Modra
Annual report 2017

MODRA

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List of abbreviations used

Abbreviation	Note
GDP	Gross domestic product
DPJU	Dynamic Civil Servants Sub-fund
ECB	European Central Bank
EU	European Union
EUR	Euro – the currency of the European Union
EURIBOR	The Euro Interbank Offered Rate
ETF	Exchange-traded funds .
iBoxx	The reference index of liquid investment grade bond issues
KPSJU	Civil Servants Life-Cycle Sub-Fund
KS MR	The Modra renta guarantee fund
KS MR II	The Modra renta II guarantee fund
KS PPS	The guarantee fund for the First Pension Fund of the Republic of Slovenia
KVPS	Capital Mutual Pension Fund
MKPS	Life-Cycle Pension Fund
MDP	The Dynamic Sub-Fund

The table continues on the next page.

Kratica	Pojasnilo
MPP	The Prudent Sub-Fund
MZP	The Guaranteed Sub-Fund
IFRS	International Financial Reporting Standards as adopted by the EU
OECD	Organisation for Economic Co-operation and Development
IFRIC	International Financial Reporting Interpretations Committee
PDPZ	Voluntary supplementary pension insurance
PN1 K	Pension scheme for collective voluntary supplementary pension insurance
PN1 P	Pension scheme for individual voluntary supplementary pension insurance
PNJU K	Pension scheme for collective supplementary pension insurance for public servants
PNMZ K	Pension scheme for collective supplementary pension insurance (MKPS)
PNMZ P	Pension scheme for individual voluntary supplementary pension insurance (MKPS)
PPJU	Prudent Civil Servants Sub-Fund
PPS	The First Pension Fund of the Republic of Slovenia
PR	Public relations
RS	Republic of Slovenia
SBI TOP	The central Slovenian stock market index
UCITS	Undertakings for Collective Investment in Transferable Securities (Commission Directive regulating the management and sale of mutual funds at EU level)
USD	US dollar
ZGD-1	The Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06)
ZPIZ-1	Pension and Disability Insurance Act (official consolidated text, ZPIZ-1, UPB4, Official Gazette of the Republic of Slovenia, No. 109/2006, 27/2010 and 38/2010)
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 96/2012)
ZPJU	Guaranteed Civil Servants Sub-Fund
ZVPSJU	Closed Mutual Pension Fund for Civil Servants
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015)

Introductory part

Address by the Management Board

Borut Jamnik,
CHAIRMAN OF THE BOARD

Matija Debelak,
MEMBER OF THE BOARD

2017 was a successful year for Modra zavarovalnica. The insurance company achieved a net profit of €7.8 million and, hence, substantially surpassed its plans. The Company also raised its capital, which is the cornerstone for the security of insured persons' assets. The value of assets under management and the number of mutual pension fund members and annuity recipients increased. In 2017, the Company achieved an important milestone, since the value of assets in mutual pension funds under management exceeded €1 billion.

In 2017, the Company generated a net technical income of €39 million, comprising premium income and other income from insurance operations. Premium income includes payments made in annuity pension funds and substantially surpassed the values planned either as a result of active sales and competitive annuity products or due to changed operating conditions preventing a one-off withdrawal of the members' assets if the amount saved exceeds €5,000. Technical expenses, which include the annuities written, operating costs and other technical expenses, reached €25.4 million, while mathematical provisions increased by €18.9 million. The profit was the result of financial income amounting to €15.9 million, while expenses for investments reached €1.8 million. The result of available-for-sale investments was also favourable, with other comprehensive income reaching €13.2 million.

The capital of Modra zavarovalnica used to provide security for the insured persons' assets reached €244 million at the end of 2017, which is €102 million more than 6 years ago, when it started operating. The security of the insured persons' funds and a high level of quality of services will continue to be the fundamental policies of Modra zavarovalnica. The value of assets under management increased and exceeded €1.4 billion at the end of 2017, i.e. over 1 billion was collected in mutual pension funds and €169 million in guarantee funds, along with €270 million in own assets.

2017 was characterised by a favourable macroeconomic environment in which bond and stock indexes grew. The growth of European government and corporate bonds was low, but the values of stock indexes on average rose by more than 6.7%. German, American and Slovenian stock grew the most, on average by 12.4%. That had a major impact primarily on the operations of the First Pension Fund, which holds a large share of domestic equity investments. The Company recorded revenues amounting to €2.4 million due to the reversal of provisions for failing to achieve the guaranteed return rate of the mentioned fund in 2017.

The return rates of the Guaranteed Sub-Fund, Capital Mutual Pension Fund and Closed Mutual Pension Fund for Civil Servants exceeded the guaranteed value in 2017 and can be compared to the return rates of competitive Slovenian pension funds, while the life-cycle Dynamic and Prudent Sub-Funds achieved a favourable return rate of 6.03% and 3.70% respectively.

2017 was characterised by the establishment of a life-cycle pension fund for civil servants and therewith related marketing activities. The renewed form of saving is tailored to an individual's age and risk appetite, and requires efficient communication and awareness raising on the part of the manager, promoting saving in more risky sub-funds among young people.

Marketing and communication activities in 2017 focused on achieving the set sales goals and raising the visibility of Modra zavarovalnica as the largest provider of supplementary pension insurance.

In 2018, Modra zavarovalnica will continue to realise its strategy focused on the safety of persons insured under supplementary pension insurance, ensuring it with sufficient capital, prudent management and increased value of supplementary pension savings. An important business goal for 2018 is to maintain the market share in supplementary pension savings and in the disbursement of supplementary pension annuities. With digital transformation of operations, it will develop marketing approaches by improving the user experience in every contact with a client and using cutting-edge information technology in an innovative way to adjust its business models. In order to keep track of changes, all employees require suitable skills, which is why attention will be placed particularly on education and new possibilities provided by modern technology in insurance business. It turned out that innovation promotion, utilisation of employees' creative skills and participation and team work had a positive effect on Company operations, which is why in-house communication will be built further on trust and open exchange of opinions.

Financial analysts have announced moderate growth for stock and bond indices in 2018. Taking into account favourable trends on financial markets, it is planned that the guaranteed return rate of mutual pension funds with a guarantee element and the average return rate of competitive pension funds will be surpassed.

Matija Debelak,
MEMBER OF THE BOARD

Borut Jamnik,
CHAIRMAN OF THE BOARD

Company profile

General information

Company name: Modra zavarovalnica d.d.
Registered office: Dunajska cesta 119, Ljubljana
Registration number: 6031226
VAT ID number: SI21026912
Number of employees: 58 persons
Share capital: €152.2 million
Assets under management: €1.4 billion
Number of persons insured in the mutual pension fund (VPS): 279,791
Number of pension annuity recipients: 21,008

Mission

The mission of the insurance company is to provide a selection of products that provide increased social security to individuals and their families in all stages of life as well as preservation of their lifestyle after retirement. We build long-term partnerships with all those who share the mission of the insurance company.

Vision

A respected, reliable and trustworthy personal insurance company that is recognised for its high level of security and quality of its products and satisfied customers due to its responsible, qualified and motivated employees.

Ownership structure and information about capital

As at 31 December 2017, the sole shareholder of Modra zavarovalnica d.d. is Kapitalska družba d.d. The share capital of the insurance company amounts to €152,200,000 and is divided into 152,200,000 ordinary no par value shares. Each share represents an equal state and associated amount in the share capital. The share of an individual no par value share in the share capital is determined according to the number of no par shares issued.

Company activity

Modra zavarovalnica performs activities within the group of life insurance products pursuant to the Insurance Act and the decision issued by the Insurance Supervision Agency, allowing the Company to perform insurance transactions for the following types of insurance:

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

The activities of Modra zavarovalnica are laid down by the law and the Company's Articles of Association. According to the latter and in line with its purpose, Modra zavarovalnica performs the following activities:

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

Company bodies

Management Board

Pursuant to the Company's Articles of Association, the Management Board comprises two members. In 2017, Modra zavarovalnica was run by the Management Board composed of:

- **Borut Jamnik**, Chairman of the Board, 5-year term of office starting on 29 August 2016,
- **Matija Debelak**, Member of the Board, 5-year term of office starting on 14 September 2016.

The Management Board runs the Company for the good of the Company, independently and at its own responsibility. The Management Board represents the Company without limitations. In legal transactions, the Company is always represented by the Chairman and Member of the Board together. The Company's Articles of Association lay down the transactions and decisions that are subject to approval by the Supervisory Board.

> In 2017, the Management Board executed its competences in line with the Management Board Rules of Procedure, made regular reports to the Supervisory Board and, in line with the Articles of Association, fulfilled its obligations to the shareholder as laid down by the Companies Act.

Supervisory Board

The business policy of Modra zavarovalnica is co-developed by insured persons or, rather, their representatives.

The Supervisory Board comprises six Members: On 9 June 2017, after Goranka Volf, the Chair of the Supervisory Board, resigned, the General Meeting appointed two Supervisory Board Members, representatives of the sole shareholder Kapitalska družba d.d. for a term of four years. Three Supervisory Board Members were proposed by insured persons based on a public call to submit their candidate proposals. Two Members were proposed by the civil servant fund board on behalf of persons insured in it, while the third Member was proposed by the KVPS and MKPS boards on behalf of other insured persons.

In 2017, the Supervisory Board comprised the following Members:

- **Goranka Volf**, Chairwoman of the Supervisory Board from 9 December 2016 to 9 June 2017,
- **Natalija Stošicki**, Member from 9 December 2016 and Chairwoman of the Supervisory Board from 9 June 2017 to 22 December 2017 and Deputy Chair of the Supervisory Board as of 23 December 2017.
- **Branimir Štrukelj**, Member of the Supervisory Board from 9 December 2016, Deputy Chair of the Supervisory Board from 23 December 2016 to 22 December 2017, and Chairman of the Supervisory Board as of 23 December 2017,
- **Goran Bizjak**, Member as of 9 December 2016,
- **Bojan Zupančič**, Member as of 9 December 2016,
- **Dr. Janez Prašnikar**, Member as of 9 December 2016,
- **Dr. Boris Žnidarič**, Member as of 9 December 2016,

The competences of the Supervisory Board are laid down in the Company's Articles of Association, while the method of its work is governed by the Supervisory Board Rules of Procedure. A detailed description of the activities and method of Supervisory Board operations in 2017 is provided in the Report of the Supervisory Board.

The Audit Committee of the Supervisory Board was active in 2017; its composition and work are presented in the Supervisory Board Report.

General Meeting

Voting rights at the 2017 General Meeting of Shareholders were exercised by Kapitalska družba d.d. as the sole shareholder.

Report of the Supervisory Board

Report of the Supervisory Board

Based on the provisions of Article 282 of the Companies Act (hereinafter "ZGD-1"), the Supervisory Board of Modra zavarovalnica submits the following report to the General Meeting of the Company:

a) Report by the Supervisory Board on the method and scope of review of the Company's management during the financial year

Based on the provisions of the Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD) and the Slovenian Compensation Company (SOD) (hereinafter "ZPKDPIZ") and the Company's Articles of Association, Modra zavarovalnica has a Supervisory Board comprising six members that are appointed by the Company's General Meeting. Half (3) of the Supervisory Board members are proposed by persons insured with the Company. Three Supervisory Board Members represent the interests of the sole shareholder, i.e. Kapitalska družba pokojninskega in invalidskega zavarovanja d.d., and are appointed at the proposal of the latter.

At the 8th General Meeting of the Company held on 9 12. 2016, the following people were appointed as Supervisory Board Members for a term of 4 years: Goranka Volf, Branimir Štrukelj, Natalija Stošicki, Goran Bizjak and Bojan Zupančič. At the 9th General Meeting of the Company held on 9 6. 2017, after the resignation of Goranka Volf, dr. Janez Prašnikar and dr. Boris Žnidarič were appointed to the Supervisory Board of the Company.

At the 86th constitutive meeting of the Supervisory Board held on 23 12. 2016, Goranka Volf was appointed as the Chairwoman of the Supervisory Board and Branimir Štrukelj as Deputy Chair of the Supervisory Board, for a term of 1 year pursuant to the provisions of the Company's Articles of Association. At the 97th meeting of the Supervisory Board on 28 8. 2017, after the resignation of Goranka Volf, Natalija Stošicki was appointed the Chairwoman of the Supervisory Board until the expiration of one-year period. As of 23 December 2017, Branimir Štrukelj is the Chairman of the Supervisory Board and the Natalija Stošicki is the Deputy Chair of the Supervisory Board pursuant to the provisions of the Company's Articles of Association.

Over the course of the 2017 financial year, the Supervisory Board met at 14 meetings, 12 of them regular and 2 correspondence meetings. Members of the Supervisory Board acted independently when adopting decisions. Members attended meetings well prepared in regard to the topics discussed, put forth constructive proposals and remarks and adopted decisions pursuant to their competences. Members of the Supervisory Board acted pursuant to the rules on professional secrecy and handling in case of conflict of interests. Control over the Company's operations was carried out pursuant to the powers and competences as laid down by the Companies Act and Insurance Act and further specified by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board.

Monitoring covered the management of the Company's underlying assets, the management and implementation of supplementary pension insurance of the pension funds managed by Modra zavarovalnica (First Pension Fund of the Republic of Slovenia (PPS), Capital Mutual Pension Fund (KVPS), Civil Servants Umbrella Pension Fund (KPSJU) and life cycle fund ModriUmbrella Pension Fund (MKPS) with three Sub-Funds: the Dynamic Sub-Fund, Prudent Sub-Fund and Guaranteed Sub-Fund) and the disbursement of pension annuities (the guarantee fund of the First Pension Fund (KS PPS), the Modra renta I guarantee fund and the Modra renta II guarantee fund).

At its 92nd meeting held on 25 4. 2017, the Supervisory Board confirmed the Annual Report of Modra zavarovalnica for the 2016 financial year, including the audit report and the report of the Supervisory Board regarding the review of the Company's annual report, and familiarised themselves with the Company's annual internal audit report for 2016, the report made by a certified actuary and the annual reports of the mutual pension funds managed by Modra zavarovalnica. It also agreed to the proposal made by the Management Board regarding distributable profit. Pursuant to the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) and the Benchmarks for variable remuneration of Members of the Management Board of Modra zavarovalnica, also taking into account qualitative and quantitative criteria, the Supervisory Board assessed the work performed by the Management Board in 2016 and approved the payment of variable remuneration to Members of the Management Board.

In 2017, Supervisory Board Members decided on the award of consent to the Management Board and its governance policies pursuant to the provisions of the Company's Articles of Association and the Insurance Act, the Strategic business plan for the 2018-2020 period and to projects for developing management structures when investing in alternative investments. They were informed about the process of procedures for appointing the Supervisory Board members. The Supervisory Board regularly monitored the Company's operations, discussed quarterly reports on Company operations and was kept informed of reports to the Insurance Supervision Agency based on the Insurance Act and Solvency II Directive. The Supervisory Board adopted the Policy of Ensuring the Suitability and Appropriateness of the Members of the Management and Supervisory Boards and the Holders of Key Functions in the Modra zavarovalnica. In the procedure to appoint Members of the Supervisory Board, it made an assessment of the suitability and adequacy of individual candidates proposed as Members of the Company's Supervisory Board who took up their term of office on 9 6. 2017 and passed the assessment of the Supervisory Board as a collegiate body.

Based on the Pension and Disability Insurance Act and the Rules of the Capital Mutual Pension Fund, the Supervisory Board members appointed board members for the Capital Mutual Pension Fund.

At its 99th meeting held on 29. 11. 2017, the Supervisory Board gave its consent to the Business and Financial Plan of Modra zavarovalnica d.d. for 2018 and to the work programme of the Internal Audit Department for 2018.

The remunerations received by the Members of the Management Board comply with the decision adopted by the General Meeting and are accurately disclosed in the annual report by Modra zavarovalnica d. d., in chapter 3.10.3.6., Other disclosures.

Work of the Supervisory Board Audit Committee

A 3-member Audit Committee comprising of Goran Bizjak (Chairman), Natalija Stošicki (Member) and Dragan Martinović (independent expert) was a permanent operative body of the Supervisory Board in 2017 and monitored the Company's operations and the work performed by the Management Board in the course of the financial year to aid the Supervisory Board in its decision-making process. In 2017, the Audit Committee met 9 times. In its work, the Audit Committee employed the recommendations for audit committees provided by the Slovenian Directors' Association and the Slovenian Institute of Auditors as well as the Rules of Procedure for the Audit Committee as adopted by the Supervisory Board. The Audit Committee cooperated with the selected independent auditor in the discussion of the unaudited annual report of Modra zavarovalnica d.d. for 2016.

Furthermore, it reviewed the Company's annual report and the audit report provided by the external independent auditor and discussed the annual reports of the mutual pension funds managed by the Company, the annual work programme of the Internal Audit Department and the Business and Financial Plan of Modra zavarovalnica d.d. for 2017, to which the Supervisory Board gave its consent.

It participated in the procedure to select the independent auditor of the Annual Report and in the preparation of an Annex to the contract with the independent auditor for the period between 2016 and 2018. Alongside this, it monitored the autonomy of the auditor of the Annual Report.

The Audit Committee carried out a procedure to evaluate the performance of the Supervisory Board's Audit Committee.

The Audit Committee kept the Supervisory Board regularly informed of its operations at Supervisory Board meetings.

Assessment of the work performed by the Management Board and Supervisory Board

Based on the mentioned day-to-day monitoring and control over the operations and management of Modra zavarovalnica over the course of the financial year and based on the review of the annual report drawn up by the Management Board, the Supervisory Board assesses that the Annual Report and all disclosures contained therein are a true and fair representation of the actual state of affairs and position of Modra zavarovalnica. The Supervisory Board estimates that the Company's Management Board managed the Company's operations in 2017 successfully and properly and successfully realised the set business goals. It prepared materials with quality information and in-depth discussions of all major operating categories in due time and provided elaborate answers to subsequent questions and motions put forward by Members of the Supervisory Board. The Management Board's reports to the Supervisory Board in 2017 allowed the latter to perform its function of control appropriately.

b) Position of the Supervisory Board regarding the audit report

Based on paragraph 2 of Article 282 of the Companies Act, the Supervisory Board reviewed and discussed the auditor's report regarding the audit of the Company's financial statements for 2017, which was performed by Deloitte revizija d.o.o. from Ljubljana. The Supervisory Board finds that the auditor has performed its duty in line with the law, rules on auditing and the International Standards on Auditing. The Supervisory Board has no objections to the auditor's report.

c) Decision on confirmation of the 2017 Annual Report

Based on the provisions of Article 282 of the Companies Act, the Supervisory Board confirms the Annual Report of Modra zavarovalnica d.d. for 2017.

d) Position of the Supervisory Board regarding the audit report

Based on paragraph 3 of Article 546.a of the Companies Act, the Supervisory Board reviewed and discussed the auditor's report on the audit results for the report on related-party transactions as performed by Deloitte revizija d.o.o. from Ljubljana. The Supervisory Board has no objections to the auditor's report.

e) Resolution on the verification of the report on related-party transactions for 2017

Based on the provisions of Article 546.a of the Companies Act, the Supervisory Board reviewed the report on related-party transactions for 2017 and has no comment on the management's statement in the report on related-party transactions for 2017.

f) Proposal to the General Meeting on discharging the Management and Supervisory Boards

Based on the above-stated under points a), b) and c) and based on the provisions of Article 294 of the Companies Act, the Supervisory Board proposes that the General Meeting of Modra zavarovalnica d.d. adopt a decision to grant a discharge to the Management and Supervisory Boards of Modra zavarovalnica d.d. for the work performed in the 2017 financial year, namely:

to Members of the Management Board:

- Borut Jamnik, for the period between 1 January 2017 and 31 December 2017,
- mag. Matija Debelak, for the period between 1 January 2017 and 31 December 2017.

to Members of the Supervisory Board:

- Goranka Volf, for the period between 1 January 2017 and 9 June 2017,
- Branimir Štrukelj, for the period between 1 January 2017 and 31 December 2017,
- Natalija Stošicki, for the period between 1 January 2017 and 31 December 2017,
- Bojan Zupančič, for the period between 1 January 2017 and 31 December 2017,
- Goran Bizjak, for the period between 1 January 2017 and 31 December 2017,
- prof. dr. Janez Prašnikar for the period between 9 June 2017 and 31 December 2017,
- dr. Boris Žnidarič for the period between 9 June 2017 and 31 December 2017,

Branimir Štrukelj

Chairman of the Supervisory Board

In Ljubljana, 13 April 2018

Business Report

Business environment

Economic environment in Slovenia

In 2017, gross domestic product increased nominally by 7.1% and amounted to €43,278 million. In real terms, it increased by 5% with respect to 2016. Like in 2016, the main growth factor was international trade. Export increased by 10.6%. Domestic consumption continues to grow and increased by 4% in 2017. Private consumption increased by 3.2%.

In 2017, consumer-price inflation amounted to 1.7%, while the average annual inflation rate was negative, amounting to -1.4%. In 2016, the annual inflation rate amounted to 0.5% and the average to -0.1%.

The registered unemployment rate amounted to 9% in December 2017 and fell by 1.8 percentage points compared to that at the end of 2016. The average monthly net wage for December 2017 amounted to €1,130 and increased by 5.2% compared to the average monthly net wage for December 2016.

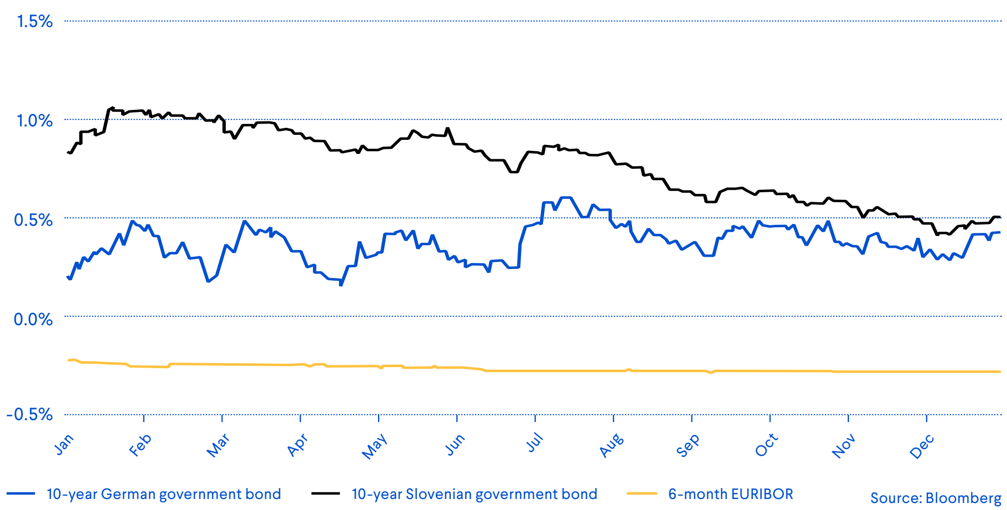
Trends on financial markets

Money market

The interbank reference rate in the euro area, the 6-month EURIBOR, started 2017 at --0.221% and fell to --0.271% by the end of the year. The changes in interbank interest rates were most significantly affected by the European Central Bank, which pursued an extremely lax monetary policy and a policy of quantitative easing in 2017.

The yield of the German 10-year government bond increased in 2017. At the beginning of the year, it amounted to 0.208% and reached 0.427% at the end of the year. The changes in the required yield of German government bonds were largely related with expectations regarding further actions taken by ECB. As a result of ECB's expansive monetary policy, the yield of the Slovenian 10-year government bond also decreased heavily in 2017, falling from 0.833 to 0.507%

Figure 1: Changes in yield to maturity (YTM) of the 10-year German government bond, the Slovenian government bond and 6-month EURIBOR in 2017 (in %)



Source: Bloomberg

Foreign exchange rate

In 2017, the value of US dollar decreased by 14.1% compared to euro. At the end of 2016, the rate amounted to $1.0517 and at the end of 2017 to $1.2005 for €1. Compared to euro, US dollar was heavily affected by the policy of both central banks in 2017. Euro growth was primarily caused by expectations regarding the tightening of the ECB monetary policy and high economic activity in Europe.

Equity market

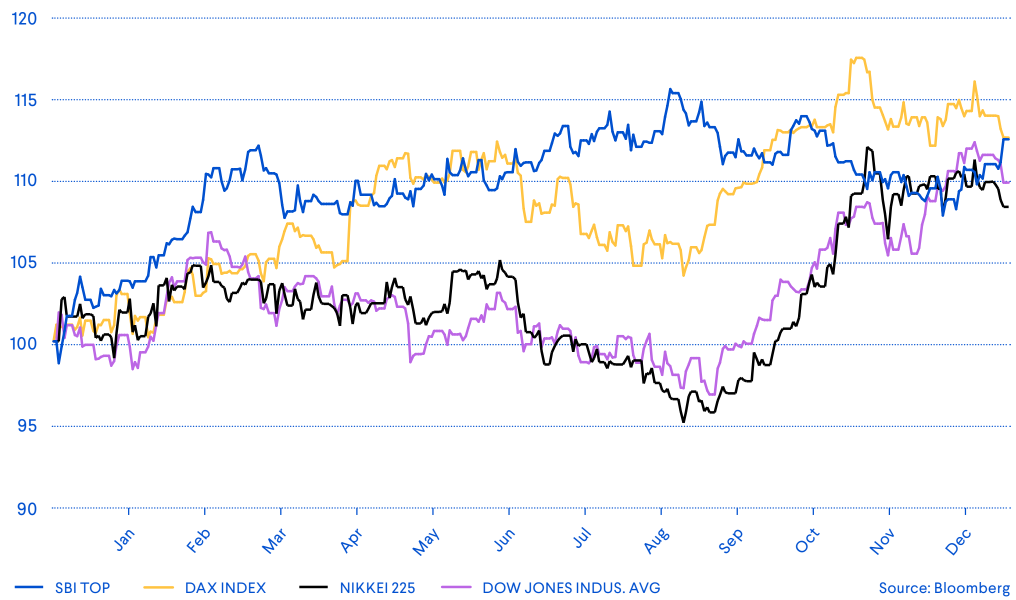
In 2017, the values of stock indexes grew by 6.7% on average (assessed in €). On average, German and American stocks gained the most. German stocks achieved a return rate of 12.5%, American stocks 9.7% and Japanese stocks 8.2%. In 2017, Slovenian stocks grew on average by 12.4%.

Debt securities market

The European government bond index (IBOXX EUR Sovereigns TR index) gained 0.07% in 2017. The modest index growth shows that the required yield of European government bonds increased. The reasons for the increased required yield are expected normalisation of the ECB monetary policy, a relatively strong economic growth and expected increased inflation. The European corporate bond index (IBOXX EUR Corporates TR index) gained 2.3% in value in 2017. The growth of the corporate bond index is the result of decreasing credit spreads, which is in line with the peak of the business cycle.

In 2017, Slovenian government bonds gained value, primarily as a result of reduced credit spread with respect to the least risky German government bonds. Like in corporate bonds, the growth of Slovenian government bonds is also related with very favourable economic conditions.

Figure 2: Changes in the Slovenian SBI TOP stock index and certain foreign stock indices in 2017, assessed in € (index: 31/ 12/ 2016 = 100)



Source: Bloomberg

It is our mission to ensure people's financial security after they retire. In 2017 we paid out

over €17 million

to recipients of supplementary pensions.

Operations in 2017

Financial result and financial position

In 2017, Modra zavarovalnica generated €39 million in premium income and other technical income. Most of these revenues are revenues from annuity insurance premiums, while the remainder are revenues from the management of mutual pension and guarantee funds. The premiums paid in the mutual pension funds managed by Modra zavarovalnica reached €56.6 million in the relevant period, not taking into account transfers between funds or sub-funds, and increased by 41.5% compared to 2016.

In 2017, expenses for claims including expenses arising from the annuities paid reached €17 million, while other technical charges amounted to €2.3 million. Changes in mathematical provisions imply an expense due to increased mathematical provisions deriving from the pension annuity insurance sold in 2017. Operating costs include the costs of labour, services, material, amortisation/depreciation and similar. Profit or loss from investments as recognised in the income statement reached €14.1 million in 2017. Profit or loss from investments as recognised in equity was positive in 2016 due to favourable changes in security prices.

Table 1: Financial result of Modra zavarovalnica

in €

Item	2017	2016
Income from premiums and other technical income	38,987,104	25,425,771
Expenses for claims and other technical charges	-19,296,886	-19,295,496
Change in mathematical provisions	-18,930,499	-4,787,079
Operating costs	-6,072,926	-5,741,739
Operating profit or loss	-5,313,208	-4,398,543
Profit or loss from investment activities recognised in the income statement	14,134,237	11,478,778
Other net income	88,918	124,273
Profit or loss before tax	8,909,948	7,204,508
Income tax	-1,129,926	-634,753
Net profit or loss	**7,780,022**	**6,569,755**
Profit or loss recognised in equity	13,233,982	20,228,425
Total comprehensive income	**21,014,004**	**26,798,180**

Table 2: Financial position of Modra zavarovalnica

in €

Item	2017	2016
Financial assets	434,055,809	395,138,211
Other assets	4,964,507	3,010,579
Total assets	**439,020,316**	**398,148,790**
Technical provisions	163,339,222	144,365,708
Other provisions	14,251,613	15,595,727
Other liabilities	17,389,980	12,197,256
Equity	244,039,501	225,990,099
Total equity and liabilities	**439,020,316**	**398,148,790**
Off-balance-sheet items	1,003,223,920	955,200,330

The largest share of Modra zavarovalnica assets are financial assets, which reached €434.1 million at the end of 2017, while technical provisions for annuity insurance account for the largest share of liabilities. The largest share of off-balance sheet items is the sum total of the assets of the mutual pension funds managed by Modra zavarovalnica. The insurance company's solvency position is presented in detail in the chapter dealing with risk management.

Management of mutual pension funds

Market and competition

The Slovenian welfare state model is largely based on a system of compulsory social insurance, through which the working population largely provides relatively stable funding for the key social budgets or for the coverage of social risks by paying in contributions. However, the existing system already fails to cover all needs, since a transfer from the budget is required to finance the pension system. The changed relationship between working and non-working population will, therefore, require changes in the distribution of burdens for the welfare of all generations.

Since the ageing population has increased the share of population groups that are more often exposed to the risk of poverty, social security systems should be transformed so as to ensure decent pensions or lifelong revenues in all periods of life, Currently, pensions are much lower than the EU average with respect to the amount of remuneration received prior to retirement. Slovenia is also a country in which saving for old age is modest. At the same time, the overall saving by the population is relatively high compared to other EU Member States.

According to OECD data, a public pension, based on the average of OECD member states, for an employee with average income accounts for 49% of their salary before retirement, while the remaining 30% is a supplementary pension. Slovenia is still very far from this goal, as it was late introducing the second pillar and allowed outstanding withdrawals of the funds paid in by employers after 10 years of saving; furthermore, the average premiums paid in are too low and confidence in the pension system is still weak.

For the past 17 years, Slovenians have also saved in pension funds. By the end of last year, a good half of all employees saved slightly more than €2 billion. Increased savings in a pension account also increase the amount of supplementary pension already received by retired savers. Compared to the first recipients in 2011 who saved for merely 10 years causing their supplementary pension to remain modest, the number of recipients and the amount of supplementary pension have increased. Those who saved the most now receive a supplementary pension in the form of a lifelong monthly annuity amounting to as much as 10% of their pension arising from compulsory insurance. On average, payments made in the pension fund are too low

and will not provide an adequate supplementary pension. Furthermore, over 300,000 employees have not started saving for supplementary pension (yet). Only those who have saved enough for their supplementary pension will enter retirement without the sudden shock of a drop in the standard of living.

Supplementary pension insurance is marketed by nine providers on the Slovenian market. Three providers (Banka Intesa Sanpaolo, Zavarovalnica Generali and Modra zavarovalnica) manage five mutual pension funds, while three pension companies (Pokojninska družba A, Skupna pokojninska družba and Sava pokojninska družba) and three insurance companies (Prva osebna zavarovalnica, Zavarovalnica Triglav and Adriatic Slovenica) provide pension insurance in the form of a group of guarantee funds.

All pension funds other than the pension fund managed by Banka Intesa Sanpaolo and KVPS by Modra zavarovalnica pursue the life-cycle policy, which provides the option to choose an investment policy and potentially higher yields and, hence, more funds saved for supplementary pension.

> The biggest advantage of saving in a life-cycle fund is that the investment policy is tailored to the age of the saver, i.e. from more risky to more conservative.

The pension fund manager (insurance or pension company) invests the pension savings of young persons with the longest period to retirement mostly in stock. When nearing retirement, the share of stock starts to reduce, while the share of safer investments, such as bonds, increases. In the last few years before retirement, savings are protected with safest investments, while the saver gets a guaranteed return rate on all assets saved.

At the end of 2017, only a tenth of all savers saved funds in dynamic and balanced sub-funds. Life-cycle funds have been available for the past 2 or 3 years at Modra zavarovalnica, which was the first to provide the new form of supplementary pension saving in 2015. This is why more and more savers are expected to opt for an age-adjusted investment policy, particularly those who are yet to enter supplementary pension insurance.

The return rates of the pension funds managed by Modra zavarovalnica implementing the guaranteed return rate investment policy were comparable with the return rates of competitive funds in 2017, while MDP and MPP funds somewhat lagged behind the average return rates of competitive funds.

Figure 3: A comparison of 12-month return rates of domestic pension funds rendering the guaranteed rate investment policy

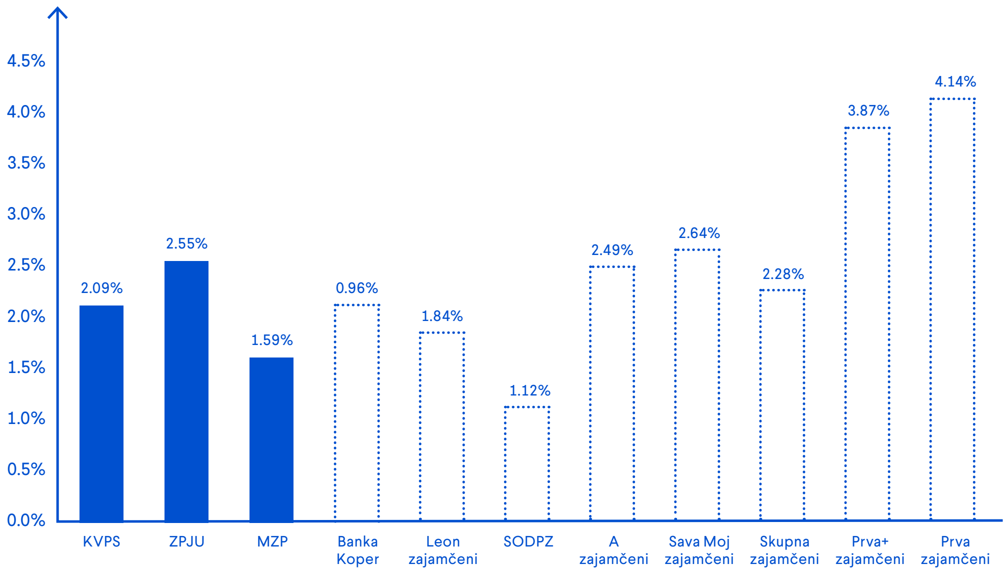
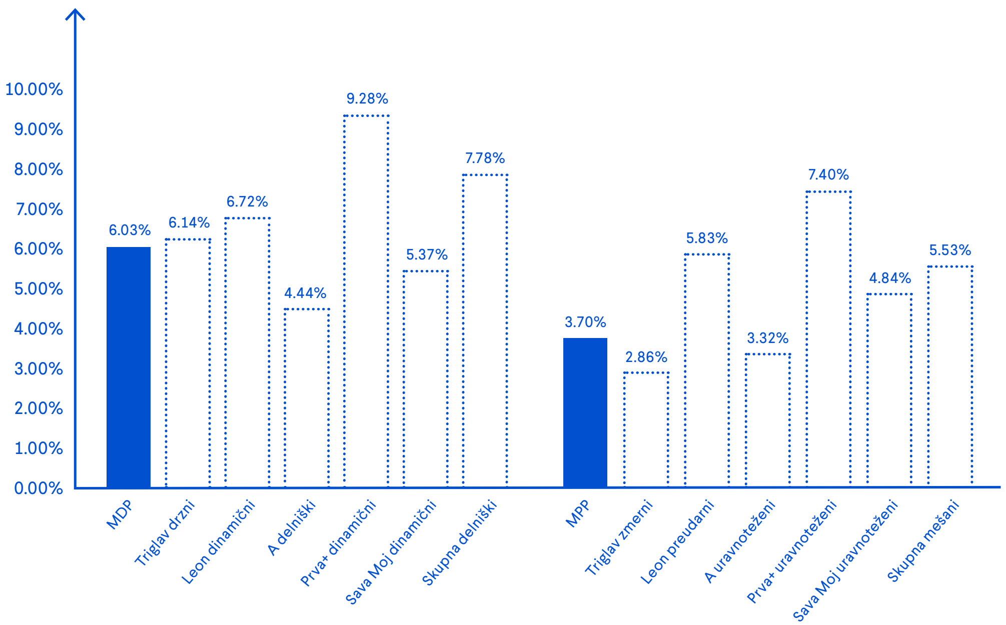


Figure 4: A comparison of 12-month return rates of domestic pension funds with moderate and aggressive investment policies



Mutual pension funds under management

Modra zavarovalnica is the largest provider of supplementary pension insurance in Slovenia and the main provider of old-age saving schemes within the scope of the second pension pillar. In December 2017, over **279k individuals** saved in its mutual pension funds and the assets collected surpassed **€1 billion**. Total supplementary pension insurance premium paid in, not taking into account asset transfers between the KVPS and MKPS funds, reached €56.6 million in 2017.

Modra zavarovalnica manages four mutual pension funds that are run and disclosed as separate assets owned by members of a particular fund:

- **Life-Cycle Pension Fund for Public Servants,**
- **Capital Mutual Pension Fund (KVPS),**
- **Life-Cycle Pension Fund (MKPS) and**
- **First Pension Fund of the Republic of Slovenia (PPS).**

Table 3: Data on mutual pension funds managed by Modra zavarovalnica as at 31/ 12/ 2017

Fund	No of members/ persons insured	No of employers/ premium payers	Amount of assets under management in €
Capital Mutual Pension Fund (KVPS)	25,577	192	179.5
KPSJU – Life-Cycle Pension Fund for Public Servants	222,187	1,912	745.1
Life-Cycle Pension Fund (MKPS)	11,051	173	57.5
First Pension Fund (PPS)	20,976	0	20.1
Total	**279,791**	**2,277**	**1,002.2**

Pursuant to Article 313 of ZPIZ-2, Modra zavarovalnica is, in the event the actual net value of pension fund assets in an accounting period falls below the guaranteed value of the fund's assets, obliged to form provisions for failing to achieve the guaranteed rate that are debited to equity and are equal to the sum total of all deficits in the value of a member's assets up to the guaranteed value of a member's assets. At the end of 2017, Modra zavarovalnica disclosed provisions for failing to achieve the guaranteed return rate of mutual pension funds amounting to €10,976,752, whereby the amount of €10,958,192 refers to the PPS fund.

Life-Cycle Pension Fund for Public Servants

On 1 January 2017, the Closed Mutual Pension Fund for Public Servants transformed into a guaranteed sub-fund of the newly established Life-Cycle Pension Fund for Public Servants. The Life-Cycle Pension Fund for Public Servants pursues a life-cycle investment policy and comprises three different sub-funds:

- **Dynamic sub-fund for public servants**, intended for the youngest savers aged up to 50;
- **Prudent sub-fund for public servants**, intended for middle-age savers aged between 50 and 60;
- **Guaranteed sub-fund for public servants** (the transformed existing fund), intended for the oldest savers aged over 60.

The Life-Cycle Pension Fund for Public Servants (KPSJU) is a closed pension fund intended solely for public servants. It was established for the purpose of collecting public servants' assets in their personal accounts, thus providing them with the right to supplementary old-age pension or some other rights specified by the pension scheme. In addition to the premiums paid in the fund by employers, premiums can also be paid in by public servants themselves, thus ensuring a higher supplementary pension.

As the manager of KPSJU based on the PNJU K Pension Scheme and KPSJU Rules, Modra zavarovalnica is entitled to an entry fee and management fee. Entry fees are calculated as a percentage of the paid-in premium upon its payment and are remitted to the manager's account; in 2017, they amounted to 0.5%. The annual fee for the management of the KPSJU fund amounts to 0.5% of the average net value of KPSJU assets. All other operating costs of the fund are charged to the Company.

We have the trust of over

280,000 savers.

> **KPSJU is the largest Slovenian pension fund, both as regards the number of persons insured as well as the volume of the assets collected. At the end of 2017, 222,187 members were included in it, with their assets amounting to €745 million.**

Supplementary pension insurance for public servants may be terminated on a regular or extraordinary basis. Regular termination of collective insurance under the PNJU K Pension Scheme takes place when a member of KPSJU exercises their right to supplementary old-age pension or the right to early old-age pension or, rather, enforces disbursement pursuant to PNJU K. Extraordinary termination may be enforced by a public servant in case their employment relationship with the public administration is terminated by 31 December 2016, whereby 120 months have expired since their inclusion, and in case of disbursement to beneficiaries/heirs in case of death.

In 2017, insurance was terminated for 2,846 members, with the redemption value amounting to €18 million.

Capital Mutual Pension Fund

KVPS is an open mutual pension fund intended for the implementation of supplementary pension insurance schemes. KVPS is open to all employed persons included in the compulsory pension insurance. Since 2002, there are two separate pension schemes for individual and collective voluntary pension insurance designated PN1 P and PN1 K within the scope of KVPS. Modra zavarovalnica, as the manager of the fund, ensures the minimum guaranteed rate of return on the assets saved.

Pursuant to the PN1 P and PN1 K Pension Schemes and KVPS Rules, the manager of the fund is entitled to entry fees, exit fees and a management fee. In 2017, the management fee amounted to 1% of the average net value of KVPS assets. Entry fees are calculated as a percentage of the paid-in premium upon its payment and amounted to 3% in 2017. Exit fees are calculated as a percentage of the paid-out redemption value of assets and amounted up to 1% in 2017.

Supplementary pension insurance may be terminated on a regular or extraordinary basis. Insurance is terminated regularly when an insured person included in the insurance scheme obtains the right to pension deriving from compulsory insurance or enforces the right to disbursement pursuant to Article 221 of ZPIZ-2. Extraordinary termination, on the other hand, takes place when a member of the fund terminates insurance based on a written statement of withdrawal or upon a member's death. A special way to terminate insurance is to transfer assets to another provider. A member may enforce the right to the disbursement of the funds collected with payments made by the employer by 31 December 2012, when 10 years have passed since they were included in insurance.

In 2017, insurance was terminated for 1,472 members, with the redemption value amounting to €13 million. 538 members opted for the disbursement of the redemption value of the units funded by the employer until 31 December 2012 in the total amount of €2.5 million.

The First Pension Fund of the Republic of Slovenia

PPS is a pension fund that obtained its assets through the exchange for pension vouchers. Since 1 January 2003, PPS has been a closed mutual pension fund and further payments or inclusion in the fund have not been possible. Since August 2004, the assets collected by all members aged 60 or more have been transferred to KS PPS, which is intended for the disbursement of supplementary pension annuities. If a member of PPS dies before acquiring the right to a pension annuity, the right to the payment of the redemption value of their policy is granted to their heirs.

Modra zavarovalnica is entitled to an annual fee for the management of PPS, which amounted to 1% of the average annual net value of assets in 2017, and to exit fees charged as a percentage of the redemption value of assets paid out to heirs.

In the same year, the right to a pension annuity was obtained by 1,257 members and a proportionate share of the PPS fund assets amounting to €3.1 million was transferred to the PPS guarantee fund. There were 16 disbursements of redemption value recorded in the total amount of €60k due to the death of members.

Life-Cycle Pension Fund

MKPS is an open fund intended for the implementation of supplementary pension insurance schemes. MKPS is open to all employed persons included in compulsory pension insurance. The PNMZ K Pension Scheme for collective supplementary insurance was established in 2015 and is open to insured persons via their employer, just like the individual PNMZ P Pension Scheme, which is intended for individuals.

MKPS comprises three sub-funds that are established as separate assets, whereby each sub-fund is characterised by its own investment goal and investment policy and is intended for a target age group of members.

- **Dynamic Sub-Fund** is intended young members aged up to 50 and pursues a more risky investment policy;
- **Prudent Sub-Fund** is intended for members aged between 50 and 60;
- **Guaranteed Sub-Fund** is intended for members aged over 60; Modra zavarovalnica as the manager of the Guaranteed Sub-Fund guarantees at least the guaranteed return rate on the assets saved.

As the MKPS manager, Modra zavarovalnica is entitled to an entry fee and management fee, which are paid from the fund's assets, based on the detailed MKPS Rules. Entry fees are calculated as a percentage of the paid-in premium upon its payment and are remitted to the manager's account; in 2017, they amounted to 3%. The annual fee for the management of MKPS amounts to 1% of the average net value of assets of an individual sub-fund.

Supplementary pension insurance may be terminated on a regular or extraordinary basis. Insurance is terminated **regularly** when an insured person included in the insurance scheme obtains the right to pension deriving from compulsory insurance or enforces the right to disbursement pursuant to Article 221 of ZPIZ-2. **Extraordinary** termination, on the other hand, takes place when a member of the fund terminates insurance based on a written statement of withdrawal or upon a member's death. A special way to terminate insurance is to transfer assets to another provider. A member may enforce the right to the disbursement of the funds collected with payments made by the employer by 31 December 2012, when 10 years have passed since they were included in insurance.

In 2017, insurance was terminated for 183 members/ insured persons, with the total redemption value amounting to €800k. 32 members opted for the disbursement of the redemption value of the units funded by the employer until 31 December 2012 in the total amount of €205k.

Financial assets of Modra zavarovalnica

The financial assets of Modra zavarovalnica include the assets of guarantee funds and the Company's own assets.

Table 4: The Company's financial assets as at 31/ 12/ 2017

in €

Financial asset	Amount
Own financial assets	267,333,973
KS PPS assets	102,246,458
KS MR assets	25,234,844
KS MR II assets	39,240,533
Total	**434,055,809**

Management of guarantee funds for the disbursement of pension annuities

Modra zavarovalnica is the largest payer of supplementary pensions/pension annuities in the Republic of Slovenia and in 2017 managed three guarantee funds for the disbursement of pension annuities, which are managed separately:

- **the Modra renta guarantee fund**, which collected insurance premiums between December 2011 and December 2015;
- **the Modra renta II guarantee fund**, which was established on 1 January 2016 based on ZPIZ-2; since January 2016, funds are paid in this fund only and no longer in the Modra renta guarantee fund, while annuities are disbursed from both funds;
- **the guarantee fund of the First Pension Fund**, which has been used since August 2004 to disburse supplementary pension annuities deriving from the exchanged pension vouchers to all persons who have reached the age of 60.

Pursuant to the provisions of ZZavar-1, KS MR II and KS PPS funds are registered as ring-fenced funds.

In 2017, Modra zavarovalnica paid a sum of €17 million for supplementary pensions to 21,008 insured persons. Pension annuity deriving from supplementary pension insurance ("modra renta" and "modra renta II" annuities) was received by 10,742 insured persons, while 10,266 insured persons received annuities deriving from supplementary pension insurance in the First Pension Fund (exchange for pension vouchers).

Table 5: Basic information on Modra zavarovalnica annuity funds

Guarantee fund	No. of annuity recipients at the end of 2017	Assets under management (in € million)	Expenses for annuities (in € million)
KS MR – the Modra renta guarantee fund	7,270	25.5	6.8
KS MR II – the Modra renta II guarantee fund	3,472	41.0	3.6
KS PPS – The guarantee fund of the First Pension Fund	10,266	102.5	6.6
Total	**21,008**	**169.0**	**17.0**

The Modra renta guarantee fund

KS MR represents separate assets that are intended for the disbursement of pension annuities deriving from supplementary pension insurance. It is intended for the disbursement of pension annuities to members of supplementary pension insurance schemes who have exercised their right to a pension deriving from compulsory insurance at the Pension and Disability Insurance Institute.

Payments in KS MR were collected until the end of 2015 and, since 2016, KS MR has merely made disbursements of lifetime pension annuities. Upon taking out annuity pension insurance, each person insured could select one of the forms of lifetime annuities, thereby exercising their right to a supplementary old-age pension. Persons insured in KS MR could choose between 24 different forms of supplementary pension upon taking out insurance, notably lifetime annuities with or without a guaranteed period of disbursement or accelerated annuities with full or limited guarantee.

Table 6: Structure of assets in KS PPS as at 31/ 12/ 2017

in €

Asset	Amount
Bonds	18,176,505
Deposits	750,015
Investment receivables	1,082,686
Commercial paper	2,160,165
Investment certificates	2,904,954
Cash and cash equivalents	160,519
Other receivables	243,870
Total	**25,478,714**

As at 31 December 2017, 42% of KS MR assets were invested in investments in the Republic of Slovenia, while 58% of all assets were invested in investments by foreign issuers.

Table 7: Geographic diversification of KS MR investments as at 31/ 12/ 2017

in €

Area	Amount
Domestic investments	10,797,868
Foreign investments	14,680,846
Total	**25,478,714**

The Modra renta II guarantee fund

KS MR II represents separate assets that are intended for the disbursement of pension annuities deriving from supplementary pension insurance. It is intended for the disbursement of pension annuities to members of supplementary pension insurance schemes who have exercised their right to a pension deriving from compulsory insurance at the Pension and Disability Insurance Institute.

Upon taking out annuity pension insurance, each person insured may select one of the forms of lifetime pension annuities, thereby exercising their right to a supplementary old-age pension.

Modra zavarovalnica provides a diverse selection of different pension annuity forms to retired savers:

- **lifetime Modra renta**: this is a supplementary pension without a guaranteed period of disbursement that is disbursed to the end of a one's life. It may be disbursed monthly, quarterly, semi-annually or annually, whereby the period of disbursement depends on the amount of the funds collected. An individual disbursement may not be lower than €30.
- **lifetime Modra renta with a guaranteed disbursement period**: this is a supplementary pension with a guaranteed disbursement period of 1 to 20 years. It is disbursed until an insured person's death or at least until the expiry of the selected guaranteed period of disbursement. It may be disbursed monthly, quarterly, semi-annually or annually, whereby the period of disbursement depends on the amount of the funds collected. An individual disbursement may not be lower than €30.
- **lifetime Modra renta with accelerated disbursement**: this is a supplementary pension with a guaranteed disbursement period of 1 to 20 years, whereby the majority of the funds saved are drawn in the selected guaranteed period of disbursement, after which an amount not lower than €30 is disbursed monthly (quarterly, semi-annually or annually) until the end of life.
- **lifetime Modra renta with 2/1 accelerated disbursement**: this is a supplementary pension with accelerated disbursements in a guaranteed period of 1 to 20 years, whereby the high monthly pension annuity in the accelerated period does not exceed twice the amount of the lifetime pension annuity after the expiry of the accelerated period.

Since 31 December 2017, when KS MR II started operating, the right to supplementary old-age pension was exercised by 4,651 members with collected funds amounting to €45,117,250, who decided to receive the selected monthly pension annuity. Most insured persons opted for accelerated disbursement of annuities.

Table 8: Number of members and amount of payments in KS MR II in 2017

Pension fund	Number of members/ persons insured	Redemption value of assets (in € thousand)
KVPS pension fund	401	4,117
KPSJU pension fund	1,927	13,540
MKPS pension fund	118	517
Pension funds by other managers	460	10,378
Total	**2,906**	**28,552**

The amount of one's pension annuity depends on the supplementary pension insurance assets collected, the technical interest rate, unisex life expectancy tables, date of birth, age upon the effective date of annuity insurance and the cost of annuity payments. The average age of annuity recipients is 60 years, and 55% of all annuity recipients are male.

As at 31 December 2017, KS MR II recorded 3,472 insurance policies, with the average collected funds per insured person amounting to €11,293.

Pursuant to the pension scheme for the disbursement of pension annuities, insurances for lifetime annuity disbursements are included in the positive result achieved every year during the disbursement period through the management of such insurance portfolios.

The Company earmarks at least 90% of its positive underwriting result of the previous accounting period for profits. At least 50% of the mentioned 90% of the positive underwriting result of the previous accounting period is attributed to the insured person in the form of an increased pension annuity.

In 2017, insured persons who had a valid policy with a balance of mathematical provisions as at 31 December 2016 were attributed a profit of €10,560 as permanent increase in pension annuity. The disbursement of increased pension annuities was executed in August 2017 together with an account of all pension annuities already disbursed in 2017.

Table 9: Structure of assets in KS MR II as at 31/ 12/ 2017

in €

Asset	Amount
Bonds	18,563,196
Deposits	2,652,224
Investment receivables	1,494,768
Commercial paper	2,246,218
Investment certificates	13,679,363
Cash and cash equivalents	604,766
Other receivables	1,753,612
Total	**40,994,145**

As at 31 December 2017, 34% of KS MR II assets were invested in investments in the Republic of Slovenia, while 66% of all assets were invested in investments by foreign issuers.

Table 10: Geographic diversification of KS MR II investments as at 31/ 12/ 2017

in €

Area	Amount
Domestic investments	14,110,013
Foreign investments	26,884,132
Total	**40,994,145**

The guarantee fund of the First Pension Fund

KS PPS constitutes separate assets and was established on 13 July 2004 for all insured persons aged 60 or more, thereby obtaining the right to annuity. Upon obtaining the right to annuity, each person insured selects the corresponding form of pension annuity based on an indicative calculation. Insured persons having 2,000 points or less can receive their pension annuity in a single amount. Insured persons having 2,000 points on their insurance policy can choose between a lifetime pension annuity and a lifetime pension annuity with a guaranteed disbursement period. Insured persons having between 2,000 and 5,000 points can also receive their pension annuity once a year. The guaranteed disbursement period is set to 5, 10 or 15 years. If an insured person dies during the guaranteed disbursement period, the pension annuity is paid to that person's beneficiaries or heirs until the expiry of the guaranteed period.

Insured persons receiving the KS PPS pension annuity are entitled to the surplus return rate of the annuity fund over the guaranteed return rate pursuant to the general terms and conditions of supplementary pension insurance in the First Pension Fund of the Republic of Slovenia – exchange for pension vouchers. The share of the surplus intended for a permanent annuity increase is identified once a year by the manager's Management Board. In 2017, the surplus return amounting to €2,268,027 was allocated to a permanent annuity increase. All insured persons or, rather, recipients of KS PPS pension annuities who took out insurance in the form of a monthly or annual annuity by December 2016 received 2.3% higher annuities on average in May. The disbursement of increased annuities made in May also included a settlement for the period between January and April 2017.

In 2017, the right to a pension annuity was acquired by 1,257 insured persons aged 60 who paid in a total of €3,127,153 in KS PPS for their supplementary pensions.

Table 11: Structure of assets in KS PPS as at 31/ 12/ 2017

in €

Asset	Amount
Shares	21,266,245
Bonds	68,585,912
Commercial papers	1,487,906
Treasury bills	42,750
Deposits	3,702,427
Investment certificates	6,659,104
Cash and cash equivalents	502,115
Other receivables	258,973
Total	**102,505,431**

As at 31 December 2017, 56% of KS PPS assets were invested in investments in the Republic of Slovenia and 44% in investments by foreign issuers.

Table 12: Geographic diversification of KS PPS investments as at 31/ 12/ 2017

in €

Area	Amount
Domestic investments	57,035,551
Foreign investments	45,469,880
Total	**102,505,431**

Domestic investments in 2017:

€57,035,551

Foreign investments in 2017:

€45,469,880

Management of own financial assets

The Company's own financial assets amounted to €267,333,973 at the end of 2017. The Company breaks them down pursuant to the items indicated in the table below. Portfolio equity investments account for the largest share, followed by the portfolio of debt investments.

Table 13: The structure of own financial assets of Modra zavarovalnica as at 31/ 12/ 2017

in €

Financial asset	Amount
Portfolio investments in equity	143,287,733
Non-portfolio investments in equity	46,648,674
Portfolio of investments in debt securities	76,614,919
Cash and cash equivalents	782,646
Total	**267,333,973**

Portfolio investments in equity

Portfolio financial investments in equity comprise foreign shares and investment fund certificates by domestic and foreign issuers. As at 31 December 2017, the value of the mentioned investments amounted to €143,287,733. Top five investments in the portfolio of equity investments as at 31 December are: index fund representing the MSCI global index (XMWO GY), index fund representing the MSCI global index (SMSWLD GY), ETF on government bonds (XGLE GY), investment fund investing in agriculture (MOO US) and index fund investing in the stock of emerging markets (MXFS LN).

Table 14: Composition of portfolio investments in equity as at 31/ 12/ 2017

in €

Investment	Amount
Shares	**30,292,033**
Foreign shares	30,292,033
Investment funds	**112,995,700**
Domestic investment funds	1,796,538
Foreign investment funds	111,199,162
Total	**143,287,733**

In 2017, stock indices increased on average by 6.7%, assessed in €. As at 31 December 2017, the portfolio was most exposed to IT, followed b finance in healthcare. As regards exposure to foreign exchange risk, the portfolio's greatest exposure at the end of 2017 was to the US dollar and euro. More than half of the mentioned portfolio is invested in equity investments by North American issuers and around a third in investments by European issuers. The remainder are investments in issuers from developed Asian countries and issuers from developing economies.

Non-portfolio equity investments

As at 31 December 2017, Modra zavarovalnica owned two equity investments by domestic issuers that require a management method different to that of the portfolio, primarily due to the size of the ownership share; namely, investments in Cinkarna Celje d.d. and Pozavarovalnica Sava d.d. The total value of these investments as at 31 December 2017 amounted to €46,648,674.

Financial investments in debt securities

At the end of 2017, the balance of investments in debt securities amounted to €76,614,919. The largest share of investments in debt securities was taken up by corporate bonds, followed by government bonds and deposits.

Table 15: Composition of investments in debt securities as at 31/ 12/ 2017

in €

Investment	Amount
Bonds	59,673,121
Government bonds	28,664,614
Domestic government bonds	15,496,635
Foreign government bonds	13,167,979
Corporate bonds	31,008,507
Domestic corporate bonds	4,667,503
Foreign corporate bonds	26,341,005
Deposits	13,534,719
Commercial papers	497,043
Treasury bills	2,910,036
Total	**76,614,919**

The value of the government bond portfolio of Modra zavarovalnica amounted to €28,664,614 as at 31 December 2017. The portfolio comprises mostly government bonds of countries within the euro area. At the end of 2017, the share of domestic issuers amounted to 55% and the share of foreign issuers to 45%. Most bonds are denominated in euro, with a minor share in US dollar.

The largest investment is in bonds of the Republic of Slovenia. Almost half of the bonds have maturity between 5 and 10 years. The majority of the bonds have a fixed coupon interest rate.

Among corporate bonds, bonds from countries from the euro area prevail. The value of the corporate bond portfolio amounted to €31,008,507 at the end of 2017. As at 31 December 2017, domestic issuers accounted for 15% and foreign issuers for 85%. of the portfolio. All bonds are denominated in euro. The majority of bonds have a fixed coupon interest rate. The average modified term of corporate bonds amounted to 4.25 years at the end of 2017.

At the same time, most corporate bond issuers were engaged in finance, energy and public services.

Investments in cash and cash equivalents

At the end of 2017, the Company disclosed €782,646 of own cash and cash equivalents.

In total, Modra zavarovalnica manages assets worth over

€1.4 billion.

Services tailored to companies and individuals, a personal approach and

open communication

are the qualities that set us apart.

Marketing

Marketing and communication activities (sales activities, web image management, public relations, advertising, awareness raising and information provision) are intertwined in time and content, and focused on achieving sales goals and enhancing Company identity as the largest provider of supplementary pension insurance and top expert in the field.

The results of identity measurements have revealed that there is still a substantial share of individuals who are not familiar with the activities of Modra zavarovalnica. The Company is associated with insurance, but not with supplementary pension insurance. Therefore, communication activities have remained focused on building the Company identity as the largest provider of supplementary pension insurance. When selecting a provider for supplementary pension insurance, the key factors influencing the decision are security, reliability, trust, economic stability and long-standing experiences. Due to generally weak trust in financial institutions, security is perceived by savers as one of the most important factors influencing developments on the market. The preservation of the Company's market share and growth of the assets collected largely depend on the performance of asset management, efficient tailoring of products to the needs of individuals and companies, personal treatment and open communication.

A fair deal of marketing or sales activities in 2017 focused on raising the savers' awareness on the life-cycle pension fund and possibilities to achieve higher yields upon transfer to a sub-fund with no guaranteed return rate. Quarter 1 of 2017 was characterised by the transformation of the pension fund for public servants into a life-cycle pension fund. Communication activities included a wide range of communication tools that were used to carry out all legally required notices (notice of fund transformation, amendments to the Pension Scheme and Fund Rules) and the opportunity was used to promote individual premium payments among public servants and the use of the Modri e-račun online service. Regular mailing by post and Modri-e-račun service was supplemented with press releases, several publications on the Company and trade union websites, and with the provision of information to employers, which published the contents on their internal portals and newsletters. Information provision was also upgraded with communication activities on the Med.Over.net forum, where answers were promptly provided to forum visitors at a public debate, which turned out to be a successful mode of communication.

In December 2017, the traditional "No entry fee" campaign was carried out, with the most success so far, i.e. 18% growth of supplementary individual payments compared to 2016 and 42% growth compared to 2015. The results have shown that targeted marketing communication and personal contact with savers have an important effect on raising the members' awareness of the expected pension gap and in understanding the advantages of supplementary pension insurance and tax relief.

As efficient support to the attainment of marketing goals, the website focused on sales and electronic conclusion is continuously upgraded and tailored. In 2017, the number of visitors increased by 26% compared to 2016. Furthermore, the bounce rate fell by 17%, whereby over 74% visitors continue browsing the website contents. The site with indicative calculations was again the most visited, which is why we will make further efforts to update it and provide the best possible user experience. In 2017, insurance taken out online increased by 5.8%.

To have the web appearance serve its purpose well, the content, user experience and functionalities should be enhanced, developed and adjusted on a continuous basis. For that reason, a goal was set to renew the existing Company website, with the key focus on custom mobile pages, improved user experience, improved sales functions of the website, and efficient presentation of products and services with respect to target groups. At the same time, a decision was adopted to start preparing a long-term marketing strategy, a part of which will also be a renewed web appearance. Activities have commenced to realise the strategy to provide an excellent user experience and to introduce customer satisfaction measurements through phone communication channels. Awareness of user experience satisfaction will provide important guidance for the development of services for out clients and the main guidance for future use of digital opportunities.

To ensure continuous presence in the press, answers and comments were provided to journalists' questions, PR and news articles were published to the topic of supplementary pension saving, and new features and current events were announced. Advertising activities focused on continuous online advertising and regular lease of key words, advertising in specialised monthlies, moderation of a thematic forum to the topic of pension insurance at Med.Over.net, sponsorship of two events: the Slovenian Human Resources Congress and Accountant Days 2017, and the preparation of updated contents on referral pages on public sector trade union websites.

As efficient support to the attainment of marketing goals, our website focused on sales and

electronic conclusion

is continuously upgraded.

Our risk management system is clear and transparent.

clear and transparent.

Risk management

Swift adjustment to market conditions brings about the need to manage risks as efficiently as possible, which is a prerequisite for successful business operations. The application of standard risk management methodologies enables the Company to make a liquidity assessment of all types of risk, respond in due time and reduce exposure to risks. In risk management, the Company primarily takes into account legal regulations but also governs the area in detail through its internal acts.

Modra zavarovalnica operates so that:

- it always has adequate capital at its disposal with respect to the scope and type of insurance transactions performed as well as risks to which it is exposed when performing these transactions (capital adequacy);
- the risks to which it is exposed in individual or all types of insurance transactions concluded never surpass the limitations laid down by the Insurance Act and therewith related regulations;
- it is at any time capable of settling its liabilities in due time (liquidity) and permanently capable of meeting its obligations (solvency).

The Company considers the most important types of risk in its operations to be credit risk, market risk, liquidity risk and operational risk.

Detailed operational risk parameters of Modra zavarovalnica are presented in the Financial Report.

The Company's solvency position

Modra zavarovalnica disposes with a sufficient volume of own assets with respect to its total need for capital. The table below shows data for 2017.

Table 16: Capital adequacy pursuant to the requirements of ZZavar-1 or Solvency II Directiv

in €

Item	31/ 12/ 2017	31/ 12/ 2016
Total need for capital	125,268,016	105,858,520
Available adequate own assets	265,689,982	199,602,540
Surplus (+)/deficit (-) of available own assets	140,421,966	93,744,020
Eligible own assets to total capital need ratio	**212%**	**189%**

The annual data on the solvency position as at 31 December 2017 are presented in the Company's Report on solvency and financial position, which is published on its website.

Credit risk

Credit risk implies the possibility that investments in debt securities are recouped only partially or not at all.

An important share of the Company's financial assets represents investments in the securities of the Republic of Slovenia, debt securities issued by EU countries and foreign financial institutions, equity and debt securities by foreign non-financial companies, domestic equity shares and debt securities and domestic banks.

Within the scope of the Company's internal rules, a business partner's credit rating is determined using an own model and taking into account the credit ratings provided by Standard & Poor's, Fitch and Moody's, whereby the second best rating is taken into account. The decision to approve an investment is adopted by the Management Board based on the proposals submitted by internal committees.

Modra zavarovalnica manages credit risk by selecting its partners with due care (analyses of opposing parties before assuming a credit risk), checking their credit rating and dispersing investments in terms of issuer, sector and geographical area. The credit risk of foreign debt securities is managed by investing in foreign debt securities with a credit rating higher than BBB-, provided by a recognised credit rating agency, and by adjusting the portfolio's credit rating structure to the internal restrictions adopted. The Company's portfolio of debt securities does include bonds of a credit rating below BBB-, but it has specified the maximum exposure to these bonds.

Credit risk deriving from exposure to a particular bank (deposits, certificates of deposit) is managed by the Company in line with internal rules, i.e. by determining investment limits representing the permitted exposure at a particular bank in a certain period on a monthly basis.

The total exposure to an individual issuer is determined on an ongoing basis and is aligned with legal regulations. No derivatives were used for hedging against credit risk.

The risk of security price changes

The diversification of a share of the Company's investments abroad has reduced the dependency of the long-term investment portfolio on the trends recorded on the Slovenian capital market. In 2018, Modra zavarovalnica will continue to diversify its share of investments abroad pursuant to its investment policy.

Risk monitoring and assessments are made weekly by calculating the value at risk (V@R), which applies the Monte Carlo calculation method, i.e. at the level of the entire portfolio and separately for equity and debt securities. Furthermore, the beta indicator is assessed weekly for equity securities as a systemic risk measure.

Currency risk

When managing the share of the underlying assets invested in foreign currencies, the Company is also exposed to currency risk.

The Company manages its credit risk by balancing financial assets with liabilities in terms of currency pursuant to ZZavar-1. The amount of receivables exposed to currency risk is low. In 2017, the Company used no derivatives to protect itself against currency risk.

Interest rate risk

By investing assets in debt securities and deposits, the Company is exposed to risk relating to changes in investment value due to interest rate changes. Due to low interest rates, its assets were mostly exposed to the risk of reinvestment. In foreign debt securities, assets are invested with respect to the selected reference portfolio or index. Furthermore, the Company's internal committees monitor interest rates on a weekly basis, including the analyses and forecasts made by market players based on which investment proposals are made.

The Company manages interest rate risk by changing the structure of investments, i.e. by adjusting the duration of a portfolio, restructuring fixed-rate investments into floating-rate investments or vice versa and by classifying investments as financial investments held to maturity. In 2017, the Company used no derivatives for protection against credit risk.

Liquidity risk

Modra zavarovalnica manages its resources and investments in a manner that allows it to settle all due liabilities at any moment. The Company develops and implements the policy of regular liquidity management separately for the Company and guarantee funds pursuant to the law.

Due to the low liquidity of the Slovenian capital market, liquidity risk persists in the majority of the Company's investments in domestic equity and debt securities. The Company reduces its liquidity risk by allocating a portion of its investments in high-liquidity securities abroad. Furthermore, it limits the liquidity risk by planning and monitoring the portfolio's cash flows daily and investing a limited portion of assets in high-liquidity money market instruments.

Operational risk

The main operational risk factors at the Company pertain to human resources, business processes, information technology (IT), uninterrupted operations, corporate structure and external events. The Company manages its operational risk through a system of authorisations, definition of business processes and adequately trained employees. To further reduce operational risks, the Company has established a system of recording loss events in order to minimise the Company's operational risk.

Every year, the internal audit service pays special attention to verifying the internal control system and making proposals for its improvement.

We use a stable IT system to ensure the

highest level of data security

and provide efficient support for all business processes.

Information technology

In 2017, the IT function focused on improving the key components of the information system, reducing operational risks in the use of IT solutions and on providing compliance.

An important step forward was made in data exchange with employers. In 2017, all users of the Life-Cycle Pension Fund were successfully transferred to the Modrinet online service. Several major employers executed a more advanced method of migration using the only service enabling automated data capture by the user. The service for members of Modri e-račun funds was brought in line with legal requirements pertaining personal data processing. Annual reporting on personal account balances was simplified both for employers and members. IT support for financial reporting was brought in line with the requirements of IFRS 9. A model for calculating investment impairments was implemented. In IT support to the Solvency II regime, activities continued to put in place processes to ensure data quality, primarily by implementing control mechanisms and developing automated procedures to transfer data from the back-office system to the support system for the Solvency II regime as well as eliminating operational risks in reporting processes for the regulator.

External control of IT equipment and procedures for its management in relation to personal data processing was performed. Special emphasis was placed on procedures and measures to protect personal data. The inspection specifically focused on password management, level access and granting of authorisations, traceability, security areas, access, protection against malicious codes, handling of data carriers, etc. No major risks were identified in the inspection procedure that would put an individual's rights relating to their personal data at risk. Procedures and measures to protect personal data are compliant and provide a high level of security to our members.

In order to provide compliance with the regulation governing the protection of individuals during personal data processing and the flow of such data, which will enter into force in May 2018, we made an analysis of the gap. Based on the analysis, a plan of measures was prepared to provide compliance.

Operational risks relating to IT support for the business processes were successfully managed. There were no major security incidents, the system's operation was stable and requirements regarding the availability and reliability of IT services for business processes were met pursuant to the service level agreements or expectations of the users of business IT solutions. In IT management, the requirements of the international ISO/IEC 27001:2013 standard and ISO/IEC 27002:2013 information security code were met in every relevant detail.

We seek to establish a system of values and conduct, where

mutual respect, communication and cooperation

hold a special place.

Organisation and human resources

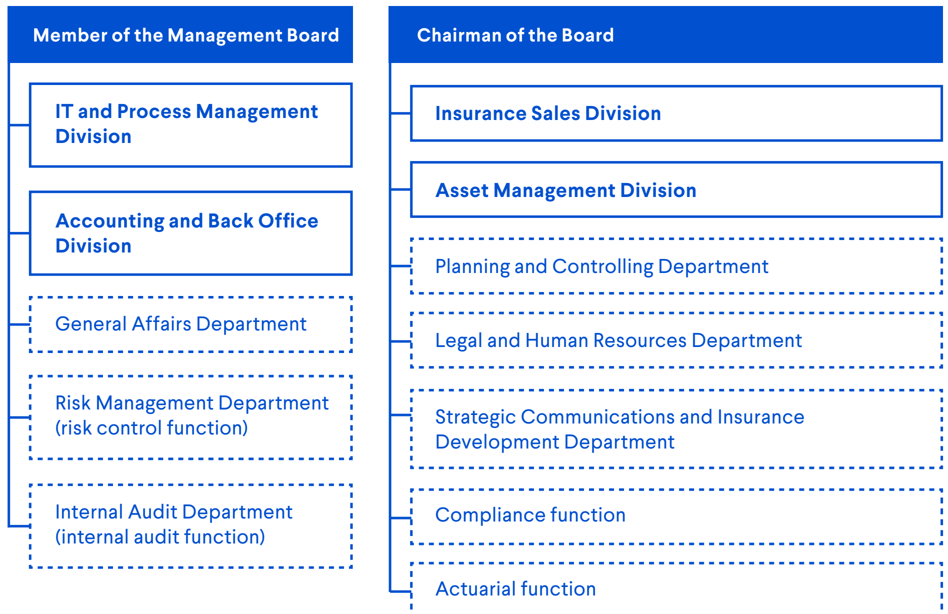
Internal organisation

The Company is organised in line with the needs of the work process and requirements regarding the efficiency and competitiveness of operations; it promotes the abilities of internal organisational units and their employees. The basic organisational units of the Company are a department, division and key function, unless organised within the scope of an independent organisational unit. The implementation of the key functions of internal audit and risk management are formed within the scope of independent organisational units reporting directly to the Management Board. The function of compliance is organised through the holder of the key function who reports directly to the Management Board. The holder of the actuarial function is an external associate acting under the authority of the Management Board. They carry out the function autonomously, independently and report directly to the Company's Management Board. All four functions cooperate with one another and regularly exchange the information required for their work. Every key function maintains its tasks, responsibilities, processes and reporting obligations detailed in its operations policy.

The work of a division is run by the executive director, while the holders of key functions are persons who are responsible for the key functions of Modra zavarovalnica. The division executive director, department manager and holders of key functions answer to the Company's Management Board for the implementation of the Company's business policy and for the legitimate, timely and quality work of the relevant department, division and insurance company as well as for providing information to employees in the department, division or insurance company.

The main areas of work are carried out at 4 umbrella organisational units, while support business processes are carried out within the departments established directly under the Management Board.

Figure 5: Organisational chart of Modra zavarovalnica

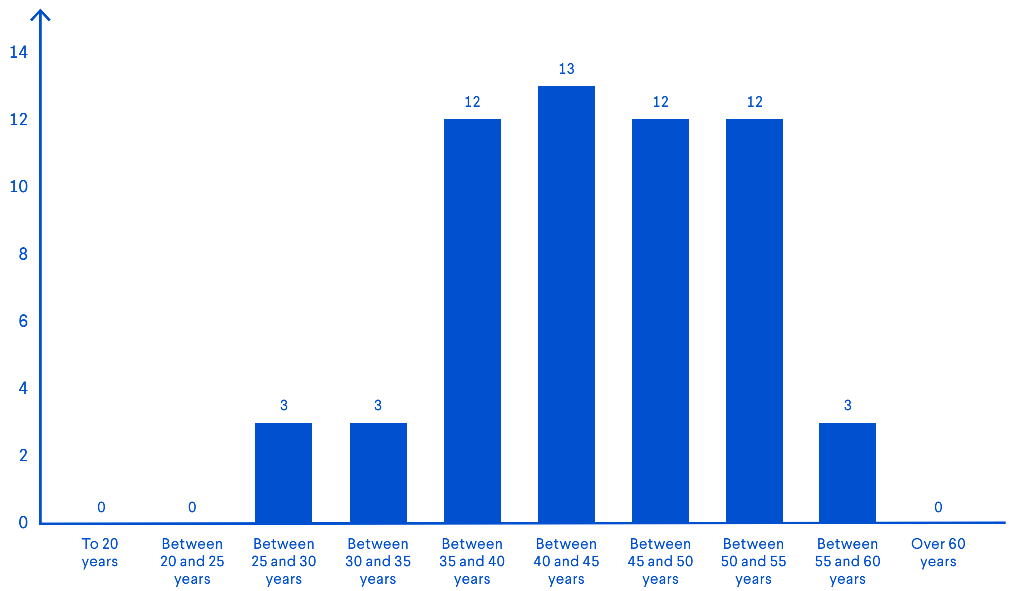


Employees

The Company is aware that employees are the source of efforts and knowledge contributing to the attainment of the Company's long-term goals and the satisfaction of its customers. For this reason, it strives to create a working environment in which the dignity and integrity of each employee is respected. By organising work and providing flexible working hours, it enables employees to coordinate their professional and private obligations. Furthermore, it seeks to establish a suitable system of values and conduct, where mutual respect, proper communication and cooperation hold a special place.

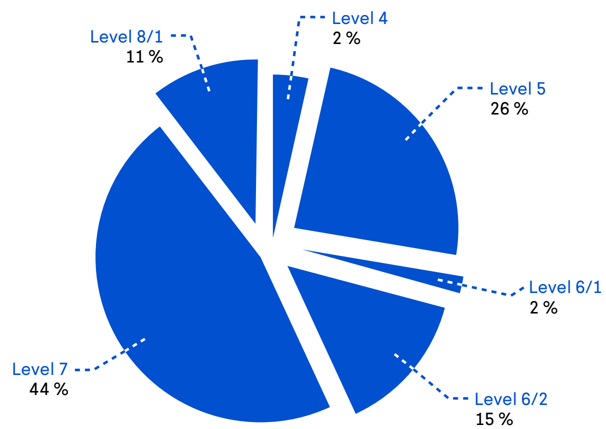
As at 31 December 2017, the Company employed 58 persons, which is also the average number of employees in 2017. The average age of employees is 43. Considering the gender structure of employees, 78% are women and 22% are men, whereby the ratio remained unchanged with respect to 2016. In 2017, the Company recruited two associates in the insurance sales department. As at 31 December 2017, Modra zavarovalnica had three temporary employees.

Figure 6: Structure of employees by age group as at 31/ 12/ 2017



Company employees pay a great deal attention to knowledge and education, being aware that only intensive investments in development can allow the Company to respond quickly and efficiently to the requirements of the competitive market. 11% of employees have a Master's degree, 59% of employees have higher professional or university education, 2% have higher education and 28% secondary education.

Figure 7: Structure of employees by level of education as at 31/ 12/ 2017



The expected level of employee knowledge can be achieved with organised and planned training. Continuous changes on the market, tailoring products and services to clients' needs and product development require continuous training. In 2017, the insurance company earmarked almost €108k for training. In addition to participating in training provided by outsourcers, knowledge transfer also takes place within the scope of in-house training courses. Training in the prevention of money laundering and terrorist financing is carried out regularly. A total of 1,085 hours were spent on training in 2017. On average, every employee spent 18.7 teaching hours for training, whereby the average cost for training per employee amounted to €895. A topical group workshop was organised in 2017 for all employees with the purpose to strengthen cooperation, team work and project management. Employees learned and tested a few simple methods to improve their relations with open and courteous communication, conflict management and team work.

To develop employees systematically, we conduct personal interviews, within the scope of which an employee and their manager set goals and define the employee's development path once a year, and assessment interviews, which are held twice a year and are aimed at assessing quantitative and qualitative goals and conduct as well as getting feedback on job performance for the past 6 months. A special reward scheme was set up for associates in sales and asset management. Team performance is checked, measured and disbursed based on special pre-defined indicators. The Company provides a stimulating working environment with clear policies, target management and motivation and inclusion of employees in different projects.

Research on employee satisfaction is carried out every year, allowing us to measure progress in our efforts to maintain and increase business performance and create a working environment in which employees can express their potential. Feedback information allows us to improve the quality of relationships and satisfaction of our associates and, consequently, of our clients.

Employees are informed of current affairs at the Company and new features, and we cultivate relationships and two-way communication through regular workers' assemblies, idea box, intranet, an in-house medium, electronic notification, staff meetings, personal interviews, in-house training, informal meetings with employees and annual interviews with employees.

Safety and health at work are systematically ensured and all activities required under the Safety statement with risk assessment are carried out. A component part of professional training of all employees includes training on safety and health at work and fire protection. Training courses must be attended by all employees and the knowledge must be periodically renewed. In line with the legislation, preliminary and periodical health check-ups were carried out and the Company also provided the possibility of flu and tick-borne encephalitis vaccination. The Company provides social security upon retirement to all employees under the same terms by paying in the maximum tax-deductible premium in the collective supplementary pension insurance of the MKPS pension fund managed by Modra zavarovalnica. The Company also provides collective accident insurance and insurance specialist outpatient treatment.

By implementing an action plan to promote health, employees are encouraged to lead a healthy lifestyle, thus reducing the risk of illness both on the job as well as in private life. Furthermore, the intranet portal offers a great deal of information regarding topical health issues and useful articles on exercise and a healthy diet. All employees have fresh seasonal fruit available twice a week for a healthy start to the day. The Company regularly carries out a 30-minute morning exercise, carried out once a week, with focus on stretching the neck, shoulders and back, which carry the most load in office work.

The Company has been a proud holder of the full Family-Friendly Company certificate since 2013. Concern for the coordination of career and family life has become a part of the Company's organisational culture. We believe that satisfied employees perform better and have a greater sense of belonging to the Company and that reduced stress contributes to better results on the job. The Company also maintains a good flow of information, customer satisfaction and a sound working climate.

We organise professional training sessions to

raise awareness of the importance of saving money

for the time after retirement.

Responsibility to insured persons, the broader social community and the environment

Almost half a million of employees save for supplementary pension in Slovenian pension funds, whereby premiums for as much as 95% of those included are paid by their employer. It is encouraging that employers have decided together with employee representative to pay at least a share of the supplementary pension insurance premium for employees. However, this puts employees under a fake illusion that such premium will suffice, which is why they themselves do not save, not even in the amount of the difference to the tax relief, when used in full by the employer. On average, payments made in the pension fund are too low and will not provide an adequate supplementary pension to most members. Furthermore, over 300,000 employees have not started saving for supplementary pension (yet). By delaying saving, young people in particular lose the most. The time lost must be compensated later on with much higher monthly payments, so that they can save enough. This is why it is necessary to systematically change one's saving habits and raise awareness of the need, although it is a long way off.

An important part of the Company's communication activities is, therefore, focused on raising awareness among the population regarding the importance of saving for retirement. For the purposes of better understanding supplementary pension insurance and promoting the new life-cycle investment policy for the existing persons insured and the general public, the Company organised or attended several conferences, prepared information for publication on websites and in in-house company newsletters and provided expert assistance in the preparation of answers to questions relating to supplementary pension insurance that are raised by employees. We trained the HR and accounting services of our clients regarding the potentials and advantages of disbursements in the form of a supplementary pension and established information offices at company headquarters.

The Company is well aware that good relations with the media is an important part of the Company's reputation and public visibility. While communicating with the media, the Company strives for proficiency and responsiveness and provides expert assistance in the preparation of articles on the subject of saving for supplementary pension and the Company's operations. As a partner of the Moja pokojnina project carried out within the scope of Moje finance, the Company provided advice to individuals about the most suitable form of supplementary pension saving.

As a socially responsible company, we support environmentally targeted activities. We have been separating waste, minimising paper consumption, collecting worn-out printer cartridges and responding to charitable events. To this end, we also develop various web applications that reduce the need for printing and enable faster and more reliable communication and information provision procedures. Plastic stoppers are collected throughout the year. In 2017, we also supported the "Jaz, ti, mi za Slovenijo" project, aimed at raising awareness among young people on the importance of a healthy environment and attitude to nature and recycling of waste materials that can also represent raw materials for further processing.

Like every year, employees again responded to the charity project "Santa for a Day" and joined many good people who made wishes come true for children from socially deprived families. Throughout the year, we responded to requests made by individual societies and organisations (sports clubs and associations, pensioners' organisations, fire departments) in which we helped implement raffles and gift-giving events by providing promotional materials.

Modra zavarovalnica is an active member of the European Association of Public Sector Pension Institutions (EAPSPI), which brings together 26 public pension institutions from 16 European countries. The main purposes of the Association are mutual assistance of its members and transfer of knowledge, experience and information on the provision of pension schemes for public servants and experience in pension systems in individual countries from which the members arrive. In 2017, three meetings were held along with a regular annual general meeting of the Association.

Important business events after the end of the financial year

Austerity measures in the public sector referring to the amount of collective supplementary pension insurance premium ceased as of January 2018 and the collective premium returned to the original level from 2013, but is to be indexed with the growth factor of the average salary paid out to employees in the period between January and October in all years from 2014 to 2017. The minimum premium applicable as at 1 January 2013 in the amount of €26.78 is increased to €28.31 as of 1 January 2018. The harmonised premium amounts for a particular premium class become applicable with an account and payment of collective supplementary pension insurance premiums for public servants for January 2018 (payment of premiums in February 2018).

Expected development of Modra zavarovalnica in 2018

Modra zavarovalnica will continue to strengthen its focus on the client, monitor the client's needs, and provide personalised treatment and appropriate advice. While focusing on the client, it is vital to adjust to new technological solutions, since reliance on existing communication tools and sales channels has lost efficiency. The Company will develop a marketing approach through digital transformation of its operations, i.e. by improving the user experience in every contact with the client. Improved user experience will also lead to a comprehensive renewal of the web appearance. At the same time, the renewed website will pursue the goal of becoming an important sales tool and not merely an information point, whereby the latter role will be assumed by the Modri e-račun and Modrinet web services, which will be tailored to the needs of a particular target group. The purpose of digitalising marketing processes will be to provide modern digital communication with the client in all stages of decision-making (prompting a need, searching for information, taking out insurance, taking care for existing insured persons, other after-sales activities and additional products).

In asset management, 2018 is expected to be a challenging year as a result of continuing record-breaking low interest rates and relatively highly evaluated risky investment grades. In 2018, the guaranteed return rate will amount to 0.61%; however, we believe it will not be easy to achieve it. Opportunities will have to be sought in new alternative investment grades, e.g. venture capital funds, real estate funds, bad debt funds and infrastructure funds. Various possibilities were examined in the past two years to enter new investment grades through alternative investment funds that invest in them. Many experiences were acquired in respect of assessing and investing in various funds, both those in line with the UCITS Directive as well as those not in line with it, and particularly in investment certificates. The advantage of investing in funds instead of direct investments lies in the greater diversification of investments, specialisation of the fund manager and higher investment liquidity, since a fund is easier to cash in as an individual investment, particularly an open investment fund. In 2018, it is planned to gradually increase the share of capital invested in alternative investments.

In the management of the First Pension Fund of the Republic of Slovenia, the Company will pursue the objective to reduce the negative difference between the guaranteed and actual value of assets, thus reducing the volume of necessary provisions for failing to achieve the guaranteed return rate, which will have a positive impact on the operating result achieved in 2018.

The strategic goals of the Company are to protect insured persons or, rather, their assets while meeting capital requirements, improving risk management, providing conditions for better capital allocation, increasing transparency and similar. In 2018, it will continue to develop and upgrade the overall risk management system in order to improve asset management in the long term. It is vital to meet the requirements under the Solvency II regulation (ZZavar-1), where investments and liabilities are assessed in terms of capital, i.e. by applying a risk-based approach.

Report on relations with the controlling company

In the 2017 financial year, the Company took no action in relation to the parent company deriving from contractual and business relationships at the initiative or in the interest of the parent company and its related companies that would result in its disadvantage or detriment.

Corporate governance statement

Based on the provision of paragraph 5 of Article 70 of the Companies Act and provision 3.4 of the Corporate Governance Code for Companies with Capital Assets of the State, Modra zavarovalnica hereby provides a governance statement for the period between 1 January and 31 December 2017.

Reference to the applicable governance code

The Management and Supervisory Boards of Modra zavarovalnica, which is fully owned by Kapitalska družba d.d., hereby declare that they voluntarily observe the Corporate Governance Code for Companies with Capital Assets of the State, as adopted on 19 December 2014 and supplemented on 2 March 2016 and 17 May 2017 by the Slovenian Sovereign Holding. The Corporate Governance Code for Companies with Capital Assets of the State recommends principles, procedures and criteria for the conduct of members of governing bodies in companies with capital assets of the State and all subsidiaries in the group in which a company with capital assets of the State holds the position of parent company. The Code is available on the website of the Slovenian Sovereign Holding at www.sdh.si.

The Company's Management Board adopted the Governance Policy of Modra zavarovalnica d.d. at its session held on 29 December 2015 and its amendments and supplements on 11 November 2016 and 14 December 2017, which entered into force on 21 December 2017 when the consent of the Company's Supervisory Board was obtained.

The statement on compliance with the Corporate Governance Code for Companies with Capital Assets of the State is available on the Company's website www.modra.si.

Deviations from the recommendations of the Corporate Governance Code for Companies with Capital Assets of the State are indicated and explained below:

Governance framework for companies with capital assets of the State

Point 3.1 of the Corporate Governance Code for Companies with Capital Assets of the State: The fundamental goal of a company with capital assets of the State is to maximise its value and generate the maximum possible return for owners, unless laid down otherwise by the law or its Memorandum of Association. In addition to that, such companies also pursue other goals as laid down for each company by the law or its Memorandum of Association. The companies must ensure that all goals are clearly defined in their Memorandum of Association in order to provide transparency. If a company has contradicting goals, the Memorandum of Association or some other relevant act (e.g. corporate governance policy) defines relations between the goals and the resolution of conflicts between them.

Explanation: Pursuant to Article 80 of the Slovenian Sovereign Holding Act, Modra zavarovalnica is considered a strategic investment as long as it manages a pension fund for public servants. With a strategic investment in Modra zavarovalnica, the Republic of Slovenia, in addition to economic goals, also pursues an important strategic goal to provide the sustainability of the pension system by strengthening supplementary pension insurance and raising citizens' awareness of the importance of supplementary pension saving. The Company's mission and goals are laid down and delineated in its strategic business plan. The Company disposes with suitable analytical bases, based on which it estimates with reliability that the security of savings is the most important element of trust in supplementary pension insurance, which is why it is defined as the central strategic goal in the relevant strategic business plan.

Furthermore, the Company's business model is tailored to the relevant strategic goal, which, considering the fact that the activity of pension fund management is extremely demanding in terms of capital and regulations, also implies moderate expectations of the Company's profitability. Expectations could only be raised with an over-proportionate increase in the Company's operational risk, which would reduce the level of security of the insured persons' savings, thus threatening the attainment of the Company's strategic goals and the goals pursued by the Republic of Slovenia through its indirect ownership in Modra zavarovalnica.

Modra zavarovalnica continues to be the largest pension fund manager and payer of supplementary pensions in the Republic of Slovenia and an important source of funds for the first pension pillar, as it increased value for its owner by over €112 million in the past 6 years, more than €19 million of which in the form of dividend distribution and €93 million in the form of capital growth.

Point 3.6 of the Corporate Governance Code for Companies with Capital Assets of the State: The Company management, which is obliged to prepare a business report under the Companies Act, forms and adopts, in the form of a special act, a Diversity Policy that is implemented in relation to representation in the Company's management and supervisory bodies in respects, such as gender, age and skill profile. The Diversity Policy is to be published on the Company website or some other mode of access to it is provided to all Company shareholders.

Explanation: Modra zavarovalnica has formed and adopted no Diversity Policy yet. That is expected to be done in the second half of 2018.

Point 6.12 of the Corporate Governance Code for Companies with Capital Assets of the State: The Supervisory Board of a company with capital assets of the State should perform a procedure every year to assess the performance of the Supervisory Board. Within the scope of the procedure, the Supervisory Board is to assess its current composition, operations, potential conflicts of interest of individual members and the work performed by individual members and the Supervisory Board as a whole as well as its cooperation with the Company management. During self-evaluation, the Supervisory Board should also assess the work performed by any of its committees. The supervisory bodies of companies with capital assets of the State should assess the performance of the supervisory body pursuant to the Supervisory Board Assessment Manual as adopted by the Slovenian Directors' Association.

Explanation: In 2017, two Members of the Supervisory Board of Modra zavarovalnica were replaced, which is why the Supervisory Board was not fully in place in the first half of the year. Due to the above, no self-evaluation of Supervisory Board Members' performance was carried out in 2017. In the procedure to appoint Supervisory Board Members, an assessment was made of the Supervisory Board as a collective body, along with the self-evaluation of the work performed by the Audit Committee of the Supervisory Board of Modra Zavarovalnica. The self-evaluation of the Supervisory Board will be carried out in the first half of 2018.

Audit and internal control system

Point 9.2.8 of the Corporate Governance Code for Companies with Capital Assets of the State: Annual internal assessments of the quality of internal auditing should be carried out. An external quality assessment of internal auditing should be carried out at least every 5 years.

Explanation: No external quality assessment of internal auditing has been carried out at Modra zavarovalnica. An external quality assessment of internal auditing will be carried out in the first half of 2018.

Description of the main features of the internal control and risk management systems at the Company in relation to the financial reporting procedure

Explanation: Modra zavarovalnica manages risks and carries out internal control procedures at all levels. The purpose of internal control is to provide for the accuracy, reliability and transparency of all processes as well as the management of risks that are related with financial reporting.

The controls carried out in the Accounting and Back Office Division, which is in charge of keeping books of account and compiling financial statements pursuant to the applicable accounting, tax and other regulations, include procedures ensuring that:

- business events are recorded on the basis of authentic accounting documents, based on which business events are recorded accurately and honestly, and which provide a guarantee that the Company honestly disposes with its assets;
- business events are recorded and financial statements compiled pursuant to the applicable legislation.

The financial statements of Modra zavarovalnica for each financial year are also examined and audited by an external audit. Based on a resolution adopted by the General Meeting on 31 August 2016, the Company's financial statements for 2017 will be audited by Deloitte revizija d.o.o., Ljubljana.

The internal audit service is an independent organisational unit within the Company and is directly subordinate to the Management Board. This provides the independence of its operations and separation from executive functions that are the subject of audit. The fundamental focus of internal auditing is to examine and provide assurance on the operations of the Company's internal control systems. An internal auditor assesses the efficiency of internal controls in terms of the management of risks that the Company is exposed to. Pursuant to the annual work programme of internal auditing as adopted by the Company's Management and Supervisory Boards, the internal auditor carried out verification audits for individual areas of the Company's operations. With proposals for improvements to the business processes and procedures employed at the Company, the internal audit contributes to increased performance of the Company.

Important direct and indirect ownership of the Company's securities in terms of achieving a qualifying holding as laid down by the act regulating acquisitions

Explanation: The sole shareholder of Modra zavarovalnica is Kapitalska družba d.d., which is the holder of all 152,200,000 ordinary registered no par value shares (100% holding in the share capital).

Holders of securities providing special control rights

Explanation: The Company has no securities providing special control rights.

Restrictions on voting rights

Explanation: The sole shareholder of Modra zavarovalnica, i.e. Kapitalska družba d.d., which is the holder of all 152,200,000 ordinary registered no par value shares, has no restrictions on voting rights.

Company Rules on the appointment and dismissal of governing body members and amendments to the Articles of Association

Explanation: Company Rules on the appointment and dismissal of governing body members are laid down in the Company's Articles of Association.
The Supervisory Board of Modra zavarovalnica is appointed by the General Meeting. Pursuant to paragraph 2 of Article 2 of the Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD) and the Slovenian Compensation Company (SOD) and Article 10 of the Company's Articles of Association, the Supervisory Board comprises 6 members.
Three Members of the Supervisory Board are appointed at the proposal of Kapitalska družba d.d. and three members at the proposal of the persons insured at the Company, i.e. two members are proposed by the board acting on behalf of the persons insured in the pension fund for public servants and one member is proposed by other persons insured at the Company. A proposal for Member of the Supervisory Board who is proposed by persons insured in the public servant fund is formed on the basis of a public call to persons insured in the public servant fund, which is published in the Official Gazette of the Republic of Slovenia and on the Company's website. Based on the proposals received, the public servant fund board proposes two Members of the Supervisory Board after a proposal is formed and confirmed by members of the board who represent insured persons and are themselves insured at the Company. The proposal for member of the Supervisory Board who is proposed by other insured persons is formed on the basis of a public call to all persons insured by the Company outside the public servant scheme, which is published in the Official Gazette of the Republic of Slovenia and on the Company's website. Based on the proposals received, the KVPS and MKPS boards form a proposal for a Member of the Supervisory Board, which is confirmed by members of the board who are themselves insured at the Company.

When appointing members of the Supervisory Board of Modra zavarovalnica at the proposal of the sole shareholder, their suitability is to be assessed by the Accreditation Committee of the Supervisory Board of Kapitalska družba d.d. The term of office for Members of the Supervisory Board of Modra zavarovalnica lasts 4 years, after which they may be reappointed. Pursuant to the resolution of the Supervisory Board of Kapitalska družba d.d. as of 26 May 2015, the Management Board of Kapitalska družba d.d. must obtain preliminary consent of the Supervisory Board for voting at the General Meeting of Modra zavarovalnica.

Modra zavarovalnica is owned by Kapitalska družba d.d. or, rather, indirectly by the Republic of Slovenia and is defined as a strategic investment. Both companies form a vital part of the Slovenian pension system and contribute to the long-term financial sustainability of the pension system in Slovenia in line with their mission. When appointing the supervisory body of both companies, an important role is not only held by the owner but also by other stakeholders co-forming the pension system together with the Republic of Slovenia as well as by social partners representing the interests of employed nationals. The composition and appointment of the supervisory boards of both companies are laid down by the law and allow all interested parties to co-develop the Company's business policy. The act also lays down disposal with the shares of Modra zavarovalnica in the form of a public offering, whereby the shareholdings of the Republic of Slovenia and Kapitalska družba d.d. must together account for the majority of all shares of Modra zavarovalnica. The pre-emptive right to obtain shares in a public offering is granted to the insured persons and employers financing the pension schemes in the funds managed by Modra zavarovalnica as well as to trade unions representing public servants.

Members of the Management Board are appointed by the Supervisory Board. One of the Members is appointed Chairman of the Board. The term of office for Members of the Board is 5 years, after which they may be reappointed. The Management Board or one of its Members may be dismissed early solely for the reasons laid down in paragraph 2 of Article 268 of the Companies Act. At least one Member of the Board must have the relevant expertise and experience required to perform the tasks of managing the First Pension Fund and pension funds. The Articles of Association and their amendments and supplements are adopted by the General Meeting of the Company at the proposal of the Management and Supervisory Boards.

Powers held by members of management, particularly powers to issue or purchase own shares

Explanation: The powers held by members of management are laid down in the Company's Articles of Association. The Company's Management Board is not authorised to issue or purchase treasury shares.

Information on the operations and key competences of the Company's General Meeting and a description of the shareholders' rights and method of their enforcement

Explanation: The sole shareholder of the Company, i.e. Kapitalska družba d.d., exercises its rights deriving from the ownership of shares at the Company's General Meeting. The General Meeting is the highest body of the Company and acts pursuant to the provisions of the Companies Act and the Company's Articles of Association. The General Meeting is convened by the Management Board, as laid down by the law and Articles of Association, and when in the interest of the Company. The General Meeting may also be convened by the Supervisory Board. The General Meeting must also be convened by the Management Board at the request of the shareholder. The shareholder is required to enclose with its written request for the convocation of the General Meeting an agenda and a proposal for a resolution under each proposed item on the agenda to be adopted by the General Meeting or, if the General Meeting fails to adopt the resolution under a particular item on the agenda, an explanation of the item on the agenda. The convocation of the General Meeting is published on the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) website and the Modra zavarovalnica website. The published convocation of the General Meeting must also contain proposals for resolutions and an indication of the place where the entire material to be submitted for decision-making at the General Meeting must be made available at the same time the convocation is published. The right to attend the General Meeting and exercise voting rights is granted to any shareholder entered in the central registry of book-entry securities as the holder of shares as at the end of the 4th day preceding the General Meeting.

The General Meeting adopts resolutions on the fundamental matters of Modra zavarovalnica and, in particular: adopts the Company's Articles of Association and their amendments; adopts the annual report in the event the Supervisory Board has failed to confirm it or if the Management and Supervisory Boards leave the decision on the adoption of the annual report to the General Meeting; makes decisions regarding the use of distributable profit at the proposal of the Management and Supervisory Boards; makes decisions on discharging members of the Management and Supervisory Boards; appoints and dismisses members of the Company's Supervisory Board; appoints the Company's auditor; makes decisions regarding measures to increase or decrease share capital, unless laid down otherwise by the Articles of Association or the law; makes decisions on the dissolution of Modra zavarovalnica and status changes as well as on other matters in line with the law and Articles of Association.

Information about the composition and operations of the governing bodies and their committees

Explanation: The governance and management of Modra zavarovalnica are based on legal provisions and the provisions of the Articles of Association. The Company has a two-tier governance system, with the Management Board managing the Company and the Supervisory Board supervising its operations. The composition of the Management and Supervisory Boards and their committees is described in chapter 1.2.6 Company bodies.

Diversity policy

Modra zavarovalnica pursues no diversity policy.

Financial Report

Statement of Management's Responsibility

The Management Board of Modra zavarovalnica hereby confirms the financial statements of Modra zavarovalnica for the period from 1 January 2017 to 31 December 2017, including the relevant notes and disclosures to the financial statements.

The Management Board hereby confirms that appropriate accounting policies were consistently applied and that accounting estimates were made under the principle of prudence and diligence of a good manager and represent a true and fair overview of the Insurance Company's financial position and financial performance for 2017.

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

The tax authorities have the right to audit the Insurance Company's operations within five years after the year in which the tax has been levied, which can subsequently lead to additional tax charges, default interest charges and penalties arising from corporate income tax, value added tax and other taxes and duties. The Management Board is not aware of any circumstances that could give rise to possible material liability in this respect.

Ljubljana, 15 March 2018

Matija Debelak,
MEMBER OF THE MANAGEMENT BOARD

Borut Jamnik,
PRESIDENT OF THE MANAGEMENT BOARD

Auditor’s Report

Deloitte.

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INDEPENDENT AUDITOR’S REPORT
to the owners of Modra zavarovalnica, d.d.

Opinion

We have audited the financial statements of the company Modra zavarovalnica, d.d., (hereinafter ‘the Company’), which comprise the statement of financial position as at 31 December 2017, income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended as well as notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter ‘IFRSs’).

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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

Insurance Technical Provisions

Key audit matter	How we addressed the key audit matter
Insurance technical provisions are explained in Note 3.10.2. (accounting policies), Note 3.10.3.3., Note 23 and Note 3.10.3.4 (values and assumptions).	
The insurance company recognises the insurance technical provisions for Guarantee Fund PPS, Guarantee Fund Modra renta, Guarantee Fund Modra renta II as well as for outstanding claims.	We obtained understanding of and tested key controls and management processes associated to analysis of economic and non-economic assumptions used in the calculation of provisions.
Provisions are an accounting estimate and are therefore subject to a high degree of professional judgement / assessment, which is why we considered this accounting estimate as a key audit matter.	We also assessed the design, implementation and effectiveness of key controls associated with determining key assumptions, including the analysis of historical movements. While performing the audit procedures, we involved actuarial experts in the assessment of actuarial assumptions, including the treatment and assessment of management estimates and reliance on industry information. Our assessment includes reference to independent benchmark data in each of the main arreas of the assumptions.

Other information

The other information comprises the information, included in Annual report, other than the financial statements and our auditor’s report thereon. Other information was obtained prior to the date of this auditor’s report, except Report from Supervisory Board, which is expected to be made available to us after that date. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, the Supervisory Board and the Audit Committee for the Financial Statements

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

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

Management, Supervisory Board and Audit Committee are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide Management, Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated to Management, Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 31 August 2016. Our total uninterrupted engagement has lasted 6 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 15 March 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 15 March 2018

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Statement of profit or loss[1]

in €

	Item	Note	2017	2016
I.	**Net insurance premium revenue**	1.	**29,238,721**	**16,552,205**
	- Gross written premium		29,238,721	16,552,205
III.	**Investment income**	2.	**15,915,637**	**14,770,574**
IV.	**Other insurance revenue, of which**	4.	**9,748,383**	**8,873,566**
	- Fees and commissions		6,601,597	6,252,317
V.	**Other income**	5.	**92,775**	**125,071**
VI.	**Net claims incurred**	6.	**-16,991,250**	**-16,180,245**
	- Gross claims paid		-16,948,236	-16,101,176
	- Change in provisions for outstanding claims		-43,014	-79,069
VII.	**Changes in other technical provisions**	7.	**-18,930,499**	**-4,787,079**
XI.	**Operating costs, of which**	8.	**-6,072,926**	**-5,741,739**
	- Insurance contract acquisition		-23,308	-108,360
XIII.	**Investment expenses, of which**	3.	**-1,781,400**	**-3,291,796**
	- Impairment of financial assets not measured at fair value through profit or loss		-101,120	-578,352
XIV.	**Other insurance expenses**	9.	**-2,305,637**	**-3,115,251**
XV.	**Other expenses**	10.	**-3,856**	**-798**
XVI.	**Profit or loss before tax**		**8,909,948**	**7,204,508**
XVII.	**Income tax**	11.	**-1,129,926**	**-634,753**
XVIII.	**Net profit or loss for the period**		**7,780,022**	**6,569,755**
	Earnings per share		0.05	0.04
	Diluted earnings per share		0.05	0.04

[1] Disclosures and notes to financial statements are a constituent part of these financial statements and should be read in conjunction with them.

Statement of other comprehensive income[2]

in €

	Item	Note	2017	2016
I.	**Net profit for the financial year after tax**		**7,780,022**	**6,569,755**
II.	**Other comprehensive income after tax (a+b)**	13.	**13,233,982**	**20,228,425**
b.	Items that may be reclassified subsequently to profit or loss		13,233,982	20,228,425
	1. Net gains/losses from revaluation of available-for-sale financial assets		15,339,598	24,181,134
	1.1. Net gains/losses recognised in revaluation surplus		18,130,888	24,791,367
	1.2. Transfer of gains/losses from revaluation surplus to profit or loss		-2,791,290	-610,233
	5. Tax on items that may be reclassified subsequently to profit or loss		-2,105,616	-3,952,709
III.	**Comprehensive income for the financial year after tax (I+II)**		**21,014,004**	**26,798,180**
	Comprehensive income per share		0.14	0.18
	Diluted comprehensive income per share		0.14	0.18

[2] Disclosures and notes to financial statements are a constituent part of these financial statements and should be read in conjunction with them.

Statement of financial position[3]

in €

	Item	Note	31 Dec 2017	31 Dec 2016
	Assets		**439,020,316**	**398,148,790**
A.	**Intangible assets**	14.	**1,257,976**	**1,142,918**
B.	**Property, plant and equipment**	15.	**37,615**	**45,557**
F.	**Investments in the Group companies and associates**	16.	**35,362,971**	**26,400,006**
G.	**Investments:**	17.	**396,642,792**	**362,164,893**
	- Loans and deposits		23,216,838	30,000,212
	- Held-to-maturity		111,739,893	98,222,394
	- Available-for-sale		188,581,221	174,513,552
	- At fair value through profit or loss		73,104,840	59,428,735
K.	**Receivables**	18.	**1,586,758**	**733,645**
	1. Receivables from direct insurance business		1,605	820
	3. Current tax assets		480,086	0
	4. Other receivables		1,105,067	732,825
L.	**Other assets**	19.	**2,082,158**	**1,088,459**
M.	**Cash and cash equivalents**	20.	**2,050,046**	**6,573,312**
	Off-balance sheet items	21.	**1,003,223,920**	**955,200,330**
	Equity and liabilities		**439,020,316**	**398,148,790**
A.	**Equity**	22.	**244,039,501**	**225,990,099**
	1. Share capital		152,200,000	152,200,000
	3. Revenue reserves		27,612,966	23,343,679
	4. Revaluation surplus		60,703,295	47,469,313
	5. Retained earnings		3,523,240	2,977,107
C.	**Technical provisions**	23.	**163,339,221**	**144,365,708**
	2. Technical provisions for life insurance		162,373,073	143,442,574
	3. Provisions for outstanding claims		966,148	923,134
E.	**Other provisions**	24.	**14,251,613**	**15,595,727**
G.	**Deferred tax liabilities**	12.	**9,817,500**	**7,118,229**
J.	**Operating liabilities**	25.	**536,271**	**382,299**
	1. Liabilities from direct insurance business		0	0
	3. Current tax liabilities		536,271	382,299
K.	**Other liabilities**	26.	**7,036,210**	**4,696,728**
	Off-balance sheet items	21.	**1,003,223,920**	**955,200,330**

[3] Disclosures and notes to financial statements are a constituent part of these financial statements and should be read in conjunction with them.

Statement of cash flows[4]

in €

	Items	2017	2016
A.	**Cash flows from operating activities**		
a)	**Items from the statement of profit or loss**	**12,470,811**	**-4,483,585**
	1. Net written premium for the period	29,238,721	16,552,205
	3. Other operating income (excluding revaluation and decrease in provisions) and finance revenue from operating receivables	7,258,918	6,814,632
	4. Net damages paid in the period	-16,991,250	-16,180,245
	6. Net operating costs excluding amortisation and depreciation charges and changes in accrued expenses for acquiring insurance contracts	-5,713,036	-5,579,664
	8. Other operating expenses excluding amortisation and depreciation charges (other than revaluation and increase in provisions)	-1,168,570	-6,472,812
	9. Income taxes and other taxes not included in operating expenses	-153,972	382,299
b)	**Changes in net current assets (insurance receivables, other receivables, other assets, and deferred tax assets and liabilities) in operating balance sheet items**	**358,684**	**7,922,152**
	1. Opening less closing receivables from direct insurance transactions	-1,007,964	153,800
	4. Opening less closing other receivables and assets	-785,603	227,189
	5. Opening less closing deferred tax assets	767,399	93,325
	7. Closing less opening liabilities from direct insurance transactions	43,860	0
	9. Closing less opening other operating liabilities	2,108,391	3,242,675
	11. Closing less opening deferred tax liabilities	-767,399	4,205,163
c)	**Net receipts from operating activities or net disbursements for operating activities (a+b)**	**12,829,495**	**3,438,567**
B.	**Cash flows from investing activities**		
a)	**Receipts from investing activities**	**79,096,331**	**74,207,599**
	1. Receipts from interest earned on investing activities	5,266,456	5,906,399
	2. Payments from dividends and participation in profit of others	4,508,922	3,503,064
	4. Receipts from disposal of property, plant and equipment	82	0
	5. Receipts from disposal of investments	69,320,871	64,798,136
b)	**Disbursements for investing activities**	**-93,251,714**	**-74,281,219**
	1. Disbursements for acquisition of intangible assets	-498,703	-185,207
	2. Disbursements for acquisition of property, plant and equipment	-9,230	-43,112
	3. Disbursements for acquisition of investments	-92,743,781	-74,052,900
c)	**Net receipts from investing activities or net disbursements for investing activities (a+b)**	**-14,155,383**	**-73,620**

The table continues on the next page.

[4] Disclosures and notes to financial statements are a constituent part of these financial statements and should be read in conjunction with them.

in €

	Item	2017	2016
C.	**Cash flows from financing activities**		
b)	**Disbursements for financing activities**	**-3,197,378**	**-2,335,624**
	Disbursements for repayment of long-term financial liabilities	-232,776	-203,679
	Disbursements for distribution of dividends and other profit participations	-2,964,602	-2,131,945
c)	**Net receipts from financing activities or net disbursements for financing activities (a+b)**	**-3,197,378**	**-2,335,624**
D.	**Closing balance of cash and cash equivalents**	**2,050,046**	**6,573,312**
x)	Net cash flow for the period (sum total of Ac, Bc and Cc)	-4,523,266	1,029,323
+			
y)	Opening balance of cash and cash equivalents	6,573,312	5,543,989

Final statement for the
2017 financial year:

€244,039,501

Statement of changes in equity for 2017[5]

in €

Item		I. Share Capital	III. Revenue reserves		IV. Revaluation surplus	V. Retained earnings	VI. Net profit or loss	Total equity
			Legal and statutory reserves	Other revenue reserves			Net profit or loss for the year	
1.	Balance as at the end of the previous financial year	152,200,000	4,147,497	19,196,182	47,469,313	2,977,107	0	225,990,099
4.	**Opening balance for the financial period**	**152,200,000**	**4,147,497**	**19,196,182**	**47,469,313**	**2,977,107**	**0**	**225,990,099**
5.	Comprehensive income for the financial year after tax	0	0	0	13,233,982	0	7,780,022	21,014,004
5.a	Net profit or loss for the financial year	0	0	0	0	0	7,780,022	7,780,022
5.b	Other comprehensive income	0	0	0	13,233,982	0	0	13,233,982
10.	Dividend payout	0	0	0	0	-2,964,602	0	-2,964,602
11.	Allocation of net profit to revenue reserves	0	758,552	3,510,735	0	0	-4,269,287	0
12.	Allocation of net profit to retained earnings	0	0	0	0	3,510,735	-3,510,735	0
15.	**Closing balance for the financial period**	**152,200,000**	**4,906,049**	**22,706,917**	**60,703,295**	**3,523,240**	**0**	**244,039,501**

[5] Disclosures and notes to financial statements are a constituent part of these financial statements and should be read in conjunction with them.

Statement of changes in equity for 2016[6]

in €

Item		I. Share Capital	III. Revenue reserves: Legal and statutory reserves	III. Revenue reserves: Other revenue reserves	IV. Revaluation surplus	V. Retained earnings	VI. Net profit or loss: Net profit or loss for the year	Total equity
1.	Balance as at the end of the previous financial year	152,200,000	3,506,945	16,231,580	27,240,888	2,144,450	0	201,323,863
4.	**Opening balance for the financial period**	**152,200,000**	**3,506,945**	**16,231,580**	**27,240,888**	**2,144,450**	**0**	**201,323,863**
5.	Comprehensive income for the financial year after tax	0	0	0	20,228,425	0	6,569,755	26,798,180
5.a	Net profit or loss	0	0	0	0	0	6,569,755	6,569,755
5.b	Other comprehensive income	0	0	0	20,228,425	0	0	20,228,425
10.	Dividend payout	0	0	0	0	-2,131,945	0	-2,131,945
11.	Allocation of net profit to revenue reserves	0	640,551	2,964,602	0	0	-3,605,153	0
12.	Allocation of net profit to retained earnings	0	0	0	0	2,964,602	-2,964,602	0
16.	**Closing balance for the financial period**	**152,200,000**	**4,147,497**	**19,196,182**	**47,469,313**	**2,977,107**	**0**	**225,990,099**

Presentation of accumulated profit[7]

V EUR

	Item	31 Dec 2017	31 Dec 2016
a)	**Net profit or loss for the financial year**	**7,780,022**	**6,569,755**
d)	**Increase in revenue reserves in accordance with the decision of the Management Board**	**758,552**	**640,551**
	- Increase in legal reserves	389,001	328,488
	- Increase in statutory reserves	369,551	312,063
e)	**Increase in other reserves pursuant to the decision of the Management Board and the Supervisory Board**	**3,510,735**	**2,964,602**
f)	**Accumulated profit or loss (a+b+c–d–e)**	**3,510,735**	**2,964,602**

[6,7] Disclosures and notes form an integral part of these financial statements.

Disclosures and notes

General disclosures

Insurance Company profile

Modra zavarovalnica, d.d. is a public limited company with registered office at Dunajska cesta 119, Ljubljana, Slovenia. The Insurance Company was entered in the Companies Register of the District Court of Ljubljana on 3 October 2011.

Modra zavarovalnica carries out activities within the scope of life insurance pursuant to the Insurance Act. The activities of Modra zavarovalnica are laid down by the law and the Insurance Company's Articles of Association. Modra zavarovalnica pursues the activities of life insurance, accident and health insurance, pension funds, risk and damage assessment, insurance brokerage, other auxiliary activities for insurance operations and management of pension and financial funds.

Information about the parent company

Modra zavarovalnica is a 100-percent owned subsidiary of Kapitalska družba pokojninskega in invalidskega zavarovanja d.d., Dunajska cesta 119, 1000 Ljubljana. The financial statements of the Insurance Company are integrated in the consolidated financial statements of the parent company. The consolidated annual report of the parent company Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. is available online at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Funds under management

Table 17: Funds managed by Modra zavarovalnica as at 31 December 2017

Fund name	Fund's registration no.:
Prvi pokojninski sklad Republike Slovenije (First Pension Fund of the Republic of Slovenia)	6031226001
Modri krovni pokojninski sklad (Modri Umbrella Pension Fund)	6031226007
Modri dinamični podsklad (Modri Dynamic Sub-Fund)	6031226006
Modri preudarni podsklad (Modri Prudent Sub-Fund)	6031226008
Modri zajamčeni podsklad (Modri Guaranteed Sub-Fund)	6031226009
Kapitalski vzajemni pokojninski sklad (Capital Mutual Pension Fund)	6031226003
Kritni sklad Prvega pokojninskega sklada (Guarantee Fund of the First Pension Fund)	6031226004
Kritni sklad Modra renta (Guarantee Fund Modra Renta)	6031226005
Kritni sklad Modra renta II (Guarantee Fund Modra Renta II)	6031226010
Krovni pokojninski sklad za javne uslužbence (Umbrella Pension Fund for Public Servants)	6031226011
Dinamični podsklad javnih uslužbencev (Dynamic Sub-Fund of Public Servants)	6031226012
Preudarni podsklad javnih uslužbencev (Prudent Sub-Fund of Public Servants)	6031226013
Zajamčeni podsklad javnih uslužbencev (Guaranteed Sub-Fund of Public Servants)	6031226014

Information about employees

Table 18: Number of employees by level of education

Education	As at 31 Dec 2017	As at 31 Dec 2016
Level 8 (8/1, 8/2)	6	6
Level 7	27	26
Level 6 (6/1, 6/2)	9	10
Level 5	14	15
Level 4	2	1
Total	**58**	**58**

Information about subsidiaries

As at 31 December 2017, Modra zavarovalnica had no subsidiaries.

Accounting policies

Basis for preparation

The financial statements of Modra zavarovalnica have been prepared on the basis of the accounting policies presented below. The financial statements for 2017 have been compiled pursuant to the International Financial Reporting Standards (IFRS) as adopted by the European Union, Companies Act, Insurance Act, and the Decision on Annual Report and Quarterly Financial Statements of Insurance Undertakings issued by the Insurance Supervision Agency. The data in financial statements is based on bookkeeping documents and books of account, kept in line with the International Financial Reporting Standards. During preparation, the fundamental accounting assumptions were taken into account, i.e. going concern, consistency and accrual. Accounting policies have been formulated by taking into account qualitative characteristics: understandability, relevance, reliability and comparability.

Statement of compliance

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

In its financial statements, Modra zavarovalnica applied all IFRS and IFRIC interpretations the application of which was mandatory for 2017. Modra zavarovalnica did not apply any standard or interpretation early if the application of such amended standards and interpretations was not mandatory in 2017.

Basic policies

The financial statements have been prepared based on the historical cost basis, with the exception of assets measured at fair value through profit or loss and available-for-sale financial assets measured at fair value. The financial statements are presented in euros (EUR), which is the functional and reporting currency of the Insurance Company. All figures are rounded to 1 euro, except where expressly stated otherwise.

Significant accounting judgements and estimates

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

The adequacy of used assumptions and estimates is checked periodically.

The most important decisions made by the management refer to the classification of financial instruments or the distinction between financial instruments that the Insurance Company intends to hold to maturity and those held for trading.

Major estimates made by the management refer to the impairment of non-marketable investments, the provisions set aside for failure to achieve the guaranteed return rate and the formation of mathematical and other provisions.

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

The calculations take into account actuarial assumptions, the provisions of the applicable legislation and all contractual obligations to the insured persons according to the content of insurance contracts. The calculation of mathematical provisions is computer-aided. The amount of mathematical provisions formed is verified through independent quarterly reviews.

Foreign currency translation

The financial statements are presented in euros (EUR), which is the functional and reporting currency of the Insurance Company. Transactions in foreign currencies are initially recognised in the functional currency and translated at the functional currency exchange rate as at the date of transaction. Monetary assets and liabilities in a foreign currency are translated at the exchange rate of the functional currency as at the reporting date. Any differences arising from the translation of foreign currencies are recognised in the statement of profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost denominated in a foreign currency are converted using the exchange rate as at the date of the transaction. Non-monetary assets and liabilities presented at fair value in a foreign currency are converted in accordance with the exchange rates applied on the day that the fair value was determined.

Adoption procedure for the Annual Report

The Insurance Company's Annual Report is adopted by the Insurance Company's Management Board, which submits it to the Supervisory Board for approval. The Management Board and the Supervisory Board also decide on the use of net profit for the formation of reserves pursuant to the provisions of the Companies Act. Such use of profit is included in the statements for the current year, while the distribution of profit is decided upon by the Insurance Company's General Meeting.

Property, plant and equipment

Items of equipment are recognised at cost less accumulated depreciation and impairment losses. The Insurance Company uses the straight-line depreciation method to calculate depreciation according to the estimated useful life; the depreciation rate for equipment ranges between 16.67 and 33.33% per year.

Every year, the Insurance Company makes an assessment whether any indications of impairment of property, plant and equipment exist. Such an event occurs if the estimated recoverable amount of an asset is lower than its carrying amount. The Insurance Company decreases the carrying amount of such assets to their recoverable amount. The decrease represents a loss due to impairment that the Insurance Company recognises directly in its statement or profit or loss.

Derecognition of equipment is performed when the relevant asset is disposed of or when the Insurance Company no longer expects economic benefits from continuing use of the asset. Gains and losses arising from derecognition of assets are included in the statement of profit or loss for the year in which the relevant asset was eliminated from the books of account.

The residual value of the assets, their estimated useful lives and/or the depreciation method are revised and, if necessary, adjusted upon the compilation of the annual financial statements. An item of property, plant and equipment whose individual value as per supplier's invoice does not exceed EUR 500, may be carried collectively under small tools. Items of small tools of a cost not exceeding EUR 500 according to the supplier's charge may be classified among materials.

Intangible assets

Intangible assets acquired individually are recognised at cost. After initial recognition, the cost model is used, whereby intangible assets are recognised at cost less any accumulated amortisation and loss due to impairment of assets. The useful value of an item of intangible assets is limited. The amortisation charged on an intangible asset is recognised in the statement of profit or loss. Intangible assets created within the Insurance Company, other than costs of development, are not capitalised. Costs represent expenses for the period in which they are incurred.

Carrying amounts of intangible assets are revised annually for the purposes of impairment. The useful life of an intangible asset is estimated once a year and is adjusted, as necessary. An item of intangible assets is impaired when the carrying amount exceeds its net recoverable amount. In the event of asset impairment, the carrying amount is decreased to the net recoverable amount and impairment loss is recognised directly in the statement of profit or loss.

Intangible long-term assets are amortised using the straight-line depreciation method over their useful lives at an amortisation rate of 20.00 to 33.33% per year.

Gains and losses on disposal or elimination of an item of intangible assets represent the difference between the selling price of disposal and the carrying amount of the asset and are recognised as revenue or expense in the statement of profit or loss upon elimination or disposal of the asset.

Investments

The investments of Modra zavarovalnica are divided into the following groups:

1. financial assets measured at fair value through profit or loss,
2. held-to-maturity investments,
3. investments in loans and deposits,
4. available-for-sale financial assets.

The classification depends on the purpose of acquisition.

Recognition of financial assets

Initially, all the investments of Modra zavarovalnica are recognised at fair value, including the directly related costs of acquisition, except for investments designated at fair value through profit or loss. The latter are recognised at fair value; that is, direct costs of acquisition are not included in the cost but are debited directly to profit or loss under investment expenses.

Fair value estimate

Price source

The Insurance Company applies pricing source CBBT (Composite Bloomberg Bond Trader) for valuation of debt instruments with OTC market defined as their principal market.

Determining fair value of investments

Pursuant to IFRS 13, the Insurance Company determines fair value of investments as if it were the amount received form disposal of an asset or paid for transfer of liabilities in regular transaction between market participants on the measurement day. The measurement date is defined as the day on which the Insurance Company calculates net asset value (NAV) per unit (calculation date). In case of such a transaction, fair value is measured based on the assumption that the transaction takes place on the principal market or, if principal market does not exist, on the most advantageous market. If upon fair value measurement the principal market (or the most advantageous market) does not exit, fair value is determined using a valuation technique. Fair value of investments is determined taking into account one of the above two conditions.

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

- stock exchange market (for equity and debt instruments), or
- off-exchange or OTC market (for debt investments).

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

At the measurement date, the Insurance Company establishes whether the relevant market is active.

In case of exchange trading, the assumption of active market is fulfilled if the average amount of individual investment traded in a day over the last 180 days from the date of fair value measurement exceeds EUR 0,5 million by taking into account the number of trading days. In the event of an active exchange, fair value is measured using the most recent quoted price not older than 15 days. If the stock market is not active, the last known stock price not older than 90 days is used for fair value measurement. In other cases, 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 price is quoted for at least half of trading days in the last 30 days before the measurement date. If the OTC market is active, fair value is measured using the most recent CBBT price not older than 15 days. If the OTC market is not active, fair value is measured using the most recent BBT price not older than 90 days. If the most recent CBBT price is older than the last transaction price of the financial instrument or if the CBBT price is not available, fair value is measured based on the most recent transaction price not older than 90 days, whereas the active market assumption is fulfilled only if the transaction price is not older than 15 days. In other cases, fair value of the investment is measured on the basis of the valuation technique.

In line with IFRS 13.69, the Insurance Company measures fair value applying unadjusted, quoted price if this price exists on an active market.

For valuation, the Insurance Company uses as unadjusted, quoted price exclusively the closing quote on exchange or closing BID CBBT price or transaction price.

Criteria for classification of investments to fair value hierarchy levels

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

- Level 1 inputs are (unadjusted) quoted prices in active markets for identical investments that the Insurance Company 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. Based on IFRS 13.82, level 2 input includes:
  - quoted prices for similar investments in active markets,
  - quoted prices for identical or similar assets in markets that are not active,
  - 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 and similar (implied volatiles, credit spreads, etc.),
  - inputs corroborated by market;
- Level 3 inputs are unobservable inputs.

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

In line with IFRS 13.97, the Insurance Company applies the fair value hierarchy also to categorise investments not measured at fair value in the statement of financial position (normally measured at amortised cost) but for which the fair value is disclosed.

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

Classification of equity investments

Table 19: Equity investment classification if an exchange acts as the principal market

Level	Type of investment
Level 1	Equity investments with fair value measured on the basis of quoted prices in active markets
Level 2	Equity investments with fair value measured on the basis of quoted prices in markets that are not active
	Equity investments for which quoted prices are not available and for which fair value is measured using the valuation technique (taking into account level 2 inputs)
Level 3	Equity investments for which quoted prices are not available and for which fair value is measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Table 20: Classification of unquoted equity investments

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

Table 21: Classification of investment fund units

Level	Type of investment
Level 1	Investment fund units with fair value measured on the basis of quoted NAV per unit
Level 2	-
Level 3	Investment fund units measured on the basis of prices provided by third parties

Classification of debt investments

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

Table 22: Classification of debt investments if an exchange acts as the principal market

Level	Type of investment
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 markets that are not active
	Debt securities measured using the valuation technique (taking into account level 2 inputs)
Level 3	Debt securities measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Table 23: Classification of debt investments if an OTC market acts as the principal market

Raven	Tip finančne naložbe
Level	Type of investment
Level 1	Debt investments with fair value measured on the basis of CBBT price in active markets
	Debt investments with fair value measured on the basis of transaction prices in active markets
Level 2	Debt investments with fair value measured on the basis of CBBT price in markets that are not active
	Debt investments with fair value measured on the basis of transaction prices in markets that are not active
	Debt securities without CBBT price in (in)active markets and for which fair value is measured using the valuation technique (taking into account level 2 inputs)
Level 3	Debt securities without CBBT price in (in)active markets and for which fair value is measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Classification of loans and deposits

The Insurance Company discloses deposits in banks at amortised cost in the statement of financial position. As there is no market for deposit interest rates with directly observable prices, the Insurance Company measures deposits for the fair value disclosure purposes using the initial or contractual interest rate, which are categorised within level 3 as unobservable inputs.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are measured at fair value. Gains and losses on investments designated at fair value through profit or loss are recognised directly in the statement of profit or loss.

The acquisition and sale of an individual investment allocated to the group of financial assets at fair value through profit or loss are recognised on the trading day. The trading day is the day on which the Insurance Company made an obligation to purchase or sell an asset.

Held-to-maturity investments

Financial assets with fixed or determinable payments and determined maturity, other than derivative financial instruments, are recognised as held-to-maturity financial assets if Modra zavarovalnica has a positive intention and the ability to hold the investment to maturity. Investments held for an indefinite period of time are not classified into this group.

Investments recognised as held-to-maturity are carried at amortised cost using the effective interest rate method. The amortised cost is calculated by deferring the premium or the discount on acquisition over the period to the maturity of the investment. All gains and losses on investments carried at amortised cost are recognised in the statement of profit or loss (disposal, impairment or effects of the discount/premium amortisation). Investments designated as held-to-maturity are recognised on the trading date.

Impairment and reversal of impairment of financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of that item of asset has to be decreased through the allowance account. Impairment losses have to be posted in operating result as revaluation finance expenses.

In case of a subsequent reversal of impairment loss, provided that the reversal can be objectively attributed to an event occurring after the impairment recognition (such as an improvement in credit rating), the impairment loss previously recognised must be reversed in the allowance account. The reversal of impairment losses does not result in the carrying amount of the financial asset exceeding what the amortised cost would have been if the impairment loss had not been recognised at the date on which the impairment loss is reversed. The amount of the reversal of an impairment loss is recognised in the statement of profit or loss as revaluation finance revenue.

Investments in loans and deposits

Loans are financial assets with fixed or determinable payments that are not traded on regulated market. The Insurance Company measures them at amortised cost.

Available-for-sale investments

After initial recognition, all investments designated by the Insurance Company as available for sale are measured at fair value. Gains and losses on available-for-sale investments are recognised under other comprehensive income as net unrealised capital gains from available-for-sale investments, until the investment is sold or otherwise derecognised. When an investment is impaired, the impairment is recognised in the statement of profit or loss.

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

Impairment of available-for-sale financial assets

The Insurance Company reviews regularly the requirement for impairment of financial assets designated as available for sale. Investments whose value has declined significantly in the reporting period and/or such a decline is long-term are impaired. The Insurance Company estimates that the assumption of significant reduction in the value of equity investments is normally met when the negative revaluation in equity, including any exchange rate differences, exceeds 20% of the cost of the relevant equity investment. In this case, such equity investments are impaired in the total amount of negative revaluation accumulated in equity and any exchange rate differences. The Insurance Company estimates that the decrease in value is long-term when the value of an investment is in continuous decline over a period of 9 to 12 months. The need for impairment is reviewed as and when necessary or at least annually on the balance sheet date.

The Insurance Company only impairs debt instruments classified as available-for-sale whose principal amounts will not be recovered or will not be recovered in full on maturity according to the estimate made with due diligence. In the first case, such debt investments are as a rule impaired to EUR 0, while in the second case such debt investments are normally impaired to the percentage of principal amount estimated to be repaid with certainty upon maturity. In the latter case, debt instruments with no material effect on financial statements are not carried at amortised cost but rather at estimated realisable value. The Insurance Company checks these investments for impairment when necessary or at least once a year on the balance sheet date.

Derecognition of financial instruments

Financial assets are derecognised when the related risks, benefits and control over contractual rights are transferred. Financial liabilities are derecognised when settled, cancelled or expired.

Investment in the associate

The Insurance Company records and presents the investment in the associate based on the above accounting policies applying to investments classified as available-for-sale assets.

The associated company is consolidated in the consolidated annual report of the parent company.

Receivables

Operating receivables

Operating receivables are recognised in the amount of issued invoices decreased by potential allowance. The allowance assessments are based on the Insurance Company's reasonable expectations that a payment is no longer likely in full and/or in a specific amount.

Short-term receivables from direct insurance transactions

Short-term receivables from direct insurance transactions are receivables arising from the premiums paid in the mutual pension funds, which are created upon the transfer of insured persons from mutual pension funds to guarantee funds. They are recognised on the day an insured person acquires the right to pension annuity. At that point, the mutual pension fund determines the amount of liabilities for the transfer of assets of the insured person (single premiums) to the guarantee funds.

The amount of liabilities held by the mutual pension funds equals the sum of the redemption values of asset units in policies held by insured persons. The liability is determined daily.

The redemption value of asset units is the product of the number of units held by an insured person who has obtained the right to a pension annuity and NAV per unit as at the date on which the right to pension annuity was obtained (the last known NAV per unit). If the guaranteed NAV per unit exceeds the actual unit value, the guaranteed NAV per unit is applied in the calculation.

Short-term receivables for shares in claims incurred

Short-term receivables for shares in claims incurred are receivables for annuities paid to deceased insured persons.

Short-term receivables from financing activities

Short-term receivables from financing activities comprise short-term receivables from interest, short-term receivables from dividends and other short-term receivables from financing activities.

Short-term receivables from interest on securities are recognised as at the date of interest maturity, pursuant to the amortisation schedule or conditions specified by the issuer upon issue.

Short-term receivables from dividends are recognised as at the cut-off date specified by the issuer.

Allowances for receivables are made on the basis of an individual assessment of the financial position and liquidity of the debtor from whom the outstanding receivable is due.

Other short-term receivables

Other short-term receivables are receivables due from security purchasers (receivables arising from securities trading) and other short-term receivables, including receivables from principal amounts due, receivables for securities to be issued, receivables from advances and receivables for the costs of annuities paid.

Receivables for the deficit in assets

If KS PPS liabilities as at the reporting date exceed its assets, the difference is recognised as a KS PPS receivable for the deficit due from Modra zavarovalnica as the manager. Modra zavarovalnica creates provisions in the same amount that are debited to its capital in order to cover the shortfall of KS PPS assets. If the value of assets exceeds the liabilities to the insured, previously made receivables/provisions for deficit are reversed. If the receivables/provisions cannot be completely reversed within an accounting year, they are transferred to the next accounting period.

If KS MR liabilities as at the reporting date exceed its assets, the difference is recognised as a KS MR receivable for the deficit due from Modra zavarovalnica as the manager. Modra zavarovalnica creates provisions in the same amount that is debited to its capital in order to cover the shortfall of KS MR assets. If the value of assets exceeds the liabilities to the insured, previously made receivables/provisions for deficit are reversed. The surplus assets established at the end of the calendar year (as at the balance sheet date) belong to the Insurance Company or the manager, which forms a receivable to KS MR Guarantee Fund arising from the management fee in the amount of the established surplus.

If KS MR II liabilities as at the reporting date exceed its assets, the difference is recognised as a KS MR II receivable for the deficit due from Modra zavarovalnica as the manager. Modra zavarovalnica creates provisions in the same amount that is debited to its capital in order to cover the shortfall of KS MR II assets. If the value of assets exceeds the liabilities to the insured, previously made receivables/provisions for deficit are reversed. If the receivables/provisions cannot be completely reversed within an accounting year, they are transferred to the next accounting period.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand and short-term deposits with up to three months' maturity.

Equity

Ordinary shares are classified in equity. The direct additional costs of new shares issuance, decreased by tax effects, are debited to equity.

The share capital is divided into 152.2 million ordinary registered no par value shares. Each share has the same interest and the corresponding amount in the share capital. The share of a no par value share in the share capital is determined according to the number of no par value shares issued.

Revenue reserves are recognised based on:

- the Companies Act (ZGD-1), which stipulates their formation in special cases (acquisition of treasury shares, legal reserves);
- a decision by the Management Board and Supervisory Board, which have the power to decide on half of the remaining net profit generated in the current year pursuant to the Companies Act;
- a resolution adopted by the General Meeting, which decides on accumulated profit.

Revaluation surplus derives solely from the valuation effects of available-for-sale financial assets at fair value. The revaluation surplus amounts disclosed in the balance sheet are adjusted by deferred tax amounts.

The calculation of net profit or loss per share in both reported periods takes into account all shares issued. The number of shares in the calculation equals the weighted average number of ordinary shares outstanding in the reporting period.

Insurance contracts

Pursuant to the International Financial Reporting Standard 4 (IFRS 4) and the International Standard on Actuarial Practice 3 (ISAP 3), the annuity funds of Guarantee Funds of PPS, MR and MR II are classified as insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

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

Insurance contracts entailing significant insurance risk are treated in books of account according to IFRS 4. If insurance contracts do not entail significant insurance risk, they are treated in books of account as financial contracts under IAS 39.

Liabilities from insurance contracts – technical provisions

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

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

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

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

The calculation of technical provisions arising from insurance contracts and their adequacy at the annual level are examined by the key actuary who is appointed by the Insurance Company's Management Board to provide an opinion relating to the provisions.

KS PPS technical provisions

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

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

Mathematical provisions from KS PPS policies are calculated by taking into account the Rules for the Calculation of Mathematical Provisions. The calculation is based on the most recent annuity mortality tables approved by the Insurance Supervision Agency. The accrued interest rate and the costs are the same as 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 persons insured.

They are calculated and recognised on a monthly basis upon the calculation of mathematical provisions for KS PPS policies for the current month. They are recorded under the mathematical provisions account, subgroup "equalisation provisions for mortality experience".

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

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

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

KS MR technical provisions

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

KS MR II technical provisions

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

Provisions for outstanding claims

Provisions for outstanding claims for annuity funds are established in the amount of the liabilities that the annuity fund has to pay out based on insurance contracts, with regard to which an event insured has occurred before the end of the accounting period.

Provisions for not achieving the guaranteed return rate

Pursuant to Article 313 of ZPIZ-2, in the event the actual net value of KVPS, ZPJU and MZP funds' assets in the accounting period falls below their guaranteed value, the insurance company Modra zavarovalnica has to create provisions for failure to achieve the guaranteed return, which are debited to equity and correspond the difference between the guaranteed and actual net value of assets. The actual or guaranteed net value of the funds' assets is calculated monthly.

Provisions for pensions, jubilee benefits and termination benefits upon retirement

Modra zavarovalnica calculates provisions for termination benefits upon retirement and jubilee benefits annually. The calculation is based on the assumptions regarding the expected worker turnover, their years of service and the expected number of years until retirement while observing the provisions of individual and collective employment contracts and the Insurance Company's internal acts.

Accruals and deferrals

Accrued revenue and deferred costs include short-term deferred costs and accrued revenue. They are disclosed in actual amounts and do not differ from actual income or costs. Any differences between the actual and accrued and deferred data are included in the statement of profit or loss for the current year.

Accrued costs and deferred revenue include accrued costs and other accrued costs and deferred revenue. Accrued costs arise from the Insurance Company's regular operations and unutilised annual leave.

Other accrued costs and deferred revenue comprise short-term deferred revenue for the premium paid in the Guarantee Fund Modra renta II (KS MR II) and the accident insurance premium.

Operating liabilities

Operating liabilities comprise current tax liabilities.

Other liabilities

Other liabilities comprise liabilities to employees, suppliers (primarily liabilities deriving from securities trading) and other liabilities.

Revenues

Revenues are recognised if the increase of economic benefits in the accounting period is related to the increase in assets or decrease in liabilities and if the increases can be measured reliably. Revenues and increases in assets or decreases in debt are therefore recognised simultaneously. We distinguish between the following types of revenues:

Revenue from insurance premiums

Net revenue from insurance premiums is equal to gross written premium. Gross written premium is recognised in accounting records on the day it is accounted and not on the day it is paid.

Revenue from fees and commissions

Modra zavarovalnica is entitled to the reimbursement of entry and exit fees and the annual fee for the management of pension funds' assets. Entry fees are charged as a percentage of the premium paid, the exit fees represent a percentage of redemption value, whereas the management fee is calculated as a percentage of total average net asset value of an individual fund during the saving period.

a. Entry fee

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

b. Management fees

The Insurance Company charges a management fee to mutual pension funds, which means that the monthly value of assets held by an individual fund is decreased by the cost of management. The management fee is calculated as a percentage of the average net annual value of assets held by an individual fund, determined as the arithmetic mean of the net value of the fund's assets on conversion dates in the current year.

c. Exit fee

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

Interest

Interest income is calculated and recognised upon its occurrence based on the effective interest rate. Interest from debt securities is disclosed in the balance sheet together with investments.

Dividends

Dividends are recognised when the Insurance Company obtains the right to payment.

Expenses and costs

Expenses are decreases in economic benefits in the accounting period in the form of outflows, asset decreases or debt increases that result in equity decreases other than those related to distribution to owners.

The expenses of Modra zavarovalnica comprise net expenses for claims incurred, cost of increase in mathematical provisions, net operating costs, other insurance expenses and finance expenses.

Net claims incurred are net expenses of guarantee funds for the annuities paid.

Net operating costs include the cost of material and services, depreciation/amortisation of assets required for operation, labour costs and other operating costs.

The Insurance Company classifies finance expenses as investment expenses.

Other insurance expenses include expenses arising from provisions for not achieving the guaranteed rate of return of mutual pension funds and provisions for covering the deficit of assets in a guarantee fund.

Employee benefits

Employee benefits include salaries and other benefits pursuant to the collective agreement. The Insurance Company recognises contributions made in the pension fund at the state level, social security contributions, health insurance and unemployment insurance as the current expenses of the period. The Insurance Company also recognises any future costs arising from the collective employment agreement pursuant to IAS 19. The mentioned costs are calculated based on the actuarial method and recognised over the entire employment period of employees to whom the collective agreement refers.

Taxes

Current taxes

Current tax assets and liabilities for present and past periods are recognised at amounts that the Insurance Company expects to pay or receive from the tax authority. Current tax assets or liabilities are measured using the tax rates applicable as at the balance sheet date.

Deferred taxes

Deferred income tax assets and liabilities are accounted for using the liability method in the balance sheet. 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 following 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.

Deferred tax liabilities are examined as at the balance sheet date and impaired by the amount of assets that is not expected to provide an adequate taxable income in future to the debit of which unused tax losses can be used.

Deferred tax liabilities or assets are measured at tax rates that are expected to be applied when the asset is realised or a liability paid. This procedure takes into account the tax rates (and tax regulations) applicable or close to being enacted as at the balance sheet date.

Deferred tax assets and liabilities can only be offset if the Insurance Company has a legal right to offset the tax assets and liabilities assessed and provided that deferred tax assets and liabilities refer to the corporate income tax attributable to the same tax authority.

Deferred tax is recognised directly to the debit or credit of equity if the tax refers to the items recognised directly to the debit or credit of equity.

Statement of cash flows using the indirect method

A statement of cash flows compiled using the indirect method is a financial statement that shows changes in cash flows during the year. It is compiled according to the indirect method using the balance sheet data as at 31 December 2017 and 31 December 2016, the statement of profit or loss data for 2017 and other additional data required to adjust cash flows and adequately break down major items.

Amendments to standards and interpretations

Standards and interpretations effective in the current period

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

- **Amendments to IAS 7 'Cash flow statement'** – Disclosure initiative, adopted by the EU on 6 November, 2017 (effective for annual periods beginning on or after 1 January 2017)
- **Amendments to IAS 12 'Income taxes'** – Recognition of deferred tax assets for unrealized losses, adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017)
- **Amendments to various standards – 'Improvements to IFRSs (2014-2016)'**, resulting from the annual project for improvement of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 8 February 2018 (the amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017)

The adoption of these amendments to the existing standards and interpretations had no effect on the financial statements of Modra zavarovalnica.

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

On the date of approval of these financial statements, the following new standards issued by the IASB and adopted by the EU were published but not yet effective:

IFRS 9 'Financial instruments', adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 is applicable to accounting periods beginning on or after 1 January 2018 and replaces IAS 39. The Insurance Company had the option to postpone application of the standard until 1 January 2021 but did not decide for this option. On the one side, it is forced to implement the standard early due to the inclusion in the Kapitalska družba Group and the related consolidation and, on the other side, due to the management of pension funds for which deferred application is not possible. In 2017, Modra zavarovalnica established a project group that carried out all the procedures necessary in relation to the implementation of the new standard.

The bases for measurement of financial assets of the new standard are similar to those from IAS 39, but classification criteria differ significantly. Measurement at amortised cost will only be possible on fulfilment of the business model provisions (the purpose of obtaining contractual cash flows and holding a financial instrument to maturity) and cash flow features (cash flow represents solely payment of principal and interest on the principal amount outstanding). Also, the Insurance Company may make an irrevocable choice in relation to non-trading equity instruments to present subsequent changes in fair value (including foreign exchange gains and losses) in other comprehensive income, but may not under any circumstances subsequently reclassify them to profit or loss.

IFRS 9 also prescribes the model of expected credit losses, which means that impairment may be recognised before a loss is incurred. Besides historical data on recoverability, macroeconomic forecasts and other internal and external factors indicating the debtor's future solvency also have to be incorporated in the model of expected credit losses. The standard anticipates three stages describing the credit quality of a financial asset. On recognition of a financial asset classified as stage 1, an entity recognises 12-month expected credit losses. Financial assets classified as stage 2 are those assets for which the credit risk increased significantly since initial recognition. For these, calculation of full lifetime credit losses will be made. Stage 3 comprises financial assets of uncreditworthy issuers, which means that impairment is necessary for entire expected losses.

The new standard requires extensive additional disclosures regarding risk management.

We have made assessments of expected credit losses in relation to the application of the IFRS 9 standard and the assessed impacts will not affect significantly the Insurance Company's equity upon transition on 1 January 2018.

- **IFRS 15 'Revenue from contracts with customers'** and amendments to IFRS 15 'Effective date of IFRS 15', adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018)
- **Amendments to IFRS 15 'Revenue from contracts with customers'** – Interpretation of IFRS 15 'Revenue from contracts with customers', adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018)
- **IFRS 16 'Leases'**, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IFRS 4 'Insurance contracts'** - Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts', adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 'Financial Instruments' is applied for the first time)
- **Amendments to various standards – 'Improvements to IFRSs (2014-2016)'**, resulting from the annual project for improvement of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 8 February 2018 (the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018)

Standards and interpretations issued by the IASB but not yet adopted by the EU

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB), except from the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in the EU as at the date of the Auditor's Report (the effective dates indicated below apply for entire IFRS):

- **IFRS 14 'Regulatory deferral accounts'** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard to be issued
- **IFRS 17 'Insurance contracts'** (effective for annual periods beginning on or after 1 January 2021) replaces IFRS 4, which was adopted in 2004 as an interim standard. IFRS 17 solves the comparability issue caused by IFRS 4 as it requires all insurance contracts to be accounted for in a consistent manner, which benefits investors and insurance companies alike. Insurance liabilities are accounted for using the present value instead of the historical cost. In 2018, Modra zavarovalnica will initiate the procedures related to the implementation of the standard.
- **Amendments to IFRS 2 'Share-based payment'** – Classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018)
- **IFRS 9 'Financial instruments'** – Prepayment features with negative compensation (effective for annual periods beginning on or after 1 January 2019)
- **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 subsequent amendments (the effective date has been postponed to a later date until the research project on capital method is concluded)
- **Amendments to IAS 19 'Employee benefits'** – Plan amendments, curtailments, and settlements (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IAS 28 'Investments in associates and joint ventures'** – Long-term interests in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IAS 40 'Investment property'** – Transfer of investment property (effective for annual periods beginning on or after 1 January 2018)
- **Amendments to various standards – 'Improvements to IFRSs (2015-2017)'**, resulting from the annual project for improvement of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to remove inconsistencies and to clarify wording (the amendments are effective for annual periods beginning on or after 1 January 2019)
- **IFRIC 22 'Foreign currency transactions and advance consideration'** (effective for annual periods beginning on or after 1 January 2018)
- **IFRIC 23 'Uncertainty over income tax treatments'** (effective for annual periods beginning on or after 1 January 2019)

The Insurance Company is examining the impact of the new standards and interpretations and has not yet assessed the impact of new requirements. The Insurance Company will apply the new standards and interpretations in case they are adopted by the EU.

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

The total revenue from financial investments in 2017 was:

€15,915,637

Breakdown and notes to the financial statements

Notes to the statement of profit or loss

Note no. 1: Net insurance premium revenue

in €

Item	2017	2016
Gross written premium for life insurance	29,225,847	16,544,092
Gross written premium for non-life insurance	12,874	8,113
Total	**29,238,721**	**16,552,205**

Gross written premium for life insurance are payments effected in both annuity insurance guarantee funds.

Note no. 2: Investment income

in €

Item	2017	2016
Interest income from investments	**4,241,752**	**4,742,917**
• At fair value through profit or loss	422,150	709,551
• Held to maturity	2,551,258	2,402,701
• Available for sale	1,105,061	1,263,420
• Loans and deposits	163,250	367,211
• Cash and cash equivalents	32	34
Dividend from investments	**4,616,868**	**3,542,704**
• At fair value through profit or loss	985,765	747,760
• Available for sale	3,631,103	2,794,944
Revaluation income	**3,900,103**	**4,083,328**
• Investment revaluation at fair value through profit or loss	3,900,103	4,083,328
Foreign exchange gains	**135,949**	**454,950**
Gains on investment disposal	**3,016,028**	**1,946,676**
• Available for sale	2,824,398	1,636,932
• At fair value through profit or loss	191,629	309,744
Other finance revenue	**4,938**	**0**
Total	**15,915,637**	**14,770,574**

In 2017, total finance revenue amounted to EUR 15,915,637. The biggest share is accounted for by dividends on investments. Gains on disposals of investments available for sale were in 2017 higher due to an increased volume of investment sales.

Note no. 3: Investment expenses

in €

Item	2017	2016
Interest expenses for investments	**0**	**-12,764**
• At fair value through profit or loss	0	-3,472
• Other interest expenses	0	-9,292
Revaluation expense	**-311,735**	**-1,382,941**
• Investment revaluation at fair value through profit or loss	-210,615	-803,912
• Impairment of financial investments available for sale	-101,120	-578,352
• Impairment of receivables	0	-677
Exchange rate losses	**-1,335,157**	**-128,355**
Losses on investment disposal	**-128,479**	**-1,731,658**
• At fair value through profit or loss	-95,371	-704,959
• Available for sale	-33,108	-1,026,699
Other finance expenses	**-6,029**	**-36,078**
Total	**-1,781,400**	**-3,291,796**

In 2017, expenses from revaluation of investments at fair value through profit or loss were significantly lower than in 2016 due to more favourable trends in securities prices. The material increase in negative foreign exchange differences in 2017 is mostly related to the unfavourable movements in the US dollar exchange rate.

In 2017, Modra zavarovalnica impaired according to the Accounting Rules the investment in the shares of a Brazilian commodities company in the amount of EUR 101,120; the said share is classified under available-for-sale assets and its market value significantly decreased in 2017.

Investment result

in €

Item	2017	2016
Investment income	15,915,637	14,770,574
Investment expenses	-1,781,400	-3,291,796
Net investment result	**14,134,237**	**11,478,778**

Note no. 4: Other insurance revenue

in €

Item	2017	2016
Revenue from management of guarantee funds	891,438	614,341
Revenue from management of mutual pension funds	8,856,945	8,259,226
Total other insurance revenue	**9,748,383**	**8,873,566**

Revenue from management of guarantee funds which Modra zavarovalnica discloses within its statement of financial position includes revenue from annuity payments, management fees and revenue from reversal of provisions arising from the LAT test. Revenue from management of mutual pension funds comprises management fee, revenue from entry and exit fee, transfer commissions and revenue from reversal of provisions established for not achieving the guaranteed rate of return. The funds of mutual pension funds are disclosed in the statement of financial position of the Insurance Company under off-balance sheet items.

Note no. 5: Other income

in €

Item	2017	2016
Other income	**92,774**	**125,071**

The majority of other income relates to revenue arising from expired right to annuity.

Note no. 6: Net claims incurred

in €

Item	2017	2016
Gross claims paid from life insurance	-16,948,235	-16,101,175
Change in provisions for outstanding claims	-43,015	-79,070
Total	**-16,991,250**	**-16,180,245**

Gross claims paid represent the pension annuities paid.

Note no. 7: Change in technical provisions

in €

Item	2017	2016
Change in KS PPS technical provisions	-2,204,166	-587,813
Change in KS MR technical provisions	6,262,182	8,199,146
Change in KS MR II technical provisions	-22,988,515	-12,398,412
Total	**-18,930,499**	**-4,787,079**

Changes in KS PPS technical provisions result from inflows from new insured persons into the guarantee fund, outflows resulting from annuities and potential increase in surplus due to excess return resulting from over-mortality within the population with annuity insurance. The KS PPS portfolio is in mature phase and records surplus of outflows over inflows due to new insured persons. In 2017, KS PPS technical provisions rose because of surplus return.

In 2017, KS MR recorded a decrease in technical provisions, since annuities were paid out, but no premiums were paid in.

The rise in KS MR II technical provisions in 2017 was the consequence of new insured persons.

Note no. 8: Operating costs

in €

Item	2017	2016
Cost of insurance contract acquisition	-23,308	-108,360
Costs of materials	-165,603	-106,699
Costs of services	-2,211,341	-2,383,217
Write-offs	-403,207	-133,611
Costs of provisions	-108,959	-28,464
Labour costs	-3,069,365	-2,922,637
Other operating costs	-91,142	-58,750
Total	**-6,072,926**	**-5,741,739**

Cost of insurance contract acquisition refer to gaining new members of mutual pension funds and the KS MR II guarantee fund.

In 2017, the costs of material totalled EUR 165,603. The highest portion was that of printing.

In 2017, the costs of services reached EUR 2,234,649. The largest share of these costs is accounted for by the costs of rent, including the rent of business premises, equipment, information equipment and information assets in the amount of EUR 600,249 (in 2016, EUR 649,711).Also material are the costs of payment transactions and banking services, which include the custodian fee for KPSJU and PPS, totalling EUR 366,768 (in 2016, EUR 506,266). These costs decreased due to more favourable custodian fee.

Write-offs in the amount of EUR 403,207 (in 2016, EUR 133,611) are depreciation and amortisation costs for intangible assets and property, plant and equipment. The increase in depreciation/amortisation costs in 2017 is related to the activation of the software support for operations of funds.

The cost of provisions amounting to EUR 108,959 relate to creation of provisions for jubilee benefits, termination benefits upon retirement and other provisions. In 2017, labour costs totalled EUR 3,069,365. Of the mentioned amount, EUR 2,247,672 is accounted for by the cost of gross salaries and allowances, while the remaining amount is the cost of contributions on salaries and wages paid, the cost of meal and commuting allowances, the cost of supplementary pension insurance and similar.

Other operating costs are the costs of memberships in associations, the costs of promotion of occupational safety and health, donations and contribution for promoting employment of disabled persons.

In 2017, audit costs reached EUR 25,475, of which the amount of EUR 20,862 relates to auditing of annual reports of the Insurance Company and funds, and the amount of EUR 4,613 refers to audit costs of transition to IFRS 9. In 2016, total audit costs of EUR 22,166 related to the audit of annual reports.

Note no. 9: Other insurance expenses

in €

Item	2017	2016
Other insurance expenses	**-2,305,637**	**-3,115,251**

The bulk of other insurance expenses in 2017 refers to payments by the manager to cover the difference up to the guaranteed return of mutual pension funds (EUR 1,168,570) and the provisions for testing the adequacy of liabilities (EUR 984,791).

The bulk of other insurance expenses in 2016 also refers to payments by the manager to cover the difference up to the guaranteed return of mutual pension funds (EUR 1,421,442,) and the provisions for testing the adequacy of liabilities (EUR 1,428,157).

Note no. 10: Other expenses

in €

Item	2017	2016
Other expenses	**-3,856**	**-798**

Note no. 11: Income tax:

in €

Item	2017	2016
Profit or loss for the period before tax	8,909,948	7,204,508
Tax on dividends from abroad	144,617	195,401
Non-deductible expenses	496,771	874,170
Tax-free income	-2,477,377	-1,605,358
Tax reliefs	-315,839	-577,887
Tax losses	-3,536,979	-3,334,361
Total (tax base)	**3,221,141**	**2,756,473**
Income tax (19% for 2017, 17% for 2016)	536,271	382,299
Tax on foreign dividends until agreement	75,746	86,302

The effective interest rate in 2017 was 6.02 percent (the ratio between the income tax accounted and the profit/loss for the period before taxes).

Note no. 12: Deferred tax

in €

Item	Statement of financial position as at 31 Dec 2017	Statement of financial position as at 31 Dec 2016	Statement of profit or loss for 2017	Statement of profit or loss for 2016
Deferred income tax – liabilities; of which:	13,859,511	11,927,639	173,745	-159,129
Revaluation of available-for-sale financial assets to fair value	11,354,939	9,249,323	0	0
Liabilities from investments transferred	2,504,572	2,678,316	173,745	-159,129
Total deferred income tax liabilities	13,859,511	11,927,639	173,745	-159,129
Deferred income tax – receivables; of which:	4,042,011	4,809,410	-767,400	-93,325
Loss brought forward to be used as tax relief	1,888,562	2,560,587	-672,026	-297,306
Value adjustment for investments	2,125,588	2,230,467	-104,879	200,079
Provisions	27,861	18,356	9,505	3,902
Total deferred income tax assets	4,042,011	4,809,410	-767,400	-93,325
Netting of deferred income tax assets and liabilities	**-9,817,500**	**-7,118,229**	**-593,655**	**-252,454**

12.1 Changes in deferred tax recognised directly in equity

in €

Changes in deferred tax	2017	2016
Balance as at 1 Jan	11,927,639	7,815,800
Changes during the year	1,931,872	4,111,839
Balance as at 31 Dec	**13,859,511**	**11,927,639**

Notes to the statement of other comprehensive income

Note no. 13: Other comprehensive income after tax

in €

Item	2017	2016
Other comprehensive income after tax	13,233,982	20,228,425

Other comprehensive income after tax refers to net gains or losses from revaluation of available-for-sale financial assets. Owing to less favourable trends in securities prices in 2017, other comprehensive income was significantly lower than in 2016.

Notes to the statement of financial position

Note no. 14: Changes in intangible assets and long-term accrued revenue and deferred costs

in €

2017	Software	Intangible assets being acquired	Total
Cost as at 1 Jan 2017	1,106,588	240,620	1,347,208
Acquisitions	739,324	293	739,617
Disposals	0	240,913	240,913
Cost as at 31 Dec 2017	1,845,912	0	1,845,912
Value adjustment as at 1 Jan 2017	-204,290	0	-204,290
Amortisation and depreciation	-383,646	0	-383,646
Value adjustment as at 31 Dec 2017	-587,936	0	-587,936
Carrying amount as at 1 Jan 2017	902,298	240,620	1,142,918
Carrying amount as at 31 Dec 2017	**1,257,976**	**0**	**1,257,976**

in €

2016	Software	Intangible assets being acquired	Total
Cost as at 1 Jan 2016	279,357	409,956	689,313
Acquisitions	933,573	263,140	1,196,713
Disposals	106,342	432,476	538,818
Cost as at 31 Dec 2016	1,106,588	240,620	1,347,208
Value adjustment as at 1 Jan 2016	-196,228	0	-196,228
Write-offs	106,342	0	106,342
Amortisation and depreciation	-114,404	0	-114,404
Value adjustment as at 31 Dec 2016	-204,290	0	-204,290
Carrying amount as at 1 Jan 2016	83,129	409,956	493,085
Carrying amount as at 31 Dec 2016	**902,298**	**240,620**	**1,142,918**

In 2016, the value of intangible assets greatly increased due to the activation of new information support for pension fund management.

Note no. 15: Changes in property, plant and equipment

in €

2017	Equipment and small tools	Company cars	Total
Cost as at 1 Jan 2017	80,199	49,530	129,729
Acquisitions	11,739	0	11,739
Disposals	-2,509	0	-2,509
Cost as at 31 Dec 2017	89,429	49,530	138,959
Value adjustment as at 1 Jan 2017	-58,083	-26,089	-84,172
Write-offs	2,388	0	2,388
Depreciation	-14,711	-4,850	-19,561
Value adjustment as at 31 Dec 2017	-70,406	-30,938	-101,344
Carrying amount as at 1 Jan 2017	22,116	23,441	45,557
Carrying amount as at 31 Dec 2017	**19,023**	**18,592**	**37,615**

in €

2016	Equipment and small tools	Company cars	Total
Cost as at 1 Jan 2016	61,338	25,280	86,618
Acquisitions	18,861	24,250	43,111
Cost as at 31 Dec 2016	80,199	49,530	129,729
Value adjustment as at 1 Jan 2016	-43,897	-21,067	-64,965
Depreciation	-14,186	-5,022	-19,208
Value adjustment as at 31 Dec 2016	-58,083	-26,089	-84,172
Carrying amount as at 1 Jan 2016	17,441	4,213	21,653
Carrying amount as at 31 Dec 2016	**22,116**	**23,441**	**45,557**

Note no. 16: Investments in the Group companies and associates

16.1 Financial investments in associates

As at 31 December 2017, Modra zavarovalnica disclosed the investment in Cinkarna Celje, d. d. among financial investments in associated companies in the amount of EUR 35,362,971. The financial investment in the associate is classified under available-for-sale assets.

in €

Associate	Registered office of the company	Equity stake	Company's equity 31 Dec 2017 (unaudited data)	Net profit of the company in 2017 (unaudited data)
Cinkarna Celje, d. d.	Kidričeva ulica 26, Celje	20.00%	**166,520,502**	**28,765,297**

16.2 Changes in investments in associates

in €

Item	Investments in associates
Balance as at 1 Jan 2017	26,400,006
Change in revaluation surplus	8,962,965
Balance as at 31 Dec 2017	**35,362,971**

Revaluation surplus increased significantly in 2017 due to more favourable share price fluctuation.

The Modra zavarovalnica capital base, used to guarantee the security of the saved funds, has increased by

€102 million

in 6 years.

Note no. 17: Investments

in €

Item	Lastne finančne naložbe	Finančne naložbe kritnih skladov	Total 31 Dec 2017
Loans and deposits	13,534,719	9,682,119	23,216,838
Held-to-maturity investments	15,800,833	95,939,060	111,739,893
Available-for-sale investments	188,581,221	0	188,581,221
Investments at fair value through profit or loss	13,271,583	59,833,257	73,104,840
Total	**231,188,356**	**165,454,436**	**396,642,792**

in €

Item	Lastne finančne naložbe	Finančne naložbe kritnih skladov	Total 31 Dec 2016
Loans and deposits	20,150,202	9,850,010	30,000,212
Held-to-maturity investments	13,439,788	84,782,606	98,222,394
Available-for-sale investments	174,513,552	0	174,513,552
Investments at fair value through profit or loss	8,686,359	50,742,376	59,428,735
Total	**216,789,901**	**145,374,992**	**362,164,893**

17.1 Investments in loans and deposits

in €

Item	31 Dec 2017	31 Dec 2016
Long-term investments in deposits	6,000,000	14,550,000
Short-term investments in deposits	14,107,417	15,450,212
Short-term investments in factoring	3,109,422	0
Total	**23,216,838**	**30,000,212**

Investments in loans and deposits are investments in deposits held with banks in Slovenia.

17.2 Investments in securities

in €

Item	31 Dec 2017	31 Dec 2016
Investments at fair value through profit or loss	73,104,840	59,428,735
Equity securities	54,060,871	34,894,100
Debt securities	19,043,969	24,534,635
Available-for-sale investments	188,581,221	174,513,552
Equity securities	145,022,232	128,411,334
Debt securities	43,558,990	46,102,218
Held-to-maturity investments	111,739,893	98,222,394
Total	**373,425,954**	**332,164,681**

17.3 Changes in investments in securities

in €

Modra zavarovalnica	Held-to-maturity	Available for sale	At fair value	Total
Balance as at 1 Jan 2017	98,222,395	174,513,551	59,428,735	332,164,681
Acquisitions	25,739,796	24,839,783	31,538,408	82,117,987
Revaluation/impairments/ revalorisation	1,413,415	9,815,020	3,667,369	14,895,804
Sales/maturity	-13,635,713	-20,587,133	-21,529,672	-55,752,518
Balance as at 31 Dec 2017	**111,739,893**	**188,581,221**	**73,104,840**	**373,425,954**

in €

Own funds	Held-to-maturity	Available for sale	At fair value	Total
Balance as at 1 Jan 2017	13,439,788	174,513,551	8,686,359	196,639,698
Acquisitions	2,411,201	24,839,783	7,929,305	35,180,289
Revaluation/impairments/ revalorisation	267,886	9,815,020	333,349	10,416,255
Sales/maturity	-318,042	-20,587,133	-3,677,430	-24,582,605
Balance as at 31 Dec 2017	**15,800,833**	**188,581,221**	**13,271,583**	**217,653,637**

in €

Guarantee funds	Held-to-maturity	Available for sale	At fair value	Total
Balance as at 1 Jan 2017	84,782,607	0	50,742,376	135,524,983
Acquisitions	23,328,595	0	23,609,103	46,937,698
Revaluation/impairments/ revalorisation	1,145,529	0	3,334,020	4,479,549
Sales/maturity	-13,317,671	0	-17,852,242	-31,169,913
Balance as at 31 Dec 2017	**95,939,060**	**0**	**59,833,257**	**155,772,317**

17.4 Structure of investments according to interest rate type

in €

Investment	31 Dec 2017	31 Dec 2016
Investments in debt instruments	174,342,851	168,859,247
Fixed interest rate	169,957,445	165,022,687
Variable interest rate	4,385,406	3,836,560
Loans and deposits	23,216,838	30,000,212
Fixed interest rate	23,216,838	30,000,212
Total	**197,559,690**	**198,859,459**

Treasury bills are taken into account within the scope of fixed-rate debt instrument investments. Cash is not taken into account.

17.5 Risk of changes in interest rates

in €

Investments as at 31 Dec 2017	Less than 1 year	More than 1 year to 5 years	Over 5 years	Total
Financial assets at fair value through profit or loss	5,525,437	8,147,861	5,370,672	19,043,969
Held-to-maturity investments	6,693,364	27,674,813	77,371,716	111,739,893
Available-for-sale investments	2,486,707	21,619,176	19,453,107	43,558,990
Loans and deposits given	17,209,626	6,007,213	0	23,216,838
Cash and cash equivalents	2,050,045	0	0	2,050,045
Total	**33,965,179**	**63,449,062**	**102,195,495**	**199,609,735**

Note no. 18: Receivables

in €

Item	31 Dec 2017	31 Dec 2016
Receivables from direct insurance business	1,605	820
Current tax assets	480,086	0
Other receivables	1,105,067	732,825
Total	**1,586,758**	**733,645**

In 2017, the highest item of other receivables was accounted for by short-term receivables from management fee for mutual pension funds in the amount of EUR 519,903 and the retained deficit of assets for covering the liabilities to the insured persons of KS MR in the amount of EUR 240,302.

In 2016, the major part of receivables referred to short-term receivables from management fee for mutual pension funds, short-term receivables for interest and other short-term receivables from the state and other institutions.

Note no. 19: Other assets

in €

Item	31 Dec 2017	31 Dec 2016
Other assets	2,082,158	1,088,459

Other assets include short-term deferred costs and other accrued revenue and deferred costs representing receivables due from mutual pension funds for annuity fund premiums arising from the last conversion in the period.

Note no. 20: Cash and cash equivalents

in €

Item	31 Dec 2017	31 Dec 2016
Cash in transaction accounts with banks and cash on hand	2,050,045	6,573,312

Note no. 21: Off-balance sheet items

in €

Fund	31 Dec 2017	31 Dec 2016
Assets / liabilities of pension funds under management	1,002,227,713	955,200,330
KVPS	179,461,686	179,072,677
KSPJU	105,623	0
ZPJU (ZVPSJU)	742,495,658	715,939,472
PPJU	1,321,157	0
DPJU	1,175,220	0
MKPS	27,230	25,419
MZP	37,598,615	26,376,692
MPP	8,544,586	5,854,865
MDP	11,377,424	7,264,372
PPS	20,120,513	20,666,833
Off-balance sheet items arising from financial asset management	996,207	0
Skupaj vrednost sredstev	**1.003.223.920**	**955.200.330**

Off-balance sheet items in the amount of EUR 1,002,227,713 refer to assets/liabilities of pension funds under the management of Modra zavarovalnica; off-balance sheet assets/liabilities in the amount of EUR 996,207 relate to the commitment of the fund to purchase investment fund units.

Note no. 22: Equity

22.1. Share capital

in €

Item	31 Dec 2017	31 Dec 2016
Share capital (in EUR)	152,200,000	152,200,000
Ordinary shares (number)	152,200,000	152,200,000

O The share capital of the Insurance Company amounts to EUR 152,200,000. The share capital is divided into 152,200,000 ordinary registered no-par value shares. Each share has the same interest and the corresponding amount in the share capital. The share of a no par value share in the share capital is determined according to the number of no par value shares issued.

The carrying amount of a share as at 31 December 2017 stood at EUR 1.60. Modra zavarovalnica d.d. is 100-percent owned by Kapitalska družba.

22.2 Changes in individual equity components

in €

Item	Share capital	Capital surplus	Revenue reserves	Revaluation surplus	Retained earnings	Net profit or loss for the financial year	Total
1 Jan 2017	152,200,000	0	23,343,679	47,469,313	2,977,107	0	225,990,099
Change	0	0	4,269,287	13,233,982	546,133	0	18,049,402
31 Dec 2017	**152,200,000**	**0**	**27,612,966**	**60,703,295**	**3,523,240**	**0**	**244,039,501**

Revenue reserves represent legal reserves in the amount of EUR 2,515,922, statutory reserves in the amount of EUR 2,390,126 and other revenue reserves in the amount of EUR 22,706,917.

22.3 Changes in revaluation surplus

in €

Revaluation surplus	Amount
1 Jan 2017	47,469,313
Increase arising from fair value changes	13,856,706
Net change in financial assets	-723,844
Impairment of available-for-sale investments through profit or loss	101,120
31 Dec 2017	**60,703,295**

Note no. 23: Technical provisions

23.1 Technical provisions

in €

Item	31 Dec 2017	31 Dec 2016
KS PPS technical provisions	102,491,512	100,245,949
KS MR technical provisions	25,460,572	31,721,347
KS MR II technical provisions	35,387,137	12,398,412
Total	**163,339,222**	**144,365,708**

Technical provisions include life insurance provisions based on policies, unclassified technical provisions and claims provisions; they are presented under 'Disclosures of insurance contracts'.

23.2 Changes in technical provisions

in €

Technical provisions	2017	2016
Opening balance	144,365,708	139,499,563
Change through profit or loss	18,930,499	4,787,077
Changes in provisions for outstanding claims	43,015	79,069
Closing balance	**163,339,222**	**144,365,708**

Changes in provisions for outstanding claims represent calculated, but for various reasons not yet paid annuities.

in €

Changes in technical provisions	KS PPS	KS MR	KS MR II	Total
Balance as at 1 Jan 2017	100,245,949	31,721,347	12,398,412	144,365,708
Increase	7,909,968	0	26,098,694	34,008,662
Decrease	-5,705,802	-6,262,182	-3,110,179	-15,078,163
Change in provisions for outstanding claims	41,397	1,407	210	43,014
Balance as at 31 Dec 2017	**102,491,512**	**25,460,572**	**35,387,137**	**163,339,222**

Note no. 24: Other provisions

24.1. Other provisions

in €

Other provisions	31 Dec 2017	31 Dec 2016
Provisions for not achieving the guaranteed return rate	10,976,752	13,373,302
Provisions for the deficit of annuity funds' assets	240,302	77,051
Provisions related to employees (jubilee benefits, termination benefits upon retirement and similar)	293,275	193,219
Provisions for testing the adequacy of provisions	2,741,284	1,952,155
Total	**14,251,613**	**15,595,727**

24.2 Changes in other provisions

in €

Item	Provisions for not achieving the guaranteed return rate	Provisions for testing the adequacy of liabilities	Provisions for the deficit of guarantee funds' assets	Employee-related provisions	Total
1 Jan 2017	13,373,302	1,952,155	77,051	193,219	15.595.727
Increases during the year	0	984,791	240,302	108,959	1.334.052
Drawing of provisions	0	0	0	-8,903	–8.903
Reversal of provisions	-2,396,550	-195,662	-77,051	0	–2.669.263
31 Dec 2017	**10,976,752**	**2,741,284**	**240,302**	**293,275**	**14.251.613**

Provisions for termination benefits upon retirement and jubilee benefits are calculated on the basis of expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Insurance Company's internal acts. The calculation takes into account 2-percent salary growth, which is in compliance with the ECB inflation goals, and 2-percent discount rate. Assumptions regarding the expected employee turnover attribute the highest probability (50%) for leaving the Insurance Company to the employees with over 20 years of service until retirement, while the employees with less than 5 years of service until retirement are attributed the probability of 0%.

Note no. 25: Operating liabilities

in €

Item	31 Dec 2017	31 Dec 2016
Current tax liabilities	536,271	382,299
Total	**536,271**	**382,299**

Current tax liabilities comprise liabilities for corporate income tax.

Note no. 26: Other liabilities

in €

Item	31 Dec 2017	31 Dec 2016
Short-term liabilities to employees	239,946	258,598
Other short-term liabilities from insurance business	22,953	830
Short-term accounts payable	262,945	343,767
Other short-term liabilities	67,089	84,411
Accrued costs	145,631	122,264
Short-term deferred revenue	5,605,375	3,379,918
Fund manager's liability to pay the difference up to the guaranteed return rate	86,112	103,340
Long-term liabilities	24,218	33,098
Finance lease liabilities	581,940	370,502
Total	**7,036,210**	**4,696,728**

Short-term liabilities to employees relate to liabilities arising from salaries and wages for December 2017.

Short-term accounts payable are the liabilities to securities dealers and to the parent company.

Short-term deferred revenue is deferred revenue of KS MR II arising from the pension insurance annuity premiums received from persons insured who expressed their intention to take out insurance as at 1 January 2018 based on an indicative calculation.

Long-term liabilities are liabilities for the payment of variable remuneration to the members of the Management Board.

Finance lease liabilities refer to the liabilities related to the lease of intangible fixed assets.

Disclosures of insurance contracts

Structure of long-term insurance contracts

Table 24: Present gross value of future payments

in €

Types of payment	31 Dec 2017	31 Dec 2016
KS PPS	97,231,519	97,055,341
KS MR	25,458,610	31,720,793
KS MR II	35,275,896	12,377,293
Total	**157,966,025**	**141,153,427**

Present gross value of future payments represents technical provisions based on individual policies

Table 25: Composition of technical provisions as at 31 December 2017

in €

Fund	Technical provisions for life insurance based on policies	Technical provisions for life insurance based on policies – surplus	Provisions for outstanding claims	Total
KS PPS	97,231,519	4,296,017	963,977	102,491,512
KS MR	25,458,610	0	1,962	25,460,572
KS MR II	35,275,896	111,031	210	35,387,137
Total	**157,966,025**	**4,407,047**	**966,149**	**163,339,222**

Technical provisions based on policies of KS PPS deviate from the total technical provisions by the amount of the provisions for the equalisation of yield experience equalling EUR 4,296,017 and provisions for outstanding claims totalling EUR 963,977. The calculation of the value of future payments uses annuity tables DAV2004R and the statutory technical interest rate amounting to 1%.

Technical provisions based on individual policies of KS MR as at 31 December 2017 deviate from the total technical provisions by the amount of provisions for outstanding claims totalling EUR 1,962. German annuity tables DAV1994R were applied in the calculation of future payments.

Technical provisions based on individual policies of KS MR II as at 31 December 2017 deviate from the total technical provisions for KS MR II, which equal EUR 35,275,896, by the amount of the provisions for the undistributed part of the profit of EUR 111,031 and provisions for outstanding claims totalling EUR 210. Half of the 2017 profit in the amount of EUR 50,235 is allocated to permanent increase in annuities, whilst the other half remains undistributed. The annuity tables DAV1994R were applied in the calculation of future payments.

Adequacy of liabilities

Modra zavarovalnica verifies the adequacy of liabilities or mathematical provisions deriving from the insurance contracts concluded by performing the Liability Adequacy Test (LAT). The test is limited to annuity insurance products. The result of the test is the best estimate of liabilities defined as the sum total of the present value of expected future cash flows (annuity payments and costs of the Insurance Company). This estimate is compared with the value of the mathematical provisions identified pursuant to the rules indicated in the technical bases of individual insurance products.

The Liability Adequacy Test performed at the level of an individual insurance contract using monthly dynamics took into account the following assumptions:

- expected mortality was determined pursuant to German D1994R mortality tables for annuities, which adequately describe the actual mortality rate based on past experience;
- early terminations were not foreseen, as they are not possible in view of the provisions set forth in insurance contracts;
- expected costs equal the costs accrued;
- discount rate at the level of risk-free interest rate as at 31 December 2017 published by EIOPA.

The Liability Adequacy Test as at 31 December 2017 showed that mathematical provisions for KS PPS were adequate, whereas a deficit of EUR 1,161,177 and EUR 1,580,107 was determined for KS MR and KS MR II respectively.

Change in interest rates/return

Table 26: Change in interest rates/return for KS PPS as at 31 December 2017

in €

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-2,874,730	3,025,133

Table 27: Change in interest rates/return for KS PPS as at 31 December 2016

in €

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-2,906,195	3,058,738

Table 28: Change in interest rates/return for KS MR as at 31 December 2017

in €

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-380,624	397,046

Table 29: Change in interest rates/return for KS MR as at 31 December 2016

in €

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-431,341	448,941

Table 30: Change in interest rates/return for KS MR II as at 31 December 2017

in €

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-644,105	672,063

Table 31: Change in interest rates/return for KS MR II as at 31 December 2016

in €

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-224,650	234,233

Change in mortality

Table 32: Change in mortality as at 31 December 2017 for KS PPS

in €

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-3,375,340	3,833,209

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,375,340. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 33: Change in mortality as at 31 December 2016 for KS PPS

in €

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-3,289,328	3,733,625

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,289,328. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 34: Change in mortality as at 31 December 2017 for KS MR

in €

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-240,146	268,002

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 240,146. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 35: Change in mortality as at 31 December 2016 for KS MR

in €

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-234,186	260,777

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 234,186. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 36: Change in mortality as at 31 December 2017 for KS MR II

in €

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-250,448	278,938

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 250,448. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 37: Change in mortality as at 31 December 2016 for KS MR II

in €

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-85,017	94,731

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 85,017. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Risk management

Modra zavarovalnica estimates that, within the scope of its operations, its own assets and the assets of KS PPS, KS MR and KS MR II are exposed to credit, market, interest and liquidity risks. The tables presented include own assets held by the Insurance Company and the assets held by guarantee funds (KS PPS, KS MR and KS MR II).

Capital management – Solvency II

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

Table 38: Capital adequacy according to the Solvency II Directive

in €

Item	31 Dec 2017	31 Dec 2016
Solvency II		
Total capital requirement (in EUR)	125,268,016	105,858,520
Eligible own funds (in EUR)	265,689,982	199,602,540
Surplus (+)/deficit (–) of available own funds (in EUR)	140,421,966	93,744,020
Ratio between eligible own funds and total capital requirement (in %)	**212%**	**189%**

Credit risk

Credit risk refers to debt securities (investments in bonds, commercial and treasury bills, certificates of deposit, deposits, loans given, cash and cash equivalents) and represents a possibility that investments in debt securities will be recouped partially or not at all; the maximum exposure equals the carrying amount of these financial instruments. Equity securities are exempt from the analysis as they do not entail direct credit risk.

The Insurance Company has in place certain procedures for monitoring credit risk exposure to financial institutions in the instruments of which it invests its assets, and thresholds for maximum exposure to debt securities failing to achieve investment grade. Within the scope of the Insurance Company's internal acts, credit ratings of business partners are determined using internal model and taking into account credit ratings by Standard & Poor's, Fitch in Moody's, where second best credit rating is considered. The Management Board has the responsibility to decide on approval of investments based on internal committees' proposals.

Credit risk is managed by careful selection of partners (analysis of counter parties before assuming credit risk), checking their rating and through dispersion of investments by issuers, industries and geographical areas. The credit risk arising from foreign debt securities is normally managed through investing in foreign debt securities that are given a credit rating BBB- or more by renowned credit rating agencies, as well as through adjustment of the credit rating structure of the portfolio to the adopted internal limitations.

Credit risk arising from exposure to individual banks (deposits, deposit certificates) is managed in line with the internal rules, i.e. by monthly determining investments limitations, which represent the allowed exposure to an individual bank in a specific period. Total exposure to individual issuers is determined regularly and is in line with regulations. The Insurance Company did not use derivative financial instruments for credit risk hedging.

Table 39: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2017

in €

Financial asset group	Low risk – high credit rating of the debtor	Moderate risk – medium credit rating of the debtor	Moderate risk investments (no rating)	Risky investments	Impaired investments – low credit rating of the debtor	Total
Investments at fair value through profit or loss	5,259,858	7,209,794	0	6,574,318	0	19,043,969
Held-to-maturity investments	67,358,160	37,163,198	0	7,218,535	0	111,739,893
Available-for-sale investments	21,549,611	16,627,160	0	5,382,219	0	43,558,990
Loans and deposits given	0	0	0	23,216,838	0	23,216,838
Cash and cash equivalents	0	0	0	2,050,045	0	2,050,045
Total	**94,167,628**	**61,000,152**	**0**	**44,441,955**	**0**	**199,609,735**

Table 40: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2016

in €

Financial asset group	Low risk – high credit rating of the debtor	Moderate risk – medium credit rating of the debtor	Moderate risk investments (no rating)	Risky investments	Impaired investments – low credit rating of the debtor	Total
Investments at fair value through profit or loss	5,671,616	6,880,929	6,316,730	5,665,360	0	24,534,635
Held-to-maturity investments	62,422,658	32,868,135	0	2,931,602	0	98,222,394
Available-for-sale investments	21,390,132	16,369,432	695,043	7,647,610	0	46,102,218
Loans and deposits given	0	800,025	0	29,200,187	0	30,000,212
Cash and cash equivalents	0	0	0	6,573,312	0	6,573,312
Total	**89,484,406**	**56,918,521**	**7,011,773**	**52,018,070**	**0**	**205,432,771**

Securities are categorised in the mentioned groups based on their credit ratings. Low risk investments are all investments with a credit rating ranging from AAA to A-, moderate risk investments are those with a credit rating ranging from BBB+ to BBB- and risky investments are investments with a credit rating lower than BBB-. Risky investments mostly comprise investments of Slovenian bank issuers. Issuers with no credit rating have their rating determined based on the internal model.

Loans and deposits given are deposits and/or certificates of deposit with domestic banks. Deposits and certificates of deposit are classified in the same rating category as the banks at which the Insurance Company holds its assets.

Table 41: Geographical concentration of credit exposure of financial assets

in €

Region	31 Dec 2017	31 Dec 2016
Slovenia	93,952,660	107,741,673
Other countries	105,657,075	97,691,097
Total	**199,609,735**	**205,432,771**

Currency risk

Table 42: Currency structure of financial assets

in €

Currency	31 Dec 2017	31 Dec 2016
Assets denominated in EUR	369,359,757	329,463,080
Assets denominated in USD	61,451,679	62,480,923
Assets denominated in other currencies	3,244,372	3,194,208
Total	**434,055,809**	**395,138,211**

As at 31 December 2017, 85% of the Insurance Company's financial assets were denominated in the euro, 15% in the US dollar and the remaining amount was in other currencies.

Table 43: Currency risk of financial assets as at 31 December 2017

in €

Changes of USD exchange rate in %	Impact on profit or loss	Impact on equity
+/–10	+/– 618,265	+/– 5,526,902

Table 44: Currency risk of financial assets as at 31 December 2016

in €

Changes of USD exchange rate in %	Impact on profit or loss	Impact on equity
+/–10	+/–680,941	+/–5,567,152

Interest rate risk

Interest rate risk is related to investments in securities that respond to changes in market interest rates. These include investments the revenues of which are related to the variable interest rate as well as debt instruments interest income of which is related to a fixed interest rate, but their market value changes upon the change in the market interest rates. Owing to low interest rates, the assets were exposed to reinvestment risk.

Interest rate risk is managed predominantly through adjustment of structure of investments with which the duration of portfolio is adapted, through restructuring of investment with fixed interest rate to investment with variable interest rate, or vice versa, and with allocation of investment into the category of investment held to maturity and through using derivatives for hedging against interest rate risk, which were not used in the previous year.

Table 45: Sensitivity analysis of investments with respect to changes in market interest rates as at 31 December 2016 – change in interest rate of 50 basis points

in €

Item	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Investments at fair value through profit or loss	+/–0.5%	+/–13,703	–/+ 53,890	–/+ 40,187
Held-to-maturity investments	+/–0.5%	0	0	0
Available-for-sale investments	+/–0.5%	+/–8,224	–/+209,571	–/+201,347
Loans and deposits	+/–0.5%	+/–0	–/+0	+/–0
Total		**+/–21,927**	**–/+263,461**	**–/+241,534**

Table 46: Sensitivity analysis of investments with respect to changes in market interest rates as at 31 December 2016 – change in interest rate of 50 basis points

in €

Item	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Investments at fair value through profit or loss	+/–0.5%	+/–11,073	–/+56,167	–/+45,094
Held-to-maturity investments	+/–0.5%	0	0	0
Available-for-sale investments	+/–0.5%	+/–8,110	–/+218,926	–/+210,816
Loans and deposits	+/–0.5%	+/–0	–/+0	+/–0
Total		**+/–19,183**	**–/+275,093**	**–/+255,910**

The calculation of the sensitivity of interest income was made by taking into account investments subject to variable interest rate, whereas the impact on fair value was calculated by talking into account the investments subject to fixed interest rate.

Market risk

The risk of changing prices of equity securities represent the possibility that the value of equity securities could change due to the changes in market indexes and market prices of individual shares.

Table 47: Market risk of the equity securities portfolio as at 31 December 2017

in €

Change of index (in %)	Impact on profit or loss	Impact on equity
+/–10%	+/–5,406,087	+/–18,038,520

Table 48: Market risk of the equity securities portfolio as at 31 December 2016

in €

Change of index	Impact on profit or loss	Impact on equity
+/–10%	+/–3,489,410	+/–15,481,134

The impact on profit or loss is revealed by equity securities measured at fair value through profit or loss, while the impact on equity is revealed by available-for-sale equity investments.

Table 49: Financial instruments in terms of marketability

in €

Financial instrument	31 Dec 2017	31 Dec 2016
Securities traded on the regulated market	396,800,903	350,182,433
Investments at fair value through profit or loss	63,300,243	51,741,525
Held-to-maturity investments	110,605,244	98,222,394
Available-for-sale investments	222,895,416	200,218,514
Securities not traded on the regulated market	11,988,022	8,382,253
Investments at fair value through profit or loss	9,804,597	7,687,210
Held-to-maturity investments	1,134,649	0
Available-for-sale investments	1,048,776	695,043
Total	**408,788,925**	**358,564,687**

At the end of 2017, investments traded on organised securities markets accounted for 97% of assets.

Table 50: Overview of financial assets by book and fair value as at 31 December 2017

in €

Financial asset	Book value	Fair value
Investments at fair value through profit or loss	73,104,840	73,104,840
Held to maturity	111,739,893	119,675,510
Available-for-sale investments	223,944,192	223,944,192
Loans and deposits	23,216,838	23,216,838
Total	**432,005,763**	**439,941,380**

Table 51: Overview of financial assets by book and fair value as at 31 December 2016

in €

Financial asset	Book value	Fair value
Investments at fair value through profit or loss	59,428,735	59,428,735
Held-to-maturity investments	98,222,394	106,472,764
Available-for-sale investments	200,913,558	200,913,558
Investments in loans and deposits	30,000,212	30,000,212
Total	**388,564,899**	**396,815,269**

According to its accounting policy, Modra zavarovalnica measures its financial assets at fair value, which equals the market value of an investment. Differences may arise in non-marketable available-for-sale investments where the value assessed is the fair value; the fair value for loans and deposits equals their amortised cost.

Table 52: Fair value hierarchy of assets as at 31 December 2017

in €

Item	L1	L2	L3	Total
Assets at fair value	**211,529,819**	**79,113,859**	**6,405,355**	**297,049,032**
Investments at fair value through profit or loss	43,506,145	23,193,340	6,405,355	73,104,840
Available-for-sale investments	168,023,673	55,920,519	0	223,944,192
Assets with disclosed fair value	**113,705,514**	**2,151,314**	**27,035,520**	**142,892,348**
Held to maturity	113,705,514	2,151,314	3,818,682	119,675,510
Loans and deposits	0	0	23,216,838	23,216,838
Total	**325,235,333**	**81,265,173**	**33,440,875**	**439,941,380**

Level 1

Level 1 comprises investments (financial assets) whose fair value is determined based on quoted prices on an active market. An active market is either the stock exchange (in case of equity and debt financial assets) or traders' market or OTC (in case of debt financial assets). In this sense, level 1 comprises investments whose main market is the stock exchange and whose average daily trading in the 180 days prior to fair value measurement exceeded EUR 0.5 million, taking into account the number of trading days. Level 1 also includes investments whose main market is the traders' market or OTC, if the CBBT (Composite Bloomberg Bond Trader) price was published for at least half of trading days in the 30 days preceding the valuation.

Level 2

Level 2 comprises investments to which the assumption of an active market does not apply, meaning the investments whose average daily trading on the stock exchange in the 180 days prior to fair value measurement was below EUR 0.5 million, taking into account the number of trading days, and the investments in the OTC market whose CBBT price was published less than half of trading days in the 30 days preceding the valuation.

Level 2 also includes debt securities of companies and financial institutions as well as government securities measured using benchmark market data in the amount of EUR 15,762,883.

Level 2 also includes investments in the shares of some Slovenian companies in the amount of EUR 3,598,213 measured using benchmark market data of comparable listed companies.

Level 3

Level 3 includes investments for which fair value is determined based on own valuation models that take into account the subjective variables not publicly available on markets and the securities investments, the prices of which are provided by third parties. Level 3 includes deposits of EUR 23,216,838, commercial papers of Slovenian issuers of EUR 6,391,332 and investment fund units for which prices are provided by third parties in the amount of EUR 1,995,508. The prices are calculated based on the theoretical (amortised) value of commercial papers in view of the interest rate applicable to the relevant purchase.

Level 3 also comprises shares of certain Slovenian companies in the total amount of EUR 1,837,196. The major part of these are investments in Hit, d. d., Elektro Ljubljana, d. d., and Certa, d. d. The value of the said investments was primarily set by the present value of expected free cash flow model. The fair value of the investment in Hit, d. d., was EUR 780,657 as at 31 December 2017. The valuation was made based on a 7.8% discount rate. The fair value of the shares of Certa, d. d., was EUR 250,383 as at 31 December 2017; the valuation was made by taking into account a 2% long-term growth rate and a 12% discount rate. The fair value of the investment in Elektro Ljubljana, d. d. as at 31 December 2017 totalled EUR 449,336; the valuation was made by taking into account a 2% long-term growth rate, a 7.2% discount rate until 2020 and a 7.6% discount rate after that year.

Table 53: Changes in level 3 investments

in €

Item	2017
Balance as at 1 Jan 2017	39,471,148
Disposals/maturity	-23,080,565
Acquisitions	17,080,475
Revaluation	-30,183
Balance as at 31 Dec 2017	**33,440,875**

There were no reclassifications between fair value levels in 2017.

Liquidity risk

Liquidity risk is a possibility that the Insurance Company's liabilities will not be settled by the due date. As at 31 December 2017, Modra zavarovalnica disclosed a total surplus of EUR 287,802,491 in expected non-discounted cash inflows over outflows.

Table 54: Expected actual non-discounted cash flows as at 31 December 2017

in €

Item	Less than 1 year	More than 1 year to 5	More than 5 years	No maturity	Total
Investments in securities	19,103,535	92,422,783	83,850,098	234,446,074	429,822,489
• At fair value through profit or loss	5,858,621	9,804,539	4,581,316	120,711,565	140,956,040
• Held-to-maturity	9,533,327	50,857,283	69,557,759	0	129,948,368
• Available-for-sale	3,711,587	31,760,962	9,711,023	113,734,509	158,918,081
Loans and deposits given	17,276,791	6,017,479	0	0	23,294,270
Cash and cash equivalents	2,050,045	0	0	0	2,050,045
Receivables	1,586,758	0	0	0	1,586,758
Total assets	**40,017,130**	**98,440,262**	**83,850,098**	**234,446,074**	**456,753,564**
Operating liabilities	536,271	0	0	0	536,271
Other liabilities	6,687,046	349,164	0	0	7,036,210
Liabilities of annuity funds	16,060,658	45,308,992	100,008,942	0	161,378,592
Total liabilities	**23,283,975**	**45,658,156**	**100,008,942**	**0**	**168,951,072**
Difference (assets – liabilities)	**16,733,155**	**52,782,106**	**-16,158,844**	**234,446,074**	**287,802,491**

Table 55: Expected actual non-discounted cash flows as at 31 December 2016

in €

Item	Less than 1 year	More than 1 year to 5	More than 5 years	No maturity	Total
Investments in securities	31,210,903	77,992,542	79,663,669	163,305,434	352,172,548
• At fair value through profit or loss	14,825,111	10,655,244	2,993,320	34,894,100	63,367,775
• Held-to-maturity	9,712,070	39,854,429	63,898,595	0	113,465,093
• Available-for-sale	6,673,722	27,482,869	12,771,754	128,411,334	175,339,680
Loans and deposits given	15,595,130	14,595,821	0	0	30,190,952
Cash and cash equivalents	6,573,312	0	0	0	6,573,312
Receivables	733,645	0	0	0	733,645
Total assets	**54,112,990**	**92,588,363**	**79,663,669**	**163,305,434**	**389,670,456**
Operating liabilities	382,299	0	0	0	382,299
Other liabilities	4,663,630	33,098	0	0	4,696,727
Liabilities of annuity funds	14,019,510	39,937,351	88,510,571	0	142,467,431
Total liabilities	**19,065,438**	**39,970,449**	**88,510,571**	**0**	**147,546,457**
Difference (assets – liabilities)	**35,047,552**	**52,617,915**	**-8,846,901**	**163,305,434**	**242,123,999**

Shares and other equity instruments are disclosed under no-maturity item.

Overview of effective interest rates and return by investment group

Table 56: Effective interest rates by investment group

Item	2017	2016
Held-to-maturity investments	2.19%	2.43%
Available-for-sale investments	2.33%	2.56%

Investments in the tables above include all debt financial instruments where the effective interest rate is applied.

Other disclosures

Remuneration of the Management Board, supervisory bodies and employees with individual employment contracts

Prejemki, ki so jih za opravljanje funkcij oziroma nalog v podjetju prejeli In 2017, the remuneration received by the members of the Management Board, supervisory bodies and employees with individual employment contracts who are not subject to the tariff part of the collective agreement totalled EUR 715,554.

In 2017, Modra zavarovalnica granted no prepayments or loans to the members of management and supervisory bodies nor did it assume any liabilities on their behalf.

Table 57: Gross remuneration in 2017 by recipient category

in €

Category of recipients	Amount
Members of the Management Board	278,695
Members of supervisory bodies	85,695
Employees with individual employment contracts	351,164
Total	**715,554**

Remuneration of the members of management and supervisory bodies

Table 58: Remuneration of the members of the Management Board in 2017

in €

Name and surname	Fixed remuneration	Zaostala izplačila	Fringe benefits	Holiday allowance	Cost reimbursement	Other benefits	Insurance premiums (PDPZ)	Total
Borut Jamnik	118,591	0	5,541	1,115	5,286	0	2,819	**133,352**
Matija Debelak	112,915	25,003	1,387	1,115	1,415	689	2,819	**145,343**

Fixed remuneration includes gross salaries. Outstanding payments include part 2 of the variable remuneration for 2014 and part 1 of the variable remuneration for 2016. Reimbursements of costs include meal and/or travel allowances and/or other reimbursements of travel expenses (daily allowances, mileage expenses, costs of overnight stays, parking, taxi). Bonuses include company car and bonuses arising from collective accident insurance as well as bonuses from collective insurance for specialist outpatient treatment. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other benefits represent jubilee benefits.

Table 59: Remuneration of the members of the Supervisory Board and external members of the Supervisory Board committees in 2017

in €

Name and surname	Fixed remuneration of the SB	Fixed remuneration of the SB AC	Monthly allowance for the SB	Monthly allowance for the SB AC	Cost reimbursement	Total
Branimir Štrukelj	3,740	0	0	0	0	**3,740**
Bojan Zupančič	3,465	0	10,450	0	0	**13,915**
Janez Prašnikar	1,320	0	5,864	0	0	**7,184**
Goran Bizjak	3,190	1,760	10,450	3,919	453	**19,772**
Boris Žnidarič	1,320	0	5,864	0	9	**7,193**
Goranka Volf	2,420	0	6,880	0	0	**9,300**
Natalija Stošicki	3,465	1,540	12,259	2,613	433	**20,310**
Dragan Martinović (external member of the SB Audit Committee)	0	1,760	0	2,521	0	**4,281**

Fixed remuneration includes attendance fees for meetings of the Supervisory Board and its Audit Committee. Monthly allowance includes the monthly amount received for performing the function of a member of the Supervisory Board and a member of the Supervisory Board's Audit Committee. Cost reimbursements include reimbursement of travel expenses.

Transactions with related companies

In 2017, there were no transactions between Modra zavarovalnica and its parent company Kapitalska družba carried out under unusual market terms and conditions. Modra zavarovalnica leased business premises and IT equipment from Kapitalska družba and used its IT services. The total value of these services equalled EUR 503,241 in 2017.

As at 31 December 2017, Modra zavarovalnica disclosed operating liabilities to the parent company amounting to EUR 31,037.

In 2017, the Insurance Company paid dividends amounting to 2,964,602 to Kapitalska družba.

Significant events after the balance sheet date

Since the end of 2017 until the preparation of the Annual Report, Modra zavarovalnica recorded no significant events that could influence its financial statements for 2017.

Attachment

Selected performance indicators

Indicator			2017	Calculation
1.	**Total**	Growth in gross written premium (index)	177	$\frac{29,238,721 \times 100}{16,552,205}$
	Life insurance	Growth in gross written premium	177	$\frac{29,225,847 \times 100}{16,544,092}$
	Non-life insurance	Growth in gross written premium	159	$\frac{12,874 \times 100}{8,113}$
2.	**Total**	Net written premium as % of gross written premium	100%	$\frac{29,238,721 \times 100}{29,238,721}$
	Life insurance	Net written premium as % of gross written premium	100%	$\frac{29,225,847 \times 100}{29,225,847}$
	Non-life insurance	Net written premium as % of gross written premium	100%	$\frac{12,874 \times 100}{12,874}$
3.	**Total**	Changes in gross claims paid (index)	105	$\frac{16,991,250 \times 100}{16,101,176}$
	Life insurance	Changes in gross claims paid	105	$\frac{16,991,250 \times 100}{16,101,176}$
	Non-life insurance	Changes in gross claims paid	-	-
4.	**Total**	Loss ratio	0.58	$\frac{16,948,236}{29,238,721}$
	Life insurance	Loss ratio	0.58	$\frac{16,948,236}{29,225,847}$
	Non-life insurance	Loss ratio	0	$\frac{0}{12,874}$
5.	**Total**	Operating costs as % of gross written premium	21%	$\frac{6,072,926 \times 100}{29,238,721}$
	Life insurance	Operating costs as % of gross written premium	21%	$\frac{6,031,947 \times 100}{29,225,847}$
	Non-life insurance	Operating costs as % of gross written premium	318%	$\frac{40,979 \times 100}{12,874}$
6.	**Total**	Cost of acquisition of contracts as % of gross written premium	0%	$\frac{23,308 \times 100}{29,238,721}$
	Life insurance	Cost of acquisition of contracts as % of gross written premium	0%	$\frac{23,308 \times 100}{29,225,847}$
	Non-life insurance	Cost of acquisition of contracts as % of gross written premium	0%	$\frac{0 \times 100}{12,874}$
7.	**Total**	Net loss ratio	0.58	$\frac{(16,948,236 + 43,014)}{29,238,721}$
	Life insurance	Net loss ratio	0.58	$\frac{(16,948,236 + 43,014)}{29,225,847}$
	Non-life insurance	Net loss ratio	0	$\frac{0}{12,874}$
8.	**Non-life insurance**	Combined loss ratio	318%	$\frac{40,979 \times 100}{12,874}$
9.	**Life insurance**	Cost ratio	21%	$\frac{6,031,947 \times 100}{29,225,847}$
10.	**Life insurance**	Benefit ratio	123%	$\frac{(16,991,250 + 18,930,499) \times 100}{29,225,847}$
11.	**Total**	Return on investments as % of the average balance of investments	3%	$\frac{(15,915,637 - 1,781,400) \times 100}{\left(\frac{432,005,763 + 388,564,899}{2}\right)}$
	Life insurance	Return on investments as % of the average balance of investments	3%	$\frac{(15,852,335 - 1,781,400) \times 100}{\left(\frac{426,926,738 + 383,571,856}{2}\right)}$
	Non-life insurance	Return on investments as % of the average balance of investments	1%	$\frac{(63,302) \times 100}{\left(\frac{5,079,025 + 4,993,043}{2}\right)}$
12.	**Total**	Net claims provisions as % of net premium revenue	3%	$\frac{966,148 \times 100}{29,238,721}$
	Life insurance	Net claims provisions as % of net premium revenue	3%	$\frac{966,148 \times 100}{29,225,847}$
	Non-life insurance	Net claims provisions as % of net premium revenue	0%	$\frac{0 \times 100}{12,874}$
13.	**Total**	Gross profit for the year as % of net written premium	30%	$\frac{8,909,948 \times 100}{29,238,721}$
	Life insurance	Gross profit for the year as % of net written premium	30%	$\frac{8,874,751 \times 100}{29,225,847}$
	Non-life insurance	Gross profit for the year as % of net written premium	273%	$\frac{35,197 \times 100}{12,874}$
14.	**Total**	Gross profit for the year as % of average capital	4%	$\frac{(8,909,948) \times 100}{\left(\frac{244,039,501 + 225,990,099}{2}\right)}$
	Life insurance	Gross profit for the year as % of average capital	4%	$\frac{(8,874,751) \times 100}{\left(\frac{238,929,919 + 220,916,336}{2}\right)}$
	Non-life insurance	Gross profit for the year as % of average capital	1%	$\frac{(35,197) \times 100}{\left(\frac{5,109,582 + 5,073,763}{2}\right)}$
15.	**Total**	Gross profit for the year as % of average assets	2%	$\frac{(8,909,948) \times 100}{\left(\frac{439,020,316 + 398,148,790}{2}\right)}$
	Life insurance	Gross profit for the year as % of average assets	2%	$\frac{(8,874,751) \times 100}{\left(\frac{433,871,392 + 393,045,844}{2}\right)}$

The table continues on the next page.

Indicator			2017	Calculation
	Non-life insurance	Gross profit for the year as % of average assets	1%	$\frac{(35,197) \times 100''}{\left(\frac{5,148,924 + 5,102,946}{2}\right)}$
16.	**Total**	Gross profit for the year per share	EUR 0.06	$\frac{8,909,948}{152,200,000}$
	Life insurance	Gross profit for the year per share	-	-
	Non-life insurance	Gross profit for the year per share	-	-
17.	**Total**	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's capital	0%	$\frac{0}{244,039,501}$
	Life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's capital	0%	$\frac{0}{238,929,919}$
	Non-life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's capital	0%	$\frac{0}{5,109,582}$
18.	**Total**	Net written premium as % of the average balance of equity and technical provisions	8%	$\frac{29,238,721 \times 100}{\left(\frac{407,378,722 + 370,355,807}{2}\right)}$
	Life insurance	Net written premium as % of the average balance of equity and technical provisions	8%	$\frac{29,225,847 \times 100}{\left(\frac{402,269,140 + 365,282,044}{2}\right)}$
	Non-life insurance	Net written premium as % of the average balance of equity and technical provisions	0.3%	$\frac{(12,874) \times 100}{\left(\frac{5,109,582 + 5,073,763}{2}\right)}$
19.	**Total**	Average balance of net technical provisions as % of net premium revenue	526%	$\frac{\frac{(163,339,221 + 144,365,708) \times 100}{2}}{29.238,721}$
	Life insurance	Average balance of net technical provisions as % of net premium revenue	526%	$\frac{\frac{(163,339,221 + 144,365,708) \times 100}{2}}{29,225,847}$
	Non-life insurance	Average balance of net technical provisions as % of net premium revenue	0%	$\frac{0 \times 100}{12,874}$
20.	**Total**	Equity as % of liabilities	56%	$\frac{244,039,501 \times 100}{439,020,316}$
	Life insurance	Equity as % of liabilities	55%	$\frac{238,929,919 \times 100}{433,871,392}$
	Non-life insurance	Equity as % of liabilities	99%	$\frac{5,109,582 \times 100}{5,148,924}$
21.	**Total**	Net technical provisions as % of liabilities	37%	$\frac{163,339,221 \times 100}{439,020,316}$
	Life insurance	Net technical provisions as % of liabilities	38%	$\frac{163,339,221 \times 100}{433,871,392}$
	Non-life insurance	Net technical provisions as % of liabilities	0%	$\frac{0 \times 100}{5,148,924}$
22.	**Total**	Net technical provisions for life insurance as % of net technical provisions	100%	$\frac{163,339,221 \times 100}{163,339,221}$
23.	**Total**	Gross written premium per the average number of full-time employees	EUR 504,116	$\frac{29,238,721}{58}$

Indicator			2016	Calculation
1.	**Total**	Growth in gross written premium (index)	67	$\frac{16,552,205 \times 100}{24,551,616}$
	Life insurance	Growth in gross written premium	67	$\frac{16,544,092 \times 100}{24,544,466}$
	Non-life insurance	Growth in gross written premium	113	$\frac{8,113 \times 100}{7,150}$
2.	**Total**	Net written premium as % of gross written premium	100%	$\frac{16,552,205 \times 100}{16,552,205}$
	Life insurance	Net written premium as % of gross written premium	100%	$\frac{16,544,092 \times 100}{16,544,092}$
	Non-life insurance	Net written premium as % of gross written premium	100%	$\frac{8,113 \times 100}{8,113}$
3.	**Total**	Changes in gross claims paid (index)	107	$\frac{16,101,176 \times 100}{15,108,171}$
	Life insurance	Changes in gross claims paid	107	$\frac{16,101,176 \times 100}{15,108,171}$
	Non-life insurance	Changes in gross claims paid	-	-
4.	**Total**	Loss ratio	97%	$\frac{16,101,176 \times 100}{16,552,205}$
	Life insurance	Loss ratio	97%	$\frac{16,101,176 \times 100}{16,544,092}$
	Non-life insurance	Loss ratio	-	-
5.	**Total**	Operating costs as % of gross written premium	35%	$\frac{5,741,739 \times 100}{16,552,205}$
	Life insurance	Operating costs as % of gross written premium	34%	$\frac{5,703,353 \times 100}{16,544,092}$
	Non-life insurance	Operating costs as % of gross written premium	473%	$\frac{38,386 \times 100}{8,113}$
6.	**Total**	Cost of acquisition of contracts as % of gross written premium	1%	$\frac{108,360 \times 100}{16,552,205}$
	Life insurance	Cost of acquisition of contracts as % of gross written premium	1%	$\frac{108,360 \times 100}{16,544,092}$
	Non-life insurance	Cost of acquisition of contracts as % of gross written premium	0%	$\frac{0 \times 100}{8,113}$
7.	**Total**	Net loss ratio	98%	$\frac{(16,101,176 + 79,069) \times 100}{16,552,205}$
	Life insurance	Net loss ratio	98%	$\frac{(16,101,176 + 79,069) \times 100}{16,544,092}$
	Non-life insurance	Net loss ratio	0%	$\frac{0 \times 100}{8,113}$
8.	**Non-life insurance**	Combined loss ratio	473%	$\frac{38,386 \times 100}{8,113}$
9.	**Life insurance**	Cost ratio	34%	$\frac{5,703,353 \times 100}{16,544,092}$
10.	**Life insurance**	Benefit ratio	126%	$\frac{(16,101,176 + 4,787,079) \times 100}{16,544,092}$

The table continues on the next page.

Indicator			2016	Calculation
11.	**Total**	Return on investments as % of the average balance of investments	3%	$\frac{(14{,}770{,}574 - 3{,}291{,}796) \times 100}{\left(\frac{388{,}564{,}899 + 353{,}034{,}944}{2}\right)}$
	Life insurance	Return on investments as % of the average balance of investments	3%	$\frac{(14{,}697{,}662 - 3{,}291{,}796) \times 100}{\left(\frac{383{,}571{,}856 + 348{,}088{,}736}{2}\right)}$
	Non-life insurance	Return on investments as % of the average balance of investments	1%	$\frac{(72{,}912) \times 100}{\left(\frac{4{,}993{,}043 + 4{,}946{,}208}{2}\right)}$
12.	**Total**	Net claims provisions as % of net premium revenue	6%	$\frac{923{,}134 \times 100}{16{,}552{,}205}$
	Life insurance	Net claims provisions as % of net premium revenue	6%	$\frac{923{,}134 \times 100}{16{,}544{,}092}$
	Non-life insurance	Net claims provisions as % of net premium revenue	0%	$\frac{0 \times 100}{8{,}113}$
13.	**Total**	Gross profit for the year as % of net written premium	44%	$\frac{7{,}204{,}508 \times 100}{16{,}552{,}205}$
	Life insurance	Gross profit for the year as % of net written premium	43%	$\frac{7{,}161{,}868 \times 100}{16{,}544{,}092}$
	Non-life insurance	Gross profit for the year as % of net written premium	526%	$\frac{42{,}640 \times 100}{8{,}113}$
14.	**Total**	Gross profit for the year as % of average capital	3%	$\frac{(7{,}204{,}508) \times 100}{\left(\frac{225{,}990{,}099 + 201{,}323{,}863}{2}\right)}$
	Life insurance	Gross profit for the year as % of average capital	3%	$\frac{(7{,}161{,}868) \times 100}{\left(\frac{220{,}916{,}336 + 196{,}298{,}912}{2}\right)}$
	Non-life insurance	Gross profit for the year as % of average capital	1%	$\frac{(42{,}640) \times 100}{\left(\frac{5{,}073{,}763 + 5{,}024{,}951}{2}\right)}$
15.	**Total**	Gross profit for the year as % of average assets	2%	$\frac{(7{,}204{,}508) \times 100}{\left(\frac{398{,}148{,}790 + 363{,}030{,}074}{2}\right)}$
	Life insurance	Gross profit for the year as % of average assets	2%	$\frac{(7{,}161{,}868) \times 100}{\left(\frac{393{,}045{,}844 + 357{,}989{,}171}{2}\right)}$
	Non-life insurance	Gross profit for the year as % of average assets	1%	$\frac{(42{,}640) \times 100}{\left(\frac{5{,}102{,}946 + 5{,}040{,}903}{2}\right)}$
16.	**Total**	Gross profit for the year per share	EUR 0.05	$\frac{7{,}204{,}508}{152.200.000}$
	Life insurance	Gross profit for the year per share	-	-
	Non-life insurance	Gross profit for the year per share	-	-
17.	**Total**	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's capital	0%	$\frac{0}{225{,}990{,}099}$
	Life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's capital	0%	$\frac{0}{220{,}916{,}336}$
	Non-life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's capital	0%	$\frac{0}{5{,}073{,}763}$

The table continues on the next page.

Indicator			2016	Calculation
18.	**Total**	Net written premium as % of the average balance of equity and technical provisions	5%	$\frac{16{,}552{,}205 \times 100}{\left(\frac{370{,}355{,}807 + 340{,}823{,}426}{2}\right)}$
	Life insurance	Net written premium as % of the average balance of equity and technical provisions	5%	$\frac{16{,}544{,}092 \times 100}{\left(\frac{365{,}282{,}044 + 335{,}798{,}475}{2}\right)}$
	Non-life insurance	Net written premium as % of the average balance of equity and technical provisions	0.20%	$\frac{(8{,}113) \times 100}{\left(\frac{5{,}073{,}763 + 5{,}024{,}951}{2}\right)}$
19.	**Total**	Average balance of net technical provisions as % of net premium revenue	857%	$\frac{\frac{(144{,}365{,}708 + 139{,}499{,}563) \times 100}{2}}{16{,}552{,}205}$
	Life insurance	Average balance of net technical provisions as % of net premium revenue	858%	$\frac{\frac{(144{,}365{,}708 + 139{,}499{,}563) \times 100}{2}}{16{,}544{,}092}$
	Non-life insurance	Average balance of net technical provisions as % of net premium revenue	0%	$\frac{0 \times 100}{16{,}544{,}092}$
20.	**Total**	Equity as % of liabilities	57%	$\frac{225{,}990{,}099 \times 100}{398{,}148{,}790}$
	Life insurance	Equity as % of liabilities	57%	$\frac{220{,}916{,}336 \times 100}{393{,}045{,}844}$
	Non-life insurance	Equity as % of liabilities	99%	$\frac{5{,}073{,}763 \times 100}{5{,}102{,}946}$
21.	**Total**	Net technical provisions as % of liabilities	36%	$\frac{144{,}365{,}708 \times 100}{398{,}148{,}790}$
	Life insurance	Net technical provisions as % of liabilities	37%	$\frac{144{,}365{,}708 \times 100}{393{,}045{,}844}$
	Non-life insurance	Net technical provisions as % of liabilities	0%	$\frac{0 \times 100}{5{,}102{,}946}$
22.	**Total**	Net technical provisions for life insurance as % of net technical provisions	100%	$\frac{144{,}365{,}708 \times 100}{144{,}365{,}708}$
23.	**Total**	Gross written premium per the average number of full-time employees	EUR 290,390	$\frac{16{,}552{,}205}{57}$

Financial statements pursuant to the decision of the Insurance Supervision Agency

Segment reporting pursuant to the provisions of the Decision on Annual Report and Quarterly Financial Statements of Insurance Undertakings – Attachment 1

Segment reporting on balance sheet items

in €

Item		31 Dec 2017			31 Dec 2016			Index
		Segment LIFE	Segment NON-LIFE	TOTAL	Segment LIFE	Segment NON-LIFE	TOTAL	
		1	2	3	4	5	6	7=3/6*100
	ASSETS	**433,871,392**	**5,148,924**	**439,020,316**	**393,045,844**	**5,102,946**	**398,148,790**	**110**
A.	**Intangible assets**	**1,257,976**	**0**	**1,257,976**	**1,142,918**	**0**	**1,142,918**	**110**
B.	**Property, plant and equipment**	**37,615**	**0**	**37,615**	**45,557**	**0**	**45,557**	**83**
F.	**Financial investments in the Group companies and associates**	**35,362,971**	**0**	**35,362,971**	**26,400,006**	**0**	**26,400,006**	**134**
G.	**Investments:**	**391,563,767**	**5,079,025**	**396,642,792**	**357,171,850**	**4,993,043**	**362,164,893**	**110**
	- Loans and deposits	20,314,274	2,902,564	23,216,838	26,950,212	3,050,000	30,000,212	77
	- Held-to-maturity	111,007,109	732,784	111,739,893	97,472,062	750,332	98,222,394	114
	- Available-for-sale	187,137,544	1,443,677	188,581,221	173,320,841	1,192,711	174,513,552	108
	- At fair value	73,104,840	0	73,104,840	59,428,735	0	59,428,735	123
K.	**Receivables**	**1,584,094**	**2,664**	**1,586,758**	**729,287**	**4,358**	**733,645**	**216**
	1. Receivables from direct insurance business	0	1,605	1,605	0	820	820	196
	3. Current tax assets	480,086	0	480,086	0	0	0	0
	4. Other receivables	1,104,008	1,059	1,105,067	729,287	3,538	732,825	151
L.	**Other assets**	**2,082,158**	**0**	**2,082,158**	**1,088,459**	**0**	**1,088,459**	**191**
M.	**Cash and cash equivalents**	**1,982,811**	**67,235**	**2,050,046**	**6,467,767**	**105,545**	**6,573,312**	**31**
N.	**Off-balance sheet items**	**1,003,223,920**	**0**	**1,003,223,920**	**955,200,330**	**0**	**955,200,330**	**105**
	EQUITY AND LIABILITIES	**433,871,392**	**5,148,924**	**439,020,316**	**393,045,844**	**5,102,946**	**398,148,790**	**106**
A.	**Equity**	**238,929,919**	**5,109,582**	**244,039,501**	**220,916,336**	**5,073,763**	**225,990,099**	**108**
	1. Share capital	147,200,000	5,000,000	152,200,000	147,200,000	5,000,000	152,200,000	100
	3. Revenue reserves	27,570,146	42,820	27,612,966	23,316,442	27,237	23,343,679	118
	4. Revaluation surplus	60,649,347	53,948	60,703,295	47,438,218	31,095	47,469,313	128
	6. Retained earnings	3,510,426	12,814	3,523,240	2,961,676	15,431	2,977,107	118
C.	**Technical provisions**	**163,339,221**	**0**	**163,339,221**	**144,365,708**	**0**	**144,365,708**	**113**
	2. Technical provisions for life insurance	162,373,073	0	162,373,073	143,442,574	0	143,442,574	113
	3. Provisions for outstanding claims	966,148	0	966,148	923,134	0	923,134	105
E.	**Other provisions**	**14,248,595**	**3,018**	**14,251,613**	**15,592,966**	**2,761**	**15,595,727**	**91**
G.	**Deferred tax liabilities**	**9,792,674**	**24,826**	**9,817,500**	**7,102,244**	**15,985**	**7,118,229**	**138**
J.	**Operating liabilities**	**532,952**	**3,319**	**536,271**	**378,530**	**3,769**	**382,299**	**140**
	3. Current tax liabilities	532,952	3,319	536,271	378,530	3,769	382,299	140
K.	**Other liabilities**	**7,028,031**	**8,179**	**7,036,210**	**4,690,060**	**6,668**	**4,696,728**	**150**
L.	**Off-balance sheet items**	**1,003,223,920**	**0**	**1,003,223,920**	**955,200,330**	**0**	**955,200,330**	**105**

Segment reporting on statement of profit or loss items

in €

Item		31 Dec 2017 Segment LIFE	31 Dec 2017 Segment NON-LIFE	31 Dec 2017 TOTAL	31 Dec 2016 Segment LIFE	31 Dec 2016 Segment NON-LIFE	31 Dec 2016 TOTAL
		1	2	3	4	5	6
A.	**NET INSURANCE PREMIUM REVENUE**	**29,225,847**	**12,874**	**29,238,721**	**16,544,092**	**8,113**	**16,552,205**
	- Gross written premium	29,225,847	12,874	29,238,721	16,544,092	8,113	16,552,205
C.	**INVESTMENT INCOME**	**15,852,335**	**63,302**	**15,915,637**	**14,697,662**	**72,912**	**14,770,574**
D.	**OTHER INSURANCE REVENUE, of which**	**9,748,383**	**0**	**9,748,383**	**8,873,566**	**0**	**8,873,566**
	- Fees and commissions	6,601,597	0	6,601,597	6,252,317	0	6,252,317
E.	**OTHER INCOME**	**92,773**	**2**	**92,775**	**125,069**	**2**	**125,071**
F.	**NET CLAIMS INCURRED**	**16,991,250**	**0**	**16,991,250**	**16,180,245**	**0**	**16,180,245**
	- Gross claims paid	16,948,236	0	16,948,236	16,101,176	0	16,101,176
	- Change in provisions for outstanding claims	43,014	0	43,014	79,069	0	79,069
G.	**CHANGE IN OTHER TECHNICAL PROVISIONS**	**-18,930,499**	**0**	**-18,930,499**	**4,787,079**	**0**	**4,787,079**
K.	**OPERATING COSTS, of which**	**6,031,947**	**40,979**	**6,072,926**	**5,703,353**	**38,386**	**5,741,739**
	- Insurance contract acquisition	23,308	0	23,308	108,360	0	108,360
M.	**INVESTMENT EXPENSES, of which**	**1,781,400**	**0**	**1,781,400**	**3,291,796**	**0**	**3,291,796**
	- Impairment of financial assets not measured at fair value through profit or loss	101,120	0	101,120	578,352	0	578,352
N.	**OTHER INSURANCE EXPENSES**	**2,305,637**	**0**	**2,305,637**	**3,115,251**	**0**	**3,115,251**
O.	**OTHER EXPENSES**	**3,854**	**2**	**3,856**	**797**	**1**	**798**
P.	**PROFIT OR LOSS BEFORE TAX**	**8,874,751**	**35,197**	**8,909,948**	**7,161,868**	**42,640**	**7,204,508**
R.	**INCOME TAX**	**-1,123,127**	**-6,799**	**-1,129,926**	**626,310**	**8,443**	**634,753**
S.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	**7,751,624**	**28,398**	**7,780,022**	**6,535,558**	**34,197**	**6,569,755**

Segment reporting on statement of comprehensive income items

in €

Items		2017 Life	2017 Non-life	2017 Total	2016 Life	2016 Non-life	2016 Total
		1	2	3=1+2	4	5	6=4+5
I.	**NET PROFIT/LOSS FOR THE FINANCIAL YEAR AFTER TAX**	**7,751,624**	**28,398**	**7,780,022**	**6,535,558**	**34,197**	**6,569,755**
II.	**OTHER COMPREHENSIVE INCOME AFTER TAX (a+b)**	**13,211,129**	**22,853**	**13,233,982**	**20,213,506**	**14,919**	**20,228,425**
	b) Items that may be reclassified subsequently to profit or loss (1+2+3+4+5)	**13,211,129**	**22,853**	**13,233,982**	**20,213,506**	**14,919**	**20,228,425**
	1. Net gains/losses from revaluation of available-for-sale financial assets	**15,311,384**	**28,214**	**15,339,598**	**24,162,234**	**18,900**	**24,181,134**
	1.1 Net gains/losses recognised in revaluation surplus	18,087,441	43,447	18,130,888	24,772,467	18,900	24,791,367
	1.2 Transfer of gains/losses from revaluation surplus to profit or loss	-2,776,057	-15,233	-2,791,290	-610,233	0	-610,233
	5. Tax on items that may be reclassified subsequently to profit or loss	**-2,100,255**	**-5,361**	**-2,105,616**	**-3,948,728**	**-3,981**	**-3,952,709**
III.	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (I+II)**	**20,962,753**	**51,251**	**21,014,004**	**26,749,064**	**49,116**	**26,798,180**

Financial statements pursuant to the provisions of the Decision on Annual Report and Quarterly Financial Statements of Insurance Undertakings – Attachment 2

Statement of profit or loss and statement of other comprehensive income

in €

	Item	31 Dec 2017	31 Dec 2016
A.	**Statement of result for non-life business**		
	I. Net insurance premium revenue	12,874	8,113
	1. Gross written premium	12,874	8,113
	VII. Net operating costs	40,979	38,386
	3. Other operating costs	40,979	38,386
	3.1. Depreciation/amortisation of assets required for operations	3,576	1,230
	3.2. Labour costs	25,289	24,964
	3.3. Cost of services rendered by natural persons not performing economic activity (costs under work contracts, copyright contracts and in relation to other legal relationships), including charges borne by the Insurance Company	803	941
	3.4. Other operating costs	11,311	11,251
	Result for non-life business (I+II+III-IV+V-VI-VII-VIII)	**-28,105**	**-30,273**
B.	**Statement of result for life business**		
	I. Net insurance premium revenue	29,225,847	16,544,092
	1. Gross written premium	29,225,847	16,544,092
	II. Investment income	15,852,335	14,697,662
	1. Income from dividends and profit participation	4,616,868	3,542,703
	1.2. Income from dividends and other profit participation in associates	1,474,815	684,444
	1.3. Income from dividends and other profit participation in other companies	3,142,053	2,858,259
	2. Income from other investments	11,235,467	11,154,959
	2.2. Interest income	4,198,599	4,670,005
	2.3. Other investment income	7,036,868	6,484,954
	2.3.1. Revaluation finance revenue	6,900,897	6,030,004
	2.3.2. Other finance revenue	135,971	454,950
	IV. Other net insurance revenue	9,748,383	8,873,566
	V. Net claims incurred	16,991,250	16,180,245
	1. Gross claims paid	16,948,236	16,101,176
	4. Change in gross provisions for claims outstanding (+/-)	43,014	79,069
	VI. Change in other net technical provisions (+/-)	-18,930,499	-4,787,079
	1. Change in technical provisions for life insurance	-18,930,499	-4,787,079
	1.1. Change in gross technical provisions for life insurance	-18,930,499	-4,787,079

The table continues on the next page.

in €

	Item	31 Dec 2017	31 Dec 2016
	VIII. Net operating costs	6,031,947	5,703,353
	1. Cost of insurance contract acquisition	23,308	108,360
	3. Other operating costs	6,008,639	5,594,993
	3.1. Depreciation/amortisation of assets required for operations	399,631	132,381
	3.2. Labour costs	3,044,076	2,897,674
	3.3. Cost of services rendered by natural persons not performing economic activity (costs under work contracts, copyright contracts and in relation to other legal relationships), including charges borne by the Insurance Company	122,430	137,433
	3.4. Other operating costs	2,442,502	2,427,505
	IX. Investment expenses	1,781,400	3,291,796
	2. Expenses for asset management, interest expenses and other finance expenses	1,442,306	756,226
	3. Revaluation finance expenses	305,986	1,508,871
	4. Losses on investment disposal	33,108	1,026,699
	XI. Other net insurance expenses	2,305,637	3,115,251
	2. Other net insurance expenses	2,305,637	3,115,251
	XII. Allocated return on investment transferred to net profit or loss calculation of the Insurance Company (-)	7,113,643	4,943,931
	Result for life business (I+II+III+IV-V+/-VI-VII-VIII-IX-X-XI-XII)	**1,672,189**	**2,093,665**
C.	**Net result of the Insurance Company calculation**		
	I. Result for non-life business (A.IX)	-28,105	-30,273
	II. Result for life business (B:XIII)	1,672,189	2,093,665
	III. Income from investments	63,302	72,912
	2. Income from other investments	63,302	72,912
	2.1. Income from land and buildings	0	0
	2.2. Interest income	48,069	72,912
	2.3. Other investment income	15,233	0
	2.3.1. Revaluation finance revenue	15,233	0
	IV. Allocated investment return transferred from the life business result (B:XII)	7,113,643	4,943,931
	IX. Other income	92,775	125,071
	1. Other revenue from non-life insurance	2	2
	2. Other revenue from life insurance	92,773	125,069

The table continues on the next page.

in €

	Item	31 Dec 2017	31 Dec 2016
	X. Other expenses	3,856	798
	1. Other expenses for non-life insurance	2	1
	2. Other expenses for life insurance	3,854	797
	XI. Profit or loss for the period before tax (I+II+III+IV-V-VI+VII-VIII+IX-X)	8,909,948	7,204,508
	1. Profit or loss for the period from non-life insurance	35,197	42,640
	2. Profit or loss for the period from life insurance	8,874,751	7,161,868
	XII. Income tax	536,271	382,299
	XIII. Deferred taxes	-593,655	-252,454
	XIV. Net profit or loss for the period (XI-XII+XIII)	**7,780,022**	**6,569,755**
D.	**Calculation of comprehensive income**		
	I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	7,780,022	6,569,755
	II. OTHER COMPREHENSIVE INCOME AFTER TAX (a+b)	13,233,982	20,228,425
	b. Items that may be reclassified subsequently to profit or loss (1+2+3+4+5)	13,233,982	20,228,425
	1. Net gains/losses from revaluation of available-for-sale financial assets	15,339,598	24,181,134
	5. Tax on items that may be reclassified subsequently to profit or loss	-2,105,616	-3,952,709
	III. TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (I+II)	**21,014,004**	**26,798,180**

Presentation of assets and liabilities of the guarantee funds for supplementary pension insurance in the annuity disbursement period

Assets and liabilities of KS PPS

in €

	Item	31 Dec 2017	31 Dec 2016
	ASSETS	**101,744,344**	**99,597,735**
A.	INVESTMENTS IN PROPERTY AND FINANCIAL INVESTMENTS	101,744,344	99,597,735
	III. OTHER INVESTMENTS	27,925,350	24,093,737
	1. Shares and other securities with variable yield and mutual fund coupons	70,116,567	68,803,998
	2. Debt securities with fixed yield	3,702,427	6,700,000
	6. Bank deposits	11,903	37,686
B.	RECEIVABLES	11,903	37,686
	III. OTHER RECEIVABLES	502,115	370,162
C.	VARIOUS ASSETS	502,115	370,162
	I. CASH	247,069	254,284
D.	SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	247,069	254,284
	3. Other short-term accrued revenue and deferred costs	247,069	254,284
	LIABILITIES	**102,505,431**	**100,259,867**
B.	GROSS TECHNICAL PROVISIONS	102,491,512	100,245,948
	II. GROSS TECHNICAL PROVISIONS FOR LIFE INSURANCE	101,527,536	99,323,369
	III. GROSS PROVISIONS FOR OUTSTANDING CLAIMS	963,976	922,579
E.	OTHER LIABILITIES	13,919	13,919
	III. OTHER LIABILITIES	13,919	13,919

Assets and liabilities of the KS MR

in €

	Item	31 Dec 2017	31 Dec 2016
	ASSETS	**25,478,714**	**31,734,971**
A.	INVESTMENTS IN PROPERTY AND FINANCIAL INVESTMENTS	25,074,325	31,218,245
	III. OTHER INVESTMENTS	25,074,325	31,218,245
	1. Shares and other securities with variable yield and mutual fund coupons	2,904,954	4,376,141
	2. Debt securities with fixed yield	20,336,670	24,692,094
	6. Bank deposits	1,832,701	2,150,010
B.	RECEIVABLES	243,870	80,382
	III. OTHER RECEIVABLES	243,870	80,382

The table continues on the next page.

in €

	Item	31 Dec 2017	31 Dec 2016
C.	VARIOUS ASSETS	160,519	436,344
	I. CASH	160,519	436,344
	LIABILITIES	**25,478,714**	**31,734,971**
B.	GROSS TECHNICAL PROVISIONS	25,460,572	31,721,347
	II. GROSS TECHNICAL PROVISIONS FOR LIFE INSURANCE	25,458,610	31,720,792
	III. GROSS PROVISIONS FOR OUTSTANDING CLAIMS	1,962	555
E.	OTHER LIABILITIES	10,609	13,217
	III. OTHER LIABILITIES	10,609	13,217
F.	ACCRUED COSTS AND DEFERRED REVENUE	7,533	407

Assets and liabilities of KS MR II

in €

	Item	31 Dec 2017	31 Dec 2016
	ASSETS	**40,994,145**	**15,780,607**
A.	INVESTMENTS IN PROPERTY AND FINANCIAL INVESTMENTS	38,635,767	14,559,011
	III. OTHER INVESTMENTS	38,635,767	14,559,011
	1. Shares and other securities with variable yield and mutual fund coupons	13,679,363	1,312,359
	2. Debt securities with fixed yield	20,809,413	12,246,652
	6. Bank deposits	4,146,991	1,000,000
B.	RECEIVABLES	594	403
	III. OTHER RECEIVABLES	594	403
C.	VARIOUS ASSETS	604,766	481,783
	I. CASH	604,766	481,783
D.	SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	1,753,018	739,410
	3. Other short-term accrued revenue and deferred costs	1,753,018	739,410
	LIABILITIES	**40,994,145**	**15,780,607**
B.	GROSS TECHNICAL PROVISIONS	35,387,137	12,398,412
	II. GROSS TECHNICAL PROVISIONS FOR LIFE INSURANCE	35,386,927	12,398,412
	III. GROSS PROVISIONS FOR OUTSTANDING CLAIMS	210	0
E.	OTHER LIABILITIES	12,398	3,124
	III. OTHER LIABILITIES	12,398	3,124
F.	ACCRUED COSTS AND DEFERRED REVENUE	5,594,610	3,379,071

Statement of result of the guarantee funds for supplementary pension insurance in the annuity disbursement period

Statement of result for KS PPS

in €

	Item	2017	2016
I.	TRANSFER OF ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE SCHEME	3,127,153	3,424,432
	4. of mutual pension fund	3,127,153	3,424,432
II.	INCOME FROM INVESTMENTS	6,146,884	6,567,466
	1. Income from dividends and profit participations	933,289	736,508
	2. Income from other investments	5,159,892	5,830,958
	2.2. Interest income	1,918,918	2,262,960
	2.3. Other investment income	3,240,974	3,567,998
	4. Gains on investment disposal	53,703	0
III.	CLAIMS INCURRED	6,600,403	6,450,042
	1. Claims paid	6,559,006	6,370,949
	2. Change in provisions for outstanding claims	41,397	79,093
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	-2,204,166	-587,813
	1. Change in technical provisions for life insurance (+/-)	-2,204,166	-587,813
VI.	INVESTMENT EXPENSES	469,468	2,954,043
	2. Expenses for asset management, interest expenses and other finance expenses ***	274,881	1,831,148
	3. Revaluation finance expenses	194,587	1,122,895
	PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)	**0**	**0**
VII.a.	**Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)**	**0**	**0**

Statement of result for KS MR

in €

	Postavka	2017	2016
II.	INVESTMENT INCOME	767,126	1,255,539
	1. Income from dividends and profit participations	15,873	10,844
	2. Income from other investments	751,253	1,244,695
	2.2. Interest income	516,730	685,986
	2.3. Other investment income	234,523	558,709
III.	CLAIMS INCURRED	6,778,648	8,914,951
	1. Claims paid	6,777,241	8,914,975
	2. Change in provisions for outstanding claims	1,407	-24
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	6,262,182	8,199,146
	1. Change in technical provisions for life insurance (+/-)	6,262,182	8,199,146
VI.	INVESTMENT EXPENSES	250,660	539,734

The table continues on the next page.

in €

	Item	2017	2016
	2. Expenses for asset management, interest expenses and other finance expenses	184,881	179,081
	3. Revaluation finance expenses	65,779	360,653
VII.	**PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)**	**0**	**0**
VII.a.	**Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)**	**0**	**0**

Statement of result for KS MR II

in €

	Item	2017	2016
I.	TRANSFER OF ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE SCHEME	26,098,694	13,119,660
	2. of other insurance company	428,168	188,674
	3. of other pension company	230,833	74,997
	4. of mutual pension fund	25,439,693	12,855,989
II.	INVESTMENT INCOME	537,525	118,112
	1. Income from dividends and profit participations	36,603	408
	2. Income from other investments	500,922	117,704
	2.2. Interest income	319,239	117,704
	2.3. Other investment income	181,683	0
III.	CLAIMS INCURRED	3,612,199	815,252
	1. Claims paid	3,611,989	815,252
	2. Change in provisions for outstanding claims	210	0
	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	-22,988,515	-12,398,412
	1. Change in technical provisions for life insurance (+/-)	-22,988,515	-12,398,412
V.a.	Net operating costs	14,701	5,589
	3. Other operating costs	14,701	5,589
	3.4. Other operating costs	14,701	5,589
VI.	INVESTMENT EXPENSES	20,804	18,519
	2. Expenses for asset management, interest expenses and other finance expenses	11,168	2,347
	3. Revaluation finance expenses	9,636	16,172
	PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)	**14,701**	**5,589**
VII.a.	**Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)**	**0**	**0**

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