to 1.75%
England	0.75%
Japan	-0.10%
Canada	1.75%
China	4.35%

Source: Bloomberg; data obtained on: 6 February 2020

5.2 DEVELOPMENTS ON THE FINANCIAL MARKETS

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

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

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

Table 4: Returns on major financial markets

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

Note: Returns include dividend yields.

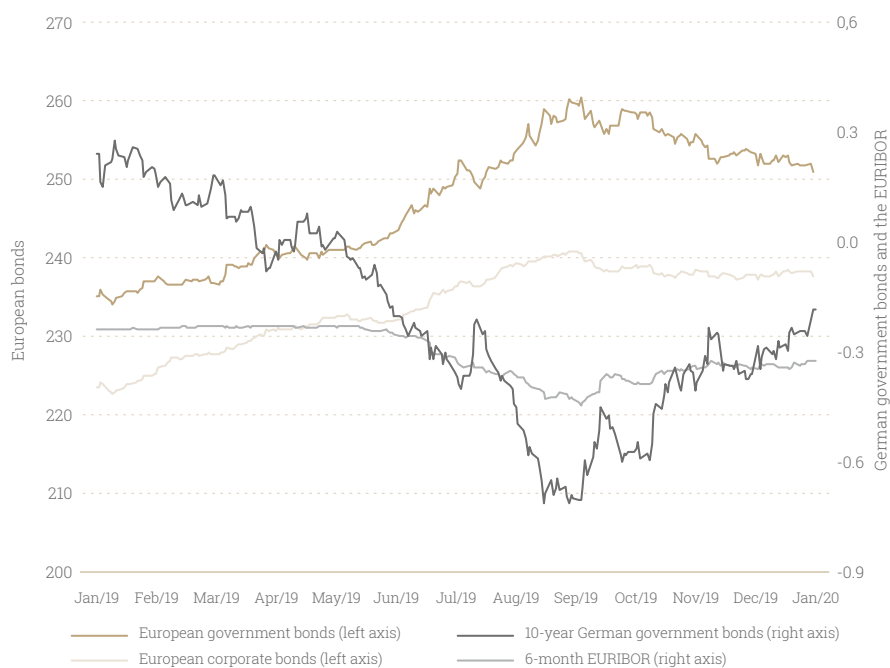
Source: Bloomberg; data obtained on: 6 February 2020

Graph 1:

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



Source: Bloomberg; data obtained on: 6 February 2020



Graph 2:

Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR Index) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR Index), yield to maturity on 10-year German government bonds, and the 6-month EURIBOR in 2019

Source: Bloomberg; data obtained on: 6 February 2020

Performance of the Kapitalska Družba Group in 2019

The Kapitalska Družba Group comprises the parent company (Kapitalska družba) and two subsidiaries (Modra zavarovalnica and Hotelske nepremičnine). Subsidiaries report to the parent company in accordance with the Code of the Group, which includes guidelines that define the content, deadlines and methods of reporting to the parent company by the Group's subsidiaries. The associates of Kapitalska družba are presented in Note no. 15 of the financial report.

6.1 KAPITALSKA DRUŽBA, D. D. (HEREINAFTER: KAPITALSKA DRUŽBA)

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,³ and
- | portfolio investments.

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

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

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

Type of investment	in 000 EUR			
	Value	Proportion (in %)	Value	Proportion (in %)
	2019		2018	
Capital investments⁴	593,737	56.1	529,717	56.3
Strategic investments ⁵	186,348	17.6	191,472	20.3
Material investments	345,536	32.6	277,426	29.5
Portfolio investments ⁶	60,429	5.7	59,396	6.3
Investments in bankruptcy or liquidation	1,424	0.2	1,423	0.2
Waived securities	224	0.0	231	0.0
Portfolio investments	464,542	43.9	411,401	43.7
Equity portfolio investments ⁷	303,747	28.7	243,370	25.8
Debt portfolio investments	103,629	9.8	80,723	8.6
Money market ⁸	34,739	3.3	52,358	5.6%
Investments in financial claims	22,427	2.1	34,950	3.7%
Total financial assets	1,058,503	100.0	941,349	100.0%

6.1.1.1 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 38 such investments at the end of 2019. Of those investments, Kapitalska družba, d. d. had 33 so-called active investments, including 26 investments in joint stock companies and seven investments in limited liability companies. In addition to active investments, Kapitalska družba also held four investments in bankruptcy proceedings and one investment in liquidation proceedings.

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

⁴ Waived securities obtained in accordance with Article 48a of the ZNVP-1.

⁵ The table includes Modra zavarovalnica, which is valued at EUR 152.2 million according to historical cost.

⁶ The table includes Hotelske nepremičnine, which is valued at EUR 5.96 million according to historical cost.

⁷ Equity portfolio investments also include investment funds linked to bond indices in the amount of EUR 63 million.

⁸ Money market investments also include cash, which totalled EUR 15,605 thousand as at 31 December 2019.

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

Type of investment	Number of investments	Value	Proportion of capital investment portfolio (in %)	Number of investments	in 000 EUR	
					Value	Proportion of capital investment portfolio (in %)
2019			2018			
Strategic investments	10	186,348	31.4	10	191,472	36.1
Material investments	6	345,536	58.2	7	277,426	52.4
Portfolio investments ⁹	17	60,429	10.2	17	59,396	11.2
Investments in bankruptcy or liquidation	5	1,424	0.2	5	1,423	0.3
Total capital investments	38	593,737	100.0	39	529,717	100.0

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

Seq. no.	Company name	(in %)
		Proportion of company's share capital
1.	Krka, d. d.	10.65
2.	Modra zavarovalnica, d. d.	100.00
3.	Petrol, d. d.	8.27
4.	Telekom Slovenije, d. d.	5.59
5.	Luka Koper, d. d.	4.98
6.	Loterija Slovenije, d. d.	25.00
7.	Sava, d. d.	28.05
8.	Hit, d. d.	20.32
9.	Union hoteli, d. d.	18.75
10.	Terme Olimia, d. d.	24.79

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 25 such investments, as well as three investments in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in the table below.

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

Table 8: Composition of capital investments in terms of size of ownership stake as at 31 December 2019

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

6.1.1.1.2 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 call to submit bids for the purchase of participating interests in 2019, together with Modra zavarovalnica, specifically for the sale of participating interests in SM Strojkoplast, d. o. o. The bid received was not accepted by Kapitalska družba because the bid price was too low.

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

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

6.1.1.1.3 Purchases of companies

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

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

6.1.1.1.4 Dividends of domestic companies

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

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

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

Issuer	Dividends per share in 2019 (EUR)	Dividends per share in 2018 (EUR)	Total dividends in 2019 (in 000 EUR)	Total dividends in 2018 (in 000 EUR)
Krka, d. d.	3.2	2.9	11,178	10,130
Petrol, d. d.	18	16	3,108	2,762
Telekom Slovenije, d. d.	4.5	14.3	1,643	5,222
Luka Koper, d. d.	1.33	1.23	926	857
Elektro Maribor, d. d.	0.14	0.13	76	70
Elektro Gorenjska, d. d.	0.15	0.14	65	60

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 2019 to 31 December 2019, Kapitalska družba applied, mutatis mutandis, the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014. In May 2017, SDH adopted certain amendments to that document, with the most recent changes coming in November 2019 (hereinafter: the Code).

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

In addition to the Code, Kapitalska družba also applied its own bases for voting at general meetings when managing capital investments in 2019. Kapitalska družba updates the bases for voting at general meetings every year, prior to the convening thereof. These bases, inter alia, define the remuneration policy for supervisory boards, management committees and management boards, the dividend policy, the use of distributable profit, recapitalisations via authorised capital, the acquisition of treasury shares and the introduction of a single-tier governance system. The aforementioned document is published on Kapitalska družba's website.

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

In 2019, Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 48 general meetings of shareholders or partners of companies. Representatives of Kapitalska družba participated in 16 general meetings, at which the Company independently exercised its voting rights. In accordance with Article 53 of the ZSDH-1, SDH exercised the voting rights

of Kapitalska družba at 28 general meetings in the name and on account of the latter. Employees of Kapitalska družba were authorised to participate and exercise all shareholder rights, except voting rights. Two general meetings were cancelled prior to the date of the meeting, while Kapitalska družba did not participate in two others.

Table 10: Participation at general meetings

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

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

Kapitalska družba acted in accordance with the Code at all general meetings attended by its representatives in 2019. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

6.1.1.1.6 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 following the entry into force of the ZSDH-1. In the name of Kapitalska družba, SDH also exercises voting rights and conducts sales in the event of joint investments.

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

Article 79 of the ZSDH-1 states that Kapitalska družba should have been transformed into an independent and autonomous demographic reserve fund by no later than 31 December 2015, as set out in the law governing pension and disability insurance, following the prior adoption of the relevant law. The same article also states that 10% of proceeds from the sale of capital investments held by the Republic of Slovenia must be transferred to a special account at the Ministry of Finance. The aforementioned funds

may be used exclusively to finance the demographic reserve fund. Alongside the formulation of a demographic reserve fund, the ZSDH-1 also envisages the transfer of the ZPIZ's investment in Zavarovalnica Triglav, d. d. to Kapitalska družba. No act governing the transformation of Kapitalska družba into a demographic reserve fund has been adopted to date.

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

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

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

Amended Article 48a states that, after 31 December 2021, KDD will transfer remaining book-entry securities, for which requests were not filed for transfer to the account of a KDD member, from a joint dedicated account at KDD to a special account at Kapitalska družba, together with dividends received, payments and fees. Because Kapitalska družba will not obtain those book-entry securities based on sales according to its own free will and because costs in connection with managing a special account are disproportionately high (given the actual value of assets received), the law states that KDD may not charge Kapitalska družba costs and fees for the book-entry securities credited to its special account. Moreover, the law tasks Kapitalska družba with informing the Securities Market Agency about the acquisition of shares of target companies in accordance with the fifth paragraph of Article 48a within three days of that acquisition. The eighth and ninth paragraphs of the same article set out sanctions for Kapitalska družba and the responsible person at the Company in the event of a breach of the aforementioned obligation.

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

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

6.1.1.3 Management of portfolio investments

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

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

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

The value of portfolio investments was up by more than EUR 53.1 million in 2019. The proportion of the portfolio accounted for by equities and debt investments was up, while the proportion of money market instruments and receivables was down. The proportion of Kapitalska družba's total portfolio investments accounted for by equity investments rose from 25.8% at the beginning of 2019 to 28.7% at the end of 2019. The proportion of debt portfolio investments rose from 8.6% to 9.8%. The portfolio of money market instruments primarily comprises investments in the form of cash deposits at Slovenian banks and accounted for 3.3% of assets at the end of the year.¹⁰ The majority of those deposits are placed for the purpose of covering Kapitalska družba's obligation to the ZPIZ. The five largest investments in the portfolio of equity investments as at 31 December 2019 were as follows: index funds represented by MSCI World global stock indices (SMSWLD GY, XMWO GY, IWDA LN and XDWD GY) and an index fund represented by the US S&P 500 (SPY US). The five largest investments in the portfolio of debt investments as at 31 December 2019 comprised Slovenian government bonds of various maturities, from 2020 to 2026, and German government bonds maturing in 2029.

¹⁰ Changes in the proportions of investments are presented in Table 5: Composition of Kapitalska družba's financial assets as at 31 December 2019 and 31 December 2018 with regard to the method of management. Investments are presented in such a way that all units in collective investment undertakings are classified as equity investments.

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

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

6.1.2 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 to pensions, which is limited to EUR 50 million. In accordance with the provisions of the ZIPRS1819, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2019. Kapitalska družba has transferred a total of EUR 864,321 million to the budget of the ZPIZ.

6.1.3 Investment property

Kapitalska družba holds investment property in the following commercial buildings:

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

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

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

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

The SODPZ comprises assets that are financed by funds collected through the payment of occupational insurance contributions (and any default interest on contributions not paid by the prescribed deadline) and gains generated through the management of those funds. The assets of the SODPZ are the property of occupational insurance policyholders and are intended solely for the coverage of liabilities to policyholders and other beneficiaries. Kapitalska družba manages the SODPZ in the name and on behalf of policyholders separately from the Company's own assets.

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

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

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

Based on the pension plan, Kapitalska družba was entitled in 2019 to the reimbursement of subscription and redemption fees, an annual fee for management of the SODPZ and fees for the payment of occupational pensions. Subscription fees are charged as a percentage of the incoming payments and amounted to 2.0%. Redemption fees are charged as a percentage of the outgoing payments and amounted to 0.5%. Redemption fees are not charged in the event of a transfer to supplementary insurance or due to the buyout of years of service. Fees for the payment of occupational pensions amounted to 0.5% of the monthly occupational pension. Taking into account the net value of SODPZ assets, the maximum annual management fee is equal to 0.88% of the average annual net value of SODPZ assets.

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

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

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

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

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

The main objective of management in 2019 was to increase the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk.

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

In assessing the success of the management of fund assets, the manager compared the fund's guaranteed return with performance criteria by individual investment category and with the performance of other managers of mutual pension funds with a guaranteed return, adjusted for solidarity reserves created.

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

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

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

6.1.4.2 Activities in the provision of occupational insurance in 2019

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

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

Kapitalska družba strove again in 2019 for high-quality and regular communication with policyholders and liable parties by receiving customers in the contact centre, by answering policyholders' questions via the Company's toll-free telephone line and email, and by preparing and presenting occupational insurance at the request of policyholders. Representatives of Kapitalska družba also participated in information day activities for the employees of the Ministry of Defence. Kapitalska družba's objective is to ensure that both policyholders and liable parties are informed in a timely manner about the content of occupational insurance, primarily by providing information regarding the fulfilment of occupational retirement conditions urgently needed by liable parties for HR planning, and for the planning of the secure future of policyholders. In addition to regular notification, the Company communicated with other occupational insurance stakeholders primarily in connection with changes in occupational insurance based on the amended ZPIZ-2, which entered into force on 1 January 2020.

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

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

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

6.2 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. Together with PPS policyholders, more than 289 thousand individuals held savings in the company's mutual pension funds in December 2019, with accumulated assets amounting to almost EUR 1.2 billion. Paid-in supplementary pension insurance premiums, excluding transfers of assets between the KVPS and MKPS, totalled EUR 106.5 million in 2019 (EUR 98.5 million in 2018).

Modra zavarovalnica manages three 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 Modri Umbrella Pension Fund (MKPS), and
- | the First Pension Fund of the Republic of Slovenia (PPS), which was created under a special law through the conversion of pension certificates.

In November 2019, the Mutual Equity Pension Fund (KVPS) was merged with the Modri Guaranteed Sub-Fund of the Modri Umbrella Pension Fund (MKPS).

Table 14: Data regarding mutual pension funds managed by Modra zavarovalnica as at 31 December 2019

Fund	Number of participants/ policyholders	Number of employers/liable persons	Assets under management (million euros)
KPSJU	235,251	1,862	883.4
MKPS	35,376	378	287.3
PPS	18,448	0	17.4
Total	289,075	2,240	1,188.1

Pursuant to Article 313 of the ZPIZ-2, Modra zavarovalnica must create provisions by charging equity in an amount equal to the sum of all deficits in the value of a participant's assets up to the guaranteed value of that person's assets. At the end of 2019, Modra zavarovalnica created provisions in the amount of EUR 8,173 thousand for failure to achieve the guaranteed return on mutual pension funds. The majority of those provisions related to the PPS.

6.2.1.2 Umbrella Pension Fund for Public-Sector Employees

The Umbrella Pension Fund for Public-Sector Employees (KPSJU) implements a life-cycle investment policy, and comprises three different sub-funds:

- | a dynamic public-sector sub-fund (DPJU) intended for younger participants up to 50 years of age, which implements a higher-risk investment policy. Participants who save in this sub-fund assume all investment risk;
- | a conservative public-sector sub-fund (PPJU) intended for participants aged 50 to 60 years, which implements a balanced investment policy. Participants who save in this sub-fund assume all investment risk; and
- | a guaranteed public-sector sub-fund (ZPJU) intended for participants over 60 years of age. Participants who save in this sub-fund only assume the investment risk that exceeds the guaranteed return.

The KPSJU is a closed mutual pension fund intended exclusively for public-sector employees. It ensures them 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.

Public-sector employees who saved in the fund with a guaranteed return at the time of the merger at the beginning of 2017, decide themselves to move to a higher-risk investment policy taking into account their age, while new employees are included in the sub-fund taking into account their age, unless they decide otherwise.

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 and amounted to 0.5% in 2019. The annual management fee for the KPSJU is 0.5% of the average annual net value of KPSJU assets. All other direct 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 savers and assets under management. The aforementioned fund had 235,251 savers with assets totalling EUR 883.4 million at the end of 2019.

6.2.1.3 Modri Umbrella Pension Fund

The Modri Umbrella Pension Fund (MKPS) 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 fund. A pension plan for collective supplementary pension insurance (the PNMZ K) is available to employees and includes policyholders via their employers. Also available is 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 savers.

- | The Modri Dynamic Sub-Fund (MDP) is intended for younger savers up to 50 years of age and implements a higher-risk investment policy. Participants who save in this sub-fund assume all investment risk; and
- | The Modri Conservative Sub-Fund (MPP) is intended for participants aged 50 to 60 years and implements a conservative investment policy. Participants who save in this sub-fund assume all investment risk;
- | The Modri Guaranteed Sub-Fund (MZP) is intended for participants above 60 years of age and implements an investment policy with a guaranteed return. Participants who save in this sub-fund only assume the investment risk that exceeds the guaranteed return.

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 2019. The annual management fee for the MKPS was 1% of the average annual net value of an individual sub-fund's assets.

The aforementioned fund had 35,376 savers with assets totalling EUR 287.3 million at the end of 2019. In November 2019, the Mutual Equity Pension Fund (KVPS), as the transferred fund, was merged with the Modri Guaranteed Sub-Fund, as the receiving fund.

6.2.1.4 First Pension Fund of the Republic of Slovenia

The First Pension Fund (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 2019. It is also entitled to a redemption fee, which is calculated as a percentage of the redemption value paid to heirs.

The PPS had 18,448 savers with assets totalling EUR 17.4 million at the end of 2019.

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 from the following statement of financial position items:

- | investments in Group companies and associates,
- | financial investments, and
- | cash and cash equivalents.

Table 15: Financial assets of the insurance company as at 31 December 2019

					in 000 EUR
Item	Own financial assets	Financial assets of the KS PPS	Financial assets of the KS MR	Financial assets of the KS MR II	Total
Investments in Group companies and associates	36,518	0	0	0	36,518
Financial investments	253,260	98,641	16,239	111,607	479,747
Cash and cash equivalents	5,207	703	96	1,644	7,650
Total	294,985	99,344	16,335	113,251	523,915

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 2019 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 KS MR, 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 supplementary pension in the amount of EUR 24.8 million to 28,200 policyholders, broken down as follows: 18,242 policyholders received a pension annuity from supplementary pension insurance (Modra Renta and Modra Renta II), while 9,958 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 2019	Assets under management (in million EUR)	Expenses for annuities (in million EUR)
KS MR	7,166	16.8	4.1
KS MR II	11,076	116.1	14.0
KS PPS	9,958	99.3	6.7
Total	28,200	232.2	24.8

6.2.3.1 Modra Renta Guarantee Fund

The KS MR comprises separate assets 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, an individual may choose one form of lifetime annuity, and thus exercise their right to a supplementary old-age pension.

The value of fund assets stood at EUR 16.8 million as at 31 December 2019. At 90%, bonds account for the highest proportion of assets.

Table 17: KS MR assets as at 31 December 2019

Assets	in 000 EUR
	Amount
Bonds	15,284
Investment coupons	368
Commercial paper	496
Investment claims	91
Cash and cash equivalents	96
Receivables	476
Total	16,811

As at 31 December 2019, a total of 37% of KS MR assets were invested in the Republic of Slovenia, while 63% 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 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:

- I 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;
- I 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 accelerated payment and 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 2019, a total of 13,569 policyholders with accumulated assets in the amount of EUR 139.3 million 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 2019

Pension fund	Number of participants/policy holders	Redemption value of assets (in million EUR)
MKPS	787	7.8
KPSJU	3,219	25.9
Pension funds of other managers	714	17.0
Total	4,720	50.7

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 age when the annuity insurance entered into force and the costs of the payment of the annuity. The average age of annuity recipients is 63 years, while a total of 59% of all annuity recipients are female.

The KS MR II comprised 11,076 insurance policies as at 31 December 2019.

The value of fund assets stood at EUR 116.1 million as at 31 December 2019. At 59% and 27% respectively, bonds and investment coupons account for the highest proportions of all fund assets.

Table 19: KS MR II assets as at 31 December 2019

Assets	in 000 EUR Amount
Bonds	68,238
Investment coupons	31,620
Commercial paper	2,768
Treasury bills	1,390
Deposits and investment claims	7,591
Cash and cash equivalents	1,644

Assets	Amount
Receivables	2,836
Total	116,087

As at 31 December 2019, a total of 25% of KS MR II assets were invested in the Republic of Slovenia, while 75% 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 everyone who has 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, a policyholder selects the relevant form of pension annuity. Policyholders with 2,000 or less points may receive a pension annuity in a lump-sum amount. A policyholder with more than 2,000 points on his or her insurance policy may choose between a lifetime pension annuity and a lifetime pension annuity with a guaranteed payment period. Policyholders with between 2,000 and 5,000 points may also be paid an annual pension annuity. The guaranteed payment period is set at 5, 10 or 15 years. Should the policyholder die during the guaranteed payment period, the pension annuity is paid to 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 2019 for a permanent increase in annuities. All policyholders/recipients of KS PPS pension annuities who entered into an insurance policy by December 2018 in the form of a monthly or annual annuity received higher annuities in April. The difference for the period January to April 2019 was paid together with the April payment of increased annuities.

A total of 1,205 policyholders who reached the age of 60 years obtained the right to a pension annuity in 2019. Those persons paid a total of EUR 2.7 million into the KS PPS for supplementary pensions.

The value of fund assets stood at EUR 99.3 million as at 31 December 2019. At 75% and 17% respectively, bonds and shares account for the highest proportions of all assets.

Table 20: KS PPS assets as at 31 December 2019

Assets	Amount
	in 000 EUR
Bonds	74,379
Shares	17,307
Investment coupons	5,366
Commercial paper	593
Deposits and investment claims	997

Assets	Amount
Cash and cash equivalents	703
Total	99,345

As at 31 December 2019, a total of 48% of KS PPS assets were invested in domestic issuers, while 52% of all assets were invested in foreign issuers.

6.2.4 Management of own financial assets

Modra zavarovalnica's own financial assets totalled EUR 295 million at the end of 2019. The largest proportion is accounted for by equity portfolio investments, followed by the portfolio of debt investments and equity non-portfolio investments.

Table 21: Own financial assets of Modra zavarovalnica as at 31 December 2019

	in 000 EUR
Assets	Amount
Equity portfolio investments	159,164
Equity non-portfolio investments	49,376
Portfolio of debt investments	81,239
Cash and cash equivalents	5,207
Total	294,986

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: Equity portfolio investments as at 31 December 2019

	in 000 EUR
Assets	Value
Shares	36,089
Foreign shares	36,089
Investment funds	123,076
Domestic investment funds	4,839
Foreign investment funds	118,237
Total	159,165

The portfolio was most exposed to the information technology sector at the end of December 2019, 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 includes investments in issuers from more developed Asian countries and from emerging economies.

6.2.4.2 Equity non-portfolio investments

As at 31 December 2019, 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. Their total value stood at EUR 49.4 million as at 31 December 2019.

6.2.4.3 Debt investments

Table 23: Debt investments as at 31 December 2019

	in 000 EUR
Assets	Value
Bonds	63,154
Government bonds	27,129
Corporate bonds	36,025
Treasury bills	1,599
Deposits and investment claims	16,486
Total	81,239

The value of Modra zavarovalnica's government bond portfolio was EUR 27.1 million as at 31 December 2019. The aforementioned portfolio primarily comprises the government bonds of euro area countries. The majority of bonds are denominated in euros, while a minor proportion are denominated in US dollars. Slovenian government bonds account for more than 50% of the portfolio. The average duration of the government bond portfolio is 6.4 years, while the average rating is A. Bonds with a fixed coupon rate account for the majority.

The majority of corporate bonds are likewise accounted for by bonds from euro area countries. The value of the corporate bond portfolio was EUR 36.0 million at the end of December 2019. All bonds are denominated in euros. Bonds with a fixed coupon rate accounted for the majority. The majority of issuers of corporate bonds were from the sectors of finance, energy and public services. The average duration of the corporate bond portfolio is 3.4 years, while the average rating is BBB.

Deposits are placed exclusively at domestic banks, while investment claims are also against Slovenian issuers. Treasury bills are from the euro area.

6.2.4.4 Investments in cash and cash equivalents

Modra zavarovalnica held EUR 5.2 million in cash and cash equivalents at the end of 2019.

6.3 HOTELSKE NEPREMIČNINE, D. O. O. (HEREINAFTER: 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 guesthouses, and holiday houses. 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.

The San Simon Hotel Resort's range of services was upgraded with the family-friendly hotel concept.

The first phase of the investment in the San Simon Hotel Resort was implemented from January until the end of March 2019, and included the renovation of the pool, restaurant, reception and lobby, Sirena guesthouse, beach bar and outdoor slide at the Haliaetum Hotel. A total of 78 rooms were refurbished at the hotel and guesthouse, with the renovation resulting in 10 additional rooms. The refurbishment of rooms and the accompanying bathrooms included a high-quality and modern interior that facilitates the functional organisation of space. The rooms are modern and equipped with the smart control of individual room functions. The rooms can also be controlled via the reception, which facilitates the preparation of rooms prior to the arrival of a guest as well as energy-saving room management. Guests are thus ensured a high level of comfort.

The second phase of the investment is planned in the coming years, and will include the comprehensive renovation of the remaining three guesthouses (Korala, Palma and Perla) and the main restaurant.

Risk management

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

Significant business events after the end of 2019

Very negative trends were seen on the financial markets in February 2020, as investors opted to shift their capital from high-risk to safer investment categories due to fear of the spread of the coronavirus and its potential negative impact on economic growth. Global stock indices fell by more than 20% in February 2020, which affects the return on the Group's own assets. The impact of changes in share indices on the Group's operating results and capital is presented under the risk management section in the financial section of the annual report. In this context, a drop in economic activity could have a negative impact on net revenue from the management of funds and on the payment of premiums within the Group. The financial markets entered 2020 optimistically following a very successful 2019. The outbreak of the coronavirus in Europe triggered a sharp drop in the prices of shares and corporate bonds. The financial market reacted strongly to the global spread and awareness of the scope of the virus. Bringing additional uncertainty to the markets was the drop in oil prices due to the cancellation of the agreement between Russia and the members of OPEC regarding the continued reduction in oil pumping. Share indices fell sharply (recording historical one-day drops of as much as 10%), while the yields to maturity on government bonds fell sharply. The yield on the 10-year German government bond reached an historically low level on 9 March 2020 when it stood at -0.86%, while the credit spreads on both government and corporate bonds rose sharply. Market volatility increased considerably: the volatility index rose from 13.8 at the end of 2019 to an historically high level of 82.7 on 16 March 2020. Central banks reacted strongly to market conditions by cutting interest rates and introducing new bond purchasing programmes. Governments also responded and announced comprehensive fiscal stimulus measures.

This year (from 31 December 2019 to 11 June 2020), the return on the global share index was -8.2%, while the returns on the corporate and government bond indices were -1.3% and -0.95% respectively. Following the sharp drop in the global share index during the first quarter of 2020, the return on the Group's investments had improved considerably by 11 June 2020.

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

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

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

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

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

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

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

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

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

In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment of pensions, which is limited to EUR 50 million. At its 15th session on 18 February 2020, the Council of the ZPIZ adopted a decision regarding the regular increase in pensions and other receipts by 3.2%. Because that adjustment exceeds EUR 50 million in nominal terms, Kapitalska družba's obligation for 2020 is EUR 50 million.

In December 2019, Modra zavarovalnica submitted changes to the pension plan for the payment of pension annuities under the ZPIZ-2 to the competent ministry for approval. The proposed changes follow the reconciliation of the calculated interest rate in accordance with the change in the detailed rules and minimum requirements observed by insurance and pension companies in the calculation of pension annuities. Amended calculations of pension annuities will enter into force following the approval of the pension plan. Payment conditions will not change for those persons already receiving annuities.

Expected development of the Kapitalska Družba Group for 2020

The Kapitalska Družba Group represents the largest provider of voluntary supplementary pension insurance in Slovenia. The operations of the Group in 2020 will focus on the achievement of the strategic objectives set out in Kapitalska družba's strategy for the period 2019 to 2021 and in Modra zavarovalnica's strategic business plan for the period 2020 to 2022.

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

Despite the provisions of the ZSDH-1, which envisages the transformation of Kapitalska družba into an independent and autonomous demographic reserve fund by no later than the end of 2015, no separate act to serve as the basis for that transformation has been adopted to date. The 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. In 2020, we will continue the sale of Slovenian government equity investments and the placement of proceeds into liquid portfolio investments. We will adapt our activities to the unstable conditions on the global financial markets, low interest rates and lower forecasts of economic growth due to the consequences of the SARS-CoV-2 (COVID-19) epidemic. We will also update our umbrella investment policies and portfolio management investment policies.

Due to legislative changes and the optimisation of business processes that are adapted to the actual requirements of the business environment and with the aim of achieving comprehensive and sustained busi-

ness excellence, the activities described above will be accompanied by the digitalisation of physical materials and the establishment of a document system in 2020.

The focus of Modra zavarovalnica's operations remains the security of savings, which the company ensures through a sufficient level of capital, and through prudent and safe operations. The subsidiary will also pursue its other strategic objectives: satisfied customers, competent employees, organised processes, and the creation of a work environment for the development of innovation, creativity and the achievement of business excellence.

As the largest provider of supplementary pension savings, the Group will remain actively involved in changes and adjustments to systemic bases, and will strive to adapt savings in pension funds and the payment of annuities to the needs of individuals, monitor changes in the economic and demographic environment, and contribute to the sustainability of the pension system.

Hotelske nepremičnine is planning investments in the coming years, including the comprehensive renovation of three guesthouses at the San Simon Hotel Resort in Izola (Korala, Palma and Perla) and the main restaurant.

Social responsibility

10.1 RESPONSIBILITY TO THE WIDER SOCIAL COMMUNITY

Kapitalska družba's mission is the provision of supplementary funding for compulsory pension and disability insurance. Kapitalska družba transfers funds in the amount of EUR 50 million to the ZPIZ every year by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment of pensions, which is limited to EUR 50 million. Notwithstanding the aforementioned, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2019 based on the provisions of the ZIPRS1819.

Modra zavarovalnica focuses on raising the awareness of the population regarding the importance of and need for old-age savings. With the aim of improving awareness about supplementary pension insurance and promoting savings in life-cycle funds, the company organised or participated in numerous consultations, prepared information for publication on corporate websites and in internal newsletters, and provided professional help in the preparation of responses to questions about supplementary pension insurance posed by employees. The company is an active member of the European Association of Public Sector Pension Institutions (EAPSPI), which includes 26 public pension institutions from 16 European countries. It also attended the aforementioned association's meetings and annual general meeting.

Support for activities that make it possible for the elderly to live a more complete, creative and active life is an additional step on the path to achieving Modra zavarovalnica's mission: to enjoy the same quality of life after retirement that we enjoyed before retirement. To that end, the company promotes awareness about the challenges and opportunities brought about by demographic changes, the planning of an active life after retirement and intergenerational cooperation. It designed the Beautiful Life Gallery and presented the graphic works of twelve members of the Fužine Activity Centre, and converted every vote for the best graphic works at the Beautiful Life Gallery into a donation for the development of an online platform that will promote the sharing of knowledge between older and younger generations.

Modra zavarovalnica also supports socially beneficial educational projects that educational institutions cannot implement solely with their own funds, and thus provides young people access to more knowledge. The company helped 15 students from a high school in Maribor by financing their participation in the World Scholar's Cup, which took place in Beijing, China at the end of June 2019.

10.2 RESPONSIBILITY TO EMPLOYEES

Employees participated in training programmes in the following areas in 2019: finance and accounting, corporate governance, portfolio-based asset management, public procurement, the prevention of money laundering and terrorist financing, archiving, internal controls, legal issues, information security and risk management. The Group supports additional schooling and training at faculties, institutions and other organisations in Slovenia and abroad.

In cooperation with Slovenski državni holding, the Group organised a workshop on the subject of tourism, as well as training to obtain the knowledge required to take the insurance agent's exam. It also organised numerous internal training employee programmes primarily on the following topics: the prevention of money laundering and terrorist financing, personal data protection, information security in the workplace and fraud prevention. The employees of Kapitalska družba participated in workshops on the subject of improved cooperation and understanding according to the SDI methodology.

The Group 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 Group 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 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. The Group pays monthly premiums into the Modri Umbrella Pension Fund (MKPS) for its employees. The aforementioned insurance is also considered one of the most valued forms of motivation among employees. Through the payment of premiums into the supplementary pension insurance fund, the Group ensures that all employees receive additional income after retirement.

The Group ensures the right work-life balance. Both Kapitalska družba and Modra zavarovalnica are the proud holders of the full Family-Friendly Certificate.

10.3 ENVIRONMENTAL RESPONSIBILITY

The Group supports environmentally oriented activities and separates waste. When purchasing sanitary materials, we order environmentally friendly products bearing the Ecolabel environmental label. We strive to reduce the use of paper, collect used printer cartridges and plastic bottle caps, and respond to charitable campaigns. The Group supported Tim, who sells paper to earn money for therapy, by giving him 680 kilograms of paper. We joined the Chain of Good People project, and donated food and school supplies to the Ljubljana Moste-Polje chapter of the Friends of Youth Association to help socially disadvantaged people. In a tender for the supply of electricity, we took into account the provisions of the decree on green public procurement and thus purchased 80% of electricity produced from renewable sources. We also responded throughout the year to the requests of individual associations and organisations that were provided promotional materials for raffles and gifts (sports associations and clubs, retiree associations, firefighter associations, etc.).

Report on relations with the subsidiary

No transactions were executed between Kapitalska družba, Modra zavarovalnica and Hotelske nepremičnine in 2019 under conditions that deviated from market conditions.

Lease of business premises

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

Provision of IT services

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

Agreement on the financing of the pension plan

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

Indicators

		in 000 EUR		
		Value	Value of indicator	
	2019	2018	2019	2018
1. FINANCING RATIOS				
a) Equity financing ratio				
equity	1,177,658	1,051,346	0.80	0.77
total equity and liabilities	1,479,663	1,362,343		
b) Long-term financing ratio				
equity + long-term liabilities (including provisions) + long-term accruals and deferred income	1,464,702	1,297,966	0.99	0.95
total equity and liabilities	1,479,663	1,362,343		
2. INVESTMENT RATIOS				
a) Operating fixed asset investment ratio				
fixed assets (at carrying amount)	8,140	7,739	0.01	0.01
equipment	1,479,663	1,362,343		
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 receiva- bles	1,330,392	1,136,620	0.90	0.83
equipment	1,479,663	1,362,343		
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a) Equity to fixed assets ratio				
equity	1,177,658	1,051,346	144.68	135.85
fixed assets (at carrying amount)	8,140	7,739		
b) Acid test ratio				
liquid assets	23,270	21,859	1.56	0.34
short-term liabilities	14,961	64,377		

			Value	Value of indicator	
c) Quick ratio					
liquid assets + short-term receivables	30,435	81,036	2.03	1.26	
short-term liabilities	14,961	64,377			
d) Current ratio					
short-term assets	130,719	194,439	8.74	3.02	
short-term liabilities	14,961	64,377			
4. EFFICIENCY RATIOS					
a) Operating efficiency					
operating revenue	77,009	62,118	1.06	1.0	
operating expenses	72,674	63,735			
5. PROFITABILITY RATIOS					
a) Net return on equity					
net profit/loss for the period	2,587	-24,329	0.0	-0.02	
average equity (excluding net profit/loss for the period)	1,125,373	1,068,471			
b) Dividends to share capital ratio					
dividends for financial year	0	0	0.0	0.0	
average share capital	364,810	364,810			

Corporate governance statement

In accordance with the provision of the fifth paragraph of Article 70 of the ZGD-1 and point 3.4 of the Corporate Governance Code for Companies with State Capital Investments, Kapitalska družba hereby issues its corporate governance statement for the period 1 January 2019 to 31 December 2019.

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

Kapitalska družba hereby issues its statement of compliance with the Corporate Governance Code for Companies with State Capital Investments adopted by SDH. The Code includes principles and recommended best practices for the corporate governance of companies with capital assets of the State. The Code is published on SDH's website at <http://www.sdh.si/sl-si/upravljanje-nalozb/kljucni-dokumenti-upravljanja>.

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

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

Explanation: Given the specific purpose of its establishment and its planned transformation into an autonomous and independent demographic reserve fund, and taking into account the state capital investment management strategy, Kapitalska družba's primary concerns are the fulfilment of its legal obligation to provide funds to the ZPIZ, and the management of the SODPZ.

Point 3.2 of the Code: Notwithstanding the ownership structure, the management board of a public limited company with capital assets of the state and the management boards of large and medium-sized public limited companies and limited liability companies in which SDH has a controlling influence shall formulate and adopt a corporate governance policy in conjunction with the supervisory board. That policy shall define the principal guidelines regarding corporate governance and the other content set out in Chapter II of the Slovenian Corporate Governance Code as regards the definition of the concept of 'governance policy'. The governance policy shall be adopted for the future period and shall be updated by the company so that it is in line at all times with regulations, the company's articles of association, the state capital asset management strategy, applying Recommendation no. 3.1.1 of this Code *mutatis mutandis*, and current corporate governance guidelines. The governance policy shall include the date of the last update and shall be accessible on a company's public website.

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

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

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

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

Explanation: Kapitalska družba does not comply with the aforementioned provision of the Code in full because it is not a company managed by SDH. In accordance with the law, Kapitalska družba is the manager of the SODPZ, which represents an element of compulsory insurance. For this reason, commu-

nication with representatives of the competent ministries regarding the provision of occupational insurance is necessary.

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

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

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

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

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

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

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

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

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

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

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

Explanation: Kapitalska družba complies with the essential elements set out in the Slovenian Corporate Integrity Guidelines, although it has not yet established the independent function of corporate integrity officer. Kapitalska družba plans to establish a comprehensive corporate integrity system during 2020.

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

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

Internal controls are carried out by the Operational Support Sector, which is responsible for maintaining the books of account and for the compilation of financial statements in accordance with 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 and the Kapitalska Družba Group's financial statements for every financial year are verified and audited by an external auditor. On the basis of the resolution passed by the General Meeting on 6 September 2019, the Company's financial statements for 2019 were audited by Deloitte revizija, d. o. o., Ljubljana.

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

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

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

IV. Holders of securities that provide special controlling rights

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

V. Restrictions on voting rights

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

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

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

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

oners. 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 AJ PES and Kapitalska družba. The publication of the convening of the General Meeting must also

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

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

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

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

a) Supervisory Board

The responsibilities of the Supervisory Board are set out in the company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2019 is given in the report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2019:

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

Three committees functioned within the Supervisory Board in 2019: an audit committee, an accreditation committee and an HR committee. The composition and work of the aforementioned committees are presented in the report of the Supervisory Board.

b) Management Board

In accordance with the ZSDH-1 and the Company's Articles of Association, the Management Board has a minimum of two and a maximum of three members. The members of the Management Board are appointed to a four-year term of office by the Supervisory Board based on a public tender procedure. Kapitalska družba, d. d. was run by its Management Board in 2019 in the following composition:

- | President of the Management Board Bachtiar Djalil who began his term of office on 3 January 2019;¹¹
- | Member of the Management Board Goranka Volf who began her term of office on 24 November 2016; and
- | Member of the Management Board Gregor Bajraktarević began his term of office on 7 February 2018.

The Management Board manages the Company in the interests thereof, independently and at its own risk. The members of the Management Board represent Kapitalska družba independently and without restrictions. The company's Articles of Association set out the transactions and decisions for which the Management Board must obtain the consent of the Supervisory Board. The Management Board of Kapitalska družba is answerable to the Supervisory Board and the General Meeting for its work. In managing the Company's transactions, it must act with the due professional diligence of a good manager, safeguard the business secrets of Kapitalska družba and comply with the prohibition of competition clause.

The Management Board exercised its competences in 2019 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1 and ZSDH-1, in accordance with the Articles of Association.

Table 24: Composition of the Management Board during the 2019 financial year

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

¹¹ Mr Djalil began his previous four-year term of office on 2 January 2015.

Table 25: Composition of the Supervisory Board and its committees during the 2019 financial year

Name	Function (Chairman, Deputy Chairman, member)	First appointment to function	Completion of function/term of office	Shareholder/employee representative	Participation in Supervisory Board sessions with respect to total number (e.g. 5/7)	Gender	Nationality	Year of birth	Education	Professional profile	Independence in accordance with point 6.6 of the Code (YES/NO)	Existence of conflicts of interest	Membership in supervisory bodies of other companies	Membership on committees (e.g. audit, human resource or remuneration)	Chair/member	Participation in committee sessions with respect to total number (e.g. 5/7)
Stanislav Seničar	Chairman	28 August 2013	30 August 2022	Shareholder representative	22/22	M	Slovene	1942	Bachelor's degree in sociology	Corporate governance	Yes	No	/	/	/	/
Boris Žnidarič	Deputy Chairman	1 February 2015	1 February 2023	Pensioner representative	22/22	M	Slovene	1948	Doctorate of science	Master's degree in law and other social sciences, qualified university professor	Yes	No	Krka, d. d.,	Accreditation	Chair	4/4
Aleksander Mervar	Member	28 August 2013	30 August 2022	Shareholder representative	19/22	M	Slovene	1962	Master's of science	Finance, accounting, corporate governance, governance systems	Yes	No	Stelkom, d. o. o., SŽ, d. o. o. (since 12 September 2019)	HR, audit, accreditation	Chair member, member	2/2 4/6 1/4
Natalija Stošički	Member	8 April 2016	8 April 2020	Shareholder representative	20/22	F	Slovene	1966	Bachelor's degree in economics	Financial services expert	Yes	No		Audit, HR	Chair, member	6/6 2/2
Cirila Surina Zajc (članica do 1.2.19)	member	1 February 2015	1 February 2019	Pensioner representative	3/3	F	Slovene	1949	Bachelor's degree in economics	Finance	Yes	No	/	Audit, HR	Member, member	1/1 /
Ladislav Rožič	Member	31 January 2011	1 February 2023	Trade union representative	22/22	M	Slovene	1957	Master's of science	Finance, corporate governance	Yes	No	/	Audit, accreditation	Member, member	6/6 4/4
Mirko Miklavčič	Member	2 February 2019	1 February 2023	Pensioner representative	19/19	M	Slovene	1947	Bachelor's degree in labour organisation	Finance, corporate governance and insurance	Yes	No	/	Audit, HR	Member, member	5/5 2/2

Table 26: External members of Supervisory Board committees during the 2019 financial year

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

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

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



Gregor BAJRAKTAREVIĆ

Member of the
Management Board



Goranka VOLF

Member of the
Management Board



Bachtiar DJALIL

President of the
Management Board

Ljubljana, 19. 6. 2020

Financial Report

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



Statement of the Management's Responsibility

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Kapitalska družba Group for the year ended 31 December 2019, and the accompanying notes and disclosures.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and good management. The Management Board also confirms that the financial statements give true and fair presentation of the Group's financial position and the results of its operation for 2019.

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

The tax authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the 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



Bachtiair DJALIL
President of the
Management Board

Ljubljana, 19 June 2020



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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 2019, 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 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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



MAKING AN
IMPACT THAT
MATTERS
since 1845

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Deloitte revizija d.o.o. - The company is registered with the Ljubljana District Court, registration no. 1547105 - VAT ID SI62560085 - Nominal capital EUR 74,214.30.

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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;
- 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 and Those Charged with Governance 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.

Those charged with governance are responsible for overseeing the 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

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

DELOITTE REVIZIJA d.o.o.

Nina Kravanja Novak
Certified auditor

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

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

Ljubljana, June 19, 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Financial Statements

for 2019

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

in 000 EUR			
Item	Note	1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
1. Net sales revenue	1		
c) Revenue from sales on the domestic market		73,312	59,917
Total sales revenue		73,312	59,917
4. Other operating revenue (including operating revenues from revaluation)	2	3,697	2,201
Total revenue		77,009	62,118
5. Costs of goods, materials and services	3		
b) Costs of materials		-339	-278
c) Costs of services		-3,958	-3,585
Total costs of goods, materials and services		-4,297	-3,863
6. Labour costs	4		
a) Payroll costs		-4,924	-4,873
b) Social security insurance costs		-798	-812
c) Pension insurance costs		-241	-231
d) Other labour costs		-512	-729
Total labour costs		-6,475	-6,645
7. Amortisation, depreciation and write-offs	5		
a) Depreciation and amortisation		-2,115	-1,578
b) Operating expenses from revaluation of fixed assets		-66	-400
Total write-downs		-2,181	-1,978
8. Other operating expenses	6	-59,721	-51,249
Total costs		-72,674	-63,735
Operating profit (loss)		4,335	-1,617
9. Financial income from participating interests	7		
b) Financial income from shares and interests in associates		18,886	12,957
c) Financial income from other shares and interests		39,572	29,966
d) Financial income from other investments		9,389	9,999

		in 000 EUR	
Item	Note	1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
Total financial income from shares and interests		67,847	52,922
10. Financial income from loans granted	7		
b) Financial income from loans granted to others		298	397
Total financial income from loans granted		298	397
Total financial income		68,145	53,319
12. Financial expenses due to write-off and impairment of investments	8		
b) Financial expenses due to impairment and write-off of other investments		-6,893	-6,543
Total financial expenses due to impairment and write-off of investments		-6,893	-6,543
13. Financial expenses for financial liabilities	8		
d) Financial expenses for other financial liabilities		-50,000	-50,007
Total financial expenses for financial liabilities		-50,000	-50,007
Total financial expenses		-56,893	-56,550
Profit (loss) from ordinary activity		15,587	-4,848
17. Income tax	9	-2,176	-189
18. Deferred tax	10	-10,824	-19,292
19. Net profit or loss for the period	11	2,587	-24,329
a) Net profit or loss of majority owner for the accounting period		2,587	-24,329
b) Net profit or loss of minority owner for the accounting period		0	0

Disclosures and notes on pages 94 do 177 are a constituent part of financial statements.

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

		in 000 EUR	
		1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
Profit or loss for the period		2,587	-24,329
Items not to be reclassified subsequently to profit or loss		124,433	4,551
Actuarial gains/losses		-136	-24
Net change in fair value reserves not to be reclassified subsequently to profit or loss		82,814	12,255
Other changes (profits/losses from derecognition of equity investments measured at fair value through other comprehensive income)		41,755	-7,680
Items that may be reclassified subsequently to profit or loss		-871	-3,098
Net change in fair value reserves that may be reclassified subsequently to profit or loss		-871	-3,098
Other comprehensive income for the year		126,149	-22,876

Disclosures and notes on pages 94 do 177 are a constituent part of financial statements.

16.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		in 000 EUR	
ASSETS	Note	31 Dec. 2019	31 Dec. 2018
A. Non-current assets			
I. Intangible assets and long-term accrued revenue and deferred costs	12		
1. Long-term property rights		1,120	1,442
5. Other long-term deferred costs and accrued revenue		33	0
Total intangible assets		1,153	1,442
II. Property, plant and equipment	13		
2. Buildings		5,311	5,618
4. Other plant and equipment		1,676	679
Total property, plant and equipment		6,987	6,297
III. Investment property	14	27,925	27,478
IV. Long-term investments			
1. Long-term investments, except loans			
b. Shares and interests in associated companies	15	87,014	75,304
c. Other shares and interests	17	909,173	762,756
d. Other long-term investments	17	283,024	255,439
Total long-term investments, except loans		1,279,211	1,093,499
2. Long-term loans			
b. Long-term loans to others	18	14,949	7,780
Total long-term loans		14,949	7,780
Total long-term investments		1,294,160	1,101,279
V. Long-term operating receivables	19		
3. Long-term operating receivables due from others		167	124
Total long-term operating receivables		167	124
VI. Deferred tax assets	10	18,552	31,284
Total fixed assets		1,348,944	1,167,904
B. Current assets			
I. Assets held for sale	16	0	14,418
III. Short-term investments			
1. Short-term investments, except loans			
d. Other short-term investments	17	73,108	57,951
Total short-term investments, except loans		73,108	57,951
2. Short-term loans	18		
b. Short-term loans to others		27,176	41,034

		in 000 EUR	
ASSETS	Note	31 Dec. 2019	31 Dec. 2018
Total short-term loans		27,176	41,034
Total short-term investments		100,284	98,985
IV. Short-term operating receivables	19		
2. Short-term trade receivables		3,034	1,543
3. Short-term operating receivables due from others		1,060	4,610
4. Other short-term operating receivables		3,071	53,024
Total short-term operating receivables		7,165	59,177
V. Cash	20	23,270	21,859
Total current assets		130,719	194,439
Total assets		1,479,663	1,362,343

		in 000 EUR	
LIABILITIES	Note	31 Dec. 2019	31 Dec. 2018
A. Equity			
I. Called-up capital	21	364,810	364,810
II. Capital surplus	22	217,494	217,331
V. Fair value reserves	23	342,205	259,809
VI. Retained earnings		250,562	233,725
VII. Net profit or loss for the financial year		2,587	-24,329
Total equity of majority owner		1,177,658	1,051,346
VII. Equity of minority owners		0	0
Total equity		1,177,658	1,051,346
B. Provisions and long-term accrued costs and deferred revenue	26		
I. Provisions for pensions and similar liabilities		497	544
II. Other provisions		235,711	206,568
Total provisions and accrued costs and deferred revenue		236,208	207,112
C. Non-current liabilities			
I. Non-current financial liabilities	24		
4 Other non-current financial liabilities		0	349
Total non-current financial liabilities		0	349
II. Non-current operating liabilities	25		
4 Non-current operating liabilities from advances		15	15
5 Other non-current operating liabilities		69	34
Total non-current operating liabilities		84	49
III. Deferred tax liabilities		50,752	39,110
Total non-current liabilities		50,836	39,508

		in 000 EUR	
LIABILITIES	Note	31 Dec. 2019	31 Dec. 2018
D. Current liabilities			
II. Current financial liabilities	24		
4 Other current financial liabilities		1	3
Total current financial liabilities		1	3
III. Current operating liabilities	25		
2 Current trade payables		3,032	3,254
4 Current operating liabilities from advances		0	513
5 Current liabilities to the state		33	50,294
6 Current corporate income tax liabilities		1,871	240
7 Other current operating liabilities		10,024	10,073
Total current operating liabilities		14,960	64,374
Total current liabilities		14,961	64,377
Total liabilities		1,479,663	1,362,343

Disclosures and notes on pages 94 do 177 are a constituent part of financial statements.

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

	in 000 EUR	
Postavka	1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	15,587	-4,848
Income taxes and other taxes not included in operating expenses	-2,176	-189
Adjustments for amortisation and depreciation	1,753	1,555
Adjustments for revaluation operating expenses	0	388
Adjustments for financial income from financing activities	-68,145	-54,719
Adjustments for financial expenses from financing activities	38,469	56,550
Total income statement items	-14,512	-1,263
b) Changes in net operating assets in balance sheet items		
Opening less closing operating receivables	51,969	-4,374
Opening less closing deferred tax assets	12,732	-522
Opening less closing assets (disposal groups) held for sale	14,418	-12,478
Closing less opening operating liabilities	-49,414	8,953

Postavka	in 000 EUR	
	1 Jan. to 31 Dec. 2019	1 Jan. to 31 Dec. 2018
Closing less opening provisions	29,096	22,051
Closing less opening deferred tax liabilities	11,642	-1,470
Total items of net current assets – operating items in the balance sheet	70,443	12,160
c) Net cash from (used in) operating activities	55,931	10,897
B. Cash flows from investing activities		
a) Cash receipts from investing activities		
Receipts from interest and dividends received from investing activities	32,136	40,503
Receipts from disposal of property, plant and equipment	38	4
Receipts from disposal of long-term investments	172,003	150,098
Receipts from disposal of short-term investments	69,768	4,695
Total cash receipts from investing activities	273,945	195,300
b) Cash disbursements for investing activities		
Disbursements to acquire intangible assets	-301	-964
Disbursements to acquire property, plant and equipment	-157	-116
Disbursements to acquire investment property	-296	-15,281
Disbursements to acquire long-term investments	-241,420	-137,479
Disbursements to acquire short-term investments	-36,454	-17,481
Total cash disbursements for investing activities	-278,628	-171,321
c) Net cash from (used in) investing activities	-4,683	23,979
C. Cash flows from financing activities		
a) Cash receipts from financing activities		
Receipts from paid-in capital	163	570
Receipts from increase in non-current financial liabilities	0	1,236
Total cash receipts from financing activities	163	1,806
b) Cash disbursements for financing activities		
Repayment of current financial liabilities	-50,000	-50,000
Total cash disbursements for financing activities	-50,000	-50,000
c) Net cash from (used in) financing activities	-49,837	-48,194
D. Closing balance of cash		
a) Net cash for the period	1,411	-13,318
b) Opening balance of cash	21,859	35,177
c) Total closing balance of cash	23,270	21,859

Disclosures and notes on pages 94 do 177 are a constituent part of financial statements.

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

in 000 EUR

	Share capital	Capital surplus	Fair value reserves	Retained earnings	Net profit or loss for the period	Equity – majority shareholders	Total
A. 1. Balance as at 31 Dec. 2018	364,810	217,331	259,809	233,725	-24,329	1,051,346	1,051,346
A. 2. Balance as at 1 Jan. 2019	364,810	217,331	259,809	233,725	-24,329	1,051,346	1,051,346
B. 1. Changes in equity – transactions with owners	0	163	0	0	0	163	163
d) Additional paid-in capital	0	163	0	0	0	163	163
B. 2. Total comprehensive income for the period	0	0	81,807	41,755	2,587	126,149	126,149
a) Net profit or loss for the period	0	0	0	0	2,587	2,587	2,587
e) Changes in reserves arising from valuation of investments at fair value	0	0	81,892	0	0	81,892	81,892
f) Changes in reserves arising from valuation of investments at fair value – associated companies	0	0	51	0	0	51	51
g) Other components of comprehensive income for the period	0	0	-136	41,755	0	41,619	41,619
B. 3. Changes in equity	0	0	589	-24,918	24,329	0	0
a) Allocation of the remaining net profit for the comparative period to other equity components	0	0	589	-24,918	24,329	0	0
C. Closing balance as at 31 Dec. 2019	364,810	217,494	342,205	250,562	2,587	1,177,658	1,177,658

Disclosures and notes on pages 94 do 177 are a constituent part of financial statements..

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

in 000 EUR

	Share capital	Capital surplus	Fair value reserves	Retained earnings	Net profit or loss for the period	Equity – majority shareholders	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 paid-in 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
f) Changes in reserves arising from valuation of investments at fair value – associated companies	0	0	-1,247	0	0	-1,247	-1,247
g) 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 94 do 177 are a constituent part of financial statements.

Disclosures and notes

17.1 GENERAL DISCLOSURES

Information about the controlling company

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

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

Individual financial statements of Kapitalska družba, d. d., were issued on 31 March 2020, and the auditor's unmodified opinion was issued on 28 April 2020.

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, d. d. are presented in the table below.

Subsidiary	Country	Share in equity	in 000 EUR	
			Equity as at 31 Dec. 2019	Net profit/loss for 2019
Modra zavarovalnica, d. d.	Slovenia	100.00%	269,237	12,242
Hotelske nepremičnine, d. o. o.	Slovenia	50.00%	12,418	435

The remaining 50% of the share in equity of the company Hotelske nepremičnine, d. o. o. is held by Modra zavarovalnica, d. d.

Kapitalska družba, d. d. consolidates Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o.

Consolidation

The consolidation of financial data takes place at Kapitalska družba, d. d. as the highest level. The consolidated Annual Report of the Kapitalska družba Group will be published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Own interests

The Group has no own shares.

Employees

At the end of 2019, there were 120 employees in the Kapitalska družba Group, 60 of which were employees of Kapitalska družba, d. d. and Modra zavarovalnica, d. d. Hotelske nepremičnine, d. o. o. has no employees.

Table 27: Number of employees in the Kapitalska družba Group

	As at 31 Dec. 2019	As at 31 Dec. 2018
Kapitalska družba Group	120	119

17.2 ACCOUNTING POLICIES

Basis for preparation

The financial statements for 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and the Companies Act.

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

Significant accounting estimates and judgements

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

The adequacy of used assumptions and estimates is checked periodically.

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

On the date of the statement of financial position the manager assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. If such evidence exists, the 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, d. d. and all its subsidiaries (hereinafter the Group) have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as the Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the European Union (EU).

In its financial statements, the Group applied all IFRS and IFRIC required in 2019. It did not apply any standard or interpretation before its application became obligatory in 2019.

Amendments to standards and interpretations

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

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

- | IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- | Amendments to IFRS 9 "Financial instruments" – Prepayment features with negative compensation adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- | Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- | Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- | Amendments to various standards due to "Improvements to IFRS (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- | IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

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

Standard IFRS 16 is effective for annual periods beginning on or after 1 January 2019. At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability. Modra zavarovalnica, d. d. began to apply IFRS 16 "Leases" on 1 October 2019, when it entered into a five-year lease contract. IFRS 16 includes leases of all assets, but with some exemptions. Kapitalska družba, d. d. and Modra zavarovalnica, d. d., in accordance with the standard and the possibility of exemption from the application of the standard, apply exemptions for short-term leases and leases of low-value assets. Short-term leases are

leases with a lease term of 12 months or less, while in leases of low-value assets, the value of a new asset is less than USD 5,000.

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

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

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

Kapitalska družba, d. d. and Modra zavarovalnica, d. d. anticipate that the adoption of these standards and amendments to the existing standards will have no impact on the financial statements of the companies in the period of initial application.

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 2023),
- | Amendments to IFRS 3 "Business combinations" – Definition of a business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisition of assets occurring at the beginning of this period or after),
- | Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

Kapitalska družba, d. d. anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application. Modra zavarovalnica, d. d. is reviewing the effect of these new standards and interpretations and has to date not yet assessed the impact of the new requirements.

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 (000 EUR), except where specifically stated otherwise.

Consolidation bases

The consolidated financial statements comprise the financial statements of Kapitalska družba, d. d. and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same financial year as the financial statements of the parent company using uniform accounting policies. In the event of inconsistencies in accounting policies, relevant adjustments are made in the consolidated financial statements.

All inter-company transactions and balances, including unrealized profits arising from inter-company transactions and balances, are eliminated in full.

All subsidiaries are consolidated as at the date when control is transferred to the Group, and consolidation of a subsidiary is discontinued when the Group no longer controls the subsidiary. If the Group loses control of a subsidiary during the year, the results of the subsidiary are included in the consolidated financial statements until the date when the Group still had control of the subsidiary.

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, except from development costs, are not capitalised. Costs represent expenses of the period in which they are incurred.

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

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

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

Property, plant and equipment

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

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

Every year an impairment test is carried out on property, plant and equipment. Impairment is made if the asset's estimated recoverable amount is less than its carrying amount. The Group reduces the carrying

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

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

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

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

Maintenance costs and increase in fixed assets value

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

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

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

Investment property

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

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

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

Every year an impairment test is carried out on investment property. Impairment is made if the investment property's estimated recoverable amount is less than its carrying amount. The Group reduces

the carrying amount of such investment property to its recoverable amount. The decrease is disclosed as impairment loss directly in the income statement.

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

The cash generating unit includes investment property by locations.

Financial assets

Classification and measurement of financial assets

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, 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;
- | 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;
- | 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:

- | 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 associated company is a company in which the parent company has significant influence and 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.

Investments in abandoned securities

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

Assessment of contractual cash flows

The 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.

The Group regularly checks international ratings of investment grade financial instruments and financial instruments with non-investment grade ratings 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:

- | parameters of the controlling company;
- | parameters of a comparable financial instrument;
- | 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 macroeconomic 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 OTC¹² (market for debt investments).

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

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

In case of exchange trading, the assumption of an active market is fulfilled if the average amount of an individual investment traded in a day over the last 180 days from the date of fair value measurement exceeds EUR 0.5 million, taking into account the number of trading days (in case of Ljubljana Stock Exchange, the average daily turnover of EUR 0.1 million is taken into account, while this does not apply to the determination of an active market for investments owned by Modra zavarovalnica, d. d.). 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 an active market is fulfilled if the CBBT¹³ price is quoted for at least a half of trading days in the last 30 days up to 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 BVAL¹⁴ 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 including benchmark against the current fair value of another instrument with similar main characteristics is used. 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

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

13 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.

14 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.

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

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

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

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

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

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

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

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

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

Classification of equity investments

Table 28: 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 29: 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 30: Classification of collective investment funds

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

Table 31: 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 also includes debt instruments that 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 32: 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
	Debt investments with fair value measured on the basis of quoted prices in less liquid markets
Level 2	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 33: Classification of debt investments if an OTC market acts as the principal market

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

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

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

Classification of loans and deposits

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

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

As at the reporting date, the 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. Impairment loss is recognised in operating expenses from revaluation.

Derecognition of financial instruments

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

Non-current assets (disposal groups) held for sale

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

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

Operating receivables

Operating receivables are recognised at the amount of invoices issued, less any allowances. Making allowances of receivables is a process of recognising an adjustment to their carrying amount due to expected credit losses; contractual increases or decreases of their carrying amount are not considered as revaluation. It may be performed during or at the end of the financial year. The calculation of credit losses is described in 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, d. d. has no treasury shares. Its sole shareholder is the Republic of Slovenia.

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

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

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

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

Fair value reserves

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 recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at 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.

Changes in mathematical provisions are disclosed as increases or decreases of other operating expenses in the income statement.

The Group establishes long-term provisions:

- | when the guaranteed value of assets exceeds the actual value of assets belonging to an individual policyholder/member, namely in the amount of the established deficit, i.e. the sum of differences between the guaranteed assets of the policyholder/member and the actual value of the assets of the policyholder/member;
- | if a lawsuit is filed against a Group company or if the Group estimates a claim is very probable;
- | for termination and jubilee benefits, 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

In line with International Financial Reporting Standard 4 (IFRS 4) and International Actuarial Standard of Practice no. 3 (IASP 3), the guarantee funds of the First Pension Fund (KS PPS), Modra Renta (KS MR) and Modra Renta II (KS 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 that carry a significant insurance risk are treated in the books of account in accordance with IFRS 4. When an insurance contract does not carry a significant insurance risk, it is treated in the books of account as a financial contract in accordance with IAS 39.

Insurance contract liabilities (technical provisions)

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

Modra zavarovalnica, d. d. is required to set aside 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 policyholders 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 the key actuarial function holder (actuary) appointed by the Management Board of Modra zavarovalnica, d. d.

KS PPS Technical Provisions

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

- | 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 those 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 calculated by individual policy upon transfer increase the balance of provisions set aside for the equalisation of KS PPS mortality experience and are formed collectively for all policyholders.

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 posted in 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.:

- I if mathematical provisions are not set aside 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 over guaranteed return;
 - surplus of assets as a result of mortality within the population with annuity insurance policies;
- I 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 insurance company management.

KS MR Technical Provisions

KS MR technical provisions are mathematical provisions for KS MR policies concluded after retirement of the policyholders that exercised regular termination of supplementary pension insurance by 31 December 2015. They are calculated in accordance with the provisions of the Technical Bases for Annuity Insurance, prospectively for each insurance policy separately. German annuity tables DAV1994R are applied in the calculation. The imputed interest rate, mortality tables and expenses are the same as those used in the calculation of the premium.

KS MR II Technical Provisions

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 by 1 January 2016. They are calculated in accordance with the provisions of the Technical Bases for Annuity Insurance, prospectively for each insurance policy separately. They also include mathematical provisions arising from the generated annuity fund profit. 90% of the profit of the preceding financial year at any relevant time is allocated to policyholders. At least half of the profit is allocated to policyholders, while the other half remains undistributed and is used to cover potential losses. German annuity tables DAV1994R are applied in the calculation. The imputed interest rate, mortality tables and expenses are the same as those used in the calculation of the premium.

Claims Provisions

Claims provisions for guarantee funds are set aside in the amount of the liabilities to the insured that the fund is obliged to pay out based on insurance contracts, with regard to which an event insured has occurred before the end of the accounting period.

Operating liabilities

Operating liabilities comprise trade payables for acquired assets or services, and liabilities to employees, the state and others. 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 will be entitled in exchange for these goods or services. The Group considers the terms of the contract and all relevant facts and circumstances. The buyer is a customer who has concluded a contract with the Group on the acquisition of goods or services that are the result of the Group's ordinary activities, in exchange for consideration.

Revenues are classified into the following categories:

1. Revenue from insurance premiums

Net revenue from insurance premiums is equal to gross insurance premiums written. Gross insurance premiums written are recognized in the accounting records on the day when they are written, not on the day of payment.

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 fees

The Group charges management fees to the pension funds, thus the monthly value of assets of an individual fund is reduced by the cost of management fees. The management fee for an individual fund is calculated as a percentage of the average annual value of the fund's assets, which is 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

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 Group's statement of financial position together with investments.

2. Dividends

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

3. Revenue from sale of investments

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

4. Revenue from revaluation of investments

Revenue from revaluation of investments constitutes revenue from valuation of those financial instruments that are classified at fair value through profit or loss.

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 contingencies based on collective agreements concerning the employees. These expenses are recognised over the entire period of employment of an individual employee to whom the collective agreement refers.

Expenses

Expenses are recognised if the decrease in economic benefits in the reporting period is associated with decreases in assets or increases in debt and if this decrease can be reliably measured. Expenses should therefore be recognised simultaneously with the recognition of a decrease in assets or of an increase in 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 the tax authorities or amounts of income tax credits that will be available in future periods. Current tax assets or liabilities are measured using the tax rates enacted at the date of the statement of financial position.

2. Deferred tax

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

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

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

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

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

Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31 December 2019 and 31 December 2018, income statement data for the year 2019, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Reporting by segments

In 2019, the Kapitalska družba Group had no business segments.

Risk management

Effective risk management has proven to be crucial, particularly in the times of economic crises, as it can contribute to more stable and successful long-term operations. It is therefore essential for achieving objectives within the Group's activities. 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.

In order to improve its long-term operations, the Group constantly develops and upgrades its entire risk management system. Especially within Modra zavarovalnica's operations, it is important to comply with the Solvency II Directive, whose strategic goal is to protect the assets of policyholders. To ensure long-term target capital adequacy, the company regularly assesses its risk and solvency, thus identifying the current and expected capital requirements and defining appropriate capital management measures. Modra zavarovalnica's 2019 risk and solvency assessment shows that the company has sufficient capital to cover all the risks it assumes in its operations.

Table 34: Capital adequacy of Modra zavarovalnica, d. d. in line with Solvency II Directive

Item	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Total capital requirement	148,057	122,828
Available and eligible own funds	286,712	252,222
Surplus (+)/deficit(-) of available own funds	138,655	129,394
Solvency ratio	194%	205%

In the course of its activities, the Group is exposed to financial, insurance, 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, greatly affect the value of the equity portfolio of investments 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 investments abroad decreases the dependence of the Group's portfolio of investments on the movement of prices on the Slovenian capital market.

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

Interest rate risk

The very nature of investments in debt instruments exposes the Group to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. Due to lower 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 mitigates risks arising from interest rates by restructuring the portfolio according to market conditions, by reducing the average maturity of debt portfolios, by classifying investments as held-to-maturity investments and by restructuring investments with fixed interest rates into investments with variable interest rates or vice versa, depending on expected movements in market interest rates. In 2019, the Group did not use any derivatives to hedge interest rate risk.

Currency risk

Managing a portion of financial assets invested in foreign currencies exposes the Group to currency risk.

Currency risk is monitored and managed on a daily basis by ensuring the currency consistency 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 2019, the Group did not use any derivatives to hedge currency risk.

Credit risk

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

According to internal acts, the credit rating of business partners is determined by ratings assigned by Standard & Poor's, Fitch and Moody's, and in-house analyses. The credit risk of foreign debt securities is generally managed by investing in foreign debt securities with a credit rating provided by a recognised credit rating agency higher than BBB-, and by adjusting the portfolio's credit rating structure to the internal restrictions adopted. The maximum exposure to the so-called "high yield" debt securities is determined.

With regards to investments in deposits, debentures and certificates of deposits, an internal model for determination of limits of such investments in individual banks has been developed. Internal limits for

individual banks are updated on a regular basis. The total exposure to an individual bank is determined on an ongoing basis and is aligned with 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. Resources and investments are managed in such a way that the Group is able to meet all its due liabilities at any time. A policy of regular liquidity management in line with the legislation and regulations is implemented.

Due to the low liquidity of the Slovenian capital market, liquidity risk encompasses most investments in 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 in highly liquid securities. Moreover, liquidity risk is managed by daily monitoring of the inflows and outflows of the Group and precise matching of maturity of assets and liabilities.

Insurance risk

Insurance risk is the risk associated with insurance coverage covered by insurance. It is the risk of loss or adverse change in the value of insurance liabilities due to inadequate premiums or inadequate assumptions taken into account in the calculation of technical provisions.

Insurance risks are divided into life insurance risk, health insurance risk (including accident insurance) and non-life insurance risk. The Group is mainly exposed to life insurance risk, while health insurance risk is immaterial due to its small volume. The Group is not exposed to non-life insurance risk.

Operational risk

Operational risk is the risk of a loss due to inappropriate internal processes or incorrect action by people or defective functioning of systems within the Company or as a result of external events and actions. Operational risk also includes legal and documentary risk as well as the risks arising from trading procedures, settlement and valuation of assets and liabilities.

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

Strategic risk

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

influence the processes involved in the sale of companies where the Group holds interests, the amount of liabilities to the pension budget and consequently the management of financial assets.

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

17.3 DISCLOSURES AND NOTES TO THE FINANCIAL STATEMENTS

17.3.1 Notes to the income statement

Note no. 1

Net sales revenue

	in 000 EUR	
	2019	2018
Revenue from the sale of services	53,463	43,191
Revenue from asset management	16,871	15,268
Revenue from lease payments	2,771	1,449
Other sales revenue	207	9
Total	73,312	59,917

Revenue from the sale of services refers to revenue from life insurance premiums, which represent accrued payments to the guarantee funds.

	in EUR 000	
	2019	2018
Revenue from sales in Slovenia	73,312	59,917
Total	73,312	59,917

Note no. 2

Other operating revenue (including operating revenue from revaluation)

	in 000 EUR	
	2019	2018
Revenues from reversal of long-term provisions	3,470	1,904
Other operating revenue	137	105
Revaluation operating revenue	32	30
Other items	58	162
Total	3,697	2,201

In 2019, Modra zavarovalnica, d. d. reversed provisions for non-achievement of guaranteed return of the funds under management in the amount of EUR 1,715 thousand (2018: EUR 1,724 thousand), and based on the provisions adequacy test, it reversed EUR 1,435 thousand of provisions. Revenues from reversal of long-term provisions in the amount of EUR 320 thousand constitute reversal of provisions for non-a-

chievement of guaranteed return of the SODPZ fund (2018: EUR 180 thousand of reversed provisions for onerous contracts).

Other operating revenue includes revenue arising from annuity expiry in the amount of EUR 133 thousand and other minor items (2018: EUR 88 thousand).

Operating revenue from revaluation amounting to EUR 32 thousand represents gains from the sale of fixed assets (2018: EUR 30 thousand).

Other items comprise revenue from compensations in the amount of EUR 49 thousand and revenue from previous periods totalling EUR 9 thousand (2018: EUR 123 thousand from compensations, EUR 29 thousand from previous periods and EUR 10 thousand of other revenue).

Note no. 3

Costs of goods, materials and services

	in 000 EUR	
	2019	2018
Costs of materials	339	278
Costs of services	3,958	3,585
Total	4,297	3,863

Costs of materials

Costs of materials comprise costs of power supply, write-off of small tools, costs of office stationery and professional literature, and other costs of materials.

Costs of services

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

Costs of audit

The costs of audit in the 2019 financial year at the Group level amounted to EUR 53,538 (2018: EUR 37,698). In 2019, Kapitalska družba, d. d. paid EUR 1 thousand to auditor for other non-audit services.

Note no. 4

Labour costs

	in 000 EUR	
	2019	2018
Payroll costs	4,924	4,873
Social security costs	798	812
Pension insurance costs	241	231
Other labour costs	512	729
Total labour costs	6,475	6,645

Note no. 5

Amortisation, depreciation and write-offs

	in 000 EUR	
	2019	2018
Depreciation/amortisation	2,115	1,578
Amortisation of intangible assets	629	557
Depreciation of buildings	307	307
Depreciation of equipment and spare parts	290	95
Depreciation of small tools	41	0
Depreciation of investment property	848	619
Operating expenses from revaluation	66	400
Operating expenses from revaluation of fixed assets	66	400
Total	2,181	1,978

Amortisation of intangible assets

The costs represent amortisation of software and licences.

Depreciation of buildings

Depreciation of buildings represents depreciation of offices owned by Kapitalska družba, d. d.

Depreciation of equipment and spare parts

Depreciation of equipment and spare parts relates to the depreciation of electronic, wooden and other equipment.

Depreciation of investment property

Investment property depreciation charge refers to the depreciation of business premises leased.

Operating expenses from revaluation of fixed assets

These expenses relate to expenses from the write-off of equipment and expenses from the disposal of fixed assets.

Note no. 6

Other operating expenses

	in 000 EUR	
	2019	2018
Changes in other technical provisions	33,361	26,689
Provisions	85	2,935
Other operating expenses	26,049	21,623
Other items	226	2
Total	59,721	51,249

In 2019, the Group increased mathematical provisions in the amount of EUR 33,361 thousand, created provisions for jubilee and termination benefits equalling EUR 33 thousand and created EUR 52 thousand of provisions for legal actions filed by insured members of the SODPZ fund. In 2018, the Group increased mathematical provisions in the amount of EUR 26,689 thousand and created provisions based on the Liability Adequacy Test in the amount of EUR 2,053 thousand, provisions related to employees in the amount of EUR 22 thousand, and provisions for non-achievement of guaranteed return in the amount of EUR 860 thousand.

The largest portion of other operating expenses comprises Modra zavarovalnica's gross life insurance claims paid, which amount to EUR 24,835 thousand (2018: EUR 20,394 thousand) and represent pension annuities paid, expenses of the manager for the payment of the difference to the guaranteed return of mutual pension funds in the amount of EUR 836 thousand (2018: EUR 1,039 thousand) and other minor expenses.

The largest portion of other items in the amount of EUR 222 thousand represents the payment of tax on insurance contracts associated with funds under management for the current and previous period, as the tax was not recorded in the previous period; other items amounting to EUR 4 thousand represent expenses from compensations. The majority of other items in 2018 is accounted for by expenses from enforcement.

Note no. 7

Financial income

	in 000 EUR	
	2019	2018
Financial income from participating interests	58,458	42,923
Financial income from other investments and loans	9,687	10,396
Financial income from other investments	9,389	9,999
Financial income from loans granted	298	397
Total	68,145	53,319

Financial income from participating interests

	in 000 EUR	
	2019	2018
Dividends and shares in profits	23,000	26,796
Financial income from revaluation of shares and interests	209	46
Exchange rate gains	553	445
Income from the valuation of investments at fair value through profit or loss	17,165	4,778
Effect of adjustment of financial income from participating interests due to restatement of associates using the equity method	15,426	9,331
Income from realized gains on disposal of investments	1,421	638
• Investments through other comprehensive income	213	177
• Investments at fair value through profit or loss	1,208	461
Income from financial receivable	667	877
Income from the acquisition of abandoned securities	17	12
Total	58,458	42,923

Financial income from other investments and loans

	in 000 EUR	
	2019	2018
Interest income	8,766	8,450
Income from revaluation of receivables, debts and loans with the view of maintaining value	734	1,717
Exchange rate gains	712	1,717
Other expenses from revaluation	22	0
Income from realised gains	0	28
• Gains on disposal of investments measured through other comprehensive income	0	28
Income from decrease in credit losses	140	201
Other financial income	47	0
Total	9,687	10,396

Revenue from sale of investments

	in 000 EUR	
	2019	2018
Income from realised gains	1,421	666
• Investments through other comprehensive income	213	205
• Investments at fair value through profit or loss	1,208	461

Revenue from the sale of investments in the amount of EUR 1,421 thousand (2018: EUR 666 thousand) represents realized capital gains from the sale of investments valued through other comprehensive income, and investments valued at fair value through profit or loss.

Interest income

	in 000 EUR	
	2019	2018
Deposits	184	360
• At amortised cost	184	360
Bonds	8,236	7,694
• At fair value through profit or loss	501	380
• Through other comprehensive income	3,498	5,262
• At amortised cost	4,237	2,052
Other investments	346	396
• At fair value through profit or loss	346	396
Total	8,766	8,450

Pojasnilo št. 8

Financial expenses for write-offs of long-term and short-term investments

	in 000 EUR	
	2019	2018
Disposal of investments	-63	-187
• At fair value through profit or loss	-63	-138
• Through other comprehensive income	0	-49
Interest expenses	-2	-7
Operating expenses from revaluation	-6,583	-6,208
Expenses from revaluation of investments at fair value through profit or loss	-5,262	-4,355
Exchange rate losses	-981	-1,766
Other expenses from revaluation	-340	-87
Expenses from credit losses	-191	-142
Other financial expenses	-54	-6
Expenses for the Pension and Disability Insurance Institute	-50,000	-50,000
Total	-56,893	-56,550

Expenses from the sale of investments in the amount of EUR 63 thousand (2018: EUR 187 thousand) represent realized capital losses from the sale of investments.

The Group revalued equity investments carried at fair value through profit or loss in the amount of EUR 5,262 thousand (2018: EUR 4,355 thousand).

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

Exchange rate differences

	in 000 EUR	
	2019	2018
Exchange rate gains	1,265	2,162
Exchange rate losses	-981	-1,766
Net exchange rate gains/losses	284	396

In 2019, net exchange rate gains amounted to EUR 284 thousand (2018: EUR 396 thousand).

Gains/losses on investments

	in 000 EUR	
	2019	2018
Income from investments	68,145	53,319
Expenses from investments	-56,893	-56,550
Net gains/losses on investments	11,252	-3,231

Note no. 9

Income tax

	in 000 EUR	
	2019	2018
Profit or loss before tax	9,436	-5,243
Increase due to profit from previous periods	38,724	8,662
Decrease due to loss from previous periods	-1,409	-7,800
Total	46,751	-4,381
Foreign dividend tax	143	143
Non-deductible expenses	2,160	2,090
Provisions formation	2	34
Non-taxable revenue	-28,250	-30,913
Tax allowance	-830	-227
Tax loss	-12,315	-1,888
Other	4,440	2,059
Total	12,101	-33,083
Income tax	2,176	189
Foreign dividend tax before agreement	126	141

The Kapitalska družba Group does not prepare a consolidated tax balance sheet. In 2019, Kapitalska družba, d. d. disclosed an income tax liability of EUR 919 thousand (in 2018, it did not disclose corporate income tax). In 2019, Modra zavarovalnica, d. d. disclosed EUR 1,157 thousand of income tax (2018: EUR 189 thousand). In 2019, Hotelske nepremičnine, d. o. o. disclosed EUR 100 thousand of income tax; in 2018, the company did not disclose this tax).

The Management Board believes that the calculation of the tax liability is appropriate and made based on the views presented below and in accordance with the opinions of tax advisors. It is however possible that the competent tax authorities would adopt a different position on certain issues, which could result in a difference between the tax liabilities disclosed in the consolidated financial statements of the companies and the amount assessed by the tax authorities.

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

The effective tax rate (as the ratio between the corporate income tax and profit or loss before tax), is 4.65%. In 2018, the Group disclosed a tax loss).

Note no. 10

Deferred tax

Deferred income tax liabilities as at 31 December 2019 includes the items in the table below.

	Statement of financial position		Income statement	
	31 Dec. 2019	31 Dec. 2018	2019	2018
Deferred income tax liabilities	53,253	39,717	14	99
Deferred income tax assets	21,053	31,891	-10,838	-19,391
Loss brought forward that can be used as tax allowance	18,693	29,525	-10,832	2,802
Value adjustment of receivables	0	2	-2	2
Value adjustment of investments	2,273	2,278	-5	-22,180
Provisions	87	86	1	-15
Netted amount	2,501	607	-	-
Total deferred income tax assets after netting	18,552	31,284	-10,838	-19,391
Netting of deferred tax assets and liabilities after netting	50,752	39,110	-10,824	-19,292

Disclosure of tax loss

	2019	2018
Tax loss as at 31 Dec. of the accounting period	-527,903	-540,285
Tax loss not taken into account in deferred tax calculation	-429,517	-384,823
Tax loss taken into account in deferred tax calculation	-98,386	-155,462

The tax loss not taken into account in the calculation of deferred tax receivables amounted to EUR 429,517 thousand (2018: EUR 384,823 thousand), while the tax loss considered in the calculation of those receivables amounted to EUR 98,386 thousand (2018: EUR 155,462 thousand). Tax losses are freely transferable.

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

	in 000 EUR	
Changes in deferred tax	2019	2018
Balance as at 1 Jan.	39,717	61,369
Changes during the year	13,536	-21,652
Balance as at 31 Dec.	53,253	39,717

Deferred tax liability as at 31 December 2019 amounting to EUR 53,253 thousand (2018: EUR 39,717 thousand) arose on the revaluation of investments measured at fair value through other comprehensive income.

Note no. 11

Earnings (loss) per share:

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

	2019	2018
Net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	2,587	-24,329
Diluted net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	2,587	-24,329
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)	2.96	-27.83

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

17.3.2 Notes to the statement of financial position

Note no. 12

Intangible assets and long-term deferred costs and accrued revenues

Table 35: Changes in intangible assets and long-term deferred costs and accrued revenues in 2019

in 000 EUR

31 Dec. 2019	Long-term property rights	Other long-term deferred costs and accrued revenue	Total
Cost			
Cost as at 1 Jan. 2019	5,633	0	5,633
Additions	309	33	342
Disposals	-2,016	0	-2,016
Cost as at 31 Dec. 2019	3,926	33	3,959
Value adjustment	0	0	0
Value adjustment as at 1 Jan. 2019	-4,191	0	-4,191
Additions, transfers	-2	0	-2
Disposals, write-offs	2,016	0	2,016
Amortisation	-629	0	-629
Value adjustment as at 31 Dec. 2019	-2,806	0	-2,806
Carrying amount	0	0	0
Carrying amount as at 1 Jan. 2019	1,442	0	1,442
Carrying amount as at 31 Dec. 2019	1,120	33	1,153

Table 36: Changes in intangible assets and long-term deferred costs and accrued revenue in 2018

in 000 EUR

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
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

Note no. 13

Property, plant and equipment

Table 37: Changes in property, plant and equipment in 2019

in 000 EUR

31 Dec. 2019	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2019	9,812	2,518	12,330
Additions	0	1,389	1,389
Disposals	0	-387	-387
Cost as at 31 Dec. 2019	9,812	3,520	13,332
Value adjustment			
Value adjustment as at 1 Jan. 2019	-4,194	-1,839	-6,033
Additions, transfers	0	-61	-61
Disposals, write-offs	0	387	387
Depreciation	-307	-331	-638
Value adjustment as at 31 Dec. 2019	-4,501	-1,844	-6,345
Carrying amount			
Carrying amount as at 1 Jan. 2019	5,618	679	6,297

31 Dec. 2019	Buildings	Other plant and equipment	Total
Carrying amount as at 31 Dec. 2019	5,311	1,676	6,987

Table 38: Changes in property, plant and equipment in 2018

			v 000 EUR
31 Dec. 2018	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2018	10,217	1,975	12,192
Additions	7	602	609
Disposals	-412	-59	-471
Cost as at 31 Dec. 2018	9,812	2,518	12,330
Value adjustment			
Value adjustment as at 1 Jan. 2018	-3,991	-1,791	-5,782
Additions, transfers	0	-12	-12
Disposals, write-offs	104	59	163
Depreciation	-307	-95	-402
Value adjustment as at 31 Dec. 2018	-4,194	-1,839	-6,033
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

Note no. 14

Investment property

Table 39: Changes in investment property in 2019

				in 000 EUR
31 Dec. 2019	Land	Buildings	Buildings in the course of construction or manufacturing	Total
Cost				
Opening balance as at 1 Jan. 2019	3,669	29,965	0	33,634
Acquisitions	0	1,049	253	1,302
Other	0	-7	0	-7
Closing balance as at 31 Dec. 2019	3,669	31,007	253	34,929
Value adjustment				
Opening balance as at 1 Jan. 2019	0	-6,156	0	-6,156
Depreciation	0	-848	0	-848
Closing balance as at 31 Dec. 2019	0	-7,004	0	-7,004

31 Dec. 2019	Land	Buildings	Buildings in the course of construction or manufacturing	Total
Carrying amount				
Opening balance as at 1 Jan. 2019	3,669	23,809	0	27,478
Closing balance as at 31 Dec. 2019	3,669	24,003	253	27,925

The Group did not impair any investment property in 2019.

Given that the fair value of investment property as at 31 December 2018 was estimated based on an external evaluation and that property prices stagnated in 2019, we estimate that the fair value of investment property as at 31 December 2019 does not significantly deviate from the fair value of investment property as at 31 December 2018. The investment property's fair value does not significantly deviate from its carrying amount as at 31 December 2019, with the exception of the "Nebotičnik" office building, whose fair value greatly exceeds its carrying amount.

Hotelske nepremičnine, d. o. o. is a holder of investment property – hotel resort San Simon. The fair value of investment property of Hotelske nepremičnine, d. o. o. is higher than their carrying amount as at 31 December 2019. The fair value of the investment property was assessed by a certified real estate appraiser on 31 October 2019.

Table 40: Changes in investment property in 2018

	in 000 EUR		
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	-104
Disposals, write-offs	0	167	167
Depreciation	0	-619	-619
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

Table 41: Rental income from investment property and costs related to investment property

	in 000 EUR	
	2019	2018
Rental income from investment property	1,569	1,209
Costs related to investment property	590	461

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

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

Note no. 15

Investments in associates

Kapitalska družba, d. d. consolidates Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o.

Investments in associates as at 31 December 2019 include:

No.	Associated company	Registered office of the company	Equity stake in %	Equity as at 31 Dec. 2019	Net profit/loss for 2019
1.	Casino Maribor, d. d. – in bankruptcy ¹⁵	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	18,666	765
4.	Hit, d. d. ¹⁶	Delpinova ulica 7a, Nova Gorica	20.32	58,265	7,137
5.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00	18,764	3,897
6.	Sava, d. d.	Dunajska cesta 152, Ljubljana	28.05	55,452	696

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

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

No.	Associated company	Registered office of the company	Equity stake in %	Equity as at 31 Dec. 2019	Net profit/loss for 2019
7.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79	94,119	352
8.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79	37,663	3,078

Kapitalska družba, d. d. consolidates the following associated 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., in
- | Cinkarna Celje, d. d.

Associate of Modra zavarovalnica, d. d., Cinkarna Celje, d. d., does not prepare consolidated financial statements.

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

- | provision of funds for the operations/capital adequacy of a subsidiary or associate;
- | participation in setting any liabilities of a subsidiary or associate.

Table 42: Changes in value of investments in associates

	in 000 EUR	
	2019	2018
Carrying amount as at 1 Jan.	75,304	79,229
Changes	10,895	-2,203
<i>Attribution of net profit due to acquisition of associates using the equity method</i>	15,426	9,331
<i>Dividend elimination</i>	-6,104	-5,425
<i>Elimination of fair value reserves</i>	-86	-1,256
<i>Revaluation to fair value</i>	1,659	-4,853
Reclassification of existing investments among associates	815	-1,722
Carrying amount as at 31 Dec.	87,014	75,304

Note no. 16

Assets held for sale

	in 000 EUR	
	31. 12. 2019	31. 12. 2018
Assets held for sale	0	14,418
Total	0	14,418

Non-current assets held for sale as at 31 December 2018 amounting to EUR 14,418 thousand included assets held for sale in the following 12 months.

Note no. 17

Investments, excluding loans

	in 000 EUR					
	Long-term		Short-term		Total	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Shares and interests in associated companies	87,014	75,304	0	0	87,014	75,304
Other shares and interests	909,173	762,756	0	0	909,173	762,756
Other investments	283,024	255,439	73,108	57,951	356,132	313,390
Assets held for sale	0	0	0	14,418	0	14,418
Total	1,279,211	1,093,499	73,108	72,369	1,352,319	1,165,868

Carrying amounts of financial assets

As at 31 December 2019, the Group classified financial assets into one of the following groups according to IFRS 9: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost. The Group's financial assets are also classified as current and non-current.

	in 000 EUR					
	Non-current		Current		Total	
	31. 12. 2019	31. 12. 2018	31. 12. 2019	31. 12. 2018	31. 12. 2019	31. 12. 2018
Financial assets at fair value through profit or loss	256,383	82,346	30,085	39,957	286,468	122,303
Set upon initial recognition	256,383	82,346	30,085	39,957	286,468	122,303
Mandatorily measured at fair value through profit or loss	0	0	0	0	0	0
Financial assets at amortised cost	163,475	141,903	15,450	12,218	178,925	154,121

	Non-current		Current		Total	
Financial assets at fair value through other comprehensive income	859,353	869,250	27,573	20,194	886,926	889,444
Debt instruments	82,739	96,263	27,573	7,709	110,312	103,972
Equity instruments	776,614	772,987	0	12,485	776,614	785,472
Total	1,279,211	1,093,499	73,108	72,369	1,352,319	1,165,868

Changes in investments for 2019

in 000 EUR

	31 Dec. 2018	Acquisitions	Disposals, maturity	Revaluation	31 Dec. 2019
Investments at fair value through profit or loss	122,303	184,541	-33,357	12,981	286,468
Investments at amortised cost	154,121	34,797	1,244	-11,237	178,925
Investments at fair value through other comprehensive income	889,444	71,129	-219,647	146,000	886,926
Total	1,165,868	290,467	-251,760	147,744	1,352,319

Changes in investments for 2018

in 000 EUR

	31 Dec. 2017	Acquisitions	Disposals, maturity	Revaluation	31 Dec. 2018
Investments at fair value through profit or loss	112,343	36,414	-24,405	-2,049	122,303
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	1,101,792	134,396	-104,946	34,626	1,165,868

Investments by type of interest rate as at 31 December

in 000 EUR

	31 Dec. 2019	31 Dec. 2018
Debt investments	331,529	276,593
Fixed interest rate	326,775	271,692
Variable interest rate	4,754	4,901
Loans, deposits	42,125	49,314
Fixed interest rate	42,125	49,314
Variable interest rate	0	0
Total	373,654	325,907

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

EUR

ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019
CH0012032048	1,029,888	LU1650488494	3,270,312	SI0031102773	4
CNE1000003G1	980,874	LU1681044480	1,057,944	SI0031102799	0
DE0005933931	5,223,101	LU1681044563	1,708,163	SI0031103151	3,179
DE0008404005	3,749,928	LU1923627092	723,922	SI0031103367	1,082
DE0008430026	3,173,358	NL0000009538	1,652,977	SI0031103375	5
DE000A2GS401	574,946	PLINHOLD D.O.O.	667,490	SI0031103706	2,698,920
DSI000001003	2,443,748	PS ZA AVTO D.O.O.	280,496	SI0031103748	0
ELAN INVENTA D.O.O.	714,000	SI0021100134	95	SI0031104183	0
ES0178430E18	526,829	SI0021110083	638	SI0031104290	19,865,574
FR0000120578	1,814,357	SI0021110323	74	SI0031104399	1,546
GIO D.O.O.	1,423,243	SI0021110513	12,872,268	SI0031104431	0
GOSPODARSKO RAZSTAVIŠČE D.O.O.	1,668,000	SI0021111313	7,066	SI0031104514	420
IE0032523478	4,382,736	SI0021111651	6,394	SI0031104555	0
IE00B3B8PX14	938,020	SI0021112105	2,974	SI0031104597	559,423
IE00B3DWVS88	21,391,591	SI0021112212	1,004,893	SI0031104621	51,725
IE00B3F81R35	3,773,768	SI0021113111	3,254	SI0031104829	1,095,100
IE00B4L5Y983	8,947,857	SI0021113855	13,829	SI0031104845	0
IE00B4WXJJ64	3,135,096	SI0031100082	76	SI0031105024	11,123,430
IE00B5ZR2157	291,029	SI0031100090	1,029,474	SI0031105271	0
IE00B60SX394	42,101,524	SI0031100181	335	SI0031105396	1
IE00B66F4759	2,085,193	SI0031100215	305	SI0031105495	1,887
IE00B87RLX93	1,653,825	SI0031100637	4,730,480	SI0031105529	661,956
IE00BC7GZW19	389,419	SI0031100793	0	SI0031105529	69
IE00BJ0KDQ92	20,581,383	SI0031101346	15,742,685	SI0031105602	9
IE00BSKRK281	3,766,526	SI0031101494	184	SI0031105677	1,207,634
IT0003132476	856,860	SI0031101577	0	SI0031106907	0
JE00B1VS3770	1,289,478	SI0031101700	0	SI0031107079	18
JP3304200003	1,100,869	SI0031101999	0	SI0031107293	4,414
LU0274208692	42,340,119	SI0031102005	183	SI0031107459	624
LU0290355717	14,448,257	SI0031102047	0	SI0031107582	0
LU0290357929	2,729,966	SI0031102070	0	SI0031107673	1,174,858
LU0290358224	1,972,027	SI0031102120	255,699,312	SI0031107772	12,986
LU0524480265	5,303,860	SI0031102153	64,740,750	SI0031107913	0
		SI0031102187	108	SI0031107954	6,474,963

ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019	ISIN code	31 Dec. 2019
SI0031107996	0	SI0031112053	68	SI0031117318	18,597,319
SI0031108184	38,675	SI0031112772	553	SI0031117441	3,876
SI0031108200	77	SI0031113143	13,034,179	SI0031117649	6,761
SI0031108259	187	SI0031113184	6,593	SI0031200239	115,199
SI0031108358	0	SI0031113309	12,254	SI0031200304	0
SI0031108556	0	SI0031113432	0	SI0031200429	898
SI0031108564	0	SI0031113481	11	SI0031200791	2,420
SI0031108580	1,916,301	SI0031113549	649	SM STROJKOPLAST MARIBOR D.O.O.	98,356
SI0031108655	6,459,533	SI0031113770	0	US02079K1079	2,363,648
SI0031108846	3,007	SI0031113788	857	US02079K3059	2,361,876
SI0031108887	0	SI0031113879	0	US16941M1099	1,030,976
SI0031108994	2,127,222	SI0031113929	0	US17275R1023	1,248,394
SI0031109034	40	SI0031114182	0	US1912161007	3,857,847
SI0031109109	0	SI0031114281	76	US4642861037	1,270,653
SI0031109380	0	SI0031114307	0	US4642864007	1,377,165
SI0031109463	21	SI0031114455	172	US4642865095	2,096,185
SI0031109539	2,408	SI0031114596	0	US4642867729	2,378,931
SI0031109562	0	SI0031114604	47	US4642873412	1,346,102
SI0031109646	264,188	SI0031114794	726	US4642877397	3,024,230
SI0031109661	0	SI0031114893	299	US4642887453	5,302,181
SI0031109711	0	SI0031114901	67	US46434G1031	5,838,277
SI0031109737	464	SI0031114976	9,519	US46434G8226	7,329,856
SI0031109786	0	SI0031114984	6,549	US5949181045	5,826,786
SI0031109927	1,783	SI0031115031	7,113	US68389X1054	2,379,714
SI0031110016	0	SI0031115080	0	US78462F1030	14,868,477
SI0031110248	19,228	SI0031115767	12,303	US81369Y2090	3,369,160
SI0031110271	182	SI0031115866	2,596	US81369Y3080	2,773,385
SI0031110412	4,865	SI0031115940	0	US81369Y5069	2,939,469
SI0031110495	31	SI0031116062	1,000	US81369Y6059	3,318,015
SI0031110677	0	SI0031116104	3	US81369Y7040	2,175,628
SI0031110743	31	SI0031116138	72	US81369Y8030	7,956,049
SI0031111048	1,085	SI0031116591	369	US81369Y8600	1,193,111
SI0031111279	0	SI0031116815	0	US8816242098	203,258
SI0031111485	9	SI0031117144	0	US91912E1055	350,433
SI0031111576	3	SI0031117169	21,689	US92189F7006	4,695,163
SI0031111816	227	SI0031117268	0		

Due to favourable market conditions and provision of liquidity, the Group disposed of equity investments in the total fair value of EUR 158,372 thousand in 2019 (2018: EUR 70,213 thousand). The cumulative effect of the sale of equity instruments measured at fair value through other comprehensive income is EUR 41,755 thousand (2018: EUR -7,670 thousand) and is recognised under profit/loss brought forward.

Dividends recognised on disposed investments measured at fair value through other comprehensive income amount to EUR 205 thousand (2018: EUR 51 thousand).

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

Asset	in 000 EUR	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	286,468	286,468
Financial assets at amortised cost	178,925	196,732
Financial assets at fair value through other comprehensive income	886,926	886,926
Investments in loans	42,125	42,125
Cash and cash equivalents	23,270	23,270
Total	1,417,714	1,435,521

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

Asset	in 000 EUR	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	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

Fair value hierarchy as at 31 December 2019

2019	in 000 EUR			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value	893,340	179,455	100,599	1,173,394
Investments at fair value through profit or loss	196,703	52,163	37,602	286,468
Investments at fair value through other comprehensive income	696,637	127,292	62,997	886,926
Financial assets for which the fair value is disclosed	206,431	8,566	47,130	262,127
Investments at amortised cost	183,161	8,566	5,005	196,732
Investments in loans	0	0	42,125	42,125
Cash and cash equivalents	23,270	0	0	23,270
Total	1,099,771	188,021	130,769	1,435,521

Level 1

Level 1 includes investments owned by Kapitalska družba, d. d. and Modra zavarovalnica, d. d. whose fair value is determined on the basis of quoted prices achieved in an active market. An active market is either a stock exchange (for equity and debt investments) or an over-the-counter (OTC) market (for debt investments). In this sense, Level 1 includes investments with a stock exchange as the principal market and the average daily stock exchange turnover in the previous 180 days up to the date of the fair value measurement exceeding EUR 0.5 million, taking into account the number of trading days (in the case of the Ljubljana Stock Exchange, the average daily turnover higher than EUR 0.1 million is taken into account). Level 1 also includes investments where an OTC market acts as the principal market and the CBBT price has been quoted for at least half of the trading days in the last 30 days up to the measurement date.

Level 2

Level 2 includes investments for which the assumption of an active market is fulfilled, i.e. investments where the average daily stock exchange turnover in the previous 180 days up to the date of the fair value measurement exceeds EUR 0.5 million, taking into account the number of trading days (in the case of the Ljubljana Stock Exchange, the average daily turnover higher than EUR 0.1 million is taken into account), and investments on the OTC market with the CBBT price having been quoted for at least half of the trading days in the last 30 days up to the measurement date.

This group also includes investments in collective investment trusts for which the assumption of an active market is not fulfilled.

In addition, Level 2 comprises investments valued using the market data of comparable listed companies.

Level 3

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

Level 3 also includes investments in commercial papers of Slovenian issuers. The prices of commercial papers are calculated using the theoretical (amortised) cost of the papers, which is calculated according to the interest rate associated with an individual 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 below assumptions used do not anticipate or take into account the potential effects of COVID-19, which is a non-adjusting event. However, the assumptions for evaluation in 2020 may still be different.

The fair value of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the

Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

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

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

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

The fair value of the shares of Terme Olimia, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.7% discount rate. The remaining growth rate of normalised cash flow is 1%.

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

The fair value of the shares of Loterija Slovenije, d. d. was estimated by applying the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.1% discount rate. The remaining growth rate of normalised cash flow is 2%.

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

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

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

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

Fair value hierarchy as at 31 December 2018

	in 000 EUR			
2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value	731,900	171,539	108,308	1,011,747
Investments at fair value through profit or loss	53,508	22,744	46,050	122,303
Investments at fair value through other comprehensive income	678,392	148,795	62,257	889,444
Financial assets for which the fair value is disclosed	175,873	3,009	55,185	234,068
Investments at amortised cost	154,014	3,009	6,371	163,395
Investments in loans	0	0	48,814	48,814
Cash and cash equivalents	21,859	0	0	21,859
Total	907,773	174,549	131,165	1,245,815

Level 1

Level 1 includes investments owned by Kapitalska družba, d. d. and Modra zavarovalnica, d. d. whose fair value is determined on the basis of quoted prices achieved in an active market. An active market is either a stock exchange (for equity and debt investments) or an over-the-counter (OTC) market (for debt investments). In this sense, Level 1 includes investments with a stock exchange as the principal market and the average daily stock exchange turnover in the previous 180 days up to the date of the fair value measurement exceeding EUR 0.5 million, taking into account the number of trading days (in the case of the Ljubljana Stock Exchange, the average daily turnover higher than EUR 0.1 million is taken into account, while this does not apply to the determination of an active market for investments owned by Modra zavarovalnica, d. d.).

Level 1 also includes investments where an OTC market acts as the principal market and the CBBT price has been quoted for at least half of the trading days in the last 30 days up to the measurement date.

Level 1 also includes mutual fund coupons with fair value measured based on the quoted value per subfund unit.

Level 2

Level 2 includes investments whose value is determined based on quoted prices and for which the assumption of an active market is fulfilled, i.e. investments where the average daily stock exchange turnover in the previous 180 days up to the date of the fair value measurement exceeds EUR 0.5 million, taking into account the number of trading days (in the case of the Ljubljana Stock Exchange, the average daily turnover higher than EUR 0.1 million is taken into account, while this does not apply to the determination of an active market for investments owned by Modra zavarovalnica, d. d.), and investments on the OTC market with the CBBT price having been quoted for at least half of the trading days in the last 30 days up to the measurement date.

Debt securities of companies and financial institutions and government securities valued using comparable market data in the amount of EUR 11,168 thousand are also included in Level 2.

In addition, Level 2 comprises investments in shares of some Slovenian companies in the amount of EUR 5,443 thousand valued using the market data of comparable listed companies.

This group also includes investments in collective investment trusts for which the assumption of an active market is not fulfilled.

Level 3

Level 3 includes investments whose fair value is determined on the basis of own valuation models, taking into account subjective variables not publicly available on the markets, debt securities owned by Kapitalska družba, d. d. whose fair value is determined by the BVAL price (this provision does not apply to investments owned by Modra zavarovalnica, d. d.), and investments in securities whose prices are provided by third parties.

Level 3 also includes investments in commercial papers of Slovenian issuers standing at EUR 5,023 thousand. The prices of commercial papers are calculated using the theoretical (amortised) cost of the papers, which is calculated according to the interest rate associated with an individual 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 43: Changes in Level 3 investments

As at 31 Dec. 2018	131,165
Disposals, maturity	-24,414
Acquisitions	25,986
Revaluation	-7,068
Reclassifications	5,100
As at 31 Dec. 2019	130,769

Table 44: Transition between the levels of fair value hierarchy as at 31 December 2019

	in 000 EUR				
Transition between hierarchy levels, portfolio as at 31 Dec. 2019	From Level 1 to Level 2	From Level 2 to Level 1	From Level 3 to Level 2	From Level 2 to Level 3	Total
Investments at fair value through profit or loss	0	0	0	2,693	2,693
Investments at fair value through other comprehensive income	13,737	26,645	714	0	41,096
Total	13,737	26,645	714	2,693	43,789

Table 45: Transition between the levels of fair value hierarchy as at 31 December 2018

	in 000 EUR				
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 profit or loss	0	0	449		449
Investments at fair value through other comprehensive income	1,884	6,834	18		8,736
Total	1,884	6,834	467		9,185

Table 46: Effective interest rate by investment groups

	2019	2018
Investments at amortised cost	1.97%	2.67%
Investments at fair value through other comprehensive income	3.44%	3.94%

Note no. 18

Loans to others

	in 000 EUR					
	Non-current		Current		Total	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Loans to others	14,949	7,780	27,176	41,034	42,125	48,814
Total	14,949	7,780	27,176	41,034	42,125	48,814

Loans to others represent deposits given to banks and Slovenian institutions.

Loans to others are not pledged.

Note no. 19

Operating receivables

	in 000 EUR					
	Long-term		Short-term		Total	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Trade receivables	0	0	3,034	1,543	3,034	1,543
Operating receivables due from others	167	124	1,060	4,610	1,227	4,734
Other operating receivables	0	0	3,071	53,024	3,071	53,024
Total	167	124	7,165	59,177	7,332	59,301

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

In 2019, operating receivables in the amount of EUR 7,165 thousand will fall due, whereas EUR 167 thousand of operating receivables will fall due in the subsequent years.

The Group has no value adjustments of receivables.

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

Breakdown of trade receivables by maturity

31 Dec. 2019	in 000 EUR					
	Not due	Up to 30 days overdue	31 days to 60 days overdue	61 days to 90 days overdue	91 days to 180 days overdue	181 days to 365 days overdue
3,034	3,029	2	0	0	0	3

Note no. 20

Cash and cash equivalents

	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Bank balances	7,710	5,650
Deposits redeemable at notice	15,560	16,209
Total	23,270	21,859

Note no. 21

Equity

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

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

Note no. 22

Capital surplus

	in 000 EUR
Capital surplus	
1 Jan. 2019	217,331
Increase in capital surplus	163
31 Dec. 2019	217,494

In 2019, the capital surplus increased by EUR 163 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2010, capital surplus totalled EUR 217,494 thousand.

	in 000 EUR
Capital surplus	
1 Jan. 2018	216,761
Increase in capital surplus	570
31 Dec. 2018	217,331

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

Note no. 23

Changes in reserves arising from valuation at fair value

	in 000 EUR	
Changes in reserves arising from valuation at fair value and deferred taxes in equity	2019	2018
Balance of gross reserves from valuation at fair value as at 1 Jan.	299,526	432,578
Changes due to the transition to IFRS 9 as at 1 Jan.	0	119,283
Balance of deferred tax as at 1 Jan.	39,717	58,864
Balance of net reserves from valuation at fair value as at 1 Jan.	259,809	254,431
Changes during the year – gross increase in reserves	477,468	607,782
Changes during the year – gross decrease in reserves	-381,536	-621,551
Balance of gross reserves from valuation at fair value as at 31 Dec.	395,458	299,526
Adjustments (criteria: 8%, 6 months)	-135,089	-97,802
Gross balance after adjustment as at 31 Dec.	260,369	201,724
Balance of deferred tax as at 31 Dec.	53,253	39,717
Balance of net reserves from valuation at fair value as at 31 Dec.	342,205	259,809

Note no. 24

Financial liabilities

	in 000 EUR					
	Non-current		Current		Total	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Other non-current financial liabilities	0	349	1	3	1	352
Total	0	349	1	3	1	352

As at 31 December 2019, Modra zavarovalnica, d. d. disclosed EUR 1 thousand of financial liabilities arising from interest, while as at 31 December 2018, it recorded EUR 349 thousand of liabilities from financial lease relating to the lease of intangible fixed assets.

Financial liabilities maturity

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

Note no. 25

Operating liabilities

	in 000 EUR					
	Non-current		Current		Total	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Trade payables	0	0	3,032	3,254	3,032	3,254
Operating liabilities from advances	15	15	0	513	15	528
Liabilities to the state	0	0	33	50,294	33	50,294
Corporate income tax liabilities	0	0	1,871	240	1,871	240
Other operating liabilities	69	34	10,024	10,073	10,093	10,107
Total	84	49	14,960	64,374	15,044	64,423

Non-current operating liabilities from advances comprise the security deposit received from the lessee of business premises in the amount of EUR 12 thousand (2018: EUR 12 thousand) and the security deposit due to work in progress on the office building "Stekleni dvor" in the amount of EUR 3 thousand (2018: EUR 3 thousand). Other non-current operating liabilities in the amount of EUR 69 thousand (2018: EUR 34 thousand) represent liabilities for the payment of variable remuneration of the Management Board.

Current operating liabilities comprise trade payables in the amount of EUR 3,032 thousand (2018: EUR 3,254 thousand), of which the largest portion in the amount of 2,527 thousand (2018: EUR 2,527 thousand) refers to the liability for payment of investment property; liabilities to the state totalling EUR 33 thousand (2018: EUR 50,294 thousand), corporate income tax liabilities of EUR 1,871 thousand (2018: EUR 240 thousand) and other operating liabilities in the amount of EUR 10,024 thousand (2018: EUR 10,073 thousand). The bulk of other current operating liabilities totalling EUR 8,658 thousand (2018: EUR 8,757 thousand) is represented by short-term deferred revenue relating to deferred KS MR II revenue from received annuity pension insurance premiums of policyholders who, based on provisional calculations, expressed their intention to conclude insurance policies as of 1 January 2020.

Operating liabilities maturity

in 000 EUR

31 Dec. 2019	Maturity of up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Trade payables	3,032	0	0	0	3,032
Operating liabilities from advances	0	6	6	3	15
Liabilities to the state	33	0	0	0	33
Corporate income tax liabilities	1,871	0	0	0	1,871
Other operating liabilities	10,024	69	0	0	10,093
Total	14,960	75	6	3	15,044

Note no. 26

Provisions and long-term accrued costs and deferred revenue

in 000 EUR

	Provisions for pensions and similar obligations	Other provisions	Technical provisions	Total
1 Jan. 2019	544	16,540	190,028	207,112
Newly established during the year	33	52	33,361	33,446
Utilisation of provisions	-11	0	0	-11
Reversal of provisions	-69	-4,270	0	-4,339
31 Dec. 2019	497	12,322	223,389	236,208

At the end of 2019, provisions for termination benefits and jubilee benefits amounted to EUR 33 thousand (2018: EUR 70 thousand). EUR 80 thousand of provisions were utilised or reversed (2018: EUR 32 thousand). At the end of 2019, provisions for termination benefits and jubilee benefits amounted to EUR 497 thousand (2018: EUR 544 thousand). Provisions for termination benefits and jubilee benefits 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 2019, the Group created other provisions in the amount of EUR 52 thousand for onerous contracts (2018: EUR 3,947 thousand of provisions for non-achievement of guaranteed return, provisions made based on the Liability Adequacy Test and provisions for deficits of guarantee funds).

In 2019, the Group reversed provisions for non-achievement of guaranteed return in the amount of EUR 2,035 thousand (2018: EUR 1,630 thousand), provisions set aside using the Liability Adequacy Test of EUR 1,435 thousand (2018: EUR 94 thousand) as well as provisions for deficits of guarantee funds totalling EUR 800 thousand (2018: EUR 180 thousand of reversed provisions for onerous contracts).

In line with the principle of prudence, the Group creates provisions for legal actions and legal disputes based on best estimates of the probability of payment.

in 000 EUR

	Provisions for pensions and similar obligations	Other provisions	Technical provisions	Long-term accrued costs and deferred revenue	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
Utilisation of 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

Accrued costs and deferred revenue of EUR 1,544 thousand from 2018 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

in 000 EUR

Item	31 Dec. 2019	31 Dec. 2018
KS PPS technical provisions	99,331	101,315
KS MR technical provisions	16,803	20,522
KS MR II technical provisions	107,229	68,191
Technical provisions – accidents	26	0
Total	223,389	190,028

Technical provisions include life insurance provisions based on policies, unclassified technical provisions and provisions for outstanding claims; they are presented under the 'Disclosures of Insurance Contracts' section.

Disclosures of insurance contracts

Composition of long-term insurance contracts

Table 47: Present gross value of future payments

in 000 EUR

Payment	31 Dec. 2019	31 Dec. 2018
KS PPS	95,755	96,561
KS MR	16,799	20,518
KS MR II	106,251	68,190
Total	218,805	185,269

The present gross value of future payments represents technical provisions by individual policies.

Table 48: Composition of technical provisions as at 31 December 2019

in 000 EUR				
Fund	TP for life insurance based on policies	TP for life insurance – surplus	Claims provisions	Total
KS PPS	95,755	2,575	1,001	99,331
KS MR	16,799	0	4	16,803
KS MR II	106,251	977	1	107,229
Total	218,805	3,552	1,006	223,363

Table 49: Composition of technical provisions as at 31 Dec. 2018

in 000 EUR				
Fund	TP for life insurance based on policies	TP for life insurance – surplus	Claims provisions	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 individual KS PPS policies as at 31 December 2019 deviate from total technical provisions by the amount of provisions for the equalisation of yield experience equalling EUR 2,575 thousand (EUR 3,772 thousand in 2018) and claims provisions totalling EUR 1,001 thousand (EUR 981 thousand in 2018). The calculation of the value of future payments uses the DAV2004R annuity tables and the statutory technical interest rate of 1%.

Technical provisions based on individual KS MR policies as at 31 December December 2019 deviate from total technical provisions by the amount of claims provisions equalling EUR 4 thousand (EUR 4 thousand in 2018). The German DAV1994R annuity tables were used in the calculation of future payments.

Technical provisions based on individual KS MR II policies as at 31 December 2019 deviate from total technical provisions by the amount of provisions for the allocated part of profit of EUR 885 thousand, unallocated part of profit of EUR 93 thousand and claims provisions totalling EUR 1 thousand (EUR 1 thousand in 2018). The German DAV1994R annuity tables were used in the calculation of future payments.

Adequacy of liabilities

Modra zavarovalnica, d. d. verifies the adequacy of liabilities or the sufficiency of mathematical provisions set aside using the Liability Adequacy Test (LAT), namely for liabilities arising from concluded insurance policies. The verification is limited only to annuity insurance products. Within the scope of the test, it determines the best estimate of the liabilities which is defined as the sum of present value of future cash flows (annuity payouts and the company's costs). This estimate is compared with the value of mathematical provisions determined in accordance with the rules listed in the insurance technical bases of individual insurance products.

Within the scope of the adequacy test carried out at the level of an individual insurance contract using the monthly dynamics, the following assumptions were observed:

- | the expected mortality was determined using the German D1994R mortality table for annuities, separately according to gender, that adequately describe actual mortality based on past experience;
- | early terminations were not envisaged as they are not possible in line with the provisions laid down in insurance contracts;
- | expected costs are the same as the accrued ones;
- | the discount rate is based on the risk-free rate as at 31 December 2019 published by EIOPA and observes the effect of expected asset returns valued at amortised cost, whereby we applied the expected effect for the first time in 2019.

The Liability Adequacy Test as at 31 December 2019 showed that mathematical provisions for KS PPS were adequate, whereas a deficit of EUR 44 thousand and EUR 3,220 thousand was determined for KS MR and KS MR II respectively.

Changes in interest rates/return

Table 50: Changes in interest rates/returns for KS PPS

Change in liabilities/provisions	in 000 EUR	
	31 Dec. 2019	31 December 2018
Increase in return by 0.25 percentage points	-2,749	-2,820
Decrease in return by 0.25 percentage points	2,889	2,965

Table 51: Changes in interest rates/returns for KS MR

Change in liabilities/provisions	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Increase in return by 0.25 percentage points	-297	-336
Decrease in return by 0.25 percentage points	311	351

Table 52: Changes in interest rates/returns for KS MR II

	in 000 EUR	
Change in liabilities/provisions	31 Dec. 2019	31 Dec. 2018
Increase in return by 0.25 percentage points	-1,938	-1,228
Decrease in return by 0.25 percentage points	2,022	1,280

Change in mortality

Table 53: Change in mortality for KS PPS

	in 000 EUR	
Change in liabilities/provisions	31 Dec. 2019	31 Dec. 2018
Increase in mortality probability by 10%	-3,516	-3,434
Decrease in mortality probability by 10%	4,019	3,900

An increase in mortality probability by 10% would result in a decrease in liabilities by EUR 3,516 thousand (EUR 3,433,541 thousand in 2018). Annuity tables DAV2004R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 54: Change in mortality for KS MR

	in 000 EUR	
Change in liabilities/provisions	31 Dec. 2019	31 Dec. 2018
Increase in mortality probability by 10%	-250	-251
Decrease in mortality probability by 10%	282	283

An increase in mortality probability by 10% would result in a decrease in liabilities by EUR 250 thousand (EUR 251 thousand in 2018). Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 55: Change in mortality for KS MR II

	in 000 EUR	
Change in liabilities/provisions	31 Dec. 2019	31 Dec. 2018
Increase in mortality probability by 10%	-806	-499
Decrease in mortality probability by 10%	904	560

An increase in mortality probability by 10% would result in a decrease in liabilities by EUR 806 thousand (EUR 499 thousand in 2018). Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

17.3.3 Managing risks arising from financial assets

All risks to which the Group is exposed, and the risk management measures and criteria, are described in Chapter 17.2 "Accounting policies". We estimate that the Group's financial assets give rise to exposure to credit, market (interest, currency, price) and liquidity risk. The Group's own assets as well as those of the guarantee funds (KS PPS, KS MR and KS MR II) are included in the tables presented.

Capital Management – Solvency II

According to its assessment, Modra zavarovalnica, d. d. has at its disposal a sufficient volume of own funds with respect to its total capital requirement.

Table 56: Capital adequacy in line with Solvency II Directive

Item	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Solvency II		
Total capital requirement	148,057	122,828
Eligible own funds	286,712	252,222
Surplus (+)/deficit (-) of available own funds	138,655	129,394
Solvency ratio (in %)	194%	205%

The annual data on the solvency position as at 31 December 2019 are presented in the report on the solvency and financial position of Modra zavarovalnica, d. d., published on the company's website.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, certificates of deposits, 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 57: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2019

in 000 EUR

Financial assets at amortised cost						Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Internal rating	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)	Net exposure	Net exposure	Total net exposure
Low-risk investments	AAA	0	12-month expected losses	3,556	3,556	4,787	8,094	16,437
	AA	-1		15,975	15,974	3,972	5,005	24,950
	A	-13		84,466	84,453	59,365	6,289	150,107
	BBB	-42		60,098	60,055	36,427	22,533	119,015
Total secure investments		-56		164,095	164,039	104,550	41,920	310,509
Less secure investments	BB	-208	12-month/lifetime expected losses	56,037	55,829	2,493	1,256	59,578
	B	-13		1195	1182	3,270	1,290	5,742
	CCC	0		0	0	0	0	0
	CC	0		0	0	0	0	0
	C	0		0	0	0	0	0
	without credit rating	0		11,660	11,660	0	2	11,662
Total less secure investments		-221		68,892	68,671	5,763	2,548	76,982
Impaired investments	D	0	Impairment through profit or loss in the amount of expected loss	0	0	0	22,427	22,427
Total impaired		0		0	0	0	22,427	22,427
Total		-277		232,987	232,710	110,313	66,896	409,918

Financial assets were classified into the stated groups based on credit ratings. The classification is compliant with IFRS 9 and is shown in the table above. Less secure investments mostly include investments of Slovenian banking and corporate issuers, while impaired investments refer to an investment in financial receivables.

Table 58: Exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2018

in 000 EUR

Financial assets at amortised cost						Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Low-risk investments	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)	Net exposure	Net exposure	Total net exposure
	AAA	0	12-month expected losses	3,591	3,591	0	0	3,591
	AA	-1		12,779	12,778	5,827	0	18,605
	A	-10		80,378	80,368	63,570	4,787	148,724
	BBB	-25		46,360	46,335	27,386	11,457	85,178
Less secure investments		-37		143,108	143,072	96,783	16,244	256,099
	BB	-199	12-month/lifetime expected losses	61,271	61,072	7,191	2,855	71,118
	B	-8		798	790	0	1,244	2,034
	CCC	0		0	0	0	0	0
	CC	0		0	0	0	0	0
	C	0		0	0	0	0	0
	without credit rating	0		14,210	14,210	0	2	14,212
Impaired investments		-207		76,279	76,072	7,191	4,101	87,364
Total impaired	D	0	Impairment through profit or loss in the amount of expected loss	0	0	0	34,950	34,950
Total		0		0	0	0	34,950	34,950
Skupaj		-244		219,388	219,144	103,973	55,295	378,413

Table 59: Allowance for loss in 2019

Category	in 000 EUR		
	Stage 1	Stage 2	Stage 3
Allowances for losses as at 31 Dec. 2018	206	118	0
Transfer to stage 1	0	0	0
Transfer to stage 2	-10	37	0
Transfer to stage 3	0	0	0
Financial assets derecognised in the period	-107	-38	0
Financial assets acquired in the period	133	0	0
Other changes	20	15	0
Allowances for losses as at 31 Dec. 2019	243	133	0

Table 60: Allowance for loss in 2018

Category	in 000 EUR		
	Stage 1	Stage 2	Stage 3
Allowances for losses as at 1 Jan. 2018	155	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	-79	-47	0
Financial assets acquired in the period	131	0	0
Other changes	-1	-66	0
Allowances for losses as at 31 Dec. 2018	206	118	0

Table 61: Changes in gross carrying amount and allowances in 2019

Category	Gross carrying amount	Allowances for losses
As at 31 Dec. 2018	347,368	324
Transfer to stage 1	0	0
Transfer to stage 2	348	27
Transfer to stage 3	0	0
Financial assets derecognised in the period	-70,327	-144
Financial assets acquired in the period	102,989	133
Other changes	2,416	35
As at 31 Dec. 2019	382,796	375

Table 62: Changes in gross carrying amount and allowances in 2018

Category	Gross carrying amount	in 000 EUR
		Allowances for losses
As at 1 Jan. 2018	332,634	386
Transfer to stage 1	0	0
Transfer to stage 2	0	0
Transfer to stage 3	0	0
Financial assets derecognised in the period	-72,649	-127
Financial assets acquired in the period	87,641	131
Other changes	-257	-67
As at 31 Dec. 2018	347,368	324

Table 63: Geographical concentration of credit exposure of financial assets

Region	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Slovenia	221,514	245,292
Other countries	188,404	136,541
Total	409,918	381,833

The share of financial assets exposed to credit risk in Slovenia decreased from 64% to 54% in 2019.

Currency risk

Table 64: Currency structure of financial assets

Currency	in 000 EUR	
	31 Dec. 2019	31 Dec. 2018
Assets denominated in EUR	1,221,209	1,065,010
Assets denominated in USD	193,371	165,788
Assets denominated in other currencies	3,133	5,743
Total	1,417,714	1,236,541

As at 31 December 2019, 86.1% of financial assets were denominated in euro, 13.6% in US dollar and 0.2% in other currencies. Currency structure of financial assets is monitored considering the currency in which the underlying instrument is denominated. Currency risk increased due to a higher exposure of investments in USD. As regards investments in investment fund units, the effect of currency fluctuation in securities representing investments of investment funds was not taken into account.

Table 65: Currency risk of financial assets

	in 000 EUR	
USD exchange rate fluctuation by +/-10%	31 Dec. 2019	31 Dec. 2018
Impact on the income statement	+/-7,552	+/-170
Impact on own funds	+/-11,786	+/-16,408
Total	+/-19,338	+/-16,578

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 investments of which interest income is related to a fixed interest rate, but their market value changes upon the change in the market interest rates. Due to lower interest rates, the assets were exposed to reinvestment risk. The exposure to interest rate risk is regularly measured by the modified duration indicator.

Table 66: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2019 – change in interest rates by 100 basis points

	in 000 EUR			
Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Investments at fair value through profit or loss	+/-1%	+/-5	-/+7,256	-/+7,251
Investments at amortised cost	+/-1%	+/-0	+/-0	+/-0
Investments at fair value through other comprehensive income	+/-1%	+/-2	-/+7,687	-/+7,685
Total		+/-7	-/+14,943	-/+14,936

Table 67: Sensitivity analysis of investments according to changes in market interest rates as at 31 Dec. 2018 – change in interest rates by 100 basis points

	in 000 EUR			
Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Investments at fair value through profit or loss	+/-1%	+/-6	-/+2,474	-/+2,468
Investments at amortised cost	+/-1%	+/-0	+/-0	+/-0
Investments at fair value through other comprehensive income	+/-1%	+/-2	-/+8,462	-/+8,460
Total		+/-8	-/+10,936	-/+10,928

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the impact on fair value was calculated by taking into account the investments subject to fixed interest rate, including investments in bond investment funds. If market interest rates changed by 100 basis points, the value of the investments as at 31 December 2019 would have changed by EUR 14,936 thousand. Interest rate risk increased in 2019 thanks to increased exposure arising from the investments sensitive to changes in market interest rates and due to an increase in the

average duration of the debt investment portfolio. Liabilities arising from created provisions for non-achievement of guaranteed return of SODPZ in the manager's statements are non-interest-bearing or are insignificant.

Market risk

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

Table 68: Market risk of the equity securities portfolio

	in 000 EUR	
Change of index by +/-10%	31 Dec. 2019	31 Dec. 2018
Impact on the income statement	+/-8,813	+/-1,317
Impact on own funds	+/-25,908	+/-39,457
Total	+/-34,721	+/-40,774

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

Table 69: Financial instruments in terms of marketability

	in 000 EUR	
Financial instrument	31 Dec. 2019	31 Dec. 2018
Investments traded on the regulated market	1,203,600	1,029,365
Investments at fair value through profit or loss	232,348	70,809
Investments at amortised cost	149,101	137,242
Investments at fair value through other comprehensive income	822,151	821,315
Investments not traded on the regulated market	148,719	136,503
Investments at fair value through profit or loss	54,120	51,494
Investments at amortised cost	29,824	16,879
Investments at fair value through other comprehensive income	64,775	68,129
Total	1,352,319	1,165,868

At the end of 2019, assets traded on regulated stock markets accounted for 89% of financial instruments (investments in securities and an investment in financial receivable are taken into account) or 81% of total assets of the Group (this group includes OTC investments and investments on the interbank market).

Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2019, the Group recorded a total of EUR 1,180,501 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 70: Expected actual non-discounted cash flows as at 31 December 2019

in 000 EUR					
Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments	50,755	176,859	149,223	955,011	1,331,848
• at fair value through profit or loss	5,832	13,078	26,973	213,609	259,492
• at amortised cost	16,334	115,188	89,804	0	221,327
• at fair value through other comprehensive income	28,589	48,593	32,446	741,401	851,029
Investment in accounts receivable	22,427	0	0	0	22,427
Loans and deposits given	27,187	14,955	0	0	42,142
Cash and cash equivalents	23,270	0	0	0	23,270
Operating receivables	7,165	167	0	0	7,332
Total assets	130,804	191,981	149,223	955,011	1,427,019
Operating liabilities	14,960	84	0	0	15,044
Financial liabilities	1	0	0	0	1
Retirement fund liabilities	23,743	68,903	138,827	0	231,473
Total liabilities	38,704	68,987	138,827	0	246,518
Difference (assets - liabilities)	92,100	122,994	10,396	955,011	1,180,501

Table 71: Expected actual non-discounted cash flows as at 31 December 2018

in 000 EUR					
Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments	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
Retirement fund liabilities	19,512	56,576	133,810	0	209,898
Total liabilities	83,649	56,974	133,810	0	274,433
Difference (assets - liabilities)	61,665	144,720	-10,218	824,116	1,020,283

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

17.4 OTHER DISCLOSURES

Information on employee groups

The names of members of the Management Board and other bodies are stated in the introductory part of the Group Annual Report, under chapter information about the Kapitalska družba Group. In 2019, 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, d. d.

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

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

Table 72: Receipts by category of beneficiaries in 2019

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

No advances, loans or collateral were approved by Kapitalska družba in 2019.

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

Receipts of the members of the Management Board are regulated by ZSDH-1. Pursuant to Article 51(5) of ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of SDH, d. d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of supervisory body members of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the said legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, however, the basic pay of the President of the Management Board calculated that way may not exceed 95% of the basic pay of the President of the Management Board of SDH, d. d., as published, while the basic pay of members of the Management Board amounts to 95% of individual basic pay of the President of the Management Board of Kapitalska družba. All bonuses are included in the basic pay. The basic pay is revised

annually when data on the average salary in the Kapitalska družba Group in the previous financial year are published. The revised basic salary is applicable from 1 July of the current year. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2019 in line with the aforementioned criteria. Pursuant to the contract, each member of the Management Board is entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 73: Receipts of members of the Management Board in 2019

Name and surname	Fixed remuneration	Variable income	Benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other bonuses	Other payments	Total gross	EUR	
											Total net	Deferred remuneration
Bachtiar Djalil (President of the Management Board)	124,910	9,921	55	1,791	2,819	-	-	-	1,000	140,496	72,705	9,921
Goranka Volf (Member of the Management Board)	118,858	9,396	55	2,367	2,819	-	-	-	1,000	134,495	68,115	9,396
Gregor Bajraktarević (Member of the Management Board)	118,686	9,441	55	4,236	2,819	-	-	-	1,000	136,237	72,553	9,441
Total	362,454	28,758	165	8,394	8,457	-	-	-	3,000	411,228	213,373	28,758

Fixed income includes gross salary. Variable income includes performance bonus, which equals up to 30% of the annual basic gross salary for the business year, taking into account the performance criteria. The variable income received by the Management Board refers to the bonus for company business performance for 2018 on the basis of a combination of quantitative and qualitative criteria. Benefits include collective accident insurance premiums. Cost reimbursements include reimbursement of meal and travel and/or accommodation expense and/or per diems. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave. Deferred remuneration refers to the second part of the payment of variable remuneration to the Management Board for 2018, which will be paid in 2021.

Table 74: Receipts of members of the Supervisory Board in 2019

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)	16,500	5,335	-	500	-	-	-	-	-	-	22,335	16,244
Boris Žnidarič, PhD (Deputy Chairman of the Supervisory Board, President of the Accreditation Committee)	15,929	5,500	-	65	-	-	-	-	-	-	21,494	15,632
Cirila Surina Zajc (Member of the Supervisory Board until 1 Feb. 2019, Member of the Audit Committee and Member of the HR Committee)	2,799	935	-	108	-	-	-	-	-	-	3,842	2,794
Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, President of the HR Committee)	16,500	5,500	-	351	-	-	-	-	-	-	22,351	16,256
Ladislav Rožič, MSc (Member of the Supervisory Board, Member of the Audit Committee, Member of the Accreditation Committee)	16,422	5,500	-	84	-	-	-	-	-	-	22,006	16,005
Natalija Stošički (Member of the Supervisory Board, President of the Audit Committee, Member of the HR Committee)	16,500	5,500	-	529	-	-	-	-	-	-	22,529	16,385
Mirko Miklavčič (Member of the Supervisory Board since 2 Feb. 2019, Member of the Audit Committee and Member of the HR Committee)	13,390	5,280	-	824	-	-	-	-	-	-	19,494	14,178
Total	98,040	33,550	-	2,461	-	-	-	-	-	-	134,051	97,494

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

Table 75: Receipts of external members of the Supervisory Board's committees in 2019

											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	572	-	33	-	-	-	-	-	-	4,205	3,059
Irena Prijović, MSc (External Member of the Accreditation Committee)	3,600	836	-	-	-	-	-	-	-	-	4,436	3,226
Alenka Stanič, PhD (External Member of the Accreditation Committee)	3,600	836	-	-	-	-	-	-	-	-	4,436	3,226
Gorazd Žmavc (External Member of the Accreditation Committee)	3,600	836	-	289	-	-	-	-	-	-	4,725	3,436
Total	14,400	3,080	-	322	-	-	-	-	-	-	17,802	12,947

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

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

Table 76: Receipts of the members of management and supervisory bodies in the subsidiary Modra zavarovalnica, d. d. in 2019

											EUR	
Name and surname	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Benefits	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Natalija Stošicki (President of the Supervisory Board until 9 Apr. 2019)	5,029	1,485	-	96	-	-	-	-	-	-	6,610	4,808
Boris Žnidarič, PhD (Member of the Supervisory Board until 14 Jan. 2019)	393	275	-	3	-	-	-	-	-	-	671	488

Name and surname	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Benefits	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Bachtiar Djalil (Member of the Supervisory Board since 14 Jan. 2019, President of the Supervisory Board from 11 Apr. 2019 to 22 Dec. 2019, Deputy President of the Supervisory Board since 23 Dec. 2019)	13,729	2,915	-	-	243	-	-	-	-	-	16,887	12,039
Skupaj	19,151	4,675	-	99	243	-	-	-	-	-	24,168	17,335

Fixed income consists of the remuneration for the work performed in the Supervisory Board and its Committees and attendance fees for attendance at the meetings. Cost reimbursements include reimbursement of travel expenses. The benefits are linked to the insurance of liability of members of supervisory bodies.

Activities of the Supervisory Board of Kapitalska družba. d. d.

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

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

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

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

Receipts of members of the Management Board, supervisory authorities and staff with executive employment contracts of Modra zavarovalnica, d. d.

In 2019, the total remuneration paid for carrying out of the responsibilities and duties of members of the Management Board, supervisory authorities of the insurance company and employees with executive employment contracts to which the tariff section of the collective agreement does not apply, amounted to EUR 923 thousand.

In 2019, Modra zavarovalnica, d. d. approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

Table 77: Gross receipts in 2019 by category of beneficiaries of Modra zavarovalnica, d. d.

	in 000 EUR
Category of beneficiaries	Amount
Members of the Management Board	422
Members of supervisory authorities	103
Employees with executive employment contract	398
Total	923

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

Table 78: Receipts of members of the Management Board of Modra zavarovalnica, d. d. in 2019

	EUR					
Name and surname	Fixed remuneration	Outstanding payments	Benefits	Annual leave allowance	Cost reimbursement	Insurance premiums
Borut Jamnik	118,678	24,366	4,491	1,752	3,196	2,819
Matija Debelak	110,399	23,148	1,406	1,752	1,144	2,819
Boštjan Vovk	112,916	3,246	842	1,752	4,764	2,819
						Total
						155,302
						140,668
						126,339

Fixed income includes gross salaries. Outstanding payments include the second part of variable remuneration for 2016 and the first part of variable remuneration for 2018. Reimbursements of expenses include meal and/or travel allowances and/or other reimbursements of travel expenses (per diems, mileage expenses, costs of overnight stays, parking, taxi). Fringe benefits include company cars and benefits arising from collective accident insurance as well as from collective insurance for specialist outpatient treatment, liability insurance benefit, specialist analysis and examination benefit as well as the sports activity coverage benefit. Insurance premiums represent payments of the voluntary supplementary pension insurance premium.

Table 79: Remuneration of members of the Supervisory Board and external members of Supervisory Board committees of Modra zavarovalnica, d. d. in 2019

	EUR					
Name and surname	SB – fixed remuneration	SB AC – fixed remuneration	SB – monthly compensation	SB AC – monthly compensation	Cost reimbursement	Benefits
Branimir Štrukelj	2,915	-	11,596	-	-	243
Bojan Zupančič	2,915	1,100	10,450	1,887	-	243
Janez Prašnikar	2,915	-	10,450	-	-	243
Goran Bizjak	2,640	1,540	10,450	3,919	924	243
Bachtar Djalil	2,915	-	13,729	-	-	243
Roman Jerman	1,650	-	7,402	-	44	243
Boris Žnidarič	275	-	393	-	3	-
						Total
						14,754
						16,595
						13,608
						19,716
						16,887
						9,339
						671

Name and surname	SB – fixed remuneration	SB AC – fixed remuneration	SB – monthly compensation	SB AC – monthly compensation	Cost reimbursement	Benefits	Total
Natalija Stošicki	1,265	220	4,311	718	96	-	6,610
Dragan Martinović (external member of SB AC)	-	1,540	-	2,613	481	-	4,634

Fixed remuneration includes attendance fees for meetings of the Supervisory Board and its Audit Committee. Compensation includes the monthly remuneration for performing the function of member of the Supervisory Board and member of the Supervisory Board's Audit Committee. Expense reimbursements include reimbursement of travel expenses and educational/training expenses. Perks include the liability insurance benefit.

Remuneration of management bodies of Hotelske nepremičnine, d. o. o.

The company Hotelske nepremičnine, d. o. o. has no employees, both directors run the company on the basis of a management contract.

Table 80: Remuneration of management bodies of Hotelske nepremičnine, d. o. o. in 2019

Name and surname	Fixed remuneration	Variable income	Benefits	Cost reimbursement	Insurance premiums (PDPZ)	Fees	Participation in profit	Options	Other payments	EUR
										Total
Zoran Perše	7,875	0	0	1,036	0	0	0	0	0	8,911
Roman Jerman	7,875	0	0	857	0	0	0	0	0	8,732

Fixed remuneration refers to payment under a management contract. Cost reimbursement accounts for cost of using own vehicles for business trips.

Related-party transactions

In 2019, 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. 1032-9/2019-2 of 20 May 2019, issued by the Ministry of Labour, Family, Social Affairs and Equal Opportunities, a new Occupational Retirement Pension Scheme entered into force on 1 July 2019. On 6 August 2019, the amended Rules on the Management of the SODPZ entered into force, to which the Securities Market Agency issued a consent on 3 July 2019.

Events after the date of the statement of financial position

Financial markets recorded markedly negative trends in February 2020, as investors decided to move equity from risky to safer investment categories due to fears of the spread of coronavirus and its potential negative impact on economic growth. The global stock market index thus fell by more than 20% in February 2020, affecting the Group's own funds. The impact of changes in stock indices on the profit or loss or equity of the Group is presented within the risk management section in the financial part of the Annual Report. The economic downturn may also negatively impact the net revenue from the management of the SODPZ funds and payments of premiums in the Group. After a very successful 2019, financial markets had an optimistic start in 2020. The outbreak of coronavirus in Europe has led to a sharp drop in stock and corporate bond prices. Aware of the implications of the virus, financial markets have reacted strongly to the global spread. The markets were faced with additional uncertainties due to a drop in oil prices as a result of the terminated agreement between Russia and members of OPEC on the further reduction of the quantity of oil pumped. Stock market indices fell sharply (recording historical daily declines of up to 10%), while yields to maturity of government bonds also decreased significantly. The Germany 10Y Bond Yield reached its all-time low on 9 March 2020, while both government and corporate bond credit spreads rose sharply. On 16 March 2020 Central banks reacted strongly to the market conditions, lowering interest rates and introducing new bond repurchase programmes. Countries have also responded, announcing extensive fiscal stimulus measures.

This year (from 31 December 2019 to 11 June 2020), the return of the global stock market index was -8.2%, the return of the corporate bond index was -1.3% and the return of the government bond index was 0.95%. Following an extreme drop in the global stock index in the first quarter of 2020, the return on the Group's investments has mostly improved significantly by 11 June 2020.

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

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

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

It also mobilised a crisis management group for work from home that would carry out all the activities necessary for the operations of Kapitalska družba, d. d. After the declaration of the epidemic in the Republic of Slovenia and in view of new information about the scale and duration of the new situation,

the Company enabled all employees to work from home using the technology that enables teleworking and subject to strict safety rules. Work at the Company headquarters is thus performed only by those employees who, due to their individual circumstances or the nature of their work, are unable to work from home.

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

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

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

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