



KAPITALSKA DRUŽBA



**Annual Report of
Kapitalska družba, d. d.**

2021

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Kapitalska družba, d. d.**

2021

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List of abbreviations

| | |
|------------------|--|
| SMA | Securities Market Agency |
| ISA | Insurance Supervision Agency |
| GDP | Gross Domestic Product |
| BVAL | Bloomberg Valuation Service |
| CBBT | Composite Bloomberg Bond Trader |
| CPR | Central Population Register |
| ECB | European Central Bank |
| ESC | Economic and Social Council |
| EU | European Union |
| EUR | Euro – currency of the European Union |
| FED | US Federal Reserve |
| FARS | Financial Administration of the Republic of Slovenia |
| IMF | International Monetary Fund |
| KDD | Central Securities Clearing Corporation |
| MLFSAEO | Ministry of Labour, Family, Social Affairs and Equal Opportunities |
| MKPS | Modri Umbrella Pension Fund |
| MESP | Ministry of the Environment and Spatial Planning |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| OdSUKND | Decree on the Strategy for Managing State Capital Investments (Official Gazette of the Republic of Slovenia No. 53/2015) |
| OECD | Organisation for Economic Co-operation and Development |
| IASB | International Accounting Standards Board |
| IFRIC | International Financial Reporting Interpretations Committee |
| OTC | Over-the-counter market |
| PDPZ | Voluntary supplementary pension insurance |
| RS | Republic of Slovenia |
| SBITOP | 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 |
| IMAD | Institute of Macroeconomic Analysis and Development |
| USD | US dollar – legal tender of the United States of America |
| VaR | Value At Risk |
| ZDUPŠOP | Act on Additional Measures to Stop the Spread and to Mitigate, Control and Eliminate the Consequences of covid-19 (Official Gazette of the Republic of Slovenia Nos. 206/21, 11/2022, 17/2022 – Constitutional Court Ruling) |
| ZGD-1 | Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 – amended, 26/2007 – ZSDU-B, 33/2007 – ZSReg-B, 67/2007 – ZTFI, 10/2008, 68/2008, 42/2009, 33/2011, 91/2011, 100/2011 – Constitutional Court ruling, 32/2012, 57/2012, 44/2013 – Constitutional Court ruling, 82/2013, 55/2015, 15/2017, 22/2019 – ZPosS, 158/2020 – ZIntPK-C, 175/2020 – ZIUOPDVE and 18/2021) |
| ZIPRS2223 | Implementation of the Budget of the Republic of Slovenia for 2022 and 2023 Act (Official Gazette of the Republic of Slovenia, Nos. 187/2021 and 206/2021 – ZDUPŠOP) |

| | |
|------------------|---|
| ZIUPOPDVE | Act on Emergency Measures to Assist in Mitigating the Consequences of the Second Wave of the covid-19 Epidemic (Official Gazette of the Republic of Slovenia Nos. 203/2020, 5/2021, 12/2021, 12/2021, 15/2021 – ZD UOP, 38/2021, 43/2021, 49/2021, 82/2021 – ZNB-C, 101/2021, 112/2021 – ZUPZ, 197/2021, 206/2021 – ZDUPŠOP and 2/2022) |
| ZNVP-1 | Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 – ORZNV48, 5/2017, 15/2018 – Constitutional Court Ruling and 43/2019) |
| ZODPol | Organisation and Work of the Police Act (Official Gazette of the Republic of Slovenia Nos. 15/2013, 11/2014, 86/2015, 77/2016, 77/2017, 36/2019, 66/2019 – ZDZ, 200/2020, 172/2021, 201/2021 – Constitutional Court ruling) |
| ZPIZ | Pension and Disability Insurance Institute |
| ZPIZ-1 | Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia Nos. 106/1999, 72/2000, 81/2000 – ZPSV-C, 124/2000, 52/2001, 109/2001, 11/2002, 108/2002, 114/2002, 110/2002 – ZISDU-1, 29/2003, 40/2003 – Constitutional Court ruling, 63/2003 – ZIPRS0304-A, 63/2003 – Constitutional Court ruling, 133/2003, 135/2003, 25/2004, 63/2004 – ZZRZI, 136/2004 – Constitutional Court ruling, 2/2004 – ZDSS-1, 54/2004 – ZDoh-1, 8/2005, 72/2005, 111/2005, 23/2006, 69/2006, 112/2006 – Constitutional Court ruling, 114/2006 – ZUTPG, 17/2007, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZIUZGK, 27/2010 – Constitutional Court ruling, 38/2010 – ZUKN, 56/2010, 79/2010 – ZPKDPIZ, 94/2010 – ZIU, 57/2011, 94/2011 – Constitutional Court ruling, 105/2011 – Constitutional Court ruling, 61/2010 – ZSVarPre, 40/2011 – ZSVarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 96/2012 – ZPIZ-2, 9/2017 – Constitutional Court ruling, 121/2021, 171/2021 – Constitutional Court ruling) |
| ZPIZ-2 | Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 96/2012, 39/2013, 46/2013 – ZIPRS1314-A, 63/2013 – ZIUPTDSV, 99/2013 – ZSVarPre-C, 101/2013 – ZIPRS1415, 111/2013 – ZMEPIZ-1, 44/2014, 85/2014 – ZUJF-B, 95/2014 – ZIUPTDSV-A, 97/2014 – ZMEPIZ-1A, 95/2014 – ZIPRS1415-C, 95/2014 – ZUPPJS15, 95/2014 – ZUJF-C, 31/2015 – ZISDU-3, 90/2015 – ZIUPTD, 90/2015 – ZUPPJS16, 96/2015 – ZIPRS1617, 102/2015, 42/2016 – Constitutional Court ruling, 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, 75/2019, 36/2020 – ZIUJP, 49/2020 – ZIUZEOP, 61/2020 – ZIUZEOP-A, 139/2020 – ZUPPJS2021-A, 139/2020, 174/2020 – ZIPRS2122, 189/2020 – ZFRO, 15/2021 – ZDUOP, 51/2021, 74/2021 – ZIPRS-2122-A, 121/2021, 162/2021, 187/2021 – ZIPRS2223, 10/2022 and 29/2022 – ZUOPDCE) |
| 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) |
| 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, 51/2018 – ZIUJGT, 174/2020 – ZIPRS2122 and 187/2021 – ZIPRS2223) |
| 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 decision], 53/2007, 65/2007 [constitutional court decision], 56/2008, 4/2010, 20/2011, 100/2011 [constitutional court decision], 111/2013, 68/2016, 61/2017, 21/2018 [ZNOrg] and 49/2020 [ZIUZEOP]) and 3/2022 – ZDeb) |
| ZUOPVCE | Act Determining Emergency Measures to Mitigate the Consequences of Rising Energy Prices (Official Gazette of the Republic of Slovenia No. 29-22) |
| ZZavar-1 | Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 93/2015, 9/2019, 49/2020 – ZIUZEOP and 102/2020)) |

1 Highlights

from the annual report

FINANCIAL REVENUE

totalled

EUR 70
million

in 2021

Excluding taxes and the transfer to the ZPIZ,

OTHER COMPREHENSIVE INCOME

would have amounted to

EUR 238,9
million

and to

EUR 188,9
million

following the transfer to the ZPIZ and
including deferred taxes

**Kapitalska družba, is a
CAPITALLY SOUND AND
STABLE COMPANY, with**

EUR 1,3
billion

in equity as at
31 December 2021

**Kapitalska družba achieved a
RETURN ON FINANCIAL ASSETS of**

22,35 %

OPERATING REVENUE

totalled

EUR 11
million

in 2021

OPERATING PROFIT

amounted to

EUR 4,8
million

Excluding the transfer to the ZPIZ,

NET PROFIT FOR 2021

would have amounted to

EUR 80,4
million

**NET PROFIT FOLLOWING THE
TRANSFER TO THE ZPIZ,**
and taking into account
deferred taxes and corporate
income tax amounted to

EUR 30,4
million

KAPITALSKA DRUŽBA, D. D.
transferred

EUR 50
million

TO THE BUDGET OF THE ZPIZ
in 2021, bringing total payments
between 1999 and 2021 to

EUR 964,3
million

The value of assets under
management by **Kapitalska**
družba in the SODPZ was

EUR 893,7
million
at the end of 2021

**THE ACTUAL RETURN
ON THE SODPZ WAS**

1,26 %
in 2021

A total of

49.087
policyholders held savings
IN THE SODPZ
at the end of 2021



INTRODUCTION

to the Annual Report

2 **Presentation** of Kapitalska družba, d. d.

2.1 General information

2.1.1 Company

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

Abbreviated company name: Kapitalska družba, d. d.

Company name in English: Pension Fund Management

Registered office: Dunajska cesta 119, Ljubljana

Matična številka: 5986010000

VAT ID number: SI59093927

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

2.1.2 Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba's sole shareholder as at 31 December 2021.

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

2.1.3 Activities of the Company

Kapitalska družba's principal 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 pursues the following business activities:

- 58.110 Book publishing
- 58.120 Publishing of directories and mailing lists
- 58.130 Publishing of newspapers
- 58.140 Publication of journals 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 n.e.c.
- 65.300 Pension funding
- 66.210 Risk and damage evaluation
- 66.290 Other activities auxiliary to insurance and pension funding
- 68.100 Buying and selling of own real estate
- 68.200 Renting and operating of own or leased real estate
- 69.200 Accounting, bookkeeping and auditing activities; tax consultancy
- 70.100 Activities of head offices
- 70.220 Business and other management consultancy activities
- 73.200 Market research and public opinion polling
- 85.590 Other education n.e.c.
- 85.600 Educational support activities

2.1.4 Company bodies

2.1.4.1 Management Board

Kapitalska družba was run by its Management Board in 2021 in the following composition:

- | Bachtiar Djalil, President,
- | Goranka Volf, member, whose term of office ended on 25 November 2021, and
- | Gregor Bajraktarević, member.

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 procedure¹. One of the members of the Management Board is appointed President thereof. Members of the Management Board serve a four-year term of office and may be re-appointed. The Management Board of Kapitalska družba has no powers to issue or purchase treasury shares.



Bachtiar Djalil, President



Gregor Bajraktarević, member

2.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2021:

- | Stanislav Seničar, Chairman until 15 October 2021,
- | Janez Tomšič, member since 21 October 2021, and Chairman since 5 November 2021,

¹ In accordance with Article 33 of the Articles of Association, member of the Management Board Goranka Volf was appointed in 2020 for a term of office of no more than one year from the day she assumed her function.

- | Dr Boris Žnidarič, Deputy Chairman,
- | Aleksander Mervar, MSc, member,
- | Ladislav Rožič, MSc, member,
- | Mirko Miklavčič, member,
- | Boštjan Leskovar, MSc, member since 21 October 2021.

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, while the proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions is voted on by representatives (electors) of national-level representative federations/confederations, which inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation each has one representative for every ten thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

The Supervisory Board functioned with five members until 15 October 2021. Following the expiration of the term of office of its Chairman, the Supervisory Board functioned with four members from 16 October 2021 to 20 October 2021. Following the appointment of two new members, the Supervisory Board functioned with six members from 21 October 2021 on.

2.1.4.3 General meeting

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

2.1.5 Diversity policy

Kapitalska družba is unable to formulate a diversity policy in connection with its legal requirement to establish a 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. It is, however, planning to adopt such a policy in 2022. 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.

2.1.6 Other

Kapitalska družba is deemed a public interest entity, but does not fulfil the criterion regarding the average number of employees pursuant to the provisions of Article 70c of the ZGD-1 (i.e. the average number of employees during the financial year exceeds 500 as at the balance sheet date). It is therefore not bound to draw up a statement regarding non-financial operations.

3 Statement of the Management Board

Kapitalska družba performed very well last year: the Company generated comprehensive income of close to EUR 189 million or nearly EUR 239 million excluding the transfer to the Pension and Disability Insurance Institute of Slovenia (ZPIZ). The Company generated a profit from ordinary operations in the amount of EUR 4.8 million and a net profit of EUR 30.4 million taking into account tax effects. Excluding the transfer to the ZPIZ, net profit would have been EUR 50 million higher. Such positive operating results were driven by a balanced management policy, through which we exploited high domestic and global economic growth and the favourable conditions on the financial markets. Slovenian GDP rose by 8.1% last year, with the pre-crisis level from the final quarter of 2019 surpassed during the third quarter of 2021. The majority of sectors exceeded last year's pre-crisis level, with the exception of tourism-related activities and activities involving personal contact (catering and accommodation services, and entertainment, sporting, recreational and personal services).

In 2021, the entire world continued to grapple with the uncertainty of the pandemic, which has caused a great deal of hardship, loss and business challenges. Covid-19 has spread its devastating effects globally and has also had a profound impact on the personal lives of all employees, our policyholders and all major stakeholders. Despite the very challenging circumstances, we have found numerous reasons for hope and perseverance in these difficult conditions to continue pursuing our dual mission of providing supplementary funding for the public pension and disability insurance system, and the effective provision of occupational insurance. In spite of the disruptions and suffering that the pandemic has brought to our lives and communities, we achieved our strategic priorities in a very effective manner.

The excellent operating results reflect the underlying strength of our strategy and the Company itself, which has developed over the decades into a strong and robust building block of the Slovenian pension system. 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 and makes regular payments to the public pension system, and thus helps cover the pension costs incurred by the ZPIZ. With the transfer made to the ZPIZ in 2021, the total amount of all transfers to the public pension system exceeds EUR 964 million. This represents more than 98% of the state budget's liabilities to the ZPIZ last year. Through the continuous fulfilment of 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, and thus represent difficult-to-sell assets.

Because our mission is the permanent and sustainable development of a long-lived Slovenian society, our efforts are for the benefit of the public pension system and focus on providing occupational pensions to employees in particularly difficult jobs. Occupational insurance, which is based on the actual savings of policyholders in a given period, is replacing ZPIZ pensions that are financed on the fly, and therefore represents a modern form of pension payment founded on a capital basis. The aforementioned insurance facilitates early retirement for employees who perform especially difficult work and work that is harmful to their health, and work that can no longer be performed successfully after a certain

age, and does not use general government and budget sources. These pensions are one of many possible sustainable forms that are becoming increasingly important due to the unfavourable demographic characteristics of Slovenian society.

The savings of more than 49,000 policyholders in the amount of EUR 892 million are accumulated in the Compulsory Supplementary Pension Insurance Fund, making it the second largest pension fund in Slovenia. The Company achieved a return of 1.26% in 2021 through the management of policyholders' assets. A total of 210 policyholders retired during 2021. At the end of last year, 298 retirees received an occupational pension, while the total value of occupational pensions paid in 2021 amounted to EUR 5.1 million. The surrender value of close to EUR 20 million was paid from the personal accounts of 914 policyholders in a lump sum or as a transfer of assets to the supplementary pension insurance scheme. In 2021, we continued with the intensive formulation of control processes for occupational insurance contributions that have been imposed on Kapitalska družba by the Act Amending the Pension and Disability Insurance Act. Our aim is to establish sustainable partnerships with liable parties who are gradually adopting stricter control rules, and with external institutions who submit comparable data to the Company. We believe that this is the only way to achieve long-term benefits for all stakeholders included in the control process.

The pandemic, which was the driver of hybrid work and work from home for much of last year, also acted as a catalyst for the digital transformation of operations. The strategic decision to gradually transition to 'green' or paperless operations and to introduce an integrated document system, which includes the digital archiving of documents, has proven to be a correct and highly effective decision in the context of hybrid operations. We are thus reducing material costs, increasing transparency over documents, making the search for documents quicker and increasing employee productivity. The appropriate and efficient management of documentary material also leads to improved responsiveness in meeting the needs of customers and other major stakeholders.

Continued digitalisation and the introduction of paperless operations at Kapitalska družba are also leading to changes in business processes, which we continuously update and modernise. The process of constant improvements supports Kapitalska družba's efforts to achieve business excellence. Last year, our strategic focus on the pursuit of operational excellence led us to perform a new self-assessment according to the EFQM model. In that context, we thoroughly examined our operations with respect to the criteria of the aforementioned model, and identified opportunities for improvement that will enable us to make continuous progress and further improve our overall efficiency. We focused in particular on comprehensive risk management, which is becoming increasingly important in a highly uncertain world. Our constant commitments of responsible corporate governance and transparency are becoming more important than ever before.

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

excellence and committed and highly competent employees. Using agile management techniques, we are forming committed teams that function in accordance with the Company's culture and values. Recruiting and developing talented employees ensure that everyday challenges and development-related challenges are addressed successfully. Through the effective combination of youthful enthusiasm and the experiences of older employees, we are formulating innovative approaches to intergenerational cooperation.

This facilitates creative and timely responses to continuous changes in the external environment and the creation of commercial advantages. Investments in management skills, key knowledge and abilities will ensure our continued success in the future.

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



Gregor BAJRAKTAREVIĆ

Member of the Management Board



Bachtiar DJALIL

President of the Management Board

4 **Report** of the Supervisory Board of Kapitalska družba

REPORT OF THE SUPERVISORY BOARD OF KAPITALSKA DRUŽBA for 2021

Pursuant to Article 282 of the ZGD-1, the Supervisory Board of Kapitalska družba hereby submits the following report to the Company's General Meeting.

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

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

In 2021, the Supervisory Board of Kapitalska družba functioned in the following five-member composition up to and including 15 October 2021: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc (member), Mirko Miklavčič (member) and Ladislav Rožič, MSc (member). Following the expiry of Mr Seničar's term of office as Chairman of the Supervisory Board due to his resignation, the Supervisory Board comprised four members from 16 October 2021 to 20 October 2021. At the Company's General Meeting held on 21 October 2021, Janez Tomšič and Boštjan Leskovar, MSc were appointed to four-year terms of office as members of the Supervisory Board, effective on the date of appointment. Janez Tomšič was appointed Chairman of the Supervisory Board at the 208th session of that body held on 5 November 2021, the first session following the start of the 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. In addition to disclosing the fact that he also serves as a member of SDH, d. d.'s Management Board, Chairman of the Supervisory Board Janez Tomšič, included a statement of self-exclusion in accordance with the fourth paragraph of Article 59 of the ZSDH-1 in the statement of independence he provided when he assumed the function of member of Kapitalska družba's Supervisory Board.

The Supervisory Board met at 15 sessions during the 2021 financial year as follows: seven regular sessions and eight correspondence sessions (12 sessions were held in the composition that functioned until 15 October 2021, while three sessions were held in the composition that functioned from 21 October 2021 on).

Particular attention in the monitoring of Kapitalska družba's operations in 2021 was given to monitoring the management of the Company's assets and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), which is managed by Kapitalska družba.

At its 201st session of 27 May 2021, the Supervisory Board approved the annual report of Kapitalska družba for the 2020 financial year, adopted the report on the verification of the Company's annual report for 2020 and approved the proposal on the use of distributable profit. At the same session, the Supervisory Board was also briefed on the audited annual report of the SODPZ for 2020. At its 205th session of 19 July 2021, the Supervisory Board approved

the consolidated annual report of the Kapitalska Družba Group for the 2020 financial year, adopted the report on the verification of the consolidated annual report of the Kapitalska Družba Group for 2020 and approved the convening of the Company's General Meeting. The Supervisory Board was regularly briefed on the operations of the subsidiary Modra zavarovalnica, d. d. Special attention was given to the Company's management activities, in the scope of which individual Slovenian investments of significant value (some are defined as strategic or material investments according to the national strategy) were presented and discussed quarterly at sessions of the Supervisory Board. For these investments, the Management Board also obtained the Supervisory Board's consent with regard to the voting positions it formulated, prior to exercising the Company's voting rights at the general meetings of the companies involved. In accordance with the provisions of the Company's Articles of Association, the members of the Supervisory Board also gave the Management Board their consent to conclude transactions for the purchase and sale of securities and participating interests when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution. At its 210th session of 14 December 2021, the Supervisory Board gave its consent to Kapitalska družba's business-financial plan for the 2022 financial year.

At its 207th session of 16 September 2021, the Supervisory Board determined that the temporary one-year term of office of member of the Management Board Goranka Volf was set to expire on 25 November 2021, that the four-year term of office of member of the Management Board Gregor Bajraktarevič was set to expire on 7 February 2022, and that the Management Board would function with two members from 26 November 2021 on. At the same time, it opted not to issue a call for candidates for another member of the Management Board after the expiry of Mr Bajraktarevič's term of office, due to the planned transformation of Kapitalska družba. In accordance with the provision of the Articles of Association, it appointed Mr Bajraktarevič to serve as member of the Management Board for a term of office of no more than one year from the day he assumed his function. Mr Bajraktarevič's new term of office began 8 February 2022. At its 210th session of 14 December 2021, the Supervisory Board decided to issue a call for candidates in January 2022 to select a person to serve as member of the Management Board responsible for Compulsory Supplementary Pension Insurance Fund. That call was carried out, but the procedure was completed without the selection of a candidate.

The Supervisory Board carried out a self-assessment of the effectiveness of its work. In assessing its effectiveness, the Supervisory Board relied on the self-assessment matrix published in the Manual for Assessing the Effectiveness of Supervisory Boards, adopted by the Slovenian Directors' Association. The Supervisory Board performed an analysis based on that self-assessment and determined that certain areas received poor assessments due to the specific regulatory framework that governs the Company. The Supervisory Board proposed measures in the areas of IT support and security to improve its work.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2021. The Supervisory Board finds that it cooperated with the committees, Management Board and the Company's expert departments effectively, properly and professionally at all times.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the annual report in Tables 57 and 58.

Work of the Supervisory Board's audit committee

The audit committee of Kapitalska družba's Supervisory Board functioned in the following composition in 2021: Ladislav Rožič, MSc (chair), Aleksander Mervar, MSc and Mirko Miklavčič (members), and Natalija Stošički and Mojca Verbič (external members).

The audit committee met at seven sessions in 2021, one of which was a correspondence session. 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; it 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, and it also performed additional tasks by authorisation of the Supervisory Board. It was briefed on information regarding the performance of individual companies 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 the latter's sessions.

Work of the Supervisory Board's accreditation committee

The Supervisory Board's accreditation committee functioned in the following composition in 2021: 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 2021. The accreditation committee's task was to provide support to the Supervisory Board in the assessment of the suitability of candidates for members of the supervisory and management boards of companies in which Kapitalska družba holds capital investments who were selected from a predefined list of candidates. In its work, the accreditation committee complied with the provisions of the rules of procedure of the accreditation committee as adopted by the Supervisory Board.

Work of the HR committee

The Supervisory Board's HR committee functioned in the following composition in 2021 until 4 November 2021: Aleksander Mervar, MSc (chair) and Mirko Miklavčič (member). It functioned in the following composition from 5 November 2021: Boštjan Leskovar, MSc (Chair), and Aleksander Mervar, MSc and Mirko Miklavčič (members).

The HR committee met at three sessions in 2021, two of which were correspondence sessions. The committee's primary task was to support the Supervisory Board in the definition of the variable component of remuneration of the members of the Company's Management Board, to conduct a preliminary review of the contract concluded with a member of the Management Board and to formulate the bases for implementing the process of appointing a third member to the Management Board.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the continuous monitoring and supervision of Kapitalska družba's operations and management during the financial year, and based on a review of the annual report compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of Kapitalska družba. The Supervisory Board also assesses that the Management Board of Kapitalska družba successfully and properly managed the Company's transactions during the 2021 financial year and successfully achieved established business objectives. The Management Board prepared materials in a timely manner, which facilitated quality information and the thorough discussion of the most important operational matters. The Management Board also provided exhaustive responses to the Supervisory Board's additional questions and

initiatives. The Management Board's reporting to the Supervisory Board enabled the latter to carry out its supervisory role satisfactorily in 2021.

In conclusion, the Supervisory Board finds that Kapitalska družba once again achieved its dual mission in 2021: the effective provision of occupational insurance and the provision of supplementary funding for the public pension and disability insurance system.

b) Supervisory Board's position regarding the audit report

Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of Kapitalska družba for 2021, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana, which issued an unqualified opinion. In the auditor's opinion, the financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2021, and its operating results and cash flows for 2021, in accordance with the International Financial Reporting Standards. The Supervisory Board has no remarks regarding the audit report.

c) Decision regarding the approval of the annual report for 2021

The audited annual report for 2021 was discussed by the audit committee at its 81st session held on 19 May 2022, and by the Supervisory Board at its 214th session held on 26 May 2022. The audit committee assessed the annual report as appropriate, and proposed that the Supervisory Board approve the annual report.

Pursuant to the provisions of Article 282 of the ZGD-1, the Supervisory Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., hereby approves the annual report for 2021.

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 2021 financial year pursuant to the provision of Article 294 of the ZGD-1.

Janez Tomšič
President of the Supervisory Board

Ljubljana, 26 May 2022





BUSINESS REPORT



5 Organisational structure of Kapitalska družba

The existing organisational structure facilitates flexibility in terms of changes in the environment and the performance of all the Company's business processes with the appropriate number of employees. Sectors make up the core internal organisational units. Departments that report directly to the Management Board are responsible for carrying out support business processes.

The organisational structure, broken down by individual sectors and departments, was as follows in 2021:

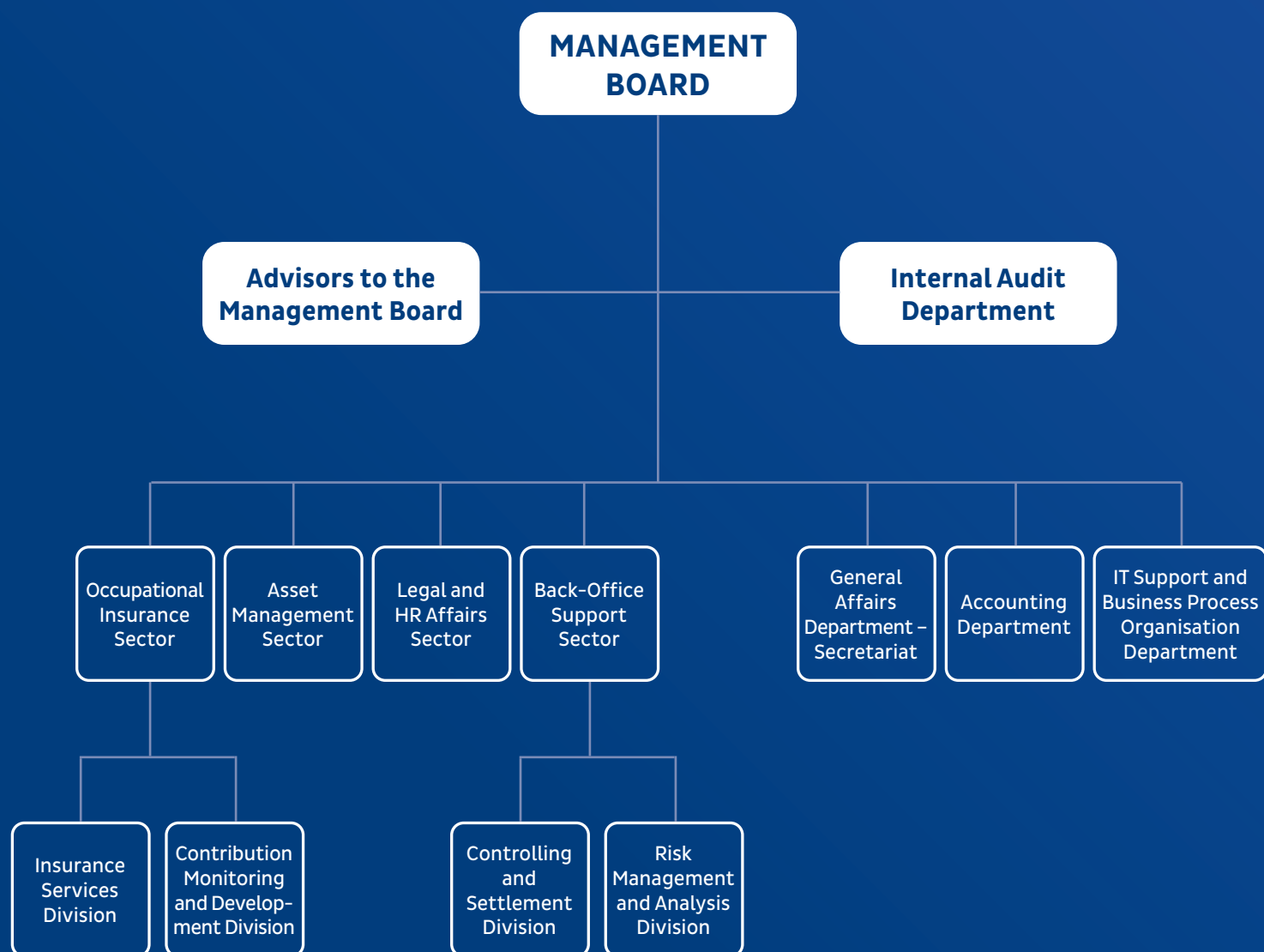
- | Asset Management Sector,
- | Occupational Insurance Sector, comprising:
 - Insurance Services Division,
 - Contribution Monitoring and Development Division,
- | Back-Office Support Sector, comprising:
 - Controlling and Settlement Division,
 - Risk Management and Analysis Division,
- | Legal and HR Affairs Sector, comprising:
 - | Internal Audit Department,
 - | Accounting Department,
 - | IT Support and Business Process Organisation Department,
 - | General Affairs Department – Secretariat.

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

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

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

Figure 1: Organisational structure of Kapitalska družba, d. d. in 2021



5.1 Reporting on employees

Kapitalska družba had 60 employees as at 31 December 2021, all of whom were permanent employees. Two temporary employees were hired on a permanent basis in 2021. One employee retired during the year.

Table 1: Number of employees by organisational unit as at 31 December 2021 and 31 December 2020

| Organisational unit | 31 December 2021 | 31 December 2020 |
|--|------------------|------------------|
| Management Board | 2 | 3 |
| Advisors to the Management Board | 3 | 2 |
| Asset Management | 9 | 8 |
| Occupational Insurance | 15 | 14 |
| Legal and HR Affairs | 7 | 7 |
| Back-Office Support | 8 | 8 |
| Internal Audit | 2 | 2 |
| Accounting | 4 | 4 |
| General Affairs – Secretariat | 6 | 9 |
| IT Support and Business Process Organisation | 4 | 4 |
| Total | 60 | 61 |

As at 31 December 2021, a total of 42% of Kapitalska družba's employees had completed Level 7 education, while 16% had completed Level 8/1 and 2% had completed Level 8/2.

A total of 68% of the Company's employees are women, while 32% are men. The average length of service was 20 years and six months amongst men and 21 years and five months amongst women as at 31 December 2021. The average age of male employees was 47 years, while the average age of female employees was 45 years.

6 Operations of Kapitalska družba

6.1 Macroeconomic background of operations

6.1.1 Gross domestic product, inflation and unemployment rate

Similar to 2020, the 2021 financial year was characterised by the covid-19 pandemic, the effects of which were felt primarily in the service sector on account of the gradual adaptation of companies and consumers to the new conditions, and due to more focused containment measures. The introduction of vaccines at the end of 2020, the effectiveness thereof and the start of mass vaccination during the first half of 2021 contributed to a major economic recovery, despite the renewed deterioration of the epidemiological situation in the wake of outbreaks of new strains of the novel coronavirus. That recovery remains uneven across countries, sectors and demographic groups. At the global level, activity surpassed pre-pandemic levels during the middle of 2021, with annual global economic growth reaching 5.9%. The recovery in economic activity also led to a significant increase in commodity prices (including oil and natural gas prices) in 2021, and to increased bottlenecks in international trade in the context of disrupted supply chains. The recovery reached its peak first in the US and China, which also recorded the fastest recovery.

We also saw rising inflation in 2021, and diverging views on whether this is structural price growth or simply transitory growth. The prevailing opinion for the majority of the year was that these were transitory inflationary pressures as the result of short-term fluctuations caused by disrupted supply channels and rising energy prices on the one hand, and by increased demand for goods due to accumulated savings and a shift in demand from services to goods on the other. This view was also shared by the US Federal Reserve and European Central Bank.

The autumn saw a shift in the rhetoric of major central banks. In addition to mentioning a gradual reduction in bond repurchase rates, those central banks also started to express concerns about inflation. At the same time, many analysts cut the (otherwise very high) growth forecast for the Chinese economy during the second half of 2021 as the result of a shock on the real estate market caused by the collapse of real estate investor Evergrande and China's zero-tolerance policy with respect to covid-19, and due to the energy crisis and constraints in the manufacturing sector due to the shortage of electricity.

An uneven recovery is also evident on the labour market. The number of workers on a global level remains below the pre-pandemic level. At the same time, however, the proportion of the working population has fallen, leading to labour shortages in certain sectors of the economy. The unemployment rate fell below the pre-crisis level in the majority of countries during the second quarter of 2021. Demographic changes, which are reducing the supply of labour, and the withdrawal of part of the population from the labour market in the context of increased demand for labour, are leading to a surplus of demand over supply, and to difficulties for companies in their search for qualified workers.

The year 2021 was also characterised by extreme weather events (e.g. a cold winter, devastating floods, widespread fires and droughts), which had a significant impact on energy prices (in particular the price of natural gas in Europe) on the one hand, and forced world powers to intensify the search for solutions to climate change on the other. European countries are taking a leading role in the transition to green energy, in part with the aim of increasing their energy independence.

Slovenia recorded higher economic growth in 2021, and exceeded the pre-crisis level from the final quarter of 2019 during the third quarter of 2021. Gross domestic product rose by 8.1% in real terms in 2021, with domestic consumption, which was up by 10.8% in year-on-year terms, contributing significantly to economic activity. The pace of the economic recovery remained uneven in 2021, with total sales in catering and accommodation, cultural and event-related activities and games of chance and tourism activities still below the pre-crisis level. Having a significant impact on the increase in final government consumption in 2021 was expenditure to control the pandemic, while investment activity was driven primarily by investment in equipment and machinery, with less favourable trends in the construction sector due to rising prices and problems in the supply of materials. Foreign demand was also up. The trade surplus shrank due to a more rapid rise in imports than exports, and deteriorating terms of trade for the majority of 2021.

In the context of high real economic growth, Slovenia also recorded high inflation (4.9%) in 2021, as well as falling unemployment, which stood at 4.5% at the end of 2021. In the context of strong demand for labour, which was reflected in a high job vacancy rate, the number of long-term unemployed also fell during the year, but remains slightly higher than the pre-pandemic number. Contributing most to year-on-year inflation were higher energy prices, while the prices of durable and semi-durable non-energy industrial goods and food prices were also a factor.

Actual economic growth and actual inflation in Slovenia in 2021 exceeded the figures put forth by the IMAD in its autumn forecast. In the aforementioned forecast, which did not take into account the war in Ukraine and sanctions against Russia, the IMAD envisaged slowing economic growth (to 4.7%) and easing inflation (at 2%) in 2022.

Even before the start of the war in Ukraine, the global economy limped into 2022 in a worse position than previously expected. The new omicron strain was accompanied by new restrictions at the end of 2021, while the normalisation of supply chains was slower and inflationary pressures were higher and more widespread across different economic sectors than initially anticipated. Central banks are also becoming less stimulative. As a result, the IMF and OECD cut their economic growth forecasts for 2022 and increased their forecasts of inflation. The IMF cut its economic growth forecast to 4.4%, primarily due to the cutting of growth forecasts for the US and China, while the OECD cut its forecast to 4.5%. The aforementioned economic growth is still higher than the long-term average. The above forecasts do not include the war in Ukraine, which began at the end of February 2022 and which together with increasingly tighter sanctions against Russia affect future economic trends. According to the OECD's forecasts, global economic growth will be 1 percentage point lower and inflation will be 2.5 percentage points higher due to the war in Ukraine.

The table below presents macroeconomic aggregates (GDP, the inflation rate and the unemployment rate) in Slovenia and major global countries and/or regions for 2021.

Table 2: Gross domestic product, inflation and unemployment rate (data for 2021)

| | Annual inflation rate (in %) | Annual GDP growth (in %) | Unemployment rate (in %) |
|-----------|---------------------------------|-----------------------------|-----------------------------|
| Slovenia | 4,9 | 8,1 | 4,5 |
| Germany | 3,2 | 2,8 | 5,7 |
| Euro area | 2,6 | 5,3 | 7,7 |
| US | 4,7 | 5,7 | 5,4 |
| China | 0,9 | 8,1 | 4,0 |

Source: Bloomberg, IMAD, SORS (25 March 2022).

6.1.2 Interest rates

Central banks faced a turning point in 2021. In the context of a recovering economy and rising inflation, central banks were confronted with the issue of the temporary nature of inflation. With certain exceptions, such as Turkey, the central banks of emerging markets raised their key interest rates back in 2021. Amongst the major central banks of developed economies, the Bank of England raised its interest rates, while other banks, with the exception of the Bank of Japan, have become less stimulative.

After a change in rhetoric in the autumn and the reversal of its assumption that inflationary pressures are temporary, the US Federal Reserve (Fed) adopted a decision at its meeting in December to reduce the scope of net bond purchases, while the financial markets have significantly raised their expectations of key rate hikes in 2022.

The European Central Bank (ECB) was much more cautious in 2021 in its forecasts of the reversal of stimulative monetary policy, as the European Monetary Union is comprised of a collection of different countries with different levels of economic development and different levels of debt. At the end of 2021, the ECB announced the suspension of net purchases from the emergency bond purchase programme, which was created as a response to the pandemic (the so-called PEPP²), as well as the continuation of the reinvestment of maturing bonds from the aforementioned programme at least until the end of 2024. As 2021 came to a close, the financial markets were not expecting the ECB to raise its key interest rate in 2022.

Table 3: Key interest rates of major central banks

| | Level of key interest rate as at 31 December 2021 |
|-----------|---|
| Euro area | 0,0 % (key interest rate) –0,50 % (deposit facility) |
| US | 0,00 % do 0,25 % |
| UK | 0,25 % |
| Japan | –0,10 % |
| Canada | 0,25 % |
| China | 4,35 % |

Source: Bloomberg (21 January 2022)

6.2 Developments on the financial markets

We witnessed a sharp increase in the prices of equities and a decline in the prices of debt securities in 2021.

The rise in equity prices in 2021 can be attributed to the extraordinary easing of monetary policy, fiscal measures adopted by governments, historically low interest rates, the gradual opening of economies and public life, optimism about the vaccination and infection rates of the world's population, and the positive results of companies listed on global stock exchanges. The MSCI World Index (MSCI Daily TR Gross World) gained 31.4% expressed in euros. The US and UK were the best-performing regions, while energy was the best-performing sector. The European government and corporate bond indices lost 3.4% and 1% respectively. The Slovenian index of prime-market shares gained 48% and ended the year as one of the 11 most profitable share markets.

We were witness to a fall in the prices of debt securities as the result of rising yields on risk-free government bonds and on account of rising credit spreads on both government and corporate bonds. As the result of expectations of an interest rate hike by the FED, the yields on short-term bonds were also up in

² Pandemic Emergency Purchase Programme.

2021, with the slope of the yield curve ending the year at a level similar to the beginning of the year. The financial markets were not expecting the ECB to raise its key interest rate, so the yields on short-term government bonds remained low, while the slope of the yield curve rose sharply.

The euro depreciated against the US dollar, pound sterling and Swiss franc, but appreciated versus the Japanese yen. Standing out amongst commodities is growth in oil prices, which rose by more than 50% in 2021 expressed in euros.

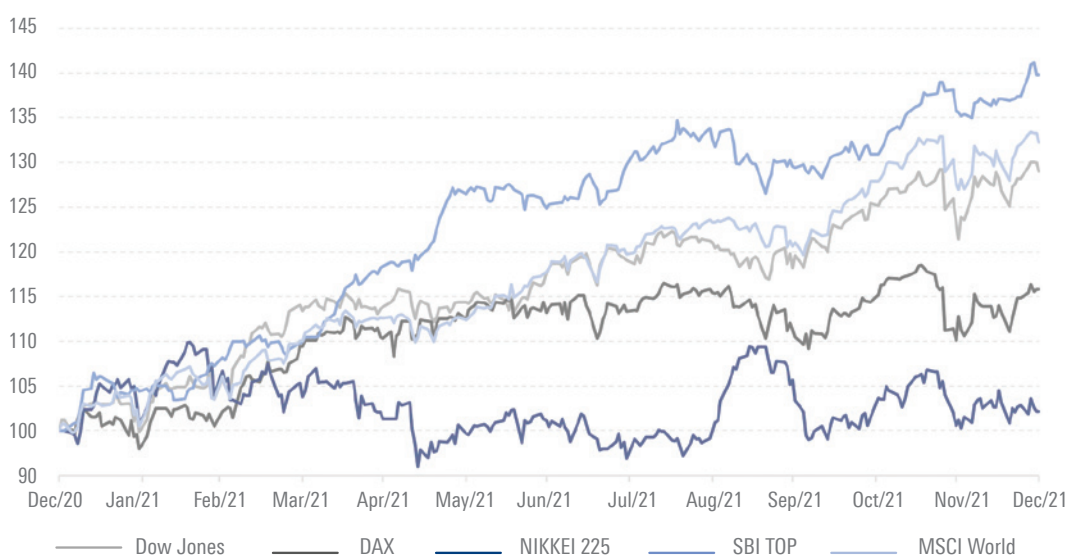
Table 4: Returns on major financial markets

| Share indices | Returns in 2021 measured in euros, including dividend yield |
|---|--|
| SBITOP – Slovenia | 48,0 % |
| DAX – Germany | 15,8 % |
| Dow Jones – US | 29,9 % |
| NIKKEI 225 – Japan | 3,8 % |
| MSCI World TR – global | 31,4 % |
| Bond indices | |
| IBOXX EUR Sovereigns TR index – euro government bonds | -3,45 % |
| IBOXX EUR Corporates TR Index – euro corporate bonds | -1,08 % |
| Exchange rates and commodities | |
| EUR/USD | -6,9 % |
| Brent crude oil | 50,2 % |
| Gold | 3,46 % |

Note: Returns also include dividend yields.

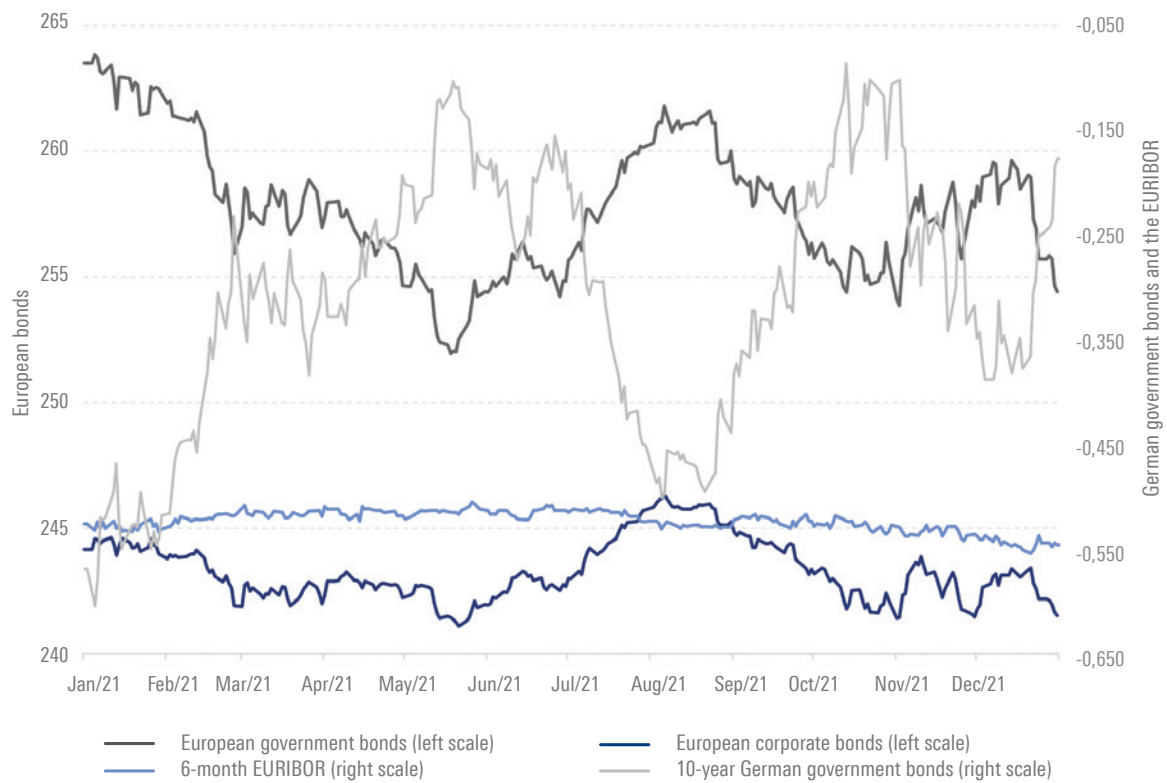
Source: Bloomberg (21 January 2022)

Graph 1: Movement in the Slovenian SBITOP and selected foreign stock indices in 2021 in euros (index: 31 December 2020 = 100)



Source: Bloomberg (21 January 2022)

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 2021



Source: Bloomberg (21 January 2022)

6.3 Investment management

Kapitalska družba classifies investments to the following three categories:

- | capital investments,
- | waived securities³,
- | portfolio investments.

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

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

Table 5: Composition of Kapitalska družba's financial assets as at 31 December 2021 and 31 December 2020

| Type of investment | Value (in EUR 000) | Proportion (in %) | Value (in EUR 000) | Proportion (in %) |
|--|-----------------------|----------------------|-----------------------|----------------------|
| | 31 December 2021 | | 31 December 2020 | |
| Capital investments | 773.612 | 59,9 | 631.248 | 57,7 |
| Strategic investments ⁴ | 188.225 | 14,6 | 183.316 | 16,7 |
| Material investments | 521.947 | 40,4 | 394.679 | 36,1 |
| Portfolio investments | 63.440 | 4,9 | 50.971 | 4,7 |
| Investments in bankruptcy or liquidation | 0 | 0,0 | 2.284 | 0,2 |
| Waived securities | 206 | 0,0 | 201 | 0,0 |
| Waived securities | 517.871 | 40,1 | 463.295 | 42,3 |
| Equity portfolio investments | 383.022 | 29,7 | 336.362 | 30,7 |
| Debt portfolio investments | 84.719 | 6,6 | 91.487 | 8,4 |
| Money market ⁵ | 27.703 | 2,1 | 13.019 | 1,2 |
| Investments in financial claims | 22.427 | 1,7 | 22.427 | 2,0 |
| Total financial assets | 1.291.689 | 100,0 | 1.094.744 | 100,0 |

6.3.1 Capital investment management

6.3.1.1 Composition of capital investments

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

The Company held a total of 34 such investments at the end of 2021. Of those investments, Kapitalska družba had 33 so-called active investments, including 27 investments in joint stock companies and six investments in limited liability companies. In addition to active investments, Kapitalska družba also held one investment in a company in bankruptcy proceedings.

The value of capital investments was EUR 773,612 thousand as at 31 December 2021, an increase of EUR 142,364 thousand relative to the previous year.

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

Table 6: Composition of Kapitalska družba's capital investments as at 31 December 2021 and 31 December 2020 in accordance with the Decree on the Strategy for Managing State Capital Investments

| Type of investment | Number of investments | Value (in EUR 000) | Proportion of capital invest- ment portfolio (in %) | Number of investments | Value (in EUR 000) | Proportion of capital invest- ment portfolio (in %) |
|--|--------------------------|-----------------------|--|--------------------------|-----------------------|--|
| | 2021 | | | 2020 | | |
| Strategic investments | 10 | 188.225 | 24,3 | 10 | 183.316 | 29 |
| Material investments | 6 | 521.947 | 67,5 | 6 | 394.679 | 62,5 |
| Portfolio investments ⁶ | 17 | 63.440 | 8,2 | 17 | 50.971 | 8,1 |
| Investments in bankruptcy or liquidation | 1 | 0 | 0 | 4 | 2.284 | 0,4 |
| Total capital investments | 34 | 773.612 | 100,0 | 37 | 631.248 | 100,0 |

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

⁵ Money market investments also include cash, which totalled EUR 26,535 thousand as at 31 December 2021.

⁶ Kapitalska družba holds both preference shares and ordinary shares in one company classified in portfolio investments. Both forms of shares are deemed one investment in the aforementioned company.

Table 7: Ten largest capital investments of Kapitalska družba by value as at 31 December 2021

| Seq. no. | Company name | Proportion of company's share capital (in %) |
|----------|----------------------------|--|
| 1. | Krka, d. d. | 10,65 |
| 2. | Modra zavarovalnica, d. d. | 100,00 |
| 3. | Petrol, d. d. | 8,27 |
| 4. | Telekom Slovenije, d. d. | 5,59 |
| 5. | Luka Koper, d. d. | 4,98 |
| 6. | Loterija Slovenije, d. d. | 25,00 |
| 7. | Sava, d. d. | 28,05 |
| 8. | Hit, d. d. | 20,32 |
| 9. | Union hoteli, d. d. | 18,75 |
| 10. | Terme Olimia, d. d. | 24,79 |

Investments in which Kapitalska družba holds a participating interest of less than 20% comprise the majority of capital investments. So-called active investments include 24 such investments, as well as one investment in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in the table below.

Table 8: Composition of capital investments in terms of size of ownership stake as at 31 December 2021

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

6.3.1.2 Sales and deletion of companies

With the aim of ensuring the transparency of sales procedures and the equal treatment of bidders, the sale of capital investments is carried out via public tender. For its underlying assets, Kapitalska družba published one public call for the submission of bids for the purchase of shares and participating interests in 2021, together with Modra zavarovalnica, specifically for the sale of shares and participating interests in TKI Hrastnik, d. d. and Elan Inventa, d. o. o. Bids were not accepted by Kapitalska družba because the bid prices were too low.

SDH also published one public call on behalf of Kapitalska družba in 2021 for the submission of bids for the purchase of shares in Intereuropa, d. d. Kapitalska družba received EUR 1,044 thousand for the sale of the aforementioned shares.

In 2021, Kapitalska družba received EUR 2,279 thousand from the liquidation of GIO, d. o. o., Ljubljana.

SDH also published one public call on behalf of Kapitalska družba in June 2021 for the submission of bids for the purchase of shares acquired by the Company pursuant to Article 48a of the ZNVP-1. Kapitalska družba sold EUR 1,825 in shares based on that public call. In addition, Kapitalska družba sold EUR 35,023 in shares in 2021 based on a public call for the submission of bids for the purchase of shares acquired pursuant to Article 48a of the ZNVP-1. That call was published in October 2020.

There were no active sales procedures in progress as at 31 December 2021.

6.3.1.3 Purchases of companies

Kapitalska družba did not accept any bids for the purchase of shares or participating interests in 2021.

6.3.1.4 Dividends of domestic companies

Kapitalska družba recorded EUR 28,312 thousand in domestic corporate dividends in 2021, an increase of EUR 6,429 thousand relative to 2020, when dividends totalled EUR 21,883 thousand. The ten largest capital investments in terms of dividends received accounted for 99.8% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2021 was approved by the general meetings of 18 companies in which Kapitalska družba held a capital investment, compared with the approval of dividend payments by the general meetings of 12 companies in which Kapitalska družba held a capital investment in 2020.

Table 9: Ten capital investments that generated the highest dividend income in 2021

| Seq. no. | Issuer | Dividends per share in 2021 (in EUR) | Total dividends in 2021 (in EUR 000) |
|----------|----------------------------|---|---|
| 1. | Krka, d. d. | 5,00 | 17.465 |
| 2. | Petrol, d. d. | 22,00 | 3.798 |
| 3. | Modra zavarovalnica, d. d. | 0,0212 | 3.217 |
| 4. | Telekom Slovenije, d. d. | 4,50 | 1.643 |
| 5. | Loterija Slovenije, d. d. | 62,00 | 1.151 |
| 6. | Luka Koper, d. d. | 1,14 | 794 |
| 7. | Elektro Maribor, d. d. | 0,0987 | 53 |
| 8. | Elektro Gorenjska, d. d. | 0,12 | 52 |
| 9. | Elektro Primorska, d. d. | 0,12 | 45 |
| 10. | Cetis, d. d. | 2,00 | 31 |

Table 10: Ten capital investments that generated the highest dividend income in 2020

| Seq. no. | Issuer | Dividends per share in 2020 (in EUR) | Total dividends in 2020 (in EUR 000) |
|----------|---------------------------|---|---|
| 1. | Krka, d. d. | 4,25 | 14.845 |
| 2. | Petrol, d. d. | 22,00 | 3.798 |
| 3. | Telekom Slovenije, d. d. | 3,50 | 1.278 |
| 4. | Loterija Slovenije, d. d. | 52,00 | 966 |
| 5. | Luka Koper, d. d. | 1,07 | 745 |
| 6. | Elektro Maribor, d. d. | 0,15 | 79 |
| 7. | Elektro Gorenjska, d. d. | 0,14 | 60 |
| 8. | Elektro Primorska, d. d. | 0,14 | 53 |
| 9. | Elektro Celje, d. d. | 0,12 | 24 |
| 10. | Elektro Ljubljana, d. d. | 0,11 | 22 |

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

In connection with the management of its capital investments in the period 1 January 2021 to 31 December 2021, Kapitalska družba applied, *mutatis mutandis*, the Corporate Governance Code for Companies with Capital Assets of the State (hereinafter: the Code), which was adopted by SDH on 19 December 2014. The Code was amended in May 2017 and November 2019, and most recently in March 2021.

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. Following its adoption, Kapitalska družba began to apply the Code *mutatis mutandis* in December 2014 in order to harmonise its operations with SDH. The currently valid Code 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 2021. 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.

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 2021. Disclosures with regard to Kapitalska družba's actions at general meetings are published on the Company's website.

6.3.1.6 Participation at general meetings

In 2021, Kapitalska družba participated in, on its own behalf and on account of the pension fund under management, 46 general meetings of shareholders or partners of companies that are treated as capital investments. Representatives of Kapitalska družba participated in 17 general meetings, at which the Company independently exercised its voting rights. In accordance with Article 53 of the ZSDH-1, SDH exercised the voting rights of Kapitalska družba at 29 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.

Table 11: Participation at general meetings

| Form of participation | Number of general meetings |
|--|----------------------------|
| Participation and voting by employees of Kapitalska družba | 17 |
| Participation by employees of Kapitalska družba; voting by SDH | 29 |
| Total | 46 |

6.3.1.7 Code of Conduct of the Kapitalska Družba Group

In addition to Kapitalska družba, the Kapitalska Družba Group includes the subsidiaries Modra zavarovalnica and FINAP, d. d. (in liquidation), and the joint venture Hotelske nepremičnine, d. o. o.

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

6.3.1.8 Management taking into account systemic regulation

The Slovenian Sovereign Holding Company Act (ZSDH-1) entered into force at the end of April 2014. The management of investments on behalf and for 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. Kapitalska družba transferred EUR 50 million to the ZPIZ in 2021.

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

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

As at 31 December 2021, the Company had 101 investments in the waived securities of 97 different issuers with a total value of EUR 206 thousand. Those securities were acquired on the basis of Article 48a of the ZNVP-1. It received EUR 97 thousand from the sale or liquidation of waived securities in 2021.

6.3.3 Management of portfolio investments

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

The value of portfolio investments was up by EUR 54.6 million in 2021. In 2021, we maintained a high proportion of equities within portfolio investments, which resulted in high returns. The value of portfolio investments was up by EUR 46.7 million. The proportion of Kapitalska družba's total portfolio accounted for by portfolio equity investments fell by 1 percentage point in 2021. The decrease in relative terms was the result of very high growth in capital investments. The proportion of debt portfolio investments fell from 8.4% to 6.6% in 2021.

The five largest investments in the asset management portfolio as at 31 December 2021 were as follows: index funds that track the MSCI World global stock indices (SMSWLD GY, XMWO GY, IWDA LN and XDWD GY) and an index fund that tracks the US S&P 500 (SPY US). The five largest investments in the portfolio of debt investments as at 31 December 2021 comprised Slovenian government bonds of various maturities, from 2024 to 2026, the XGLE GY and JBEM FP index funds, which track the European index of government bonds, and the EUN5 GY index fund, which tracks the European index of corporate bonds.

Table 12: Composition of portfolio-managed financial assets as at 31 December 2021 and 31 December 2020

| Type of investment | Value | Proportion (in %) | Value | Proportion (in %) |
|---|------------------|-------------------|------------------|-------------------|
| | 31 December 2021 | | 31 December 2020 | |
| Investment funds | 376.512 | 72,7 | 336.362 | 72,7 |
| Bonds | 84.719 | 16,4 | 91.487 | 19,7 |
| Shares | 6.510 | 1,3 | 0 | 0,0 |
| Commercial paper | 1.168 | 0,2 | 1.457 | 0,3 |
| Investments in financial claims | 22.427 | 4,3 | 22.427 | 4,8 |
| Deposits | 0 | 0,0 | 0 | 0,0 |
| Cash and cash equivalents | 26.535 | 5,1 | 11.562 | 2,5 |
| Total portfolio-managed financial assets | 517.871 | 100,0 | 463.295 | 100,0 |

6.4 Investment property

Kapitalska družba held investment property in the following commercial buildings in 2021:

- | Stekleni dvor, Dunajska cesta 119, Ljubljana,
- | Glavarjeva rezidenca, Pegamova ulica G, Ljubljana,
- | Bežigrajski dvor, Dunajska cesta 56, 58 in Kržičeva ulica 3, Ljubljana,
- | Nebotičnik, Štefanova ulica 1, 3 in 5, Ljubljana.

All commercial premises and nearly all parking places located at all investment properties were let as at 31 December 2021.

6.5 Risk management

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

6.6 Management of the SODPZ

6.6.1 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).

Occupational insurance includes 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. Occupational insurance is an element of compulsory social security insurance.

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 and other beneficiaries.

Occupational insurance is provided on the basis of the occupational insurance pension plan, which is drawn up based on the provisions of the ZPIZ-2 and approved by the Minister of Labour, Family, Social Affairs and Equal Opportunities.

The pension plan that was valid from 1 October 2020 to 31 December 2021 was applied in 2021. The pension plan expanded the basis for the payment of occupational insurance contributions, from which wage compensation from health insurance for a policyholder in an employment relationship is no longer exempted. Also valid were legal provisions regarding the suspension and termination of occupational insurance, which can only be suspended or terminated with the submission of the requisite evidence, and provisions regarding control over the calculation and payment of occupational insurance contributions.

The SODPZ had 49,087 policyholders as at 31 December 2021, an increase of 517 relative to 2020. The actual return on the SODPZ was 1.26% in 2021, compared with the guaranteed return of 0.12% in the same period. The balance of solidarity reserves was EUR 5,266,554 as at 31 December 2021 broken down as follows: EUR 5,200,283 in unallocated solidarity reserves and EUR 66,271 in allocated solidarity reserves. The net value of SODPZ assets was EUR 886,537 thousand on the final accounting day of 2021, and exceeded the guaranteed value of assets (EUR 793,949 thousand) by EUR 92,588 thousand.

Kapitalska družba was entitled in 2021 to the reimbursement of subscription and redemption fees, an annual management fee and fees for the payment of occupational pensions. Subscription fees amounted to 2.0%, redemption fees to 0.5% and fees for the payment of occupational pensions to 0.5% of the occupational pension. The annual management fee was 0.88% of the average annual net value of SODPZ assets.

The main reason for higher revenue in 2021 relative to the previous year lies in higher revenue from management fees as the result of the higher net value of fund assets, and higher subscription fees as the result of higher premiums paid. Also up was revenue from the payment of occupational pensions and from redemption fees, although the latter account for a very small proportion of total revenue.

Table 13: Kapitalska družba's revenue from management of the SODPZ in 2021 and 2020

| | in EUR 000 | |
|---|--------------|--------------|
| Revenue from management activities | 2021 | 2020 |
| Management fees | 7.566 | 7.037 |
| Subscription fees | 1.263 | 1.174 |
| Redemption fees | 8 | 7 |
| Fees for the payment of occupational pensions | 25 | 21 |
| Total | 8.862 | 8.239 |

6.6.2 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 main objective of management in 2021 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, while 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 893,680 thousand as at 31 December 2021, an increase of 5.6% relative to 2020. 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 14: Composition of SODPZ investments as at 31 December 2021 and 31 December 2020

| Class | Value (in EUR 000) | Proportion (in %) | Value (in EUR 000) | Proportion (in %) |
|---------------------------|-----------------------|----------------------|-----------------------|----------------------|
| | 2021 | | 2020 | |
| Shares | 9.001 | 1,0 | 6.164 | 0,7 |
| Debt securities | 301.811 | 33,8 | 336.931 | 39,8 |
| Deposits and loans | 76.220 | 8,5 | 53.805 | 6,4 |
| Investment funds | 431.057 | 48,2 | 395.910 | 46,8 |
| Cash and cash equivalents | 71.165 | 8,0 | 49.409 | 5,8 |
| Money market instruments | 4.412 | 0,5 | 4.392 | 0,5 |
| Receivables | 14 | 0,0 | 20 | 0,0 |
| Total | 893.680 | 100,0 | 846.631 | 100 |

6.6.3 Activities in the provision of occupational insurance in 2021

Based on the Act on Emergency Measures to Assist in Mitigating the Consequences of the Second Wave of the covid-19 Epidemic (ZIUPOPĐVE), Kapitalska družba paid a one-time solidarity bonus to 53 occupational pensioners in January. The amount paid was reimbursed to Kapitalska družba by the Ministry of Labour, Family, Social Affairs and Equal Opportunities (MLFSAEO).

In 2021, Kapitalska družba continued to control the payment of occupational insurance contributions in accordance with the provisions of the pension plan that entered into force on 1 October 2020, where the transitional period after which occupational insurance contributions must be calculated according to the new basis expired at the end of March 2021.

Occupational insurance stakeholders were regularly informed via the Company's website about the performance of the SODPZ and about the latest developments in occupational insurance. In accordance with the ZPIZ-2, the audited annual report of the SODPZ and a summary of the annual report for the previous year were published on the website. The SODPZ Committee, which met three times in 2021, was also briefed regularly on all activities in the area of occupational insurance.

6.7 Information technology

In association with management, the IT Department successfully pursued the tasks and objectives set out in the Company's business strategy. The strengthening of the link between the business strategy and the functioning of the IT Department further facilitated agility in the implementation of the necessary changes and adaptations. Kapitalska družba continued to successfully provide IT services for the Kapitalska Družba Group in 2021. The high-quality maintenance and upgrading of the information system ensured a high level of availability and reliability of information solutions. Continuous support and the optimisation and computerisation of work processes continued to contribute significantly to the achievement of the Company's business objectives and to maintaining and improving its competitive position.

The introduction of changes in the provision of services was urgent due to covid-19 and continued in 2021. The need to ensure the smooth functioning of work from home required the introduction of additional security mechanisms for IT work equipment.

With regard to the provision of software support for Kapitalska družba's business processes, the development of business intelligence continued and will provide useful information for business analysis purposes.

The use of new information will allow Kapitalska družba to create new strategic business opportunities. The implementation of a document system continued in 2021. That system will facilitate paperless operations, the optimisation of business processes, the reduction of operating costs and increased security in the area of document management. Increased security in document retention was achieved through the digitalisation of the paper-based archive.

In addition to ensuring the availability and reliability of the information system, the IT Department is dedicating an increasing amount of attention to information security. In addition to regular communication with employees regarding cyber security threats, an annual external security review was conducted with the aim of eliminating in the shortest time possible potential security vulnerabilities in the IT infrastructure.

6.8 Significant business events after the end of 2021

Geopolitical risks came to the forefront at the beginning of 2022 with the easing of the covid-19 pandemic. At the end of February 2022, tensions between Russia and Ukraine escalated to the point that Russia first declared the independence of the Donetsk and Luhansk regions of Ukraine and followed that several days later with the invasion of the aforementioned country. That invasion was strongly condemned by the international community. Countries stepped up economic and financial sanctions against Russia, which Russia countered with its own sanctions. An increased number of companies chose the tactic of self-restraint and stopped doing business with Russia. The resulting humanitarian crisis and massive wave of refugees will be accompanied by lower global economic growth and higher inflation in 2022.

The financial markets responded to the invasion with concern and reduced their appetite to take up risk. Market volatility increased on the day of Russia's invasion, with the global share index expressed in US dollars losing 0.6% of its value in a single day, primarily due to the falling values of shares of emerging markets (by 4.3% expressed in US dollars), while the yield on 10-year German government bonds shifted from 0.25% to around 0.10% and the price of oil rose. Expectations that the invasion of Ukraine will be brief were not realised. Monthly inflation rose to a 40-year high due to rising energy prices, while the central banks of developed countries raised expectations regarding future interest rates. The drop in share prices and rise in the prices of risk-free government bonds due to the invasion were short-lived, as the mood of investors was predominated by concerns about inflation and the tightening of monetary policy by central banks.

The impact on global economic growth in 2022 will depend on the duration and scope of the Russian-Ukrainian conflict. According to analysts, that impact will be greater on the European economy and will drive up inflation in 2022 in the context of expectations of higher/high energy prices. According to the OECD's forecasts, economic growth will be 1 percentage point lower in 2022 relative to previous forecasts, while inflation will be 2.5 percentage points higher. The war in Ukraine has also caused a migrant crisis and led to an increase in cyber-attacks.

In the period 31 December 2021 to 30 April 2022, the return on the global share index expressed in euros was 6.0%, while the returns on the corporate and government bond indices were -8.0% and -8.8% respectively.

The direct exposure of portfolio investments to the Russian and Ukrainian markets is relatively low, with the majority of that exposure taking the form of investments in the Russian RUS FP index fund. Amongst major capital investments, Krka, d. d., as Kapitalska družba's largest single investment, is most exposed to the Russian-Ukraine conflict. In terms of Kapitalska družba's other investments, indirect exposure can be seen in those equity investments and alternative funds whose performance is linked to the prices of energy and raw materials and tourism services, and in investments in debt securities whose price depends on interest rates, which have risen due to the impact of inflation. At the moment, the potential long-term impact of Kapitalska družba's cash flows cannot be assessed reliably due to uncertainty regarding the de-

velopment of events. The value of Kapitalska družba's financial assets fell by close to EUR 102 million in the period 31 December 2021 to 30 April 2022, primarily due to the falling price of Krka, d. d.'s shares.

Russia, which represents Krka, d. d.'s largest market, together with Ukraine accounts for 27.5% of that company's total sales. According to the report of the company's management board, sales on the aforementioned markets did not deviate significantly from sales in the same period in 2021. The company is heavily impacted by changes in the Russian rouble exchange rate and by the potential hedging of exposure to the rouble using derivatives, while it is not directly exposed to currency risk in Ukraine. Krka, d. d. emphasises the fact that it has a sound capital structure and a robust cash flow from operating activities, and does not have any financial debt. We therefore assess that the company's long-term operations are not in jeopardy.

In connection with the war in Ukraine, we assess that the risk to which Kapitalska družba is exposed due to potential cyber-attacks has risen, as financial institutions are potential targets of such attacks. In order to prevent cyber-attacks, we have already begun to implement certain activities in the area of IT to integrate additional security mechanisms.

On 28 February 2022, Kapitalska družba and SDH exercised their pre-emptive right to purchase all 12,571,257 shares of Sava, d. d. held by York Global Finance Offshore BDH, and to purchase all of York Global Finance Offshore BDH's claims against Sava, d. d. The total amount of consideration was EUR 38,000,000.00, broken down as follows: EUR 32,010,989.99 for shares and EUR 5,989,010.01 for claims. Kapitalska družba exercised its pre-emptive right in such a way that it acquired all claims against Sava, d. d. for consideration in the amount of EUR 5,989,010.01, while SDH acquired all 12,571,257 shares of Sava, d. d. for consideration in the amount of EUR 32,010,989.99.

Adopted at the end of 2021 was the Implementation of the Budget of the Republic of Slovenia for 2022 and 2023 Act (ZIPRS2223), based on which Kapitalska družba must transfer EUR 50 million a year to the ZPIZ in 2022 and 2023, by no later than 29 September of the current year. In accordance with the aforementioned act, an agreement was concluded in February 2022 between Kapitalska družba and the ZPIZ on the coverage of Kapitalska družba's liabilities to the ZPIZ in 2022 and 2023.

In use since 1 January 2022 is the amended occupational insurance pension plan, which was adopted due to the 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.

Pursuant to the fifth paragraph of Article 67 of the Act on Additional Measures to Stop the Spread and to Mitigate, Control and Eliminate the Consequences of covid-19 (ZDUPŠOP), Kapitalska družba paid a solidarity bonus to 46 occupational pension recipients in the total amount of EUR 9,730 on 14 January 2022. The total amount earmarked for the payment of the solidarity bonus was reimbursed to Kapitalska družba by the MLFSAEO.

The National Assembly adopted the Act Determining Emergency Measures to Mitigate the Consequences of Rising Energy Prices (ZUOPVCE) due to the growing social hardships felt by the population as the result of high energy prices. The MESP will provide funds for the payment of the lump-sum solidarity bonus in the amount of EUR 150 based on requests received from payers. Kapitalska družba paid a solidarity bonus to eligible parties on 8 April 2022.

On 1 January 2022, pursuant to Article 48a of the Book-Entry Securities Act, Kapitalska družba became the owner of shares whose beneficiaries did not request the transfer of those shares to a trading account at a member of the Central Securities Clearing Corporation (KDD) by 31 December 2021. In January 2022, KDD transferred funds in the amount of EUR 12,242 thousand to a special account of Kapitalska družba.

In accordance with Article 33 of the Articles of Association of Kapitalska družba, Gregor Bajraktarević was reappointed to a one-year term of office as member of the Management Board, effective 8 February 2022.

Kapitalska družba's contact centre reopened on 1 March 2022 for personal visits by clients. Visitors are still required to comply with valid government measures to prevent the spread of covid-19.

7 Expected development of Kapitalska družba, d. d. in 2022

Following the remarkably successful recovery of the global and Slovenian economies in 2021, we faced an extraordinary level of uncertainty as the result of the war in Ukraine at the time this report was compiled. The war, together with increasingly tighter sanctions against Russia, will apparently have a major impact on economic trends this year and possibly in the future. We are facing conditions never seen before. It is therefore next to impossible to assess how drastic the consequences will be. In addition, the relaxation of measures to contain the covid-19 pandemic, global supply constraints and the pace at which they are resolved, a shortage of qualified labour in certain sectors and high energy prices will have a significant impact on future economic activity in the context of still-elevated uncertainty in connection with epidemiological conditions.

The risk of (excessively) high inflation has also risen sharply after a long time. After a sharp rise in the prices of refined petroleum products last year, the prices of other energy products (natural gas, electricity and, to a certain extent, solid fuels) have also risen rapidly this year. Rising prices of energy and input materials have led to a significant increase in food prices. Growth in the prices of durables and semi-durables also continues. Higher demand, combined with less severe restrictive measures, has led to growth in the prices of services. The risk of continued growth in prices has been exacerbated by the armed conflict in Ukraine. Growth in energy prices on the international markets has already accelerated and will pass through to consumer prices relatively quickly. Growth in the prices of some agricultural products, animal feed and certain non-energy raw materials is also high, which could further accelerate growth in the prices of food and non-energy industrial goods. It is evident from the above facts that operations in 2022 will be characterised to a great extent by risks from the external environment.

Although the geopolitical and macroeconomic environment will have a major effect on our business ambitions, we remain firmly committed in 2022 to fulfilling our mission of providing additional funds for the public pension system and occupational insurance. This clearly defined mission will guide our response to the extraordinarily demanding external environment and ensure our focus on all important stakeholders. Kapitalska družba represents an important pillar of the stability of the pension system, through the management of its own assets for the purpose of providing resources to the pension insurance fund and through the management of the SODPZ, while the Kapitalska Družba Group also represents the largest provider of voluntary supplementary pension insurance in Slovenia through its subsidiary Modra zavarovalnica.

Kapitalska družba's basic objective of asset management is the payment of its legally prescribed obligations, which dictates the definition of a comprehensive investment strategy. We will contribute to a reduction of the burden on the state budget again in 2022 through the Company's planned payment to the public pension system of EUR 50 million. With that payment, which represents an additional pension source, Kapitalska družba's total payments to the public pension fund will already exceed EUR 1 billion. That amount represents close to one fifth of the annual needs of the Slovenian public pension system.

Our aim is to become a socially responsible and sustainability-oriented company focused on achieving business excellence. Through an agile response to changes in an extremely high-risk external environment, we will continue to contribute to the strengthening and modernisation of the Slovenian pension system.

We are prepared to accept that operations may never fully return to the old ways and habits that we knew before the outbreak of covid-19 and the war in Ukraine. We will therefore accelerate the digitalisation of operations and the introduction of paperless operations, and improve new forms of communication.

We expect that business contacts, meetings and possibly even everyday work might continue in a hybrid manner. Comprehensive risk management in connection with cost-efficiency will ensure successful, sustainability-oriented operations again in 2022. To that end, we will dedicate even more attention to cyber security and challenges relating to the increasing digitalisation of operations. We have therefore included the risk dimension in everyday decision-making processes.

Our objective is to promote innovations and business changes that lead to the creation of an integrated and sustainability-oriented ecosystem over the long term. Included in that system are all stakeholders, from the Company's owner via partner organisations and supervisory-regulatory systems to policyholders and their employers, as well as current and future pensioners, social partners and employees. Our sustainable agenda serves as a guide for the Company's governance and operations, and remains a key priority during a period when the entire world is dealing with difficult geopolitical, macro-economic and climate challenges.

We will dedicate special attention to the continued development of those processes used to control the payment of occupational insurance contributions. Representing a precondition for the establishment of effective control processes are information links with external stakeholders, i.e. institutions with whom we exchange data for the purpose of controlling contributions. The new tasks in this area will bring a number of challenges, particularly in terms of obtaining the relevant data from the FARS, the MLFSAEO, the ZPIZ and the CRP. An effective link and the coordination of data from different sources are preconditions for determining the correct payment obligations. We are aware that we can only be successful in that work with a modern, effective and secure information system that will facilitate data-driven operations and decision making in the future. This means a great deal more than the simple placement of the right tools and applications. Our aim is to make data and the analysis thereof an element of our business strategy, our operational systems, our day-to-day business processes and our organisational culture. This means creating a mindset where data analysis is the basis for all business decisions at all levels of the Company.

As a result, we will introduce in daily operations best practices, innovative approaches and techniques in the area of portfolio management, and actively participate in the continued development of occupational insurance. The business objectives of the SODPZ in 2022 will focus on the optimal management of policyholders' assets, where a great deal of attention will be given to the principles of security and liquidity. The core objective is to achieve a higher-than-guaranteed return in the context of an acceptable level of risk. In providing compulsory supplementary pension insurance, the Company is guided exclusively by the welfare of policyholders and their employers, and occupational pensioners. We will therefore continue to strive to be one of the most successful pension savings managers in Slovenia, and to ensure that systematic pension solutions are aimed at providing higher-quality and safer forms of insurance. In this way, we will contribute as much as possible to the improved pension stability of occupational insurance policyholders and pensioners.

We are aware that we could play a very important role in solving Slovenia's demographic challenges. We have set the right goals, have a successful business model, and possess many years of experience in asset management and the provision of supplementary pension insurance. We have therefore set long-term strategic objectives which, in the context of cooperation with key stakeholders, lead to a fairer and more sustainable pension system in the future. We will continue to strive to be the best and indispensable partner for all key stakeholders. Established objectives and the implementation of the business-financial plan will be achieved through teamwork and the expertise of employees. By focusing on the development of their competences and achieving a high level of motivation, we will make even better use of all the potential and internal resources of the Company.

We are aware of the risky geostrategic and macroeconomic circumstances in which we operate. Through a partnership approach and information opportunities, we will take advantage of the momentum achieved in recent years through the commitment of all employees. Despite extraordinary uncertainty, we also recognise opportunities. This binds us to work hard to achieve our established objectives, and to create added value for pensioners in the public system and in occupational insurance. We firmly believe that we can achieve more together, and that we thus have a positive impact on the Slovenian pension system and Slovenian society as a whole.

8 Social responsibility

8.1 Responsibility to the wider social community

Kapitalska družba is an important building block in the Slovenian pension system. Its role in both the provision of funds for compulsory pension insurance and the management of the Compulsory Supplementary Pension Insurance Fund ensures a secure retirement for pensioners.

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. Taking into account the annual adjustment of pensions, Kapitalska družba's obligation amounted to EUR 50 million in 2021. Kapitalska družba has transferred the cumulative amount of EUR 964,321 thousand to the budget of the ZPIZ.

In 2021, Kapitalska družba managed the assets of 49,087 policyholders in the SODPZ, and paid occupational pensions to 492 occupational pensioners.

8.2 Responsibility to employees

8.2.1 Concern for employee training

Existing work areas and the development of new business functions at Kapitalska družba are enhanced using various forms of pre-planned education and training adapted to the specific job requirements and knowledge required by each employee, and to the Company's developmentally established tasks. Employees thus receive regular additional training, the majority of which in 2021 took the form of online seminars, conferences and workshops due to covid-19, while fewer in-person events were organised.

Employees participated in training programmes in the following areas in 2021: finance and accounting, corporate governance, portfolio-based asset management, pension and disability insurance, personal data protection, public procurement, the prevention of money laundering and terrorist financing, quality management systems, legal and HR issues, information security and risk management.

In accordance with its education and training plan, Kapitalska družba also organised internal training programmes in 2021 on the following topics: prevention of money laundering and terrorist financing, information security in the workplace and legal issues.

Kapitalska družba promotes continuing education and the acquisition of higher levels of education, and the acquisition and maintenance of various licences in the employer's interest. This facilitates higher-quality work processes and improves the qualifications of employees for work in a specific position, and thus ensures professional development.

8.2.2 Concern for a safe and healthy work environment

Kapitalska družba ensures a safe and healthy work environment by respecting all regulations governing occupational health and safety, and thus ensures the appropriate working conditions. Tasks relating to occupational

health and safety, fire safety and healthcare at work 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, and examinations of compliance with fire safety measures.

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

The covid-19 epidemic required the adaptation of certain measures and the adoption of certain new measures, while the implementation of some measures was prevented in full.

Collective supplementary pension insurance is another important aspect of ensuring and increasing the future social security of employees. As a responsible company that cares for its employees, Kapitalska družba pays monthly premiums into the Modri Umbrella Pension Fund (MKPS) of the fund manager Modra zavarovalnica. The aforementioned insurance is also considered one of the most valued forms of motivation among employees. Under the agreement on the creation of a pension plan concluded in 2015, all employees are eligible for inclusion in the MKPS under the same conditions.

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

The costs of employee premiums for voluntary supplementary pension insurance (MKPS) totalled EUR 125 thousand in 2021.

Employees were included in voluntary collective health insurance in 2021, with nearly 70% of employees joining that scheme.

A family-friendly company

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team is diverse, with an average employee age of 45, and includes many parents with small and school-age children who benefit from the effects of the Family-Friendly Company certificate to the maximum extent possible. The balancing of career development and family life has become part of our organisational culture, which today is frequently a challenge, as career and private life are becoming increasingly intertwined. Kapitalska družba received the Family-Friendly Company certificate in 2010, which was subsequently upgraded to the full certificate. Following an audit of the three-year period following the receipt of the full certificate, the Company received special recognition for spreading the family-friendly company culture in Slovenia. Through the adoption of measures, the Company aims to ensure short-term and long-term positive effects on the lives of its employees. Kapitalska družba adopted 13 measures in the scope of the Family-Friendly Company certificate: communication with employees, opinion polls among employees, public relations, time account, children's time bonus, additional annual leave, the philosophy and concept of management, a reintegration plan following an extended absence, socialising between employees and the Management Board, the hiring of employees' families for temporary jobs at the Company, the giving of gifts to celebrate new-borns and New Year's gifts for children, and the education of managers in the area of balancing work and family. Among the most popular measures are the time account, the children's time bonus (i.e. a day off for the first day of primary school for the parents of children in grades one to three), gifts for children and measures that have an immediate effect.

8.2.3 Protective measures for employees and the adaptation of operations due to covid-19

Since the outbreak of the covid-19 pandemic at the beginning of 2020, Kapitalska družba has responded actively to the epidemiological conditions in Slovenia by adopting protective measures for employees and by adapting its operations. Appointed in 2020 was a coordination team that was tasked with drawing up and monitoring measures in connection with covid-19, the continuous monitoring of recommendations issued by state institutions and the proposal of preventive measures to protect employees in accordance with those recommendations. All measures are governed by a single document outlining measures to limit and mitigate the risk of exposure to infection with covid-19.

The Company is implementing numerous measures to protect employees, customers and other stakeholders, including:

- | work from home,
- | the organisation of vaccination for employees,
- | the purchase of disinfectants, sensor-operated dispensers for disinfectant, protective masks and self-tests,
- | the possibility of rapid antigen testing (RAT),
- | the disinfection of business premises,
- | limitations regarding the provision of contact centre services and the organisation of meetings,
- | the mandatory use of protective masks in common areas,
- | the adaptation of obligatory working hours,
- | the digitalisation of processes.

The majority of employees worked from home during the first half of 2021, except those who had to work at the Company's headquarters due to the nature of their work. As the epidemiological situation improved at the beginning of the second half of the year, all employees initially worked at the Company's headquarters, but as the epidemiological situation deteriorated again in August, we reintroduced rotational work in two groups. Employees who expressed the desire to work permanently at the Company's headquarters were allowed to do so, under the condition that they submit to regular weekly self-testing. That condition also applied to those who were vaccinated and those who had recovered. We continue to strive to maintain a healthy and safe work environment, without infections, at the Company's headquarters.

Throughout the period of work from home, we ensured a smooth and undisturbed work flow, while we continue to regularly monitor the work of employees via daily work reports and an increased number of weekly meetings between the Management Board and the heads of organisational units via remote work applications. We adapted business processes so that the majority are performed electronically.

8.3 Environmental responsibility

Electricity from renewable sources

A tender was issued in 2021 for the supply of electricity in accordance with the Decree on Green Public Procurement. Taking into account the provisions of the aforementioned decree, the Company signed an agreement on the supply electricity, 80% of which is produced from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels, while the production of energy from renewable sources does not drain natural resources. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

Purchase of materials

When purchasing goods, we strive to comply with the provisions of the Green Public Procurement Regulation, not only in procurement procedures but also in record-keeping. Accordingly, we formulate tender conditions for the purchase of goods that have less of an environmental impact over their entire life cycle than conventional goods, that conserve natural resources, materials and energy, and that have the same or better functionalities. When purchasing sanitary materials in 2021, we ordered environmentally friendly products. We also strive to order the most environmentally friendly paper products (FSC certificate). We are introducing electronic operations with the aim of reducing paper consumption. We have taken the first step to achieving this objective through the purchase of software support for the document system that was introduced at the beginning of 2021. Through the electronic confirmation and signing of documents, we are also striving to introduce electronic operations on an even wider scale, with the aim of reducing paper consumption, optimising certain processes and minimising our carbon footprint.

8.4 Stakeholder engagement

Kapitalska družba places special emphasis on cooperation with key stakeholder groups: the government and ministries as the Company's owner, SDH, trade unions, pensioner associations, employer associations, professional associations, investors and employees.

In cooperation with stakeholders, such as the MLFSAEO, ESF, trade unions, employer associations, the Slovenian government, the FARS and ZPIZ, Kapitalska družba has been setting the standards for high-quality and reliable operations in the area of pension insurance since its inception. The Company works closely with the following stakeholders in the area of asset management: SDH, companies with a capital investment of Kapitalska družba, the Slovenian Directors' Association, regulators and various financial institutions. As the Company's owner, the government also plays a special role.

Stakeholders are included in the Company's operations at different levels, including on the Supervisory Board and the latter's committees, and on the SODPZ Committee.

Stakeholder engagement takes place in different ways, depending on the type of stakeholder. Even during the difficult epidemiological conditions, Kapitalska družba strove to maintain smooth operations and relations with all stakeholders in a secure way accessible to all, for example by conducting meetings of the Company's bodies and other meetings via videoconferencing, by introducing electronic operations at all levels, and by purchasing and implementing software solutions to support secure, transparent and user-friendly operations.

The Company strives to maintain constructive and transparent relations with all stakeholders that are based on professionalism, flexibility, accuracy and transparency.

Kapitalska družba attempts to establish mutually beneficial relations with stakeholders, partners and suppliers that are based on a high level of trust.

Kapitalska družba introduces improvements and corrective measures based on the systematic monitoring of the responses of key partners and suppliers. Based on the annual assessment of suppliers, business decisions are made regarding future relations with them, while new approaches for monitoring, performing and optimising individual processes are introduced on the same basis.

8.5 Socially responsible investing

When selecting financial investments in the scope of asset management, Kapitalska družba also takes appropriate account of the sustainability aspect of the activities of the issuers of financial instruments, meaning long-term sustainable operations with a positive attitude with regard to the environment, social issues and/or corporate governance. For investments in the shares or debt securities of companies and financial institutions, Kapitalska družba takes into account the sustainability analyses or indicators of recognised institutions professionally engaged in the assessment or ranking of companies according to their level of sustainability, in order to assess compliance with the criterion of sustainability. In terms of sustainability, Kapitalska družba takes into account the level of governance of the issuing country, as expressed by Worldwide Governance Indicators (WGIs), for investments in government securities. The sustainability aspect is taken into account in purchases of financial investments if an external source that facilitates the measurement of that aspect is at Kapitalska družba's disposal. If several different investments with similar characteristics and expected returns are available, the investment with a better indicator of sustainable development or, in the event of the purchase of units of collective investment undertakings, the undertaking that has identified sustainability as an element of its investment policy is given preference in the selection of the investment.

8.6 Corporate integrity

When Kapitalska družba adopted its corporate integrity plan in July 2021, it made a commitment to respect the highest standards of corporate integrity. That plan completed the integrity system that the Company began building back in 2019, with the establishment of a system to prevent, identify and investigate cases of fraud, and to protect whistleblowers.

In formulating a corporate integrity system, Kapitalska družba is guided by the Corporate Governance Code for Companies with Capital Assets of the State, as well as reference documents such as the guidelines of the Commission for the Prevention of Corruption, the Slovenian Corporate Integrity Guidelines, and anti-corruption principles for state-owned companies.

By identifying specific corporate integrity risks that affect the Company's operations, defining measures to mitigate those risks and appointing a corporate integrity officer, the Company demonstrates zero tolerance for corruption and illegal and unethical conduct by its employees, management and members of the Supervisory Board.

9 Report on relations with subsidiaries

Kapitalska družba is the parent company of an insurance group that includes the subsidiaries Modra zavarovalnica, d. d., Hotelske nepremičnine, d. o. o.⁷ and FINAP, d. d. (in liquidation)⁸. As the parent company, Kapitalska družba holds a 100% participating interest in Modra zavarovalnica. No transactions were executed between the parent company and the aforementioned subsidiary in 2021 under conditions that deviated from market conditions. As the Group's parent company, Kapitalska družba holds a 50% participating interest in Hotelske nepremičnine, d. o. o. No transactions were executed between the parent company and the aforementioned joint venture in 2021 under conditions that deviated from market conditions.

Lease of business premises

Modra zavarovalnica leases business premises from Kapitalska družba. A lease agreement was concluded in 2019 and is valid until September 2024. The rental fee of EUR 27,767 also includes electricity costs.

Provision of IT services

Modra zavarovalnica, d. d., and Hotelske nepremičnine, d. o. o. use the systems infrastructure (servers, communications equipment, printing devices, system software, disk capacities, etc.) owned by Kapitalska družba. Kapitalska družba also provides IT-related services to the aforementioned subsidiaries. The leasing of the systems infrastructure and the provision of IT services are governed by an agreement on the provision of IT services.

Agreement on the financing of the pension plan

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

⁷ In accordance with the IFRS and the Group's accounting policies, Hotelske nepremičnine is treated as a joint venture.

⁸ Kapitalska družba holds a 64.63% participating interest in FINAP, d. d. (in liquidation), which it obtained on the basis of Article 48a of the ZNVP-1. That company is undergoing ordinary liquidation proceedings.

10 Indicators

| | in EUR 000 | | | |
|--|------------|-----------|--------------|--------------|
| | Value in | Value in | Indicator in | Indicator in |
| | 2021 | 2020 | 2021 | 2020 |
| 1. FINANCING RATIOS | | | | |
| a) Equity financing ratio | | | | |
| equity | 1.285.186 | 1.096.063 | | |
| total equity and liabilities | 1.446.309 | 1.239.311 | 0,89 | 0,88 |
| b) Long-term financing ratio | | | | |
| equity + long-term liabilities (including provisions) + long-term accrued expenses and deferred revenue | 1.395.334 | 1.186.279 | | |
| total equity and liabilities | 1.446.309 | 1.239.311 | 0,96 | 0,96 |
| 2. INVESTMENT RATIOS | | | | |
| a) Operating fixed asset investment ratio | | | | |
| fixed assets (at carrying amount) | 2.805 | 2.930 | | |
| equipment | 1.446.309 | 1.239.311 | 0,00 | 0,00 |
| b) Long-term investment ratio | | | | |
| fixed assets + long-term deferred expenses and accrued revenue (at carrying amount) + investment property + long-term financial assets + long-term operating receivables | 1.298.733 | 1.106.156 | | |
| equipment | 1.446.309 | 1.239.311 | 0,90 | 0,89 |
| 3. HORIZONTAL FINANCIAL STRUCTURE RATIOS | | | | |
| a) Equity to fixed assets ratio | | | | |
| equity | 1.285.186 | 1.096.063 | | |
| fixed assets (at carrying amount) | 2.805 | 2.930 | 458,18 | 374,08 |
| b) Acid test ratio | | | | |
| liquid assets | 26.535 | 11.562 | | |
| short-term liabilities | 50.975 | 53.032 | 0,52 | 0,22 |
| c) Quick ratio | | | | |
| liquid assets + short-term receivables | 81.310 | 65.367 | | |
| short-term liabilities | 50.975 | 53.032 | 1,60 | 1,23 |
| d) Current ratio | | | | |
| current assets | 117.680 | 113.197 | | |
| short-term liabilities | 50.975 | 53.032 | 2,31 | 2,13 |
| 4. EFFICIENCY RATIOS | | | | |
| a) Operating efficiency | | | | |
| operating revenue | 11.003 | 11.432 | | |
| operating expenses | 6.246 | 6.049 | 1,76 | 1,89 |
| 5. PROFITABILITY RATIOS | | | | |
| a) Net return on equity | | | | |
| net profit/loss for the period | 30.368 | -7.262 | | |
| average equity (excluding net profit for accounting period) | 1.179.071 | 1.090.142 | 0,03 | -0,01 |
| b) Dividends to share capital ratio | | | | |
| dividends for financial year | 0 | 0 | | |
| average share capital | 364.810 | 364.810 | 0,00 | 0,00 |

11 Corporate governance statement

In accordance with the provision of the fifth paragraph of Article 70 of the ZGD-1 and point 3.4 of the Corporate Governance Code for Companies with Capital Assets of the State, Kapitalska družba hereby issues its corporate governance statement for the period 1 January 2021 to 31 December 2021.

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 Capital Assets of the State (hereinafter: the Code), 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 applicable Recommendations and Expectations of SDH.

Kapitalska družba hereby issues its statement of compliance with the Code adopted by SDH and applicable in 2021. The Code includes principles and recommended best practices for the corporate governance of companies with capital assets of the state. The currently valid 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 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 over the long term, 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 a demographic 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 planned transformation into a demographic fund, Kapitalska družba (in which SDH does not exercise a controlling influence) had not yet adopted a corporate governance policy by the end of 2021.

Point 3.6 of the Code: The supervisory board of a company subject to auditing in accordance with the ZGD-1 shall formulate and adopt a diversity policy in the form of a special act that is implemented in connection with representation on management and supervisory bodies in terms of gender, age and professional profile. The diversity policy shall include a corporate governance statement and shall be published on the company's publicly accessible website. The corporate governance statement shall also include a report on the implementation and achieved results of the diversity policy during the reporting period. If no diversity policy is being implemented, a company shall explain why in its corporate governance statement. That explanation shall include an indication of when and how a company intends to formulate a diversity policy.

Explanation: Kapitalska družba is unable to formulate a diversity policy in connection with its legal requirement to establish a 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. It is, however, planning to adopt such a policy in 2022. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.

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

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

Point 6.2 of the Code: In cooperation with senior management, the supervisory board shall draft a succession policy to ensure the smooth transfer of management rights in the event that the terms of office of members of senior management are terminated, and to manage the associated risks. The objective of that policy is to train potential candidates from the ranks of employees who would be qualified to assume managerial functions at a company.

Explanation: Given its planned transformation into a demographic fund, Kapitalska družba had not yet adopted a succession policy by the end of 2021.

Point 6.5 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 6.8 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 this 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 6.9 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 6.9.8 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 6.9.8 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 7.4 of the Code: At a minimum at large companies, a culture for identifying talented individuals and the development of employees' knowledge and skills shall be present not only at the second level, but also deeper within an organisation. The development plan of a specific employee shall define the direction of their career and the critical competences for the current and future success of an organisation. The senior management shall be responsible for motivating employees, strengthening the feeling of responsibility amongst employees and for promoting the desired conduct. The remuneration system shall be based on knowledge, performance and the complexity of work.

Explanation: Kapitalska družba does not comply with this provision of the Code in full, as it has not yet adopted a development plan for all employees given its planned transformation into a demographic fund. It does, however, comply with the essential guidelines of the provision in question.

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 11.2 of the Code::

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.

Controls are carried out by the Accounting Department, 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,
- | business events are recorded and the financial statements compiled in accordance with the applicable laws.

Kapitalska družba's financial statements for every financial year are verified and audited by an external auditor. On the basis of the resolution passed by the General Meeting on 6 September 2019, the Company's financial statements for 2021 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 and the Supervisory Board. This ensures the independence of its work and its segregation from the implementing functions that are subject to auditing. The verification of the Company's internal control systems and the provision of assurances regarding the functioning of those systems represent the core area of internal auditing work. Internal auditors assess the effectiveness of the functioning of internal controls in terms of the management of the risks to which the Company is exposed. In accordance with its annual work plan, which is approved by the Company's Management Board and Supervisory Board, the Internal Audit Department performs audits of individual areas of the Company's operations. The Internal Audit Department contributes to the improved performance of the Company through recommendations for improvements to business processes and procedures.

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

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

IV. Holders of securities that provide special controlling rights

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

V. Restrictions on voting rights

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

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent SDH is formulated by SDH's Management Board, which informs the Supervisory Board of its choice. The proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions is voted on by representatives (electors) of national-level representative federations/confederations, which inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation each elects a 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's 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 2021 is given in the report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2021:

- | Stanislav Seničar, Chairman (until 15 October 2021),
- | Dr Boris Žnidarič, Deputy Chairman,
- | Aleksander Mervar, MSc, member,
- | Ladislav Rožič, MSc, member,
- | Mirko Miklavčič, member,
- | Janez Tomšič, Chairman (since 5 November 2021; member since 21 October 2021),
- | Boštjan Leskovar, MSc, member (since 21 October 2021).

Three committees functioned within the Supervisory Board in 2021: an audit committee, an accreditation committee and an HR committee. The work of the aforementioned committees is presented in the report of the Supervisory Board.

The audit committee of Kapitalska družba's Supervisory Board functioned in the following composition in 2021: Ladislav Rožič, MSc (chair), Aleksander Mervar, MSc and Mirko Miklavčič (members), and Natalija Stošicki and Mojca Verbič (external members). The members of the audit committee are appointed from the members of the Supervisory Board until the end of the term of office on the aforementioned body, unless otherwise decided in a resolution of the Supervisory Board. The terms of office of independent experts (external members) are not tied to the term of office of Supervisory Board members, and those persons may be replaced by the Supervisory Board at any time.

The Supervisory Board's accreditation committee functioned in the following composition in 2021: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc and Ladislav Rožič, MSc (members) and Dr Alenka Stanič, Irena Prijo-
vič, MSc and Gorazd Žmavc (external members). The members of the accreditation committee are appointed from the members of the Supervisory Board until the end of the term of office on the aforementioned body, unless otherwise decided in a resolution of the Supervisory Board. The terms of office of independ-

ent experts (external members) are not tied to the term of office of Supervisory Board members, and those persons may be replaced by the Supervisory Board at any time.

The Supervisory Board's HR committee functioned in the following composition in 2021 until 4 November 2021: Aleksander Mervar, MSc (chair) Mirko Miklavčič (member). It functioned in the following composition from 5 November 2021: Boštjan Leskovar, MSc (Chair), and Aleksander Mervar, MSc and Mirko Miklavčič (members). The members of the HR committee, who are also members of the Supervisory Board, are appointed until the end of their term of office on the Supervisory Board, unless otherwise decided in a resolution of the aforementioned body.

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 2021 in the following composition:

- | Bachtiar Djalil, president of the Management Board, who began his term of office on 3 January 2019,
- | Member of the Management Board Goranka Volf who began her term of office on 25 November 2020 (until 25 November 2021),
- | Gregor Bajraktarevič, who began his term of office on 7 February 2018.

The President and members of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure.⁹

The Management Board manages the company in the interests thereof, independently and at its own discretion. 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 2021 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 15: Composition of the Management Board during the 2021 financial year

| Name | Function (President, member) | Work area as member of the Management Board | First appointment to function | Completion of function/ term of | 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, and since 26 November 2021, finance and accounting, and general affairs | 1 January 2010 | 3 January 2023 | M | RS | 1975 | Bachelor's degree in law (Groningen) | Corporate governance, management of pension and investment funds, economic and financial law | Loterija Slovenije, d. d. |
| Goranka Volf (until 25 November 2021) | Member | Pension fund management, finance and accounting, general affairs | 24 November 2016 | 25 November 2021 | F | RS | 1959 | Bachelor's degree in economic | Pension fund management, corporate governance, corporate communications | Terme Čatež, d. d. |

⁹ In accordance with Article 33 of the Articles of Association, member of the Management Board Goranka Volf was appointed for a term of office of no more than one year from the day she assumed her function.

| Name | Function (President, member) | Work area as member of the Management Board | First appointment to function | Completion of function/term of | Gen-der | Nation-ality | Year of birth | Education | Professional profile | Membership in supervisory bodies of unaffiliated companies |
|----------------------|------------------------------|--|-------------------------------|--------------------------------|---------|--------------|---------------|---------------------|--|--|
| Gregor Bajraktarević | Member | Asset management, IT and business processes, and since 26 November 2021, pension fund management | 6 February 2017 | 7 February 2022 | M | RS | 1975 | Master's of science | Asset management, corporate governance, investment banking and corporate restructuring | Hit, d. d. |

Table 16: Composition of the Supervisory Board and its committees during the 2021 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 | Gender | Nationality | Year of birth | Education | Professional profile | Independence in accordance with point 6.6 of the Code (YES / NO) | Existence of conflicts of interest during the financial year (YES/NO) | Membership in supervisory bodies of other companies | Membership on committees (e.g. audit, human resource or remuneration) | Chair/member | Participation in committee sessions with respect to total number (e.g. 5/7) |
|---|--|-------------------------------|---------------------------------------|-------------------------------------|--|--------|-------------|---------------|--|--|--|---|---|---|----------------------|---|
| Stanislav Seničar (Chairman and member until 15 October 2021) | Chairman | 28 August 2013 | 15 October 2021 | Shareholder representative | 12/12 | M | RS | 1942 | Bachelor's degree in sociology | Corporate governance | Yes | No | / | / | / | / |
| Boris Žnidarič | Deputy Chairman | 1 February 2015 | 1 February 2023 | Pensioner representative | 15/15 | M | RS | 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 | 14/15 | M | RS | 1962 | Master's of science | Finance, accounting, corporate governance, governance systems | Yes | No | SŽ, d. o. o. | HR, audit, accreditation | Chair/member, member | 3/3 7/7 4/4 |
| Ladislav Rožić | Member | 31 January 2011 | 1 February 2023 | Trade union representative | 15/15 | M | RS | 1957 | Master's of science | Finance, corporate governance | Yes | No | / | Audit, accreditation | Chair, member | 7/7 4/4 |
| Mirko Miklavčič | member | 2 February 2019 | 1 February 2023 | Pensioner representative | 14/15 | M | RS | 1947 | Bachelor's degree in labour organisation | Finance, corporate governance and insurance | Yes | No | / | Audit, HR | member, member | 7/7 3/3 |
| Boštjan Leskovar (member since 21 October 2021) | Member | 21 October 2021 | 21 October 2025 | Shareholder representative | 3/3 | M | RS | 1973 | Master's of science | Finance, governance systems, corporate governance | Yes | No | Elektro Celje, d. d. | HR | Chair | 2/2 |
| Janez Tomšič (member since 21 October 2021) | Chair (since 5 November 2021) | 21 October 2021 | 21 October 2025 | Shareholder representative | 3/3 | M | RS | 1979 | Bachelor's degree in law | Corporate governance, real estate management, commercial law | Yes | No | SID, d. d. | / | / | / |

Table 17: External members of Supervisory Board committees during the 2021 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 | 6/7 | F | RS | Bachelor's degree in economics | 1975 | Director of Finance and Business Support Sector | / |
| Irena Prijović | Accreditation | 4/4 | F | RS | Master's of science | 1968 | Corporate governance | Uradni list, d. o. o., Športna loterija, d. d. |
| Alenka Stanič | Accreditation | 4/4 | F | RS | Doctorate of science | 1963 | Adviser for key personnel | / |
| Gorazd Žmavc | Accreditation | 3/4 | M | RS | Lawyer | 1947 | Legal affairs | / |
| Natalija Stošički | Audit committee | 7/7 | F | RS | Bachelor's degree in economics | 1966 | Financial services expert | / |

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 its legal requirement to establish a 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. It is, however, planning to adopt such a policy in 2022. 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



Bachtiar DJALIL

President of the Management Board

Ljubljana, 6 May 2022



FINANCIAL REPORT



12 Statement of management's responsibility

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. hereby confirms the Company's financial statements for the year ending 31 December 2021, and the accompanying notes and disclosures to the financial statements.

The Management Board also confirms that the appropriate accounting policies were consistently applied in compiling the financial statements, that accounting estimates were made according to the principle of prudence and the diligence of a good manager, and that the financial statements present a true and fair picture of the Company's financial assets and operating results for 2021.

The Management Board is also responsible for ensuring that accounting is conducted correctly and that appropriate measures are taken to secure property and other assets, and confirms that the consolidated financial statements, together with the notes, have been compiled on a going concern basis and in line with current legislation and the International Financial Reporting Standards (IFRS) as adopted by the EU.

The tax authorities may audit the Company at any time in the five years following the end of a year in which tax must be paid, which can result in an additional tax liability, default interest and fines for corporate income tax or for other taxes and levies. The Company's Management Board is not aware of any circumstances that could give rise to any significant liability on this account.



Gregor BAJRAKTAREVIĆ

Member of the Management Board



Bachtiar DJALIL

President of the Management Board

Ljubljana, 6 May 2022

13 Auditor's report



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INDEPENDENT AUDITOR'S REPORT to the shareholder of Kapitalska družba, d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company Kapitalska družba, d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2021, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for 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.



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Deloitte revizija d.o.o. - The company is registered with the Ljubljana District Court, registration no. 1647105 - VAT ID SI62560085 - Nominal capital EUR 74,214.30.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Financial Assets

| Key Audit Matter | Audit procedures related to a key audit matter |
|---|---|
| <p><i>Disclosures related to the financial assets are included in note 15.2. Accounting Policies - Financial Assets and Note 17. Investments, excluding loans.</i></p> <p>As at 31 December 2021, financial investments in the company's financial statements amounted to EUR 1,046,462 thousand (2020: EUR 824,238 thousand), which represents 72.4% of the company's total assets as at 31 December 2021 (70.5% as at 31 December 2020).</p> <p>They comprise investments measured at fair value, investments at amortized cost, cash and cash equivalents. Upon initial recognition, management decides on the classification of financial assets based on the purpose of their acquisition.</p> <p>Due to its materiality in the statement of financial position of the company, financial investments are considered a key audit matter.</p> | <p>As part of our audit procedures, we assessed the adequacy of accounting policies and checked the design and implementation of internal controls related to the recognition of investments and their periodic valuation.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> - For investments in marketable securities, we recalculated the fair value of these investments based on the values arising from the securities market as at 31 December 2021. - For investments in non-marketable securities measured at fair value, we assessed the adequacy of the assumptions used and the methodology used by the company. In particular, we considered the assumptions used to calculate discount rates and expected future cash flows. The auditor's experts were included in the procedures to assess whether the significant assumptions used are adequate for given purposes. - For investments measured at amortized cost, we recalculated the amortized cost on the basis of data on the maturity of the investment as at 31 December 2021 and assessed the adequacy of the considered expected impairment losses. <p>We have also reviewed the information in the financial statements to assess whether the disclosures meet the requirements of applicable financial reporting standards.</p> |

Emphasis of matter - significant events after the statement of financial position

We draw attention to 15.4. Other disclosures - *Significant events after the statement of financial position* in the financial statements describing management's evaluation of the actual or potential impact of the effects of the military conflict between Ukraine and Russia on the entity. Our opinion is not modified in respect of this matter.

Emphasis of matter – consolidated financial statements

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

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the 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 audited financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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

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

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



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Report on the requirements of the Regulation (EU) No 537/2014 of the European Parliament and of the Council (Regulation EU 537/2014)

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 6 September 2019. Our total uninterrupted engagement has lasted 10 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 6 May 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partners responsible for the audit on behalf of Deloitte revizija d.o.o. are Nina Kravanja Novak and Katarina Kadunc.

DELOITTE REVIZIJA d.o.o.

Nina Kravanja Novak
Certified Auditor

Katarina Kadunc
Certified Auditor

For signature please refer to the original Slovenian version.

Ljubljana, 6 May 2022

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

14 Financial Statements for 2021

14.1 Income statement for the period from 1 January 2021 to 31 December 2021

| in EUR 000 | | | |
|--|------|---------------------|---------------------|
| Item | Note | 1 Jan.–31 Dec. 2021 | 1 Jan.–31 Dec. 2020 |
| 1. Net sales revenue | | | |
| a) Sales to local companies in the Group | | 426 | 437 |
| c) Revenue from sales on the domestic market | | 10.489 | 10.158 |
| Total sales revenue | 1 | 10.915 | 10.595 |
| 4. Other operating revenue, including operating revenue from revaluation | 2 | 88 | 837 |
| Total revenue | | 11.003 | 11.432 |
| 5. Costs of goods, materials and services | | | |
| b) Costs of materials | | -100 | -116 |
| c) Costs of services | | -1.511 | -1.439 |
| Total costs of goods, materials and services | 3 | -1.611 | -1.555 |
| 6. Labour costs | | | |
| a) Payroll costs | | -2.702 | -2.482 |
| b) Social security insurance costs | | -430 | -395 |
| c) Pension insurance costs | | -125 | -124 |
| č) Other labour costs | | -241 | -212 |
| Total labour costs | 4 | -3.498 | -3.213 |
| 7. Write-downs in value | | | |
| a) Depreciation and amortisation | | -1.135 | -1.137 |
| b) Operating expenses from revaluation of fixed assets | | 0 | -20 |
| c) Revaluation operating expenses associated with operating current assets | | 0 | -34 |
| Total write-downs | 5 | -1.135 | -1.191 |
| 8. Other operating expenses | 6 | -2 | -90 |
| Total costs | | -6.246 | -6.049 |
| Operating profit (loss) | | 4.757 | 5.383 |
| 9. Financial revenue from participating interests | | | |
| a) Financial revenue from shares and interests in Group companies | | 3.217 | 0 |
| b) Financial revenue from shares and interests in associates | | 1.151 | 966 |
| c) Financial revenue from other shares and interests | | 60.821 | 38.427 |
| č) Financial revenue from other investments | | 4.857 | 5.079 |
| Total financial revenue from shares and interests | 7 | 70.046 | 44.472 |

in EUR 000

| Item | Note | 1 Jan.–31 Dec. 2021 | 1 Jan.–31 Dec. 2020 |
|--|-----------|---------------------|---------------------|
| 10. Financial revenue from loans | | | |
| b) Financial revenue from loans granted to others | | 0 | 55 |
| Total financial revenue from loans granted | 7 | 0 | 55 |
| Total financial revenue | | 70.046 | 44.527 |
| 12. Financial expenses due to write-off and impairment of investments | | | |
| b) Financial expenses due to impairment and write-off of other investments | | -3.970 | -8.539 |
| Total financial expenses due to impairment and write-off of investments | 8 | -3.970 | -8.539 |
| 13. Financial expenses for financial liabilities | | | |
| b) Financial expenses for bank loans | | -5 | -19 |
| d) Financial expenses for other financial liabilities | | -50.004 | -50.008 |
| Total financial expenses for financial liabilities | 8 | -50.009 | -50.027 |
| Total financial expenses | | -53.979 | -58.566 |
| Profit (loss) from ordinary activity | | 20.824 | -8.656 |
| Total profit (loss) | | 20.824 | -8.656 |
| 15. Corporate income tax | 9 | -369 | 0 |
| 16. Deferred tax | 10 | 9.913 | 1.394 |
| 17. Net profit or loss for the period | 11 | 30.368 | -7.262 |

The disclosures and notes on pages 82 to 149 form an integral part of the financial statements.

14.2 Statement of other comprehensive income for the period from 1 January 2021 to 31 December 2021

| | in EUR 000 | |
|---|--------------------|--------------------|
| | 1. 1.–31. 12. 2021 | 1. 1.–31. 12. 2020 |
| Profit or loss for the period | 30.368 | -7.262 |
| Items not to be reclassified subsequently to profit or loss | 159.919 | 43.451 |
| Actuarial gains/losses | -49 | 0 |
| Net change in fair value reserves not to be reclassified subsequently to profit or loss | 150.002 | 35.149 |
| Other changes (profits/losses from derecognition of equity investments measured at fair value through other comprehensive income) | 9.966 | 8.302 |
| Items that may be reclassified subsequently to profit or loss | -1.378 | -977 |
| Net change in fair value reserves that may be reclassified subsequently to profit or loss | -1.378 | -977 |
| Other comprehensive income for the year | 188.909 | 35.212 |

The disclosures and notes on pages 82 to 149 form an integral part of the financial statements.

14.3 Statement of financial position as at 31 December 2021

| in EUR 000 | | | |
|--|-----------|------------------|------------------|
| Item | Note | 31 Dec. 2021 | 31 Dec. 2020 |
| ASSETS | | | |
| A. NON-CURRENT ASSETS | | | |
| I. Intangible assets and long-term deferred costs and accrued revenues | | | |
| 1. Long-term property rights | | 324 | 357 |
| 5. Other long-term deferred costs and accrued revenue | | 50.031 | 50.049 |
| Total intangible assets | 12 | 50.355 | 50.406 |
| II. Property, plant and equipment | | | |
| 2. Buildings | | 2.322 | 2.458 |
| 4. Other plant and equipment | | 159 | 115 |
| Total property, plant and equipment | 13 | 2.481 | 2.573 |
| III. Investment property | 14 | 16.916 | 17.657 |
| IV. Long-term investments | | | |
| 1. Long-term investments, except loans | | | |
| a. Shares and interests in Group companies | 15 | 152.200 | 152.200 |
| b. Shares and interests in associated companies | 15 | 48.986 | 49.911 |
| c. Joint ventures | 15 | 5.963 | 5.963 |
| č. Other shares and interests | 17 | 938.145 | 758.864 |
| d. Other long-term investments | 17 | 83.490 | 68.414 |
| Total long-term investments, except loans | | 1.228.784 | 1.035.352 |
| Total long-term investments | | 1.228.784 | 1.035.352 |
| V. Long-term operating receivables | | | |
| 3. Long-term operating receivables due from others | | 197 | 168 |
| Total long-term operating receivables | 18 | 197 | 168 |
| VI. Deferred tax assets | 10 | 29.896 | 19.958 |
| Total fixed assets | | 1.328.629 | 1.126.114 |
| B. CURRENT ASSETS | | | |
| I. Assets held for sale | 16 | 11.543 | 870 |
| III. Short-term investments | | | |
| 1. Short-term investments, except loans | | | |
| d. Other short-term investments | | 24.827 | 46.960 |
| Total short-term investments, except loans | | 24.827 | 46.960 |
| Total short-term investments | 17 | 24.827 | 46.960 |
| IV. Short-term operating receivables | | | |
| 1. Short-term operating receivables due from Group companies | | 22 | 0 |
| 2. Short-term trade receivables | | 1.151 | 1.525 |
| 3. Short-term operating receivables due from others | | 3.448 | 2.144 |
| 4. Other short-term operating receivables | | 50.154 | 50.136 |
| Total short-term operating receivables | 18 | 54.775 | 53.805 |
| V. Cash | 19 | 26.535 | 11.562 |
| Total current assets | | 117.680 | 113.197 |
| Total assets | | 1.446.309 | 1.239.311 |

| | | in EUR 000 | |
|--|-----------|------------------|------------------|
| Item | Note | 31 Dec. 2021 | 31 Dec. 2020 |
| EQUITY AND LIABILITIES | | | |
| A. EQUITY | | | |
| I. Called-up capital | 20 | 364.810 | 364.810 |
| II. Capital surplus | 21 | 217.839 | 217.625 |
| V. Fair value reserves | 22 | 478.325 | 329.750 |
| VI. Net profit or loss brought forward | | 193.844 | 191.140 |
| VII. Net profit or loss for the year | | 30.368 | -7.262 |
| Total equity | | 1.285.186 | 1.096.063 |
| B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE | | | |
| I. Provisions for pensions and similar obligations | | 302 | 226 |
| II. Other provisions | | 40 | 40 |
| Total provisions and long-term accrued costs and deferred revenue | 23 | 342 | 266 |
| C. NON-CURRENT LIABILITIES | | | |
| I. Non-current financial liabilities | | | |
| 4. Other non-current financial liabilities | | 50.000 | 50.000 |
| Total non-current financial liabilities | 25 | 50.000 | 50.000 |
| II. Non-current operating liabilities | | | |
| 4. Non-current operating liabilities from advances | | 3 | 10 |
| 5. Other non-current operating liabilities | | 30 | 49 |
| Total non-current operating liabilities | 24 | 33 | 59 |
| III. Deferred tax liabilities | 10 | 59.773 | 39.891 |
| Total non-current liabilities | | 109.806 | 89.950 |
| D. CURRENT LIABILITIES | | | |
| III. Current operating liabilities | | | |
| 2. Current trade payables | | 128 | 2.527 |
| 5. Current liabilities to the state | | 50.022 | 50.036 |
| 6. Current corporate income tax liabilities | | 369 | 0 |
| 7. Other current operating liabilities | | 456 | 469 |
| Total current operating liabilities | 24 | 50.975 | 53.032 |
| Total current liabilities | | 50.975 | 53.032 |
| Total equity and liabilities | | 1.446.309 | 1.239.311 |

The disclosures and notes on pages 82 to 149 form an integral part of the financial statements.

14.4 Cash flow statement for the period from 1 January 2021 to 31 December 2021

in EUR 000

| Item | 1 Jan.–31 Dec. 2021 | 1 Jan.–31 Dec. 2020 |
|---|---------------------|---------------------|
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | |
| a) Net profit or loss, and adjustments | | |
| Profit or loss before tax | 20.824 | -8.656 |
| Income taxes and other taxes not included in operating expenses | -369 | 0 |
| Adjustments for amortisation and depreciation | 0 | 1.137 |
| Adjustments for financial revenue from financing activities | -68.227 | -44.527 |
| Adjustments for financial expenses from financing | 53.979 | 57.361 |
| Total income statement items | 6.207 | 5.315 |
| b) Changes in net operating current assets – operating items in the balance sheet | | |
| Opening less closing operating receivables | -999 | -52.501 |
| Opening less closing deferred tax assets | -9.938 | -1.406 |
| Opening less closing assets (disposal groups) held for sale | -10.673 | -870 |
| Closing less opening operating liabilities | -1.981 | 48.779 |
| Closing less opening deferred tax liabilities | 19.882 | 2.847 |
| Total items of net current assets – operating items in the balance sheet | -3.709 | -3.151 |
| c) Net cash from (used in) operating activities | 2.498 | 2.164 |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | |
| a) Cash receipts from investing activities | | |
| Receipts from interest and dividends received from investing activities | 33.097 | 25.763 |
| Receipts from disposal of property, plant and equipment | 0 | 109 |
| Cash receipts from disposal of investment property | 0 | 2.488 |
| Receipts from disposal of long-term investments | 54.839 | 16.094 |
| Receipts from disposal of short-term investments | 20.064 | 65.870 |
| Total cash receipts from investing activities | 108.000 | 110.324 |
| b) Cash disbursements for investing activities | | |
| Disbursements to acquire intangible assets | -134 | -59 |
| Disbursements to acquire property, plant and equipment | -100 | -40 |
| Disbursements to acquire investment property | -34 | -282 |
| Disbursements to acquire long-term investments | -17.861 | -23.851 |
| Disbursements to acquire short-term investments | -27.610 | -42.430 |
| Total cash disbursements for investing activities | -45.739 | -66.662 |
| c) Net cash from (used in) investing activities | 62.261 | 43.662 |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | |
| a) Cash receipts from financing activities | | |
| Capital increase and effect of free acquisition of investments | 214 | 131 |
| Total cash receipts from financing activities | 214 | 131 |
| b) Cash disbursements for financing activities | | |
| Disbursements for 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 | -49.786 | -49.869 |
| D. CLOSING BALANCE OF CASH | | |
| a) Net cash for the period | 14.973 | -4.043 |
| b) Opening balance of cash | 11.562 | 15.605 |
| c) Total closing balance of cash | 26.535 | 11.562 |

The disclosures and notes on pages 82 to 149 form an integral part of the financial statements.

Statement of changes in equity for the period from 1 January 2021 to 31 December 2021

in EUR 000

| | Share capital | Capital surplus | Fair value reserves | Net profit or loss brought forward | Net profit or loss for the year | Total |
|--|---------------|-----------------|---------------------|------------------------------------|---------------------------------|-----------|
| A. 1. Balance as at 31 December 2020 | 364.810 | 217.625 | 329.750 | 191.140 | -7.262 | 1.096.063 |
| A. 2. Balance as at 1 January 2021 | 364.810 | 217.625 | 329.750 | 191.140 | -7.262 | 1.096.063 |
| B. 1. Changes in equity – transactions with owners | 0 | 214 | 0 | 0 | 0 | 214 |
| d) Additional payments of capital | 0 | 214 | 0 | 0 | 0 | 214 |
| B. 2. Total comprehensive income for the period | 0 | 0 | 148.575 | 9.966 | 30.368 | 188.909 |
| a) Net profit or loss for the period | 0 | 0 | 0 | 0 | 30.368 | 30.368 |
| d) Changes in reserves arising from valuation of investments at fair value | 0 | 0 | 148.624 | 0 | 0 | 148.624 |
| e) Other components of comprehensive income for the period | 0 | 0 | -49 | 9.966 | 0 | 9.917 |
| B. 3. Changes in equity | 0 | 0 | 0 | -7.262 | 7.262 | 0 |
| a) Covering net loss for the comparative period from unallocated retained earnings | 0 | 0 | 0 | -7.262 | 7.262 | 0 |
| C. Closing balance as at 31 December 2021 | 364.810 | 217.839 | 478.325 | 193.844 | 30.368 | 1.285.186 |

The disclosures and notes on pages 82 to 149 form an integral part of the financial statements.

14.6 Statement of changes in equity for the period from 1 January 2020 to 31 December 2020

in EUR 000

| | Share capital | Capital surplus | Fair value reserves | Net profit or loss brought forward | Net profit or loss for the year | Total |
|--|---------------|-----------------|---------------------|------------------------------------|---------------------------------|-----------|
| A. 1. Balance as at 31 December 2019 | 364.810 | 217.494 | 295.578 | 199.078 | -16.240 | 1.060.720 |
| A. 2. Balance as at 1 January 2020 | 364.810 | 217.494 | 295.578 | 199.078 | -16.240 | 1.060.720 |
| B. 1. Changes in equity – transactions with owners | 0 | 131 | 0 | 0 | 0 | 131 |
| d) Additional payments of capital | 0 | 131 | 0 | 0 | 0 | 131 |
| B. 2. Total comprehensive income for the period | 0 | 0 | 34.172 | 8.302 | -7.262 | 35.212 |
| a) Net profit or loss for the period | 0 | 0 | 0 | 0 | -7.262 | -7.262 |
| d) Changes in reserves arising from valuation of investments at fair value | 0 | 0 | 34.172 | 0 | 0 | 34.172 |
| e) Other components of comprehensive income for the period | 0 | 0 | 0 | 8.302 | 0 | 8.302 |
| B. 3. Changes in equity | 0 | 0 | 0 | -16.240 | 16.240 | 0 |
| a) Covering net loss for the comparative period from unallocated retained earnings | 0 | 0 | 0 | -16.240 | 16.240 | 0 |
| C. Closing balance as at 31 December 2020 | 364.810 | 217.625 | 329.750 | 191.140 | -7.262 | 1.096.063 |

The disclosures and notes on pages 82 to 149 form an integral part of the financial statements.

14.7 Accumulated profit for 2021

in EUR 000

| | | 31. 12. 2021 | 31. 12. 2020 |
|---|---|--------------|--------------|
| a | Net profit or loss for the year | 30.368 | -7.262 |
| b | + Net profit or loss brought forward | 193.844 | 191.140 |
| e | Distributable profit (a+b) distributed by the General Meeting of Shareholders | 224.212 | 183.878 |

In 2021, Kapitalska družba, d. d. disclosed distributable profit in the amount of EUR 224,212,044.80. In line with Article 52(2) of ZSDH-1 distributable profit of Kapitalska družba cannot be distributed to the shareholders.

15 Disclosures and notes

15.1 General disclosures

Company profile

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 property, lease of own property, software supply and consultancy, data processing, network data services, other computer related activities, accounting and bookkeeping services, tax consultancy, market research and public opinion polling, business and other management consultancy, activities of holding companies, publishing of journals and periodicals, and other educational services.

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

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

Members of the Management Board are appointed by the Supervisory Board on the basis of a public job announcement. One member of the Management Board is appointed Chairman of the 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 representa-

tive 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 reappointment.

Information about the controlling entity

Kapitalska družba does not have a controlling entity.

Subsidiaries

Basic information about Modra zavarovalnica, d. d.

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

Name: Modra zavarovalnica, d. d.

Registered office: Dunajska cesta 119, Ljubljana

Company ID number: 6031226

Tax number: SI21026912

As at 31 December 2021, the sole shareholder of Modra zavarovalnica, d. d., was Kapitalska družba. Share capital of the insurance company amounts to EUR 152,200,000. Share capital is divided into 152,200,000 ordinary registered no-par value shares. Each share has the same interest and the corresponding amount in the share capital.

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

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

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

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

Kapitalska družba is subject to no restrictions related to the payment of dividend to which it is entitled as the controlling company. Kapitalska družba is also not obligated to provide financial support to the company in the future. Kapitalska družba is not exposed to any additional risks arising from its interests in the subsidiary.

Basic information about FINAP, d. d. – in liquidation

As the parent company, Kapitalska družba consolidates FINAP, d. d. – in liquidation.

Name: FINAP, storitve in posredovanje, d. d. – in liquidation

Registered office: Rimska cesta 11, Ljubljana

Company ID number: 5001927000

Tax number: 37429043

As at 31 December 2021, Kapitalska družba, d. d. holds a 64.63% stake in the company, which it obtained on the basis of Article 48.a of the Book-Entry Securities Act (ZVNP-1). On 24 March 2009, the General Meeting of Shareholders of the Company adopted the decision on the termination of the company and on the beginning of regular liquidation due to the reduced volume of operations, which caused long-term negative operations of the company.

Joint venture information

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

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

Name: Hotelske nepremičnine, d. o. o.

Registered office: Dunajska cesta 119, Ljubljana

Company ID number: 8290130000

Tax number: SI86977334

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

Data on consolidation

Kapitalska družba is, as the controlling company, obligated to prepare consolidated financial statements. The consolidated financial statements of the Kapitalska družba Group for 2021 are presented in a special document entitled the Consolidated Annual Report of the Kapitalska družba Group for 2021.

The Annual Report of Kapitalska družba, d. d. for 2021 has to be read in conjunction with the Consolidated Annual Report of the Kapitalska družba Group for 2021, which will be prepared upon the drafting of the Annual Report of Kapitalska družba for 2021 and the annual report of its subsidiary for 2021.

The consolidated Annual Report of the Kapitalska družba Group will be published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila by the end of August 2022.

Employees

At the end of 2021, Kapitalska družba had 60 employees inclusive of the two members of the Management Board. In 2021, the Company had 60 employees on average. The number of employees as at 31 December 2021 and the average number of employees in 2021 according to the level of education are presented in the table below.

Table 18: No. of employees as at 31 December 2021 and average number of employees in 2020 according to level of education

| Level of education | No. of employees as at 31 December 2021 | Average no. of employees in 2021 |
|--------------------|---|----------------------------------|
| Level 8 (8/1, 8/2) | 11 | 11 |
| Level 7 | 25 | 25 |
| Level 6 (6/1, 6/2) | 16 | 16 |
| Level 5 | 7 | 7 |
| Level 4 | 1 | 1 |
| Total | 60 | 60 |

15.2 Accounting policies

Basis for preparation

The financial statements for 2021 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 revenue and expenses.

The adequacy of used assumptions and estimates is checked periodically.

Relevant estimates refer to impairment of assets, and classification and valuation of financial instruments (including determining their fair value) based on the adopted business models and the cash flow test, and the establishment of provisions.

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

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

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

We have analysed the impact of covid-19 on accounting estimates and found effects on valuations of companies, where the impact of covid-19 on the operations of those companies and valuations themselves was taken into account.

Statement of compliance

The financial statements of Kapitalska družba have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as the Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the European Union (EU).

In its financial statements, Kapitalska družba applied all IFRSs and IFRICs required in 2021. It did not apply any standard or interpretation before its application became obligatory in 2021.

Amendments to standards and interpretations

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

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

- | Amendments to IFRS 9 – Financial Instruments and IFRS 39 – Financial Instruments: Recognition and Measurement, IFRS 7 – Financial Instruments: Disclosures, IFRS 4 – Insurance Contracts and IFRS 16 – Leases – Interest Rate Benchmark Reform – Phase 2, adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- | Amendments to IFRS 16 – Leases – covid-19-Related Rent Concessions beyond 30 June 2021, adopted by the EU on 30 August 2021 (effective as of 1 April 2021 for financial years beginning on or after 1 January 2021),
- | Amendments to IFRS 4 – Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9, adopted by the European Union on 16 December 2020 (the date of expiry of the temporary exemption has been extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

The adoption of amendments to the existing standards did not result in any material changes to the Company's financial statements.

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

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

- | Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use, adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- | Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract, adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- | Amendments to IFRS 3 – Business Combinations – References to the Conceptual Framework with Amendments to IFRS 3, adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- | IFRS 17 – Insurance Contracts, including amendments to IFRS 17, adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to various standards due to Improvements to IFRS Standards 2018–2020, resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41), primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 28 June 2021 (amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022, the amendment to IFRS 16 refers only to the illustrative example, therefore the effective date is not specified.).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS as issued by 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,
- | Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current and Non-Current (effective for annual periods beginning on or after 1 January 2023),

- | Amendments to IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IAS 12 – Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- | Amendments to IFRS 17 – Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

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

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

The Company estimates that the application of hedge accounting in relation to the portfolio of financial assets and liabilities according to the requirements under IAS 39 “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements if applied as at the balance sheet date.

Foreign currency translation

The financial statements of the Company are presented in the euro (EUR), which is the functional and reporting currency of the Company. Assets and liabilities originally expressed in foreign currencies are re-translated 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, which the management has determined to be appropriate even in the event of a reorganisation into a demographic fund.

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

Annual report adoption procedure

The Annual Report is compiled by the Management Board of the Company, which submits it for approval to the Supervisory Board. The Management Board and the Supervisory Board also decide on the use of net profits for creation of the Company's reserves according to the provisions of the Companies Act. Such use of profit is included in the statements for the current year, while the distribution of distributable profit is decided by the Company's General Meeting of Shareholders. In line with Article 52(2) of ZSDH-1 distributable profit of Kapitalska družba cannot be distributed to the shareholders.

Intangible assets

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

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

| Asset | Depreciation rate in % |
|----------|------------------------|
| Software | 20,00–33,33 |

The amortisation of intangible assets is accounted for under the straight-line basis over the estimated useful life of the assets: The estimated useful life of software applications is 3 to 5 years.

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

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

Property, plant and equipment

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

| Asset | Depreciation rate in % |
|----------------|------------------------|
| Buildings | 3,00–3,33 |
| Equipment | 16,67–33,33 |
| Building parts | 6,00 |

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

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

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

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

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

Investment property

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

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

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

Every year an impairment test is carried out on investment property. Impairment is made if the investment property's estimated recoverable amount is less than its carrying amount. The Company reduces the carrying amount of such investment property to its recoverable amount. The decrease represents a loss due to impairment, which the Company recognises directly in its 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 Company classifies financial assets based on:

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

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

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

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

After initial recognition the Company measures financial assets:

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

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

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

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

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

- the financial instrument is held in the context of a business model intended for holding financial assets to collect the contractual cash flows,
- 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 if:

- it is a debt instrument and is not classified in any of the above measurement categories, provided one of the conditions specified below is fulfilled:

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

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

Gains and losses on financial assets

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

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

Investments in equity instruments

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

Investments in subsidiary companies

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

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

Investments in associated companies

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

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

Investments in joint ventures

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

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

Investments in abandoned securities

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

Assessment of contractual cash flows

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

- a) if the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows,
- b) if the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows as well as selling financial assets.

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

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

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

Changes in cash flows and derecognition of a financial asset

The Company derecognises a financial asset only when:

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

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

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

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

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

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

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

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

taking into account:

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

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

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

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

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

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

In accordance with IFRS 9 5.5.4 the Company assesses significant increase in credit risk considering all reasonable and supportable

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

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

The basic criterion considered by the Company for classification into stages is the credit rating or inter-

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

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

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

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

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

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

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

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

- | exposure at default (*EAD*),
- | probability of default (*PD*),
- | loss given default (*LGD*).

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

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

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

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

The Company uses the *EAD* risk parameters as derived from the amortisation plans (use of contractual cash flows). *EAD* risk parameters are not corrected for the impact of 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 Company applies its own *PD* risk parameter for each segment (country, company, financial institutions) and for each credit rating.

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

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

In the process of integrating future information in determining significant increases in credit risk and calculating expected credit losses, the Company takes into account the macroeconomic scenarios that already include the impact of the covid-19 pandemic.

Due to the impact of the pandemic, the Company perceived increased credit risk and a temporary deterioration of the macroeconomic environment, which, in line with the model it uses, increased the probability of default (PD) and loss given default (LGD); which increases expected credit losses.

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

Determining fair value of investments

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

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

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

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

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

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

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT¹¹ price is quoted for at least a half of trading days in the last 30 days from the measurement date. In the event of an active OTC market, fair value is measured using the last known CBBT price. If the OTC market is less liquid, the last known CBBT price not older than 90 days is used for fair value measurement. If the

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

¹¹ Composite Bloomberg Bond Trader is Bloomberg information on real-time prices of bonds. Bloomberg calculates the price of a bond based on the weighted average price (indicative and binding) drawn from by a larger number of different dealers.

CBBT price is not available, fair value may be measured using the BVAL¹² price, if available. If neither of the above applies, fair value of the investment is measured applying the valuation technique.

For bonds, a valuation model is used which includes benchmark against the current fair value of another instrument with similar main characteristics.

Commercial bills of Slovenian issues for which no (active) market exists are valued at amortised cost, automatically considering the effective interest rate, and classified in the group of financial assets at amortised cost.

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

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

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

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

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

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

¹² Bloomberg Valuation Service refers to Bloomberg information about the price of an individual bond at the end of trade date. The BVAL price is calculated based on the information about the price of concluded transactions and binding quotations, whereas the majority of BVALs is calculated applying models.

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 19: 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 20: 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 21: 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 22: 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 which are not measured at fair value in the statement of financial position. These normally include bonds at amortised cost 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 23: Classification of debt investments if an exchange acts as the principal market

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

Table 24: 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 |
| Level 2 | Debt investments with fair value measured on the basis of CBBT prices in less liquid markets |
| | Debt investments with fair value measured on the basis of transaction prices in less liquid markets |
| | Debt securities without CBBT price in (in)active markets and fair value measured using the valuation technique (taking into account level 2 inputs) |
| Level 3 | Debt securities without CBBT price in (in)active markets and with fair value measured using the BVAL valuation technique (taking into account level 3 inputs) or prices provided by third parties |

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

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

Classification of loans and deposits

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

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

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

independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognised in operating expenses from revaluation.

Derecognition of financial instruments

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

Non-current assets (disposal groups) held for sale

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

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

Operating receivables

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

Cash and cash equivalents

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

Equity

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

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

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

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

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

Reserves arising from valuation at fair value

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

Provisions

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

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

The Company establishes long-term provisions:

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

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

Operating liabilities

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

Revenue

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

Revenue is classified into the following categories:

1. Revenue from fees

Kapitalska družba, d. d. is entitled to an entry and exit fee, an annual management fee for the management of the SODPZ pension fund and to the costs of occupational pensions.

a. Entry fee

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

b. Management fee

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

c. Exit fee

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

d. Costs of occupational pensions

In line with its pension scheme, the Company is entitled to the cost of paying out occupational pensions. These costs are calculated as a percentage of the monthly amount of occupational pensions.

2. Revenue from lease payments

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

Financial revenue

3. Interest

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

4. Dividends

Dividends are recognised in the income statement when the Company obtains the right to payment. In the event of any commission refunds by the managers of collective investment funds in the Company's portfolio or in the event of receiving the so-called adjustment premiums, these are recognised as income similar to dividends.

5. Revenue from sale of investments

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

Costs

Costs of materials and services

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

Leases

The Company treats leases under IFRS 16, which defines an individual lease as a contract or part of a contract by way of which the right-of-use asset, which is the subject of the lease, is transferred for a particular period to the lessee, in exchange for compensation.

In line with the standard and the possibility of exemption from the standard, the Company does not apply such treatment to short-term leases and leases where the leased asset is a low-value asset. A short-term lease is a lease, the lease term of which is a maximum of 12 months as at the lease commencement date and which does not have a purchase option, while a low-value lease is a lease where the value of a new asset is lower than USD 5,000, converted into EUR according to the reference rate of the ECB, published by the bank of Slovenia.

Employee benefits

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

Expenses

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

Financial expenses

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

Taxes

1. Current tax

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

2. Deferred tax

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

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

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

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

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

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

Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31 December 2021 and 31 December 2020, income statement data for the year 2021, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Risk management

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

Kapitalska družba observes legal regulations in the forefront while also regulating risk management through internal acts such as the Rules on risk management, which include in addition to individual risk description, internal risk management organisation, measures and methods used to mitigate the risks, as well as procedures of control and responses to individual risks. Kapitalska družba has a Risk Management and Analysis Department, which coordinates and monitors the risk management process. On the basis of the risk inventory and updated risk assessments as well as the consequences of loss events, the Company in 2021 updated the register of risks to which the Company is or could be exposed in the course of operations. As part of the risk register, the Corporate Integrity Plan of Kapitalska družba, d. d. („Načrt korporativne integritete Kapitalske družbe, d. d.“) was established, detailing the risks of corruption and illegal and unequal conduct.

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

Risk of securities price change

The risk of securities price change is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the regulated markets in financial instruments. The risk of securities price change is managed by regular monitoring of the financial position of the issuers, the market situation and macroeconomic indicators that affect the movement in the general level of market prices and by maximum possible dispersion of investments to eliminate most of the non-systematic risk. The dispersal of a part of investments abroad decreases the dependence of Kapitalska družba's portfolio of long-term investments on the movement of prices on the Slovenian capital market.

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

Interest rate risk

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

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

Currency risk

In managing assets invested in foreign currencies, Kapitalska družba is also exposed to currency risk. Currency risk is monitored and managed on a daily basis. The basis for measuring currency risk is the monitoring and calculation of exposure to individual currencies by taking into account the currency in which the underlying instrument is denominated initially, not the currency of the securities that constitute a specific instrument or investment fund.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, deposits, cash assets) and entails the possibility of investments being only partly repaid or not at all. The management of credit risk is implemented by careful selection of business partners, regular monitoring of companies' operations and by establishing and complying with investment limits with regard to permitted exposure of individual investments. Credit risk is managed also by dispersion of investments and regular monitoring of credit margins and credit ratings of investments and issuers or contractual partners. According to internal acts, the business partners' and assets' credit rating is determined by ratings assigned by Standard & Poor's, Fitch and Moody's, and in-house analyses. The maximum permitted exposure, i.e. high yield, is set for debt securities and units/shares of open-end investment funds that invest in these debt securities (in a share of more than 50 % of the value of the assets of this fund).

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

For the purpose of identifying and monitoring credit risk, Kapitalska družba adopted the Methodology of classification, measurement and assessment of credit losses on financial instruments (hereinafter: methodology). According to the methodology, the Company assesses significant increases in credit risk by use of reasonable and supportable information at the level of a particular exposure, but also on a group exposure level, but only if reasonable and supportable information (factors or indicators) for a particular exposure cannot be obtained without undue cost or effort or cannot be assessed at the level of a particular exposure. The assessment of a significant increase in credit risk is based on clearly predefined quantitative and qualitative criteria which may vary for individual exposure groups, i.e. relevant portfolios, groups of portfolios, or elements of portfolios. The basic criterion considered by an institution for classification into stages is the credit rating or internal rating of a particular financial instrument. The internal rating is defined by use of an algorithm that is based on international credit ratings, or, in the absence of international credit ratings, it is determined internally according to the methodology.

Liquidity risk

Liquidity risk includes the risk related to the liquidity of the capital market or investment and the risk of solvency of Kapitalska družba. Due to the low liquidity of the Slovenian capital market, liquidity risk is encountered in a major portion of investments of Kapitalska družba in association with domestic equity and debt securities, with the highest risk posed by non-listed investments. By dispersing a portion of investments abroad, Kapitalska družba is able to reduce liquidity risk by investing only in highly liquid foreign instruments. Investment liquidity requirements have been adopted and an illiquid investment limit has been set. Moreover, liquidity risk is managed by daily monitoring of the inflows and outflows of the Company and precise matching of maturity of assets and liabilities.

Operational risk

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

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

Strategic risk

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

The Management Board, who is in charge of formulating appropriate organisation and strategy of the Company, must adopt all measures suitable for achieving the strategic goals as well as to preserve and strengthen the Company's reputation. An appropriate supervision system is provided for managing this risk, enabling monitoring of the implementation of business objectives defined in the business strategy. Good communication is ensured with all stakeholders and works in accordance with the contractual provisions. 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.).

Risks related to investments where Kapitalska družba holds a significant share

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

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

15.3 Disclosures and notes to the financial statements

15.3.1 Notes to the income statement

Note no. 1

Net sales revenue

| | in EUR 000 | |
|----------------------------------|---------------|---------------|
| | 2021 | 2020 |
| Revenue from fund management | 8.862 | 8.239 |
| - management fee | 7.566 | 7.037 |
| - entry fee | 1.263 | 1.174 |
| - exit fee | 8 | 7 |
| - costs of occupational pensions | 25 | 21 |
| Revenue from lease payments | 1.943 | 2.022 |
| Other sales revenue | 110 | 334 |
| Total | 10.915 | 10.595 |

All net sales revenue of EUR 10,915 thousand was generated on the domestic market (2020: EUR 10,595 thousand). Revenue from SODPZ management increased in 2021 compared to the previous year, mainly due to an increase in the management fee and entry fees, which increased due to increased net asset value and larger number of insured members, increasing the amount of the premium paid and also the entry fees.

The majority of revenue from lease payments represents lease payments for investment property.

Other sales revenue mainly includes revenue from IT services provided to Modro zavarovalnico, d. d. and Hotelske nepremičnine, d. o. o.

Note no. 2***Other operating revenue (including operating revenue from revaluation)***

in EUR 000

| | 2021 | 2020 |
|---|-----------|------------|
| Revenue from reversal of long-term provisions | 0 | 369 |
| Revaluation operating revenue | 6 | 370 |
| Other items | 82 | 98 |
| Total | 88 | 837 |

Revaluation operating revenue of EUR 6 thousand in 2021 represents gains from refunds. Other items in 2021 comprise revenue from compensations in the amount of EUR 62 thousand and revenue from previous periods totalling EUR 20 thousand.

Revenue from the reversal of long-term provisions for 2020 in the amount of EUR 369 thousand constitutes revenue from the reversal of provisions for onerous contracts or legal disputes. Revaluation operating revenue represents revenue from the sale of fixed assets in the amount of EUR 358 thousand (of which revenue in the amount of EUR 345 thousand was earned from the sale of the Smelt investment property) and refund in the amount of EUR 12 thousand. Other items comprise revenue from compensations in the amount of EUR 85 thousand, revenue from previous periods totalling EUR 3 thousand and other revenue amounting to EUR 10 thousand.

Note no. 3***Costs of goods, materials and services***

in EUR 000

| | 2021 | 2020 |
|--------------------|--------------|--------------|
| Costs of materials | 100 | 116 |
| Costs of services | 1.511 | 1.439 |
| Total | 1.611 | 1.555 |

Costs of materials

Costs of materials comprise costs of power supply, write-off of small tools, costs of office stationery and professional literature, and other costs of materials, the bulk of which is accounted for by energy costs in the amount of EUR 60 thousand (2020: EUR 64 thousand).

Costs of services

Costs of services include costs of transport, maintenance work on business premises and property, plant and equipment, lease payments, reimbursement of costs to employees associated with labour, costs of payment transactions, banking services and insurance, costs of intellectual and personal services, entertainment costs, costs of services provided by natural persons, and costs of other services, of which the highest amount, i.e. EUR 371 thousand, is due to maintenance of business premises and property, plant and equipment, followed by the costs of intellectual services equalling EUR 377 thousand (2020: EUR 436 thousand) and the costs of other services, such as keeping the KDD register and SMA supervision costs of EUR 283 thousand (2020: EUR 268 thousand).

Costs of audit

The cost of the 2021 Annual Report audit amounted to EUR 30 thousand (2020: EUR 30 thousand). No amount has been paid to the auditor for other assurance, tax advisory or other non-audit services in the 2021 and 2020 financial years.

Note no. 4***Labour costs***

| | in EUR 000 | |
|--|--------------|--------------|
| | 2021 | 2020 |
| Payroll costs | 2.656 | 2.420 |
| Compensations for salaries/wages of employees | 46 | 62 |
| Supplementary pension insurance costs | 125 | 124 |
| Holiday allowance, reimbursements and other receipts of employees | 215 | 212 |
| Other employer's contributions on salaries, wage compensation, bonuses, reimbursements and other receipts of employees | 430 | 395 |
| Provisions for termination benefits upon retirement and jubilee benefits | 26 | 0 |
| Total | 3.498 | 3.213 |

In 2021, the Company created EUR 8 thousand of provisions for termination benefits upon retirement and EUR 18 thousand of provisions for jubilee benefits, while in 2020, no such provisions were created.

Note no. 5***Write-downs in value***

| | in EUR 000 | |
|---|--------------|--------------|
| | 2021 | 2020 |
| Depreciation/amortisation | 1.135 | 1.137 |
| Amortisation of intangible fixed assets | 168 | 148 |
| Depreciation of buildings | 160 | 155 |
| Depreciation of equipment and spare parts | 56 | 48 |
| Depreciation of investment property | 751 | 786 |
| Operating expenses from revaluation of fixed assets | 0 | 20 |
| Revaluation operating expenses associated with current assets | 0 | 34 |
| Total | 1.135 | 1.191 |

Amortisation of intangible fixed assets

All costs amounting to EUR 168 thousand (2020: EUR 148 thousand) relate to the amortisation of software.

Depreciation of buildings

Depreciation of buildings represents the depreciation of offices owned and used by Kapitalska družba in the "Stekleni dvor" commercial building in the amount of EUR 160 thousand (2020: EUR 155 thousand).

Depreciation of equipment and spare parts

A major part of the depreciation of equipment and spare parts represents depreciation of computers and electronic equipment in the amount of EUR 47 thousand (2020: EUR 40 thousand), wooden furniture of EUR 5 thousand (2020: EUR 4 thousand) and other equipment of EUR 4 thousand (2020: EUR 4 thousand).

Depreciation of investment property

Investment property depreciation charge refers to the depreciation of business premises leased out in the amount of EUR 663 thousand (2020: 703 thousand), and EUR 39 thousand of depreciation expense relating to leased out parking spaces (2020: EUR 39 thousand) as well as depreciation of part of investment property totalling EUR 49 thousand (2020: EUR 44 thousand).

Revaluation operating expenses associated with fixed assets

In 2021, there were no operating expenses from the revaluation of fixed assets. Revaluation operating expenses of EUR 20 thousand in 2020 represent expenses for the disposal of fixed assets.

Revaluation operating expenses associated with current assets

In 2021, there were no operating expenses arising from the revaluation of current assets. Revaluation operating expenses in 2020 amounting to EUR 34 thousand represent a write-off of a receivable from a company in compulsory settlement.

Note no. 6

Other operating expenses

| | in EUR 000 | |
|-------------|------------|------|
| | 2021 | 2020 |
| Other items | 2 | 90 |
| Total | 2 | 90 |

Other items in 2021 represent expenses arising in the previous years.

Other items in 2020 mainly represent payments based on legal actions filed by SODPZ policyholders demanding the payment of statutory default interest in relation to a one-off redemption value, and payment after court settlement.

Note no. 7

Financial revenue

| | in EUR 000 | |
|---|------------|--------|
| | 2021 | 2020 |
| Financial revenue from participating interests | 65.189 | 39.393 |
| Financial revenue from other investments and from loans | 4.857 | 5.134 |
| Financial revenue from other investments | 4.857 | 5.079 |
| Financial revenue from loans | 0 | 55 |
| Total | 70.046 | 44.527 |

In 2021, financial revenue from participating interests increased compared to 2020, mainly due to the valuation of investments measured at fair value through profit or loss and higher dividends. Each of the items is presented in more detail below.

Financial revenue from participating interests

| | in EUR 000 | |
|--|---------------|---------------|
| | 2021 | 2020 |
| Dividends and shares in profits | 30.307 | 23.404 |
| Revaluation financial revenue | 2 | 35 |
| Exchange rate gains | 5.035 | 0 |
| Revenue from valuation of investments at fair value through profit or loss | 29.149 | 15.880 |
| Revenue from disposal of investments at fair value through profit or loss | 687 | 52 |
| Revenue from acquisition of abandoned securities | 9 | 22 |
| Total | 65.189 | 39.393 |

Revaluation financial revenue amounting to EUR 2 thousand (2020: EUR 35 thousand) comprises exchange rate gains on receivables and liabilities.

Revenue amounting to EUR 29,149 thousand (2020: EUR 15,880 thousand) constitutes the valuation of investments measured at fair value through profit or loss.

Revenue from disposal of investments amounting to EUR 687 thousand (2020: EUR 52 thousand) represents revenue from realized investment gains, distributed at fair value through profit or loss.

Revenue from acquisition of abandoned securities amounting to EUR 9 thousand (2020: EUR 22 thousand) is recognised in accordance with Article 48a of ZNVP-1, which stipulates that KDD shall credit all dematerialised securities cancelled by the holders to a special account held by Kapitalska družba.

Financial revenue from other investments and from loans

| | in EUR 000 | |
|--|--------------|--------------|
| | 2021 | 2020 |
| Interest revenue | 4.105 | 4.497 |
| Exchange rate gains | 642 | 174 |
| Revenue from the valuation of investments at fair value through profit or loss | 53 | 300 |
| Revenue from realised gains | 0 | 70 |
| Revenue from disposals of investments measured through other comprehensive income | 0 | 70 |
| Revenue from decrease in credit losses | 57 | 93 |
| Revenue from decrease in credit losses on assets measured at amortised cost | 43 | 54 |
| Revenue from decrease in credit losses on assets measured through other comprehensive income | 14 | 39 |
| Total | 4.857 | 5.134 |

Interest revenue

| | in EUR 000 | |
|--|------------|-------|
| | 2021 | 2020 |
| Deposits | 0 | 15 |
| - at amortised cost | 0 | 15 |
| Bonds, commercial papers | 2.286 | 3.266 |
| - through other comprehensive income | 1.300 | 1.943 |
| - at amortised cost | 503 | 1.053 |
| - at fair value through profit or loss | 483 | 270 |
| Other investments | 1.819 | 1.216 |
| - at fair value through profit or loss | 1.819 | 1.216 |
| Total | 4.105 | 4.497 |

Note no. 8

Financial expenses

| | in EUR 000 | |
|--|------------|--------|
| | 2021 | 2020 |
| Interest expenses | 21 | 39 |
| Expenses from valuation of investments at fair value through profit or loss | 3.338 | 2.318 |
| Exchange rate losses | 463 | 5.407 |
| Other revaluation expenses | 24 | 28 |
| Expenses from credit losses | 23 | 96 |
| Expenses from credit losses on assets measured at amortised cost | 23 | 81 |
| Expenses from credit losses on assets measured through other comprehensive income | 0 | 15 |
| Expenses from disposals | 110 | 678 |
| Expenses from disposals of investments measured through profit or loss | 110 | 644 |
| Expenses from disposals of investments measured through other comprehensive income | 0 | 34 |
| Expenses for the Pension and Disability Insurance Institute | 50.000 | 50.000 |
| Total | 53.979 | 58.566 |

Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2021. These payments were stated under financial expenses from other financial liabilities in the income statement. Each of the items is presented in more detail below.

Exchange rate differences

| | in EUR 000 | |
|---------------------------------------|--------------|---------------|
| | 2021 | 2020 |
| Exchange rate gains | 5.677 | 174 |
| Exchange rate losses | -463 | -5.407 |
| Net exchange rate gains/losses | 5.214 | -5.233 |

In 2021, net exchange gains amounted to EUR 5,214 thousand. In 2020, the Company had net exchange losses of EUR 5,233 thousand.

Exchange rate gains in 2021 in the amount of EUR 5,677 thousand are mainly the result of the appreciation of US dollar against euro.

Exchange rate losses in 2021 in the amount of EUR 5,407 thousand are mainly the result of the depreciation of US dollar against euro.

Gains/losses on financial assets

| | in EUR 000 | |
|---|---------------|----------------|
| | 2021 | 2020 |
| Revenue from investments | 70.046 | 44.527 |
| Expenses from investments | -53.979 | -58.566 |
| Net gains or losses from investments | 16.067 | -14.039 |

Note no. 9

Corporate income tax

| | in EUR 000 | |
|--------------------------------|---------------|----------------|
| | 2021 | 2020 |
| Profit or loss before tax | 20.824 | -8.656 |
| Increases in retained earnings | 17.624 | 8.302 |
| Decreases in retained earnings | -7.191 | 0 |
| Total | 31.257 | -354 |
| Non-deductible expenses | 1.670 | 1.444 |
| Provisions creation | -35 | -1 |
| Non-taxable revenue | -28.490 | -22.265 |
| Tax allowance | -257 | 0 |
| Tax loss | -2.201 | 0 |
| Total | 1.944 | -21.176 |
| Tax rate | 19 % | 19 % |
| Corporate income tax | 369 | 0 |

The largest item of untaxed revenue are the excluded received and paid domestic dividends in 2021.

As at 31 December 2021, Kapitalska družba, d. d. reported an income tax liability in the amount of EUR 369 thousand (as at 31 December 2020, the Company had no liabilities).

The Management Board believes that the calculation of the tax liability for 2021 is appropriate, based on the views presented below and in accordance with the opinions of tax advisors. It is however possible that the competent tax authorities would have a different position on certain issues, which could result in a difference between the tax liabilities disclosed in the financial statements and the amount assessed by the tax authorities. Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2021. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

In 2019, the effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was 1.2% (in 2020, Kapitalska družba, d. d. disclosed a tax loss).

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

| | in EUR 000 | |
|--|---------------|--------------|
| | 2021 | 2020 |
| Profit or loss before tax | 20.824 | -8.656 |
| Increases in retained earnings | 17.624 | 8.302 |
| Decreases in retained earnings | -7.191 | 0 |
| Total | 31.257 | -354 |
| Tax calculated at the general tax rate | 5.939 | -67 |
| Change in tax based on: | | |
| 1. January Revenue exempt from the tax base | 5.420 | 4.231 |
| Untaxed dividends received | 5.393 | 4.165 |
| Adjustment of revenue to the level recognised for tax purposes (decrease) | 27 | 66 |
| 2. Expenses exempt from the tax base | 317 | 275 |
| Increase in expenses (unrecognised in previous periods) | 10 | 13 |
| Adjustment of expenses to the level recognised for tax purposes (decrease) | 307 | 262 |
| 3. Tax reliefs used in current year | 49 | 0 |
| 4. Utilisation of tax losses from previous years | 418 | 0 |
| Total corporate income tax in the income statement | 369 | 0 |
| Effective tax rate | 1,2 | 0 |

Note no. 10**Deferred tax**

Deferred income tax liabilities as at 31 December 2021 include:

| | Statement of financial position | | Income statement | |
|--|---------------------------------|---------------|------------------|--------------|
| | 31 Dec. 2021 | 31 Dec. 2020 | 2021 | 2020 |
| Deferred income tax liabilities | 60.338 | 40.481 | 0 | 0 |
| Total deferred income tax liabilities | 60.338 | 40.481 | 0 | 0 |
| Deferred income tax assets | 30.461 | 20.548 | 9.913 | 1.394 |
| Loss brought forward to be used as tax allowance | 29.876 | 19.933 | 9.943 | 1.442 |
| Value adjustment of receivables | 0 | 0 | 0 | 0 |
| Value adjustment of investments | 565 | 590 | -25 | -12 |
| Provisions | 20 | 25 | -5 | -36 |
| Total deferred income tax assets | 30.461 | 20.548 | 9.913 | 1.394 |
| Netting of assets and liabilities | 565 | 590 | - | - |
| Deferred income tax assets after netting | 29.896 | 19.958 | - | - |
| Deferred income tax liabilities after netting | 59.773 | 39.891 | - | - |

The increase in deferred income tax in the income statement amounting to EUR 9,913 (2020: EUR 1,394 thousand) is due to increased deferred tax from unused tax losses in the amount of EUR 9,943 thousand (2020: EUR 1,442 thousand), decreased credit losses of EUR 25 thousand (2020: EUR 12 thousand), and decreased provisions amounting to EUR 5 thousand (2020: EUR 36 thousand). As at 31 December 2021, unused tax loss totalled EUR 545,816 thousand (2020: EUR 548,017) and is freely transferable.

Disclosure of changes in deferred tax recognised directly in equity

| | in EUR 000 | |
|----------------------------------|---------------|---------------|
| Changes in deferred tax | 2021 | 2020 |
| Balance as at 1 January | 40.481 | 37.646 |
| Changes as at 1 January | 0 | 0 |
| Changes during the year | 19.857 | 2.835 |
| Balance as at 31 December | 60.338 | 40.481 |

The change in deferred tax liabilities of EUR 19,857 thousand in 2021 to EUR 60,338 thousand as at 31 December 2021 arose on revaluation of investments measured at fair value through other comprehensive income.

Note no. 11***Net profit or loss for the period***

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

| | 2021 | 2020 |
|---|---------|---------|
| Net profit or loss attributable to holders of ordinary shares (000 EUR) | 30.368 | -7.262 |
| Diluted net profit or loss attributable to holders of ordinary shares (000 EUR) | 30.368 | -7.262 |
| 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) | 34,7 | -8,3 |

As at 31 December 2021, Kapitalska družba, d. d. issued no financial instruments that would require adjustment of either the net profit or loss or the weighted average number of ordinary shares.

15.3.2 Notes to the statement of financial position

Note no. 12

Intangible assets and long-term deferred costs and accrued revenue

Table 25: Changes in intangible assets and long-term deferred costs and accrued revenue in 2021

in EUR 000

| 31 Dec. 2021 | Software and other intangible assets | Long-term accrued revenue and deferred costs | Total |
|---|---|--|---------|
| Cost | | | |
| Cost as at 1 January 2021 | 1.735 | 50.049 | 51.784 |
| Additions | 135 | 50.045 | 50.180 |
| Disposals | 0 | -50.063 | -50.063 |
| Cost as at 31 December 2021 | 1.870 | 50.031 | 51.901 |
| Value adjustment | | | |
| Value adjustment as at 1 January 2021 | 1.378 | 0 | 1.378 |
| Additions, transfers | 0 | 0 | 0 |
| Disposals, write-offs | 0 | 0 | 0 |
| Depreciation/amortisation | 168 | 0 | 168 |
| Value adjustment as at 31 December 2021 | 1.546 | 0 | 1.546 |
| Carrying amount | | | |
| Carrying amount as at 1 January 2021 | 357 | 50.049 | 50.406 |
| Carrying amount as at 31 December 2021 | 324 | 50.031 | 50.355 |

Intangible assets refer to software applications and licences.

Table 26: Changes in intangible assets and long-term deferred costs and accrued revenue in 2020

in EUR 000

| 31 Dec. 2020 | Software and other intangible assets | Long-term accrued revenue and deferred costs | Total |
|---|---|--|--------|
| Cost | | | |
| Cost as at 1 January 2020 | 1.709 | 33 | 1.742 |
| Additions | 59 | 50.049 | 50.108 |
| Disposals | -33 | -33 | -66 |
| Cost as at 31 December 2020 | 1.735 | 50.049 | 51.784 |
| Value adjustment | | | |
| Value adjustment as at 1 January 2020 | 1.263 | 0 | 1.263 |
| Additions, transfers | 0 | 0 | 0 |
| Disposals, write-offs | -33 | 0 | -33 |
| Depreciation/amortisation | 148 | 0 | 148 |
| Value adjustment as at 31 December 2020 | 1.378 | 0 | 1.378 |
| Carrying amount | | | |
| Carrying amount as at 1 January 2020 | 446 | 33 | 479 |
| Carrying amount as at 31 December 2020 | 357 | 50.049 | 50.406 |

Note no. 13***Property, plant and equipment***

Table 27: Changes in property, plant and equipment in 2021

in EUR 000

| 31 December 2021 | Buildings | Other plant and equipment | Total |
|--|-----------|---------------------------|----------|
| Cost | | | |
| Cost as at 1 January 2021 | 5.003 | 1.532 | 6.535 |
| New acquisitions, transfers | 26 | 100 | 126 |
| Disposals, transfers | 0 | -193 | -193 |
| Cost as at 31 December 2021 | 5.029 | 1.439 | 6.468 |
| Value adjustment | | | 0 |
| Value adjustment as at 1 January 2019 January 2021 | 2.545 | 1.417 | 3.962 |
| Additions, transfers | 2 | 0 | 2 |
| Disposals, write-offs | 0 | -193 | -193 |
| Depreciation/amortisation | 160 | 56 | 216 |
| Value adjustment as at 31 December 2021 | 2.707 | 1.280 | 3.987 |
| Carrying amount | | | 0 |
| Carrying amount as at 1 January 2021 | 2.458 | 115 | 2.573 |
| Carrying amount as at 31 December 2021 | 2.322 | 159 | 2.481 |

Table 28: Changes in property, plant and equipment in 2020

in EUR 000

| 31 December 2020 | Buildings | Other plant and equipment | Total |
|---|-----------|---------------------------|-------|
| Cost | | | |
| Cost as at 1 January 2020 | 4.733 | 1.606 | 6.339 |
| New acquisitions, transfers | 270 | 40 | 310 |
| Disposals, transfers | 0 | -114 | -114 |
| Cost as at 31 December 2020 | 5.003 | 1.532 | 6.535 |
| Value adjustment | | | |
| Value adjustment as at 1 January 2020 | 2.289 | 1.374 | 3.663 |
| Additions, transfers | 101 | 0 | 101 |
| Disposals, write-offs | 0 | -5 | -5 |
| Depreciation/amortisation | 155 | 48 | 203 |
| Value adjustment as at 31 December 2020 | 2.545 | 1.417 | 3.962 |
| Carrying amount | | | |
| Carrying amount as at 1 January 2020 | 2.444 | 232 | 2.676 |
| Carrying amount as at 31 December 2020 | 2.458 | 115 | 2.573 |

Note no. 14

Investment property

Table 29: Changes in investment property in 2021

| | in EUR 000 | |
|--|------------|--------|
| 31 December 2021 | Buildings | Total |
| Cost | | |
| Cost as at 1 January 2021 | 26.394 | 26.394 |
| New acquisitions, transfers | 34 | 34 |
| Disposals, transfers, impairment | -26 | -26 |
| Cost as at 31 December 2021 | 26.402 | 26.402 |
| Value adjustment | | |
| Value adjustment as at 1 January 2019 January 2021 | 8.737 | 8.737 |
| Additions, transfers | 0 | 0 |
| Disposals, write-offs | -2 | -2 |
| Depreciation/amortisation | 751 | 751 |
| Value adjustment as at 31 December 2021 | 9.486 | 9.486 |
| Carrying amount | | |
| Carrying amount as at 1 January 2021 | 17.657 | 17.657 |
| Carrying amount as at 31 December 2021 | 16.916 | 16.916 |

In 2021, Kapitalska družba, d. d. impaired no investment property.

The valuation of investment property as at 31 October 2021 was made by a certified appraiser.

Given that the fair value of investment property as at 31 October 2021 was estimated based on an external evaluation amounting to EUR 20,100 thousand, we estimate that the fair value of investment property as at 31 December 2021 does not significantly deviate from the fair value of investment property as at 31 October 2021. The Company verified that the estimated values of investment property could also be used as at 31 December 2021.

The investment property's fair value does not significantly deviate from its carrying amount as at 31 December 2021, with the exception of the Nebotičnik office building, whose fair value greatly exceeds its carrying amount. The fair value of the office building "Nebotičnik" investment property as at 31 October 2021 amounted to EUR 1,350 thousand, while the carrying amount as at 31 December 2021 equalled EUR 111 thousand.

The valuation was performed applying the market comparison method, the income approach, the discounted free cash flow method and the direct capitalisation method, which includes the following assumptions: a 7.62% capitalization rate, a 5% deduction for vacancy and a 8% deduction for irrecoverability.

Table 30: Changes in investment property in 2020

in EUR 000

| 31 December 2020 | Buildings | Buildings in the course of construction or manufacturing | Total |
|---|-----------|--|--------|
| Cost | | | |
| Cost as at 1 January 2020 | 29.403 | 253 | 29.656 |
| New acquisitions, transfers | 346 | 0 | 346 |
| Disposals, transfers, impairment | -3.355 | -253 | -3.608 |
| Cost as at 31 December 2020 | 26.394 | 0 | 26.394 |
| Value adjustment | | | |
| Value adjustment as at 1 January 2020 | 9.006 | 0 | 9.006 |
| Additions, transfers | 0 | 0 | 0 |
| Disposals, write-offs | -1.055 | 0 | -1.055 |
| Depreciation/amortisation | 786 | 0 | 786 |
| Value adjustment as at 31 December 2020 | 8.737 | 0 | 8.737 |
| Carrying amount | | | |
| Carrying amount as at 1 January 2020 | 20.397 | 253 | 20.650 |
| Carrying amount as at 31 December 2020 | 17.657 | 0 | 17.657 |

Table 31: Rental income from investment property and costs related to investment property

in EUR 000

| | 2021 | 2020 |
|--|-------|-------|
| Rental income from investment property | 1.943 | 2.022 |
| Costs related to investment property | 805 | 896 |

Information about encumbrances

The assets owned by Kapitalska družba are free from mortgages, pledges or other encumbrances. Fixed assets are not under finance lease not have they been acquired for the purpose of trading. Fixed assets have not been pledged.

Note no. 15**Investments in subsidiary, associated companies and joint venture**

Investments in subsidiary as at 31 December 2021 include:

| | | | | | in EUR 000 |
|-----|---|----------------------------------|-------------------|---------------------------|-------------------------|
| No. | Subsidiary | Registered office of the company | Equity stake in % | Equity as at 31 Dec. 2021 | Net profit/loss or 2021 |
| 1. | Modra zavarovalnica, d. d. | Dunajska cesta 119, Ljubljana | 100,00 | 331.507 | 18.993 |
| 2. | FINAP, d. d. – in liquidation ¹³ | Rimska cesta 11, Ljubljana | 64,63 | - | - |

| | | | in EUR 000 | |
|---|--|--|----------------|----------------|
| | | | 31 Dec. 2021 | 31 Dec. 2020 |
| Shares and interests in Group companies | | | 152.200 | 152.200 |
| Total | | | 152.200 | 152.200 |

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

Investments in associates as at 31 December 2021 include:

| | | | | | in EUR 000 |
|-----|-----------------------------------|---|-------------------------------|-------------------|---|
| No. | Associated company | Registered office of the company | Delež udeležbe v kapitalu (%) | Equity stake in % | Net profit or loss for 2021 ¹⁴ |
| 1. | Gospodarsko razstavišče, d. o. o. | Dunajska cesta 18, Ljubljana | 29,51 | 17.865 | -259 |
| 2. | Hit, d. d. ¹⁵ | Delpinova ulica 7a, Nova Gorica | 20,32 | 44.815 | -2.104 |
| 3. | Loterija Slovenije, d. d. | Gerbičeva ulica 99, Ljubljana | 25,00 | 19.986 | 4.959 |
| 4. | Sava, d. d. | Dunajska cesta 152, Ljubljana | 28,05 | 108.491 | 2.165 |
| 5. | Terme Čatež, d. d. | Čatež ob Savi, Topliška cesta 35, Brežice | 23,79 | 97.937 | 7.875 |
| 6. | Terme Olimia, d. d. | Zdraviliška cesta 24, Podčetrtek | 24,79 | 40.153 | 4.461 |

| | | | in EUR 000 | |
|--|--|--|---------------|---------------|
| | | | 31 Dec. 2021 | 31 Dec. 2020 |
| Shares and interests in associated companies | | | 48.986 | 49.911 |
| Total | | | 48.986 | 49.911 |

¹³ Acquired in line with Article 48.a of the Book-Entry Securities Act (ZVNP-1).

¹⁴ The net profit or loss data for associated companies for 2021 are not audited, with the exception of Loterija Slovenije, d. d. and Terme Čatež, d. d.

¹⁵ The share in Hit, d. d., carries 20.32 % of the voting rights. As at 31 December 2021, the preference shares carried voting rights, as no dividends were paid in 2020. No dividends were paid in 2021 either.

Table 32: Changes in investments in associated companies in 2021

in EUR 000

| | 31 Dec. 2020 | Acquisitions and transfers | Disposals, maturity | Revaluation | 31 Dec. 2021 |
|--|---------------|-------------------------------|------------------------|--------------|---------------|
| Investments at fair value through other comprehensive income | 49.911 | 0 | -3.056 | 2.131 | 48.986 |
| Total | 49.911 | 0 | -3.056 | 2.131 | 48.986 |

Table 33: Changes in investments in associated companies in 2020

in EUR 000

| | 31 Dec. 2019 | Acquisitions and transfers | Disposals, maturity | Revaluation | 31 Dec. 2020 |
|--|---------------|-------------------------------|------------------------|---------------|---------------|
| Investments at fair value through other comprehensive income | 57.052 | 0 | 0 | -7.141 | 49.911 |
| Total | 57.052 | 0 | 0 | -7.141 | 49.911 |

The investment in the joint venture as at 31 December 2021 includes:

in EUR 000

| No. | Joint venture | Registered office of the company | Equity stake in % | Equity as at 31 Dec. 2021 | Net profit/loss for 2021 |
|-----|---------------------------------|----------------------------------|-------------------|------------------------------|-----------------------------|
| 1. | Hotelske nepremičnine, d. o. o. | Dunajska cesta 119, Ljubljana | 50,00 | 13.248 | 427 |

in EUR 000

| | 31 Dec. 2021 | 31 Dec. 2020 |
|-----------------------------|--------------|--------------|
| Interests in joint ventures | 5.963 | 5.963 |
| Skupaj | 5.963 | 5.963 |

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

Table 34: Changes in investment in joint venture in 2021

in EUR 000

| | 31 Dec. 2020 | Acquisitions and transfers | Disposals, maturity | Revaluation | 31 Dec. 2021 |
|---------------------|--------------|-------------------------------|------------------------|-------------|--------------|
| Investments at cost | 5.963 | 0 | 0 | 0 | 5.963 |
| Total | 5.963 | 0 | 0 | 0 | 5.963 |

Table 35: Changes in investment in joint venture in 2020

in EUR 000

| | 31 Dec. 2019 | Acquisitions and transfers | Disposals, maturity | Revaluation | 31 Dec. 2020 |
|---------------------|--------------|-------------------------------|------------------------|-------------|--------------|
| Investments at cost | 5.963 | 0 | 0 | 0 | 5.963 |
| Total | 5.963 | 0 | 0 | 0 | 5.963 |

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

- | the risk concerning the provision of funds for the operations/capital adequacy of the subsidiary, associated companies or joint venture,
- | the risk related to participation in covering contingent liabilities of the subsidiary, associated companies or joint venture.

At the end of 2021, Kapitalska družba used internal valuation models and external valuations to verify, assess and appraise the companies' value as at 31 December 2020, taking into account the most recent available data on companies' performance in 2021. December 2021.

Note no. 16

Assets held for sale

| | in EUR 000 | |
|----------------------|---------------|--------------|
| | 31 Dec. 2021 | 31 Dec. 2020 |
| Assets held for sale | 11.543 | 870 |
| Total | 11.543 | 870 |

Non-current assets available for sale as at 31 December 2021 amount to EUR 11,543 thousand (31 December 2020: EUR 870) and refer to equity investments held for sale.

Note no. 17

Investments, excluding loans

| | in EUR 000 | | | |
|----------------------------|------------------|----------------|---------------|---------------|
| | Non-current | | Current | |
| | 31 Dec. 2021 | 31 Dec. 2020 | 31 Dec. 2021 | 31 Dec. 2020 |
| Other shares and interests | 938.145 | 758.864 | 0 | 0 |
| Other investments | 83.490 | 68.414 | 24.827 | 46.960 |
| Total | 1.021.635 | 827.278 | 24.827 | 46.960 |

Carrying amounts of financial assets

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

in EUR 000

| | Non-current | | Current | | Total | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | 31 Dec. 2021 | 31 Dec. 2020 | 31 Dec. 2021 | 31 Dec. 2020 | 31 Dec. 2021 | 31 Dec. 2020 |
| At fair value through profit or loss | 260.932 | 200.337 | 22.622 | 24.292 | 283.554 | 224.629 |
| Set upon initial recognition | 260.932 | 200.337 | 22.622 | 24.292 | 283.554 | 224.629 |
| Mandatory measurement at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 |
| At fair value through other comprehensive income | 799.544 | 670.302 | 12.199 | 9.562 | 811.743 | 679.864 |
| Debt instruments | 35.353 | 37.493 | 656 | 9.562 | 36.009 | 47.055 |
| Equity instruments | 764.191 | 632.809 | 11.543 | 0 | 775.734 | 632.809 |
| At amortised cost | 10.145 | 8.456 | 1.549 | 12.070 | 11.694 | 20.526 |
| Total | 1.070.621 | 879.095 | 36.370 | 45.924 | 1.106.991 | 925.019 |

Changes in investments in 2021

in EUR 000

| | 31 Dec. 2020 | Acquisitions | Disposals, maturity | Revaluation | 31 Dec. 2021 |
|--|--------------|--------------|---------------------|-------------|--------------|
| Investments at fair value through profit or loss | 224.629 | 42.283 | -15.304 | 31.946 | 283.554 |
| Investments at amortised cost | 20.526 | 3.189 | -12.543 | 522 | 11.694 |
| Investments at fair value through other comprehensive income | 679.864 | 2.536 | -48.144 | 177.487 | 811.743 |
| Total | 925.019 | 48.008 | -75.991 | 209.955 | 1.106.991 |

Changes in investments in 2020

in EUR 000

| | 31 Dec. 2019 | Acquisitions | Disposals, maturity | Revaluation | 31 Dec. 2020 |
|--|--------------|--------------|---------------------|-------------|--------------|
| Investments at fair value through profit or loss | 171.066 | 62.799 | -17.559 | 8.323 | 224.629 |
| Investments at amortised cost | 19.901 | 3.482 | -3.844 | 987 | 20.526 |
| Investments at fair value through other comprehensive income | 676.808 | 0 | -44.267 | 47.323 | 679.864 |
| Total | 867.775 | 66.281 | -65.670 | 56.633 | 925.019 |

Investments by type of interest rate as at 31 December

in EUR 000

| | 31 Dec. 2021 | 31 Dec. 2020 |
|------------------------|--------------|--------------|
| Debt investments | 85.889 | 91.489 |
| Fixed interest rate | 85.889 | 91.489 |
| Variable interest rate | 0 | 0 |
| Loans, deposits | 0 | 0 |
| Fixed interest rate | 0 | 0 |
| Variable interest rate | 0 | 0 |
| Total | 85.889 | 91.489 |

Investments in equity instruments measured at fair value through other comprehensive income as at 31 December 2021

| ISIN code | EUR 31 Dec. 2021 | ISIN code | EUR 31 Dec. 2021 | ISIN code | EUR 31 Dec. 2021 |
|------------------------|---------------------|--------------------------------------|---------------------|-----------------------|---------------------|
| LU1681044480 | 1.273.256 | SI0031105677 | 1.241.496 | SI0031103367 | 855 |
| LU1681044563 | 2.058.717 | SI0031117813 | 11.543.051 | SI0031102005 | 2.573 |
| SI0031108887 | 49 | SI0031103375 | 9 | INFORMATIKA, D. O. O. | 3.772 |
| SI0031108184 | 0 | IE00B3F81R35 | 857.696 | SI0021100134 | 0 |
| SI0031109380 | 0 | IE00B4L5Y983 | 12.526.177 | IE00B87RLX93 | 1.649.850 |
| SI0031103151 | 5 | US46434G8226 | 8.217.764 | SI0031113481 | 8 |
| SI0031104399 | 1.531 | US4642864007 | 808.072 | SI0031109109 | 0 |
| SI0031108846 | 2.261 | SI0031114406 | 156 | SI0031110412 | 2.296 |
| SI0031104621 | 60.720 | SI0031116815 | 0 | SI0031200304 | 0 |
| SI0031109463 | 109 | SI0031103748 | 0 | SI0031106907 | 0 |
| SI0031108259 | 194 | SI0031117821 | 1.682.170 | SI0031116062 | 1.384 |
| SI0031116138 | 63 | SI0031101999 | 61 | SI0031101619 | 2.035 |
| SI0031117441 | 5.964 | GOSPODARSKO RAZSTAVIŠČE, D. O. O. | 1.048.713 | SI0031109562 | 645 |
| SI0021112212 | 105 | SI0031107293 | 6.815 | SI0031102120 | 412.192.880 |
| SI0031101494 | 103 | SI0031113929 | 0 | SI0021113855 | 3.433 |
| SI0031107079 | 39 | SI0031109034 | 28 | SI0031113432 | 0 |
| SI0031107582 | 0 | SI0031200239 | 128.121 | SI0031101346 | 16.996.528 |
| SI0031105271 | 171 | SI0031113143 | 10.454.498 | SI0031109661 | 0 |
| SI0031105529 | 594.671 | IE0032523478 | 4.370.041 | SI0021110323 | 200 |
| SI0031107673 | 1.317.396 | SI0031104845 | 0 | SI0023200122 | 0 |
| ELAN INVENTA, D. O. O. | 602.000 | SI0031101700 | 0 | SI0031105024 | 11.309.130 |
| SI0031104597 | 624.957 | SI0031100090 | 110 | SI0031110495 | 50 |
| SI0031108580 | 2.040.455 | US46434G1031 | 6.447.925 | SI0031108200 | 120 |
| SI0031114281 | 0 | SI0031107459 | 1.220 | SI0031116104 | 2 |

| ISIN code | EUR 31 Dec. 2021 | ISIN code | EUR 31 Dec. 2021 | ISIN code | EUR 31 Dec. 2021 |
|--------------------|---------------------|--------------------------------------|---------------------|---------------|---------------------|
| SI0031102799 | 0 | PS ZA AVTO, D. O. O. | 348.326 | SI0031109646 | 586.818 |
| SI0031113184 | 17.221 | SI0031112772 | 0 | SI0031107772 | 14.223 |
| SI0031111816 | 3.143 | SI0031200791 | 0 | SI0031104829 | 1.692.029 |
| SI0031114455 | 29.642 | SI0031115767 | 0 | SI0031104290 | 20.522.891 |
| SI0031117268 | 0 | LU1923627092 | 772.488 | SI0031100215 | 767 |
| SI0021113111 | 4.772 | SI0031110677 | 0 | SI0031111576 | 0 |
| SI0031114984 | 3.608 | SI0031117318 | 17.047.543 | SI0031105602 | 10 |
| LU1650488494 | 3.262.468 | IE00BC7GZW19 | 387.171 | SI0031108994 | 1.670.263 |
| SI0031103706 | 3.017.200 | SI0031114604 | 9.120 | SI0021111313 | 28.890 |
| SI0031104555 | 0 | SI0031113788 | 1.585 | SI0031110248 | 10.188 |
| IE00B3DWVS88 | 12.474.197 | SM STROJKOPLAST MARIBOR, D. O. O. | 96.429 | IE00BJOKDQ92 | 16.318.069 |
| SI0031100793 | 9.913 | SI0031107996 | 0 | LU0290355717 | 4.992.800 |
| SI0031114596 | 0 | SI0031102187 | 114 | US81369Y6059 | 4.175.309 |
| SI0031113309 | 0 | IE00B60SX394 | 28.011.060 | US81369Y8030 | 14.967.619 |
| SI0031117144 | 4.559 | US78462F1030 | 14.633.767 | US81369Y8600 | 1.585.543 |
| SI0031112053 | 16 | SI0031109737 | 1.786 | LU0274208692 | 20.350.899 |
| SI0031114893 | 1.064 | SI0021112105 | 54 | SI0031107954 | 4.987.472 |
| SI0031102153 | 87.702.136 | SI0031115866 | 5.311 | SI0031105396 | 2 |
| JE00B1VS3770 | 1.516.776 | SI0021110083 | 120 | SI0031115775 | 0 |
| PLINHOLD, D. O. O. | 209.327 | SI0031114307 | 0 | SI0031101577 | 0 |
| SI0021110513 | 23.464 | SI0031100637 | 4.139.205 | SI0031108564 | 92 |
| SI0031200429 | 3.183 | SI0031115940 | 0 | SI0021111651 | 7.066 |
| SI0031109927 | 3.422 | SI0031107913 | 0 | Skupaj | 775.733.790 |

Due to favourable market conditions and provision of liquidity, Kapitalska družba in 2021 disposed of equity investments in the total value of EUR 35,218 thousand. The cumulative effect of the sale of equity instruments measured at fair value through other comprehensive income is EUR 9,975 thousand and is recognised under profit/loss brought forward. Dividends recognised on investments measured at fair value through other comprehensive income equal EUR 29,023 thousand.

Overview of financial assets by carrying amount and fair value as at 31 December 2021

| | in EUR 000 | |
|---|------------------|------------------|
| Asset | Carrying amount | Fair value |
| Financial assets at fair value through profit or loss | 283.554 | 283.554 |
| Financial assets at amortised cost | 11.694 | 13.377 |
| Financial assets at fair value through other comprehensive income | 811.743 | 811.743 |
| Investments in loans | 0 | 0 |
| Cash and cash equivalents | 26.535 | 26.535 |
| Total | 1.133.526 | 1.135.209 |

Overview of financial assets by carrying amount and fair value as at 31 December 2020

| | in EUR 000 | |
|---|-----------------|----------------|
| Asset | Carrying amount | Fair value |
| Financial assets at fair value through profit or loss | 224.629 | 224.629 |
| Financial assets at amortised cost | 20.526 | 22.760 |
| Financial assets at fair value through other comprehensive income | 679.864 | 679.864 |
| Investments in loans | 0 | 0 |
| Cash and cash equivalents | 11.562 | 11.562 |
| Total | 936.581 | 938.815 |

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

Fair value hierarchy as at 31 December 2021

| | in EUR 000 | | | |
|---|----------------|---------------|----------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value | 915.982 | 91.369 | 87.946 | 1.095.296 |
| Investments valued at fair value through profit or loss | 234.544 | 25.011 | 24.000 | 283.554 |
| Investments at fair value through other comprehensive income | 681.438 | 66.358 | 63.947 | 811.742 |
| Financial assets for which the fair value is disclosed | 33.793 | 2.920 | 3.199 | 39.912 |
| Investments at amortised cost | 7.258 | 2.920 | 3.199 | 13.377 |
| Investments in loans | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 26.535 | 0 | 0 | 26.535 |
| Investment property | 0 | 0 | 20.100 | 20.100 |
| Total | 949.774 | 94.289 | 111.245 | 1.155.308 |

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

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

The valuation of investment property as at 31 October 2021 was carried out using the income approach, the income capitalisation method and the market comparison method. A 7.62% income capitalization was taken into account. We estimate that the fair value as at 31 December 2021 does not significantly deviate from the fair value as at 31 October 2021.

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., Elektro Celje, d. d., Elektro Gorenjska, d. d., Elektro Maribor, d. d., and Elektro Primorska, d. d. was estimated by applying the income approach and using the discounted free cash flow method. The estimated free cash flow is discounted using a 6.41% discount rate (Elektro Ljubljana, d.d.), 6.80% discount rate (Elektro Celje, d.d.), 6.43% discount rate (Elektro Gorenjska, d.d.), 6.77% discount rate (Elektro Maribor, d.d.) and 6.92% discount rate (Elektro Primorska, d.d.). The remaining growth rate of normalised cash flow is 1 %.

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income approach and using the discounted free cash flow method. The estimated free cash flow in the 2021–2026 period is discounted using a discount rate between 7.6% and 7.9%, while the long-run discount rate is 8.7%. The remaining growth rate of normalised cash flow is 2 %.

The fair value of the shares of Terme Olimia, d. d. was estimated by applying the income approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.4 % discount rate. The remaining growth rate of normalised cash flow is 2 %.

The fair value of the shares of Loterija Slovenije, d. d. was estimated by applying the income approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.7 % discount rate. The remaining growth rate of normalised cash flow is 0.2 %.

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 value of Sava, d. d. shares was estimated for the non-controlling interest. The value of the investment in Sava Turizem, d. d., which is the biggest investment of the Company, was estimated using the income approach and the discounted free cash flow method. The free cash flow of Sava Turizem, d. d. is discounted at a discount rate of 10.46 %, and the remaining normalized cash flow growth is 2%.

The fair value of 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 9.21 % discount rate. The remaining growth rate of normalised cash flow is 2 %.

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

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

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

Fair value hierarchy as at 31 December 2020

| | in EUR 000 | | | |
|---|----------------|---------------|---------------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value | 735.594 | 94.200 | 74.699 | 904.493 |
| Investments valued at fair value through profit or loss | 173.266 | 27.417 | 23.946 | 224.629 |
| Investments at fair value through other comprehensive income | 562.328 | 66.783 | 50.753 | 679.864 |
| Financial assets for which the fair value is disclosed | 29.824 | 833 | 3.665 | 34.322 |
| Investments at amortised cost | 18.262 | 833 | 3.665 | 22.760 |
| Investments in loans | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 11.562 | 0 | 0 | 11.562 |
| Investment property | 0 | 1.975 | 19.116 | 21.091 |
| Total | 765.418 | 97.008 | 97.480 | 959.906 |

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

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

The valuations of investment property – business premises Stekleni dvor and business premises in Bežigranski dvor – were prepared as at 31 December 2018 using the income approach and the direct capitalization method, which includes the following assumptions: a 8.19% capitalization rate, a 6.67% deduction for vacancy and a 1.33% deduction for irrecoverability. The Company verified that the estimated values of investment property could also be used as at 31 December 2020.

The valuations of investment property – business premises in Nebotičnik and Glavarjeva rezidenca were prepared on 31 December 2018 using the market comparison approach.

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. and Elektro Celje, d. d. was estimated by applying the income approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.17% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair values of the shares of Elektro Maribor, d. d., Elektro Primorska, d. d. and Elektro Gorenjska, d. d. were estimated based on a market comparison of each company with Elektro Ljubljana, d. d. and Elektro Celje, d. d. An average multiple (value of total equity) / (earnings before interest, taxes, depreciation and amortization) of 4.2 was used.

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.8% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Terme Olimia, d. d. was estimated by applying the income approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.15% discount rate. The remaining growth rate of normalised cash flow is 1.2%.

The fair value of the shares of Loterija Slovenije, d. d. was estimated by applying the income approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.7% 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 going concern assumption. The value of the investment in Sava Turizem, d. d., which represents the biggest investment of the Company, was estimated using the income approach and the discounted free cash flow method. The free cash flow of Sava Turizem, d. d. is discounted at a discount rate of 9.39%, and the remaining normalized cash flow growth is 2%.

The fair value of Gospodarsko razstavišče, d. o. o. was estimated on the basis of the income approach and using the discounted free cash flow method, without considering indebtedness. The estimated free cash flow was discounted at a 7.5% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the holding in Plinhold, d. o. o. was estimated based on the cost approach, using the summation method (net asset method).

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

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

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

Table 36: Changes in Level 3 investments in 2021

in EUR 000

| Item | |
|--------------------------------|---------|
| Balance as at 31 December 2020 | 97.480 |
| Disposals/maturity | -3.730 |
| Acquisitions | 12.591 |
| Revaluation | 432 |
| Reclassifications | 4.473 |
| Balance as at 31 December 2021 | 111.245 |

Table 37: Changes in Level 3 investments in 2020

in EUR 000

| Item | |
|--------------------------------|---------|
| Balance as at 31 December 2019 | 110.822 |
| Disposals/maturity | -8.621 |
| Acquisitions | 3.667 |
| Revaluation | -6.066 |
| Reclassifications | -2.322 |
| Balance as at 31 December 2020 | 97.480 |

Table 38: Transition between levels of fair value hierarchy as at 31 December 2021

in EUR 000

| Transition between hierarchy levels, portfolio as at 31 December 2021 | From Level 1 to Level 2 | From Level 2 to Level 1 | From Level 2 to Level 3 | From Level 3 to Level 2 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Investments at fair value through profit or loss | 0 | 2.077 | 0 | 0 |
| Investments at fair value through other comprehensive income | 3 | 2.229 | 3771 | 1.786 |
| Total | 3 | 4.306 | 3.771 | 1.786 |

Table 39: Transition between levels of fair value hierarchy as at 31 December 2020

in EUR 000

| Transition between hierarchy levels, portfolio as at 31 December 2020 | From Level 1 to Level 2 | From Level 2 to Level 1 | From Level 2 to Level 3 | From Level 3 to Level 2 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Investments at fair value through other comprehensive income | 6 | 671 | 41 | 4.467 |
| Total | 6 | 671 | 41 | 4.467 |

Effective interest rate by investment groups

| | 2021 | 2020 |
|---|--------|--------|
| Investments measured at amortised cost | 4,57 % | 6,07 % |
| Investments measured at fair value through other comprehensive income | 4,23 % | 4,30 % |
| Cash and cash equivalents | 0,00 % | 0,00 % |

Note no. 18**Operating receivables**

in EUR 000

| | Non-current | | Current | |
|--|--------------|--------------|---------------|---------------|
| | 31 Dec. 2021 | 31 Dec. 2020 | 31 Dec. 2021 | 31 Dec. 2020 |
| Operating receivables due from Group companies | 0 | 0 | 22 | 0 |
| Operating receivables due from local customers | 0 | 0 | 1.151 | 1.525 |
| Operating receivables due from others | 197 | 168 | 3.448 | 2.144 |
| Other operating receivables | 0 | 0 | 50.154 | 50.136 |
| Total | 197 | 168 | 54.775 | 53.805 |

Non-current operating receivables due from others in the amount of 197 thousand of EUR represent payments into the reserve fund for the maintenance of property (31 December 2020: EUR 168 thousand).

Short-term operating receivables equalled EUR 54,775 thousand (31 December 2020: EUR 53,805 thousand), most of which refer to short-term deferred expenses arising from the payment to the Pension and Disability Insurance Institute for 2022 in the amount of EUR 50,000 thousand.

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

Changes in credit losses from operating receivables

in EUR 000

| | |
|---|----------|
| Credit losses from operating receivables | |
| 1 January 2021 | 0 |
| Decrease in credit losses | 0 |
| 31 December 2021 | 0 |

As at 31 December 2021, Kapitalska družba had no credit losses from operating receivables.

in EUR 000

| | |
|---|----------|
| Credit losses from operating receivables | |
| 1 January 2020 | -1 |
| Decrease in credit losses | 1 |
| 31 December 2020 | 0 |

As at 31 December 2020, Kapitalska družba had no credit losses from operating receivables.

Breakdown of operating trade receivables by maturity

in EUR 000

| 31 Dec. 2021 | Not due | Up to 30 days | From 31 to 60 days | From 61 to 90 days | From 91 to 180 days | From 181 to 365 days |
|--------------|---------|---------------|--------------------|--------------------|---------------------|----------------------|
| 1.151 | 1.149 | 0 | 0 | 0 | 0 | 2 |

Note no. 19

Cash and cash equivalents

| | in EUR 000 | |
|--------------------------|---------------|---------------|
| | 31 Dec. 2021 | 31 Dec. 2020 |
| Bank balances | 19.535 | 1.162 |
| Euro redeemable deposits | 7.000 | 10.400 |
| Total | 26.535 | 11.562 |

Redeemable deposits are classified as cash and cash equivalents in the category of financial assets at amortized cost with a maturity of less than 3 months.

Note no. 20

Equity

| | 31 Dec. 2021 | 31 Dec. 2020 |
|--------------------------|--------------|--------------|
| Share capital (000 EUR) | 364.810 | 364.810 |
| Ordinary shares (number) | 874.235 | 874.235 |

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

Note no. 21

Capital surplus

| | in EUR 000 |
|-----------------------------|----------------|
| Capital surplus | |
| 1 January 2021 | 217.625 |
| Increase in capital surplus | 214 |
| 31 December 2021 | 217.839 |

In 2021, the capital surplus increased by EUR 214 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2021, capital surplus totalled EUR 217,839 thousand.

| | in EUR 000 |
|-----------------------------|----------------|
| Capital surplus | |
| 1 January 2020 | 217.494 |
| Increase in capital surplus | 131 |
| 31 December 2020 | 217.625 |

In 2020, the capital surplus increased by EUR 131 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2020, capital surplus totalled EUR 217,625 thousand.

Note no. 22

Changes in reserves arising from valuation at fair value

| | in EUR 000 | |
|---|----------------|----------------|
| Changes in reserves arising from valuation at fair value and deferred taxes in equity | 2021 | 2020 |
| Gross reserves from valuation at fair value as at 1 January | 370.231 | 333.224 |
| Deferred tax as at 1 January | 40.481 | 37.646 |
| Net fair value reserves as at 1 January | 329.750 | 295.578 |
| Changes during the year – gross increase in reserves | 188.123 | 50.782 |
| Changes during the year – gross decrease in reserves | -19.691 | -13.775 |
| Gross fair value reserves as at 31 December | 538.663 | 370.231 |
| Adjustments (criteria: 8%, 6 months) | -221.095 | -157.172 |
| Gross balance as at 31 December after adjustment | 317.568 | 213.059 |
| Deferred tax as at 31 December | 60.338 | 40.481 |

Note no. 23

Provisions

| | in EUR 000 | | |
|-------------------------|---|------------------|------------|
| | Provisions for pensions and similar liabilities | Other provisions | Total |
| 1 January 2021 | 226 | 40 | 266 |
| Creation | 88 | 3 | 91 |
| Utilisation | -12 | 0 | -12 |
| Reversal | 0 | -3 | -3 |
| 31 December 2021 | 302 | 40 | 342 |

In 2021, the Company created EUR 88 thousand of provisions for termination benefits upon retirement and jubilee benefits and utilised EUR 12 thousand of provisions. At the end of 2021, provisions for termination benefits and jubilee awards amounted to EUR 302 thousand.

In 2021, the Company created and reversed EUR 3 thousand of provisions for the non-achievement of the guaranteed return of the SODPZ fund, so at the end of 2021, the Company does not have these provisions. At the end of 2021, provisions for onerous contracts and legal disputes reached EUR 40 thousand.

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

| | in EUR 000 | | |
|-------------------------|---|------------------|------------|
| | Provisions for pensions and similar liabilities | Other provisions | Total |
| 1 January 2020 | 229 | 409 | 638 |
| Creation | 0 | 0 | 0 |
| Utilisation | -3 | 0 | -3 |
| Reversal | 0 | -369 | -369 |
| 31 December 2020 | 226 | 40 | 266 |

In 2020, the Company reversed provisions for onerous contracts or legal disputes in the amount of EUR 369 thousand. At the end of 2020, provisions for onerous contracts and legal disputes reached EUR 40 thousand.

In 2020, the Company created provisions for termination benefits upon retirement and jubilee benefits in the amount of EUR 3 thousand. At the end of 2020, provisions for termination benefits and jubilee awards amounted to EUR 226 thousand.

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

Note no. 24

Operating liabilities

in EUR 000

| | Non-current | | Current | |
|-------------------------------------|--------------|--------------|---------------|---------------|
| | 31 Dec. 2021 | 31 Dec. 2020 | 31 Dec. 2021 | 31 Dec. 2020 |
| Trade payables | 0 | 0 | 128 | 2.527 |
| Operating liabilities from advances | 3 | 10 | 0 | 0 |
| Liabilities to the state | 0 | 0 | 50.022 | 50.036 |
| Corporate income tax liabilities | 0 | 0 | 369 | 0 |
| Other operating liabilities | 30 | 49 | 456 | 469 |
| Total | 33 | 59 | 50.975 | 53.032 |

Non-current operating liabilities from advances relate to security deposits received from lessees of business premises the amount of EUR 3 thousand (31 December 2020: EUR 10 thousand). Other operating liabilities amounting to EUR 30 thousand (31 December 2020: EUR 49 thousand) represent a liability for the payment of variable remuneration of the Management Board for company performance.

Current operating liabilities include trade payables amounting to EUR 128 thousand (31 December 2020: EUR 2,527 thousand), liabilities to the state of EUR 50,022 thousand (31: December 2019: EUR 50,036 thousand), of which the largest part, EUR 50,000 thousand, refers to payment obligation to the Pension and Disability Insurance Institute in 2022, corporate income tax liabilities amounting to EUR 369 thousand (31 December 2020, Kapitalska družba, d. d. reported no corporate income tax liabilities) and other operating liabilities amounting to EUR 456 thousand (31 December 2019: EUR 469 thousand), which are mostly liabilities for salaries.

Maturity structure of operating liabilities

in EUR 000

| 31 Dec. 2021 | Trade payables | Operating liabilities from advances | Liabilities to the state | Corporate income tax liabilities | Other operating liabilities | Total |
|--|----------------|-------------------------------------|--------------------------|----------------------------------|-----------------------------|---------------|
| Maturity of up to 1 year | 128 | 0 | 50.022 | 369 | 456 | 50.975 |
| 1 to 2 years | 0 | 0 | 0 | 0 | 30 | 30 |
| 2 to 5 years | 0 | 3 | 0 | 0 | 0 | 3 |
| Over 5 years | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 128 | 3 | 50.022 | 369 | 486 | 51.088 |
| Collateralised liabilities (pledges and similar) | 0 | 0 | 0 | 0 | 0 | 0 |

Note no. 25

Financial liabilities

| | Non-current | | Current | |
|-----------------------------|---------------|---------------|--------------|--------------|
| | 31 Dec. 2021 | 31 Dec. 2020 | 31 Dec. 2021 | 31 Dec. 2020 |
| Other financial liabilities | 50.000 | 50.000 | 0 | 0 |
| Total | 50.000 | 50.000 | 0 | 0 |

As at 31 December 2021, the Company disclosed EUR 50,000 thousand (31 December 2020: EUR 50,000) of non-current financial liabilities, which referred to settling the liabilities of Kapitalska družba to the Pension and Disability Insurance Institute for 2023.

Financial liabilities maturity

| | in EUR 000 | |
|----------------------|---------------|---------------|
| | 31 Dec. 2021 | 31 Dec. 2020 |
| Up to 1 year overdue | 0 | 0 |
| 1 to 2 years | 50.000 | 50.000 |
| 2 to 5 years | 0 | 0 |
| Over 5 years | 0 | 0 |
| Total | 50.000 | 50.000 |

Collateralised borrowings

As at 31 December 2021, Kapitalska družba, d. d. had no borrowings.

15.3.3 Managing the risks arising from financial assets

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

Credit risk

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

Table 40: Exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2021

in EUR 000

| Financial assets at amortised cost | | | | | | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Cash and cash equiva- lents | 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 | 0 | 0 | 2.929 | 7.377 | 0 | 10.306 |
| | AA | 0 | | 0 | 0 | 1.829 | 15.349 | 0 | 17.178 |
| | A | -1 | | 5.736 | 5.735 | 23.420 | 3.010 | 0 | 32.165 |
| | BBB | -2 | | 2.019 | 2.017 | 6.415 | 10.731 | 0 | 19.163 |
| Total secure investments | | -3 | | 7.755 | 7.752 | 34.593 | 36.467 | 0 | 78.812 |
| Less secure investments | BB | -3 | 12-month / lifetime expected losses | 802 | 799 | 1.416 | 1.718 | 0 | 3.933 |
| | B | -59 | | 3.202 | 3.143 | 0 | 0 | 0 | 3.143 |
| | CCC | 0 | | 0 | 0 | 0 | 0 | 0 | 0 |
| | CC | 0 | | 0 | 0 | 0 | 0 | 0 | 0 |
| | C | 0 | | 0 | 0 | 0 | 0 | 0 | 0 |
| | without credit rating | 0 | | 7.000 | 7.000 | 0 | 2 | 19.535 | 26.537 |
| Total less secure investments | | -62 | | 11.004 | 10.942 | 1.416 | 1.720 | 19.535 | 33.613 |
| Impaired investments | D | 0 | Impairment through profit or loss in the amount of expected loss | 0 | 0 | 0 | 22.427 | 0 | 22.427 |
| Total impaired investments | | 0 | | 0 | 0 | 0 | 22.427 | 0 | 22.427 |
| Total | | -65 | | 18.759 | 18.694 | 36.009 | 60.614 | 19.535 | 134.852 |

Financial assets were classified into the stated groups based on credit ratings. Secure investments include all AAA to BBB rated investments, less secure investments comprise investments with a credit rating below BB to C and investments that do not have a rating assigned to them by a recognised credit rating agency, while impaired investments are given a D credit rating. Less secure investments include investments in some bonds and commercial papers, and a redeemable deposit. Impaired investments represent an investment in accounts payable.

Table 41: Exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2020

in EUR 000

| Financial assets at amortised cost | | | | | | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Cash and cash equiva- lents | 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 | | 0 | 0 | 3.018 | 7.713 | 0 | 10.731 |
| | AA | 0 | 12-month | 0 | 0 | 1.886 | 8.341 | 0 | 10.227 |
| | A | -1 | expected losses | 16.311 | 16.310 | 31.510 | 0 | 0 | 47.820 |
| | BBB | 0 | | 0 | 0 | 9.223 | 7.445 | 0 | 16.668 |
| Total secure investments | | -1 | | 16.311 | 16.310 | 45.637 | 23.499 | 0 | 85.446 |
| Less secure investments | BB | -5 | | 1.199 | 1.195 | 1.418 | 0 | 0 | 2.613 |
| | B | -79 | | 3.100 | 3.021 | 0 | 1.865 | 0 | 4.886 |
| | CCC | 0 | | 0 | 0 | 0 | 0 | 0 | 0 |
| | CC | 0 | 12-month / lifetime expect- ed losses | 0 | 0 | 0 | 0 | 0 | 0 |
| | C | 0 | | 0 | 0 | 0 | 0 | 0 | 0 |
| | without credit rating | 0 | | 10.400 | 10.400 | 0 | 2 | 1.162 | 11.564 |
| Total less secure inve- stments | | -84 | | 14.699 | 14.616 | 1.418 | 1.867 | 1.162 | 19.063 |
| Impaired investments | D | 0 | Impairment through profit or loss in the amount of expected loss | 0 | 0 | 0 | 22.427 | 0 | 22.427 |
| Total impaired investments | | 0 | | 0 | 0 | 0 | 22.427 | 0 | 22.427 |
| Total | | -85 | | 31.010 | 30.926 | 47.055 | 47.793 | 1.162 | 126.936 |

Table 42: Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2021

| | in EUR 000 | | |
|--|------------|---------|---------|
| Category | Stage 1 | Stage 2 | Stage 3 |
| Allowances for losses as at 31 December 2020 | 92 | 15 | 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 | -30 | 0 | 0 |
| Financial assets acquired in the period | 23 | 0 | 0 |
| Other changes | -17 | -10 | 0 |
| Allowances for losses as at 31 December 2021 | 68 | 5 | 0 |

Other changes are the result of changes in estimates of risk parameters in accordance with the methodology, a decrease in the value of adjustments due to reduced maturity of the existing investments and due to changes related to accrued interest and exchange rate differences.

Table 43: Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2020

| | in EUR 000 | | |
|--|------------|---------|---------|
| Category | Stage 1 | Stage 1 | Stage 3 |
| Allowances for losses as at 31 December 2019 | 70 | 35 | 0 |
| Transfer to stage 1 | 0 | 0 | 0 |
| Transfer to stage 2 | -1 | 15 | 0 |
| Transfer to stage 3 | 0 | 0 | 0 |
| Financial assets derecognised in the period | -54 | -35 | 0 |
| Financial assets acquired in the period | 80 | 0 | 0 |
| Other changes | -3 | 0 | 0 |
| Allowances for losses as at 31 December 2020 | 92 | 15 | 0 |

Table 44: Changes in gross carrying amount and value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2021

| | in EUR 000 | |
|---|-----------------------|-----------------------|
| Category | Gross carrying amount | Allowances for losses |
| As at 31 December 2020 | 78.065 | 107 |
| Transfer to stage 1 | 0 | 0 |
| Transfer to stage 2 | 0 | 0 |
| Transfer to stage 3 | 0 | 0 |
| Financial assets derecognised in the period | 18.260 | -30 |
| Financial assets acquired in the period | 3.209 | 23 |
| Other changes | -44.766 | -27 |
| As at 31 December 2021 | 54.768 | 73 |

Table 45: Changes in gross carrying amount and value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2020

| Category | in EUR 000 | |
|---|-----------------------|-----------------------|
| | Gross carrying amount | Allowances for losses |
| As at 31 December 2019 | 121.861 | 105 |
| Transfer to stage 1 | 0 | 0 |
| Transfer to stage 2 | -6 | 14 |
| Transfer to stage 3 | 0 | 0 |
| Financial assets derecognised in the period | -43.065 | -89 |
| Financial assets acquired in the period | 2.238 | 80 |
| Other changes | -2.963 | -3 |
| As at 31 December 2020 | 78.065 | 107 |

Table 46: Geographical concentration of credit exposure of financial assets

| Region | in EUR 000 | |
|-----------------|--------------|--------------|
| | 31 Dec. 2021 | 31 Dec. 2020 |
| Slovenia | 66.116 | 86.385 |
| Other countries | 49.201 | 39.389 |
| Total | 115.317 | 125.774 |

The share of financial assets exposed to credit risk in Slovenia decreased from 69 % to 57 % in 2021.

Currency risk

Table 47: Currency structure of financial assets

| Currency | in EUR 000 | |
|--|--------------|--------------|
| | 31 Dec. 2021 | 31 Dec. 2020 |
| Assets denominated in EUR | 1.117.282 | 961.036 |
| Assets denominated in USD | 170.156 | 133.708 |
| Assets denominated in other currencies | 4.251 | 0 |
| Total | 1.291.689 | 1.094.744 |

As at 31 December 2021, 86.5% of financial assets were denominated in euro and 13.2 % in US dollar and 0.3% in other currencies. The 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 48: Currency risk of financial assets

| | in EUR 000 | |
|--|-------------------|-------------------|
| USD exchange rate fluctuation by +/- 10% | 31 Dec. 2021 | 31 Dec. 2020 |
| Impact on the income statement | +/- 10.327 | +/- 7.583 |
| Effect on equity | +/- 6.689 | +/- 5.788 |
| Total | +/- 17.016 | +/- 13.371 |

Interest rate risk

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

Table 49: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2021 – change in interest rates by 100 basis points

| | in EUR 000 | | | |
|--|-------------------------|---------------------------------|----------------------|------------------|
| Financial asset group | Change in interest rate | Sensitivity of interest revenue | Impact on fair value | Total |
| Financial assets measured at fair value through profit or loss | +/- 1 % | +/- 0 | -/+ 7.210 | -/+ 7.210 |
| Financial assets measured at amortised cost | +/- 1 % | +/- 0 | -/+ 0 | -/+ 0 |
| Financial assets measured at fair value through other comprehensive income | +/- 1 % | +/- 0 | -/+ 2.458 | -/+ 2.458 |
| Total | | +/- 0 | -/+ 9.668 | -/+ 9.668 |

Table 50: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2020 – change in interest rates by 100 basis points

| | in EUR 000 | | | |
|--|-------------------------|---------------------------------|----------------------|------------------|
| Financial asset group | Change in interest rate | Sensitivity of interest revenue | Impact on fair value | Total |
| Financial assets measured at fair value through profit or loss | +/- 1 % | +/- 0 | -/+ 5.736 | -/+ 5.736 |
| Financial assets measured at amortised cost | +/- 1 % | +/- 0 | -/+ 0 | -/+ 0 |
| Financial assets measured at fair value through other comprehensive income | +/- 1 % | +/- 0 | -/+ 2.916 | -/+ 2.916 |
| Total | | +/- 0 | -/+ 8.652 | -/+ 8.652 |

The calculation of the sensitivity of interest revenue 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 had changed by 100 basis points, the value of the investments as at 31 December 2021 would have changed by EUR 9,668 thousand. Interest rate risk increased in 2021 thanks to increased exposure arising from the investments sensitive to changes in market interest rates and due to an increase in the average duration of the debt investment portfolio.

Market risk

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

Table 51: Market risk of the equity securities portfolio

| | in EUR 000 | |
|--------------------------------|-------------------|-------------------|
| Change of index by +/- 10% | 31. 12. 2021 | 31. 12. 2020 |
| Impact on the income statement | +/- 13.892 | +/- 11.544 |
| Effect on equity | +/- 15.239 | +/- 44.294 |
| Total | +/- 29.131 | +/- 55.838 |

The table takes into account the market investments in equity instruments excluding investment coupons of bond investment funds. The impact on profit or loss arises from equity investments measured at fair value through profit or loss, whilst the impact on equity arises from equity investments measured at fair value through other comprehensive income. The risk was calculated using the beta indicator of the world stock index. The market risk of equity investments reduced in 2021 due to a lower beta compared to 2020.

Table 52: Financial instruments in terms of marketability

| | in EUR 000 | |
|--|------------------|----------------|
| Financial instrument | 31 Dec. 2021 | 31 Dec. 2020 |
| Securities traded on the regulated market | 1.002.202 | 824.738 |
| Investments at fair value through profit or loss | 236.028 | 179.758 |
| Investments at amortised cost | 8.978 | 19.829 |
| Investments at fair value through other comprehensive income | 757.196 | 625.151 |
| Securities not traded on the regulated market | 82.361 | 77.854 |
| Investments at fair value through profit or loss | 25.099 | 22.443 |
| Investments at amortised cost | 2.715 | 697 |
| Investments at fair value through other comprehensive income | 54.547 | 54.714 |
| Total | 1.084.563 | 902.592 |

At the end of 2021, assets traded on regulated stock markets accounted for 92 % of financial instruments or 78 % of all financial assets of Kapitálska družba, d. d. (this group includes OTC investments and investments on the interbank market). Available-for-sale financial assets measured at fair value through other comprehensive income not traded on regulated market include non-marketable shares, stakes and investment coupons.

Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2021, Kapitálska družba, d. d. recorded a total of EUR 1,247,879 thousand of surplus of expected non-discounted cash inflows over outflows. The deficit of expected undiscounted cash flows in the period of over 1 up to 5 years will be covered by the surplus of expected undiscounted cash flows from the period of less than 1 year or by the sale of investments with a maturity of over 5 years or investments without maturity.

Table 53: Expected actual non-discounted cash flows as at 31 December 2021

in EUR 000

| Item | Up to 1 year | Over 1 up to 5 years | Over 5 years | No maturity | Total |
|--|-----------------|-------------------------|-----------------|------------------|------------------|
| Investments in securities | 3.241 | 45.182 | 39.708 | 1.156.821 | 1.244.953 |
| - Investments at fair value through profit or loss | 421 | 11.232 | 26.887 | 222.940 | 261.481 |
| - Investments at amortised cost | 1.729 | 9.826 | 2.033 | 0 | 13.587 |
| - Investments at fair value through other comprehensive income | 1.091 | 24.125 | 10.788 | 775.718 | 811.722 |
| - Investments at cost | 0 | 0 | 0 | 158.163 | 158.163 |
| Investment in financial receivable | 22.427 | 0 | 0 | 0 | 22.427 |
| Loans and deposits given | 0 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 26.535 | 0 | 0 | 0 | 26.535 |
| Operating receivables | 54.775 | 197 | 0 | 0 | 54.972 |
| Total assets | 106.979 | 45.379 | 39.708 | 1.156.821 | 1.348.887 |
| Operating liabilities | 50.975 | 33 | 0 | 0 | 51.008 |
| Financial liabilities | 0 | 50.000 | 0 | 0 | 50.000 |
| Total operating and financial liabilities | 50.975 | 50.033 | 0 | 0 | 101.008 |
| Difference | 56.004 | -4.654 | 39.708 | 1.156.821 | 1.247.879 |

Tabela 54: Expected actual non-discounted cash flows as at 31 December 2020

in EUR 000

| Item | Up to 1 year | Over 1 up to 5 years | Over 5 years | No maturity | Total |
|--|-----------------|-------------------------|-----------------|----------------|------------------|
| Investments in securities | 25.410 | 23.391 | 49.156 | 967.808 | 1.065.766 |
| - Investments at fair value through profit or loss | 2.220 | 6.606 | 19.745 | 176.836 | 205.408 |
| - Investments at amortised cost | 12.543 | 4.200 | 5.992 | 0 | 22.735 |
| - Investments at fair value through other comprehensive income | 10.647 | 12.585 | 23.419 | 632.809 | 679.460 |
| - Investments at cost | 0 | 0 | 0 | 158.163 | 158.163 |
| Investment in financial receivable | 22.427 | 0 | 0 | 0 | 22.427 |
| Loans and deposits given | 0 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 11.562 | 0 | 0 | 0 | 11.562 |
| Operating receivables | 53.805 | 168 | 0 | 0 | 53.973 |
| Total assets | 113.205 | 23.559 | 49.156 | 967.808 | 1.153.728 |
| Operating liabilities | 53.032 | 59 | 0 | 0 | 53.091 |
| Financial liabilities | 0 | 50.000 | 0 | 0 | 50.000 |
| Total operating and financial liabilities | 53.032 | 50.059 | 0 | 0 | 103.091 |
| Difference | 60.173 | -26.500 | 49.156 | 967.808 | 1.050.637 |

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

Contingent assets and liabilities

Tabela 55: Contingent liabilities

| | in EUR 000 | |
|------------------------|--------------|--------------|
| | 31 Dec. 2021 | 31 Dec. 2020 |
| Contingent liabilities | 2.085 | 3.145 |

Contingent liabilities relate to the commitment of Kapitalska družba, d. d. to purchase investment fund units. Kapitalska družba, d. d. has no contingent assets.

15.4 Other disclosures

Information on employee groups

The members of the Company bodies are listed in the introductory part of the Annual Report, under section *Predstavitev Kapitalske družbe, d. d.*, containing general information about the Company. In 2021, Kapital-ska družba approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

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

In 2021, remunerations paid for carrying out of the responsibilities and duties of members of the Management Board, Supervisory Board and employees with executive employment contracts to which the tariff section of the collective agreement does not apply, amounted to EUR 1,021 thousand.

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

Table 56: Receipts by category of beneficiaries in 2021

| | in EUR 000 |
|--|------------|
| Category of beneficiaries | Amount |
| Members of the Management Board | 477 |
| Members of the Supervisory Board | 112 |
| Employees with executive employment contract | 432 |
| Total | 1.021 |

No advances, loans or collateral were approved to members of the Management Board, the Supervisory Board and employees under individual contracts by Kapitalska družba, d. d. in 2021.

Receipts of the members of management and supervisory bodies

Receipts of the members of the Management Board are regulated by ZSDH-1. Pursuant to Article 51(5) of ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of SDH, d. d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of supervisory body members of companies with majority ownership held by the Republic of Slovenia or self-governing local communities.

The employment contracts made with the Management Board members are consistent with the said legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, however, the basic pay of the Chairman of the Board calculated that way may not exceed 95% of the basic pay of the Chairman of the 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 Chairman of the Board of Kapitalska družba. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous 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 2021 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 57: Receipts of Management Board members in 2021

| | | | | | | | | | | | | | EUR |
|--|--------------------|-----------------|-----------------|--------------------|---------------------------|------|-------------------------|---------|---------------|----------------|-------------|-----------|-----------------------|
| Name and surname | Fixed remuneration | Variable income | Fringe benefits | Cost reimbursement | Insurance premiums (PDPZ) | Fees | Participation in profit | Options | Other bonuses | Other payments | Total gross | Total net | Deferred remuneration |
| Bachtjar Djalil (Chairman of the Board) | 124.924 | 23.383 | 451 | 1.569 | 2.819 | - | - | - | - | 1.200 | 154.346 | 81.293 | 22.830 |
| Goranka Volf (Member of the Management Board until November 2021) | 117.417 | 51.258 | 488 | 1.754 | 2.819 | - | - | - | - | 1.200 | 174.936 | 89.897 | - |
| Gregor Bajraktarević (Member of the Management Board) | 118.858 | 22.239 | 451 | 1.723 | 2.819 | - | - | - | 689 | 1.200 | 147.979 | 79.344 | 29.271 |
| Total | 361.199 | 96.880 | 1.390 | 5.046 | 8.457 | - | - | - | 689 | 3.600 | 477.261 | 250.534 | 52.101 |

Fixed income of the Members of the Management Board includes gross salary receipts. 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 part of the 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. The Member of the Management Board whose term expired on 25 November 2021, also received the second Fringe benefits include benefits from the collective casualty insurance as well as liability insurance of the Members of the Management Board. 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 bonuses include jubilee benefits. Other payments include pay for annual leave. Deferred remuneration comprises a part of the payment of variable remuneration for 2019, which will be paid in 2022, and a part of the payment of variable remuneration for 2020, which will be paid in 2023.

Table 58: Receipts of Members of the Supervisory Board in 2021

EUR

| Name and surname | Fixed income – payment for performance of duties | Fixed income – attendance fees | Fringe benefits | 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 until 15 Oct. 2021) | 14.415 | 2.860 | 396 | - | 222 | - | - | - | - | - | - | 17.893 | 12.618 |
| Janez Tomšič (Chairman of the Supervisory Board from 5 Nov. 2021, Member of the Supervisory Board from 21 Oct. 2021) | 1.639 | 825 | - | - | - | - | - | - | - | - | - | 2.464 | 1.792 |
| Boris Žnidarič, PhD (Deputy Chairman of the Supervisory Board, Chairman of the Accreditation Committee) | 16.224 | 4.521 | 396 | - | 59 | - | - | - | - | - | - | 21.200 | 15.023 |
| Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, Member of the Accreditation Committee and Member of the HR Committee) | 16.500 | 5.500 | 396 | - | 70 | - | - | - | - | - | - | 22.466 | 15.944 |
| Ladislav Rožič, MSc (Member of the Supervisory Board, Chairman of the Audit Committee, Member of the Accreditation Committee) | 16.500 | 5.500 | 396 | - | - | - | - | - | - | - | - | 22.396 | 15.893 |
| Boštjan Leskovar, MSc (Member of the Supervisory Board since 21 Oct. 2021, Chairman of the HR Committee since 5 Nov. 2021) | 1.540 | 1.085 | - | - | 148 | - | - | - | - | - | - | 2.773 | 2.017 |
| Mirko Miklavčič (Member of the Supervisory Board, Member of the Audit Committee and Member of the HR Committee) | 16.500 | 5.478 | 396 | - | 732 | - | - | - | - | - | - | 23.106 | 16.410 |
| Total | 83.318 | 25.769 | 1.980 | - | 1.231 | - | - | - | - | - | - | 112.298 | 79.697 |

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. Fringe benefits include the benefit arising from the liability insurance of the Members of the Supervisory Board. Cost reimbursements include reimbursement of travel expenses.

Table 59: Receipts of external members of the Supervisory Board's committees in 2021

EUR

| Name and surname | Fixed income – payment for performance of duties | Fixed income – attendance fees | Fringe benefits | 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 | 1.276 | - | - | 48 | - | - | - | - | - | - | 4.924 | 3.581 |
| Natalija Stošicki (External Member of the Audit Committee) | 3.600 | 1.496 | - | - | 48 | - | - | - | - | - | - | 5.144 | 3.741 |
| Irena Prijović, MSc (External Member of the Accreditation Committee) | 3.300 | 1.136 | - | - | - | - | - | - | - | - | - | 4.436 | 3.226 |
| Alenka Stanič, PhD (External Member of the Accreditation Committee) | 3.300 | 1.136 | - | - | - | - | - | - | - | - | - | 4.436 | 3.226 |
| Gorazd Žmavc (External Member of the Accreditation Committee) | 3.300 | 916 | - | - | 192 | - | - | - | - | - | - | 4.408 | 3.206 |
| Total | 17.100 | 5.960 | - | - | 288 | - | - | - | - | - | - | 23.348 | 16.980 |

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.

Table 60: Receipts of the members of management and supervisory bodies arising from the performance of functions in the subsidiary Modra zavarovalnica, d. d. in 2021

EUR

| Name and surname | Fixed income – payment for performance of duties | Fixed income – attendance fees | Fringe benefits | Variabilni prejemek | Cost reimbursement | Insurance premiums | Fees | Participation in profit | Options | Other bonuses | Other payments | Total Gross | Total net |
|------------------|--|--------------------------------|-----------------|---------------------|--------------------|--------------------|----------|-------------------------|----------|---------------|----------------|---------------|---------------|
| Bachtar Djalil | 16.779 | 3.080 | 760 | - | - | - | - | - | - | - | - | 20.619 | 14.236 |
| Total | 16.779 | 3.080 | 760 | - | - | - | - | - | - | - | - | 20.619 | 14.236 |

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

Activities of the Supervisory Board and committees of Kapitalska družba

The Supervisory Board held 15 meetings in 2021. The Members attended the Supervisory Board meetings regularly; Aleksander Mervar, Msc, and Mirko Miklavčič were not able to attend one meeting each for justifiable reasons.

The Audit Committee of the Supervisory Board held seven meetings. Its Members attended the meetings regularly; Mojca Verbič was not able to attend one meeting for justifiable reasons.

The Accreditation Committee held four meetings. Its Members attended the meetings regularly, while Gorazd Žmavc was absent from one meeting for justifiable reasons.

The HR Committee held three meetings, which were attended by all Members.

Related-party transactions

In 2021 Kapitalska družba made no significant transactions with its related parties that were concluded under other than normal market conditions.

Disclosure regarding the pension scheme

In 2021, based on the decision of the Ministry of Labour, Family, Social Affairs and Equal Opportunities no. 1032-9/2019-13 of 23 November 2021, the Occupational Retirement Pension Scheme was amended, but the amendments did not enter into force until 1 January 2022. The amended Occupational Retirement Pension Scheme entered into force, which was adopted due to the extended transitional period of applying a differentiated contribution rate and which takes into account the share of the net asset value of the SODPZ fund up to which unallocated solidarity provisions are created.

Significant events after the date of the statement of financial position

In 2021, based on the decision of the Ministry of Labour, Family, Social Affairs and Equal Opportunities no. 1032-9/2019-13 of 23 November 2021, the Occupational Retirement Pension Scheme was amended, but the amendments did not enter into force until 1 January 2022. The amended Occupational Retirement Pension Scheme entered into force, which was adopted due to the extended transitional period of applying a differentiated contribution rate and which takes into account the share of the net asset value of the SODPZ fund up to which unallocated solidarity provisions are created.

Significant events after the date of the statement of financial position

As the covid-19 pandemic started to subside in early 2022, geopolitical risks came to the fore. At the end of February 2022, tensions between Russia and Ukraine escalated to the point that Russia first declared the independence of separatist Ukrainian regions of Donetsk and Luhansk and a few days later launched a military invasion of Ukraine. The invasion has been strongly condemned by the international public. Countries have been introducing escalating economic and financial sanctions against Russia, which have been followed by Russian counter-sanctions. More and more companies have opted for self-restraint tactics and have stopped doing business with Russia. Due to the humanitarian crisis and a large wave of refugees, global economic growth will decline and inflation will grow in 2022.

Financial markets have responded to the military attack with concern and a reduced risk appetite. On the day of the Russian invasion, market volatility increased, the global stock index dropped by 0.6% in USD in one day – mainly due to the decline in emerging market shares (-4.3% in USD), the profitability of the Germany 10 Years Government Bond moved from 0.25% to 0.10% and the price of oil increased. The expectations that the military intervention in Ukraine would be short-lived were not realised. Due to rising energy prices, the monthly inflation rate has increased to 40-year highs, while central banks in developed countries have

raised their expectations regarding future interest rates. The decline in share prices and the growth of risk-free government bonds as a result of the military intervention were short-lived, as they were outweighed by investors' concern about inflation and the tightening of monetary policies by central banks.

While the impact on global economic growth in 2022 will depend on the duration and scale of the Russo-Ukrainian war, analysts predict a significant impact on the European economy, which will, in addition to anticipated higher/high energy prices, increase inflation in 2022. OECD estimates that economic growth in 2022 will drop by 1 percentage point compared to the initial forecasts, while inflation will be higher by 2.5 percentage points. The war in Ukraine has also resulted in a migration crisis and more frequent cyber-attacks.

In the period from 31 December 2021 to 30 April 2022, the total return of the global stock market index in EUR was -6.0%, the return of the corporate bond index was -8.0% and the return of the government bond index was -8.8%.

Direct exposure of portfolio investments to the Russian-Ukrainian market is relatively small; the largest part being the investment in the Russian index fund RUS FP. Among the Company's significant capital investments, the investment in Krka, d. d. as the largest individual investment of Kapitalska družba, d. d. has the highest exposure to the Russian-Ukrainian situation. The Company's other investments with perceived indirect exposure are equity investments and alternative funds whose operations are tied to energy and raw material prices, tourism services and debt securities whose prices depend on interest rates, which have increased due to inflation. Due to the uncertainty of developments, the potential long-term impact on the Company's cash flows cannot be reliably assessed at the moment. In the period from 31 December 2021 to 30 April 2022, the value of the Company's financial assets decreased by approximately EUR 102 million, mainly due to the decline in the price of the share in Krka, d. d.

Russia, which is Krka's largest individual market, and Ukraine represent a 27,5% share in the total sales arising from Krka's operations. According to Krka's Board of Directors, sales in these markets will not deviate significantly from the sales in the same period in 2021. The company is highly dependent on the Russian ruble exchange rate and on the potential mitigation of exposure to ruble with derivatives, whereas it is not directly exposed to currency risks in Ukraine. Krka, d. d. points out that it has a strong capital structure, robust cash flow from operating activities and no financial debt, which is why we estimate that the company's operations will not be compromised in the long term.

In relation to the war in Ukraine, we estimate that Kapitalska družba, d. d. has become more exposed to cyberattacks, as financial institutions are among potential cyberattack targets. In order to prevent cyber intrusions, we have begun implementing certain activities to integrate additional security mechanisms.

On 28 February 2022, Kapitalska družba d. d., together with SDH, d. d., exercised their pre-emption right to purchase all 12,571,257 shares in Sava, d. d. owned by York Global Finance Offshore BDH and all receivables that York Global Finance Offshore BDH had held over Sava, d. d. The total purchase price was EUR 38,000,000.000, with the share price totalling EUR 32,010,989.99 and the price of the receivables standing at EUR 5,989,010.01. Kapitalska družba, d. d. exercised the pre-emption right by taking over all receivables due from Sava, d. d. for a purchase price of EUR 5,989,010.01, while SDH, d. d. took over all 12,571,257 shares of Sava, d. d. for a price of EUR 32,010,989.99.

At the end of 2021, the Implementation of the Republic of Slovenia Budget for 2022 and 2023 Act (ZIPRS2223) was adopted, obliging Kapitalska družba, d. d. to credit EUR 50 million per year to the Pension and Disability Insurance Institute in 2022 and 2023 by 29 September of the current year. Based on the Act, Kapitalska družba, d. d. and the Pension and Disability Insurance Institute concluded an agreement in February 2022 obliging Kapitalska družba, d. d. to cover the liabilities due to the Institute in 2022 and 2023.

On the basis of paragraph 5 of Article 67 of the Act on Additional Measures to Stop Spreading and Mitigate, Control, Recover and Eliminate the Consequences of covid-19 (ZDUPŠOP), the Company paid a solidarity

allowance to 46 persons entitled to occupational pension in the total amount of EUR 9,730 on 14 January 2022. The Ministry of Labour, Family, Social Affairs and Equal Opportunities reimbursed the Company for the total amount allocated to pay the solidarity allowance.

Due to increasing social distress of the population as a result of high energy prices, the National Assembly adopted an act determining emergency measures to mitigate the consequences of high energy prices (ZUOPVCE). The Ministry of the Environment and Spatial Planning will provide the funds for the payment of the single solidarity allowance in the amount of EUR 150 on the basis of requests received by the payers prior to payment. Kapitalska družba, d. d. paid the solidarity allowance to the beneficiaries on 8 April 2022.

Under paragraph 5 of Article 48 of the Book Entry Securities Act, the Company has become the owner of the securities that the beneficiaries did not request to be transferred to their trading accounts with a member of the central securities depository by 31 January 2022. In January 2022, the Central Securities Clearing Corporation – KDD transferred EUR 12,242 thousand of assets to a special account of the Company

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KAPITALSKA DRUŽBA