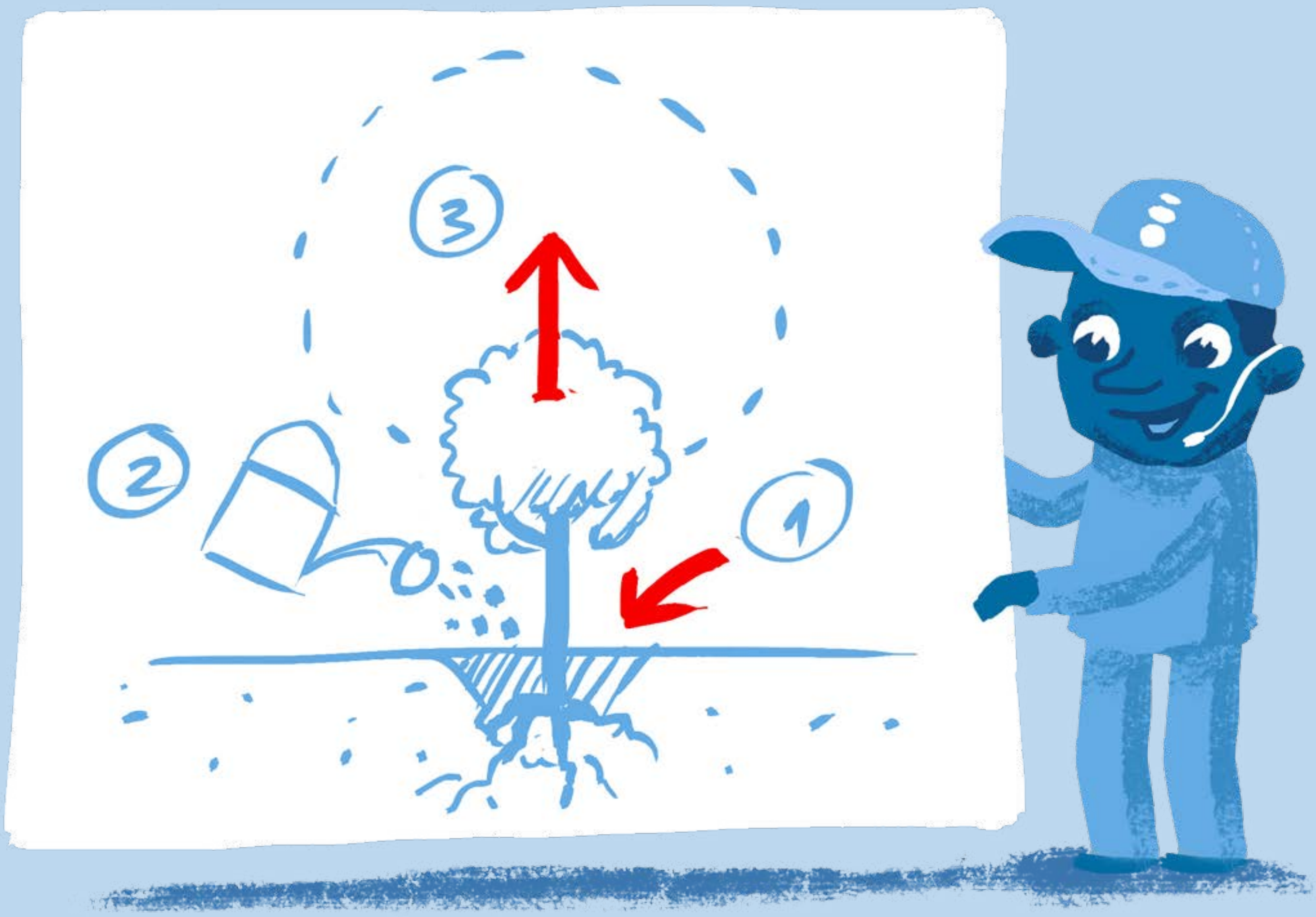
2016 ANNUAL REPORT

modra zavarovalnica

For Your additional pension.

modra zavarovalnica

For Your additional pension.



It is wise to have a good plan for the future.

Your future deserves the best plan. A plan that adjusts to your needs, capacities, and the objectives you wish to achieve. Only a good plan provides an optimistic pathway to a safe future.

INTRODUCTORY PART

BUSINESS REPORT

FINANCIAL REPORT

ATTACHMENT

INTRODUCTORY PART

It is wise to start on time.

Wise decisions should
not be postponed. Saving
for an additional pension
is the first step to a safer,
more comfortable, and smiling
future. Small steps, taken
on time, bring great results!

ADDRESS BY THE MANAGEMENT BOARD

Borut Jamnik
Chairman of the Board

Matija Debelak
Member of the Board

2016 was a good year for Modra zavarovalnica. The Company achieved a net profit of EUR6.6 million, thus surpassing that planned, and, moreover, increased its capital, which is the cornerstone of the security of insured persons' funds. The value of assets under management and the number of mutual pension fund members and annuity recipients increased. The return rates of the mutual pension funds managed rank among the highest in Slovenia.

In 2016, the Company generated net technical income of EUR 25.4 million, comprising premium income and other income from insurance operations. Premium income mostly comprises payments in pension annuity funds, which fell behind the values planned, since the new Rules for the calculation of annuities imposed strict conditions, particularly for so-called accelerated annuities. In the first two months of 2016, insured persons largely opted for a supplementary pension annuity in a profoundly limited scope, while one-off withdrawals of the saved funds increased. The amended Rules for the calculation of annuities became applicable at the end of quarter 1 and somewhat eased the conditions for their assessment, which brought the Company revenues from payments in annuity funds back to normal. Technical expenses, which include the annuities written, operating costs and other technical expenses, reached EUR 25.0 million, while mathematical provisions increased by EUR 4.8 million. The profit was the result of financial income amounting to EUR 14.8 million, while expenses for investments reached EUR 3.3 million. The result of available-for-sale investments was also favourable, with other comprehensive income reaching EUR 20.2 million.

The capital of Modra zavarovalnica, used by the latter to provide security for the insured persons' assets, reached EUR 226 million at the end of 2016, which is EUR 75 million more than 5 years ago. The security of insured persons' funds and the high level of the quality of services will continue to be the fundamental policies of Modra zavarovalnica. The value of assets under management increased and reached slightly less than EUR 1.4 billion at the end of 2016, i.e. EUR 955 million was collected in mutual pension funds and EUR 148 million in guarantee funds, along with EUR 250 million in own assets.

2016 was characterised by a favourable macroeconomic environment in which bond and stock indexes grew. The growth of European government and corporate bonds was moderate, while the values of stock indexes on average rose by more than 11%. American, Japanese and German stocks rose the most on average, while the Slovenian stock index grew by more than 3%, which had an important effect primarily on the operations of the First Pension Fund, which has a large share of domestic equity investments in its portfolio. The Company made provisions amounting to EUR 2.0 million for failing to achieve the guaranteed return rate of the mentioned fund in 2016.

The return rates of the Guaranteed Sub-Fund, Capital Mutual Pension Fund and Closed Mutual Pension Fund for Civil Servants exceeded the guaranteed value in 2016 and can be compared to the return rates of competitive Slovenian pension funds, while the life-cycle Dynamic and Prudent Sub-Funds achieved a high return rate of 8.8% and 5.9% respectively.

2016 was also the year in which the Solvency II regulation became applicable, which had a major impact on the operations of Modra zavarovalnica. The culture of risk management became part of all business segments, since risk assessment has been integrated into all business decisions. To that effect, the central goals of the Company are the security of insured persons and their assets, compliance with capital requirements, provision of conditions for a better allocation of capital, transparency of operations and, last but not least, improvement of the risk management process.

Marketing and communication activities in 2016 focused on achieving the set sales goals and raising the visibility of Modra zavarovalnica as the largest provider of supplementary pension insurance. In order to raise the visibility of supplementary pension insurance and awareness of the need to save for a supplementary pension, the Company started the Modra zgodba project, showing through real-life stories how the environment and lifestyles change over time. In particular, young people are encouraged to start thinking about their future, set goals and ensure funds for their realisation.

In 2016, we successfully completed an important project to implement an integral business IT solution to support the management of pension funds. This has provided support for mutual pension funds with a guaranteed return rate, life-cycle pension funds, annuity funds and own assets. With the implementation of the project, the cost of using the IT solution reduced substantially and uniform support for fund management processes was established.

In 2017, Modra zavarovalnica will continue to realise its strategy focused on the safety of persons insured under supplementary pension insurance, ensuring it with sufficient capital, prudent management and increased value of supplementary pension savings. An important business goal for 2017 is to maintain the market share in supplementary pension savings and in the disbursement of supplementary pension annuities.

In 2017, the insurance company will continue activities focused on increasing its visibility, reputation and trust. Strategic communication will focus on increasing the trust of different audiences in the insurance company, its management and services, while marketing communication will support marketing goals. Increased marketing activities in the first half of 2017 will be related with the new life-cycle fund for civil servants. The renewed form of saving is tailored to an individual's age and risk appetite; members are expected to actively approach saving, while the manager is faced with the challenge of efficient communication and awareness raising, which will encourage young people in particular to save in more risky sub-funds.

The key bases for digital transformation will be defined, which will change internal and external processes using modern and advanced technologies. The integration of new technologies with the Internet, social networks and smart phones provides simple and fast access to information, which is why digital communication has become an increasingly important marketing tool, enabling in-depth analysis of behavioural patterns of potential clients and the possibility for more efficient content marketing.

In investment management, the Company is somewhat more optimistic than in previous years, as financial analysts have predicted a moderate growth of stock and bond indexes for 2017. Taking into account favourable trends on financial markets, it is planned that the guaranteed return rate of mutual pension funds with a guarantee element and the average return rate of competitive pension funds will be surpassed.

Successful attainment of the goals set is also closely related with concern for the professional and personal development of employees. We will continue to promote innovations, exploitation of creative abilities of employees, cooperation and team work and build relationships between employees that are based on trust, openness and exchange of opinions.

Matija Debelak
Member of the Board

Borut Jamnik
Chairman of the Board

COMPANY PROFILE

General information

Company name: Modra zavarovalnica d.d.

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 6031226

VAT ID number: SI21026912

Number of employees: 58 persons

Share capital: EUR 152.2 million

Assets under management: EUR 1.35 billion

Number of persons insured in the mutual pension fund (VPS): 275,323

Number of pension annuity recipients: 18,632

Mission

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

Vision

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

Ownership structure and information about capital

As at 31 December 2016, the sole shareholder of Modra zavarovalnica d.d. is Kapitalska družba d.d.

The share capital of the insurance company amounts to EUR 152,200,000 and is divided into 152,200,000 ordinary no par value shares. Each share represents an equal state and associated amount in the share capital. The share of an individual no par value share in the share capital is determined according to the number of no par shares issued.

Company activity

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

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

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

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

Company bodies

Management Board

Pursuant to the Company's Articles of Association, the Management Board comprises two members. Members of the Board are appointed by the Supervisory Board for the term of 5 years. In 2016, Modra zavarovalnica was run by the Management Board composed of:

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

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

In 2016, the Management Board executed its competences in line with the Management Board Rules of Procedure, made regular reports to the Supervisory Board and, in line with the Articles of Association, fulfilled its obligations to the shareholder as laid down by the Companies Act.

Supervisory Board

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

The Supervisory Board comprises six Members: On 9 December 2016, the General Meeting appointed 5 Supervisory Board Members for a period of 4 years. Three Supervisory Board Members were proposed by insured persons based on a public call to submit their candidate proposals. Two Members were proposed by the civil servant fund board on behalf of persons insured in it, while the third Member was proposed by the KVPS and MKPS boards on behalf of other insured persons.

The Supervisory Board comprises the following Members:

- dr. Aleš Groznik, Chairman of the Supervisory Board from 1 January 2016 to 9 December 2016,
- Goranka Volf, Chairwoman of the Supervisory Board as of 9 December 2016,
- Branimir Štrukelj, Deputy Chair from 1 January 2016 to 9 December 2016, with a new term of office as of 9 December 2016,
- Dario Radešič, Member from 1 January 2016 to 9 December 2016,
- Goran Bizjak, Member from 1 January 2016 to 9 December 2016, with a new term of office as of 9 December 2016,
- Bojan Zupančič, Member from 1 January 2016 to 9 December 2016, with a new term of office as of 9 December 2016,
- Marino Furlan, Member from 1 January 2016 to 9 December 2016,
- Natalija Stošicki, Member as of 9 December 2016.

The competences of the Supervisory Board are laid down in the Company's Articles of Association, while the method of its work is governed by the Supervisory Board Rules of Procedure. A detailed description of the activities and method of Supervisory Board operations in 2016 is provided in the Report of the Supervisory Board.

The Audit Committee of the Supervisory Board was active in 2016; its composition and work are presented in the Supervisory Board Report.

General Meeting

The voting rights at the 2016 General Meeting of Shareholders were exercised by Kapitalska družba as the sole shareholder.

Report of the Supervisory Board

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

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

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

At the first General Meeting of Modra zavarovalnica, the following Supervisory Board Members were appointed for a term of 5 years: Branimir Štrukelj; Dr. Aleš Groznik; Bojan Zupančič; Dario Radešič; Goran Bizjak; and Marino Furlan. At the 8th General Meeting of the Company held on 9 December 2016, the following were appointed as Supervisory Board Members for a term of 4 years: Goranka Volf, Branimir Štrukelj, Natalija Stošicki, Goran Bizjak and Bojan Zupančič.

Based on the 10th constitutive meeting of the Company's Supervisory Board, Dr. Aleš Groznik was the Chairman of the Supervisory Board from 23 December 2015 to 9 December 2016, during which time Branimir Štrukelj acted as Deputy Chair. At the 86th constitutive meeting of the Supervisory Board held on 23 December 2016, Goranka Volf was appointed the Chairwoman of the Supervisory Board and Branimir Štrukelj as Deputy Chair of the Supervisory Board for a term of 1 year pursuant to the provisions of the Company's Articles of Association.

Over the course of the 2016 financial year, the Supervisory Board met at 15 meetings, 12 of them regular and 3 correspondence meetings. Members of the Supervisory Board acted independently when adopting decisions. Members attended meetings well prepared in regard to the topics discussed, put forth constructive proposals and remarks and adopted decisions pursuant to their competences. Members of the Supervisory Board acted pursuant to the rules on professional secrecy and handling in case of conflict of interests. Control over the Company's operations was carried out pursuant to the powers and competences as laid down by the Companies Act and Insurance Act and further specified by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board.

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

At its 76th meeting held on 12 May 2016, the Supervisory Board confirmed the Annual Report of Modra zavarovalnica for the 2015 financial year, including the audit report and the report of the Supervisory Board regarding the review of the Company's annual report, and familiarised themselves with the Company's annual internal audit report for 2015, 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. Based on the proposal put forth by the Audit Committee, the Supervisory Board proposed that the auditor for the 2016-2018 period be Deloitte revizija d.o.o.

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 2015 and approved the payment of variable remuneration to Members of the Management Board.

In 2016, Supervisory Board Members decided on the award of consent to the Management Board and its governance policies pursuant to the provisions of the Company's Articles of Association and the Insurance Act, the Strategic business plan for the 2017-2019 period and to projects for developing management structures when investing in alternative investments. Members were regularly informed regarding the progress of coordinating proposals for amendments to the Company's Articles of Association, procedures for the appointment of Supervisory Board Members and business cooperation with Delavska hranilnica d.d. The Supervisory Board regularly monitored the Company's operations, discussed quarterly reports on the Company operations and was kept informed of reports to the Insurance Supervision Agency based on the Insurance Act and Solvency II Directive. The Supervisory Board adopted a policy for ensuring the suitability and adequacy of Members of the Management and Supervisory Boards and key function holders at Modra zavarovalnica and amendments to the Rules of Procedure of the Supervisory Board and its Audit Committee. It made an assessment of the suitability of Management and Supervisory Board Members. In the procedure to appoint Members of the Supervisory Board, it made an assessment of the suitability and adequacy of individual candidates proposed as Members of the Company's Supervisory Board who took up their term of office on 9 December 2016.

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

At its 80th meeting held on 27 September 2016, the Supervisory Board carried out a procedure to assess the performance of the Supervisory Board by adopting a final report and action plan.

At its 83rd meeting held on 24 November 2016, the Supervisory Board gave its consent to the Business and Financial Plan of Modra zavarovalnica d.d. for 2017 and to the work programme of the Internal Audit Department for 2017.

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

Work of the Supervisory Board Audit Committee

A 3-member Audit Committee comprising Goran Bizjak (Chairman), Dario Radešič (Member) and Dragan Martinović (independent external auditor) was a permanent operative body of the Supervisory Board in 2016 and monitored the Company's operations and the work performed by the Management Board in the course of the financial year to aid the Supervisory Board in its decision-making process. In 2016, the Audit Committee met 7 times. In its work, the Audit Committee employed the recommendations for audit committees provided by the Slovenian Directors' Association and the Slovenian Institute of Auditors as well as the Rules of Procedure for Audit Committee as adopted by the Supervisory Board. The Audit Committee conducted a preliminary interview with the selected independent auditor and cooperated in the discussion of the unaudited annual report of Modra zavarovalnica d.d. for 2015.

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

The Audit Committee was informed of the procedure to calculate the Company's capital based on Solvency II requirements. It participated in the procedure to select the independent auditor of the Annual Report and in the preparation of a contract with the independent auditor for the period between 2016 and 2018 as well as monitored the autonomy of the auditor of the Annual Report.

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

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

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

Based on the mentioned day-to-day monitoring and control over the operations and management of Modra zavarovalnica over the course of the financial year and based on the review of the annual report drawn up by the Management Board, the Supervisory Board assesses that the Annual Report and all disclosures contained therein are a true and fair representation of the actual state of affairs and position of Modra zavarovalnica. The Supervisory Board estimates that the Company's Management Board managed the Company's operations in 2016 successfully and properly and successfully realised the set business goals. It prepared materials with quality information and in-depth discussions of all major operating categories in due time and provided elaborate answers to subsequent questions and motions put forward by Members of the Supervisory Board. The Management Board's reports to the Supervisory Board in 2016 allowed the latter to perform its function of control appropriately.

b) Position of the Supervisory Board regarding the audit report

Based on paragraph 2 of Article 282 of the Companies Act, the Supervisory Board reviewed and discussed the auditor's report regarding the audit of the Company's financial statements for 2016, which was performed by Deloitte revizija d.o.o. from Ljubljana. The Supervisory Board finds that the auditor has performed its duty in line with the law, rules on auditing and the International Standards on Auditing. The Supervisory Board has no objections to the auditor's report.

c) Decision on confirmation of the 2016 Annual Report

Based on the provisions of Article 282 of the Companies Act, the Supervisory Board confirms the Annual Report of Modra zavarovalnica d.d. for 2016.

d) Position of the Supervisory Board regarding the audit report

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

e) Resolution on the verification of the report on related-party transactions for 2016

Based on the provisions of Article 546.a of the Companies Act, the Supervisory Board reviewed the report on related-party transactions for 2016 and has no comment on the management's statement in the report on related-party transactions for 2016.

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

Based on the above-stated under points a), b) and c) and based on the provisions of Article 294 of the Companies Act, the Supervisory Board proposes that the General Meeting of Modra zavarovalnica d.d. adopt a decision to grant a discharge to the Management and Supervisory Boards of Modra zavarovalnica d.d. for the work performed in the 2016 financial year, namely:

to Members of the Management Board:

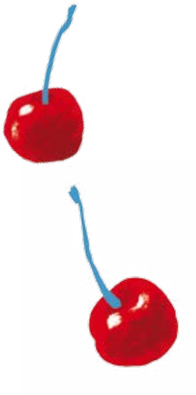
- Borut Jamnik, for the period between 1 January 2016 and 31 December 2016,
- Matija Debelak, MSc, for the period between 1 January 2016 and 31 December 2016.

to Members of the Supervisory Board:

- dr. Aleš Groznik, for the period between 1 January 2016 and 9 December 2016,
- Branimir Štrukelj, for the period between 1 January 2016 and 31 December 2016,
- Dario Radešič, for the period between 1 January 2016 and 9 December 2016,
- Bojan Zupančič, for the period between 1 January 2016 and 31 December 2016,
- Goran Bizjak, for the period between 1 January 2016 and 31 December 2016,
- Marino Furlan, for the period between 1 January 2016 and 9 December 2016,
- Goranka Volf, for the period between 9 December and 31 December 2016,
- Natalija Stošicki, for the period between 9 December and 31 December 2016.

Goranka Volf
Chairwoman of the Supervisory Board

Ljubljana, 25 April 2017



BUSINESS REPORT

It is wise to have a safe refuge.

Life is an unpredictable journey. By saving for an additional pension you will always be prepared and your financial worries will be under control and in the best hands.

BUSINESS ENVIRONMENT

Economic environment in Slovenia

In 2016, gross domestic product in current prices amounted to EUR 39,769 million, which is nominally 3.1% more than in 2015. In real terms, GDP increased by 2.5%. Foreign demand contributed the most to the growth of economic activity. Exports grew by 5.9% in 2016. In addition to foreign demand, the growth of GDP was also the result of domestic demand, which increased by 2.4%. Household consumption rose by 2.8%.

In 2016, consumer-price inflation amounted to 0.5%, while the average annual inflation rate was negative, amounting to -0.1%. In 2015, the annual and average inflation rates stood at -0.5%.

The rate of registered unemployment amounted to 10.8% in December 2016. The number of unemployed persons decreased by 11.9% with respect to the end of 2015. The average monthly net wage for December 2016 amounted to EUR 1,074 and increased by 3.7% compared to the average monthly net wage for December 2015.

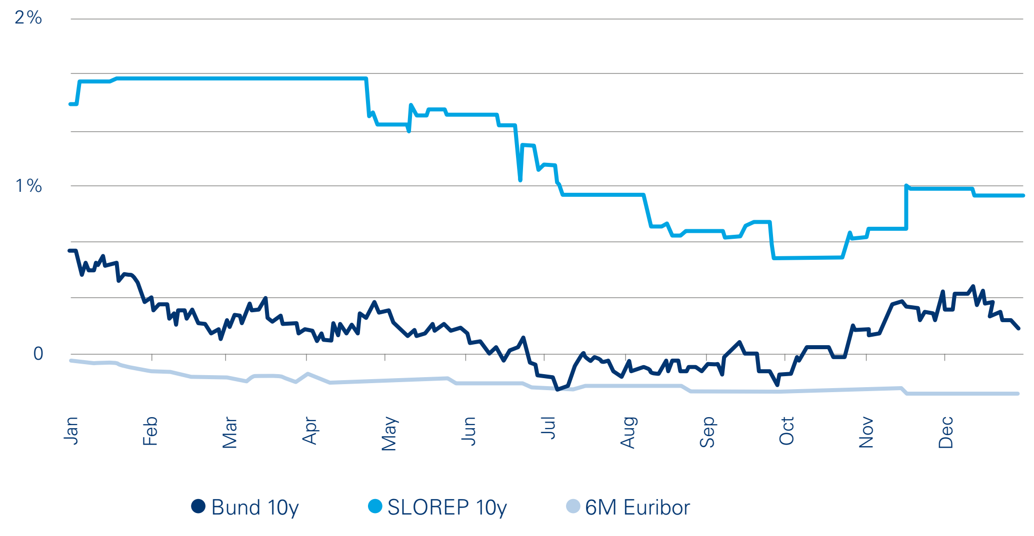
Trends on financial markets

Money market

The interbank reference rate in the euro area, the 6-month EURIBOR, started 2016 at -0.04% and fell to -0.221% by the end of the year. The changes in interbank interest rate were most significantly affected by the European Central Bank, which pursued an extremely loose monetary policy and a policy of quantitative easing in 2016.

The yield of the German 10-year government bond decreased in 2016. At the beginning of the year, it amounted to 0.63% and reached 0.21% at the end of the year. In summer months, the yield of the German 10-year government bond was negative. The changes in the required yield of German government bonds were largely related to the measures taken by the ECB. As a result of the ECB's expansive monetary policy, the yield of the Slovenian 10-year government bond also decreased heavily in 2016, falling from 1.5 to 0.95%.

Figure 1: Changes in yield to maturity (YTM) of the 10-year German government bond, the Slovenian government bond and 6-month EURIBOR in 2016 (in %)



Source: Bloomberg

Foreign exchange rate

In 2016, the value of the US dollar increased by 3.2% compared to the Euro. At the end of 2015, the rate was $1.086 per EUR 1 and, at the end of 2016, it stood at $1.052. Compared to the Euro, in 2016 the US dollar exchange rate was heavily influenced by the policy of both central banks and, towards the end of the year, by expectations about the conduct of the new American president. The US dollar achieved its highest value in December, when it stood at $1.04 per EUR 1.

Equity market

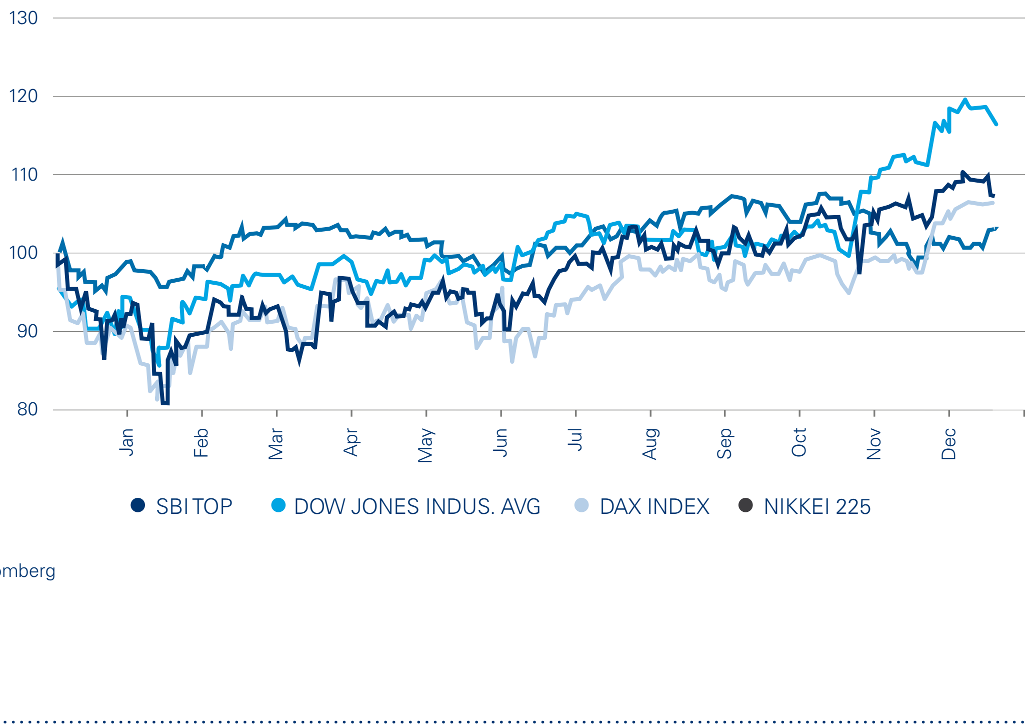
In 2016, the values of stock indexes grew by 11.4% on average (assessed in EUR). On average, the American and Japanese stocks gained the most. American stocks achieved a return rate of 16.8%, Japanese stocks 7.4% and German stocks 6.8%. In 2016, Slovenian stocks grew on average by 3.1%.

Debt securities market

The European government bond index (IBOXX EUR Sovereigns TR index) gained 3.3% in 2016. The index was largely characterised by ECB actions or its purchases of government bonds within the scope of quantitative easing. The trend of growth was slightly interrupted after elections in the United States, when inflation expectations rose. The European corporate bond index (IBOXX EUR Corporates TR index) gained 4.7% in value in 2016. The growth of corporate bond prices is also the result of ECB actions and continued contraction of credit spreads.

In line with trends in other government bonds in the euro area, Slovenian government bonds mostly grew in 2016. Compared to other countries on the so-called European periphery, Slovenian government bonds are more expensive or, rather, the requested return rate is lower.

Figure 2: Changes in the Slovenian SBI TOP stock index and certain foreign stock indices in 2016, assessed in EUR (index: 31/ 12/ 2015 = 100)



Source: Bloomberg

OPERATIONS IN 2016

Financial result and financial position

In 2016, Modra zavarovalnica generated EUR 25,425,771 in premium income and other technical income. Most of these revenues are revenues from annuity insurance premiums, while the remainder are revenues from the management of mutual pension and guarantee funds. The premiums paid in the mutual pension funds managed by Modra zavarovalnica reached EUR 40 million in the relevant period, not taking into account transfers between funds or sub-funds.

In 2016, expenses for claims, including expenses arising from the annuities paid, reached EUR 16,180,245, while other technical charges amounted to EUR 3,115,251. Changes in mathematical provisions imply an expense due to increased mathematical provisions deriving from the pension annuity insurance sold in 2016. 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 11,478,778 in 2016. Profit or loss from investments as recognised in equity was positive in 2016 due to favourable changes in security prices.

The largest share of Modra zavarovalnica assets are financial assets, which exceeded EUR 395 million at the end of 2016, while the largest share of liabilities are technical provisions for annuity insurance. Off-balance-sheet items are the sum total of the assets of the mutual pension funds managed by Modra zavarovalnica. The insurance company's solvency position is presented in detail in the chapter dealing with risk management.

Table 2: Financial position of Modra zavarovalnica

in EUR

Item	2016	2015
Financial assets	395,138,211	358,578,933
Other assets	3,010,579	4,451,141
Total assets	**398,148,790**	**363,030,074**
Technical provisions	144,365,708	139,499,563
Other provisions	15,595,727	18,048,513
Other liabilities	12,197,256	4,158,135
Equity	225,990,099	201,323,863
Total equity and liabilities	**398,148,790**	**363,030,074**
Off-balance-sheet items	955,200,330	914,191,740

Table 1: Financial result of Modra zavarovalnica

in EUR

Item	2016	2015
Income from premiums and other technical income	25,425,771	31,014,733
Expenses for claims and other technical charges	-19,295,496	-22,492,455
Change in mathematical provisions	-4,787,079	-11,392,868
Operating costs	-5,741,739	-6,456,538
Operating profit or loss	-4,398,543	-9,327,128
Profit or loss from investment activities recognised in the income statement	11,478,778	13,698,930
Other net income	124,273	452,688
Profit or loss before tax	7,204,508	4,824,490
Income tax	-634,753	-99,958
Net profit or loss	**6,569,755**	**4,724,532**
Profit or loss recognised in equity	20,228,425	-4,578,228
Total comprehensive income	**26,798,180**	**146,304**

Management of mutual pension funds

Market and competition

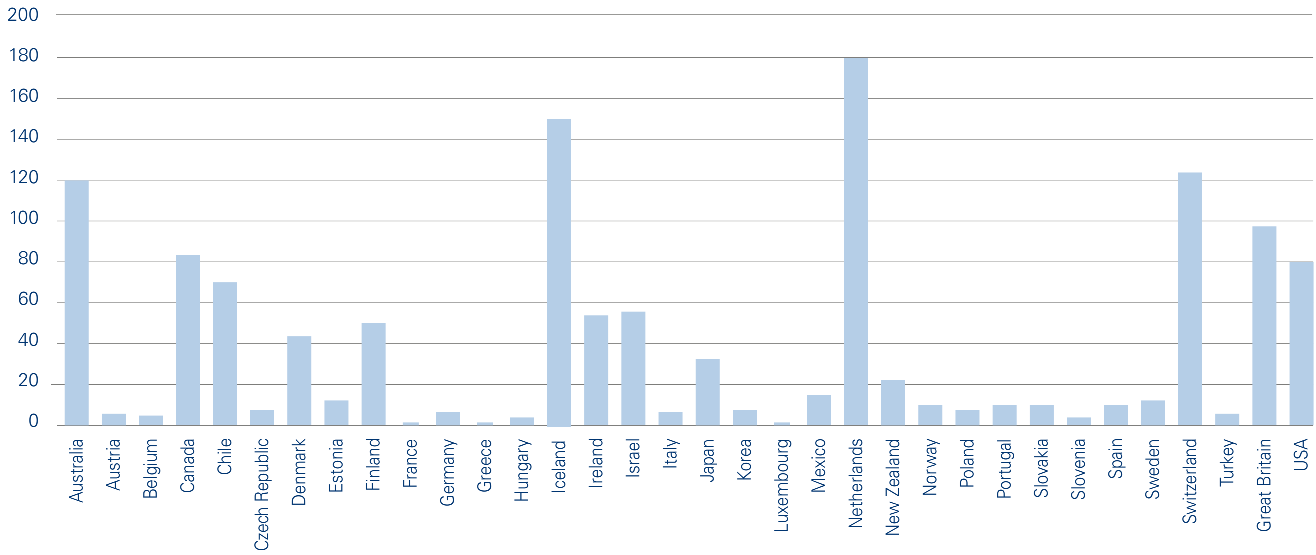
The ageing of the population and therewith related deteriorating ratio between recipients and contributors in the compulsory pension insurance scheme have had an increasing effect on social security, particularly pension insurance, which is based on intergenerational solidarity and pension funding through current employee contributions. A changing demographic picture prevents the pension system from functioning under the same terms as in the past. Most countries respond to the challenges by prolonging labour participation or raising the average actual retirement age. At the same time, they develop and strengthen the second and third pension pillars, so that supplementary pension and first-pillar pension would together reach 70% of one's income before retirement.

According to the OECD Pension Outlook data, a public pension, based on the average of OECD member states, for an employee with average income accounts for 49% of salary before retirement, while the remaining 30% is a supplementary pension. Total income in retirement amounts to 79% of the salary before retirement.

Slovenia is still very far from this goal, as it was late introducing the second pillar and, at the same time, allowed outstanding withdrawals of the funds paid in by employers after 10 years of saving; furthermore, the average premiums paid in are too low and confidence in the pension system has been undermined. The average old-age pension from January to November 2016 amounted to 59.7% of the average net wage, i.e. EUR 613 at an average net wage of EUR 1,026. Supplementary pension should thus amount to at least 10% or a little more than EUR 100 of a lifetime monthly annuity, which is currently provided on average for 7 years (accelerated forms of disbursement) and not for life, as is the primary purpose of supplementary pension insurance.

The minimum criterion by OECD to define a supplementary pension insurance market as a mature market is that the share of supplementary pension insurance funds collected exceeds 20% of gross domestic product. This condition was met by only 14 OECD member states in 2015. In Slovenia, the share of supplementary pension insurance assets in GDP increased from 3.9% in 2013 to 4.2% in 2014 and 4.3% in 2015. This shows that Slovenia is still a long way from being a mature market.

Figure 3: Share of collected funds in GDP in OECD countries at the end of 2015 (in %)



Source: Pension Markets in Focus 2016 – OECD

According to the latest data provided by the Pension and Disability Insurance Institute of Slovenia, there were 869,304 insured persons included in compulsory pension and disability insurance, 52,000 of which outside an employment relationship (voluntary, unemployed, parents). Most insured persons (almost 95%) are included in a supplementary pension saving scheme collectively through their employer. However, 40% of employees are still not included in supplementary pension insurance. These are primarily persons employed in labour-intensive sectors, where salaries are low, and self-employed persons.

Considering the volume of the funds collected in the second pillar, Slovenia has returned to 2010, i.e. a period preceding the outstanding withdrawals upon the expiry of a 10-year period. The abolition of the option to make an outstanding withdrawal of the funds paid in by the employer and the introduction of life-cycle funds should contribute to renewed growth of the funds collected and prompt the interest of young people to see to their supplementary pensions in a timely fashion. The reduced volume of collected funds was also the result of prolonged austerity measures by reducing the premium of collective supplementary pension insurance for civil servants.

Table 3: Changes in the collected supplementary pension insurance funds between 31 December 2010 and 31 December 2015

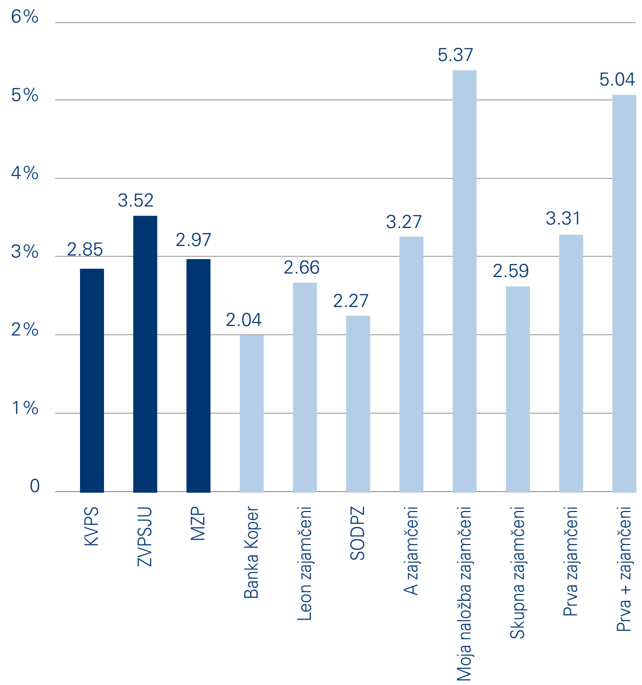
in EUR million

	31/ 12/ 2010	31/ 12/ 2011	31/ 12/ 2012	31/ 12/ 2013	31/ 12/ 2014	31/ 12/ 2015
SPI economy	1,323.5	1,298.1	1,173.6	1,120.0	1,211.6	1,270.9
SPI civil servants	462.6	518.6	611.1	646.7	686.9	695.7
Total	**1,786.1**	**1,816.7**	**1,784.7**	**1,766.7**	**1,898.5**	**1,966.6**

Source: The Annual Report of mutual pension funds and guarantee funds and of the Ministry of Labour, Family, Social Affairs and Equal Opportunities

2016 was characterised by the introduction of life-cycle funds by other providers. Modra zavarovalnica has provided the new form for the second year, which turned out to be very successful for sub-funds with a more aggressive investment policy, as the Dynamic Sub-Fund achieved a 8.77% rate of return and the Prudent Sub-Fund a 5.88% rate of return. Early introduction of life cycle funds paid off, since members who opted for the form gained a lot. In future, it is expected that the difference between more aggressive sub-funds and those with a guaranteed return rate will increase with more rational decisions being made by individuals regarding the selection of a sub-fund (particularly young people). After all, that is the point of such saving.

Figure 4: A comparison of 12-month return rates of domestic pension funds rendering the guaranteed rate 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 2016, there were more than 275,000 individuals saving in its mutual pension funds and the assets collected amounted to EUR 955 million. Total supplementary pension insurance premium paid in, not taking into account transfers of assets between the KVPS and MKPS funds, reached EUR 40 million in 2016.

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

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

Table 4: Data on mutual pension funds managed by Modra zavarovalnica as at 31 December 2016

Fund	No of members/ persons insured	No of employers/ premium payers	Amount of assets under management in EUR million
Capital Mutual Pension Fund (KVPS)	26,496	199	179
Closed Mutual Pension Fund for Public Servants (ZVPSJU)	215,942	1,907	716
Life-Cycle Pension Fund (MKPS)	10,592	139	39
First Pension Fund (PPS)	22,293	0	21
Total	**275,323**	**2,246**	**955**

Pursuant to Article 313 of ZPIZ-2, Modra zavarovalnica is, in the event the actual net value of pension fund assets in an accounting period falls below the guaranteed value of the fund's assets, obliged to form provisions for failing to achieve the guaranteed rate that are debited to equity and are equal to the sum total of all deficits in the value of a member's assets up to the guaranteed value of a member's assets. At the end of 2016, Modra zavarovalnica disclosed provisions for failing to achieve the guaranteed return rate of mutual pension funds amounting to EUR 13,373,302, whereby the amount of EUR 13,312,681 refers to the PPS fund.

Closed Mutual Pension Fund for Public Servants

The ZVPSJU fund 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 as specified by the pension scheme. In addition to the premiums paid in the fund by employers, premiums can also be paid in by public servants themselves, thus ensuring a higher supplementary pension and benefiting from the income tax relief. As the fund manager, Modra zavarovalnica ensures at least the guaranteed return rate of the assets saved.

Based on ZKDPZJU and KPOPNJU, the collective insurance under the PNJU K Pension Scheme included all persons holding public servant status on 1 August 2003 or who were subject to KPNG. Individuals who entered into an employment relationship with the Republic of Slovenia, local community or a public law body, as the employer, after 1 August 2003 were included in the PNJU K Pension Scheme on the day they concluded the employment contract or received the status of a public servant.

The extension of decreased supplementary pension insurance premiums for public servants was also part of the agreement on measures to reduce the volume of funds for salaries, wages and other labour costs in the public sector for 2016. In December 2015, the Government and representative public sector trade unions signed an Annex to the Collective agreement for the non-economic sector of the Republic of Slovenia and set the employer's premium for 2016. Between 1 January and 30 June 2016, premiums amounted to 10% of the premium applicable as at 1 January 2013 (the monthly premium for premium class 1 amounted to EUR 2.68). Between 1 July and 31 October 2016, premiums amounted to 15% of the premium applicable as at 1 January 2013 (the monthly premium for premium class 1 amounted to EUR 4.02). Between 1 November and 31 December 2016, premiums amounted to 30% of the premium applicable as at 1 January 2013 (the monthly premium for premium class 1 amounted to EUR 8.03).

As the manager of ZVPSJU based on the PNJU K Pension Scheme and ZVPSJU 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 2016, they amounted to 0.5%. The annual fee for the management of the ZVPSJU fund amounts to 0.5% of the average net value of ZVPSJU assets. All other operating costs of the fund are charged to the Company.

ZVPSJU 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 2016, 215,942 members were included in it, their assets amounting to EUR 716 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 ZVPSJU exercises their right to supplementary old-age pension or the right to an early supplementary old-age pension or opts for disbursement pursuant to PNJU K. Extraordinary termination, on the other hand, may be enforced by a member with the termination of the employment contract in the public sector if 120 months have passed since their inclusion in insurance, or by beneficiaries/heirs in the event of a member's death. Until 1 August 2013, a special regulation applied to all ZVPSJU members who, as at 1 August 2003, had less than 10 years towards meeting the minimum requirements to obtain the right to old-age pension. In that case, a member could, under the compulsory pension scheme, choose between the right to old-age pension or payment of a one-off redemption value upon retirement.

In 2016, insurance was terminated for 3,405 members, while the redemption value amounted to EUR 19 million.

Capital Mutual Pension Fund

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

Pursuant to the PN1 P and PN1 K Pension Schemes and KVPS Rules, the manager of the fund is entitled to entry fees, exit fees and a management fee. In 2016, 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 2016. Exit fees are calculated as a percentage of the paid-out redemption value of assets and amounted up to 1% in 2016.

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/insured person may enforce the right to disbursement of the funds collected with payments made by the employer by 31 December 2012, when 10 years have passed since they were included in insurance.

In 2016, insurance was terminated for 1,377 members/insured persons, while the redemption value amounted to EUR 8 million. 511 members/insured persons opted for the disbursement of the redemption value of the units funded by the employer up to 31 December 2012 in the total amount of EUR 3 million.

The First Pension Fund of the Republic of Slovenia

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

Modra zavarovalnica is entitled to an annual fee for the management of PPS, which amounted to 1% of the average annual net value of assets in 2016, and to exit fees charged as a percentage of the redemption value of assets paid out to heirs.

In the same year, the right to a pension annuity was obtained by 1,315 members and a proportionate share of the PPS fund assets amounting to EUR 3,424,432 was transferred to the PPS guarantee fund. There were 23 disbursements of redemption value recorded in the total amount of EUR 87,014 due to the death of insured persons/members.

Life-Cycle Pension Fund

MKPS is an open fund intended for the implementation of voluntary 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 insured 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. The Dynamic Sub-Fund is intended for young members aged up to 50 and pursues a more risky investment policy; the Prudent Sub-Fund is intended for members aged between 50 and 60 and the Guaranteed Sub-Fund for members aged over 60. As the manager of the Guaranteed Sub-Fund, Modra zavarovalnica ensures 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 2016, 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/insured person may enforce the right to the disbursement of the funds collected with payments made by the employer by 31 December 2012, when 10 years have passed since being included in insurance.

In 2016, insurance was terminated for 223 members/insured persons, while the total redemption value amounted to EUR 690k. 31 members/insured persons opted for the disbursement of the redemption value of the units funded by the employer up to 31 December 2012 in the total amount of EUR 173k.

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

Modra zavarovalnica is the largest payer of supplementary pensions in the Republic of Slovenia and in 2016 managed three guarantee funds for supplementary pension insurance in the annuity disbursement period that are managed separately:

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

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

In 2016, Modra zavarovalnica paid a sum of EUR 16.2 million for supplementary pensions to 18,632 insured persons. Pension annuity deriving from supplementary pension insurance (»modra renta« and »modra renta II« annuities) was received by 8,501 insured persons, while 10,131 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 2016	Assets under management (in EUR million)	Expenses for annuities (in EUR million
KS MR – the Modra renta guarantee fund	7,310	32	8.7
KS MR II – the Modra renta II guarantee fund	1,191	16	0.8
KS PPS – The guarantee fund of the First Pension Fund	10,131	100	6.5
Total	**18,632**	**148**	**16.0**

The Modra renta guarantee fund

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

Payments in KS MR were collected until the end of 2015, while only annuities were disbursed from KS MR in 2016. 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 2016, KS MR assets amounted to EUR 31,734,971. The largest share of the assets represents bonds, which account for 66% of total assets, followed by investment certificates (14%), commercial papers (12%) and deposits (7%).

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Table 6: Structure of assets in KS PPS as at 31 December 2016

in EUR

Asset	Amount
Bonds	20,844,016
Deposits	2,150,010
Commercial paper	3,848,079
Investment certificates	4,376,140
Cash and cash equivalents	436,344
Other receivables	80,382
Total	**31,734,971**

As at 31 December 2016, 42% of KS MR assets were invested in the Republic of Slovenia and 58% of total assets in investments by foreign issuers.

Table 7: Geographic diversification of KS MR investments as at 31 December 2016

in EUR

Area	Ammount
Domestic investments	13,336,781
Foreign investments	18,398,190
Total	**31,734,971**

The Modra renta II guarantee fund I

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 insured persons/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 annuities, thereby exercising their right to a supplementary old age pension.

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

- **lifetime Modra renta:** this is a supplementary pension without a guaranteed period of disbursement that is disbursed to the end of a saver's life. It may be disbursed monthly, quarterly, semi-annually or annually, whereby the period of disbursement depends on the amount of the funds collected. An individual disbursement may not be lower than 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 the 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 drawn in the selected guaranteed period of disbursement, after which amounts not lower than EUR 30 are disbursed monthly (quarterly, semi-annually or annually) until the end of life.

Until 31 December 2016, the right to supplementary old-age pension was exercised by 1,745 insured persons/members. with collected funds amounting to EUR 16,566,793, who decided to receive the selected monthly pension annuity. Most insured persons opted for accelerated disbursement of annuities.

Table 8: Number of insured persons/members and amount of payments in KS MR II in 2016

Pension fund	Number of members/persons insured	Redemption valueof assets (in EUR thousand)
Capital Mutual Pension Fund (KVPS)	358	3,753
Closed Mutual Pension Fund for Public Servants (ZVPSJU)	1,059	7,235
Life-Cycle Pension Fund (MKPS)	68	238
Pension funds by other managers	260	5,341
Total	**1,745**	**16,567**

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

As at 31 December 2016, KS MR II recorded 1,191 insurance policies, with the average collected funds per insured person amounting to EUR 11,016.

As at 31 December 2016, KS MR II assets amounted to EUR 15,780,607. The largest share of the assets represents bonds, which account for 67% of total assets, followed by commercial papers (10%), investment certificates (8%) and deposits (6%).

Table 9: Structure of assets in KS MR II as at 31 December 2016

in EUR

Asset	Amount
Bonds	10,564,097
Loans and deposits	1,000,000
Commercial paper	1,682,555
Investment certificates	1,312,359
Cash and cash equivalents	481,783
Other receivables	739,813
Total	**15,780,607**

As at 31 December 2016, 54% of KS MR II assets were invested in the Republic of Slovenia and 46% of total assets in investments by foreign issuers.

Table 10: Geographic diversification of KS MR II investments as at 31 December 2016

in EUR

Area	Amount
Domestic investments	8,565,230
Foreign investments	7,215,377
Total	**15,780,607**

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 (PPS-SPO1). The share of the surplus intended for a permanent annuity increase is identified once a year by the manager's Management Board. In 2016, half of the surplus return from 2014 in the amount of EUR 2,215,135 was allocated to a permanent annuity increase. All insured persons or, rather, recipients of PPS pension annuities who took out insurance in the form of a monthly or annual annuity up to December 2015 received 2.3% higher annuities on average in April. Annuities increased for 9,873 insured persons or their beneficiaries. The disbursement of increased annuities made in April also included a settlement for the period between January and March 2016.

In 2016, the right to a pension annuity was acquired by 1,315 insured persons aged 60 who paid in a total of EUR 3,424,432 in KS PPS for their supplementary pensions.

As at 31 December 2016, the fund's assets amounted to EUR 100,259,867. The largest share of the assets represents bonds, which account for 65% of total assets, followed by stocks (18%) and deposits (7%).

Table 11: Structure of assets in KS PPS as at 31 December 2016

in EUR

Asset	Amount
Shares	18,237,020
Bonds	64,845,469
Commercial papers	2,992,888
Treasury bills	965,642
Deposits	6,700,000
Investment certificates	5,856,717
Cash and cash equivalents	370,162
Other receivables	291,969
Total	**100,259,867**

As at 31 December 2016, 60% of KS PPS assets were invested in the Republic of Slovenia and 40% of total assets in investments by foreign issuers.

Table 12: Geographic diversification of KS PPS investments as at 31 December 2016

in EUR

Area	Amount
Domestic investments	60,549,887
Foreign investments	39,709,980
Total	**100,259,867**

Financial assets of Modra zavarovalnica

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

Table 13: The Company's financial assets as at 31 December 2016

in EUR

Financial asset	Amount
Own financial assets	248,474,931
KS PPS assets	99,967,898
KS MR assets	31,654,589
KS MR II assets	15,040,794
Total	**395,138,212**

Management of own financial assets

The Company's own financial assets amounted to EUR 248,474,931 at the end of 2016. The Company breaks them down pursuant to the items indicated in the table below. The largest share is accounted for by portfolio investments in equity, followed by the debt investment portfolio.

Table 14: The structure of own financial assets of Modra zavarovalnica

in EUR

Financial asset	Amount
Portfolio investments in equity	124,080,350
Non-portfolio investments in equity	35,842,854
Portfolio of investments in debt securities	83,266,704
Cash and cash equivalents	5,285,023
Total	**248,474,931**

Portfolio investments in equity

Portfolio financial investments in equity comprise foreign shares and investment fund certificates by domestic and foreign issuers. As at 31 December 2016, the value of the mentioned investments reached EUR 124,080,350. As at 31 December 2016, the 5 largest investments in the portfolio of financial investments in equity are: index fund representing the MSCI global index (XMWO GY), index fund representing the MSCI global index (SMSWLD GY), ETF on government bonds (XGLE GY), investment fund investing in agriculture (MOO US) and index fund investing in the stock of emerging markets (MXFS LN).

Table 15: Composition of portfolio investments in equity as at 31 December 2016

in EUR

Investment	Amount
Shares	**31,513,558**
Domestic shares	0
Foreign shares	31,513,558
Investment funds	
Domestic investment funds	0
Foreign investment funds	92,566,792
Total	**124,080,350**

In 2016, stock indices increased on average by 11.4%, assessed in EUR . In terms of industry, the portfolio was the most exposed to information technology as at 31 December 2016, followed by finance and non-cyclical consumer goods. As regards exposure to foreign exchange risk, the portfolio's greatest exposure at the end of 2016 was to the US dollar and euro. More than half of the mentioned portfolio is invested in equity investments by North American issuers and around a third in investments by European issuers. The remainder are investments in issuers from developed Asian countries and issuers from developing economies.

Non-portfolio investments in equity

As at 31 December 2016, Modra zavarovalnica d.d. had two investments in equity by domestic issuers that required a method of management other than portfolio primarily due to the size of the equity stake, i.e. Cinkarna Celje d.d. and Pozavarovalnica Sava d.d. The total value of these investments amounted to EUR 35,842,854 as at 31 September 2016.

Financial investments in debt securities

At the end of 2016, the balance of investments in debt securities amounted to EUR 83,266,704. The largest share of investments in debt securities was taken up by corporate bonds, followed by government bonds and deposits.

Table 16: Composition of investments in debt securities as at 31 December 2016

in EUR

Investment	Amount
Bonds	**58,846,963**
Government bonds	**26,941,509**
Domestic government bonds	13,413,022
Foreign government bonds	13,528,487
Corporate bonds	**31,905,454**
Domestic corporate bonds	4,529,653
Foreign corporate bonds	27,375,801
Deposits	**20,150,202**
Commercial papers	**695,043**
Treasury bills	**3,574,496**
Total	**83,266,704**

The value of the government bond portfolio of Modra zavarovalnica amounted to EUR 26,941,509 as at 31 December 2016. The portfolio comprises mostly government bonds of countries within the euro area. At the end of 2016, the share of domestic issuers accounted for 49%, while the share of foreign issuers accounted for 51%. Over 90% of bonds are denominated in euro, while the remainder are in the US dollar and Norwegian krone.

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

Among corporate bonds, bonds by countries from the euro area prevail. The value of the corporate bond portfolio amounted to EUR 31,905,454 at the end of 2016. As at 31 December 2016, domestic issuers accounted for 14% and foreign issuers 86%. All bonds are denominated in euro. The majority of bonds have a fixed coupon interest rate. The average modified term of corporate bonds amounted to 3.9 years at the end of 2016.

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

Investments in cash and cash equivalents

At the end of 2016, the Company disclosed EUR 5,285,023 of own cash and cash equivalents.

MARKETING

In 2016, marketing and communication activities (sales activities, website management, public relations, advertising, awareness raising and information provision) were integrated in terms of content and time in order to be mutually supportive. They focused on achieving the set sales goals and on raising the visibility of Modra zavarovalnica as the largest provider of supplementary pension insurance. It has become increasingly difficult to maintain the leading market share in the management of savings collected for supplementary pension (supplementary pension insurance) and in the disbursement of supplementary pension upon retirement (annuity insurance). The interest of persons who have not been included in insurance is growing very slowly, which is why the competition, which has grown more and more intense, has focused on existing insured persons. The preservation of the market share and growth largely depend on efficient tailoring of products to the needs of individuals and companies, on personal treatment and on open communication. At the same time, the results of analyses showed that the provision of information about different forms of pension saving is still poor and has not improved since last year. The wider public of the insurance company still falsely associate it with supplementary pension insurance, which also shows poor knowledge of the advantages of supplementary pension insurance.

In order to raise the visibility of supplementary pension insurance and awareness on the need to save for supplementary pension, the Company started the Modra zgodba project, showing through real-life stories (of young and old people) how the environment and lifestyles change over time. In particular, we encourage young people to start thinking about their future, set goals and ensure funds for their realisation. By raising awareness of the significance of supplementary pension insurance, we lead them through the key points and encourage them to save. The number of Facebook followers increased by 70% in 2016. We have also become a moderator of a special topical forum on the subject of pension insurance on Med.Over.Net. Responses have been encouraging, the number of questions has increased and we have also noted that most answers are read by over 100 forum visitors.

A substantial scope of marketing or sales activities was intended for raising awareness of members regarding the possibilities to achieve higher return rates if they decide to save in the life-cycle fund. Unlike most providers, Modra zavarovalnica has fully maintained the traditional form of saving, i.e. a mutual pension fund with a guaranteed return rate (KVPS). All employers and members are hence still provided with unchanged financing of supplementary pension insurance, with several options provided, and are not forced to transform the supplementary pension saving scheme for their employees. Of those who decide to save in the life-cycle fund, the share of members choosing a sub-fund in which they do not belong with respect to their age rather than a sub-fund with a guaranteed return rate increased, unlike in 2015 when the life-cycle fund was first put on the market.

Since a relatively small share of collectively included members save for pension, marketing activities are also focused on increasing additional individual payments. At the beginning of summer, the Company carried out product-targeted advertising and promoted the conclusion of supplementary pension insurance online in 3 easy steps. To this end, electronic conclusion was updated on the website and a possibility was added to pay premiums using a smart phone and the Hal mBills application, which provides simple and the cheapest payments. Furthermore, numerous presentations at companies for their employees and regular communication via Modri e-račun and the contact centre contributed to an increased number of individual payments and the number of individuals making additional payments. The Company also achieved a substantial growth of additional individual payments in the traditional »No entry fee« campaign in December. The premium paid in after the campaign was 20% higher than that in 2015 and 44% higher than in 2014. The results have shown that targeted marketing communication and personal contact with insured persons have an important effect on raising the members' awareness of the expected pension gap and in understanding the advantages of supplementary pension insurance and tax relief.

In line with an initiative and preliminary consent by social partners, supplementary pension saving in the life-cycle fund was also provided by the Republic of Slovenia for all public servants. After aligning the Collective Supplementary Pension Insurance for Public Employees Act, social partners approached negotiations for concluding an Annex to the collective contract on the design of a pension scheme. The collective contract aligned with ZPIZ-2 provided the basis for the alignment of the pension scheme, Rules of the Life-cycle Pension Fund for Public Servants and statements of investment policy principles of individual sub-funds comprising the life-cycle pension fund. The Securities Market Agency (ATVP) issued all necessary decisions on 30 November 2016 and the pension fund for public servants, transformed within 30 day of the issue of ATVP consents, started operating on 1 January 2017. During preparations for the transformation, several presentations of the new life-cycle fund were made at public institutes, and three regular meetings of trade union representatives and institutions that expressed an interest in it were attended. Transformation into a life-cycle fund brings along the need for the proactive role of members, which is why personal contact and general access to information were strengthened through publication on websites and in the companies' in-house newsletters, and professional assistance was provided in the preparation of answers to questions posed by employees to employers and trade unions.

In parallel with other marketing activities, members/insured persons were actively encouraged to use Modri e-račun, which has grown to be an important communication channel. On one hand, it provides personalised treatment of members as well as faster and more effective communication and, on the other hand, savings on postal costs and concern for the environment, as it replaces classic communication by mail. With CRM support, digital marketing B2C campaigns were carried out via

Modri e-račun in order to promote sales, i.e. either in terms of making additional payments up to the maximum premium or re-establishment of payments, transfer of assets from competitive providers as well as possibilities for transfer between subfunds (invitation to save in line with a member's age). Modri e-račun was upgraded in 2016 and tailored to the wishes of users. It now enables a more transparent insight into supplementary pension saving and provides more personalised information to members. The number of users has gradually increased and reached 48,210 at the end of 2016.

By efficiently adjusting web contents and optimisation and increasing the scope of online advertising and regular purchase of keywords, the Company fulfilled the goals set for 2016. Visits to the website increased by 71% compared to 2015, while the number of visitors increased by 77%.

We also ensured our continuous presence in the press with answers to questions and comments, PR articles on the subject of supplementary pension insurance and prompted articles and regular provision of information about novelties and current affairs. In summer months, we carried out a planned advertising campaign in lifestyle press, thus covering all target groups. We carried out multi-channel marketing through coordination of digital marketing and traditional media.

With all activities carried out in 2016, the Company managed to keep the visibility it successfully increased in 2015. Modra zavarovalnica is recognised by 55% of interviewees. Compared to the visibility of supplementary pension insurance providers, the recall of Modra zavarovalnica is much higher than the recall of competitive providers. In 2016, the visibility of Modra zavarovalnica as a provider of supplementary pension insurance to public servants also increased.

The customer satisfaction research conducted every year showed that our customers, i.e. both members as well as employers that included their employees in Modra zavarovalnica pension funds, are satisfied. The share of customers that would recommend Modra zavarovalnica to their friends also increases each year.

Modra zavarovalnica has won recognition as a safe, competitive and trustworthy manager of funds for supplementary pension. This is confirmed by the growth of capital with which the Company guarantees the fulfilment of all obligations to its members/insured persons, stable long-term return rates of the pension funds and a wide range of supplementary pension insurance products and supplementary pension annuities. The amount of pension annuity that will be received in retirement in the first place depends on the funds saved.

As of 1 January 2016, insurance and pension companies brought their pension annuity products into line with the Rules laying down the detailed rules and minimum requirements observed by insurance or pension companies in the calculation of pension annuities. Pension annuities deriving from supplementary pension insurance must be paid until the end of life and an individual disbursement may be no less than EUR 30, while the disbursement dynamic may differ depending on the funds saved. All saved funds deriving from the payments made by the employer after 13 December 2012 that do not exceed EUR 20,000 may be used for an accelerated form of pension annuity disbursement. When collectively saved funds exceed EUR 20,000, one may opt for a monthly accelerated pension annuity, which, however, cannot exceed double the amount of the monthly lifetime pension annuity (2 to 1 form of annuity) during accelerated disbursements.

Modra zavarovalnica offers a wide range of annuities to retired pension fund members, thus providing them with the most suitable form of drawing the funds saved. Group 1 includes equal lifelong annuities with a guaranteed disbursement period from 1 to 20 years or without a guaranteed period as well as lifetime annuities with accelerated disbursement from 1 to 20 years. The offer depends on the amount of the funds collected and an insured person's needs. Due to changes in the assessment of accelerated annuities in 2016, more insured persons with less than EUR 10,000 of collected funds again tend to opt for a one-off disbursement. Despite that, the number of pension annuity recipients has grown steadily. It is worrisome, however, that most people are still unaware of the importance of pension saving and thus pay in premiums that are too low and do not provide, particularly the elderly, with a suitable amount of supplementary pension.

RISK MANAGEMENT

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

Modra zavarovalnica operates so that:

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

The Company considers the most important types of risk in its operations to be credit risk, market risk, liquidity risk and operational risk. In 2017, it will continue to develop and upgrade the overall risk management system in order to improve asset management in the long term. It is vital to meet the requirements under the new Solvency II regulation (ZZavar-1), where investments and liabilities are assessed in terms of capital, i.e. by applying a risk-based approach. The strategic goal of the Company is to protect insured persons or, rather, their assets while meeting capital requirements, improving risk management, providing conditions for better capital allocation, increasing transparency and similar.

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

The Company's solvency position

Modra zavarovalnica estimates that it disposes with a sufficient volume of own assets with respect to its total need for capital. The table below contains data for 2016 in the amounts reported by the Company to the Insurance Supervision Agency within the scope of regular reporting to the regulator for quarter 4 of 2016.

Table 17: Capital adequacy pursuant to the requirements of ZZavar-1 or Solvency II Directivel

in EUR

Item	31/ 12/ 2016	31/ 12/ 2015
Total need for capital	92,961,236	86,107,027
Available adequate own assets	206,056,687	201,490,096
Surplus (+)/deficit (-) of available own assets	113,095,451	115,383,069
Eligible own assets to total capital need ratio	**222%**	**234%**

The annual data on the solvency position as at 31 December 2016 will be presented in the Company's Report on solvency and financial position, which will be published on its website.

Credit risk

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

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

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

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

Credit risk deriving from exposure to an individual bank is managed in line with internal regulations, i.e. monthly.

The total exposure to an individual issuer is determined daily and is aligned with legal regulations.

The risk of security price changes

The diversification of a share of the Company's investments abroad has reduced the dependency of the long-term investment portfolio on the trends recorded on the Slovenian capital market. In 2017, Modra zavarovalnica will continue to diversify its share of investments abroad pursuant to its investment policy.

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

Currency risk

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

The Company manages its credit risk by balancing financial assets with liabilities in terms of currency pursuant to ZZavar-1. The amount of receivables exposed to currency risk is low. In 2016, the Company used no derivatives to protect itself against currency risk.

Interest rate risk

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

The Company manages interest rate risk by changing the structure of investments, i.e. by adjusting the duration of a portfolio, restructuring fixed-rate investments into floating-rate investments or vice versa and by classifying investments as financial investments held to maturity. In 2016, the Company used no derivatives for protection against credit risk.

Liquidity risk

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

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

Operational risk

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

The Company also has an internal audit service that pays special attention to verifying the internal control system and making proposals for its improvement.

INFORMATION TECHNOLOGY

Requirements for fast development of innovative and advanced information tools that have an important effect on the development of marketing and sales processes in particular have become more and more pronounced. The business environment has become increasingly digital, as modern information tools enable new forms of communication with customers. The so-called digital interruption, i.e. the impact of modern technology on business, has become more and more present and poses one of the most important technological challenges in the recent period as well as a serious threat to the existing business models. At the same time, we are faced with increasing requirements regarding availability, reliability and security in general in the development and maintenance of a traditional information system that serves to support classic business processes. In security, the coming reform of the European legislative framework will place most attention on the protection of personal data.

In 2016, we successfully completed an important project to implement an integral business IT solution to support the management of pension funds. By transferring data on the ZVPSJU fund, we in fact set up IT support for asset management processes and insurance provision. Support has been provided for the mutual pension funds with a guaranteed return rate, life-cycle pension funds, annuity funds and own assets. With the implementation of the project, the cost of using the IT solution reduced substantially and uniform support for fund management process was established. All bases for the final takeover of the IT solution were prepared. The digitalisation of incoming-outgoing mail and storage of electronic copies of documents pursuant to the classification plan of the Company's business documents were successfully executed. Incoming mail in digitalised form is available to business processes upon its entry in the mail registry. With this solution, the business documents generated by business processes gained a single storage channel.

The Company continued to develop customer services last year. The new ModriNet web service for the electronic exchange of information with employers has been supported for all pension funds managed by Modra Zavarovalnica. The ModriNet service has been implemented as a web client and a web service to which employers can connect using a digital certificate. Comprehensive communication with employers is carried out through a unified backoffice customer management system. Furthermore, the Company included in its portfolio of innovative services the electronic conclusion of pension insurance with mobile payments of the supplementary pension insurance premium. In order to improve communication, we renewed the Modri e-račun service, where insured persons can now monitor the investment structure of the funds, their return rates and manage their profile.

In IT support for the Solvency II regime, it is vital to provide the quality of information. In line with that, we continued establishing processes to provide quality information, primarily by developing automated procedures for the transfer of data from the backoffice system to the support system for the Solvency II regime. The software solution was successfully used to prepare all regulatory reports. Furthermore, the final takeover of the IT solution was executed.

In 2016, the Company completed the implementation of two very important IT solutions. Due to high dynamics of the changes implemented in the recent period, a great deal of stress was placed on stabilising and achieving the reliability of new IT solutions to support fund management and the Solvency II regime. Operational risks relating to IT support for the business processes were, despite that, successfully managed. There were no major security incidents, the system's operation was stable and requirements regarding the availability and reliability of IT services for business processes were met pursuant to the service level agreements or expectations of the users of business IT solutions. In IT management, the requirements of the international ISO/IEC 27001:2005 standard and ISO/IEC 27002:2007 information security code or the ISO/IEC 27001:2013 standard and ISO/IEC 27002:2013 information security code were met in every relevant detail.

The IT function at Modra zavarovalnica is faced with a digital gap or management of IT areas of different speeds. On one hand, the Company must see to the highest possible level of business process automation and provision of reliable and safe IT services used for operations while on the other hand taking the role of developer and introducer of cutting-edge business solutions that require a considerable level of innovation and will in future importantly co-shape particularly marketing and sales processes. Modra zavarovalnica keeps track of changes and trends and is ready for any change of business model that may be the result of digitalisation or use of advanced IT approaches.

ORGANISATION AND HUMAN RESOURCES

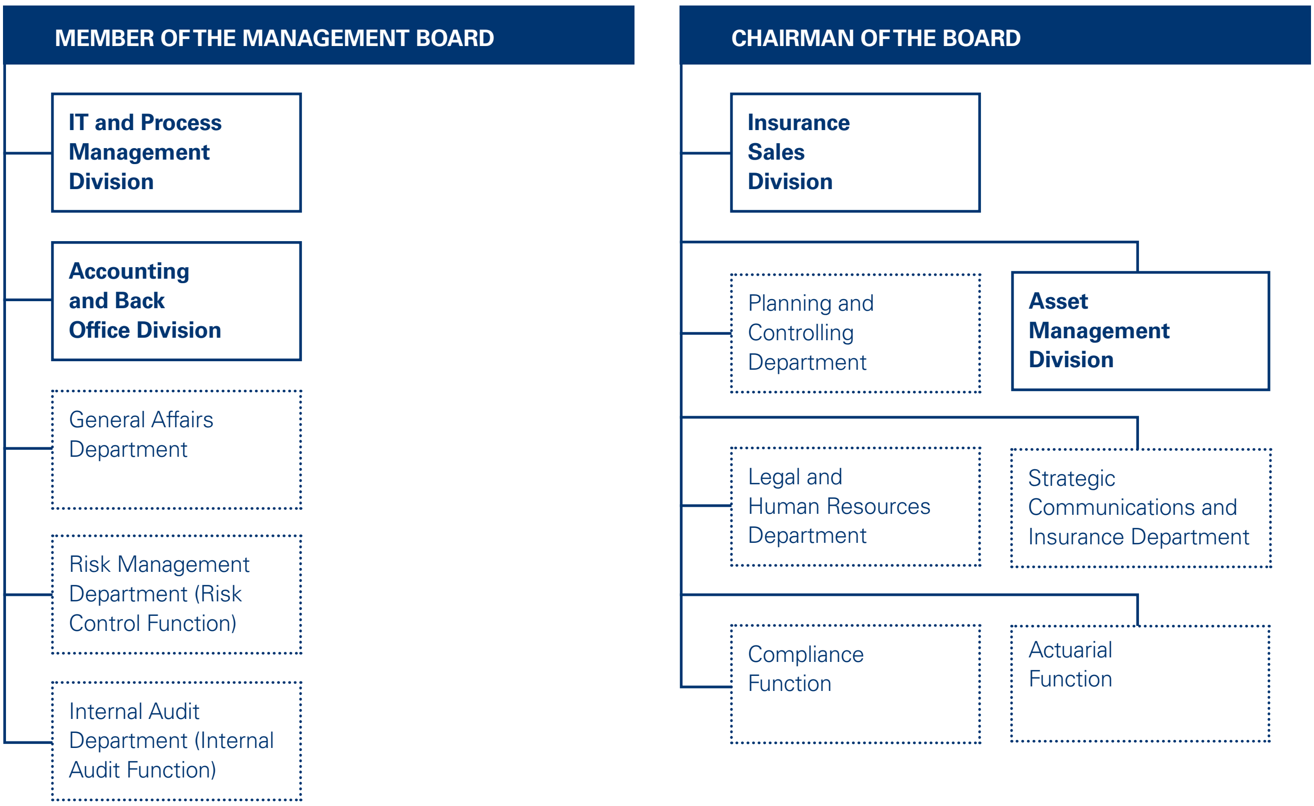
Internal organisation

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

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

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

Figure 5: Organisational chart of Modra zavarovalnica

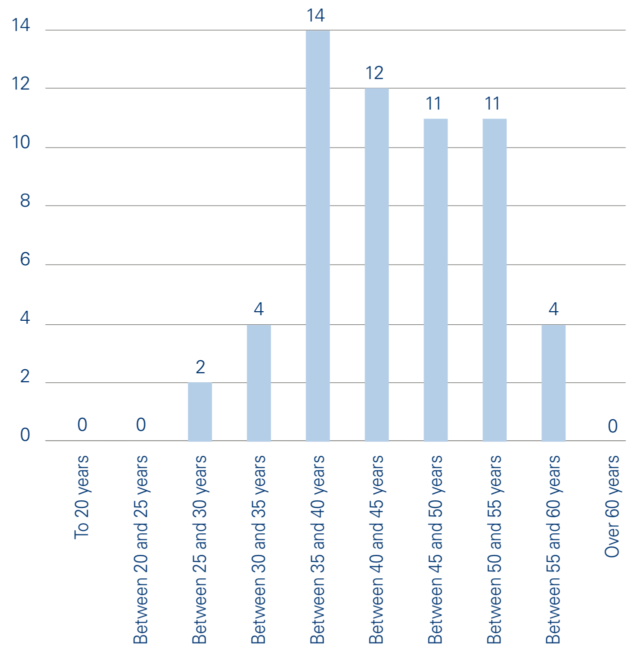


Employees

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

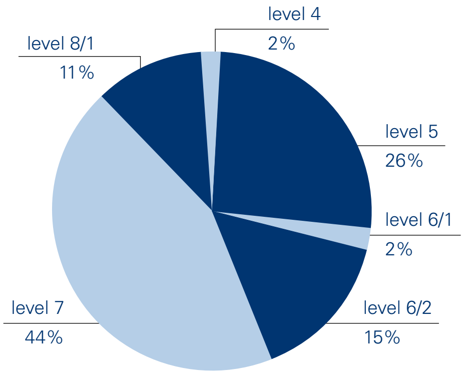
In 2016, the Company employed an average of 56.84 persons and as at 31 December 2016 58 associates. The average age of employees is 43. Considering the gender structure of employees, 78% are women and 22% are men, whereby the ratio has remained almost unchanged since 2015. In 2016, one female and one male associate joined the Company. As at 31 December 2016, Modra zavarovalnica had one temporary employee.

Figure 6: Structure of employees by age group as at 31 December 2016



Modra zavarovalnica employees pay special attention to knowledge and education. 10% of employees have a Master's degree, 60% of employees have higher professional or university education, 2% have higher education and 28% secondary education.

Figure 7: Structure of employees by level of education as at 31 December 2016



The expected level of employee knowledge can be achieved with organised and planned training. Continuous changes on the market, tailoring products and services to clients' needs and product development require continuous training. In 2016, the insurance company earmarked EUR 92k for training. In addition to participating in training provided by outsourcers, knowledge transfer also takes place within the scope of in-house training courses. Training in the prevention of money laundering and terrorist financing is carried out regularly. A total of 776 hours were spent on training in 2016. On average, every employee spend 17.84 teaching hours for training, whereby the average cost for education per employee amounted to EUR 672.

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

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

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

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

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

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

RESPONSIBILITY TO INSURED PERSONS, THE BROADER SOCIAL COMMUNITY AND THE ENVIRONMENT

Slovenians save much less for old age than necessary. The expectations of our life in retirement are still too optimistic, while retirement is still too far off to give it due attention. Furthermore, our expectations regarding the amount of supplementary pension are often erroneous. By saving EUR 20 per month in the 10 years preceding retirement, one cannot expect a pension annuity that would cover the difference between the last salary and first pension. By delaying saving, young people in particular lose the most. The time lost must be compensated later on with much higher monthly payments, so that they can save enough. This is why it is necessary to systematically change one's saving habits and raise awareness of the need, although it is a long way off.

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

Modra zavarovalnica is an active member of the European Association of Public Sector Pension Institutions (EAPSPI), which brings together 26 public pension institutions from 16 European countries. The main purposes of the Association are mutual assistance of its members and transfer of knowledge, experience and information on the provision of pension schemes for public servants and experience in pension systems in individual countries from which the members arrive.

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

Every year, the Company responds to the needs of the environment by supporting socially useful projects in education. In 2016, the Company made a financial contribution to the Milojka Štrukelj Primary School from Nova Gorica, i.e. for its students who attended the World Scholar's Cup and successfully made it to the higest level of the competition. The Company supported the traditional Days of Finance by Unicredit Bank and presented its products and services to the financial public.

As a socially responsible company, we support environmentally targeted activities. We have been separating waste, minimising paper consumption, collecting worn-out printer cartridges and responding to charitable events. To this end, we also develop various web applications that reduce the need for printing and enable faster and more reliable communication and information provision procedures. Plastic stoppers are collected throughout the year. In 2016, we also supported the »Jaz, ti, mi za Slovenijo« project, aimed at raising awareness among young people on the importance of a healthy environment and attitude to nature and recycling of waste materials that can also represent raw materials for further processing.

Like every year, employees again responded to the charity projects »Santa for a Day« and »Assistants of 3 winter godfathers« and joined many good people who made wishes come true for children from socially deprived families. A financial contribution was also made to a lady who unexpectedly found herself in a severe medical and financial situation.

IMPORTANT BUSINESS EVENTS AFTER THE END OF THE FINANCIAL YEAR

The Closed Mutual Pension Fund for Public Servants, which included all public servants, transformed on 1 January 2017 into a guaranteed sub-fund of the newly established Life-Cycle Fund for Public Servants. By transforming the existing pension fund, all of its members and assets saved were transferred to the Guaranteed Sub-Fund for Public Servants. At the same time, two new sub-funds were formed, i.e. the Dynamic Sub-Fund for Public Servants, intended for members aged up to 50 and with a prevailing share of assets invested in stock, and the Prudent Sub-Fund for Public Servants, intended for members aged between 50 and 60 and with a balanced structure of assets and investments in stock and bonds. The life-cycle fund enables young people in particular to save in more dynamic stock investments. The structure of investments is tailored to the age group of savers – from more dynamic at a young age to more conservative and safer in old age. All public servants who are not in favour of the changes or are more than 60 years old can save for supplementary pension the same as before the ZVPSJU fund was transformed. Between January and April 2017, Modra zavarovalnica will inform all public servants in writing of the possibility to choose the other two sub-funds. A change of sub-fund in which they wish to save will be a personal choice that may be changed once a year. Only the age limit for saving in a particular sub-fund is taken into account when making the change.

EXPECTED DEVELOPMENT OF MODRA ZAVAROVALNICA IN 2017

The central guidance of the Company's operations in 2017 remain the security of insured persons' assets, which gained a special position in Company operations with the introduction of the Solvency II regime in 2016. The culture of risk management is present in all business segments, since risk assessment has been integrated into all business decisions.

In 2017, the insurance company will continue activities focused on increasing its visibility, reputation and trust. Strategic communication will focus on increasing the trust of different audiences in the Company as the leading provider of supplementary pension insurance, its management and services, while marketing communication will focus on supporting marketing goals and managing the insured persons' trust.

In line with the current trends and events on the market, the Company will also place attention on digital transformation, which changes internal and external processes using modern and advanced technologies. The digitalisation of marketing processes is carried out in order to provide modern digital communication with the client in all stages of decision-making, i.e. prompting a need, searching for information, taking out insurance, taking care for existing insured persons, other after-sales activities and additional products. The increasingly frequent integration of new technologies with the Internet, social networks and smart phones provides simple and fast access to information, which is why digital communication has become an increasingly important marketing tool, enabling in-depth analysis of behavioural patterns of potential clients and a possibility for more efficient content marketing.

Enhanced marketing activities in the first half of 2017 will be intended for the transformation of the Closed Mutual Pension Fund for Public Servants into a sub-fund with a guaranteed return rate and for the establishment of a life-cycle pension fund.

By implementing a new integral system, which was largely completed in 2016, Modra zavarovalnica will achieve an important goal of long-term cost management relating to the use of IT support. In 2017, the Company will define the key bases for the provision of future user experience and, based on them, plan the introduction of modern technology and organisation concepts. For the purposes of automation or IT support for individual stages of business processes, integration of the documentary system with the key application support for the Company's business processes will also be carried out.

REPORT ON RELATIONS WITH THE CONTROLLING COMPANY

In the 2016 financial year, the Company took no action in relation to the parent company and its related companies deriving from contractual and business relationships at the initiative or in the interest of the parent company or its related companies that would result in its disadvantage or detriment.

GOVERNANCE STATEMENT

Based on the provision of paragraph 5 of Article 70 of the Companies Act and provision 3.4 of the Corporate Governance Code for Companies with Capital Assets of the State, Modra zavarovalnica hereby provides a governance statement for the period between 1 January and 31 December 2016.

Reference to the applicable governance code

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

The Company's Management Board adopted the Governance Policy of Modra zavarovalnica d.d. at its session held on 29 December 2015 and its amendments and supplements on 11 November 2016, which entered into force on 16 November 2016 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-zavarovalnica.si.

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

Governance framework for companies with capital assets of the State

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

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

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

Modra zavarovalnica continues to be the largest pension fund manager and payer of supplementary pensions in the Republic of Slovenia and an important source of funds for the first pension pillar, as it increased value for its owner by over EUR 91 million in the past 5 years, more than EUR 16 million of which in the form of dividend distribution and EUR 75 million in the form of capital growth.

Audit and internal control system

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

Explanation: No external quality assessment of internal auditing has been carried out at Modra zavarovalnica. An external quality assessment of internal auditing will be carried out in the first half of 2017

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

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

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

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

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

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

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

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

Holders of securities providing special control rights

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

Restrictions on voting rights

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

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

Explanation: Company Rules on the appointment and dismissal of governing body members are laid down in the Company's Articles of Association.

The Supervisory Board of Modra zavarovalnica is appointed by the General Meeting. Pursuant to paragraph 2 of Article 2 of the Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD) and the Slovenian Compensation Company (SOD) and Article 10 of the Company's Articles of Association, the Supervisory Board comprises 6 members.

Three Members of the Supervisory Board are appointed at the proposal of Kapitalska družba d.d. and three members at the proposal of the persons insured at the Company, i.e. two members are proposed by the board acting on behalf of the persons insured in the pension fund for public servants and one member is proposed by other persons insured at the Company. A proposal for Member of the Supervisory Board who is proposed by persons insured in the public servant fund is formed on the basis of a public call to persons insured in the public servant fund, which is published in the Official Gazette of the Republic of Slovenia and on the Company's website. Based on the proposals received, the public servant fund board proposes two Members of the Supervisory Board after a proposal is formed and confirmed by members of the board who represent insured persons and are themselves insured at the Company. The proposal for member of the Supervisory Board who is proposed by other insured persons is formed on the basis of a public call to all persons insured by the Company outside the public servant scheme, which is published in the Official Gazette of the Republic of Slovenia and on the Company's website. Based on the proposals received, the KVPS and MKPS boards form a proposal for a Member of the Supervisory Board, which is confirmed by members of the board who are themselves insured at the Company.

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

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

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

The Articles of Association and their amendments and supplements are adopted by the General Meeting of the Company at the proposal of the Management and Supervisory Boards.

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

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

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

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

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

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

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

DIVERSITY POLICY

Modra zavarovalnica pursues no diversity policy.

FINANCIAL REPORT

It is wise to enjoy the fruits of one's labour.

It is nice to look back and see what we have created. It is even nicer to deservedly enjoy the autumn of our life, think about new goals, and to make a secret wish come true without a care.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management Board of Modra zavarovalnica hereby confirms the financial statements of Modra zavarovalnica for the period between 1 January 2016 to 31 December 2016, 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 2016.

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

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

Ljubljana, 29 March 2017

Matija Debelak
Member of the
Management Board

Borut Jamnik
President of the
Management Board

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
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INDEPENDENT AUDITOR'S REPORT
to the owners of MODRA ZAVAROVALNICA, D.D.

Opinion

We have audited the accompanying financial statements of the company MODRA ZAVAROVALNICA, d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2016, 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 2016, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

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

Other information

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

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

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

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

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

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

Responsibilities of Management and Supervisory Board for the Financial Statements

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

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

Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

Ljubljana, 29th March 2017

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

For signature please refer to the original Slovenian version.

INCOME STATEMENT[1]

in EUR

Item		Note	2016	2015
I.	**Net premium income**	**1.**	**16,552,205**	**24,551,616**
	- gross premium written		16,552,205	24,551,616
III.	**Investment income**	**2.**	**14,770,574**	**19,481,997**
IV.	**Other insurance income, of which**	**4.**	**8,873,566**	**6,463,117**
	- fee and commission income		6,252,317	6,084,158
V.	**Other income**	**5.**	**125,071**	**484,664**
VI.	**Net claims incurred**	**6.**	**-16,180,245**	**-15,175,922**
	- gross claims paid		-16,101,176	-15,108,171
	- change in claims provisions		-79,069	-67,751
VII.	**Changes in other technical provisions**	**7.**	**-4,787,079**	**-11,392,868**
XI.	**Operating costs, of which**	**8.**	**-5,741,739**	**-6,456,538**
	- cost of insurance contract acquisition		-108,360	-464,011
XIII.	**Investment expenses, of which**	**3.**	**-3,291,796**	**-5,783,067**
	- impairment of financial assets that are not measured at fair value through profit or loss		-578,352	0
XIV.	**Other insurance expenses**	**9.**	**-3,115,251**	**-7,316,533**
XV.	**Other expenses**	**10.**	**-798**	**-31,976**
XVI.	**Profit or loss before tax**		**7,204,508**	**4,824,490**
XVII.	**Corporate income tax:**	**11.**	**-634,753**	**-99,958**
XVIII.	**Net profit or loss for the period**		**6,569,755**	**4,724,532**
	Earnings per share		0.04	0.03
	Diluted earnings per share		0.04	0.03

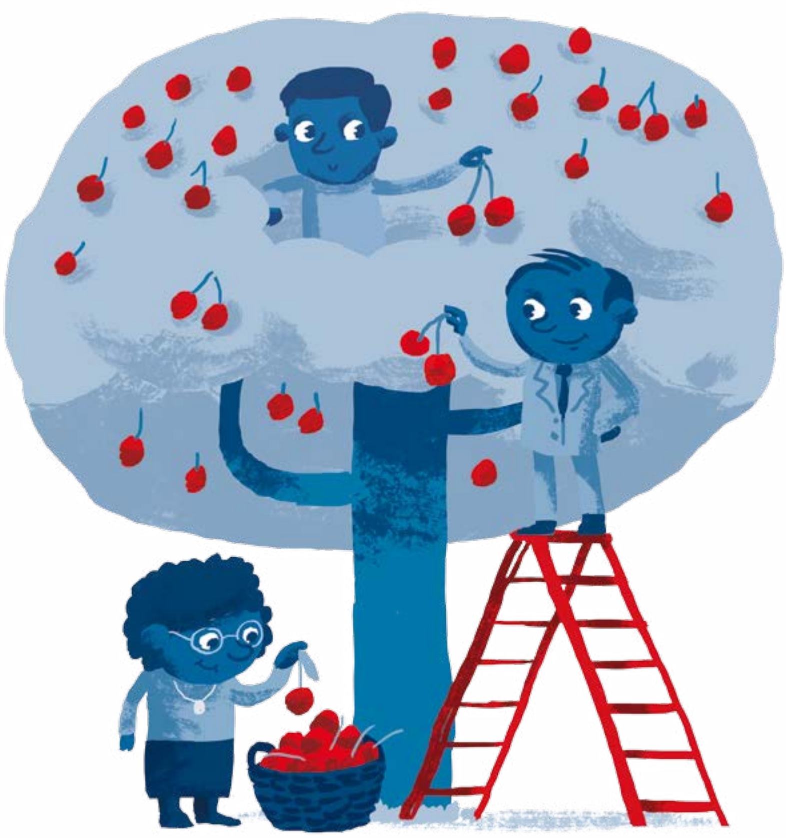
[1] Disclosures and notes form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME[2]

in EUR

Item		Note	2016	2015
I.	**Net profit for the financial year after tax**		**6,569,755**	**4,724,532**
II.	**Other comprehensive income after tax (a + b)**	**13.**	**20,228,425**	**-4,578,228**
b.	Items that may be reclassified subsequently to profit or loss		20,228,425	-4,578,228
	1. Net gains/losses from the revaluation of available-for-sale financial assets		24,181,134	-5,105,075
	1.1. Net gains/losses recognised in revaluation surplus		24,791,367	1,570,072
	1.2. Transfer of gains/losses from revaluation surplus to profit or loss		-610,233	-6,675,147
	5. Tax on items that may be reclassified subsequently to profit or loss		-3,952,709	526,847
III.	**Comprehensive income for the financial year after tax (I + II)**		**26,798,180**	**146,304**
	Comprehensive income per share		0.18	0.00
	Diluted comprehensive income per share		0.18	0.00

[2] Disclosures and notes form an integral part of these financial statements.



STATEMENT OF FINANCIAL POSITION[3]

in EUR

Item		Note	31 Dec. 2016	31 Dec. 2015
Assets			**398,148,790**	**363,030,074**
A.	**Intangible assets**	**14.**	**1,142,918**	**493,085**
B.	**Property, plant and equipment**	**15.**	**45,557**	**21,653**
F.	**Investments in Group companies and associates**	**16.**	**26,400,006**	**12,385,188**
G.	**Investments:**	**17.**	**362,164,893**	**340,649,756**
	- loans and deposits		30,000,212	34,030,013
	- held-to-maturity		98,222,394	80,586,755
	- available-for-sale		174,513,552	167,739,560
	- at fair value		59,428,735	58,293,428
K.	**Receivables**	**18.**	**733,645**	**3,281,878**
1.	Receivables from direct insurance business		820	154,620
4.	Other receivables		732,825	3,127,258
L.	**Other assets**	**19.**	**1,088,459**	**654,525**
M.	**Cash and cash equivalents**	**20.**	**6,573,312**	**5,543,989**
	Off-balance sheet items	**21.**	**955,200,330**	**914,191,740**
Capital and liabilities			**398,148,790**	**363,030,074**
A.	**Equity**	**22.**	**225,990,099**	**201,323,863**
1.	Share capital		152,200,000	152,200,000
3.	Revenue reserves		23,343,679	19,738,525
4.	Revaluation surplus		47,469,313	27,240,888
5.	Retained earnings		2,977,107	2,144,450
C.	**Technical provisions**	**23.**	**144,365,708**	**139,499,563**
2.	Technical provisions for life insurance		143,442,574	138,655,496
3.	Provisions for claims outstanding		923,134	844,067
E.	**Other provisions**	**24.**	**15,595,727**	**18,048,513**
G.	**Deferred tax liabilities**	**12.**	**7,118,229**	**2,913,066**
J.	**Operating liabilities**	**25.**	**382,299**	**75,454**
1.	Liabilities from direct insurance business		0	0
3.	Current tax liabilities		382,299	75,454
K.	**Other liabilities**	**26.**	**4,696,728**	**1,169,615**
	Off-balance sheet items	**21.**	**955,200,330**	**914,191,740**

[3] Disclosures and notes form an integral part of these financial statements.

CASH FLOW STATEMENT[4]

in EUR

Item				2016	2015
A.	**Cash flows from operating activities**				
	a)		**Profit and loss account items**	**-4,483,586**	**7,440,255**
		1.	Net written insurance premiums for the period	16,552,205	24,551,616
		3.	Other operating income (excluding revaluation and decrease in provisions) and financial income from operating receivables	6,814,632	6,989,831
		4.	Net damages paid in the period	-16,180,245	-15,175,922
		6.	Net operating costs excluding depreciation charges and changes in accrued acquisition expenses	-5,579,663	-6,333,309
		8.	Other operating expenses excluding amortisation and depreciation charges (other than revaluation and increase in provisions)	-6,472,812	-1,813,328
		9.	Income taxes and other taxes not included in operating expenses	382,299	-778,633
	b)		**Changes in net current assets (insurance claims, other receivables, other assets, deferred tax assets and liabilities) in operating balance sheet items**	**7,922,153**	**-1,676,550**
		1.	Opening less closing receivables from direct insurance transactions	153,800	62,754
		4.	Opening less closing other receivables and assets	227,189	-993,305
		5.	Opening less closing deferred tax assets	93,325	0
		7.	Closing less opening debts from direct insurance transactions	0	-4,195
		9.	Closing less opening other operating debts	3,242,675	-314,915
		11.	Closing less opening deferred tax liabilities	4,205,164	-426,889
	c)		**Net cash from (used in) operating activities (a+b)**	**3,438,567**	**5,763,705**
B.	**Cash flows from investing activities**				
	a)		**Receipts from investing activities**	**74,207,599**	**126,172,458**
		1.	Receipts from interest earned from investing activities	5,906,399	7,207,080
		2.	Payments from dividends and participation in profit of others	3,503,064	4,290,763
		5.	Receipts from disposal of investments	64,798,136	114,674,615
	b)		**Disbursements from investing activities**	**-74,281,219**	**-121,112,076**
		1.	Disbursements for acquisition of intangible assets	-185,207	-319,954
		2.	Disbursements for acquisition of property, plant and equipment	-43,112	-7,345
		3.	Disbursements for acquisition of investments	-74,052,900	-120,784,777
	c)		**Net cash from (used in) investing activities (a+b)**	**-73,620**	**5,060,382**
C.	**Cash flows from financing activities**				
	b)		**Disbursements for financing**	**-2,335,624**	**-7,867,431**
		3.	Disbursements for the repayment of long-term financial liabilities	-203,679	0
		5.	Disbursements for the distribution of dividends and other profit participations	-2,131,945	-7,867,431
	c)		**Net cash from (used in) financing activities (a+b)**	**-2,335,624**	**-7,867,431**
Č.	**Closing balance of cash and cash equivalents**			**6,573,312**	**5,543,989**
	x)		Net cash for the period (sum of items Ac, Bc and Cc)	1,029,323	2,956,656
	+				
	y)		Opening balance of cash and cash equivalents	5,543,989	2,587,333

[4] Disclosures and notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY 2016[5]

in EUR

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

[5] Disclosures and notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY 2015[6]

in EUR

Item		I. Share capital	III. Revenue reserves		IV. Revaluation surplus	V. Retained earnings	VI. Net profit or loss	Total capital
			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	3,046,303	14,099,635	31,819,116	7,879,936	0	209,044,990
4.	**Opening balance for the period**	**152,200,000**	**3,046,303**	**14,099,635**	**31,819,116**	**7,879,936**	**0**	**209,044,990**
5.	Comprehensive income for the financial year after tax	0	0	0	-4,578,228	0	4,724,532	146,304
5.a	Net profit or loss for the financial year	0	0	0	0	0	4,724,532	4,724,532
5.b	Other comprehensive income	0	0	0	-4,578,228	0	0	-4,578,228
10.	Dividends paid (accounted for)	0	0	0	0	-7,867,431	0	-7,867,431
11.	Allocation of net profit to revenue reserves	0	460,642	2,131,945	0	0	-2,592,587	0
12.	Allocation of net profit to retained earnings	0	0	0	0	2,131,945	-2,131,945	0
16.	**Closing balance for the period**	**152,200,000**	**3,506,945**	**16,231,580**	**27,240,888**	**2,144,450**	**0**	**201,323,863**

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

PROFIT OR LOSS APPROPRIATION ACCOUNT[7]

in EUR

Item		31 Dec. 2016	31 Dec. 2015
a)	**Net profit or loss for the financial year**	**6,569,755**	**4,724,532**
č)	**Increase in revenue reserves in accordance with management decision**	**640,551**	**460,642**
	- increase in legal reserves	328,488	236,227
	- increase in statutory reserves	312,063	224,415
d)	**Increase in other reserves pursuant to the decision of the Management Board and the Supervisory Board**	**2,964,602**	**2,131,945**
e)	**Accumulated profit or loss (a + b + c – č – d)**	**2,964,602**	**2,131,945**

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

DISCLOSURES AND NOTES

General disclosures

Company profile

Modra zavarovalnica d.d. is organised as a public limited company Its registered office is at Dunajska cesta 119, Ljubljana. The 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 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 controlling company

Modra zavarovalnica d.d. is a fully owned subsidiary of Kapitalska družba pokojninskega in invalidskega zavarovanja d.d., Dunajska cesta 119, 1000 Ljubljana. The financial statements of the company are integrated in the consolidated financial statements of the controlling company. The consolidated annual report of the controlling company Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. is available online at www.kapitalska-druzba.si.

Funds managed

Table 18: Funds managed by Modra zavarovalnica as at 31 December 2016

Fund name	Fund's registration no.:
Prvi pokojninski sklad Republike Slovenije (First Pension Fund of the Republic of Slovenia)	6031226001
Zaprti vzajemni pokojninski sklad za javne uslužbence (Closed Mutual Pension Fund for Civil Servants)	6031226002
Modri krovni pokojninski sklad (Modri Umbrella Pension Fund)	6031226007
Modri dinamični podsklad (Modri Dynamic Sub-Fund)	6031226006
Modri preudarni podsklad (Modri Prudent Sub-Fund)	6031226008
Modri zajamčeni podsklad (Modri Guaranteed Sub-Fund)	6031226009
Kapitalski vzajemni pokojninski sklad (Capital Mutual Pension Fund)	6031226003
Kritni sklad Prvega pokojninskega sklada (Guarantee Fund of the First Pension Fund)	6031226004
Kritni sklad Modra renta (Guarantee Fund Modra Renta)	6031226005
Kritni sklad Modra renta II (Guarantee Fund Modra Renta II)	6031226010

Information about employees

Table 19: Number of employees by level of education

Education	31 Dec. 2016	31 Dec. 2015
Level 8 (8/1, 8/2)	6	6
Level 7	26	23
Level 6 (6/1, 6/2)	10	10
Level 5	15	16
Level 4	1	1
Total	**58**	**56**

Information about subsidiaries

As at 31 December 2016, Modra zavarovalnica had no subsidiaries.

Accounting policies

Basis for preparation

The financial statements of the company Modra zavarovalnica have been prepared on the basis of the accounting policies presented below. The financial statements for 2016 have been compiled pursuant to the International Financial Reporting Standards (IFRS), as adopted by the European Union, the Companies Act, the 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 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 the European Union (EU).

In its financial statements, Modra zavarovalnica applied all IFRS and IFRIC interpretations applicable in 2016. Modra zavarovalnica did not apply any standard or interpretation not applicable in 2016.

Basic policies

The financial statements have been prepared based on the historical cost basis, with the exception of assets measured at fair value through profit or loss and available-for-sale financial assets measured at fair value. The financial statements are presented in euros (EUR), which is the functional and reporting currency of the company. All figures are rounded to EUR 1, 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 company as well as the amounts of revenues and expenses.

The adequacy of used assumptions and estimates is checked periodically.

The most important decisions made by the management refer to the classification of financial instruments or the distinction between financial instruments that the company intends to hold to maturity and those available for trade or sale.

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

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

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

Foreign currency translation

The financial statements are presented in euros (EUR), which is the functional and reporting currency of the 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 foreign currency are translated at the exchange rate of the functional currency as at the reporting date. All differences arising from the translation of foreign currencies are recognised in the income statement. 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-cash 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 set.

Adoption procedure for the Annual Report

The company's annual report is adopted by the company's Management Board and then submitted to the company's Supervisory Board for approval. The Management and Supervisory Boards also decide on the use of net profit for the formation of the company's reserves pursuant to the provisions of the Companies Act. Such use of profit is included in the statements for the current year, while the distribution of profit for appropriation is decided by the company's General Meeting.

Property, plant and equipment

The items of equipment are recognised at cost less accumulated depreciation and impairment losses. The 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 annum.

Every year, the 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 company decreases the carrying amount of such assets to their recoverable amount. The decrease represents a loss due to impairment that the company recognises directly in its income statement.

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

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

An item of property, plant and equipment whose individual value as per supplier's invoice does not exceed EUR 500, may be carried as a group of low value assets. 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 separately 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 income statement. Intangible assets created within the company, other than costs of development, are not capitalised. Costs represent the 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 adjusted, if necessary. A recognised intangible asset 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 the impairment of expense is recognised directly in the income statement.

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

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 income statement upon the elimination or disposal of the asset.

Investments

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

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

The classification depends on the purpose of acquisition.

Recognition of financial assets

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

Fair value estimate

Price source

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

Determining fair value of investments

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

Upon investment acquisition, the company determines on of the following as the principal market for that investment:

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

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

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

In case of exchange trading, the assumption of active market is fulfilled if the average amount of individual investment traded in a day over the last 180 days from the date of fair value measurement exceeds EUR 0,5 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 of not more than 15 days. If the stock market is not active, the last known stock price is used, no older than 90 days, for fair value measurement. In other cases, fair value of the investment is measured on the basis of the valuation technique.

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT price is quoted for at least a half of trading days in the last 30 days from the measurement date. If the OTC market is active, fair value is measured using the most recent CBBT price of not more than 15 days. If the OTC market is not active, fair value is measured using the most recent BBT price of not more than 90 days. In the event that the most recent CBBT price is older than the last transaction price of the financial instrument, or the CBBT price is not available, fair value is measured based on the most recent transaction price of not more than 90 days, whereas the active market assumption is fulfilled only if the transaction price is not more than 15 days old. In other cases, fair value of the investment is measured on the basis of the valuation technique.

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

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

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

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

- Level 1 inputs are (unadjusted) quoted prices in active markets for identical investments that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. 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 (implied volatiles, credit spreads, etc.),
  - inputs corroborated by market;
- Level 3 inputs are unobservable inputs.

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

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

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

Classification of equity investments

Table 20: Equity investment classification in case of exchange 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 their fair value is measured using the valuation technique (taking into account level 2 inputs)
Level 3	Equity investments for which quoted prices are not available and their fair value is measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Table 21: Classification of unquoted equity investments

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

Table 22: Classification of mutual funds coupons

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

Classification of debt investments

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

Table 23: Classification of debt investments with exchange as the principal market

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

Table 24: Classification of debt investments with OTC market 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 fair value measured using the valuation technique (taking into account level 2 inputs)
Level 3	Debt securities without CBBT price in (in)active markets nd fair value measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Classification of loans and deposits

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

Financial assets at fair value through profit or loss

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

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

Held-to-maturity investments

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

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

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

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

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

Investments in loans and deposits

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

Available-for-sale investments

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

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

Impairment of available-for-sale financial assets

The company regularly reviews the requirement for impairment of financial assets allocated as available for sale. Investments whose value has significantly declined in the reporting period and/or such a decline is prolonged are impaired. The company estimates that the assumption of significant reduction in the value of equity investments is normally met when the negative revaluation in equity, including any exchange rate differences, exceeds 40% of the cost of the relevant equity investment. In this case such equity investments are impaired in the total amount of the cumulative unrealised net loss and potential exchange rate differences. The company estimates that the decrease in value is prolonged when the value of an investment is in continuous decline over a period of 9 to 12 months. The need for impairment is reviewed as and when necessary or at least annually on the balance sheet date.

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

Derecognition of financial instruments

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

Investment in associate

The company records and presents investments in associates based on the above accounting policies applying to investments classified as available-for-sale assets.

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

Receivables

Operating receivables

Operating receivables are recognised in the amount of issued invoices decreased by potential value adjustments. The allowance assessments are based on the 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 create upon the transfer of insured persons from mutual pension funds to guarantee funds. They are recognised on the day an insured person acquires the right to pension annuity. At that point, the mutual pension fund determines the amount of liabilities for the transfer of assets of the insured person (single premiums) to the guarantee funds.

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

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

Short-term receivables for shares in claims incurred

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

Short-term receivables from financing activities

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

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

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

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

Other short-term receivables

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

Receivables for the deficit in assets

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

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

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

Cash and cash equivalents

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

Equity

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

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

Revenue reserves are recognised based on:

- the Companies Act, which stipulates their formation in special cases (redemption 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 decided on profit for appropriation.

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

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

Insurance contracts

Pursuant to International Financial Reporting Standard 4 (IFRS 4) and International Standard on Actuarial Practice 3 (ISAP 3), the Guarantee Funds of PPS and 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 in books of account treated according to IFRS 4. If insurance contracts do not entail significant insurance risk, they are in books of account treated 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.

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

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

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

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

KS PPS technical provisions

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

- 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 are calculated by individual policy upon the transfer, increase the balance of provisions set aside for the equalisation of KS PPS mortality experience and are formed for all persons insured.

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

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

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

Equalisation provisions for yield experience are formed at year-end, provided that mathematical provisions from KS PPS policies have been formed pursuant to the most recent annuity tables. In this case, the surplus of assets, which 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

Net 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. The calculation was made on the basis of German tables for annuities DAV1994R. The imputed interest rate, mortality tables and costs equal those used in the calculation of additional pension.

KS MR II technical provisions

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

Provisions for claims outstanding

Provisions for claims outstanding 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 accounting period.

Provisions for not achieving the guaranteed return rate

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

Provisions for pensions, jubilee awards and severance pay upon retirement

Modra zavarovalnica calculates provisions for severance pay upon retirement and jubilee awards 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 company's internal acts.

Accruals and deferrals

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

Accrued costs and deferred revenue include accrued costs and other accrued costs and deferred revenue. Accrued costs arise from the 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 of guarantee.

Other liabilities

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

Revenues

The revenue is 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. Revenue and increases in assets or decreases in debt are therefore recognised simultaneously. We distinguish between the following types of revenues:

Premiums revenue

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

Revenue from fees and commissions

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

a. Entry fee
The 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 amount entry fee, while the fund manages the assets attributable to the net premium. The entry fees are charged in the percentage of the premium at the time of the payment.

b. Management fees
The 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 company is entitled to exit fees, whereby the redemption value is reduced by the exit fees and the net value is paid to the individual who terminated the scheme. Exit fees are calculated in a percentage of the redemption value when the policy is paid.

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 company obtains the right to payment.

Oxpenses and cost

Expenses are decreases in economic benefits in an 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 company's expenses comprise net expenses for claims incurred, cost of increase in mathematical provisions, net operating costs, other insurance expenses and financial 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 of assets required for operation, the cost of labour and other operating costs.

The company classifies financial 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 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 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 company expects to pay or receive from the tax authority. Current tax assets or liabilities are measured using the tax rates applicable as at the balance sheet date.

Deferred taxes

Deferred income tax assets and liabilities are accounted for using the liability method in the balance sheet. Only deferred tax assets and liabilities arising from temporary differences are recognised.

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

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 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.

Cash flow statement using the indirect methodv

A cash flow statement 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 2016 and 31 December 2015, the income statement data for 2016 and other additional data required to adjust cash flows and adequately break down major items.

Amendments of standards and interpretations

Standards and interpretations effective for the reporting period

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

- Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' – Investment entities: Applying the Consolidation Exception, which the EU adopted on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 'Joint arrangements', – Accounting for acquisitions of Interests in joint operations, adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 'Impairment of Assets' – Disclosure Initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' – Acceptable methods of depreciation and amortisation, adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' - Agriculture: Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 'Employee Benefits' - Defined benefit plans: Employee Contributions, adopted by the EU on 17. December 2014 (effective for annual periods starting on or after 1 February 2015),
- Amendments to IAS 27 'Separate Financial Statements' – Equity Method in Separate Financial Statements, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards – 'Improvements to IFRSs (2010-2012)', resulting from the annual project for improvement of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 17 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards – 'Improvements to IFRSs (2012-2014)', resulting from the annual project for improvement of IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34 and) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 15 December 2015 (the amendments will need to be applied for annual periods beginning on or after 1 January 2016).

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

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

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

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

The fund does not use new IFRS already issued but not applicable yet; the company has been examining the impact of these standards and interpretations and has not yet estimated the impact of new requirements.

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

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in the EU as at 29 March 2017 (the effective dates indicated below apply for entire IFRS):

- IFRS 14 'Regulatory deferral accounts' (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 'Leases' (effective for annual periods starting on or after 1 January 2019),
- Amendments to IFRS 2 'Share-based payment' – Classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 'Insurance contracts' – Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts (effective for annual periods beginning on or after 1 January 2018 or upon the first application of IFRS 9 'Financial instruments'),
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in Associates and joint ventures' – Sales or contributions of assets between an investor and its associate/joint venture, and further amendments (the date of entry into force has been deferred indefinitely until the completion of the research project related to equity method),
- Amendments to IFRS 15 'Revenue from contracts with customers' – Clarifications to IFRS 15 – Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 'Cash flow statement' – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 – 'Income taxes' – Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 'Investment property' – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards – 'Improvements to IFRSs (2014-2016)', resulting from the annual project for improvement of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and to clarify wording (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018),
- IFRIC 22 – 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018).

The company examines the impact of the new standards and interpretations and has not yet assessed the impact of new requirements. The company will apply the new standards and interpretations in case they are adopted by the EU.

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: 'Financial Instruments: Recognition and measurement' would not significantly impact the financial statements, if applied as at the balance sheet date.

Breakdown and notes to the financial statements

Notes to the income statement

Note no. 1:
Net premium income

in EUR

Item	2016	2015
Gross life written premiums	16,544,092	24,544,467
Gross non-life written premiums	8,113	7,150
Total	**16,552,205**	**24,551,616**

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

Note no. 2:
Income from investments

in EUR

Item	2016	2015
Interest income from investments	**4,742,917**	**6,718,435**
• At fair value through profit or loss	709,551	930,959
• Held to maturity	2,402,701	1,910,729
• Available for sale	1,263,420	2,949,479
• Loans and deposits	367,211	927,017
• Cash and cash equivalents	34	251
Dividend from investments	**3,542,704**	**4,256,888**
• At fair value through profit or loss	747,760	878,744
• Available for sale	2,794,944	3,378,144
Revaluation income	**4,083,328**	**694,703**
• Investment revaluation at fair value through profit or loss	4,083,328	694,703
Foreign exchange gains	**454,950**	**464,515**
Gains on investment disposals	**1,946,676**	**7,344,451**
• Available for sale	1,636,932	7,030,774
• At fair value through profit or loss	309,744	313,677
Other financial revenue	**0**	**3,003**
Total	**14,770,574**	**19,481,997**

In 2016, the total financial revenue amounted to EUR 14,770,574. The largest share is accounted for by interest income. In 2016, income from revaluation of investments and fair value through profit or loss was significantly higher than in 2015 due to more favourable trends in securities prices. Gains on disposals of investments available for sale were in 2016 lower because of a smaller volume of investment sales.

Note no. 3:
Expenses from investments

in EUR

Item	2016	2015
Interest expenses from investments	**-12,764**	**-241**
• At fair value through profit or loss	-3,472	0
• Other interest expenses	-9,292	-241
Revaluation expense	**-1,382,941**	**-5,104,671**
• Investment revaluation at fair value through profit or loss	-803,912	-5,104,671
• Impairment of financial investments available for sale	-578,352	0
• Impairment of receivables	-677	0
Exchange rate losses	**-128,355**	**-118,277**
Losses on investment disposal	**-1,731,658**	**-545,077**
• At fair value through profit or loss	-704,959	-189,450
• Available for sale	-1,026,699	-355,627
Other financial expenses	**-36,078**	**-14,801**
Total	**–3.291.796**	**–5.783.067**

In 2016, expenses from revaluation of investments and fair value through profit or loss were significantly lower than in 2015 due to more favourable trends in securities prices.

In 2016, Modra zavarovalnica according to the Accounting Rules impaired an investment in the shares of a Spanish telecommunication company in the amount of EUR -578,352; the said share is classified under available-for-sale assets and its market value significantly decreased in 2016.

Gains or losses from investments

in EUR

Item	2016	2015
Income from investments	14,770,574	19,481,997
Expenses from investments	-3,291,796	-5,783,067
Net gains or losses from investments	**11,478,778**	**13,698,929**

Note no. 4:
Other insurance income

in EUR

Item	2016	2015
Income from management of guarantee funds	614,341	537,125
Income from management of mutual pension funds	8,259,226	5,925,992
Total other insurance income	**8,873,566**	**6,463,117**

Income from management of guarantee funds which Modra zavarovalnica discloses within its statement of financial position includes income from annuity payments and management fee. Income from management of mutual pension funds comprises management fee, income from entry fee and exit fee, and in 2016 also income from reversal of provisions established for not achieving the guaranteed rate of return. The funds of mutual pension funds are not disclosed in the statement of financial position of the company under Off-balance sheet items.

Note no. 5

Other income

in EUR

Item	2016	2015
Other income	**125,071**	**484,664**

Most of other income refers to payment to guarantee funds (on the other hand, this payment was recognised also under other insurance expenses).

Note no. 6:

Net claims incurred

in EUR

Item	2016	2015
Gross claims paid from life insurance	-16,101,175	-15,108,171
Change in claims provisions	-79,070	-67,750
Total	**-16,180,245**	**-15,175,922**

Gross claims paid represent the pension annuities paid.

Note no. 7:

Change in technical provisions

in EUR

Item	2016	2015
Change in KS PPS technical provisions	-587,813	1,296,607
Change in KS MR technical provisions	8,199,146	-12,689,475
Change in KS MR II technical provisions	-12,398,412	0
Total	**-4,787,079**	**-11,392,868**

Change in KS PPS technical provisions is the result of inflows from new insured persons into the guarantee fund, outflows resulting from rent and potential increase in surplus due to excess return resulting from over-mortality within the population with annuity insurance. The KS PPS portfolio is in mature phase and records surplus of outflows over inflows due to new insured persons. In 2016, KS PPS technical provisions rose because of surplus return. In 2015, KS PPS technical provisions dropped because annuities paid out exceeded the income from new premium.

In 2016, 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 2016 was the consequence of new insured persons.

Note no. 8:

Operating costs

in EUR

Item	2016	2015
Cost of insurance contract acquisition	-108,360	-464,011
Costs of materials	-106,699	-127,792
Costs of services	-2,383,217	-2,839,972
Write-downs	-133,611	-105,740
Costs of provisions	-28,464	-17,489
Labour costs	-2,922,637	-2,840,282
Other operating costs	-58,750	-61,251
Total	**-5,741,739**	**-6,456,538**

Cost of insurance contract acquisition mainly refer to gaining new members of MKPS.

In 2016, the costs of material totalled EUR 106,699. The highest portion was that of printing.

In 2016, the costs of services reached EUR 2,383,217. The largest share of these costs is the costs of rent, including the rent of business premises, equipment, information equipment and information assets in the amount of EUR -649,711 (in 2015: EUR -689,911).Also material are the costs of payment transactions and banking services, which include the custodian fee, totalling EUR -506,266 (2015: EUR -479,487).

Write-downs are depreciation costs of property, plant and equipment and amortisation costs of intangible fixed assets.

The cost of provisions amounting to EUR 28,464 relate to creation of provisions for jubilee awards and severance pay upon retirement.

In 2016, labour costs totalled EUR -2,922,637. EUR -2,195,377 of the mentioned amount is accounted for by the cost of gross salaries and allowances (2015: EUR -2,118,971), while the remainder is the cost of contributions on salaries and wages paid, the cost of meal and commuting allowances, the cost of supplementary pension insurance, etc.

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.

Auditing costs in 2016 equalled EUR -22,166 and EUR -14,823 in 2015.

Note no. 9:

Other insurance expenses

in EUR

Item	2016	2015
Other insurance expenses	**-3,115,251**	**-7,316,533**

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

In 2015, other insurance expenses mainly include provisions created for failing to achieve the guaranteed rate of return of the PPS fund amounting to EUR -4,767,056. The rest is payments by the manager to cover the difference up to the guaranteed return of mutual pension funds and the management fee of KS MR.

Note no. 10:
Other expenses

in EUR

Item	2016	2015
Other expenses	**-798**	**-31,976**

Other expenses in 2016 include various expenses from revaluation. Other expenses in 2015 chiefly refer to write-off of operating receivables due to the debtor's insolvency.

Note no. 11:
Corporate income tax

in EUR

Item	2016	2015
Profit or loss before tax	7,204,508	4,824,490
Tax on dividends from abroad	195,401	225,353
Non-deductible expenses	874,170	449,017
Non-taxable income	-1,605,358	-4,247,097
Tax relief	-577,887	-109,139
Tax losses	-3,334,361	-625,882
Total (tax base)	**2,756,473**	**516,742**
Corporate income tax (17%)	382,299	0
Tax on foreign dividends until agreement	86,302	87,846

The effective interest rate in 2016 was 5.31 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 31 Dec. 2016	Statement of financial position 31 Dec. 2015	Income statement 2016	Income statement 2015
Deferred income tax – liabilities; of which:	11,927,639	7,815,801	-159,129	312,700
Revaluation of AFS financial assets to fair value	9,249,323	5,296,615	0	0
Liabilities from investments carried forward	2,678,316	2,519,186	-159,129	312,700
Total deferred income tax liabilities	11,927,639	7,815,801	-159,129	312,700
Deferred income tax – receivables; of which:	4,809,410	4,902,735	-93,325	-412,658
Loss brought forward to be used as tax allowance	2,560,587	2,857,893	-297,306	-106,400
Value adjustments of investments	2,230,467	2,030,389	200,079	-307,490
Provisions	18,356	14,453	3,902	1,232
Total deferred income tax assets	4,809,410	4,902,735	-93,325	-412,658
Netting of deferred income tax assets and liabilities	**-7,118,229**	**-2,913,066**	**-252,454**	**-99,958**

12.1 Changes in deferred tax recognised directly in equity

in EUR

Changes in deferred tax	2016	2015
Balance as at 1 Jan.	7,815,800	8,655,348
Changes during the year	4,111,839	-839,548
Balance as at 31 Dec.	**11,927,639**	**7,815,800**

Notes to the statement of other comprehensive income

Note no. 13:
Other comprehensive income after tax

in EUR

Item	2016	2015
Other comprehensive income after tax	20,228,425	-4,578,228

Other comprehensive income after tax refers to net gains or losses from revaluation of available-for-sale financial assets. Owing to more favourable trends in securities prices in 2016, other comprehensive income was significantly higher than in 2015.

Notes to the statement of financial position

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

in EUR

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

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

in EUR

2015	Software	Acquisition intangibles assets in progress	Total
Cost as at 1 Jan. 2015	295,354	74,005	369,359
Acquisitions	48,158	335,951	384,109
Disposals	-64,155	0	-64,155
Cost as at 31 Dec. 2015	279,357	409,956	689,313
Value adjustment as at 1 Jan. 2015	-173,550	0	-173,550
Write-downs	64,155	0	64,155
Amortisation and depreciation	-86,540	0	-86,540
Value adjustment as at 31 Dec. 2015	-196,228	0	-196,228
Carrying amount as at 1 Jan. 2015	121,804	74,005	195,809
Carrying amount as at 31 Dec. 2015	**83,129**	**409,956**	**493,085**

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

in EUR

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

in EUR

2015	Equipment and small tools	Company cars	Total
Cost as at 1 Jan. 2015	53,993	25,280	79,273
Acquisitions	8,294	0	8,294
Disposals	-949	0	-949
Cost as at 31 Dec. 2015	61,338	25,280	86,618
Value adjustment as at 1 Jan. 2015	-30,466	-16,011	-46,477
Write-downs	949	0	949
Amortisation and depreciation	-14,381	-5,056	-19,437
Value adjustment as at 31 Dec. 2015	-43,897	-21,067	-64,965
Carrying amount as at 1 Jan. 2015	23,527	9,269	32,796
Carrying amount as at 31 Dec. 2015	**17,441**	**4,213**	**21,653**

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

16.1 Financial investments in associates

As at 31 December 2016, Modra zavarovalnica disclosed the investment in Cinkarna Celje, d. d., among financial investments in associated companies in the amount of EUR 26,400,006. The financial investment in the associate is classified under available-for-sale assets.

in EUR

Associate	Registered office of the company	Equity stake	Equity as at 31 Dec. 2016 (estimate)	Net profit of the company in 2016 (estimate)
Cinkarna Celje, d. d.	Kidričeva ulica 26, Celje	20.00%	145,383,463	8,560,380

16.2 Changes in investments in associates

in EUR

Item	Financial investments in associates
Balance as at 1 Jan. 2016	12,385,188
Change in revaluation surplus	14,014,818
Balance as at 31 Dec. 2016	**26,400,006**

Revaluation surplus significantly increased in 2016 due to more favourable share price fluctuation.

Note no. 17:
Investments

in EUR

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

v EUR

Item	Own investments	Investments by guarantee funds	Total 31 Dec. 2015
Loans and deposits	17,500,008	16,530,005	34,030,013
Held-to-maturity investments	10,443,812	70,142,943	80,586,755
Available-for-sale investments	167,739,559	0	167,739,559
Investments at fair value through profit or loss	8,749,245	49,544,184	58,293,428
Total	**204,432,623**	**136,217,133**	**340,649,756**

17.1 Investments in loans and deposits

in EUR

Item	31 Dec. 2016	31 Dec. 2015
Long-term investment in loans and deposits	14,550,000	20,550,000
Short-term investment in loans and deposits	15,450,212	13,480,013
Total	**30,000,212**	**34,030,013**

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

17.2 Investments in securities

in EUR

Item	31 Dec. 2016	31 Dec. 2015
Investments at fair value through profit or loss	59,428,735	58,293,428
Equity securities	34,894,100	31,909,518
Debt securities	24,534,635	26,383,910
Available-for-sale investments	174,513,552	167,739,560
Equity securities	128,411,334	120,181,716
Debt securities	46,102,218	47,557,844
Held-to-maturity investments	98,222,394	80,586,755
Total	**332,164,681**	**306,619,743**

17.3 Changes in investments in securities

in EUR

Modra zavarovalnica	Held-to-maturity	Available for sale	At fair value	Total
Balance as at 1 Jan. 2016	80,586,754	167,739,560	58,293,429	306,619,743
Acquisitions	24,709,017	13,945,899	24,051,466	62,706,382
Revaluation/impairments/revalorisation	2,203,235	11,573,995	3,894,488	17,671,718
Sales/Maturity	-9,276,612	-18,745,902	-26,810,648	-54,833,162
Balance as at 31 Dec. 2016	**98,222,394**	**174,513,552**	**59,428,735**	**332,164,681**

in EUR

Own funds	Held-to-maturity	Available for sale	At fair value	Total
Balance as at 1 Jan. 2016	10,443,812	167,739,560	8,749,245	186,932,617
Acquisitions	3,017,033	13,945,899	3,040,795	20,003,727
Revaluation/impairments/revalorisation	228,566	11,573,994	500,181	12,302,741
Sales/Maturity	-249,623	-18,745,902	-3,603,862	-22,599,387
Balance as at 31 Dec. 2016	**13,439,788**	**174,513,551**	**8,686,359**	**196,639,698**

in EUR

Long-term business funds	Held-to-maturity	Available for sale	At fair value	Total
Balance as at 1 Jan. 2016	70,142,943	0	49,544,184	119,687,127
Acquisitions	21,691,984	0	21,010,671	42,702,655
Revaluation/impairments/revalorisation	1,974,669	0	3,394,307	5,368,976
Sales/Maturity	-9,026,989	0	-23,206,786	-32,233,775
Balance as at 31 Dec. 2016	**84,782,607**	**0**	**50,742,376**	**135,524,983**

17.4 Structure of financial assets with respect to the interest rate type

in EUR

Asset	31 Dec. 2016	31 Dec. 2015
Investments in debt instruments	168,859,247	154,528,509
Fixed interest rate	165,022,687	150,693,052
Variable interest rate	3,836,560	3,835,457
Loans and deposits	30,000,212	34,030,013
Fixed interest rate	30,000,212	34,030,013
Variable interest rate	0	0
Total	**198,859,459**	**188,558,522**

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

17.5 Risk of changes in interest rates

in EUR

As at 31 Dec. 2016	Less than 1 year	More than 1 year to 5	More than 5 years	Total
Financial assets at fair value through profit or loss	10,933,531	10,005,611	3,595,492	24,534,635
Held-to-maturity investments	9,219,079	20,216,680	68,786,635	98,222,394
Available-for-sale investments	6,238,761	20,225,666	19,637,791	46,102,218
Loans and deposits given	15,450,015	14,550,197	0	30,000,212
Cash and cash equivalents	6,573,312	0	0	6,573,312
Total	**48,414,699**	**64,998,154**	**92,019,918**	**205,432,771**

Note no. 18:
Receivables

in EUR

Item	31 Dec. 2016	31 Dec. 2015
Receivables from direct insurance business	820	154,620
Other receivables	732,825	3,127,258
Total	**733,645**	**3,281,879**

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

In 2015, the highest item of other receivables was accounted for by the deficit of assets for covering the liabilities to the insured persons of KS PPS in the amount of EUR 1,798,948 and other short-term receivables due from national and other institutions equalling EUR 913,542. The remainder is represented by short-term receivables from management fee of mutual pension funds, short-term receivables for interest and other minor items.

Note no. 19:
Other assets

in EUR

Item	31 Dec. 2016	31 Dec. 2015
Other assets	**1,088,459**	**654,525**

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

Note no. 20:
Cash and cash equivalents

in EUR

Item	31 Dec. 2016	31 Dec. 2015
Funds in transaction accounts with banks and cash in hand	**6,573,312**	**5,543,988**

Note no. 21:
Off-balance sheet items

in EUR

Fund	31 Dec. 2016	31 Dec. 2015
MKPS	25,419	88,029
MZP	26,376,692	15,377,563
MPP	5,854,865	3,274,704
MDP	7,264,372	3,792,615
KVPS	179,072,677	174,049,258
ZVPSJU	715,939,472	695,720,689
PPS	20,666,833	21,888,882
Total value of funds	**955,200,330**	**914,191,740**

Off-balance sheet items in their entirety refer to assets and liabilities of pension funds managed by Modra zavarovalnica.

Note no. 22:
Equity

22.1 Share capital

Item	31 Dec. 2016	31 Dec. 2015
Share capital (in EUR)	152,200,000	152,200,000
Ordinary shares (number)	152,200,000	152,200,000

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

Share book value as at 31 December 2016 was EUR 1.48. Modra zavarovalnica d.d. is fully owned by Kapitalska družba.

22.2 Changes in individual equity components

in EUR

Item	Share capital	Capital surplus	Revenue reserves	Revaluation surplus	Retained earnings	Net profit or loss for the financial year	Total
1. Jan. 2016	152,200,000	0	19,738,525	27,240,888	2,144,450	0	201,323,863
Change	0	0	3,605,154	20,228,425	832,657	0	24,666,236
31 Dec. 2016	**152,200,000**	**0**	**23,343,679**	**47,469,313**	**2,977,107**	**0**	**225,990,099**

Revenue reserves represent legal reserves in the amount of EUR 2,126,921, statutory reserves in the amount of EUR 2,020,575 and other revenue reserves in the amount of EUR 19,196,183.

Note no. 23:
Technical provisions

23.1 Technical provisions

in EUR

Item	31 Dec. 2016	31 Dec. 2015
KS PPS technical provisions	100,245,949	99,579,045
KS MR technical provisions	31,721,347	39,920,518
KS MR II technical provisions	12,398,412	0
Total	**144,365,708**	**139,499,563**

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

23.2 Changes in technical provisions

in EUR

Technical provisions	2016	2015
Opening balance	139,499,563	127,262,628
Change through profit or loss	4,787,077	11,392,868
Change in claims provisions	79,069	844,067
Closing balance	**144,365,708**	**139,499,563**

Changes refer to provisions for claims outstanding, which were for the first time established in 2015 and in terms of substance represented accounted annuities that have not yet been paid for various reasons; they were established by transfer of liabilities from direct insurance business.

Note no. 24:
Other provisions

24.1 Other provisions

in EUR

Other provisions	31 Dec. 2016	31 Dec. 2015
Provisions for not achieving the guaranteed return rate	13,373,302	15,555,528
Provisions for the deficit of annuity funds assets	77,051	1,798,948
Provisions for pensions, jubilee awards and severance pay upon retirement	193,219	170,039
Provisions for testing the adequacy of provisions	1,952,155	523,998
Total	**15,595,727**	**18,048,513**

24.2 Changes in other provisions

in EUR

Item	Provisions for not achieving the guaranteed return rate	Provisions for the deficit of KS PPS assets	Other provisions	Provisions for testing the adequacy of liabilities	Total
1. Jan. 2016	15,555,529	1,798,948	170,039	523,998	18,048,513
Changes during the year	0	77,051	28,464	1,428,157	1,533,673
Drawing of provisions	0	0	-5,284	0	-5,284
Reversal of provisions	-2,182,227	-1,798,948	0	0	-3,981,175
31 Dec. 2016	**13,373,302**	**77,051**	**193,219**	**1,952,155**	**15,595,727**

At the end of 2016, provisions for severance pay upon retirement and jubilee awards amounting to EUR 28,464 were created anew. Provisions for termination benefits and jubilee awards are calculated on the basis of expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the company's internal acts. Assumptions regarding the expected employee turnover attribute the highest probability (50%) for leaving the company to the employees with over 20 years of service until retirement, while the employees with less than 5 years of service until retirement are attributed the probability of 0%.

Note no. 25:
Operating liabilities

in EUR

Item	31 Dec. 2016	31 Dec. 2015
Current tax liabilities	382,299	75,454
Total	**382,299**	**75,454**

Current tax liabilities comprise liabilities for income tax.

Note no. 26:
Other liabilities

in EUR

Item	31 Dec. 2016	31 Dec. 2015
Short-term liabilities to employees	258,598	221,344
Other short-term liabilities from insurance business	830	20,340
Short-term accounts payable	343,767	321,941
Other short-term liabilities	84,411	96,612
Accrued expenses	122,264	330,810
Short-term deferred revenue	3,379,918	15,325
Fund manager's liability to pay the difference up to the guaranteed return rate	103,340	127,407
Long-term liabilities	33,098	35,837
Finance lease liabilities	370,502	0
Total	**4,696,728**	**1,169,615**

Short-term liabilities to employees relate to liabilities arising from salaries and wages for December 2016. Short-term accounts payable are the liabilities to securities dealers and to the controlling company.

Short-term accounts payable refer to the liabilities to securities dealers.

Short-term deferred revenue is deferred revenue of KS MR II arising from the pension insurance annuity premiums received from persons insured who expressed their intention to take out insurance as at in 1 January 2017 based on an indicative calculation. Since it was not possible to join the existing KS MR after 31 December 2015, the amount of deferred revenue at the end of 2015 was negligible.

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

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

Disclosures of insurance contracts

Structure of long-term insurance contracts

Table 25: Present gross value of future disbursements

in EUR

Types of disbursements	31 Dec. 2016	31 Dec. 2015
KS PPS	97,055,341	96,520,224
KS MR	31,720,793	39,919,939
KS MR II	12,377,293	0
Total	**141,153,427**	**136,440,163**

The total present gross value of future disbursements represents technical provisions based on policies.

Table 26: Composition of technical provisions as at 31 December 2016

in EUR

Fund	Technical provisions for life insurance based on policies	Technical provisions for life insurance based on policies – unclassified	Provisions for claims outstanding	Total
KS PPS	97.055.341	2.268.028	922.579	100.245.949
KS MR	31.720.793	0	555	31.721.347
KS MR II	12.377.293	21.120	0	12.398.412
Total	**141.153.427**	**2.289.148**	**923.134**	**144.365.708**

Technical provisions based on policies of KS PPS deviate from the total technical provisions by the amount of the provisions for the equalisation of yield experience equalling EUR 2,268,028 and claims provisions totalling EUR 922,579. The calculation of the value of future disbursements uses annuity tables DAV2004R and the statutory technical interest rate amounting to 1%

Technical provisions based on policies of KS MR as at 31 December 2016 deviate from the total technical provisions by the amount of claims provisions totalling EUR 555. German annuity tables DAV1994R were applied in the calculation of future payments.

Technical provisions based on policies of KS MR II as at 31 December 2016 deviate from the total technical provisions for KS MR II, which total EUR 12,398,412, by the amount of the provisions for the undistributed part of the profit of EUR 21,120; half of this amount is earmarked for increasing annuities and half remains undistributed. The annuity tables DAV1994R were applied in the calculation of future payments.

Adequacy of liabilities

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

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

- expected mortality was determined pursuant to German D1994R mortality tables for annuities, which adequately describe the actual mortality rate based on past experience;
- early terminations were not foreseen, as they are not possible in view of the provisions set forth in insurance contracts;
- expected costs equal the costs accrued;
- the discount rate was determined according to the yield curve of Slovenian sovereign debt securities.

The Liability Adequacy Test as at 31 December 2016 showed that mathematical provisions for KS PPS were adequate, whereas a deficit of EUR 1,356,840 and EUR 595,316 was determined for KS MR and KS MR II respectively.

Change in interest rates/return

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

in EUR

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

Table 28: Change in interest rates/return for KS PPS as at 31 December 2015

in EUR

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-2,928,152	3,084,297

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

in EUR

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

Table 30: Change in interest rates/return for KS MR as at 31 December 2015

in EUR

Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-518,642	539,275

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

in EUR

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

Change in mortality

Table 32: Change in mortality as at 31 December 2016 for KS PPS

in EUR

Change in mortality	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	–3.289.328	3.733.625

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

Table 33: Change in mortality as at 31 Dec. 2015 for KS PPS

in EUR

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-3,194,295	3,625,886

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,194,295. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 34: Change in mortality as at 31 Dec. 2016 for KS MR

in EUR

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	–234.186	260.777

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

Table 35: Change in mortality as at 31 December 2015 for KS MR

in EUR

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-244,284	271,896

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 244,284. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 36: Change in mortality as at 31 December 2016 for KS MR II

in EUR

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

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

Risk management

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

Capital management – Solvency II

The table below shows the data for 2016 in the amounts reported by the company to the Insurance Supervision Agency in the scope of regular reporting to the regulator for the fourth quarter of 2016.

Table 37: Capital adequacy according to Solvency II

Item	31 Dec. 2016
Solvency II	
Total capital requirement (in EUR)	92,961,236
Eligible own funds (in EUR)	206,056,687
Surplus (+)/deficit (–) of available own funds (in EUR)	113,095,451
Ratio between eligible own funds and total capital requirement (in %)	221.7%

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, because they do not entail direct credit risk.

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

Credit risk is managed by careful selection of partners (analysis of counter parties before assuming credit risk), checking their rating and through dispersion of investments by issuers, industries and geographical areas. The credit risk arising from foreign debt securities is normally managed through investing in the 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.

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

Table 38: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2016

in EUR

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

Table 39: Exposure of financial assets to credit risk, excluding any collaterals as at 31 December 2015

in EUR

Financial asset group	Low risk – high credit rating of the debtor	Moderate risk – medium credit rating of the debtor	Moderate risk investments (no rating)	High risk investments	Impaired investments – low credit rating of the debtor	Total
Investments at fair value through profit or loss	778,300	12,908,703	3,009,923	9,686,985	0	26,383,910
Held-to-maturity investments	20,154,768	58,769,610	0	1,662,377	0	80,586,755
Available-for-sale investments	10,223,835	27,201,969	433,546	9,698,495	0	47,557,844
Loans and deposits given	0	800,013	0	33,230,000	0	34,030,013
Cash and cash equivalents	0	0	0	5,543,989	0	5,543,989
Total	**31,156,902**	**99,680,294**	**3,443,468**	**59,821,846**	**0**	**194,102,511**

Securities are categorised in the mentioned groups based on their credit ratings. Low risk investments are all investments with a credit rating ranging from AAA to A-, moderate risk investments are those with a credit rating ranging from BBB+ to BBB- and high risk investments are investments with a credit rating lower than BBB-. High risk investments mostly include investments made by Slovenian bank issuers whose credit rating has been downgraded. Moderate risk investments are those lacking a credit rating provided by an accredited credit rating agency but meet the criteria for the so-called investment category pursuant to the internal methodology used by the fund manager; this category mostly includes certain domestic corporate bonds.

Loans and deposits given are deposits provided to domestic banks. Deposits and certificates of deposit are classified in the same rating category as the banks at which the company holds its assets.

Table 40: Geographical concentration of credit exposure of financial assets

in EUR

Region	31 Dec. 2016	31 Dec. 2015
Slovenia	107,741,673	103,822,837
Other countries	97,691,097	90,279,674
Total	**205,432,771**	**194,102,511**

Currency risk

Table 41: Currency structure of financial assets

in EUR

Currency	31 Dec. 2016	31 Dec. 2015
Assets denominated in EUR	329,463,080	297,753,977
Assets denominated in USD	62,480,923	57,843,386
Assets denominated in other currencies	3,194,208	2,981,569
Total	**395,138,211**	**358,578,933**

As at 31 December 2016, 83% of the company's financial assets were denominated in EUR currency, 15% in US dollar and the remainder was in other currencies.

Table 42: Currency risk of financial assets as at 31 December 2016

in EUR

Changes of USD exchange rate in %	Effect on profit or loss	Effect on equity
+/–10	+/–680.941	+/–5.567.152

Table 43: Currency risk of financial assets as at 31 December 2015

in EUR

Changes of USD exchange rate in %	Effect on profit or loss	Effect on equity
+/–10	+/-427,501	+/-5,356,838

Interest rate risk

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

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

Table 44: Sensitivity analysis of investments with respect to changes in market interest rates as at 31 Dec. 2016 – change of interest rate by 50 basis points

in EUR

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

Table 45: Sensitivity analysis of investments with respect to changes in market interest rates as at 31 December 2015 – change of interest rate by 50 basis points

in EUR

Item	Change in interest rate	Sensitivity of interest income	Effect on fair value	Total
Investments at fair value through profit or loss	+/–0.5%	+/-11,082	–/+80,183	–/+69,101
Held-to-maturity investments	+/–0.5%	0	0	0
Available-for-sale investments	+/–0.5%	+/-8,095	–/+227,526	–/+ 219,431
Loans and deposits	+/–0.5%	+/-0	–/+ 0	+/-0
Total		**+/-19,177**	**–/+307,709**	**–/+288,532**

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

Market risk

Market risk represents the possibility of the value of equity securities to change due to the changes in market indexes and market prices of shares.

Table 46: Market risk of the equity securities portfolio as at 31 December 2016

in EUR

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

Table 47: Market risk of the equity securities portfolio as at 31 December 2015

in EUR

Change of index	Effect on profit or loss	Effect on equity
+/-10%	+/-3,190,952	+/-13,256,690

The table shows equity investments of the company and both guarantee funds. The effect on profit or loss is revealed by equity securities measured at fair value through profit or loss, while the effect on equity is revealed by available-for-sale equity investments.

Table 48: Financial instruments in terms of marketability

in EUR

Financial instrument	31 Dec. 2016	31 Dec. 2015
Securities traded on the regulated market	350,182,433	312,803,239
Investments at fair value through profit or loss	51,741,525	52,525,282
Held-to-maturity investments	98,222,394	80,586,755
Available-for-sale investments	200,218,514	179,691,202
Securities not traded on the regulated market	8,382,253	6,201,692
Investments at fair value through profit or loss	7,687,210	5,768,146
Held-to-maturity investments	0	0
Available-for-sale investments	695,043	433,546
Total	**358,564,687**	**319,004,931**

At the end of 2016, the investments traded on organised securities markets accounted for 98% of assets.

Table 49: Overview of financial assets by book and fair value as at 31 December 2016

in EUR

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

Table 50: Overview of financial assets by book and fair value as at 31 December 2015

in EUR

Financial asset	Book value	Fair value
Investments at fair value through profit or loss	58,293,428	58,293,428
Held to maturity	80,586,755	86,424,591
Available-for-sale investments	180,124,747	180,124,747
Loans and deposits	34,030,013	34,030,013
Total	**353,034,944**	**358,872,780**

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

Table 51: Fair value hierarchy of financial assets as at 31 December 2016

in EUR

Item	L1	L2	L3	Total
Investments at fair value	**177,648,168**	**75,200,192**	**7,493,933**	**260,342,293**
Investments at fair value through profit or loss	29,554,731	23,075,115	6,798,889	59,428,735
Available-for-sale investments	148,093,437	52,125,078	695,043	200,913,558
Investments with disclosed fair value	**103,018,062**	**1,477,699**	**31,977,214**	**136,472,976**
Held to maturity	103,018,062	1,477,699	1,977,002	106,472,764
Loans and deposits	0	0	30,000,212	30,000,212
Total	**280,666,230**	**76,677,892**	**39,471,147**	**396,815,269**

Level 1

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

Level 2

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

Level 2 also includes debt securities of companies and financial institutions as well as government securities measured using benchmark market data in the amount of EUR 13,212,236.

Level 2 also includes investments in the shares of some Slovenian companies in the amount of EUR 3,072,743 measured using benchmark market data of comparable listed companies.

Level 3

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

Level 3 also includes deposits in the amount of EUR 30,000,212 and commercial papers of Slovenian issuers totalling EUR 7,630,549. The prices are calculated based on the theoretical (amortised) value of commercial papers in view of the interest rate applicable to the relevant purchase.

Level 3 comprises also shares of certain Slovenian companies in the total amount of EUR 1,840,386. The major of these are investments in Hit, d. d., Elektro Ljubljana, d. d., and Certa, d. d. The value of the said investments was primarily set by the present value of expected free cash flow model. The fair value of the investment in Hit, d. d., was EUR 780,657 as at 31 December 2016. The valuation was made based on a 7.8% discount rate. The fair value of the shares of Certa, d. d., was EUR 280,566 as at 31 December 2016; the valuation was made by taking into account a 2% long-term growth rate and a 15% discount rate. The fair value of the investment in Elektro Ljubljana, d. d., as at 31 December 2016 totalled EUR 422,343; the valuation was made by taking into account a 2% long-term growth rate and a 7.2% discount rate until 2020 and a 7.6% discount rate after that year.

Table 52: Changes in level 3 investments

in EUR

Item	2016
Opening balance	39,158,591
Acquisitions	18,892,962
Disposals/Maturity	-18,573,464
Total	**39,471,148**

There were no reclassifications between fair value levels in 2016. Both maturities and acquisitions refer to deposits and commercial papers.

Liquidity risk

Liquidity risk is a possibility that the company's liabilities will not be settled by the due date. As at 31 December 2016, Modra zavarovalnica disclosed a total surplus of EUR 242,123,999 in expected non-discounted cash inflows over outflows.

Table 53: Expected actual non-discounted cash flows as at 31 December 2016

in EUR

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

Table 54: Expected actual non-discounted cash flows as at 31 December 2015

in EUR

Item	Less than	More than	More than	No maturity	Total
Investments in securities	21,556,120	82,081,118	72,840,185	152,091,234	328,568,658
- at fair value through profit or loss	7,795,883	14,893,050	3,744,587	31,909,518	58,343,038
- held-to-maturity	9,523,004	32,351,925	53,729,254	0	95,604,182
- available-for-sale	4,237,234	34,836,144	15,366,344	120,181,716	174,621,438
Loans and deposits given	15,461,408	18,978,520	0	0	34,439,928
Cash and cash equivalents	5,543,989	0	0	0	5,543,989
Receivables	1,328,311	0	0	1,798,948	3,127,258
Total assets	**43,889,828**	**101,059,638**	**72,840,185**	**153,890,182**	**371,679,833**
Operating liabilities	75,454	0	0	0	75,454
Other liabilities	1,133,778	35,837	0	0	1,169,615
Liabilities of PPS and MR Guarantee Funds	14,157,238	38,990,775	83,879,012	0	137,027,025
Total liabilities	**15,366,470**	**39,026,612**	**83,879,012**	**0**	**138,272,094**
Difference	**28,523,358**	**62,033,026**	**-11,038,827**	**153,890,182**	**233,407,739**

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

Overview of effective interest rates and return by investment groups

Table 55: Effective interest rates by investment groups

Item	2016	2015
Held-to-maturity investments	2.43%	2.75%
Available-for-sale investments	2.56%	2.27%

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 2016, the remuneration received by the members of the Management Board, supervisory bodies and employees with individual employment contracts who are not subject to the tariff part of the collective agreement totalled EUR 728,648.

In 2016, Modra zavarovalnica granted no prepayments or loans to the members of the Management and Supervisory Boards nor did it assume any liabilities on their behalf.

Table 56: Gross remuneration in 2016 by recipient category

in EUR

Category of recipients	Amount
Members of the Management Board	289,660
Members of the supervisory bodies	95,618
Employees with management contract	343,370
Total	**728,648**

Remuneration of the members of the Management Board and Supervisory Board

Table 57: Remuneration of the members of the Management Board in 2016

in EUR

Name and surname	Fixed remuneration	Outstanding payments	Fringe benefits	Holiday allowance	Cost reimbursement	Insurance premiums (PDPZ)	Total
Borut Jamnik	118,858	20,013	2,729	1,092	5,717	2,819	**151,228**
Matija Debelak	112,915	18,742	226	1,092	2,638	2,819	**138,432**

Fixed remuneration includes gross salaries. Outstanding payments include part 2 of the variable remuneration for 2013 and part 1 of the variable remuneration for 2015. Reimbursements of costs include meal and/or travel allowances and/or other reimbursements of travel expenses (daily allowances, mileage expenses, costs of overnight stays, parking, taxi). Bonuses include company car and bonuses arising from collective accident insurance. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance.

Table 58: Remuneration of the members of the supervisory bodies in 2016

in EUR

Name and surname	Fixed remuneration of the SB	Fixed remuneration of the SB AC	Monthly allowance for the SB	Monthly allowance for the SB AC	Cost reimbursement	Total
Branimir Štrukelj	4,015	0	0	0	0	**4,015**
Aleš Groznik	3,740	0	14,748	0	0	**18,488**
Bojan Zupančič	3,740	0	10,449	0	0	**14,189**
Dario Radešič	3,740	1,320	9,832	2,458	1,598	**18,948**
Goran Bizjak	3,740	1,540	10,449	3,919	478	**20,126**
Marino Furlan	2,915	0	9,832	0	679	**13,426**
Goranka Volf	275	0	927	0	0	**1,202**
Natalija Stošicki	275	0	617	155	24	**1,071**
Dragan Martinović	0	1,540	0	2,613	0	**4,153**

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

Related party transactions

In 2016, there were no transactions between Modra zavarovalnica and its controlling company Kapitalska družba d.d. that were carried out under unusual market terms and conditions. Modra zavarovalnica incurred a total of EUR 595,374 of costs from operations with the controlling company. The company leased business premises and IT equipment from Kapitalska družba d.d. and used its IT services.

As at 31 December 2016, Modra zavarovalnica disclosed operating liabilities to the controlling company amounting to EUR 34,083.

In 2016, the company paid dividends amounting to 2,131,945 to Kapitalska družba d.d.

Significant events after the balance sheet date

Since the end of 2016 until the preparation of the Annual Report, Modra zavarovalnica recorded no significant events that could influence its financial statements for 2016.

ATTACHMENT

SELECTED PERFORMANCE INDICATORS

Indicator			2016	Calculation
1.	Total	Increase in gross premium written (index)	67	$\frac{16,552,205 \times 100}{24,551,616}$
	Life insurance	Increase in gross written premium	67	$\frac{16,544,092 \times 100}{24,544,466}$
	Non-life insurance	Increase in gross written premium	113	$\frac{8,113 \times 100}{7,50}$
2.	Total	Net written premium as % of gross written premium	100%	$\frac{16,552,205 \times 100}{16,552,205}$
	Life insurance	Net written premium as % of gross written premium	100%	$\frac{16,544,092 \times 100}{16,544,092}$
	Non-life insurance	Net written premium as % of gross written premium	100%	$\frac{8,113 \times 100}{8,113}$
3.	Total	Changes in gross claims paid (index)	107	$\frac{16,101,176 \times 100}{15,108,171}$
	Life insurance	Changes in gross claims paid	107	$\frac{16,101,176 \times 100}{15,108,171}$
	Non-life insurance	Changes in gross claims paid	-	-
4.	Total	Loss ratio	97%	$\frac{16,101,176 \times 100}{16,552,205}$
	Life insurance	Loss ratio	97%	$\frac{16,101,176 \times 100}{16,544,092}$
	Non-life insurance	Loss ratio	-	-
5.	Total	Operating costs as % of gross written premium	35%	$\frac{5,741,739 \times 100}{16,552,205}$
	Life insurance	Operating costs as % of gross written premium	34%	$\frac{5,703,353 \times 100}{16,544,092}$
	Non-life insurance	Operating costs as % of gross written premium	473%	$\frac{38,386 \times 100}{8,113}$
6.	Total	Cost of acquisition as % of gross written premium	1%	$\frac{108,360 \times 100}{16,552,205}$
	Life insurance	Cost of acquisition as % of gross written premium	1%	$\frac{108,360 \times 100}{16,544,092}$
	Non-life insurance	Cost of acquisition as % of gross written premium	0%	$\frac{0 \times 100}{8,113}$
7.	Total	Net loss ratio	98%	$\frac{(16,101,176 + 79,069) \times 100}{16,552,205}$
	Life insurance	Net loss ratio	98%	$\frac{(16,101,176 + 79,069) \times 100}{16,544,092}$
	Non-life insurance	Net loss ratio	0%	$\frac{0 \times 100}{8.113}$
8.	Non-life insurance	Combined loss ratio	473%	$\frac{38,386 \times 100}{8,113}$
9.	Life insurance	Cost ratio	34%	$\frac{5,703,353 \times 100}{16,544,092}$
10.	Life insurance	Benefit ratio	126%	$\frac{(16,101,176 + 4,787,079) \times 100}{16,544,092}$

Indicator			2016	Calculation
11.	Total	Return on investments as % of the average balance of investments	3%	$\frac{(14,770,574 - 3,291,796) \times 100}{\left(\frac{388,564,899 + 353,034,944}{2}\right)}$
	Life insurance	Return on investments as % of the average balance of investments	3%	$\frac{(14,697,662 – 3,291,796) \times 100}{\left(\frac{383,571,856 + 348,088,736}{2}\right)}$
	Non-life insurance	Return on investments as % of the average balance of investments	1%	$\frac{(72,912) \times 100)}{\left(\frac{4,993,043 + 4,946,208}{2}\right)}$
12.	Total	Net claims provisions as % of net premium income	6%	$\frac{923,134 \times 100}{16,552,205}$
	Life insurance	Net claims provisions as % of net premium income	6%	$\frac{923,134 \times 100}{16,544,092}$
	Non-life insurance	Net claims provisions as % of net premium income	0%	$\frac{0 \times 100}{8.113}$
13.	Total	Gross profit for the year as % of net written premium	44%	$\frac{7,204,508 \times 100}{16,552,205}$
	Life insurance	Gross profit for the year as % of net written premium	43%	$\frac{7,161,868 \times 100}{16,544,092}$
	Non-life insurance	Gross profit for the year as % of net written premium	526%	$\frac{42,640 \times 100}{8,113}$
14.	Total	Gross profit for the year as % of average capital	3%	$\frac{7,204,508 \times 100}{\left(\frac{225,990,099 + 201,323,86\ 3}{2}\right)}$
	Life insurance	Gross profit for the year as % of average capital	3%	$\frac{7,161,868 \times 100}{\left(\frac{220,916,336 + 196,298,912}{2}\right)}$
	Non-life insurance	Gross profit for the year as % of average capital	1%	$\frac{42,640 \times 100}{\left(\frac{5,073,763 + 5,024,951}{2}\right)}$
15.	Total	Gross profit for the year as % of average assets	2%	$\frac{7,204,508 \times 100}{\left(\frac{398,148,790 + 363,030,074}{2}\right)}$
	Life insurance	Gross profit for the year as % of average assets	2%	$\frac{7,161,868 \times 100}{\left(\frac{393,045,844 + 357,989,171}{2}\right)}$
	Non-life insurance	Gross profit for the year as % of average assets	3%	$\frac{42,640 \times 100}{\left(\frac{5,102,946 + 5,040,903}{2}\right)}$
16.	Total	Gross profit for the year per share	EUR 0.05	$\frac{7,204,508}{152,200,000}$
	Life insurance	Gross profit for the year per share	-	-
	Non-life insurance	Gross profit for the year per share	-	-
17.	Total	Reinsurance receivables and the reinsurer's share of technical provisions in % of the company's capital	0%	$\frac{0}{225,990,099}$
	Life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the company's capital	0%	$\frac{0}{220,916,336}$
	Non-life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the company's capital	0%	$\frac{0 \times 100}{5,073,763}$

Indicator			2016	Calculation
18.	Total	Net written premium as % of the average balance of equity and technical provisions	5%	$\frac{16{,}552{,}205 \times 100}{\left(\frac{370{,}355{,}807 + 340{,}823{,}426}{2}\right)}$
	Life insurance	Net written premium as % of the average balance of equity and technical provisions	5%	$\frac{16{,}544{,}092 \times 100}{\left(\frac{365{,}282{,}044 + 335{,}798{,}475}{2}\right)}$
	Non-life insurance	Net written premium as % of the average balance of equity and technical provisions	0,20%	$\frac{8{,}113 \times 100}{\left(\frac{5{,}073{,}763 + 5{,}024{,}951}{2}\right)}$
19.	Total	Average balance of net technical provisions as % of net premium income	857%	$\frac{\frac{(144{,}365{,}708 + 139{,}499{,}563) \times 100}{2}}{16{,}552{,}205}$
	Life insurance	Average balance of net technical provisions as % of net premium income	858%	$\frac{\frac{(144{,}365{,}708 + 139{,}499{,}563) \times 100}{2}}{16{,}544{,}092}$
	Non-life insurance	Average balance of net technical provisions as % of net premium income	0%	$\frac{0 \times 100}{16{,}544{,}092}$
20.	Total	Equity as % of liabilities	57%	$\frac{225{,}990{,}099 \times 100}{398{,}148{,}790}$
	Life insurance	Equity as % of liabilities	57%	$\frac{220{,}916{,}336 \times 100}{393{,}045{,}844}$
	Non-life insurance	Equity as % of liabilities	99%	$\frac{5{,}073{,}763 \times 100}{5{,}102{,}946}$
21.	Total	Net technical provisions as % of liabilities	36%	$\frac{144{,}365{,}708 \times 100}{398{,}148{,}790}$
	Life insurance	Net technical provisions as % of liabilities	37%	$\frac{144{,}365{,}708 \times 100}{393{,}045{,}844}$
	Non-life insurance	Net technical provisions as % of liabilities	0%	$\frac{0 \times 100}{5{,}102{,}946}$
22.	Total	Net technical provisions for life insurance to net technical provisions	100%	$\frac{144{,}365{,}708 \times 100}{144{,}365{,}708}$
23.	Total	Gross written premium to the average number of full-time employees	EUR 290.390	$\frac{16{,}552{,}205}{57}$

Indicator			2016	Calculation
1.	Total	Increase in gross premium written (index)	118	$\frac{24{,}551{,}616 \times 100}{20{,}725{,}700}$
	Life insurance	Increase in gross written premium	118	$\frac{24{,}544{,}466 \times 100}{20{,}719{,}734}$
	Non-life insurance	Increase in gross written premium	120	$\frac{7{,}150 \times 100}{5{,}966}$
2.	Total	Net written premium as % of gross written premium	100%	$\frac{24{,}551{,}616 \times 100}{24{,}551{,}616}$
	Life insurance	Net written premium as % of gross written premium	100%	$\frac{24{,}544{,}466 \times 100}{24{,}544{,}466}$
	Non-life insurance	Net written premium as % of gross written premium	100%	$\frac{7{,}150 \times 100}{7{,}150}$
3.	Total	Changes in gross claims paid (index)	109	$\frac{15{,}180{,}171 \times 100}{13{,}916{,}840}$
	Life insurance	Changes in gross claims paid	109	$\frac{15{,}180{,}171 \times 100}{13{,}916{,}840}$
	Non-life insurance	Changes in gross claims paid	-	-
4.	Total	Loss ratio	62%	$\frac{15{,}180{,}171 \times 100}{24{,}551{,}616}$
	Life insurance	Loss ratio	62%	$\frac{15{,}180{,}171 \times 100}{24{,}544{,}466}$
	Non-life insurance	Loss ratio	-	-
5.	Total	Operating costs as % of gross written premium	26%	$\frac{6{,}456{,}538 \times 100}{24{,}551{,}616}$
	Life insurance	Operating costs as % of gross written premium	26%	$\frac{6{,}367{,}381 \times 100}{24{,}544{,}466}$
	Non-life insurance	Operating costs as % of gross written premium	1,247%	$\frac{89{,}157 \times 100}{7{,}150}$
6.	Total	Cost of acquisition as % of gross written premium	2%	$\frac{464{,}011 \times 100}{24{,}551{,}616}$
	Life insurance	Cost of acquisition as % of gross written premium	3%	$\frac{463{,}734 \times 100}{24{,}544{,}466}$
	Non-life insurance	Cost of acquisition as % of gross written premium	4%	$\frac{277 \times 100}{7{,}150}$
7.	Total	Net loss ratio	62%	$\frac{(15{,}108{,}171 + 67{,}751) \times 100}{24{,}551{,}616}$
	Life insurance	Net loss ratio	62%	$\frac{(15{,}108{,}171 + 67{,}751) \times 100}{24{,}544{,}466}$
	Non-life insurance	Net loss ratio	0%	$\frac{0 \times 100}{7{,}150}$
8.	Non-life insurance	Combined loss ratio	1.247%	$\frac{89{,}157 \times 100}{7{,}150}$
9.	Life insurance	Cost ratio	26%	$\frac{6{,}367{,}381 \times 100}{24{,}544{,}466}$
10.	Life insurance	Benefit ratio	15%	$\frac{(15{,}108{,}171 - 11{,}392{,}868) \times 100}{24{,}544{,}466}$

Indicator			2016	Calculation
11.	Total	Return on investments as % of the average balance of investments	4%	$\frac{(19{,}481{,}997 - 5{,}783{,}067) \times 100}{\left(\frac{353{,}034{,}944 + 351{,}185{,}049}{2}\right)}$
	Life insurance	Return on investments as % of the average balance of investments	5%	$\frac{(19{,}399{,}049 - 5{,}783{,}067) \times 100}{\left(\frac{348{,}088{,}736 + 346{,}243{,}610}{2}\right)}$
	Non-life insurance	Return on investments as % of the average balance of investments	6%	$\frac{(82{,}948) \times 100}{\left(\frac{4{,}946{,}208 + 4{,}941{,}439}{2}\right)}$
12.	Total	Net claims provisions as % of net premium income	3%	$\frac{844{,}067 \times 100}{24{,}551{,}616}$
	Life insurance	Net claims provisions as % of net premium income	3%	$\frac{844{,}067 \times 100}{24{,}544{,}466}$
	Non-life insurance	Net claims provisions as % of net premium income	0%	$\frac{0 \times 100}{7{,}150}$
13.	Total	Gross profit for the year as % of net written premium	20%	$\frac{4{,}824{,}490 \times 100}{24{,}551{,}616}$
	Life insurance	Gross profit for the year as % of net written premium	20%	$\frac{4{,}823{,}448 \times 100}{24{,}544{,}466}$
	Non-life insurance	Gross profit for the year as % of net written premium	15%	$\frac{1{,}042 \times 100}{7{,}150}$
14.	Total	Gross profit for the year as % of average capital	2%	$\frac{4{,}824{,}490 \times 100}{\left(\frac{201{,}323{,}863 + 209{,}044{,}990}{2}\right)}$
	Life insurance	Gross profit for the year as % of average capital	3%	$\frac{4{,}823{,}448 \times 100}{\left(\frac{196{,}298{,}912 + 204{,}018{,}847}{2}\right)}$
	Non-life insurance	Gross profit for the year as % of average capital	4%	$\frac{1{,}042 \times 100}{\left(\frac{5{,}024{,}951 + 5{,}026{,}143}{2}\right)}$
15.	Total	Gross profit for the year as % of average assets	1%	$\frac{4{,}824{,}490 \times 100}{\left(\frac{363{,}030{,}074 + 355{,}403{,}888}{2}\right)}$
	Life insurance	Gross profit for the year as % of average assets	2%	$\frac{4{,}823{,}448 \times 100}{\left(\frac{357{,}989{,}171 + 350{,}354{,}188}{2}\right)}$
	Non-life insurance	Gross profit for the year as % of average assets	0%	$\frac{1{,}042 \times 100}{\left(\frac{5{,}040{,}903 + 5{,}049{,}700}{2}\right)}$
16.	Total	Gross profit for the year per share	EUR 0.03	$\frac{4{,}824{,}490}{152{,}200{,}000}$
	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 company's capital	0%	$\frac{0 \times 100}{201{,}323{,}863}$
	Life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the company's capital	0%	$\frac{0 \times 100}{196{,}298{,}912}$
	Non-life insurance	Reinsurance receivables and the reinsurer's share of technical provisions in % of the company's capital	0%	$\frac{0 \times 100}{5{,}024{,}951}$

Indicator			2016	Calculation
18.	Total	Net written premium as % of the average balance of equity and technical provisions	7%	$\frac{24{,}551{,}616 \times 100}{\left(\frac{340{,}823{,}426 + 336{,}307{,}618}{2}\right)}$
	Life insurance	Net written premium as % of the average balance of equity and technical provisions	7%	$\frac{24{,}544{,}466 \times 100}{\left(\frac{335{,}798{,}475+331{,}281{,}475}{2}\right)}$
	Non-life insurance	Net written premium as % of the average balance of equity and technical provisions	0,14%	$\frac{7{,}150 \times 100}{\left(\frac{5{,}024.951 + 5{,}026{,}143}{2}\right)}$
19.	Total	Average balance of net technical provisions as % of net premium income	543%	$\frac{\frac{(144{,}365{,}708 + 139{,}499{,}563)}{2} \times 100}{24.551.616}$
	Life insurance	Average balance of net technical provisions as % of net premium income	543%	$\frac{\left(\frac{139{,}499{,}563 + 127{,}262{,}628}{2}\right) \times 100}{24{,}544{,}466}$
	Non-life insurance	Average balance of net technical provisions as % of net premium income	0%	$\frac{0 \times 100}{7{,}150}$
20.	Total	Equity as % of liabilities	55%	$\frac{201{,}323{,}863 \times 100}{363{,}030{,}074}$
	Life insurance	Equity as % of liabilities	55%	$\frac{196{,}298{,}912 \times 100}{357{,}989{,}171}$
	Non-life insurance	Equity as % of liabilities	100%	$\frac{5{,}024{,}951 \times 100}{5{,}040{,}903}$
21.	Total	Net technical provisions as % of liabilities	38%	$\frac{139{,}499{,}563 \times 100}{363{,}030{,}074}$
	Life insurance	Net technical provisions as % of liabilities	39%	$\frac{139{,}499{,}563 \times 100}{363{,}030{,}074}$
	Non-life insurance	Net technical provisions as % of liabilities	0%	$\frac{0 \times 100}{5{,}040{,}903}$
22.	Total	Net technical provisions for life insurance to net technical provisions	100%	$\frac{139{,}499{,}563 \times 100}{139{,}499{,}563}$
23.	Total	Gross written premium to the average number of full-time employees	EUR 438,422	$\frac{24{,}551{,}616}{56}$

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

		31 Dec. 2016			31 Dec. 2015		
Items		Life	Non-life	Total	Life	Non-life	Total	Index
		1	2	3	4	5	6	7 = 3 / 6 * 100
ASSETS		**393,045,844**	**5,102,946**	**398,148,790**	**357,989,171**	**5,040,903**	**363,030,074**	**110**
A.	Intangible assets	1,142,918	0	1,142,918	493,085	0	493,085	232
B.	Property, plant and equipment	45,557	0	45,557	21,653	0	21,653	210
F.	Investments in Group companies and associates	26,400,006	0	26,400,006	12,385,188	0	12,385,188	213
G.	Investments:	357,171,850	4,993,043	362,164,893	335,703,548	4,946,208	340,649,756	106
	- loans and deposits	26,950,212	3,050,000	30,000,212	31,030,013	3,000,000	34,030,013	88
	- held-to-maturity	97,472,062	750,332	98,222,394	79,819,143	767,612	80,586,755	122
	- available-for-sale	173,320,841	1,192,711	174,513,552	166,560,964	1,178,596	167,739,560	104
	- at fair value	59.428.735	0	59.428.735	58.293.428	0	58.293.428	102
K.	Receivables	729,287	4,358	733,645	3,277,519	4,359	3,281,878	22
	1. Receivables from direct insurance business	0	820	820	153,919	701	154,620	1
	4 Other receivables	729,287	3,538	732,825	3,123,600	3,658	3,127,258	23
L.	Other assets	1,088,459	0	1,088,459	654,525	0	654,525	166
M.	Cash and cash equivalents	6,467,767	105,545	6,573,312	5,453,653	90,336	5,543,989	119
N.	Off-balance sheet items	955,200,330	0	955,200,330	914,191,740	0	914,191,740	104
CAPITAL AND LIABILITIES		**393,045,844**	**5,102,946**	**398,148,790**	**357,989,171**	**5,040,903**	**363,030,074**	**110**
A.	Equity	220,916,336	5,073,763	225,990,099	196,298,912	5,024,951	201,323,863	112
	1. Share capital	147,200,000	5,000,000	152,200,000	147,200,000	5,000,000	152,200,000	100
	2. Capital surplus	0	0	0	0	0	0	0
	3. Revenue reserves	23,316,442	27,237	23,343,679	19,730,054	8,471	19,738,525	118
	4. Revaluation surplus	47,438,218	31,095	47,469,313	27,224,713	16,175	27,240,888	174
	6. Retained earnings	2,961,676	15,431	2,977,107	2,144,145	305	2,144,450	139
C.	Technical provisions	144,365,708	0	144,365,708	139,499,563	0	139,499,563	103
	2. Technical provisions for life insurance	143,442,574	0	143,442,574	138,655,496	0	138,655,496	103
	3. Provisions for claims outstanding	923,134	0	923,134	844,067	0	844,067	109
E.	Other provisions	15,592,966	2,761	15,595,727	18,045,866	2,647	18,048,513	86
G.	Deferred tax liabilities	7,102,244	15,985	7,118,229	2,905,735	7,331	2,913,066	244
J.	Operating liabilities	378,530	3,769	382,299	75,454	0	75,454	507
	3. Current tax liabilities	378,530	3,769	382,299	75,454	0	75,454	507
K.	Other liabilities	4,690,060	6,668	4,696,728	1,163,641	5,974	1,169,615	402
L.	Off-balance sheet items	955,200,330	0	955,200,330	914,191,740	0	914,191,740	104

Segment reporting on income statement items

in EUR

Items		31 Dec. 2016			31 Dec. 2015	
	Life	Non-life	Total	Life	Non-life	Total
	1	2	3	4	5	6
A. NET PREMIUM INCOME	16,544,092	8,113	16,552,205	24,544,466	7,150	24,551,616
- Gross written premiums	16,544,092	8,113	16,552,205	24,544,466	7,150	24,551,616
C. INVESTMENT INCOME	14,697,662	72,912	14,770,574	19,399,049	82,948	19,481,997
D. OTHER INSURANCE INCOME, of which	8,873,566	0	8,873,566	6,463,117	0	6,463,117
- fee and commission income	6,252,317	0	6,252,317	6,084,158	0	6,084,158
E. OTHER INCOME	125,069	2	125,071	484,563	101	484,664
F. NET CLAIMS INCURRED	16,180,245	0	16,180,245	15,175,922	0	15,175,922
- Gross claims paid	16,101,176	0	16,101,176	15,108,171	0	15,108,171
- Change in claims provisions	79,069	0	79,069	67,751	0	67,751
G. CHANGE IN OTHER TECHNICAL PROVISIONS	4,787,079	0	4,787,079	11,392,868	0	11,392,868
K. OPERATING COSTS, of which	5,703,353	38,386	5,741,739	6,367,381	89,157	6,456,538
- cost of insurance contract acquisition	108,360	0	108,360	463,734	277	464,011
M. INVESTMENT EXPENSES, of which	3,291,796	0	3,291,796	5,783,067	0	5,783,067
- impairment of financial assets that are not measured at fair value through profit or loss	578,352	0	578,352	0	0	0
N. OTHER INSURANCE EXPENSES	3,115,251	0	3,115,251	7,316,533	0	7,316,533
O. OTHER EXPENSES	797	1	798	31,976	0	31,976
P. PROFIT OR LOSS BEFORE TAX	7,161,868	42,640	7,204,508	4,823,448	1,042	4,824,490
R. CORPORATE INCOME TAX	626,310	8,443	634,753	99,591	367	99,958
S. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**6,535,558**	**34,197**	**6,569,755**	**4,723,857**	**675**	**4,724,532**

Segment reporting on comprehensive income statement items

in EUR

Items		2016			2015	
	Life	Non-life	Total	Life	Non-life	Total
	1	2	3	4	5	6
I. NET PROFIT/LOSS FOR THE FINANCIAL YEAR AFTER TAX	6,535,558	34,197	6,569,755	4,723,857	675	4,724,532
II. OTHER COMPREHENSIVE INCOME AFTER TAX (a + b)	20,213,506	14,919	20,228,425	-4,583,023	4,795	-4,578,228
b) Items that may be reclassified subsequently to profit or loss (1 + 2 + 3 + 4 + 5)	20,213,506	14,919	20,228,425	-4,583,023	4,795	-4,578,228
1. Net gains/losses from the revaluation of available-for-sale financial assets	24,162,234	18,900	24,181,134	-5,110,852	5,777	-5,105,075
1.1. Net gains/losses recognised in revaluation surplus	24,772,467	18,900	24,791,367	1,564,295	5,777	1,570,072
1.2. Transfer of gains/losses from revaluation surplus to profit or loss	-610,233	0	-610,233	-6,675,147	0	-6,675,147
5. Tax on items that may be reclassified subsequently to profit or loss	-3,948,728	-3,981	-3,952,709	527,829	-982	526,847
III. TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (I+II)	**26,749,064**	**49,116**	**26,798,180**	**140,834**	**5,470**	**146,304**

Financial statements pursuant to the provisions of the Decision on annual report and quarterly financial statements of insurance undertakings – Attachment 2

Income statement and statement of other comprehensive income

in EUR

	Item	31 Dec. 2016	31 Dec. 2015
A.	**TECHNICAL ACCOUNT – NON-LIFE BUSINESS**		
	I. NET PREMIUM INCOME	8,113	7,150
	1. Gross written premiums	8,113	7,150
	VII. NET OPERATING COSTS	38,386	89,157
	1. Cost of insurance contract acquisition	0	277
	3. Other operating costs	38,386	88,880
	3.1 Depreciation of assets required for operation	1,230	2,011
	3.2 Labour costs	24,964	55,635
	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 company	941	1,835
	3.4 Other operating costs	11,251	29,399
	IX. Balance on the technical account for non-life insurance (I + II + III - IV ± V - VI - VII - VIII ± IX)	**-30,273**	**-82,007**
B.	**TECHNICAL ACCOUNT FOR LIFE INSURANCE**		
	I. NET PREMIUM INCOME	16,544,092	24,544,466
	1. Gross written premiums	16,544,092	24,544,466
	II. INVESTMENT INCOME	14,697,662	19,399,049
	1. Income from dividends and profit participation	3,542,703	4,256,889
	1.2 Income from dividends and other profit participation in associates	684,444	1,396,593
	1.3 Income from dividends and other profit participation in other companies	2,858,259	2,860,296
	2. Other investment income	11,154,959	15,142,160
	2.2 Interest income	4,670,005	6,635,487
	2.3 Other investment income	6,484,954	8,506,673
	2.3.1 Financial income from revaluation	6,030,004	8,039,154
	2.3.2 Other financial revenue	454,950	467,519
	IV. OTHER NET TECHNICAL INCOME	8,873,566	6,463,117
	V. NET CLAIMS INCURRED	16,180,245	15,175,922
	1. Gross claims paid	16,101,176	15,108,171
	4. Change in gross claims provisions (+/-)	79,069	67,751
	VI. CHANGE IN NET OTHER TECHNICAL PROVISIONS (+/-)	-4,787,079	-11,392,868
	1. Change in technical provisions for life insurance	-4,787,079	-11,392,868
	1.1 Change in gross technical provisions for life insurance	-4,787,079	-11,392,868
	VIII. NET OPERATING COSTS	5,703,353	6,367,381
	1. Cost of insurance contract acquisition	108,360	463,734
	3. Other operating costs	5,594,993	5,903,647
	3.1 Depreciation of assets required for operation	132,381	103,729
	3.2 Labour costs	2,897,674	2,784,647
	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 company	137,433	119,098
	3.4 Other operating costs	2,427,505	2,896,173
	IX. INVESTMENT EXPENSES	3,291,796	5,783,067
	2. Expenses for asset management, interest expenses and other financial expenses	756,226	133,319
	3. Financial expenses from revaluation	1,508,871	5,294,121
	4. Losses on investment disposal	1,026,699	355,627
	XI. OTHER NET INSURANCE EXPENSES	3,115,251	7,316,533
	2. Other net insurance charges	3,115,251	7,316,533
	XII. Allocated ROI transferred to the net profit or loss of the company (–)	4,943,931	13,544,222

Item		31 Dec. 2016	31 Dec. 2015
	XIII. BALANCE ON THE TECHNICAL ACCOUNT FOR LIFE INSURANCE (I + II + III + IV – V +/– VI – VII – VIII – IX – X – XI – XII)	**2,093,665**	**-9,173,361**
C.	**NON-TECHNICAL ACCOUNT**		
	I. BALANCE ON THE TECHNICAL ACCOUNT – NON-LIFE INSURANCE (A.IX)	-30,273	-82,007
	II. BALANCE ON THE TECHNICAL ACCOUNT – LIFE INSURANCE (B:XIII)	2,093,665	-9,173,361
	III. INVESTMENT INCOME	72,912	82,948
	2. Other investment income	72,912	82,948
	2.2 Interest income	72,912	82,948
	IV. ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE TECHNICAL ACCOUNT FOR LIFE INSURANCE (B:XII)	4,943,931	13,544,222
	IX. OTHER INCOME	125,071	484,664
	1. Drugi prihodki iz premoženjskih zavarovanj	2	101
	2. Drugi prihodki iz življenjskih zavarovanj	125,069	484,563
	X. OTHER EXPENSES	798	31,976
	1. Other expenses from non-life insurance	1	0
	2. Other expenses from life insurance	797	31,976
	XI. PROFIT OR LOSS FOR THE PERIOD BEFORE TAX (I + II + III + IV – V – VI + VII – VIII + IX – X)	7,204,508	4,824,490
	1. Profit or loss for the period from non-life insurance	**42,640**	**1,042**
	2. Profit or loss for the period from life insurance	**7,161,868**	**4,823,448**
	XII. INCOME TAX	**382,299**	**0**
	XIII. DEFERRED TAXES	**-252,454**	**-99,958**
	XIV. NET PROFIT OR LOSS FOR THE PERIOD (XI – XII + XIII)	**6,569,755**	**4,724,532**
D.	**CALCULATION OF COMPREHENSIVE INCOME**		
	I. Net profit/loss for the financial year after tax	**6,569,755**	**4,724,532**
	II. Other comprehensive income after tax (a + b)	**20,228,425**	**-4,578,228**
	b. Items that may be reclassified subsequently to profit or loss (1 + 2 + 3 + 4 + 5)	**20,228,425**	**-4,578,228**
	1. Net gains/losses from the revaluation of available-for-sale financial assets	24,181,134	-5,105,075
	5. Tax on items that may be reclassified subsequently to profit or loss	-3,952,709	526,847
	III. Comprehensive income for the financial year after tax (I + II)	**26,798,180**	**146,304**

Assets and liabilities of the funds recorded separately

Assets and liabilities of KS PPS

in EUR

Item		31 Dec. 2016	31 Dec. 2015
	ASSETS	**100,259,867**	**99,592,964**
A.	**INVESTMENTS IN REAL ESTATE AND FINANCIAL INVESTMENTS**	**99,597,735**	**96,907,185**
	III. OTHER INVESTMENTS	99,597,735	96,907,185
	1. Shares and other securities with variable yield and mutual fund coupons	24,093,737	19,623,382
	2. Debt securities with fixed yield	68,803,998	66,483,803
	6. Bank deposits	6,700,000	10,800,000
B.	**RECEIVABLES**	**37,686**	**1,814,534**
	III. OTHER RECEIVABLES	37,686	1,814,534
C.	**MISCELLANEOUS ASSETS**	**370,162**	**550,665**
	I. CASH AND CASH EQUIVALENTS	370,162	550,665
D.	**SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS**	**254,284**	**320,580**
	3. Other short-term accrued revenue and deferred costs	254,284	320,580
	LIABILITIES	**100,259,867**	**99,592,964**
B.	**GROSS TECHNICAL PROVISIONS**	**100,245,948**	**99,579,045**
	II. Gross technical provisions – life	99,323,369	98,735,557
	III. Gross claims provisions	922,579	843,488
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. 2016	31 Dec. 2015
	ASSETS	**31,734,971**	**39,975,698**
A.	**INVESTMENTS IN REAL ESTATE AND FINANCIAL INVESTMENTS**	**31,218,245**	**39,309,947**
	III. OTHER INVESTMENTS	31,218,245	39,309,947
	1. Shares and other securities with variable yield and mutual fund coupons	4,376,141	5,907,476
	2. Debt securities with fixed yield	24,692,094	27,672,466
	6. Bank deposits	2,150,010	5,730,005
B.	**RECEIVABLES**	**80,382**	**160,208**
	I. Receivables from direct insurance business	0	153,919
	1. Receivables from policyholders	0	153,919
	III. OTHER RECEIVABLES	80,382	6,289
C.	**MISCELLANEOUS ASSETS**	**436,344**	**403,765**
	I. CASH AND CASH EQUIVALENTS	436,344	403,765
D.	**SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS**	**0**	**101,778**
	3. Other short-term accrued revenue and deferred costs	0	101,778
	LIABILITIES	**31,734,971**	**39,975,698**
B.	**GROSS TECHNICAL PROVISIONS**	**31,721,347**	**39,920,518**
	II. GROSS TECHNICAL PROVISIONS – LIFE	31,720,792	39,919,939
	III. GROSS CLAIMS PROVISIONS	555	579
E.	**OTHER LIABILITIES**	**13,217**	**40,502**
	III. OTHER LIABILITIES	13,217	40,502
F.	**ACCRUED COSTS AND DEFERRED REVENUE**	**407**	**14,678**

Assets and liabilities of KS MR II

in EUR

Item		31 Dec. 2016
	ASSETS	**15,780,607**
A.	**INVESTMENTS IN REAL ESTATE AND FINANCIAL INVESTMENTS**	**14,559,011**
	III. OTHER INVESTMENTS	14,559,011
	1. Shares and other securities with variable yield and mutual fund coupons	1,312,359
	2. Debt securities with fixed yield	12,246,652
	6. Bank deposits	1,000,000
B.	**RECEIVABLES**	**403**
	III. OTHER RECEIVABLES	403
C.	**MISCELLANEOUS ASSETS**	**481,783**
	I. CASH AND CASH EQUIVALENTS	481,783
D.	**SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS**	**739,410**
	3. Other short-term accrued revenue and deferred costs	739,410
	LIABILITIES	**15,780,607**
B.	**GROSS TECHNICAL PROVISIONS**	**12,398,412**
	II. Gross technical provisions – life	12,398,412
E.	**OTHER LIABILITIES**	**3,124**
	III. OTHER LIABILITIES	3,124
F.	**ACCRUED COSTS AND DEFERRED REVENUE**	**3,379,071**

Technical account of the guarantee funds for supplementary pension insurance in the annuity disbursement period

Technical account – KS PPS

in EUR

Item		2016	2015
I.	TRANSFER OF ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE SCHEME	3,424,432	3,627,705
	4. of mutual pension fund	3,424,432	3,627,705
II.	INVESTMENT INCOME	6,567,466	6,032,827
	1. Income from dividends and profit participations	736,508	815,907
	2. Other investment income	5,830,958	5,216,920
	2.2 Interest income	2,262,960	2,514,738
	2.3 Other investment income	3,567,998	2,702,182
III.	CLAIMS INCURRED	6,450,042	6,201,769
	1. Claims paid	6,370,949	6,134,597
	2. Change in claims provisions	79,093	67,172
IV.	CHANGE IN NET OTHER TECHNICAL PROVISIONS (+/-)	-587,813	1,296,607
	1. Change in technical provisions for life insurance (+/–)	-587,813	1,296,607
VI.	INVESTMENT EXPENSES	2,954,043	4,755,370
	2. Expenses for asset management, interest expenses and other financial expenses	1,831,148	16,861
VII.	**PROFIT OR LOSS OF THE GUARANTEE FUND (I + II – III + IV – V – VI)**	**0**	**0**
VII.a.	**PROFIT OR LOSS OF THE GUARANTEE FUND (I + II – III + IV – V.A – VI)**	**0**	**0**

Technical account – KS MR

in EUR

Item		2016	2015
I.	TRANSFER OF ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE SCHEME	0	20,916,761
	2. of other insurance company	0	441,321
	3. of other pension company	0	105,672
	4. of mutual pension fund	0	20,369,768
II.	INVESTMENT INCOME	1,255,539	1,405,929
	1. Income from dividends and profit participations	10,844	62,837
	2. Other investment income	1,244,695	1,343,092
	2.2 Interest income	685,986	685,980
	2.3 Other investment income	558,709	657,112
III.	Claims incurred	8,914,951	8,974,153
	1. Claims paid	8,914,975	8,973,574
	2. Change in claims provisions	-24	579
IV.	CHANGE IN NET OTHER TECHNICAL PROVISIONS (+/-)	8,199,146	-12,689,475
	1. Change in technical provisions for life insurance (+/–)	8,199,146	-12,689,475
VI.	INVESTMENT EXPENSES	539,734	659,062
	2. Expenses for asset management, interest expenses and other financial expenses	179,081	174,389
	3. Financial expenses from revaluation	360,653	484,673
VII.	**PROFIT OR LOSS OF THE GUARANTEE FUND (I + II – III + IV – V – VI)**	**0**	**0**
VII.a.	**PROFIT OR LOSS OF THE GUARANTEE FUND (I + II – III + IV – V.A – VI)**	**0**	**0**

Technical account – KS MR II

in EUR

Item		2016
I.	TRANSFER OF ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE SCHEME	13,119,660
	2. of other insurance company	188,674
	3. of other pension company	74,997
	4. of mutual pension fund	12,855,989
II.	INVESTMENT INCOME	118,112
	1. Income from dividends and profit participations	408
	2. Other investment income	117,704
	2.2 Interest income	117,704
III.	CLAIMS INCURRED	815,252
	1. Claims paid	815,252
IV.	CHANGE IN NET OTHER TECHNICAL PROVISIONS (+/-)	-12,398,412
	1. Change in technical provisions for life insurance (+/–)	-12,398,412
V.a.	NET OPERATING COSTS	5,589
	3. Other operating costs	5,589
	3.4 Other operating costs	5,589
VI.	INVESTMENT EXPENSES	18,519
	2. Expenses for asset management, interest expenses and other financial expenses	2,347
	3. Financial expenses from revaluation	16,172
VII.	**PROFIT OR LOSS OF THE GUARANTEE FUND (I + II – III + IV – V – VI)**	**5,589**
VII.a.	**PROFIT OR LOSS OF THE GUARANTEE FUND (I + II – III + IV – V.A – VI)**	**0**

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LIST OF ABBREVIATIONS USED

GDP	Gross domestic product
EU	European Union
EUR	Euro – the currency of the European Union
EURIBOR	The Euro Interbank Offered Rate
iBoxx	The reference index of liquid investment grade bond issues
KPNG	Collective agreement for the non-economic sector of the Republic of Slovenia
KPOPNJU	Collective agreement on the establishing of the civil servants pension scheme
KS MR	The Modra renta guarantee fund
KS MR II	The Modra renta II guarantee fund
KS PPS	The guarantee fund for the First Pension Fund of the Republic of Slovenia
KVPS	Capital Mutual Pension Fund
MKPS	Life-Cycle Pension Fund
MDP	The Dynamic Sub-Fund
MPP	The Prudent Sub-Fund
MZP	The Guaranteed Sub-Fund
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
PDPZ	Voluntary supplementary pension insurance
PN1 K	Pension scheme for collective voluntary supplementary pension insurance
PN1 P	Pension scheme for individual voluntary supplementary pension insurance
PNJU K	Pension scheme for collective supplementary pension insurance for public servants
PPS	The First Pension Fund of the Republic of Slovenia
RS	Republic of Slovenia
SBI TOP	The central Slovenian stock market index
USD	US dollar
ZGD-1	The Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06)
ZKDPZJU	Collective Supplementary Pension Insurance for Public Servants Act
ZPIZ-1	Pension and Disability Insurance Act (official consolidated text, ZPIZ-1, UPB4, Official Gazette of the Republic of Slovenia, No 109/2006, 27/2010 and 38/2010)
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 96/2012)
ZVPSJU	Closed Mutual Pension Fund for Civil Servants
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015

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