

# Modra Annual report 2018

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# List of abbreviations used

Abbreviation	Explanation
AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
ISA	Insurance Supervision Agency
DPJU	Dynamic Civil Servants Sub-fund
EAPSPI	European Association of Public Sector Pension Institution
ECB	European Central Bank
EU	European Union
EUR	Euro – the currency of the European Union
EURIBOR	The Euro Interbank Offered Rate
EAD	Exposure at Default
EWS	Early Warning System
GDPR	Regulation on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation)
iBoxx	The reference index of liquid investment grade bond issues
KPSJU	Civil Servants Life-Cycle Fund
KS MR	The Modra Renta guarantee fund

The table continues on the next page.

Kratica	Pojasnilo
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
LGD	Loss Given Default
MKPS	Life-Cycle Pension Fund
MDP	The Dynamic Sub-Fund
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
OPMSRP	International Financial Reporting Interpretations Committee
OTC	Over-the-Counter
PD	Probability of Default
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	First Pension Fund of the Republic of Slovenia
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 RS, No. 42/-1799/2006)
ZPIZ-1	Pension and Disability Insurance Act (official consolidated text, ZPIZ-1, UPB4, Official Gazette of the RS, No. 109/2006, 27/2010 and 38/2010)
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the RS, No. 96/2012)
ZPJU	Guaranteed Civil Servants Sub-Fund
ZSDH-1	Slovenian Sovereign Holding Act (Official Gazette of the RS, No. 25/2014)
ZZavar-1	Insurance Act (Official Gazette of the RS, No. 93/2015)

# Introductory part

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# Address by the Management Board



The year 2018 was a difficult year for Modra zavarovalnica. The end of the year saw a downturn in the financial markets, which had a negative impact on the value of the Company's financial assets, as well as the return on funds under its management. Nevertheless, the assets managed by the Company exceeded EUR 1.5 billion, and the value of assets under management and the number of mutual pension fund members and annuity recipients increased.

In 2018, the Company generated a net technical income of EUR 52.8 million, comprising premium income and other income from insurance operations. Premium income includes payments made in annuity pension funds, which surpassed the 2017 figure by 48%, in particular owing to the competitive annuity products and changed operating conditions preventing a one-off withdrawal of the members'

assets if the amount saved exceeds EUR 5,000. Fund management income rose by 10% year-on-year, especially due to growth in mutual pension fund assets and higher premiums paid in the fund for public servants. Technical expenses, which include the annuities paid, operating costs and other technical expenses, reached EUR 24.1 million, while mathematical provisions grew by EUR 26.7 million. The profit was the result of financial income amounting to EUR 15.7 million, while expenses for investments reached EUR 4.3 million. The Company recorded a net profit of EUR 6.3 million.

An unfavourable situation on the financial markets in the last quarter had a significant impact on the value of financial assets of the Company, measured at fair value through comprehensive income, as their value decreased by EUR 13.3 million. An important decline in value was recorded in equity investments

of Slovenian issuers in the Company's portfolio. The comprehensive income for the financial year after tax was thus negative, amounting to EUR -6.9 million. The capital of the Company decreased by EUR 8.3 million in the respective period, reaching EUR 236 million at the end of the year, or EUR 90 million more than when the Company started operating seven years ago.

The year 2018 was characterised by a demanding macroeconomic environment, as a drop was noted especially in stock indexes. The world stock index lost 4.2% of its value, measured in euros. European corporate bonds also recorded a negative return (-1.3%), while the European government bond index reached 1%. The greatest decline was recorded in German stock, followed by Japanese and US stock. In 2018, Slovenian stock lost only 0.2% on average and ended the year close to the baseline.

The return rates of the Guaranteed Sub-Fund, Capital Mutual Pension Fund and Guaranteed Civil Servants Pension Sub-Fund in 2018 were negative and did not achieve the guaranteed level. As a result, the Company established provisions of over half a million euros, guaranteeing net asset value of persons insured at least equal to the guaranteed amount. The returns of the funds pursuing the policy of guaranteed return were within the average of competitive pension funds. Funds with a riskier investment policy managed by the Company also achieved negative returns, but performed better than the average competition.

According to strategic policies, the Company in 2018 continued to strengthen its focus on the customer, monitored customers' needs, and provided personalised treatment and appropriate advice, while raising the awareness of the general public. In renovating communication, devising the renewal of the Modra identity and the comprehensive redesign of Modri e-račun and the website, we drew from our experience and knowledge about the needs of our customers.

In 2018, Modra zavarovalnica carried out all activities to ensure compliance with the regulation on the protection of individuals with regard to the processing of personal data and on the free movement of such data. Access to personal data is therefore permitted only to authorised employees and contractors to the extent necessary for the smooth running of work processes, the provision of insurance services, and the fulfilment of rights and obligations arising from concluded contractual relationships.

An important activity in the period concerned was the implementation of the new accounting standard, IFRS 9, which addressed the measurement of financial instruments. Upon transition to the new standard, the Company recorded an increase in retained earnings in the amount of just under EUR 1 million, in particular due to the elimination of permanent impairments from previous years.

The long-term development guidelines of the Company have been significantly upgraded in its Strategic Business Plan for the period 2019-2021. The security of customers' funds remains an important development guideline, while in the coming period, the Company will start expanding its range of products and sales channels, as well as the digital transformation of operations.

In asset management, 2019 is expected to be a challenging year as a result of continuing low interest rates and relatively highly evaluated risk investment grades. Therefore, we will also seek opportunities in new investment grades. Provided there is no significant turmoil in the financial markets in 2019, we plan to record a positive return on the financial assets of the Company, achieve the guaranteed return of pension funds pursuing the guaranteed rate investment policy, and exceed the average return of competitive funds with moderate and aggressive investment policies.

  
Boštjan Vovk,  
MEMBER OF THE  
MANAGEMENT BOARD

  
Mag Matija Debelak,  
MEMBER OF THE  
MANAGEMENT BOARD

  
Borut Jamnik,  
CHAIRMAN OF THE  
MANAGEMENT BOARD



# Company profile

## General information

**Name:** Modra zavarovalnica, d. d.  
**Registered office:** Dunajska cesta 119, Ljubljana  
**Registration number:** 6031226  
**VAT ID number:** SI21026912  
**Number of employees:** 60 persons  
**Share capital:** EUR 152.2 million  
**Assets under management:** EUR 1.5 billion  
**Number of persons insured in the mutual pension fund (VPS):** 288,327  
**Number of pension annuity recipients:** 24,470

## 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 maintaining their lifestyle after retirement. We build long-term partnerships with all those who share the mission of the Company.

## Vision

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

## Ownership structure and information about capital

As at 31 December 2018, the sole shareholder of Modra zavarovalnica d.d. is Kapitalska družba d.d.

The share capital of the Company amounts to EUR 152,200,000 and is divided into 152,200,000 ordinary registered no par value shares. Each share represents

an equal stake and an 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 2 of Article 7 of ZZavar-1.

The activities of Modra zavarovalnica are laid down by the law and its 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.

## Bodies of the Company

### Management Board

Pursuant to the Company's Articles of Association, the Management Board comprises three members. In 2018, Modra zavarovalnica was run by the Management Board composed of:

- **Borut Jamnik**, Chairman of the Management Board, 5-year term of office starting on 29 August 2016,
- **Mag Matija Debelak**, Member of the Management Board, 5-year term of office starting on 14 September 2016,
- **Boštjan Vovk**, Member of the Management Board, 4-year term of office starting on 1 October 2018.

The Management Board runs the Company in the best interests 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 a member of the Management Board together, or both members of the Management Board together. The Company's Articles of Association lay down the transactions and decisions that are subject to approval by the Supervisory Board.

In 2018, the Management Board executed its competences in line with the Management Board's 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. Kapitalska družba, d.d., proposes three members of the Supervisory Board, according to the procedure and in the manner defined by the general acts of the Company. Half the Supervisory Board members were proposed by insured persons, based on a public call to submit their candidate proposals. Two members were proposed by the board of the Life-

Cycle Pension Fund for Public Servants on behalf of the persons insured in it, while the third member was proposed by the boards of the Capital Mutual Pension Fund and the Life-Cycle Pension Fund on behalf of other insured persons.

In 2018, the Supervisory Board comprised the following members:

- **Branimir Štrukelj**, Member of the Supervisory Board from 9 December 2016, was Chairman of the Supervisory Board from 22 December 2017 to 22 December 2018 and Deputy Chair of the Supervisory Board as of 23 December 2018,
- **Natalija Stošički**, Member of the Supervisory Board from 9 December 2016, was Deputy Chair of the Supervisory Board from 22 December 2017 to 22 December 2018 and Chair of the Supervisory Board as of 23 December 2018,
- **Goran Bizjak**, Member as of 9 December 2016,
- **Bojan Zupančič**, Member as of 9 December 2016,
- **Dr Janez Prašnikar**, Member as of 9 June 2017,
- **Dr Boris Žnidarič**, Member as of 9 June 2017.

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's Rules of Procedure. A detailed description of the activities and method of Supervisory Board operations in 2018 is provided in the Report of the Supervisory Board.

The Audit Committee of the Supervisory Board was active in 2018; its composition and work are presented in the Supervisory Board Report.

## General Meeting

Voting rights at the 2018 General Meeting of Shareholders were exercised by Kapitalska družba d.d. as the sole shareholder.

The business policy of Modra zavarovalnica is co-developed by insured persons or, rather, their representatives. Half the Supervisory Board members were proposed by insured persons.

# Report of the Supervisory Board

## Report of the Supervisory Board

Based on the provisions of Article 282 of the Companies Act ("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 the 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) ("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. Kapitalaska 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 December 2016, the following people were appointed as Supervisory Board members for a term of 4 years: Goranka Volf, Branimir Štrukelj, Natalija Stošički, Goran Bizjak and Bojan Zupančič. At the 9th General Meeting of the Company held on 9 June 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 100th regular meeting of the Supervisory Board held on 21 December 2017, Branimir Štrukelj was appointed Chairman of the Supervisory Board as of 23 December 2017, and Natalija Stošički was appointed Deputy Chair of the Supervisory Board, pursuant to the provisions of the Company's Articles of Association. At the 117th regular meeting of the Supervisory Board held on 18 December 2018, Natalija Stošički was appointed Chair of the Supervisory Board, and Branimir Štrukelj was appointed Deputy Chair of the Supervisory Board for the period from 23 December 2018 to 22 December 2019.

Over the course of the 2018 financial year, the Supervisory Board met at 16 meetings, 12 of them regular and 4 of them correspondence meetings. The members of the Supervisory Board acted independently when adopting decisions. The members attended meetings well prepared in regard to the topics discussed, put forth constructive proposals and remarks, and adopted decisions pursuant to their competences. The members of the Supervisory Board acted pursuant to the rules on professional secrecy and handling in case of conflict of interests. Supervision over the Company's operations was carried out in line with the powers and competences, as laid down by the Companies Act and Insurance Act ("ZZavar-1") 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 the life cycle fund Modri Umbrella Pension Fund (MKPS), with three Sub-Funds: 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 104th meeting held on 13 April 2018, the Supervisory Board confirmed the Annual Report of Modra zavarovalnica for the 2017 financial year, including the Auditor's 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 2017, 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 2017 and approved the payment of variable remuneration to the members of the Management Board.

In 2018, Supervisory Board members decided on the award of consent to the Management Board to amend and supplement the policies of the governance system, according to the Insurance Act, and gave consent to the acquisition of individual investments. The Supervisory Board regularly monitored the Company's operations, discussed quarterly reports on the Company's operations, and was kept informed of reports to the Insurance Supervision Agency based on the Insurance Act and Solvency II Directive. The Supervisory Board self-assessed its performance as a collegiate body and evaluated the efficiency of its work.

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 115th meeting held on 21 November 2018, the Supervisory Board gave its consent to the Business and Financial Plan of Modra zavarovalnica d.d. for 2019, and to the Action Plan of the Internal Audit Department for 2018.

The remuneration received by the members of the Management Board complies with the resolutions adopted by the General Meeting, and is accurately disclosed in the Annual Report of Modra zavarovalnica d.d., in chapter 3.10.3.6. Other disclosures.

### Work of the Audit Committee of the Supervisory Board

In 2018, a three-member Audit Committee, comprising Goran Bizjak (Chairman), Natalija Stošički (member), and Dragan Martinović (independent external auditor), constituted a permanent operational body of the Supervisory Board that thoroughly monitored the Company's operations and the work of the Management Board during the business year, so as to support the decision-making by the Supervisory Board. In 2018, the Audit Committee held 5 meetings. In exercising its tasks, it observed the recommendations of the Slovenian Directors' Association for audit committees and of the Slovenian Institute of Auditors, as well as the Rules of Procedure of 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 2017.

Furthermore, it reviewed the Company's Annual Report and the Auditor's Report provided by the external auditor, and discussed the annual reports of the mutual pension funds managed by the Company, the annual Action Plan of the Internal Audit Department, and the Business and Financial Plan of Modra zavarovalnica d.d. for 2018, to which the Supervisory Board gave its consent.

The Audit Committee monitored the autonomy of the auditor of the Annual Report.

During the meetings of the Supervisory Board, the Audit Committee regularly reported about its work.



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

Based on the above-mentioned regular monitoring and supervision of the operations and management of Kapitalska družba d.d. over the course of the financial year, and based on the review of the Annual Report, which was drawn up and submitted by the Management Board, the Supervisory Board hereby assesses that the Annual Report and the disclosures contained therein give a true and fair view of the status and position of the Company. The Supervisory Board estimates that the Company's Management Board managed the Company's operations in 2018 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 the members of the Supervisory Board. The Management Board's reports to the Supervisory Board in 2018 allowed the latter to perform its supervisory function appropriately.

#### **b) Position of the Supervisory Board regarding the Auditor's 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 2018, which was performed by Deloitte revizija d.o.o. from Ljubljana. The Supervisory Board finds that the auditor has performed its assignment 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) Resolution approving the 2018 Annual Report**

Pursuant to Article 282 of the Companies Act, the Supervisory Board hereby approves the 2018 Annual Report of Modra zavarovalnica.

#### **d) Position of the Supervisory Board on the Auditor's 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 results of the audit of the report on relations with associated companies, 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 relations with associated companies for 2018**

Based on the provisions of Article 546.a of the Companies Act, the Supervisory Board reviewed the report on relations with associated companies for 2018, and has no comment on the management's statement in the report on relations with associated companies for 2018.

#### **f) Proposal for the General Meeting to grant a discharge from liability to the Management Board and Supervisory Board**

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 adopts a resolution to grant a discharge to the Management Board and Supervisory Board of the Company for the work performed in the 2018 financial year, namely:

To the members of the Management Board:

- Borut Jamnik, for the period between 1 January 2018 and 31 December 2018,

- mag. Matija Debelak, for the period between 1 January 2018 and 31 December 2018,
- Boštjan Vovk for the period between 1 October 2018 and 31 December 2018.

To the members of Supervisory Board:

- Branimir Štrukelj, for the period between 1 January 2018 and 31 December 2018,
- Natalija Stošički, for the period between 1 January 2018 and 31 December 2018,
- Bojan Zupančič, for the period between 1 January 2018 and 31 December 2018,
- Goran Bizjak, for the period between 1 January 2018 and 31 December 2018,
- Prof. Dr. Janez Prašnikar, for the period between 1 January 2018 and 31 December 2018,
- Dr. Boris Žnidarič, for the period between 1 January 2018 and 31 December 2018.

Bachtiar Djalil  
Chairman of the Supervisory Board

Ljubljana, 19 April 2019

# Business Report

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# Business environment

## Economic environment in Slovenia

In 2018, gross domestic product increased nominally by 4.5% and amounted to EUR 45,948 million in current prices. Growth in the fourth quarter of 2018 was 4.1% compared to the fourth quarter of 2017. In 2018, growth in gross domestic product was to an even greater extent than in 2017, caused by domestic consumption, which rose by 4.6% – the highest rise since 2007. Foreign trade and investments, which increased by 10.6% in 2018, also significantly contributed to the growth of gross domestic product.

In 2018, consumer-price inflation equalled 1.7%, while the average annual inflation rate was also 1.7%. In 2017, the annual inflation rate amounted to 1.7% and the average stood at -1.4%.

The registered unemployment rate was 8.1% in December 2018 and fell by 0.9 percentage points compared to that at the end of 2017. The average

monthly gross wage in 2018 amounted to EUR 1,682 and in nominal and real terms exceeded the 2017 figure by 3.4% and 1.7% respectively.

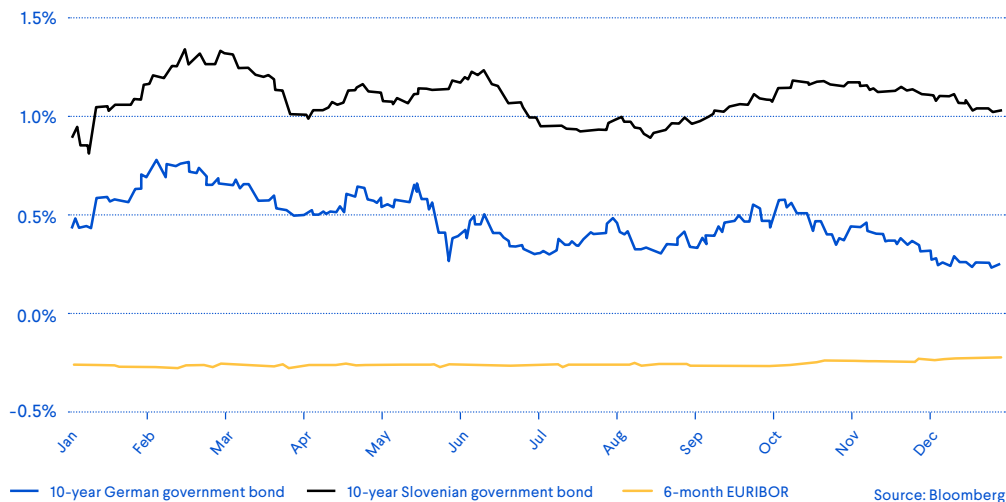
## Trends on financial markets

### Money market

The interbank reference rate in the euro area, the 6-month EURIBOR, started 2018 at -0.271% and grew to -0.237% by the end of the year. The changes in interbank interest rates were most significantly affected by the European Central Bank, the expectations regarding the end of quantitative easing and the increase in interest rates in the future.

The yield of the German 10-year government bond decreased in 2018. At the beginning of the year, it equalled 0.427% and reached 0.242% at the end of the year. The changes in the required yield of German government bonds were largely related to the

**Figure 1:** Changes in yield to maturity (YTM) of the 10-year German government bond, the Slovenian government bond and 6-month EURIBOR in 2018 (in %)



expectations regarding further actions taken by ECB and the investor demand for low-risk investments. In 2018, the yield of the Slovenian 10-year government bond rose from 0.886% to 1.019%.

### Foreign exchange rate

In 2018, the US dollar appreciated by 4.5% compared to the euro. At the end of 2017, the exchange rate stood at 1.2005 US dollars to 1 euro and at the end of 2018, it equalled 1.1467 US dollars to 1 euro. The US dollar was heavily affected by the policy of both central banks in 2018. The US Federal Reserve increased the key interest rate four times in 2018, whereas the European Central Bank announced a halt to quantitative easing at the end of 2018.

### Equity market

In 2018, the world stock index decreased by 4.2%, measured in euros. On average, American stocks depreciated the least, followed by Japanese and German stocks. American stocks lost 0.9%, whereas

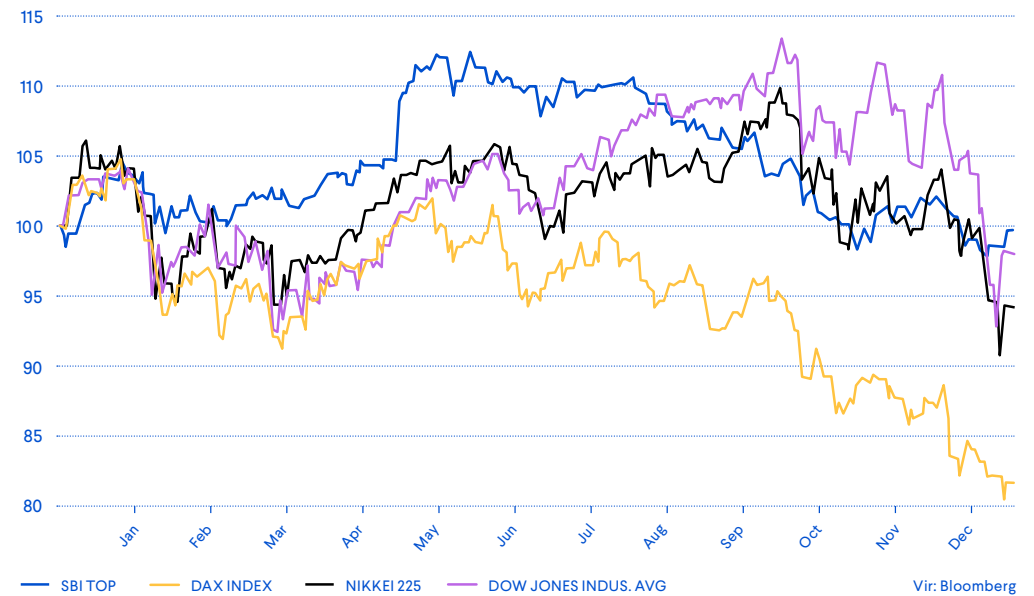
Japanese and German stocks lost 5.5% and 18.2% respectively. In 2018, Slovenian stock lost only 0.2% on average and ended the year close to the baseline.

### Debt market

The European government bond index (IBOXX EUR Sovereigns TR index) gained 1% in 2018. The modest index growth shows that the required yield of European government bonds increased. The main reason was the expected end of quantitative easing by the European Central Bank and the slow normalisation of the interest rates. The European corporate bond index (IBOXX EUR Corporates TR index) lost 1.3% in value in 2018. The negative yield indicates the increase in credit spreads in 2018, which is in line with the drop in investor demand for riskier investments.

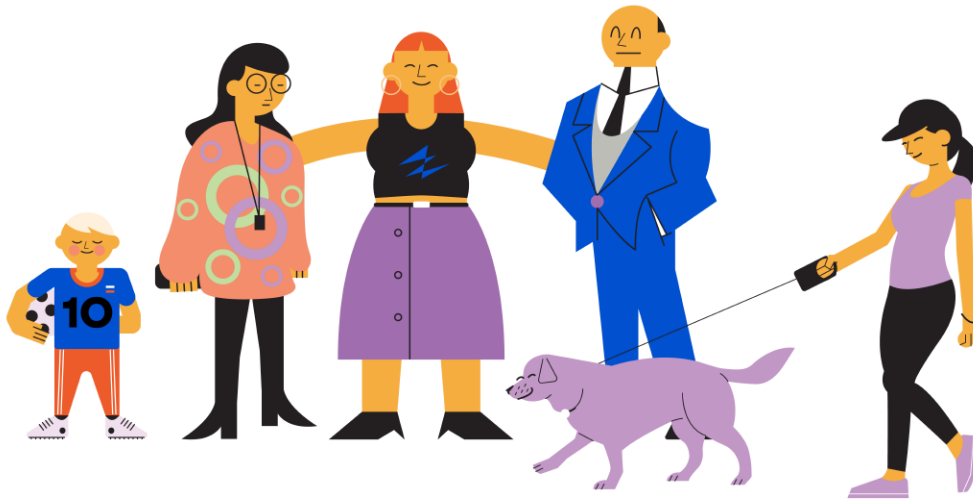
In 2018, Slovenian government bonds depreciated as a result of a slightly higher credit spread with respect to the reference German government bond, in particular owing to the market situation and investors' aversion to country risk.

**Figure 2:** Changes in the Slovenian SBI TOP stock index and certain foreign stock indexes in 2018, measured in euros (index: 31/12/2017 = 100)



# Operations in 2018

## Financial result and financial position



In 2018 we again ensured that Modra zavarovalnica remained the largest pension insurance company.

We enjoy the trust of 47% of all Slovenians saving for their future, i.e.

# 288 thousand savers.

In 2018, Modra zavarovalnica generated EUR 52.8 million in premium income and other technical income. Most of this income is revenues from annuity insurance premiums, while the remainder is revenues from the management of mutual pension and guarantee funds. The premiums paid in the mutual pension funds managed by Modra zavarovalnica reached EUR 98.5 million in the relevant period, not taking into account transfers between funds or sub-funds, and increased by 74% compared to 2017.

In 2018, expenses for claims including expenses arising from the annuities paid reached EUR 20.4 million, while other technical charges amounted to EUR 3.7 million. Changes in technical provisions imply an expense due to increased mathematical provisions deriving from the pension annuity insurance sold in 2018. 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 EUR 11.4 million in 2018. Profit or loss from investments as recognised in equity was negative in the year concerned due to demanding conditions in the securities market.

Table 1: Financial result of Modra zavarovalnica

in EUR

Item	2018	2017
Income from premiums and other technical income	52,816,647	38,987,104
Expenses for claims and other technical charges	-24,140,550	-19,296,886
Change in technical provisions	-26,668,900	-18,930,499
Operating costs	-6,588,033	-6,072,926
Operating profit or loss	-4,580,835	-5,313,208
Profit or loss from investment activities recognised in the income statement	11,448,601	14,134,237
Other net income	113,903	88,918
Profit or loss before tax	6,981,669	8,909,948
Income tax	-631,770	-1,129,926
<b>Net profit or loss</b>	<b>6,349,899</b>	<b>7,780,022</b>
Profit or loss recognised in equity	-13,266,796	13,233,982
<b>Total comprehensive income</b>	<b>-6,916,897</b>	<b>21,014,004</b>

Table 2: Financial position of Modra zavarovalnica

in EUR

Item	31/12/2018	31/12/2017
Financial assets	453,476,989	434,055,809
Other assets	6,593,576	4,964,507
<b>Total assets</b>	<b>460,070,564</b>	<b>439,020,316</b>
Technical provisions	190,028,069	163,339,222
Other provisions	16,174,284	14,251,613
Other liabilities	18,095,594	17,389,980
Equity	235,772,618	244,039,501
<b>Total equity and liabilities</b>	<b>460,070,564</b>	<b>439,020,316</b>
Off-balance sheet items	1,059,016,535	1,003,223,920

The largest share of Modra zavarovalnica assets are financial assets, which reached EUR 453.5 million at the end of 2018, while technical provisions for annuity insurance account for the largest share of liabilities. The bulk of off-balance sheet items is the sum total of the assets of the mutual pension funds managed by Modra zavarovalnica. The Company's solvency position is presented in detail in the chapter dealing with risk management.

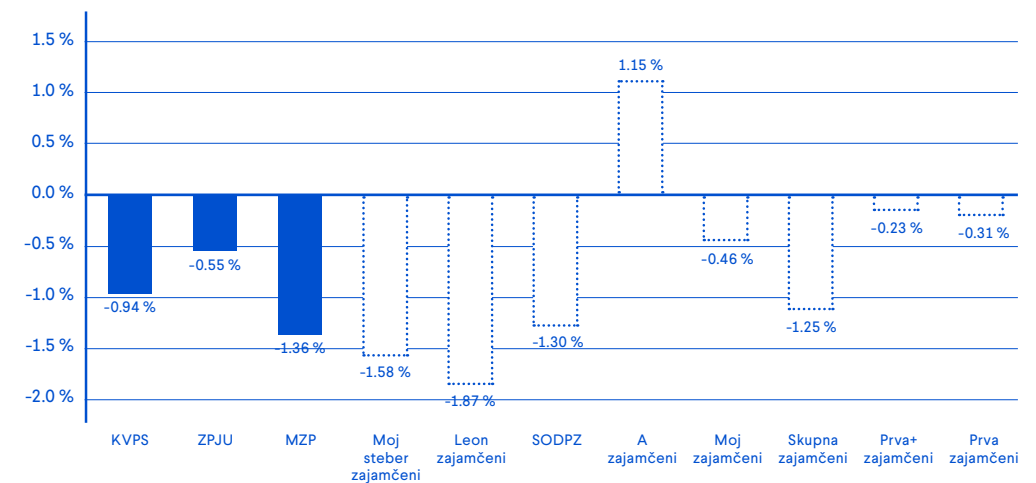
## Management of mutual pension funds

### Market and competition

Supplementary pension insurance is marketed by nine providers in 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 KVPS 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 return rates of the pension funds implementing the guaranteed rate investment policy were on average negative in 2018 and, with one exception, did not achieve the guaranteed rate of return. The reason for the mostly negative returns was the drop in share prices, which in 2018, measured in euros, averaged 4.2%. In addition to shares, European corporate bonds also recorded a negative return (-1.3%), while the European government bond generated a return of 1%. In such an environment, best performance was seen in funds with a higher share of bonds valued at amortised cost when compared to the competition. The returns of the funds pursuing the policy of guaranteed return, managed by Modra zavarovalnica, were negative and within the average of competitive pension funds.

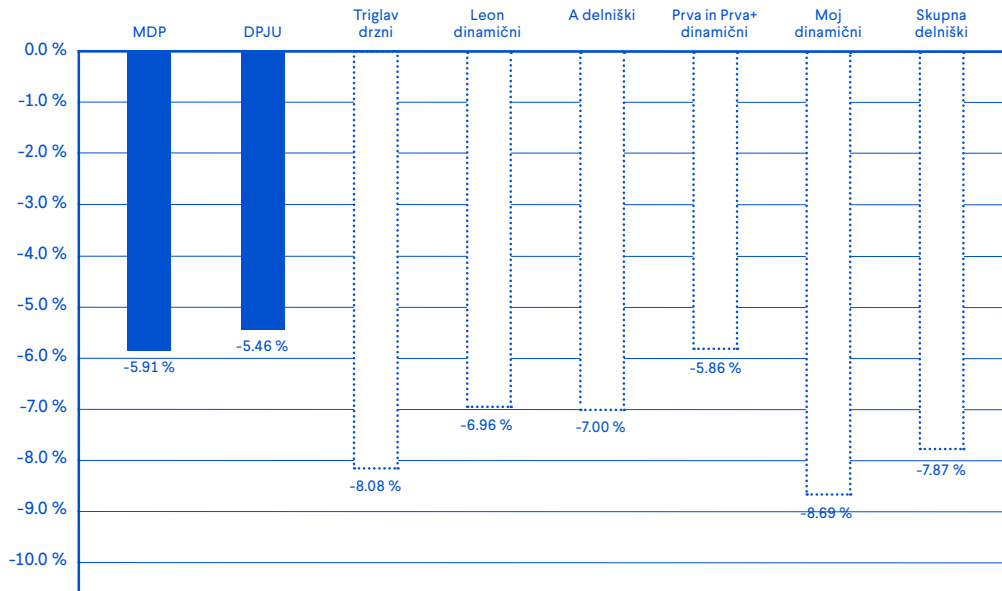
Figure 3: A comparison of 12-month return rates of domestic pension funds pursuing the guaranteed rate investment policy



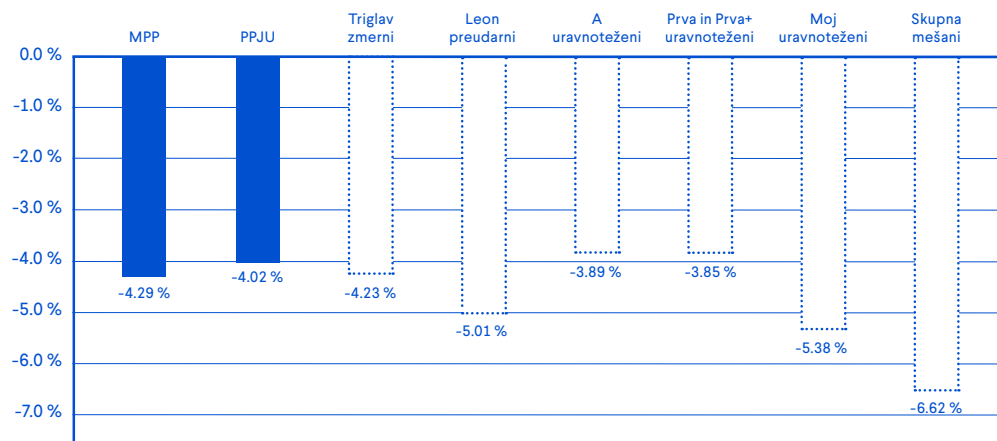


The return of funds pursuing a balanced or moderate-risk and dynamic or high-risk investment policy was even lower owing to the higher portion of equity investments. Funds with a higher risk investment policy managed by the Company also achieved negative returns, but performed better than the average competition.

**Figure 4:** A comparison of 12-month return rates of domestic pension funds pursuing the dynamic investment policy



**Figure 5:** A comparison of 12-month return rates of domestic pension funds pursuing the balanced investment policy



## 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 2018, over 288 thousand individuals saved in its mutual pension funds and the assets collected totalled nearly EUR 1.06 billion. Total supplementary pension insurance premium paid in, not taking into account asset transfers between the KVPS and MKPS funds, reached EUR 98.5 million in 2018.

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

- **Civil Servants Life-Cycle Fund (KPSJU),**
- **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 31/12/2018

Fund	No. of members/ persons insured	No. of employers/ premium payers	Amount of assets under management in EUR million
KVPS	24,878	178	176.8
KPSJU	228,741	1,866	786.0
MKPS	14,992	204	75.5
PPS	19,716	0	19.1
<b>Total</b>	<b>288,327</b>	<b>2,248</b>	<b>1,057.4</b>

Pursuant to Article 313 of ZPIZ-2, Modra zavarovalnica is, in the event that 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 2018, Modra zavarovalnica disclosed provisions for failing to achieve the guaranteed return rate of mutual pension funds amounting to EUR 9,888,253, whereby the amount of EUR 9,328,406 refers to the PPS fund.

## Civil Servants Life-Cycle Fund

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

- **Dynamic Civil Servants Sub-fund (DPJU)**, intended for the youngest savers aged up to 50;
- **Prudent Civil Servants Sub-Fund (PPJU)**, intended for middle-aged savers aged between 50 and 60;
- **Guaranteed Civil Servants Sub-Fund (ZPJU)**, intended for the oldest savers aged over 60.

The Civil Servants Life-Cycle Fund (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 into the fund by employers, premiums can also be paid in by public servants themselves, thus ensuring a higher supplementary pension and allowing them to claim tax benefit.

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 2018, 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.

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 2018, 228,741 members were included in it, with their assets amounting to EUR 786 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, claims 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 enrolment, and in case of disbursement to beneficiaries/heirs in case of death.

## 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 have been two separate pension schemes for individual and collective voluntary supplementary 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 2018, 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 2018. Exit fees are calculated as a percentage of the paid-out surrender value of assets and amounted to 1% in 2018.

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 through payments made by the employer by 31 December 2012, when 10 years have passed since taking up insurance.

The assets collected from our savers in 2018 amounted

**€1.06 billion.**

## 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 enrolment in the fund have not been possible. Since August 2004, the assets collected by all members aged 60 or over, 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 surrender 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 2018, and to exit fees charged as a percentage of the surrender value of assets paid out to heirs.

## 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 (MDP)** is intended for young members aged up to 50 and pursues a more risky investment policy;
- **Prudent Sub-Fund (MPP)** is intended for members aged between 50 and 60;
- **Guaranteed Sub-Fund (MZP)** 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 2018, 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 through payments made by the employer by 31 December 2012, when 10 years have passed since taking up insurance.

## Financial assets of Modra zavarovalnica

The financial assets of Modra zavarovalnica include the assets of guarantee funds and the Company's own assets under the following items of the statement of financial position:

- **Investments in the Group companies and associates** (item F.);
- **Investments** (item G.b);
- **Cash and cash equivalents** (item M.).

The financial assets of Modra zavarovalnica increased in 2018, despite the aforementioned drop in securities prices. The source of the increase in the value of assets was the payment of KS MR II premiums and the related formation of technical provisions.

Table 4: Financial assets of Modra zavarovalnica as at 31/12/2018

in EUR

Financial asset	Own financial assets	Financial assets KS PPS	Financial assets KS MR	Financial assets KS MR II	Total
Investments in the Group companies and associates	34,459,173	0	0	0	34,459,173
Investments	222,695,218	100,374,539	19,599,228	72,683,833	415,352,818
Cash and cash equivalents	1,743,833	609,119	449,613	862,432	3,664,997
<b>Total</b>	<b>258,898,224</b>	<b>100,983,658</b>	<b>20,048,841</b>	<b>73,546,266</b>	<b>453,476,989</b>

## 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 2018 managed three guarantee funds for the disbursement of pension annuities, which are managed separately:

- **The Modra Renta guarantee fund (KS MR)**, which collected insurance premiums between December 2011 and December 2015;
- **The Modra Renta II guarantee fund (KS MR II)**, 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 (KS PPS)**, 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 2018, Modra zavarovalnica paid a sum of EUR 20.4 million for supplementary pensions to 24,470 insured persons. Pension annuity deriving from supplementary pension insurance ("Modra Renta" and "Modra Renta II" annuities) was received by 14,144 insured persons, while 10,326 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 2018	Assets under management (in EUR million)	Expenses for annuities (in EUR million)
KS MR	7,215	20.5	5.4
KS MR II	6,929	76.9	8.3
KS PPS	10,326	101.3	6.7
<b>Total</b>	<b>24,470</b>	<b>198.7</b>	<b>20.4</b>

### The Modra Renta guarantee fund

KS MR represents separate assets that are intended for the disbursement of pension annuities deriving from voluntary 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 had been 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.

As at 31 December 2018, 44% of KS MR assets were invested in investments in the Republic of Slovenia, while 56% of all assets were invested in investments by foreign issuers.

In 2018, an increase was seen in both the number of mutual pension fund members and annuity recipients.

Table 6: Structure of assets in KS MR as at 31/12/2018

Asset	Amount
Bonds	16,490,851
Investment receivables	702,749
Treasury bills	198,986
Commercial paper	1,483,119
Investment coupons	723,522
Cash	449,613
Other receivables	472,155
<b>Total</b>	<b>20,520,995</b>

### 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 one's life. It may be disbursed monthly, quarterly, semi-annually or annually, whereby the period of disbursement depends on the amount of funds collected. An individual disbursement may not be lower than EUR 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 funds collected. An individual disbursement may not be lower than EUR 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 disbursed in the selected guaranteed period of disbursement, after which an amount not lower than EUR 30 is disbursed monthly (quarterly, semi-annually or annually) until the end of one's 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 1 January 2016, when KS MR II started operating, until 31 December 2018, the right to supplementary old-age pension was exercised by 8,849 members with collected funds amounting to EUR 88,653,474, who decided to receive the selected monthly pension annuity. Most insured persons opted for accelerated disbursement of annuities.

**Tabela 7:** Number of members and amount of payments in KS MR II in 2018

<b>Pension fund</b>	<b>No. of members/ persons insured</b>	<b>Surrender value of funds (in EUR thousand)</b>
KVPS	369	4,228
KPSJU	2,980	22,954
MKPS	142	765
Pension funds by other managers	687	15,589
<b>Total</b>	<b>4,178</b>	<b>43,536</b>

The amount of one's pension annuity depends on the supplementary pension insurance funds 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 61 years, and 55% of all annuity recipients are female.

As at 31 December 2018, KS MR II recorded 6,929 insurance policies, with the average collected funds per insured person amounting to EUR 11,465.

In 2018, insured persons who had a valid policy with a balance of mathematical provisions as at 31 December 2017 were attributed a profit of EUR 50,235 as a permanent increase in pension annuity. The disbursement of increased pension annuities was executed in April 2018, together with an account of all pension annuities already disbursed in 2018.

As at 31 December 2018, 29% of KS MR II assets were invested in investments in the Republic of Slovenia, while 71% of all assets were invested in investments by foreign issuers.

**Table 8:** Structure of assets in KS MR II as at 31/12/2018

<b>Asset</b>	<b>Amount</b>
Bonds	40,365,142
Deposits	2,899,955
Investment receivables	2,468,735
Commercial paper	2,841,027
Treasury bills	696,451
Investment coupons	23,412,523
Cash	862,432
Other receivables	3,399,844
<b>Total</b>	<b>76,946,110</b>

## 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 2018, the surplus return amounting to EUR 2,148,008 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 2017 received higher annuities in April. The disbursement of increased annuities made in April also included a settlement for the period between January and April 2018.

In 2018, the right to a pension annuity was acquired by 1,216 insured persons aged 60 who paid in a total of EUR 2,902,890 in KS PPS for their supplementary pensions.



Table 9: Structure of assets in KS PPS as at 31/12/2018

in EUR

Asset	Amount
Shares	19,519,876
Bonds	71,632,696
Commercial papers	691,193
Deposits	2,303,782
Investment coupons	6,226,993
Cash	609,119
Other receivables	345,640
<b>Total</b>	<b>101,329,298</b>

As at 31 December 2018, 51% of KS PPS assets were invested in investments in the Republic of Slovenia, while 49% of all assets were invested in investments by foreign issuers.

Own financial assets of Modra zavarovalnica amounted to  
**€259 million**  
 at the end of 2018.

## Management of own financial assets

The Company's own financial assets amounted to EUR 258,898,224 at the end of 2018. 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 10: The structure of own financial assets of Modra zavarovalnica as at 31/12/2018

in EUR

Financial asset	Amount
Portfolio equity investments	142,185,622
Non-portfolio equity investments	45,387,734
Portfolio of investments in debt securities	69,581,036
Cash	1,743,833
<b>Total</b>	<b>258,898,224</b>

### Portfolio equity investments

The portfolio of equity securities roughly track the composition of the world stock index. This ensures high diversification of investments and cost-effective management. The majority of the diversification has been achieved by investing in funds that track benchmark indexes, while active deviation from the benchmark is achieved through direct investments in individual shares.

Table 11: Composition of equity portfolio investments as at 31/12/2018

in EUR

Investment	Amount
<b>Shares</b>	<b>27,796,734</b>
Foreign shares	27,796,734
<b>Investment funds</b>	<b>114,388,888</b>
Domestic investment funds	4,293,519
Foreign investment funds	110,095,369
<b>Total</b>	<b>142,185,622</b>

At the end of December 2018, the portfolio was most exposed to the IT sector, followed by finance and healthcare. As regards exposure to foreign exchange risk, the portfolio's greatest exposure was to the US dollar and the euro. More than half of the mentioned portfolio is invested in equity investments by North American issuers and nearly a third in investments by European issuers. The remainder is accounted for by investments in issuers from developed Asian countries and issuers from developing economies.

### Non-portfolio equity investments

As at 31 December 2018, Modra zavarovalnica owned shares and interest in Cinkarna Celje, d.d., Pozavarovalnica Sava, d.d., and Hotelske nepremičnine, d.o.o. Owing to the size of equity interest, these investments require a more active method of management. The total value of these investments at the end of 2018 amounted to EUR 45,387,734.

### Financial investments in debt securities

At the end of 2018, the balance of investments in debt securities amounted to EUR 69,581,036. The largest share of investments in debt securities was taken up by corporate bonds, followed by government bonds and deposits.

The value of the government bond portfolio of Modra zavarovalnica amounted to EUR 26,487,242 as at 31 December 2018. The portfolio mostly comprises government bonds of countries within the euro area. At the end of 2018, the share of domestic issuers amounted to 53% and the share of foreign issuers to 47%. Most bonds are denominated in euros, and a minor portion in US dollars.

The largest investment is in bonds of the Republic of Slovenia. Almost half of the bonds have a maturity of 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 EUR 34,634,979 at the end of 2018. The share of domestic issuers accounted for 10% and that of foreign issuers by 90%. All bonds are denominated in euros. The majority of the bonds have a fixed coupon interest rate. Most issuers of corporate bonds at the end of 2018 were from the sectors of finance, energy and public services.

### Investments in cash and cash equivalents

At the end of 2018, Modra zavarovalnica disclosed EUR 1,743,833 of its own cash and cash equivalents.

Table 12: Structure of investments in debt securities as at 31/12/2018

Investment	Amount
<b>Bonds</b>	61,122,221
Government bonds	26,487,242
Domestic government bonds	13,965,674
Foreign government bonds	12,521,568
Corporate bonds	34,634,979
Domestic corporate bonds	3,507,583
Foreign corporate bonds	31,127,396
<b>Deposits</b>	7,089,582
<b>Investment receivables</b>	1,021,008
<b>Treasury bills</b>	348,226
<b>Total</b>	<b>69,581,036</b>

Assets under management  
at the end of 2018 exceeded

**€1.5 billion.**

# Marketing

According to strategic policies, the Company in 2018 continued to strengthen its focus on the customer, monitored the customer's needs, and provided personalised treatment and appropriate advice, while raising the awareness of the general public. The growth in market share depends to a large extent on the effective adaptation of the service and product range to the needs of individuals and businesses, personal treatment and open communication. We thus investigated the needs of savers from the moment they start contemplating saving for a pension until the last paid annuity, and analysed the trends related to improving the user experience.

The collected findings were taken into account in renewal of communication and devising the renewed identity of Modra zavarovalnica, as well as the comprehensive redesign of Modri e-račun and the website. The renewed e.Modra website is becoming the most important information point for existing savers; an effective tool for two-way communication and e-management of all events throughout the customer life cycle. Without visiting the branch, savers can monitor their savings and make a number of changes (switching to another sub-fund, adjusting the payment amount, arranging payment method, determining the beneficiaries in case of death). By redesigning the website we have introduced an important sales channel where the need to save through supplementary pension insurance is presented in simple and understandable terms and which positioned Modra zavarovalnica as a specialist for saving, increased the level of understanding of this form of saving, and optimised work processes in our contact centre.

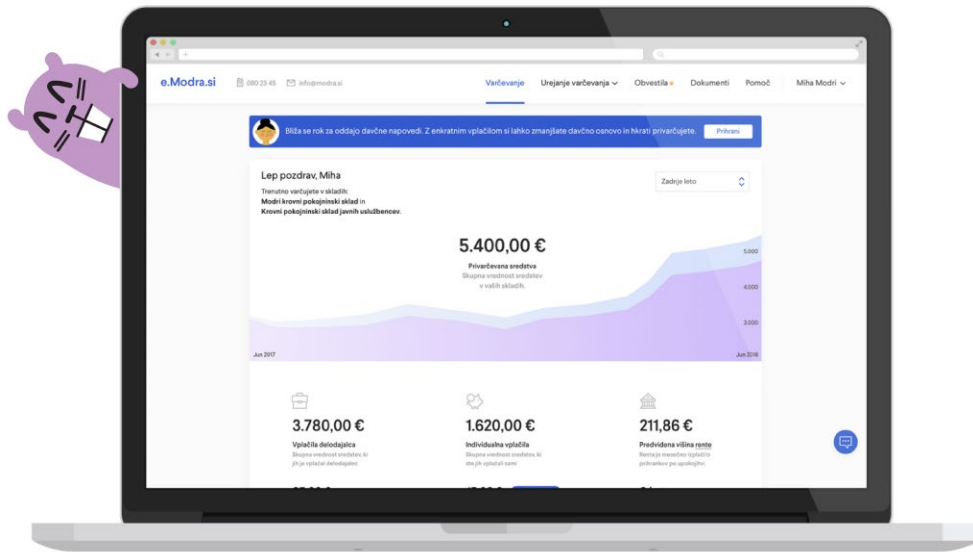
The results of visibility measurement indicate that the share of individuals unfamiliar with the activities of Modra zavarovalnica is still too high. We started redesigning the brand and its identity, while regular communication activities concentrated on building the visibility of Modra zavarovalnica as the leading provider of savings in the form of supplementary pension insurance. To ensure continuous presence

in the press, answers and comments were provided to journalists' questions, PR and news articles were published on the topic of supplementary pension saving, and new features and current events were announced. Advertising activities focused on online advertising and regular PPC advertising, advertising in specialised monthlies, moderation of a thematic forum on the topic of pension insurance at Med. Over.Net and sponsorship of three major events: the Slovenian Human Resources Congress, the Headmasters Day, and Accountant Days 2018.

We noted an increased interest in supplementary pension savings, while the benefits of life-cycle funds are still not sufficiently known to savers. Those who have been saving for a long time have to decide for themselves to switch to a sub-fund appropriate for their age. Thus, more than half of them are still included in the guarantee sub-funds, despite the fact that, depending on their age, they could afford riskier and thus more profitable investments. Therefore, we conducted presentations for both public sector and corporate sector employees throughout the year to provide information about the benefits of the life-cycle investment policy.

By effectively monitoring and managing customer satisfaction, we pursue the strategy of providing the best user experience. We also supported customer focus by developing an information solution that monitors the response and satisfaction of the customer in real time, and enables us to respond promptly and improve contact with the customer in the future. The results of a direct measurement of satisfaction show a high level of satisfaction of our policyholders. Last year, the sales team successfully completed the programme of the Sales and Communication Excellence Academy, in order to maintain the highest level of customer service in the future.

In all activities, we respect the importance of the security of personal data and we handle personal data carefully and responsibly. Communication



# e.Modra.si

A new online point for savers where they can monitor their savings and make many changes without visiting a branch office.

activities also addressed the entry into force of the Regulation on the protection of individuals with regard to the processing of personal data (GDPR), by providing information on the amendment of the provisions on the protection of personal data and obtaining consent for the processing of personal data in cases where there is no basis, i.e. where such processing is not strictly necessary for the implementation of the contractual relationship with the Company. We systematically keep all required records of processing activities, maintain a catalogue of contractors, carry out impact assessments and carefully identify the risks of potential violation of individuals' rights. We also raise employee awareness through education, drafting opinions and answers, and monitoring good practices.

We completed the year 2018 with the traditional marketing campaign "No entry fees" and achieved a remarkable result. Individual premium payment rose by 22% over 2017. The good result of the marketing campaign reflects the numerous activities carried out in the field, the development of improved digital solutions, as well as other activities conducted throughout the year. The upgraded digital support for the campaign serves as a one-stop shop for the users of Modri e-račun, providing crucial data about the campaign, a personalised tax benefit calculation with a customised savings computation, a printout of all the payment details and a selection of the payment method.



In 2018, a remarkable result was achieved by the "No entry fees" marketing campaign. Individual premium payment rose

**by 22%** over 2017.

# Risk management



We manage risks so that at any given moment we can

# fulfil our obligations.

Fast adjustment to market conditions calls for a maximally efficient risk management, which is a prerequisite for the successful performance of the Company. 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, Modra zavarovalnica primarily takes into account legal regulations but also governs the area in detail through its internal acts.

Modra zavarovalnica operates so that:

- it has, at any time, adequate capital with regard to both the volume and type of insurance operations performed, and the risks to which it is exposed in performing those operations (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).

Modra zavarovalnica 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

According to its assessment, Modra zavarovalnica has at its disposal a sufficient volume of its own assets with respect to its total need for capital.

Table 13: Capital adequacy pursuant to the requirements of ZZavar-1 or Solvency II Directive

in EUR

Item	31/12/2018	31/12/2017
Total capital need	122,828,076	125,268,016
Available eligible own funds	252,222,122	265,689,982
Surplus (+)/deficit (-) of available own funds (in EUR)	129,394,046	140,421,966
<b>Eligible own funds to total capital need ratio</b>	<b>205%</b>	<b>212%</b>

The annual data on the solvency position as at 31 December 2018 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 constitutes 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 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 (analysis of counter 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 adopted internal restrictions. The Company's portfolio of debt securities includes 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 in the past year.

## The risk of security price changing

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 in the Slovenian capital market. 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 (VaR), 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, Modra zavarovalnica is also exposed to currency risk.

Modra zavarovalnica manages its currency risk by matching financial assets with liabilities in terms of currency, pursuant to ZZavar-1. The amount of receivables exposed to currency risk is low. In 2018, the Company used no derivatives to protect itself against currency risk.

## Interest rate risk

Modra zavarovalnica se z nalaganjem sredstev By investing assets in debt securities and deposits, Modra zavarovalnica 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. In 2018, the share of debt investments valued at amortised cost rose from 56% to 70%. This measure resulted in reduced interest rate risk of debt securities.

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 at amortised cost. In the past year, Modra zavarovalnica used no derivatives for hedging against interest rate risk.

## Liquidity risk

Modra zavarovalnica manages its assets and liabilities in a manner that allows it to settle all due liabilities at any given moment. It formulates 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, the majority of the Company's investments in domestic equity and debt securities continue to entail liquidity risk. The Company reduces its liquidity risk arising from investments abroad by investing only in highly liquid securities. Furthermore, it limits the liquidity risk by planning and monitoring the portfolio's cash flows on a daily basis and investing a limited portion of assets in highly liquid money market instruments.

## Operational risk

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

Modra zavarovalnica has in place the Internal Audit Department, paying special attention to verifying the internal control system and making proposals for its improvement.

## Other risks

When investing the assets of mutual pension funds and annuity funds, Modra zavarovalnica complies with the provisions of the Insurance Act.

In PPS, the bulk of the portfolio is represented by investments received by PPS on a legal basis, which are, to a certain extent, less suitable for a pension fund, both with regard to the type of permitted investments and restrictions on individual investment grades. On 31 December 2018, two investments exceeded the statutory limit of exposure to an individual issuer due to revaluation, both in PPS and KS PPS, of which Modra zavarovalnica also informed the Insurance Supervision Agency by letter.

# Information technology

## IT system

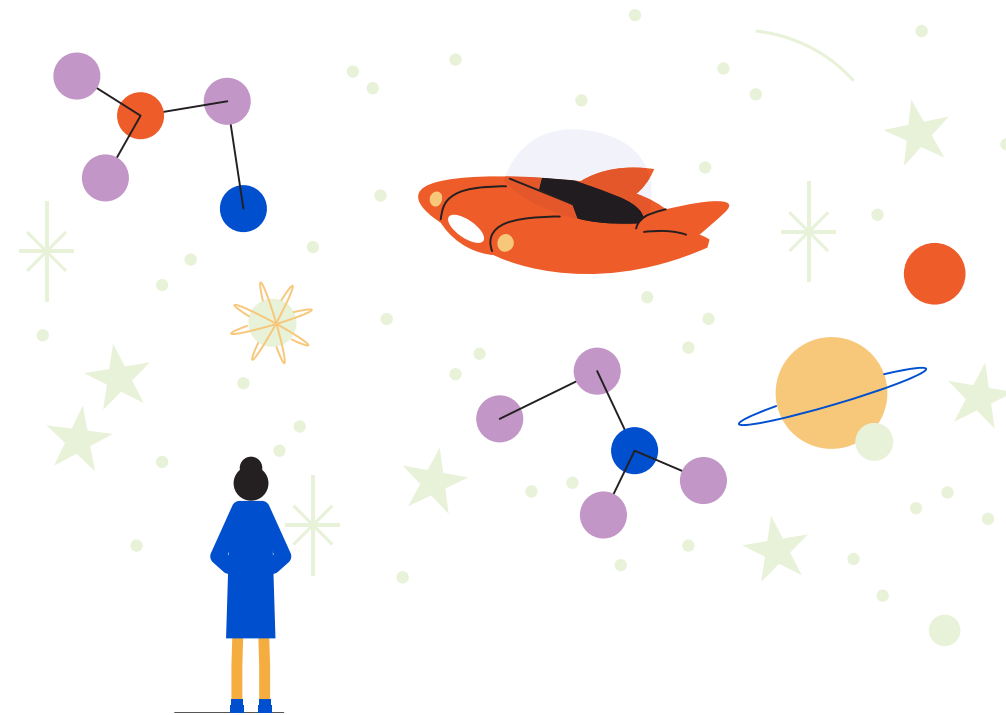
In 2018, development activities were aimed at upgrading the solutions for marketing and sales, and the implementation of international financial reporting standards IFRS 9 and IFRS 16. Activities to reduce operational risk focused on improving the stability of key information system components that support the implementation of business processes of the Company.

In accordance with the information strategy priority, we started major upgrades of information support in 2018, aimed at the processes of dialogue with our customers. The first set was intended for upgrading the Salesforce platform to the new Lightning Experience user interface, which provides in particular renewed opportunity management, redesigned productivity tools, a more transparent 360-degree view of the customer, and revised analytics. The second set was designed to redefine the contact centre functionality, which includes support for the Salesforce Service Cloud customer service processes and offers an integrated customer-service platform, which will be used by Modra zavarovalnica to achieve the business goals of marketing, sales, and customer service in the contact centre. The third set is intended for a higher level of user-customised services of Modri e-račun. Development activities concentrated on the renewal of the registration process, the single entry page e-modra.si, and the visual and functional modification of the user interface. We also made significant progress in the development of user-customised services, having developed a customer-tailored informative calculation, which includes the calculation of the tax deduction and the projection of the envisaged pension. We provided customers the possibility to determine the beneficiaries directly in the Modri e-račun service, thus fully digitalising the beneficiary management process.

After the successful implementation of the investment impairment model in 2018, we continued with the second phase of support for IFRS 9 with the aim of a higher level of information support automation. The upgrade included the acquisition of credit rating transition matrices from Bloomberg, the transformation of transition matrices, the calculation of the amount of expected losses due to credit risk and the automatic classification into each stage of the recognition of expected credit losses. In the field of accounting support, we also implemented a module for the calculation of the net lease value in accordance with the new IFRS 16.

We continued with the automation of data transfer from the backend system to the Solvency II support system, and the elimination of operational risk in the reporting process to the regulator. We successfully withdrew the KaD.Net service from the production environment and redirected all users to the more modern Modrinet service.

In the area of information security, the focus was on harmonising internal procedures and rules with the requirements of the Regulation on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (Regulation EU 2016/679). We have successfully managed the operational risk related to IT support to the business process. The operation of the information system was stable, information services were available and accessible to business processes in accordance with the contractually agreed service quality levels, or in line with the expectations of users of business and information services. In information technology management, all essential details complied with the requirements of the international standard ISO/IEC 27001:2013 and the ISO/IEC 27002:2013 Code of practice for information security controls.



Stable key components of the IT system supporting the implementation of the business processes of the company were

# further improved in 2018.

## Personal data protection

In 2018, Modra zavarovalnica carried out all activities to ensure compliance with the regulation on the protection of individuals with regard to the processing of personal data and on the free movement of such data (Regulation EU 2016/679). We adopted the Privacy Policy and appointed a personal data protection officer. We systematically manage all the required records of the processing activities and the catalogue of contractors, as well as perform impact assessments of the processing of personal data through which we identify the risks of potential violation of the rights of individuals. The established organisational and technical measures guarantee confidentiality and accessibility to authorised persons only. Access to personal data is therefore permitted only to authorised processors to the extent and for the purpose necessary for the smooth running of work processes, the provision of insurance services and the fulfilment of rights and obligations arising from concluded contractual relationships. Our contractual processors have committed themselves to protecting confidential data and respecting the rights of individuals in the same way as Modra zavarovalnica. We carefully follow the guidelines of the Information Commissioner and the European Working Party WP29, as well as the adopted guidelines of the Slovenian Insurance Association. We raise employee awareness through education, drafting opinions and answers, and monitoring good practices.

# Organisation and employees

## Internal organisation

Modra zavarovalnica 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 highest management and representation body is the Management Board. It is a three-member collective body comprised of the Chair of the Management Board and two Members of the Management Board. All Management Board Members have special powers and responsibilities under the law and the Company's Articles of Association. The basic organisational units of the Company are a department, a division, and a key function, unless organised within the scope of an independent organisational unit. The work of a division is run by the executive director, and the department is run by the department manager. The holders of key functions are persons who are responsible for the specific key functions. 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 the Company, as well as for providing information to employees in the department, division, or the Company.

For money laundering and terrorist financing prevention, the Management Board of the Company appointed an AML officer and a personal data protection officer, who directly answer to the Management Board as regards the performance of tasks.

The Management Board's areas of work are functionally divided among the members of the Management Board, by individual area, field of

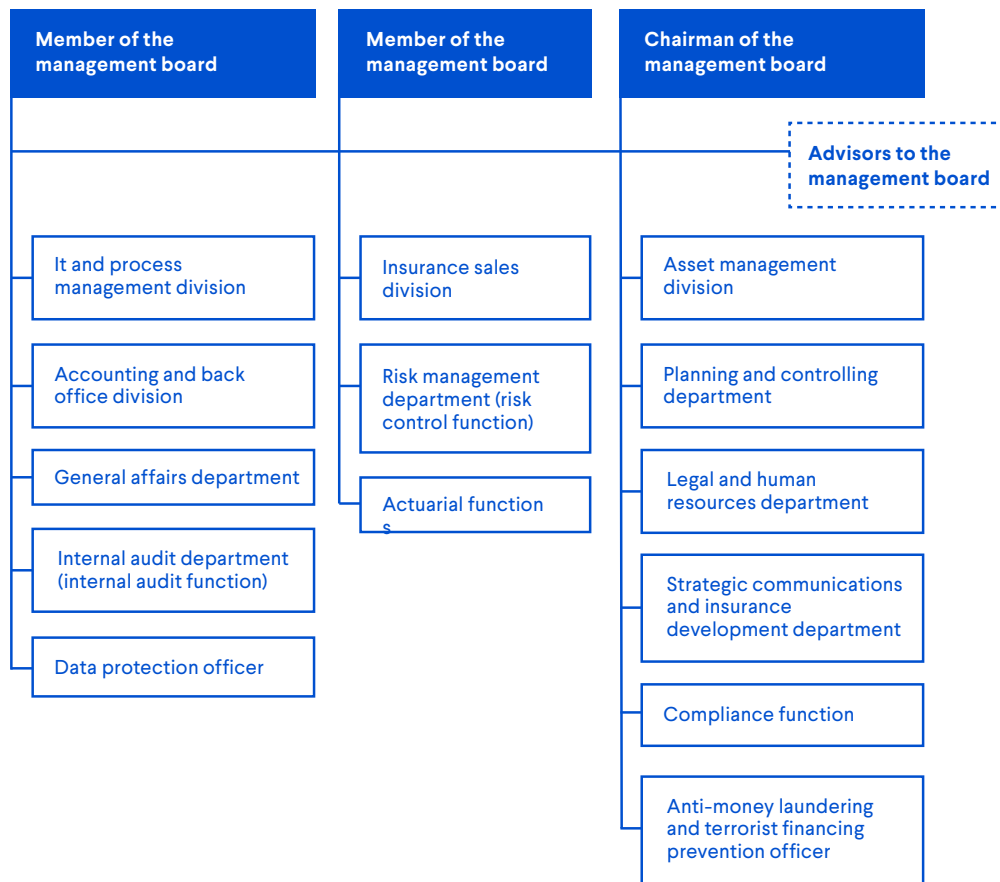
activities of individual organisational units, the area of the implementation of key functions and the area of appointed officers, as shown in the figure below; advisors to the Management Board fall under the competence of that member of the Management Board who is responsible for the area of work of the respective advisor.

## Employees

The Company is aware that employees are the source of effort 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 facilitates 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.

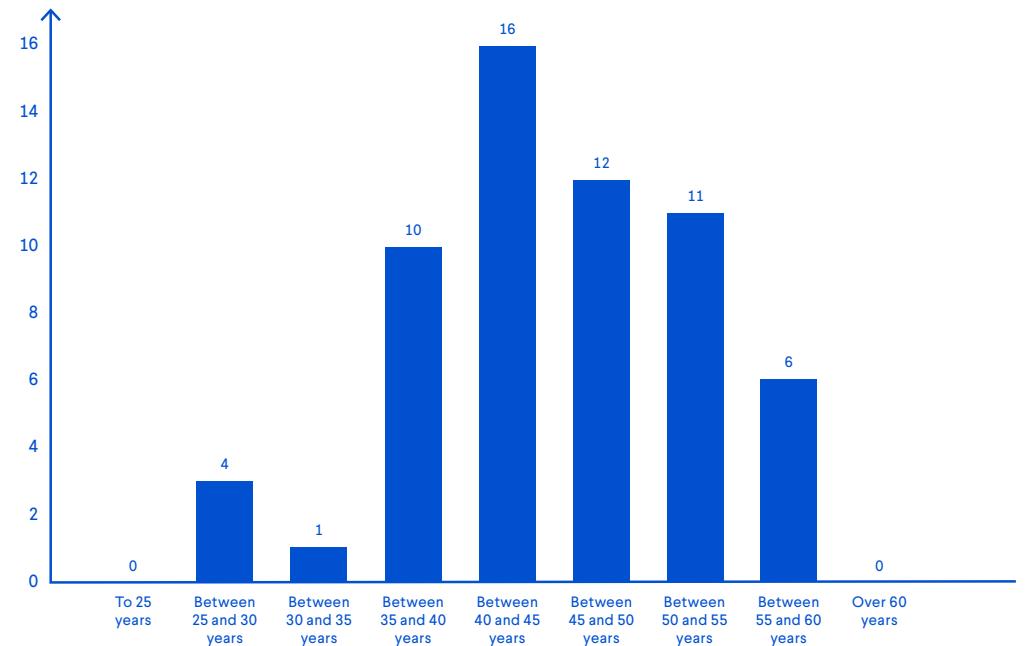
As at 31 December 2018, the Company employed 60 persons, which is also the average number of employees in the respective year. The average age of employees is 44. In terms of the gender structure of employees, 75% are women and 25% are men, whereby the ratio increased by 3% in favour of men with respect to 2017. In 2018, the Company recruited four employees; one in the Insurance Sales Division, one in the Accounting and Back Office Division, an advisor to the Management Board on legal issues, and a member of the Management Board. As at 31 December 2018, Modra zavarovalnica had four employees employed for a fixed period.

Figure 6: Organisational chart of Modra zavarovalnica



The Company's employees pay considerable attention to knowledge and education, being aware that only intensive investment in development can allow the Company to respond quickly and efficiently to the requirements of the competitive market. 17% of employees have 8/1 level of education, 58% of employees have 6/2 or VII level of education, 2% have 6/1 level of education, 20% have V level of education and 3% have IV level of education.

Figure 7: Structure of employees by age group as at 31/12/2018



## Employee training and education

The expected level of employee knowledge can be achieved with organised and planned training. Continuous changes in the market, tailoring products and services to customers' needs, and product development, require continuous training. We are aware that investing in the knowledge and development of all employees leads to the success of Modra zavarovalnica, therefore, we strive to ensure that every employee is included in at least one form of training annually. Training and upskilling are provided through various forms of education tailored to the requirements of each job or specific fields of knowledge required. We also coordinate training with the development tasks of Modra zavarovalnica.

In 2018, we carried out the "Academy of Sales and Communication Excellence and Effective Contact Centre Management" training for all employees who are in daily contact with customers. The employees upgraded their sales and communication skills, learned the tools of a proactive salesperson, whereas the sales team leaders upgraded the skills

of independent planning of work, motivation of employees, and achievement/exceeding of the set goals in cooperation. Executives were trained in a 360 degree feedback method with the goal of planning the necessary changes in the management and development of management skills. In the autumn, a team workshop was organised for all employees for the purpose of improving mutual communication, coordinated action for achieving common goals, openness to change, and promotion of creativity. We concluded the workshop by connecting ideas, mapping them onto canvases and assembling them into a giant image as a lasting memory of the overall goal achieved.

We also prepare internal employee training events, which are carried out by experts from Modra zavarovalnica, especially in the area of legislative changes. Thus, internal training was provided for all employees upon the entry into force of the General Personal Data Protection Regulation, introducing amendments to the IFRS 17. Training in the

prevention of money laundering and terrorist financing is carried out regularly on a yearly basis.

The most demanding and latest knowledge is also acquired by employees at faculties, institutes and other institutions at home and abroad. Modra zavarovalnica supports them by co-financing tuition and study leave.

In 2018, the Company earmarked slightly more than EUR 94 thousand for training. A total of 1,000 hours of training were provided in 2018. On average, every employee spent 17 teaching hours for training, whereby the average cost for training per employee amounted to EUR 1,500.

## Care for development, health and satisfaction of employees

To develop employees systematically, we conduct personal interviews with the aim of setting goals and defining the employee's development path, as well as 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 six months. A special bonus scheme was set up for associates in sales and asset management. Team performance is checked, measured and remunerated, based on special pre-defined indicators. The Company provides a stimulating working environment with clear policies, management by objectives, 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 customers.

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

We realise the importance of care for the health of all employees. 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. The Company also provides the possibility of flu and tick-borne encephalitis vaccination. The intranet portal offers a great deal of information regarding topical health issues and useful articles on exercise and a healthy diet.

The Company provides social security upon retirement to all employees under the same terms. By paying into the collective supplementary pension insurance fund, we provide for additional income that employees will receive after retirement.

Modra zavarovalnica is a proud holder of the full Family-Friendly Company certificate. Concern for the harmonisation of work 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.



In 2018, an average €1,500 per employee was

# spent on training.



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

The social responsibility of Modra zavarovalnica is reflected in its attitude to employees, employers, savers, policyholders, and the general public. Through our actions, we strengthen confidence, which is especially important in times of volatile conditions in the financial services market.

An important part of the activities is directed towards increasing the awareness of the population about the importance and the need for saving for the time after retirement. For the purposes of better understanding supplementary pension insurance and promoting the funds pursuing the life-cycle investment policy, the Company organised and 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 our savers. We trained the HR and accounting services of our customers regarding the potential and advantages of disbursements in the form of a supplementary pension and established information offices at headquarters of companies and public institutions.

The Company is well aware that good relations with the media are an important part of the 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.

We support environmentally-targeted activities. We have been separating waste, minimising paper consumption, collecting worn-out printer cartridges, plastic bottle caps and responding to charitable events. In 2018, all plastic caps collected were handed to the "Vesele nogice" (Happy Feet) society, helping children with cerebral palsy and other development disorders. In 2018, we also supported the "Jaz, ti, mi za Slovenijo" (I, You, We for Slovenia) project, aimed at raising awareness among young people of the importance of a healthy environment and attitude to nature and the recycling of waste materials. In the autumn, we joined the "Očistimo Slovenijo" (Let's Clean Slovenia) campaign for the last time and picked up waste on the trail to Viševnik. Throughout the year, we responded to requests made by individual societies and organisations (sports clubs and associations, pensioners' organisations, fire departments) which we helped to organise raffles and gift-giving events by providing promotional materials. We are particularly pleased that the Črnomelj Kindergarten, also due to the money donated by Modra zavarovalnica, quickly renovated the old section of the Čardaki Kindergarten after the June hail storm.

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. It regularly attends the meetings and the annual General Assembly of the EAPSPI. The member of the Management Board, Boštjan Vovk, was elected to the Board of Directors at the General Assembly for a 2-year term of office. 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 in individual countries.

# Important business events after the end of the financial year

The General Meeting of Modra zavarovalnica acknowledged the statement of resignation of Dr Boris Žnidarič on 14 January 2019. Bachtiar Djalil was appointed as a new member of the Supervisory Board for a term of office from 14 January 2019 until 9 June 2021.

On 11 February 2019, the Supervisory Board at its meeting, unanimously approved the Strategic Business Plan of Modra zavarovalnica for 2019–2021.

The Act Amending the Insurance Act (Official Gazette of the RS, No. 9-288/2019) entered into force on 26 February 2019, based on which the structure of investments in KS PPS has been aligned with its provisions.

# Expected development of Modra zavarovalnica in 2019

The long-term development guidelines of the Company have been significantly upgraded in its Strategic Business Plan for the period 2019-2021. In the next three-year period, the Company will start expanding the range of products using a project-based approach, either through its own development or on the basis of insurance and credit mediation. In addition, significant expansion of sales channels and digitalisation of operations are envisaged. One of the most important foundations of development of Modra zavarovalnica is the security of the assets of its customers, which is provided by sufficient capital and prudent and safe operations. Personal and other customer data is handled with the highest level of confidentiality. We protect the confidentiality, authenticity, and integrity of our customers' data.

The Company will continue to strengthen the focus on the customer, observing the customer's needs, providing personalised treatment and appropriate advice. A crucial element of customer focus is adapting to new technology solutions and the development of a marketing approach by improving the user experience in all contacts with customers. Customer satisfaction is becoming an increasingly important factor as regards the competitiveness of the Company and the most important foundation for the development of loyalty. Therefore, we will continue to monitor customer satisfaction in all contacts with the Company, obtaining user consent in the case of personal data processing where the basis is not provided, and systematic collection of data that will serve for the further development of customised products and services. Improved user experience and monitoring of needs will provide important guidelines in managing the online presence of the Company.

In asset management, 2019 is expected to be a challenging year as a result of continuing low interest rates and relatively highly evaluated risk investment grades. Guaranteed return will be 0.53 percent in 2019, but we nevertheless believe that it will not be easy to achieve it. We expect that interest rates will rise in 2019, which will slightly facilitate management, however, it is not expected that these increases will be significant. We estimate that interest rates will remain low compared to historical ones. Opportunities will have to be sought in new alternative investment grades, such as venture capital funds, real estate funds, bad debt funds, and infrastructure funds. Over the past three years, we have studied various options for entering new investment grades through alternative investment funds investing in them. We have gained extensive experience in assessing and investing in various funds, such as those aligned with the UCITS directive, as well as those that are not harmonised with it, and especially in investment coupons. In 2019, we plan to increase the proportion of capital invested in alternative investments and gradually approximate it to strategically set shares.

# Report on relations with the controlling company

In the 2018 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 associated 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 2018 and 31 December 2018.

### Reference to the applicable Corporate Governance Code

The Management Board and the Supervisory Board of Modra zavarovalnica, which is 100% 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 <http://www.sdh.si/sl-si/upravljanje-nalozb/kodeks-upravljanja-kapitalskih-nalozb-republike-slovenije>.

The Management Board of Modra zavarovalnica adopted the Governance Policy of Modra zavarovalnica d.d. at its meeting held on 29 December 2015,

and its amendments and supplements on 11 November 2016, 14 December 2017 and 6 December 2018, which entered into force on 18 December 2018, 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](http://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 otherwise stipulated in the law or the Memorandum of Association. In addition to the fundamental goal, companies also pursue other goals which are defined by regulations or the Memorandum of Association of an individual company. In order to ensure higher transparency in relation to the company goals, companies are obliged to make sure that all such goals are clearly defined in the company's documents on incorporation. 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 has at its disposal 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 EUR 45 million in the past five years, of which more than EUR 18 million in the form of dividend distribution and EUR 27 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, in cooperation with the Supervisory Board, 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 as regards gender, age and skills profile. The Diversity Policy is to be published on the company website, or some other mode of access to it is to be provided to all company shareholders.

**Explanation:** Modra zavarovalnica has not yet formed and adopted a Diversity Policy. That is expected to be done in the second half of 2019.

## Description of the main features of the internal control and risk management systems in 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 controls is to ensure accuracy, reliability and transparency of all processes and to manage risks related to 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 based on authentic bookkeeping documents, which serve for the accurate and fair recording of these events and provide a guarantee that the Company disposes of its assets honestly;
- 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 2018 will be audited by Deloitte revizija d.o.o., Ljubljana.

The Internal Audit Department 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 carries out audits for individual areas of the Company's operations. With proposals for improvements to the business processes and procedures 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 takeovers

**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 that carry special control rights

**Explanation:** The Company has issued no securities that would grant 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.

## The Company's rules on the appointment and replacement of the members of the management and supervisory bodies and amendments to the Articles of Association

**Explanation:** The Company's rules on the appointment and replacement of the members of the management and supervisory bodies are defined in its 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 six 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 under 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 under the public servant fund is formed on the basis of a public call to persons insured under 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 board of the public servant fund 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 of Members of the Supervisory Board of Modra zavarovalnica lasts four 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 law also lays down disposal of 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 Chairperson of the Management Board. The term of office of Members of the Management Board is five years, while the term of office of one Member appointed after the amendment to the Articles of Association is four years. The members of the Management Board may be re-appointed. 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 Management 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 its amendments and supplements are adopted by the Annual General Meeting of the Company at the proposal of the Management Board and the Supervisory Board.

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

**Explanation:** The powers held by members of the 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 website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) 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 that the Supervisory Board has not approved 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 its 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 management and supervisory 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 Board and the Supervisory Board and their committees is described in chapter 1.2.6 Company bodies.

## Diversity policy

Modra zavarovalnica pursues no diversity policy.

Ljubljana, 21 March 2019

  
Boštjan Yovk,  
MEMBER OF THE  
MANAGEMENT BOARD

  
Mag Matija Debelak,  
MEMBER OF THE  
MANAGEMENT BOARD

  
Borut Jamnik,  
CHAIRMAN OF THE  
MANAGEMENT BOARD



# Financial Report

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# 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 2018 to 31 December 2018, 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 2018.


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 thereto have been compiled under the assumption of a going concern, and in accordance with the applicable 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 of the Insurance Company is not aware of any circumstances that could give rise to possible material liability in this respect.

Ljubljana, 21 March 2019



Boštjan Vovk,  
MEMBER OF THE  
MANAGEMENT BOARD



Mag Matija Debelak,  
MEMBER OF THE  
MANAGEMENT BOARD



Borut Jamnik,  
CHAIRMAN OF THE  
MANAGEMENT BOARD

# Auditor's Report

**Deloitte.**

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## INDEPENDENT AUDITOR'S REPORT to the shareholders of Modra zavarovalnica d.d.

### Report on the Audit of the Financial Statements

#### 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 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International 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 the most significance in our audit of the financial statements for the financial year ended 31 December 2018. 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.

#### Technical Provisions

Key Audit Matter	How We Addressed the Key Audit Matter
Technical provisions are explained in Note 3.10.2. (accounting policies), Note 3.10.3.3., Note 24 and in chapter <i>Insurance Contract Disclosures</i> (values and assumptions).	
The insurance company recognizes technical provisions for Kritni sklad Prvega pokojninskega sklada, Kritni sklad Modre rente, Kritni sklad	We obtained an understanding of and tested the key controls and management of the process of analysis of economic and non-economic

Modre rente II and provisions for outstanding claims.

The calculation of provisions for insurance contracts is demanding, as it involves a high degree of assessment and complex mathematical and statistical calculations.

The models for the calculation of the amount of technical provisions (the latter are formed separately for each long-term business fund) are largely dependent on market and demographic assumptions. If necessary, additional provisions are formed on the basis of an adequacy test that uses the present value of the expected future cash flows.

The management considers premiums, payments and input data of the model and is responsible for appointing an authorized independent actuary whose task is to review the estimated provisions to ensure their adequacy.

Provisions are the accounting estimates of accounting items of significant value and are therefore subject to a high degree of judgment/assessment, which is why we treated this accounting estimate as a key audit matter.

assumptions used in the calculation of provisions.

We also assessed the design, the establishment and the effectiveness of key controls in determining assumptions, including an analysis of experience.

We verified the adequacy of key management assumptions that were used to assess the amounts of claims provisions for individual cases and checked them using the relevant supporting documentation.

We checked whether gross claims provisions were recorded in accordance with the requirements of the accounting framework.

In addition, we reviewed the information disclosed in the company's financial statements in order to assess whether the transactions in question are sufficiently exhaustive for the users of the financial statements.

In performing the audit procedures, we involved actuary experts to assess the actuarial assumptions, including the treatment and assessment of the management estimates and reliance on the industry information. Our assessment included referencing independent comparative data in each of the main areas of the assumptions.

#### Other information

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

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

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

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

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

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku «UK private company limited by guarantee»), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih članic je na voljo na <http://www2.deloitte.com/si/en/pages/about-deloitte/articles/about-deloitte.html>

Družba članica Deloitte Touche Tohmatsu Limited.

Deloitte Revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105000 - ID št. za DDV: SI62560085 - Osnovni kapital: 74.214,30 EUR

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

Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

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

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

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

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

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

We also provide 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 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.

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

##### Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 31 August 2016. Our total uninterrupted engagement has lasted 7 years.

##### Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 21 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

##### Provision of Non-audit Services

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

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Barbara Žibret Kralj, certified auditor.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj  
Certified auditor

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

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

Ljubljana, 21 March 2019

**TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS**

# Statement of profit or loss<sup>1</sup>

in EUR

	Item	Note	2018	2017
<b>A.</b>	<b>Net insurance premium revenue</b>	<b>1.</b>	<b>43,190,535</b>	<b>29,238,721</b>
	- Gross written premium		43,190,535	29,238,721
<b>C.</b>	<b>Investment income, of which</b>	<b>2.</b>	<b>15,742,996</b>	<b>15,915,637</b>
	- Interest income calculated by applying the effective interest method		12,291	0
	- Gains recognised in other comprehensive income, transferred to the statement of profit or loss due to reclassification		176,495	0
	- Gains on investment disposal		461,401	0
<b>D.</b>	<b>Other insurance revenue, of which</b>	<b>4.</b>	<b>9,626,113</b>	<b>9,748,383</b>
	- Fees and commissions		7,109,740	6,601,597
<b>E.</b>	<b>Other revenue</b>	<b>5.</b>	<b>114,114</b>	<b>92,775</b>
<b>F.</b>	<b>Net claims incurred</b>	<b>6.</b>	<b>-20,394,181</b>	<b>-16,991,250</b>
	- Gross claims paid		-20,374,233	-16,948,236
	- Change in provisions for outstanding claims		-19,948	-43,014
<b>G.</b>	<b>Changes in other technical provisions</b>	<b>7.</b>	<b>-26,668,900</b>	<b>-18,930,499</b>
<b>K.</b>	<b>Operating costs, of which</b>	<b>8.</b>	<b>-6,588,033</b>	<b>-6,072,926</b>
	- Cost of insurance contract acquisition		-40,135	-23,308
<b>M.</b>	<b>Investment expenses, of which</b>	<b>3.</b>	<b>-4,294,395</b>	<b>-1,781,400</b>
	- Impairment of financial assets		-50,519	-101,120
	- Losses on investment disposal		-149,655	0
<b>N.</b>	<b>Other insurance expenses</b>	<b>9.</b>	<b>-3,746,370</b>	<b>-2,305,637</b>
<b>O.</b>	<b>Other expenses</b>	<b>10.</b>	<b>-210</b>	<b>-3,856</b>
<b>P.</b>	<b>Profit or loss before tax</b>		<b>6,981,669</b>	<b>8,909,948</b>
<b>R.</b>	<b>Income tax</b>	<b>11., 12.</b>	<b>-631,770</b>	<b>-1,129,926</b>
<b>S.</b>	<b>Net profit or loss for the financial year</b>		<b>6,349,899</b>	<b>7,780,022</b>
	Earnings per share		0.04	0.05
	Diluted earnings per share		0.04	0.05

# Statement of other comprehensive income<sup>2</sup>

in EUR

	Item	Note	2018	2017
<b>I.</b>	<b>Net profit/loss for the financial year after tax</b>		<b>6,349,899</b>	<b>7,780,022</b>
<b>II.</b>	<b>Other comprehensive income after tax (a+b)</b>	<b>13.</b>	<b>-13,266,796</b>	<b>13,233,982</b>
<b>a.</b>	<b>Items that will not be reclassified subsequently to profit or loss (1+2+3+4+5+6)</b>		<b>-12,133,146</b>	<b>0</b>
	5. Other items that will not be reclassified subsequently to profit or loss		-14,325,530	0
	6. Tax on items that will not be reclassified subsequently to profit or loss		2,192,384	0
<b>b.</b>	<b>Items that may be reclassified subsequently to profit or loss (1+2+3+4+5)</b>		<b>-1,133,650</b>	<b>13,233,982</b>
	1.a Net gains/losses from revaluation of available-for-sale financial assets		0	15,339,598
	1.1. Net gains/losses recognised in revaluation surplus		0	18,130,888
	1.2. Transfer of gains/losses from revaluation surplus to profit or loss		0	-2,791,290
	1.b Net gains/losses recognised in revaluation surplus in relation to investments measured at fair value through other comprehensive income		-1,395,055	0
	5. Tax on items that may be reclassified subsequently to profit or loss		261,405	-2,105,616
<b>III.</b>	<b>Comprehensive income for the financial year after tax (I+II)</b>		<b>-6,916,897</b>	<b>21,014,004</b>
	Comprehensive income per share		-0.05	0.14
	Diluted comprehensive income per share		-0.05	0.14



# Statement of financial position<sup>3</sup>

		in EUR	
Items	Note	31 Dec 2018	31 Dec 2017
<b>Assets</b>		<b>460,070,564</b>	<b>439,020,316</b>
<b>A. Intangible assets</b>	<b>14.</b>	<b>854,844</b>	<b>1,257,976</b>
<b>B. Property, plant and equipment</b>	<b>15.</b>	<b>57,141</b>	<b>37,615</b>
<b>F. Investments in group companies and associates</b>	<b>16.</b>	<b>34,459,173</b>	<b>35,362,971</b>
<b>G.a. Investments</b>	<b>16.</b>	<b>0</b>	<b>396,642,792</b>
1. Loans and deposits		0	23,216,838
2. Held-to-maturity		0	111,739,893
3. Available-for-sale		0	188,581,221
4. At fair value		0	73,104,840
<b>G.b. Investments</b>	<b>16.</b>	<b>415,352,818</b>	<b>0</b>
1. At amortised cost		150,897,789	0
2. At fair value through other comprehensive income		187,072,042	0
3. At fair value through profit or loss		77,382,987	0
<b>K. Receivables</b>	<b>17.</b>	<b>2,720,740</b>	<b>1,586,758</b>
1. Receivables from direct insurance business		2,578	1,605
3. Current tax assets		612,017	480,086
4. Other receivables		2,106,145	1,105,067
<b>L. Other assets</b>	<b>18.</b>	<b>2,960,850</b>	<b>2,082,158</b>
<b>M. Cash and cash equivalents</b>	<b>16.</b>	<b>3,664,998</b>	<b>2,050,046</b>
<b>Off-balance sheet items</b>	<b>19.</b>	<b>1,059,016,535</b>	<b>1,003,223,920</b>
<b>Equity and liabilities</b>		<b>460,070,564</b>	<b>439,020,316</b>
<b>A. Equity</b>	<b>20.</b>	<b>235,772,618</b>	<b>244,039,501</b>
1. Share capital		152,200,000	152,200,000
3. Revenue reserves		31,097,473	27,612,966
4. Revaluation surplus		46,388,921	60,703,295
6. Retained earnings / losses (transition to IFRS 9)		823,114	0
7. Retained earnings / losses for the financial year		2,385,213	0
8. Retained net profit / loss		2,877,897	3,523,240
<b>C. Technical provisions</b>	<b>21.</b>	<b>190,028,069</b>	<b>163,339,221</b>
2. Technical provisions for life insurance		189,041,972	162,373,073
3. Provisions for outstanding claims		986,097	966,148
<b>E. Other provisions</b>	<b>22.</b>	<b>16,174,284</b>	<b>14,251,613</b>
<b>G. Deferred tax liabilities</b>	<b>12.</b>	<b>7,825,961</b>	<b>9,817,500</b>
<b>J. Operating liabilities</b>	<b>23.</b>	<b>245,760</b>	<b>536,271</b>
1. Liabilities from direct insurance business		6,000	0
3. Current tax liabilities		239,760	536,271
<b>K. Other liabilities</b>	<b>24.</b>	<b>10,023,872</b>	<b>7,036,210</b>
<b>L. Off-balance sheet items</b>	<b>19.</b>	<b>1,059,016,535</b>	<b>1,003,223,920</b>

# Statement of cash flows<sup>4</sup>

		in EUR	
Item		2018	2017
<b>A. Cash flows from operating activities</b>			
<b>a) Items from the statement of profit or loss</b>		<b>23,734,988</b>	<b>12,470,811</b>
1. Net written premium for the period		43,190,535	29,238,721
3. Other operating income (excluding revaluation and decrease in provisions) and finance income from operating receivables		7,901,929	7,258,918
4. Net damages paid in the period		-20,394,181	-16,991,250
6. Net operating costs excluding amortisation and depreciation charges and changes in accrued expenses for acquiring insurance contracts		-6,220,998	-5,713,036
8. Other operating expenses excluding amortisation and depreciation charges (other than revaluation and increase in provisions)		-1,038,808	-1,168,570
9. Income taxes and other taxes not included in operating expenses		296,511	-153,972
<b>b) Changes in net operating current assets (insurance receivables, other receivables, other assets, and deferred tax assets and liabilities) in operating balance sheet items</b>		<b>2,009,376</b>	<b>358,684</b>
1. Opening less closing receivables from direct insurance transactions		-886,802	-1,007,964
4. Opening less closing other receivables and assets		-127,574	-785,603
7. Closing less opening liabilities from direct insurance transactions		27,001	43,860
9. Closing less opening other operating liabilities		2,996,751	2,108,391
<b>c) Net receipts from operating activities or net disbursements for operating activities (a+b)</b>		<b>25,744,364</b>	<b>12,829,495</b>
<b>B. Cash flows from investing activities</b>			
<b>a) Receipts from investing activities</b>		<b>97,756,589</b>	<b>79,096,331</b>
1. Receipts from interest earned on investing activities		4,852,365	5,266,456
2. Receipts from dividends and participation in profit of others		8,250,658	4,508,922
4. Receipts from disposal of property, plant and equipment		574	82
5. Receipts from disposal of investments		84,652,992	69,320,871
5.2. Other receipts from disposal of investments		84,652,992	69,320,871
<b>b) Disbursements for investing activities</b>		<b>-117,952,982</b>	<b>-93,251,714</b>
1. Disbursements for acquisition of intangible assets		-64,642	-498,703
2. Disbursements for acquisition of property, plant and equipment		-36,658	-9,230
3. Disbursements for acquisition of investments		-117,851,682	-92,743,781
3.1. Disbursements for acquisition of subsidiaries or other companies		-4,962,870	0
3.2. Other disbursements for acquisition of investments		-112,888,812	-92,743,781
<b>c) Net receipts from investing activities or net disbursements for investing activities (a+b)</b>		<b>-20,196,393</b>	<b>-14,155,383</b>

The table continues on the next page.

in EUR

Item	2018	2017
<b>C. Cash flows from financing activities</b>		
<b>b) Disbursements for financing activities</b>	<b>-3,743,511</b>	<b>-3,197,378</b>
3. Disbursements for repayment of long-term financial liabilities	-232,776	-232,776
5. Disbursements for distribution of dividends and other profit participations	-3,510,735	-2,964,602
<b>c) Net receipts from financing activities or net disbursements for financing activities (a+b)</b>	<b>-3,743,511</b>	<b>-3,197,378</b>
<b>Ĉ. Closing balance of cash and cash equivalents</b>	<b>3,664,998</b>	<b>2,050,046</b>
x) Net cash flow for the period (sum total of Ac, Bc and Cc)	1,804,460	-4,523,266
+		
Effects of changes in foreign exchange rates	-189,508	0
+		
y) Opening balance of cash and cash equivalents	2,050,046	6,573,312

In 2018, Modra zavarovalnica  
recorded a net profit of

**€6.3 million.**

# Statement of changes in equity for 2018<sup>5</sup>

in EUR

Item	I. Share capital	III. Revenue reserves		IV. Revaluation surplus	V. Retained net profit or loss	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	4,906,049	22,706,917	60,703,295	3,523,240	0	244,039,501
1.A Amendments to accounting standards (transition to IFRS 9)	0	0	0	-1,047,579	823,114	0	-224,465
<b>4. Opening balance for the financial period</b>	<b>152,200,000</b>	<b>4,906,049</b>	<b>22,706,917</b>	<b>59,655,716</b>	<b>4,346,354</b>	<b>0</b>	<b>243,815,036</b>
5. Comprehensive income for the financial year after tax	0	0	0	-13,266,796	0	6,349,899	-6,916,897
5.a Net profit or loss	0	0	0	0	0	6,349,899	6,349,899
5.b Other comprehensive income	0	0	0	-13,266,796	0	0	-13,266,796
10. Dividend payout	0	0	0	0	-3,510,735	0	-3,510,735
11. Allocation of net profit to revenue reserves	0	619,115	2,865,392	0	0	-3,484,507	0
12. Allocation of net profit to retained net profit or loss	0	0	0	0	2,865,392	-2,865,392	0
15. Other (gains on disposal of equity investments measured at fair value through other comprehensive income)	0	0	0	0	2,385,213	0	2,385,213
<b>16. Closing balance for the financial period</b>	<b>152,200,000</b>	<b>5,525,164</b>	<b>25,572,309</b>	<b>46,388,921</b>	<b>6,086,224</b>	<b>0</b>	<b>235,772,618</b>

# Statement of changes in equity for 2017<sup>6</sup>

in EUR

Item	I. Share capital	III. Revenue reserves		IV. Revaluation surplus	V. Retained net profit or loss	VI. Net profit or loss	Total equity
		Legal and statutory reserves	Other revenue reserves			Net profit or loss for the year	
1. Balance 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
<b>4. Opening balance for the financial period</b>	<b>152,200,000</b>	<b>4,147,497</b>	<b>19,196,182</b>	<b>47,469,313</b>	<b>2,977,107</b>	<b>0</b>	<b>225,990,099</b>
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 net profit or loss	0	0	0	0	3,510,735	-3,510,735	0
<b>15. Closing balance for the financial period</b>	<b>152,200,000</b>	<b>4,906,049</b>	<b>22,706,917</b>	<b>60,703,295</b>	<b>3,523,240</b>	<b>0</b>	<b>244,039,501</b>

# Presentation of accumulated profit<sup>7</sup>

in EUR

Item	31 Dec 2018	31 Dec 2017
a) Net profit or loss for the financial year	6,349,899	7,780,022
b) Net profit / loss brought forward	3,208,327	0
- Result of the current year according to applicable standards*	2,385,213	0
- Adjustment to new accounting standards	823,114	0
ċ) Increase in revenue reserves according to the decision of the Management Board	619,115	758,552
- Increase in legal reserves	317,495	389,001
- Increase in statutory reserves	301,620	369,551
d) Increase in other reserves according to the decision of management bodies	2,865,392	3,510,735
e) Accumulated profit / loss (a+b+c-d-e)	6,073,719	3,510,735

# Disclosures and notes

## General disclosures

### Profile of the Insurance Company

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](http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila).

### Funds under management

Table 14: Funds managed by Modra zavarovalnica as at 31 December 2018

Fund name	Fund's registration no.:
Prvi pokojninski sklad Republike Slovenije (First Pension Fund of the Republic of Slovenia)	6031226001
Modri krovni pokojninski sklad (Life-Cycle Pension Fund)	6031226007
Modri dinamični podsklad (Dynamic Sub-Fund)	6031226006
Modri preudarni podsklad (Prudent Sub-Fund)	6031226008
Modri zajamčeni podsklad (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 (Civil Servants Life-Cycle Fund)	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 15: Number of employees by level of education

Education	31 Dec 2018	31 Dec 2017
Level 8 (8/1, 8/2)	10	6
Level 7	24	27
Level 6 (6/1, 6/2)	12	9
Level 5	12	14
Level 4	2	2
<b>Total</b>	<b>60</b>	<b>58</b>

## Information about subsidiaries

As at 31 December 2018, Modra zavarovalnica had no subsidiaries.

## Information about joint ventures

As at 31 December 2018, Modra zavarovalnica disclosed the investment in the company Hotelske nepremičnine, d. o. o. among investments in joint ventures.

## 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 2018 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 2018. Modra zavarovalnica did not apply any standard or interpretation early if the application of such amended standards and interpretations was not mandatory in 2018.

### 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 assets measured at fair value through other comprehensive income, which are 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.

Major judgements made by the management refer to classification, recognition, measurement and derecognition of investments. Relevant policies are explained in the 'Business models' section.

Major estimates made by the management refer to the provisions set aside for failure to achieve the guaranteed rate of return 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 insureds according to the content of insurance contracts.

### 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, whilst 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 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 Insurance Company applied IFRS 9 to disclose investments in 2018, whereas it applied IAS 39 in previous years.

### Investments up to 31 December 2017

Investments of Modra zavarovalnica were in accordance with IAS 39 classified into the following groups in 2017:

- investments at fair value,
- held-to-maturity investments,
- investments in loans and deposits, and
- available-for-sale investments.

Detailed accounting policies according to IAS 39 applicable for 2017 are presented in the 2017 Annual Report of Modra zavarovalnica ([https://www.modra-zavarovalnica.si/fileadmin/letna\\_porocila/LP\\_MZ\\_2017.pdf](https://www.modra-zavarovalnica.si/fileadmin/letna_porocila/LP_MZ_2017.pdf)). In the continuation, accounting policies applicable for investments as of 1 January 2018 according to IFRS 9 are described. The impact of transition is presented in the 'Transition to IFRS 9' section.

### Investments as of 1 January 2018

In accordance with IFRS 9, the Insurance Company classifies financial instruments for subsequent measurement into one of the following measurement categories:

- at amortised cost,
- at fair value through other comprehensive income, or
- at fair value through profit or loss.

The Insurance Company classifies financial instruments based on:

- a) the business model for managing financial assets:
- holding financial assets for the purpose of collecting contractual cash flows,
  - holding financial assets for the purpose of collecting contractual cash flows and selling financial assets,
  - holding financial assets for the purpose of selling;

b) characteristics of contractual cash flows of a financial asset; in this respect, the Insurance Company must verify whether contractual cash flows of a financial assets are solely payments of principal and interest – the SPPI test.

### Business models

Within the framework of managing annuity funds, two business models are being implemented:

- the business model whose objective is achieved through holding financial assets for the purpose of collecting contractual cash flows (amortised costs): This business model includes financial assets that the manager of funds holds for the purpose of collecting contractual cash flows.
- the business model of financial assets that is managed and the return on which is assessed based on fair value (fair value through profit or loss – FVTPL): This business model includes financial assets that the manager holds for the purpose of managing and measuring their performance based on fair value. The manager is primarily focused on information about fair value, which it uses to assess the return on assets and for decision-making.

Within the framework of managing its own property, the Insurance Company applies four business models:

- the business model whose objective is achieved through holding financial assets for the purpose of collecting contractual cash flows (amortised costs): This business model includes financial assets that the manager holds for the purpose of collecting contractual cash flows.
- the business model whose objective is achieved through collecting contractual cash flows and selling (hold to collect and sell, HTC&S): The manager achieves return on these assets both through collecting contractual cash flows and through selling. Characteristic of this model are higher frequency and value of sales as selling of financial assets is essential for achieving the objective of the business model.

- the business model of financial assets that is managed and the return on which is assessed based on fair value (fair value through profit or loss – FVTPL): This business model includes financial assets that the manager holds for the purpose of managing and measuring their performance based on fair value. The manager is primarily focused on information about fair value, which it uses to assess the return on assets and for decision-making.
- the business model of equity instruments not held for the purpose of trading (fair value through other comprehensive income - FVTOCI): Within the framework of its own property, the manager holds equity investments under its active corporate management due to the size of ownership interests and long-term equity investments not held for the purpose of trading. When classifying these investments, the manager complies with the section 5.7.5 of IFRS 9 and classifies them in the group of assets at fair value through other comprehensive income.

### Model of expected losses

IFRS 9 also introduced the model of expected credit losses, which means that impairment is 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 are also incorporated in the model of expected credit losses.

The basis for impairments is data on probability of default (PD), loss given default (LGD) and exposure at default (EAD). Data is obtained from international statistical publications of credit rating agencies Moody's and S&P (PD and LGD) as well as from the internal information system with updated information about exposure at default.

The standard defines 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 is made. Stage 3 comprises financial assets of uncreditworthy issuers, which means that impairment is necessary for entire expected losses.

Individual investments are classified into stages based on international or internal rating and the number of days in default. Regular monitoring of investments across portfolios is also in place through the internal EWS system.

To define expected credit losses based on future-oriented information, correction factors for the period of three to five years are calculated using international macroeconomic indicators for the following three years and data on default rates of the S&P credit rating agency. For the purpose of the calculation, those macroeconomic factors were chosen that exhibit the highest degree of statistical interpretability and are relevant for economic cycle forecasting. For a period exceeding five years, the average historical PD rate is taken into account as deviations from average probabilities of default are difficult to interpret in the long term.

The Insurance Company recognises allowances for losses for expected credit losses related to financial assets measured at amortised cost or at fair value through other comprehensive income.

## Recognition and derecognition of investments

The Insurance Company recognises investments in its statement of financial position as financial assets only when it becomes a party to contractual provisions of a financial instrument.

A financial asset that is an investment and is traded on a regulated securities market is recognised as an asset on the day of concluding a transaction, when the liability for payment also arises. On disposal, a decrease in a financial asset is recorded on the day of concluding a transaction.

A financial asset that is an investment and is not traded on a regulated securities market is recognised as an asset on the day of payment. A decrease in a financial asset is recorded on the day when all contractual provisions are met, which is when the buyer also acquires the ownership right.

When buying and selling financial assets on a primary securities market (auction), an investment is recognised as a financial asset on the day of settling the transaction.

## Fair value estimate

### Price source

Zavarovalnica za vrednotenje dolžniških naložb, ki imajo kot glavni trg opredeljen trg OTC, uporablja cenovni vir CBBT (Composite Bloomberg Bond Trader).

### Determining fair value of investments

Pursuant to IFRS 13, the Insurance Company determines fair value of investments as if it were the amount received from 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 the 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 exist, 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 investment measurement date, the Insurance Company verifies again the market that was defined as the principal market of that investment upon acquisition.

At the date of measuring fair value of an investment, the Insurance Company establishes whether the relevant market is active.

In case of exchange trading, the assumption of an 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 a 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 a 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 the closing BID CBBT price or the transaction price.

## Criteria for classification of investments into 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 the assessment whether the principal market is active.

### Classification of equity investments

**Table 16:** 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 the fair value is measured using a valuation technique (taking into account level 2 inputs)
Level 3	Equity investments for which quoted prices are not available and for which the fair value is measured using a valuation technique (taking into account level 3 inputs) or prices provided by third parties

**Table 17:** Classification of unquoted equity investments

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

**Table 18:** 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 those 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 already measured at fair value in the statement of financial position.

**Table 19:** 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 a valuation technique (taking into account level 2 inputs)
Level 3	Debt securities measured using a valuation technique (taking into account level 3 inputs) or prices provided by third parties

**Table 20:** Classification of debt investments if an OTC market acts as the principal market

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 the fair value is measured using a valuation technique (taking into account level 2 inputs)
Level 3	Debt securities without CBBT price in (in)active markets and for which the fair value is measured using a valuation technique (taking into account level 3 inputs) or prices provided by third parties

### Classification of loans and deposits

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 is unobservable input, and thus categorises them within Level 3.



## Determining gains or losses on investments

According to IFRS 9.5.7.1, a gain or loss on a financial asset that is measured at fair value is recognised in profit or loss unless:

- it is an investment in an equity instrument and the entity has elected to present gains and losses on that investment in other comprehensive income in accordance with IFRS 9.5.7.5.,
- it is a financial asset measured at fair value through other comprehensive income and the entity is required to recognise some changes in fair value in other comprehensive income.

## Investments at fair value through profit or loss

The Insurance Company recognises gains or losses on a financial asset measured at fair value through profit or loss in its statement of profit or loss through finance income and expenses. Restatements of financial assets expressed in foreign currencies are also recognised in profit or loss.

## Investments in equity instruments measured at fair value through comprehensive income

On initial recognition, the Insurance Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument. If an entity decides for this option, it recognises in its profit or loss only dividends (IFRS 9.5.7.7.), namely when it obtains the right to payment (cut-off date defined by the issuer).

Gains or losses on investments and restatement of investments expressed in foreign currencies are recognised directly in equity as an increase or a decrease in revaluation surplus.

On derecognition of a financial asset, cumulative gains or losses that were previously recognised in other comprehensive income are reallocated to other equity components.

## Investments in debt instruments at fair value through comprehensive income

Gains or losses on a debt financial asset measured at fair value through other comprehensive income are recognised in profit or loss as income up to the level of effective interest rate, whilst the difference up to fair value is recognised in other comprehensive income as an increase or a decrease in revaluation surplus, until a financial asset is derecognised or reclassified.

## Termination of recognition of financial instruments

The Insurance Company only derecognises a financial asset when contractual rights to cash flows from the financial asset expire.

## Investment in the associate

The Insurance Company records and presents the investment in the associate based on the above accounting policies applying to investments measured at fair value through other comprehensive income.

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

## Investment in joint ventures

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

The Insurance Company measures joint ventures at cost according to IAS 27.10.

Investment in the joint venture 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 insureds 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 insureds. The liability is determined on a daily basis.

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 insureds.

### 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.

### 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.

Allowances for trade 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.

## 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 is debited to its equity in order to cover the shortfall of KS MR assets. If the value of assets exceeds the liabilities to the insureds, previously made receivables/provisions for the 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 equity in order to cover the shortfall of KS MR assets. If the value of assets exceeds the liabilities to the insureds, previously made receivables/provisions for the 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 due from 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 equity in order to cover the shortfall of KS MR II assets. If the value of assets exceeds the liabilities to the insureds, previously made receivables/provisions for the 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. Direct additional costs of new shares issuance, decreased by tax effects, are debited to equity.

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 share capital. The share of a no par value share in 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.

The revaluation surplus amounts disclosed in the balance sheet are adjusted by deferred tax amounts.

The calculation of net profit or loss per share takes into account all shares issued for both reported periods. 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 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 in accordance with 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 insureds 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 insureds.

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 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 insureds 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 rate of return

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 rate of return, which are debited to equity and correspond to 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 revenue 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, trade payables (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. The following types of revenues are distinguished:

#### 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 reimbursement of entry and exit fees and the annual fee for managing 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 assets' 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, and the fund manages the assets attributable to the net premium. The entry fees are charged as a 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 to or receive from the tax authority. Current tax assets or liabilities are measured using the tax rates in force 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 2018 and 31 December 2017, the statement of profit or loss data for 2018 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 new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are in force:

- **IFRS 9 'Financial instruments'**, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 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 2 'Share-based payment'** – Classification and measurement of share-based payment transactions, adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **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 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),
- **Amendments to IFRS 1 and IAS 28 '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 7 February 2018 (the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018).

On transition to IFRS 9 on 1 January 2018, the Insurance Company recorded an increase in retained earnings in the amount of EUR 823,114. The adoption of other new standards, amendments to the existing standards and interpretations had no effect on the financial statements of the Insurance Company.

## Standards and amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU but not yet effective

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

- **IFRS 16 'Leases'**, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 'Financial instruments'** – Prepayment features with negative compensation, adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 'Uncertainty over income tax treatments'**, adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Insurance Company analysed lease agreements and established that the introduction of IFRS 16 has no impact on its financial statements.

## Standards and interpretations issued by the International Accounting Standards Board but not yet adopted by the EU

Currently, IFRSs as adopted by the EU do not differ significantly from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards:

- **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),
- **Amendments to IFRS 3 'Business combinations'** – Definition of a business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisition of assets occurring at the beginning of this period or after),
- **Amendments to IFRS 10 'Consolidated financial statements'** and IAS 28 'Investments in associates and joint ventures' – Sale or contribution of assets between an investor and its associate or joint venture, and subsequent amendments (the effective date has been postponed to a later date until the research project on capital method is concluded),
- **Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors'** – Definition of material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 'Employee benefits'** – Plan amendment, curtailment or settlement (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 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),
- **Amendments to references to the Conceptual Framework in IFRS standards** (effective for annual periods beginning on or after 1 January 2020).

The Insurance Company is examining the impact of these 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 related to the portfolio of financial assets and liabilities, whose principles have not yet been adopted by the EU, remains unregulated.

## Transition to IFRS 9

On the effective date of the new standard, i.e. 1 January 2018, the Insurance Company reclassified investments totalling EUR 8,321,194 from the group of fair value through profit or loss to the group of fair value through other comprehensive income.

On the day of transition, the Insurance Company also impaired financial assets in the amount of EUR 325,719 in compliance with the model of expected credit losses. Expected credit losses as at the transition day are allocated entirely to equity.

Modra zavarovalnica verified the creation of permanent impairments from the spin-off in 2011 to the end of 2017 and reversed them in accordance with the provisions of IFRS 9, thus recording a positive impact on retained earnings in the amount of EUR 1,148,833.

The total impact of the transition to IFRS 9 is thus an increase in retained earnings in the amount of EUR 823,114.

Table 21: Classification and measurement of financial assets on transition to IFRS 9

in EUR

Financial assets	Carrying amount as at 31 Dec 2017 (IAS 39)	Reclassifications	Remeasurements	Carrying amount as at 1 Jan 2018 (IFRS 9)	Impact on retained earnings as at 1 Jan 2018
	1	2	3	4=1+2+3	5
<b>FVTPL</b>	<b>73,104,840</b>	<b>-8,321,194</b>	<b>0</b>	<b>64,783,646</b>	<b>0</b>
Decreases:					
of FVTOCI	0	-8,321,194	0	-8,321,194	0
Equity instruments	0	-8,321,194	0	-8,321,194	0
<b>Total change of FVTPL</b>	<b>0</b>	<b>-8,321,194</b>	<b>0</b>	<b>-8,321,194</b>	<b>0</b>
FVTOCI	188,581,221	8,321,194	-101,254	196,801,162	-101,254
Increases:					
from FVTPL	0	8,321,194	0	8,321,194	
Equity instruments	0	8,321,194	0	8,321,194	
<b>Total change of FVTOCI</b>	<b>0</b>	<b>8,321,194</b>	<b>-101,254</b>	<b>8,321,194</b>	<b>-101,254</b>
At amortised cost	134,956,731	0	-224,465	134,732,267	-224,465
<b>Total change of amortised cost</b>	<b>0</b>	<b>0</b>	<b>-224,465</b>	<b>134,732,267</b>	<b>-224,465</b>
<b>Permanent impairments and deferred taxes from impairments</b>	<b>-1,148,833</b>	<b>0</b>	<b>0</b>	<b>1,148,833</b>	<b>1,148,833</b>
<b>Total impact of transition</b>	<b>0</b>	<b>0</b>	<b>-325,719</b>	<b>1,148,833</b>	<b>823,114</b>

## Breakdown and notes to the financial statements

### Notes to the statement of profit or loss

#### Note no. 1: Net insurance premium revenue

in EUR

Item	2018	2017
Gross written premium for life insurance	43,164,734	29,225,847
Gross written premium for non-life insurance	25,800	12,874
<b>Total</b>	<b>43,190,535</b>	<b>29,238,721</b>

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

#### Note no. 2: Investment income

in EUR

Item	2018	2017
Interest income from investments	4,229,070	4,241,752
Dividends from investments	8,226,142	4,616,868
Income from investment revaluation	2,066,590	3,900,103
Foreign exchange gains	425,025	135,949
Gains on investment disposal	637,896	3,016,028
Income from reversal of investment impairments	158,044	0
Other finance income	229	4,938
<b>Total</b>	<b>15,742,996</b>	<b>15,915,637</b>

Investment income is practically the same in 2018 and 2017 in terms of amounts, whilst its structure is different. In 2018, dividends increased significantly, mostly due to higher dividends on domestic non-portfolio investments, whilst revaluation income and gains on disposal of investments decreased due to the demanding market situation.

## 2.1 Investment income for 2018

in EUR	
Item	2018
<b>Interest income from investments</b>	<b>4,229,070</b>
• At fair value through profit or loss	379,816
• At amortised cost	2,861,080
• At fair value through other comprehensive income	988,174
<b>Dividends from investments</b>	<b>8,226,142</b>
• At fair value through profit or loss	1,860,896
• At fair value through other comprehensive income	6,365,247
<b>Revaluation income</b>	<b>2,066,590</b>
• Revaluation of investments at fair value through profit or loss	2,066,590
<b>Foreign exchange gains</b>	<b>425,025</b>
<b>Gains on disposal of investments</b>	<b>637,896</b>
• At fair value through profit or loss	461,401
• At fair value through other comprehensive income	176,495
<b>Income from impairment reversal</b>	<b>158,044</b>
• At fair value through other comprehensive income	44,317
• At amortised cost	113,727
<b>Other finance income</b>	<b>229</b>
<b>Total</b>	<b>15,742,996</b>

## 2.2 Investment income for 2017

in EUR	
Item	2017
<b>Interest income from investments</b>	<b>4,241,752</b>
• At fair value through profit or loss	422,150
• Held to maturity	2,551,258
• Available for sale	1,105,061
• Loans and deposits	163,250
• Cash and cash equivalents	32
<b>Dividends from investments</b>	<b>4,616,868</b>
• At fair value through profit or loss	985,765
• Available for sale	3,631,103
<b>Revaluation income</b>	<b>3,900,103</b>
• Revaluation of investments at fair value through profit or loss	3,900,103
<b>Foreign exchange gains</b>	<b>135,949</b>
<b>Gains on disposal of investments</b>	<b>3,016,028</b>
• Available for sale	2,824,398
• At fair value through profit or loss	191,629
<b>Other finance income</b>	<b>4,938</b>
<b>Total</b>	<b>15,915,637</b>

## Note no. 3: Investment expenses

in EUR		
Item	2018	2017
Interest expenses for investments	-330	0
Investment revaluation expenses	-3,883,633	-311,735
Exchange rate losses	-203,869	-1,335,157
Losses on investment disposal	-149,655	-128,479
Investment impairment expenses	-50,519	0
Other finance expenses	-6,389	-6,029
<b>Total</b>	<b>-4,294,395</b>	<b>-1,781,400</b>

In 2018, expenses from revaluation of investments at fair value through profit or loss were significantly higher as compared to 2017 due to the demanding situation on the securities markets. The drop in share prices had the biggest impact on investment revaluation expenses.

## 3.1 Investment expenses for 2018

in EUR	
Item	2018
<b>Interest expenses for investments</b>	<b>-330</b>
• At fair value through profit or loss	-330
<b>Revaluation expenses for investments</b>	<b>-3,883,633</b>
• At fair value through profit or loss	-3,883,633
<b>Exchange rate losses</b>	<b>-203,869</b>
<b>Losses on disposal of investments</b>	<b>-149,655</b>
• At fair value through profit or loss	-138,255
• At fair value through other comprehensive income	-11,400
<b>Impairment expenses for investments</b>	<b>-50,519</b>
• At fair value through other comprehensive income	-2,340
• At amortised cost	-48,179
<b>Other finance expenses</b>	<b>-6,389</b>
<b>Total</b>	<b>-4,294,395</b>

### 3.2 Investment expenses for 2017

		in EUR
Item		2017
<b>Interest expenses for investments</b>		<b>0</b>
• At fair value through profit or loss		0
• Other interest expenses		0
<b>Revaluation expense</b>		<b>-311,735</b>
• Revaluation of investments at fair value through profit or loss		-210,615
• Impairment of available -for-sale investments		-101,120
• Impairment of receivables		0
<b>Exchange rate losses</b>		<b>-1,335,157</b>
<b>Losses on disposal of investments</b>		<b>-128,479</b>
• At fair value through profit or loss		-95,371
• Available for sale		-33,108
<b>Other finance expenses</b>		<b>-6,029</b>
<b>Total</b>		<b>-1,781,400</b>

### 3.3 Net investment result

			in EUR
Item		2018	2017
Investment income		15,742,996	15,915,637
Investment expenses		-4,294,395	-1,781,400
<b>Net investment result</b>		<b>11,448,601</b>	<b>14,134,237</b>

### Note no. 4: Other insurance revenue

			in EUR
Item		2018	2017
Revenue from management of guarantee funds		1,000,417	891,438
Revenue from management of mutual pension funds		8,625,696	8,856,945
<b>Total other insurance revenue</b>		<b>9,626,113</b>	<b>9,748,383</b>

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 revenue

			in EUR
Item		2018	2017
<b>Other revenue</b>		<b>114,114</b>	<b>92,775</b>

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

### Note no. 6: Net claims incurred

			in EUR
Item		2018	2017
Gross claims paid from life insurance		-20,374,233	-16,948,235
Change in provisions for outstanding claims		-19,947	-43,015
<b>Total</b>		<b>-20,394,181</b>	<b>-16,991,250</b>

Gross claims paid represent the pension annuities paid. These increased in 2018 due to a higher number of pension annuity recipients of the KS MR II fund.

### Note no. 7: Change in technical provisions

			in EUR
Item		2018	2017
Change in KS PPS technical provisions		1,193,222	-2,204,166
Change in KS MR technical provisions		4,940,041	6,262,182
Change in KS MR II technical provisions		-32,802,163	-22,988,515
<b>Total</b>		<b>-26,668,900</b>	<b>-18,930,499</b>

Changes in KS PPS technical provisions result from inflows from new insureds 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 insureds.

In 2018, 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 2018 resulted from the inflow of new insureds to the guarantee fund.



## Note no. 8: Operating costs

in EUR

Item	2018	2017
Costs of materials	-161,771	-165,603
Costs of services, of which	-2,589,925	-2,234,649
- Insurance contract acquisition	-40,135	-23,308
Write-downs	-489,659	-403,207
Costs of provisions	-21,599	-108,959
Labour costs	-3,232,248	-3,069,365
Other operating costs	-92,831	-91,142
<b>Total</b>	<b>-6,588,033</b>	<b>-6,072,926</b>

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

In 2018, the costs of material totalled EUR 161,771. The highest portion was that of printing and publishing.

In 2018, the costs of services (including the costs of acquiring new insurance contracts) reached EUR 2,589,925. The largest share of these costs is accounted for by lease and rental costs, including that of business premises, equipment, information equipment and information assets in the amount of EUR 662,331 (in 2017, EUR 600,249). Also material are the costs of payment transactions and banking services, which include the custodian fee for KPSJU and PPS, totalling EUR 444,169 (in 2017, EUR 366,768). The increase in costs is related to a higher value of assets under management.

Write-downs in the amount of EUR 489,659 relate to depreciation and amortisation costs of intangible assets and property, plant and equipment. The increase in amortisation and depreciation costs is related to the activation of the new software in the second half of 2017, which was amortised throughout the period in 2018.

The cost of provisions amounting to EUR 21,599 relates to creation of provisions for jubilee benefits, termination benefits upon retirement and other provisions.

In 2018, labour costs totalled EUR 3,232,248. Of the mentioned amount, EUR 2,391,733 is accounted for by the cost of gross salaries and compensations, whilst 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 2018, audit costs totalled EUR 20,862 and include audit of the annual reports of the Insurance Company and the funds. In 2017, audit costs reached EUR 25,475, of which the amount of EUR 20,862 relates to audit of annual reports of the Insurance Company and funds, and the amount of EUR 4,613 relates to audit costs of transition to IFRS 9.

## Note no. 9: Other insurance expenses

in EUR

Item	2018	2017
<b>Other insurance expenses</b>	<b>-3,746,370</b>	<b>-2,305,637</b>

The bulk of other insurance expenses in 2018 refers to creation of provisions arising from the LAT test (EUR 2,052,675), payments by the manager to cover the difference up to the guaranteed return of mutual pension funds (EUR 1,038,809) and to creation of provisions due to failure to achieve the guaranteed rate of return (EUR 541,288).

In 2017, other insurance expenses comprised payments by the manager to cover the difference up to the guaranteed return of mutual pension funds (EUR 1,168,570) and to creation of provisions arising from the LAT test (EUR 984,791).

## Note no. 10: Other expenses

in EUR

Item	2018	2017
<b>Other expenses</b>	<b>-210</b>	<b>-3,856</b>

## Note no. 11: Income tax

in EUR

Item	2018	2017
Profit or loss for the period before tax	6,981,669	8,909,948
Tax on dividends from abroad	143,206	144,617
Non-deductible expenses	499,752	496,771
Tax-free income	-5,907,774	-2,477,377
Change in accounting policies	2,059,495	0
Tax reliefs	-154,706	-315,839
Tax losses	-1,888,174	-3,536,979
<b>Total (tax base)</b>	<b>1,733,468</b>	<b>3,221,141</b>
Income tax (19%)	188,758	536,271
Tax on foreign dividends prior to agreement	140,601	75,746

The effective interest rate in 2018 was 2.7 percent (the ratio between the income tax accounted and the profit/loss for the period before taxes).

## Note no. 12: Deferred tax

in EUR

Item	Statement of financial position as at 31 Dec 2018	Statement of financial position as at 31 Dec 2017	Statement of profit or loss for 2018	Statement of profit or loss for 2017	Retained earnings / losses for 2018
Deferred income tax – liabilities; of which:	11,056,696	13,859,511	98,786	173,745	0
Revaluation of available-for-sale investments to fair value	8,650,910	11,354,939	0	0	0
Liabilities from investments transferred	2,405,786	2,504,572	98,786	173,745	0
Total deferred income tax liabilities	11,056,696	13,859,511	98,786	173,745	0
Deferred income tax – receivables, of which:	3,230,735	4,042,011	-541,797	-767,400	-269,479
Losses brought forward to be used as tax relief	1,529,808	1,888,562	-358,754	-672,026	0
Adjustment of investments	1,671,341	2,125,588	-184,768	-104,879	-269,479
Provisions	29,586	27,861	1,725	9,505	0
Total deferred income tax assets	3,230,735	4,042,011	-541,797	-767,400	-269,479
<b>Netting of deferred income tax assets and liabilities</b>	<b>-7,825,961</b>	<b>-9,817,500</b>	<b>-443,011</b>	<b>-593,655</b>	<b>-269,479</b>

### 12.1 Changes in deferred tax recognised directly in equity

in EUR

Changes in deferred tax	2018	2017
Balance as at 1 Jan	13,859,511	11,927,639
Changes during the year	-2,802,815	1,931,872
<b>Balance as at 31 Dec</b>	<b>11,056,696</b>	<b>13,859,511</b>

## Notes to the statement of other comprehensive income

### Note no. 13: Other comprehensive income after tax

in EUR

Item	2018	2017
Other comprehensive income after tax	-13,266,796	13,233,982

Other comprehensive income refers to net gains/losses from remeasurement of financial assets at fair value through other comprehensive income. In 2018, other comprehensive income was negative due to the demanding situation on the securities markets.

## Notes to the statement of financial position

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

in EUR

2018	Software	Total
Cost as at 1 Jan 2018	1,845,912	1,845,912
Acquisitions	64,641	64,641
Disposals	0	0
Cost as at 31 Dec 2018	1,910,553	1,910,553
Adjustment as at 1 Jan 2018	-587,936	-587,936
Write-downs	0	0
Amortisation	-467,773	-467,773
Adjustment as at 31 Dec 2018	-1,055,709	-1,055,709
Carrying amount as at 1 Jan 2018	1,257,976	1,257,976
<b>Carrying amount as at 31 Dec 2018</b>	<b>854,844</b>	<b>854,844</b>

V EUR

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
Adjustment as at 1 Jan 2017	-204,290	0	-204,290
Amortisation	-383,646	0	-383,646
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
<b>Carrying amount as at 31 Dec 2017</b>	<b>1,257,976</b>	<b>0</b>	<b>1,257,976</b>

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

in EUR

2018	Equipment and small tools	Company cars	Total
Cost as at 1 Jan 2018	89,429	49,530	138,959
Acquisitions	41,411	0	41,411
Disposals	-4,753	0	-4,753
Cost as at 31 Dec 2018	126,087	49,530	175,617
Adjustment as at 1 Jan 2018	-70,406	-30,938	-101,344
Write-downs	4,753	0	4,753
Depreciation	-17,035	-4,850	-21,885
Adjustment as at 31 Dec 2018	-82,688	-35,788	-118,476
Carrying amount as at 1 Jan 2018	19,023	18,592	37,615
<b>Carrying amount as at 31 Dec 2018</b>	<b>43,399</b>	<b>13,742</b>	<b>57,141</b>

in EUR

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
Adjustment as at 1 Jan 2017	-58,083	-26,089	-84,172
Write-downs	2,388	0	2,388
Depreciation	-14,711	-4,850	-19,561
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
<b>Carrying amount as at 31 Dec 2017</b>	<b>19,023</b>	<b>18,592</b>	<b>37,615</b>

## Note no. 16: Financial assets

Financial assets of Modra zavarovalnica include investments in group companies and associates, investments, and cash and cash equivalents.

in EUR

Item	Own financial assets	Financial assets of guarantee funds	Total 31 Dec 2018
F. Investments in group companies and associates	34,459,173	0	34,459,173
G. b Investments	222,695,217	192,657,600	415,352,818
• At amortised cost	24,772,053	126,125,736	150,897,789
• At fair value through other comprehensive income	187,072,042	0	187,072,042
• At fair value through profit or loss	10,851,122	66,531,864	77,382,987
M. Cash and cash equivalents	1,743,833	1,921,164	3,664,998
<b>Total</b>	<b>258,898,224</b>	<b>194,578,764</b>	<b>453,476,989</b>

in EUR

Item	Own financial assets	Financial assets of guarantee funds	Total 31 Dec 2017
F. Investments in group companies and associates	35,362,971	0	35,362,971
G. a Investments	231,188,356	165,454,436	396,642,792
• Loans and deposits	13,534,719	9,682,119	23,216,838
• Held-to-maturity	15,800,833	95,939,060	111,739,893
• Available-for-sale	188,581,221	0	188,581,221
• At fair value	13,271,583	59,833,257	73,104,840
M. Cash and cash equivalents	782,646	1,267,400	2,050,046
<b>Total</b>	<b>267,333,973</b>	<b>166,721,836</b>	<b>434,055,809</b>

### 16.1 Investments in associates and joint ventures

#### 16.1.1 Investments in associates

As at 31 December 2018, Modra zavarovalnica disclosed the investment in Cinkarna Celje, d. d. in the amount of EUR 29,496,303 among investments in associated companies. The investment in the associated company is measured at fair value through other comprehensive income.

in EUR

Associated company	Registered office of the company	Equity stake	Company's equity 31 Dec 2018 (unaudited data)	Net profit of the company in 2018 (unaudited data)
Cinkarna Celje, d. d.	Kidričeva ulica 26, Celje	20.00%	173,925,466	30,558,183

### 16.1.2 Changes in investments in associates

in EUR

Item	Investments in associates
Balance as at 1 Jan 2018	35,362,971
Change in revaluation surplus	-5,866,668
<b>Balance as at 31 Dec 2018</b>	<b>29,496,303</b>

Revaluation surplus dropped significantly in 2018 due to negative share price fluctuation.

### 16.1.3 Investments in joint ventures

As at 31 December 2018, Modra zavarovalnica disclosed the investment in the company Hotelske nepremičnine, d. o. o. in the amount of EUR 4,962.870 among investments in joint ventures. The investment is measured at cost according to IAS 27.10.

in EUR

Associated company	Registered office of the company	Equity stake	Company's equity 31 Dec 2018	Net profit of the company in 2018
Hotelske nepremičnine, d.o.o.	Dunajska cesta 119, Ljubljana	50.00%	9,983,136	57,396

## 16.2 Investments

in EUR

Item	Own investments	Investments by guarantee funds	Total 31 Dec 2018
Investments at amortised cost	24,772,053	126,125,736	150,897,789
Investments at fair value through other comprehensive income	187,072,042	0	187,072,042
Investments at fair value through profit or loss	10,851,122	66,531,864	77,382,987
<b>Total</b>	<b>222,695,218</b>	<b>192,657,600</b>	<b>415,352,818</b>

in EUR

Item	Own investments	Investments by guarantee funds	Total 31 Dec 2017
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	13,271,583	59,833,257	73,104,840
Investments in loans and deposits	13,534,719	9,682,119	23,216,838
<b>Total</b>	<b>231,188,356</b>	<b>165,454,436</b>	<b>396,642,792</b>

### 16.2.1 Breakdown of investments

in EUR

Item	31 Dec 2018
Investments at fair value through profit or loss	77,382,987
Equity securities	57,039,493
Debt securities	20,343,493
Investments at fair value through other comprehensive income	187,072,042
Equity securities	145,957,603
Debt securities	41,114,438
Investments at amortised cost	150,897,789
Debt securities	134,411,980
Loans and deposits	16,485,809
<b>Total</b>	<b>415,352,818</b>

in EUR

Item	31 Dec 2017
Investments at fair value	73,104,840
Equity securities	54,060,871
Debt securities	19,043,969
Available-for-sale investments	188,581,221
Equity securities	145,022,232
Debt securities	43,558,990
Held-to-maturity investments	111,739,893
Investments in loans and deposits	23,216,838
<b>Total</b>	<b>396,642,792</b>

### 16.2.2 Changes in investments

in EUR

Modra zavarovalnica	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Total
Balance as at 1 Jan 2018	134,956,731	188,581,221	73,104,840	396,642,792
Acquisitions	42,171,813	12,894,636	31,961,829	87,028,278
Revaluation/impairments/revalorisation	2,575,067	3,258,988	-8,660,004	-2,825,949
Sales/maturity	-28,805,822	-17,662,803	-19,023,679	-65,492,304
<b>Balance as at 31 Dec 2018</b>	<b>150,897,789</b>	<b>187,072,042</b>	<b>77,382,987</b>	<b>415,352,818</b>

### 16.2.3 Structure of financial assets according to interest rate type

in EUR

Investment	31 Dec 2018	31 Dec 2017
Debt investments	195,869,912	174,342,851
Fixed interest rate	190,969,071	169,957,445
Variable interest rate	4,900,841	4,385,406
Loans and deposits	16,485,809	23,216,838
Fixed interest rate	16,485,809	23,216,838
Cash and cash equivalents	3,664,997	2,050,046
<b>Total</b>	<b>216,020,719</b>	<b>199,609,735</b>

Treasury bills are taken into account within the scope of fixed-rate debt investments.

### 16.2.4 Risk of changes in interest rates

in EUR

Investments as at 31 Dec 2018	Less than 1 year	More than 1 year to 5 years	Over 5 years	Total
Investments at fair value through profit or loss	2,721,869	8,172,795	9,448,829	20,343,493
Investments at amortised cost	17,914,587	47,416,890	85,566,312	150,897,790
Investments at fair value through other comprehensive income	3,401,633	27,231,757	10,481,048	41,114,438
Cash and cash equivalents	3,664,997	0	0	3,664,997
<b>Total</b>	<b>27,703,086</b>	<b>82,821,443</b>	<b>105,496,190</b>	<b>216,020,719</b>

### 16.2.5 Equity investments at fair value through other comprehensive income (IFRS 9.5.7.5)

The central objective of the Insurance Company's asset management is long-term growth in the value of assets. The manager pursues this objective through inclusion of equity investments measured at fair value through other comprehensive income. The purpose of holding these investments is mostly to collect cash flows from dividends.

in EUR

Trading symbol of security	31 Dec 2018
AEIGBIE LX	2,245,102
ALEHYIT LX	1,660,428
DAXEX GR	4,178,940
DEHYCFC LX	1,890,630
DWSC3FC LX	721,256
DWSCNFC LX	424,828
EUN5 GY	2,163,662
EUNH GY	2,956,181
EUNW GY	1,971,566
EWA US	1,060,011
EWG US	1,648,615
EWY US	2,209,075
IEBB LN	3,557,016
IXC US	1,257,308
IYR US	2,388,917
MOO US	3,815,032
MXFS LN	6,574,017
PARECPI LX	1,827,143
PIMEUBD ID	3,629,276
PIMGBIE ID	1,549,284
PJS1 GY	635,476
R304FVT AV	5,653
REHYIVA AV	1,454,810
RESRIVA AV	1,553,375
RXI US	4,167,770
SMSWLD GY	8,608,113
VONEUMJ LX	1,654,198
DIICEIC LX	3,102,577
DICUIC LX	2,070,527
XEIN GY	1,853,695
XGIN GY	2,609,546
XGLE GY	5,055,305
XLE US	2,754,803

The table continues on the next page.

	in EUR
Trading symbol of security	31 Dec 2018
XLI US	1,687,598
XLP US	2,193,962
XLV US	2,807,457
XMWO GY	10,249,286
XY4P GY	4,841,471
1398 HK	891,408
6301 JP	955,034
ALPHABET INC NPV CLASS A	1,807,918
ALPHABET INC NPV CLASS C	1,796,263
ALV GR	3,007,154
CHL US	1,148,646
CICG	29,496,303
CSCO US	1,106,599
ENI IM	850,795
KO US	3,237,996
MSFT US	3,682,068
MUV2 GR	2,299,176
ORCL US	1,989,755
PHIA NA	1,174,783
POSR	10,928,561
ROG SW	768,927
SAN FP	1,531,737
SOW GR	584,004
TEF SM	620,909
VALE US	343,562
KD AVF	2,198,398

In 2018, Modra zavarovalnica received from equity investments measured at fair value through other comprehensive income dividends totalling EUR 6,360,748 (EUR 50,332 of dividends relate to investments that were disposed of in 2018). Due to the favourable market situation and for the purpose of ensuring its liquidity, the Insurance Company disposed of investments totalling EUR 11,059,429 during the period, thus generating EUR 2,385,213 profits that were transferred to retained earnings.

### 16.3 Cash

	in EUR	
Item	31 Dec 2018	31 Dec 2017
Cash in transaction accounts with banks and cash on hand	3,664,998	2,050,045

### Note no. 17: Receivables

	in EUR	
Item	31 Dec 2018	31 Dec 2017
Receivables from direct insurance business	2,578	1,605
Current tax assets	612,017	480,086
Other receivables	2,106,146	1,105,067
<b>Total</b>	<b>2,720,741</b>	<b>1,586,758</b>

In 2018, the highest item of other receivables was accounted for by retained deficit of assets for covering liabilities to the insureds of KS MR and KS MR II in the amount EUR 1,274,930; short-term receivables from management fees and entry and exit fees of mutual pension funds totalled EUR 594,196.

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

### Note no. 18: Other assets

	in EUR	
Item	31 Dec 2018	31 Dec 2017
Other assets	2,960,850	2,082,158

Other assets are almost entirely accounted for by deferred costs and accrued revenues representing receivables due from mutual pension funds for annuity fund premiums arising from the last conversion in the period.



## Note no. 19: Off-balance sheet items

in EUR

Fund	31 Dec 2018	31 Dec 2017
Assets / liabilities of pension funds under management	1,057,360,190	1,002,227,713
KVPS	176,815,193	179,461,686
KPSJU	89,116	105,623
ZPJU	777,268,469	742,495,658
PPJU	3,112,080	1,321,157
DPJU	5,483,633	1,175,220
MKPS	164,167	27,230
MZP	49,596,073	37,598,615
MPP	11,324,402	8,544,586
MDP	14,375,119	11,377,424
PPS	19,131,937	20,120,513
Off-balance sheet items arising from financial asset management	1,656,345	996,207
<b>Total assets</b>	<b>1,059,016,535</b>	<b>1,003,223,920</b>

Off-balance sheet items in the amount of EUR 1,057,360,190 refer to assets/liabilities of pension funds under the management of Modra zavarovalnica; off-balance sheet assets/liabilities in the amount of EUR 1,656,345 relate to the commitment of Modra zavarovalnica to purchase investment fund units.

## Note no. 20: Equity

### 20.1. Share capital

in EUR

Item	31 Dec 2018	31 Dec 2017
Share capital (in EUR)	152,200,000	152,200,000
Ordinary shares (number)	152,200,000	152,200,000

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

The carrying amount of a share as at 31 December 2018 stood at EUR 1.55. Modra zavarovalnica d.d. is 100-percent owned by Kapitalska družba d.d.

## 20.2 Changes in individual equity components

in EUR

Item	Share capital	Revenue reserves	Revaluation surplus	Retained earnings / losses (IFRS 9)	Retained earnings / losses	Retained net profit / loss	Total
1 Jan 2018	152,200,000	27,612,966	60,703,295	0	0	3,523,240	244,039,501
Change	0	3,484,507	-14,314,375	823,114	2,385,213	-645,343	-8,266,883
<b>31 Dec 2018</b>	<b>152,200,000</b>	<b>31,097,473</b>	<b>46,388,920</b>	<b>823,114</b>	<b>2,385,213</b>	<b>2,877,897</b>	<b>235,772,618</b>

Revenue reserves represent legal reserves in the amount of EUR 2,833,417, statutory reserves in the amount of EUR 2,691,747 and other revenue reserves in the amount of EUR 25,572,309. In 2018, the Insurance Company allocated 5 percent of net profit for 2018 equalling EUR 317,495 to legal reserves in accordance with the provisions of Article 64 of ZGD-1. Statutory reserves were increased by EUR 301,620 and other reserves by EUR 2,865,392.

### 20.3 Changes in revaluation surplus

in EUR

Revaluation surplus	Amount
<b>1 Jan 2018</b>	<b>60,703,295</b>
Decrease arising from fair value changes	-11,291,927
Net change in investments	-2,022,948
Reversal of permanent impairments (IFRS 9)	-1,047,579
Impairments of investments at fair value through other comprehensive income (IFRS 9)	48,079
<b>31 Dec 2018</b>	<b>46,388,920</b>

in EUR

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

## Note no. 21: Technical provisions

### 21.1 Technical provisions

in EUR

Item	31 Dec 2018	31 Dec 2017
KS PPS technical provisions	101,315,380	102,491,512
KS MR technical provisions	20,522,180	25,460,572
KS MR II technical provisions	68,190,509	35,387,137
<b>Total</b>	<b>190,028,069</b>	<b>163,339,222</b>

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

### 21.2 Changes in technical provisions

in EUR

Technical provisions	2018	2017
Opening balance	163,339,222	144,365,708
Change through profit or loss	26,668,900	18,930,499
Changes in provisions for outstanding claims	19,947	43,015
<b>Closing balance</b>	<b>190,028,069</b>	<b>163,339,222</b>

Technical provisions increased in 2018 due to inflows of assets and insureds to the KS MR II fund. Changes in provisions for outstanding claims represent calculated, but for various reasons not yet paid annuities.

in EUR

Changes in technical provisions	KS PPS	KS MR	KS MR II	Total
Balance as at 1 Jan 2018	102,491,512	25,460,572	35,387,137	163,339,222
Increase	5,528,534	435,659	41,052,939	47,017,132
Decrease	-6,721,756	-5,375,700	-8,250,776	-20,348,232
Change in provisions for outstanding claims	17,090	1,649	1,209	19,947
<b>Balance as at 31 Dec 2018</b>	<b>101,315,380</b>	<b>20,522,180</b>	<b>68,190,509</b>	<b>190,028,069</b>

## Note no. 22: Other provisions

### 22.1 Other provisions

in EUR

Other provisions	31 Dec 2018	31 Dec 2017
Provisions for not achieving the guaranteed rate of return	9,888,253	10,976,752
Provisions for the deficit of annuity funds' assets	1,274,930	240,302
Provisions related to employees (jubilee benefits, termination benefits upon retirement and similar)	311,428	293,275
Provisions arising from the LAT test	4,699,673	2,741,284
<b>Total</b>	<b>16,174,284</b>	<b>14,251,613</b>

### 22.2 Changes in other provisions

in EUR

Item	Provisions for not achieving the guaranteed rate of return	Provisions arising from the LAT test	Provisions for the deficit of guarantee funds' assets	Employee-related provisions	Total
1 Jan 2018	10,976,752	2,741,284	240,302	293,275	14,251,613
Increases during the year	541,288	2,052,675	1,034,628	21,599	3,650,190
Drawing of provisions	0	0	0	-3,446	-3,446
Reversal of provisions	-1,629,786	-94,287	0	0	-1,724,073
<b>31 Dec 2018</b>	<b>9,888,253</b>	<b>4,699,673</b>	<b>1,274,930</b>	<b>311,428</b>	<b>16,174,284</b>

The Insurance Company creates provisions for failure to achieve the guaranteed rate of return when the actual net value of assets of funds implementing the investment policy of guaranteed rate of return is lower than their guaranteed rate of return. In 2018, provisions for the KVPS, ZPJU and MZP funds were made. On the other side, provisions for failure to achieve the guaranteed rate of return were reversed for the PPS fund, for which the difference between the guaranteed and net value of assets decreased.

New provisions arising from the LAT test refer to the KS MR II fund and the reversal of provisions to the KS MR fund. Provisions arising from the LAT test are explained in more detail under the 'Disclosures of insurance contracts' section.

Provisions for the deficit of assets in a guarantee fund are made when a guarantee fund records a deficit in assets with respect to its liabilities. Provisions are made in the amount of the difference between net value of assets and liabilities to insureds (the amount of mathematical provisions). In 2018, such provisions were made for the KS MR and KS MR II funds.

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 close to the ECB inflation goals, and 2-percent discount rate. Assumptions regarding the expected employee turnover attribute the highest probability (40%) for leaving the Insurance Company to the employees with over 20 years of service until retirement, whilst employees with less than 5 years of service until retirement are attributed the probability of 0%.

#### Note no. 23: Operating liabilities

in EUR

Item	31 Dec 2018	31 Dec 2017
Liabilities from direct insurance business	6,000	0
Current tax liabilities	239,760	536,271
<b>Total</b>	<b>245,760</b>	<b>536,271</b>

Current tax liabilities comprise liabilities for corporate income tax.

#### Note no. 24: Other liabilities

in EUR

Item	31 Dec 2018	31 Dec 2017
Short-term liabilities to employees	270,416	239,946
Other short-term liabilities from insurance business	10,858	22,953
Short-term accounts payable	383,645	262,945
Other short-term liabilities	74,462	153,201
Accrued costs	144,704	145,631
Short-term deferred revenue	8,756,988	5,605,375
Long-term liabilities	33,636	24,218
Finance lease liabilities	349,164	581,940
<b>Total</b>	<b>10,023,872</b>	<b>7,036,210</b>

Short-term liabilities to employees relate to liabilities arising from salaries and wages for December 2018.

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

Accrued costs relate to the costs of unused holiday leave and other estimated costs for 2018.

Short-term deferred revenue is deferred revenue of KS MR II arising from the pension insurance annuity premiums received from insureds who expressed their intention to take out insurance as at 1 January 2019 based on an indicative calculation. The increase in the category is related to higher revenue from premiums of the KS MR II fund.

Long-term liabilities are liabilities for 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 22: Present gross value of future payments

in EUR

Types of payment	31 Dec 2018	31 Dec 2017
KS PPS	96,561,618	97,231,519
KS MR	20,518,569	25,458,610
KS MR II	68,189,090	35,275,896
<b>Total</b>	<b>185,269,277</b>	<b>157,966,025</b>

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

Table 23: Composition of technical provisions as at 31 December 2018

in EUR

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	96,561,618	3,772,695	981,067	101,315,380
KS MR	20,518,569	0	3,611	20,522,180
KS MR II	68,189,090	0	1,419	68,190,509
<b>Total</b>	<b>185,269,277</b>	<b>3,772,695</b>	<b>986,097</b>	<b>190,028,069</b>

Technical provisions based on policies of KS PPS deviate from total technical provisions by the amount of provisions for the equalisation of yield experience equalling EUR 3,772,695 and provisions for outstanding claims totalling EUR 981,067. 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 2018 deviate from total technical provisions by the amount of provisions for outstanding claims totalling EUR 3,611. 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 2018 deviate from total technical provisions by the amount of provisions for outstanding claims totalling EUR 1,419. German 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 to the value of mathematical provisions formed 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 2018 published by EIOPA.

The Liability Adequacy Test as at 31 December 2018 showed that mathematical provisions for KS PPS were adequate, whereas a deficit of EUR 1,066,891 and EUR 3,632,782 was determined for KS MR and KS MR II respectively.

## Change in interest rates/return

Table 24: Change in interest rates/return for KS PPS

in EUR		
Change in liabilities / provisions	31 Dec 2018	31 Dec 2017
Increase in return by 0.25 percentage point	-2,819,979	-2,874,730
Decrease in return by 0.25 percentage point	2,965,112	3,025,133

Table 25: Change in interest rates/return for KS MR

in EUR		
Change in liabilities / provisions	31 Dec 2018	31 Dec 2017
Increase in return by 0.25 percentage point	-336,257	-380,624
Decrease in return by 0.25 percentage point	351,196	397,046

Table 26: Change in interest rates/return for KS MR II

in EUR		
Change in liabilities / provisions	31 Dec 2018	31 Dec 2017
Increase in return by 0.25 percentage point	-1,227,571	-644,105
Decrease in return by 0.25 percentage point	1,280,205	672,063

## Change in mortality

Table 27: Change in mortality for KS PPS

in EUR		
Change in liabilities / provisions	31 Dec 2018	31 Dec 2017
Increase in mortality probability by 10%	-3,433,541	-3,375,340
Decrease in mortality probability by 10%	3,899,511	3,833,209

A 10% increase in mortality probability would result in a decrease in liabilities of EUR 3,433,541 (EUR 3,375,340 in 2017). The change in liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 28: Change in mortality for KS MR

in EUR		
Change in liabilities / provisions	31 Dec 2018	31 Dec 2017
Increase in mortality probability by 10%	-251,421	-240,146
Decrease in mortality probability by 10%	283,285	268,002

A 10% increase in mortality probability would result in a decrease in liabilities of EUR 251,421 (EUR 240,146 in 2017). The change in liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 29: Change in mortality for KS MR II

in EUR		
Change in liabilities / provisions	31 Dec 2018	31 Dec 2017
Increase in mortality probability by 10%	-499,096	-250,448
Decrease in mortality probability by 10%	559,758	278,938

A 10% increase in mortality probability would result in a decrease in liabilities of EUR 499,096 (EUR 250,448 in 2017). The change in 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 annuity funds (KS PPS, KS MR and KS MR II).

### Capital management – Solvency II

Modra zavarovalnica estimates that it has sufficient own funds available with respect to its total capital requirement.

**Table 30:** Capital adequacy according to the Solvency II Directive

in EUR

Item	31 Dec 2018	31 Dec 2017
<b>Solvency II</b>		
Total capital requirement (in EUR)	122,828,076	125,268,016
Eligible own funds (in EUR)	252,222,122	265,689,982
Surplus (+)/deficit (-) of available own funds (in EUR)	129,394,046	140,421,966
Ratio between eligible own funds and total capital requirement (in %)	<b>205%</b>	<b>212%</b>

### 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 and 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. 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 limits, 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.

In 2018, the classification of investments into groups based on their credit ratings differs from the 2017 classification due to the application of IFRS 9. Low risk investments previously included investments with a credit rating ranging from AAA to A-, moderate risk investments included those with a credit rating ranging from BBB+ to BBB- and risky investments included investments with a credit rating lower than BBB-. The classification in accordance with IFRS 9 is presented in the table below.

**Table 31:** Exposure of financial assets to credit risk, excluding any collateral, as at 31 Dec 2018

in EUR

Internal rating	Rating	Rate of expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)
Low-risk investments	AAA	0.003%	12-month expected losses	3,591,395	3,591,270
	AA	0.007%		16,828,210	16,827,068
	A	0.012%		81,149,490	81,139,358
	BBB	0.049%		77,792,257	77,754,219
Risky investments*	BB	0.474%	12-month / lifetime expected losses	35,574,542	35,405,784
	B	0%		1,243,663	1,243,663
<b>Total</b>		<b>0.101%</b>		<b>216,179,555</b>	<b>215,961,362</b>

The difference between gross and net exposure is EUR 218,193, which equals the allowance for expected losses on debt investments.

**Table 32:** Changes in allowances for losses

in EUR

Category	Stage 1	Stage 2
Allowance for expected losses as at 1 Jan 2018	-94,056	-231,359
Financial assets derecognised in the period	41,465	47,293
Financial assets acquired in the period	-48,491	0
Other changes	1,093	65,861
<b>Allowance for expected losses as at 31 Dec 2018</b>	<b>-99,988</b>	<b>-118,205</b>

\* Rating B includes the investment in the treasury bill, which is measured at fair value through profit or loss; therefore, this investment is not subject to impairment.

The Insurance Company holds no investments classified as Stage 3 and it also recorded no transitions between stages in 2018 arising from significant changes in credit risks.

Other changes in allowances for losses relate to reversal of impairments over time due to the nearing maturity of financial assets and changes in allowances due to changed risk parameters.

**Table 33:** Changes in gross carrying amount and allowances

in EUR

Category	Gross carrying amount	Allowances for losses
<b>Opening balance as at 1 Jan 2018</b>	<b>199,654,207</b>	<b>-325,415</b>
Financial assets acquired in the period	46,799,455	-48,491
Financial assets derecognised in the period	-31,800,923	88,758
Other changes	1,526,816	66,954
<b>Closing balance as at 31 Dec 2018</b>	<b>216,179,555</b>	<b>-218,193</b>

**Table 34:** Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2017

in EUR

Financial asset group	Low risk – high credit rating of the debtor	Moderate risk – medium credit rating of the debtor	Risky	Total
Investments at fair value	5,259,858	7,209,794	6,574,318	<b>19,043,969</b>
Held-to-maturity investments	67,358,160	37,163,198	7,218,535	<b>111,739,893</b>
Available-for-sale investments	21,549,611	16,627,160	5,382,219	<b>43,558,990</b>
Loans and deposits	0	0	23,216,838	<b>23,216,838</b>
Cash and cash equivalents	0	0	2,050,045	<b>2,050,045</b>
<b>Total</b>	<b>94,167,628</b>	<b>61,000,152</b>	<b>44,441,955</b>	<b>199,609,735</b>

In 2017, low risk investments included investments with a credit rating ranging from AAA to A-, moderate risk investments included those with a credit rating ranging from BBB+ to BBB- and risky investments included investments with a credit rating lower than BBB-.

**Table 35:** Geographical concentration of credit exposure of financial assets

in EUR

Region	31 Dec 2018	31 Dec 2017
Slovenia	86,794,176	93,952,660
Other countries	129,226,542	105,657,075
<b>Total</b>	<b>216,020,719</b>	<b>199,609,735</b>

The table above only includes investments with credit risk, as a rule only debt investments.

## Currency risk

**Table 36:** Currency structure of financial assets

in EUR

Currency	31 Dec 2018	31 Dec 2017
Assets denominated in EUR	398,674,222	369,359,757
Assets denominated in USD	52,094,897	61,451,679
Assets denominated in other currencies	2,707,870	3,244,372
<b>Total</b>	<b>453,476,989</b>	<b>434,055,809</b>

As at 31 December 2018, 88% of the Insurance Company's financial assets were denominated in the euro, 11% in the US dollar and the remaining amount was in other currencies.

**Table 37:** Currency risk of financial assets

in EUR

Change in the USD exchange rate of +/-10%	31 Dec 2018	31 Dec 2017
Impact on profit or loss	+/-170,098	+/-618,265
Impact on equity	+/-5,039,391	+/-5,526,902

## Interest rate risk

Interest rate risk is related to investments in securities that respond to changes in market interest rates. These include investments with income related to a variable interest rate as well as those debt instruments with interest income related to a fixed interest rate, but with their market value changing simultaneously with changes in market interest rates. Owing to low interest rates, the assets were exposed to reinvestment risk.

Modra zavarovalnica manages its interest rate risk by adjusting its structure of investments, namely by adjusting the portfolio duration, restructuring investments with fixed interest rate to investments with variable interest rate or vice versa, and by classifying investments into the category at amortised cost as well as by using derivatives for interest rate risk hedging, which Modra zavarovalnica did not utilise in the previous year.



**Table 38:** Sensitivity analysis of investments with respect to changes in market interest rates as at 31 Dec 2018 – change in interest rate of 50 basis points

in EUR

Item	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Investments at fair value through profit or loss	+/-0.5%	+/-16,470	-/+76,692	<b>-/+60,222</b>
Investments at amortised cost	+/-0.5%	0	0	<b>0</b>
Investments at fair value through other comprehensive income	+/-0.5%	+/-8,034	-/+197,538	<b>-/+189,504</b>
<b>Total</b>		<b>+/-24,504</b>	<b>-/+274,230</b>	<b>-/+249,726</b>

**Table 39:** Sensitivity analysis of investments with respect to changes in market interest rates as at 31 Dec 2017 – change in interest rate of 50 basis points

in EUR

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

The sensitivity calculation for interest income was made taking into account investments with variable interest rate, whereas the impact on fair value was calculated taking into account investments with fixed interest rate.

#### Market risk

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

**Table 40:** Market risk of the equity securities portfolio

in EUR

Change in index by +/-10%	31 Dec 2018	31 Dec 2017
Impact on profit or loss	+/-6,200,236	+/-5,406,087
Impact on equity	+/-17,545,391	+/-18,038,520

The impact on profit or loss arises from equity securities measured at fair value through profit or loss, whilst the impact on equity arises from equity securities measured at fair value through other comprehensive income.

**Table 41:** Financial assets in terms of marketability

in EUR

Financial asset	31 Dec 2018
<b>Securities traded on the regulated market</b>	<b>414,876,124</b>
Investments at fair value through profit or loss	66,487,531
Investments at amortised cost	134,018,646
Investments at fair value through other comprehensive income	214,369,948
<b>Securities not traded on the regulated market</b>	<b>34,935,868</b>
Investments at fair value through profit or loss	15,858,326
Investments at amortised cost	16,879,144
Investments at fair value through other comprehensive income	2,198,398
<b>Cash and cash equivalents</b>	<b>3,664,997</b>
<b>Total</b>	<b>453,476,989</b>

At the end of 2018, investments traded on regulated securities markets accounted for 91% of assets.

**Table 42:** Financial assets in terms of marketability

in EUR

Financial instrument	31 Dec 2017
<b>Securities traded on the regulated market</b>	<b>396,800,903</b>
Investments at fair value	63,300,243
Held-to-maturity investments	110,605,244
Available-for-sale investments	222,895,416
<b>Securities not traded on the regulated market</b>	<b>11,988,022</b>
Investments at fair value	9,804,597
Held-to-maturity investments	1,134,649
Available-for-sale investments	1,048,776
Loans and deposits	23,216,838
<b>Cash and cash equivalents</b>	<b>2,050,046</b>
<b>Total</b>	<b>434,055,809</b>

**Table 43:** Overview of financial assets by carrying amount and fair value as at 31 December 2018

in EUR

Item	Carrying amount	Fair value
Investments at fair value through profit or loss	82,345,857	82,345,857
Investments at amortised cost	150,897,790	156,289,867
Investments at fair value through other comprehensive income	216,568,345	216,568,345
Cash and cash equivalents	3,664,997	3,664,997
<b>Total</b>	<b>453,476,989</b>	<b>458,869,066</b>

**Table 44:** Overview of investments by carrying amount and fair value as at 31 December 2017

in EUR

Item	Carrying amount	Fair value
Investments at fair value	73,104,840	73,104,840
Held-to-maturity investments	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
Cash and cash equivalents	2,050,046	2,050,046
<b>Total</b>	<b>434,055,809</b>	<b>441,991,426</b>

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

**Table 45:** Fair value hierarchy of financial assets as at 31 December 2018

in EUR

Item	L1	L2	L3	Total
<b>Financial assets measured at fair value</b>	<b>216,537,039</b>	<b>69,763,373</b>	<b>12,613,790</b>	<b>298,914,202</b>
Investments measured at fair value through profit or loss	50,437,145	21,493,321	10,415,391	82,345,857
Investments measured at fair value through other comprehensive income	166,099,894	48,270,052	2,198,398	216,568,345
<b>Financial assets with fair value disclosed</b>	<b>135,992,426</b>	<b>2,921,175</b>	<b>21,041,263</b>	<b>159,954,864</b>
Investments at amortised cost	132,327,429	2,921,175	21,041,263	156,289,867
Cash and cash equivalents	3,664,997	0	0	3,664,997
<b>Total</b>	<b>352,529,465</b>	<b>72,684,548</b>	<b>33,655,052</b>	<b>458,869,066</b>

**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 investments). 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 thus includes debt securities of companies and financial institutions as well as government securities valued using benchmark market data and investments in shares of some Slovenian companies valued using 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 subjective variables not publicly available on markets and investments in securities the prices of which are provided by third parties.

Level 3 also includes deposits and factoring of EUR 16,485,809, commercial papers of Slovenian issuers of EUR 5,022,797 and investment fund units with prices provided by third parties in the amount of EUR 6,046,098. The prices of commercial papers are calculated based on theoretical (amortised) value of commercial papers considering the interest rate applicable to the relevant purchase. Level 3 includes the joint venture investment of EUR 4,962,870, which is valued at cost.

Level 3 also comprises shares of certain Slovenian companies in the total amount of EUR 1,137,477. The biggest investment is the one in the company Hit, d. d. in the amount of EUR 780,657. The value of the investment was set by the model of present value of expected free cash flows. The valuation was made based on a 7.8% discount rate.

**Table 53:** Changes in Level 3 investments

in EUR

Item	2018
Balance as at 1 Jan 2018	33,440,875
Disposals/maturity	-23,975,803
Acquisitions	24,084,576
Revaluation	554,741
Reclassifications	-449,336
<b>Balance as at 31 Dec 2018</b>	<b>33,655,052</b>

In 2018, the investment totalling EUR 449,336 was reclassified from Level 3 to Level 2.

## Liquidity risk

Liquidity risk is the possibility that the Insurance Company's liabilities will not be settled by due date. As at 31 December 2018, Modra zavarovalnica disclosed a total surplus of EUR 227,780,109 in expected non-discounted cash inflows over outflows.

Table 47: Expected actual non-discounted cash flows as at 31 December 2018

in EUR

Item	Less than 1 year	More than 1 year to 5 years	More than 5 years	No maturity	Total
Investments	28,582,683	115,944,926	94,037,658	202,997,096	441,562,363
- At fair value through profit or loss	3,060,568	9,540,082	9,499,454	57,039,493	79,139,598
- At amortised cost	21,077,041	75,370,094	77,050,511	0	173,497,646
- At fair value through other comprehensive income	4,445,074	31,034,750	7,487,693	145,957,603	188,925,119
Cash and cash equivalents	3,664,997	0	0	0	3,664,997
Receivables	2,720,741	0	0	0	2,720,741
<b>Total assets</b>	<b>34,968,421</b>	<b>115,944,926</b>	<b>94,037,658</b>	<b>202,997,096</b>	<b>447,948,101</b>
Operating liabilities	245,760	0	0	0	245,760
Other liabilities	9,990,237	33,636	0	0	10,023,873
Liabilities of annuity funds	19,512,454	56,576,160	133,809,745	0	209,898,359
<b>Total liabilities</b>	<b>29,748,451</b>	<b>56,609,796</b>	<b>133,809,745</b>	<b>0</b>	<b>220,167,992</b>
<b>Difference (assets – liabilities)</b>	<b>5,219,970</b>	<b>59,335,130</b>	<b>-39,772,087</b>	<b>202,997,096</b>	<b>227,780,109</b>

Table 48: Expected actual non-discounted cash flows as at 31 December 2017

in EUR

Item	Less than 1 year	More than 1 year to 5 years	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	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
<b>Total assets</b>	<b>40,017,130</b>	<b>98,440,262</b>	<b>83,850,098</b>	<b>234,446,074</b>	<b>456,753,564</b>
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
<b>Total liabilities</b>	<b>23,283,975</b>	<b>45,658,156</b>	<b>100,008,942</b>	<b>0</b>	<b>168,951,072</b>
<b>Difference (assets – liabilities)</b>	<b>16,733,155</b>	<b>52,782,106</b>	<b>-16,158,844</b>	<b>234,446,074</b>	<b>287,802,491</b>

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

## Overview of effective interest rates by investment group

Table 49: Effective interest rates by investment group

Item	2018	2017
Investments at amortised cost (held to maturity)	2.07%	2.19%
Investments at fair value through other comprehensive income (available for sale)	2.20%	2.33%

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

In 2018, remuneration of members of the Management Board, supervisory bodies and employees with individual employment contracts not subject to the tariff part of the collective agreement totalled EUR 778,965.

In 2018, Modra zavarovalnica granted no prepayments or loans to members of management and supervisory bodies nor did it assume any liabilities on their behalf.

Table 50: Gross remuneration in 2018 by recipient category

in EUR

Category of recipients	Amount
Members of the Management Board	326,192
Members of supervisory bodies	91,997
Employees with individual employment contracts	360,776
<b>Total</b>	<b>778,965</b>

### Remuneration of members of management and supervisory bodies

Table 51: Remuneration of members of the Management Board in 2018

in EUR

Name and surname	Fixed remuneration	Outstanding payments	Fringe benefits	Holiday allowance	Cost reimbursement	Insurance premiums	Total
Borut Jamnik	118,858	14,620	4,723	1,161	5,450	2,819	<b>147,631</b>
Mag Matija Debelak	112,915	28,003	1,049	1,161	1,273	2,819	<b>147,220</b>
Boštjan Vovk	28,229	0	72	0	2,335	705	<b>31,341</b>

Fixed remuneration includes gross salaries. Outstanding payments include the second part of variable remuneration for 2015 and the first part of variable remuneration for 2017. 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). Fringe benefits include company cars and benefits arising from collective accident insurance as well as from collective insurance for specialist outpatient treatment. Insurance premiums represent payments for voluntary supplementary pension insurance.

Table 52: Remuneration of members of the Supervisory Board and external members of the Supervisory Board committees in 2018

in EUR

Name and surname	Fixed remuneration of the SB	Fixed remuneration of the SB AC	Compensation for the SB	Compensation for the SB AC	Cost reimbursement	Total
Branimir Štrukelj	3,905	0	0	0	0	<b>3,905</b>
Bojan Zupančič	4,180	0	10,450	0	0	<b>14,630</b>
Dr Janez Prašnikar	3,630	0	10,450	0	0	<b>14,080</b>
Goran Bizjak	3,905	1,100	10,450	3,919	1,113	<b>20,487</b>
Dr Boris Žnidarič	4,180	0	10,450	0	35	<b>14,665</b>
Natalija Stošički	4,180	1,100	11,495	2,612	385	<b>19,772</b>
Dragan Martinović (external member of the SB Audit Committee)	0	1,100	0	2,612	746	<b>4,458</b>

Fixed remuneration includes attendance fees for meetings of the Supervisory Board and its Audit Committee. Compensation includes the monthly fee for performing the function of member of the Supervisory Board and member of the Supervisory Board's Audit Committee. Cost reimbursements include reimbursement of travel expenses and educational/training costs.

### Transactions with related companies

In 2018, 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 499,843 in 2018.

As at 31 December 2018, Modra zavarovalnica disclosed operating liabilities to the parent company amounting to EUR 3,184.

In 2018, the Insurance Company paid dividends amounting to 3,510,735 to Kapitalska družba.

In 2018, Kapitalska družba was paying premiums for collective pension insurance of its employees to the account of open-end umbrella pension fund Modri krovni pokojninski sklad managed by Modra zavarovalnica.

### Significant events after the balance sheet date

Since the end of 2018 until the preparation of the Annual Report, Modra zavarovalnica recorded no significant events that could influence its financial statements for 2018.

# Attachment

**146** Selected performance indicators

**152** Financial statements pursuant to the decision of the Insurance Supervision Agency

## Selected performance indicators

Indicator		2018	Calculation
<b>1. Total</b>	Growth in gross written premium (index)	148	$\frac{43,190,535 \times 100}{29,238,721}$
Life insurance	Growth in gross written premium	148	$\frac{43,164,734 \times 100}{29,225,847}$
Non-life insurance	Growth in gross written premium	200	$\frac{25,800 \times 100}{12,874}$
<b>2. Total</b>	Net written premium as % of gross written premium	100%	$\frac{43,190,535 \times 100}{43,190,535}$
Life insurance	Net written premium as % of gross written premium	100%	$\frac{43,164,734 \times 100}{43,164,734}$
Non-life insurance	Net written premium as % of gross written premium	100%	$\frac{25,800 \times 100}{25,800}$
<b>3. Total</b>	Changes in gross claims paid (index)	120	$\frac{20,394,180 \times 100}{16,991,250}$
Life insurance	Changes in gross claims paid	120	$\frac{20,368,180 \times 100}{16,991,250}$
Non-life insurance	Changes in gross claims paid	-	$\frac{26,000 \times 100}{0}$
<b>4. Total</b>	Loss ratio	47%	$\frac{20,374,232}{43,190,535}$
Life insurance	Loss ratio	47%	$\frac{20,348,232}{43,164,734}$
Non-life insurance	Loss ratio	101%	$\frac{26,000}{25,800}$
<b>5. Total</b>	Operating costs as % of gross written premium	15%	$\frac{6,588,033 \times 100}{43,190,535}$
Life insurance	Operating costs as % of gross written premium	15%	$\frac{6,546,177 \times 100}{43,164,734}$
Non-life insurance	Operating costs as % of gross written premium	162%	$\frac{41,856 \times 100}{25,800}$
<b>6. Total</b>	Cost of acquisition of contracts as % of gross written premium	0.1%	$\frac{40,135 \times 100}{43,190,535}$
Life insurance	Cost of acquisition of contracts as % of gross written premium	0.1%	$\frac{40,135 \times 100}{43,164,734}$
Non-life insurance	Cost of acquisition of contracts as % of gross written premium	0%	$\frac{0 \times 100}{25,800}$
<b>7. Total</b>	Net loss ratio	47%	$\frac{(20,374,232 + 19,947)}{43,190,535}$
Life insurance	Net loss ratio	47%	$\frac{(20,368,180 + 19,947)}{43,164,734}$

The table continues on the next page.

Indicator		2018	Calculation
	Non-life insurance	Net loss ratio	101 % $\frac{26,000}{25,800}$
<b>8. Non-life insurance</b>	Combined loss ratio	263 %	$\frac{(26,000 + 41,856) \times 100}{25,800}$
<b>9. Life insurance</b>	Cost ratio	15 %	$\frac{6,546,177 \times 100}{43,164,734}$
<b>10. Life insurance</b>	Benefit ratio	109 %	$\frac{(20,368,180 + 26,668,900) \times 100}{43,164,734}$
<b>11. Total</b>	Return on investments as % of average balance of investments	3 %	$\frac{(15,742,996 - 4,294,395) \times 100}{\frac{(449,811,991 + 432,005,763)}{2}}$
Life insurance	Return on investments as % of average balance of investments	3 %	$\frac{(15,692,283 - 4,290,588) \times 100}{\frac{(444,795,290 + 426,926,738)}{2}}$
Non-life insurance	Return on investments as % of average balance of investments	1 %	$\frac{50,713 \times 100}{\frac{(5,016,701 + 5,079,025)}{2}}$
<b>12. Total</b>	Net provisions for outstanding claims as % of net premium revenue	2 %	$\frac{986,096 \times 100}{43,190,535}$
Life insurance	Net provisions for outstanding claims as % of net premium revenue	2 %	$\frac{986,096 \times 100}{43,164,734}$
Non-life insurance	Net provisions for outstanding claims as % of net premium revenue	0 %	$\frac{0 \times 100}{25,800}$
<b>13. Total</b>	Gross profit for the year as % of net written premium	16 %	$\frac{6,981,669 \times 100}{43,190,535}$
Life insurance	Gross profit for the year as % of net written premium	16 %	$\frac{6,976,792 \times 100}{43,164,734}$
Non-life insurance	Gross profit for the year as % of net written premium	19 %	$\frac{4,877 \times 100}{25,800}$
<b>14. Total</b>	Gross profit for the year as % of average equity	3 %	$\frac{(6,981,669) \times 100}{\frac{(235,772,618 + 244,039,501)}{2}}$
Life insurance	Gross profit for the year as % of average equity	3 %	$\frac{(6,976,792) \times 100}{\frac{(230,699,466 + 238,929,919)}{2}}$
Non-life insurance	Gross profit for the year as % of average equity	0,1 %	$\frac{(4,877) \times 100}{\frac{(5,073,152 + 5,109,582)}{2}}$
<b>15. Total</b>	Gross profit for the year as % of average assets	2 %	$\frac{(6,981,669) \times 100}{\frac{(460,070,564 + 439,020,316)}{2}}$
Life insurance	Gross profit for the year as % of average assets	2 %	$\frac{(6,976,792) \times 100}{\frac{(454,961,051 + 433,871,392)}{2}}$

The table continues on the next page.



Indicator			2018	Calculation
	Non-life insurance	Gross profit for the year as % of average assets	0,1 %	$\frac{(4,877) \times 100}{\left(\frac{5,109,513 + 5,148,924}{2}\right)}$
<b>16.</b>	<b>Total</b>	Gross profit for the year per share	0,05 EUR	$\frac{6,981,669}{152,200,000}$
	Life insurance	Gross profit for the year per share	-	-
	Non-life insurance	Gross profit for the year per share	-	-
<b>17.</b>	<b>Total</b>	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's equity	0 %	$\frac{0}{235,772,618}$
	Life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's equity	0 %	$\frac{0}{230,699,466}$
	Non-life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the Insurance Company's equity	0 %	$\frac{0}{5,073,152}$
<b>18.</b>	<b>Total</b>	Net written premium as % of the average balance of equity and technical provisions	10 %	$\frac{43,190,535 \times 100}{\left(\frac{425,800,687 + 407,378,722}{2}\right)}$
	Life insurance	Net written premium as % of the average balance of equity and technical provisions	10 %	$\frac{43,164,734 \times 100}{\left(\frac{420,727,535 + 402,269,140}{2}\right)}$
	Non-life insurance	Net written premium as % of the average balance of equity and technical provisions	1 %	$\frac{(25,800) \times 100}{\left(\frac{5,073,152 + 5,109,582}{2}\right)}$
<b>19.</b>	<b>Total</b>	Average balance of net technical provisions as % of net premium revenue	409 %	$\frac{(190,028,069 + 163,339,221) \times 100}{2}$ $\frac{43,190,535}{2}$
	Life insurance	Average balance of net technical provisions as % of net premium revenue	409 %	$\frac{(190,028,069 + 163,339,221) \times 100}{2}$ $\frac{43,164,734}{2}$
	Non-life insurance	Average balance of net technical provisions as % of net premium revenue	0 %	$\frac{0 \times 100}{25,800}$
<b>20.</b>	<b>Total</b>	Equity as % of liabilities	51 %	$\frac{235,772,618 \times 100}{460,070,564}$
	Life insurance	Equity as % of liabilities	51 %	$\frac{230,699,466 \times 100}{454,961,051}$
	Non-life insurance	Equity as % of liabilities	99 %	$\frac{5,073,152 \times 100}{5,109,513}$
<b>21.</b>	<b>Total</b>	Net technical provisions as % of liabilities	41 %	$\frac{190,028,069 \times 100}{460,070,564}$
	Life insurance	Net technical provisions as % of liabilities	42 %	$\frac{190,028,069 \times 100}{454,961,051}$
	Non-life insurance	Net technical provisions as % of liabilities	0 %	$\frac{0 \times 100}{5,109,513}$
<b>22.</b>	<b>Total</b>	Net technical provisions for life insurance as % of net technical provisions	100 %	$\frac{190,028,069 \times 100}{190,028,069}$
<b>23.</b>	<b>Total</b>	Gross written premium considering average number of full-time employees	EUR 719,842	$\frac{43,190,535}{60}$

Indicator			2017	Calculation
<b>1.</b>	<b>Total</b>	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	$\frac{12,874 \times 100}{8,113}$
<b>2.</b>	<b>Total</b>	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%	$\frac{12,874 \times 100}{12,874}$
<b>3.</b>	<b>Total</b>	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	-	-
<b>4.</b>	<b>Total</b>	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	$\frac{0}{12,874}$
<b>5.</b>	<b>Total</b>	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%	$\frac{40,979 \times 100}{12,874}$
<b>6.</b>	<b>Total</b>	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%	$\frac{0 \times 100}{12,874}$
<b>7.</b>	<b>Total</b>	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	$\frac{0}{12,874}$

The table continues on the next page.

Indicator			2017	Calculation
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%	$\frac{(15,915,637 - 1,781,400) \times 100}{(432,005,763 + 388,564,899) \div 2}$
	Life insurance	Return on investments as % of the average balance of investments	3%	$\frac{(15,852,335 - 1,781,400) \times 100}{(426,926,738 + 383,571,856) \div 2}$
	Non-life insurance	Return on investments as % of the average balance of investments	1%	$\frac{(63,302) \times 100}{(5,079,025 + 4,993,043) \div 2}$
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%	$\frac{(8,909,948) \times 100}{(244,039,501 + 225,990,099) \div 2}$
	Life insurance	Gross profit for the year as % of average capital	4%	$\frac{(8,874,751) \times 100}{(238,929,919 + 220,916,336) \div 2}$
	Non-life insurance	Gross profit for the year as % of average capital	1%	$\frac{(35,197) \times 100}{(5,109,582 + 5,073,763) \div 2}$
15.	Total	Gross profit for the year as % of average assets	2%	$\frac{(8,909,948) \times 100}{(439,020,316 + 398,148,790) \div 2}$
	Life insurance	Gross profit for the year as % of average assets	2%	$\frac{(8,874,751) \times 100}{(433,871,392 + 393,045,844) \div 2}$

The table continues on the next page.

Indicator			2017	Calculation
	Non-life insurance	Gross profit for the year as % of average assets	1%	$\frac{(35,197) \times 100}{(5,148,924 + 5,102,946) \div 2}$
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%	$\frac{29,238,721 \times 100}{(407,378,722 + 370,355,807) \div 2}$
	Life insurance	Net written premium as % of the average balance of equity and technical provisions	8%	$\frac{29,225,847 \times 100}{(402,269,140 + 365,282,044) \div 2}$
	Non-life insurance	Net written premium as % of the average balance of equity and technical provisions	0.3%	$\frac{(12,874) \times 100}{(5,109,582 + 5,073,763) \div 2}$
19.	Total	Average balance of net technical provisions as % of net premium revenue	526%	$\frac{(163,339,221 + 144,365,708) \times 100}{29,238,721}$
	Life insurance	Average balance of net technical provisions as % of net premium revenue	526%	$\frac{(163,339,221 + 144,365,708) \times 100}{29,225,847}$
	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	$\frac{29,238,721}{58}$

# 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 EUR

Items	31 Dec 2018			31 Dec 2017		
	Segment LIFE	Segment NON-LIFE	TOTAL	Segment LIFE	Segment NON-LIFE	TOTAL
<b>ASSETS</b>	<b>454,961,051</b>	<b>5,109,513</b>	<b>460,070,564</b>	<b>433,871,392</b>	<b>5,148,924</b>	<b>439,020,316</b>
<b>A. Intangible assets</b>	<b>854,844</b>	<b>0</b>	<b>854,844</b>	<b>1,257,976</b>	<b>0</b>	<b>1,257,976</b>
<b>B. Property, plant and equipment</b>	<b>57,141</b>	<b>0</b>	<b>57,141</b>	<b>37,615</b>	<b>0</b>	<b>37,615</b>
<b>F. Investments in group companies and associates</b>	<b>34,459,173</b>	<b>0</b>	<b>34,459,173</b>	<b>35,362,971</b>	<b>0</b>	<b>35,362,971</b>
<b>Ga. Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>391,563,767</b>	<b>5,079,025</b>	<b>396,642,792</b>
1. Loans and deposits	0	0	0	20,314,274	2,902,564	23,216,838
2. Held-to-maturity	0	0	0	111,007,109	732,784	111,739,893
3. Available-for-sale	0	0	0	187,137,544	1,443,677	188,581,221
4. At fair value	0	0	0	73,104,840	0	73,104,840
<b>Gb. Investments</b>	<b>410,336,117</b>	<b>5,016,701</b>	<b>415,352,818</b>	<b>0</b>	<b>0</b>	<b>0</b>
1. At amortised cost	147,282,517	3,615,272	150,897,789	0	0	0
2. At fair value through other comprehensive income	185,670,613	1,401,429	187,072,042	0	0	0
3. At fair value through profit or loss	77,382,987	0	77,382,987	0	0	0
<b>K. Receivables</b>	<b>2,717,279</b>	<b>3,461</b>	<b>2,720,740</b>	<b>1,584,094</b>	<b>2,664</b>	<b>1,586,758</b>
1. Receivables from direct insurance business	0	2,578	2,578	0	1,605	1,605
3. Current tax assets	612,017	0	612,017	480,086	0	480,086
4. Other receivables	2,105,262	883	2,106,145	1,104,008	1,059	1,105,067
<b>L. Other assets</b>	<b>2,960,850</b>	<b>0</b>	<b>2,960,850</b>	<b>2,082,158</b>	<b>0</b>	<b>2,082,158</b>
<b>M. Cash and cash equivalents</b>	<b>3,575,647</b>	<b>89,351</b>	<b>3,664,998</b>	<b>1,982,811</b>	<b>67,235</b>	<b>2,050,046</b>
<b>N. Off-balance sheet items</b>	<b>1,059,016,535</b>	<b>0</b>	<b>1,059,016,535</b>	<b>1,003,223,920</b>	<b>0</b>	<b>1,003,223,920</b>
<b>EQUITY AND LIABILITIES</b>	<b>454,961,051</b>	<b>5,109,513</b>	<b>460,070,564</b>	<b>433,871,392</b>	<b>5,148,924</b>	<b>439,020,316</b>
<b>A. Equity</b>	<b>230,699,466</b>	<b>5,073,152</b>	<b>235,772,618</b>	<b>238,929,919</b>	<b>5,109,582</b>	<b>244,039,501</b>
1. Share capital	147,200,000	5,000,000	152,200,000	147,200,000	5,000,000	152,200,000
3. Revenue reserves	31,051,975	45,498	31,097,473	27,570,146	42,820	27,612,966
4. Revaluation surplus	46,355,762	33,159	46,388,921	60,649,347	53,948	60,703,295
6. Retained earnings / losses (transition to IFRS 9)	829,531	-6,417	823,114	0	0	0
7. Retained earnings / losses for the financial year	2,386,503	-1,290	2,385,213	0	0	0
8. Retained net profit / loss	2,875,695	2,202	2,877,897	3,510,426	12,814	3,523,240
<b>C. Technical provisions</b>	<b>190,028,069</b>	<b>0</b>	<b>190,028,069</b>	<b>163,339,221</b>	<b>0</b>	<b>163,339,221</b>
2. Technical provisions for life insurance	189,041,972	0	189,041,972	162,373,073	0	162,373,073
3. Provisions for outstanding claims	986,097	0	986,097	966,148	0	966,148
<b>E. Other provisions</b>	<b>16,171,235</b>	<b>3,049</b>	<b>16,174,284</b>	<b>14,248,595</b>	<b>3,018</b>	<b>14,251,613</b>
<b>F. Liabilities for non-current assets held for sale</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>G. Deferred tax liabilities</b>	<b>7,806,014</b>	<b>19,947</b>	<b>7,825,961</b>	<b>9,792,674</b>	<b>24,826</b>	<b>9,817,500</b>
<b>J. Operating liabilities</b>	<b>239,760</b>	<b>6,000</b>	<b>245,760</b>	<b>532,952</b>	<b>3,319</b>	<b>536,271</b>
1. Liabilities from direct insurance business	0	6,000	6,000	0	0	0
3. Current tax liabilities	239,760	0	239,760	532,952	3,319	536,271
<b>K. Other liabilities</b>	<b>10,016,507</b>	<b>7,365</b>	<b>10,023,872</b>	<b>7,028,031</b>	<b>8,179</b>	<b>7,036,210</b>
<b>L. Off-balance sheet items</b>	<b>1,059,016,535</b>	<b>0</b>	<b>1,059,016,535</b>	<b>1,003,223,920</b>	<b>0</b>	<b>1,003,223,920</b>

Segment reporting on statement of profit or loss items

in EUR

Items	2018			2017		
	Segment LIFE	Segment NON-LIFE	TOTAL	Segment LIFE	Segment NON-LIFE	TOTAL
<b>A. NET INSURANCE PREMIUM REVENUE</b>	<b>43,164,735</b>	<b>25,800</b>	<b>43,190,535</b>	<b>29,225,847</b>	<b>12,874</b>	<b>29,238,721</b>
- Gross written premium	43,164,735	25,800	43,190,535	29,225,847	12,874	29,238,721
<b>C. INVESTMENT INCOME, of which</b>	<b>15,692,283</b>	<b>50,713</b>	<b>15,742,996</b>	<b>15,852,335</b>	<b>63,302</b>	<b>15,915,637</b>
- interest income calculated by applying the effective interest method	12,291	0	12,291	0	0	0
- gains recognised in other comprehensive income, transferred to the statement of profit or loss due to reclassification	176,495	0	176,495	0	0	0
- gains on investment disposal	432,821	0	432,821	0	0	0
<b>D. OTHER INSURANCE REVENUE, of which</b>	<b>9,626,113</b>	<b>0</b>	<b>9,626,113</b>	<b>9,748,383</b>	<b>0</b>	<b>9,748,383</b>
- fees and commissions	7,109,740	0	7,109,740	6,601,597	0	6,601,597
<b>E. OTHER REVENUE</b>	<b>114,087</b>	<b>27</b>	<b>114,114</b>	<b>92,773</b>	<b>2</b>	<b>92,775</b>
<b>F. NET CLAIMS INCURRED</b>	<b>20,368,181</b>	<b>26,000</b>	<b>20,394,181</b>	<b>16,991,250</b>	<b>0</b>	<b>16,991,250</b>
- Gross claims paid	20,348,233	26,000	20,374,233	16,948,236	0	16,948,236
- Shares of reinsurers and co-insurers	0	0	0	0	0	0
- Change in provisions for outstanding claims	19,948	0	19,948	43,014	0	43,014
<b>G. CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>-26,668,900</b>	<b>0</b>	<b>-26,668,900</b>	<b>-18,930,499</b>	<b>0</b>	<b>-18,930,499</b>
<b>K. OPERATING COSTS, of which</b>	<b>6,546,177</b>	<b>41,856</b>	<b>6,588,033</b>	<b>6,031,947</b>	<b>40,979</b>	<b>6,072,926</b>
- insurance contract acquisition	40,135	0	40,135	23,308	0	23,308
<b>L. INVESTMENT EXPENSES FOR ASSOCIATES, of which</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>M. INVESTMENT EXPENSES, of which</b>	<b>4,290,588</b>	<b>3,807</b>	<b>4,294,395</b>	<b>1,781,400</b>	<b>0</b>	<b>1,781,400</b>
- impairment of financial assets	46,714	3,805	50,519	101,120	0	101,120
- losses recognised in other comprehensive income, transferred to the statement of profit or loss due to reclassification	11,400	0	11,400	0	0	0
- losses on investment disposal	149,655	0	149,655	0	0	0
<b>N. OTHER INSURANCE EXPENSES</b>	<b>3,746,370</b>	<b>0</b>	<b>3,746,370</b>	<b>2,305,637</b>	<b>0</b>	<b>2,305,637</b>
<b>O. OTHER EXPENSES</b>	<b>210</b>	<b>0</b>	<b>210</b>	<b>3,854</b>	<b>2</b>	<b>3,856</b>
<b>P. PROFIT OR LOSS BEFORE TAX</b>	<b>6,976,792</b>	<b>4,877</b>	<b>6,981,669</b>	<b>8,874,751</b>	<b>35,197</b>	<b>8,909,948</b>
<b>R. INCOME TAX</b>	<b>-631,773</b>	<b>3</b>	<b>-631,770</b>	<b>-1,123,127</b>	<b>-6,799</b>	<b>-1,129,926</b>
<b>S. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR</b>	<b>6,345,019</b>	<b>4,880</b>	<b>6,349,899</b>	<b>7,751,624</b>	<b>28,398</b>	<b>7,780,022</b>

Segment reporting on statement of profit or loss items

in EUR

Items	2018			2017		
	Segment LIFE	Segment NON-LIFE	TOTAL	Segment LIFE	Segment NON-LIFE	TOTAL
	1	2	3=1+2	4	5	6=4+5
<b>I. NET PROFIT/LOSS FOR THE FINANCIAL YEAR AFTER TAX</b>	<b>6,345,019</b>	<b>4,880</b>	<b>6,349,899</b>	<b>7,751,624</b>	<b>28,398</b>	<b>7,780,022</b>
<b>II. OTHER COMPREHENSIVE INCOME AFTER TAX (a+b)</b>	<b>-13,247,209</b>	<b>-19,587</b>	<b>-13,266,796</b>	<b>13,211,129</b>	<b>22,853</b>	<b>13,233,982</b>
<b>a) Items that will not be reclassified subsequently to profit or loss (1+2+3+4+5+6)</b>	<b>-12,133,146</b>	<b>0</b>	<b>-12,133,146</b>	<b>0</b>	<b>0</b>	<b>0</b>
5. Other items that will not be reclassified subsequently to profit or loss	-14,325,530	0	-14,325,530	0	0	0
6. Tax on items that will not be reclassified subsequently to profit or loss	2,192,384	0	2,192,384	0	0	0
<b>b) Items that may be reclassified subsequently to profit or loss (1+2+3+4+5)</b>	<b>-1,114,063</b>	<b>-19,587</b>	<b>-1,133,650</b>	<b>13,211,129</b>	<b>22,853</b>	<b>13,233,982</b>
1.a Net gains/losses from remeasurement of available-for-sale financial assets	0	0	0	15,311,384	28,214	15,339,598
1.1 Gains/losses recognised in revaluation surplus	0	0	0	18,087,441	43,447	18,130,888
1.2 Transfer of gains/losses from revaluation surplus to profit or loss	0	0	0	-2,776,057	-15,233	-2,791,290
1.b Net gains/losses recognised in revaluation surplus in relation to investments measured at fair value through other comprehensive income	-1,370,873	-24,182	-1,395,055	0	0	0
5. Davek od postavk, ki bodo v kasnejših obdobjih lahko preračunane v poslovni izid	256,810	4,595	261,405	-2,100,255	-5,361	-2,105,616
<b>III. TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (I+II)</b>	<b>-6,902,190</b>	<b>-14,707</b>	<b>-6,916,897</b>	<b>20,962,753</b>	<b>51,251</b>	<b>21,014,004</b>

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

Statement of total comprehensive income

in EUR

Item	2018	2017
<b>A. Statement of result for non-life business</b>		
I. Net insurance premium revenue	25,800	12,874
1. Gross written premium	25,800	12,874
IV. Net claims incurred	26,000	0
1. Gross claims paid	26,000	0
VII. Net operating costs	41,856	40,979
3. Other operating costs	41,856	40,979
3.1. Depreciation/amortisation of assets required for operations	4,031	3,576
3.2. Labour costs	26,676	25,289
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	831	803
3.4. Other operating costs	10,318	11,311
<b>IX. Result for non-life business (I+II+III-IV+V-VI-VII-VIII)</b>	<b>-42,056</b>	<b>-28,105</b>
<b>B. Statement of result for life business</b>		
I. Net insurance premium revenue	43,164,735	29,225,847
1. Gross written premium	43,164,735	29,225,847
II. Investment income	15,692,283	15,852,335
1. Income from dividends and profit participation	8,226,142	4,616,868
1.2. Income from dividends and other profit participation in associates	4,321,778	1,474,815
1.3. Income from dividends and other profit participation in other companies	3,904,364	3,142,053
2. Income from other investments	6,828,245	11,235,467
2.2. Interest income	4,183,027	4,198,599
2.3. Other investment income	2,645,218	7,036,868
2.3.1. Revaluation finance income	2,066,590	6,900,897
2.3.2. Other finance income	578,628	135,971
4. Gains on investment disposal	637,896	0
IV. Other net insurance revenue	9,626,113	9,748,383
V. Net claims incurred	20,368,181	16,991,250
1. Gross claims paid	20,348,233	16,948,236
4. Change in gross provisions for claims outstanding (+/-)	19,948	43,014

Tabela se nadaljuje na naslednji strani.

in EUR

Items	2018	2017
VI. Change in other net technical provisions (+/-)	-26,668,900	-18,930,499
1. Change in technical provisions for life insurance	-26,668,900	-18,930,499
1.1. Change in gross technical provisions for life insurance	-26,668,900	-18,930,499
VIII. Net operating costs	6,546,177	6,031,947
1. Cost of insurance contract acquisition	40,135	23,308
3. Other operating costs	6,506,042	6,008,639
3.1. Depreciation/amortisation of assets required for operations	485,628	399,631
3.2. Labour costs	3,205,572	3,044,076
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	122,010	122,430
3.4. Other operating costs	2,692,832	2,442,502
IX. Investment expenses	4,290,588	1,781,400
2. Expenses for asset management, interest expenses and other finance expenses	257,300	1,442,306
3. Revaluation finance expenses	3,883,633	305,986
4. Losses on investment disposal	149,655	33,108
XI. Other net insurance expenses	3,746,370	2,305,637
2. Other net insurance expenses	3,746,370	2,305,637
XII. Allocated return on investment transferred to net profit or loss calculation of the Insurance Company (-)	8,298,230	7,113,643
<b>XIII. Result for life business (I+II+III+IV-V+/-VI-VII-VIII-IX-X-XI-XII)</b>	<b>-1,435,315</b>	<b>1,672,189</b>
<b>C. Net result of the Insurance Company calculation</b>		
I. Result for non-life business (A.IX)	-42,056	-28,105
II. Result for life business (B:XIII)	-1,435,315	1,672,189
III. Investment income	50,713	63,302
2. Income from other investments	50,713	63,302
2.2. Interest income	46,245	48,069
2.3. Other investment income	4,468	15,233
2.3.1. Revaluation finance income	0	15,233
2.3.2. Other finance income	4,468	0

The table continues on the next page.



in EUR

Item	2018	2017
IV. Allocated investment return transferred from the life business result (B:XII)	8,298,230	7,113,643
V. Investment expenses	3,807	0
2. Expenses for asset management, interest expenses and other finance expenses	3,807	0
IX. Other income	114,114	92,775
1. Other revenue from non-life insurance	27	2
2. Other revenue from life insurance	114,087	92,773
X. Other expenses	210	3,856
1. Other revenue from non-life insurance	0	2
2. Other revenue from life insurance	210	3,854
XI. Profit or loss for the period before tax (I+II+III+IV-V-VI+VII-VIII+IX-X)	6,981,669	8,909,948
<b>1. Profit or loss for the period from non-life insurance</b>	4,877	35,197
<b>2. Profit or loss for the period from life insurance</b>	6,976,792	8,874,751
<b>XII. Income tax</b>	188,758	536,271
<b>XIII. Deferred taxes</b>	-443,012	-593,655
<b>XIV. Net profit or loss for the period (XI-XII+XIII)</b>	<b>6,349,899</b>	<b>7,780,022</b>
<b>D. Calculation of comprehensive income</b>		
<b>I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX</b>	<b>6,349,899</b>	<b>7,780,022</b>
<b>II. OTHER COMPREHENSIVE INCOME AFTER TAX (a+b)</b>	<b>-13,266,796</b>	<b>13,233,982</b>
<b>a. Items that will not be reclassified subsequently to profit or loss (1+2+3+4+5+6)</b>	<b>-12,133,146</b>	<b>0</b>
5. Other items that will not be reclassified subsequently to profit or loss	-14,325,530	0
6. Tax on items that will not be reclassified subsequently to profit or loss	2,192,384	0
<b>b. Items that may be reclassified subsequently to profit or loss (1+2+3+4+5)</b>	<b>-1,133,650</b>	<b>13,233,982</b>
1.a. Net gains/losses from revaluation of available-for-sale financial assets	0	15,339,598
1.b. Net gains/losses recognised in revaluation surplus in relation to investments measured at fair value through other comprehensive income	-1,395,055	0
5. Tax on items that may be reclassified subsequently to profit or loss	261,405	-2,105,616
<b>III. TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (I+II)</b>	<b>-6,916,897</b>	<b>21,014,004</b>

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

Assets and liabilities of KS PPS

in EUR

Item	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>	<b>101,329,299</b>	<b>102,505,431</b>
A. INVESTMENTS IN PROPERTY AND INVESTMENTS	100,374,540	101,744,344
OTHER INVESTMENTS	100,374,540	101,744,344
1. Shares and other securities with a variable yield and mutual fund coupons	25,746,870	27,925,350
2. Debt securities with a fixed yield	72,323,889	70,116,567
6. Bank deposits	2,303,781	3,702,427
B. RECEIVABLES	66,872	11,903
III. OTHER RECEIVABLES	66,872	11,903
C. MISCELLANEOUS ASSETS	609,119	502,115
I. CASH	609,119	502,115
D. SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	278,768	247,069
3. Other short-term accrued revenue and deferred costs	278,768	247,069
<b>LIABILITIES</b>	<b>101,329,299</b>	<b>102,505,431</b>
B. GROSS TECHNICAL PROVISIONS	101,315,380	102,491,512
II. GROSS TECHNICAL PROVISIONS FOR LIFE INSURANCE	100,334,313	101,527,536
III. GROSS PROVISIONS FOR OUTSTANDING CLAIMS	981,067	963,976
E. OTHER LIABILITIES	13,919	13,919
III. OTHER LIABILITIES	13,919	13,919

Assets and liabilities of the KS MR

in EUR

Item	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>	<b>20,533,131</b>	<b>25,478,714</b>
A. INVESTMENTS IN PROPERTY AND INVESTMENTS	19,599,227	25,074,325
OTHER INVESTMENTS	19,599,227	25,074,325
1. Shares and other securities with a variable yield and mutual fund coupons	723,522	2,904,954
2. Debt securities with a fixed yield	18,172,957	20,336,670
6. Bank deposits	0	1,832,701
7. Other investments	702,748	0
B. RECEIVABLES	484,291	243,870
III. OTHER RECEIVABLES	484,291	243,870

The table continues on the next page.

in EUR

	Item	31 Dec 2018	31 Dec 2017
C.	MISCELLANEOUS ASSETS	449,613	160,519
	I. CASH	449,613	160,519
	<b>LIABILITIES</b>	<b>20,533,131</b>	<b>25,478,714</b>
B.	GROSS TECHNICAL PROVISIONS	20,522,180	25,460,572
	II. GROSS TECHNICAL PROVISIONS FOR LIFE INSURANCE	20,518,569	25,458,610
	III. GROSS PROVISIONS FOR OUTSTANDING CLAIMS	3,611	1,962
E.	OTHER LIABILITIES	8,556	10,609
	III. OTHER LIABILITIES	8,556	10,609
F.	ACCRUED COSTS AND DEFERRED REVENUE	2,395	7,533

## Assets and liabilities of KS MR II

in EUR

	Item	31 Dec 2018	31 Dec 2017
	<b>ASSETS</b>	<b>76,946,110</b>	<b>40,994,145</b>
A.	INVESTMENTS IN PROPERTY AND INVESTMENTS	72,683,834	38,635,767
	OTHER INVESTMENTS	72,683,834	38,635,767
	1. Shares and other securities with a variable yield and mutual fund coupons	23,412,524	13,679,363
	2. Debt securities with a fixed yield	43,902,620	20,809,413
	6. Bank deposits	2,899,955	4,146,991
	7. Other investments	2,468,735	0
B.	RECEIVABLES	792,696	594
	III. OTHER RECEIVABLES	792,696	594
C.	MISCELLANEOUS ASSETS	862,432	604,766
	I. CASH	862,432	604,766
D.	SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	2,607,148	1,753,018
	3. Other short-term accrued revenue and deferred costs	2,607,148	1,753,018
	<b>LIABILITIES</b>	<b>76,946,110</b>	<b>40,994,145</b>
B.	GROSS TECHNICAL PROVISIONS	68,190,509	35,387,137
	II. GROSS TECHNICAL PROVISIONS FOR LIFE INSURANCE	68,189,090	35,386,927
	III. GROSS PROVISIONS FOR OUTSTANDING CLAIMS	1,419	210
E.	OTHER LIABILITIES	2,822	12,398
	III. OTHER LIABILITIES	2,822	12,398
F.	ACCRUED COSTS AND DEFERRED REVENUE	8,752,779	5,594,610

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

## Statement of result for KS PPS

in EUR

	Item	2018	2017
I.	TRANSFER OF ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE SCHEME	2,902,890	3,127,153
	4. of mutual pension funds	2,902,890	3,127,153
II.	INVESTMENT INCOME	5,762,864	6,146,884
	1. Income from dividends and profit participations	1,730,855	933,289
	2. Income from other investments	4,032,009	5,159,892
	2.2. Interest income	1,815,913	1,918,918
	2.3. Other investment income	2,216,096	3,240,974
	4. Gains on investment disposal	0	53,703
III.	CLAIMS INCURRED	6,738,847	6,600,403
	1. Claims paid	6,721,757	6,559,006
	2. Change in provisions for outstanding claims	17,090	41,397
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	1,193,222	-2,204,166
	1. Change in technical provisions for life insurance (+/-)	1,193,222	-2,204,166
VI.	INVESTMENT EXPENSES	3,043,456	469,468
	2. Expenses for asset management, interest expenses and other finance expenses	51,045	274,881
	3. Revaluation finance expenses	2,992,411	194,587
VII	<b>PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)</b>	<b>76,673</b>	<b>0</b>
VII.a.	<b>Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)</b>	<b>76,673</b>	<b>0</b>

## Statement of result for KS MR

in EUR

	Postavka	2018	2017
II.	INVESTMENT INCOME	721,056	767,126
	1. Income from dividends and profit participations	19,877	15,873
	2. Income from other investments	701,179	751,253
	2.2. Interest income	423,069	516,730
	2.3. Other investment income	278,110	234,523
III.	CLAIMS INCURRED	5,377,349	6,778,648
	1. Claims paid	5,375,700	6,777,241
	2. Change in provisions for outstanding claims	1,649	1,407
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	4,940,041	6,262,182
	1. Change in technical provisions for life insurance (+/-)	4,940,041	6,262,182

The table continues on the next page.

in EUR

	Item	2018	2017
VI.	INVESTMENT EXPENSES	250,587	250,660
	2. Expenses for asset management, interest expenses and other finance expenses	120,648	184,881
	3. Revaluation finance expenses	129,939	65,779
VII.	<b>PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)</b>	<b>33,161</b>	<b>0</b>
VII.a.	<b>Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)</b>	<b>33,161</b>	<b>0</b>

## Statement of result for KS MR II

in EUR

	Item	2018	2017
I.	TRANSFER OF ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE SCHEME	40,261,845	26,098,694
	2. of other insurance company	917,864	428,168
	3. of other pension company	441,771	230,833
	4. of mutual pension fund	38,902,210	25,439,693
II.	INVESTMENT INCOME	1,557,584	537,525
	1. Income from dividends and profit participation	89,772	36,603
	2. Other investment income	1,467,812	500,922
	2.2. Interest income	592,064	319,239
	2.3. Other investment income	875,748	181,683
III.	CLAIMS INCURRED	8,251,985	3,612,199
	1. Claims paid	8,250,776	3,611,989
	2. Change in provisions for outstanding claims	1,209	210
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	-32,802,163	-22,988,515
	1. Change in technical provisions for life insurance (+/-)	-32,802,163	-22,988,515
V.a.	Net operating costs	31,375	14,701
	3. Other operating costs	31,375	14,701
	3.4. Other operating costs	31,375	14,701
VI.	INVESTMENT EXPENSES	722,235	20,804
	2. Expenses for asset management, interest expenses and other finance expenses	0	11,168
	3. Revaluation finance expenses	722,235	9,636
VII.	<b>PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)</b>	<b>43,046</b>	<b>14,701</b>
VII.a.	<b>Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)</b>	<b>11,671</b>	<b>0</b>

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