



KAPITALSKA DRUŽBA



**Consolidated Annual Report of  
the Kapitalska družba Group**

2021



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the Kapitalska družba Group**

2021

# Table of Contents

<b>1</b>	<b>Presentation of the Kapitalska družba Group</b>	<b>14</b>
1.1	<b>Kapitalska družba, d. d.</b>	<b>14</b>
1.1.1	Company	14
1.1.2	Ownership structure and data regarding capital	14
1.1.3	Activities of the Company	14
1.1.4	Company bodies	16
1.1.5	Diversity policy	17
1.1.6	Other	17
1.2	<b>Modra zavarovalnica, d. d.</b>	<b>18</b>
1.2.1	Company	18
1.2.2	Ownership structure and data regarding capital	18
1.2.3	Activities of the company	18
1.2.4	Company bodies	18
1.2.5	Diversity policy	19
1.3	<b>Hotelske nepremičnine, d. o. o.</b>	<b>20</b>
1.3.1	Company	20
1.3.2	Ownership structure and data regarding capital	20
1.3.3	Activities of the company	20
1.3.4	Senior management of the company	20
1.4	<b>FINAP, d. d. – v likvidaciji</b>	<b>21</b>
1.4.1	Company	21
<b>2</b>	<b>Statement of the Management Board of the parent company</b>	<b>22</b>
<b>3</b>	<b>Report of the Supervisory Board of the parent company</b>	<b>23</b>
<b>4</b>	<b>Organisational structure of the Kapitalska družba Group</b>	<b>30</b>
4.1	<b>Reporting on employees</b>	<b>30</b>
<b>5</b>	<b>Business environment</b>	<b>31</b>
5.1	<b>Macroeconomic background</b>	<b>31</b>
5.1.1	Gross domestic product, inflation and unemployment rate	31
5.1.2	Interest rates	32
5.2	<b>Developments on the financial markets</b>	<b>33</b>

<b>6</b>	<b>Performance of the Kapitalska družba Group in 2021</b>	<b>36</b>
<b>6.1</b>	<b>Management of Kapitalska družba's own assets</b>	<b>36</b>
6.1.1	Capital investment management	37
6.1.2	Waived securities in accordance with Article 48a of the ZNVP-1	40
6.1.3	Management of portfolio investments	40
6.1.4	Investment property	41
<b>6.2</b>	<b>Management of mutual pension funds</b>	<b>41</b>
6.2.1	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia	42
6.2.2	Umbrella Pension Fund for Public-Sector Employees	42
6.2.3	Modri Umbrella Pension Fund	43
6.2.4	First Pension Fund of the Republic of Slovenia	44
<b>6.3</b>	<b>Management of Modra zavarovalnica's own financial assets</b>	<b>44</b>
6.3.1	Portfolio equities	44
6.3.2	Non-portfolio equities	45
6.3.3	Portfolio debt instruments	45
6.3.4	Cash and cash equivalents	45
<b>6.4</b>	<b>Management of guarantee funds for the payment of pension annuities</b>	<b>45</b>
6.4.1	Modra Renta Guarantee Fund	46
6.4.2	Modra Renta Guarantee Fund II	46
6.4.3	First Pension Fund Guarantee Fund	47
<b>6.5</b>	<b>Management of assets of Hotelske nepremičnine</b>	<b>48</b>
<b>7</b>	<b>Risk management</b>	<b>49</b>
<b>8</b>	<b>Significant business events after the end of 2021</b>	<b>50</b>
<b>9</b>	<b>Expected development of the Kapitalska družba Group for 2022</b>	<b>53</b>
<b>10</b>	<b>Social responsibility</b>	<b>54</b>
10.1	Responsibility to the wider social community	54
10.2	Responsibility to employees	54
10.3	Environmental responsibility	55
10.4	Stakeholder engagement	55

	10.5 Socially responsible investing	56
	10.6 Corporate integrity	56
11	<b>Report</b> on relations with subsidiaries	57
12	<b>Indicators</b>	58
13	<b>Corporate governance</b> statement	59
14	<b>Statement of management's responsibility</b>	72
15	<b>Auditor's</b> report	73
16	<b>Financial Statements</b> for 2021	79
	16.1 Consolidated income statement for the period from 1 January 2021 to 31 December 2021	79
	16.2 Consolidated statement of other comprehensive income for the period from 1 January 2021 to 31 December 2021	81
	16.3 Consolidated statement of financial position as at 31 December 2021	82
	16.4 Consolidated cash flow statement for the period from 1 January 2021 to 31 December 2021	84
	16.5 Consolidated statement of changes in equity for the period from 1 January 2021 to 31 December 2021	85
	16.6 Consolidated statement of changes in equity for the period from 1 January 2020 to 31 December 2020	86
17	<b>Disclosures</b> and notes	87
	17.1 General disclosures	87
	17.2 Accounting policies	88
	17.3 Disclosures and notes to the financial statements	112
	17.3.1 Notes to the income statement	112
	17.3.2 Notes to the Statement of Financial Position	121
	17.3.3 Managing the risks arising from financial assets	144
	17.4 Other disclosures	152

# Tables

<b>Table 1:</b>	Breakdown of Kapitalska družba Group employees by qualification level	30
<b>Table 2:</b>	Gross domestic product, inflation and unemployment rate (data for 2021)	32
<b>Table 3:</b>	Key interest rates of major central banks	33
<b>Table 4:</b>	Returns on major financial markets	34
<b>Table 5:</b>	Composition of Kapitalska družba's financial assets as at 31 December 2021 and 31 December 2020	37
<b>Table 6:</b>	Composition of Kapitalska družba's capital investments as at 31 December 2021 and 31 December 2020 in accordance with the Decree on the Strategy for Managing State Capital Investmentse	38
<b>Table 7:</b>	Composition of capital investments in terms of size of ownership stake as at 31 December 2021	38
<b>Table 8:</b>	Participation at general meetings	40
<b>Table 9:</b>	Composition of portfolio-managed financial assets as at 31 December 2021 and 31 December 2020	41
<b>Table 10:</b>	Figures for mutual pension funds operated by the Kapitalska družba Group as at 31 December 2021	42
<b>Table 11:</b>	Modra zavarovalnica's own financial assets	44
<b>Table 12:</b>	Basic data on the guarantee funds of Modra zavarovalnica for 2021	46
<b>Table 13:</b>	Composition of the Management Board during the 2021 financial year	66
<b>Table 14:</b>	Composition of the Supervisory Board and its committees during the 2021 financial year	67
<b>Table 15:</b>	External members of Supervisory Board committees during the 2021 financial year	68
<b>Table 16:</b>	Number of employees in the Kapitalska družba Group	88
<b>Table 17:</b>	Equity investment classification in case of exchange as the principal market (quoted equity investments)	101
<b>Table 18:</b>	Classification of unquoted equity investments	101
<b>Table 19:</b>	Classification of collective investment funds	101
<b>Table 20:</b>	Classification of mutual funds coupons	102
<b>Table 21:</b>	Classification of debt investments if the stock market is the principal market	102
<b>Table 22:</b>	Classification of debt investments if the OTC market is the principal market	102
<b>Table 23:</b>	Capital adequacy of Modra zavarovalnica, d. d. in line with Solvency II Directive	109
<b>Table 24:</b>	Changes in intangible assets and long-term deferred costs and accrued revenue in 2021	121
<b>Table 25:</b>	Changes in intangible assets and long-term deferred costs and accrued revenue in 2020	121
<b>Table 26:</b>	Changes in property, plant and equipment in 2021	122
<b>Table 27:</b>	Changes in property, plant and equipment in 2020	122
<b>Table 28:</b>	Changes in investment property in 2021	123
<b>Table 29:</b>	Changes in investment property in 2020	124

<b>Table 30:</b>	Changes in investments in associates	125
<b>Table 31:</b>	Changes in Level 3 investments	135
<b>Table 32:</b>	Transition between levels of fair value hierarchy as at 31 December 2021	135
<b>Table 33:</b>	Transition between levels of fair value hierarchy as at 31 December 2020	135
<b>Table 34:</b>	Effective interest rate by investment groups	136
<b>Table 35:</b>	Present gross value of future payments	142
<b>Table 36:</b>	Composition of technical provisions as at 31 December 2021	142
<b>Table 37:</b>	Composition of technical provisions as at 31 December 2020	142
<b>Table 38:</b>	Changes in interest rates/returns for KS PPS	143
<b>Table 39:</b>	Changes in interest rates/returns for KS MR	143
<b>Table 40:</b>	Changes in interest rates/returns for KS MR III	143
<b>Table 41:</b>	Change in mortality for KS PPS	144
<b>Table 42:</b>	Change in mortality for KS MR	144
<b>Table 43:</b>	Change in mortality for KS MR II	144
<b>Table 44:</b>	Exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2021	145
<b>Table 45:</b>	Exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2020	146
<b>Table 46:</b>	Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2021	147
<b>Table 47:</b>	Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2020	147
<b>Table 48:</b>	Changes in gross carrying amount and value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2021	147
<b>Table 49:</b>	Changes in gross carrying amount and value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2020	148
<b>Table 50:</b>	Geographical concentration of credit exposure of financial assets	148
<b>Table 51:</b>	Currency structure of financial assets	148
<b>Table 52:</b>	Currency risk of financial assets	149
<b>Table 53:</b>	Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2021 – change in interest rates by 100 basis points	149
<b>Table 54:</b>	Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2020 – change in interest rates by 100 basis points	149
<b>Table 55:</b>	Market risk of the equity securities portfolio	150
<b>Table 56:</b>	Financial instruments in terms of marketability	150
<b>Table 57:</b>	Expected actual non-discounted cash flows as at 31 December 2021	151
<b>Table 58:</b>	Expected actual non-discounted cash flows as at 31 December 2020	151
<b>Table 59:</b>	Contingent assets and liabilities	152



<b>Table 60:</b>	Receipts by category of beneficiaries of Kapitalska družba, d. d. in 2021	152
<b>Table 61:</b>	Receipts of Management Board members in 2021	153
<b>Table 62:</b>	Receipts of Supervisory Board members in 2021	154
<b>Table 63:</b>	Receipts of external members of the Supervisory Board Committee in 2021	154
<b>Table 64:</b>	Receipts 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 2021	155
<b>Table 65:</b>	Receipts by category of beneficiaries of Kapitalska družba, d. d. in 2021	156
<b>Table 66:</b>	Receipts of Management Board members of Modra zavarovalnica, d. d. in 2021	156
<b>Table 67:</b>	Remuneration of Supervisory Board members and external members of Supervisory Board committees of Modra zavarovalnica, d. d. in 2021	157
<b>Table 68:</b>	Remuneration of management bodies of Hotelske nepremičnine, d. o. o. in 2021	157

## Graphs

<b>Graph 1:</b>	Movement in the Slovenian SBITOP and selected foreign stock indices in 2021 in euros (index: 31 December 2020 = 100)	34
<b>Graph 2:</b>	Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR Index) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR Index), yield to maturity on 10-year German government bonds, and the 6-month EURIBOR in 2021	35

# List 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)
FED	US Federal Reserve
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
MLFSAEO	Ministry of Labour, Family, Social Affairs and Equal Opportunities
MKPS	Modri Umbrella Pension Fund
MESP	Ministry of the Environment and Spatial Planning
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)
OECD	Organisation for Economic Co-operation and Development
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
USD	US dollar – legal tender of the United States of America
VaR	Value At Risk
ZDUPŠOP	Act on Additional Measures to Stop the Spread and to Mitigate, Control and Eliminate the Consequences of covid-19 (Official Gazette of the Republic of Slovenia Nos. 206/21, 11/2022, 17/2022 – Constitutional Court Ruling)

<b>ZGD-1</b>	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)
<b>ZIPRS2223</b>	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)
<b>ZNVP-1</b>	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)
<b>ZODPol</b>	Organisation and Work of the Police Act (Official Gazette of the Republic of Slovenia Nos. 15/2013, 11/2014, 86/2015, 77/2016, 77/2017, 36/2019, 66/2019 – ZDZ, 200/2020, 172/2021, 201/2021 – Constitutional Court Ruling)
<b>ZPIZ</b>	Pension and Disability Insurance Institute
<b>ZPIZ-1</b>	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 – ZS-VarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 96/2012 – ZPIZ-2, 9/2017 – Constitutional Court ruling, 121/2021, 171/2021 – Constitutional Court ruling)
<b>ZPIZ-2</b>	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 and 29/2022 – ZUOPDCE)
<b>ZPPOGD</b>	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)
<b>ZSDH-1</b>	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 and 187/2021 – ZIPRS2223)
<b>ZUJIK</b>	Act Governing the Promotion of Public Interest in Culture (Official Gazette of the Republic of Slovenia, Nos. 96/2002, 123/2006 [ZFO-1], 7/2007 [Constitutional Court decision], 53/2007, 65/2007 [Constitutional Court decision], 56/2008, 4/2010, 20/2011, 100/2011 [Constitutional Court decision], 111/2013, 68/2016, 61/2017, 21/2018 [ZNOrg] and 49/2020 [ZIUZEOP]) and 3/2022 – ZDeb)
<b>ZUOPVCE</b>	Act Determining Emergency Measures to Mitigate the Consequences of Rising Energy Prices (Official Gazette of the Republic of Slovenia No. 29/2022)
<b>ZZavar-1</b>	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  
of the Kapitalska družba Group  
for 2021

# 1 Presentation of the Kapitalska družba Group

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). 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 2021.

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

### 1.1.3 Activities of the Company

Kapitalska družba's principal activity is the provision of supplementary funding for pension and disability insurance through the management of its own assets and the management of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the SODPZ). Kapitalska družba also performs other activities related to asset management and provides asset management support services.

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

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

## 1.1.4 Company bodies

### 1.1.4.1 Management board

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

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

The president and other 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.<sup>1</sup>

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.



*Bachtiar Djalil, President*



*Gregor Bajraktarević, member*

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



#### 1.1.4.2 Supervisory board

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

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

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

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

#### 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 is unable to formulate a diversity policy in connection with the establishment of the Supervisory Board and has not yet adopted such a policy in connection with its Management Board, as regards representation on the Company's management and supervisory bodies in terms of gender, age, education and professional experience. It is, however, planning to adopt such a policy in 2022. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.

### 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 exceeds 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 2021.

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,
- | 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 company's articles of association. Modra zavarovalnica was run by its management board in 2021 in the following composition:

- | Borut Jamnik, president, whose new four-year term of office began on 29 August 2021,
- | Matija Debelak, MSc, member, whose new four-year term of office began on 14 September 2021,
- | Boštjan Vovk, member of the management board.

### 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 2021:

- | Branimir Štrukelj, deputy chairman of the supervisory board until 22 December 2021, and chairman of the supervisory board since 23 December 2021,
- | Bachtar Djalil, chairman of the supervisory board until 22 December 2021, and deputy chairman of the supervisory board since 23 December 2021,
- | 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 working methods are governed by its rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2021 is given in the Report of the Supervisory Board.

### 1.2.4.3 General Meeting

Kapitalska družba exercised its rights in 2021 at the general meeting as the company's sole shareholder.

## 1.2.5 Diversity policy

representation on its management and supervisory bodies in terms of gender and other aspects, such as age, education and professional experience, taking into account the legal requirements in connection with the formulation of the supervisory board. Notwithstanding the aforementioned, it should be noted that there are legal restrictions on the composition of the supervisory board. The Act Governing the Transformation of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. and its Investment Policy, and Slovenska odškodninska družba, d. d. determines that half of the members of the insurance company's supervisory board are appointed on the proposal of the insurance company's policyholders, and the other half on the proposal of the shareholder. This diverse composition of the supervisory board indirectly allows individual elements of the diversity policy to be monitored. Regardless of these restrictions, all aspects of diversity will be considered to the greatest extent possible in the diversity policy.

## 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 2021, 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 2021:

- | Zoran Perše,
- | 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 64.63% participating interest in the company as at 31 December 2021, 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

The Kapitalska družba Group managed more than EUR 4.4 billion in own assets, and the assets of mutual pension funds and guarantee funds in 2021. The Kapitalska družba Group performed well in 2021 as it generated comprehensive income of EUR 236 million in 2021, or EUR 286 million before contributions to the ZPIZ (excluding tax effects). Without the transfer to the ZPIZ, the Kapitalska družba Group's net profit for 2021 (which was at EUR 49.9 million) would have been EUR 50 million better, i.e. at almost EUR 100 million (excluding tax effects).

Such positive results from the Group were driven by a balanced management policy, through which we exploited high domestic and global economic growth and the favourable conditions on the financial markets. Slovenian GDP rose by 8.1% last year, with the pre-crisis level from the final quarter of 2019 surpassed during the third quarter of 2021. The majority of sectors exceeded the pre-crisis level during last year, with the exception of tourism-related activities and activities involving personal contact (catering and accommodation services, and entertainment, sporting, recreational and personal services).

The Kapitalska družba Group is the largest provider of supplementary pension insurance and the largest payer of supplementary pensions and pension annuities in Slovenia. Almost 348 thousand people (policyholders and members) hold savings in its mutual pension funds, while the assets of the aforementioned funds have now reached EUR 2.3 billion. Supplementary pension insurance premium amounted to EUR 179 million in 2021. The Kapitalska družba 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. It remains capably sound, as the Group's total equity amounted to EUR 1.5 billion in 2021.

The excellent operating results reflect the underlying strength of the Group itself, which has developed over the decades into a strong and robust building block of the Slovenian pension system. In terms of the content of its activities and with regard to its business objectives, Kapitalska družba has functioned as a demographic reserve fund since its establishment, makes regular payments to the public pension system and thus helps cover the pension costs incurred by the ZPIZ. With the transfer made to the ZPIZ in 2021, the total amount of all transfers to the public pension system amounted to almost EUR 1 billion. Today, 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.

Through the sustained fulfilment of our commitments, we contribute to a reliable Slovenian pension system, although those total payments exceed the assets at our disposal. Because our mission is the permanent and sustainable development of a long-lived Slovenian society, our efforts are for the benefit and stability of the pension system in Slovenia.



**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 2021

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners and one is appointed on the basis of a proposal by national-level trade union federations or confederations. The same conditions and criteria that apply to members of SDH's Supervisory Board apply to the members of Kapitalska družba's Supervisory Board. Members of Kapitalska družba's Supervisory Board serve a four-year term of office and may be reappointed. In 2021, the Supervisory Board of Kapitalska družba functioned in the following five-member composition up to and including 15 October 2021: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc (member), Mirko Miklavčič (member) and Ladislav Rožič, MSc (member). Following the expiry of Mr Seničar's term of office as Chairman of the Supervisory Board due to his resignation, the Supervisory Board comprised four members from 16 October 2021 to 20 October 2021. At the Company's General Meeting held on 21 October 2021, Janez Tomšič and Boštjan Leskovar, MSc were appointed to four-year terms of office as members of the Supervisory Board, effective on the date of appointment. Janez Tomšič was appointed Chairman of the Supervisory Board at the 208th session of that body held on 5 November 2021, the first session following the start of the new term of office. All members were actively included in the work of the Supervisory Board, in particular through their regular attendance at sessions, and through their participation in discussions and the adoption of decisions. In connection with the adoption of decisions by the Supervisory Board, the rules of procedure of Kapitalska družba's Supervisory Board include provisions regarding steps to be taken in the event of a potential conflict of interests. In addition to disclosing the fact that he also serves as a member of SDH, d. d.'s Management Board, Chairman of the Supervisory Board Janez Tomšič, included a statement of self-exclusion in accordance with the fourth paragraph of Article 59 of the ZSDH-1 in the statement of independence he provided when he assumed the function of member of Kapitalska družba's Supervisory Board.

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

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).

A review of the important matters discussed by the Supervisory Board in 2021 follows:

- particular attention in the monitoring of Kapitalska družba's operations in 2021 was given to monitoring the management of the Company's assets and to monitoring the



- management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), which is managed by Kapitalska družba;
- confirmation of the annual reports of Kapitalska družba and the Kapitalska Družba Group for the 2020 financial year;
- consent to Kapitalska družba's business-financial plan for the 2022 financial year;
- the Supervisory Board was continuously briefed on the operations of the subsidiary Modra zavarovalnica;
- 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 when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution;
- the Supervisory Board monitored the Kapitalska družba's management activities, in the scope of which individual Slovenian investments of significant value (some are defined as strategic or important investments by the national strategy) 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 the companies involved;
- at its session held in September 2021, the Supervisory Board determined that the temporary one-year term of office of member of the Management Board Goranka Volf was set to expire on 25 November 2021, that the four-year term of office of member of the Management Board Gregor Bajraktarević was set to expire on 7 February 2022, and that the Management Board would function with two members from 26 November 2021 on. At the same time, it opted not to issue a call for candidates for another member of the Management Board after the expiry of Mr Bajraktarević's term of office, due to the planned transformation of Kapitalska družba. At the same session, it appointed Mr Bajraktarević to serve as member of the Management Board for a term of office of no more than one year from the day he assumed his function, in accordance with the provision of the Articles of Association. Mr Bajraktarević's new term of office began on 8 February 2022. At its session held in December 2021, the Supervisory Board decided to issue a call for candidates in January 2022 to select a person to serve as member of the Management Board responsible for Compulsory Supplementary Pension Insurance Fund. That call was carried out, but the procedure was completed without the selection of a candidate;
- the Supervisory Board carried out a self-assessment of the effectiveness of its work. In order to assess its effectiveness, the Supervisory Board relied on the self-assessment matrix published in the Manual for Assessing the Effectiveness of Supervisory Boards, adopted by the Slovenian Directors' Association. The Supervisory Board performed an analysis based on that self-assessment and determined that certain areas received poor assessments due to the specific regulatory framework that governs the Company. The Supervisory Board proposed measures in the areas of IT support and security to improve its work.

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

The audit committee of Kapitalska družba's Supervisory Board functioned in the following composition in 2021: Ladislav Rožič, MSc (chair), Aleksander Mervar, MSc and Mirko Miklavčič (members), and Natalija Stožicki and Mojca Verbič (external members). The audit committee met at seven sessions in 2021, one of which was a correspondence session. In its work, the audit committee complied with the provisions of the ZGD-1 with respect to its

competences, as well as the provisions of the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee represented a permanent working body of the Supervisory Board; it closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. In addition to its legally prescribed tasks, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiary and the SODPZ under Kapitalska družba's management, and it also performed additional tasks by authorisation of the Supervisory Board. It was briefed on information regarding the performance of individual companies of significant value. It also monitored the work of the internal audit department. The audit committee carried out a self-assessment of its work. The audit committee regularly briefed the Supervisory Board on its work during the latter's sessions.

The Supervisory Board's accreditation committee functioned in the following composition in 2021: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc, and Ladislav Rožič, MSc (members), and Dr Alenka Stanič, Irena Prijović, MSc, and Gorazd Žmavc (external members). The accreditation committee met at four sessions in 2021. The accreditation committee's task was to provide support to the Supervisory Board in the assessment of the suitability of candidates for members of the supervisory and management boards of companies in which Kapitalska družba holds capital investments who were selected from a predefined list of candidates. In its work, the accreditation committee complied with the provisions of the rules of procedure of the accreditation committee as adopted by the Supervisory Board.

The Supervisory Board's HR committee functioned in the following composition in 2021 until 4 November 2021: Aleksander Mervar, MSc (chair) and Mirko Miklavčič (member). It functioned in the following composition from 5 November 2021 on: Boštjan Leskovar, MSc (Chair), and Aleksander Mervar, MSc and Mirko Miklavčič (members). The HR committee met at three sessions in 2021, two of which were correspondence sessions. The committee's primary task was to support the Supervisory Board in the definition of the variable component of remuneration of the members of the Company's Management Board, to conduct a preliminary review of the contract concluded with a member of the Management Board and to formulate the bases for implementing the process of appointing a third member to the Management Board.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the consolidated annual report in Tables 62 and 63.

#### **Assessment of the work of the Management Board and Supervisory Board**

Based on the above-described continuous monitoring and supervision of the operations and management of Kapitalska družba and group companies during the 2021 financial year, and based on a review of the consolidated annual report of the Kapitalska Družba Group for 2021 compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of the Kapitalska Družba Group. The Supervisory Board finds that the Management Board prepared materials in a timely manner, which facilitated quality information and the thorough discussion of the most important operational matters. The Management Board also provided exhaustive responses to the Supervisory Board's additional questions and initiatives. The Management Board's reporting to the Supervisory Board during the 2021 financial year enabled the latter to carry out its supervisory role satisfactorily.

#### **b) Supervisory Board's position regarding the audit report**

Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of the Kapitalska Družba Group for 2021, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana, which issued an unqualified opinion. In the auditor's opinion, the financial statements

present fairly, in all material aspects, the financial position of the Group as at 31 December 2021, and its consolidated operating results and consolidated cash flows for 2021, in accordance with the International Financial Reporting Standards. The Supervisory Board has no remarks regarding the audit report.

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


The consolidated audited annual report of the Kapitalska Družba Group for 2021 was discussed by the audit committee at its 83rd correspondence session held on 22 June 2022, and by the Supervisory Board at its 217th correspondence session held on 27 June 2022. The audit committee assessed the annual report as appropriate and proposed that the Supervisory Board approve the annual report.

Pursuant to the provisions of Article 282 of the Companies Act, the Supervisory Board hereby approves the consolidated annual report of the Kapitalska Družba Group for 2021.

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

Taking into account points a), b) and c) of this report, the Supervisory Board proposes that the General Meeting of Kapitalska družba adopt a decision granting discharge to the Company's Management Board and Supervisory Board for their work during the 2021 financial year pursuant to the provision of Article 294 of the ZGD-1.

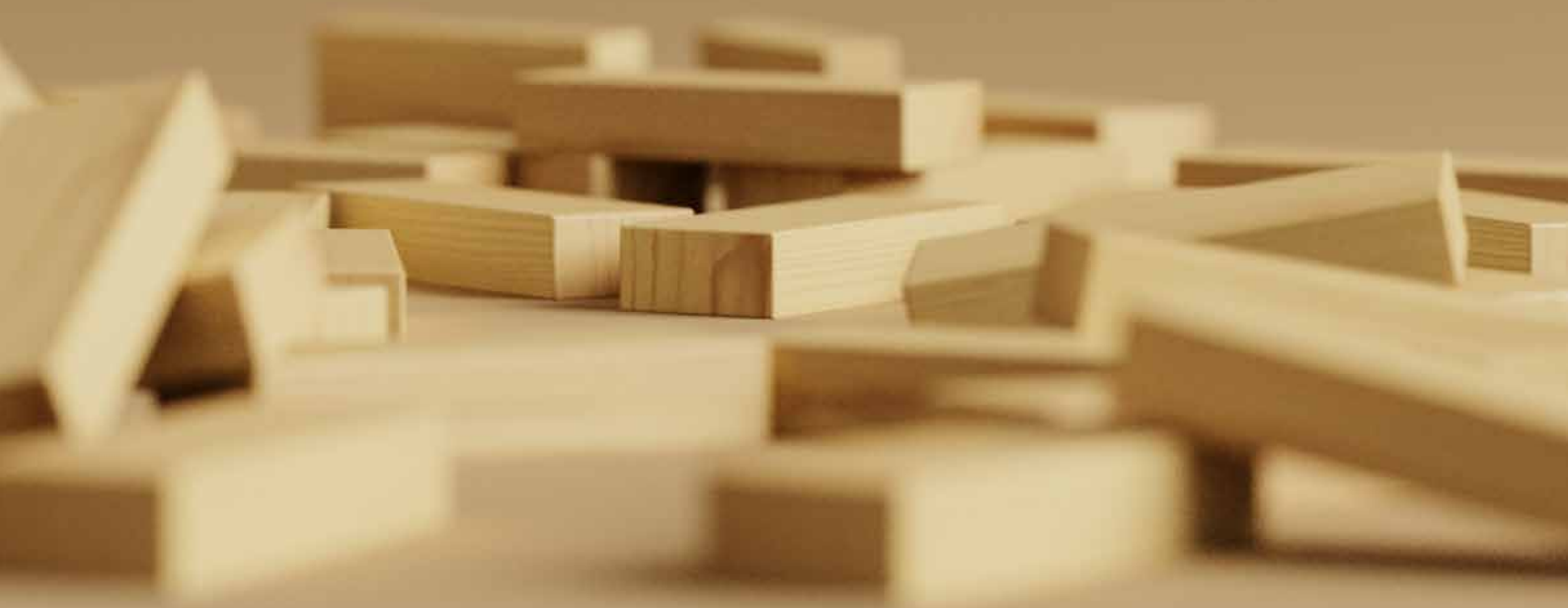
Janez Tomšič  
Chairman of the Supervisory Board



Ljubljana, 27 June 2022



**MANAGEMENT REPORT  
OF THE KAPITALSKA  
DRUŽBA GROUP FOR  
2021**



# 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 d.d., Hotelske nepremičnine d.o.o.<sup>2</sup> and FINAP, d. d. (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.

The Kapitalska družba Group had 123 employees at the end of 2021, of whom 60 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: Breakdown of Kapitalska družba Group employees by qualification level

Qualification level	Number of employees as at 31 Dec 2021	Number of employees as at 31 Dec 2020
Level 8 (8/1, 8/2))	20	21
Level 7	52	50
Level 6 (6/1, 6/2)	31	34
Level 5	18	18
Level 4	2	2
Total	123	125

<sup>2</sup> In accordance with the IFRS and the Group's accounting policies, Hotelske nepremičnine is treated as a joint venture.

# 5 Business environment

## 5.1 Macroeconomic background

### 5.1.1 Gross domestic product, inflation and unemployment rate

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

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

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

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

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

Slovenia recorded high economic growth in 2021, and exceeded the pre-crisis level from the final quarter of 2019 during the third quarter of 2021. Gross domestic product rose by 8.1% in real terms in 2021, with do

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

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

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

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

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

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

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

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

## 5.1.2 Interest rates

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



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

The European Central Bank (ECB) was much more cautious in 2021 in its forecasts of the reversal of stimulative monetary policy, as the European Monetary Union is comprised of a collection of different countries with different levels of economic development and different levels of debt. At the end of 2021, the ECB announced the suspension of net purchases from the emergency bond purchase programme, which was created as a response to the pandemic (the so-called PEPP<sup>3</sup>), as well as the continuation of the reinvestment of maturing bonds from the aforementioned programme at least until the end of 2024. As 2021 came to a close, the financial markets were not expecting the ECB to raise its key interest rate in 2022.

Table 3: Key interest rates of major central banks

	Level of key interest rate as at 31 December 2021
Euro area	0.00% (key interest rate) –0.50% (deposit interest rate)
US	0.00% to 0.25%
UK	0,25 %
Japan	–0,10 %
Canada	0,25 %
China	4,35 %

Source: Bloomberg (21 January 2022)

## 5.2 Developments on the financial markets

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

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

We were witness to a fall in the prices of debt securities as the result of rising yields on risk-free government bonds and on account of rising credit spreads on both government and corporate bonds. As the result of expectations of an interest rate hike by the Fed, the yields on short-term bonds were also up in 2021, with the slope of the yield curve ending the year at a slope similar to the beginning of the year. The financial markets were not expecting the ECB to raise its key interest rate, so the yields on short-term government bonds remained low, while the slope of the yield curve rose sharply.

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

<sup>3</sup> PEPP is the Pandemic Emergency Purchase Programme.

**Table 4:** Returns on major financial markets

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

*Note: Returns also include dividend yields.*

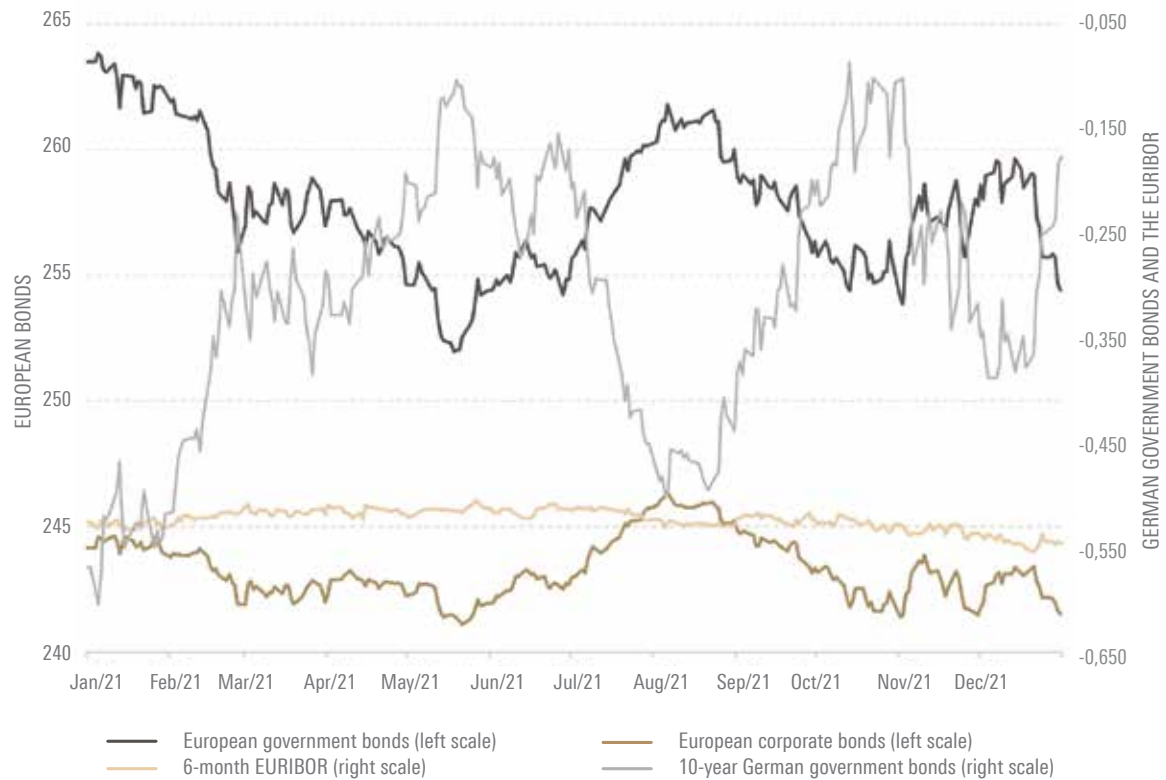
*Source: Bloomberg (21 January 2022)*

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



*Source: Bloomberg (21 January 2022)*

**Graph 2:** Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR Index) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR Index), yield to maturity on 10-year German government bonds, and the 6-month EURIBOR in 2021



Source: Bloomberg (21 January 2022)

# 6 Performance of the Kapitalska družba Group in 2021

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<sup>4</sup>, 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 15).

## 6.1 Management of Kapitalska družba's own assets

Kapitalska družba classifies investments to the following three categories:

- | capital investments,
- | waived securities<sup>5</sup>,
- | portfolio investments.

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

<sup>4</sup> IFINAP d.d. (in liquidation) is not covered by the Group's code.

<sup>5</sup> Waived securities obtained in accordance with Article 48a of the ZNVP-1.

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

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

## 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 equity investments.

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

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

<sup>6</sup> Strategic, material and portfolio investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

<sup>7</sup> Money market investments also include cash, which totalled EUR 26,535 thousand as at 31 December 2021.

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

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

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

**Table 7:** Composition of capital investments in terms of size of ownership stake as at 31 December 2021

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

### 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. For its underlying assets, Kapitalska družba published one public call for the submission of bids for the purchase of shares and participating interests in 2021, together with Modra zavarovalnica, specifically for the sale of shares and participating interests in TKI Hrastnik d.d. and Elan Inventa d.o.o. Bids were not accepted by Kapitalska družba because the bid prices were too low.

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

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

SDH also published one public call on behalf of Kapitalska družba in June 2021 for the submission of bids for the purchase of shares acquired by the Company pursuant to Article 48a of the ZNVP-1. Kapitalska družba sold EUR 1,825 in shares based on that public call. In addition, Kapitalska družba sold EUR 35,023 in shares in 2021 based on a public call for the submission of bids for the purchase of shares acquired pursuant to Article 48a of the ZNVP-1. That call was published in October 2020. There were no active sales procedures in progress as at 31 December 2021.

<sup>8</sup> Kapitalska družba holds both preference shares and ordinary shares in one company classified in portfolio investments. Both forms of shares are deemed one investment in the aforementioned company.

#### **6.1.1.4 Purchases of companies**

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

#### **6.1.1.5 Dividends of domestic companies**

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

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

#### **6.1.1.6 Corporate Governance Code for Companies with Capital Assets of the State and the exercising of ownership rights at general meetings**

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

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

In addition to the Code, Kapitalska družba also applied its own bases for voting at general meetings when managing capital investments in 2021. Kapitalska družba updates the bases for voting at general meetings every year, prior to the convening thereof. These bases, *inter alia*, define the remuneration policy for supervisory boards, management committees and management boards, the dividend policy, the use of distributable profit, recapitalisations via authorised capital, the acquisition of treasury shares and the introduction of a single-tier governance system. The aforementioned document is published on Kapitalska družba's website.

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

With respect to the remuneration of members 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) at companies to which this act applies as regards the earnings and other rights of management boards, executive directors and the management staff of companies.

Kapitalska družba acted in accordance with the Code at all general meetings attended by its representatives in 2021. Disclosures with regard to Kapitalska družba's actions at general meetings are published on the Company's website.

#### 6.1.1.7 Participation at general meetings

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

Table 8: Participation at general meetings

Form of participation	Number of general meetings
Participation and voting by employees of Kapitalska družba	17
Participation by employees of Kapitalska družba; voting by SDH	29
<b>Total</b>	<b>46</b>

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

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

#### 6.1.3 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 value of portfolio investments was up by EUR 54.6 million in 2021. In 2021, we maintained a high proportion of equities within portfolio investments, which resulted in high returns. The value of portfolio investments was up by EUR 46.7 million relative to the end of 2020. The proportion of Kapitalska družba's total portfolio accounted for by portfolio equity investments fell by 1 percentage point in 2021 compared to the previous year. The decrease in relative terms was the result of very high growth in capital investments. The proportion of debt portfolio investments fell from 8.4% at the beginning to 6.6% at the end of the 2021 financial year.

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



**Table 9:** Composition of portfolio-managed financial assets as at 31 December 2021 and 31 December 2020

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

#### 6.1.4 Investment property

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

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

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

## 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<sup>9</sup>:

- | 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 348 thousand individuals held savings in the Company's mutual pension funds at the end of December 2021, while the assets of the aforementioned funds amounted to almost EUR 2.3 billion. Excluding transfers of assets between sub-funds, premium paid for supplementary pension insurance amounted to more than EUR 179 million in 2021.

<sup>9</sup> For more on the operation of the mutual pension funds, see the annual reports of the individual funds.

**Table 10:** Figures for mutual pension funds operated by the Kapitalska družba Group as at 31 December 2021

Fund	Number of policyholders/ members <sup>10</sup>	Number of employers / liable persons <sup>11</sup>	Assets under manage- ment, EUR million
SODPZ	49.087	431	893,7
KPSJU	245.530	1.872	1.028,4
MKPS	37.392	423	346,4
PPS	15.862	0	15,7
<b>Total</b>	<b>347.871</b>	<b>2.726</b>	<b>2.284,2</b>

### 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).

Occupational insurance includes policyholders who perform especially difficult work and work that is harmful to the health, and policyholders who perform work that can no longer be performed successfully after a certain age. Occupational insurance is an element of compulsory social security insurance.

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

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

A pension plan that was in force from 1 October 2020 to 31 December 2021 was used in 2021 and expanded the basis for the payment of occupational insurance contributions, from which wage compensation from health insurance for a policyholder in an employment relationship is no longer exempted. Also valid were legal provisions regarding the suspension and termination of occupational insurance, which can only be suspended or terminated with the submission of the requisite evidence, and provisions regarding control over the calculation and payment of occupational insurance contributions. The revised occupational insurance pension plan shall apply from 1 January 2022.

Kapitalska družba was entitled in 2021 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:

<sup>10</sup> Certain individuals may be policyholders/members of multiple funds.

<sup>11</sup> Certain employers and liable persons may hold pension plan funding contracts with multiple 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. Members who save in this sub-fund assume all investment risk,
- | A conservative public-sector sub-fund (PPJU) intended for participants aged 50 to 60 years, which implements a balanced investment policy. Members who save in this sub-fund assume all investment risk,
- | A guaranteed public-sector sub-fund (ZPJU) intended for members aged over 60 years. Members who save in this sub-fund only assume the investment risk in excess of 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 2021. The annual management fee for the KPSJU is 0.5% of the average annual net value of KPSJU assets. All other direct operating costs of the fund are borne by Modra zavarovalnica.

### 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. Members 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. Members who save in this sub-fund assume all investment risk,
- | The Modri Guaranteed Sub-Fund (MZP) is intended for participants above 60 years of age and implements an investment policy with a guaranteed return. 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 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 2021. The annual management fee for the MKPS in 2021 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 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 members 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 2021. It is also entitled to a redemption fee, 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<sup>12</sup> and its own financial assets arising from the following statement of financial position items:<sup>13</sup>

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

Modra zavarovalnica's own financial assets amounted to EUR 365.3 million at the end of December 2021. The largest proportion is accounted for by portfolio equities, followed by portfolio debt instruments and by non-portfolio equities.

Table 11: Modra zavarovalnica's own financial assets

Assets	in EUR 000	
	31 Dec 2021	31 Dec 2020
Portfolio equities	222.246	175.414
Non-portfolio equities	69.461	49.420
Portfolio debt instruments	72.315	76.477
Cash and cash equivalents	1.271	1.775
<b>Total</b>	<b>365.293</b>	<b>303.086</b>

### 6.3.1 Portfolio equities

The composition of portfolio equities roughly tracks the composition of the global stock index. This ensures a high level of diversification of investments and cost-efficient management. Diversification is largely achieved by investing in funds that track benchmark indices, while active deviations from those indices are achieved via direct investments in specific shares.

The portfolio was most exposed to the information technology sector at the end of 2021, followed by the financial and healthcare sectors. In terms of currencies, the portfolio was most exposed to the US dollar and the euro. More than half of the aforementioned portfolio is invested in the equities of issuers from the US, while slightly less than a third is invested in European issuers. The remainder is accounted for by investments in issuers from more advanced Asian economies and from developing economies.

<sup>12</sup> The guarantee funds are presented in detail in Section 6.4 (Management of guarantee funds for the payment of pension annuities).

<sup>13</sup> For more on the management of Modra zavarovalnica's financial assets, see Modra zavarovalnica's annual report.

### 6.3.2 Non-portfolio equities

As at 31 December 2021 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 69.5 million at the end of 2021.

### 6.3.3 Portfolio debt instruments

The value of the portfolio of government bonds stood at EUR 24.8 million at the end of 2021. The aforementioned portfolio primarily comprises the government bonds of euro area countries. The majority of bonds are denominated in euros, while a minor proportion are denominated in US dollars. Slovenian government bonds account for more than 45% of this portfolio. The average duration of the government bond portfolio is 6.3 years, while the average rating is A. Bonds with a fixed coupon rate account for the majority.

The majority of corporate bonds are likewise accounted for by bonds issued by euro area countries. The value of the corporate bond portfolio was EUR 35.5 million at the end of December 2021. 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, energy and pharmacy. The average duration of the corporate bond portfolio was 3.8 years, while the average rating was BBB.

The value of the portfolio of investment funds that mostly invest in debt securities stood at EUR 67.8 million as at 31 December 2021, of which most investments were in funds with government and corporate bonds, and a minor portion in money market funds.

All deposits are placed with domestic banks.

### 6.3.4 Cash and cash equivalents

Modra zavarovalnica also held EUR 1.27 million in cash and cash equivalents within its own financial assets at the end of December 2021.

## 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 2021 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 are 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 33.1 million in supplementary pensions to 36,761 policyholders in 2021. A total of 26,881 policyholders received a pension annuity from supplementary pension insurance (Modra Renta and Modra Renta II), while 9,880 policyholders received a pension annuity from supplementary pension insurance under the PPS (in exchange for pension certificates).

Table 12: Basic data on the guarantee funds of Modra zavarovalnica for 2021

Guarantee fund	Number of annuity recipients at the end of 2021	Assets under management (EUR million)	Expenses for annuities (EUR million)
KS MR	7.038	12,1	2,5
KS MR II	19.843	188,4	23,9
KS PPS	9.880	102,4	6,7
<b>Total</b>	<b>36.761</b>	<b>302,9</b>	<b>33,1</b>

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

The value of fund assets stood at EUR 12.1 million as at 31 December 2021. At 93%, bonds account for the highest proportion of all assets.

At the end of 2021 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 policyholders a wide range of different forms of pension annuities:

- | Lifetime Modra Renta: a supplementary pension without a guaranteed payment period; it is paid until the death of the policyholder. It may be paid monthly, quarterly, half-yearly or annually, while the payment period depends on the amount of accumulated assets. An individual payment may not be less than EUR 30,
- | Lifetime Modra Renta with a guaranteed payment period: a supplementary pension with a guaranteed payment period of 1 to 20 years. It is paid until the death of the policyholder or at a minimum until the expiry of the selected guaranteed payment period. It may be paid monthly, quarterly, half-yearly or annually, while the payment period depends on the amount of accumulated assets. An individual payment may not be less than EUR 30,
- | Lifetime Modra Renta with accelerated payment: a supplementary pension with a guaranteed payment period of 1 to 20 years, where the majority of accumulated savings are paid out over the selected guaranteed payment period, and then monthly (quarterly, half-yearly or annually) until the death of the policyholder in an amount of at least EUR 30,
- | 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 2021, a total of 19,843 policyholders with accumulated assets in the amount of EUR 242.3 million opted to receive a selected monthly pension annuity from the KS MR II. The majority of policyholders selected accelerated annuity payments.

At the beginning of 2021, the company detected a minor decline in the revenue from insurance premiums. By applying an active marketing approach payments in the KS MR II fund increased over the remainder of the year, but were not completely reflected in revenue.

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 61% of all annuity recipients were female.

Insurance policies for the payment of lifetime annuities participate in the annual positive results 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 272,210 were earmarked for increased annuities in 2021. Policyholders received increased annuities in April, together with the difference paid for the period January to April 2021.

The fund's assets stood at EUR 188.4 million as at 31 December 2021, largely comprising bonds (50%) and investment coupons (35%).

At the end of 2021 a total of 26% of KS MR II assets were held in Slovenia, while 74% 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 everyone who has reached a minimum of 60 years of age and thus obtained the right to an annuity. When they obtain the right to an annuity on the basis of an informative calculation, a policyholder selects the relevant form of pension annuity. Policyholders with 2,000 or less points may receive a pension annuity in a lump-sum amount. A policyholder with more than 2,000 points on his or her insurance policy may choose between a lifetime pension annuity and a lifetime pension annuity with a guaranteed payment period. Policyholders with between 2,000 and 5,000 points may also be paid an annual pension annuity. The guaranteed payment period is set at 5, 10 or 15 years. Should the policyholder die during the guaranteed payment period, the pension annuity is paid to their beneficiaries or heirs until the expiration of that period.

Policyholders who receive a KS PPS pension annuity are entitled to the surplus return on the annuity fund over the guaranteed return in accordance with the general terms and conditions of supplementary pension insurance under the First Pension Fund of the Republic of Slovenia (conversion for pension certificates). The proportion of the surplus earmarked for the permanent increase in annuities is determined once a year by the fund manager's management board. The surplus return from 2019 and 2020 in the amount of EUR 1,338 thousand was allocated in 2021 for a permanent increase in annuities. All policyholders/recipients of KS PPS pension annuities who entered into an insurance policy by December 2020 in the form of a monthly or annual annuity received higher annuities in April 2021. The difference for the period January to April 2021 was paid together with the April payment of increased annuities.

A total of 1,288 policyholders who reached the age of 60 years obtained the right to a pension annuity in 2021. Those persons paid a total of EUR 2.6 million into the KS PPS for supplementary pensions.

The fund's assets amounted to EUR 102.4 million as at 31 December 2021. At 65% and 23% respectively, bonds and shares account for the highest proportions of all assets.

As at 31 December 2021, a total of 47% of KS PPS assets were invested in domestic issuers, while 53% 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 salt 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 will continue 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 2021

Geopolitical risks came to the forefront at the beginning of 2022 with the easing of the covid-19 pandemic. At the end of February 2022, tensions between Russia and Ukraine escalated to the point that Russia first declared the independence of the Donetsk and Luhansk regions of Ukraine and followed that several days later with the invasion of the aforementioned country. The international community strongly condemned the invasion. Countries stepped up economic and financial sanctions against Russia, which Russia countered with its own sanctions. An increased number of companies chose the tactic of self-restraint and stopped doing business with Russia. The resulting humanitarian crisis and massive wave of refugees will be accompanied by lower global economic growth and higher inflation in 2022. The financial markets responded to the invasion with concern and reduced their appetite to take up risk. Market volatility increased on the day of Russia's invasion, with the global share index expressed in US dollars losing 0.6% of its value in a single day, primarily on account of the falling values of shares of emerging markets (by -4.3% expressed in US dollars), while the yield on 10-year German government bonds shifted from 0.25% to around 0.10% and the price of oil rose.

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

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

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

Over the first three months of 2022 the Krka Group recorded encouraging results, generating sales revenue of EUR 432.5 million, up 9% on the same period last year, and EUR 90.7 million in net profit or 5% more than in the same period last year. The Group managed to increase sales in all six sales regions and on most

key markets, and for all categories of products and services. Despite the adverse situation on its largest market, Russia, the Group sold EUR 83.6 million in products over the first quarter of 2022, which is up by 5% on the same period last year, while selling EUR 26.5 million in products in Ukraine, which is up by 21% on the same period last year. It maintained a high level of profitability of operations, as the net profit generated in the first quarter was highest to date, as well as maintaining the forecast for 2022 unchanged; according to the management board's forecast the Krka Group is expected to end 2022 with EUR 300 million in profit.

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

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

At the end of January 2022, pursuant to Article 251 of the Pension and Disability Insurance Act and Rules on the determination of assumptions on projections of pension benefits on the basis of the statutory retirement age or retirement age determined by a member, the revised and expanded notification of pension fund members took place for the first time, which in addition to information about the account balance of members, regarding returns and costs associated with funds for 2021 also contained information about the projected amount of collected funds at the end of the savings period and the expected pension annuity.

In the final quarter of last year, the ISA conducted a review of the operations of Modra zavarovalnica in order to verify the compliance of its operations with the regulations governing the insurance sector, corporations, pension insurance and other primary and secondary regulations governing its operations. The ISA issued recommendations to the insurance company on 15 February 2022 that have largely already been taken into account, while the remaining recommendations will be implemented shortly. On the basis of this review of operations, no supervisory measure has been imposed on the insurance company.

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

In use since 1 January 2022 is the amended occupational insurance pension plan, which was adopted due to the extension of the transitional period in which a differentiated contribution rate applies and takes into

account the proportion of the net value of SODPZ assets up to which unallocated solidarity reserves are created.

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

The National Assembly adopted the Act Determining Emergency Measures to Mitigate the Consequences of Rising Energy Prices (ZUOPVCE) due to the growing social hardships felt by the population as the result of high energy prices. In February 2022 Kapitalska družba met with representatives of the Ministry of the Environment and Spatial Planning (MESP), MLFSAEO and ZPIZ to determine how the lump-sum solidarity bonus from the Climate Change Fund is to be paid. The MESP provided funds for the payment of the lump-sum solidarity bonus in the amount of EUR 150 per recipient based on requests received from payers. Kapitalska družba paid a solidarity bonus to 100 eligible parties on 8 April 2022.

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

In accordance with Article 33 of the Articles of Association of Kapitalska družba, Gregor Bajraktarević began his new one-year term of office on 8 February 2022.

Kapitalska družba's contact centre reopened on 1 March 2022 for personal visits by clients, while Modra zavarovalnica's contact centre on 28 February 2022. Visitors are still required to comply with valid government measures to prevent the spread of covid-19.

# 9 Expected development of the Kapitalska družba Group for 2022

Following the remarkably successful recovery of the global and Slovenian economies in 2021, we faced an extraordinary level of uncertainty as the result of the war in Ukraine at the time this report was compiled. The war, together with increasingly tighter sanctions against Russia, will apparently have a major impact on economic trends this year and possibly in the future. We are facing conditions never seen before. It is therefore next to impossible to assess how drastic the consequences will be. The risk of (excessively) high inflation has also risen. After a sharp rise in the prices of refined petroleum products last year, the prices of other energy products (natural gas, electricity and, to a certain extent, solid fuels) have also risen rapidly this year. Rising prices of energy and input materials have led to a significant increase in food prices. Growth in the prices of durables and semi-durables also continues. Higher demand, combined with less severe restrictive measures, has led to growth in the prices of services. Operations in 2022 will be characterised by risks from the external environment.

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

Kapitalska družba Group also represents the largest provider of voluntary supplementary pension insurance in Slovenia through its subsidiary Modra zavarovalnica. The Group will remain actively involved in changes and adjustments to systemic bases, and will strive to adapt savings in pension funds and the payment of annuities to the needs of individuals, monitor changes in the economic and demographic environment, and contribute to the sustainability of the pension system.

Hotelske nepremičnine is planning investment in 2022, including the comprehensive refurbishment of three guesthouses at the San Simon Hotel Resort in Izola (Korala, Palma and Perla).

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 dedicate our 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.

# 10 Social responsibility

## 10.1 Responsibility to the wider social community

The Group is an important building block in the Slovenian pension system. Its role ensures funds are secured for compulsory and supplementary pension insurance. It has already transferred almost EUR 1 billion to the budget of the ZPIZ. The rise in awareness and trust in the pension system, and the encouraging of individuals to adopt a more serious approach to saving is one of the most important tasks of the Group. We focus a significant portion of our communication activities on financial literacy projects and on raising the awareness of the population, decision makers and influential persons regarding the importance of and need for old-age savings. Modra zavarovalnica as a member of the Group thus cooperated with the financial newspaper Finance in drafting content for the financial manual and the financial school with expert papers and interviews. In autumn it also attended the My Investments round-table. As a sponsor it also supports the event organised by the newspaper Finance devoted to selecting the best pension funds. Just as in 2019 and 2020, the guaranteed public-sector sub-fund (ZPJU) was again declared the 2021 best guaranteed pension fund for the last ten years.

## 10.2 Responsibility to employees

We are aware that investing in the knowledge and development of all employees is the path to the Group's success. Seminars and training courses organised by external institutions are most frequently associated with the work processes of employees, through which we complement or upgrade their existing knowledge. We are also preparing in-house training that is conducted by experts employed at the Group, primarily informing employees of novelties and developments in the legal area and regarding information security. We also organised training regarding the prevention of money laundering and terrorist financing and personal data protection. The Group promotes continuing education to gain 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.

Like every year, we conducted annual personal interviews for all employees, intended to set goals and create their development paths. We will continue to increase employee satisfaction and create a work environment in which employees are able to demonstrate their potential. The feedback we receive will be used to improve relationships between and satisfaction of employees, and thus also our relationship with and satisfaction of our clients.

The Group ensures a safe and healthy work environment by respecting all regulations governing occupational health and safety. Tasks relating to occupational health and safety, fire safety and healthcare at work are carried out regularly. The Group is aware that maintaining and improving health is important, as only healthy and satisfied employees who work in a safe and stimulating work environment are effective and innovative, and are less prone to sick leave. Through the implementation of an action plan to promote health, we encourage employees to pursue a healthy lifestyle and reduce the risks of disease, both in the workplace and in their private lives. All employees have access to training facilities for exercise and fresh fruit and vegetables, thereby developing more healthy eating habits.

The Group is aware of the importance and advantages of an active family-friendly policy. A series of measures focus on the balance between work and family life, while the companies are also holders of a full

Family-Friendly Enterprise certificate. Concern for the right family and work life balance has become a part of the Group's organisational culture.

Collective supplementary pension insurance is another important aspect of ensuring and increasing the future social security of employees. The Group pays monthly premiums into the Modri Umbrella Pension Fund (MKPS). Employees also have the option of enrolling in collective health insurance.

## 10.3 Environmental responsibility

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

The Group supports environmentally oriented activities. It separates waste, collects used printer cartridges and plastic bottle caps, and thus contributes to charitable campaigns. When purchasing goods, the Group strives to comply with the provisions of the Decree on Green Public Procurement, not only in public procurement procedures but also in record-keeping, and accordingly formulates tender conditions for the purchase of goods that have less of an environmental impact over their entire life cycle than conventional goods, that conserve natural resources, materials and energy, and that have the same or better functionalities. When purchasing sanitary materials in 2021, the Group 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 and the introduction of paperless operations. Through the electronic confirmation and signing of documents, the Group is also striving to introduce electronic operations on an even wider scale, with the aim of reducing paper consumption, optimising certain processes and minimising its carbon footprint.

## 10.4 Stakeholder engagement

The Group places special emphasis on cooperation with its key stakeholder groups: the government and ministries as its owner, SDH, trade unions, pensioner associations, employers and their associations, professional associations, and employees.

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

Kapitalska družba attempts to establish mutually beneficial relations with stakeholders, partners and suppliers that are based on a high level of trust. Kapitalska družba introduces improvements and corrective measures based on the systematic monitoring of the responses of key partners and suppliers. Based on the annual assessment of suppliers, business decisions are made regarding future relations with them, while new approaches for monitoring, performing and optimising individual processes are introduced on the same basis.

Modra zavarovalnica focuses particularly on raising the awareness regarding the importance of and need for old-age savings. Good cooperation with public and private (corporate) sector trade unions is very important, as it ensures policyholders are always prioritised when making decisions. Trade union representatives are an important herald for supplemental pension insurance and for effectively ensuring social security. Modra zavarovalnica provides professional assistance in preparing answers to employee questions and actively monitors the initiatives of members working in the field. The integration of initiatives and wishes of members into the insurance company's processes is a guiding principle that also gives policyholders and active role in the development of products and services. Customer satisfaction is one of Modra zavarovalnica's strategic objectives, thus upgrading the processes that track satisfaction, while taking into account all the desires, needs and opinions when developing our services.

## 10.5 Socially responsible investing

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

When managing its own assets and the funds under management, Modra zavarovalnica defined the economic sectors it will avoid when investing, such as the manufacturing or sale of weapons, ammunition, tobacco and tobacco products, generation of electricity from fossil fuels, games of chance, and the information technology that supports these sectors. When reviewing investments we took into account the MSCI ESG rating for equity investments and corporate bonds, while using the corruption index published by Transparency International for government bonds. The investment in Cinkarna Celje d.d. was discussed separately.

## 10.6 Corporate integrity

When Kapitalska družba adopted its corporate integrity plan in July 2021, it made a commitment to respect the highest standards of corporate integrity. That plan completed the integrity system that the Company began building back in 2019, with the establishment of a system to prevent, identify and investigate cases of fraud, and to protect whistleblowers. In formulating a corporate integrity system, Kapitalska družba is guided by the Corporate Governance Code for Companies with Capital Assets of the State, as well as reference documents such as the guidelines of the Commission for the Prevention of Corruption, the Slovenian Corporate Integrity Guidelines, and anti-corruption principles for state-owned companies. By identifying specific corporate integrity risks that affect the Company's operations, defining measures to mitigate those risks and appointing a corporate integrity officer, the Company demonstrates zero tolerance for corruption and illegal and unethical conduct by its employees, management and members of the Supervisory Board.



# 11 **Report** on relations with subsidiaries

No transactions were executed between Kapitalska družba, Modra zavarovalnica and Hotelske nepremičnine in 2021 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. The new tenancy agreement was concluded in 2019, and is valid until September 2024. The monthly rental fee of EUR 27,767 also includes electricity costs.

## **Provision of IT services**

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

## **Agreement on the financing of the pension plan**

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

# 12 Indicators

	Value (in EUR 000)		Value of indicator	
	2021	2020	2021	2020
1. FINANCING RATIOS				
a) Equity financing ratio				
equity	1.457.651	1.221.383	0,74	0,73
total equity and liabilities	1.958.084	1.662.931		
b) Long-term financing ratio				
equity + non-current liabilities (including provisions) + non-current accruals and deferred income	1.893.470	1.602.603	0,97	0,96
total equity and liabilities	1.958.084	1.662.931		
2. INVESTMENT RATIOS				
a) Operating fixed asset investment ratio				
fixed assets (at carrying amount)	7.035	7.281	0,00	0,00
equipment	1.958.084	1.662.931		
b) Long-term investment ratio				
fixed assets + long-term deferred expenses and accrued revenue (at carrying amount) + investment property + long-term financial assets + long-term operating receivables	1.756.540	1.486.469	0,90	0,89
equipment	1.958.084	1.662.931		
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a) Equity to fixed assets ratio				
equity	1.457.651	1.221.383	207,20	167,75
fixed assets (at carrying amount)	7.035	7.281		
b) Acid test ratio				
liquid assets	31.580	14.723	0,49	0,24
short-term liabilities	64.614	60.328		
c) Quick ratio				
liquid assets + short-term receivables	92.470	74.878	1,43	1,24
short-term liabilities	64.614	60.328		
d) Current ratio				
current assets	171.648	156.504	2,66	2,59
short-term liabilities	64.614	60.328		
4. EFFICIENCY RATIOS				
a) Operating efficiency				
operating revenue	87.644	85.035	1,07	0,98
operating expenses	81.841	86.752		
5. PROFITABILITY RATIOS				
a) Net return on equity				
net profit or loss for accounting period	49.917	-6.507	0,04	-0,01
average equity (excluding net profit for accounting period)	1.317.812	1.201.481		
b) Dividends to share capital ratio				
dividends for financial year	0	0	0	0
average share capital	364.810	364.810		

# 13 Corporate governance statement

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

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

Kapitalska družba hereby issues its statement of compliance with the Code adopted by SDH and applicable in 2021. The Code includes principles and recommended best practices for the corporate governance of companies with capital assets of the state. The currently valid Code is published on SDH's website at <http://www.sdh.si/sl-si/upravljanje-nalozb/kljucni-dokumenti-upravljanja>.

The Management Board and the Supervisory Board of Kapitalska družba hereby declare that they voluntarily comply with the Code. Deviations from individual recommendations of the Code are cited and explained below:

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

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

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

**Explanation:** Given its planned transformation into a demographic fund, Kapitalska družba (in which SDH does not exercise a controlling influence) had not yet adopted a corporate governance policy by the end of 2021.

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

**Explanation:** Kapitalska družba is unable to formulate a diversity policy in connection with its legal requirement to establish a Supervisory Board and has not yet adopted such a policy in connection with its Management Board, as regards representation on the Company's management and supervisory bodies in terms of gender, age, education and professional experience. It is, however, planning to adopt such a policy in 2022. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.

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

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

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

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

**Point 6.5 of the Code:** The supervisory board shall be comprised in such a way as to ensure responsible supervision and decision-making for the benefit of a company. Regardless of whether a company has adopted a diversity policy or not, the composition of the supervisory board shall take into account professional knowledge, experience and skills that differ from member to member but are complementary (in terms of knowledge and experience). The continuity and diverse composition of the supervisory board, in terms of characteristics such as age, international composition and gender representation (i.e. the heterogeneity of its composition), shall be ensured to the greatest extent possible.

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

**Point 6.8 of the Code:** If the general meeting elects members of the supervisory board based on a proposal from that body, the substantiation of proposals for the adoption of resolutions shall include, in addition to the data required by the law, at a minimum information regarding each proposed candidate's membership in other management or supervisory bodies and an assessment of potential conflicts of interests, where that assessment shall also take into account the individual circumstances stated in Appendix 3 to this Code. Moreover, the supervisory board shall disclose all information regarding whether a proposed candidate is independent in terms of the definition set out in this Code and whether procedures defined by this Code have been taken into account by the supervisory board in the selection of that candidate.

Sub-point 6.8.1 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 does not comply with this provision of the Code in full, as it has not yet adopted a development plan for all employees given its planned transformation into a demographic fund. It does, however, comply with other essential guidelines of the provision in question.

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

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

**Point 11.2 of the Code:**

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

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

Controls are carried out by the Accounting Department, which is responsible for maintaining the books of account and for the compilation of financial statements in accordance with the valid financial reporting, tax and other regulations. Those controls include procedures which ensure that:

- | business events are recorded on the basis of credible accounting documents, which in turn ensures that business events are recorded accurately and fairly and provides assurance that the Company disposes of its assets in an honest manner,
- | business events are recorded and the financial statements compiled in accordance with the applicable laws.

Kapitalska družba's financial statements for every financial year are verified and audited by an external auditor. On the basis of the resolution passed by the General Meeting on 6 September 2019, the Company's financial statements for 2021 were audited by Deloitte revizija, d.o.o., Ljubljana.

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

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

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

## **IV. Holders of securities that provide special controlling rights**

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

## **V. Restrictions on voting rights**

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

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

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

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

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

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

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

**Explanation:** The powers of senior management are set out in the Company'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 Management Board and the Supervisory Board defer the decision regarding the adoption of the annual report to the General Meeting. It decides on the use of distributable profit at the proposal of the Management Board and Supervisory Board and on the granting of discharge to members of the Management Board and Supervisory Board. It appoints and recalls members of Kapitalska družba's Supervisory Board and appoints the Company's auditor. It decides on measures to increase or reduce share capital, unless the Articles of Association or the law determine otherwise. It decides on the winding-up of Kapitalska družba and on status changes thereto, and decides on other matters in accordance with the law and the Articles of Association.

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

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

##### **a) Supervisory board**

The responsibilities of the Supervisory Board are set out in the company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2021 is given in the report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2021:

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

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



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

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

#### b) Management board

In accordance with the ZSDH-1 and the Company's Articles of Association, the Management Board has a minimum of two and a maximum of three members. The members of the Management Board are appointed to a four-year term of office by the Supervisory Board based on a public tender procedure. Kapitalska družba, d.d. was run by its Management Board in 2021 in the following composition:

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

The President and members of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure.<sup>14</sup>

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

The Management Board exercised its competences in 2021 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1 and ZSDH-1, in accordance with the Articles of Association.

<sup>14</sup> In accordance with Article 33 of the Articles of Association, member of the Management Board Goranka Volf was appointed for a term of office of no more than one year from the day she assumed her function.

**Table 13:** Composition of the Management Board during the 2021 financial year

Name and surname	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, and since 26 November 2021, finance and accounting, and general affairs	1 January 2010	3 January 2023	M	RS	1975	Bachelor's degree in law (Groningen)	Corporate governance, management of pension and investment funds, economic and financial law	Loterija Slovenije, d.d.
Goranka Volf (until 25 November 2021)	Member	Pension fund management, finance and accounting, general affairs	24 November 2016	25 November 2021	F	RS	1959	Bachelor's degree in economics	Pension fund management, corporate governance, corporate communications	Terme Čatež, d. d.
Gregor Bajraktarević	Member	Asset management, IT and business processes, and since 26 November 2021, pension fund management	6 February 2017	7 February 2022	M	RS	1975	Master's of science	Asset management, corporate governance, investment banking and corporate restructuring	Hit, d. d.

**Table 14:** Composition of the Supervisory Board and its committees during the 2021 financial year

Name and surname	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 on supervisory bodies of other companies	Membership on committees (e.g. audit, human resource or remuneration)	Chair/member	Participation in committee sessions with respect to total number (e.g. 5/7)
Stanislav Seničar (Chairman and member until 15 October 2021)	Chairman	28 August 2013	15 October 2021	Shareholder representative	12/12	M	RS	1942	Bachelor's degree in sociology	Corporate governance	Yes	No	/	/	/	/
Boris Žnidarič	Deputy Chairman	1 February 2015	1 February 2023	Pensioner representative	15/15	M	RS	1948	Doctorate of science	Master's degree in law and other social sciences, qualified university professor	Yes	No	Krka, d. d.,	Accreditation	Chair	4/4
Aleksander Mervar	Member	28 August 2013	30 August 2022	Shareholder representative	14/15	M	RS	1962	Master's of science	Finance, accounting, corporate governance, governance systems	Yes	No	SŽ, d. o. o.	HR, audit, accreditation	Chair/member, member	3/3 7/7 4/4
Ladislav Rožič	Member	31 January 2011	1 February 2023	Trade union representative	15/15	M	RS	1957	Master's of science	Finance, corporate governance	Yes	No	/	Audit, accreditation	Chair, member	7/7 4/4
Mirko Miklavčič	Member	2 February 2019	1 February 2023	Pensioner representative	14/15	M	RS	1947	Bachelor's degree in labour organisation	Finance, corporate governance and insurance	Yes	No	/	Audit, HR	member, member	7/7 3/3
Boštjan Leskovar (member since 21 October 2021)	Member	21 October 2021	21 October 2025	Shareholder representative	3/3	M	RS	1973	Master's of science	Finance, governance systems, corporate governance	Yes	No	Elektro Celje, d. d.	HR	Chair	2/2
Janez Tomšič (member since 21 October 2021)	Chair (since 5 November 2021)	21 October 2021	21 October 2025	Shareholder representative	3/3	M	RS	1979	Bachelor's degree in law	Corporate governance, real estate management, commercial law	Yes	No	SID, d.d.	/	/	/

Table 15: External members of Supervisory Board committees during the 2021 financial year

Name and surname	Committee	Participation in committee sessions with respect to total number (e.g. 5/7)	Gender	Nationality	Education	Year of birth	Professional profile	Membership in supervisory bodies of unaffiliated companies
Mojca Verbič	Audit committee	6/7	F	RS	Bachelor's degree in economics	1975	Director of Finance and Business Support Sector	/
Irena Prijović	Accreditation	4/4	F	RS	Master's of science	1968	Corporate governance	Uradni list, d. o. o., Športna loterija, d. d.
Alenka Stanič	Accreditation	4/4	F	RS	Doctorate of science	1963	Adviser for key personnel	/
Gorazd Žmavc	Accreditation	3/4	M	RS	Lawyer	1947	Legal affairs	/
Natalija Stošički	Audit committee	7/7	F	RS	Bachelor's degree in economics	1966	Financial services expert	/

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

Kapitalska družba is unable to formulate a diversity policy in connection with its legal requirement to establish a Supervisory Board and has not yet adopted such a policy in connection with its Management Board, as regards representation on the Company's management and supervisory bodies in terms of gender, age, education and professional experience. It is, however, planning to adopt such a policy in 2022. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.



**Gregor BAJRAKTAREVIĆ**

Member of the Management Board

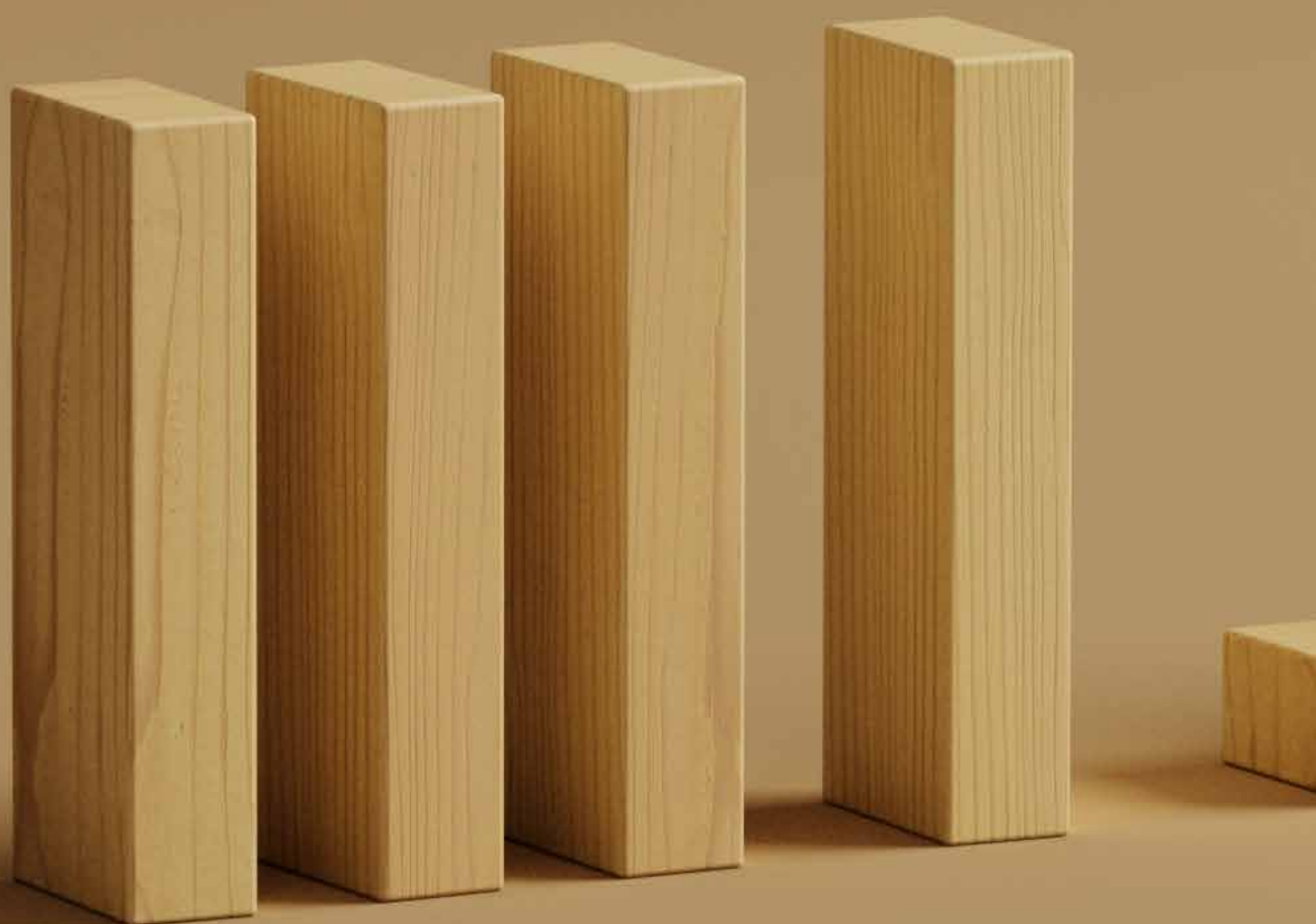


**Bachtiar DJALIL**

President of the Management Board

Ljubljana, 8 June 2022





# **FINANCIAL STATEMENTS FOR 2021**



# 14 Statement of management's responsibility

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 2021, and the accompanying notes and disclosures to the financial statements.

The Management Board also confirms that the appropriate accounting policies were consistently applied in compiling the 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 position and performance in 2021.

The Management Board is also responsible for ensuring that accounting is conducted correctly and that appropriate measures are taken to secure property and other assets, and confirms that the consolidated financial statements, together with the notes, have been compiled under the assumption that the Company and Group are going concerns 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's operations 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, penalty interest and fines for corporate income tax or for other taxes and levies. The Company's Management Board is not aware of any circumstances that could give rise to any significant liability on this account.



**Gregor BAJRAKTAREVIĆ**

Member of the Management Board



**Bachtiar DJALIL**

President of the Management Board

Ljubljana, 8 June 2022



# 15 Independent Auditor's report



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

### Report on the Audit of the Financial Statements

#### Opinion

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

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

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2021. 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.

## Financial Assets

Key Audit Matter	Audit procedures related to a key audit matter
<p>Disclosures related to financial assets are included in disclosure 17.2. <i>Accounting Policies - Financial Assets</i> and Note 17. <i>Investments, excluding loans</i>.</p> <p>As at 31 December 2021, financial investments in the Group's financial statements amounted to EUR 1,708,749 thousand (2020: EUR 1,460,857 thousand), which represents 87.3% of the Group's assets as at 31 December 2021 (87,7% as at 31 December 2020).</p> <p>They comprise investments measured at fair value, investments at amortized cost, cash and cash equivalents.</p> <p>Upon initial recognition, management decides on their classification based on the purpose of their acquisition.</p> <p>Due to its importance in the Group's statement of financial position, long-term financial investments are considered a key audit matter.</p>	<p>As part of our audit procedures, we assessed the adequacy of accounting policies and checked the design and implementation of internal controls related to the recognition of investments and their periodic valuation.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>- For investments in marketable securities, we recalculated the fair value of these investments based on the values arising from the securities market as at 31 December 2021.</li> <li>- For investments in non-marketable securities measured at fair value, we assessed the adequacy of the assumptions used and the methodology used by the company. In particular, we considered the assumptions used to calculate discount rates and expected future cash flows. The auditor's experts were included in the procedures to assess whether the significant assumptions used are adequate for given purposes.</li> <li>- For investments measured at amortized cost, we recalculated the amortized cost on the basis of data on the maturity of the investment as at 31 December 2021 and assessed the adequacy of the considered expected impairment losses.</li> </ul> <p>We have also reviewed the information in the financial statements to assess whether the disclosures meet the requirements of applicable financial reporting standards.</p>

## Technical Provisions

Key Audit Matter	Audit procedures related to a key audit matter
<p>Disclosures related to technical provisions are included in disclosure 17.2. <i>Accounting policies - Insurance contracts and Note 26. Provisions and long-term accrued costs and deferred revenue.</i></p> <p>The Group recognizes technical provisions and claims provisions for the long-term business fund of the First Pension Fund, the long-term business fund of Modra renta, the long-term business fund of Modra rente II.</p> <p>Technical provisions are an important liability of the Group in the statement of financial position. The value of technical provisions as at 31 December 2020 amounts to EUR 260,226 thousand (2019: EUR 223,390 thousand). Provisions are measured in accordance with the accounting policies described in the financial statements.</p> <p>Calculating provisions for insurance contracts is complex as it involves a high degree of management judgment and complex mathematical and statistical calculations. Models for calculating the amount of technical provisions are developed separately for each category of provisions. Design depends to a large extent on economic and demographic assumptions.</p> <p>Technical provisions are accounting estimates that represent significant accounting balances. Because they are subject to a high level of judgment and we have treated them as a key audit matter.</p>	<p>We obtained an understanding of key controls and checked their operation. We reviewed the model used by the Group to calculate technical provisions, the procedures for analyzing the economic and non-economic assumptions used to calculate provisions, and the data included in the model.</p> <p>We examined the adequacy of the key management assumptions used in estimating the amount of technical provisions for individual cases and reconciled them with the relevant supporting documentation.</p> <p>Experts in the field of actuarial work were involved in the assessment of actuarial assumptions, including the discussion and assessment of management's assumptions. Experts were involved in testing the Group model, and also performed independent recalculations of provisions.</p> <p>We assessed whether the disclosed provisions are in accordance with the requirements of the accounting framework, best industry practice and legal requirements.</p> <p>We have also reviewed the information in the financial statements to assess whether the balances in them are adequately disclosed to users of the financial statements.</p>

## Emphasis of matter

We draw attention to 17.4. *Other disclosures - Significant events after the date of preparation of the statement of financial position* in the financial statements describing management's evaluation of the actual or potential impact of the effects of the military conflict between Ukraine and Russia on the entity. Our opinion is not modified in respect of this matter.



#### **Other information**

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the audited consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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

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

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

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

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

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



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

#### **Report on Other Legal and Regulatory Requirements**



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

Appointment of the Auditor and the Period of Engagement

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

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 8 June 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

DELOITTE REVIZIJA d.o.o.

Nina Kravanja Novak  
Certified auditor

Katarina Kadunc  
Certified auditor

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

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

Ljubljana, 8 June 2022

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

# 16 Financial Statements for 2021

## 16.1 Consolidated income statement for the period from 1 January 2021 to 31 December 2021

in EUR 000			
Item	Note	1 Jan.–31 Dec. 2021	1 Jan.–31 Dec. 2020
1. Net sales revenue			
c) Revenue from sales on the domestic market		80.083	83.126
Total sales revenue	1	80.083	83.126
4. Other operating revenue, including operating revenue from revaluation	2	7.561	1.909
<b>Total revenue</b>		<b>87.644</b>	<b>85.035</b>
5. Costs of goods, materials and services			
b) Costs of materials		-288	-288
c) Costs of services		-4.100	-3.748
Total costs of goods, materials and services	3	-4.388	-4.036
6. Labour costs			
a) Costs of salaries		-5.446	-5.276
b) Social security insurance costs		-873	-848
c) Pension insurance costs		-252	-250
d) Other labour costs		-621	-498
Total labour costs	4	-7.192	-6.872
7. Write-downs in value			
a) Depreciation/amortisation		-1.832	-2.028
b) Operating expenses from revaluation of fixed assets		-2	-20
c) Revaluation operating expenses associated with operating current assets		0	-34
Total write-downs in value	5	-1.834	-2.082
8. Other operating expenses	6	-68.427	-73.762
<b>Total costs</b>		<b>-81.841</b>	<b>-86.752</b>
<b>Operating profit/loss</b>		<b>5.803</b>	<b>-1.717</b>
9. Financial revenue from shares and interests			
b) Financial revenue from shares and interests in associates		8.414	4.952
c) Financial revenue from other shares and interests		77.500	46.448
d) Financial revenue from other investments		9.251	9.759
Total financial revenue from shares and interests	7	95.165	61.159

in EUR 000

Item	Note	1 Jan.–31 Dec. 2021	1 Jan.–31 Dec. 2020
10. Financial revenue from loans			
b) Financial revenue from loans to others		304	240
Total financial revenue from loans	7	304	240
11. Financial revenue from operating receivables			
b) Financial revenue from operating receivables due from others		0	25
Total financial revenue from operating receivables	7	0	25
<b>Total financial revenue</b>		<b>95.469</b>	<b>61.424</b>
12. Financial expenses due to impairment and write-off of investments			
b) Financial expenses due to impairment and write-off of other investments		-7.122	-12.576
b) Financial expenses due to write-off and impairment of associates		-498	-4.851
Total financial expenses due to impairment and write-off of investments	8	-7.620	-17.427
13. Financial expenses for financial liabilities			
b) Financial expenses for bank loans		-5	-19
d) Financial expenses for other financial liabilities		-50.004	-50.008
Total financial expenses for financial liabilities	8	-50.009	-50.027
14. Financial expenses for operating liabilities			
c) Financial expenses for other operating liabilities		-25	-2
Total financial expenses for operating liabilities	8	-25	-2
<b>Total financial expenses</b>		<b>-57.654</b>	<b>-67.456</b>
<b>Operating profit or loss</b>		<b>43.618</b>	<b>-7.749</b>
17. Corporate income tax	9	-3.441	-109
18. Deferred tax	10	9.740	1.351
<b>19. Net profit or loss for the period</b>	<b>11</b>	<b>49.917</b>	<b>-6.507</b>
a) Net profit or loss of majority owner for the period		49.917	-6.507
b) Net profit or loss of minority owner for the period		0	0

Disclosures and notes on pages 87 to 159 form an integral part of the financial statements.



## 16.2 Consolidated statement of other comprehensive income for the period from 1 January 2021 to 31 December 2021

	in EUR 000	
	1 Jan.–31 Dec. 2021	1 Jan.–31 Dec. 2020
Profit or loss for the period	49.917	-6.507
Items subsequently not reclassified to profit or loss	188.079	51.084
Actuarial gains/losses	-192	-72
Net change in fair value reserves not to be reclassified subsequently to profit or loss	178.943	42.854
Other changes (profits/losses from derecognition of equity investments measured at fair value through other comprehensive income)	9.328	8.302
Items that may be reclassified subsequently to profit or loss	-1.942	-977
Net change in fair value reserves that may be reclassified subsequently to profit or loss	-1.942	-977
Other comprehensive income for the year	236.054	43.600

Disclosures and notes on pages 87 to 159 form an integral part of the financial statements.

## 16.3 Consolidated statement of financial position as at 31 December 2021

in EUR 000			
Item	Note	31 Dec. 2021	31 Dec. 2020
<b>ASSETS</b>			
<b>A. Non-current assets</b>			
I. Intangible assets and long-term accrued revenue and deferred costs			
1. Long-term property rights		1.250	1.005
5. Other long-term deferred costs and accrued revenue		50.031	50.049
<b>Total intangible assets</b>	<b>12</b>	<b>51.281</b>	<b>51.054</b>
II. Property, plant and equipment			
2. Buildings		4.719	5.003
4. Other plant and equipment		1.066	1.273
<b>Total property, plant and equipment</b>	<b>13</b>	<b>5.785</b>	<b>6.276</b>
III. Investment property			
	<b>14</b>	<b>24.296</b>	<b>25.049</b>
IV. Long-term investments			
1. Long-term investments, excluding loans			
b. Shares and interests in associated companies	15	83.023	81.327
c. Other shares and interests	17	1.281.769	1.025.126
d. Other long-term investments	17	293.940	287.664
<b>Total long-term investments, excluding loans</b>		<b>1.658.732</b>	<b>1.394.117</b>
2. Long-term loans			
b. Long-term loans to others		16.249	9.805
<b>Total long-term loans</b>	<b>18</b>	<b>16.249</b>	<b>9.805</b>
<b>Total long-term investments</b>		<b>1.674.981</b>	<b>1.403.922</b>
V. Long-term operating receivables			
3. Long-term operating receivables due from others		197	168
<b>Total long-term operating receivables</b>	<b>19</b>	<b>197</b>	<b>168</b>
VI. Deferred tax assets			
	<b>10</b>	<b>29.896</b>	<b>19.958</b>
<b>Total fixed assets</b>		<b>1.786.436</b>	<b>1.506.427</b>
<b>B. Current assets</b>			
I. Assets held for sale			
	<b>16</b>	<b>11.543</b>	<b>870</b>
III. Short-term investments			
1. Short-term investments, except loans			
d. Other short-term investments		50.017	66.740
<b>Total short-term investments, except loans</b>	<b>17</b>	<b>50.017</b>	<b>66.740</b>
2. Short-term loans			
b. Short-term loans to others		17.618	14.016
<b>Total short-term loans</b>	<b>18</b>	<b>17.618</b>	<b>14.016</b>
<b>Total short-term investments</b>		<b>67.635</b>	<b>80.756</b>
IV. Short-term operating receivables			
2. Short-term operating trade receivables		3.448	3.606
3. Short-term operating receivables due from others		4.352	3.995
4. Other short-term operating receivables		53.090	52.554
<b>Total short-term operating receivables</b>	<b>19</b>	<b>60.890</b>	<b>60.155</b>
V. Cash			
	<b>20</b>	<b>31.580</b>	<b>14.723</b>
<b>Total current assets</b>		<b>171.648</b>	<b>156.504</b>
<b>Total assets</b>		<b>1.958.084</b>	<b>1.662.931</b>

in EUR 000			
Item	Note	31 Dec. 2021	31 Dec. 2020
<b>LIABILITIES</b>			
<b>A. Equity</b>			
I. Called-up capital	21	364.810	364.810
II. Capital surplus	22	217.839	217.625
V. Fair value reserves	23	561.211	384.336
VI. Retained earnings		263.874	261.119
VII. Net profit or loss for the financial year		49.917	-6.507
<b>Total equity of majority owner</b>		<b>1.457.651</b>	<b>1.221.383</b>
VII. MINORITY INTEREST		0	0
<b>Total equity</b>		<b>1.457.651</b>	<b>1.221.383</b>
<b>B. Provisions and long-term ACDR</b>			
I. Provisions for pensions and similar liabilities		587	510
II. Other provisions		302.637	276.530
<b>Total provisions and long-term ACDR</b>	<b>26</b>	<b>303.224</b>	<b>277.040</b>
<b>C. Non-current liabilities</b>			
I. Non-current financial liabilities			
4. Other non-current financial liabilities		50.000	50.000
<b>Total non-current financial liabilities</b>	<b>24</b>	<b>50.000</b>	<b>50.000</b>
II. Non-current operating liabilities			
4. Non-current operating liabilities from advances		3	10
5. Other non-current operating liabilities		72	123
<b>Total non-current operating liabilities</b>	<b>25</b>	<b>75</b>	<b>133</b>
<b>III. Deferred tax assets</b>		<b>82.520</b>	<b>54.047</b>
<b>Total non-current liabilities</b>		<b>132.595</b>	<b>104.180</b>
II. Current financial liabilities			
4. Other current financial liabilities		1	1
<b>Total current financial liabilities</b>	<b>24</b>	<b>1</b>	<b>1</b>
III. Current operating liabilities			
2. Current operating liabilities to suppliers		706	2.975
5. Current liabilities to the state		50.262	50.439
6. Current corporate income tax liabilities		3.441	109
7. Other current operating liabilities		10.204	6.804
<b>Total current operating liabilities</b>	<b>25</b>	<b>64.613</b>	<b>60.327</b>
<b>Total current liabilities</b>		<b>64.614</b>	<b>60.328</b>
<b>Total liabilities</b>		<b>1.958.084</b>	<b>1.662.931</b>

Disclosures and notes on pages 87 to 159 form an integral part of the financial statements.

## 16.4 Consolidated cash flow statement for the period from 1 January 2021 to 31 December 2021

Item	in EUR 000	
	1 Jan.–31 Dec. 2021	1 Jan.–31 Dec. 2020
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
a) Net profit or loss and adjustments		
Profit or loss before tax	43.618	-7.749
Corporate income taxes and other taxes not included in operating expenses	-3.441	-109
Adjustments for depreciation/amortisation	1.061	2.027
Adjustments for financial revenue from financing activities	-97.998	-61.921
Adjustments for financial expenses for financing activities	57.654	66.247
<b>Total items of income statement</b>	<b>894</b>	<b>-1.505</b>
b) Changes in net operating assets in balance sheet items		
Opening less closing operating receivables	-764	-52.991
Opening less closing deferred tax assets	-9.938	-1.406
Opening less closing assets (disposal groups) held for sale	-10.673	-870
Closing less opening operating liabilities	4.286	45.367
Closing less opening provisions	26.184	40.832
Closing less opening deferred tax liabilities	28.473	3.295
<b>Total items of net operating assets in balance sheet items</b>	<b>37.568</b>	<b>34.227</b>
<b>c) Net cash from operating activities</b>	<b>38.462</b>	<b>32.722</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
a) Receipts from investing activities		
Receipts from interest and dividends received from investing activities	38.810	37.362
Receipts from disposal of property, plant and equipment	0	111
Receipts from disposal of investment property	0	2.488
Receipts from disposal of long-term investments	67.370	28.174
Receipts from disposal of short-term investments	73.771	99.988
<b>Total receipts from investing activities</b>	<b>179.951</b>	<b>168.123</b>
b) Disbursements for investing activities		
Disbursements to acquire intangible assets	-518	-352
Disbursements to acquire property, plant and equipment	-220	-114
Disbursements to acquire investment property	-34	-282
Disbursements to acquire long-term investments	-89.201	-103.747
Disbursements to acquire short-term investments	-61.797	-55.028
<b>Total disbursements for investing activities</b>	<b>-151.770</b>	<b>-159.523</b>
<b>c) Net cash from investing activities</b>	<b>28.181</b>	<b>8.600</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
a) Cash receipts from financing activities		
Receipts from paid-in capital	214	131
<b>Total receipts from investing activities</b>	<b>214</b>	<b>131</b>
b) Disbursements for financing activities		
Repayment of current financial liabilities	-50.000	-50.000
<b>Total disbursements for financing activities</b>	<b>-50.000</b>	<b>-50.000</b>
<b>c) Net cash from financing activities</b>	<b>-49.786</b>	<b>-49.869</b>
<b>D. CLOSING BALANCE OF CASH</b>		
a) Net cash flow for the period	16.857	-8.547
b) Opening balance of cash	14.723	23.270
<b>d) Total closing balance of cash</b>	<b>31.580</b>	<b>14.723</b>

Disclosures and notes on pages 87 to 159 form an integral part of the financial statements.

## 16.5 Consolidated statement of changes in equity for the period from 1 January 2021 to 31 December 2021

in EUR 000

	Share capital	Capital surplus	Fair value reserves	Retained earnings	Net profit or loss for the current period	Equity of majority shareholders	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
A. 2. Balance as at 1 Jan. 2021	364.810	217.625	384.336	261.119	-6.507	1.221.383	1.221.383
B. 1. Changes in equity – transactions with owners	0	214	0	0	0	214	214
d) Additional payments of capital	0	214	0	0	0	214	214
B. 2. Total comprehensive income for the period	0	0	176.809	9.328	49.917	236.054	236.054
a) Net profit or loss for the period	0	0	0	0	49.917	49.917	49.917
e) Changes in reserves arising from valuation of investments at fair value	0	0	176.943	0	0	176.943	176.943
f) Changes in reserves arising from valuation of investments at fair value – associates	0	0	58	0	0	58	58
g) Other components of comprehensive income for the period	0	0	-192	9.328	0	9.136	9.136
B. 3. Changes in equity	0	0	66	-6.573	6.507	0	0
a) Allocation of the remaining net profit for the comparative period to other equity components	0	0	66	-6.573	6.507	0	0
C. Closing balance as at 31 Dec. 2021	364.810	217.839	561.211	263.874	49.917	1.457.651	1.457.651

Disclosures and notes on pages 87 to 159 form an integral part of the financial statements.

## 16.6 Consolidated statement of changes in equity for the period from 1 January 2020 to 31 December 2020

in EUR 000

	Share capital	Capital surplus	Fair value reserves	Retained earnings	Net profit or loss for the current period	Equity of majority shareholders	Total
<b>A. 1. Balance as at 31 Dec. 2019</b>	<b>364.810</b>	<b>217.494</b>	<b>342.205</b>	<b>250.562</b>	<b>2.587</b>	<b>1.177.658</b>	<b>1.177.658</b>
b) Retrospective adjustments (changes in accounting policies)	0	0	0	-6	0	-6	-6
<b>A. 2. Balance as at 1 Jan. 2020</b>	<b>364.810</b>	<b>217.494</b>	<b>342.205</b>	<b>250.556</b>	<b>2.587</b>	<b>1.177.652</b>	<b>1.177.652</b>
<b>B. 1. Changes in equity – transactions with owners</b>	<b>0</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>131</b>	<b>131</b>
d) Additional payments of capital	0	131	0	0	0	131	131
<b>B. 2. Total comprehensive income for reporting period</b>	<b>0</b>	<b>0</b>	<b>41.805</b>	<b>8.302</b>	<b>-6.507</b>	<b>43.600</b>	<b>43.600</b>
a) Net profit or loss for the reporting period	0	0	0	0	-6.507	-6.507	-6.507
e) Changes in reserves arising from valuation of investments at fair value	0	0	41.902	0	0	41.902	41.902
e) Changes in reserves arising from valuation of investments at fair value – associates	0	0	-25	0	0	-25	-25
g) Other components of comprehensive income for the period	0	0	-72	8.302	0	8.230	8.230
<b>B. 3. Changes in equity</b>	<b>0</b>	<b>0</b>	<b>326</b>	<b>2.261</b>	<b>-2.587</b>	<b>0</b>	<b>0</b>
a) Allocation of the remaining net profit for the comparative period to other equity components	0	0	326	2.261	-2.587	0	0
<b>C. Closing balance as at 31 Dec. 2020</b>	<b>364.810</b>	<b>217.625</b>	<b>384.336</b>	<b>261.119</b>	<b>-6.507</b>	<b>1.221.383</b>	<b>1.221.383</b>

Disclosures and notes on pages 87 to 159 form an integral part of the financial statements.

# 17 Disclosures and notes

## 17.1 General disclosures

### Parent company profile

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

The activities of Kapitalska družba, 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, Kapitalska družba also performs other activities related to asset management and services related to support to asset management: other financial intermediation, pension funding, activities ancillary to pension funding, trade in own property, lease of own property, software supply and consultancy, data processing, network data services, other computer related activities, accounting and bookkeeping services, tax consultancy, market research and public opinion polling, business and other management consultancy, activities of holding companies, publishing of journals and periodicals, and other educational services.

### Amendments to the articles of association and the rules on appointing the Management Board and the Supervisory Board of the controlling company

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

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

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

The Supervisory Board of Kapitalska družba is appointed by the company's General Meeting of Shareholders. In compliance with Article 51(6) of ZSDH-1, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of Slovenski državni holding, d. d. (Slovenian Sovereign Holding – SDH), two members on the proposal of the pensioners' organisations at the state level and one member on the proposal of trade union associations or confederations which are representative of the country. If stakeholders do not formulate a proposal for the appointment of Supervisory Board members as defined below, the missing members of the Supervisory Board are appointed at the discretion of the General Meeting of Shareholders. The candidates from among the representatives of SDH, d. d. are proposed by the Management Board of the Slovenian Sovereign Holding, which informs the Supervisory Board about the selection. The candidates from among the representatives of the pensioners are proposed by the pensioners' organisations and associations at the state level, which inform the Supervisory Board about the selection. The candidates from among the representatives of the trade unions are elected by

the representatives (electors) of the representative government-level trade union associations or confederations, which inform the Supervisory Board about the selection. Any representative association or confederation has the number of representatives equal to the number of the representative trade unions it comprises. In addition to the representatives referred to in the previous sentence, the association or confederation elects another representative for every ten thousand members. The term of office of the Supervisory Board members is four years with the possibility of reappointment.

### Subsidiaries

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

Subsidiary	Country	Equity interest	in EUR 000	
			Equity as at 31 Dec. 2021	Net profit or loss for 2021
Modra zavarovalnica, d. d.	Slovenia	100,00 %	331.507	18.993
Hotelske nepremičnine, d. o. o.	Slovenia	50,00 %	13.248	427
FINAP, d. d. – in liquidation	Slovenia	64,63 %	-	-

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

Kapitalska družba, d. d. consolidates Modra zavarovalnica, d. d. and Hotelske nepremičnine, d. o. o. Due to immateriality, it does not consolidate FINAP, d. d. – in liquidation.

### Data on consolidation

The consolidation of financial data takes place at Kapitalska družba, d. d. as the highest level. The consolidated Annual Report of the Kapitalska družba Group is published at [http://www.kapitalska-druzba.si/o\\_kapitalski\\_druzbi/letna\\_porocila](http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila).

### Own interests

The Group has no own shares.

### Information about employees

At the end of 2021, there were 123 employees in the Kapitalska družba Group, 60 of which were employees of Kapitalska družba, d. d. and 63 of Modra zavarovalnica, d. d., while Hotelske nepremičnine, d. o. o. and FINAP, d. d. – in liquidation have no employees.

Table 16: Number of employees in the Kapitalska družba Group

	Balance as at 31 Dec. 2021	Balance as at 31 Dec. 2020
Kapitalska družba Group	123	125

## 17.2 Accounting policies

### Basis of preparation

The financial statements for 2021 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 is based on bookkeeping documents and books of account kept in line



with the International Financial Reporting Standards. Financial statements have been compiled by taking into account the fundamental accounting assumptions: going concern, consistency and accrual basis. Accounting policies have been formulated by taking into account qualitative characteristics: understandability, relevance, reliability and comparability.

### **Significant accounting estimates and judgements**

The preparation of financial statements requires the managements 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 used assumptions and estimates is checked periodically.

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

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

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

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

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

### **Statement of compliance**

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

In its financial statements, the Group applied all IFRS and IFRIC required in 2021. It did not apply any standard or interpretation before its application became obligatory in 2021.

### **Amendments to standards and interpretations**

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

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

- | Amendments to IFRS 9 – Financial Instruments and IFRS 39 – Financial Instruments: Recognition and Measurement, IFRS 7 – Financial Instruments: Disclosures, IFRS 4 – Insurance Contracts and IFRS 16 – Leases – Interest Rate Benchmark Reform – Phase 2, adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),

- | Amendments to IFRS 16 – Leases – covid-19-Related Rent Concessions beyond 30 June 2021, adopted by the EU on 30 August 2021 (effective as of 1 April 2021 for financial years beginning on or after 1 January 2021),
- | Amendments to IFRS 4 – Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9, adopted by the European Union on 16 December 2020 (the date of expiry of the temporary exemption has been extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

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

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

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

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

The impacts of the introduction of IFRS 17 will have the greatest effect on the individual financial statements of the subsidiary Modra zavarovalnica, d. d. and will also be reflected in the consolidated financial statements of the Kapitalska družba Group upon consolidation.

The Group's management estimates that the adoption of the amendments to the existing standards, except for IFRS 17, will have no impact on its consolidated financial statements in the period of initial application. IFRS 17 – Insurance Contracts, published by the IASB on 18 May 2017, requires the measurement of insurance liabilities at the current value of fulfilment and provides a more uniform method for the measurement and presentation for all insurance contracts. The purpose of the requirements is to ensure consistent and principle-based accounting of insurance contracts. IFRS 17 replaces IFRS 4 – Insurance Contracts and related interpretations. Amendments to IFRS 17 – Insurance Contracts, issued by the IASB on 25 June 2020, postpone the date of effective application of IFRS 17 by two years, to annual periods beginning on or after 1 January 2023. The amendments introduce simplifications and interpretations of some of the requirements of the standard and provide additional assistance in the initial application of IFRS 17.

The key change introduced by IFRS 17 is that the insurance premium received will no longer be fully reflected in the insurance company's profit or loss – the insurance company will recognize a liability for the remaining coverage for a premium received, which will be gradually transferred over the term of the insurance contract through the contractual service margin and risk adjustment to the insurance company's

profit or loss. IFRS 17 also no longer acknowledges technical provisions, but rather introduces a liability for incurred claims, where all liabilities of the insurance company for incurred claims until the reporting date will be recognised. Although the terms cover similar content, there is an important difference in the discounting of liabilities – IFRS 17 requires the discounting of all liabilities for claims that will be paid later than in 12 months. Due to this, the insurance company expects significant changes in its financial statements, but has not yet fully assessed the impact of the new requirements.

In 2022, the new standard brings double records in the accounting process (certain analytical records also in the future), the establishment of new processes, a new chart of accounts, new financial statement formats and new reporting.

The subsidiary Modra zavarovalnica, d. d. determined the scope of insurance products and the associated unit of account and, with the help of the consulting firm, selected the Building Block Approach (BBA). During the transition, Modra zavarovalnica envisaged the fully retrospective data collection approach for KS MR, KS MR II and accidents, and the fair value approach (FVA) for PPS and KS PPS. The bottom-up method and the risk-free interest rate curve (RFR) are used (source: EIOPA).

Most of the activities in 2021 took place in Modra zavarovalnica, d. d. and covered the preparation of data and calculations for accident insurance, KS MR and KS MR II products, and the modernisation of tools and servers for a more efficient functioning of the process. The ongoing activities are: preparation of data and calculations for KS PPS with PPS included, automation of the data preparation process, preparation of expected cash flows for deferred annuities and taking account of the expected profit participation in projections.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- | IFRS 14 – Regulatory Deferral Accounts (effective for annual periods starting on or after 1 January 2016) – European Commission concluded not to start the procedure for endorsement of this interim standard and to wait for its final version to be issued,
- | Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current and Non-Current (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IAS 12 – Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- | Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- | Amendments to IFRS 17 – Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

The Group is reviewing the effect of these amended standards and interpretations.

The insurance company will apply the new standards and interpretations if they are adopted by the EU.

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

It is the Group's assessment that the application of hedge accounting relating to financial assets and liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement would not have a material impact on the financial statements if applied as at the balance sheet date.

### Foreign currency translation

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

### Basic policies

The financial statements 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.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Kapitalska družba, d. d. and its subsidiaries as at 31 December of each year. The financial statements of subsidiaries are prepared for the same financial year as the financial statements of the parent company using uniform accounting policies. In the event of inconsistencies in accounting policies, relevant adjustments are made in the consolidated financial statements. No adjustments were necessary in the consolidation process in 2021.

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

All subsidiaries are consolidated as at the date when control is transferred to the Group, and consolidation of a subsidiary is discontinued when the Group no longer controls the subsidiary. If the Group loses control of a subsidiary during the year, the results of the subsidiary are included in the consolidated financial statements until the date when the Group still had control of the subsidiary. In 2021, there were no changes in the consolidation of subsidiaries compared to the previous year.

### Intangible assets

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

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

from impairment is recognised directly in profit or loss.

The 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 arising from derecognition of an intangible asset are measured as the difference between its sales value and the carrying amount and are recognised as revenue or expenditure in the income statement, when the asset is disposed of or derecognised.

### 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	Amortisation rate in %
Buildings	3,00–3,33
Equipment	16,67–33,33
Building parts	6,00

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

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

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

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

The depreciation rate of parts of investment property is 6.00 percent annually and the estimated useful life is 16.67 years. 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 that the Group recognises directly in its income statement.

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

The cash generating unit includes investment property by locations.

## Financial assets

### Classification and measurement of financial assets

The Group classifies financial assets based on:

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

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

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

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

After initial recognition the Group measures financial assets:

- a) at amortised cost (AC),
- b) at fair value through other comprehensive income (FVTOCI);

c) at fair value through profit or loss (*FVTPL*), namely:

- financial assets held for trading (including derivatives),
- financial assets mandatorily measured through profit or loss – assets that do not pass the cash flow test (SPPI; solely payments of principal and interest),
- financial assets designated as measured through profit or loss on the basis of the business model.

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

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

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

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

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

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

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

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

- 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.

### **Gains and losses on financial assets**

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

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

### **Investments in equity instruments**

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

### **Investments in associated companies**

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

As the parent company, Kapitalska družba, d. d. consolidates its associated companies 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.

### **Assessment of contractual cash flows**

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

- a) if the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows,
- b. if the financial asset is held within a business model whose objective is achieved by 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 carries out the SPPI test (*Solely Payments of Principal and Interest*).

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

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



### Changes in cash flows and derecognition of a financial asset

The Group derecognises a financial asset only when:

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

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

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

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

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

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

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

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

taking into account:

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

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

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

an impairment for 50 % of the original amount and b) when the receivable moves to stage 3, the Group makes an impairment for 100 % of the original amount.

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

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

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

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

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

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

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

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

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

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

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

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

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

- | exposure at default (*EAD*),
- | probability of default (*PD*),
- | 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 about a particular investment or transaction, it may use:

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

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

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

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

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

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

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

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

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

### **Fair value determination**

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

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

- | stock exchange market (for equity and debt instruments and collective investment trusts),

| traders' market or OTC<sup>15</sup> (market for debt investments).

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

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

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

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT<sup>16</sup> price is quoted for at least a half of trading PDI the last 30 days from the measurement date. In the event of an active OTC market, fair value is measured using the last known CBBT price. If the OTC market is less liquid, the last known CBBT price not older than 90 days is used for fair value measurement. If the CBBT price is not available, fair value may be measured using the BVAL<sup>17</sup> price, if available. If neither of the above applies, fair value of the investment is measured on the basis of the valuation technique.

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

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

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

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

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

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

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

<sup>15</sup> OTC (Over-The-Counter) market, transactions involving securities and agreed bilaterally between two parties outside the organised market.

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

<sup>17</sup> Bloomberg Valuation Service refers to Bloomberg information about the price of an individual bond at the end of trade date. The BVAL price is calculated based on the information about the price of concluded transactions and binding quotations, whereas the majority of BVALs is calculated applying models.

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

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

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

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

### Classification of equity investments

**Table 17:** Equity investment classification in case of exchange as the principal market (quoted equity investments)

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

**Table 18:** Classification of unquoted equity investments

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

**Table 19:** Classification of collective investment funds

Level 1	Collective investments with fair value measured on the basis of quoted prices in active market
Level 2	Collective investments with fair value measured on the basis of quoted prices in less liquid market

Level 3	Collective investment funds for which quoted prices are not available and their fair value is measured on the basis of quoted value per subfund unit
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**Table 20:** Classification of mutual funds coupons

Level 1	Mutual fund units with fair value measured on the basis of quoted value per subfund unit
Level 2	-
Level 3	-

### Classification of debt investments

The fair value hierarchy also includes debt instruments which are not measured at fair value in the statement of financial position. These normally include bonds at amortised cost measured at fair value for disclosure purposes. For these bonds, the same classification rules apply as for debt securities measured at fair value in the statement of financial position.

**Table 21:** 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 quoted prices in less liquid markets
	Debt securities measured using the valuation technique (taking into account Level 2 inputs)
	Debt securities measured using a valuation technique (taking into account Level 3 inputs) or prices provided by third parties
Level 3	Quoted price older than 90 days may be used if the materiality criterion is not fulfilled

**Table 22:** 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
	Debt investments with fair value measured on the basis of CBBT prices in less liquid markets
Level 2	Debt investments with fair value measured on the basis of transaction prices in less liquid markets
	Debt securities without CBBT price in (in)active markets and fair value measured using the valuation technique (taking into account Level 2 inputs)
Level 3	Debt securities without CBBT price in (in)active markets and with fair value measured using the BVAL valuation technique (taking into account Level 3 inputs) or prices provided by third parties

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

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

### Classification of loans and deposits

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

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

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

### **Derecognition of financial instruments**

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

### **Non-current assets (disposal groups) held for sale**

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

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

### **Operating receivables**

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

### **Cash and cash equivalents**

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

### **Equity**

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

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

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

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

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

### **Fair value reserves**

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

### **Provisions**

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

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

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

The Group establishes long-term provisions:

- | when the guaranteed value of assets exceeds the actual value of assets of the ZPJU, MZP and PPS funds 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 lawsuit is filed against a Group company or if the Group estimates a claim is very probable,
- | for termination benefits and jubilee awards, calculated on the basis of assumption on the expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Company's internal regulations.

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

### **Insurance Contracts**

Pursuant to 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**

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

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

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

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

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

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

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

Equalisation provisions for mortality experience are identified upon the first calculation of mathematical provision as the difference between the value of transferred assets and the value of mathematical provisions for a KS PPS policy. Equalisation provisions for mortality experience calculated by individual policy upon transfer increase the balance of provisions set aside for the equalisation of KS PPS mortality experience and are formed collectively for all 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. They are posted in the mathematical provisions account, subgroup 'equalisation provisions for mortality experience'.

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

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

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

### **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 that exercised regular termination of additional pension insurance by 1 January 2016. They are calculated in accordance with the provisions of the Technical Bases for Annuity Insurance, prospectively for each insurance policy separately. They also include mathematical provisions arising from the generated annuity fund profit. 90% of the profit of the preceding financial year at any relevant time is allocated to 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.

### **Operating liabilities**

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

### **Revenue**

The Group recognises 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 will be entitled in exchange for these goods or services. The Group considers the terms of the contract and all relevant facts and circumstances. The buyer is a customer who has concluded a contract with the Group on the acquisition of goods or services that are the result of the Group's ordinary activities, in exchange for consideration.

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 entry and exit fees, an annual management fee for the management of pension funds and to the costs of occupational pensions or annuities.

#### ***a. Entry fees***

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

#### ***b. Management fee***

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

#### ***c. Exit fees***

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

#### ***d. Costs of paying occupational pensions or annuities***

In line with its pension scheme, the Group is entitled to the cost of paying out occupational pensions or annuities, which is calculated as a percentage of the monthly amount.

### **3. Revenue from leases**

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

### **Financial revenue**

#### ***1. Interest***

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

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

## Costs

### Costs of materials and services

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

### Employee benefits

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

## Expenses

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

### Financial expenses

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

## Taxes

### 1. Current tax

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

### 2. Deferred tax

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

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

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

Deferred tax assets or liabilities are measured on the basis of tax rates that are expected to be used when an asset or liability will be realised. Tax rates (and tax legislation) enacted at the date of the statement of financial position are used.

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

### Cash flow statement

Izkaz denarnih tokov je sestavljen po posredni metodi (različica II) iz podatkov izkaza finančnega položaja. The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31 December 2021 and 31 December 2020, income statement data for the year 2021, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

### Reporting by segments

In 2021, the Group does not report in accordance with IFRS 8, because the parent company is not a company with equity securities listed on the stock exchange.

### Risk management

Effective risk management has proven to be crucial, particularly in the times of economic crises, as it can contribute to more stable and more successful long-term operations. It is therefore essential for achieving objectives within the Group's activities. The use of standard methodologies of risk management ensures the qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure.

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

In order to improve long-term operations, the Group constantly develops and upgrades its entire risk management system. Especially within Modra zavarovalnica's operations, it is important to comply with the Solvency II Directive, whose strategic goal is to protect the assets of policyholders. To ensure long-term target capital adequacy, the company regularly assesses its risk and solvency, thus identifying the current and expected capital requirements and defining appropriate capital management measures. Modra zavarovalnica, d. d.'s 2021 risk and solvency assessment shows that the company has sufficient capital to cover all the risks it assumes in its operations.

**Table 23:** Capital adequacy of Modra zavarovalnica, d. d. in line with Solvency II Directive

Item	in EUR 000	
	31 Dec. 2021	31 Dec. 2020
Total capital requirement	202.517	157.364
Available and eligible own funds	373.875	263.314
Surplus (+)/deficit (–) of available own funds	171.358	105.950
<b>Solvency ratio</b>	<b>185 %</b>	<b>167 %</b>

The annual data on the solvency position as at 31 December 2021 is presented in the report on the solvency and financial condition of Modra zavarovalnica, d. d., published on its website.

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

#### *Risk of securities price change*

Changes in securities prices, which are the result of various factors, greatly affect the value of the equity portfolio of investments in particular. The risk is managed by regular monitoring of the market situation and macroeconomic indicators that affect the movement in the general level of market prices and by maximum possible dispersion of investments to eliminate most of the non-systematic risk. The dispersal

of a part of investments abroad decreases the dependence of the Group's portfolio of investments on the movement of prices on the Slovenian capital market.

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

#### ***Property risk***

Changes in property prices, which are the result of various factors, greatly affect the value of the Group's property. The risk is managed by diversifying investments in property and regularly monitoring the situation on the real estate 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. Due to decreasing interest rates, the assets were mostly exposed to the risk of reinvestment. Internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, providing investment recommendations on this basis. The exposure to interest rate risk is regularly measured by the modified duration indicator.

The Group mitigates risks arising from interest rates by restructuring the portfolio according to market conditions, by reducing the average maturity of debt portfolios, classifying investments as investments at amortised cost, buying inflation-protected debt securities and restructuring investments with fixed interest rates into investments with variable interest rates or vice versa, depending on expected movements in market interest rates. In 2021, the Group did not use any derivatives to hedge interest rate risk.

#### ***Currency risk***

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

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

#### ***Credit risk***

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

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

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

#### ***Liquidity risk***

Liquidity risk is the risk related to the liquidity of the capital market or investment and the risk of solvency of the Group. Resources and investments are managed in such a way that the Group is able to meet all its due liabilities at any time. A policy of regular liquidity management in line with the legislation and regulations is implemented.

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

#### ***Insurance risk***

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

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

#### ***Operational risk***

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

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

#### ***Strategic risk***

Strategic risk is the risk of a loss owing to incorrect business decisions, inappropriate organisation and strategy and insufficient response to the changes in the business environment. Significant strategic risks also include reputational risk, competitive risk and the risk related to the Group's market position, and legislative, tax and political risks resulting from the state's discretionary right to adopt decisions that may lead to changes and 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 strategic goals as well as preserving and strengthening 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.).

## 17.3 Disclosures and notes to the financial statements

### 17.3.1 Notes to the income statement

#### Note no. 1

##### *Net sales revenue*

	in EUR 000R	
	2021	2020
Revenue from the sale of services	56.651	61.894
Revenue from asset management	20.668	18.270
Revenue from leases	2.761	2.628
Other sales revenue	3	334
<b>Total</b>	<b>80.083</b>	<b>83.126</b>

Revenue from the sale of services refers to revenue from life insurance premiums, which represent accrued payments to the guarantee funds. At the beginning of 2021, a minor decline in premium income was recorded. All sales revenue was generated on the domestic market.

#### Note no. 2

##### *Other operating revenue (including revaluation operating revenue)*

	in EUR 000	
	2021	2020
Revenue from reversal of long-term provisions	7.396	1.376
Other operating revenue	75	63
Revaluation operating revenue	8	371
Other items	82	99
<b>Total</b>	<b>7.561</b>	<b>1.909</b>

In 2021, Modra zavarovalnica, d. d. reversed provisions for non-achievement of guaranteed return of funds under management in the amount of EUR 1,957 thousand (2020: EUR 1,007 thousand for non-achievement of guaranteed return of funds under management) and EUR 5,439 from the LAT test in relation to the increase in interest rates in 2021 (2020: there were none). In 2020, revenue from the reversal of long-term provisions of EUR 369 thousand represented the reversal of provisions for onerous contracts or legal disputes, while in 2021, there was no such revenue.

Other operating revenue mainly represents revenue arising from annuity expiry in the amount of EUR 75 thousand (2020: EUR 63 thousand).

Revaluation operating revenue amounting to EUR 8 thousand mainly comprises refunds (2020: EUR 12 thousand). In 2020, the bulk of revaluation revenue represented gains from the sale of fixed assets amounting to EUR 358 thousand, of which EUR 345 thousand were recognised in relation to the sale of investment property Smelt.

Other items in 2021 comprise revenue from compensations in the amount of EUR 62 thousand and revenue from previous years of EUR 20 thousand (2020: revenue from compensations in the amount of EUR 85 thousand, revenue from previous periods totalling EUR 3 thousand and other revenue amounting to EUR 10 thousand).



### Note no. 3

#### *Costs of goods, materials and services*

	in EUR 000	
	2021	2020
Costs of materials	288	288
Costs of services	4.100	3.748
<b>Total</b>	<b>4.388</b>	<b>4.036</b>

#### *Costs of materials*

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

#### *Costs of services*

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

#### *Costs of audit*

The costs of audit at the Group level in the 2021 financial year amounted to EUR 61 thousand (2020: EUR 61 thousand). EUR 22 thousand was paid to the auditor for other non-audit services within the Group, while there was no expenditure arising from this in 2020. In the 2021 and 2020 financial years, no amount was paid to the auditor for other assurance or tax advisory services.

### Note no. 4

#### *Labour costs*

	in EUR 000	
	2021	2020
Payroll costs	5.446	5.276
Social security costs	873	848
Pension insurance costs	252	250
Other labour costs	621	498
<b>Total labour costs</b>	<b>7.192</b>	<b>6.872</b>

### Note no. 5

#### *Write-downs in value*

	in EUR 000	
	2021	2020
Amortisation/depreciation	1.832	2.028
Amortisation of intangible non-current assets	280	467
Depreciation of buildings	309	304
Depreciation of equipment and spare parts	377	357
Depreciation of small tools	57	56
Depreciation of investment property	809	844

	in EUR 000	
	2021	2020
Revaluation operating expenses	2	54
Revaluation operating expenses related to fixed assets	2	20
Revaluation operating expenses associated with operating current assets	0	34
<b>Total</b>	<b>1.834</b>	<b>2.082</b>

#### ***Amortisation of intangible non-current assets***

The costs represent amortisation of software and licences.

#### ***Depreciation of buildings***

Depreciation of buildings includes the depreciation of offices owned and used by Kapitalska družba, d. d.

#### ***Depreciation of equipment and spare parts***

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

#### ***Depreciation of investment property***

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

#### ***Revaluation operating expenses related to fixed assets***

Revaluation operating expenses associated with fixed assets stood at EUR 2 thousand in 2021. Revaluation operating expenses of EUR 20 thousand in 2020 represent expenses for the disposal of fixed assets.

#### ***Revaluation operating expenses associated with operating current assets***

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

### **Note no. 6**

#### ***Other operating expenses***

	in EUR 000	
	2021	2020
Change in technical provisions	33.326	36.787
Provisions	9	19
Other operating expenses	35.081	36.864
Other items	11	92
<b>Total</b>	<b>68.427</b>	<b>73.762</b>

In 2021, the Group increased mathematical provisions in the amount of EUR 33.326 thousand (2020: EUR 36,787 thousand) and created provisions for termination and jubilee benefits equalling EUR 9 thousand (2020: EUR 19 thousand of provisions for termination benefits and jubilee benefits).

The largest portion of other operating expenses comprise Modra zavarovalnica's gross life insurance claims

paid, which amount to EUR 33,090 thousand (2020: EUR 30,142 thousand) and represent pension annuities paid. They also include the entry fee and indirect costs related to KS MR II in the amount of EUR 1,071 thousand, EUR 752 thousand of payments made by the fund manager to settle the difference to the guaranteed return of mutual pension funds, and other minor items (2020: EUR 5,253 thousand in relation to creating provisions for the liability adequacy test, EUR 893 thousand in relation to the manager's payments of the difference to the guaranteed return of mutual pension funds, EUR 408 thousand for the entry fee and indirect costs related to KS MR II, and other minor items).

Other items in 2021 represent expenses arising from the previous years and other minor items. Other items in 2020 mainly represent payments based on legal actions filed by SODPZ policyholders demanding the payment of statutory default interest in relation to a one-off redemption value, and payment after court settlementi.

## Note no. 7

### Financial revenue

	in EUR 000	
	2021	2020
Financial revenue from shares and interests	85.914	51.400
Financial revenue from other investments and from loans	9.555	9.999
Financial revenue from other investments	9.251	9.759
Financial revenue from loans	304	240
Financial revenue from operating receivables	0	25
Total	95.469	61.424

Each of the items is presented in more detail below.

### Financial revenue from shares and interests

	in EUR 000	
	2021	2020
Dividends and shares in profits	30.678	25.465
Financial income from revaluation of shares and interests	2	35
Exchange rate gains	5.716	161
Revenue from valuation of investments at fair value through profit or loss	40.016	20.431
Effect of adjustment of financial revenue from participating interests due to restatement of associates using the equity method	8.414	4.952
Revenue from gains realized on disposal of investments	1.079	334
– investments through other comprehensive income	0	15
– investments at fair value through profit or loss	1.066	319
– investments measured at amortised cost	13	0
Revenue from acquisition of abandoned securities	9	22
Total	85.914	51.400

*Financial revenue from other investments, from loans given and from operating receivables*

in EUR 000

	2021	2020
Interest revenue	8.644	9.262
Exchange rate gains	642	174
Revenue from the valuation of investments at fair value through profit or loss	53	300
Revenue from realised gains	0	70
- revenue from disposals of investments measured through other comprehensive incomea	0	70
Revenue from decrease in credit losses	216	185
Other financial revenue	0	33
<b>Total</b>	<b>9.555</b>	<b>10.024</b>

*Revenue from sale of investments*

in EUR 000

	2021	2020
Revenue from realised gains	1.079	404
– investments through other comprehensive income	0	85
– investments at fair value through profit or loss	1.066	319
– investments measured at amortised cost	13	0

Revenue from disposal of investments amounting to EUR 1,079 thousand (2020: EUR 404 thousand) represents realized capital gains from the sale of investments valued through other comprehensive income, investments valued at fair value through profit or loss and investments valued at amortized cost.

*Interest revenue*

in EUR 000

	2021	2020
Deposits	128	128
– at amortised cost po odplačni vrednosti	128	128
Bonds	6.697	7.918
– at fair value through profit or loss	953	794
– through other comprehensive income	1.902	2.678
– at amortised cost	3.842	4.446
Other investments	1.819	1.216
– at fair value through profit or loss	1.819	1.216
<b>Total</b>	<b>8.644</b>	<b>9.262</b>

**Note no. 8****Financial expenses for write-offs of long-term and short-term investments**

	in EUR 000	
	2021	2020
<b>Disposal of investments</b>	<b>-452</b>	<b>-1.605</b>
– at fair value through profit or loss	-452	-1.571
– through other comprehensive income	0	-34
<b>Interest expenses</b>	<b>-33</b>	<b>-58</b>
<b>Revaluation financial expenses</b>	<b>-6.859</b>	<b>-15.505</b>
Expenses from revaluation of investments at fair value through profit or loss	-5.787	-4.374
Expenses due to write-off and impairment of associates	-498	-4.851
Exchange rate losses	-550	-6.252
Other revaluation expenses	-24	-28
<b>Expenses from credit losses</b>	<b>-283</b>	<b>-281</b>
<b>Other financial expenses</b>	<b>-27</b>	<b>-7</b>
Expenses for the Pension and Disability Insurance Institute 50,000	-50.000	-50.000
<b>Total</b>	<b>-57.654</b>	<b>-67.456</b>

Expenses from disposal of investments in the amount of EUR 452 thousand (2020: EUR 1,605 thousand) represent realized capital losses from the sale of investments.

The Group revalued equity investments carried at fair value through profit or loss in the amount of EUR 5,787 thousand (2020: EUR 4,374 thousand).

Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2021 and 2020. These payments were stated under financial expenses from other financial liabilities in the income statement.

**Exchange rate differences**

	in EUR 000	
	2021	2020
Exchange rate gains	6.358	335
Exchange rate losses	-550	-6.252
<b>Net exchange rate gains/losses</b>	<b>5.808</b>	<b>-5.917</b>

In 2021, the Group had net exchange rate gains amounting to EUR 5,808 thousand. In 2020, it had net exchange losses standing at EUR 5,917 thousand.

**Gains or Losses from Financial Assets**

	v 000 EUR	
	2021	2020
Revenue from investments	95.469	61.424
Expenses from investments	-57.654	-67.456
<b>Net gains or losses from investments</b>	<b>37.815</b>	<b>-6.032</b>

**Note no. 9****Corporate income tax**

	in EUR 000	
	2021	2020
Profit or loss before tax	43.489	-4.114
Increases in retained earnings	17.624	8.302
Decreases in retained earnings	-7.191	0
<b>Total</b>	<b>53.922</b>	<b>4.188</b>
Tax on dividends from abroad	146	99
Non-deductible expenses	2.235	1.922
Creation	-35	-1
Non-taxable revenue	-33.161	-25.927
Tax allowance	-556	-366
Tax loss	-3.030	-234
Other	-637	0
<b>Total</b>	<b>18.884</b>	<b>20.319</b>
Corporate income tax	3.441	109
Tax on dividends from abroad prior to agreement	573	410

The Kapitalska družba Group does not prepare a consolidated tax balance sheet. In 2021, Kapitalska družba, d. d. disclosed an income tax liability of EUR 369 thousand (it did not disclose this liability in 2020). In 2021, Modra zavarovalnica, d. d. disclosed EUR 2,972 thousand of income tax (2020: EUR 13 thousand). In 2021, Hotelske nepremičnine, d. o. o. disclosed EUR 100 thousand of income tax (2020: EUR 96 thousand).

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

Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2021. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

The effective tax rate as the ratio between the corporate income tax and profit or loss before tax is 6.4 % (2020: 2.6%).

**Note no. 10****Deferred tax**

in EUR 000

	Statement of financial position		Income statement	
	31 Dec. 2021	31 Dec. 2020	2021	2020
Deferred income tax – liabilities	84.783	56.493	-15	0
Deferred income tax – assets	32.159	22.404	9.755	1.351
Loss brought forward to be used as tax allowance	29.876	20.091	9.785	1.398
Value adjustment of investments	2.236	2.261	-25	-12
Provisions	47	52	-5	-35
<b>Netted amount</b>	<b>2.263</b>	<b>2.446</b>	<b>9.740</b>	<b>1.351</b>
Deferred income tax assets after netting	29.896	19.958	9.740	1.351
Deferred income tax liabilities after netting	82.520	54.047	-	-

**Disclosure of tax loss**

in EUR 000

	2021	2020
Tax loss as at 31 December of the accounting period	-545.816	-548.845
Tax loss not taken into account in deferred tax calculation	-388.574	-443.106
Tax loss taken into account in deferred tax calculation	-157.242	-105.739

Tax loss not taken into account in the calculation of deferred tax receivables amounted to EUR 388,574 thousand (2020: EUR 443,106 thousand), while tax loss considered in the calculation of those receivables amounted to EUR 157,242 thousand (2020: EUR 105,739 thousand). Tax losses are freely transferable.

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

in EUR 000

Changes in deferred tax	2021	2020
Balance as at 1 Jan.	56.493	53.253
Changes during the year	28.290	3.240
Balance as at 31 Dec.	84.783	56.493

The change in deferred tax liability of EUR 28,290 thousand (2020: EUR 3,240 thousand) to EUR 84,783 thousand as at 31 December 2021 (2020: EUR 56,493 thousand) is due to revaluation of investments measured at fair value through other comprehensive income.

## Note no. 11

### *Earnings (loss) per share*

The basic net earnings/loss per share is calculated by dividing the net profit/loss attributable to equity holders by the weighted average number of ordinary shares outstanding during the period. The weighted average of ordinary shares in issue during the year is calculated by reference to shares in issue during the period, considering any potential redemptions and sales in that period and the period during which these shares generated profit. Diluted net earnings/loss per share also includes all potential ordinary shares that originated in exchangeable bonds, options and futures. When calculated, net earnings/loss and the number of shares outstanding are adjusted for effects of all dilutive potential ordinary shares that would occur if they were swapped for ordinary shares in the accounting period.

	2021	2020
Net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	49.917	-6.507
Diluted net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	49.917	-6.507
Weighted average number of ordinary shares for basic net earnings per share	874.235	874.235
Diluted average number of ordinary shares for diluted net earnings per share	874.235	874.235
Net earnings per share (EUR)	57,10	-7,44

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



## 17.3.2 Notes to the Statement of Financial Position

### Note no. 12

#### *Intangible assets and long-term deferred costs and accrued revenue*

Table 24: Changes in intangible assets and long-term 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
<b>Cost</b>			
Cost as at 1 Jan. 2021	4.245	50.049	54.294
Additions	525	50.045	50.570
Disposals	-5	-50.063	-50.068
Cost as at 31 Dec. 2021	4.765	50.031	54.796
<b>Allowance</b>			
Allowance as at 1 Jan. 2021	-3.240	0	-3.240
Disposals, write-offs	5	0	5
Amortisation/depreciation	-280	0	-280
Allowance as at 31 Dec. 2021	-3.515	0	-3.515
<b>Carrying amount</b>			
Carrying amount as at 1 Jan. 2021	1.005	50.049	51.054
Carrying amount as at 31 Dec. 2021	1.250	50.031	51.281

The amount of EUR 50,000 thousand referred to the deferred liability to the Pension and Disability Insurance Institute, and the rest to the deferred liability related to the payment of variable remuneration to the Management Board.

Table 25: Changes in intangible assets and long-term deferred costs and accrued revenue in 2020

	in EUR 000		
31 Dec. 2020	Long-term property rights	Other long-term deferred costs and accrued revenue	Total
<b>Cost</b>			
Cost as at 1 Jan. 2020	3.926	33	3.959
Additions	352	50.049	50.401
Disposals	-33	-33	-66
Cost as at 31 Dec. 2020	4.245	50.049	54.294
<b>Allowance</b>			
Allowance as at 1 Jan. 2020	-2.806	0	-2.806
Disposals, write-offs	33	0	33
Amortisation/depreciation	-467	0	-467
Allowance as at 31 Dec. 2020	-3.240	0	-3.240
<b>Carrying amount</b>			
Carrying amount as at 1 Jan. 2020	1.120	33	1.153
Carrying amount as at 31 Dec. 2020	1.005	50.049	51.054

The amount of EUR 50,000 thousand referred to the deferred liability to the Pension and Disability Insurance Institute, and the rest to the deferred liability related to the payment of variable remuneration to the Management Board.

**Note no. 13*****Property, plant and equipment*****Table 26:** Changes in property, plant and equipment in 2021

	in EUR 000		
31 Dec. 2021	Buildings	Other plant and equipment	Total
<b>Cost</b>			
Cost as at 1 Jan. 2021	9.812	3.504	13.316
Additions	27	228	255
Disposals	0	-206	-206
Cost as at 31 Dec. 2021	9.839	3.526	13.365
<b>Allowance</b>			
Allowance as at 1 Jan. 2021	-4.809	-2.231	-7.040
Additions, transfers	-2	0	-2
Disposals, write-offs	0	205	205
Amortisation/depreciation	-309	-434	-743
Allowance as at 31 Dec. 2021	-5.120	-2.460	-7.580
<b>Carrying amount</b>			
Carrying amount as at 1 Jan. 2021	5.003	1.273	6.276
Carrying amount as at 31 Dec. 2021	4.719	1.066	5.785

The Kapitalska družba Group has no pledged property, plant and equipment or any commitments to purchase such assets.

**Table 27:** Changes in property, plant and equipment in 2020

	in EUR 000		
31 Dec. 2020	Buildings	Other plant and equipment	Total
<b>Cost</b>			
Cost as at 1 Jan. 2020	9.812	3.522	13.334
Additions	270	103	373
Disposals	-270	-121	-391
Cost as at 31 Dec. 2020	9.812	3.504	13.316
<b>Allowance</b>			
Allowance as at 1 Jan. 2020	-4.501	-1.846	-6.347
Additions, transfers	-101	0	-101
Disposals, write-offs	97	28	125
Amortisation/depreciation	-304	-413	-717
Allowance as at 31 Dec. 2020	-4.809	-2.231	-7.040
<b>Carrying amount</b>			
Carrying amount as at 1 Jan. 2020	5.311	1.676	6.987
Carrying amount as at 31 Dec. 2020	5.003	1.273	6.276

The Kapitalska družba Group has no pledged property, plant and equipment or any commitments to purchase such assets.

## Note no. 14

### Investment property

Table 28: Changes in investment property in 2021

	in EUR 000		
31 Dec. 2021	Land	Buildings	Total
<b>Cost</b>			
Opening balance as at 1 Jan. 2021	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
<b>Allowance</b>			
Opening balance as at 1 Jan. 2021	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
<b>Carrying amount</b>			
Opening balance as at 1 Jan. 2021	3.669	21.380	25.049
Closing balance as at 31 Dec. 2021	3.669	20.627	24.296

In 2021, the Group impaired no investment property. The valuation of investment property as at 31 October 2021 was made by a certified appraiser.

Given that the fair value of investment property as at 31 October 2021 was estimated based on an external evaluation of EUR 20,100 thousand, the management has verified and estimated that the fair value of investment property as at 31 December 2021 does not significantly deviate from the fair value of investment property as at 31 October 2021. The fair value of the San Simon hotel resort investment property was obtained on the basis of an appraisal by a certified real estate appraiser on 30 November 2021. The Company verified that the estimated values of investment property could also be used as at 31 December 2021.

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

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

The fair value of the investment property Hotelske nepremičnine, d. o. o. exceeds its carrying amount as at 31 December 2021, therefore the management did not identify any indications of impairment.

Table 29: Changes in investment property in 2020

in EUR 000

31. Dec. 2020	Land	Buildings	Buildings in the course of construction or manufacturing	Total
<b>Cost</b>				
Opening balance as at 1 Jan. 2020	3.669	31.007	253	34.929
Acquisitions	0	346	0	346
Disposals	0	-3.085	-253	-3.338
Closing balance as at 31 Dec. 2020	3.669	28.268	0	31.937
<b>Allowance</b>				
Opening balance as at 1 Jan. 2020	0	-7.004	0	-7.004
Amortisation/depreciation	0	-844	0	-844
Disposals	0	960	0	960
Closing balance as at 31 Dec. 2020	0	-6.888	0	-6.888
<b>Carrying amount</b>				
Opening balance as at 1 Jan. 2020	3.669	24.003	253	27.925
Closing balance as at 31 Dec. 2020	3.669	21.380	0	25.049

**Information about encumbrances**

he assets owned by the Group are free from mortgages, pledges and other encumbrances. Fixed assets have not been acquired for the purpose of trading. Fixed assets have not been pledged.

**Right-of-use**

At the level of the Kapitalska družba Group, we have no right-of-use and no disclosures under IFRS 16 are required.

**Note no. 15****Investments in associates**

Investments in associates as in at 31 December 2021 include:

in EUR 000

No.	Associated company	Registered office	Equity stake in %	Equity as at 31 Dec. 2021	Net profit/loss for 2021
1.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29,51	17.865	-259
2.	Hit, d. d. <sup>18</sup>	Delpinova ulica 7a, Nova Gorica	20,32	45.397	-2.039
3.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25,00	19.986	4.959
4.	Sava, d. d.	Dunajska cesta 152, Ljubljana	28,05	108.490	2.166
5.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23,79	97.937	7.875
6.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24,79	42.504	3.892
7.	Cinkarna Celje, d. d.	Kidričeva ulica 26, Celje	20,00	190.166	33.227

<sup>18</sup> The share in Hit, d. d., carries 33.33 % of the voting rights. As at 31 December 2020, the preference shares did not carry any voting rights, although no dividends were paid in 2020. In 2019, dividends were paid.

As the parent company, Kapitalska družba, d. d. consolidates the following associated companies using the equity method:

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

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

The Group's ownership stakes in associated companies do not expose the Group to any of the following risks:

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

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

**Table 30:** Changes in investments in associates

	in EUR 000	
	2021	2020
Carrying amount as at 1 Jan.	81.327	87.014
<b>Changes</b>	<b>1.696</b>	<b>-5.687</b>
Attribution of net profit due to acquisition of associates using the equity method	7.916	101
Dividend elimination	-4.572	-3.736
Elimination of fair value reserves	-85	-97
Revaluation to fair value	-1.563	-1.955
<b>Carrying amount as at 31 Dec.</b>	<b>83.023</b>	<b>81.327</b>

#### Note no. 16

##### *Assets held for sale*

	in EUR 000	
	31 Dec. 2021	31 Dec. 2020
Assets held for sale	11.543	870
<b>Total</b>	<b>11.543</b>	<b>870</b>

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

## Note no. 17

### Investments, excluding loans

in EUR 000

	Non-current		Current		Total	
	31. 12. 2021	31. 12. 2020	31. 12. 2021	31. 12. 2020	31. 12. 2021	31. 12. 2020
Shares and interests in associated companies	83.023	81.327	0	0	83.023	81.327
Other shares and interests	1.281.769	1.025.126	0	0	1.281.769	1.025.126
Other investments	293.940	287.664	50.017	66.740	343.957	354.404
Assets held for sale	0	0	11.543	870	11.543	870
<b>Total</b>	<b>1.658.732</b>	<b>1.394.117</b>	<b>61.560</b>	<b>67.610</b>	<b>1.720.292</b>	<b>1.461.727</b>

### Carrying amounts of financial assets

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. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
<b>Financial assets at fair value through profit or loss</b>	<b>444.747</b>	<b>341.585</b>	<b>22.819</b>	<b>30.512</b>	<b>467.566</b>	<b>372.097</b>
Set upon initial recognition	444.747	341.585	22.819	30.512	467.566	372.097
Mandatorily measured at fair value through profit or loss	0	0	0	0	0	0
<b>Financial assets at amortised cost</b>	<b>170.073</b>	<b>170.250</b>	<b>18.642</b>	<b>23.769</b>	<b>188.715</b>	<b>194.019</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>1.043.912</b>	<b>882.282</b>	<b>20.099</b>	<b>13.329</b>	<b>1.064.011</b>	<b>895.611</b>
Debt instruments	57.051	66.334	8.556	12.459	65.607	78.793
Equity instruments	986.861	815.948	11.543	870	998.404	816.818
<b>Total</b>	<b>1.658.732</b>	<b>1.394.117</b>	<b>61.560</b>	<b>67.610</b>	<b>1.720.292</b>	<b>1.461.727</b>

### Changes in investments in 2021

in EUR 000

	31 Dec. 2020	Acquisitions	Disposals, maturity	Revaluation	31 Dec. 2021
Investments at fair value through profit or loss	372.097	84.702	-30.513	41.280	<b>467.566</b>
Investments at amortised cost	194.019	18.382	-27.365	3.679	<b>188.715</b>
Investments at fair value through other comprehensive income	895.611	4.008	-63.691	228.083	<b>1.064.011</b>
<b>Total</b>	<b>1.461.727</b>	<b>107.092</b>	<b>-121.569</b>	<b>273.042</b>	<b>1.720.292</b>

### Changes in investments in 2020

	31 Dec. 2019	Acquisitions	Disposals, maturity	Revaluation	in EUR 000 31 Dec. 2020
Investments at fair value through profit or loss	286.468	115.192	-33.653	4.090	372.097
Investments at amortised cost	178.925	28.529	-17.700	4.265	194.019
Investments at fair value through other comprehensive income	886.926	1.369	-51.077	58.393	895.611
<b>Total</b>	<b>1.352.319</b>	<b>145.090</b>	<b>-102.430</b>	<b>66.748</b>	<b>1.461.727</b>

### Investments by type of interest rate

	31 Dec. 2021	31 Dec. 2020
<b>Debt investments</b>	<b>321.529</b>	<b>331.977</b>
Fixed interest rate	319.264	329.726
Variable interest rate	2.265	2.251
<b>Loans and deposits</b>	<b>33.867</b>	<b>23.821</b>
Fixed interest rate	33.867	23.821
Variable interest rate	0	0
<b>Total</b>	<b>355.396</b>	<b>355.798</b>

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

ISIN code	EUR 31 Dec. 2021	ISIN code	EUR 31 Dec. 2021	ISIN code	EUR 31 Dec. 2021
CH0012032048	1.306.356	LU0290358224	2.153.331	SI0031102005	2.573
CNE1000003G1	712.305	LU0524480265	5.452.272	SI0031102120	412.192.880
DE0005933931	6.191.397	LU1650488494	3.262.468	SI0031102153	87.702.136
DE0008404005	3.565.351	LU1681044480	1.273.256	SI0031102187	114
DE0008430026	3.143.193	LU1681044563	2.058.717	SI0031102799	0
DE000A2GS401	648.524	LU1923627092	772.488	SI0031103151	5
DSI000001003	2.458.164	NL0000009538	1.244.480	SI0031103367	855
ELAN INVENTA, D. O. O.	602.000	PLINHOLD, D. O. O.	209.327	SI0031103375	9
ES0178430E18	356.984	PS ZA AVTO, D. O. O.	348.326	SI0031103706	3.017.200
FR0000120578	1.793.302	SI0021100134	0	SI0031103748	0
GOSPODARSKO RAZSTAVIŠČE, D. O. O.	1.048.713	SI0021110083	120	SI0031103805	42.207.417
IE0032523478	4.370.041	SI0021110323	200	SI0031104290	20.522.891
IE00B3B8PX14	1.075.253	SI0021110513	19.952.016	SI0031104399	1.531
IE00B3DWVS88	21.323.539	SI0021111313	28.890	SI0031104555	0
IE00B3F81R35	3.767.162	SI0021111651	7.066	SI0031104597	624.957
IE00B4L5Y983	12.526.177	SI0021112105	54	SI0031104621	60.720
IE00B4WXJJ64	3.149.664	SI0021112212	1.361.985	SI0031104829	1.692.029
IE00B5ZR2157	288.532	SI0021113111	4.772	SI0031104845	0
IE00B60SX394	43.879.750	SI0021113855	3.433	SI0031105024	11.309.130
IE00B66F4759	2.023.666	SI0023200122	0	SI0031105271	171
IE00B87RLX93	1.649.850	SI0031100090	110	SI0031105396	2
IE00BC7GZW19	387.171	SI0031100215	767	SI0031105529	594.671
IE00BJOKDQ92	16.318.069	SI0031100637	4.139.205	SI0031105602	10
IE00BSKRK281	3.754.013	SI0031100793	9.913	SI0031105677	1.241.496
INFORMATIKA, D. O. O.	3.772	SI0031101346	16.996.528	SI0031106907	0
JE00B1VS3770	1.516.776	SI0031101494	103	SI0031107079	39
JP3304200003	1.049.676	SI0031101577	0	SI0031107293	6.815
LU0274208692	39.163.143	SI0031101619	2.035	SI0031107459	1.220
LU0290355717	10.444.938	SI0031101700	0	SI0031107582	0
LU0290357929	3.083.637	SI0031101999	61	SI0031107673	1.317.396



ISIN code	EUR 31 Dec. 2021
SI0031107772	14.223
SI0031107913	0
SI0031107954	4.987.472
SI0031107996	0
SI0031108184	0
SI0031108200	120
SI0031108259	194
SI0031108564	92
SI0031108580	2.040.455
SI0031108846	2.261
SI0031108887	49
SI0031108994	1.670.263
SI0031109034	28
SI0031109109	0
SI0031109380	0
SI0031109463	109
SI0031109562	645
SI0031109646	586.818
SI0031109661	0
SI0031109737	1.786
SI0031109927	3.422
SI0031110248	10.188
SI0031110412	2.296
SI0031110495	50
SI0031110677	0
SI0031111576	0
SI0031111816	3.143
SI0031112053	16
SI0031112772	0
SI0031113143	10.454.498

ISIN code	EUR 31 Dec. 2021
SI0031113184	17.221
SI0031113309	0
SI0031113432	0
SI0031113481	8
SI0031113788	1.585
SI0031113929	0
SI0031114281	0
SI0031114307	0
SI0031114406	156
SI0031114455	29.642
SI0031114596	0
SI0031114604	9.120
SI0031114893	1.064
SI0031114984	3.608
SI0031115767	0
SI0031115775	0
SI0031115866	5.311
SI0031115940	0
SI0031116062	1.384
SI0031116104	2
SI0031116138	63
SI0031116815	0
SI0031117144	4.559
SI0031117268	0
SI0031117318	17.047.543
SI0031117441	5.964
SI0031117813	11.543.051
SI0031117821	1.682.170
SI0031200239	128.121
SI0031200304	0

ISIN code	EUR 31 Dec. 2021
SI0031200429	3.183
SI0031200791	0
SM STROJKOPLAST MARIBOR, D. O. O.	96.429
US02079K1079	5.073.874
US02079K3059	5.067.134
US17275R1023	1.636.116
US1912161007	4.093.363
US4642861037	1.382.246
US4642864007	808.072
US4642865095	2.673.202
US4642867729	2.954.536
US4642873412	1.191.388
US4642877397	3.742.813
US4642887453	7.487.566
US46434G1031	6.447.925
US46434G8226	8.217.764
US5949181045	12.325.596
US68389X1054	3.885.411
US78462F1030	14.633.767
US81369Y2090	4.622.277
US81369Y3080	3.368.031
US81369Y5069	2.695.126
US81369Y6059	4.175.309
US81369Y7040	2.802.666
US81369Y8030	14.967.619
US81369Y8600	1.585.543
US8816242098	164.783
US91912E1055	369.179
US92189F7006	6.465.493

Due to favourable market conditions and provision of liquidity, the Group in 2021 disposed of equity investments in the total value of EUR 36,610 (2020: EUR 17,278 thousand). The cumulative effect of the sale of equity instruments measured at fair value through other comprehensive income is EUR 9,337 (2020: EUR 8,302 thousand) and is recognised under profit/loss brought forward.

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

Asset	in EUR 000	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	467.566	467.566
Financial assets at amortised cost	188.715	203.135
Financial assets at fair value through other comprehensive income	1.064.011	1.064.011
Investments in loans	33.867	33.867
Cash	31.580	31.580
<b>Total</b>	<b>1.785.739</b>	<b>1.800.159</b>

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

Asset	in EUR 000	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	372.097	372.097
Financial assets at amortised cost	194.019	216.402
Financial assets at fair value through other comprehensive income	895.611	895.611
Investments in loans	23.821	23.821
Cash	14.723	14.723
<b>Total</b>	<b>1.500.271</b>	<b>1.522.654</b>

**Fair value hierarchy as at 31 December 2021**

	in EUR 000			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>	<b>1.262.165</b>	<b>175.591</b>	<b>93.821</b>	<b>1.531.577</b>
Investments valued at fair value through profit or loss	390.619	42.723	34.224	467.566
Investments at fair value through other comprehensive income	871.546	132.868	59.597	1.064.011
<b>Financial assets for which the fair value is disclosed</b>	<b>214.436</b>	<b>19.791</b>	<b>67.967</b>	<b>302.193</b>
Investments at amortised cost	182.856	17.080	3.200	203.135
Investments in loans	0	0	33.867	33.867
Cash	31.580	0	0	31.580
Investment property	0	2.711	30.900	33.611
<b>Total</b>	<b>1.476.601</b>	<b>195.381</b>	<b>161.787</b>	<b>1.833.770</b>

### **Level 1**

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

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

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

### **Level 3**

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

Level 3 also includes investments in commercial papers of Slovenian issuers. The prices of commercial papers are calculated using the theoretical (amortised) cost of the papers, which is calculated according to the interest rate associated with an individual purchase.

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

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

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

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

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

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

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

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

The fair value of shares of Sava, d. d., was estimated on the basis of the asset-based approach and using the net asset method under the going concern assumption. The value of Sava, d. d. shares was estimated for the non-controlling interest. The value of the investment in Sava Turizem, d. d., which accounts for the biggest investment of the company, was estimated by applying the income approach, and using the discounted free cash flow method. The free cash flow of Sava Turizem, d. d. is discounted at a discount rate of 10.46 %, and the remaining normalized cash flow growth is 2%.

The fair value of Gospodarsko razstavišče, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.21 % discount rate. The remaining growth rate of normalised cash flow is 2 %.

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

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

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

## Fair value hierarchy as at 31 December 2020

	in EUR 000			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>	<b>1.023.179</b>	<b>156.176</b>	<b>88.353</b>	<b>1.267.708</b>
Investments valued at fair value through profit or loss	298.188	41.280	32.629	372.097
Investments at fair value through other comprehensive income	724.991	114.896	55.724	895.611
<b>Financial assets for which the fair value is disclosed</b>	<b>214.481</b>	<b>17.373</b>	<b>57.088</b>	<b>288.942</b>
Investments at amortised cost	199.758	12.922	3.722	216.402
Investments in loans	0	0	23.821	23.821
Cash	14.723	0	0	14.723
Investment property	0	4.451	29.545	33.996
<b>Total</b>	<b>1.237.660</b>	<b>173.549</b>	<b>145.441</b>	<b>1.556.650</b>

### Level 1

Level 1 included investments owned by Kapitalska družba, d. d. and Modra zavarovalnica, d. d. whose fair value was determined on the basis of quoted prices achieved in an active market. An active market was 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 included investments with a stock exchange as the principal market and the average daily stock exchange turnover in the previous 180 days up to the date of the fair value measurement exceeding EUR 0.5 million, taking into account the number of trading days (in the case of the Ljubljana Stock Exchange, the average daily turnover higher than EUR 0.1 million is taken into account for investments owned by Kapitalska družba, d. d., while this does not apply when determining an active market for investments owned by Modra zavarovalnica, d. d.). Level 1 also included 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 comprised 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 the case of the Ljubljana Stock Exchange, the average daily turnover lower than EUR 0.1 million is taken into account for investments owned by Kapitalska družba, d. d., while this does not apply when determining an 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 included investments in collective investment trusts for which the assumption of an active market is not fulfilled.

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

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

The estimated fair value of property, plant and equipment was higher than the carrying amount of property, plant and equipment as at 31 December 2020. The fair value of property, plant and equipment was estimated on the basis of the estimated fair value of investment property as at 31 December 2018.

### Level 3

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

Level 3 also included investments in commercial papers of Slovenian issuers. The prices of commercial papers are calculated using the theoretical (amortised) cost of the papers, which is calculated according to the interest rate associated with an individual purchase.

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

The valuation of Level 3 investment property was performed applying the income approach and the direct capitalisation method.

The valuations of investment property – business premises Stekleni dvor and business premises in Bežigranski dvor – were prepared as at 31 December 2018 using the income approach and the direct capitalization method, which includes the following assumptions: a 8.19 % capitalization rate, a 6.67 % deduction for vacancy and a 1.33 % deduction for irrecoverability. The San Simon hotel complex investment property was appraised on 31 October 2020 using the income approach.

The valuations of investment property – business premises in Nebotičnik and Glavarjeva rezidenca were prepared on 31 December 2018 using the market comparison approach. The land and garage in the San Simon Resort were appraised on 31 October 2020 using the market comparison approach.

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

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

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

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

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

The fair value of the shares of Loterija Slovenije, d. d. was estimated by applying the income approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.7% discount rate. The remaining growth rate of normalised cash flow was 1.5%.

The fair value of shares of Sava, d. d., was estimated on the basis of the asset-based approach and using the net asset method under the going concern assumption. The was value of the investment in Sava Turizem, d. d., which accounts for the biggest investment of the company, was estimated by applying the income

approach, and using the discounted free cash flow method. The free cash flow of Sava Turizem, d. d. was discounted at a discount rate of 9.39 %, while the remaining normalized cash flow growth was 2%.

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

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

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

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

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

**Table 31:** Changes in Level 3 investments

	in EUR 000	
Item	2021	2020
Opening balance	145.441	179.892
Disposals/maturity	-20.236	-22.759
Acquisitions	29.395	13.102
Revaluation	1.353	-22.472
Reclassifications	5.835	-2.322
Closing balance	161.787	145.441

**Table 32:** Transition between levels of fair value hierarchy 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	Total
Investments at fair value through profit or loss	0	2.077	0	0	2.077
Investments at fair value through other comprehensive income	3	2.229	5133	1.786	9.150
<b>Total</b>	<b>3</b>	<b>4.306</b>	<b>5.133</b>	<b>1.786</b>	<b>11.227</b>

**Table 33:** Transition between levels of fair value hierarchy as at 31 December 2020

	in EUR 000				
Transition between hierarchy levels, portfolio as at 31 Dec. 2020	From Level 1 to Level 2	From Level 2 to Level 3	From Level 3 to Level 1	From Level 3 to Level 2	Total
Investments at fair value through other comprehensive income	6	671	41	4.467	5.185
<b>Total</b>	<b>6</b>	<b>671</b>	<b>41</b>	<b>4.467</b>	<b>5.185</b>

Table 34: Effective interest rate by investment groups

	2021	2020
Investments at amortised cost	1,90 %	2,27 %
Investments at fair value through other comprehensive income	3,05 %	3,24 %

#### Note no. 18

##### Loans to others

	in EUR 000					
	Long-term		Short-term		Total	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Loans to others	16.249	9.805	17.618	14.016	33.867	23.821
<b>Total</b>	<b>16.249</b>	<b>9.805</b>	<b>17.618</b>	<b>14.016</b>	<b>33.867</b>	<b>23.821</b>

Loans to others represent deposits given to banks and Slovenian institutions. Loans to others are not pledged.

#### Note no. 19

##### Operating receivables

	in EUR 000					
	Non-current		Current		Total	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Trade receivables	0	0	3.448	3.606	3.448	3.606
Operating receivables due from others	197	168	4.352	3.995	4.549	4.163
Other operating receivables	0	0	53.090	52.554	53.090	52.554
<b>Total</b>	<b>197</b>	<b>168</b>	<b>60.890</b>	<b>60.155</b>	<b>61.087</b>	<b>60.323</b>

Long-term operating receivables due from others in the amount of EUR 197 thousand represented payments into the reserve fund for the maintenance of property (in 2020, EUR 168 thousand were paid into the reserve fund).

Short-term operating receivables equalled EUR 60,890 thousand (31 December 2020: EUR 60,155 thousand), most of which refer to short-term deferred expenses arising from the payment to the Pension and Disability Insurance Institute for 2022 in the amount of EUR 50,000 thousand.

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. 2021	Not due	Up to 30 days	31 days to 60 days	61 days to 90 days	91 days to 180 days	181 days to 365 days
3.448	3.446	0	0	0	0	2

in EUR 000

31 Dec. 2020	Not due	Up to 30 days	31 days to 60 days	61 days to 90 days	91 days to 180 days	181 days to 365 days
3.606	3.099	2	2	477	0	26

### Note no. 20

#### Cash

in EUR 000

	31 Dec. 2021	31 Dec. 2020
Bank balances	24.580	3.663
Deposits redeemable at notice	7.000	11.060
<b>Total</b>	<b>31.580</b>	<b>14.723</b>

### Note no. 21

#### Equity

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

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

### Note no. 22

#### Capital surplus

in EUR 000

Capital surplus	
1 Jan. 2021	217.625
Increase in capital surplus	214
<b>31 Dec. 2021</b>	<b>217.839</b>

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

in EUR 000

#### Capital surplus

1 Jan. 2020	217.494
Increase in capital surplus	131
31 Dec. 2020	217.625

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

#### Note no. 23

##### Changes in reserves arising from valuation at fair value

in EUR 000

Changes in reserves arising from valuation at fair value and deferred taxes in equity	2021	2020
Gross reserves from valuation at fair value as at 1 Jan.	440.829	395.458
Deferred tax as at 1 Jan.	56.493	53.253
<b>Net reserves arising from valuation at fair value as at 1 Jan.</b>	<b>384.336</b>	<b>342.205</b>
Changes during the year – gross decrease in reserves	185.474	59.146
Gross reserves arising from valuation at fair value as at 31 Dec.	19.691	-13.775
<b>Adjustments (criteria: 8%, 6 months)</b>	<b>645.994</b>	<b>440.829</b>
Deferred tax as at 31 Dec.	-221.095	-157.172
<b>Net reserves arising from valuation at fair value as at 31 Dec.</b>	<b>424.899</b>	<b>283.657</b>
Deferred tax as at 31 Dec.	84.783	56.493
<b>Net reserves arising from valuation as fair value as at 31 Dec.</b>	<b>561.211</b>	<b>384.336</b>

#### Note no. 24

##### Financial liabilities

in EUR 000

	Non-current		Current		Total	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Other non-current financial liabilities	50.000	50.000	1	1	50.001	50.001
<b>Total</b>	<b>50.000</b>	<b>50.000</b>	<b>1</b>	<b>1</b>	<b>50.001</b>	<b>50.001</b>

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

As at 31 December 2021, Modra zavarovalnica, d. d. disclosed EUR 1 thousand of financial liabilities from interest on deposits (31 December 2020: EUR 1 thousand).

### Maturity of financial liabilities

	in EUR 000
	31 Dec. 2021
Up to 1 year overdue	1
1 to 2 years	50.000
2 to 5 years	0
Over 5 years	0
<b>Total</b>	<b>50.001</b>

	in EUR 000
	31 Dec. 2020
Up to 1 year overdue	1
1 to 2 years	50.000
2 to 5 years	0
Over 5 years	0
<b>Total</b>	<b>50.001</b>

### Note no. 25

#### Operating liabilities

	in EUR 000					
	Non-current		Current		Total	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Trade payables	0	0	706	2.975	706	2.975
Operating liabilities from advances	3	10	0	0	3	10
Liabilities to the state	0	0	50.262	50.439	50.262	50.439
Corporate income tax liabilities	0	0	3.441	109	3.441	109
Other operating liabilities	72	123	10.204	6.804	10.276	6.927
<b>Total</b>	<b>75</b>	<b>133</b>	<b>64.613</b>	<b>60.327</b>	<b>64.688</b>	<b>60.460</b>

Non-current operating liabilities from advances relate to security deposits received from the lessees of business premises in the amount of EUR 3 thousand (31 December 2020: EUR 10 thousand). Other non-current operating liabilities comprise mainly liabilities for the payment of variable remuneration of the Management Board in the amount of EUR 72 thousand (31 December 2020: EUR 123 thousand).

Current operating liabilities include trade payables of EUR 706 thousand (31 December 2020: EUR 2,975 thousand, the largest portion, EUR 2,240 thousand, representing the liability for the payment of investment property), liabilities to the state of EUR 50,262 thousand (31 December 2020: EUR 50,439 thousand), the largest part of which, EUR 50,000 thousand, referring to payment obligation to the Pension and Disability Insurance Institute in 2022, corporate income tax liabilities of EUR 3,441 thousand (31 December 2020: EUR 109 thousand) and other operating liabilities of EUR 10,204 thousand (31 December 2020: EUR 6,804 thousand). The largest portion of other current operating liabilities amounting to EUR 9,192 thousand (31 December 2020: EUR 5,909 thousand) comprises short-term deferred income of KS MR II arising from the premiums received from insured persons who expressed their intention based on the indicative calculation to take out insurance as of 1 January 2022.

### Operating liabilities maturity

in EUR 000

31 Dec. 2021	Maturity of up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Trade payables	706	0	0	0	706
Operating liabilities from advances	0	0	3	0	3
Liabilities to the state	50.262	0	0	0	50.262
Corporate income tax liabilities	3.441	0	0	0	3.441
Other operating liabilities	10.204	72	0	0	10.276
<b>Total</b>	<b>64.613</b>	<b>72</b>	<b>3</b>	<b>0</b>	<b>64.688</b>

### Note no. 26

#### Provisions and long-term accrued costs and deferred revenue

in EUR 000

	Provisions for pensions and similar liabilities	Other provisions	Technical provisions	Total
1 Jan. 2021	510	16.304	260.226	277.040
Newly created during the period	98	58	66.412	66.568
Utilisation	-21	0	-32.964	-32.985
Reversal	0	-7.399	0	-7.399
<b>31 Dec. 2021</b>	<b>587</b>	<b>8.963</b>	<b>293.674</b>	<b>303.224</b>

in EUR 000

	Provisions for pensions and similar liabilities	Other provisions	Technical provisions	Total
1 Jan. 2020	497	12.322	223.389	236.208
Newly created during the period	19	5.358	66.909	72.286
Utilisation	-6	0	-30.072	-30.078
Reversal	0	-1.376	0	-1.376
<b>31 Dec. 2020</b>	<b>510</b>	<b>16.304</b>	<b>260.226</b>	<b>277.040</b>

At the end of 2021, the Kapitalska družba Group created provisions for termination benefits and jubilee benefits amounting to EUR 98 thousand (2020: EUR 19 thousand). EUR 21 thousand of provisions were utilised (2020: EUR 6 thousand). At the end of 2021, provisions for termination benefits and jubilee benefits amounted to EUR 587 thousand (2020: EUR 510 thousand).

In 2021, the Group reversed other provisions in the amount of EUR 55 thousand for the shortfall of KS MR assets and EUR 3 for the non-achievement of the guaranteed return of the SODPZ fund (2020: EUR 5,358 thousand arising from the liability adequacy test and for the deficit of guarantee fund assets). In 2021, the Group reversed EUR 1,960 thousand of other provisions for the failure to achieve the guaranteed return of mutual funds and EUR 5,439 thousand of provisions for liability adequacy test for the KS MR and MS MR II funds (2020: EUR 1,007 thousand for failure to achieve the guaranteed return and EUR 369 thousand for onerous contracts).

In 2021, technical provisions in the Group increased by EUR 66,412 thousand (2020: EUR 66,909 thousand) due to the inflow of funds, while EUR 32,964 thousand of those provisions were utilised (2020: EUR 30,072 thousand).

### Technical provisions

in EUR 000

Item	31 Dec. 2021	31 Dec. 2020
KS PPS technical provisions	102.417	97.997
KS MR technical provisions	12.051	14.245
KS MR II technical provisions	179.205	147.978
Technical provisions of the accident segment	1	6
<b>Total</b>	<b>293.674</b>	<b>260.226</b>

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

### Changes in technical provisions

in EUR 000

Technical provisions	2021	2020
Opening balance	260.226	223.389
Change through profit or loss	33.326	36.787
Changes in claims provisions and adjustments	122	50
<b>Closing balance</b>	<b>293.674</b>	<b>260.226</b>

Technical provisions increased in 2021 and 2020 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 1 Jan. 2021	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
<b>Balance as at 31 Dec. 2021</b>	<b>102.417</b>	<b>12.050</b>	<b>179.206</b>	<b>1</b>	<b>293.674</b>

in EUR 000

Changes in technical provisions	KS PPS	KS MR	KS MR II	Accident insurance	Total
Balance as at 1 Jan. 2020	99.331	16.803	107.230	26	223.390
Increase	5.179	311	61.369	0	66.859
Decrease	-6.580	-2.869	-20.624	0	-30.073
Change in claims provisions	67	0	3	-20	50
<b>Balance as at 31 Dec. 2020</b>	<b>97.997</b>	<b>14.245</b>	<b>147.978</b>	<b>6</b>	<b>260.226</b>

## Disclosures of insurance contracts

### Composition of long-term insurance contracts

Table 35: Present gross value of future payments

	in EUR 000	
Guarantee fund	31 Dec. 2021	31 Dec. 2020
KS PPS	92.559	94.255
KS MR	12.047	14.241
KS MR II	178.755	147.336
<b>Total</b>	<b>283.360</b>	<b>255.832</b>

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

Table 36: 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
<b>Total</b>	<b>283.361</b>	<b>9.111</b>	<b>1.201</b>	<b>293.673</b>

Table 37: Composition of technical provisions as at 31 December 2020

	in EUR 000			
Fund	TP for life insurance based on policies	TP for life insurance – surplus	Claims provisions	Total
KS PPS	94.255	2.675	1.067	97.997
KS MR	14.241	0	4	14.245
KS MR II	147.336	638	4	147.978
<b>Total</b>	<b>255.832</b>	<b>3.313</b>	<b>1.075</b>	<b>260.220</b>

Technical provisions based on individual KS PPS policies as at 31 December 2021 deviate from total technical provisions by the amount of provisions for the equalisation of yield experience amounting to EUR 8,674 thousand (2020: EUR 2,675 thousand) and claims provisions totalling EUR 1,184 thousand (2020: EUR 1,067). 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 PPS policies as at 31 December 2021 deviated from total technical provisions by the amount of claims provisions totalling EUR 4 thousand (2020: 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 2021 deviate from total technical provisions by the amount of provisions for the allocated part of profit of EUR 36 thousand (EUR 272 thousand at the end of 2020), unallocated part of profit of EUR 401 thousand (EUR 365 thousand at the end of 2020) and claims provisions totalling EUR 13 thousand (EUR 4 thousand in 2020). 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 2021 published by EIOPA and observes the effect of expected asset returns valued at amortised cost.

The liability adequacy test as at 31 December 2021 showed that the mathematical provisions for KS PPS were adequate, whereas a deficit of EUR 199 thousand and EUR 2,879 thousand was identified for KS MR and of EUR 2,879 thousand for KS MR II.

### Changes in interest rates/returns

Table 38: Changes in interest rates/returns for KS PPS

	in EUR 000	
Change in liabilities/provisions	31 Dec. 2021	31 Dec. 2020
Increase in return by 0.25 percentage points	-2.590	-2.670
Decrease in return by 0.25 percentage points	2.719	2.804

Table 39: Changes in interest rates/returns for KS MR

	in EUR 000	
Change in liabilities/provisions	31 Dec. 2021	31 Dec. 2020
Increase in return by 0.25 percentage points	-240	-266
Decrease in return by 0.25 percentage points	251	278

Table 40: Changes in interest rates/returns for KS MR III

	in EUR 000	
Change in liabilities/provisions	31 Dec. 2021	31 Dec. 2020
Increase in return by 0.25 percentage points	-3.672	-2.732
Decrease in return by 0.25 percentage points	3.840	2.851

## Change in mortality

Table 41: Change in mortality for KS PPS

	in EUR 000	
Change in liabilities/provisions	31 Dec. 2021	31 Dec. 2020
Increase in mortality probability by 10%	-3.537	-3.530
Decrease in mortality probability by 10%	4.047	4.037

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 3,537 (EUR 2020: EUR 3,530 thousand). Annuity tables DAV2004R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 42: Change in mortality for KS MR

	in EUR 000	
Change in liabilities/provisions	31 Dec. 2021	31 Dec. 2020
Increase in mortality probability by 10%	-248	-250
Decrease in mortality probability by 10%	281	282

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 248 (EUR 2020: EUR 250 thousand). Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 43: Change in mortality for KS MR II

	in EUR 000	
Change in liabilities/provisions	31 Dec. 2021	31 Dec. 2020
Increase in mortality probability by 10%	-1.640	-1.194
Decrease in mortality probability by 10%	1.849	1.340

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 1,640 (EUR 2020: EUR 1,194 thousand). Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

## 17.3.3 Managing the risks arising from financial assets

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

### Credit risk

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



**Table 44:** Exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2021

in EUR 000

Financial assets at amortised cost						Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Cash	Total
Internal rating	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)	Net exposure	Net exposure		Total net exposure
Low-risk investments	AAA	0		4.484	4.484	2.929	7.387	0	14.800
	AA	-2	12-month expected losses	18.117	18.115	3.818	15.349	0	37.283
	A	-10		85.166	85.156	33.960	13.867	0	132.983
	BBB	-50		76.921	76.871	22.039	28.884	3.453	131.247
Total secure investments	-63			184.688	184.625	62.747	65.488	3.453	316.313
Less secure investments	BB	-131		29.519	29.388	2.860	1.718	0	33.966
	B	-317		8.886	8.569	0	0	0	8.569
	CCC	0	12-month/life-time expected losses	0	0	0	0	0	0
	CC	0		0	0	0	0	0	0
	C	0		0	0	0	0	0	0
	brez bonitetne ocene	0		7.000	7.000	0	2	19.535	26.537
Total less secure investments	-448			45.405	44.957	2.860	1.720	19.535	69.072
Impaired investments	D	0	Impairment through profit or loss in the amount of expected loss	0	0	0	22.427	0	22.427
Total impaired investments		0		0	0	0	22.427	0	22.427
Total		-511		230.093	229.582	65.607	89.635	22.988	407.812

Financial assets were classified into the stated groups based on credit ratings. Secure investments include all AAA to BBB rated investments, less secure investments comprise investments with a credit rating below BB to C and investments that do not have a rating assigned to them by a recognised credit rating agency, while impaired investments are given a D credit rating. Less secure investments mainly comprise investments of Slovenian issuers, cash and a deposit redeemable at notice, while impaired investments refer to an investment in financial receivable.

Table 45: Exposure of financial assets to credit risk, excluding any collaterals, as at 31 December 2020

in EUR 000

Financial assets at amortised cost						Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Cash	Total
Internal rating	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)	Net exposure	Net exposure		Total net exposure
Low-risk investments	AAA	0	12-month expected losses	3.521	3.521	3.018	9.310	0	15.849
	AA	-2		15.902	15.900	3.946	8.341	0	28.187
	A	-15		88.376	88.361	43.043	11.207	0	142.611
	BBB	-60		67.494	67.434	25.965	28.440	0	121.839
Total secure investments		-77		175.292	175.215	75.973	57.299	0	308.487
Less secure investments	BB	-257	12-month/life-time expected losses	39.859	39.602	2.820	0	2.360	44.784
	B	-79		3.100	3.021	0	1.865	0	4.886
	CCC	0		0	0	0	0	0	0
	CC	0		0	0	0	0	0	0
	C	0		0	0	0	0	0	0
	brez bonitetne ocene	0		10.400	10.400	0	2	1.162	11.564
Total less secure investments		-336		53.359	53.023	2.820	1.867	3.522	61.234
Impaired investments	D	0	Impairment through profit or loss in the amount of expected loss	0	0	0	22.427	0	22.427
Total impaired investments		0		0	0	0	22.427	0	22.427
		-413		228.652	228.240	78.793	81.593	3.522	392.147
Total									

**Table 46:** Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2021

	in EUR 000		
Category	Stage 1	Stage 2	Stage 3
<b>Allowances for losses as at 31 Dec. 2020</b>	<b>291</b>	<b>179</b>	<b>0</b>
Transfer to stage 1	0	0	0
Transfer to stage 2	0	295	0
Transfer to stage 3	0	0	0
Financial assets derecognised in the period	-66	-49	0
Financial assets acquired in the period	128	0	0
Other changes	-158	-83	0
<b>Allowances for losses as at 31 Dec. 2021</b>	<b>195</b>	<b>342</b>	<b>0</b>

**Table 47:** Changes in value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2020

	in EUR 000		
Category	Stage 1	Stage 2	Stage 3
<b>Allowances for losses as at 1 Jan. 2020</b>	<b>243</b>	<b>133</b>	<b>0</b>
Transfer to stage 1	0	0	0
Transfer to stage 2	-1	134	0
Transfer to stage 3	0	0	0
Financial assets derecognised in the period	-84	-73	0
Financial assets acquired in the period	117	0	0
Other changes	16	-15	0
<b>Allowances for losses as at 31 Dec. 2020</b>	<b>291</b>	<b>179</b>	<b>0</b>

**Table 48:** Changes in gross carrying amount and value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2021

	in EUR 000	
Category	Gross carrying amount	Allowances for losses
<b>As at 31 Dec. 2020</b>	<b>343.639</b>	<b>470</b>
Transfer to stage 1	0	0
Transfer to stage 2	4.296	295
Transfer to stage 3	0	0
Financial assets derecognised in the period	-14.896	-115
Financial assets acquired in the period	31.882	128
Other changes	-36.729	-241
<b>As at 31 Dec. 2021</b>	<b>328.192</b>	<b>537</b>

**Table 49:** Changes in gross carrying amount and value adjustments for loss of investments valued at amortized cost and investments valued through other comprehensive income in 2020

	in EUR 000	
Category	Gross carrying amount	Allowances for losses
<b>As at 31 Dec. 2019</b>	<b>382.796</b>	<b>375</b>
Transfer to stage 1	0	0
Transfer to stage 2	2.383	134
Transfer to stage 3	0	0
Financial assets derecognised in the period	-74.130	-157
Financial assets acquired in the period	37.498	117
Other changes	-4.908	1
<b>As at 31 Dec. 2020</b>	<b>343.639</b>	<b>470</b>

**Table 50:** Geographical concentration of credit exposure of financial assets

	in EUR 000	
Region	31 Dec. 2021	31 Dec. 2020
Slovenia	188.524	183.812
Other countries	219.288	208.335
<b>Total</b>	<b>407.812</b>	<b>392.147</b>

The table only shows investments with credit risk. The share of financial assets exposed to credit risk in Slovenia decreased from 47% to 46% in 2021.

## Foreign exchange risk

**Table 51:** Currency structure of financial assets

	in EUR 000	
Currency	31 Dec. 2021	31 Dec. 2020
Assets denominated in EUR	1.517.783	1.294.362
Assets denominated in USD	259.812	202.896
Assets denominated in other currencies	8.143	3.013
<b>Total</b>	<b>1.785.739</b>	<b>1.500.271</b>

As at 31 December 2021, 85.0% of financial assets were denominated in euro, 14.5% in US dollar and 0.5% in other currencies. The currency structure of financial assets is monitored considering the currency in which the underlying instrument is denominated. Currency risk increased due to a higher exposure of investments in USD. As regards investments in investment fund units, the effect of currency fluctuation in securities representing investments of investment funds was not taken into account.

Table 52: Currency risk of financial assets

	in EUR 000	
USD exchange rate fluctuation by +/- 10 %	31 Dec. 2021	31 Dec. 2020
Impact on the income statement	+/-11.151	+/-8.393
Effect on equity	+/- 14.830	+/- 11.897
<b>Total</b>	<b>+/- 25.981</b>	<b>+/- 20.290</b>

### Interest rate risk

Interest rate risk is related to investments that respond to changes in market interest rates. These include investments whose income is linked to variable interest rates and investments whose interest income is linked to a fixed interest rate despite the fact their market value changes upon any fluctuation of the level of market interest rates. Due to decreasing interest rates, the assets were mostly exposed to the risk of reinvestment. The exposure to interest rate risk is regularly measured by the modified duration indicator.

Table 53: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2021 – change in interest rates by 100 basis points

	in EUR 000			
Financial asset group	Change in interest rate	Sensitivity of interest revenue	Impact on fair value	Total
Investments at fair value through profit or loss	+/- 1 %	+/- 1.508	-/+ 14.299	-/+ 12.791
Investments at amortised cost	+/- 1 %	+/- 0	-/+ 0	-/+ 0
Investments at fair value through other comprehensive income	+/- 1 %	+/- 322	-/+ 5.186	-/+ 4.864
<b>Total</b>		<b>+/- 1.830</b>	<b>-/+ 19.485</b>	<b>-/+ 17.655</b>

Table 54: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2020 – change in interest rates by 100 basis points

	in EUR 000			
Financial asset group	Change in interest rate	Sensitivity of interest revenue	Impact on fair value	Total
Investments at fair value through profit or loss	+/- 1 %	+/- 789	-/+ 10.925	-/+ 10.136
Investments at amortised cost	+/- 1 %	+/- 0	-/+ 0	-/+ 0
Investments at fair value through other comprehensive income	+/- 1 %	+/- 655	-/+ 5.634	-/+ 4.979
<b>Total</b>		<b>+/- 1.444</b>	<b>-/+ 16.559</b>	<b>-/+ 15.115</b>

The calculation of the sensitivity of interest revenue was made by taking into account the investments subject to variable interest rate, whereas the impact on fair value was calculated by taking into account the investments subject to fixed interest rate, including investments in bond investment funds. If market interest rates had changed by 100 basis points, the value of the investments as at 31 December 2021 would have changed by EUR 17,655 thousand. Interest rate risk increased in 2021 thanks to increased exposure arising from the investments sensitive to changes in market interest rates and due to an increase in the average duration of the debt investment portfolio. Liabilities arising from created provisions for non-achievement of guaranteed return of SODPZ in the manager's statements are non-interest-bearing or are insignificant.

## Market risk

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

Table 55: Market risk of the equity securities portfolio

	in EUR 000	
Change of index by +/-10%	31 Dec. 2021	31 Dec. 2020
Impact on the income statement	+/- 14.062	+/- 13.787
Effect on equity	+/- 16.709	+/- 59.016
<b>Total</b>	<b>+/- 30.771</b>	<b>+/- 72.803</b>

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

Table 56: Financial instruments in terms of marketability

	in EUR 000	
Financial instrument	31 Dec. 2021	31 Dec. 2020
<b>Investments traded on a regulated market</b>	<b>1.560.728</b>	<b>1.318.780</b>
Investments at fair value through profit or loss	409.815	318.543
Investments at amortised cost	145.269	165.546
Investments at fair value through other comprehensive income	1.005.644	834.691
<b>Investments not traded on a regulated market</b>	<b>159.564</b>	<b>142.947</b>
Investments at fair value through profit or loss	57.751	53.554
Investments at amortised cost	43.446	28.473
Investments at fair value through other comprehensive income	58.367	60.920
<b>Total</b>	<b>1.720.292</b>	<b>1.461.727</b>

At the end of 2021, assets traded on regulated stock markets accounted for 91 % of financial instruments (investments in securities and an investment in financial receivable are taken into account) or 80 % of total assets of the Group (this group includes OTC investments and investments on the interbank market).

## Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2021, the Group recorded a total of EUR 1,493,502 thousand of surplus of expected non-discounted cash inflows over outflows. The deficit of expected undiscounted cash flows in the period of over 5 years will be covered by the surplus of expected undiscounted cash flows from the period of up to 5 years or by the sale of investments without maturity.

Table 57: Expected actual non-discounted cash flows as at 31 December 2021

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments	46.550	162.276	158.379	1.390.453	1.757.657
– at fair value through profit or loss	916	22.635	47.877	383.894	455.322
– at amortised cost	39.719	98.288	95.168	0	233.176
– at fair value through other comprehensive income	5.914	41.352	15.334	1.006.559	1.069.159
Investment in financial receivable	22.427	0	0	0	22.427
Loans and deposits given	17.627	16.257	0	0	33.884
Cash	31.580	0	0	0	31.580
Operating receivables	60.890	197	0	0	61.087
<b>Total assets</b>	<b>179.074</b>	<b>178.730</b>	<b>158.379</b>	<b>1.390.453</b>	<b>1.906.636</b>
Operating liabilities	64.613	75	0	0	64.688
Financial liabilities	1	50.000	0	0	50.001
Annuity fund liabilities	30.197	86.351	181.898	0	298.445
<b>Total liabilities</b>	<b>94.811</b>	<b>136.426</b>	<b>181.898</b>	<b>0</b>	<b>413.134</b>
<b>Difference (assets – liabilities)</b>	<b>84.263</b>	<b>42.304</b>	<b>-23.519</b>	<b>1.390.453</b>	<b>1.493.502</b>

Table 58: Expected actual non-discounted cash flows as at 31 December 2020

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments	62.080	148.107	176.080	1.112.320	1.498.587
– at fair value through profit or loss	8.585	14.558	42.033	296.468	361.643
– at amortised cost	40.099	97.497	104.964	1.442	244.002
– at fair value through other comprehensive income	13.396	36.052	29.084	814.409	892.942
Investment in financial receivable	22.427	0	0	0	22.427
Loans and deposits given	14.023	9.810	0	0	23.833
Cash	14.723	0	0	0	14.723
Operating receivables	60.155	168	0	0	60.323
<b>Total assets</b>	<b>173.408</b>	<b>158.085</b>	<b>176.080</b>	<b>1.112.320</b>	<b>1.619.893</b>
Operating liabilities	60.327	133	0	0	60.460
Financial liabilities	1	50.000	0	0	50.001
Annuity fund liabilities	30.401	81.610	164.626	0	276.637
<b>Total liabilities</b>	<b>90.729</b>	<b>131.743</b>	<b>164.626</b>	<b>0</b>	<b>387.098</b>
<b>Difference (assets – liabilities)</b>	<b>82.680</b>	<b>26.342</b>	<b>11.454</b>	<b>1.112.320</b>	<b>1.232.795</b>

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

## Contingent assets and liabilities

Table 59: Contingent assets and liabilities

	in EUR 000	
	31 Dec. 2021	31 Dec. 2020
Contingent liabilities	4.294	5.371
Contingent assets	50	50

Contingent liabilities relate to the commitments of Kapitalska družba, d. d. and Modra zavarovalnica, d. d. to purchase investment fund. Contingent assets refer to a performance guarantee received by Modra zavarovalnica, d. d.

## 17.4 Other disclosures

### Information on employee groups

The names of the members of the Management Board and other bodies are stated in the introductory part of the Annual Report of the Group, under chapter Presentation of the Kapitalska družba Group ("Predstavitel Skupine Kapitalska družba"), which covers general information about the Group. In 2021, the Kapitalska družba Group approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

### Receipts of the members of the Management Board, the Supervisory Board and employees of Kapitalska družba, d. d. with executive employment contracts

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

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

Table 60: Receipts by category of beneficiaries of Kapitalska družba, d. d. in 2021

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

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



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

Receipts of the members of the Management Board are regulated by ZSDH-1. Pursuant to Article 51(5) of ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of SDH, d. d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of supervisory body members of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the said legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, however, the basic pay of the chairman of the Management Board calculated that way may not exceed 95% of the basic pay of the chairman of the Management Board of SDH, d. d., as published, while the basic pay of members of the Management Board amounts to 95% of individual basic pay of the chairman of the Management Board of Kapitalska družba. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous financial year are published. The revised basic salary is applicable from 1 July of the current year. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2021 in line with the aforementioned criteria. Pursuant to the contract, each member of the Management Board is entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 61: Receipts of Management Board members in 2021

													in EUR 000	
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	
<b>Bachtiar Djalil</b> (Chairman of the Management Board)	124.924	23.383	451	1.569	2.819	-	-	-	-	1.200	154.346	81.293	22.830	
<b>Goranka Volf</b> (Member of the Management Board until 25 November 2021)	117.417	51.258	488	1.754	2.819	-	-	-	-	1.200	174.936	89.897	-	
<b>Gregor Bajraktarević</b> (Member of the Management Board)	118.858	22.239	451	1.723	2.819	-	-	-	689	1.200	147.979	79.344	29.271	
<b>Total</b>	<b>361.199</b>	<b>96.880</b>	<b>1.390</b>	<b>5.046</b>	<b>8.457</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>689</b>	<b>3.600</b>	<b>477.261</b>	<b>250.534</b>	<b>52.101</b>	

The fixed income of the members of the Management Board includes gross salary receipts. The variable income includes performance bonus, which equals up to 30% of the annual basic gross salary for the business year, taking into account the performance criteria. The variable income received by the Management Board relates to the first part of operating performance receipts for 2020 and to the second part of operating performance receipts for 2018, both on the basis of a combination of quantitative and qualitative criteria. The member of the Management Board whose term expired on 25 November 2021 also received the second part of the operating performance receipts for 2019. Fringe benefits include benefits from the collective casualty insurance as well as liability insurance of members of the Management Board. Cost reimbursements include reimbursement of meal and travel and/or accommodation expense and/or per diems. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other bonuses include jubilee benefits. Other payments include pay for annual leave. Deferred remuneration comprises a part of the payment of variable remuneration for 2019, which will be paid in 2022, and a part of the payment of variable remuneration for 2020, which will be paid in 2023.

**Table 62:** Receipts of Supervisory Board members in 2021

in EUR

Name and surname	Fixed income – payment for performance of duties	Fixed income – attendance fees	Fringe benefits	Variable income	Cost reimbursement	insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total Gross	Total net
<b>Stanislav Seničar</b> (Chairman of the Supervisory Board until 15 October 2021)	14.415	2.860	396	-	222	-	-	-	-	-	-	17.893	12.618
<b>Janez Tomšič</b> (Chairman of the Supervisory Board from 5 November 2021, Member of the Supervisory Board from 21 October 2021)	1.639	825	-	-	-	-	-	-	-	-	-	2.464	1.792
<b>Boris Žnidarič, PhD</b> (Deputy Chairman of the Supervisory Board, President of the Accreditation Committee)	16.224	4.521	396	-	59	-	-	-	-	-	-	21.200	15.023
<b>Aleksander Mervar, MSc</b> (Member of the Supervisory Board, Member of the Audit Committee, Member of the Accreditation Committee and Member of the HR Committee)	16.500	5.500	396	-	70	-	-	-	-	-	-	22.466	15.944
<b>Ladislav Rožič, MSc</b> (Member of the Supervisory Board, Chairman of the Audit Committee, Member of the Accreditation Committee)	16.500	5.500	396	-	-	-	-	-	-	-	-	22.396	15.893
<b>Boštjan Leskovar, MSc</b> (Member of the Supervisory Board since 21 October 2021, Chairman of the HR Committee since 5 November 2021)	1.540	1.085	-	-	148	-	-	-	-	-	-	2.773	2.017
<b>Mirko Miklavčič</b> (Member of the Supervisory Board, Member of the Audit Committee and Member of the HR Committee)	16.500	5.478	396	-	732	-	-	-	-	-	-	23.106	16.410
<b>Total</b>	<b>83.318</b>	<b>25.769</b>	<b>1.980</b>	<b>-</b>	<b>1.231</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112.298</b>	<b>79.697</b>

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

**Table 63:** Receipts of external members of the Supervisory Board Committee in 2021

in EUR

Name and surname	Fixed income – payment for performance of duties	Fixed income – attendance fees	Fringe benefits	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total Gross	Total net
<b>Mojca Verbič</b> (External Member of the Audit Committee)	3.600	1.276	-	-	48	-	-	-	-	-	-	4.924	3.581
<b>Natalija Stošički</b> (External Member of the Audit Committee)	3.600	1.496	-	-	48	-	-	-	-	-	-	5.144	3.741
<b>Irena Prijović, MSc</b> (External Member of the Accreditation Committee)	3.300	1.136	-	-	-	-	-	-	-	-	-	4.436	3.226
<b>Alenka Stanič, PhD</b> (External Member of the Accreditation Committee)	3.300	1.136	-	-	-	-	-	-	-	-	-	4.436	3.226
<b>Gorazd Žmavc</b> (External Member of the Accreditation Committee)	3.300	916	-	-	192	-	-	-	-	-	-	4.408	3.206
<b>Total</b>	<b>17.100</b>	<b>5.960</b>	<b>-</b>	<b>-</b>	<b>288</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23.348</b>	<b>16.980</b>

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

**Table 64:** Receipts 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 2021

in EUR

Name and surname	Fixed income – payment for performance of duties	Fixed income – attendance fees	Fringe benefits	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total Gross	Total net
Bachtiar Djalil	16.779	3.080	760	-	-	-	-	-	-	-	-	20.619	14.236
<b>Total</b>	<b>16.779</b>	<b>3.080</b>	<b>760</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.619</b>	<b>14.236</b>

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

#### Activities of the Supervisory Board and committees of Kapitalska družba, d. d.

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

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

The Accreditation Committee held four meetings. Its members attended the meetings regularly, while Go-razd Žmavc was absent from one meeting for justifiable reasons.

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

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

In 2021, the total remuneration of the members of the Management Board, Supervisory Board 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 1,013 thousand.

In 2021, 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 65: Receipts by category of beneficiaries of Kapitalska družba, d. d. in 2021

	in EUR 000
Category of beneficiaries	Amount
Members of the Management Board	435
Members of the Supervisory Board	99
Employees with executive employment contracts	479
<b>Total</b>	<b>1.013</b>

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

Table 66: Receipts of Management Board members of Modra zavarovalnica, d. d. in 2021

	in EUR							
Name and surname	Fixed remuneration	Outstanding payments	Fringe benefits	Annual leave allowance	Cost reimbursement	Participation in profit	Insurance premiums	Total
Borut Jamnik	118.858	15.853	3.741	1.977	1.701	9.905	2.819	154.854
Matija Debelak	112.915	15.078	1.047	1.977	1.354	9.410	2.819	144.600
Boštjan Vovk	112.650	5.262	1.151	1.977	1.938	9.410	2.819	135.207

Fixed income includes gross salary receipts. Outstanding payments include payment of variable income, namely payment of the second part from 2018 and first part from 2020. Participation in profit includes bonuses for company performance. Reimbursements of expenses include meal and/or travel allowances and/or other reimbursements of travel expenses (per diems, mileage expenses, costs of overnight stays, parking, taxi). Fringe benefits include company cars and benefits arising from collective accident insurance as well as from collective insurance for specialist outpatient treatment, liability insurance benefit, medical examinations as well as the sports activity coverage benefit. Insurance premiums represent payments of the voluntary supplementary pension insurance premium.

**Table 67:** Remuneration of Supervisory Board members and external members of Supervisory Board committees of Modra zavarovalnica, d. d. in 2021

in EUR

Name and surname	Fixed remuneration of the SB	Fixed remuneration of the SB AC	Monthly remuneration of the SB	Monthly remuneration of the SB AC	Cost reimbursement	Fringe benefits	Total
Branimir Štrukelj	3.080	0	958	0	0	760	4.798
Bojan Zupančič	3.080	880	11.321	2.830	0	760	18.871
dr. Janez Prašnikar	3.080	880	11.321	4.150	0	760	20.191
Goran Bizjak	0	0	253	95	0	0	348
Bachtiar Djalil	3.080	0	16.779	0	0	760	20.619
Roman Jerman	3.080	0	11.321	0	3	760	15.164
Cvetko Marko	3.080	0	11.068	0	29	760	14.937
Dragan Martinović (external member of SB AC)	0	880	0	2.830	833	0	4.543

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

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

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

**Table 68:** Remuneration of management bodies of Hotelske nepremičnine, d. o. o. in 2021

in 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	7.875	0	0	426	0	0	0	0	0	0	8.301
Roman Jerman	7.875	0	0	581	0	0	0	0	0	0	8.456

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

#### Related-party transactions

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

### Disclosure regarding the pension scheme

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

### Events after the date of the statement of financial position

As the covid-19 pandemic started to subside in early 2022, geopolitical risks came to the fore. At the end of February 2022, tensions between Russia and Ukraine escalated to the point that Russia first declared the independence of separatist Ukrainian regions of Donetsk and Luhansk and a few days later launched a military invasion of Ukraine. The international public strongly condemned the invasion. Countries have been introducing escalating economic and financial sanctions against Russia, which have been followed by Russian counter-sanctions. More and more companies have opted for self-restraint tactics and have stopped doing business with Russia. Due to the humanitarian crisis and a large wave of refugees, global economic growth will decline and inflation will grow in 2022. Financial markets have responded to the military attack with concern and a reduced risk appetite. On the day of the Russian invasion, market volatility increased, the global stock index dropped by 0.6% in USD in one day – mainly due to the decline in emerging market shares (–4.3% in USD), the profitability of the Germany 10 Years Government Bond moved from 0.25% to 0.10% and the price of oil increased.

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

Direct exposure of the Group's portfolio investments to the Russian-Ukrainian market is relatively small, the largest portion being the investment in the Russian index fund RUS FP, a bond issued by the Russian Federation and two bonds issued by Gazprom. Among the Company's significant capital investments, the investment in Krka, d. d. as the largest individual investment of Kapitalska družba, d. d. has the highest exposure to the Russian-Ukrainian situation. The Group's other investments with perceived indirect exposure are equity investments and alternative funds whose operations are tied to energy and raw material prices, tourism services and debt securities whose prices depend on interest rates, which have increased due to inflation. Due to the uncertainty of events, the potential long-term impact on the Group's cash flows cannot be reliably assessed at the moment.

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

The Krka Group recorded encouraging results in the first quarter of 2022. Its sales revenue reached EUR 432.5 million, which is 9% more than in the same period last year, and the company generated a net profit of EUR 90.7 million, which is 5% more than in the same period last year. The company managed to increase sales in all six sales regions, in most key markets and in all product and service groups. Despite aggravated conditions in their largest market, Russia, the company sold EUR 83.6 million worth of products in the first quarter of 2022, which is 5% more than in the same period last year, while in Ukraine, its product sales reached EUR 26.5 million, which is 21% more than in the same period last year. The company has maintained high profitability, as it achieved the highest net profit in the first quarter so far, and the management maintains its forecast for 2022 that the Krka Group will close 2022 with a profit of EUR 300 million.

In relation to the war in Ukraine, we estimate that the Kapitalska družba Group has become more exposed to cyberattacks, as financial institutions are among potential cyberattack targets. In order to prevent cyber intrusions, we have begun implementing certain activities to integrate additional security mechanisms.

On 28 February 2022, Kapitalska družba d. d., together with SDH, d. d., exercised their pre-emption right to purchase all 12,571,257 shares in Sava, d. d. owned by York Global Finance Offshore BDH and all receivables that York Global Finance Offshore BDH had held over Sava, d. d. The total purchase price was EUR 38,000,000.000, with the share price totalling EUR 32,010,989.99 and the price of the receivables standing at EUR 5,989,010.01. Kapitalska družba, d. d. exercised the pre-emption right by taking over all receivables due from Sava, d. d. for a purchase price of EUR 5,989,010.01, while SDH, d. d. took over all 12,571,257 shares of Sava, d. d. for a price of EUR 32,010,989.99.

At the end of January 2022, on the basis of Article 251 of the Pension and Disability Insurance Act and in accordance with the Rules on the determination of assumptions on projections of pension benefits on the basis of the statutory retirement age or retirement age determined by a member, a reformed or extended notification to pension fund savers was implemented for the first time, which, in addition to information on the balances on savers' accounts, returns and costs of funds for 2021, also contained information on the estimated amount of the funds collected at the end of the saving period and the expected amount of the pension annuity.

In the last quarter of the previous year, ISA carried out the supervision of the operations of Modra zavarovalnica, d. d. in order to verify the compliance of its operations with insurance industry, companies and pension insurance regulations and other legal and regulatory regulations governing the company's operations. On 15 February 2022, ISA issued recommendations to the company. The majority of the recommendations have already been implemented, while the rest will be implemented shortly. No control measures were issued to the Company based on the supervision.

At the end of 2021, the Implementation of the Republic of Slovenia Budget for 2022 and 2023 Act (ZIP-RS2223) was adopted, obliging Kapitalska družba, d. d. to credit EUR 50 million per year to the Pension and Disability Insurance Institute in 2022 and 2023 by 29 September of the current year. Based on the Act, Kapitalska družba, d. d. and the Pension and Disability Insurance Institute concluded an agreement in February 2022 obliging Kapitalska družba, d. d. to cover the liabilities due to the Institute in 2022 and 2023.

On the basis of paragraph 5 of Article 67 of the Act on Additional Measures to Stop Spreading and Mitigate, Control, Recover and Eliminate the Consequences of covid-19 (ZDUPŠOP), the Company paid a solidarity allowance to 46 persons entitled to occupational pension on 14 January 2022. The Ministry of Labour, Family, Social Affairs and Equal Opportunities reimbursed the Company for the total amount allocated to pay the solidarity allowance.

Due to increasing social distress of the population as a result of high energy prices, the National Assembly adopted an act determining emergency measures to mitigate the consequences of high energy prices (ZUOPVCE). In February 2022, Kapitalska družba, d. d. met with representatives of the Ministry of the Environment and Spatial Planning, the Ministry of Labour, Family, Social Affairs and Equal Opportunities, and the Pension and Disability Insurance Institute in order to determine the implementation of the payment of the single solidarity allowance from the Climate Change Fund. Based on requests of the payers, the Ministry of the Environment and Spatial Planning provided the funds for the payment of the allowance in advance in the amount of EUR 150 per beneficiary. Kapitalska družba, d. d. paid the solidarity allowance to 100 beneficiaries on 8 April 2022.

On 1 January 2022, pursuant to paragraph 5, Article 48 of the Book Entry Securities Act, the Company has become the owner of 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 January 2022, the Central Securities Clearing Corporation – KDD transferred EUR 12,242 thousand of assets to a special account of the Company.

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