KAPITALSKA DRUŽBA

CONSOLIDATED ANNUAL REPORT 2022

Kapitalska Družba group

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of abbreviations

ISA	Insurance Supervision Agency
GDP	Gross Domestic Product
BVAL	Bloomberg Valuation Service
CBBT	Composite Bloomberg Bond Trader
ECB	European Central Bank
ESC	Economic and Social Council
EU	European Union
EUR	Euro (currency of the European Monetary Union)
FARS	Financial Administration of the Republic of Slovenia
IMF	International Monetary Fund
KDD	Central Securities Clearing Corporation
KS MR	Modra Renta Guarantee Fund
KS MR II	Modra Renta II Guarantee Fund
KS PPS	First Pension Fund of the Republic of Slovenia Guarantee Fund
KPSJU	Umbrella Pension Fund for Public-Sector Employees
MKPS	Modri Umbrella Pension Fund
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
OdSUKND	Decree on the Strategy for Managing State Capital Investments (Official Gazette of the Republic of Slovenia No. 53/2015)
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
OTC	Over the counter
PDPZ	Voluntary supplementary pension insurance
PNJU K	Pension plan for collective voluntary supplementary pension insurance for public-sector employees
PNMZ K	Pension plan for collective supplementary pension insurance (MKPS)
PNMZ P	Pension plan for individual voluntary supplementary pension insurance (MKPS)
PPS	First Pension Fund of the Republic of Slovenia
RS	Republic of Slovenia
SBITOP	Central Slovenian stock market index
SDH	Slovenski državni holding d.d.
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
SORS	Statistical Office 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

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)
ZIPRS2324	Implementation of the Budget of the Republic of Slovenia for 2023 and 2024 Act (Official Gazette of the Republic of Slovenia, No.150/2022)
ZNVP-1	Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 – ORZNVP48, 5/2017, 15/2018 – Constitutional Court ruling 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 decision, 105/2022 – ZZNŠPP, 141/2022)
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 – ZIPRS2122-A, 121/2021, 162/2021, 187/2021 – ZIPRS2223, 10/2022, 29/2022 – ZUOPDCE, 150/2022 –ZIPRS2324)
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 – ZIUGDT, 174/2020 – ZIPRS2122, 187/2021 – ZIPRS2223, 140/2022, 150/2022 – ZIPRS2324)
ZUJIK	Act Governing the Promotion of Public Interest in Culture (Official Gazette of the Republic of Slovenia, Nos. 96/2002, 123/2006 [ZFO-1], 7/2007 [Constitutional Court ruling], 53/2007, 65/2007 [Constitutional Court ruling], 56/2008, 4/2010, 20/2011, 100/2011 [Constitutional Court ruling], 111/2013, 68/2016, 61/2017, 21/2018 [ZNOrg], 49/2020 [ZIUZEOP], 3/2022 – ZDeb, 105/2022 – ZZNŠPP)
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 93/2015, 9/2019, 49/2020 – ZIUZEOP and 102/2020)

INTRODUCTION
TO THE ANNUAL REPORT

1 Presentation of the Kapitalska Družba Group

The Kapitalska Družba Group comprises the parent company Kapitalska družba and three subsidiaries: Modra zavarovalnica d.d., Hotelske nepremičnine d.o.o. and FINAP d.d. – in liquidation. Each of the aforementioned companies is described in more detail below.

1.1 Kapitalska družba d.d.

1.1.1 Company

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

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 5986010000

VAT ID number: SI59093927

1.1.2 Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba's sole shareholder as at 31 December 2022.

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.

1.1.3 Activities of the Company

Kapitalska družba's principal activity is the management of its own assets and the management of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the SODPZ), aimed at providing additional funds for pension and disability insurance. 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

1.1.4 Company bodies

1.1.4.1 Management Board

Bachtiar Djalil, *President*

Gregor Bajraktarević, *member*

Kapitalska družba was run by its Management Board in 2022 in the following composition:

- Bachtiar Djalil, President,
- Gregor Bajraktarević, member.

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

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

1 Member of the Management Board Gregor Bajraktarević was appointed to a term of office of no more than one year from the day (8 February 2022) he assumed his function in accordance with Article 33 of the Articles of Association.

1.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2022:

- Janez Tomšič, Chairman,
- Dr Boris Žnidarič, Deputy Chairman,
- Aleksander Mervar, MSc, member until 30 August 2022,
- Ladislav Rožič, MSc, member,
- Mirko Miklavčič, member,
- Boštjan Leskovar, MSc,
- Andreja Cedilnik, member since 31 August 2022.

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 shareholders 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 six members in 2022.

1.1.4.3 General meeting

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

1.1.5 Diversity policy

Kapitalska družba will adopt a diversity policy in 2023 in connection with representation on its management and supervisory bodies in terms of gender and other aspects, such as age, education and professional experience. Nevertheless, it should be noted that there are legal restrictions on the Company in terms of the Supervisory Board's diversity policy, as the sixth paragraph of Article 51 of the ZSDH-1 defines the interest make-up of the Supervisory Board, under which 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.

1.1.6 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 is no more than 500 as at the balance sheet date). It is therefore not bound to draw up a statement regarding non-financial operations.

1.2 Modra zavarovalnica d.d.

1.2.1 Company

Company name: Modra zavarovalnica d.d.

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 6031226000

VAT ID number: SI21026912

1.2.2 Ownership structure and data regarding capital

Kapitalska družba was Modra zavarovalnica's sole shareholder as at 31 December 2022.

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

1.2.3 Activities of the company

Modra zavarovalnica provides life insurance services in accordance with the Insurance Act (hereinafter: the ZZavar) and the decision issued by the Insurance Supervision Agency (hereinafter: the ISA) authorising the company to provide services in the following insurance classes:

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

Modra zavarovalnica's activities are defined by law and by the company's articles of association, according to which Modra zavarovalnica pursues the following business activities:

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

1.2.4 Company bodies

1.2.4.1 Management Board

The management board has three members in accordance with the insurance company's articles of association. Modra zavarovalnica was run by its management board in 2022 in the following composition:

- Borut Jamnik, president of the management board, with a four-year term of office that started on 29 August 2021,
- Matija Debelak, MSc, member of the management board, with a four-year term of office that started on 14 September 2021,
- Boštjan Vovk, member of the management board, with a four-year term of office starting on 1 October 2018, and who was re-appointed to a four-year term of office starting on 1 October 2022.

The management board manages the insurance company in the interests thereof, independently and at its own discretion. The management board represents Modra zavarovalnica without limitations. In legal transactions the company is represented jointly by two members of the management board, either by the president and one other member jointly, or by one member in concert with the president or another member. The company's articles of association set out the transactions and decisions for which the management board must obtain the consent of the supervisory board.

The management board exercised its powers in 2022 in accordance with its rules of procedure, reported regularly to the supervisory board, and fulfilled its obligations to the shareholder in accordance with the articles of association, as set out in the ZGD-1.

1.2.4.2 Supervisory Board

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

The supervisory board comprises six members. Kapitalska družba proposes three members of the supervisory board according to the procedure and in the manner set out in the company's bylaws. Half of the members of the supervisory board were proposed by policyholders based on a public call to propose candidates. Two members were proposed by the board of the Umbrella Pension Fund for Public-Sector Employees on behalf of that fund's policyholders, while a third member was proposed by the board of the Modri Umbrella Pension Fund on behalf of the other policyholders.

The supervisory board comprised the following members in 2022:

- Branimir Štrukelj, chair of the supervisory board from 23 December 2021 to 22 December 2022, and deputy-chair of the supervisory board since 23 December 2022,
- Bachtiar Djalil, deputy-chair of the supervisory board from 23 December 2021 to 22 December 2022, and chair of the supervisory board since 23 December 2022.
- Bojan Zupančič,
- Dr Janez Prašnikar,
- Roman Jerman,
- Marko Cvetko.

The responsibilities of the supervisory board are set out in the company's articles of association, while its work method is governed by the aforementioned body's rules of procedure.

1.2.4.3 General meeting

Kapitalska družba exercised its rights in 2022 at the general meeting as the company's sole shareholder.

1.3 Hotelske nepremičnine d.o.o.

1.3.1 Company

Company name: Hotelske nepremičnine d.o.o.

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 8290130000

VAT ID number: SI86977334

1.3.2 Ownership structure and data regarding capital

Kapitalska družba and its subsidiary Modra zavarovalnica established Hotelske nepremičnine on 2 October 2018. The company's share capital amounted to EUR 25,000.00 as at 31 December 2022, while its founders each hold a 50% participating interest.

1.3.3 Activities of the Company

Hotelske nepremičnine was established for the purpose of purchasing the real estate of the San Simon hotel resort.

The company's principal business activity is:

68.200 Renting and operating of own or leased real estate

1.3.4 Senior management of the company

Hotelske nepremičnine's business was directed by two directors in 2022:

- Zoran Perše, and
- Roman Jerman.

1.4 FINAP d.d. (in liquidation)

1.4.1 Company

Company name: FINAP, storitve in posredovanje, d.d. (in liquidation)

Registered office: Rimska cesta 11, Ljubljana

Registration number: 5001927000

VAT ID number: 37429043

Kapitalska družba holds a 66.08% participating interest in the company as at 31 December 2022, which it obtained on the basis of Article 48a of the ZNVP-1. The general meeting adopted a decision on 24 March 2009 to wind-up the company and commence liquidation due to a reduced scope of operations, which leads to negative operating results in the long term.

2 **Statement** of the Management Board of the parent company

In the beginning of 2022, we faced a new geopolitical and economic shock, triggered by the war in Ukraine. The energy and inflation price crisis hit the macro-economic environment hard and have had a drastic impact on business and people's lives. The financial market conditions have had a negative impact on investment returns and on the reduction of assets under management. Despite the worsening economic situation, the Group remains resilient and capitally sound with capital of EUR 1.3 billion. The Group managed more than EUR 4.2 billion in own assets, and the assets of mutual pension funds and guarantee funds in 2022.

In worsening management conditions due to uncertainty in financial markets, the financial soundness and capital adequacy of supplementary pension insurance providers are increasingly important. The Group's size and financial soundness give it a significant advantage over other providers, as it is a well-resourced manager with sufficient resources to sustainably manage and guarantee the return of pension funds in a challenging financial market environment.

The Group is the largest provider of supplementary pension insurance and the largest payer of supplementary pensions and pension annuities in Slovenia. More than 355 thousand people (policyholders and members) hold savings in its mutual pension funds, while the assets of the aforementioned funds have now reached EUR 2.2 billion. Supplementary pension insurance premium amounted to EUR 192 million in total in 2022. The Group has been setting the standards for pension fund management ever since its establishment, which once again demonstrates the importance of its role in the stability of the pension system.

The Group is a strong and robust building block of the Slovenian pension system. Kapitalska družba has functioned as a demographic reserve fund since its establishment and since 1999 has been making 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 2022, the total amount of all transfers to the public pension system exceeded EUR 1 billion. Modra zavarovalnica is a modern insurance company that provides accessible insurance solutions and other financial products to help individuals increase their social security across all phases of life. It allows members (savers) to save for a higher-quality life after they retire.

As a result of the changes introduced by the new IFRS 17 standard to establishing and monitoring profit or loss of insurance companies, the subsidiary Modra zavarovalnica will disclose its operations under the new accounting schemes in 2023. The key change introduced by IFRS 17 is the treatment of the contractual service margin, which will generally be transferred into an insurer's profit or loss gradually over the life of an insurance contract.

By delivering on its commitments in a sustainable manner, the Group contributes to the reliability of the Slovenian pension system. Our mission is the permanent and sustainable development of a long-lived Slovenian society, our efforts focused on the benefit and stability of the pension system in Slovenia. As one of the strongest financial institutions in the country, the Kapitalska družba Group is ready for the new challenges ahead.

Gregor BAJRAKTAREVIĆ
Member of the Management Board

Bachtiar DJALIL
President of the Management Board

3 **Report** of the Supervisory Board of the parent company

REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE AUDITED CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP FOR 2022

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 federation/organisation of pensioners and one is appointed on the basis of a proposal by national-level trade union federation or confederation. The same conditions and criteria that apply to members of SDH's Supervisory Board apply to the members of Kapitalska družba's Supervisory Board. Members of Kapitalska družba's Supervisory Board serve a four-year term of office and may be reappointed. The Supervisory Board of Kapitalska družba functioned in the following composition up to and including 30 August 2022, when the term of office of the member of the Supervisory Board Aleksander Mervar, MSc, expired:Janez Tomšič (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc (member), Boštjan Leskovar, MSc (member), Mirko Miklavčič (member) and Ladislav Rožič, MSc (member). At the General Meeting held on 26 August 2022, Andreja Cedilnik was appointed member of the Supervisory Board for a four-year term of office starting on 31 August 2022. After that day, the composition of the Supervisory Board was the following:Janez Tomšič (Chairman), Dr Boris Žnidarič (Deputy Chairman), Boštjan Leskovar, MSc (member), Andreja Cedilnik, Msc (member), Mirko Miklavčič (member) and Ladislav Rožič, MSc (member). 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 ZDSH-1 in the statement of independence he provided.

The Supervisory Board met at 17 sessions during the 2022 financial year as follows: seven regular sessions and ten correspondence sessions (ten sessions were held in the composition that functioned until 30 August 2022, while seven sessions were held in the composition that functioned from 31 August 2022 on).

The Kapitalska Družba Group comprises the parent company Kapitalska družba d.d. and three subsidiaries: Modra zavarovalnica d.d., Hotelske nepremičnine d.o.o. and FINAP d.d. (in liquidation). A review of the important matters discussed by the Supervisory Board in 2022 is presented below:

- particular attention in the monitoring of Kapitalska družba's operations in 2022 was given to monitoring the management of the Company's assets and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), which is managed by Kapitalska družba;
- confirmation of the annual reports of Kapitalska družba and the Kapitalska Družba Group for the 2021 financial year;
- formulation of a proposal to the General Meeting on the appointment of a certified auditor for the financial years 2022, 2023 and 2024;
- formulation of a proposal to the General Meeting for the appointment of a new member of the Supervisory Board, representing the sole shareholder, proposed by SDH in accordance with the law (this appointment was made in August 2022), and the proposal to the General Meeting for the appointment of two members of the Supervisory Board to be appointed on the proposal of a national-level federation or organisation of pensioners and one member to be appointed on the basis of a proposal by national-level trade union federations or confederations, on the basis of preliminary procedures for the nomination of candidates under Article 51 of the ZSDH-1 and Article 19 of the Articles of Association (this appointment was made in February 2023);
- consent to Kapitalska družba's business-financial plan for the 2023 financial year;
- the Supervisory Board was continuously briefed on the operations of the subsidiary Modra zavarovalnica;
- the Supervisory Board monitored the Company's management activities, in the scope of which the performance of individual Slovenian investments of significant value (some of them are defined as strategic or important investments in accordance with the Strategy for Managing State Capital Investments) were presented and discussed in detail by quarters 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 these companies. In November 2022 the Supervisory Board decided to no longer issue its consent to the voting positions for the general meetings of these companies, considering the allocation of powers between the Management Board and the Supervisory Board, but will instead only acknowledge the positions of the Management Board in advance;
- In accordance with the provisions of the Company's Articles of Association, the Supervisory Board also gave the Management Board its consent to conclude transactions for the purchase and sale of securities and participating interests in cases when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution. Among such consents issued in 2022, the Supervisory Board also issued, at its 211th session of 21 February 2022, the consent to purchase the receivables from Sava, d.d. based on exercising the pre-emptive right exercised by Kapitalska družba, together with SDH, on the basis of a request from York Global Finance Offshore BDH (Luxembourg) S.A.R.L.;
- the Supervisory Board carried out the process of selecting two Management Board members. Once the selection process was completed on the basis of a public tender procedure, Bachtiar Djalil was reappointed as President of the Management Board and Gregor Bajraktarević as a member of the Management Board, both for a four-year term of office. The new terms of office commenced on 4

January 2023 for Bachtiar Djalil as President of the Management Board and on 9 February 2023 for Gregor Bajraktarević as member of the Management Board.
- the Supervisory Board carried out a self-assessment of the effectiveness of its work. In order to assess its effectiveness, Supervisory Board members relied on the self-assessment matrix published in the Manual for Assessing the Effectiveness of Supervisory Boards, adopted by the Slovenian Directors' Association. On the basis of the self-assessment, the Supervisory Board conducted its analysis and adopted a guideline to put more emphasis on the training of the Supervisory Board members.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2022. 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 Audit Committee of Kapitalska družba's Supervisory Board functioned in the following composition in 2022, from 1 January 2022 until 14 September 2022: Ladislav Rožič, MSc (chair), Aleksander Mervar, MSc (until the expiry of his term of office on 30 August 2022) and Mirko Miklavčič (members), and Natalija Stošicki and Mojca Verbič (external members). The Audit Committee functioned in the following composition from 15 September 2022 until 31 December 2022: Andreja Cedilnik (chair), Ladislav Rožič, MSc, Mirko Miklavčič (members), Natalija Stošicki and Mojca Verbič (external members). The Audit Committee of the Supervisory Board met in eight sessions, two of which were correspondence sessions. Six committee sessions were held in the composition functioning until 14 September 2022 and two in the composition functioning from 15 September 2022 on. The Audit Committee represented a permanent working body of the Supervisory Board, and throughout the financial year closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. 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. 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. Following the selection process, the Audit Committee made a proposal to the Supervisory Board in 2022 for the appointment of the audit firm for the business years 2022-2024, reviewed the content of the audit contract and made a proposal to the Supervisory Board for its conclusion. It also carried out the process of self-assessment of the work performed in the previous year. The Audit Committee regularly briefed the Supervisory Board on its work during the latter's sessions.

The Accreditation Committee of the Supervisory Board of Kapitalska družba functioned in the following composition in 2022, from 1 January 2022 until 14 September 2022: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc (until the expiry of his term of office on 30 August 2022) and Ladislav Rožič, MSc (members) and Dr Alenka Stanič, Irena Prijović, MSc and Gorazd Žmavc (external members). The Supervisory Board's Accreditation Committee functioned in the following composition from 15 September 2022 to 31 December 2022: Dr Boris Žnidarič (chair), Boštjan Leskovar, MSc, and Ladislav Rožič, MSc (members) and Dr Alenka Stanič, Irena Prijović, MSc and Gorazd Žmavc (external members). The Supervisory Board's Accreditation Committee met in three sessions of which one was a correspondence session. Two committee sessions were held in the composition functioning until 14 September 2022 and one in the composition functioning from 15 September 2022 on. 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.

The Supervisory Board's HR committee of Kapitalska družba in 2022, from 1 January 2022 to 14 September 2022, functioned in the following composition: Boštjan Leskovar, MSc (chair), Aleksander Mervar, MSc, (until the end of his term of office on 30 August 2022) and Mirko Miklavčič (members). From 15 September 2022 until 31 December 2022, the Human Resources Committee has functioned in the following composition: Boštjan Leskovar, MSc (chair), Mirko Miklavčič and Andreja Cedilnik (members). The Supervisory Board's Human Resources Committee met in nine sessions, three of which were correspondence sessions. Five committee sessions were held in the composition functioning until 14 September 2022 and four in the composition functioning from 15 September 2022 on. The main tasks of this committee were to support the Supervisory Board in developing the basis for the procedure for the appointment of the President and a member of the Management Board of the Company (competency profile, timetable, text of the public call to tender), to review the applications, to conduct interviews and to propose to the Supervisory Board the appointment of the President and a member of the Management Board on the basis of the call to tender, to review in advance the employment contracts concluded with the members of the Management Board and to determine the variable remuneration of the members of the Company's Management Board. The committee was also involved in activities in connection with the formulation of the proposal of a candidate who is a representative of national-level representative trade union federations/confederations for appointment to Kapitalska družba's Supervisory Board, and the review of the proposal of candidates who are representatives of national-level federations/organisations of pensioners for appointment to Kapitalska družba's Supervisory Board.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the consolidated annual report in Tables 66 and 67.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the above-described continuous monitoring and supervision of the operations and management of Kapitalska družba and group companies during the 2022 financial year, and based on a review of the consolidated annual report of the Kapitalska Družba Group for 2022 compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of the Kapitalska Družba Group. The Supervisory Board finds that the Management Board prepared materials in a timely manner, which facilitated quality information and the thorough discussion of the most important operational matters. The Management Board also provided exhaustive responses to the Supervisory Board's additional questions and initiatives. The Management Board's reporting to the Supervisory Board enabled the latter to carry out its supervisory role satisfactorily in 2022.

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 consolidated financial statements of the Kapitalska Družba Group for 2022, which was conducted by the audit firm PricewaterhouseCoopers d.o.o., Ljubljana, which issued an unqualified opinion. In the auditor's opinion, the consolidated financial statements represent a fair picture, in all material respects, of the consolidated financial position of Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d. (hereinafter: Company) and its subsidiaries (hereinafter collectively: Group) as at 31 December 2022, and of the consolidated financial performance of the Group and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. The Supervisory Board has no remarks regarding the audit report.

c) Decision regarding the approval of the consolidated annual report for 2022

The consolidated audited annual report of the Kapitalska Družba Group for 2022 was discussed by the Audit Committee at its 92nd correspondence session held on 6 July 2023, and by the Supervisory Board at its 232nd correspondence session, which ended on 7 July 2023. 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 hereby approves the consolidated annual report of the Kapitalska Družba Group for 2022.

Janez Tomšič
Chair of the Supervisory Board

Ljubljana, 7 July 2023

MANAGEMENT REPORT

4 Organisational structure of the Kapitalska Družba Group

The Group is organised in accordance with the needs of the work process, and the requirements of operational effectiveness and competitiveness.Kapitalska družba's role as the parent company of an insurance group that includes the subsidiaries Modra zavarovalnica, Hotelske nepremičnine and FINAP (in liquidation) is also taken into account. Kapitalska družba provides IT services for subsidiaries Modra zavarovalnica and Hotelske nepremičnine.

4.1 Reporting on employees

Employees represent a source of effort and knowledge that contribute to the achievement of the Group's long-term objectives and the satisfaction of its stakeholders. We therefore strive to create a work environment that promotes mutual trust, respect and cooperation to achieve the Group's objectives.We place great emphasis on knowledge and education, recognising that only by investing heavily in development can we respond quickly and effectively to the demands of a competitive market.

The Kapitalska Družba Group had 121 employees at the end of 2022, of whom 58 were at Kapitalska družba and 63 were at Modra zavarovalnica. Hotelske nepremičnine has no employees. The two directors who run the company based on management contracts are employees of Kapitalska družba and Modra zavarovalnica. FINAP d.d. (in liquidation) has no employees.

Table 1: Number of Group employees by level of qualification

Qualification level	Number of employees as at 31 Dec 2022	Number of employees as at 31 Dec 2021
Level 8 (8/1, 8/2)	20	20
Level 7	51	52
Level 6 (6/1, 6/2)	32	31
Level 5	16	18
Level 4	2	2
Total	121	123

5 Business environment

5.1 Macroeconomic background

5.1.1 Gross domestic product, inflation and unemployment rate

In 2022, the global economy was hit hard by the Russian invasion of Ukraine, the emergency situation on the energy market, soaring inflation and significant interest rate increases by major central banks. Economic activity was further affected by the real estate crisis in China and the maintenance of a policy of strict containment measures during the covid-19 epidemic, which China, unlike the rest of the world, insisted on until November 2022.

Economic growth in the first half of 2022 was still relatively favourable, mainly due to the rapid recovery in services and private consumption following the relaxation of measures related to the containment of the COVID-19 epidemic. After high global economic growth of 6.3% in 2021, economic growth in 2022 stood at 3.4%. The economic growth of euro area countries amounted to 3.5% in 2022.[2] After cooling in the second half of the year, growth in the fourth quarter nevertheless slightly exceeded analysts' expectations, mainly reflecting the effects of the agreements reached and measures taken to mitigate the energy crisis on confidence indicators and the easing of energy prices, as well as the impact of a milder winter and the persistence of high gas inventories. The energy crisis, Europe's high dependence on Russian energy products and the imposition of sanctions against Russia, the impact of high inflation on household purchasing power and on rising business costs, disruptions in supply chains, the cooling global economy and tighter financing conditions due to the normalisation of monetary policies have all contributed to declining economic growth in 2022. These factors are also expected to affect economic activity in 2023.

The war in Ukraine, which began with the Russian invasion on 24 February 2022, has brought to light one of the major geopolitical risks in Europe. In addition to the steep increases in energy and food prices, we also saw price increases spilling over into other products and services in 2022, thanks to high labour market resilience, excess savings and fiscal measures imposed by governments. Inflation, already recorded in 2021, picked up further in 2022, reaching 8.4% in the euro area, 8% in the US and 10.3% in Slovenia.[3]

The labour market remains strong in both the US and Europe. The unemployment rate in the US has reached an all-time low of 3.6%, with the number of employees not surpassing the pre-covid-19 level until late 2022. The proportion of the working population remains low and has not risen to pre-pandemic levels. In Europe, the unemployment rate has also fallen, reaching 6.7%[4] at the end of 2022.

Slovenia's economic growth of 5.4% in 2022 is largely driven by the first half of the year (9.4% in year-on-year terms) and the recovery from the epidemic. Household consumption increased by 9.1%, only

2 All economic growth figures are derived from IMF data.
3 Inflation data for the euro area and the US are from the IMF, while inflation data for Slovenia are from the SORS.
4 IMF data.

slightly less than in 2021. The still strong growth is mainly linked to the easing of the containment measures at the beginning of the year and to continued employment growth, as well as to the redemption of vouchers by mid-year to help the parts of the service sector most affected by the epidemic; consumers also spent a smaller share of their current income on savings compared to the previous year. With consumer confidence falling in the spring, linked to uncertainty about the energy and food crises, and purchasing power declining in the face of rising inflation, household spending slowed by the end of the year. In this context, government measures to mitigate the effects of the epidemic in the spring and the autumn inflation have prevented an even larger fall in real terms in average disposable income. Gross investment also contributed positively to growth, especially in construction, where investment in buildings and structures strengthened, boosted by higher government investment activity and further growth in residential investment. Export growth was much lower than in 2021 due to a slowdown in merchandise export growth. It was also lower than import growth, contributing to the negative contribution of the trade balance to GDP growth in 2022.[5]

The active population in 2022 recorded all-time high values, increasing by 2% compared to 2021, with the largest increase seen in the construction sector. The number of unemployed at the end of the year was around a fifth lower than a year earlier. Inflation picked up to 10.3%, with the main contributors being rising prices of food and non-alcoholic beverages.[6]

The world enters 2023 with low, below-average economic growth and inflation rates that, while steadying on a monthly basis, remain at high levels, well above central banks' targets. In Europe, the RePowerEU plan will drive growth, in the US the Inflation Reduction Act, in China the new Five Year Plan, and in Europe, focus and investment will intensify in the areas of increasing energy independence and mitigating environmental risks. In its January 2023 report, the IMF forecasts global economic growth of 2.9% and a decline in inflation, measured at the global level, from 8.8% in 2022 to 6.6% in 2023.

The table below presents macroeconomic aggregates (GDP, the inflation rate and the unemployment rate) in Slovenia and major global countries and/or regions for 2022.

Table 2: Gross domestic product, inflation and unemployment rate (data for 2022)

	Annual inflation rate (in %)	Annual GDP growth (in %)	Unemployment rate (in %)
Slovenia	10.3	5.4	3.5
Germany	8.6	1.8	5.3
Euro area	8.4	3.5	6.7
US	8.0	2.1	3.6
China	2.0	3.0	5.5

Source: Bloomberg (22 March 2023), IMAD, SORS (2 March 2023).

5 Data from the SORS and IMAD.
6 Data from the SORS and IMAD.

5.1.2 Interest rates

The rise in inflation has been followed by a tightening of monetary policies, with the major central banks raising interest rates at an intense pace. The US Federal Reserve has raised interest rates seven times in 2022, totalling 4.25 percentage points, and has already started to reduce its total assets by actively selling investments. The European Central Bank, which started raising interest rates much later than the Fed, raised them four times for a total of 2.5 percentage points and announced that it would start reducing its total assets in 2023, beginning with a strategy of only partially reinvesting maturing bonds. The Bank of England raised interest rates by 3.25 percentage points during this time. By contrast, the Bank of Japan did not raise interest rates, and the Bank of China is among the few central banks to pursue a stimulative monetary loosening policy in 2022, lowering the percentage of banks' minimum reserve requirement.

Table 3: Key interest rates of major central banks

	Level of key interest rate as at 31 December 2022
Euro area	2.5% (key interest rate) 2.0% (deposit facility)
US	4.25% to 4.50%
UK	3.25%
Japan	-0.10%
Canada	4.25%
China	4.35%

Source: Bloomberg (7 February 2023)

5.2 Developments on the financial markets

In 2022, we saw a significant decline in prices of both equity and debt securities. With the normalisation of central banks' monetary policies, 2022 represents the second consecutive year of negative yields on debt securities. The magnitude of the rise in interbank interest rates and government bond yields with one year represents historic extremes, which have shaped the fortunes of both debt and equity markets. The declines in the prices of debt securities in 2022 even exceed those of equities.

The 6-month Euribor rose from -0.54% to 2.7%, reaching 2009 levels, while the yield to maturity on the 10-year German government bonds rose from -0.18% to 2.57%. The average decline in government bond prices (-18.4%) was higher than the average drop in corporate bond prices (-14.2%), due to the longer average maturity of these investments, while simultaneously also seeing a widening of credit spreads in the bond market, which further contributed to the negative return on these investments.

The MSCI World Index (MSCI Daily TR Gross World) lost 12.6% expressed in euros. In the equity market, negative returns were recorded in developing and developed countries and in all sectors except energy. The index of Slovenian IPO shares, together with the dividend yield, recorded an 11% fall in value.

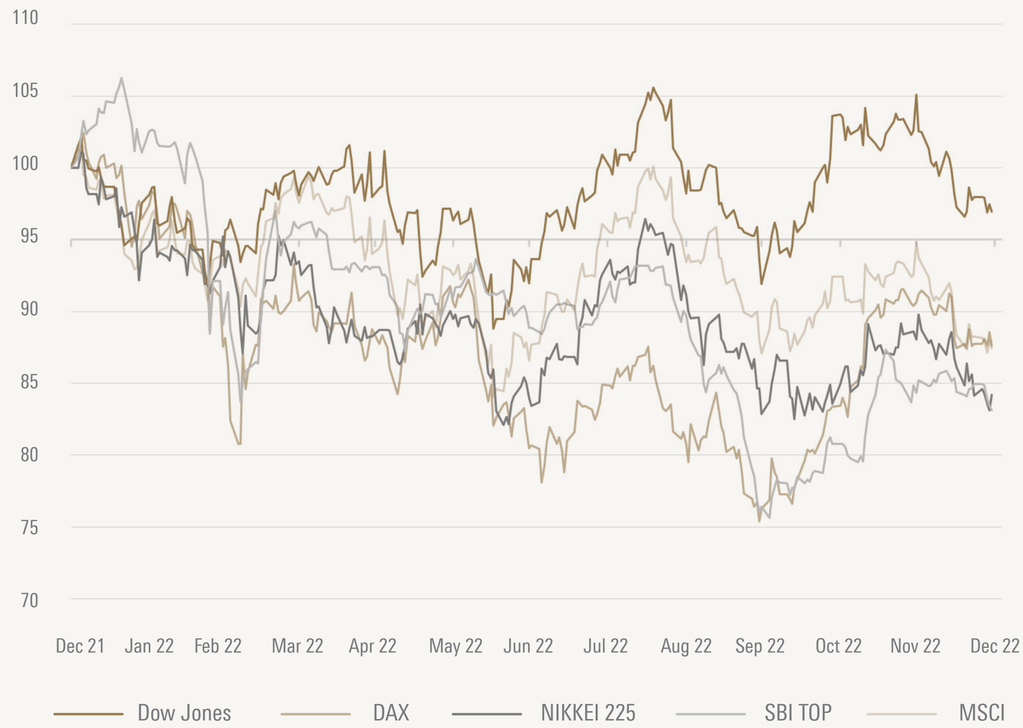
In 2022, the commodity market saw significant price increases for iron ore and oil, and among major currencies, appreciation of the US dollar, Swiss franc and Russian rouble, and depreciation of the British pound and Japanese yen.

Table 4: Returns on major financial markets

	Returns in 2022 measured in euros, including dividend yield
Share indices	
SBITOP – Slovenia	-11.0%
DAX – Germany	-12.4%
Dow Jones – US	-1.0%
NIKKEI 225 – Japan	-14.0%
MSCI World TR – global	-12.6%
Bond indices	
IBOXX EUR Sovereigns TR index – euro government bonds	-18.44%
IBOXX EUR Corporates TR Index – euro corporate bonds	-14.17%
Exchange rates and commodities	
EUR/USD	-5.8%
Brent crude oil	25.8%
Gold	6.02%

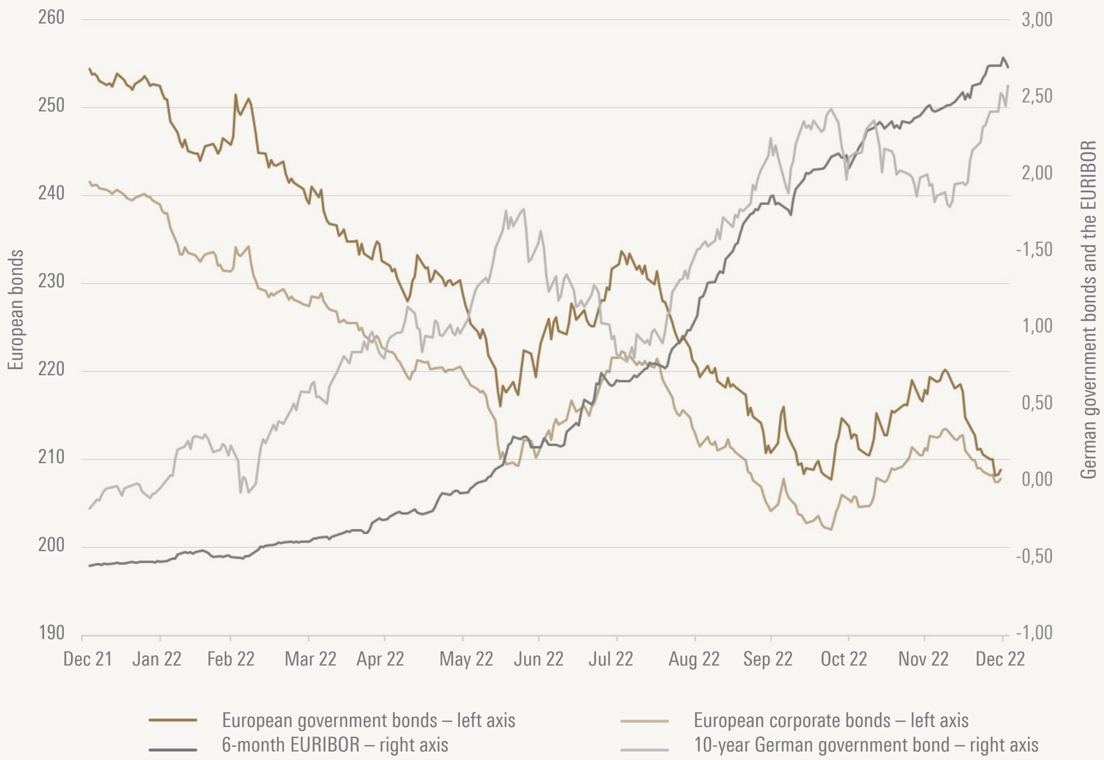
Source: Bloomberg (7 February 2023)

Figure 1: Movement in the Slovenian SBITOP and selected foreign stock indices in 2022 in euros (index: 31 December 2021 = 100)



Source: Bloomberg (7 February 2023)

Figure 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 2022



Source: Bloomberg (7 February 2023)

6 Performance of the Kapitalska Družba Group in 2022

The Kapitalska Družba Group comprises the parent company (Kapitalska družba) and three subsidiaries (Modra zavarovalnica, Hotelske nepremičnine and FINAP – in liquidation). Subsidiaries Modra zavarovalnica and Hotelske nepremičnine report to the parent company in accordance with the Code of the Group,[7] which includes guidelines that define the content, deadlines and methods of reporting to the parent company by the Group's subsidiaries. The associates of Kapitalska družba are presented in the financial report (Note 14).

6.1 Management of Kapitalska družba's own assets

Kapitalska družba classifies investments to the following four categories:

- capital investments,
- waived securities,[8]
- securities from registry accounts[9],
- portfolio investments.

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

7 FINAP (in liquidation) is not covered by the Group's code.
8 Waived securities obtained in accordance with Article 48a of the ZNVP-1.
9 Securities from registry accounts acquired in accordance with Article 48a of the ZNVP-1.

Table 5: Kapitalska družba's financial assets as at 31 December 2022 and 31 December 2021

Type of investment	Value (in EUR 000)	Proportion (in %)	Value (in EUR 000)	Proportion (in %)
	31 December 2022		31 December 2021	
Capital investments	668,591	59.3	773,612	59.9
Strategic investments[10]	189,000	16.8	188,225	14.6
Material investments	411,535	36.5	521,947	40.4
Portfolio investments	68,056	6.0	63,440	4.9
Waived securities	213	0.0	206	0.0
Securities from registry accounts	6,420	0.6	0	0.0
Portfolio investments	452,953	40.1	517,871	40.1
Equity portfolio investments	18,094	1.6	6,510	0.5
Debt portfolio investments	396,488	35.1	462,399	35.8
Cash and cash equivalents	9,955	0.9	26,535	2.1
Investments in financial claims	28,416	2.5	22,427	1.7
Total financial assets	1,128,177	100.0	1,291,689	100.0

6.1.1 Capital investment management

6.1.1.1 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 2022.

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.

6.1.1.2 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 total number of these investments as at 31 December 2022 was 32, comprising 27 investments in public limited companies and five investments in limited liability companies.

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

The value of capital investments was EUR 668,591 thousand as at 31 December 2022, a decrease of EUR 105,021 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 2022 and 31 December 2021 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 investment portfolio (%)	Number of investments	Value (in EUR 000)	Proportion of capital investment portfolio (%)
	2022			2021		
Strategic investments	10	189,000	28.2	10	188,225	24.3
Material investments	6	411,535	61.6	6	521,947	67.5
Portfolio investments	16	68,056	10.2	17	63,440	8.2
Investments in bankruptcy or liquidation	0	0	0	1	0	0
Total capital investments	32	668,591	100	34	773,612	100

6.1.1.3 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. In 2022, Kapitalska družba published two public calls for the submission of bids for the purchase of shares and participating interests, specifically for the sale of the participating interests in Elan Inventa, d. o. o. and the shares in Nika Brežice, d. d. Both investments were sold for a total amount of EUR 608 thousand.

For nine investments, Kapitalska družba received a cash severance payment totalling EUR 1,538 thousand and for two investments it accepted a takeover bid totalling EUR 35 thousand.

Two companies were deleted from the companies register, namely MTT TT, d. d. - in bankruptcy and Resevna, d. d. - in bankruptcy.

SDH also published a public call on behalf of Kapitalska družba in 2022 for the submission of bids for the purchase of shares in Cetis, d. d.

6.1.1.4 Purchases of companies

On 31 January 2022, Kapitalska družba and SDH received a request from York to exercise the pre-emptive right for the purchase of the shares in Sava, d. d. and the financial receivable from Sava, d. d. held by York for a total value of EUR 38,000 thousand, of which EUR 32,011 thousand were for the shares in the company and EUR 5,989 thousand for the financial receivable.

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 consideration amounted to EUR 38,000 thousand. Kapitalska družba acquired the entire claim against Sava, d. d. for consideration in the amount of EUR 5,989 thousand, while SDH acquired all 12,571,257 shares of Sava, d. d. for consideration in the amount of EUR 32,011 thousand.

Kapitalska družba received one bid from sellers for the purchase of shares or participating interests in 2022.

On 25 September 2015, the Book-Entry Securities Act (ZNVP-1) was adopted, which provided in its transitional and final provisions that the Central Securities Clearing Corporation (hereinafter: KDD) would discontinue the registry accounts of legal persons by 30 September 2016 and the registry accounts of other persons by 1 January 2017. The book-entry securities in the registry accounts which had not been transferred to other accounts by the deadline for the discontinuation of the registry accounts would be transferred to the account of the competent court in accordance with the rules of the CSCC, subject to the provisions of the acts governing the deposit of items with the court. Further amendments and additions to the Book-Entry Securities Act (ZNVP-1A) provided that, notwithstanding the provisions of the act governing the court deposit procedure, Kapitalska družba was entitled to the book-entry securities that would otherwise belong to the Republic of Slovenia. The act was amended in this part for the second time on 18 June 2019 with the Act Amending the Book-Entry Securities Act (ZNVP-1B) to further regulate the transfer of the book-entry securities that remained registered in the discontinued registry accounts until 31 August 2019 to the credit of a joint dedicated account for transfer to Kapitalska družba.

The transfer of securities from the joint dedicated account for transfer to Kapitalska družba to a special account at Kapitalska družba is governed by Article 48a of the ZNVP-1. Pursuant to the third paragraph of Article 48a of the ZNVP-1, persons whose book-entry securities have been transferred to a joint dedicated special account for transfer to Kapitalska družba, maintained by the KDD, or other beneficiaries, had until 31 December 2021 to request that the transferred book-entry securities or the book-entry securities that replaced them be transferred to an account at a member of the Central Securities Clearing Corporation. After the expiry of this deadline, the securities for which no beneficiary claims had been submitted were transferred from the joint dedicated account for transfer to Kapitalska družba to a special account at Kapitalska družba.

As of 1 January 2022, Kapitalska družba thus became the holder of these securities by operation of law and is thus entitled to exercise all rights attached to the securities so acquired. As of that date, the former holders therefore lost all rights under these securities. Kapitalska družba thus acquired shares in 153 companies in 2022 on the basis of Article 48a of the ZNVP-1.

In addition to the above, the Central Securities Clearing Corporation pursuant to the fifth paragraph of Article 48a of the ZNVP-1 shall also deliver to Kapitalska družba, within 15 days from the date of transfer of the book-entry securities, all returns, payouts and cash compensation received for the book-entry securities transferred to the credit of the joint dedicated account for transfer to Kapitalska družba pursuant to the second paragraph of Article 48a of the ZNVP-1, without additional interest until the expiry of said 15-day period.

The income from the acquisition of these securities is recognised in the income statement as finance income from interests in companies amounting to EUR 12,320 thousand.

6.1.1.5 Dividends of domestic companies

Kapitalska družba recorded EUR 34,820 thousand in domestic corporate dividends and from investments in waived securities and securities from registry accounts in 2022, an increase of EUR 6,435 thousand relative to 2021, when these dividends totalled EUR 28,385 thousand. The ten largest capital investments in terms of dividends received accounted for 99.3% of all dividends from domestic companies owned by Kapitalska družba.

The payment of dividends in 2022 was approved by the general meetings of 62 companies in which Kapitalska družba held a capital investment, compared with the approval of dividend payments by the general meetings of 24 companies in which Kapitalska družba held a capital investment in 2021.

6.1.1.6 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 2022 to 31 December 2022, 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, November 2019, March 2021 and, most recently, in June 2022.

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 2022. 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.

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 2022. Disclosures with regard to Kapitalska družba's actions at general meetings are published on the Company's website.

6.1.1.7 Participation at general meetings

In 2022, Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 176 general meetings of shareholders or partners of companies. Representatives of Kapitalska družba participated in 30 general meetings, at which the Company independently exercised its voting rights. In accordance with Article 53 of the ZSDH-1, SDH exercised the voting rights of Kapitalska družba at 33 general meetings on behalf of and on account of the latter. Employees of Kapitalska družba have been authorised to participate and exercise all shareholder rights, except for the exercise of voting rights. Kapitalska družba did not attend 104 general meetings addressing investments in waived securities and securities from registry accounts, as there were no business reasons in the interest of Kapitalska družba other than the insignificant shareholding. Nine general meetings were cancelled prior to the meetings.

Table 7: Participation at general meetings

Form of participation	Number of general meetings
Participation and voting by employees of Kapitalska družba	30
Participation by employees of Kapitalska družba; voting by SDH	33
Total	63

6.1.2 Waived securities and securities from registry accounts

As at 31 December 2022, Kapitalska družba in terms of waived securities and securities from registry accounts acquired on the basis of Article 48a of the ZNVP-1, held investments in 160 companies categorised into two portfolios, i.e. 95 were in waived securities and 139 in securities from registry accounts. The total value of both portfolios was EUR 6,633 thousand as at 31 December 2022.

6.1.3 Management of portfolio investments

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

The total value of portfolio managed investments decreased by EUR 64.9 million in 2022, mainly as a result of negative global returns across all investment categories. Investment funds investing in both equity and debt investments recorded the largest decrease in value, i.e. by EUR 62.6 million. This is due to negative global returns across all investment categories in 2022. The decrease of EUR 5.6 million in the value of bonds is mainly due to a decrease in the value of bond investments, and to a lesser extent to the combined effect of new purchases and maturities of individual bonds. Shares recorded an increase in value of EUR 11.6 million, mainly due to swaps of investment funds into individual companies' shares. The change in cash and cash equivalents is the result of active liquidity management within portfolio investments and liquidity management for the Company's other operating activities.

The five largest investments in the asset management portfolio as at 31 December 2022 were as follows: index equity funds that track the US S&P 500 (SPY US) and index funds that track the MSCI World global stock indices (SMSWLD GY, XMWO GY, IWDA LN and XDWD GY). The five largest bond investments as at 31 December 2022 are two bonds of the Republic of Slovenia, bonds of France, Germany and Romania. The investment in a financial claim of EUR 28.4 million represents a secured claim against Sava, d. d. The five largest investments among shares are investments in shares of companies, i.e. TotalEnergies SE, Novo Nordisk A/S, BP Plc, Roche Holding AG and UBS Group AG.

Table 8: Composition of portfolio-managed financial assets as at 31 December 2022 and 31 December 2021

Type of investment	Value	Proportion (in %)	Value	Proportion (in %)
	31 December 2022		31 December 2021	
Investment funds	313,896	69.3	376,512	72.7
Bonds	79,145	17.5	84,719	16.4
Shares	18,094	4.0	6,510	1.3
Commercial paper	1,493	0.3	1,168	0.2
Investments in financial claims	28,416	6.3	22,427	4.3
Treasury bills	1,954	0.4	0	0.0
Cash and cash equivalents	9,955	2.2	26,535	5.1
Total portfolio-managed financial assets	452,953	100.0	517,871	100.0

6.1.4 Investment property

Kapitalska družba held investment property in the following commercial buildings in 2022:

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

All commercial premises and all parking places located at all investment properties were let as at 31 December 2022.

6.2 Management of mutual pension funds

The Group operates four mutual pension funds and umbrella pension funds, which are managed and disclosed as segregated assets owned by the policyholders and members of the fund in question:[11]

- the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ),
- the Umbrella Pension Fund for Public-Sector Employees (KPSJU),
- the Modri Umbrella Pension Fund (MKPS),
- the First Pension Fund of the Republic of Slovenia (PPS), which was created under a special law through the conversion of pension certificates.

The Kapitalska družba Group is the largest provider of supplementary pension insurance in Slovenia. Almost 355 thousand individuals held savings in the Company's mutual pension funds at the end of December 2022, while the assets of the aforementioned funds amounted to almost EUR 2.2 billion. Excluding transfers of assets between sub-funds, premium paid for supplementary pension insurance amounted to more than EUR 192 million in 2022.

Table 9: Figures for mutual pension funds operated by the Kapitalska Družba Group as at 31 December 2022

Fund	Number of policyholders/ members[12]	Number of employers / liable persons[13]	Assets under management, EUR million
SODPZ	50,301	428	852.4
KPSJU	251,856	1,879	1,000.9
MKPS	38,457	426	338.9
PPS	14,597	0	12.1
Total	355,211	2,733	2,204.3

6.2.1 Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia

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).

11 For more on the operation of the mutual pension funds, see the annual reports of the individual funds.
12 Certain individuals may be policyholders/members of multiple funds.
13 Certain employers and liable persons may hold pension plan funding contracts with multiple funds.

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

For the period from 1 January 2022 to 19 November 2022, the occupational insurance pension plan, which was adopted to extend the transitional period of applying a differentiated contribution rate and which takes into account the share of the net asset value of the SODPZ up to which unallocated solidarity reserves are created, was in force for the period from 1 January 2022 to 31 December 2023. The amended occupational insurance pension plan, adopted to remove the requirement to produce a copy of an official identity document for the purpose of identifying the applicant when exercising rights from occupational insurance, applies from 20 November 2022. The second amendment concerns the termination of occupational insurance, which will now also cease if the person ceases to work full-time in a job for which occupational insurance is compulsory.

Kapitalska družba was entitled in 2022 to the reimbursement of entry (subscription) and exit (redemption) fees, an annual fee for the management of the SODPZ 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.

6.2.2 Umbrella Pension Fund for Public-Sector Employees

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

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

The KPSJU is a closed mutual pension fund intended exclusively for public-sector employees. It ensures them the right to a supplementary old-age pension and other rights defined in the pension plan. In addition to the premiums paid into the fund by employers, public-sector employees may also pay premiums themselves, thus ensuring a higher supplementary pension and the utilisation of tax allowances.

New public-sector employees join the sub-fund that fits their age, unless they decide otherwise themselves, while members who saved in the fund with a guaranteed return at the time of the conversion at the beginning of 2017 decide themselves whether to move to a higher-risk investment policy, taking account of their age.

As the operator of the KPSJU and on the basis of the KPSJU rules, Modra zavarovalnica is entitled to subscription fees and management fees for the KPSJU. Subscription fees are charged as a percentage of the paid-in premium and amounted to 0.5% in 2022. The annual management fee for the KPSJU is 0.5% of the average annual net value of KPSJU assets. All other direct operating costs of the fund are borne by the insurance company.

6.2.3 Modri Umbrella Pension Fund

The Modri Umbrella Pension Fund (MKPS) is an open mutual pension fund intended for the implementation of supplementary pension insurance plans. Any employees included in the compulsory pension insurance scheme may participate in the fund. A pension plan for collective supplementary pension insurance (the PNMZ K) is available to employees and includes policyholders via their employers. Also available is an individual supplementary pension plan (the PNMZ P) intended for individuals.

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

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

On the basis of the detailed rules of the Modri Umbrella Pension Fund, Modra zavarovalnica, as operator of the MKPS, is entitled to the reimbursement of subscription fees and management fees for the MKPS, which are paid from the aforementioned sub-funds' assets. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and are transferred to the fund manager's account. The fee amounted to 3% in 2022. The annual management fee for the MKPS was 1% of the average annual net value of an individual sub-fund's assets.

6.2.4 First Pension Fund of the Republic of Slovenia

The First Pension Fund of the Republic of Slovenia (PPS) is a pension fund that accumulated its assets through the conversion of pension certificates. Since 1 January 2003, the PPS is a closed mutual pension fund, to which additional payments or the inclusion of additional participants is not possible. Since August 2004, the accumulated assets of all members at least 60 years in age are transferred to the KS PPS, the purpose of which is to cover payments of supplementary pension annuities. When a PPS member dies before they obtain the right to a pension annuity, their heirs have the right to the payment of the surrender value of their policy.

Modra zavarovalnica is entitled to an annual fee for managing the PPS, which amounted to 1% of the average annual net value of assets in 2022. It is also entitled to the reimbursement of redemption fees, which is calculated as a percentage of the redemption value paid to heirs.

6.3 Management of Modra zavarovalnica's own financial assets

Modra zavarovalnica's financial assets include the financial assets of the guarantee funds[14] and its own financial assets arising from the following statement of financial position items:[15]

- financial assets in undertakings in the group and associates,
- financial investments,
- cash and cash equivalents.

Modra zavarovalnica's own financial assets totalled EUR 332 million at the end of December 2022. The largest proportion is accounted for by portfolio debt instruments, followed by non-portfolio equities and portfolio equities.

Table 10: Modra zavarovalnica's own financial assets

in EUR thousand

Assets	31 December 2022	31 December 2021
Portfolio equities	39,482	46,479
Non-portfolio equities	60,806	69,461
Portfolio debt instruments	229,422	248,083
Cash and cash equivalents	2,303	1,271
Total	332,013	365,294

6.3.1 Portfolio equities

The portfolio was most exposed to the information technology sector at the end of 2022, followed by the financial and non-durables sectors. In terms of currencies, the portfolio was most exposed to the US dollar and the euro. Two thirds of the portfolio is invested in equities of US issuers and a quarter in investments of European issuers. The remainder is accounted for by investments in issuers from more developing economies.

6.3.2 Non-portfolio equities

As at 31 December 2022 Modra zavarovalnica held shares or participating interests in Cinkarna Celje d.d., Pozavarovalnica Sava d.d., Delavska hranilnica d.d. and Hotelske nepremičnine. The size of these equity holdings meant that they require a more active approach to management. Their total value amounted to EUR 60.8 million at the end of 2022.

6.3.3 Portfolio debt instruments

The value of the portfolio of government bonds stood at EUR 28.2 million at the end of 2022. The portfolio mostly comprises government bonds from euro area countries. All the bonds are denominated in euros. A quarter of the portfolio consists of Slovenian government bonds. The average duration of the government bond portfolio is 4.17 years, while the average rating is A. All bonds within the portfolio have a fixed coupon rate.

14 The guarantee funds are presented in detail in Section 6.4 (Management of guarantee funds for the payment of pension annuities).
15 For more on the management of Modra zavarovalnica's financial assets, see Modra zavarovalnica's annual report.

The value of the corporate bond portfolio was EUR 38.4 million at the end of 2022. The majority of corporate bonds are likewise accounted for by bonds issued by euro area countries.

All the bonds are denominated in euros. Bonds with a fixed coupon rate accounted for the majority. The majority of issuers of corporate bonds were from the sectors of finance, pharmacy, energy and basic consumer goods. The average duration of the corporate bond portfolio was 2.15 years, while the average rating was BBB.

The value of treasury bills amounted to EUR 114.6 million. The portfolio consists of German, Italian, Spanish, Belgian and French treasury bills.

All deposits are placed with domestic banks.

The value of units of target funds stood at EUR 43.6 million at the end of 2022. Most of them invest in debt investments, and to a lesser extent in equities and alternative investments.

6.3.4 Cash and cash equivalents

Modra zavarovalnica held EUR 2.3 million in cash and cash equivalents within its own financial assets at the end of 2022.

6.4 Management of guarantee funds for the payment of pension annuities

Modra zavarovalnica is the largest payer of supplementary pensions and pension annuities in Slovenia, and separately managed three guarantee funds in 2022 for the payment of pension annuities:

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

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

Modra zavarovalnica paid EUR 34.8 million in supplementary pensions to 41,347 policyholders in 2022. A total of 31,541 policyholders received a pension annuity from supplementary pension insurance (Modra Renta and Modra Renta II), while 9,806 policyholders received a pension annuity from supplementary pension insurance under the PPS (in exchange for pension certificates).

Table 11: Basic data on the guarantee funds of Modra zavarovalnica for 2022

Guarantee fund	Number of annuity recipients at the end of 2022	Assets under management (EUR million)	Expenses for annuities (EUR million)
KS MR	6,960	10.1	2.1
KS MR II	24,581	222.8	25.9
KS PPS	9,806	98.8	6.8
Total	**41,347**	**331.7**	**34.8**

6.4.1 Modra Renta Guarantee Fund

The KS MR comprises segregated assets intended for the payment of pension annuities to members of supplementary pension insurance plans who have exercised their right to a pension from compulsory insurance via the ZPIZ.

Payments were made into the KS MR until the end of 2015, while the KS MR has only paid lifetime pension annuities since 2016. When concluding an annuity pension insurance policy, an individual may choose one form of lifetime annuity, and thus exercise their right to a supplementary old-age pension.

The value of fund assets stood at EUR 10.1 million as at 31 December 2022. At 92%, bonds account for the highest proportion of all assets.

At the end of 2022 a total of 31% of KS MR assets were invested in Slovenia, while 69% of its assets were invested in foreign issuers.

6.4.2 Modra Renta Guarantee Fund II

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

When concluding an annuity pension insurance policy, each policyholder may choose one form of lifetime pension annuity, and thus exercise their right to a supplementary old-age pension. Modra zavarovalnica offers savers a wide range of different forms of pension annuities:

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

Between the beginning of its operations in 2016 and 31 December 2022, a total of 24,986 policyholders with accumulated assets in the amount of EUR 307 million opted to receive a selected monthly pension annuity from the KS MR II. The majority of policyholders selected accelerated annuity payments.

The amount of an individual's pension annuity depends on accumulated supplementary pension insurance assets, the technical interest rate, mortality tables broken down by gender, the policyholder's date of birth, the policyholder's age when the annuity insurance entered into force and the costs of the payment of the annuity. The average age of annuity recipients is 63, while a total of 62% of all annuity recipients are female.

Insurance policies for the payment of lifetime annuities participate in the annual positive results, which are generated from the management of the portfolio associated with those insurance policies during the period in which annuities are paid. The insurance company earmarks at least 90% of the positive technical result from the previous accounting period to the allocation of profit. On this basis, a total of EUR 36 thousand were earmarked for increased annuities in 2022. Policyholders received increased annuities in May, together with the difference paid for the period January to April 2022.

The fund's assets amounted to EUR 222.8 million as at 31 December 2022, the majority of which was comprised by bonds and units of target funds at 56% and 19% of the funds assets, respectively.

At the end of 2022 a total of 32% of KS MR II assets were held in Slovenia, while 68% of its assets were invested in foreign issuers.

6.4.3 First Pension Fund Guarantee Fund

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

Policyholders who receive a KS PPS pension annuity are entitled to the surplus return on the annuity fund over the guaranteed return in accordance with the general terms and conditions of supplementary pension insurance under the First Pension Fund of the Republic of Slovenia (conversion for pension certificates). The proportion of the surplus earmarked for the permanent increase in annuities is determined once a year by the fund manager's management board. The surplus return from 2020 and 2021 in the amount of EUR 4,337 thousand was allocated in 2022 for a permanent increase in annuities. All recipients of KS PPS pension annuities who entered into an insurance policy by December 2021 in the form of a monthly or annual annuity received higher annuities in April. The difference for the period January to March 2022 was paid together with the April payment of increased annuities.

A total of 1,216 policyholders who reached the age of 60 years obtained the right to a pension annuity in 2022. Those persons paid a total of EUR 2,344 thousand into the KS PPS for supplementary pensions.

The fund's assets amounted to EUR 98.8 million as at 31 December 2022. At 46% and 20% respectively, bonds and shares account for the highest proportions of all assets.

As at 31 December 2022, a total of 51% of KS PPS assets were invested in domestic issuers, while 49% of all assets were invested in foreign issuers.

6.5 Management of assets of Hotelske nepremičnine

Hotelske nepremičnine was established in October 2018 by Kapitalska družba and its subsidiary Modra zavarovalnica. Its principal business activities are the buying and selling of own real estate, and the renting and operating of own or leased real estate.

Since the end of November 2018, the company has been the owner of the San Simon Hotel Resort in Izola, which was let to Hoteli Bernardin d.d. for operation by the latter immediately after the purchase. The latter was absorbed into Sava Turizem d.d. in 2020.

The San Simon hotel resort is located in the bay at Izola, where the remains of an ancient Roman port are still visible today. The accommodation capacities of the resort comprise the Haliaetum and Mirta hotels, the Korala, Palma, Sirena and Perla guesthouses, and holiday homes. The Haliaetum Hotel has an indoor pool with heated water, while the Mirta hotel has a wellness centre and spa. The resort also boasts two restaurants, a bistro, a beach bar, and two halls suited to the organisation of larger events, such as weddings, receptions, dance and musical events, etc.

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

The first phase of the renovation, which included the renovation of the Haliaetum Hotel, including the pool, restaurant, reception and lobby, Sirena guesthouse, beach bar and outdoor slide, was implemented in 2019. The second phase of the renovation continued into 2022 and 2023, and will include the comprehensive renovation of the remaining three guesthouses (Korala, Palma and Perla).

7 Risk management

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

8 **Significant business events** after the end of 2022

Adopted at the end of 2022 was the Implementation of the Budget of the Republic of Slovenia for 2023 and 2024 Act (ZIPRS2324), based on which Kapitalska družba must transfer EUR 65 million a year to the ZPIZ in 2023 and 2024, by no later than 29 September of the current year, notwithstanding the third paragraph of Article 52 of the ZSDH-1. In accordance with the aforementioned act, an agreement was concluded in March 2023 between Kapitalska družba and the ZPIZ on the coverage of Kapitalska družba's liabilities to the ZPIZ in 2023 and 2024.

Bachtiar Djalil was reappointed President of the Management Board of Kapitalska družba and commenced a new four-year term of office on 4 January 2023, and Gregor Bajraktarević was reappointed member of the Management Board commencing his new four-year term of office on 9 February 2023.

On 2 February 2023, the General Meeting of Kapitalska družba reappointed Dr Boris Žnidarič and Mirko Miklavčič to a four-year term of office as members of the Supervisory Board, on the proposal of the national-level pensioners' federations and organisations, respectively, and Ladislav Rožič, MSc on the proposal of national-level trade union federations and confederations. The new term of office of Supervisory Board members commenced on 2 February 2023.

In January 2023, IFRS 17 entered into force, requiring the application of a single approach to all types of insurance contracts, including reinsurance contracts. The standard requires the recognition and measurement of groups of insurance contracts, where the present value of the future cash flows from the fulfilment of insurance contracts is risk-adjusted and takes into account available market information. An insurance company recognises a gain from a group of insurance contracts in the period in which it provides the insurance cover, while recognising any loss immediately.

On adoption of IFRS 17, Modra zavarovalnica decided, in accordance with the provisions of IFRS 17, to record the effects arising from changes in financial assumptions in the measurement of insurance contract liabilities in the statement of other comprehensive income. On the other hand, investments were measured at amortised cost and fair value through profit or loss, leading to accounting mismatches. Therefore, certain assets held by the insurance company in respect of insurance contracts have been reclassified as investments measured at fair value through other comprehensive income.

At the 167th meeting of the Supervisory Board held on 11 January 2023, Matej Golob Matzele was appointed President of the Management Board of Modra zavarovalnica, subject to suspensive and resolutory conditions. Following the granting of ISA authorisation and the termination of his position with his previous employer, Matej Golob Matzele took office as President of the Management Board on 10 May 2023.

On 16 January 2023, the Insurance Supervisory Agency (ISA) published a Notice on Main Supervisory Developments and Supervisory Priorities in 2023, highlighting some of the key regulatory developments and supervisory priorities for 2023.

On 31 March 2023, the procedure for the deletion of FINAP, storitve in posredovanje d. d. (in liquidation) from the companies register without liquidation was initiated.

The process of selling Cetis, d. d. was conclude without a sale in 2023.

9 **Expected development** of the Kapitalska Družba Group for 2023

By managing its own assets for the purpose of providing funds to the pension fund and by managing pension funds, the Kapitalska Družba Group represents an important pillar of stability for the Slovenian pension system. The Group is also the largest provider of voluntary supplementary pension insurance in Slovenia. Despite the unfavourable business environment, it will continue to provide additional funding for the public pension system and to provide supplementary pension insurance in 2023.

An increased payment of EUR 65 million is expected to be contributed into the public pension system in 2023. In this way, the Group will contribute to a greater relief of pressure on the state budget at a time of high budgetary challenges. With that payment, which represents an additional pension source, the Group's total payments into the public pension fund will already reach EUR 1.1 billion.

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. Despite already putting in place many approaches to ensure sustainable and forward-looking operations, in 2023 we will pay even greater attention to the environmental, social and governance aspects of our business, which will be monitored through ESG criteria. In the context of the extensive ESG-related regulatory framework, we will focus our efforts on introducing approaches linked to sustainability reporting and the mandatory content it entails. This includes ESG-related directives, regulations, taxonomy and EU standards. We will strive for innovative solutions to bring about positive change for all our stakeholders, the wider community and the environment.

Our aim is to become a socially responsible and sustainability-oriented group 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 will therefore accelerate the digitalisation of operations and the introduction of paperless operations, and improve new forms of communication. Comprehensive risk management in connection with cost-efficiency will ensure successful, sustainability-oriented operations again in 2023. 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.

As a result of the changes introduced by the new IFRS 17 standard to establishing and monitoring profit or loss of insurance companies, Modra zavarovalnica will disclose its operations under the new accounting schemes in 2023. The key change introduced by IFRS 17 is that the insurance premium will no longer be recognised immediately in the profit or loss of the insurer, but the insurer will be required to recognise for premium receipts a liability for remaining coverage, which will be transferred to the insurer's profit or loss gradually over the term of the insurance contract. We will also upgrade some of our internal processes and rules accordingly to reflect the changes in accounting standards.

In 2023, Hotel nepremičnine will complete the second phase of the 78-room renovation, which will include the complete renovation of the remaining three guesthouses (Korala, Palma and Perla). We will also continue with the project to erect mobile homes on the site of the old bungalows, which will be completed by May 2024 if all the necessary documentation is obtained on time.

10 Sustainable operations

Today's economic challenges - from pandemics and outbreaks of war to climate change and digitalisation - reveal economic and geopolitical weaknesses in global economic and financial systems. Risks are exacerbated globally by the slow response of society as a whole to climate change and geopolitical imbalances. Achieving social, economic and environmental sustainability that involves all stakeholders and contributes to the positive development of society as a whole is becoming the greatest challenge of our time.

For many years now, the Kapitalska Družba Group's strategic orientation towards business excellence has also included measures to achieve sustainable operations. In recent years, as many of the gaps and weaknesses in society have become apparent, both in the global economic system and in social norms and in the relationship between people and the environment, such efforts have become increasingly important. We see ESG criteria not just as a "hygiene factor", but as a key element of successful future development, necessary to deal effectively with fundamental changes in the business and geopolitical environment. Understanding the impacts of business activities on society and the environment is becoming more challenging by the day, requiring the identification of sustainability risks and their effective management. We see both major challenges and new business opportunities in sustainable business.

In 2022, we have already carried out the first carbon footprint measurement for the Group for Scopes 1 and 2, linked to the baseline year of 2021. Sustainability reporting will become part of regular business reporting after 2025. We will follow the trends dictated by the regulatory framework, e.g. the so-called GRI standard (Global Reporting Initiative). We are also preparing to report in line with the CSRD and the ESRS. Therefore, we plan to set strategic policies and define objectives in all three ESG areas. In this way, we will achieve an increasing level of compliance with ESG criteria and create a sustainable future through our actions/operations.

The following is a description of the socially responsible and sustainable business practices already in place at the Kapitalska Družba Group. The following is a table of the Kapitalska Družba Group's key ESG factors in relation to the United Nations Sustainable Development Goals (SDGs).

10.1 Responsibility to the wider social community

Kapitalska Družba Group is an important building block in the Slovenian pension system. Together with its subsidiary Modra zavarovalnica, it is the largest provider of supplementary pension insurance and the largest payer of pension annuities under the second pillar of the pension system. Kapitalska družba's mission is also the provision of supplementary funding for compulsory pension and disability insurance. By 2022, Kapitalska družba, d. d. has already paid a total of EUR 1 billion into the budget of the ZPIZ. Kapitalska Družba Group thus ensures old-age security for pensioners and keeps abreast of changes in the economic and demographic environment, thus contributing to the long-term sustainability of the Slovenian pension system.

The subsidiary Modra zavarovalnica pays a lot of attention to the topic of financial literacy. To this end, it participated in the Finance Conference 2022 (on ESG investments), the Finance School for Teenagers and the My Investments webinar (all part of the Finance newspaper).

In order to raise awareness among the general public and increase confidence in the pension system, representatives of Modra zavarovalnica participated in professional events and conferences in 2022 with their consultants and presentation stands. As part of its strategic positioning, Modra zavarovalnica supports various charity campaigns and participates in humanitarian activities.

10.2 Responsibility to employees

10.2.1 Concern for employee training

We recognise that employees are the Kapitalska Družba Group's key asset and that skilled and motivated employees make the greatest contribution to the successful operations of our companies.Existing work areas and the development of new business functions at the Group are enhanced using various forms of pre-planned training adapted to the specific job requirements and knowledge required by each employee, and to the Group's developmentally established tasks. Staff received additional training by attending lectures, workshops and seminars (in person and via webinars) in the areas of finance, accounting, corporate and portfolio asset management, pension insurance, personal data protection, public procurement, prevention of money laundering and terrorist financing, quality management systems, legal and human resources content, document management, data management and data analysis, sustainable business and information security and risk management, and internal training courses which are regularly provided to all employees. The Kapitalska Družba Group 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.

10.2.2 Concern for a safe and healthy work environment

The Kapitalska Družba Group ensures a safe and healthy work environment by respecting all regulations governing occupational health and safety, and by ensuring 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 that should be noted 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 at the workplace and outside work. We also promote their personal development through training.

Collective supplementary pension insurance, which the Group provides by paying monthly premiums for all employees under the same terms into the Modri Umbrella Pension Fund (MKPS) of Modra zavarovalnica, is another important aspect of ensuring and increasing the future social security of employees. The aforementioned insurance is considered one of the most valued forms of motivation among employees. By taking out collective insurance at our business partners, we also enable employees to join other collective insurance schemes (including collective health insurance), which are an important part of the social security of employees and their families.

10.2.3 Family-friendly company

The Group is aware of the importance and advantages of an active family-friendly policy. 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. The full Family-Friendly Company certificate enables the Group's employees to effectively balance their work and family life. The parent company also received a certificate of appreciation for spreading the culture of a family-friendly company 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. The Kapitalska Družba Group adopted a number of 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.

10.2.4 Adjustment of operations due to covid-19

As a result of COVID-19, we have made certain adjustments to the Group's operations that we also maintained in 2022, such as working from home and adjusting the compulsory work hours. The digitisation of our business, which was introduced in the wake of the COVID-19 pandemic and is still being upgraded, is a major update. We have adapted our business processes to be largely electronic, in particular through the introduction of a document system, electronic signatures and web-based meetings.

10.3 Environmental responsibility

10.3.1 Electricity from renewable sources

A tender was issued in 2022 for the supply of electricity in accordance with the Decree on Green Public Procurement. Taking into account the provisions of the aforementioned decree, the Company signed an agreement on the supply of 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.

10.3.2 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 2022, 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. By electronically validating and signing documents, we not only reduce paper consumption, but also optimise business processes.

10.4 Stakeholder engagement

The Kapitalska Družba Group places particular emphasis on cooperation with its main stakeholder groups: the Republic of Slovenia as owner, SDH, trade unions, pensioners' associations, employers' associations, professional associations, investments, but also employees.

In cooperation with stakeholders, such as the MLFSAEO, ESF, trade unions, employer associations, the Slovenian government, the FARS, CRP and ZPIZ, the Kapitalska Družba Group has been setting the standards for high-quality and reliable operations in the area of pension insurance. We work closely with the following stakeholders in the area of asset management: SDH, companies with capital investments from our companies, the Slovenian Directors' Association, regulators and various financial institutions. As the statutory representative of the owner of the parent company, the government also plays a special role. The Group strives to maintain constructive relations with all stakeholders that are based on professionalism, flexibility, accuracy and transparency. Stakeholders are included in the Company's operations at different levels, including on the Supervisory Board and the latter's committees, and on the committees of our pension funds.

The Kapitalska Družba Group strives to maintain continuous operations and to foster relations with all stakeholders in a secure and accessible manner, including by conducting meetings of the Company's bodies and other meetings via videoconferencing and by introducing electronic commerce. The Group strives to establish mutually beneficial relations with stakeholders, partners and suppliers that are based on a high level of trust.

One of the strategic objectives of the subsidiary Modra zavarovalnica is to put together financial products and accompanying services according to the needs of its customers. Policyholders therefore play an active role in the development of products and services. The processes for monitoring policyholder satisfaction are continuously improved (upgraded), taking into account policyholder comments, preferences and opinions. As trade union representatives are also an important spokesperson for supplementary pension insurance as an effective way of ensuring social security, Modra zavarovalnica provides them with professional assistance in preparing answers to questions from employees and trade union members, and actively monitors the initiatives of savers coming from the field.

Based on systematic monitoring of the feedback from key partners and suppliers, the Kapitalska Družba Group is implementing improvements and corrective measures and optimising business processes.

10.5 Socially responsible investing

When selecting financial investments in the scope of asset management, the Kapitalska Družba Group 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 to the environment, social issues and/or corporate governance.

For investments in the shares or debt securities of companies and financial institutions, the Kapitalska Družba Group takes into account in part 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, such as the MSCI ESG rating. We have also identified the economic sectors we avoid when investing. When investing in government debt securities, the Kapitalska Družba Group takes into account, from a sustainability perspective, the level of governance of the issuing country, as expressed by the Worldwide Governance Indicators (WGI) or the corruption index published by Transparency International.

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 the Group'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.

10.6 Corporate integrity

When parent company Kapitalska družba adopted its corporate integrity plan in July 2021, it made a commitment to comply with 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 other detrimental conduct, and to protect whistleblowers.

In formulating a corporate integrity system, we are 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.

For the second consecutive year, Kapitalska družba, as a partner, has joined the Agreement on Cooperation in the organisation of the International Fraud Awareness Week 2022, which aims to participate in the exchange of good practices and awareness-raising among all stakeholders, with the common goal of all signatories to reduce corruption, financial crime and fraud in the Republic of Slovenia.

10.7 Implementation of the core United Nations Sustainable Development Goals (SDGs)

Table 12: Illustration of the implementation of the core United Nations Sustainable Development Goals (SDGs)

Environmental aspect (E - Environment)	ESG-related activities	Note	UN goals
Pollution prevention and control	Carbon footprint	In 2022, we measured for the first time the carbon footprint of Scope 1 and Scope 2 for the baseline year 2021.	13 CLIMATE ACTION
	Continuing the introduction of digitisation and paperless operations	The introduction of the document system has created the conditions for a gradual transition to paperless operations.	
	Compliance with the decree on green public procurement	We follow the rules of the decree on green public procurement in our contract award procedures and record-keeping procedures, and procure environmentally friendly products.	
	Consistent waste separation	Waste collection and separation is enforced through employee awareness-raising.	
	Energy consumption	A tender was issued in 2022 for the supply of electricity in accordance with the Decree on Green Public Procurement. Taking into account the provisions of the aforementioned decree, the Company signed an agreement on the supply of electricity, 80% of which is produced from renewable sources.	7 AFFORDABLE AND CLEAN ENERGY

Social aspect (S - Social)	ESG-related activities	Note	UN goals
Responsibility to stakeholders, payers, policyholders, employees and the wider environment	Responsible attitude to the wider social community	Kapitalska družba operates as a demographic fund and co-finances the public pension system. To that end, it makes payments to the ZPIZ, with total payments to date already exceeding EUR 1.1 billion. The Kapitalska Družba Group is the largest provider of supplementary pension insurance and the largest payer of supplementary pensions in Slovenia. By making payments to the ZPIZ and by providing supplementary pension insurance, the Group makes an important contribution to the sustainable development of Slovenia's long-lived society.	8 DECENT WORK AND ECONOMIC GROWTH
	Responsible attitude towards external stakeholders and policyholders	This is one of the core strategic policies of the Kapitalska Družba Group. We invest a lot of effort in long-term good relations with payers, policyholders and external organisations that are part of our ecosystem. Mutually beneficial relationships are based on professionalism, flexibility and transparency.	

Social aspect (S - Social)	ESG-related activities	Note	UN goals
Responsibility to stakeholders, payers, policyholders, employees and the wider environment	Responsible attitude to employees	Both Kapitalska družba and Modra zavarovalnica are the proud holders of the full Family-Friendly Certificate. We organise an open house for the children of our employees. We also invite our retired colleagues to our organised staff social gatherings.	5 GENDER EQUALITY 4 QUALITY EDUCATION 3 GOOD HEALTH AND WELL-BEING 17 PARTNERSHIP FOR THE GOALS
		Introduction of flexible working hours with the possibility to work from home.	
	Shaping current and future financial security	Incentive-based and fair remuneration is ensured, regardless of gender.	
		All employees are covered by a supplementary pension scheme with a maximum premium.	
	Diversity and equal opportunities	We promote lifelong learning, functional and comprehensively targeted education, knowledge sharing among employees and intergenerational cooperation.	
	Safety and health of employees	We are responsible for ensuring a safe and healthy work environment. Tasks relating to occupational health and safety, fire safety and healthcare at work are carried out regularly.	
		Regular preventive medical examinations are organised, with a wide range of tests and the possibility of additional check-ups.	
		We implement health promotion measures, including organised recreation for employees and education on a healthy lifestyle.	
		A total of 80% of employees are covered by collective supplementary health insurance. As part of the preventive health programme, employees receive free vaccinations against influenza and tick-borne meningoencephalitis (TBE).	

Governance factor (G - Governance)	ESG-related activities	Note	UN goals
Compliance and integrity	High standards of corporate governance	The Kapitalska Družba Group's governance is based on: the Corporate Governance Code for Companies with Capital Assets of the State, SDH's Recommendations and Expectations, Code of Corporate Governance of the Kapitalska družba Group, Guidelines of the Commission for the Prevention of Corruption, the Slovenian Corporate Integrity Guidelines, and anti-corruption principles for state-owned companies. The Group has a zero-tolerance for corruption. It has identified measures to mitigate risks in the area of corporate integrity and the appointment of a Corporate Integrity Officer. Kapitalska družba was a partner in the Cooperation Agreement for the International Fraud Awareness Week 2022.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
	Effective risk management	Risk management is embedded in business decision-making at all levels and is carried out in accordance with the Rules on Risk Management of the Kapitalska družba Group.	
	Non-discrimination and respect for human rights and the ethical principles and values of society	We operate in line with our values. We use the creativity and innovation of our employees to tackle the challenges of sustainable development.	
		We consistently implement measures to prevent unethical behaviour and act in accordance with the Corporate Integrity Plan.	

11 **Report** on relations with subsidiaries

No transactions were executed between Kapitalska družba, Modra zavarovalnica and Hotelske nepremičnine in 2022 under conditions that deviated from market conditions. FINAP d.d. is in liquidation.

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 monthly rent was at EUR 29,206.26 as at 31 December 2022, which 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).

12 Indicators[16]

	Value (in EUR 000)		Value of indicator	
	2022	2021	2022	2021
1. FINANCING RATIOS				
a) Equity financing ratio				
equity	1,268,416	1,457,651	0.70	0.74
total equity and liabilities	1,813,419	1,958,084		
b) Long-term financing ratio				
equity + non-current liabilities (including provisions) + non-cuurent accrued expenses and deferred revenue	1,736,339	1,883,720	0.96	0.96
total equity and liabilities	1,813,419	1,958,084		
2. INVESTMENT RATIOS				
a) Operating fixed asset investment ratio				
fixed assets (at carrying amount)	6,570	7,035	0.00	0.00
equipment	1,813,419	1,958,084		
b) Long-term investment ratio				
fixed assets + non-current deferred expenses and accrued revenue (at carrying amount) + investment property + non-current financial assets + non-current operating receivables	1,494,330	1,756,540	0.82	0.90
equipment	1,813,419	1,958,084		
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a) Equity to fixed assets ratio				
equity	1,268,416	1,457,651	193.06	207.20
fixed assets (at carrying amount)	6,570	7,035		
b) Acid test ratio				
liquid assets	15,059	31,580	0.20	0.42
short-term liabilities	77,080	74,364		
c) Quick ratio				
liquid assets + short-term receivables	113,964	92,470	1.48	1.24
short-term liabilities	77,080	74,364		
d) Current ratio				
current assets	303,090	171,648	3.93	2.31
short-term liabilities	77,080	74,364		

16 Unaudited indicators.

	Value (in EUR 000)		Value of indicator	
	2022	2021	2022	2021
4. EFFICIENCY RATIOS				
a) Operating efficiency				
operating revenue	91,715	87,644	-0.95	-1.07
operating expenses	-96,205	-81,841		
5. PROFITABILITY RATIOS				
a) Net return on equity				
net profit or loss for accounting period	-94,064	100,370	-0.07	0.08
average equity (excluding net profit for accounting period)	1,359,881	1,292,586		
b) Dividends to share capital ratio				
dividends for financial year	0	0	0.00	0.00
average share capital	364,810	364,810		
c) net return on assets				
net profit/loss for the period	-94,064	100,370	-0.05	0.06
average assets	1,885,752	1,810,508		

13 **Corporate** governance statement

In accordance with the provision of the fifth paragraph of Article 70 of the ZGD-1 and point 3.4 of the Corporate Governance Code for Companies with Capital Assets of the State, Kapitalska družba hereby issues its corporate governance statement for the period 1 January 2022 to 31 December 2022.

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 2022. 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. 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.

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: The management of a large or medium-sized company with capital assets of the state, together with the supervisory board, shall draw up and adopt a Corporate Governance Policy as a separate document, which should contain at least the following:

- **a description of all the main guidelines of governance, taking into account the objectives set by the company, its values and its responsibilities to the broader social environment,**
- **an indication of which corporate governance code the company has adopted as a reference code,**
- **a precise identification of stakeholder groups and relevant stakeholders, and a policy for communicating and engaging with each stakeholder group (creditors, subsidiaries, suppliers, customers, employees, media, analysts, government authorities, local and wider community),**
- **the process for communicating the group's strategy and governance standards to subsidiaries, shareholders and partners,**
- **the policy on transactions between the company and its affiliates, including their members of management and supervisory bodies,**

- **a commitment by the supervisory board to establish a system for determining conflicts of interest and the independence of members of the management and supervisory bodies, which includes measures envisaged in the event of circumstances that materially alter their status vis-à-vis the company,**
- **a commitment that the supervisory board will assess its own performance,**
- **intention of forming potential supervisory board committees and the definition of their roles,**
- **a clear system for the allocation of responsibilities and powers between members of the company's management and supervisory bodies,**
- **rules between the company and affiliated companies and their management board or supervisory board members that are not regulated by statutory regulations regarding conflicts of interest,**
- **defining the company's communication policy, which includes high quality standards for the drafting and disclosure of accounting, financial and non-financial information,**
- **protecting the interests of the company's employees by defining the manner, content and standards of employee performance and ensuring an appropriate level of ethical conduct at the company, including the prevention of discrimination.**

Explanation: Kapitalska družba (in which SDH does not exercise a controlling influence) had not yet adopted a corporate governance policy as an independent document in 2022. Notwithstanding the aforementioned, Kapitalska družba has substantively complied with all the essential policies of the corporate governance provision in question.

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 will adopt a diversity policy in 2023 in connection with representation on its management and supervisory bodies in terms of gender and other aspects, such as age, education and professional experience. Nevertheless, it should be noted that the company in terms of the supervisory board's diversity policy is defined by law, as the sixth paragraph of Article 51 of the ZSDH-1 defines the interest make-up of the Supervisory Board, under which 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.

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 pension 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: Kapitalska družba will adopt a succession policy in 2023, which will include the identification and monitoring of the development of key and promising personnel.

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.

Sub-point 6.5.1: The supervisory board shall draw up a competence profile for its members, in terms of the optimal size and composition of the supervisory board, and publish it on the company's public website. In drawing up the competence profile, the supervisory board should take into account the sectoral composition provided for in the second paragraph of Article 21 of the ZSDH-1. The supervisory board should review the competence profile once a year and update it as necessary.

Explanation: Kapitalska družba complies with the aforementioned provisions of point 6.5 and sub-point 6.5.1 of the Code, mutatis mutandis, taking into account the cogent provisions of the sixth paragraph 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. Taking account of aforementioned legal restrictions, the Supervisory Board was not able to draw up a competence profile for its members, in terms of the optimal size and composition of the 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 1 to the Code. Moreover, the supervisory board shall disclose all information regarding whether a proposed candidate is independent in terms of the definition set out in this Code and whether procedures defined by this Code have been taken into account by the supervisory board in the selection of that candidate.

Sub-point 6.8.1 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 partially complies with this provision of the Code, as it has yet to adopt a development plan for all employees, but complies with the other essential guidelines of this provision.

Point 7.5 of the Code: Management formulates the company's strategy, taking into account the company's core objectives, vision and business sustainability considerations. Based on the strategy, it draws up a business plan for each financial year, including an investment plan, a financial plan, a human resources plan, a success plan according to various indicators and a risk assessment.

Explanation: Kapitalska družba partially complies with this provision of the Code, as it does not have a multi-annual strategy for the Company, but only an annual business plan containing all the required elements. Notwithstanding the above, the Company has adopted strategies for the management of its own assets and for the management of the SODPZ.

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 26 August 2022, the Company's financial statements for 2022 were audited by PricewaterhouseCoopers 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 AJPES and Kapitalska družba. The publication of the convening of the General Meeting must also include proposed resolutions and details of the place where all materials submitted for decision-making at the General Meeting may be accessed. A shareholder who is registered as such in the central register of book-entry securities at the end of the fourth day prior to the General Meeting is entitled to participate and exercise their voting rights at the General Meeting.

The General Meeting makes decisions on basic matters relating to Kapitalska družba, in particular the adoption of the Company's Articles of Association and amendments thereto. It adopts the annual report, if the Supervisory Board has not confirmed the annual report or if the Supervisory Board defers 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 these 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 2022 is given in the report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2022:

- Janez Tomšič, Chairman,
- Dr Boris Žnidarič, Deputy Chairman,
- Aleksander Mervar, MSc, member until 30 August 2022,
- Ladislav Rožič, MSc, member,
- Mirko Miklavčič, member,
- Boštjan Leskovar, MSc, member,
- Andreja Cedilnik, member since 31 August 2022.

Three committees functioned within the Supervisory Board in 2022: 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 2022, until 14 September 2022: Ladislav Rožič, MSc (chair), Aleksander Mervar, MSc (until 30 August 2022) and Mirko Miklavčič (members), and Natalija Stošicki and Mojca Verbič (external members). The audit committee functioned in the following composition from 15 September 2022 on: Andreja Cedilnik (chair), Ladislav Rožič, MSc, Mirko Miklavčič (members), 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 2022, until 14 September 2022: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc (until 30 August 2022) and Ladislav Rožič, MSc (members) and Dr Alenka Stanič, Irena Prijović, MSc and Gorazd Žmavc (external members). The Supervisory Board's accreditation committee functioned in the following composition since 15 September 2022: Dr Boris Žnidarič (chair), Boštjan Leskovar, MSc, and Ladislav Rožič, MSc (members) and Dr Alenka Stanič, Irena Prijović, 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 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 HR committee in 2022, until 14 September 2022, functioned in the following composition: Boštjan Leskovar, MSc (chair), Aleksander Mervar, MSc, (until 30 August 2022) and Mirko Miklavčič (members). Since 15 September 2022, the HR committee has functioned in the following composition: Boštjan Leskovar, MSc (chair), Mirko Miklavčič and Andreja Cedilnik (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 2022 in the following composition:

- Bachtiar Djalil, president of the Management Board, who began his term of office on 3 January 2019,
- Gregor Bajraktarević, member of the Management Board, whose term of office, which he started on 7 February 2018, lasted until 7 February 2022, and whose new one-year term of office commenced on 8 February 2022.

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.[17] [18]

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 2022 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.

17 In accordance with Article 33 of the Articles of Association, member of the Management Board Gregor Bajraktarević was appointed to a term of office of no more than one year from the day he assumed his function.

18 On 4 January 2023, Bachtiar Djalil began a new four-year term of office as President of the Management Board. On 9 February 2023, Gregor Bajraktarević began a new four-year term as member of the Management Board.

Table 13: Composition of the management during the 2022 financial year

Name	Function (President, member)	Work area as member of the Management Board	First appointment to function	Completion of function/ term of office	Gender	Nationality	Year of birth	Education	Professional profile	Membership in supervisory bodies of unaffiliated companies
Bachtiar Djalil	President	Legal and HR affairs, internal audit, risk management, finances and accounting, and general affairs	1 January 2010	4 January 2027	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.
Gregor Bajraktarević	member	Asset management, IT and business processes, pension fund management	6 February 2017	9 February 2027	M	RS	1975	Master's of science	Asset management, corporate governance, investment banking and corporate restructuring	Hit, d. d.

Table 14: Composition of the Supervisory Board and its committees during the 2022 financial year

Name	Function (Chairman, Deputy Chairman, member)	First appointment to function	Completion of function/term of office	Shareholder/employee representative	Participation in Supervisory Board sessions with respect to total number (e.g. 5/7)	Gender	Nationality	Year of birth	Education	Professional profile	Independence in accordance with point 6.6 of the Code (YES / NO)	Existence of conflicts of interest 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)
Janez Tomšič	Chairman	21 October 2021	21 October 2025	Shareholder representative	17/17	M	RS	1979	Bachelor's degree in law	Corporate governance, real estate management, commercial law	Yes	No	SID, d. d.	/	/	/
Boris Žnidarič	Deputy Chairman	1 February 2015	1 February 2027	Pensioner representative	17/17	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	3/3
Aleksander Mervar (member until 30 August 2022)	Member	28 August 2013	30 August 2022	Shareholder representative	8/10	M	RS	1962	Master's of science	Finance, accounting, corporate governance, governance systems	Yes	No	SŽ, d. o. o.	HR, audit, accreditation	member member, member	4/4 4/5 2/2
Ladislav Rožič	Member	31 January 2011	1 February 2027	Trade union representative	17/17	M	RS	1957	Master's of science	Finance, corporate governance	Yes	No	/	Audit, accreditation	chair (until 14 September 2022) or member (since 15 September 2022)	8/8 3/3
Mirko Miklavčič	Member	2 February 2019	1 February 2027	Pensioner representative	17/17	M	RS	1947	Bachelor's degree in labour organisation	Finance, corporate governance and insurance	Yes	No	/	Audit, HR	member, member	8/8 9/9
Boštjan Leskovar	Member	21 October 2021	21 October 2025	Shareholder representative	17/17	M	RS	1973	Master's of science	Finance, governance systems, corporate governance	Yes	No	Elektro Celje, d. d.	HR Accreditation	Chair member (since 15 September 2022)	9/9 1/1
Andreja Cedilnik (member since 31 August 2022)	Member	31 August 2022	31 August 2026	Shareholder representative	7/7	Ž	RS	1974	Bachelor's degree in economics	finances, accounting, controlling, corporate governance	Yes	No	/	Audit, HR	chair (since 15 September 2022) member (since 15 September 2022)	2/2 4/4

Table 15: External members of Supervisory Board committees during the 2022 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	8/8	F	RS	Bachelor's degree in economics	1975	Director of Finance and Business Support Sector	/
Irena Prijović	Accreditation	3/3	F	RS	Master's of science	1968	Corporate governance	Uradni list, d. o. o., Športna loterija, d. d.
Alenka Stanič	Accreditation	2/3	F	RS	Doctorate of science	1963	Adviser for key personnel	/
Gorazd Žmavc	Accreditation	3/3	M	RS	Lawyer	1947	Legal affairs	/
Natalija Stošicki	Audit	6/8	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 will adopt a diversity policy in 2023 in connection with representation on its management and supervisory bodies in terms of gender and other aspects, such as age, education and professional experience. Nevertheless, it should be noted that there are legal restrictions on the Company in terms of drafting the Supervisory Board's diversity policy, as the sixth paragraph of Article 51 of the ZSDH-1 defines by law the interest make-up of the Supervisory Board, under which 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.

Gregor BAJRAKTAREVIĆ
Member of the Management Board

Bachtiar DJALIL
Chairman of the Management Board

Ljubljana, 28 June 2023

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14 Management Responsibility Statement

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. hereby confirms the consolidated financial statements of the Kapitalska družba Group for the year ending 31 December 2022, 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 consolidated financial statements, that accounting estimates were made according to the principle of prudence and the diligence of a good manager, and that the consolidated financial statements present a true and fair picture of the Kapitalska družba Group's financial assets and operating results for 2022.

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 Kapitalska družba Group 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
član uprave

Bachtiar DJALIL
predsednik uprave

Ljubljana, 28 June 2023

15 **Auditor's** report

Independent Auditor's Report

To the Shareholder of Kapitalska družba pokojninskega in invalidskega zavarovanja d.d.:

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee of the Company dated 28 June 2023.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated Statement of financial position as at 31 December 2022;
- the consolidated Statement of income for the year then ended;
- the consolidated Statement of other comprehensive income for the year then ended;
- the consolidated Statement of changes in equity for the year then ended;
- the consolidated Cash-Flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (the "Regulation"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers d.o.o.,
Cesta v Kleče 15, SI-1000 Ljubljana, Slovenia
T: +386 (1)5836 000, F:+386 (1) 5836 099, www.pwc.com/si
Matriculation No.: 5717159, VAT No.: SI35498161

Translation note: This version of our report is a translation from the original, which was prepared in Slovenian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independence

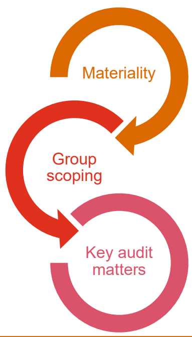
We are independent of the Group in accordance with International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standard Board for Accountants (IESBA Code), and with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia. We have fulfilled our other ethical responsibilities in accordance with those requirements and with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in Slovenia and that we have not provided non-audit services that are prohibited under Article 5(1) of the Regulation.

The non-audit services that we have provided to the Company and its subsidiaries, in the period from 1 January 2022 to 31 December 2022 are disclosed in the Note No. 3 Costs of audit.

Our audit approach

Overview

	Overall Group materiality: EUR 14,507 thousand, which represents 0.8 % of the Group's total assets
	We conducted audit work at 2 reporting units Kapitalska družba d.d. and Modra zavarovalnca d.d. and Group reporting package review at 1 reporting unit Hotelske nepremičnine d.o.o. Our audit scope addressed 99 % of the Group's operating income, 100 % of the Group's financial income and 99 % of the Group's total assets.
	Determining the fair value of the investments in level 3 of the fair value hierarchy Technical provisions

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Translation note:

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Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	EUR 14,507 thousand
How we determined it	0.8 % of Group's total assets
Rationale for the materiality benchmark applied	The amount of the Group's total assets is a relevant indicator of operations for the key stakeholders. As a mutual entity, the Group shares benefits with participants and since the Group has made a loss, profit is not relevant. Based on this, we have decided to use total assets as a materiality benchmark, believing that this indicator is the most relevant for the key users of the consolidated financial statements. We chose the threshold of 0.8 % which is consistent with quantitative materiality thresholds used for public interest entities.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Determining the fair value of the investments in level 3 of the fair value hierarchy Key audit matter is described in detail in the following sections: - 17.2. Accounting policies - *Significant accounting estimates and judgements,* - 17.2. Accounting policies - *Significant accounting estimates and judgements - Classification and valuation of financial instruments and determination of fair value of non-listed financial assets,* - 17.2. Accounting policies - *Financial assets,*	In light of the fact that the high level of complexity and subjectivity of the estimates and assumptions increases the risk of accounting misstatements, we carried out the following procedures within the scope of the audit, with the support and active involvement of audit experts – valuation experts: – testing the design and implementation of selected internal controls in the process of classification and measurement of financial assets with an emphasis of internal controls for

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Key audit matter	How our audit addressed the key audit matter
- 17.2. Accounting policies - *Determination of fair value*, - 17.2. Accounting policies - *Criteria for classification of investments based the level of the fair value hierarchy*, - Note no. 16 - *Fair value hierarchy as at 31 December 2022,* - Note no. 16 - Table 33: Changes in level 3 investments in 2022. The total value of investments at level 3 of the fair value hierarchy amounts to EUR 90.424 thousand as at 31 December 2022 (as at 31 December 2021: EUR 101.644 thousand). Significant estimates relate to the classification and valuation of financial assets, including the determination of their fair value, based on adopted business models. The amount of fair value estimates of individual investments depends mainly on the current and expected macroeconomic conditions in the EU and on other significant markets in which the Group operates and which affect the forecast of future cash flows, the value of interest rates, determining the level of the required return on debt capital and shareholders' equity as well as the changes in share market prices. The Group has the following types of investments at level 3 of the fair value hierarchy as at 31 December 2022: *shares or business stakes* representing 48,7 % or EUR 44,037 thousand at level 3, *investment in financial receivables* representing 31,4 % or EUR 28,416 thousand at level 3 and other debt instruments representing remaining 19,9 % or EUR 17,971 thousand at level 3. Assessment of fair value of individual investments at level 3 of the fair value hierarchy for shares or business stakes was carried out by applying the return-based method of assessing the value of the Company, by applying the discounted cash flow method and by applying the asset-based method of assessing the value of the Company as well as by applying the net asset value method (adjusted carrying amounts). The estimated fair value of the *investment in the financial receivables* is determined on the basis of the estimated fair value of the pledged assets by taking into account the nominal amounts of the individual financial receivables. The assessment of the fair value of pledged assets was done by applying the return-based valuation method, by applying the discounted free cash flow method and the valuation	determining and validating assumptions and model results in the assessment of fair value of the investment at level 3 of the fair value hierarchy, – valuation and compliance verification of the methods and models used in the determination of the fair value of the investment at level 3 of fair value hierarchy in line with the requirements of IFRS 13 as well as the International Valuation Standards, – verification of the accuracy and reasonableness of the assumptions applied (discount rates, financial projections / plans, collateral, etc.) in the models used in estimating fair value of the investment at level 3 of fair value hierarchy, – performed tests of inputs on a sample of level 3 investments as at 31 December 2022 and assessed the methodology over fair value adjustments, in light of available market data and industry trends, – review of changes in investments at level 3 of fair value hierarchy compared to the previous year, – assessment of the accuracy and completeness of the presentation and disclosures applicable to these investments in the consolidated financial statements as at 31 December 2022.

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Key audit matter	How our audit addressed the key audit matter
method based on market comparisons, and by applying the method of comparable listed companies. Determination of the fair value of investments at level 3 of the fair value hierarchy requires the use of valuation models that take into account subjective variables not publicly available on markets (discount rates, cost of capital / WACC, etc.). Certain data for evaluation is obtained from the Bloomberg system and other financial sources, whereas for some companies, an important source is data and documentation relating to past and budgeted future operations which the management obtained from individual companies. These data represent significant unobservable inputs used in the valuation of level 3 investments. Determining the fair value of the investments at level 3 of the fair value hierarchy and the related accounting estimates and assumptions represent a significant item in terms of auditing the consolidated financial statements. Since the valuation involves significant management judgements and estimates, we determined this area to be significant to our audit as well as a key audit matter.	
Technical provisions	
Key audit matter is described in detail in the following sections: – 17.2. Accounting policies - *Significant accounting estimates and judgements,* – 17.2. Accounting policies - *Significant accounting judgements and estimates – Creation of technical provisions,* – 17.2. Accounting policies - *Liabilities from Insurance Contracts – Technical Provisions,* – Note No. 25 *Provisions and non-current accrued and deferred liability items*, *Technical provisions and Changes in technical provisions.* The total amount of the technical provisions amounts to EUR 324.538 thousand as at 31 December 2022 (as at 31 December 2021: EUR 293.674 thousand). The preparation of consolidated financial statements requires the use of certain estimates and assumptions made by the Management that affect the value of the Group's assets and liabilities as well as the income and expenses. Significant estimates on the part of the Management relate to the setting aside of technical provisions.	Based on the fact that the high level of complexity, estimates and assumptions increases the risk of misstatements in the financial statements, we carried out the following procedures within the scope of the audit, with the support and active involvement of actuarial experts: – testing the design and implementation of selected internal controls in the process of measurements of technical provisions, with an emphasis on internal controls for determining and validating actuarial assumptions and model results, – valuation verification and compliance verification of the methods and models used in the measurement of insurance technical provisions, according to the requirements and IFRS 4, Insurance Contracts (IFRS 4), – assessing development of technical provisions compared to the previous year and rationale for significant changes, – recalculation of the technical provisions based on a sample of life insurance policies, – assessing and evaluating the actuarial judgements used in the models, which may vary depending on the product and/or product

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Key audit matter	How our audit addressed the key audit matter
The Group is required to set aside adequate technical provisions intended for covering future liabilities arising from insurance contracts and any losses due to risks deriving from the insurance transactions performed. Technical provisions are calculated for each insurance contract separately. The prospective method is applied in the calculation. The calculations take into account actuarial assumptions, the provisions of the legislation in force as well as all contractual obligations vis-à-vis the insured persons in line with the contents of insurance contracts. The key actuarial function holder (actuary) examines the calculation of technical provisions arising from insurance contracts and their adequacy at the annual level and expresses an opinion thereon. Technical provisions are accounting estimates that represent a significant item from the point of view of the audit of the consolidated financial statements. Because they involve significant management judgments and estimates, we determined this area to be significant to our audit and a Key audit matter	specifications, as well as the compliance of the model with IFRS 4, – assessing the technical provisions on the total portfolio based on provided cashflows and relevant assumptions, – liability adequacy test over technical provisions assessing the assumptions used in the liability adequacy test, process of assumptions setting, expert judgements, back-testing and relevant underlying calculations, – assessing and verifying the methodology and adequacy of actuarial methods used to assess and perform liability adequacy test over technical provisions, – assessing the adequacy and consistency of the actuarial judgements used in the models, which may vary depending on the product and/or product specifications and scenario, as well as the compliance of the model with IFRS 4, – Overview of projected cash flows and assumptions accepted in the context of Company, industry experience and specific product features, – validating the model by performing independent cashflow projection over a selected sample of policies, – assessing the sensitivity analysis and rationale of significant impact depending on the change of used assumption, – assessment of the adequacy of disclosures in the financial statements.

Reporting on other information including the Business Report

Management is responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information, including the Business Report and except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report we also performed procedures required by the Slovenian Companies Act. Those procedures include assessing whether the Business Report is consistent with the consolidated financial statements and whether the Business Report was prepared in accordance with valid legal requirements.

Based on the work undertaken in the course of our audit, in our opinion:

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- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the requirements of the Slovenian Companies Act.

In addition, in the light of knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Appointment

We were first appointed as auditors of the Group at the shareholders meeting of the Company on 26 August 2022 for the financial year ended 31 December 2022. The president of the supervisory board signed the audit contract on 10 June 2022. The contract was concluded for 3 years. Our uninterrupted period of appointment is one year.

The key audit partner on the audit resulting in this independent auditor's report is Primož Kovačič.

For and on behalf of PricewaterhouseCoopers d.o.o.:

Primož Kovačič,
Director, certified auditor

28 June 2023
Ljubljana, Slovenia

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16 Consolidated financial statements for 2022

16.1 Consolidated statement of income

in EUR 000

Item	Note	1 Jan - 31 Dec 2022	Adjusted 1 Jan - 31 Dec 2021
1. Net sales	1	88,386	80,083
2. Other operating income	2	3,329	7,561
Total operating revenue		91,715	87,644
3. Costs of materials and services	3	-4,880	-4,388
4. Labour costs	4	-7,388	-7,192
5. Value write-offs	5	-1,870	-1,834
6. Other operating expenses	6	-82,067	-68,427
Total costs		-96,205	-81,841
Results from operating activities		-4,490	5,803
7. Financial income			
b) Financial revenue from shares in associates	7.1	2,404	7,916
c) Financial revenue from shares in other companies	7.1	69,819	132,373
d) Financial revenue from other investments and from loans	7.2	11,188	9,072
Total finance income	7	83,411	149,361
8. Finance costs			
b) Financial expenses due to impairment and write-offs of other investments	8.1	-113,356	-7,550
d) Financial expenses from financial liabilities	8.2	-50,009	-50,009
e) Financial expenses from operating liabilities	8.3	-3	-25
Total financial expenses	8	-163,368	-57,584
Profit/loss before tax		-84,447	97,580
9. Income tax	9	-129	-6,950
10. Deferred taxes	10	-9,488	9,740
11. Net profit or loss for the period		-94,064	100,370

Disclosures and notes on pages 90 to 171 form an integral part of the financial statements.

16.2 Consolidated statement of other comprehensive income

in EUR 000

	1 Jan - 31 Dec 2022	Adjusted 1 Jan - 31 Dec 2021
Profit or loss for the year	-94,064	100,370
Items not to be reclassified subsequently to profit or loss	-104,196	148,907
Actuarial gains/losses within defined employee benefits plans	54	-49
Gains/losses in relation to changes in fair value of investments in equity, measured at fair value through other comprehensive income	-118,691	170,852
Net gains/losses recognised in revaluation surplus related to investments into associates and joint ventures accounted for using the equity method	855	-85
Tax on items subsequently not to be reclassified to profit or loss	13,586	-21,811
Items that may be reclassified subsequently to profit or loss	-6,546	-1,586
Gains/losses in relation to investments in debt instruments, measured at fair value through other comprehensive income	-8,081	-1,958
Tax on items that may be reclassified subsequently to profit or loss	1,535	372
Other comprehensive income for the year	-204,806	247,691

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16.3 Consolidated statement of financial position

in EUR 000

	Note	31 Dec 2022	Adjusted 31 Dec 2021	Adjusted 1 Jan 2021
ASSETS				
A. Non-current assets				
I. Intangible assets and non-current deferred costs and accrued revenue	11	66,410	51,281	51,054
II. Property, plant and equipment	12	5,189	5,785	6,276
III. Investment property	13	24,881	24,296	25,049
IV. Long-term investments				
1. Long-term investments, excluding loans				
b. Shares and interests in associates	14	79,859	83,023	81,327
c. Other shares and interests	16	964,392	1,281,769	1,025,126
d. Other long-term investments	16	317,133	293,940	287,664
Total long-term investments, excluding loans		1,361,384	1,658,732	1,394,117
2. Long-term loans	17	36,218	16,249	9,805
Total long-term investments		1,397,602	1,674,981	1,403,922
V. Non-current operating receivables	18	248	197	168
VI. Deferred tax assets	10	15,999	29,896	19,958
Total non-current assets		1,510,329	1,786,436	1,506,427
B. Current assets				
I. Assets held for sale	15	5,074	11,543	870
III. Short-term investments				
1. Short-term investments, excluding loans	16	181,242	50,017	66,740
2. Short-term loans	17	2,810	17,618	14,016
Total short-term investments		184,052	67,635	80,756
IV. Current operating receivables				
2. Current operating trade receivables		3,337	3,448	3,606
3. Short-term operating receivables due from others		27,768	4,352	3,995
4. Other current operating receivables		67,800	53,090	52,554
Total current operating receivables	18	98,905	60,890	60,155
V. Cash and cash equivalents	19	15,059	31,580	14,723
Total current assets		303,090	171,648	156,504
Total assets		1,813,419	1,958,084	1,662,931

in EUR 000

	Note	31 Dec 2022	Adjusted 31 Dec 2021	Adjusted 1 Jan 2021
LIABILITIES				
A. Equity				
I. Called-up capital	20	364,810	364,810	364,810
II. Capital surplus	21	218,046	217,839	217,625
V. Reserves arising from valuation at fair value	22	338,811	452,434	305,047
VI. Retained net profit or loss		440,813	322,198	340,408
VII. Net profit or loss for the period		-94,064	100,370	-6,507
Total equity		1,268,416	1,457,651	1,221,383
B. Provisions				
I. Provisions for pensions and similar liabilities		601	587	510
II. Other provisions		360,871	302,637	276,530
Total provisions	25	361,472	303,224	277,040
C. Non-current liabilities				
I. Non-current financial liabilities		65,006	50,000	50,000
II. Non-current operating liabilities		82	75	133
Total non-current liabilities	23	65,088	50,075	50,133
III. Deferred tax liabilities	10	41,363	72,770	47,806
Total non-current liabilities		106,451	122,845	97,939
D. Current liabilities				
II. Short-term financial liabilities	23	0	1	1
III. Current operating liabilities				
2. Current trade payables		844	706	2,975
5 Current liabilities to the state		65,425	50,323	56,680
7 Other current operating liabilities		8,342	10,204	6,804
Total current operating liabilities	23	74,611	61,233	66,459
IV. Current tax liabilities	24	2,469	13,130	109
Total current liabilities		77,080	74,364	66,569
Total liabilities		1,813,419	1,958,084	1,662,931

Disclosures and notes on pages 90 to 171 form an integral part of the financial statements.

16.4 Consolidated cash-flow statement

in EUR 000

	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit or loss and adjustments		
Net profit or loss	-94,064	100,370
Tax adjustment	9,617	-2,790
Adjustments for depreciation of property, plant and equipment, amortisation of intangible assets, and depreciation of investment property	2,198	1,061
Adjustments for impairments/write-offs of property, plant and equipment, amortisation of intangible assets, and depreciation of investment property	-7	0
Adjustments for write-offs of receivables	0	0
Adjustments for financial income	-81,007	-141,445
Adjustments for financial expenses	163,368	57,584
Adjustments for interest in the profit or loss of associates and jointly controlled entities	-2,404	-7,916
Adjustments for profit/loss on sale of property, plant and equipment	-2	-2
Operating profit before changes in net current assets and taxes	-2,301	6,862
b) Changes in net current assets and provisions		
Opening less closing operating receivables	-38,066	-764
Opening less closing assets (disposal groups) held for sale	6,469	-10,673
Closing less opening operating liabilities	2,717	14,036
Closing less opening provisions	58,248	26,184
Cash generated from operating activities	29,368	28,783
c) Net cash flows from operating activities	27,067	35,645
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Receipts from investing activities		
Receipts from interest	6,024	8,203
Receipts from dividends	42,741	30,607
Cash receipts from disposal of property, plant and equipment	3	0
Receipts from decrease of long-term investments	159,612	68,715
Receipts from decrease of short-term investments	120,446	75,243
Total receipts from investing activities	328,826	182,768
b) Disbursements from investing activities		
Cash disbursements to acquire intangible assets	-376	-518
Disbursements to acquire property, plant and equipment	-175	-220
Cash disbursements to acquire investment property	-1,398	-34
Disbursements to acquire long-term investments	-104,611	-89,201
Disbursements to acquire short-term investments	-216,059	-61,797
Total disbursements from investing activities	-322,619	-151,770
c) Cash from investing activities	6,207	30,998
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Receipts from financing activities		
Cash proceeds from paid-in capital	207	214
Total receipts from financing activities	207	214
b) Cash disbursements from financing activities		
Cash disbursements for repayment of current financial liabilities	-50,002	-50,000
Total disbursements for financing activities	-50,002	-50,000
c) Cash from financing activities	-49,795	-49,786
D. CLOSING BALANCE OF CASH		
a) Net cash flow for the period	-16,521	16,857
b) Opening balance of cash	31,580	14,723
c) Total closing balance of cash	15,059	31,580

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16.5 Consolidated statement of changes in equity

in EUR 000

		Share capital	Capital surplus	Fair value reserves	Retained net profit or loss	Net profit or loss for the current period	Majority equity interest	Total
A. 1.	Balance as at 31 Dec 2021	364,810	217,839	561,211	263,874	49,917	1,457,651	1,457,651
b)	Retroactive adjustments	0	0	-108,777	58,324	50,453	0	0
A. 2.	Balance as at 1 Jan 2022	364,810	217,839	452,434	322,198	100,370	1,457,651	1,457,651
B. 1.	Changes in equity – transactions with owners	0	207	0	0	0	207	207
d)	Entry of additional paying-up of the capital	0	207	0	0	0	207	207
B. 2.	Total comprehensive income for the reporting period	0	0	-110,742	0	-94,064	-204,806	-204,806
a)	Net profit or loss for the reporting period	0	0	0	0	-94,064	-94,064	-94,064
e)	Changes in reserves arising from valuation of investments at fair value	0	0	-111,651	0	0	-111,651	-111,651
f)	Changes in reserves arising from valuation of investments at fair value - associates	0	0	855	0	0	855	855
g)	Other components of the comprehensive income of the period	0	0	54	0	0	54	54
B. 3.	Changes in equity	0	0	-2,881	118,615	-100,370	15,364	15,364
a)	Distribution of the remaining part of the net profit of the comparative reporting period to other components of equity	0	0	-2,881	103,251	-100,370	0	0
f)	Profits/losses from derecognition of equity investments measured at fair value through other comprehensive income to retained earnings	0	0	0	15,364	0	15,364	15,364
C.	Closing balance as at 31 Dec 2022	364,810	218,046	338,811	440,813	-94,064	1,268,416	1,268,416

Disclosures and notes on pages 90 to 171 form an integral part of the financial statements.

16.6 Consolidated statement of changes in equity

in EUR 000

		Share capital	Capital surplus	Fair value reserves	Retained net profit or loss	Net profit or loss for the current period	Majority equity interest	Total
A. 1.	Balance as at 31 Dec 2020	364,810	217,625	384,336	261,119	-6,507	1,221,383	1,221,383
b)	Retroactive adjustments	0	0	-79,289	79,289	0	0	0
A. 2.	Balance as at 1 Jan 2021	364,810	217,625	305,047	340,408	-6,507	1,221,383	1,221,383
B. 1.	Changes in equity – transactions with owners	0	214	0	0	0	214	214
d)	Entry of additional paying-up of the capital	0	214	0	0	0	214	214
B. 2.	Total comprehensive income for the reporting period	0	0	147,321	0	100,370	247,691	247,691
a)	Net profit or loss for the reporting period	0	0	0	0	100,370	100,370	100,370
e)	Changes in reserves arising from valuation of investments at fair value	0	0	147,455	0	0	147,455	147,455
f)	Changes in reserves arising from valuation of investments at fair value - associates	0	0	58	0	0	58	58
g)	Other components of the comprehensive income of the period	0	0	-192	0	0	-192	-192
B. 3.	Changes in equity	0	0	66	-18,210	6,507	-11,637	-11,637
a)	Distribution of the remaining part of the net profit of the comparative reporting period to other components of equity	0	0	66	-6,573	6,507	0	0
g)	Profits/losses from derecognition of equity investments measured at fair value through other comprehensive income to retained earnings	0	0	0	-11,637	0	-11,637	-11,637
C.	Closing balance as at 31 Dec 2021	364,810	217,839	452,434	322,198	100,370	1,457,651	1,457,651

Disclosures and notes on pages 90 to 171 form an integral part of the financial statements.

17 Disclosures and notes

17.1 General disclosures

Parent Company Profile

Kapitalska družba, d. d., is organised as a public limited company. The company is headquartered at Dunajska cesta 119 in Ljubljana, Slovenia. The sole shareholder of Kapitalska družba, d. d., 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, d. d., 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, the main activity performed by Kapitalska družba, d. d., is pension funding and it also performs other activities related to asset management and services related to support to asset management: other financial intermediation, 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 of the controlling company

The Articles of Association and its amendments and supplements are adopted by the Annual General Meeting of Kapitalska družba, d. d., at 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 of the Members is appointed Chairperson of the Management Board. The term of office of Members of the Management is four years, after which they may be reappointed. 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, d. d., representing a severe dereliction of duties may constitute cause for dismissal.

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

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

Subsidiaries

The subsidiaries of Kapitalska družba, d. d., are illustrated in the table below.

in EUR 000

Subsidiary name	Country	Equity stake	Equity as at 31 Dec 2022	Net profit/loss for 2022
Modra zavarovalnica, d. d.	Slovenia	100.00%	295,941	-15,901
Hotelske nepremičnine, d. o. o.	Slovenia	50.00%	12,795	546
FINAP, d. d. – in liquidation	Slovenia	66.08%	-	-

The remaining 50% of the equity stake of Hotelske nepremičnine, d. o. o., is owned by Modra zavarovalnica, d. d. In Kapitalska družba's separate statements, Hotelske nepremnične, d. o. o., is disclosed as a joint venture.

As the parent company, Kapitalska družba, d. d., consolidates Modra zavarovalnica, d. d., and Hotelske nepremičnine, d. o. o.; it does not consolidate FINAP d. d. - in liquidation due to insignificance.

Data on consolidation

Accounting data is consolidated at Kapitalska družba, d. d., i.e., at the highest consolidated level. The consolidated Annual Report of the Kapitalska družba Group will be published at https://www.kapitalska-druzba.si/o-kapitalski-druzbi/letna-porocila/.

Information on treasury shares

The Group has no treasury shares.

Employees

As at the end of 2022, the Kapitalska družba Group employed 121 people, which equals the average number of employees in the Group in 2022, 58 of which were employeed in Kapitalska družba, d. d., and 63 in Modra zavarovalnica, d. d. Hotelske nepremičnine, d. o. o., and FINAP, d. d. – in liquidation have no employees.

17.2 Accounting policies

Basis for Preparation

The financial statements for 2022 have been prepared in accordance with the International Financial Reporting Standards (hereinafter: "IFRS") adopted by the EU, and the Companies Act (hereinafter: "ZGD-1").

The data in the financial statements are based on book-keeping documents and books of account kept in accordance with IFRS. The following general accounting assumptions have been observed in the preparation: going concern, systematic 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 Group as well as the amounts of revenue and expenses.

The adequacy of the used assumptions and estimates is checked annually at the end of the financial year.

Significant judgements relate to:

- creation of technical provisions,
- expected credit loss model for financial assets,
- classification and valuation of financial instruments (including determining their fair value) based on the adopted business models and the cash flow test and
- provisions for jubilee rewards and severance pay upon retirement.

Creation of technical provisions

Non-current technical provisions for insurance contracts are set aside pursuant to the Insurance Act, its implementing regulations and IFRS 4. The insurance company is required to set aside adequate technical provisions intended for covering future liabilities arising from insurance contracts and any losses due to risks deriving from the insurance transactions performed. Technical provisions are calculated for each insurance contract separately. The prospective method is applied in the calculation.

Expected credit loss model for financial assets

IFRS 9 has also established the expected credit loss model meaning that an impairment is recognised even before the loss occurs. The expected credit loss model incorporates the historical data on the recoverability and the macroeconomic forecasts as well as other internal and external factors indicating the debtor's future solvency.

The basis for the formation of impairments is the data on the probability of default – PD, loss given default – LGD, and exposure at default – EAD. Data are obtained from international statistics publications of the Moody's and S&P credit agencies (PD and LGD) as well as the internal IT system holding current data on EAD.

The standard defines three stages describing the credit quality of a financial asset. Upon recognising a financial asset classified as stage 1, the fund recognises the expected credit loss over a period of 12 months. Financial assets classified as stage 2 are assets whose credit risk in the period after recognition has increased and for which credit loss is calculated over their entire term. Stage 3 is represented by financial assets of non-creditworthy issuers, meaning that impairments are required for total expected losses.

Individual investments classified in stages based on international or internal ratings and days of default. We also carried out regular monitoring of portfolio investments in the form of an internal early warning system – EWS.

In order to determine the expected credit losses (ECL) based on forward-looking information, we calculate the correlation coefficients for a period of three years that we obtain based on international macroeconomic indicators for the following three years and the data on the default rate provided by S&P. Select macroeconomic indicators were selected for the calculation, i.e. those with the maximum statistical information value and are relevant for economic cycle forecasting. We observe the average historical PD value for the period longer than three years because it is difficult to explain deviations from average PD values over a longer time period.

We recognise a loss allowance for the ECL relating to financial assets measured at amortised cost or fair value through other comprehensive income.

Classification and valuation of financial instruments and determination of fair value of non-listed financial assets

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 quoted (unadjusted) market prices in active markets for the investments which the Company can access as at the measurement date;
- level 2 inputs are inputs that are not quoted prices included in level 1 and which can be directly or indirectly observed; level 2 inputs include the following in accordance with IFRS 13.82:
  i. quoted prices for similar investments in active markets,
  ii. quoted prices for identical or similar investments in non-active markets,
  iii. 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.),
  iv. inputs corroborated by market;
- Level 3 inputs are unobservable inputs.

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

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

The Group classifies investments into levels based on the characteristics of the input used to determine the fair value of investments and to assess whether the principal market is an active one.

Because the market value of investments in alternative funds is not available, valuation based on market data is not possible. The alternative fund manager provides the value of an investment in an alternative fund as the value of a unit or the value of payment made into the fund, which is the best approximation of the market value. The evaluation is based on material non-public information. As the Group has limited access to data used by the alternative fund manager, we do not carry out our own valuations, nor can a sensitivity analysis be performed. The alternative fund manager typically uses valuation methods compliant with IPEV (International Private Equity and Venture Capital Valuation), such as the discounted cash flow method or the method of market multiples. These investments are classified within Level 3 in accordance with the criteria for the classification of investments into fair value hierarchy levels.

At the level of the fair value hierarchy, the Group also classifies those debt security investments that are not measured at fair value in the statement of financial position. These are generally bonds at amortised cost that are measured at fair value by the Group for disclosure purposes. The same rules as for debt securities measured at fair value in the statement of financial position apply to these securities.

The estimates of asset fair value mainly depend on the current and expected macroeconomic situation in the EU and other relevant markets where the Group 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.

Significant judgements primarily apply to the impairment test. As at the date of statement of financial position, the management assesses whether there is objective evidence of the need of impairment of a non-financial asset or a group of non-financial assets.

The Group establishes the existence of impartial evidence for the need to impair a non-financial asset based on an assessment of signs of impairment from publicly available data and information from internal reporting on:

- a significant increase in the cash requirements to operate and maintain it,
- a significant deterioration of actual net cash flows or operating profit,
- a significant decrease in the planned net cash flows or operating profit or a significant increase in the planned loss,
- operating losses or net cash outflows from the asset, if the amounts for the period under consideration are combined with the projected amounts for the future.

The result of the assessment of signs of impairment is the recoverable amount of the non-financial asset, which is the greater of two items: its fair value less costs of disposal, or its value in use. Impairment of a non-financial asset is not required if the recoverable amount of the non-financial asset is higher than its carrying amount.

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 non-current provisions.

Provisions for jubilee rewards and severance pay upon retirement

Based on the provisions of employment contracts and internal regulations, the Group is obligated to pay its employees jubilee benefits and post-employment benefits on retirement. Provisions are created for these purposes. There are no other existing pension liabilities.

The provisions amount to estimated future payments for post-employment benefits on retirement and jubilee benefits discounted to the reporting date. Provisions are made using the projected unit credit method.

Statement of compliance

The consolidated financial statements of the company Kapitalska družba, d. d., and all its subsidiaries (hereinafter: the "Group") are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

In its financial statements, the Group has applied all IFRSs and IFRICs that were required in 2022. It did not apply any standards or interpretations before their application became obligatory in 2022.

Adjustment of Past Statements – Reclassification of Units of Target Funds

In 2022, the Group analysed the definition of business models when it comes to financial instruments set forth in IFRS 9 as well as the cash flow test (*SPPI Test*), which also included the identification of units of target funds (*Exchange Traded Funds – ETFs*) as equity instruments. During the analysis, it was established that the above-mentioned financial instruments may, in certain cases, have the characteristics of the so-called puttable financial instruments and therefore do not meet the criteria for equity instruments.

Based on a detailed internal analysis of business models and the SPPI test, the Group reclassified the financial instruments in question as debt financial instruments. These debt instruments are mandatorily measured at fair value through profit or loss because they fail the SPPI test. Prior to 2022, these financial instruments were measured at fair value through other comprehensive income.

For the purpose of the presentation of these facts in the annual report for 2022, the Group consistently followed IAS 8. All disclosures and notes to the comparative items for 2021 in this annual report reflect the turnover/balances from financial statements prepared in accordance with IFRS as applicable in the EU.

The adjustments of individual items of the statement of profit and loss and other comprehensive income and the financial position for 2021, including equity adjustments as at 1 January 2021 with the corresponding notes, are presented in the tables below.

Table 16: Impact of the reclassification of ETF units on the consolidated statement of profit or loss

In EUR 000

	Item	Audited 2021	Adjustment	Adjusted 2021
7.c	Financial revenues from interests in other companies	77,500	54,900	132,400
8.b.	Financial expenses due to impairments and write-offs of other investments	-7,122	-938	-8,060
	Profit/loss before tax	43,618	53,962	97,580
9.	Income Tax	-3,441	-3,509	-6,950
11.	Net profit or loss for the period	49,917	50,453	100,370

The ‘financial income from shares in other companies’ item increased by EUR 54,900 thousand due to the revaluations effects, sales effects and exchange rate differences, and the ‘financial expenses from impairments’ item increased by EUR -938 thousand, as the Group measured the ETF units at fair value through profit or loss. Income tax increased by EUR 3,509 thousand and net operating profit or loss by EUR 50,453 thousand.

Table 17: Impact of the reclassification of units of target funds on the consolidated statement of financial position

In EUR 000

	Item	Audited 31 Dec 2021	Adjustment	Adjusted 31 Dec 2021
V.	Fair value reserves	561,211	-108,777	452,434
VI.	Retained net profit/loss	263,874	58,324	322,198
VII.	Net profit or loss	49,917	50,453	100,370
	Total equity	1,457,651	0	1,457,651
III.	Deferred tax liabilities	82,520	-9,750	72,770
IV.	Current tax liabilities	3,380	9,750	13,130

Reserves arising from valuation at fair value decreased by EUR 108,777 thousand as at 31 December 2021 due to the reclassification of ETF units due to valuation. Retained net profit/loss increased by EUR 58,324 thousand and net operating profit or loss by EUR 50,453 thousand due to the effects of investment transfers. Deferred tax liability decreased by EUR 9,750 EUR, while current tax liability increased.

Table 18: Effect of adjustments in opening balance of equity of the Kapitalska družba Group as at 1 January 2021

in EUR 000

	Item	Audited 1 Jan 2021	Adjustment	Adjusted 1 Jan 2021
V.	Fair value reserves	384,336	-79,289	305,047
VI.	Retained net profit/loss	261,119	79,289	340,408
	Total equity	1,221,383	0	1,221,383

Reserves arising from valuation at fair value decreased by EUR 79,289 thousand as at 1 January 2021 due to the transfer of the effects of the valuation of deferred investments and the related deferred tax liability. The retained net profit/loss increased by EUR 79,289 thousand.

The Group took the change into account in the previous financial statements as well. All disclosures and notes to the items for 2021 apply to the adjusted financial statements, where certain items are not the same as the audited ones for the said year.

Foreign currency translation

The Group's financial statements are presented in euros (EUR). Assets and liabilities originally expressed in foreign currencies are re-translated into the domestic currency at the reference exchange rate of the ECB. 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 are prepared taking into account the going concern assumption.

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

Consolidation basis

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

All mutual operations and transactions, including unrealised gains arising from mutual operations and transactions, are excluded in their entirety.

All subsidiaries begin to be consolidated from the day when control is transferred to the Group, and the consolidation of a subsidiary is terminated when the control of the subsidiary is transferred from the Group. If the Group loses control over a subsidiary during the year, the results of the subsidiary are included in the consolidated financial statements up to the date when the control over the subsidiary still existed.

Intangible assets

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

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

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.

Asset	Amortisation rate in %
Software	20.00–33.33

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

Gains and losses on disposal or elimination of an item of intangible assets represent the difference between the selling price on disposal and the carrying amount of the asset. The difference is recognised in the profit or loss when the intangible asset is eliminated or disposed.

Property, plant and equipment

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

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

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

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

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

An item of property, plant and equipment whose individual value as per supplier's invoice does not exceed EUR 500, may be carried as a group of small tools. 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 Group recognises investment property when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably. Investment property includes the real property that is not used by the Group for its principal activity.

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

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

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

The cash generating unit includes investment property by locations.

Financial assets

Classification and measurement of financial assets

The Group classifies financial assets based on:

a. the Group's business model for financial asset management:
   - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows,
   - the asset is held within a business model whose objective is to collect contractual cash flows and sell financial assets,
   - the asset is held within a business model whose objective is to hold financial assets with the aim of trading them;

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 trading 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.

Upon initial recognition, the Group measures financial assets at:

a. amortised cost (*AC*),
b. fair value through other comprehensive income (*FVTOCI*), or
c. 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*).

For equity financial instruments that the Group does not own for the purpose of trading and that are managed in an active corporate manner due to the size of the ownership interest, the Group takes into account the provisions of IFRS 9 5.7.5 and measures such financial assets according to the business model aimed at holding assets with the purpose of obtaining contractual cash flows and selling financial assets and thus measures them at fair value through other comprehensive income.

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.

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

- financial assets measured at fair value are recorded through profit or loss 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 Group may decide to measure certain investments in equity instruments at fair value through other comprehensive income in accordance with the provisions of IFRS 9 5.7.5.

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.

Restatements of financial assets expressed in foreign currencies also recognised in profit or loss.

Profit or loss from financial investments in the equity of other companies that are distributed at fair value through other comprehensive income is recognised directly in equity as an increase or decrease in fair value reserves. Recalculation of financial investments in the equity of other companies denominated in foreign currencies is recognised directly in equity as an increase or decrease in fair value reserves. Upon derecognition of a financial investment in the equity of other companies, the profit or loss accumulated in fair value reserves is recognised under profit/loss brought forward.

Interest calculated by using the effective interest method is recognised in profit or loss.

For financial assets, carried at amortised cost, a gain or loss is recognised in profit or loss when such assets are revalued for impairment or derecognised.

Investments in equity instruments

Upon initial recognition, the Group may make an irrevocable election to present in other comprehensive income, in accordance with IFRS 9 5.7.5, subsequent changes in the fair value of an investment in an equity instrument within the scope of this standard that is not held for trading and is also not contingent consideration of an acquirer in a business combination to which IFRS 3 applies. If the Group chooses to do so, it recognises dividends from that investment in profit or loss. Upon derecognition of a financial investment in the equity of other companies, the profit or loss accumulated in fair value reserves is recognised in other equity components.

Investments in associated companies

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

In the consolidated financial statements, Kapitalska družba, d. d., consolidates the associates using the equity method.

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.

Investments in securities from registry accounts

Pursuant to paragraph 5 of Article 48. a of the Book Entry Securities Act, as at 1 January 2022, the Company became 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 December 2021. In accordance with and under the conditions referred to in Article 48. b of ZNVP-1, when establishing the share of voting rights of Kapitalska družba, d. d., and persons who, in compliance with the law governing takeovers, act in coordination with Kapitalska družba, d. d., in the target company, the voting rights deriving from the shares of the target company, which Kapitalska družba, d. d., acquired in accordance with the first and fifth paragraphs of Article 48.a of ZNVP-1, are not taken into account. Kapitalska družba, d. d., may also not exercise voting rights arising from the shares of target companies which it acquires in accordance with the first and fifth paragraphs of Article 48.a of ZNVP-1. Kapitalska družba, d. d., is entitled to exercise voting rights from all those dematerialised securities of companies acquired in accordance with the first and fifth paragraphs of Article 48.a of ZNVP-1, for which, taking into account the balance given on the date of transfer of the dematerialised securities to a special account of Kapitalska družba, d. d., from the first paragraph of Article 48.a of ZNVP-1, the provisions of the Takeovers Act (ZPre-1) do not apply. Based on the above, investments in which Kapitalska družba, d. d., is not allowed to exercise voting rights, are consequently not consolidated.

Assessment of contractual cash flows

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

a. if the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows, or
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 Group has to verify if the contractual cash flows from the financial asset are solely payments of principal and interest on the principal amount outstanding. For this purpose, the Group conducts 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 contractual cash flow characteristic is not authentic if it affects the contractual cash flows from the instrument only in the case of an event that is extremely rare, highly unusual, and not highly probable.

Changes in cash flows and derecognition of a financial asset

The Group derecognises a financial asset only when:

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

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

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

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

The Group shall, for the purpose of assessing credit losses subject to impairment requirements, be classified into one of the following groups by balance 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 exposures from assumed credit liabilities and financial guarantee contracts;

taking into account:

a. exposures where no significant increase in credit risk has yet occurred and for which value adjustments or provisions for credit losses are measured on the basis of expected credit losses over a 12-month period (stage 1),
b. exposures in which the credit risk has significantly increased in the period from initial recognition to the date for which the Group reports and for which value adjustments or provisions for credit losses are measured on the basis of expected credit losses over the entire duration period (stage 2),
c. exposure in the event of significantly reduced solvency and default (stage 3).

Stage 3 also includes purchased or originated credit-impaired financial assets (*POCI*). For financial assets recognised as such, the Group applies an individual approach in subsequent reporting periods, whereby interest is recognised only on the basis of payment. If this is not the exposure in question, the Group classifies the exposure in stage 1 at initial recognition.

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.

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

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

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

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

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

The basic criterion considered by the Group for classification into stages is the credit rating or internal rating of a particular financial instrument. The internal rating is defined on the basis of an algorithm in the information system and is based on international credit ratings, or, if no international credit ratings are available, it is determined internally. The Group uses the Bloomberg Credit Rating as the primary source for determining the internal credit rating.

The Group regularly checks the international credit ratings of financial instruments with an investment credit rating and financial instruments without an investment credit rating during the period.

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

- an unbiased and probability-weighted amount, determined by evaluating the range of possible outcomes,
- the time value of money and
- appropriate and demonstrable information about past events, current conditions and forecasts regarding future economic circumstances that are available without excessive cost and effort at the reporting date.

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

- government,
- companies and
- financial institutions.

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

For classification into stages 1, 2 and 3, the Group uses its own methodology for estimating expected credit losses, based on risk parameters:

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

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

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

If the Group does not have sufficient data for an individual investment or transaction, it can use:

- parameters of a controlling company,
- parameters of a comparable financial instrument,
- parameters of an individual country, if a unit of the central/regional/local level of the country, a public sector entity or a central bank is the issuer of the financial instrument.

The Group uses EAD risk parameters as derived from amortization plans (using contractual cash flows). EAD risk parameters are not corrected for the impact of macroeconomic risk factors.

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

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

For the calculation of PD risk parameters, the Group uses data obtained from the reports of the credit rating agency S&P, separately for governments, companies and financial institutions. Historical PD by individual rating (credit rating) is used for the calculation.

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

The Group perceived decreased credit risk and a temporary improvement of the macroeconomic environment, which, in line with the model it uses, decreased the probability of default (PD) and loss given default (LGD); which decreases expected credit losses.

In order to take economic cycles into account, the Group takes into account forecasts of future economic circumstances and a correction for the economic cycle when calculating the probability of default for the first three years for all classes of investments (government, corporate and financial institution bonds).

Determination of fair value

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

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

- stock exchange market (for equity and debt instruments and collective investment trusts),
- over-the-counter market or OTC[19] (applies to debt investments).

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

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

In case of stock market, the assumption of an active market is met if the average daily trading volume for an individual investment over the last 180 days up to the fair value measurement date was higher than EUR 0.5 mio taking into account the number of trading days (for the Ljubljana Stock Exchange, the average daily turnover of more than EUR 0.1 mio is taken into account for investments owned by Kapitalska družba, d. d., which does not apply when determining the active market for investments owned by Modra zavarovalnica, d. d.). In the event of an active exchange, fair value is measured using the last known quoted price. In the event of less liquid exchange markets, fair value is measured using the most recent quoted price of not more than 90 days. In other cases, the fair value of an investment is determined using a valuation technique.

In case of an OTC market, the assumption of an active market is met if the CBBT[20] price was published for at least half of the trading days over the last 30 days up to the valuation date. In the event of an

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

20 Composite Bloomberg Bond Trader is Bloomberg's real-time data on individual bond prices. Bloomberg calculates the price of a bond based on the weighted average price (indicative as well as binding) drawn from by a larger number of different dealers.

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 CBBT price is not available, the BVAL price[21], if available, is used for fair value measurements. In other cases, the fair value of an investment is determined using a 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 issuers for which no (active) market exists and which pass the SPPI test 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 6 months from the fair value measurement date to which the value estimate will be applied. Market data and parameters used in valuation must include the most recent information and must be compliant with the date the estimated value will be applied to. If 6 months old information on the Company's performance cannot be obtained, or if the information does not suffice for valuation, the value can be exceptionally estimated by using older data, which however must not be older than 12 months. When applying the market approach, comparative companies should be selected taking into account their comparability in the context of industry, size, growth potential, the availability of historical data on operations and other possible elements affecting comparability of individual companies.

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

For valuation, only the closing quote on stock exchange or closing CBBT or BVAL price is used as unadjusted, quoted price.

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

Investments measured at fair value are classified into fair value levels in accordance with IFRS 13. This standard defines a hierarchy for compliance and comparability purposes, whereby it classifies the inputs used for fair value valuation into three levels, i.e.:

- level 1 inputs are quoted (unadjusted) market prices in active markets for the investments which we can access as at the measurement date;
- level 2 inputs are inputs that are not quoted prices included in level 1 and which can be directly or indirectly observed; in accordance with IFRS 13.82, level 2 inputs include the following:
  - quoted prices for similar investments in active markets,
  - quoted prices for identical or similar investments 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.

21 Bloomberg Valuation Service is Bloomberg's data on the end-of-day value of an individual bond. 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.

In line with IFRS 13.97, the fair value hierarchy also includes 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: Classification of equity investments if the stock market is the principal market (listed equity investments)

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

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 investments at fair price, measured using a valuation technique (taking into account level 3 inputs) or based on the prices provided by third parties

Classification of debt investments

At the level of the fair value hierarchy, the debt security investments that are not measured at fair value in the statement of financial position are also classified. 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 21: Classification of ETFs

Level 1	ETFs with fair value measured on the basis of quoted prices in active market or on the basis of quoted value per subfund unit determined using market data
Level 2	ETFs with fair value measured on the basis of quoted prices in less liquid market
Level 3	Target funds for which the stock market price is not achievable and whose fair value is measured on the basis of the published asset unit value not determined using market data

Table 22: Classification of debt investments if the stock market is 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 the quoted prices in less liquid markets
	Debt securities measured using a 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
	A stock market price older than 90 days can be used if the materiality criterion is not met

Table 23: Classification of debt investments if the OTC market is 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 price in less liquid markets
	Debt investments with fair value measured on the basis of transaction price in less liquid markets
	Debt securities without a CBBT price in (in)active markets and for which the fair value is measured using a valuation technique (taking into account Level 2 inputs)
Level 3	Debt securities without a CBBT price in (in)active markets and for which the fair value is measured at BVAL price, using a valuation technique (taking into account level 3 inputs) or prices provided by third parties

In exceptional cases, debt securities whose principal matures in the current year and for which there is no market price, CBBT price or BVAL price that would be less than 90 days old, are valued at the last known price and placed in level 3 of the value hierarchy.

Commercial bills of Slovenian issuers is valued at the amortized value model and are placed in level 2 of the value hierarchy.

Classification of loans and deposits

Bank deposits are disclosed at amortised cost in the statement offinancial 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. Deposits with the maturity of up to 1 year are measured using the initial or contractual interest rate for the purposes of disclosing fair value and are categorised within Level 2. For the purposes of disclosing fair value of deposits with the maturity of over 1 year, their fair value is estimated using the reference yield curve and they are categorised within Level 2.

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

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

Derecognition of financial instruments

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred, as stated in IFRS 9.

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

Cash and cash equivalents

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

Equity

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

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

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

Revenue reserves are recognised according to ZGD-1. In line with Article 52(2) of ZSDH-1 distributable profit of Kapitalska družba, d. d., 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 recognised as a provision is the best estimate of the expenditure required for the payment of the liabilities existing on the balance sheet date. When the value of money over time must be considered, provisions are determined on the basis of a discounted cash-flow using a discount rate (before taxes) which reflects the value of money over time and, where appropriate, includes potential risks associated with an individual liability. If provisions are made on the basis of a discounted cash-flow, an increase in the net present value is recognised over the years as financial expenses.

Where some or all of the expenditure required to settle a provision 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 disclosed costs of provisions are decreased by expected reimbursement.

Changes in mathematical provisions is disclosed in profit or loss as an increase or decrease in other operating expenses.

The Group establishes non-current provisions:

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

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

Provisions for Pensions, Jubilee Benefits and Severance Pay upon Retirement

The Group calculates provisions for severance pay upon retirement and jubilee benefits annually. When doing the calculation, it applies assumptions on the expected employee turnover, their years of service and expected number of years until retirement while also observing the provisions of individual and collective employment contracts and the Group's internal acts.

Insurance Contracts

Pursuant to the International Financial Reporting Standard 4 (IFRS 4), the PPS, MR and MR II Guarantee Funds are classified as insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

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

Insurance contracts that carry a significant insurance risk are treated in the books of account in accordance with IFRS 4.

Liabilities from Insurance Contracts – Technical Provisions

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

The insurance company is required to set aside adequate technical provisions intended for covering future liabilities arising from insurance contracts and any losses due to risks deriving from the insurance transactions performed.

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

The calculations take into account actuarial assumptions, the provisions of the legislation in force as well as all contractual obligations vis-à-vis the insured persons in line with the contents of insurance contracts.

The key actuarial function holder (actuary) examines the calculation of technical provisions arising from insurance contracts and their adequacy at the annual level, and expresses an opinion thereon.

KS PPS Technical Provisions

Technical provisions of KS PPS (Guarantee Fund of the First Pension Fund) are mathematical provisions of the KS PPS insurance policies. They are intended to cover liabilities arising from insurance and insurance risks.

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

Part of the mathematical provisions that covers the mortality risk within the population with annuity insurance are derived from the first calculation of mathematical provision, where the difference between the value of transferred assets and the value of mathematical provisions for a KS PPS policy is determined. These provisions, which are calculated by individual policy upon transfer, increase the balance of provisions and are formed collectively for all insured persons. They are calculated and recognised on a monthly basis upon the calculation of mathematical provisions for KS PPS policies for the current month. These provisions can be additionally created at year-end from the surplus of KS PPS assets if mathematical provisions are not set aside pursuant to the most recent annuity tables or from the surplus of assets as a result of over-mortality within the population with annuity insurance if mathematical provisions comply with the most recent annuity tables.

Provided that mathematical provisions from KS PPS policies have been formed pursuant to the most recent annuity tables, the surplus of assets, which is a result of surplus return of KS PPS over the guaranteed return, is allocated to permanent annuity increases or is used, partially or entirely, to create additional provisions. The share of surplus earmarked for annuity increase is specified by the Company's management board.

KS MR Technical Provisions

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

KS MR II Technical Provisions

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

Claims provisions

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

Unearned premiums

Provisions for unearned premiums for individual insurance are set aside in the amount of the part of the written premium relating to the insurance coverage for the insurance period after the end of the accounting period for which the provision is calculated.

The Group sets aside provisions for failure to achieve the guaranteed rate of return when the guaranteed value of assets exceeds the actual value of assets belonging to an individual insured person/member, namely in the amount of the established deficit, i.e. the sum of differences between the guaranteed assets of the insured person/member and the actual value of the assets of the insured person/member.

Operating liabilities

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

Revenue

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

Revenue is classified into the following categories:

1. Premium Income

Net insurance premium income is equal to the gross written premium. Gross written insurance premiums are recognised in accounting records on the date of the settlement of account rather than on the date of payment.

2. Revenue from fees

The Group is entitled to the refund of entry and exit fees, annual commission for the management of pension funds, and costs of paying occupational pensions or annuities.

a. Entry fee

For the performance of its activity in accordance with the pension scheme, the Group charges an entry fee, meaning that the collected assets transferred into an individual pension fund are decreased by the amount of the entry fees and the fund manages the assets that comprise net premiums. The entry fee is calculated as a percentage of the paid premium as at the date of payment.

b. Management Fee

The Group charges management fees to pension funds, meaning that the monthly value of the assets of an individual fund is reduced by the amount of management costs. The management fee of each fund 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 fees

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

d. Income from costs of occupational pensions

In accordance with the pension plan, the Group is entitled to income from costs of occupational pensions or annuities, which is calculated as a percentage of the monthly amount.

3. Rental income

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

Financial revenue

1. Interests

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.

2. Dividends

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

3. Revenue from sale of investments

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

4. Revenue from revaluation of investments

Revenue from the revaluation of investments is revenue from the valuation of those financial instruments that are allocated to the category at fair value through profit or loss.

Costs

Costs of materials and services

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

Employee benefits

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

Expenses

Expenses are recognised if a decrease of economic benefits in the accounting period relates to a decrease of an asset or an increase of a debt, and this decrease can be measured reliably. Expenses should therefore be recognised simultaneously with the recognition of a decrease of assets or of an increase ofliabilities (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 arising from recognised credit losses from financial assets.

Taxes

1. Current Tax

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

2. Deferred tax

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

Deferred tax assets are also recognised for unused tax losses and unused tax credits, which are carried over to the following period if it is likely that there will be sufficient taxable profit available, against which 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 is directly charged or credited to capital if the taxed items relate to the items recognised in capital.

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 2022 and 31 December 2021, income statement data for the year 2022, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Reporting by segments

In 2022, the Kapitalska družba Group does not report in accordance with IFRS 8 because the parent is not a listed company.

Amendments to standards and interpretations

Standards or Interpretations Effective for the First Time for the Year Ending 31 December 2022

In the current period, the following amendments to existing standards:

The **amendment to IAS 16** prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced , while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity is required to apply IAS 2 to measure the cost of the said items.

The **amendment to IAS 37** clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

The **amendment to IFRS 3** refers to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities for the entities that apply IFRS 3.

The **amendment to IFRS 9** addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative example 13 that accompanies **IFRS 15** was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under **IAS 41** was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The adoption of amendments to the existing standards has not caused significant changes in the Group's financial statement.

Standards and Interpretations to the Existing Standards Issued by the International Accounting Standards Board (IASB) and Adopted by the EU that Have Not Yet Entered into Force:

IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts with: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Amendments to IFRS 17 and amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease the implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The date of entry of IFRS 17 (with amendments) into force was postponed for two years, to annual reporting periods from and including 1 January 2023; the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 was also deferred to annual reporting periods from and including 1 January 2023.
- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax in relation to assets and liabilities arising from an individual transaction **– Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023);** The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment applies solely to the transition of the insurance companies to IFRS 17 and does not affect other requirements in IFRS 17. The transition requirements to IFRS 17 and IFRS 9 are effective on different dates and will result in the following one-off classification differences in the comparative information presented upon initial application of IFRS 17: accounting discrepancies between insurance contract liabilities measured at current value and any related financial assets, measured at amortized cost; and in the event that the company decides to reformulate the comparative information for IFRS 9, the differences in classification between financial assets that will be derecognized in the comparative period (for which IFRS 9 will not be applied) and other financial assets (for which used IFRS 9). The change will enable insurance companies to avoid these temporary accounting discrepancies, improving the applicability of comparative information for investors. It will achieve the latter by offering insurance companies the possibility of displaying comparative information on financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

The Group is currently estimating the impact of amendments on its financial statements; transition to IFRS 17 is disclosed below.

Standards and Interpretations Issued by the International Accounting Standards Board but Not Yet Adopted by the EU and therefore Not Yet Effective

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning from the date determined by the International Accounting Standards Board (IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Amendments to IFRS 16 Leases: Liabilities from sale and lease–back (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments refer to sale and lease-back transactions which meet the requirements of IFRS 15 to be accounted for as sales. The amendments require the seller-lessee to subsequently measure the liability from the transaction in such a way that no profit or loss is recognized in connection with the retained right-of-use. This means a deferral of such profit, even if there is an obligation to make variable payments which do not depend on an index or rate.

Classification of liabilities as current or non-current – Amendments to IAS 1 (initially issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment stipulated that those loan covenants to be taken into account after the reporting date, do not affect the classification of debt as current or non-current as at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

The Group is currently estimating the impact of the above-listed amendments on its financial statements.

Implementation of IFRS 17

On 1 January 2023, the subsidiary Modra zavarovalnica, d. d., started using the International Financial Reporting Standard 17, which treats insurance contracts in a completely new way. Modra zavarovalnica will use the standard for the first time in the preparation of interim financial statements for the period from 1 January until 31 March 2023.

Definition of insurance contracts within IFRS 17

At the time of implementation of IFRS 17, Modra zavarovalnica has the following insurance products that fall under the scope of the standard.

Table 24: Modra zavarovalnica products in the context of IFRS 17

Insurance group	Product	Stage	Description
Pensions	KS MR	Payout	Old generation of pensions – no profit; closed for new contributions; the asset group is not clearly defined
	KS MR II	Payout	New generation of pensions – with profit; 90% participation in profit; the asset group is clearly defined
	PPS	Savings	After the accumulation phase, the insurance policy is transferred to KS PPS; guaranteed 1% return on assets; the asset group is clearly defined
	KS PPS	Payout	PPS payout phase; 100% participation in profit
Non-life insurance	KPN	None	Accident, monthly/annual premium

Transition Approach

IFRS 17 will be applied retrospectively, with the transition date 1 January 2022. In valuation of insurance contracts on the transition date, the full retrospective method is used for all contracts concluded from 1 January 2012 onwards. This means that all existing insurance contracts must be evaluated as if IFRS 17 were already in effect at the time of the conclusion of the insurance contract.

Such approach will be used for the KS MR, KS MR II and KPN products. Due to the complexity of data collection and processing, the fair value approach will be used for contracts in the KS PPS and PPS funds, which were concluded before the abovementioned date.

A general valuation model will be used for all the above-mentioned products.

Aggregation levels

The process of determining the aggregation level can be formally divided into three groups:

- the portfolio level, where we define groups of contracts with similar risks that the insurance company manages together,
- the group level, where individual portfolios are divided into at least 3 groups based on the rate of return: *onerous contracts, contracts unlikely to become onerous in the future* and *"other" contracts*,
- the cohort level, as the IFRS 17 standard prohibits combining contracts that were issued more than one year apart, which is why the Company must divide the defined groups according to the issue date of the contracts.

At Modra zavarovalnica, life insurance policies with active participation in profit are treated separately from contracts without participation in profit. KS PPS and PPS products are treated together, as one group of insurance contracts.

For non-life insurance, we used the type of insurance (LoB) in accordance to the Solvency 2 directive, taking into account the basic characteristics of the risk (risks covered, severity, period of validity of the policy, distribution of risk during the entire period of validity, etc.).

When determining the cohorts, Modra zavarovalnica decided on the following approach:

- cohort date: insurance start date,
- cohort period: calendar year,
- possible other significant assumptions are taken into account (change in the technical interest rate),
- taking into account the analogy with the general principles in IAS 8, the treatment of cohorts represents the accounting policy choice.

Contractual Boundaries

The contractual boundary represents a period after the end of which the insured person no longer has material rights and the insurance company no longer has any material obligations to provide services arising from the insurance contract, which is key to determining the valuation method and the cash flows which have to be part of the valuation.

The cash flow estimates in an individual scenario must include all cash flows within the contractual boundary of the existing contract and no other cash flows.

Cash flows fall within the contractual boundary of the insurance contract if they arise from material rights and obligations that exist during the reporting period, in which an insurance company can require the insured person to pay premiums or has a material obligation to provide contractually defined services to the insured person.

A liability or asset related to an expected premium or an expected loss outside the contractual boundary of the insurance contract may not be recognised. The mentioned amounts are linked to future insurance contracts.

When an insurance company has to renew the contract (specified in the contract) or otherwise continue with the contract, it must assess which premiums and related cash flows arising from the renewed contract are within the contractual boundaries of the original contract.

In accordance with the requirements of the standard, the insurance company considers the following cash flows:

- premiums,
- payment of benefits and damage claims to the insured person,
- claims processing costs (policy management costs, claim processing costs, allocation of relevant overhead costs),
- cash flows for the acquisition (acquisition costs, allocation of relevant overhead costs),
- payouts of investment components.

Recognition and Measurement

1. Valuation Approaches

IFRS 17 recognises three valuation approaches:

- the general model (BBA model) – usually applied for traditional life insurance portfolios, but in special cases it can also be used for non-life insurance policies,
- simplified approach (PAA model) – usually used for short-term non-life insurance policies,
- adjusted earnings model (VFA model) – usually applies for insurance contracts with the option of discretionary participation.

For insurance contracts with the option of discretionary participation (KS PPS and KS MR II), the Company carried out an appropriateness test of the use of the VFA method (on the 2019 cohort), which showed that both the KS PPS fund and the KS MR II fund do not meet all the eligibility criteria for measurement with the mentioned method.

The Company therefore uses a general valuation model for all its products.

2. Calculation of the Contractual Service Margin and Loss Component

Since the Company uses a general model to value its products, it is obliged to recognise the contractual service margin (CSM). IFRS 17 requires that an insurance company determines the CSM upon initial recognition of a group of insurance contracts and then adjusts it accordingly and recognises it in profit or loss between coverage periods.

Upon initial recognition, the contractual service margin (assuming the contract is not onerous[22]) represents a compensation amount for derecognition of any first-day "differences", which prevents the recognition of a first-day profit.

At the end of the reporting period, the contractual service margin represents the profit from a group of insurance contracts that the insurance company has not yet recognised in the profit or loss, as it relates to future services that the insurance company will provide under these contracts.

For an onerous contract or a group of onerous contracts, the insurance company recognises the first-day loss in the statement of profit or loss in the amount of the net outflow and thus forms liabilities for remaining coverage (LRC), which are actually a loss component (LC). CSM in this case is zero.

22 An insurance contract is onerous if, on the date of initial recognition, the sum of the realised cash flows allocated to the contract (risk-adjusted present value of future cash flows), all previously recognised cash flows for insurance acquisition and all cash flows from the contract equals the net cash outflow.

A contract or group of insurance contracts becomes onerous (or more onerous) upon subsequent measurement if, due to adverse changes, the realised cash flows from changes in the estimate of future service cash flows allocated to the group exceed the carrying amount of the contractual service margin (CSM). In this case, the insurance company recognises a loss in the profit in the amount of this surplus.

The initial amount of the loss is determined and adjusted by the insurance company for possible subsequent losses and for the elimination and release of losses during the entire period so that at the end of the coverage period of the group of contracts the loss component equals zero.

3. Methodologies for Risk Adjustment

Article 17.32 of IFRS 17 states that upon initial measurement of a group of insurance contracts, realised cash flows and contractual service margin (CSM) are taken into account. Realised cash flows include risk adjustment (RA) for non-financial risk with referring to Article 17.37 of IFRS, which prescribes the basic requirement for measuring the risk adjustment for non-financial risk.

Considering that the major part of the Company's portfolio consists of annuity products, longevity risk is the one that represents a significant part of non-financial risks. To assess the risk adjustment, the Company will use the confidence interval method analogous to the regulation brought about by the Solvency 2 directive. The Solvency 2 regime uses a confidence level of 99.5%, and the Company will choose a lower VaR for the purposes of IFRS 17, as it is not reasonable to expect that margins, which enable "almost certain" achievement of the contractual service margin (CSM), can be built into the product prices. The Company therefore chose a 4.07% shock which corresponds to a 70% VaR.

4. Discount Rate

The valuation of non-current insurance liabilities and the resulting recognition of profit are largely sensitive to the discount rate. The IFRS 17 standard establishes general principles for determining discount rates, but does not include detailed instructions for their application.

Modra zavarovalnica's decision is to use a single methodology for deriving the risk-free discount curve for all portfolios, taking into account the illiquidity premium. A bottom-up approach is applied. The discount rate curve therefore consists of the risk-free interest rate and the illiquidity premium. The source for the risk-free interest rate is the RFR curve published by EIOPA (no volatility adjustment spot curve).

The illiquidity premium estimate is calculated from the difference between the RFR curve and the covered bond curve. The determined illiquidity premium is fully attributed to the risk-free discount curve, which results from the characteristics of insurance contracts of Modra zavarovalnica (high illiquidity, it is difficult for the insured person to cash out the contract early).

Assessment of the Effect of Transition to IFRS 17

Modra zavarovalnica estimates that the impact of the changed accounting policies on the equity of the Company as at 1 January 2022 is EUR -4.4 million, and the contractual service margin is EUR 19.1 million. The changes will also have an impact on the Group's consolidated statements. The Group estimates that the impact on its consolidated statements will be approximately the same.

An assessment of the effect of the transition on the financial statements of Modra zavarovalnica is not complete at the moment, as the Company has not yet fully completed all activities related to the transition, with the following limitations being the most important:

- adjustment of accounting processes and internal controls related to with the application of IFRS 17 is not yet completed,
- despite the calculations and processing carried out by the Company in 2022 and at the beginning of 2023, the new process of accounting for insurance contracts and the related control is not yet fully operational,

- the Company has not yet fully completed the testing and controls of the new IT system,
- the new accounting policies, guidelines, estimates and judgements may change until the Company prepares the final version of its first financial statements in compliance with the new standard.

Redetermination of financial assets

On 1 January 2023, taking into account the provisions of IFRS 17.C29, Modra zavarovalnica re-assessed the financial assets business model, taking into account the provisions of IFRS 9. It examined the appropriateness of its classification into specific business models and came to different conclusions when applying IFRS 17.4.1.2. a) and IFRS 17.4.1.2.A(a) than on 1 January 2018, when it began applying IFRS 9.

On 1 January 2023, with the application of IFRS 17, material accounting non-compliances will arise, as there will be different bases for measuring the insurance liabilities, which represent the central part of the Company's liabilities, and its assets.

Namely, in accordance with the provisions of IFRS 17, Modra zavarovalnica decided to disclose the effects arising from changes in financial assumptions when measuring liabilities from insurance contracts in the statement of other comprehensive income.

The central source of accounting non-compliances were financial instruments that are measured at amortised cost and at fair value through profit or loss.

In accordance with IFRS 17.C29(a), the subject of redetermination are those assets that Modra zavarovalnica owns in connection with insurance contracts. The Company estimated the share of investments subject to reclassification by simulating the impact of changes in financial assumptions on the value of assets and liabilities with the aim of reducing accounting non-compliances.

In accordance with IFRS 17.C31, Modra zavarovalnica determined the assets prospectively, without restating prior periods. The effects of the reclassification were recognised in accordance with the provisions of IFRS 17.C28(d).

The balances of investments that are subject to reclassification and its effects on the opening balance of equity are presented in the table below.

Table 25: Redetermination of Modra zavarovalnica's financial assets by measurement method

in EUR 000

Measurement method	31 Dec 2022	1 Jan 2023
Fair value through profit or loss	257,429	216,013
Amortised cost	268,176	88,799
Fair value through other comprehensive income	113,838	311,977
Total	639,443	616,789

The difference in the amount of EUR 22.7 million is recognised to the debit of Modra zavarovalnica's opening balance of equity as at 1 January 2023.

Risk management

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. Therefore, risk management is crucial in performing the activities to achieve the Group's goals. The use of standard methodologies of risk management ensures the qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure.

The Group observes legal regulations in the forefront while also regulating risk management through internal acts such as the Rules on risk management, which include in addition to individual risk description, internal risk management organisation, measures and methods used to mitigate the risks, as well as procedures of Quality and responses to individual risks.

In the course of its operations, the Group is exposed to financial, insurance, operational and strategic risks. Financial risks, described in more detail in section 17.3.3, include the important market risks (the risk of changes in securities prices, interest rate risk and currency risk) as well as credit and liquidity risk.

Risk of securities price change

Changes in the prices of securities, which are the result of various factors, largely affect the value of the equity investment portfolio. The risk is managed by regular monitoring of the financial position of the market situation and macroeconomic indicators that affect the movement in the general level of market prices and by maximum possible dispersion of investments to eliminate most of the non-systematic risk. The dispersal of a part of investments abroad decreased the dependence of the Group's portfolio of investments on the changes in 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. The beta indicator is also calculated for equity securities, as a measure of systematic risk. The monitoring of fluctuations in the prices of securities is also continuously carried out.

Property price change risk

Changes in property prices, which are the result of various factors, largely affect the value of the Group's properties. This risk is managed by diversification of investments in real property and regular monitoring of the situation on the property rental market.

Interest rate risk

The very nature of investments in debt instruments exposes the Group to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. During periods of declining interest rates, assets are exposed to reinvestment risk. Internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, providing investment recommendations on this basis. The exposure to interest rate risk is regularly measured by the modified duration indicator.

The Group minimises risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of the debt portfolio, by classifying investments in the group of investments at amortised cost, by acquiring inflation-protected debt securities and by restructuring securities with fixed interest rate into securities with variable rate of interest, or vice versa, depending on the expected movement in market interest rates. In 2022, the Group did not use derivatives to hedge against interest rate risk.

Currency risk

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

Currency risk is monitored and managed on a daily basis by ensuring currency match of financial assets with legal and internal restrictions. The basis for measuring currency risk is the monitoring and calculation of exposure to individual currencies. When calculating the currency risk, the currency in which the underlying instrument is denominated initially is taken into account and not the currency of the securities that constitute a specific instrument or investment fund.

Credit risk

Credit risk refers to investments and entails the possibility of investments being repaid only in part or not at all. The management of credit risk is implemented by careful selection of business partners (analysis of counterparties before assuming a credit risk), regular monitoring of companies' operations and by establishing with investment limits with regard to permitted exposure of individual investments. Furthermore, credit risk is also managed by diversification of investments in terms of issuer, industry and geographical areas and by ongoing monitoring of credit spreads and credit ratings of investments or investment issuers or contractual partners.

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

With regards to investments in deposits, debentures and certificates of deposits, an internal model for determination of limits of such investments in individual banks is developed. Internal limits set for individual banks are updated regularly. Total exposure to an individual bank is determined regularly and is in line with regulations.

Liquidity risk

Liquidity risk is the risk related to the liquidity of the capital market or investment and the risk of solvency of the Group. Resources and investments are managed in such a way that the Group is able to meet all its due liabilities at any time. Regular liquidity management policy is implemented in accordance with legal and implementing regulation.

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

Insurance Risks

Underwriting risks are risks related to insurance coverage. Insurance coverage represents the risk of loss or of adverse change in the value of underwriting liabilities due to inadequate premiums and assumptions taken into account in the calculation of technical provisions.

Insurance risks are divided into life insurance risks, health insurance risks, which also includes accident insurance, and non-life insurance risks. The Group is primarily exposed to the life insurance risks. The most important insurance risk is the longevity risk in the case of annuity payments. Longevity risk is the risk that a person will live longer than predicted based on the mortality tables used.

Due to its small volume, the health insurance risk is not of material importance. The Group is not exposed to non-life insurance risk.

Operational risk

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

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

Operational risks are mostly assessed as materially insignificant, except for some risks related to the operation of information systems and incorrect actions by people, which are assessed as materially low-risk (possible impact on total equity from 0.2% to 0.5%).

Strategic risk

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

The Management Board, who is in charge of formulating appropriate organisation and strategy, must adopt all measures suitable for achieving the strategic goals as well as to preserve and strengthen the Group's reputation. An appropriate supervision system is provided for managing this risk, enabling monitoring of the implementation of business objectives 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.).

Strategic risks are mostly assessed as materially insignificant, except for some risks related to the Company's organisation and strategy, which are assessed as materially low-risk (possible impact on total equity from 0.2% to 0.5%), and legislative, tax and political risk, which is assessed as a materially moderate (possible impact on total equity of 0.5% to 0.7%).

Risks related to investments where the Kapitalska družba Group holds a significant share

The Group devotes special attention to the management of risks, which arise from investments where the Company holds a significant share. Kapitalska družba, d. d., 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 Group[23], lays down new guidelines on risk management. Corporate governance of the 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.

In December 2014, the Slovenian Sovereign Holding adopted and in May 2017, November 2019, and June 2022, supplemented the Corporate Governance Code for Companies with State Capital Investment (current Corporate Governance Code for State-Owned Enterprises), which has been reasonably using the also by Kapitalska družba, d. d., and Modra zavarovalnica, due to unification. Every year Kapitalska družba, d. d., adopts at the general meetings of shareholders of companies the Voting Positions of Kapitalska družba, d. d. 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.

23 The Corporate Governance Code of the Group does not include Finap, d. d. – in liquidation.

17.3 Notes and Disclosures to the Financial Statements

17.3.1 Notes to the Statement of Profit or Loss

All notes and disclosures to the 2021 financial statements apply to the adjusted financial statements.

Note No. 1

Net sales revenue

in EUR 000

	2022	2021
Sales of services	64,173	56,651
Revenue from asset management	21,202	20,668
Rental Income	3,007	2,761
Other sales revenue	4	3
Total	88,386	80,083

All sales revenue was created in the domestic market.

Revenue from services rendered

Revenue from the sale of services in the amount of EUR 64,119 thousand (2021: EUR 56,592 thousand) mostly refer to revenue from gross written premiums for life insurance, which are payments made into Modra zavarovalnica's guarantee funds. Net income from non-life insurance premiums in 2022 consists of gross written premiums in the amount of EUR 50 thousand and changes in unearned premiums in the amount of EUR -1 thousand (2021: gross written premiums amounted to EUR 48 thousand and unearned premiums to EUR -1 thousand).

Revenue from asset management

Revenue from asset management means revenue from management fees, exit and entry fees of mutual pension funds managed by the Group, revenue from the management of guarantee funds, the assets of which Modra zavarovalnica discloses within its statement of financial position, and which include revenue from annuity payments, participation in the profit of annuity funds, revenue from KS MR II entry fees and indirect costs.

Revenue from lease payments

Revenue from lease payments refers to the revenue from the leasing of the Group's investment properties.

Note No. 2

Other operating revenue

in EUR 000

	2022	2021
Revenue from reversal of long-term provisions	3,090	7,396
Other operating revenue	111	75
Revaluatory operating revenue	14	8
Other items	114	82
Total	3,329	7,561

In 2022, the Group reversed provisions arising from the LAT test in the amount of EUR 3,078 thousand and provisions for jubilee awards in the amount of EUR 12 thousand (2021: EUR 5,439 thousand for the reversal of provisions arising from the LAT test and EUR 1,957 thousand for the reversal of provisions for non-achievement of the guaranteed return of the managed funds). Income from the reversal of provisions arising from the LAT test is related to the increase in interest rates in the period.

Other operating revenue in the amount of EUR 111 thousand is mostly revenue from the limitation of annuities (2021: EUR 75 thousand).

Revaluation operating revenue in the amount of EUR 14 thousand is mostly refunds (2021: EUR 8 thousand).

Other items in 2022 comprise revenue from compensations in the amount of EUR 64 thousand, revenue from previous periods totalling EUR 33 thousand and revenue amounting to EUR 17 thousand arising from transfers in relation to liabilities of the managed company (2021: revenue from compensations in the amount of EUR 62 thousand and revenue from previous periods totalling EUR 20 thousand).

Note No. 3

Costs of materials and services

in EUR 000

	2022	2021
Cost of material	-407	-288
Costs of energy	-229	-108
Write-off of small tools	-18	-16
Costs of office supplies and professional literature	-141	-144
Other costs of materials	-19	-20
Costs of services	-4,473	-4,100
Costs of transport services	-43	-47
Cost of services in relation to maintenance of business premises and fixed assets	-293	-280
Costs of leases	-547	-500
Employees' work-related costs	-56	-39
Costs of payment transactions and bank services, and insurance premiums	-1,002	-878
Costs of intellectual and personal services	-595	-384
Costs of fairs, advertising and entertainment	-280	-426
Cost of services rendered by natural persons	-308	-267
Costs of other services	-1,349	-1,279
Total	-4,880	-4,388

Costs of materials are higher in 2022 compared to 2021 due to higher energy costs, which is the result of higher energy prices.

The costs of services are higher in 2022 compared to 2021 due to higher costs of IT hardware and software maintenance, costs of IT equipment rental, costs of bank fees, and IP costs.

Costs of audit

	2022	2021
Auditing of the annual report	-143	-61
Other non-audit services	0	-22
Total	-143	-83

At the Group level, the cost of the audit in the 2022 financial year amounted to EUR 143 thousand with VAT (2021: EUR 61 thousand with VAT). No amount was paid to the auditor for other assurance, tax advisory or other non-audit services in 2022. For other non-audit services in the Group in 2021, the amount of EUR 22 thousand with VAT was paid. There were no other assurance or tax advisory services in 2021.

Note No. 4

Labour costs

in EUR 000

Labour costs	2022	2021
Payroll costs	-5,548	-5,364
Compensations for salaries/wages of employees	-64	-82
Costs of supplementary pension insurance of employees	-261	-252
Holiday allowance, reimbursements and other receipts of employees	-588	-595
Other employer's contributions on salaries, wage compensation, bonuses, reimbursements and other receipts of employees	-900	-873
Provisions for termination benefits upon retirement and jubilee benefits	-27	-26
Total	-7,388	-7,192

Note No. 5

Value write-offs

in EUR 000

	2022	2021
Amortisation/Depreciation	-1,863	-1,832
Amortisation of intangible non-current assets	-277	-280
Depreciation of buildings	-306	-309
Depreciation of equipment and spare parts	-407	-377
Depreciation of small tools	-60	-57
Depreciation of investment property	-813	-809
Revaluatory operating expenses	-7	-2
Revaluation operating expenses of fixed assets	-7	-2
Total	-1,870	-1,834

Amortisation of intangible non-current assets

The costs refer to the amortisation of software and licenses.

Depreciation of buildings

These costs include the depreciation costs of business premises owned and used by Kapitalska družba, d. d.

Depreciation of equipment and spare parts

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

Depreciation of investment property

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

Operating expenses from revaluation of fixed assets

In 2022, revaluation operating expenses associated with fixed assets amounted to EUR 7 thousand (2021: EUR 2 thousand).

Note No. 6

Other operating expenses

in EUR 000

	2022	2021
Provisioning	**-45,091**	**-33,400**
Change in Technical Provisions	-30,783	-33,326
Provisions	-14,253	-9
Participation in profit of KS MR	-55	-65
Other operating expense	**-36,957**	**-35,016**
Gross claims paid	-34,842	-33,091
Entry fee and indirect costs of KS MR II	-1,216	-1,071
Payments made by the fund manager to settle the difference to the guaranteed return of mutual pension funds	-773	-752
Other	-126	-102
Other items	**-19**	**-11**
Total	-82,067	-68,427

In 2022, the Group increased mathematical provisions in the amount of EUR 30,783 thousand (2021: EUR 33,326 thousand) and formed provisions for non-achievement of the guaranteed return in the amount of EUR 14,190 thousand (there were none in 2021) and formed provisions for severance pay upon retirement and jubilee rewards in the amount of EUR 63 thousand (2021: EUR 9 thousand).

Gross claims paid from life insurance in the amount of EUR 34,842 thousand (2021: EUR 33,091) represent the pension annuities paid. Other operating expenses also include the entry fee related to KS MR II in the amount of EUR 1,216 thousand (2021: EUR 1,071 thousand entry fee and indirect costs related to KS MR II). They also include EUR 773 thousand of the payments made by the fund manager to settle the difference to the guaranteed return of mutual pension funds (2021: EUR 752 thousand) and other minor items.

Other items in 2022 to the greatest extent represent an additional payment to SODPZ for the pay-out of surrender value of assets whose surrender value is lower than the guaranteed asset value of the insured member of SODPZ, and other minor operating items. Other items in 2021 represent expenses arising in the previous years and other minor operating items.

Note No. 7

Financial revenue

in EUR 000

	Note	2022	2021
Financial revenues from interests in associates other companies	7.1	72,223	140,289
Financial revenue from other investments and from loans	7.2	11,188	9,072
Total	7	83,411	149,361

Each of the items is presented in more detail below.

Note No. 7.1

Financial revenues from interests in associates and other companies

in EUR 000

	2022	2021
Dividends and shares in profits	36,032	30,678
Foreign exchange gains	10,024	12,141
Revenue from valuation of investments at fair value through profit or loss	9,622	83,761
Effect of correction of financial revenue from shares due to recalculation of associates by the equity method	2,404	7,916
Revenue from unrealised gains from sale of investments	1,811	5,784
– investments valued through other comprehensive income	303	5,392
– investments valued at fair value through profit or loss	1,504	379
– investments valued at amortised cost	4	13
Revenue from acquisition of abandoned securities	10	9
Revenue from acquisition of securities from registry accounts	12,320	0
Total	72,223	140,289

Revenue from dividends and shares in profits amounting to EUR 36,032 thousand (2021: EUR 30,678 thousand) include domestic and foreign dividends and dividends from shares in companies.

Exchange rate gains amount to EUR 10,024 thousand (2021: EUR 12,141 thousand).

Revenue amounting to EUR 9,622 thousand (2021: EUR 83,761 thousand) constitutes the valuation of investments measured at fair value through profit or loss.

Revenue from disposal of investments in the amount of EUR 1,811 thousand (2021: EUR 5,784 thousand) means realised gains from disposal of investments valued through other comprehensive income, investments valued at fair value through profit or loss, and investments valued at amortised cost.

The net effect of correction of financial revenue from shares due to recalculation of associates by the equity method in 2022 amounted to EUR 2,404 thousand, which also includes the amount of impairment of certain associates by the equity method in the amount of EUR 12,719 thousand based on the established impairment tests (2021: EUR 7,916 thousand).

Revenue from acquisition of abandoned securities amounting to EUR 10 thousand (2021: EUR 9 thousand) is recognised in accordance with Article 48. a of ZNVP-1, which stipulates that KDD shall credit all dematerialised securities cancelled by the holders to a special account held by Kapitalska družba, d. d.

Revenues from acquisition of securities from registry accounts in the amount of EUR 12,320 thousand are recognised in accordance with paragraph 5 of Article 48.a of the Book-Entry Securities Act, on the basis of which as at 1 January 2022, the Company became 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 December 2021.

Note No. 7.2

Financial revenue from other investments and from loans

in EUR 000

	2022	2021
Interest income	10,629	8,644
Foreign exchange gains	127	182
Revenue from valuation of investments at fair value through profit or loss	0	53
Revenue from decrease in credit losses	432	193
Revenue from decrease in credit losses on assets measured at amortised cost	415	162
Revenue from decrease in credit losses on assets measured through other comprehensive income	17	31
Total	11,188	9,072

Interest revenue

in EUR 000

	2022	2021
Deposits	338	128
- at amortized cost	338	128
Bonds, commercial bills	6,954	6,697
- at fair value through profit or loss	966	953
- through other comprehensive income	1,803	1,902
- at amortized cost	4,185	3,842
Other securities	3,337	1,819
- at fair value through profit or loss	3,337	1,819
Total	10,629	8,644

Note No. 8

Financial expenses

in EUR 000

	Note	2022	2021
Financial expenses due to impairment and write-offs of investments	8.1	-113,356	-7,550
Financial expenses from financial liabilities	8.2	-50,009	-50,009
Financial expenses from operating liabilities	8.3	-3	-25
Total	8	-163,368	-57,584

Each of the items is presented in more detail below.

Note No. 8.1

Financial expenses due to impairment and write-offs of other investments

	2022	2021
Expenses from sale of investments	-10,119	-452
– at fair value through profit or loss	-10,078	-452
– through other comprehensive income	-41	0
Interest expenses	-34	-24
Expenses from revaluation of investments at fair value through profit or loss	-101,894	-6,725
Foreign exchange losses	-529	-87
Expenses from credit losses	-778	-260
Other financial expenses	-2	-2
Total	-113,356	-7,550

Revenue from disposal of investments amounting to EUR 10,119 thousand (2021: EUR 452 thousand) are realised capital losses from sale of investments.

The Group revalued investments measured at fair value through profit or loss in the amount of EUR 101,894 thousand (2021: EUR 6,725 thousand). In 2022, these expenses increased compared to 2021 due to unfavourable trends in the financial markets.

Note No. 8.2

Financial expenses for financial liabilities

in EUR 000

	2022	2021
Interest expenses	-9	-9
Expenses for the Pension and Disability Insurance Institute	-50,000	-50,000
Total	-50,009	-50,009

Kapitalska družba, d. d., credited EUR 50 million to the Pension and Disability Insurance Institute in 2022 and 2021. These transfers were stated under financial expenses from other financial liabilities in the statement of profit or loss.

Note No. 8.3

Finance expenses from trade payables

	2022	2021
Other operating expense	-3	-25

Other finance expenses from operating liabilities relate to minor items.

Gains or Losses from Investments

in EUR 000

	2022	2021
Revenue from investments	83,411	149,361
Expenses from investments	-163,368	-57,584
Net gains or losses from investments	-79,957	91,777

Note No. 9

Corporate income tax

in EUR 000

	2022	2021
Profit or loss before tax	-74,724	97,451
Increases in retained earnings	82,977	0
Decreases in retained earnings	-245	-25,061
Total	8,008	72,390
Non-deductible expenses	3,167	2,235
Provisioning	9	-35
Non-taxable income	-39,362	-33,161
Tax relief	-19	-556
Tax loss	0	-3,030
Tax on dividends from abroad	0	146
Allowances for inventories and receivables	0	0
Other	51,317	-637
Total	23,120	37,352
Income tax	5,408	6,950
Tax on dividends from abroad up to the agreement	548	573

The Kapitalska družba Group does not prepare the consolidated tax balance sheet. Kapitalska družba, d. d., disclosed no corporate income tax liabilities in 2022 because it disclosed a tax loss; as at 31 December 2021 its liabilities amounted to EUR 369 thousand. Modra zavarovalnica, d. d., disclosed corporate income tax in the amount of EUR 5,279 thousand in 2022 (2021: EUR 6,481 thousand). Hotelske nepremičnine, d. o. o., disclosed corporate income tax in the amount of EUR 129 thousand in 2022 (2021: EUR 100 thousand).

The management believes that the calculation of the tax liability 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 of consolidated companies and the amount assessed by the tax authorities.

Kapitalska družba, d. d., credited EUR 50 million to the Pension and Disability Insurance Institute in 2022. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

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

in EUR 000

	2022	2021
Profit or loss before tax	-74,724	97,451
Increases in retained earnings	82,977	0
Decreases in retained earnings	-245	-25,061
Total	8,008	72,390
Tax calculated at the general tax rate	1,522	13,754
Change in tax based on:		
1. Revenue exempt from the tax base	6,783	6,307
Untaxed dividends received	7,946	6,280
Adjustment of revenue to the level recognised for tax purposes (decrease)	-1,162	27
2. Expenses exempt from the tax base	-142	382
Increase in expenses (unrecognised in previous periods)	164	73
Adjustment of expenses to the level recognised for tax purposes (decrease)	-305	309
3. Tax reliefs used in current year	19	109
4. Utilisation of tax losses from previous years	0	576
Total corporate income tax in the income statement	5,408	6,950
Effective tax rate	/	9.6

Note No. 10

Deferred tax

in EUR 000

	Statement of financial position		Income statement	
	31 Dec 2022	31 Dec 2021	2022	2021
Deferred income tax liabilities	42,874	75,033	0	-15
Revaluation of available-for-sale investments to fair value	41,672	72,625	0	0
Liabilities from transferred investments	1,202	2,408	0	0
Total deferred income tax liabilities	42,874	75,033	0	-15
Deferred income tax assets	17,510	32,159	-9,488	9,755
Loss brought forward to be used as tax allowance	15,980	29,876	-9,425	9,784
Value adjustment of investments	1,479	2,236	-67	-25
Provisions	51	47	4	-4
Total deferred income tax assets	17,510	32,159	-9,488	9,755
Netting of assets and liabilities	1,511	2,263	-9,488	9,740
Total deferred income tax assets	15,999	29,896	-	-
Netting of deferred tax assets and liabilities	41,363	72,770	-	-

Disclosure of tax losses

in EUR 000

	2022	2021
Tax loss as at 31 Dec of the period	-551,158	-545,816
Tax loss not considered in the calculation of deferred taxes	-467,051	-388,574
Tax loss considered in the calculation of deferred taxes	-84,107	-157,242

The tax loss amounting to EUR 467,051 thousand (2021: EUR 388,574 thousand) did not include deferred tax assets; the tax loss amounting to EUR 84,107 thousand (2021: EUR 157,242 thousand) includes deferred tax assets. Tax losses are not time-limited.

Disclosure of changes in deferred tax recognised directly in equity

in EUR 000

Changes in deferred tax	2022	2021
Balance as at 1 Jan	75,033	50,252
Changes during the year	-16,393	24,781
Adjustment of deferred tax	-15,766	0
Balance as at 31 Dec	42,874	75,033

The change in deferred tax liabilities of EUR -16,393 thousand in 2022 to EUR 42,874 thousand as at 31 December 2022 arose from revaluation of investments measured at fair value through other comprehensive income and reclassification of units of target funds to the fair value through profit or loss category.

17.3.2 Notes to the Statement of Financial Position

Note No. 11

Intangible assets and non-current deferred costs and accrued revenue

Table 26: Changes in intangible assets and non-current deferred costs and accrued revenue in 2022

in EUR 000

31 Dec 2022	Long-term property rights	Other long-term deferred costs and accrued revenue	Total
Cost			
Cost as at 31 Dec 2021	4,765	50,031	54,796
New acquisitions	408	65,029	65,437
Disposals	-47	-50,031	-50,078
Cost as at 31 Dec 2022	5,126	65,029	70,155
Revaluation			
Value adjustment as at 31 Dec 2021	-3,515	0	-3,515
Disposals, write-offs	47	0	47
Amortisation/Depreciation	-277	0	-277
Value adjustment as at 31 Dec 2022	-3,745	0	-3,745
Carrying amount			
Carrying amount as at 31 Dec 2021	1,250	50,031	51,281
Carrying amount as at 31 Dec 2022	1,381	65,029	66,410

Intangible assets refer to software applications and licences. Intangible assets have not been pledged as security.

The amount of EUR 65,000 thousand refers to the deferred liability to the Pension and Disability Insurance Institute, which falls due in 2024, and the rest to the deferred liability to pay the variable part of the income of the Management.

Table 27: Changes in intangible assets and non-current deferred costs and accrued revenue in 2021

in EUR 000

31 Dec 2021	Long-term property rights	Other long-term deferred costs and accrued revenue	Total
Cost			
Cost as at 31 Dec 2020	4,245	50,049	54,294
New acquisitions	525	50,045	50,570
Disposals	-5	-50,063	-50,068
Cost as at 31 Dec 2021	4,765	50,031	54,796
Revaluation			
Value adjustment as at 31 Dec 2020	-3,240	0	-3,240
Disposals, write-offs	5	0	5
Amortisation/Depreciation	-280	0	-280
Value adjustment as at 31 Dec 2021	-3,515	0	-3,515
Carrying amount			
Carrying amount as at 31 Dec 2020	1,005	50,049	51,054
Carrying amount as at 31 Dec 2021	1,250	50,031	51,281

Intangible assets refer to software applications and licences. Intangible assets have not been pledged as security.

The amount of EUR 50,000 thousand refers to the deferred liability to the Pension and Disability Insurance Institute and the rest to the deferred liability to pay the variable part of the income of the Management.

Note No. 12

Property, plant and equipment

Table 28: Changes in property, plant and equipment in 2022

in EUR 000

31 Dec 2022	Buildings	Other plant and equipment	Total
Cost			
Cost as at 31 December 2021	9,839	3,526	13,365
New acquisitions	0	185	185
Disposals	0	-118	-118
Cost as at 31 December 2022	9,839	3,593	13,432
Revaluation			
Revaluation as at 31 Dec 2021	-5,120	-2,460	-7,580
Additions, transfers	0	0	0
Disposals, write-offs	0	111	111
Amortisation/Depreciation	-308	-466	-774
Accumulated depreciation as at 31 December 2022	-5,428	-2,815	-8,243
Carrying amount			
Carrying amount as at 31 Dec 2021	4,719	1,066	5,785
Carrying amount as at 31 Dec 2022	4,411	778	5,189

The items of property, plant and equipment have not been pledged as security.

Table 29: Changes in property, plant and equipment in 2021

in EUR 000

31 Dec 2021	Buildings	Other plant and equipment	Total
Cost			
Cost as at 31 Dec 2020	9,812	3,504	13,316
New acquisitions	27	228	255
Disposals	0	-206	-206
Cost as at 31 Dec 2021	9,839	3,526	13,365
Revaluation			
Value adjustment as at 31 Dec 2020	-4,809	-2,231	-7,040
Additions, transfers	-2	0	-2
Disposals, write-offs	0	205	205
Amortisation/Depreciation	-309	-434	-743
Value adjustment as at 31 Dec 2021	-5,120	-2,460	-7,580
Carrying amount			
Carrying amount as at 31 Dec 2020	5,003	1,273	6,276
Carrying amount as at 31 Dec 2021	4,719	1,066	5,785

The items of property, plant and equipment have not been pledged as security.

Note No. 13

Investment property

Table 30: Changes in investment property in 2022

in EUR 000

31 Dec 2022	Land	Buildings	Total
Cost			
Cost as at 31 Jan 2021	3,669	28,322	31,991
Acquisitions	0	1,398	1,398
Cost as at 31 Dec 2022	3,669	29,720	33,389
Revaluation			
Value adjustment as at 31 Dec 2021	0	-7,695	-7,695
Amortisation/Depreciation	0	-813	-813
Value adjustment as at 31 Dec 2022	0	-8,508	-8,508
Carrying amount			
Carrying amount as at 31 Dec 2021	3,669	20,627	24,296
Carrying amount as at 31 Dec 2022	3,669	21,212	24,881

The Group impaired no investment property in 2022. 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 30,799 thousand, the management verified and estimated that the fair value of investment property as at 31 December 2022 does not significantly deviate from the fair value of investment property as at 31 October 2021. The fair value estimate of the investment property of the San Simon hotel resort owned by Hotelske nepremičnine, d. o. o., was carried out by an authorised property valuer on 30 November 2021. The Company verified that the estimated values of investment property could also be used as at 31 December 2022.

The investment property's fair value does not significantly deviate from its carrying amount as at 31 December 2022, with the exception or 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 2022 equalled EUR 100 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% capitalisation rate, a 5% deduction for vacancy and a 8% deduction for irrecoverability.

The fair value estimate of the investment property of Hotelske nepremičnine, d. o. o., exceeds its carrying amount as at 31 December 2022, therefore, no potential signs of impairment were identified by the management.

Investment property is not pledged.

Table 31: Changes in investment property in 2021

in EUR 000

31 Dec 2021	Land	Buildings	Total
Cost			
Opening balance as at 31 Dec 2020	3,669	28,268	31,937
Acquisitions	0	80	80
Disposals	0	-26	-26
Closing balance as at 31 Dec 2021	3,669	28,322	31,991
Revaluation			
Opening balance as at 31 Dec 2020	0	-6,888	-6,888
Amortisation/Depreciation	0	-809	-809
Disposals	0	2	2
Closing balance as at 31 Dec 2021	0	-7,695	-7,695
Carrying amount			
Opening balance as at 31 Dec 2020	3,669	21,380	25,049
Closing balance as at 31 Dec 2021	3,669	20,627	24,296

Investment property is not pledged.

Information about encumbrances

Pursuant to paragraph 5 of Article 48.a of ZNVP-1, Kapitalska družba, d. d., also acquired registry securities that were encumbered with a pledge, which has two legal bases: firstly, on the basis of a legal transaction with entry in the central register of dematerialised securities, and secondly, on the basis of a seizure or entry of an enforcement order in the central register of dematerialised securities, all in the amount of EUR 18 thousand.

The remaining assets owned by the Group are free from mortgages, pledges or other encumbrances. Fixed assets have not been acquired for the purpose of trading.

Right to use

At the Kapitalska družba Group level we do not have the right to use and disclosures under IFRS 16 are not required.

Note No. 14

Investments in associates

Investments in associates as at 31 December 2022 include:

in EUR 000

No.	Associate	Registered office	Equity stake in %	Voting rights in %	Equity as at 31 Dec 2022	Net profit/ loss for 2022
1.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51	29.51	17,482	-383
2.	Hit, d. d.	Delpinova ulica 7a, Nova Gorica	20.32	20.32	59,287	11,157
3.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00	25.00	21,106	6,320
4.	Sava, d. d.	Dunajska cesta 152, Ljubljana	28.05	28.05	115,042	6,339
5.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.82	23.79	98,418	986
6.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79	24.79	44,477	3,200
7.	Cinkarna Celje, d. d.	Kidričeva ulica 26, Celje	20.17	20.85	209,010	43,396

In the consolidated financial statements, Kapitalska družba, d. d., consolidates all the associates using the equity method.

Cinkarna Celje, d. d., is an associate of Modra zavarovalnica, d. d., that does not prepare consolidated financial statements.

The Kapitalska družba Group is not exposed to any risks arising from ownership stakes in the associated companies, such as:

- the risk concerning the provision of funds for the operations/capital adequacy of the associated company,
- the risk related to participation in covering contingent liabilities of the associated company.

At the end of 2022, Kapitalska družba, d. d., used internal valuation models and external valuations to verify, assess and appraise the companies' value as at 31 December 2022, taking into account the most recent available data on companies' performance in 2022.

Table 32: Changes in value of investments in associates

in EUR 000

	2022	2021
Carrying amount as at 1 Jan	83,023	81,327
Changes	-3,164	1,696
Net effects of valuation of associates using the equity method	2,404	7,916
Attribution of net profit due to the acquisition of associates by the equity method	15,123	7,916
Impairment	-12,719	0
Exclusion of dividends	-6,423	-4,572
Exclusion of revaluation surplus	855	-85
Revaluation to fair value (impairments/increases)	0	-1,563
Carrying amount as at 31 Dec	79,859	83,023

Note No. 15

Assets held for sale

in EUR 000

	31 Dec 2022	31 Dec 2021
Assets held for sale	5,074	11,543
Total	5,074	11,543

Non-current assets available for sale in the amount of EUR 5,074 thousand as at 31 December 2022 include an equity investment held for sale. Non-current assets held for sale as at 31 December 2021 in the amount of EUR 11,543 thousand included an equity investment held for sale, which is in 2022 reclassified once again to investments, due to a business decision not to dispose of the investment.

Note No. 16

Investments, excluding loans

The Group 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.

in EUR 000

	Non-current		Current		Total	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
At fair value through profit or loss	505,470	724,854	145,217	22,819	650,687	747,673
Debt instruments	467,440	693,447	145,217	22,819	612,657	716,266
Equity instruments	38,030	31,407	0	0	38,030	31,407
At amortised cost	213,828	170,073	27,814	18,643	241,642	188,716
Debt instruments	213,828	170,073	27,814	18,643	241,642	188,716
At fair value through other comprehensive income	562,227	680,782	8,211	8,555	570,438	689,337
Debt instruments	42,726	59,509	8,211	8,555	50,937	68,064
Equity instruments	519,501	621,273	0	0	519,501	621,273
Total	1,281,525	1,575,709	181,242	50,017	1,462,767	1,625,726

Changes in investments for 2022

in EUR 000

	Financial investments at fair value through profit or loss	Financial investments at amortised cost	Financial investments at fair value through other comprehensive income	Total
31 Dec 2021	747,673	188,716	689,337	1,625,726
Acquisitions	193,289	70,192	11,543	275,024
Disposals, maturity	-202,523	-21,529	-13,294	-237,346
Revaluation	-87,752	4,263	-117,148	-200,637
31 Dec 2022	650,687	241,642	570,438	1,462,767

Changes in investments for 2021

in EUR 000

	Financial investments at fair value through profit or loss	Financial investments at amortised cost	Financial investments at fair value through other comprehensive income	Total
1 Jan 2021	632,540	194,019	553,842	1,380,401
Acquisitions	84,703	18,382	4,008	107,093
Disposals, maturity	-45,104	-27,365	-47,009	-119,478
Revaluation	75,534	3,680	178,496	257,710
31 Dec 2021	747,673	188,716	689,337	1,625,726

Investments in equity instruments measured at fair value through other comprehensive income as at 31 December 2022

The items in the table below are not rounded to the nearest thousand and are presented in the euro.

in EUR

ISIN code	Value in EUR	Market/non-market
SI0031102120	321,358,760	Market
SI0031102153	69,055,600	Market
SI0031101346	17,275,159	Market
SI0031104290	17,236,260	Market
SI0031117813	16,821,050	Market
SI0021110513	15,999,984	Market
US5949181045	9,332,879	Market
US1912161007	4,669,663	Market
US68389X1054	3,867,055	Market
DE0008430026	3,668,064	Market
DE0008404005	3,449,453	Market
US02079K1079	3,304,290	Market
US02079K3059	3,277,398	Market
SI0031103706	3,176,000	Market
SI0031104829	2,387,714	Non-market
FR0000120578	1,818,811	Market
SI0031108580	1,597,645	Non-market
SI0031108994	1,591,477	Market
SI0021112212	1,361,880	Market
US17275R1023	1,306,102	Market
SI0031117821	1,278,400	Market
SI0031107673	1,248,286	Non-market
CH0012032048	1,050,249	Market
JP3304200003	1,038,885	Market
SI0031105677	1,038,331	Non-market
CNE1000003G1	691,245	Market
SI0031105529	559,968	Non-market
NL0000009538	551,365	Market
SI0031104597	541,354	Non-market
US91912E1055	474,511	Market
DE000A2GS401	447,755	Market
SI0031109646	410,604	Non-market
ES0178430E18	323,823	Market
PS ZA AVTO, D. O. O.	304,710	Non-market
US8816242098	199,227	Market
SI0031200239	129,654	Non-market
SM STROJKOPLAST MARIBOR, D. O. O.	91,243	Non-market

ISIN code	Value in EUR	Market/non-market
SI0031104621	60,720	Non-market
PLINHOLD, D. O. O.	55,468	Non-market
SI0021110513	18,816	Market
SI0031110248	9,879	Non-market
SI0031108846	1,877	Non-market
Total	513,081,614	

Top 10 largest investments in equity instruments measured at fair value through other comprehensive income as at 31 December 2022 for abandoned securities

The items in the table below are not rounded to the nearest thousand and are presented in the euro.

ISIN code	Value in EUR	Market/non-market
SI0031114455	23,898	Non-market
SI0031105271	20,382	Non-market
SI0031107772	16,625	Non-market
SI0031113184	15,407	Non-market
SI0031117268	14,280	Non-market
SI0031102120	11,960	Market
SI0021113111	10,374	Non-market
SI0031117144	9,931	Non-market
SI0031114604	9,528	Non-market
SI0031114984	9,463	Non-market
Other	68,879	
Total	210,727	

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.

Top 10 largest investments in equity instruments measured at fair value through other comprehensive income as at 31 December 2022 for securities from registry accounts

The items in the table below are not rounded to the nearest thousand and are presented in the euro.

ISIN code	Value in EUR	Market/non-market
SI0031102120	1,357,920	Market
SI0021111651	1,310,931	Market
SI0031102153	808,800	Market
SI0021113111	374,994	Non-market
SI0031101346	148,527	Market
SI0031114984	140,642	Non-market
SI0021113855	140,604	Market
SI0031117813	123,250	Market

ISIN code	Value in EUR	Market/non-market
SI0031114604	101,020	Non-market
SI0031116138	94,134	Non-market
Other	1,609,046	
Total	6,209,868	

Pursuant to paragraph 5 of Article 48. a of the Book Entry Securities Act, as at 1 January 2022, the Company became 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 December 2021. In accordance with and under the conditions referred to in Article 48. b of ZNVP-1, when establishing the share of voting rights of Kapitalska družba, d. d., and persons who, in compliance with the law governing takeovers, act in coordination with Kapitalska družba, d. d., in the target company, the voting rights deriving from the shares of the target company, which Kapitalska družba, d. d., acquired in accordance with the first and fifth paragraphs of Article 48.a of ZNVP-1, are not taken into account. Kapitalska družba, d. d., may also not exercise voting rights arising from the shares of target companies which it acquires in accordance with the first and fifth paragraphs of Article 48.a of ZNVP-1. Kapitalska družba, d. d., is entitled to exercise voting rights from all those dematerialised securities of companies acquired in accordance with the first and fifth paragraphs of Article 48.a of ZNVP-1, for which, taking into account the balance given on the date of transfer of the dematerialised securities to a special account of Kapitalska družba, d. d., from the first paragraph of Article 48.a of ZNVP-1, the provisions of the Takeovers Act (ZPre-1) do not apply.

In 2022, the Group received dividends relating to investments measured at fair value through other comprehensive income in the amount of EUR 29,771 thousand (2021: EUR 25,455 thousand). In 2022, upon disposal of investments measured at fair value through other comprehensive income, the Group recorded loss in the amount of EUR –400 thousand.

Overview of financial assets at carrying amount and fair value as at 31 December 2022

in EUR 000

Financial asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	655,762	655,762
Financial assets at amortised cost	241,642	214,077
Financial assets at fair value through other comprehensive income	650,296	650,296
Investments in loans	39,028	38,832
Cash	15,059	15,059
Total	1,601,787	1,574,026

The table above includes assets held for sale and associated companies as at 31 December 2022.

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

in EUR 000

Financial asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	747,673	747,673
Financial assets at amortised cost	188,716	203,135
Financial assets at fair value through other comprehensive income	783,903	783,903
Investments in loans	33,867	33,863
Cash	31,580	31,580
Total	1,785,739	1,800,154

The table above includes assets held for sale and associated companies as at 31 December 2021.

Investments by type of interest rate

in EUR 000

Investment	31 Dec 2022	31 Dec 2021
Debt investments	498,374	343,956
Fixed interest rate	497,786	341,691
Variable interest rate	588	2,265
Loans and deposits	39,028	33,867
Fixed interest rate	39,028	33,867
Cash and cash equivalents	15,059	31,580
Units of target funds	406,861	629,089
Total	959,322	1,038,492

Fair value hierarchy as at 31 December 2022

in EUR 000

Item	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	1,012,089	205,548	88,421	1,306,058
Investments valued at fair value through profit or loss	534,851	75,724	45,187	655,762
Equity instruments	18,104	21,403	3,599	43,106
Debt instruments	516,747	54,321	41,588	612,656
Financial investments at fair value through other comprehensive income	477,238	129,824	43,234	650,296
Equity instruments	432,065	126,856	40,438	599,359
Debt instruments	45,173	2,968	2,796	50,937
Financial assets measured at amortised cost with fair value disclosed	194,282	56,624	2,003	252,909
Debt instruments	194,282	56,624	2,003	252,909
Total	1,206,371	262,172	90,424	1,558,967

Fair value hierarchy as at 31 December 2021

in EUR 000

Item	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	1,259,849	172,234	99,493	1,531,576
Investments valued at fair value through profit or loss	652,285	58,846	36,542	747,673
Equity instruments	13,244	14,180	3,984	31,408
Debt instruments	639,041	44,666	32,558	716,265
Financial investments at fair value through other comprehensive income	607,564	113,388	62,951	783,903
Equity instruments	546,331	109,014	60,493	715,838
Debt instruments	61,233	4,374	2,458	68,065
Financial assets measured at amortised cost with fair value disclosed	182,857	51,990	2,151	236,998
Debt instruments	182,857	51,990	2,151	236,998
Total	1,442,706	224,224	101,644	1,768,574

Tangible investments were evaluated by external certified appraisers of companies and qualified persons.

Smaller intangible investments were evaluated by qualified persons based on the comparable companies method and the net asset value method.

Level 1

Level 1 includes investments of Kapitalska družba, d. d., and Modra zavarovalnica, d. d., where the fair value is determined entirely based on the quoted prices achieved on an active market. An active market is either a stock exchange (in case of equity and debt investments) or traders' market or OTC (in case of debt investments). In this sense, Level 1 comprises investments whose main market is the stock exchange and whose average daily trading volume in the 180 days prior to fair value measurement exceeded EUR 0.5 million, taking into account the number of trading days (in case of the Ljubljana Stock Exchange market, for investments owned by Kapitalska družba, d. d., the average daily turnover of more than EUR 0.1 million is taken into account, while this does not apply when determining the active market for investments owned by Modra zavarovalnica, d. d.). Level 1 also includes investments whose main market is the traders' market or OTC provided the CBBT (Composite Bloomberg Bond Trader) price was published for at least half of trading days in the 30 days preceding the valuation.

Level 2

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

This group also includes investments in ETFs that do not meet the conditions of an active market.

Level 2 also includes investments in commercial bills of Slovenian issuers. The cost of commercial bills is calculated from the theoretical (amortised) cost of commercial bills, which is calculated based on the interest rate resulting from each purchase.

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.

Level 3

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

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 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.

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

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.

Determination of fair value of non-marketable investments as at 31 December 2022

Item	Non-market investment	Valuation method	Discount rate/ yield capitalisation rates in %
Equity instruments	Elektro Ljubljana, d. d.	Discounted free cash flow method	5.59
Equity instruments	Elektro Celje, d. d.	Discounted free cash flow method	5.45
Equity instruments	Elektro Gorenjska, d. d.	Discounted free cash flow method	5.47
Equity instruments	Elektro Maribor, d. d.	Discounted free cash flow method	5.48
Equity instruments	Elektro Primorska, d. d.	Discounted free cash flow method	5.61
Equity instruments	HIT, d. d.	Discounted free cash flow method	12.48
Equity instruments	Terme Olimia, d. d.	Discounted free cash flow method	10.17
Equity instruments	Loterija Slovenije, d. d.	Discounted free cash flow method	13.5 and 12.9
Equity instruments	Sava, d. d.	Net asset value method	
Equity instruments	Gospodarsko razstavišče, d. o. o.	Discounted free cash flow method	10.20
Equity instruments	PS za avto, d. o. o.	Net asset value method	
Equity instruments	Sava turizem, d. d.	Discounted free cash flow method	12.48
Equity instruments	Casino Bled, d. d.	Fair value of consideration for prohibition of disposal	
Equity instruments	Casino Portorož, d. d.	Impairment testing	
Equity instruments	Delavska hranilnica, d. d.	Impairment testing	
Debt securities	Bond POSRSV 3 3/4 11/07/39	Bloomberg BVAL	
Units of target funds	ALFI PE	Quarterly publication of fund unit value	
Units of target funds	GENERALI GROWTH SIS D.O.O. K.D	Quarterly publication of fund unit value	
Investment in financial receivable	Sava ins. receivables	Present principal value estimate	3.4
Units of target funds	SAGA VII COMBINED	Quarterly publication of fund unit value	
Units of target funds	CGO VII	Quarterly publication of fund unit value	
Units of target funds	MPEP III SCS 2018	Quarterly publication of fund unit value	
Units of target funds	ELEMENTS	Quarterly publication of fund unit value	
Units of target funds	AQUILA CAP. INFRAS. FUND	Quarterly publication of fund unit value	
Units of target funds	GENERALI AVF	Quarterly publication of fund unit value	
Units of target funds	ELEMENTS CO II	Quarterly publication of fund unit value	
Units of target funds	AMC CAPITAL IV S.C.SP.	Quarterly publication of fund unit value	

As at 31 December 2022 the principal of the investment in financial receivable amounts to EUR 28,416 thousand).

Determination of fair value of non-marketable investments as at 31 December 2021

Item	Non-market investment	Valuation method	Discount rate/ yield capitalisation rates in %
Equity instruments	Elektro Ljubljana, d. d.	Discounted free cash flow method	6.41
Equity instruments	Elektro Celje, d. d.	Discounted free cash flow method	6.80
Equity instruments	Elektro Gorenjska, d. d.	Discounted free cash flow method	6.43
Equity instruments	Elektro Maribor, d. d.	Discounted free cash flow method	6.77
Equity instruments	Elektro Primorska, d. d.	Discounted free cash flow method	6.92
Equity instruments	HIT, d. d.	Discounted free cash flow method	7.6-7.9 and 8.7
Equity instruments	Terme Olimia, d. d.	Discounted free cash flow method	7.4
Equity instruments	Loterija Slovenije, d. d.	Discounted free cash flow method	8.7
Equity instruments	Sava, d. d.	Net asset value method	
Equity instruments	Equinox, d. d.	Net asset value method	
Equity instruments	Gospodarsko razstavišče, d. o. o.	Discounted free cash flow method	9.21
Equity instruments	Elan inventa, d. o. o.	Discounted free cash flow method	8.8
Equity instruments	PS za avto, d. o. o.	Net asset value method	
Equity instruments	TKI Hrastnik, d.d.	Discounted free cash flow method	8.2
Equity instruments	Sava turizem, d. d.	Discounted free cash flow method	9.9
Equity instruments	Casino Bled, d. d.	Fair value of consideration for prohibition of disposal	
Equity instruments	Casino Portorož, d. d.	Fair value of consideration for prohibition of disposal	
Debt securities	Bond POSRSV 3 3/4 11/07/39	Bloomberg BVAL	
Units of target funds	ALFI PE	Quarterly publication of fund unit value	
Units of target funds	GENERALI GROWTH SIS D.O.O. K.D	Quarterly publication of fund unit value	
Investment in financial receivable	Sava ins. receivables	Fair value of pledged assets	
Units of target funds	SAGA VII COMBINED	Quarterly publication of fund unit value	
Units of target funds	CGO VII	Quarterly publication of fund unit value	
Units of target funds	MPEP III SCS 2018	Quarterly publication of fund unit value	
Units of target funds	ELEMENTS	Quarterly publication of fund unit value	
Units of target funds	AQUILA CAP. INFRAS. FUND	Quarterly publication of fund unit value	
Units of target funds	GENERALI AVF	Quarterly publication of fund unit value	
Units of target funds	ELEMENTS CO II	Quarterly publication of fund unit value	
Units of target funds	AMC CAPITAL IV S.C.SP.	Quarterly publication of fund unit value	
Equity instruments	Delavska hranilnica, d. d.	Dividend discount model	8.3 and 10.2

As at 31 December 2021 the principal of the investment in financial receivable amounts to EUR 22,427 thousand).

Table 33: Changes in level 3 investments in 2022

in EUR 000

Item	Equity instruments	Debt securities	Units of target funds	Investment in financial receivable	Total
Balance as at 31 Dec 2021	64,477	3,723	11,016	22,427	101,644
Disposals, maturity	-602	0	-2,225	0	-2,827
Acquisitions	162	0	4,223	5,989	10,374
Revaluation	-7,870	-1,220	1,810	0	-7,280
Reclassifications	-12,130	643	0	0	-11,487
Balance as at 31 Dec 2022	44,037	3,147	14,824	28,416	90,424

The reclassification in the category Equity instruments totalling EUR -12,130 thousand refers to (EUR -11.543 thousand) the reclassification of the Equinox, d. d. shares which began to be listed on the regulated stock exchange market in 2022. The amount of revaluation in the same category in the amount of EUR -7,870 thousand mainly refers to the revaluation of associates using the equity method. Acquisitions in the category Investment in financial receivable totalling EUR 5.989 thousand refers to the already acquired financial receivable from Sava, d. d.

In the case of investment in financial receivable, the receivable for accrued interest amounts to EUR 6.449 thousand, which are recognized and disclosed in Note no. 18 Operating receivables (current).

Table 34: Changes in level 3 investments in 2021

in EUR 000

Item	Equity instruments	Debt securities	Units of target funds	Investment in financial receivable	Total
Balance as at 31 Dec 2020	54,368	3,737	8,450	22,427	88,982
Disposals, maturity	-2,284	0	-1,963	0	-4,247
Acquisitions	11,543	0	3,741	0	15,284
Revaluation	-3,335	-13	788	0	-2,560
Reclassifications	4,184	0	0	0	4,184
Balance as at 31 Dec 2021	64,477	3,723	11,016	22,427	101,644

In the case of investment in financial receivable, the receivable for accrued interest amounts to EUR 3.112 thousand, which are recognized and disclosed in Note no. 18 Operating receivables (current).

Table 35: Transition between asset fair value hierarchy levels as at 31 December 2022

in EUR 000

Transition between hierarchy levels, portfolio as at 31 Dec 2022	From Level 1 to Level 2	From Level 2 to Level 3	From Level 3 to Level 2
Financial investments at fair value through profit or loss	23,864	643	0
Equity instruments	5,441	0	0
Debt instruments	18,423	643	0
Financial investments at fair value through other comprehensive income	2,073	0	17,233
Equity instruments	0	0	17,233
Debt instruments	2,073	0	0
Financial assets with fair value disclosed	3,342	0	0
Debt instruments	3,342	0	0
Total	29,279	643	17,233

Table 36: Transition between asset fair value hierarchy levels as at 31 December 2021

in EUR 000

Transition between hierarchy levels, portfolio as at 31 Dec 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
Financial investments at fair value through profit or loss	0	2,477	0	0
Debt instruments	0	2,477	0	0
Financial investments at fair value through other comprehensive income	2	0	5,970	1,918
Equity instruments	2	0	5,970	1,918
Total	2	2,477	5,970	1,918

Table 37: Effective interest rate by investment groups

	2022	2021
Financial investments at amortised cost	2.02%	1,90%
Financial investments at fair value through other comprehensive income	2.71%	3,05%

Financial assets disclosed in the table above comprise all debt financial instruments with effective interest rates.

Note No. 17

Loans to others

in EUR 000

	Non-current		Current		Total	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Loans to others	36,218	16,249	2,810	17,618	39,028	33,867
Total	36,218	16,249	2,810	17,618	39,028	33,867

Loans to others comprise deposits given to banks and institutions in Slovenia Loans to others are not pledged.

Note No. 18

Operating receivables

in EUR 000

	Non-current		Current		Total	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Trade receivables	0	0	3,337	3,448	3,337	3,448
Operating receivables due from others	248	197	27,768	4,352	28,016	4,549
Other operating receivables	0	0	67,800	53,090	67,800	53,090
Total	248	197	98,905	60,890	99,153	61,087

Non-current operating receivables due from others in the amount of EUR 248 thousand represent payments into the reserve fund for the maintenance of property (31 December 2021: EUR 197 thousand).

Current operating receivables due from others in the amount of EUR 27,768 thousand (31 December 2021: EUR 4,352 thousand) mostly include retained deficit of assets for the covering of liabilities owed to the insured of guarantee funds in the amount of EUR 16,894 thousand (2021: EUR 635 thousand) and recognised accrued interest from the investment in a financial receivable in the amount of EUR 6,449 thousand (31 December 2021: EUR 3,112 thousand).

Other current operating receivables in the amount of EUR 67,800 thousand mostly mean current deferred expenses arising from the payment to the Pension and Disability Insurance Institute for 2023 in the amount of EUR 65,000 thousand and current deferred receivables due from mutual pension funds for guarantee fund premiums arising from the last conversion in the period.

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

Breakdown of operating trade receivables by maturity

in EUR 000

31 Dec 2022	Non pass due	30 days past due	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
3,337	3,333	1	0	0	1	2

in EUR 000

31 Dec 2021	Non pass due	30 days past due	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
3,448	3,446	0	0	0	0	2

Note No. 19

Cash and cash equivalents

in EUR 000

	31 Dec 2022	31 Dec 2021
Bank balances	13,259	24,580
Redeemable deposit	1,800	7,000
Total	15,059	31,580

Note No. 20

Equity

	31 Dec 2022	31 Dec 2021
Share capital (in 000 EUR)	364,810	364,810
Ordinary shares (number)	874,235	874,235

The Group has no treasury shares. The share capital of EUR 364,810 thousand is represented by 874,235 ordinary registered 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	
31 Dec 2021	217,839
Increase in capital surplus	207
31 Dec 2022	218,046

In 2022, the capital surplus increased by EUR 207 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2022, capital surplus totalled EUR 218,046 thousand.

In EUR 000

Capital surplus	
31 Dec 2020	217,625
Increase in capital surplus	214
31 Dec 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.

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	2022	2021
Gross reserves from valuation at fair value as at 1 Jan	511,701	340,549
Deferred taxes	59,267	35,502
Net fair value reserves as at 1 Jan	452,434	305,047
Deferred tax adjustment	15,766	0
Total deferred tax as at 1 Jan	75,033	0
Changes during the year – gross increase in reserves	0	222,636
Changes during the year – gross decrease in reserves	-130,017	-51,483
Gross reserves from valuation at fair value as at 31 December	381,685	511,702
Adjustments (criteria: 8%, 6 months)	-171,468	-221,095
Gross balance as at 31 Dec after adjustment	210,217	290,607
Deferred tax adjustment	0	15,765
Deferred tax as at 31 Dec	42,874	59,268
Total deferred tax as at 31 Dec	42,874	75,033
Net balance as at 31 Dec	338,811	452,434

Note No. 23

Financial and operating liabilities

in EUR 000

	Non-current		Current		Total	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Financial liabilities	65,006	50,000	0	1	65,006	50,001
Trade payables	0	0	844	706	844	706
Operating liabilities from advances	3	3	0	0	3	3
Liabilities to the state	0	0	65,425	50,323	65,425	50,323
Other operating liabilities	79	72	8,342	10,204	8,421	10,276
Total	65,088	50,075	74,611	61,234	139,699	111,309

As at 31 December 2022, Kapitalska družba, d. d., discloses EUR 65,000 thousand (31 Dec 2021: EUR 50,000 thousand) of non-current financial liabilities, which relate to settling the liabilities of Kapitalska družba, d. d., to the Pension and Disability Insurance Institute for 2024 in accordance with Article 68 of ZIPRS2324. As at 31 December 2022, Modra zavarovalnica, d. d., does not report any financial liabilities (31 December 2021: EUR 1 thousand from interest on deposits).

Non-current operating liabilities from advances relate to security deposits received from lessees of business premises the amount of EUR 3 thousand (31 December 2021: EUR 3 thousand). Other non-current operating liabilities mainly represent liabilities for the payment of variable remuneration of the Management Board in the amount of EUR 79 thousand (31 December 2021: EUR 72 thousand).

Current operating liabilities include trade payables amounting to EUR 844 thousand (31 Dec 2021: EUR 706 thousand), liabilities to the state of EUR 65,425 thousand (31 Dec 2021: EUR 50,323 thousand), of which the largest part, EUR 65,000 thousand, refers to payment liability to the Pension and Disability Insurance Institute in 2023, and other operating liabilities amounting to EUR 8,342 thousand (31 December 2021: EUR 10,204 thousand) of which the highest amount is due to deferred income of KS MR II arising from the premiums received from the insured who expressed their intention based on the indicative calculation to take out insurance as of 1 January 2023 amounting to EUR 7,159 thousand (31 December 2021: EUR 9,192 thousand).

Maturity of financial and operating liabilities

in EUR 000

31 Dec 2022	Maturity up to 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Financial liabilities	0	65,006	0	0	65,006
Trade payables	844	0	0	0	844
Operating liabilities from advances	0	3	0	0	3
Liabilities to the state	65,425	0	0	0	65,425
Other operating liabilities	8,342	79	0	0	8,421
Total	74,611	65,088	0	0	139,699

Note no. 24

Current tax liabilities

in EUR 000

	31 Dec 2022	31 Dec 2021
Current income tax liabilities	2,469	13,130

Current income tax liabilities as at 31 December 2022 include current tax liabilities of Modra zavarovalnica, d. d., in the amount of EUR 2,445 thousand (31 December 2021: EUR 12,661 thousand) and Hotelske nepremičnine, d. o. o., in the amount of EUR 24 thousand (31 December 2021: EUR 100 thousand). As at 31 December 2022, Kapitalska družba, d. d., had no corporate income tax liabilities; as at 31 December 2021 it disclosed liabilities in the amount of EUR 369 thousand.

Note No. 25

Provisions and non-current accrued and deferred liability items

in EUR 000

	Provisions for pensions and similar liabilities	Other provisions	Technical provisions	Total
31 Dec 2021	587	8,963	293,674	303,224
Newly formed during the year	106	30,447	65,947	96,500
Utilisation	-14	0	-35,083	-35,097
Reversal	-78	-3,077	0	-3,155
31 Dec 2022	601	36,333	324,538	361,472

in EUR 000

	Provisions for pensions and similar liabilities	Other provisions	Technical provisions	Total
31 Dec 2020	510	16,304	260,226	277,040
Newly formed during the year	98	58	66,412	66,568
Utilisation	-21	0	-32,964	-32,985
Reversal	0	-7,399	0	-7,399
31 Dec 2021	587	8,963	293,674	303,224

In 2022, the Kapitalska družba Group created EUR 106 thousand of provisions for termination benefits upon retirement and jubilee benefits (2021: EUR 98 thousand), utilised EUR 14 thousand (2021: EUR 21 thousand) and reversed EUR 78 thousand of provisions. At the end of 2022, provisions for termination benefits and jubilee awards amounted to EUR 601 thousand (2021: EUR 587 thousand).

In 2022, the Group formed other provisions in the amount of EUR 14,189 thousand for non-achievement of the guaranteed return of the managed funds and EUR 16,258 thousand of provisions for the deficit of assets of guarantee funds (2021: EUR 55 thousand for the shortfall of KS MR assets and EUR 3 thousand for failure to achieve the guaranteed return for SODPZ).

In 2022, the Group eliminated other provisions arising from the LAT test in the amount of EUR 3,077 thousand (2021: EUR 5,439 thousand arising from the LAT test and EUR 1,960 thousand due to failure to achieve the guaranteed return of mutual pension funds). Provisions arising from LAT are explained in more detail under the 'Disclosures of Insurance Contracts' section.

In 2022, technical provisions of insurance in the Group increased by EUR 65,947 thousand (2021: EUR 66,412 thousand) due to the inflows of assets and were utilised by EUR 35,083 thousand (2020: EUR 32,964 thousand).

Technical provisions

in EUR 000

Item	31 Dec 2022	31. Dec 2021
KS PPS technical provisions	98,749	102,417
KS MR technical provisions	10,115	12,051
KS MR II technical provisions	215,672	179,205
Technical provisions of the accident segment	2	1
Total	324,538	293,674

Technical provisions are presented under the 'Insurance Risks' section.

Changes in technical provisions

in EUR 000

Technical provisions	2022	2021
Opening balance	293,674	260,226
Change through profit or loss	30,783	33,328
Changes in claims provisions and adjustments	81	120
Closing balance	324,538	293,674

Technical provisions increased in 2022 and 2021 due to the inflows of the funds and insured persons into the KS MR II fund. The surplus generated in KS PPS further contributed to the increase in 2021. Changes in claims provisions represent the increase in charged annuities that have not yet been paid for various reasons.

in EUR 000

Changes in technical provisions	KS PPS	KS MR	KS MR II	Accident insurance	Total
Balance as at 31 Dec 2021	102,417	12,050	179,206	1	293,674
Increase	3,038	157	62,751	1	65,947
Decrease	-6,777	-2,093	-26,294	0	-35,164
Change in claims provisions	71	0	10	0	81
Balance as at 31 Dec 2022	98,749	10,114	215,673	2	324,538

in EUR 000

Changes in technical provisions	KS PPS	KS MR	KS MR II	Accident insurance	Total
Balance as at 31 Dec 2020	97,997	14,245	147,978	6	260,226
Increase	10,885	254	55,152	1	66,292
Decrease	-6,582	-2,449	-23,933	0	-32,964
Change in claims provisions	117	0	9	-6	120
Balance as at 31 Dec 2021	102,417	12,050	179,206	1	293,674

Insurance Risks

Insurance risks are related to the insurance coverages covered by the insurances. Insurance risk is the risk of loss or unfavourable changes in the value of insurance liabilities due to inadequate premiums and inadequate assumptions taken into account in the calculation of technical provisions.

Insurance risks are divided into life insurance risks, health insurance risks, which also includes accident insurance, and non-life insurance risks.

The Company is primarily exposed to the life insurance risks. The most important insurance risk is the longevity risk in the case of annuity payments. Longevity risk is the risk that a person will live longer than predicted based on the mortality tables used.

Due to its small volume, the health insurance risk is not of material importance. The Company is not exposed to non-life insurance risk.

Insurance risks are managed by regularly checking existing insurances, where the parameters used in determining the premium of an individual product are analysed, parameter sensitivity tests are carried out, the need for reinsurance is assessed and the impact of an individual product on the equity position of the insurance company is calculated.

Before starting the marketing of new insurances or products, prior internal approval is mandatory, which includes confirmation of the statistical basis for determining the insurance premium, confirmation of the limits of insurance sums and insurance premiums, examination of the need for reinsurance and assessment of the impact on the capital adequacy of the Company.

Composition of Long-Term Insurance Contracts

Table 38: Present gross value of future payments

in EUR 000

Guarantee fund	31 Dec 2022	31 Dec 2021
KS PPS	93,157	92,559
KS MR	10,111	12,046
KS MR II	215,649	178,755
Total	318,917	283,360

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

Table 39: Composition of technical provisions as at 31 December 2022

in EUR 000

Fund	TP for life insurance based on policies	TP for life insurance – surplus	Claims provisions	Total
KS PPS	93,157	4,337	1,255	98,749
KS MR	10,111	0	4	10,115
KS MR II	215,649	0	23	215,672
Total	318,917	4,337	1,282	324,536

Table 40: Composition of technical provisions as at 31 December 2021

in EUR 000

Fund	TP for life insurance based on policies	TP for life insurance – surplus	Claims provisions	Total
KS PPS	92,559	8,674	1,184	102,417
KS MR	12,047	0	4	12,051
KS MR II	178,755	437	13	179,205
Total	283,361	9,111	1,201	293,673

Technical provisions based on individual KS PPS policies as at 31 December 2022 comprise technical provisions for life insurance based on individual KS PPS policies in the amount of EUR 93,157 thousand (2021: EUR 92,559 thousand), provisions from surplus return in the amount of EUR 4,337 thousand (2021: EUR 8,674 thousand), and claims provisions in the amount of EUR 1,255 thousand (2021: EUR 1,184). The calculation of the value of future payments uses the DAV2004R annuity tables and the statutory technical interest rate of 1%.

Technical provisions based on individual KS MR policies as at 31 December 2022 comprise technical provisions for life insurance based on individual KS MR policies in the amount of EUR 10,111 thousand (2021: EUR 12,047), and claims provisions in the amount of EUR 4 thousand (2021: EUR 4 thousand). The German DAV1994R annuity tables were used in the calculation of future payments.

Technical provisions based on individual KS MR II policies as at 31 December 2022 comprise technical provisions for life insurance based on individual KS MR II policies in the amount of EUR 215,649 thousand (2021: EUR 178,755 thousand), allocated part of profit of EUR 0 (end of 2021: EUR 36 thousand), unallocated part of profit of EUR 0 (end of 2021: EUR 401 thousand), and claims provisions in the amount of EUR 23 thousand (2021: EUR 13 thousand), The German DAV1994R annuity tables were used in the calculation of future payments.

Adequacy of Liabilities

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

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

- the expected mortality was determined using the German DAV1994R mortality table for annuities, separately according to gender, that adequately describe actual mortality based on past experience,
- early terminations were not envisaged as they are not possible in line with the provisions laid down in insurance contracts,
- expected costs are the same as the accrued ones,
- the discount rate is based on the risk-free rate as at 31 December 2022 published by EIOPA.

The Liability Adequacy Test as at 31 December 2022 showed that mathematical provisions for all annuity funds (KS PPS, KS MR and KS MR II) were adequate.

Sensitivity to changes in interest rates/return

Table 41: Changes in interest rates/returns for KS PPS

in EUR 000

Change in liabilities/provisions	31 Dec 2022	31 Dec 2021
Increase in return by 0.25 percentage points	-2,576	-2,590
Decrease in return by 0.25 percentage points	2,704	2,719

Table 42: Changes in interest rates/returns for KS MR

in EUR 000

Change in liabilities/provisions	31 Dec 2022	31 Dec 2021
Increase in return by 0.25 percentage points	-216	-240
Decrease in return by 0.25 percentage points	226	251

Table 43: Changes in interest rates/returns for KS MR II

in EUR 000

Change in liabilities/provisions	31 Dec 2022	31 Dec 2021
Increase in return by 0.25 percentage points	-4,678	-3,672
Decrease in return by 0.25 percentage points	4,895	3,840

Sensitivity to Changes in Mortality

Table 44: Change in mortality for KS PPS

in EUR 000

Change in liabilities/provisions	31 Dec 2022	31 Dec 2021
Increase in mortality probability by 10%	-3,615	-3,537
Decrease in mortality probability by 10%	4,113	4,047

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 3,615 thousand (2021: EUR 3,537 thousand). Annuity tables DAV2004R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 45: Change in mortality for KS MR

in EUR 000

Change in liabilities/provisions	31 Dec 2022	31 Dec 2021
Increase in mortality probability by 10%	-243	-248
Decrease in mortality probability by 10%	275	281

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 243 thousand (2021: EUR 248 thousand). Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 46: Change in mortality for KS MR II

in EUR 000

Change in liabilities/provisions	31 Dec 2022	31 Dec 2021
Increase in mortality probability by 10%	-2,075	-1,640
Decrease in mortality probability by 10%	2,345	1,849

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 2,075 thousand (2021: EUR 1,640 thousand). Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Capital Management – Solvency II

In order to improve long-term business operations, the Group is constantly developing and upgrading the entire risk management system. Especially at Modra zavarovalnica, d. d., it is important to operate in accordance with Solvency II, the strategic goal of which is to protect the assets of the insured. In order to ensure long-term target capital adequacy, the Company regularly performs own risk and solvency assessment by way of which it determines the ongoing and expected capital requirements and defines the appropriate capital management measures.

Own risk and solvency assessment carried out in 2022 shows that Modra zavarovalnica, d. d., has adequate capital available to cover all risks it assumes in its operations. In 2022, the SCR ratio increased compared to 2021, which is mainly the result of reduced liabilities, which was higher than the reduction in assets. The decrease in liabilities was mainly due to the rise in the risk-free interest rate curve published by EIOPA and due to the increase in central bank interest rates in response to increased inflation in 2022.

Table 47: Capital adequacy of Modra zavarovalnica, d. d., pursuant to the requirements of Solvency II

In EUR 000

Item	31 Dec 2022	31 Dec 2021
Total capital requirement	130,163	202,517
Available eligible sources of own funds	383,156	373,875
Surplus (+)/deficit (-) of available own funds	252,994	171,358
Eligible own funds to total capital need ratio	294%	185%

Annual solvency data as at 31 December 2022 are presented in the Solvency report and financial position of Modra zavarovalnica, d. d., published on its website.

17.3.3 Risk management of financial assets

Important risks that the Group is exposed to, along with risk management measures and criteria, are detailed in chapter 17.2 "Accounting policies". We estimate that the Group's financial assets are exposed to credit, market (interest, currency, price), and liquidity risk. The presented tables include the Group's own assets and the assets of the guarantee funds (KS PPS, KS MR and KS MR II).

Credit risk

Credit risk refers to debt securities, money-market instruments and deposits and entails the possibility of investments being repaid only in part or not at all. The credit rating of investments and business partners is determined by taking into account the credit ratings of the agencies Standard & Poor's, Fitch, and Moody's, and in-house analyses. The highest exposure equals the book value of financial instruments. Equity securities are excluded from the analysis because they do not entail direct credit risk.

Table 48: Net exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2022

in EUR 000

Internal rating	Method of measuring expected losses	Credit rating	Bonds	Deposits	Others	Total
Low-risk investments	12-month expected losses	AAA	16,087	0	34,522	50,609
		AA	61,985	0	39,038	101,023
		A	123,959	31,186	26,718	181,863
		BBB	114,565	1,999	27,227	143,791
High-risk investments	12-month / lifetime expected losses	BB	21,700	5,843	4,877	32,420
		CCC	6,004	0	0	6,004
		no credit rating	129	0	36,224	36,353
Units of target funds			0	0	406,861	406,861
Total			344,429	39,028	575,467	958,924

Financial assets are classified into the stated groups based on credit ratings. Secure investments include AAA to BBB rated investments, while 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. Investments in units of target funds do not have a credit rating and amount to EUR 406,861 thousand.

Table 49: Net exposure of financial assets to credit risk without considering potential collateral (security) as at 31 December 2021

in EUR 000

Internal rating	Method of measuring expected losses	Credit rating	Bonds	Deposits	Others	Total
Low-risk investments	12-month expected losses	AAA	14,800	0	0	14,800
		AA	37,283	0	0	37,283
		A	118,924	14,058	0	132,982
		BBB	124,096	3,698	9,081	136,875
High-risk investments	12-month / lifetime expected losses	BB	15,669	16,111	2,187	33,967
		B	6,037	0	2,531	8,568
		no credit rating	2	0	43,335	43,337
Units of target funds			0	0	629,089	629,089
Total			316,811	33,867	686,223	1,036,901

Table 50: Allowance for loss in 2022

in EUR 000

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 Dec 2021	195	342	0	537
Transfer from stage 1 to stage 2	-1	215	0	214
- bonds	-1	215	0	214
Transfer from stage 1 to stage 3	-5	0	806	801
- bonds	-5	0	806	801
Transfer from stage 2 to stage 1	15	-276	0	-261
- bonds	15	-276	0	-261
Financial assets derecognised in the period	-76	-29	0	-105
- bonds	-11	-29	0	-40
- deposits	-15	0	0	-15
- other	-50	0	0	-50
Financial assets acquired in the period	30	0	0	30
- bonds	13	0	0	13
- deposits	13	0	0	13
- other	4	0	0	4
Other changes	-63	-49	-220	-332
Loss allowance as at 31 Dec 2022	95	203	586	884

Table 51: Allowance for loss in 2021

in EUR 000

	Stage 1	Stage 2	Total
Loss allowance as at 31 Dec 2020	291	179	470
Transfer from stage 1 to stage 2	-20	295	275
- bonds	-20	295	275
- deposits	0	0	0
- other	0	0	0
Financial assets derecognised in the period	-95	-49	-144
- bonds	-12	-49	-61
- deposits	-42	0	-42
- other	-41	0	-41
Financial assets acquired in the period	128	0	128
- bonds	60	0	60
- deposits	7	0	7
- other	61	0	61
Other changes	-109	-83	-192
Loss allowance as at 31 Dec 2021	195	342	537

Table 52: Changes in the gross carrying amount and loss allowance in 2022

in EUR 000

Category	Gross carrying amount	Loss allowance
31 Dec 2021	295,698	537
Transfer from stage 1 to stage 2	-185	214
Transfer from stage 1 to stage 3	-931	801
Transfer from stage 2 to stage 1	-3	-261
Financial assets derecognised in the period	-49,670	-105
Financial assets acquired in the period	91,267	30
Other changes	-4,685	-332
31 Dec 2022	331,491	884

Table 53: Changes in the gross carrying amount and loss allowance in 2021

in EUR 000

Category	Gross carrying amount	Loss allowance
31 Dec 2020	307,481	470
Transfer from stage 1 to stage 2	-6	275
Financial assets derecognised in the period	-52,343	-144
Financial assets acquired in the period	42,085	128
Other changes	-1,519	-192
31 Dec 2021	295,698	537

Table 54: Geographical concentration of credit exposure of financial assets

in EUR 000

Region	31 Dec 2022	31 Dec 2021
Slovenia	177,688	188,524
EU (excluding Slovenia)	314,417	166,366
USA	38,355	29,867
Other	21,603	23,055
Units of target funds	406,861	629,089
Total	958,924	1,036,901

Without taking into account the ETF units, the share of financial assets exposed to credit risk in Slovenia increased from 18% to 19% in 2022.

Currency risk

Table 55: Currency structure of financial assets

in EUR 000

Currency	31 Dec 2022	31 Dec 2021
Assets denominated in euros	1,417,516	1,517,783
Assets denominated in US dollars	171,798	259,812
Assets denominated in other currencies	12,473	8,143
Total	1,601,787	1,785,739

As at 31 December 2022, 88.5% of financial assets were denominated in euro, 10.7 % in US dollar, and 0.8 % in other currencies. The currency structure of financial assets is presented considering the currency in which the underlying instrument is denominated. Currency risk decreased due to a lower exposure of investments in USD. As regards investments in investment fund units, the effect of currency fluctuation in securities that represent investments in investment funds was not taken into account.

Table 56: Currency risk of financial assets

in EUR 000

Change of the USD exchange rate by +/- 10%	31 Dec 2022	31 Dec 2021
Impact on profit or loss	+/-14,494	+/-22,209
Effect on capital	+/- 2,643	+/- 3,318
Total	+/- 17,137	+/- 25,527

Interest rate risk

Interest rate risk is related to investments in debt instruments that respond to changes in market interest rates, including investments in bond investment funds (investments in equity investment funds are not included because they do not entail interest rate risk). These include assets of which revenue is related to the variable interest rate as well as 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 57: Analysis of investment sensitivity to changes in market interest rates as at 31 December 2022 – change in interest rates by 100 basis points

in EUR 000

Financial asset group	Interest rate change	Sensitivity of interest income	Effect on fair value	Total
Financial investments at fair value through profit or loss	+/- 1 %	+/- 1,141	–/+ 10,184	–/+ 9,043
Financial investments at amortized cost	+/- 1 %	+/- 0	–/+ 0	–/+ 0
Financial investments at fair value through other comprehensive income	+/- 1 %	+/- 0	–/+ 1,390	–/+ 1,390
Total		+/- 1,141	–/+ 11,574	–/+ 10,433

Table 58: Analysis of investment sensitivity 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	Interest rate change	Sensitivity of interest income	Effect on fair value	Total
Financial investments at fair value through profit or loss	+/- 1 %	+/- 1,826	–/+ 17,148	–/+ 15,322
Financial investments at amortized cost	+/- 1 %	+/- 0	–/+ 0	–/+ 0
Financial investments at fair value through other comprehensive income	+/- 1 %	+/- 4	–/+ 2,337	–/+ 2,333
Total		+/- 1,830	–/+ 19,485	–/+ 17,655

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 talking 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 2022 would have changed by EUR 10,433 thousand. Interest rate risk decreased in 2022 due to decreased exposure arising from the investments sensitive to changes in market interest rates and due to a decrease in the average duration of the debt investment portfolio. Liabilities arising from the provisions for non-achievement of the guaranteed return of SODPZ in the fund manager's statements are not interest-bearing or are insignificant.

Market risk

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

Table 59: Market risk of the equity securities portfolio and investments in equity investment funds

in EUR 000

Change of the index by +/- 10%	31 Dec 2022	31 Dec 2021
Impact on profit or loss	+/- 25,632	+/- 29,414
Effect on capital	+/- 16,897	+/- 2,265
Total	+/- 42,529	+/- 31,678

The table takes into account market equity investments, including investments in equity investment funds (investments in bond investment funds are not included). The impact on profit or loss arises from investments at fair value through profit or loss, whilst the impact on equity arises from investments at fair value through other comprehensive income. The risk was calculated using the beta indicator of the world stock index. The market risk increased in 2022 due to a higher beta compared to 2021.

Table 60: Financial instruments in terms of marketability

in EUR 000

Financial instrument	31 Dec 2022	31 Dec 2021
Investments traded on the regulated market	**1,376,796**	**1,560,728**
Financial investments at fair value through profit or loss	592,552	689,922
Financial investments at amortised cost	192,694	145,270
Financial investments at fair value through other comprehensive income	591,551	725,536
Investments not traded on the regulated market	**170,904**	**159,564**
Financial investments at fair value through profit or loss	63,210	57,751
Financial investments at amortised cost	48,949	43,446
Financial investments at fair value through other comprehensive income	58,745	58,367
Cash and cash equivalents	**15,059**	**31,580**
Total	1,562,759	1,751,872

At the end of 2022, investments traded on regulated securities markets comprised 88% of financial instruments (investments in securities and investment in financial receivables are taken into account) or 76% of the total Group assets (this group also includes OTC investments or interbank market investments).

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 2022, the Group recorded a total of EUR 1,300,890 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 61: Expected actual non-discounted cash flows as at 31 December 2022

in EUR 000

Item	Up to 1 year	Over 1 up to 5 years	Over 5 years	Total
Investments	1,218,829	146,965	230,864	1,596,658
– at fair value through profit or loss	572,927	45,981	38,927	657,835
– at amortised cost	27,467	67,087	180,730	275,284
– at fair value through other comprehensive income	618,435	33,897	11,207	663,539
Investment in financial receivable	28,416	0	0	28,416
Loans/deposits given	2,813	36,251	0	39,063
Cash and cash equivalents	15,059	0	0	15,059
Operating receivables	98,905	248	0	99,153
Total assets	1,364,022	183,463	230,864	1,778,350

Item	Up to 1 year	Over 1 up to 5 years	Over 5 years	Total
Operating liabilities	77,080	82	0	77,162
Financial liabilities	0	65,006	0	65,006
Guarantee fund liabilities	34,036	94,816	206,440	335,292
Total liabilities	111,116	159,904	206,440	477,460
Difference (assets – liabilities)	1,252,906	23,560	24,424	1,300,890

Table 62: 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	Total
Investments	1,419,399	165,169	162,779	1,747,347
– at fair value through profit or loss	664,924	25,528	52,277	742,730
– at amortised cost	22,092	98,288	95,168	215,549
– at fair value through other comprehensive income	732,382	41,352	15,334	789,068
Investment in financial receivable	22,427	0	0	22,427
Loans/deposits given	17,627	16,257	0	33,884
Cash and cash equivalents	31,580	0	0	31,580
Operating receivables	60,890	197	0	61,087
Total assets	1,551,923	181,623	162,779	1,896,325
Operating liabilities	74,363	75	0	74,438
Financial liabilities	1	50,000	0	50,001
Guarantee fund liabilities	30,197	86,351	181,898	298,445
Total liabilities	104,561	136,426	181,898	422,884
Difference (assets – liabilities)	1,447,362	45,197	-19,119	1,473,441

Investments without maturity (shares, stakes and investment coupons) are disclosed under item Up to 1 year.

Contingent assets and liabilities

Table 63: Contingent assets and liabilities

in EUR 000

	31 Dec 2022	31 Dec 2021
Contingent liabilities	3,860	4,294
Contingent assets	0	50

Contingent liabilities relate to the commitment of Kapitalska družba, d. d., and Modra zavarovalnica, d. d., to purchase ETF units. Contingent assets in 2021 relate to the received performance bond received by Modra zavarovalnica, d. d.

17.4 Other Disclosures

Data on groups of persons

The names of the members of the Management Board and other bodies are listed in the introductory part of the Annual Report, under section Presentation of the Kapitalska družba Group. In 2022, the Kapitalska družba Group granted no prepayments or loans to members of its Management or Supervisory Boards, and neither did it assume any liabilities on their behalf.

Compensation of the members of the Management Board, Supervisory Board and staff with executive employment contracts of Kapitalska družba, d. d.

In 2022, compensation 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 911 thousand.

Compensation by category of beneficiaries is presented in the table below.

Table 64: Compensation of Kapitalska družba, d. d., by category of beneficiaries in 2022

in EUR 000

Category of beneficiaries	Compensation amounts
Members of the Management Board	318
Members of the Supervisory Board	136
Employees with individual contracts	457
Total	911

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 2022.

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

Compensation 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 compensation of the Management Board members is 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 were 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 pay is applicable from 1 July of the current year. If the basic pay of the Chairman of the Board of the Slovenian Sovereign Holding, d. d., changed after the harmonisation was carried out, the basic pay of the Chairman and Member of the Board of Kapitalska družba, d. d., was also adjusted each time, namely on the first day of the following month after the information on the changed basic pay of the Chairman of the Board of Slovenian Sovereign Holding, d. d., publicly announced. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2022 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 65: Compensation of the Management Board of Kapitalska družba, d. d., in 2022

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
Bachtiar Djalil (Chairman of the Management Board)	129,069	22,204	514	1,808	2,904	-	-	-	-	2,000	**158,499**	**85,033**	26,299
Gregor Bajraktarević (Member of the Management Board)	123,089	28,685	514	2,154	2,904	-	-	-	-	2,000	**159,346**	**86,384**	25,011
Total	**252,158**	**50,889**	**1,028**	**3,962**	**5,808**	-	-	-	-	**4,000**	**317,845**	**171,417**	**51,310**

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 compensation received by the Management Board refers to the first part of the bonus for business performance for 2021 and the second part of the bonus for business performance for 2019, both on the basis of a combination of quantitative and qualitative criteria. 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 payments include pay for annual leave. Deferred compensation comprises a part of the payment of variable compensation for 2020, which will be paid in 2023, and a part of the payment of variable compensation for 2021, which will be paid in 2024.

Table 66: Compensation of the Supervisory Board of Kapitalska družba, d. d., in 2022

EUR

Ime in priimek	Fixed remuneration – payment for performance of duties	Fixed remuneration – attendance fees	Fringe benefits	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Janez Tomšič (Chairman of the Supervisory Board)	16,500	4,125	459	-	-	-	-	-	-	-	-	**21,084**	**14,875**
Boriš Žnidarič, PhD (Deputy Chairman of the Supervisory Board and Chairman of the Accreditation Committee)	16,224	4,741	459	-	58	-	-	-	-	-	-	**21,482**	**15,165**
Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, Member of the Accreditation Committee and Member of the HR Committee until 30 Aug 2022)	12,760	3,806	459	-	28	-	-	-	-	-	-	**17,053**	**11,944**

Ime in priimek	Fixed remuneration – payment for performance of duties	Fixed remuneration – attendance fees	Fringe benefits	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Ladislav Rožič, MSc (Member of the Supervisory Board, Member of the Accreditation Committee, Chairman of the Audit Committee until 14 Sep 2022, afterwards Member of the Audit Committee from 15 Sep 2022)	16,500	5,500	459	-	-	-	-	-	-	-	-	22,459	15,875
Boštjan Leskovar, Msc (Member of the Supervisory Board, Chairman or the HR Committee, Member of the Accreditation Committee from 15 Sep 2022)	15,709	5,500	459	-	738	-	-	-	-	-	-	22,406	15,837
Mirko Miklavčič (Member of the Supervisory Board, Member or the Audit Committee and Member or the HR Committee)	16,500	5,500	459	-	1,245	-	-	-	-	-	-	23,704	16,781
Andreja Cedilnik (Member of the Supervisory Board from 31 Aug 2022, Chairwoman of the Audit Committee from 15 Sep 2022, Member of the HR Committee from 15 Sep 2022)	4,250	3,025	-	-	78	-	-	-	-	-	-	7,353	5,348
Total	98,443	32,197	2,754	-	2,147	-	-	-	-	-	-	135,541	95,825

Fixed compensation 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 67: Compensation of external members of the Supervisory Board committees of Kapitalska družba, d. d., in 2022

EUR

Ime in priimek	Fixed remuneration – payment for performance of duties	Fixed remuneration – 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	1.672	-	-	48	-	-	-	-	-	-	5.320	3.869
Natalija Stošicki (External Member of the Audit Committee)	3.600	1.232	-	-	160	-	-	-	-	-	-	4.992	3.631
Irena Prijović, MSc (External Member of the Accreditation Committee)	3.600	616	-	-	-	-	-	-	-	-	-	4.216	3.066
Alenka Stanič, PhD (External Member of the Accreditation Committee)	3.600	396	-	-	-	-	-	-	-	-	-	3.996	2.906
Gorazd Žmavc (External Member of the Accreditation Committee)	3.600	616	-	-	224	-	-	-	-	-	-	4.440	3.229
Total	18.000	4.532	-	-	432	-	-	-	-	-	-	22.964	16.701

Fixed compensation 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 68: Compensation of the members of management and supervisory bodies of Kapitalska družba, d. d., arising from the performance of functions in the subsidiary Modra zavarovalnica, d. d., in 2022

EUR

Name and surname	Fixed remuneration – payment for performance of duties	Fixed remuneration – attendance fees	Fringe benefits	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Bachtiar Djalil	10,537	3,520	-	-	-	-	-	-	-	-	-	14,057	10,224
Total	**10,537**	**3,520**	-	-	-	-	-	-	-	-	-	**14,057**	**10,224**

Fixed income consists of the remuneration for the work performed in the Supervisory Board and attendance fees for attendance at the meetings.

Activities of the Supervisory Board and committees of Kapitalska družba, d. d.

The Supervisory Board held 17 meetings in 2022. The Members attended the Supervisory Board meetings regularly; Aleksander Mervar, Msc, was not able to attend two meetings for justifiable reasons.

The Audit Committee of the Supervisory Board held eight meetings. Its Members attended the meetings regularly, while Aleksander Mervar, MSc, was absent from one meeting for justifiable reasons, and Natalija Stošicki was absent twice for justifiable reasons.

The Accreditation Committee held three meetings. Its Members attended the meetings regularly; Alenka Stanič, PhD, was not able to attend one meeting for justifiable reasons.

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

Compensation of the Management Board, supervisory bodies and workers employed under individual employment contracts with Modra zavarovalnica, d. d.

In 2022, total remuneration of the members of the Management Board, Supervisory Board of Modra zavarovalnica and employees with individual employment contracts for performing their function and to whom the tariff section of the collective agreement does not apply amounted to EUR 1,033 thousand.

In 2022, Modra zavarovalnica, d. d. granted no prepayments or loans to members of its Management or Supervisory Boards, and neither did it assume any liabilities on their behalf.

Table 69: Compensation by category of beneficiaries of Modra zavarovalnica, d. d., in 2022

in EUR 000

Category of beneficiaries	Amount
Members of the Management Board	468
Members of the Supervisory Board	94
Employees with individual contracts	471
Total	1,033

Table 70: Compensation of the Management Board of the subsidiary Modra zavarovalnica, d. d., in 2022

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
Borut Jamnik (Chairman of the Management Board from 29 August 2021)	123,611	19,958	2,517	1,900	2,889	-	8,914	-	-	2,064	**161,853**	94,465
Matija Debelak, Msc (Member of the Management Board from 14 September 2021)	117,434	18,683	714	1,451	2,889	-	8,469	-	-	2,064	**151,704**	87,603
Boštjan Vovk (Member of the Management Board from 1 October 2018, reappointed from 1 October 2022)	117,531	18,948	309	3,452	2,889	-	8,469	-	-	2,983	**154,581**	88,030
Total	358,576	57,589	3,540	6,803	8,667	-	25,852	-	-	7,111	468,138	270,098

Fixed compensation includes gross salary receipts. Variable compensation is payment of variable income, namely payment of the second part from 2019 and first part from 2021. Fringe benefits include company cars and benefits arising from collective accident insurance as well as from collective insurance for specialist outpatient treatment, liability insurance benefit, medical examinations as well as the sports activity coverage benefit. Reimbursements of expenses include meal and/or travel allowances and/or other reimbursements of travel expenses (per diems, mileage expenses, costs of overnight stays, parking, taxi). Insurance premiums represent payments of the voluntary supplementary pension insurance premium. Participation in profit includes bonuses for company performance. Other payments include pay for annual leave and jubilee benefits.

Table 71: Remuneration of members of the Supervisory Board and external members of Supervisory Board committees of the subsidiary Modra zavarovalnica, d. d., in 2022

EUR

Name and surname	Fixed remuneration – payment for performance of duties	Fixed remuneration – attendance fees	Fringe benefits	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Branimir Štrukelj (Chairman of SB from 23 Dec 2021 to 22 Dec 2022; Deputy Chairman of SB from 23 Dec 2022)	3,520	10,450	-	-	-	-	-	-	-	-	-	**13,970**	10,160
Bojan Zupančič (Member from 9 Dec 2020; Member of SB AC from 16 Dec 2020)	4,785	11,974	-	-	-	-	-	-	-	-	-	**16,759**	12,189
Janez Prašnikar, PhD (Member from 9 Jun 2021; Chairman of SB AC from 9 Jun 2021)	4,785	13,171	-	-	693	-	-	-	-	-	-	**18,649**	13,563
Bachtiar Djalil (Member from 9 Jun 2021; Deputy Chairman of SB from 23 Dec 2021 to 22 Dec 2022; Chairman of SB from 23 Dec 2022)	3,520	10,537	-	-	-	-	-	-	-	-	-	**14,057**	10,224

Name and surname	Fixed remuneration – payment for performance of duties	Fixed remuneration – attendance fees	Fringe benefits	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Roman Jerman (Member from 9 Dec 2020)	3,520	9,579	-	-	75	-	-	-	-	-	-	13,174	9,582
Cvetko Marko (Member from 9 Dec 2020)	3,520	9,579	-	-	462	-	-	-	-	-	-	13,561	9,863
Dragan Martinović (external member of SB AC)	1,540	2,395	-	-	254	-	-	-	-	-	-	4,189	2,862
Total	25,190	67,685	-	-	1,484	-	-	-	-	-	-	94,359	68,443

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. Expense reimbursements include reimbursement of travel expenses and educational/training expenses.

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

Hotelske nepremičnine, d. o. o., has no employees; the company is managed by two Directors on the basis of the management agreement.

Table 72: Compensation of management bodies of Hotelske nepremičnine, d. o. o., in 2022

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
Zoran Perše	8,232	-	37	566	-	-	-	-	-	-	8,835
Roman Jerman	8,232	-	37	1,214	-	-	-	-	-	-	9,483

Fixed compensation is the payment based on the management agreement. Cost reimbursement are the costs for using own vehicle for business trips. Benefits are accounted for on the basis of paid insurance premiums for management liability insurance.

Related-party transactions

In 2022, the Kapitalska družba Group made no significant transactions with its related parties that were concluded under other than normal market conditions.

Significant events after the date of the statement of financial position

At the end of 2022, the Implementation of the Republic of Slovenia Budget for 2023 and 2024 Act (ZIPRS2324) was adopted, obliging Kapitalska družba, d. d., notwithstanding paragraph 3 of Article 52 of ZSDH-1, to credit EUR 65 million per year to the Pension and Disability Insurance Institute (ZPIZ) in 2023 and 2024 by 29 September of the current year. Based on ZSDH-1, Kapitalska družba, d. d., and ZPIZ concluded an agreement in March 2023 obliging Kapitalska družba, d. d., to cover the liabilities due to ZPIZ in 2023 and 2024.

Bachtiar Djalil was reappointed Chairman of the Board and began a new four-year term on 4 January 2023. Gregor Bajraktarević was reappointed Member of the Board and began a new four-year term on 9 February 2023.

On 2 February 2023, the General Meeting of Shareholders reappointed Boris Žnidarič, PhD, and Mirko Miklavčič for a four-year term as Members of the Supervisory Board, at the proposal of the pensioners' organisations at the state level and, Ladislav Rožič, MSc, at the proposal of trade union associations or confederations which are representative of the country. The new term of office for the Members of the Supervisory Board began on 2 February 2023.

In January 2023, IFRS 17 came into force, which requires the use of a uniform approach for all types of insurance contracts, including reinsurance contracts. The standard requires the recognition and measurement of groups of insurance contracts, whereby the present value of future cash flows from the fulfilment of insurance contracts is adjusted for risks and takes into account available market information. The Company recognises profit from a group of insurance contracts in the period during which it provides insurance coverage, while any loss is recognised immediately.

Upon the implementation of IFRS 17, Modra zavarovalnica, d. d., decided, in accordance with the provisions of IFRS 17, to disclose the effects arising from changes in financial assumptions when measuring liabilities from insurance contracts in the statement of other comprehensive income. On the other hand, investments were measured both at amortised cost and at fair value through profit or loss, which leads to accounting non-compliances. Therefore, certain assets held by the Company in connection with insurance contracts have been reclassified as investments measured at fair value through other comprehensive income.

At the 167th meeting of the Supervisory Board, held on 11 January 2023, Matej Golob Matzele was appointed as the Chairman of the Management Board of Modra zavarovalnica, d. d., under suspensive and resolutory conditions. On the basis of permission from AZN and the termination of his position with his previous employer, Matej Golob Matzele began the term as the Chairman of the Management Board on 10 May 2023.

On 16 January 2023, the Insurance Supervision Agency published a Notice on the main supervisory innovations and supervisory priorities for 2023, in which it highlights some essential regulatory innovations and priority areas of supervision in 2023.

On 31 March 2023, the cancellation proceedings from the court register without liquidation began against the company FINAP, storitve in posredovanje d. d. – in liquidation.

The sales procedure for the company Cetis, d. d., was completed in 2023 without a sale.

Publisher: Kapitalska družba, d. d.

Translation:

Management Report: Amidas, d. o. o.

Financial Report: PricewaterhouseCoopers d. o. o.

Creative idea and graphic layout: Strategija+, Darja Počič s.p.

Ljubljana, August 2023