

Modra Annual report 2019

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List of abbreviations used

Abbreviation	Note
AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
AZN	Insurance Supervision Agency
CBBT	Composite Bloomberg Bond Trader
DPJU	Dynamic Civil Servants Sub-Fund
VAT	Value added tax
EAPSPI	European Association of Public Sector Pension Institution
ECB	European Central Bank
EU	European Union
EUR	Euro – the currency of the European Union
EURIBOR	Euro Interbank Offered Rate
EAD	Exposure at Default
EWS	Early Warning System

The table continues on the next page.

Kratika	Pojasnilo
iBoxx	The reference index of liquid investment grade bond issues
IDD	Insurance Distribution Directive
KPSJU	Civil Servants Life–Cycle Sub-Fund
KS MR	Modra renta guarantee fund
KS MR II	Modra renta II guarantee fund
KS PPS	Guarantee fund for the First Pension Fund of the Republic of Slovenia
KVPS	Capital Mutual Pension Fund
LGD	Loss Given Default
MKPS	Life–Cycle Pension Fund
MDP	Dynamic Sub-Fund
MPP	Prudent Sub-Fund
MZP	Guaranteed Sub-Fund
MSCI Index	Morgan Stanley Capital International Index
IFRS	International Financial Reporting Standards as adopted by the EU
IFRIC	International Financial Reporting Interpretations Committee
OTC	Over-the-Counter
PD	Probability of Default
PNJU K	Pension scheme for collective supplementary pension insurance for civil servants
PNMZ K	Pension scheme for collective supplementary pension insurance (MKPS)
PNMZ P	Pension scheme for individual voluntary supplementary pension insurance (MKPS)
PPJU	Prudent Civil Servants Sub-Fund
PPS	First Pension Fund of the Republic of Slovenia
RS	Republic of Slovenia
SBI TOP	Central Slovenian stock market index
USD	US dollar
NAV	Net asset value
VPS	Mutual pension fund
USA	United States of America
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, No. 42-1799/2006)
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 96/2012)
ZPJU	Guaranteed Civil Servants Sub-Fund
ZSDH-1	Slovenian Sovereign Holding Act (Official Gazette of the RS, No. 25/2014)
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015)

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Address by the Management Board

We can confidently characterise 2019 as a good year. Modra zavarovalnica generated net profit of EUR 12.2 million and thus significantly exceeded the planned operating result. The Company's capital, which represents the basic security of the policyholder's funds, also increased. The value of AUM, number of mutual pension fund members and the number of annuity recipients increased as well.

In 2019, Modra zavarovalnica, d. d. generated EUR 65.7 of premium income and other technical income. Most of the said income is income from guarantee fund premiums, while the remainder is represented by income from the management of mutual pension and guarantee funds. The premiums paid in the mutual pension funds managed by Modra zavarovalnica reached EUR 106.5 million in the reporting period, up 8.1% compared to 2018.

Technical expenses, which include the annuities written, operating costs and other technical expenses, reached EUR 32.9 million, while mathematical provisions increased by EUR 33.3 million. The good operating result was strongly affected by financial income of EUR 19.6 million, while investment expenses came in at EUR 4.2 million. Other comprehensive income representing profit or loss from investments recognised in equity was high at EUR 24.4 million in the year under consideration as a result of the positive trends on securities markets.

The capital of Modra zavarovalnica used by the Company to ensure security for its insured persons' assets reached EUR 269 million at the end of 2019, up 14% on the start of the year. The value of assets under management increased and exceeded EUR 1.7 billion at the end of 2019, i.e. over EUR 1.2 billion was collected in mutual pension funds, EUR 232 million in guarantee funds, and EUR 299 million in own funds.

2019 was characterised by a favourable macroeconomic environment in which both bond and stock indexes recorded strong growth. In 2019, the value of the MSCI global stock index grew by 30.2% (measured in €). The highest returns were recorded by the US stock index, followed by the European and Japanese stock indices. Slovenian stocks measured by the SBI TOP index grew 15% on average. The European government bond index gained 6.7%, while the corporate bond index gained 6.3%.

The macroeconomic environment affected the returns of the pension funds under management favourably. The Guaranteed Sub-Fund and the Guaranteed Civil Servants Pension Sub-Fund recorded returns of 5.4% and 6.0% respectively in 2019, which places them among the best Slovenian funds with a guaranteed return investment policy. The returns of funds pursuing a prudent or dynamic investment policy were even higher owing to the higher portion of equity investments in the portfolios. The Prudent Sub-Fund and the Prudent Civil Servants Pension Sub-Fund recorded returns of 14.5% and 15.5% respectively, which places them at the very top of the returns-based rankings of funds with a balanced investment policy. The returns of the Dynamic Sub-Fund and the Dynamic Civil servants Sub-Fund of 21.6% and 22.0% respectively are ranked high among the funds with a dynamic investment policy.

In November 2019, Modra zavarovalnica successfully merged the Capital Mutual Pension Fund into the Guaranteed Sub-Fund. It carried out the merger by absorption through the transfer of the total funds of the merging/dissolving fund into the receiving fund. The dissolving fund savers received units of funds of the receiving fund after the merger in accordance with the exchange rate. The total value of the savers' units following the merger remained at least the same as the total value of the savers' units prior to the merger.

Marketing activities in 2019 were geared towards the overhaul of the marketing approach, improvement of the user experience and process digitalisation. The web portal which was renamed to e.Modra was redesigned into the main info point for existing savers under the supplementary pension insurance. We simultaneously overhauled the website whereby we carried out a functional and technical redesign of the entire platform using the latest technology. We also carried out a comprehensive redesign of the visual identity or corporate design of the Company which now more vividly exudes professionalism, reliability, accessibility and attentiveness.

By monitoring the wishes, needs and expectations of our customers and based on the data we gathered in the past, we will maintain and build on the long-term relationship of mutual satisfaction in 2020. Our communication with customers will maintain a high level of personalised consideration and accessibility coupled with the development of the website, online services and the mobile app.

Expectations about economic developments were moderately optimistic in the beginning of 2020, however, the OECD corrected the global economic growth forecasts downwards in the beginning of March 2020, mainly because of the pandemic. Economic pessimism was also reflected in the negative developments on financial markets. There is the risk of this not only being a short-term impact, but rather a longer lasting economic cooling. The further developments on financial markets will also depend on this and will importantly affect insurance undertakings and pension funds managed by them.



Boštjan Vovk
MEMBER OF THE
MANAGEMENT BOARD



Matija Debelak, MSc
MEMBER OF THE
MANAGEMENT BOARD



Borut Jamnik
CHAIRMAN OF THE
MANAGEMENT

Presentation of the Company

General Information

Company name: Modra zavarovalnica, d. d.

Registered office: Dunajska cesta 119, Ljubljana, Slovenia

Registration ID number: 6031226

VAT ID No.: SI21026912

Number of employees: 60 people

Share capital: EUR 152.2 million

Assets under management: EUR 1.7 billion

Number of persons insured in the mutual pension fund (VPS): 289,075

Number of retirement annuity recipients: 28,200

Mission

We create accessible insurance and other financial solutions aimed at increasing an individual's social security in all stages of life.

We build our competitive advantages on the partnership established with key stakeholders, knowledge, authentic relations and innovation.

Vision

We are a reliable and innovative driver of supplementary social security tailored to the individual.

Financial Goals

Based on the identified gaps between the existing and target structure, the SWOT analysis, and the analysis of technological, demographic, macroeconomic and microeconomic trends, Modra zavarovalnica has classified its strategic goals into the following areas:

- maintaining the priority of the assurance of AUM security (savings under supplementary social security of an individual and own funds) and the security of personal data;

- the leading competence for the area of an individual's social security in all stages of life;
- important financial intermediary with a comprehensive additional offer of financial solutions;
- innovative ecosystem of social security services.

Ownership Structure and Capital

As at 31 December 2019, the sole shareholder of Modra zavarovalnica d.d. is Kapitalska družba d.d. The share capital of the Company amounts to EUR 152,200,000 and is divided into 152,200,000 ordinary registered no par value shares. Each share represents an equal stake and an associated amount in the share capital. The share of an individual no par value share in the share capital is determined according to the number of no par shares issued.

Company's 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 in the following insurance segments:

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

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

- 65.110 – Life insurance;
- 65.120 – Non-life insurance (only transactions within insurance types of accident and health insurance);
- 65.300 – Pension funding;

- 66.210 – Risk and damage evaluation;
- 66.220 – Activities of insurance agents and brokers;
- 66.290 – Other activities auxiliary to insurance and pension funding;
- 66.300 – Fund management activities.

Bodies of the Company

Management Board

Pursuant to the Company's Articles of Association, the Management Board comprises three members. In 2019, Modra zavarovalnica was run by the Management Board composed of:

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

The Management Board runs the Company in the best interest of the Company, independently and at its own responsibility. The Management Board represents and presents the Company without limitations. In legal transactions, the Company is represented by two Management Board members jointly, i.e. the Chairman and one member, a member with the Chairman or another member of the Management Board. The Company's Articles of Association lay down the transactions and decisions that are subject to approval by the Supervisory Board. In 2019, the Management Board executed its powers in line with the Management Board's Rules of Procedure, made regular reports to the Supervisory Board and, in line with the Articles of Association, fulfilled its obligations to the shareholder as laid down by the Companies Act.

Supervisory Board

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

The Supervisory Board comprises six members.

Kapitalska družba, d.d., proposes three members of the Supervisory Board according to the procedure and in the manner defined by the general acts of the

Company. Half the Supervisory Board members were proposed by insured persons based on a public call to submit their candidate proposals. Two members were proposed by the Board of the Life-Cycle Civil servants Pension Fund on behalf of the insured, while the third member was proposed by the Board of the Capital Mutual Pension Fund and the Board of the Life-Cycle Pension Fund on behalf of other insured persons.

In 2019, the Supervisory Board comprised the following members:

- **Branimir Štrukelj**, member of the Supervisory Board as of 9 December 2016, served as Deputy Chair of the Supervisory Board from 22 December 2018 to 22 December 2019 and Chair of the Supervisory Board as of 23 December 2019;
- **Natalija Stošički**, member of the Supervisory Board from 9 December 2016 to 9 April 2019, served as Chairman of the Supervisory Board from 22 December 2018 to 9 April 2019;
- **Bachtiar Djalil**, member from 14 January 2019, served as Chairman of the Supervisory Board from 11 April 2019 to 22 December 2019 and as Deputy Chair of the Supervisory Board as of 23 December 2019;
- **Goran Bizjak**, member as of 9 December 2016;
- **Bojan Zupančič**, member as of 9 December 2016;
- **dr. Janez Prašnikar**, member as of 9 June 2017;
- **dr. Boris Žnidarič**, member from 9 June 2017 to 14 January 2019;
- **Roman Jerman**, member as of 9 April 2019.

The powers of the Supervisory Board are laid down in the Company's Articles of Association, while the method of its work is governed by the Supervisory Board's Rules of Procedure. A detailed description of the activities and the method of Supervisory Board operations in 2019 is provided in the Report of the Supervisory Board.

The Audit Committee of the Supervisory Board was active in 2019; its composition and work are presented in the Supervisory Board Report.

General Meeting of Shareholders

Voting rights at the 2019 General Meeting of Shareholders were exercised by Kapitalska družba d.d. as the sole shareholder.

Report of the Supervisory Board

Report of the Supervisory Board

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

a) Supervisory Board's Report 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 the "ZPKDPIZ") and the Company's Articles of Association. 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.

The Supervisory Board operated in the following composition in 2019: Natalija Stošički (Chair), Branimir Štrukelj (Deputy Chair), Goran Bizjak, Dr. Janez Prašnikar, Bojan Zupančič and Dr. Boris Žnidarič. Following the resignation of Dr. Boris Žnidarič, Bachtjar Djalil became member of the Supervisory Board on 14 January 2019, and following the resignation of Natalija Stošički, Roman Jerman became member of the Supervisory Board on 9 April 2019.

At the 117th regular meeting of the Supervisory Board held on 18 December 2018, Natalija Stošički was appointed Chair of the Supervisory Board, and Branimir Štrukelj was appointed Deputy Chair of the Supervisory Board for the period from 23 December 2018 to 22 December 2019. Following the resignation of Natalija Stošički, Bachtjar Djalil became the Chair of the Supervisory Board on 11 April 2019. At 129th meeting of the Supervisory Board on 12 December 2019, Branimir Štrukelj was appointed Chairman of the Supervisory Board and Bachtjar Djalil was appointed Deputy Chairman of the Supervisory Board for the period until 23 December 2019.

Over the course of the 2019 financial year, the Supervisory Board met at 12 meetings, 10 of them regular and 2 correspondence meetings. The members of the Supervisory Board acted independently when adopting decisions. The members attended meetings well prepared in regard to the topics discussed, put forth constructive proposals and remarks, and adopted decisions pursuant to their competences. The members of the Supervisory Board acted pursuant to the rules on professional secrecy and handling in case of conflict of interests. Supervision over the Company's operations was carried out in line with the powers and competences, as laid down by the Companies Act and Insurance Act ("ZZavar-1") and further specified by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board.

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

At its 124th meeting held on 19 April 2019, the Supervisory Board confirmed the Annual Report of Modra zavarovalnica for the 2019 financial year, including the Auditor's Report and the Report of the Supervisory Board

regarding the review of the Company's Annual Report, was briefed on the Company's annual internal audit report for 2018, the report made by a certified actuary and the annual reports of the mutual pension funds managed by Modra zavarovalnica. It also agreed to the proposal made by the Management Board regarding distributable profit. Pursuant to the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) and the Benchmarks for Variable Remuneration of Members of the Management Board of Modra zavarovalnica, also taking into account qualitative and quantitative criteria, the Supervisory Board assessed the work performed by the Management Board in 2018 and approved the payment of variable remuneration to the members of the Management Board.

In 2019, Supervisory Board members decided on the award of consent to the Management Board to amend and supplement the policies of the governance system, according to the Insurance Act, and gave consent to the acquisition of individual investments. The Supervisory Board regularly monitored the Company's operations, discussed quarterly reports on 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 carried out an assessment of its work.

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

At its 129th meeting held on 12 December 2019, the Supervisory Board gave its consent to the Business and Financial Plan of Modra zavarovalnica d.d. for 2020, and to the Action Plan of the Internal Audit Department for 2020.

The remuneration of Supervisory Board members complies with the General Meeting decision and is disclosed in detail in the Annual Report of Modra zavarovalnica, d. d. among other disclosures in chapter 3.10.3.6. Other Disclosures

Work of the Audit Committee of the Supervisory Board

In 2019, a three-member Audit Committee, comprising Goran Bizjak (Chairman), Natalija Stošički (member), and Dragan Martinović (independent external auditor), constituted a permanent operational body of the Supervisory Board that thoroughly monitored the Company's operations and the work of the Management Board during the business year, so as to support the decision-making by the Supervisory Board. After the resignation of Natalija Stošički from the Supervisory Board of Modra zavarovalnica, d. d., Bojan Zupančič served as member of the Audit Committee as of 11 April 2019. In 2019, the Audit Committee held 7 meetings. In its work, it observed the recommendations of the Slovenian Directors' Association for audit committees and of the Slovenian Institute of Auditors, as well as the Rules of Procedure of the Audit Committee, as adopted by the Supervisory Board. The Audit Committee cooperated with the selected independent auditor in the discussion of the unaudited Annual Report of Modra zavarovalnica d.d. for 2018.

Furthermore, it reviewed the Company's Annual Report and the Auditor's Report provided by the external auditor, and discussed the annual reports of the mutual pension funds managed by the Company, the annual Action Plan of the Internal Audit Department, and the Business and Financial Plan of Modra zavarovalnica d.d. for 2020, to which the Supervisory Board gave its consent.

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

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

Assessment of the Work Performed by the Management Board and Supervisory Board

Based on the above-mentioned regular monitoring and supervision of the operations and management of Kapitalska družba d.d. over the course of the financial year, and based on the review of the Annual Report, which was drawn up and submitted by the Management Board, the Supervisory Board hereby assesses that the Annual Report and the disclosures contained therein give a true and fair view of the status and position of the Company. The Supervisory Board estimates that the Company's Management Board managed the Company's operations in 2019 successfully and properly, and successfully realised the set business goals. It prepared materials with quality information and in-depth discussions of all major operating categories in due time, and provided elaborate answers to subsequent questions and motions put forward by the members of the Supervisory Board. The Management Board's reports to the Supervisory Board in 2019 allowed the latter to perform its supervisory function appropriately.

b) Supervisory Board's Position on the Auditor's Report

Based on paragraph 2 of Article 282 of the Companies Act, the Supervisory Board reviewed and discussed the Auditor's Report regarding the audit of the Company's financial statements for 2019, which was performed by Deloitte revizija d.o.o. from Ljubljana. The Supervisory Board finds that the auditor has performed its assignment in line with the law, rules on auditing, and the International Standards on Auditing. The Supervisory Board has no objections to the Auditor's Report.

c) Decision on the Confirmation of the Annual Report for 2019

Pursuant to Article 282 of the Companies Act, the Supervisory Board hereby approves the 2019 Annual Report of Modra zavarovalnica.

d) Supervisory Board's Position on the Auditor's Report

Based on paragraph 3 of Article 546.a of the Companies Act, the Supervisory Board reviewed and discussed the Auditor's Report on the results of the audit of the report on relations with associated companies, as performed by Deloitte revizija d.o.o. from Ljubljana. The Supervisory Board has no objections to the Auditor's Report.

e) Resolution on the Verification of the Report on Related-Party Transactions for 2019

Based on the provisions of Article 546.a of the Companies Act, the Supervisory Board reviewed the Report on Related-Party Transactions for 2019 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 the Granting of a Discharge from Liability to 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 adopts a resolution to grant

a discharge to the Management Board and Supervisory Board of the Company for the work performed in the 2019 financial year, namely:

To the members of the Management Board:

- Borut Jamnik, for the period from 1 January 2019 to 31 December 2019;
- Matija Debelak, MSc, for the period from 1 January 2019 to 31 December 2019;
- Boštjan Vovk, for the period from 1 January 2019 to 31 December 2019.

To the members of Supervisory Board:

- Branimir Štrukelj, for the period from 1 January 2019 to 31 December 2019;
- Natalija Stošički, for the period from 1 January 2019 to 9 April 2019;
- Bojan Zupančič, for the period from 1 January 2019 to 31 December 2019;
- Goran Bizjak, for the period from 1 January 2019 to 31 December 2019;
- Prof. Dr. Janez Prašnikar, for the period from 1 January 2019 to 31 December 2019;
- Dr. Boris Žnidarič, for the period from 1 January 2019 to 14 January 2019;
- Bachtiar Djalil, for the period from 14 January 2019 to 31 December 2019;
- Roman Jerman, for the period from 9 April 2019 to 31 December 2019.

Branimir Štrukelj

Chairman of the Supervisory Board

In Ljubljana, 6 April 2020

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Business Environment

Economic Environment in Slovenia

In 2019, the GDP in current prices amounted to EUR 48,007 million, a nominal increase of 4.9% over 2018. The GDP grew by 2.4% in real terms. GDP growth was driven by both domestic consumption, which rose by 2.1%, and by exports, which rose by 4.4%.

The number of people in the workforce was somewhat more than 901,500 in December of 2019. The registered unemployment rate was 7.7% in December 2019, down 0.9 percentage points compared January 2019. The average monthly gross wage in December of 2019 was EUR 1,855, up 7.3% compared to January 2019.

Trends on Financial Markets

Money Market

The interbank reference rate in the Eurozone, the 6-month EURIBOR, decreased from -0.237% to -0.324% in 2019. The yield to maturity (YTM) of the 10Y German Bund decreased in 2019, from 0.242 to -0.185%, while the YTM of the Slovenian 10Y government bond decreased from 0.989 to 0.267%.

Foreign Exchange Rates

The EUR/USD rate in 2019 rose by 2.2%. In 2019, the USD was 5.2% more expensive in euro terms than in 2018. The USD exchange rates were most affected by the expectations about the future interest rate developments, expectations about Brexit developments and the outcome of the US-China trade war.

Debt Market

The prices of both government and corporate bonds increased significantly in 2019. The European government bond index (IBOXX Euro Sovereign Overall Total Return Index) gained 6.7% in this period, while the corporate bond index (IBOXX Euro Corporates Overall Total Return Index) gained 6.3%. Bond price movements were affected mainly by the expectations of the continuation of low interest rates.

Equity Market

In 2019, the value of the MSCI global stock index grew by 30.2% (measured in €). The highest returns in this period were recorded by the US S&P 500 index (31.4%), followed by the European Euro STOXX index (growth of 26.1%) and the Japanese Nikkei index (growth of 22.3%). Slovenian stocks measured by the SBI TOP index grew 15% on average.

Figure 1: Comparison of changes in the SBI TOP Slovenian stock index and selected foreign stock indices in the January–December 2019 period in euros (Index: 31.12.2018 = 100)

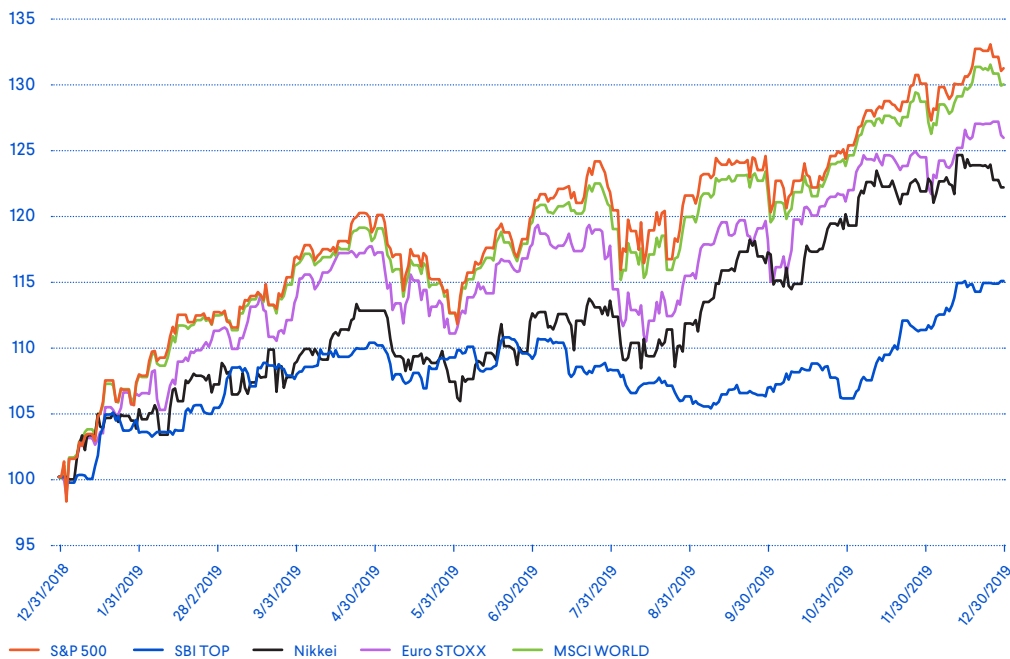
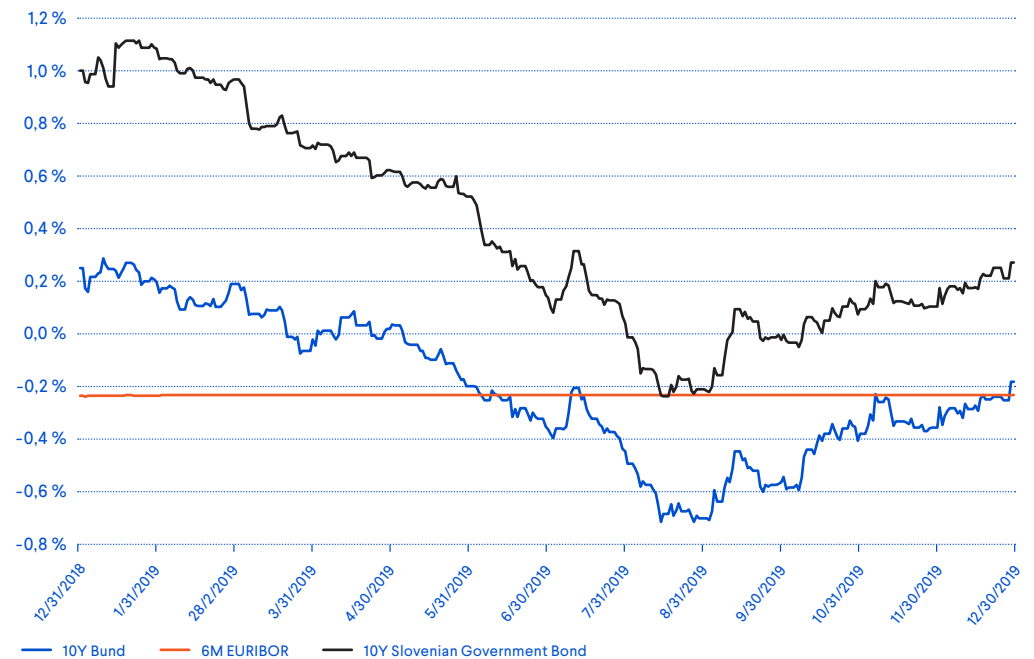


Figure 2: Comparison of changes in the yield to maturity (YTM) of the 10-year German Bund, the Slovenian government bond and the 6-month EURIBOR in the January–December 2019 period (in%)



It is our mission to ensure a secure future and improved social security for each individual. We remain the best capitalised specialised insurance company.

Operations in 2019

Financial Result and Financial Position

In 2019, Modra zavarovalnica generated EUR 65.7 million in premium income and other technical income. Most of the said income is income from guarantee fund premiums, while the remainder is represented by income from the management of mutual pension and guarantee funds. The premiums paid in the mutual pension funds managed by Modra zavarovalnica reached EUR 106.5 million in the reporting period not taking into account transfers between funds or sub-funds, and increased by 8.1% compared to 2018.

In 2019, expenses for claims including expenses arising from the annuities paid reached EUR 24.8 million, while other technical charges amounted to EUR 1.1 million. Changes in technical provisions represent an expense due to increased mathematical provisions deriving from the pension annuity insurance sold in 2019. Operating costs include the costs of labour, services, material, amortisation/depreciation and the like. Profit or loss from investments as recognised in profit or loss reached EUR 15.3 million in 2019. Profit or loss from investments as recognised in equity was favourable in the year concerned due to the positive trends in the securities market.

Table 1: Financial result of Modra zavarovalnica

in EUR

Item	2019	2018
Premium income and other technical income	65,650,888	52,816,647
Expenses for claims and other technical charges	-25,959,455	-24,140,550
Change in technical provisions	-33,315,899	-26,668,900
Operating costs	-6,916,018	-6,588,033
Profit or loss from investment activities recognised in profit or loss	15,337,130	11,448,601
Other net income/expenses	-80,084	113,903
Profit or loss before tax	14,716,562	6,981,669
Income tax	-2,474,847	-631,770
Net profit or loss	12,241,715	6,349,899
Profit or loss recognised in equity	24,397,950	-13,266,796
Total comprehensive income	36,639,665	-6,916,897

Table 2: Finančni položaj Modre zavarovalnice

in EUR

Item	31 December 2019	31 December 2018
Financial assets	523,915,886	453,476,989
Other assets	6,863,956	6,593,576
Total assets	530,779,842	460,070,564
Technical provisions	223,389,538	190,028,069
Other provisions	12,180,626	16,174,284
Other liabilities	25,972,345	18,095,594
Equity	269,237,333	235,772,618
Total equity and liabilities	530,779,842	460,070,564
Off-balance sheet items	1,190,362,967	1,059,016,535

The largest share of Modra zavarovalnica assets are financial assets, which reached EUR 523.9 million at the end of 2019, while technical provisions for annuity insurance account for the largest share of liabilities alongside equity. The bulk of off-balance sheet items is the sum total of the assets of the mutual pension funds managed by Modra zavarovalnica.

The Company's solvency position is presented in detail in the chapter dealing with risk management.

The returns on the pension funds of Modra zavarovalnica were among the highest in 2019.

Mutual Pension Fund Management

Market and Competition

Supplementary pension insurance was offered by nine providers on the Slovenian market in 2019. Three providers (Banka Intesa Sanpaolo, Zavarovalnica Generali, and Modra zavarovalnica) managed five mutual pension funds, while three pension companies (Pokojninska družba A, Skupna pokojninska družba, and Sava pokojninska družba) and three insurance companies (Prva osebna zavarovalnica, Zavarovalnica Triglav, and Adriatic Slovenica) provide pension insurance in the form of a group of guarantee funds. All pension funds pursue the life-cycle policy, which provides the option to choose an investment policy and potentially higher yields and, hence, more funds saved for supplementary pension.

In January 2020, the registration in the Register of Companies represented the completion of the merger of the Adriatic Slovenica and Generali zavarovalnica insurance companies, i.e. the merger of the former into the latter.

The returns of guaranteed return sub-funds were extremely high in 2019. The main reason is the high growth in government and corporate bond prices, which represent the largest portion of the portfolio of guaranteed return sub-funds. The government bond index gained 6.7% in 2019, while the corporate bond index gained 6.3%. Stocks, which gained 30.2% on average, recorded high returns as well. According to our estimates, the reasons for such developments on capital markets lie in the expansionary monetary policies in Europe and the US.

The returns of sub-funds pursuing a prudent or dynamic investment policy were even higher owing to the higher proportion of stocks in the portfolios. Compared to the competition, the funds under the management of Modra zavarovalnica are at the very top or just under it.

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

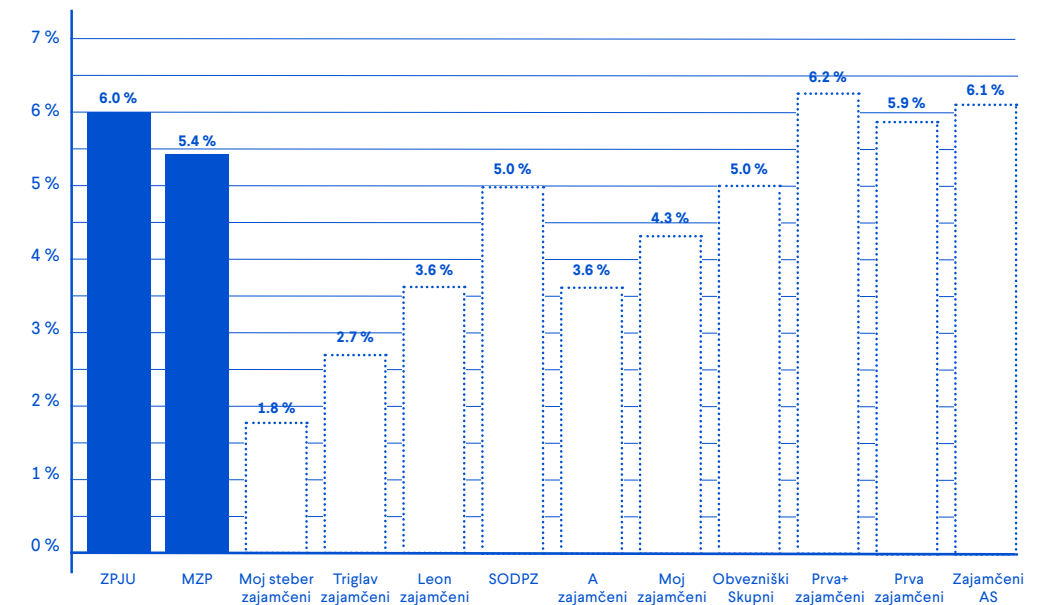


Figure 4: Comparison of 12-month return rates of domestic pension funds pursuing the balanced investment policy

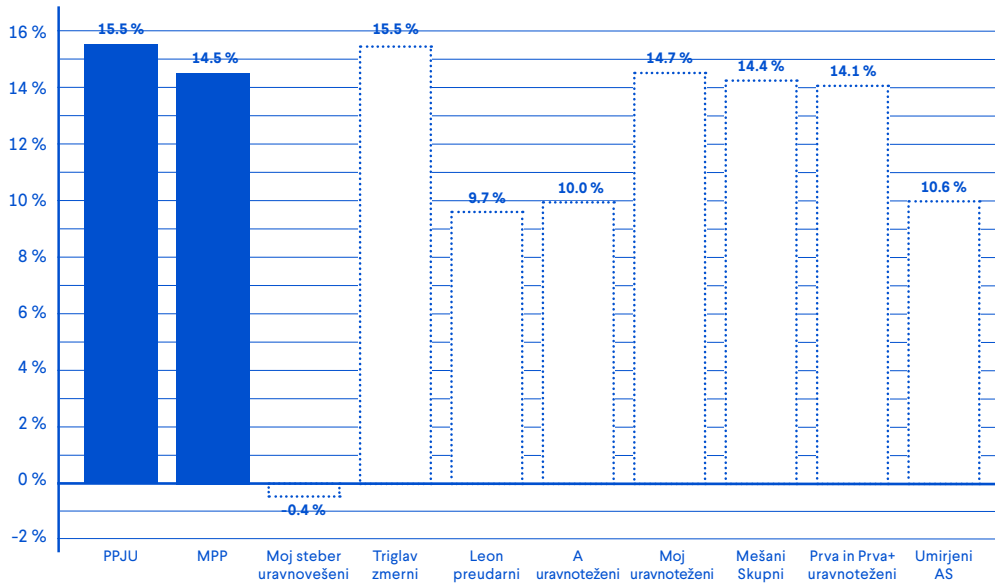
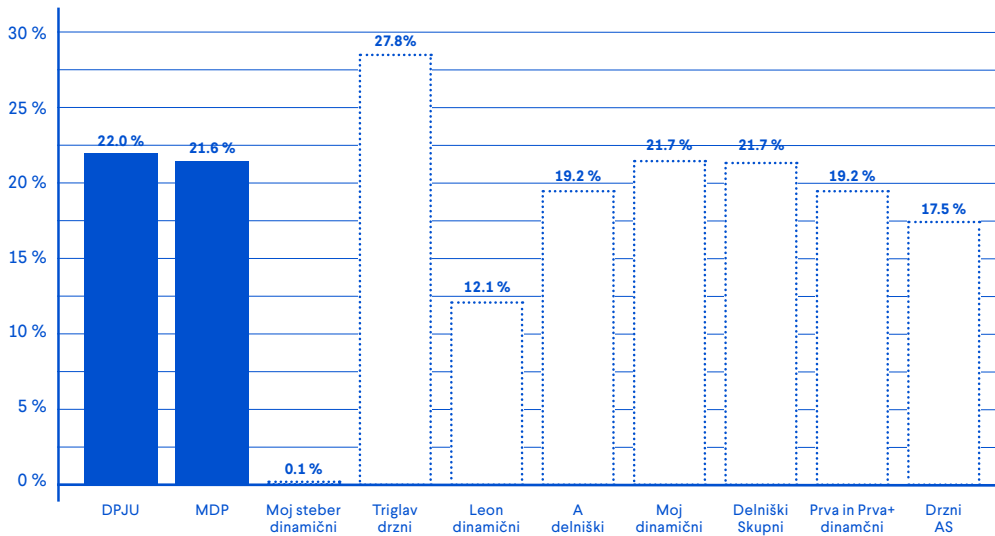


Figure 5: Comparison of 12-month return rates of domestic pension funds pursuing the dynamic investment policy



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 2019, over 289 thousand individuals as well as the PPS policyholders saved in its mutual pension funds and the assets collected totalled nearly EUR 1.2 billion. Total supplementary pension insurance premium paid in, excluding the asset transfers between the KVPS and MKPS funds, reached EUR 106.5 million in 2019 (EUR 98.5 million in 2018).

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

- **Life-Cycle Civil servants Pension Fund (KPSJU),**
- **Life-Cycle Pension Fund (MKPS) and**
- **First Pension Fund of the Republic of Slovenia (PPS) which was formed according to a special act through the exchange of pension vouchers.**

In November 2019, Modra zavarovalnica successfully merged the Capital Mutual Pension Fund (KVPS) into the Guaranteed Sub-Fund (MKPS).

Table 3: Data on mutual pension funds managed by Modra zavarovalnica as at 31 December 2019

Fund	No. of members/ persons insured	No. of employers/ premium payers	Assets under management (in millions of EUR)
KPSJU	235,251	1,862	883.4
MKPS	35,376	378	287.3
PPS	18,448	0	17.4
Total	289,075	2,240	1,188.1

Pursuant to Article 313 of ZPIZ-2, Modra zavarovalnica is obliged to form provisions for failing to achieve the guaranteed rate of return 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 2019, Modra zavarovalnica disclosed provisions for failing to achieve the guaranteed rate of return on mutual pension funds amounting to EUR 8,173,478, whereby the majority of these relates to the PPS fund.

Life-Cycle Civil servants Pension Fund

The Life-Cycle Civil servants Pension Fund (KPSJU) pursues a life-cycle investment policy and comprises three different sub-funds:

- **Dynamic Civil servants Sub-Fund (MDP)** intended for young savers aged up to 50 years of age and pursues a higher risk investment policy. Savers saving within the scope of this sub-fund assume the entire investment risk.
- **The Prudent Civil servants Sub-Fund (PPJU)** is intended for savers aged between 50 and 60 years of age and pursues a balanced investment policy. Savers saving within the scope of this sub-fund assume the entire investment risk.
- **The Guaranteed Civil servants Sub-Fund (ZPJU)** is intended for the oldest savers aged over 60 years of age. Savers saving within the scope of this sub-fund assume only the investment risk exceeding the guaranteed return.

The Life-Cycle Civil servants Pension Fund (KPSJU) is a closed-ended pension fund intended exclusively for civil servants. It provides them with the right to a supplementary old-age pension or other rights stipulated in the pension scheme. In addition to the premiums paid into the fund by employers, premiums can also be paid in by civil servants themselves, thus ensuring a higher supplementary pension and allowing them to claim a tax allowance.

Civil servants who saved in accordance with the guaranteed return policy upon the merger in the beginning of 2017 decided by themselves depending on their age whether to transition to a higher risk investments policy, while new employees were included in the sub-fund subject to their age, unless they decided otherwise themselves.

As the manager of KPSJU based on the PNJU K Pension Scheme and KPSJU Rules, Modra zavarovalnica is entitled to an entry fee and management fee. Entry fees are calculated as a percentage of the paid-in premium amounted to 0.5% in 2019. The annual fee for the management of the KPSJU fund amounts to 0.5% of the average NAV of the KPSJU. All other direct operating costs of the fund are charged to the Company.

KPSJU is the largest Slovenian pension fund, both as regards the number of savers and the volume of the funds collected. At the end of 2019, 235,251 savers were included in it, with their funds amounting to EUR 883.4 million.

2019 was marked by premium growth of 8.1%, Modra pension fund asset growth of 12% and the merger of the Capital Mutual Pension Fund (KVPS) to the MKPS guaranteed sub-fund.

Life-Cycle Pension Fund

The Life-Cycle Pension Fund (MKPS) is an open-ended mutual pension fund intended for the implementation of supplementary pension insurance schemes. All persons in employment included in compulsory pension insurance can pay into this fund. The PNMZ K Pension Scheme for collective supplementary insurance is open to insured persons via their employer, just like the individual PNMZ P Pension Scheme, which is intended for individuals.

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

- **The Dynamic Sub-Fund (MDP)** is intended for young savers aged up to 50 years of age and pursues a higher risk investment policy. Savers saving within the scope of this sub-fund assume the entire investment risk.
- **The Prudent Sub-Fund (MPP)** is intended for savers aged 50 to 60 years of age and pursues a prudent investment policy. Savers saving within the scope of this sub-fund assume the entire investment risk.
- **The Guaranteed Sub-Fund (MZP)** is intended for savers older than 60 years of age and pursues a guaranteed return investment policy. Savers saving within the scope of this sub-fund assume only the investment risk exceeding the guaranteed return.

As the MKPS manager, Modra zavarovalnica is entitled to an entry fee and management fee, which are paid from the sub-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 2019, they amounted to 3%. The annual fee for the management of MKPS amounted to 1% of the average net value of assets of an individual sub-fund.

At the end of 2019, 35,376 savers were included in it, with their funds amounting to EUR 287.3 million.

In November 2019, Modra zavarovalnica successfully merged the mutual merging Capital Mutual Pension Fund (KVPS) into the receiving Guaranteed Sub-Fund (MKPS) of the Modri Umbrella Sub-Fund. It carried out the merger by absorption through the transfer of the total funds of the merging/dissolving fund into the receiving fund. The dissolving fund savers received units of funds of the receiving fund after the merger in accordance with the exchange rate. The total value of the savers' units following the merger remained at least the same as the total value of the savers' units prior to the merger.

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-ended mutual pension fund and further payments or enrolment in the fund have not been possible. Since August 2004, the funds collected by all members aged 60 or over, have been transferred to KS PPS, which is intended for the disbursement of supplementary pension annuities. If a member of PPS dies before acquiring the right to a pension annuity, the right to the payment of the surrender value of their policy is granted to their heirs.

Modra zavarovalnica is entitled to an annual fee for the management of PPS, which amounted to 1% of the average annual NAV in 2019, and to exit fees charged as a percentage of the surrender value of assets paid out to heirs.

At the end of 2019, 18,448 savers were included in it, with their funds amounting to EUR 17.4 million.

Financial Position of Modra zavarovalnica

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

- **investments in Group companies and associates** (item F);
- **investments** (item G);
- **cash and cash equivalents** (item M).

Table 4: Company's financial assets as at 31 December 2019

in EUR

Item	Own financial assets	KS PPS assets	KS MR assets	KS MR II assets	Total
Investments in Group companies and associates	36,518,433	0	0	0	36,518,433
Investments	253,260,335	98,641,219	16,238,757	111,606,747	479,747,057
Cash and cash equivalents	5,207,444	703,209	95,821	1,643,922	7,650,396
Total	294,986,212	99,344,428	16,334,577	113,250,670	523,915,886

Management of Guarantee Funds for the Disbursement of Pension Annuities

Modra zavarovalnica is the largest payer of supplementary pensions/pension annuities in the Republic of Slovenia; in 2019, it managed three guarantee funds for the disbursement of pension annuities, which are managed separately:

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

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

In 2019, Modra zavarovalnica paid out EUR 24.8 million in supplementary pensions to 28,200 insured persons; 18,242 insured person received the pension annuity under supplementary pension insurance (Modra renta and Modra renta II), while 9,958 insured persons received it under the supplementary pension insurance in the First Pension Fund (exchange for pension vouchers).

Table 5: Basic information on Modra zavarovalnica guarantee funds

Guarantee fund	No. of annuity recipients at the end of 2019	Assets under management (in EUR million)	Expenses for annuities (in EUR million)
KS MR	7,166	16.8	4.1
KS MR II	11,076	116.1	14.0
KS PPS	9,958	99.3	6.7
Total	28,200	232.2	24.8

Modra renta Guarantee Fund

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

Payments in KS MR had been collected until the end of 2015 and, since 2016, KS MR has merely made disbursements of lifetime pension annuities. Upon taking out annuity pension insurance, each individual was able to select one of the forms of lifetime annuities, thereby exercising their right to a supplementary old-age pension.

As at 31 December 2019, the fund's assets amounted to EUR 16.8 million. Most of these assets are comprised of bonds, which account for 90% of total assets.

Table 6: KS MR assets as at 31 December 2019

in EUR

Assets	Amount
Bonds	15,284,247
Investment coupons	367,778
Commercial papers	495,894
Investment receivables	90,837
Cash	95,821
Receivables	476,011
Total	16,810,589

As at 31 December 2019, 37% of KS MR assets were invested in the Republic of Slovenia and 63% of total assets in the investments of foreign issuers.

Modra Renta II Guarantee Fund

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

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

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

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

From the start of operations of the KS MR II in 2016 until 31 December 2019, the right to supplementary old-age pension was exercised by 13,569 savers with collected funds amounting to EUR 139.3 million who decided to receive the selected monthly pension annuity. Most of them opted for accelerated disbursement of annuities.

Table 7: Number of members and amount of payments in KS MR II in 2019

Pension fund	No. of members/ persons insured	Surrender value of assets (in EUR million)
MKPS	787	7.8
KPSJU	3,219	25.9
Pension funds of other managers	714	17.0
Total	4,720	50.7

The amount of one's pension annuity depends on the supplementary pension insurance funds collected, the technical interest rate, unisex life expectancy tables, age upon the effective date of annuity insurance and the cost of annuity payments. The average age of annuity recipients is 63 years, and 59% of all annuity recipients are female.

As at 31 December 2019, KS MR II held 11,076 insurance policies.

As at 31 December 2019, the fund's assets amounted to EUR 116.1 million. Most of these assets are comprised of bonds, which account for 59% of total assets, and investment coupons which account for 27% of total assets.

Table 8: KS MR II assets as at 31 December 2019

Assets	Amount
Bonds	68,237,654
Investment coupons	31,619,598
Commercial papers	2,767,801
Treasury bills	1,390,251
Deposits and investment receivables	7,591,444
Cash	1,643,922
Receivables	2,836,435
Total	116,087,105

As at 31 December 2019, 25% of KS MR II assets were invested in the Republic of Slovenia and 75% of total assets in the investments of foreign issuers.

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 one-off 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 payout period is set at 5, 10 or 15 years. If an insured person dies during the guaranteed payout period, the pension annuity is paid out to their beneficiaries or heirs until the expiry of the guaranteed payout period.

Insured persons receiving the KS PPS pension annuity are entitled to the surplus rate of return of the annuity fund over the guaranteed rate of return, pursuant to the General Terms and Conditions of Supplementary Pension Insurance in the First Pension Fund of the Republic of Slovenia – exchange for pension vouchers. The share of the surplus intended for a permanent annuity increase is identified once a year by the manager's Management Board. In 2019, the surplus return amounting to EUR 2,148,008 was allocated to a permanent annuity increase. All

insured persons or, rather, recipients of KS PPS pension annuities who took out insurance in the form of a monthly or annual annuity by December 2018 received higher annuities in April. The disbursement of increased annuities made in April also included a settlement for the period between January and April 2019.

In 2019, the right to a pension annuity was acquired by 1,205 insured persons aged 60 or more who paid in a total of EUR 2.7 million into the KS PPS for their supplementary pensions.

As at 31 December 2019, the fund's assets amounted to EUR 99.3 million. Most of these assets are comprised of bonds, which account for 75% of total assets, and stocks which account for 17% of total assets.

Table 9: KS PPS assets as at 31 December 2019

in EUR

Assets	Amount
Bonds	74,378,574
Stocks	17,307,416
Investment coupons	5,365,579
Commercial papers	592,722
Deposits and investment receivables	996,927
Cash	703,209
Receivables	379
Total	99,344,806

As at 31 December 2019, 48% of KS PPS assets were invested in investments in the Republic of Slovenia, while 52% of all assets were invested in the investments of foreign issuers.

Management of Own Financial Assets

The Company's own financial assets amounted to EUR 295 million at the end of December 2019. The biggest share is taken up by the portfolio of equity investments and the portfolio of investments into debt securities, which are followed by the portfolio of non-portfolio equity investments.

Table 10: Company's own financial assets as at 31 December 2019

in EUR

Assets	Amount
Portfolio equity investments	159,164,342
Non-portfolio equity investments	49,375,563
Portfolio of investments in debt securities	81,238,864
Cash	5,207,444
Total	294,986,212

Portfolio Equity Investments

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

Table 11: Company's portfolio equity investments as at 31 December 2019

in EUR

Assets	Value
Stocks	36,088,617
Foreign stocks	36,088,617
Investment funds	123,075,725
Domestic investment funds	4,838,844
Foreign investment funds	118,236,881
Total	159,164,342

At the end of December 2019, the portfolio was most exposed to the IT sector, followed by finance and healthcare. In terms of FX exposure, the portfolio's greatest exposure was to the US dollar and the euro. More than half of the mentioned portfolio is invested in the equities of North American issuers and slightly less than a third in investments of European issuers. The remainder is accounted for by investments in issuers from developed Asian countries and issuers from developing economies.

Non-Portfolio Investments

As at 31 December 2019, Modra zavarovalnica owned stocks or interests in Cinkarna Celje, d.d., Pozavarovalnica Sava, d.d., and Hotelske nepremičnine, d.o.o. Owing to the size of the equity interest, these investments require a more active method of management. As at 31 December 2019, their total value stood at EUR 49.4 million.

Financial Investments Into Debt Securities

Table 12: Company's investments into debt securities as at 31 December 2019

in EUR

Assets	Value
Bonds	63,154,541
Government bonds	27,129,400
Corporate bonds	36,025,141
Treasury bills	1,598,704
Deposits and investment receivables	16,485,619
Total	81,238,864

The value of the government bond portfolio of Modra zavarovalnica amounted to EUR 27.1 as at 31 December 2019. The portfolio comprises mostly government bonds of countries within the euro area. Most bonds are denominated in euros, with a minor share in US dollar. More than 50% of the portfolio is represented by the government bonds of the Republic of Slovenia. The average maturity of the government bond portfolio is 6.4 years and the average rating is A. The majority of the bonds have a fixed coupon interest rate.

Among corporate bonds, bonds from countries from the euro area prevail. The value of the corporate bond portfolio at the end of December 2019 amounted to EUR 36.0 million. All bonds are denominated in euros. The majority of the bonds have a fixed coupon interest rate. Most corporate bond issuers come from the industries of finance, energy and public services. The average maturity of the government bond portfolio is 3.4 years and the average rating is BBB.

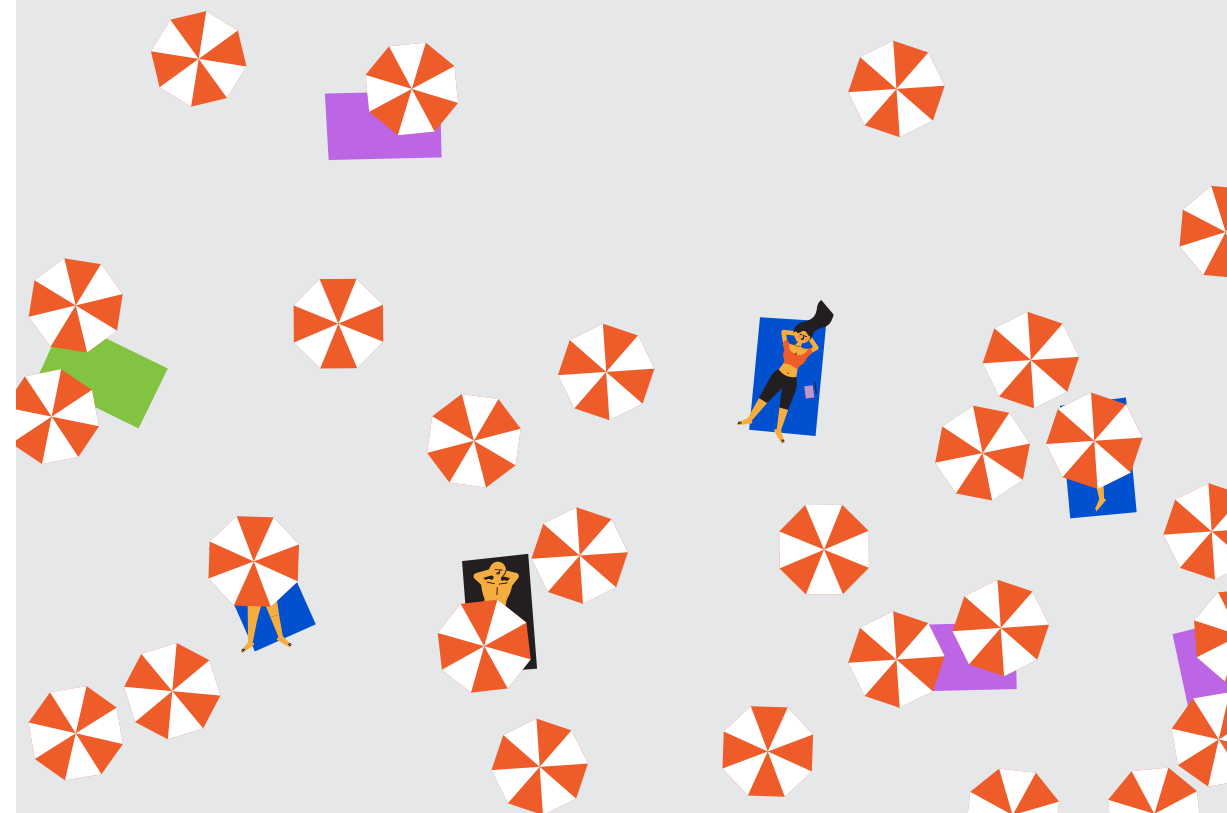
Deposits are placed exclusively with domestic banks; investment receivables are disclosed as due from Slovenian issuers. The treasury bill is from the euro area.

Cash

At the end of December 2019, Modra zavarovalnica disclosed EUR 5.2 million of own cash and cash equivalents among financial assets.

We provide the 289 thousand savers with the option of saving for a higher quality of life after retirement.

In 2019, we paid out EUR 24.8 million worth of supplementary pensions to 28 thousand pensioners.



The pension funds managed by Modra are among the most profitable compared to their respective competitors.

The Guaranteed Civil Servants Pension Fund won the Crystal Statue awarded by the Moje finance magazine for the best managed guaranteed fund over the period of the last 10 years.

Marketing Activities

By overhauling the marketing approach, improving the user experience and digitising processes, we pursue the strategic guidance of leading competence in the area of supplementary social security. We therefore place the customer and their experience at the centre of our focus. The basis for the assurance of a good user experience is knowing one's customer. Activities are geared towards the development of digital sales-communication channels with direct access to our services via the Internet and the gathering of data, information and responses. The suitability of services undergoes prior testing, after which services are supplemented and improved subject to the users' response on an ongoing basis.

The web portal which was renamed to e.Modra was re-designed into the main info point for existing savers under the supplementary pension insurance. We have simplified the registration procedure as well as the use of services, overhauled the indicative calculations with an annuity projection tailored to the individual, and have provided e-management of all changes related to saving (change of the sub-fund, payment and change of the amount of the individual premium, designation of beneficiaries). Users can access all important information on the operations of pension funds, messages (general and private) as well as all documents and forms. As of March, when the overhauled services went online, until the end of the year, we introduced real time customer satisfaction measurement as well as the measurement and gathering of the feedback from the users of e.Modra. Most are highly satisfied with the overhaul: the average satisfaction rating provided by more than 7 thousand users was 4.2 (scale from 1 to 5). We have also received numerous constructive improvement suggestions that we will take into account in further development.

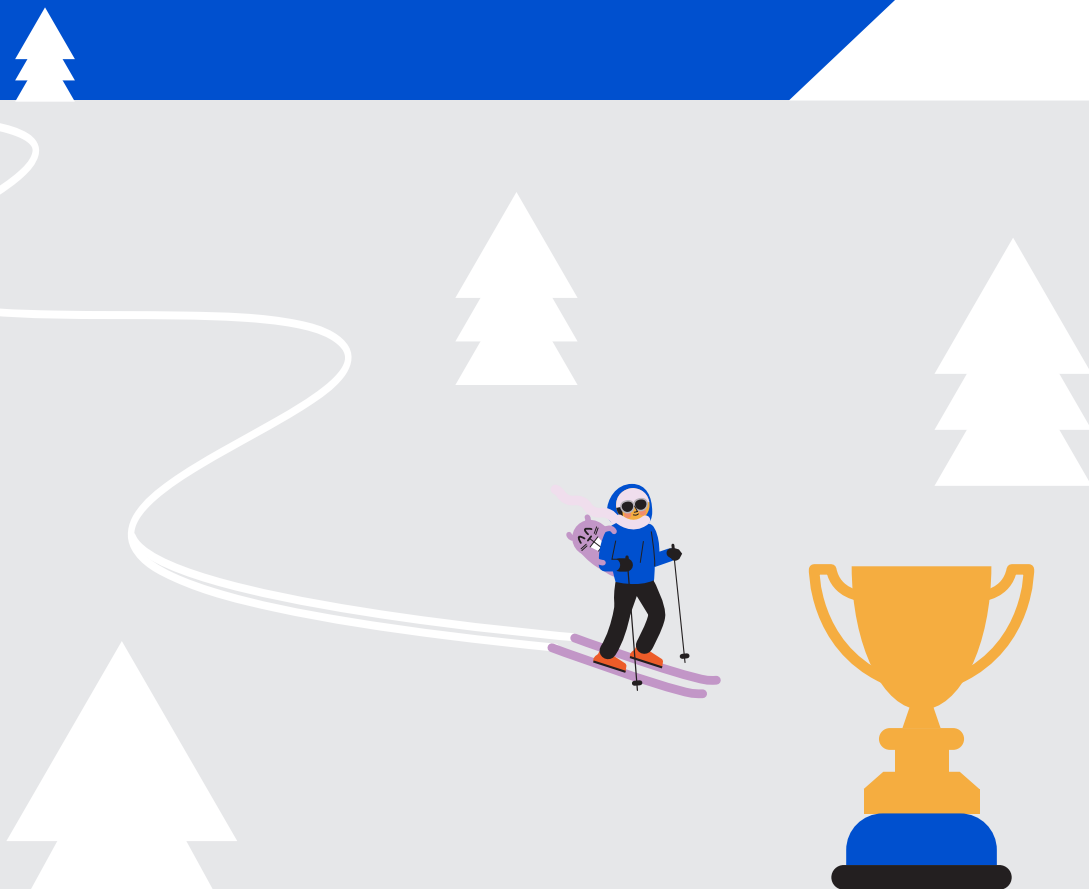
We simultaneously overhauled the website and handed it over into production in the middle of July. We carried out a comprehensive functional and technical overhaul of the platform using the latest technologies that make the website compatible

with all devices. We have significantly decreased the number of subpages and merged them into transparent and informative landing pages or target pages; we highlighted the key subpages with the most searched content, defined the process for the easy conclusion of supplementary pension insurance for individuals and simplified the indicative calculations. By presenting saving within the scope of supplementary pension insurance in a straightforward and understandable manner, we strive to raise the level of understanding and trust as well as rank Modra as a specialist in the area of saving for the future.

We also carried out a comprehensive redesign of the visual identity of Modra. The new visual identity or corporate design of the Company now more vividly exudes professionalism, reliability, accessibility and attentiveness. New illustrations and colours that emphasise the diversity of savers and the comprehensible and adjusted tone of the communication help Modra to communicate itself as a symbol of a reliable partner that accompanies an individual to a secure future.

Supplementary pension insurance and saving within lifecycle pension funds is still not sufficiently known to savers and understood by them, which is why education and awareness-raising are of the utmost importance. We therefore worked on publishing professional articles in specialised magazines, corporate newspapers and by posting on the Med. Over.Net. online forum. We supported the event of Moje finance upon the 30th anniversary of the capital market in Slovenia as well as the event that announced the best pension funds. The Guaranteed Civil servants Sub-Fund (ZPJU) which is managed by Modra received the crystal statue for the best fund over a 10 year period. It was the only one to receive five stars in its category. The KVPS fund (private sector) ranked just below the ZPJU.

We sponsored the Slovenian HR Congress and the Accountant Days, and presented our Company in two professional articles bringing to bear our



extensive knowledge and experience in the area of the pension system, labour and tax legislation as well as personal data protection.

Modra zavarovalnica as the largest data processor ensures the highest level of security and confidentiality of personal and other data of our customers. We systematically keep all required records of processing activities, maintain a catalogue of contractors, carry out impact assessments and carefully identify the risks of potential violations of individuals' rights. We also raise employee awareness through education, drafting opinions and answers, and monitoring good practices in the area. Our insurance distribution observes the consumer protection standards in accordance with the Insurance Distribution Directive (IDD), the provisions of which have been transposed into the Slovenian legal order with the applicable insurance act and implementing regulations. Prior to presenting an insurance product or concluding a contract, we communicate information on insurance products in a comprehensible, open, honest and professional manner that is in the best interest of the insured.

An important part of the activities in the last quarter involved the notification of savers on the merger of the KVPS fund with the MKPS guaranteed sub-fund, which was completed in November 2019. In order to make the provided information on the merger and the options of the lifecycle investment policy for the savers as comprehensible as possible to various segments of the savers, we employed various communications channels and provided all information on an ongoing basis and thus completed the merger successfully. We used the communication to again invite people to register on e.Modra.si.

Accessibility and customer satisfaction were our competitive advantage. They could get additional information and assistance on the toll-free telephone number, info address or in person at the contact centre. The results of the concurrent measurement are showing a high level of satisfaction of everyone who contacted our contact centre advisors for assistance and additional information. The average rating last year was 4.81 (on a scale from 1 to 5).

In order to boost the recognisability of Modra as well as to support sales, we conducted a marketing-communication campaign titled "How much do we need for a carefree future" in the fall. The campaign aimed to encourage people to start thinking more seriously about saving. We recorded a viral video, in which we asked passers-by in the street what they would like to do when they retire and how much they need for a carefree future. We provided the answer to their needs in the form of an online calculator and taught them how to ensure a carefree future for themselves through saving within the scope of voluntary supplementary pension insurance.

We ended 2019 with the traditional marketing campaign "No entry fees" and achieved a remarkable result. Individual premium payments rose by 15% over 2018. In addition to the sales campaign, we also conducted a social responsibility campaign that we dubbed the "Gallery of a Beautiful Life". Twelve retired members of Center aktivnosti Fužine answered our invitation and attended the graphic design workshop where the acclaimed artist and teacher Petra Varl taught them the screen printing technique in a single day. We recorded a likeable video and used in an advertising campaign aimed at gathering funds for a donation. The graphics were exhibited at the Fužine nursing home; while we exhibited posters of the works on the streets and squares across Slovenia. We digitised the collection of graphics and exhibited them in an online gallery. Online gallery visitors were able to vote for their favourite graphics and each of them was transformed into a euro donation. We sent the donations to the Fužine nursing home, Center aktivnosti Fužine, so that they could develop an online platform for the promotion of knowledge sharing among the elderly and the younger generations that will go online in 2020.

The results of marketing activities were reflected both in the improvement of sales results and the growth of the paid in premium as well as in the recognisability of Modra and supplementary pension insurance. We achieved higher recall across all recognisability measurement categories in 2019 compared to the year before.

We are developing into a reliable partner and leading authority in the area of supplementary social security.



Risk Management

In line with the adopted capital management policy, Modra zavarovalnica, d. d. provides suitable security and profitability of operations as well as a high level of stakeholder confidence. The objectives we pursue are efficient allocation of available capital for the assurance of the security of savers' savings and long-term and stable returns on the investment of the owner of Modra zavarovalnica based on predetermined dividend policy criteria and taking into account the interests of the remaining stakeholders and regulatory restrictions.

The key conditions for the achievement of the mentioned objectives are recognisability, measurement, monitoring and management of assumed and potential risks as well as continuous own risk and solvency assessment. Comprehensive risk management enables regular measurement and monitoring of the amount, returns and consumption of capital.

Modra zavarovalnica measures risk and monitors capital adequacy using the methods that comply with the standard formula according to Solvency II, i.e. based on market valuation. In order to ensure long-term target capital adequacy, the Company regularly performs the ORSA by way of which it determines the ongoing and expected capital requirements and defines the appropriate capital management measures. The ORSA carried out in 2019 shows that the Company has adequate capital available to cover all risks it assumes in its operations.

The target capital adequacy (solvency ratio), which is defined as the ratio between the Company's eligible own funds and the total capital requirement, is set at 150%.

The risk profile of Modra zavarovalnica remains largely unchanged compared to the situation at the end of 2018. Changes in exposure arise mainly from the favourable changes on the capital markets. As regards market risk, it was mainly the capital requirements under equity

risk that increased as a result of favourable market conditions. The Company conducted the ORSA only once in 2019 as there were no major deviations in the risk profile during the course of the year.

Risk Management System

The Company devotes special attention to the comprehensive risk management system that ensures the realisation of strategic goals. Our risk management system is clear, transparent and documented. It allows us to identify all important risks on time, and also encompasses processes that enable effective management of individual risk types.

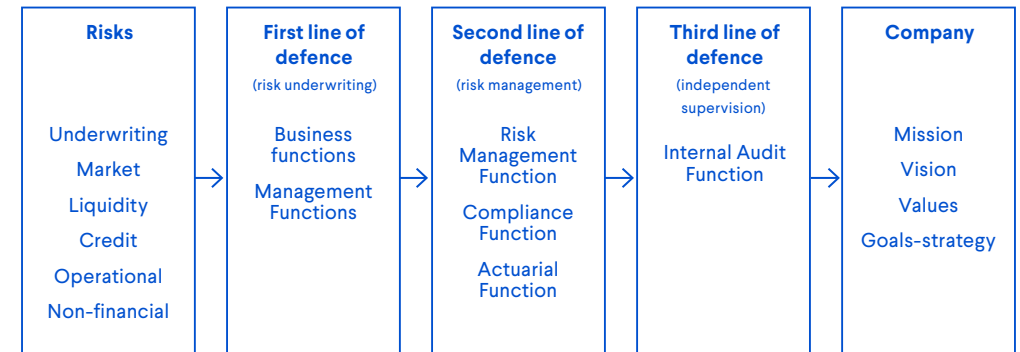
The ORSA process is strongly tied to the quality of the entire risk management system. The main purpose of the ORSA process is for the Company to prepare (on the Company level) own assessments of risks arising from operations that affect its current and future capital requirements. The mentioned assessments represent the basis for deciding on the application of particular risk and capital management strategies. A part of the process that is the basis for strategic decision-making is the study of the stability of the Company's capital adequacy subject to select scenarios.

The risk management system at the Company is based on the three lines of defence model.

The first line of defence is represented by the Company's Management Board and the business functions, which actively manage specific operational risks through their business decisions and are primarily responsible for risk identification, underwriting and reporting.

The second line of defence is represented by business functions and decision-making bodies forming the risk management system, which includes exposure identification, measurement and monitoring procedures as well as the exposure limit system.

Figure 6: Three levels of risk management



The third line of defence includes the internal audit function which executes and is in charge of the processes and activities associated with regular reviews of the effectiveness of the internal control environment in individual functional areas as well as the effectiveness of the risk management system.

The risk management system encompasses a continuous process involving:

- the development of a risk management strategy supported by policies and procedures;
- risk measurement, monitoring and management;
- regular reporting to the Company's Management Board and Supervisory Board;
- review and improvement of the risk management system.

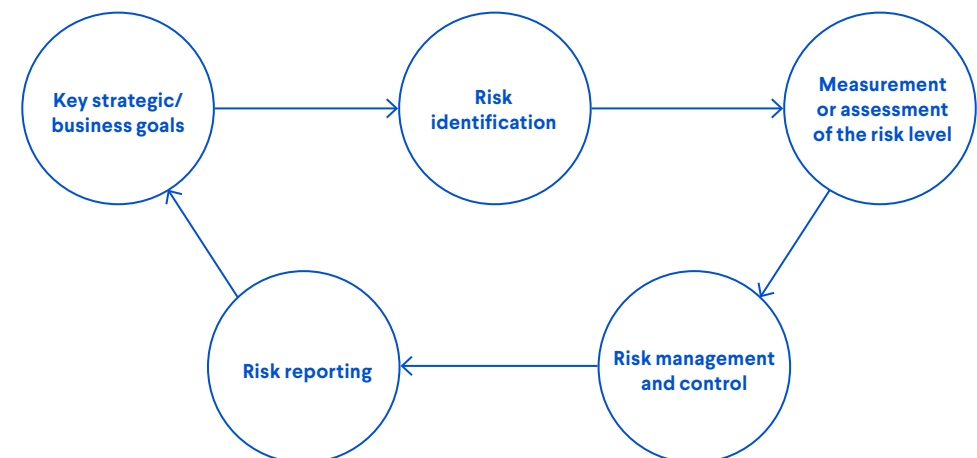
Risk Management System and Framework

The risk management system covers all functional areas, focusing on those having a material impact on the Company's operations and set business objectives.

The risk management framework includes suitable:

- identification of risks;
- measurement or assessment of the risk level;
- risk management and control; and
- risk reporting.

Figure 7: Risk management system



The main building blocks of the comprehensive risk management system of the Company are the Strategy and the Business Plan of the Modra zavarovalnica. The process for the determination of planned guidelines and targets for the strategic period involves the definition of the risks that the Company is prepared to assume in order to achieve the said targets. The process involves the determination of key indicators that enable the determination of target and extreme values of exposure to the risks that are defined in the Risk Appetite Statement. We stipulate a zero tolerance for risks we are not prepared to assume.

The key indicators include the solvency ratio which has the target value of 150% and is in line with the dividend policy defined in the capital Management Policy. In addition to the said indicator, the Risk Appetite Statement defines target values and

permitted deviations from the same for each of the important risk categories as well as the measures for their lowering. The matching of the risk profile (actual risk exposure) is regularly compared to the Risk Appetite Statement.

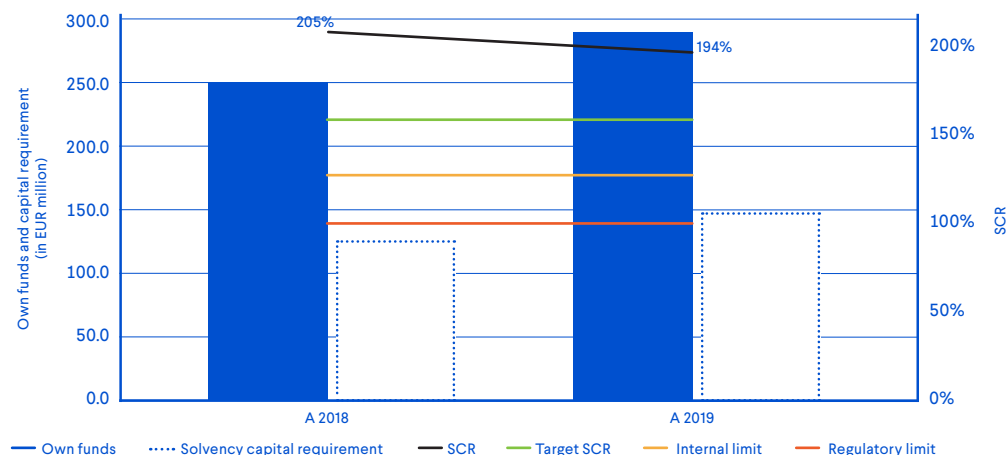
Capital and Capital Adequacy Management

Capital management serves to optimise the operations and take suitable business decisions in order to attain the strategic goals of Modra zavarovalnica. According to its assessment, Modra zavarovalnica has at its disposal a sufficient volume of own funds with respect to its total need for capital.

Table 13: Capital adequacy pursuant to the requirements of Solvency II

Item	31 December 2019	31 December 2018
Solvency II		
Total capital need (in EUR)	148,056,788	122,828,076
Eligible own funds (in EUR)	286,712,246	252,222,122
Surplus (+)/deficit (-) of available own funds (in EUR)	138,655,458	129,394,046
Eligible own funds to total capital need ratio	194%	205%

Figure 8: Risk appetite and realised capital adequacy



Risk Types

The basis for the definition of the risk appetite is the identification of the risks that we assume/underwrite in our operations. The risk identification process is a continuous one. All functional areas (risk owners) take part in the said process in accordance with their competences and responsibilities. The aim is to ensure the inclusion of all important risks into the risk management system, set up the risk exposure measurement process and achieve uniform treatment and understanding of the risks at all levels of the company. We assume the following risks in our operations:

- **Underwriting risks** are risks related to insurance coverage. Insurance coverage represents the risk of loss or of adverse change in the value of underwriting liabilities due to inadequate premiums and assumptions taken into account in the calculation of technical provisions. Insurance risks are broken down into risks under life insurance, health insurance, which includes accident insurance, and non-life insurance. The Company is mainly exposed to life insurance risks, while health insurance risks are immaterial because of the low volume of such insurance. The Company is not exposed to non-life insurance risk.
- **Market risks** represents the risk of loss or of adverse change in the Company's financial position resulting from fluctuations in the level or volatility of the market prices of assets, liabilities and financial instruments. They include equity risk, currency risk, interest rate risk, spread risk, market concentration risk and property risk.
- **Credit risk** is the risk of loss or adverse change in the financial position of the Company resulting from fluctuations in the credit standing of security issuers, counterparties and eventual debtors, to which the Company is exposed through counterparty default risk.

- **Liquidity risk** is the risk of loss resulting from the Company's inability to meet all of its past-due liabilities arising from the fact that the Company is forced to acquire sufficient funding for the settlement of liabilities on maturity at a cost that is significantly above the usual costs. Liquidity risk also refers to the risk of more difficult access to financing required for the settlement of liabilities arising from insurance and other contracts. Liquidity risk usually materializes in the form of the inability to liquidate investments without selling at a significant discount to the current market prices.
- **Operational risk** is the risk of loss resulting from inadequate or failed internal processes, conduct of employees, functioning of systems or external events. It includes IT risk, legal risk, compliance risk, and other risks.
- **Strategic risks** are risk of loss resulting from unsuitable strategic decisions and inconsistent implementation of strategic decisions. They include mainly the risk of loss of reputation, capital adequacy risk and the risk of competition and market position.

In addition to the risks identified above, potential risks are also important for the Company. These are risks that could develop or which already exist and are characterised by being difficult to quantify and by having major consequences for operations. We carefully monitor the potential risks and accordingly upgrade the risk management system.

Of the abovementioned risk types that we assume in our operations, it is the market and credit risks that are the most important.

As the largest supplementary pension insurance data processor, we ensure the highest level of security and confidentiality of personal and other data.



Information Technology

IT System

The IT function at Modra zavarovalnica is based and developed on three key areas:

- development of the digital user experience as the foundation of trust and the sense of belonging of our members;
- provision of IT services for the Company's business processes;
- data protection.

In the area of the digital user experience development, we have performed a content-related and technical overhaul of the Modri e-račun website for our members which is now available at e.Modra.si. The service is designed for on a more modern and more adaptable platform that enables us to respond faster to changes and ensures access to various users. An important emphasis is placed on the secure use of the services, mainly the prevention of confidentiality violations. The overhaul has improved the user experience, especially the adaptation of the content to users and the simplification of the use of services (mainly the registration procedure).

In order to improve the user experience, we carried out a complete functional and technical overhaul of the website. The new website is based on newer technology that allows the adaptation of the website for various devices and has been available since the middle of July.

We have successfully carried out the supplier selection procedure for the acquisition and introduction of an IT solution in the area of IFRS 17. In September, we concluded an agreement on the supply and introduction of the IT solution and a licence agreement that provides us with the use and maintenance of the solution over a five year period. The application solution was installed in the production environment. We will devote special attention to the gathering of data and

data quality assurance and will to this end set up a special area-specific data warehouse. In order to ensure complete and comprehensive use of the IT solution, we will conduct an introduction project to develop various algorithms, methods and calculation procedures and will link the solution to the other components of the IT system so as to enable financial reporting on insurance contract pursuant to IFRS 17.

We have adopted a new IT security strategy that outlines the guidelines for the setup and development of an effective information security system with rational procedures and measures that ensure proportionality between the methods for the assurance of the attainment of business goals and the used HR, financial and other resources.

We have also carried out an independent external security inspection of the various IT system security areas in accordance with the ISO/IEC 27001:2013 standard. We obtained the basis for the assessment of operational risks arising from cyber risk by considering all three segments of security assurance (HR, technology and processes). We have devoted special attention to the identification of the vulnerability to attack using various social engineering methods. Based on the identified risks, security measures were implemented that contribute importantly to the systematic strengthening of IT security and attainment of a higher level of integrity, confidentiality and availability of the Company's IT systems.

In IT and IT security management, we observe all of the essential details and the requirements of the international ISO/IEC 27001:2005 standard and the ISO/IEC 27002:2007 information security code or the ISO/IEC 27001:2013 standard and the ISO/IEC 27002:2013 information security code.

Personal Data Protection

As a personal data controller, we bear the responsibility for the protection of all processing of the personal data of our insured persons and – in line with the said responsibility – carry out diverse prevention measures to try to identify the risks. In addition to the preventative security inspection in 2019, by way of which we identified the technical risks, we also conducted employee training provided by external experts and internal lecturers because we are acutely aware of employee knowledge being key to the maintenance of personal data security. We carefully follow the guidelines of the Information Commissioner and the European Data Protection Board, as well as the adopted guidelines of the Slovenian Insurance Association. We systematically manage all the legally

prescribed records on processing activities and the catalogue of contractors, as well as perform data protection impact assessments, through which we identify the risks of potential violations of the data subjects' rights. The established organisational and technical measures guarantee confidentiality and accessibility to authorised persons only. Only authorised employees and contractual processors are allowed access to personal data to the extent and for the purpose strictly necessary for the smooth implementation of work processes, the provision of the Company's insurance services and the exercise of the rights and the meeting of the obligations arising from contractual relationships. Our contractual processors have undertaken to protect confidential data and respect the rights of data subjects to the same standard as applies at Modra zavarovalnica.

We are comprehensively managing risk so as to improve the safety of savings as well as our capital strength; our capital rose from EUR 152 million upon our establishment to EUR 269 million at the end of 2019.

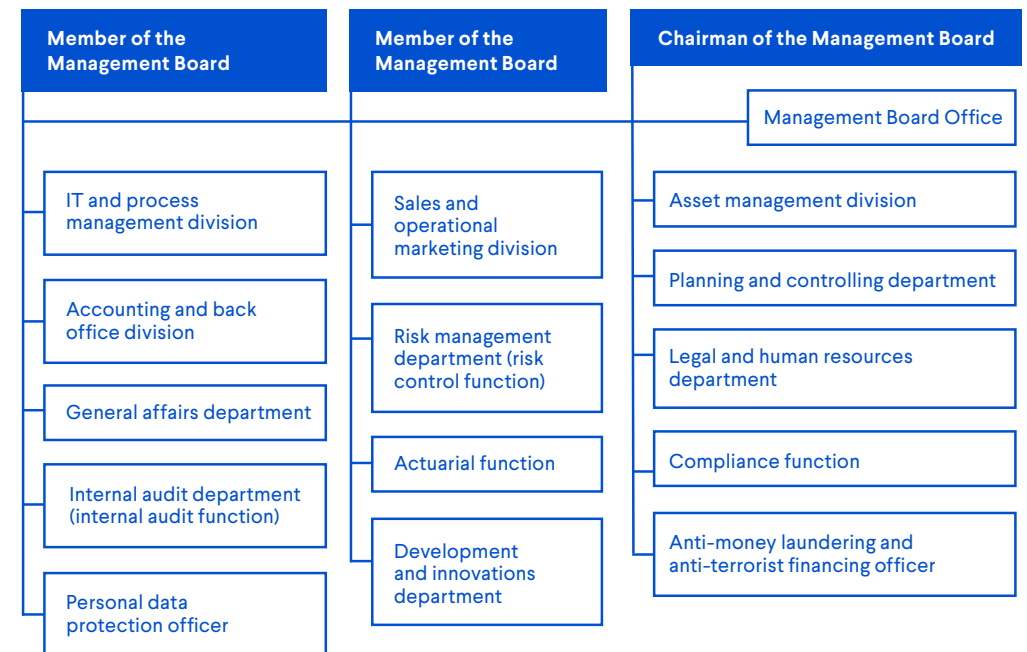
Organisation and Employees

Organisation

Modra zavarovalnica is organised in line with the needs of the work process and requirements regarding the efficiency and competitiveness of operations. The highest management, presentation and representation body is the Management Board. It is a three-member collective body comprised of the Chairman of the Management Board and two members of the Management Board. The basic organisational units of the Company are a department, a division, and a key function, unless organised within the scope of an independent organisational unit. The work of a division is managed by the executive director, and a department is managed by the department manager. 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. For the purpose of money laundering and terrorist financing prevention, the Management Board of the Company has appointed an AML/ATF officer and a personal data protection officer who answer directly to the Management Board as regards the performance of their respective tasks. The Management Board's areas of work are functionally divided among the members of the Management Board, by individual area, field of activities of individual organisational units, the area of the implementation of key functions and the area of appointed officers, as shown in the figure below; advisors to the Management Board fall under the competence of that member of the Management Board who is responsible for the area of work of the respective advisor.

Figure 9: Organisational chart of Modra zavarovalnica



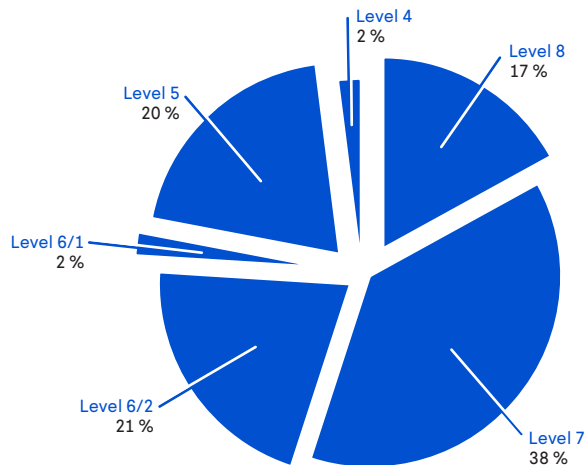
Employees

Employees are the source of effort and knowledge contributing to the attainment of the Company's long-term goals and the satisfaction of its customers. For this reason, we strive to create a working environment in which the dignity and integrity of each employee is respected and one that promotes mutual trust, respect and cooperation in the attainment of the Company's goals. By organising work and providing flexible working hours, the Company enables employees to coordinate their professional and private obligations.

Educational Structure of Employees

We pay considerable attention to knowledge and education as we are aware that only intensive investment in development can allow the Company to respond quickly and efficiently to the requirements of the competitive market. As many as 55% of the employees have a level 7 education.

Figure 10: Share of employees by level of education as at 31 December 2019



Number of and Structure of Employees

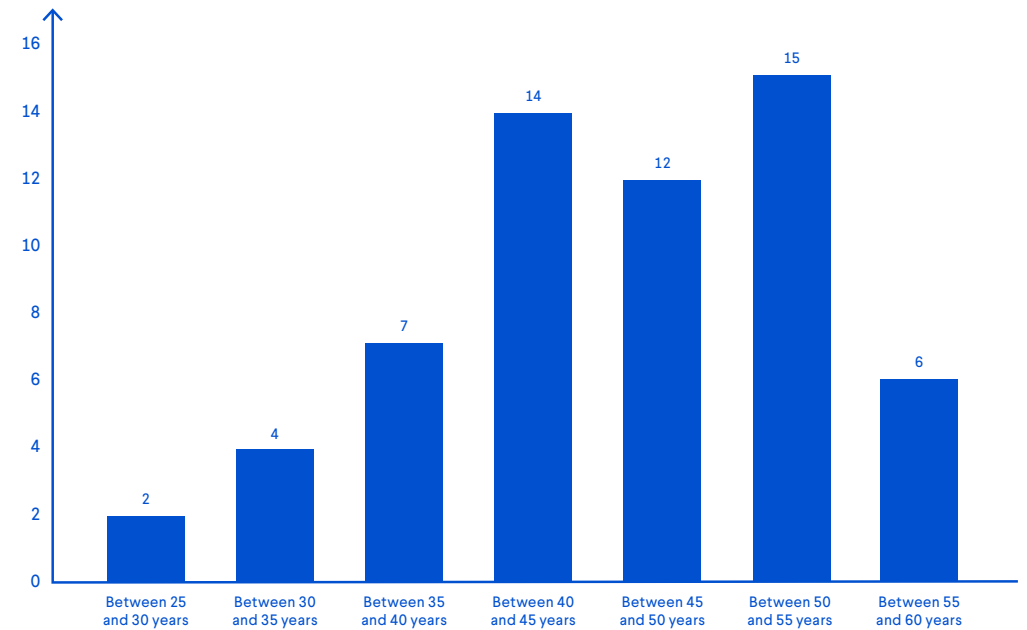
As at the end of 2019, the Company employed 60 people, which is also the average number of employees in the respective year.

In 2019, the Company recruited three new employees; one female and one male associate in the Sales and Operational Marketing Division, and one female associate in the General Affairs Department, while three employees had their employment relationship terminated. There are 59 employees with a contract for an indefinite period and 1 employee with a fixed-term contract who is substituting for an employee on maternity leave. 73% of employees are female and 27% are male. The average age of employees is 45.

Employee Training and Education

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

Figure 11: Structure of employees by age group as at 31 December 2019



In 2019, we conducted training with the Slovenian Insurance Association for the acquisition of knowledge to pass the exam for an insurance agent which was attended by 21 employees. We organised education for employees dealing with the topic of IT security entitled "Secure Use of Internet in the Business Environment" as it is the individual that has in recent years become the weak link in the security chain. Strengthening of mutual relationship, improved internal communication and the building of team spirit were all practiced by employees at the September team workshop. We tried our hand at role playing and public appearance, creativity and idea generation, and also tackled the ingenious challenges that can be applied in our work and relations with co-workers.

The representatives of Modra zavarovalnica, Kapitalska družba and the Slovenian Sovereign Holding attended the workshop dealing with tourism and organised by the Business Excellence Centre of the Faculty of Economic of the University of Ljubljana. The workshop comprised three sets: Tourism Trends and Changes, Key Performance Indicators in the Hotel Business and Strategic Alternatives in the Hotel Business: Contract Management, Franchising and Ownership.

We also conducted numerous internal employee training events, mainly in the area of legislative changes, which are regularly conducted by the experts of the Company. Training in the prevention of money laundering and terrorist financing is carried out regularly on an annual basis.

By co-financing tuition fees and providing study leave, the Company supports additional schooling at faculties, institutes and other institutions at home and abroad. In 2019, 7 employees underwent additional education and professional training.

In 2019, the Company earmarked EUR 66 thousand for education and training.

Care for Employee Development, Health and Satisfaction

So as to develop employees systematically, we conduct personal interviews with the aim of setting goals and defining the employee's development path, as well as assessment interviews, which are held twice a year and are aimed at assessing quantitative and qualitative goals and conduct, as well as getting feedback on job performance for the past six months. A special bonus scheme was set up for associates in sales and asset management. Team performance is checked, measured and remunerated, based on special pre-defined indicators. Research on employee satisfaction is carried out every year, allowing us to measure (year in year out) progress in our efforts to maintain and increase business performance and create a working environment in which employees can express their potential. Employee feedback allows us to improve the quality of relationships and satisfaction of our associates and, consequently, of our customers.

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

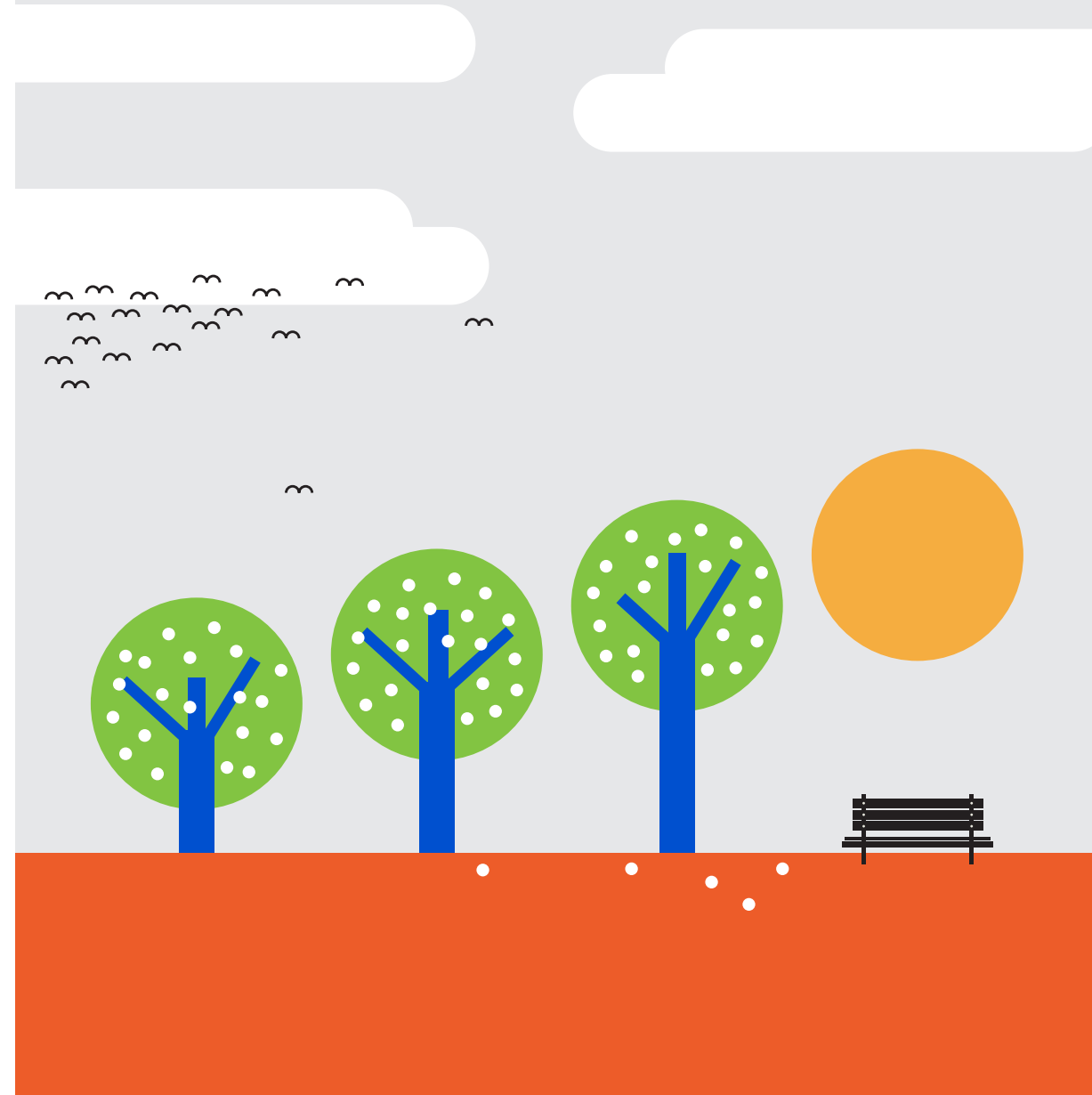
By implementing an action plan to promote health, employees are encouraged to lead a healthy lifestyle, thus reducing the risk of illness both on the job and in private life. The intranet portal offers a great deal of information regarding topical health issues and useful articles on exercise and a healthy diet.

By paying premiums for the supplementary pension insurance fund, we provide for additional income that employees will receive after retirement.

Concern for the harmonisation of work and family life has become a part of the Company's organisational culture and we are proud holders of the family-friendly company certificate. 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.

12 retired members of the Fužine Activities Centre were helped by Modra in designing the online Beautiful Life Gallery and presenting moments in life worth living. Life is beautiful – even after retirement!

We believe that investing in our employees' knowledge and development puts us on the right track and ensures our success, while satisfied users and their experience are at the centre of our endeavours.



Responsibility to the Insured, the Broader Social Community and the Environment

Modra zavarovalnica is a crucial company for the maintenance of a stable pension system in Slovenia. A portion of the sustainability burden is assumed by supplementary pension insurance which covers well over half of the people in employment. Half of them save under the supplementary pension insurance provided by Modra zavarovalnica. More than 280 thousand savers can thus save up for a quality life after retirement through our offer of competitive pension annuities. It is mostly employers that pay into the pension funds, with a smaller percentage of employees who do so, while only 4% save individually. Payments made in the pension fund are too low and will not provide an adequate supplementary pension to most members. Furthermore, over 300,000 employees have not started saving (yet). The raising of awareness and trust in the pension system, encouraging individuals to be more proactive and the simultaneous creation of system bases, which suitably keep in step with the changes in the environment, are all important assignments of Modra zavarovalnica.

A major part of the activities is directed towards increasing the awareness of the population about the importance and the need for saving for the time after retirement. For the purposes of better understanding supplementary pension insurance and promoting saving in the funds pursuing the life-cycle investment policy, the Company has organised and attended several consultations, 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 about the potentials and advantages of disbursements in the form of a supplementary pension and established information offices for employees at companies and public institutes.

Modra zavarovalnica is an active member of the European Association of Public Sector Pension Institutions (EAPSPI), which brings together 26 public pension institutions from as many as 16 European countries. It regularly attends the meetings and the annual General Assembly of the EAPSPI. Management Board member Boštjan Vovk is a member of the Association's Board of Directors. The main purposes of the Association are mutual assistance between its members and transfer of knowledge, experience and information on the provision of pension schemes and experience in the area of pension systems in individual countries.

The Company is well aware that good relations with the media are an important part of the reputation and public visibility. While communicating with the media, the Company strives for professionalism and responsiveness, and simultaneously provides expert assistance in the preparation of articles on the subject of saving for a supplementary pension.

We support environmentally-oriented activities. We have been separating waste, minimising paper consumption, collecting spent printer cartridges and plastic bottle caps, and responding to charitable events. With the help of Kapitalska družba, we collected a handed over 680 kg of waste paper to Tim who is earning money for therapies by selling waste paper. Modra employees joined the Chain of Good People (Veriga dobrih ljudi) and gave food and school items for socially weaker families to the Association of Friends of Youth Ljubljana Moste-Polje. Throughout the year, we responded to requests made by individual societies and organisations (sports clubs and associations, pensioners' organisations, fire departments) which we helped to organise raffles and gift-giving events by providing promotional materials.

Modra zavarovalnica promotes awareness raising about the challenges and opportunities brought about by demographic changes, post-retirement active life planning and intergenerational cooperation. We have therefore designed the online Beautiful Life Gallery and presented graphics by 12 members of the Fužine Activities Centre. They responded to the invitation of Modra zavarovalnica and took part in the graphic design workshop conducted by the acclaimed artist and teacher Petra Varl and the Ljudje design studio. They created 12 unique works of art on the topic of life within a single day. We turned each vote for the favourite graphic in the Gallery into a donation for the development of an online platform for the promotion of knowledge sharing among the elderly and the younger generations. The elderly will use the platform to offer their knowledge and experience gained throughout their lives to the younger generations and the broader community in the form of courses and workshops.

The project was received positively by the curators of the 26th Biennial of Design and was therefore included in this year's BIO 26 – Common Knowledge programme. Unique works of art were displayed as posters across Slovenia and at the Fužine nursing home. Support for the activities that enable the elderly to live a fuller, more creative and more active life is an additional step towards the realisation of the Company's mission: having the same quality of life after retirement as we had before it.

By providing donations, we support socially useful educational projects that educational establishments cannot afford on their own and which provide access to more knowledge to young people. We helped 15 pupils of the Maribor Second Gymnasium in financing their participation in the World Scholar's Cup held at the end of June 2019 in Beijing, China.

Important Business Events After the End of the Financial Year

We submitted a proposal for changes to the pension scheme for the payment of pension annuities according to the ZPIZ-2 for approval to the competent ministry in December 2019. The proposed changes are in line with the harmonisation of the imputed interest rate following the entry into force of the amended Rules laying down the detailed rules and minimum requirements observed by insurance or pension companies in the calculation of pension annuities. The changed pension annuity assessments will start to apply after the approval of the pension scheme. The payout conditions will not change for all those who already receive the annuity.

In February 2020, financial markets recorded strongly negative trends as investors decided to move capital from risky investments into safer ones for fear of the spread of the Coronavirus and its potential negative effects on economic growth. Global stock indices thus fell by more than 20% in February 2020 which affected the returns of mutual pension funds managed by Modra zavarovalnica as well as the returns on own funds. The effect of the change in stock indices on the profit or loss or capital of Modra zavarovalnica is presented in the financial section of the annual report under risk management. The decline in economic activity could thus have a negative effect on the net premium income and the premiums for mutual pension funds, both of which affect the Company's profit or loss.

Expected Development of Modra zavarovalnica in 2020

The Company's focus remains the security of the assets of its customers, which is ensured by sufficient capital and prudent and safe operations. We will also pursue other strategic goals: satisfied customers, competent employees, arranged processes and the creation of a working environment conducive for the development of innovation, creativity and the achievement of operational excellence.

By monitoring the wishes, needs and expectations of our customers and based on the data we gathered in the past, we will maintain and build on the long-term relationship of mutual satisfaction.

By offering quality complimentary products and services in the area of social security, we aim to establish ourselves as a reliable partner and leading authority on social security.

Our communication with customers will maintain a high level of personalised consideration and accessibility coupled with the development of the website, online services and the mobile app.

We create an environment in which employees feel good, are able to cooperate and have the opportunity to submit ideas and enjoy two-way communication.

Economic trend expectations were still positive in the beginning of 2020. In the middle of Q1 2020, the onset of the global Coronavirus pandemic made the rising economic pessimism to be reflected in negative trends on financial markets. There is the risk of this involving longer lasting negative trends, which has a major impact on the operations of the Company and the pension funds managed by it. We will nevertheless continue to strengthen the culture of compliance and risk management which we strive to make sure are applied in all important business decisions.

As the largest provider of saving for a supplementary pension, we will continue to actively work on the changes and adaptations of systemic bases and strive to adapt the saving within the scope of pension funds as well as the payout of annuities to the needs of individuals, ensure that they keep in step with the changes in the economic and demographic environments, and contribute to the sustainability of the pension system.

Report on Relations with the Controlling Company

In the 2019 financial year, the Company took no action in relation to the controlling company as a result of contractual and business relationships at the initiative or in the interest of the controlling company and its associated companies that would result in its disadvantage or detriment.

Corporate Governance Statement

Pursuant to the fifth paragraph of Article 70 of the Companies Act (ZGD-1) and provision 3.4 of the Corporate Governance Code for Companies with Capital Assets of the State, Modra zavarovalnica hereby provides a corporate governance statement for the period from 1 January 2019 to 31 December 2019.

Reference to the Applicable Corporate Governance Code

The Management Board and the Supervisory Board of Modra zavarovalnica, which is 100% owned by Kapitalska družba d.d., hereby declare that they voluntarily observe the Corporate Governance Code for Companies with Capital Assets of the State, as adopted on 19 December 2014 and supplemented on 2 March 2016 and 17 May 2017 by the Slovenian Sovereign Holding. The Corporate Governance Code for Companies with Capital Assets of the State recommends principles, procedures and criteria for the conduct of members of governing bodies in companies with capital assets of the State and all subsidiaries in the group in which a company with capital assets of the State holds the position of controlling company. The Code is available on

the website of the Slovenian Sovereign Holding at <http://www.sdh.si/sl-si/upravljanje-nalozb/kodeks-upravljanja-kapitalskih-nalozb-republike-slovenije>.

The Management Board of Modra zavarovalnica adopted the System of Governance Policy of Modra zavarovalnica d.d. at its meeting held on 29 December 2015, and its amendments and supplements on 11 November 2016, 14 December 2017, 6 December 2018 and 28 November 2019, whereby the latter entered into force on 12 December 2019, when the consent of the Company's Supervisory Board was obtained.

The Management and Supervisory Boards of Modra zavarovalnica hereby declare that they voluntarily observe the Corporate Governance Code for Companies with Capital Assets of the State (hereinafter: Code) in their work and operations. Deviations from the recommendations of the Code 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 the fundamental goal, companies also pursue other goals which are defined by regulations or the Memorandum of Association of an individual company. In order to ensure higher transparency in relation to the company goals, companies are obliged to make sure that all such goals are clearly defined in the company's documents on incorporation. If a company has contradicting goals, the Memorandum of Association or some other relevant act (e.g. corporate governance policy) shall define the 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 civil servants. With a strategic investment in Modra zavarovalnica, the Republic of Slovenia, in addition to economic goals, also pursues an important strategic goal to provide the sustainability of the pension system by strengthening supplementary pension insurance and raising citizens' awareness of the importance of supplementary pension saving. The Company's mission and goals are laid down and delineated in its strategic business plan. The Company has at its disposal suitable analytical bases, based on which it estimates with reliability that the security of savings is the most important element of trust in supplementary pension insurance, which is why it is defined as the central strategic goal in the relevant strategic business plan.

Furthermore, the Company's business model is tailored to the aforementioned 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 savers' 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 80 million in the past five years, of which nearly than EUR 20 million in the form of dividend distribution and EUR 60 million in the form of capital growth.

Point 3.6. of the Corporate Governance Code for Companies with Capital Assets of the State:

The company management, which is obliged to prepare a business report under the Companies Act (ZGD-1), in cooperation with the Supervisory Board, formulates and adopts a Diversity Policy in the form of a special act that is implemented in relation to representation in the Company's management and supervisory bodies as regards gender, age and skills profile. The Diversity Policy is to be published on the Company website, or some other mode of access to it is to be provided to all company shareholders.

Explanation: Modra zavarovalnica, d. d. is unable to formulate a diversity policy in relation to representation in the company's management and supervisory bodies as regards gender, age and skills profile in view of the legal requirements relating to the formation of the Supervisory Board. No such document was adopted in relation to the Management Board. Despite the above, it is necessary to take into account the fact that it is legally limited in terms of the Supervisory Board composition. The Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD) and the Slovenian Compensation Company (SOD) ("ZPKDPIZ") stipulates that half of the members or the Company's Supervisory Board are to be appointed at the proposal of the Company's insured persons and half of the Supervisory Board members are to be appointed at the proposal of the shareholder. The aforementioned composition indirectly enables to pursuit of the individual elements of the diversity policy.

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

Explanation: Modra zavarovalnica manages risks and carries out internal control procedures at all levels. The purpose of internal controls is to ensure accuracy, reliability and transparency of all processes and to manage risks related to financial reporting.

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

- business events are recorded based on authentic bookkeeping documents, which serve for the accurate and fair recording of these events and provide a guarantee that the Company disposes of its assets with integrity;
- 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 29 August 2019, the Company's financial statements for the 2019, 2020 and 2021 financial years will be audited by Deloitte revizija d.o.o., Ljubljana.

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

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

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

Holders of securities that carry special control rights

Explanation: The Company has issued no securities that would grant special control rights.

Restrictions on voting rights

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

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

Explanation: The Company's rules on the appointment and replacement of the members of the management and supervisory bodies are defined in its Articles of Association.

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

Three Supervisory Board members are appointed at the proposal of Kapitalska družba, d. d. and three at the proposal of the Company's insured persons: two members are proposed by the Board of the civil servant pension fund on behalf of persons insured in the civil servant pension fund, while the

third member is proposed jointly by the Company's insured persons. A proposal for Member of the Supervisory Board who is proposed by persons insured under the civil servant fund is formed on the basis of a public call to persons insured under the civil 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 civil 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 civil 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 competent Board formulates a proposal for a member of the Supervisory Board, which is confirmed by members of the Board who are themselves insured at the Company.

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

Modra zavarovalnica is owned by Kapitalska družba d.d., or rather, indirectly by the Republic of Slovenia and is defined as a strategic investment. Both companies form a vital part of the Slovenian pension system and contribute to the long-term financial sustainability of the pension system in Slovenia in line with their mission. When appointing the supervisory body of both companies, an important role is not only held by the owner, but also by other stakeholders co-forming the pension system together with the Republic of Slovenia, as well as by social partners representing the interests of employed nationals. The

composition and appointment of the supervisory boards of both companies are laid down by the law and allow all interested parties to co-develop the Company's business policy. The law also defines the disposal of the shares of Modra zavarovalnica in the form of a public offering, whereby the shareholdings of the Republic of Slovenia and Kapitalska družba d.d. must together account for the majority of all shares of Modra zavarovalnica. The pre-emptive right to obtain shares in a public offering is granted to the insured persons and employers financing the pension schemes in the funds managed by Modra zavarovalnica, as well as to trade unions representing civil servants.

Members of the Management Board are appointed by the Supervisory Board. One of the Members is appointed Chairperson of the Management Board. The term of office of Members of the Management Board is five years, while the term of office of one Member appointed after the amendment to the Articles of Association is four years. The members of the Management Board may be re-appointed. The Management Board or one of its Members may be dismissed early, solely for the reasons laid down in paragraph 2 of Article 268 of the Companies Act. At least one Member of the Management Board must have the relevant expertise and experience required to perform the tasks of managing the First Pension Fund and pension funds.

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

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

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

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

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

The General meeting adopts resolutions on the fundamental matter at Modra zavarovalnica, particularly: adopts the Company's Articles of Association and their amendments; adopts the annual report in the event that the Supervisory Board has not approved it or if the Management and Supervisory Boards leave the decision on the adoption of the annual report to the General Meeting; takes decisions regarding the use of distributable profit at

the proposal of the Management and Supervisory Boards; takes 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; takes decisions regarding measures to increase or decrease share capital, unless laid down otherwise by the Articles of Association or the law; takes decisions on the dissolution of Modra zavarovalnica and its status changes, as well as on other matters in line with the law and Articles of Association.

Information about the composition and operations of the management and supervisory bodies and their committees

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

Table 14: Composition of the management team in 2019

Name and surname	Function (chairman, member)	Areas of work within the Management Board	First appointment to the function	Completion of the function/ term of office	Gender	Citizenship	Letnica rojstva	Education	Professional profile	Membership in the supervisory boards of companies not related to the Company
Borut Jamnik	Chairman	Investment management, planning and controlling, strategic communications, marketing, legal and HR, AML/ATF officer's duties and compliance functions	29. 8. 2011	29. 8. 2021	M	RS	1970	BA (Mathematics)	Insurance business, banking, financial industry, pharmaceutical business, corporate governance, asset and pension fund management	Cinkarna, d. d. (until 20. 11. 2019), Krka, d. d., NKBM (from 7. 5. 2019)
Matija Debelak, MSc	Member	IT and process, accounting and process support management, general affairs and the area of the data protection office and the internal audit function	14. 9. 2011	14. 9. 2021	M	RS	1971	MSc	IT and process management, financial asset management, pension fund management	
Boštjan Vovk	Member	Area of risk, product development and sales and the area of the actuarial function and the risk management function	1. 10. 2018	1. 10. 2022	M	RS	1966	BSc (Computer Science), certified actuary	Actuarial tasks, insurance business, development, risk management, pension fund management	

Table 15: Composition of the Supervisory Board and committees in the 2019 financial year

Name and surname	First appointment to the function	Completion of the function/ term of office	Representative of capital/ employees	Attendance at meetings	Gender	Citizenship	Year of birth	Education	Professional profile	Independence under point 6.6 of the Code (YES/NO)
Natalija Stošički	9. 12. 2016	9. 4. 2019	Representative of capital	5/5	F	RS	1966	BSc (Economics)	Expert in the area of financial services	Yes
Branimir Štrukelj	9. 12. 2011	9. 12. 2020	Representative of those insured in the KPSJU	11/12	M	RS	1957	Prof. of History and Art History	Expert in the area of pension fund management	Yes
Bachtiar Djalil	14. 1. 2019	9. 6. 2021	Representative of capital	11/11	M	RS	1975	LL. M.	Corporate governance, pension and investment fund management, commercial and financial law	No
dr. Boris Žnidarič	9. 6. 2017	14. 1. 2019	Representative of capital	1/1	M	RS	1948	Sc.D.	LLM and SScD, habilitated university professor	Yes
Goran Bizjak	9. 12. 2011	9. 12. 2020	Represented of those insured under the KVPS and MKPS	10/12	M	RS	1959	BSc (Economics)	Micro and macroeconomics, work process management, public and corporate finance, banking	Yes
dr. Janez Prašnikar	9. 6. 2017	9. 6. 2021	Representative of capital	11/12	M	RS	1950	Sc.D.	Economic sciences, management, transition, restructuring, innovation, corporate governance	Yes
Bojan Zupančič	9. 12. 2011	9. 12. 2020	Representative of those insured in the KPSJU	11/12	M	RS	1950	Senior social worker, court expert – accounting	Accounting, pension fund management	Yes
Roman Jerman	9. 4. 2019	9. 12. 2020	Representative of capital	6/6	M	RS	1975	BSc (Economics), certified business and real estate valuer, court expert for economics, business valuation	Finance, asset management, corporate governance	No

Table 16: Composition of the Supervisory Board and committees in the 2019 financial year - continued

Name and surname	Existence of conflict of interest in the financial year (Yes/No)	Membership in the supervisory boards of companies not related to the Company	Membership in committees (president/member of the audit or HR committee)	Attendance in committee meetings compared to the total number of meetings
Natalija Stošički	No	Kapitalska družba, d. d.	Audit Committee member (until 9. 4. 2019)	1/1
Branimir Štrukelj	No			
Bachtiar Djalil	Yes	Loterija, d. d.		
Dr. Boris Žnidarič	No	Krka, d. d., Kapitalska družba, d. d.		
Goran Bizjak	No		President of the Audit Committee	6/6
Dr. Janez Prašnikar	No	Kolektor		
Bojan Zupančič	No		Audit Committee member (from 11. 4. 2019)	4/5
Roman Jerman	Yes	Gospodarsko razstavišče, d. o. o.		

Table 17: External members of Supervisory Board committees in 2019

Name and surname	Committee	Attendance in committee meetings compared to the total number of meetings	Gender	Citizenship	Education	Year of birth	Professional profile	Membership in the supervisory boards of companies not related to the Company
Dragan Martinović	Audit Committee	6/6	M	RS	BSc (Economics), audit specialist, certified auditor, certified tax officer, court expert for auditing	1959	Auditing, taxes	

Ljubljana, 16 March 2020



Boštjan Vovk
MEMBER OF THE
MANAGEMENT BOARD



Matija Debelak, MSc
MEMBER OF THE
MANAGEMENT BOARD



Borut Jamnik
CHAIRMAN OF THE
MANAGEMENT

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Statement of Management's Responsibility

The Management Board of Modra zavarovalnica, d. d. hereby confirms the financial statements of Modra zavarovalnica, d. d. for the period from 1 January 2019 to 31 December 2019 and the associated notes and disclosures to the financial statements.

The Management Board hereby confirms that the relevant accounting policies have been applied consistently in the preparation of the financial statements and that the accounting estimates were produced according to the due care and diligence principle, as well as that the financial statements present a true and fair view of the position of the Company's assets and liabilities and its income and expenditures for 2019.

The Management Board is also responsible for the appropriacy of accounting, for the adoption of suitable measures for the protection of property and other assets. It further confirms that the financial statements, including all of notes, have been compiled on a going concern basis as well as in accordance with the legislation in force and the International Financial Reporting Standards.

The tax authorities may inspect the Company's operations at any time within five years of the expiry of the year for which tax must be assessed, which could result in additional payment liability for tax, default interest and penalty arising from corporate income tax or other taxes and duties. The Company's Management Board has no knowledge of any circumstances that could give rise to a potential material liability in that respect.

Ljubljana, 16 March 2020



Boštjan Vovk
MEMBER OF THE
MANAGEMENT BOARD



Matija Debelak, MSc
MEMBER OF THE
MANAGEMENT BOARD



Borut Jamnik
CHAIRMAN OF THE
MANAGEMENT

Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company Modra zavarovalnica d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, 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 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Technical Provisions

Key Audit Matter	Audit procedures related to a key audit matter
Technical provisions are explained in Note 3.10.2. (Accounting policies) and Note 22 (technical provisions) and in the chapter <i>Disclosures of insurance contracts</i> (value and assumptions).	
The insurance company recognizes technical provisions and provisions for claims for Kritni sklad Prvega pokojninskega sklada, Kritni sklad Modre rente, Kritni sklad Modre rente II. Technical provisions are an important liability of the company in the statement of financial position. The value of technical provisions as at 31 December 2019 amounts to EUR 223,390 thousand (2018: EUR 190,028 thousand). Provisions are measured in accordance with the accounting policies described in the financial statements.	We have gained an understanding of key controls and tested the operation of the latter. We have also reviewed the procedures for analyzing the economic and non-economic assumptions used to calculate provisions.
Calculation of provisions for insurance contracts is complex as it involves a high level of management judgment and complex mathematical and statistical calculations. Models for calculations of the amount of technical provisions are developed separately for each category. Design depends to a large extent on economic and demographic assumptions.	We have examined the adequacy of the key management assumptions used in estimation of the amount of technical provisions for individual cases and reconciled them with the relevant supporting documentation.
Management reviews premiums, claims payments, and other inputs and model for assumptions; the actuarial function of the company is responsible for reviewing the adequacy of estimated provisions.	We have assessed whether the disclosed provisions are in accordance with the requirements of the accounting framework, best industry practice and legal requirements.
Technical provisions are accounting estimates that represent significant accounting balances. Therefore, they are subject to a high level of judgment and were considered a key audit matter.	We have also reviewed the information in the financial statements to assess whether the balances in them are adequately disclosed to users of the financial statements.
	Actuarial experts were also involved in the assessment of actuarial assumptions, including the consideration and assessment of management's assumptions. Actuarial experts were involved in testing of the company's calculation model, and also performed independent calculations of provisions.

Other information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated with Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 29th August 2019. Our total uninterrupted engagement has lasted 8 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 16th March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 16th March 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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

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Income Statement¹

in EUR

	Item	Note	2019	2018
A.	Net premium income	1	53,462,703	43,190,535
	- Gross written premiums		53,462,703	43,190,535
B.	Income from financial assets in associates	2	4,606,964	4,321,779
C.	Investment income, of which	3	14,956,753	11,421,217
	- interest income calculated according to the effective interest rate method		70,547	12,291
	- income recognised in other comprehensive income transferred to the profit or loss statement through reclassification		0	176,495
	- gains on disposal of investments		797,264	461,401
D.	Other technical income, of which	5	12,188,184	9,626,113
	- fee and commission income		7,747,664	7,109,740
E.	Other income	6	141,944	114,114
F.	Net claims incurred	7	-24,835,317	-20,394,181
	- Gross claims paid		-24,795,747	-20,374,233
	- Changes in claims provisions		-39,570	-19,948
G.	Change in other technical provisions	8	-33,315,898	-26,668,900
K.	Operating costs, of which	9	-6,916,018	-6,588,033
	- acquisition cost		-56,024	-40,135
M.	Investment expenses, of which	4	-4,226,587	-4,294,395
	- financial asset impairments		-108,147	-50,519
	- loss on disposal of financial assets		-50,180	-149,655
N.	Other technical expenses	10	-1,124,138	-3,746,370
O.	Other expenses	11	-222,028	-210
P.	Profit or loss before tax		14,716,562	6,981,669
R.	Income tax	12	-2,474,847	-631,770
S.	Net profit or loss for the financial year		12,241,715	6,349,899

Statement of Other Comprehensive Income²

in EUR

	Item	Note	2019	2018
I.	Net profit/loss for the financial year after tax		12,241,715	6,349,899
II.	Other comprehensive income after tax (a+b)	14	24,397,950	-13,266,796
a.	Items that will not be reclassified to profit or loss in subsequent periods (1 + 2 + 3 + 4 + 5 + 6)		23,970,587	-12,133,146
	5. Other items that will not be reclassified to profit or loss in subsequent periods		28,433,925	-14,325,530
	6. Tax on items that will not be reclassified to profit or loss		-4,463,338	2,192,384
b.	Items that could be reclassified to profit or loss in subsequent periods (1 + 2 + 3 + 4 + 5)		427,363	-1,133,650
	1.b) Net gains/losses recognised in revaluation surplus in relation to investments measured at fair value through other comprehensive income		527,608	-1,395,055
	5. Tax on items that could be reclassified to profit or loss in subsequent periods		-100,245	261,405
III.	Comprehensive income for the financial year after tax (i + ii)		36,639,665	-6,916,897

Statement of Financial Position³

		in EUR	
Item	Note	31 December 2019	31 December 2018
ASSETS		530,779,842	460,070,564
A.	Intangible assets	15	666,225
B.	Property, plant and equipment	16	1,615,390
F.	Investments in Group companies and associates	17,1	36,518,433
G.	Investments	17,2	479,747,057
	1. at amortised cost	184,188,761	150,897,789
	2. at fair value through other comprehensive income	186,119,469	187,072,042
	3. at fair value through profit or loss	109,438,827	77,382,987
K.	Receivables	18	1,598,411
	1. Receivables from direct insurance operations	4,090	2,578
	3. Current tax assets	0	612,017
	4. Other receivables	1,594,321	2,106,145
L.	Other assets	19	2,983,930
M.	Cash and cash equivalents	17,3	7,650,396
N.	Off-balance sheet items*	20	1,190,362,967
EQUITY AND LIABILITIES		530,779,842	460,070,564
A.	Equity	21	269,237,332
	1. Share capital	152,200,000	152,200,000
	3. Revenue reserves	40,710,862	31,097,473
	4. Revaluation reserve	66,347,345	46,388,921
	6. Retained earnings	9,979,125	6,086,224
C.	Technical provisions	22	223,389,538
	2. Technical provisions for life insurance	222,357,870	189,041,972
	3. Claims provisions	1,031,668	986,097
E.	Other provisions	23	12,180,626
G.	Deferred tax liabilities	13	13,707,691
I.	Other financial liabilities	24	796
J.	Operating liabilities	25	852,220
	1. Liabilities from direct insurance operations	0	6,000
	3. Tax liabilities	852,220	239,760
K.	Other liabilities	26	11,411,639
L.	Off-balance sheet items*	20	1,190,362,967

*off-balance sheet items are classified in the Statement of Financial Position in accordance with the Decision on annual report and quarterly financial statements of insurance undertakings issued by the Insurance Supervision Agency.

Cash Flow Statement⁴

		in EUR	
Item		2019	2018
A. Cash flows from operating activities			
a)	Net profit or loss and adjustments		
	Profit or loss before tax	14,716,562	6,981,669
	Income taxes and other taxes not included in operating expenses	-612,460	296,511
	Adjustments for amortisation/depreciation	593,381	489,659
	Adjustments for operating revenue from revaluation	66,783,321	59,364,132
	Adjustments for operating expenses from revaluation	-36,919,767	-31,948,398
	Adjustments for finance income from financing activities	-19,563,717	-15,742,996
	Adjustments for finance expenses from financing activities	4,448,615	4,294,411
	Total profit or loss statement items	29,445,935	23,734,988
b)	Changes in net current assets – operating balance sheet items		
	Opening less closing operating receivables	-5,387,805	-1,267,829
	Opening less closing deferred costs and accrued revenues	-23,079	-878,691
	Closing less opening operating liabilities	56,791	2,996,751
	Closing less opening accrued costs and deferred revenues and provisions	-106,221	3,150,685
	Closing less opening deferred tax liabilities	5,881,730	-1,991,540
	Total net current asset items – operating balance sheet items	421,416	2,009,376
c)	Net cash from operating activities	29,867,351	25,744,364
B. Cash flows from investing activities			
a)	Receipts from investing activities		
	Receipts from interest received and profit participations in other entities pertaining to investing activities	13,708,117	13,103,023
	Receipts from the disposal of property, plant and equipment	144	574
	Receipts from the disposal of non-current financial assets	39,962,090	38,776,472
	Receipts from the disposal of current financial assets	34,817,868	45,876,520
	Total receipts from investing activities	88,488,219	97,756,589
b)	Disbursements from investing activities		
	Disbursements for the acquisition of intangible assets	-297,794	-64,642
	Disbursements for the acquisition of property, plant and equipment	-18,652	-36,658
	Disbursements for the acquisition of non-current financial assets	-93,386,162	-94,901,398
	Disbursements for the acquisition of current financial assets	-17,276,224	-22,950,284
	Total disbursements from investing activities	-110,978,832	-117,952,982
c)	Net cash from investing activities	-22,490,613	-20,196,393
C. Cash flows from financing activities			
	Total receipts from financing activities	0	0
b)	Disbursements from financing activities		
	Disbursements for interest paid on financing activities	0	0
	Disbursements for non-current financial liabilities	-232,776	-232,776
	Disbursements for the payment of dividends and other shares in profit	-3,174,950	-3,510,735
	Total disbursements from financing activities	-3,407,726	-3,743,511
c)	Net cash from financing activities	-3,407,726	-3,743,511
D. Closing balance of cash and cash equivalents			
a)	Net cash flow for the period	3,969,012	1,804,460
	- effect of exchange rate changes	16,386	-189,508
b)	Opening balance of cash and cash equivalents	3,664,998	2,050,046
c)	Total closing balance of cash and cash equivalents	7,650,396	3,664,998

Statement of Changes in Equity for 2019⁵

in EUR

Item	I. Share Capital	III. Revenue reserves		IV. Revaluation reserve	V. Net profit or loss brought forward	VI. Net profit or loss	Total equity
		Legal and statutory reserves	Other revenue reserves			Net profit/loss for the financial year	
1. Balance as at the end of the previous financial year	152,200,000	5,525,164	25,572,309	46,388,921	6,086,224	0	235,772,618
4. Opening balance for the period	152,200,000	5,525,164	25,572,309	46,388,921	6,086,224	0	235,772,618
5. Comprehensive income for the financial year after tax	0	0	0	24,397,950	0	12,241,715	36,639,665
a) Net profit or loss	0	0	0	0	0	12,241,715	12,241,715
b) Other comprehensive income	0	0	0	24,397,950	0	0	24,397,950
10. Dividend distribution (account)	0	0	0	0	-3,174,950	0	-3,174,950
11. Allocation of net profit to revenue reserves	0	1,193,030	8,420,359	0	-2,898,769	-6,714,620	0
12. Allocation of net profit to retained net profit or loss	0	0	0	0	5,521,590	-5,521,590	0
13. Set-off of losses from previous periods	0	0	0	0	5,505	-5,505	0
15. Allocation of the profit or loss from the sale of equities	0	0	0	-4,439,525	4,439,525	0	0
16. Closing balance for the period	152,200,000	6,718,194	33,992,668	66,347,345	9,979,125	0	269,237,332

Statement of Changes in Equity for 2018⁶

in EUR

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

Profit and Loss Appropriation Account⁷

in EUR

	31 December 2019	31 December 2018
a) Net profit or loss for the financial year	12,241,715	6,349,899
b) Net profit or loss brought forward	4,434,020	3,208,327
- profit or loss for the year under the applicable standards*	4,434,020	2,385,213
d) Increase in revenue reserves pursuant to the decision of the Management Board	1,193,030	619,115
- increase in legal reserves	611,810	317,495
- increase in statutory reserves	581,220	301,620
d) Increase of other reserves pursuant to the decision of management bodies	5,521,590	2,865,392
e) Profit/loss for appropriation (a+b+c-d-e)	9,961,115	6,073,719

* Gains on disposal of equity investments measured at fair value through other comprehensive income less the coverage of past loss of the non-life segment

Disclosures and Notes

General Disclosures

Company Profile

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

The activities of Modra zavarovalnica are laid down by the law and its Articles of Association. Modra zavarovalnica, d. d. offers insurance products such as life insurance, accident and health insurance, pursues the activities of pension funds, assessment of risks and loss adjustment, activities of insurance agents, other auxiliary activities for insurance operations, and pension and financial fund management.

Parent Company Profile

Modra zavarovalnica, d. d. is a fully owned subsidiary of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., Dunajska cesta 119, 1000 Ljubljana, Slovenia. The Company's financial statements are included in the consolidated financial statements of the controlling company. The consolidated financial statements of the controlling company Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. is available online at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Funds under Management

Table 18: Funds under management of Modra zavarovalnica as at 31 December 2019

Fund name	Fund reg. ID number:
First Pension Fund of the Republic of Slovenia	6031226001
Life-Cycle Pension Fund	6031226007
Dynamic Sub-Fund	6031226006
Prudent Sub-Fund	6031226008
Guaranteed Sub-Fund	6031226009
Guarantee Fund of the First Pension Fund	6031226004
Modra renta Guarantee Fund	6031226005
Modra Renta II Guarantee Fund	6031226010
Life-Cycle Civil servants Pension Fund	6031226011
Dynamic Civil Servants Sub-fund	6031226012
Prudent Civil Servants Sub-Fund	6031226013
Guaranteed Civil Servants Sub-Fund	6031226014

Data on Employees

Table 19: No. of employees by level of education

Education	31 December 2019	31 December 2018
Level 8 (8/1, 8/2)	10	10
Level 7	23	24
Level 6 (6/1, 6/2)	14	12
Level 5	12	12
Level 4	1	2
Total	60	60

Data on Subsidiaries

The Company did not have any subsidiaries as at 31 December 2019.

Data on Joint Ventures

As at 31 December 2019, Modra zavarovalnica, d. d. recorded its investment in Hotelske nepremičnine, d. o. o. as a joint venture investment.

Accounting Policies

Bases for Preparation

The financial statements of Modra zavarovalnica, d. d. have been prepared on the basis of accounting policies presented below. The financial statements for 2019 have been compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, 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. Data in financial statements are based on bookkeeping documents and books of account kept in line with the International Financial Reporting Standards. The following general accounting assumptions have been observed in the preparation: going concern, systematic consistency and accrual basis. The following quality characteristics have been observed in the formulation of accounting policies: comprehensibility, suitability, reliability, and comparability.

Statement of Compliance

Financial statements of Modra zavarovalnica, d. d. are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as the Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the European Union.

In its financial statements, Modra zavarovalnica, d. d. has applied all IFRS standards and IFRIC interpretations that were mandatory for the 2019 financial year, and has not adopted any of standards or interpretations early where the use of amended standards and interpretations was not mandatory in 2019.

Basic Policies

Financial statements have been prepared on the historical cost basis, with the exception of assets measured at fair value through profit or loss and assets measured at fair value through other comprehensive income. 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 specifically stated otherwise.

Significant Accounting Judgments and Estimates

The preparation of financial statements requires the use of certain estimates and assumptions made by the management that affect the value of the Company's assets and liabilities as well as the revenues and expenses.

The suitability of the assumptions and estimates employed is verified periodically.

The most important judgements made by the management relate to the classification, recognition, measurement and the derecognition of financial assets. Policies are explained in the Business Models section.

Significant estimates on the part of the management relate to the provisioning for the failure to achieve the guaranteed return and the setting aside of mathematical and other provisions.

Mathematical provisions are calculated for each insurance contract separately. The prospective method is applied in the calculation. Calculations take into account actuarial assumptions, the provisions of the legislation in force as well as all contractual obligations vis-à-vis the insured persons in line with the contents of insurance contracts.

Translation of Foreign Currencies

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 profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost denominated in a foreign currency are translated using the exchange rate applicable as at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value denominated in a foreign currency are retranslated at the exchange rate applicable as at the date the fair value was determined.

Procedure for the Adoption of the Annual Report

The Company's Annual Report is adopted by the Management Board of the Company and then submitted for confirmation to the Company's Supervisory Board. The Management and Supervisory Boards also decide on the use of net profit for provisioning pursuant to the Companies Act. Such use of profits is included in the statements for the current year, while the distribution of profit for appropriation is decided on by the Company's General Meeting.

Property, Plant and Equipment

Equipment is valued at historical cost less accumulated depreciation and any impairments. The Company uses the straight line depreciation method to account depreciation according to the estimated useful life: the depreciation rate for equipment ranges from 16.67% to 33.33% per annum.

Each year, the Company makes an assessment of whether there are indications of impairment of property, plant and equipment. 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 an impairment loss which the Company recognises directly in profit or loss.

Derecognition of equipment is performed when the relevant asset is disposed of or when the Company no longer expects economic benefits from the asset's continuing use. Gains and losses arising from the derecognition of the asset are included in the P&L statement in the year in which the asset is eliminated from the books of account.

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

An item of property, plant and equipment whose individual acquisition price as per the supplier's invoice does not exceed EUR 500 may be carried and recognised as a group of small tools. Items of small tools whose individual acquisition price as per the supplier's invoice does not exceed EUR 500 may be classified as materials.

Leases

The Company treats leases under IFRS 16, which defines an individual lease as a contract or part of a contract by way of which the right-of-use asset, which is the subject of the lease, is transferred for a particular period to the lessee in exchange for compensation. The Company identifies a lease upon the conclusion of the contract when it determines whether it is a lease agreement or whether the agreement contains a lease.

Upon the identification of a lease agreement, the lease is recognised in the books of account as an asset representing the right-of-use and a lease liability, i.e. from the lease commencement date. The Company as a lessee measures the asset as at the lease commencement date as an asset representing the right-of-use at cost. Lease liability is measured as at the lease commencement date at the current value of lease payments that are not yet paid as at the commencement date.

In line with the standard, the Company does not apply such treatment for short-term leases and leases where the leased asset is a low-value asset. A short-term lease is a lease, the lease term of which is a maximum of 12 months as at the lease commencement date and which does not have a purchase option, while a low-value lease is a lease where the value of a new asset is lower than USD 5,000.

Intangible Assets

Intangible assets acquired separately are recognised at cost. After initial recognition the historical cost method is used and intangible asset are recognised at cost less any accumulated amortisation and any accumulated impairment losses. The useful life of an individual intangible asset is limited. Amortisation charged on an intangible asset is recognised in the income statement. Intangible assets created within the Company, other than development costs, are not capitalised. Costs represent the expenses for the period in which they are incurred.

Carrying amounts of intangible assets are revised annually to check for impairment. The useful life of an individual intangible asset is assessed once a year and adjusted as required. A recognised intangible asset is impaired if its carrying amount exceeds its net recoverable amount. In the event of asset impairment, the carrying amount is decreased to the net recoverable amount and the impairment expense is recognised directly in profit or loss.

Intangible non-current assets are amortised using the straight-line depreciation method over their useful lives at the 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 on disposal and the carrying amount of the asset. The difference is recognised as revenue or expense in the profit or loss when the asset is eliminated or disposed.

Investments

As at 1 January 2018, the Company began using IFRS 9 to disclose investments. Detailed explanations of the transition are provided in the Annual Report of Modra zavarovalnica for 2018 (<https://www.modra.si/wp-content/uploads/2019/06/LP-Modra-2018.pdf>).

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

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

The Company classifies financial instruments based on the following:

a) the Company's business model for financial asset management:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the asset is held within a business model whose objective is to collect contractual cash flows and sell financial assets; and
- the asset is held within a business model whose objective is to hold financial assets with the aim of selling them;

b) characteristics of the financial asset's contractual cash flows; the Company has to verify whether the financial asset's contractual cash flows involve solely payments of principal and interest on the outstanding principal amount, i.e. the SPPI test (Solely Payments of Principal and Interest).

Business Models

As part of the management of guarantee funds, two business models are applied:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows (Amortised Costs – AC): this business model includes financial assets held by the fund manager in order to collect contractual cash flows.

- Business model of financial assets that is managed and whose returns are estimated based on the fair value (Fair Value through Profit or Loss – FVTPL): this business model includes financial assets held by the fund manager in order to manage and measure their performance based on fair value. The manager is mainly focused on the information on fair value that they use for assessing the return on assets and for taking decisions.

As part of the management of own funds, the Company applies four business models:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows (Amortised Costs – AC): this business model includes financial assets held by the manager in order to collect contractual cash flows.
- Business model whose objective is to hold assets to collect contractual cash flows and sell the assets (Hold to Collect and Sell – HTC & S): the manager generates returns on these assets by collecting contractual cash flows and by sales. The model is characterised by greater frequency and higher value of sales because the sale of financial assets is essential for reaching the business model targets.
- Business model of financial assets that is managed and whose returns are estimated based on the fair value (Fair Value through Profit or Loss – FVTPL): this business model includes financial assets held by the fund manager in order to manage and measure their performance based on fair value. The manager is mainly focused on the information on fair value that they use for assessing the return on assets and for taking decisions.
- Business model of capital instruments not held for trading (Fair Value through Other Comprehensive Income – FVTOCI): as part of own funds, the manager holds equities, which they manage by actively trading them because of the size of the shareholding, and equities held long-term and not for trading. When classifying these investments, the manager observes the provision of point 5.7.5 of IFRS 9 and classifies them into the FVTOCI group.

Expected Credit Loss Model

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

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

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

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

In order to determine the expected credit losses (ECL) based on forward-looking information, we calculate the correlation coefficients for a period from three to five years that we obtain based on international macroeconomic indicators for the following three years and the data on the default rate provided by S&P. Select macroeconomic indicators were selected for the calculation, i.e. those with the maximum statistical information value and are relevant for economic cycle forecasting. We observe the average historical PD value for the period longer than 5 years because it is difficult to explain deviations from average PD values over a longer time period.

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

Recognition and Derecognition of Investments

The Company recognises investments in its statement of financial position as an item of financial asset only when it becomes a party to the contractual provisions of a financial instrument.

A financial asset which is an investments and is traded on a regulated securities market is recognised as an asset as at the date of the conclusion of the transaction; a payment liability is also established at that time. Upon disposal, the decrease in the financial asset is recorded as at the date of the conclusion of the transaction.

A financial asset that is an investments and is traded on a regulated securities market is recognised as an asset as at the date of payment. The decrease in the financial asset is recorded as at the date of fulfilment of contractual provisions, which is when the ownership right is transferred to the buyer.

When buying and selling financial assets on the primary securities market (in an auction), the investment is recognised as a financial asset as at the transaction settlement date.

Fair Value Estimate

Price Source

When valuing debt security investments whose principal market is the OTC market, the Company uses the CBBT (Composite Bloomberg Bond Trader) as the price source.

Determination of the Fair Value of Investments

In accordance with IFRS 13, the Company determines the fair value of investments as the expected price to be received upon the sale of an asset or expected price to be paid to transfer a liability in a regular transaction between market participants as at the measurement date (an exit price). The Company

defines the measurement date as the date on which it calculates the value of a unit (reporting date). Fair value measurement in the case of this type of transaction is based on the assumption that the transaction is executed on the principal market or in the absence of the same on the most advantageous market. If there is no main (or most advantageous) market during fair value measurement, the Company determines the fair value using a valuation method. The fair value of an investment is determined by taking into account both of the above conditions.

Upon the purchase of an investment, the Company defines the following as the principal market for the investment:

- stock market (applies to equity and debt investments) or
- over-the-counter market or OTC (applies to debt investments).

As at the investment measurement date, the Company reassesses the principal market that was defined upon the purchase.

As at the investment fair value measurement date, the Company establishes whether the market for the investment is an active one.

In case of a stock market, the assumption of an active market is met if the average daily trading volume for an individual investment over the last 180 days up to the fair value measurement date was higher than EUR 0.5 million taking into account the number of trading days. If the stock market is active, the last known listed price not older than 15 days is used for fair value measurement. If the stock market is not active, the last known listed price not older than 90 days is used for fair value measurement. In other cases, the fair value of an investment is determined using a valuation method.

In case of an OTC market, the assumption of an active market is met if the CBBT price was published for at least half of the trading days over the last 30 days up to the valuation date. If the OTC market is active, the last known CBBT price not older than 15 days is used for fair value measurement. If the OTC market is not active, the last known CBBT price not older than 90 days is used for fair value measurement.

If the last known CBBT price is older than the last realised transaction price of a financial asset or if the CBBT price is not available, the last known transaction price not older than 90 days is used for fair value measurement, whereby the active market transaction is met if the transaction price is not older than 15 days. In other cases, the fair value of an investment is determined using a valuation technique.

In accordance with IFRS 13.69, the Company uses the quoted price without adjustment for fair value measurement when such a price exists in an active market.

In valuation, the Company uses only the stock exchange closing price or the published closing BID CBBT or transaction price as the unadjusted quoted price.

Criteria for the Classification of Investments into Fair Value Hierarchy Levels

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

- level 1 inputs are quoted (unadjusted) market prices in active markets for the investments which the Company can access as at the measurement date;
- level 2 inputs are inputs that are not quoted prices included in level 1 and which can be directly or indirectly observed; level 2 inputs include the following in accordance with IFRS 13.82:
 - quoted prices for similar investments in active markets,
 - quoted prices for identical or similar investments in non-active markets,
 - inputs other than quoted prices that are observable for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals (implied volatiles, credit spreads, etc.),
 - inputs corroborated by market;
- level 3 inputs are unobservable inputs.

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

In line with IFRS 13.97, the Company also classifies the following in the fair value hierarchy: investments that are not measured at fair value in the statement of financial position (generally 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 the fair value of investments and to assess whether the principal market is an active one.

Classification of Equity Investments

Table 20: Classification of equity investments when the stock market is the principal market

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

Table 21: Classification unlisted equity investments

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

Table 22: Classification of investment fund units

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

Classification of Debt Investments

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

Table 23: Classification of debt investments when the stock market is the principal market

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

Table 24: Classification of debt investments when the OTC market is the principal market

Level	Investment type
Level 1	Debt investments with fair value measured on the basis of CBBT prices in active markets Debt investments with fair value measured on the basis of transaction prices in active markets
Level 2	Debt investments with fair value measured on the basis of CBBT prices 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 a CBBT price in (in)active markets and for which the fair value is measured using a valuation technique (taking into account Level 2 inputs)
Level 3	Debt securities without a CBBT price in (in)active markets and for which the fair value is measured using a valuation technique (taking into account Level 3 inputs) or prices provided by third parties

Classification of Loans and Deposits

As there is no market for deposit interest rates with directly observable prices, the Company measures deposits for fair value disclosure purposes using the initial or contractual interest rate, which is unobservable input, and thus classified as Level 3.

Determination of Gains or Losses on Investments

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

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

Investments at Fair Value through Profit or Loss

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

Investments in Equity Instruments Measured at Fair Value through Other Comprehensive Income

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

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

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

Investments in Debt Instruments Measured at Fair Value through Other Comprehensive Income

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

Derecognition of Financial Instruments

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

Investments in the Associate

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

An associate is consolidated in the consolidated annual report of the Company's parent undertaking.

Investments in Joint Ventures

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

The Company measures joint ventures at cost according to IAS 27.10. An investment in joint venture is consolidated in the consolidated annual report of the Company's parent undertaking.

Receivables

Operating Receivables

Operating receivables are recognised in the amounts arising from issued invoices less any potential allowances. The estimate of allowances is based on the Company's reasonable expectations that payment is no longer likely in full and/or up to a certain amount.

Current Receivables from Direct Insurance Operations

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

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

The surrender value of units is the multiple of the number of the units held by the insured person who has acquired the right to a pension annuity and the unit value on the day the right to the pension annuity is acquired (the last published unit value). When the guaranteed unit value exceeds the actual unit value, the guaranteed unit value is applied.

Current Receivables for the Shares in Claims Incurred

Current receivables for the shares in claims incurred are receivables for annuities paid to deceased insured persons.

Current Receivables from Financing Activities

Current receivables from financing activities comprise current receivables from interest, current receivables from dividends and other current receivables from financing activities.

Current receivables from interest arising from securities are recognised on the date interest matures in accordance with the issuer's amortisation schedule or conditions specified by the issuer upon the issue of securities.

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

Other Current Receivables

Other current receivables are receivables due from the purchasers of securities (receivables arising from securities trading) and other current receivables inclusive of receivables from principal amounts due, receivables for securities to be issued, receivables from advances, and receivables for the costs of annuities paid.

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

Receivables for the Deficit of Assets

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

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

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

Cash and Cash Equivalents

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

Equity

Ordinary shares are classified as equity. Direct additional costs of issuing new shares less tax effects are debited against equity.

The share capital is divided into 152.2 million ordinary registered no-par value shares. Each share represents an equal stake and an associated amount in the share capital. The share of an individual no-par value share in the share capital is determined according to the number of no-par shares issued.

Revenue reserves are recognised based on:

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

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

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

Insurance Contracts

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

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

Insurance contracts that carry significant insurance risk are treated in the books of account in accordance with IFRS 4. When an insurance contract does not carry significant insurance risk, it is treated in the books of account as a financial contract in accordance with IAS 39.

Liabilities from Insurance Contracts – Technical Provisions

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

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

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

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

The calculation of technical provisions arising from insurance contracts and their adequacy at the annual level are examined by the key actuarial function holder (actuary).

KS PPS Technical Provisions

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

- mathematical provisions for KS PPS policies,
- equalisation provisions for KS PPS mortality experience, 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 those applied in the annuity calculation. The mortality tables used in the calculation of mathematical provisions are more conservative than those used in annuity allocation.

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

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

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

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

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

return, can be allocated to permanent annuity increases or is used, partially or entirely, to create equalisation provisions for yield experience. The share of surplus earmarked for annuity increase is specified by the management of the fund manager.

KS MR Technical Provisions

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

KS MR II Technical Provisions

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

Claims Provisions

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

Provisions for Non-Achievement of the Guaranteed Return

Pursuant to Article 313 of ZPIZ-2, in the event the actual net asset value of a ZPJU, MZP and PPS fund member in the accounting period falls below the member's guaranteed asset value, Modra zavarovalnica has to set aside provisions for failure to achieve the guaranteed rate of return, which are debited to equity and correspond to the sum of all shortfalls of the member's asset value and the member's guaranteed assets value as at a given date of account. The actual net or guaranteed values of the funds are calculated monthly.

Provisions for Pensions, Jubilee Benefits and Termination Benefits upon Retirement

Modra zavarovalnica, d. d. calculates provisions for jubilee and termination benefits upon retirement annually. In the calculation, it applies assumptions on the expected employee turnover, their years of service and expected number of years until retirement while also observing the provisions of individual and collective employment contracts and the Company's internal acts.

Accruals and Deferrals

Prepayments and accrued income comprise short-term deferred costs or expenses and short-term accrued income. They are disclosed in actual amounts and do not differ from actual income or expenses. Eventual differences between the actual and accrued/deferred data are included in the profit or loss of the current year.

Accruals and income collected in advance includes accrued costs and other accrued costs and deferred income. Accrued costs are disclosed accrued costs from regular operations of the Company and costs for the unused annual leave of employees.

Other accrued costs and deferred income comprise short-term deferred income for the premium paid into the KS MR II and the accident insurance premium.

Operating Liabilities

Operating liabilities comprise current tax liabilities.

Other Liabilities

Other liabilities are classified as liabilities to employees, trade payables (in particular liabilities arising from securities trading) and other liabilities.

Income

Income is recognised if the increase in economic benefits in the accounting period is associated with the increase in the asset or the decrease of liabilities, and if the said increase or decrease can be reliably measured. Income and increases of assets or decreases of liabilities are recognised simultaneously. We distinguish between the following types of income:

Premium Income

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

Fee and Commission Income

Modra zavarovalnica, d. d. is entitled to the refund of entry and exit fees and annual commission for the management of the assets of pension funds. Entry fees are calculated as a percentage of the premium paid, exit fees are calculated as a percentage of the surrender value upon termination, whereas the management fee is calculated as a percentage of the net annual value of the fund's assets over a saving period.

a. Entry Fee

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

b. Management Fee

The Company charges management fees to mutual pension funds, meaning that the monthly value of the assets of individual funds is reduced by the amount of management costs. The fund management fee is calculated as a percentage of the average annual NAV of an individual fund, calculated as an arithmetic mean of the fund's NAV as at the conversion cut-off dates in the current year.

c. Exit Fee

The Company is entitled to an exit fee in accordance with the pension scheme, meaning that the surrender value is decreased by the exit costs and this net value is then paid to the individual terminating the insurance. The exit fee is calculated as a percentage of the surrender value upon its redemption or payout.

Interest

Interest income is calculated and recognised upon occurrence on the basis of the effective interest rate. In the balance sheet, interest from debt securities is disclosed together with financial assets.

Dividends

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

Expenses and Costs

Expenses are decreases in economic benefits in the accounting period in the form of outflows or decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to the owners.

The expenses of Modra zavarovalnica, d. d. comprise net expenses for claims incurred, costs of the increase in mathematical provisions, net operating costs, other technical expenses, and financial expenses.

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

Net operating costs are net costs of materials and services, amortisation and depreciation expenses of the assets required for operations, labour costs and other operating costs.

Financial expenses are classified by the Company as investment expenses.

Other technical expenses include expenses arising from provisions set aside because of the failure to achieve the guaranteed return of mutual pension funds, and provisions to cover deficit of assets in the guarantee fund.

Employee Benefits

Employee benefits include salaries and other bonuses in accordance with the collective employment agreement. Contributions to the pension fund at the national level, social security, health insurance and unemployment insurance are recognised by the Company as expenses of the period. The Company also recognises any future costs arising from the collective employment agreement pursuant to IAS 19.

Taxes

Current Taxes

Current tax assets and liabilities in respect of present and past periods are recognised at amounts which the Company expects to pay to the tax authorities or receive from them. Current tax assets or liabilities are measured using tax rates applying at the balance sheet date.

Deferred Tax

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

A deferred tax asset is recognised also for unused tax losses and unused tax credits which are 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 assets are examined as at the balance sheet date and impaired by that portion of the asset for which it can no longer be expected that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax liabilities or assets are measured at tax rates expected to apply when the asset is realised or the liability is settled. Tax rates (and tax regulations) applicable or close to being enacted as at the balance sheet date are applied.

Deferred tax assets and liabilities may be offset if, and only if, the company has a legal right to offset the assessed tax assets and liabilities and these assets and liabilities relate to the income tax attributable to the same tax jurisdiction.

Deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

Cash Flow Statement Using the Indirect Method

A cash flow statement compiled using the indirect method is a financial statement showing the changes in cash flows during the financial year. The cash flow statement is compiled according to the indirect method using the statement of financial position data as at 31 December 2019 and 31 December 2018, P&L statement data for 2019, as well as additional data necessary for the adjustment of cash flows and for the appropriate breakdown of significant items.

Amendments of Standards and Interpretations

Standards and Interpretations Applying in the Current Period

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

- IFRS 16 – Leases adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 July 2019);
- Amendments to IFRS 9 – Financial Instruments – Prepayment Features with Negative Compensation, adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 19 – Employee Benefits – Plan Amendment, Curtailment or Settlement, adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 – Investments in Associates and Joint Ventures – Long-term interests in Associates and Joint Ventures, adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- amendments to various standards as a result of the Improvements to IFRSs 2015–2017 cycle, resulting from the annual project for improvement of IFRSs (IFRS 3, IFRS 11, IFRS 12 and IAS 23), primarily with a view to removing inconsistencies and to clarify the wording, adopted by the EU on 14 March 2019 (effective for annual periods starting on 1 January 2019 or later);
- IFRIC 23 – Uncertainty over Income Tax Treatments, adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 July 2019).

The adoption of these new standards, amendments to the existing standards and interpretations did not result in any material changes to the Company's financial statements. Upon transitioning to IFRS 16, the Company applied the option of the simplified approach to the recognition of lease liabilities for its existing lease agreements, i.e. without the recalculations of comparable data for the previous period. Modra zavarovalnica began applying IFRS 16 – Leases in practice as of 1 October 2019 when it concluded a 5-year lease agreement. Upon entering into the agreement, it recognised an operating liability of EUR 1,715,627 in its books of account whereby the liability comprises the right-of-use of the fixed asset and interest.

Standards and Amendments to the Existing Standards Issued by the International Accounting Standards Board and Adopted by the EU but Not Yet Effective

As at the date of approval of these financial statements, IASB issued the following changes to the existing standards that were adopted by the EU, but are not yet effective:

- Amendments to IAS 1 – Presentation of financial statements and IAS 8 – Accounting policies, changes in accounting estimates and errors – Definition of material adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 9 – Financial Instruments and IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures – Interest Rate Benchmark Reform adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The Company assumes that the introduction of these new standards and amendments of existing standards in the period of initial application will not affect its financial statements.

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

At this time, the IFRSs as adopted by the EU do not differ significantly from the regulations adopted by IFRIC, with the exception of the following standards, amendments of existing standards:

- IFRS 14 – Regulatory Deferral Accounts (applies for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard to be issued;
- IFRS 17 – Insurance Contracts (applies for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 – Business Combinations – Definition of a Business (apply for business combinations for which the acquisition date is the same as the date of the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisition of assets occurring at the beginning of this period or after);
- Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures¹ – Sale or Contribution of Assets between an investor and its associate or joint venture, and subsequent amendments (the effective date has been postponed to a later date until the research project on capital method is concluded).

Modra zavarovalnica, d. d. is reviewing the effect of these new standards and has to date not yet assessed the impact of the new requirements. The Company will apply the new standards and interpretations as and when adopted by the EU. Hedge accounting related to the portfolio of financial assets and liabilities, whose principals have not yet been adopted by the EU, remains unregulated. It is the Company's assessment that the application of hedge accounting relating to financial assets and liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement would not have a material impact on the fund's financial statements if applied as at the balance sheet date.

Breakdown and Disclosures to Financial Statements

Notes to the Statement of Profit or Loss

Note No. 1: Net Premium Income

in EUR

Item	2019	2018
Gross life written premiums	53,424,749	43,164,734
Gross non-life written premiums	37,954	25,800
Total	53,462,703	43,190,535

Gross life written premiums are payments made to the two guarantee funds.

Note No. 2: Income from Financial Assets in Associates

in EUR

Item	2019	2018
Dividend income from associates	4,606,964	4,321,779
Total	4,606,964	4,321,779

Note No. 3: Income from Financial Assets

in EUR

Item	2019	2018
Interest income from financial assets	4,646,903	4,229,070
• at fair value through profit or loss	488,659	379,816
• at amortised cost	3,246,707	2,861,080
• at fair value through other comprehensive income	911,536	988,174
Dividend income from financial assets	3,838,967	3,904,364
• at fair value through profit or loss	1,373,944	1,860,896
• at fair value through other comprehensive income	2,465,024	2,043,468
Revaluation income	5,278,282	2,066,590
• revaluation of financial assets at fair value through profit or loss	5,278,282	2,066,590
Income from foreign exchange differences	292,910	425,025
Income transferred to profit or loss through reclassification	0	176,495
Gains on disposal of investments	797,264	461,401
• at fair value through profit or loss	583,989	461,401
• at fair value through other comprehensive income	213,275	0
Income from the reversal of impairments	56,151	158,044
• at fair value through other comprehensive income	14,030	44,317
• at amortised cost	42,121	113,727
Other financial income	46,276	229
Total	14,956,753	11,421,217

The favourable market conditions meant that revaluation income was materially higher in 2019. The major portion of financial income relates to extraordinary financial income from abroad.

Note No. 4: Expenses from Financial Assets

in EUR

Item	2019	2018
Interest expenses	-8,863	-330
Expenses from revaluation of financial assets	-3,808,522	-3,883,633
• at fair value through profit or loss	-3,808,522	-3,883,633
Exchange rate losses	-249,363	-203,869
Loss on disposal of financial assets	-50,180	-149,655
• at fair value through profit or loss	-50,180	-138,255
• at fair value through other comprehensive income	0	-11,400
Expenses from impairment of financial assets	-108,147	-50,519
• at fair value through other comprehensive income	-5,529	-2,340
• at amortised cost	-102,618	-48,179
Other financial expenses	-1,513	-6,389
Total	-4,226,587	-4,294,395

Gains or Losses from Financial Assets

in EUR

Item	2019	2018
Income from financial assets	19,563,717	15,742,996
Expenses from financial assets	-4,226,587	-4,294,395
Net gains or losses from financial assets	15,337,129	11,448,601

Note No. 5: Other Technical Income

in EUR

Item	2019	2018
Income from guarantee fund management	2,817,711	1,000,417
Income from mutual pension fund management	9,370,473	8,625,696
Total other technical income	12,188,184	9,626,113

Income from the management of guarantee funds, the assets of which Modra zavarovalnica discloses within its statement of financial position includes income from annuity payments, the KS MR management fee, income KS MR II indirect costs and income from the reversal of provisions arising from the LAT test. Income from the management of mutual pension funds comprises the fund management fee, income from entry and exit fee, transfer commissions and income from the reversal of provisions set aside for not achieving the guaranteed rate of return. The assets of mutual pension funds are disclosed in the statement of financial position of the Company under off-balance sheet items (contingent assets and liabilities).

Note No. 6: Other Income

in EUR

Item	2019	2018
Other income	141,944	114,114

Other income relates to income resulting from the right to an annuity becoming statute-barred and from other items.

Note No. 7: Net Claims Incurred

in EUR

Item	2019	2018
Gross claims paid from life insurance	-24,795,747	-20,374,233
Change in claims provisions	-39,571	-19,947
Total	-24,835,317	-20,394,181

Gross claims paid represent paid pension annuities. These increased in 2019 due to the higher number of pension annuity recipients of the KS MR II fund.

Note No. 8: Changes in Technical Provisions

in EUR

Item	2019	2018
Change in technical provisions of the KS PPS	2,004,050	1,193,222
Change in technical provisions of the KS MR	3,719,130	4,940,041
Change in technical provisions of the KS MR II	-39,039,078	-32,802,163
Total	-33,315,898	-26,668,900

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

In 2019, KS MR recorded a decrease in technical provisions, since annuities were paid out from the fund, but no premiums were paid into it.

The rise in KS MR II technical provisions in 2019 resulted from the inflow of new insured persons to the guarantee fund.

Note No. 9: Operating Costs

in EUR

Item	2019	2018
Cost of material	-206,766	-161,771
Cost of services, of which	-2,673,137	-2,589,925
• acquisition cost	-56,024	-40,135
Write-downs	-593,381	-489,659
Cost of provisions	-32,967	-21,599
Labour costs	-3,290,484	-3,232,248
Other operating costs	-119,282	-92,831
Total	-6,916,018	-6,588,033

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

Cost of material in 2019 came in at EUR 206,766. The major share of the above costs are the costs of printing.

Cost of services (including insurance acquisition costs) in 2019 came in at EUR 2,673,137. The main part of the above costs are the costs of leasing business premises, IT equipment and IT assets in the amount of EUR 600,941 (EUR 662,331 in 2018). Other significant costs include the costs of payment transactions and banking services, which include the custodian fee for KPSJU and PPS, totalling EUR 444,169 (EUR -444,169 in 2018).

Write-downs in the amount of EUR 593,381 relate to depreciation and amortisation costs of intangible assets and property, plant and equipment, while as of 31 October 2019 onwards they also relate to the amortisation of the right-of-use of leased premises in accordance with IFRS 16.

The cost of provisions amounting to EUR -32,967 relates to the cost of setting aside provisions for jubilee benefits, termination benefits and other provisions.

Labour costs in 2019 came in at EUR -3,290,484. Of the said amount, EUR 2,487,382 (EUR 2,391,733 in 2018) represent costs of contributions on paid salaries, cost of the meal allowance and travel allowance, costs of supplementary pension insurance and similar costs.

Other operating costs are the costs of membership fees in chambers and associations, costs of the promotion of occupational safety and health, donations and the contribution for promoting the employment of disabled persons. In 2019, audit costs totalled EUR 31,493 and include the audit of the annual reports of the Company and the funds (with the exception of MKPS) of EUR 24,783 and the cost of auditing of the merger of the KVPS with the MZP of EUR 6,710. Audit costs in 2018 stood at EUR 20,862 and related to the cost of auditing the annual reports of the Company and the funds.

Note No. 10: Other Technical Expenses

in EUR

Item	2019	2018
Other technical expenses	-1,124,138	-3,746,370

Most of the other technical expenses in 2019 comprise payments made by the fund manager to make up the difference to the guaranteed return of mutual pension funds in the amount of EUR 835,618, a minor share of the KS MR commission as well as income from the indirect expenses of KS MR II.

Most of the other technical expenses in 2018 comprise the setting aside of provisions resulting from the liability adequacy test (LAT) EUR 2,052,675, payments made by the fund manager to make up the difference to the guaranteed return of mutual pension funds in the amount of EUR 1,038,809 and the provisioning for the failure to generate the guaranteed return (EUR 541,288).

Note No. 11: Other Expenses

in EUR

Item	2019	2018
Other expenses	-222,028	-210

Most of the other expenses in 2019 relate mostly to the payment of the tax on insurance transactions associated with the funds under management for the current and previous period as the tax was not recognised in the previous period.

Note No. 12: Income Tax

in EUR

Item	2019	2018
Net profit or loss for the period before taxes	14,716,562	6,981,669
Tax on dividends from abroad	143,483	143,206
Non-deductible expenses	633,398	499,752
Non-taxable income	-5,956,461	-5,907,774
Amendment of accounting policies	4,439,525	2,059,495
Tax allowance	-251,341	-154,706
Tax loss	-6,988,254	-1,888,174
Total (tax base)	6,736,912	1,733,468
Income tax (19%)	1,154,132	188,758
Tax on dividends from abroad prior to agreement	125,881	140,601

The effective interest rate in 2019 stood at a high 7.84 % (2.7% in 2018); it is the ratio between the income tax accounted and the profit/loss for the period before taxes.

Note No. 13: Deferred Tax

in EUR

Item	Statement of financial position - 31 December 2019	Statement of financial position - 31 December 2018	P&L statement 2019	P&L statement 2018
Deferred income tax – liabilities; of which:	15,606,545	11,056,696	13,734	98,786
• Revaluation of financial assets at fair value through other comprehensive income	13,214,493	8,650,910	0	0
• Liabilities from investments transferred	2,392,052	2,405,786	13,734	98,786
Total deferred income tax liabilities	15,606,545	11,056,696	13,734	98,786
Deferred income tax – receivables; of which:	1,898,854	3,230,735	-1,331,880	-541,797
• Loss brought forward to be used as tax allowance	202,040	1,529,808	-1,327,768	-358,754
• Value adjustment of investments	1,671,341	1,671,341	0	-184,768
• Provisions	25,473	29,586	-4,112	1,725
Total deferred income tax assets	1,898,854	3,230,735	-1,331,880	-541,797
Netting of deferred tax assets and liabilities	-13,707,691	-7,825,961	-1,318,146	-443,011

13.1 Changes in Deferred Tax Recognised Directly in Equity

in EUR

Changes in deferred tax	2019	2018
Balance as at 1 January	11,056,696	13,859,511
Changes during the year	4,549,849	-2,802,815
Balance as at 31 December	15,606,545	11,056,696

Notes to the Statement of Other Comprehensive Income

Note No. 14: Other Comprehensive Income After Tax

in EUR

Item	2019	2018
Other comprehensive income after tax	24,397,950	-13,266,796

Other comprehensive income refers to net gains/losses from the remeasurement of financial assets at fair value through other comprehensive income. The difference in the value of other comprehensive income in 2019 and 2018 arises from the movements on security markets; in 2019, we recorded favourable market conditions, while they were quite strained in 2018.

Notes to the Statement of Financial Position

Note No. 15: Changes in Intangible Assets and Long-Term Deferred Costs and Accrued Income

in EUR

2019	Software	Total
Cost as at 1 January 2019	1,910,553	1,910,553
New acquisitions	297,869	297,869
Disposals	-75	-75
Cost as at 31 December 2019	2,208,347	2,208,347
Accumulated amortisation as at 1 January 2019	-1,055,709	-1,055,709
Write-downs	75	75
Depreciation	-486,488	-486,488
Accumulated amortisation as at 31 December 2019	-1,542,122	-1,542,122
Carrying amount as at 1 January 2019	854,844	854,844
Carrying amount as at 31 December 2019	666,225	666,225

in EUR

2018	Software	Total
Cost as at 1 January 2018	1,845,912	1,845,912
New acquisitions	64,641	64,641
Disposals	0	0
Cost as at 31 December 2018	1,910,553	1,910,553
Accumulated amortisation as at 1 January 2018	-587,936	-587,936
Write-downs	0	0
Amortisation	-467,773	-467,773
Accumulated amortisation as at 31 December 2018	-1,055,709	-1,055,709
Carrying amount as at 1 January 2018	1,257,976	1,257,976
Carrying amount as at 31 December 2018	854,844	854,844

Intangible assets have not been pledged as security.

Note No. 16: Changes in Property, Plant and Equipment

in EUR

2019	Equipment and small tools	Company cars	Right to use premises	Total
Cost as at 1 January 2019	126,087	49,530	0	175,617
New acquisitions	19,193	0	1,645,949	1,665,142
Disposals	-542	0	0	-542
Cost as at 31 December 2019	144,738	49,530	1,645,949	1,840,217
Accumulated amortisation as at 1 January 2019	-82,688	-35,788	0	-118,476
Write-downs	542	0	0	542
Depreciation	-19,746	-4,850	-82,297	-106,893
Accumulated depreciation as at 31 December 2019	-101,892	-40,638	-82,297	-224,827
Carrying amount as at 1 January 2019	43,399	13,742	0	57,141
Carrying amount as at 31 December 2019	42,846	8,892	1,563,652	1,615,390

Modra zavarovalnica concluded a 5-year lease agreement for the lease of business premises on 1 October 2019 in line with IFRS 16 – Leases. In doing so, it recognised the right to use premises in the amount of EUR 1,645,949.

Amortisation costs for business premises representing the right-of-use for the reporting period amounted to EUR 82,297, while interest expenses for the reporting period came in at EUR 6,762. The total cash outflow for the lease amounts to EUR 85,781.

The carrying amount of the assets representing the right-of-use amounted to EUR 1,563,651 as at 31 December 2019. These liabilities from the right-of-use came in at EUR 1,566,929, whereby the principle stands at 1,629,845 while interest stands at EUR 62,916.

in EUR

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

No items of property, plant and equipment have been pledged as security.

Note No. 17: Financial Assets

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

in EUR

Item	Own financial assets	Guarantee fund financial assets	Total 31 December 2019
F. Investments in Group companies and associates	36,518,433	0	36,518,433
G. Investments	253,260,335	226,486,722	479,747,057
• at amortised cost	35,728,183	148,460,578	184,188,761
• at fair value through other comprehensive income	186,119,470	0	186,119,469
• at fair value through profit or loss	31,412,683	78,026,145	109,438,827
M. Cash and cash equivalents	5,207,444	2,442,952	7,650,396
Total	294,986,212	228,929,675	523,915,886

in EUR

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

17.1. Investments in Associates and Joint Ventures

17.1.1 Investments in Associates

As at 31 December 2019, Modra zavarovalnica, d. d. recorded its investment in Cinkarna Celje, d. d., in the amount of EUR 30,555,563 under investments in associates. The investment in the associate is measured at fair value through other comprehensive income.

in EUR

Associate	Registered office	Equity stake in %	Equity 31 December 2019 (unaudited data)	Net profit in 2019 (unaudited data)
Cinkarna Celje, d. d.	Kidričeva ulica 26, Celje	20.00%	171,115,998	21,660,465

17.1.2 Changes in Investments in Associates

in EUR

Item	Investments in associates
Balance as at 1 January 2019	29,496,303
Change in the revaluation surplus	1,059,260
Balance as at 31 December 2019	30,555,563

In 2019, the revaluation surplus increased slightly as a result of the favourable exchange rate trends.

17.1.3 Investments in Joint Ventures

As at 31 December 2019, Modra zavarovalnica, d. d. recorded its investment in Hotelske nepremičnine, d. o. o. in the amount of EUR 5,962,870 as a joint venture investment. The Company measures joint ventures at cost according to IAS 27.10.

in EUR

Joint ventures	Registered office	Equity stake in %	Equity 31 December 2019	Net profit in 2019
Hotelske nepremičnine, d. o. o.	Dunajska cesta 119, Ljubljana	50.00%	12,418,125	434,988

17.2 Investments

in EUR

Item	Own investments	Guarantee fund investments	Total 31 December 2019
Investments at amortised cost	35,728,183	148,460,578	184,188,761
Investments at fair value through other comprehensive income	186,119,470	0	186,119,469
Investments at fair value through profit or loss	31,412,683	78,026,145	109,438,827
Total	253,260,335	226,486,722	479,747,057

in EUR

Item	Own investments	Guarantee fund investments	Total 31 December 2019
Investments at amortised cost	24,772,053	126,125,736	150,897,789
Investments at fair value through other comprehensive income	187,072,042	0	187,072,042
Investments at fair value through profit or loss	10,851,122	66,531,864	77,382,987
Total	222,695,218	192,657,600	415,352,818

17.2.1 Breakdown of Investments

in EUR

Item	31 December 2019	31 December 2018
Investments at fair value through profit or loss	109,438,827	77,382,987
Equities	77,592,006	57,039,493
Debt securities	31,846,821	20,343,493
Investments at fair value through other comprehensive income	186,119,469	187,072,042
Equities	149,089,836	145,957,603
Debt securities	37,029,633	41,114,438
Investments at amortised cost	184,188,761	150,897,789
Debt securities	159,023,933	134,411,980
Loans and deposits	25,164,828	16,485,809
Total	479,747,057	415,352,818

17.2.2 Changes in Investments

in EUR

Modra zavarovalnica	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Total
Balance as at 1 January 2019	150,897,790	187,072,042	77,382,987	415,352,819
Acquisitions	51,593,368	6,842,442	46,337,949	104,773,759
Revaluation / impairments / revalorisation	3,115,769	29,038,585	2,546,663	34,701,017
Sales/maturity	-21,418,166	-36,833,599	-16,828,771	-75,080,537
Balance as at 31 December 2019	184,188,761	186,119,469	109,438,827	479,747,057

17.2.3 Structure of Financial Assets with Respect to the Interest Rate Type

in EUR

Investment	31 December 2019	31 December 2018
Debt investments	227,900,387	195,869,912
Fixed interest rate	223,146,185	190,969,071
Variable interest rate	4,754,202	4,900,841
Loans and deposits	25,164,828	16,485,809
Fixed interest rate	25,164,828	16,485,809
Cash and cash equivalents	7,650,396	3,664,997
Skupaj	260,715,611	216,020,719

Treasury bills are accounted within the scope of fixed-rate debt investments.

17.2.4 Risk of Interest Rate Fluctuations

in EUR

Investments as at 31 December 2019	Less than 1 year	More than 1 and up to 5 years	More than 5 years	Total
Investments at fair value through profit or loss	4,241,938	9,047,225	18,557,658	31,846,821
Investments at amortised cost	20,164,906	72,802,644	91,221,211	184,188,761
Investments at fair value through other comprehensive income	5,146,501	22,774,073	9,109,060	37,029,633
Cash and cash equivalents	7,650,396	0	0	7,650,396
Total	37,203,741	104,623,942	118,887,929	260,715,611

Interest rate fluctuation risk demonstrates in which period the Company will be exposed to interest rate risk during re-investment. A detailed analysis of interest rate risk is presented in detail the chapter entitled "Risk Management".

in EUR

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

17.2.5 Equity Investments at Fair Value through Other Comprehensive Income (IFRS 9.5.7.5)

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

in EUR

ISIN	Value in EUR 31 December 2019
DE0005933931	5,223,101
IE00B3F81R35	2,914,568
IE00B4WXJJ64	3,135,096
IE00B66F4759	2,085,193
US4642861037	1,270,653
US4642865095	2,096,185
US4642867729	2,378,931
IE00BSKRK281	3,766,526
IE00B3B8PX14	938,020
US4642873412	1,346,102
US4642877397	3,024,230
US92189F7006	4,695,163
IE00B3DWVS88	7,803,466
IE00B5ZR2157	291,029
US4642887453	5,302,181
IE00B60SX394	11,314,962
LU0290358224	1,972,027
LU0290357929	2,729,966
LU0290355717	5,390,330
US81369Y5069	2,939,469
US81369Y7040	2,175,628
US81369Y3080	2,773,385
US81369Y2090	3,369,160
LU0274208692	13,461,111

in EUR

ISIN	Value in EUR 31 December 2019
LU0524480265	5,303,860
DSI000001003	2,443,748
CNE1000003G1	980,874
JP3304200003	1,100,869
US02079K3059	2,361,876
US02079K1079	2,363,648
DE0008404005	3,749,928
US16941M1099	1,030,976
US17275R1023	1,248,394
SI0021112212	1,004,800
IT0003132476	856,860
US1912161007	3,857,847
US5949181045	5,826,786
DE0008430026	3,173,358
US68389X1054	2,379,714
NL0000009538	1,652,977
SI0021110513	12,857,130
CH0012032048	1,029,888
FR0000120578	1,814,357
DE000A2GS401	574,946
ES0178430E18	526,829
US8816242098	203,258
US91912E1055	350,433

In 2019, Modra zavarovalnica received dividends totalling EUR 2,465,024 (EUR 24,805 worth of dividends relate to investments that were disposed of in 2019) from equity investments measured at fair value through other comprehensive. Due to the favourable market situation and for the purpose of ensuring its liquidity, the Company disposed of investments totalling EUR 28,339,169 during the period, thus generating EUR 4,439,525 worth of profits that were transferred to retained earnings.

17.3 Cash and Cash Equivalents

in EUR

Item	31 December 2019	31 December 2018
Bank balances and cash in hand	7,650,396	3,664,998

Note No. 18: Receivables

in EUR

Item	31 December 2019	31 December 2018
Receivables from direct insurance operations	4,090	2,578
Current tax assets	0	612,017
Other receivables	1,594,322	2,106,146
Total	1,598,412	2,720,740

In the financial statements for 2019, Modra zavarovalnica discloses current tax assets or liabilities in an off-set amounts; because current tax liabilities exceeded the assets at the end of 2019, the amount is disclosed among liabilities.

In 2019, the highest item of other receivables was accounted for by the mutual pension fund current management commission and entry and exit fee receivables in the amount EUR 664,782; and retained deficit of assets for the covering of the liabilities owed to the insured of KS MR in the amount of EUR 474,822.

In 2018, the highest other receivables item was the retained deficit of assets for the covering of the liabilities owed to the insured of KS MR in the amount of EUR 1,274,930 and mutual pension fund current management commission and entry and exit fee receivables in the amount EUR 594,196.

Note No. 19: Other Assets

in EUR

Item	31 December 2019	31 December 2018
Other assets	2,983,930	2,960,850

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

Note No. 20: Off-Balance Sheet Items

in EUR

Fund	31 December 2019	31 December 2018
Assets/liabilities of mutual pension funds under management	1,188,130,397	1,057,360,190
KVPS	0	176,815,193
KSPJU	84,344	89,116
ZPJU	863,317,922	777,268,469
PPJU	5,801,679	3,112,080
DPJU	14,175,335	5,483,633
MKPS	81,368	164,167
MZP	248,356,008	49,596,073
MPP	16,886,502	11,324,402
MDP	21,977,965	14,375,119
PPS	17,449,273	19,131,937
Off-balance sheet items arising from financial asset management	2,182,570	1,656,345
Received performance bond	50,000	0
Total assets	1,190,362,967	1,059,016,535

Off-balance sheet items in the amount of EUR 1,188,130,397 refer to assets/ liabilities of the pension funds under the management of Modra zavarovalnica; off-balance sheet assets/liabilities in the amount of EUR 2,182,570 relate to the commitment of Modra zavarovalnica to purchase investment fund units. Off-balance sheet items also include the received performance bond.

Note No. 21: Equity

21.1 Share Capital

in EUR

Item	31 December 2019	31 December 2018
Share capital (in EUR)	152,200,000	152,200,000
Ordinary shares (number)	152,200,000	152,200,000

The Company's share capital stands at EUR 152,200,000. The share capital is divided into 152,200,000 ordinary registered no-par value shares. Each share represents an equal stake and an associated amount in the share capital. The share of an individual no par value share in the share capital is determined according to the number of no par shares issued.

As at 31 December 2019, the carrying amount of a share was EUR 1.77 (EUR 1.55 as at 31 December 2018). Modra zavarovalnica, d. d. is wholly owned by Kapitalska družba, d. d.

21.2 Changes in Individual Equity Components

in EUR

Item	Share capital	Profit reserves	Revaluation reserve	Retained earnings/losses	Total
1 January 2019	152,200,000	31,097,473	46,388,920	6,086,224	235,772,618
Change	0	9,613,389	19,958,425	3,892,901	33,464,715
31 December 2019	152,200,000	40,710,862	66,347,345	9,979,125	269,237,332

Profit reserves represent legal reserves in the amount of EUR 3,445,228, statutory reserves in the amount of 3,272,966 and other profit reserves in the amount of EUR 33,992,668. In 2019, the Company allocated 5 percent of the net profit for 2019 equalling EUR 611,810 remaining after the covering of the retained loss in the property segment to legal reserves in accordance with the provision of Article 64 of ZGD-1. Statutory reserves were thus increased by EUR 581,220 and other reserves by EUR 5,521,590.

in EUR

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

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

21.3 Change in the Revaluation Reserve

in EUR

Revaluation reserve	2019	2018
Balance as at 1 January	46,388,920	60,703,295
Changes in fair value	21,636,312	-11,291,927
Net change in investments	-1,728,744	-2,022,948
Reversal of permanent impairments (IFRS 9)	0	-1,047,579
Impairment of FVOCI investments	50,856	48,079
Balance as at 31 December	66,347,345	46,388,920

Note No. 22: Technical Provisions

22.1 Technical Provisions

in EUR

Item	31 December 2019	31 December 2018
Technical provisions of the KS PPS	99,330,866	101,315,380
Technical provisions of the KS MR	16,803,424	20,522,180
Technical Provisions of the KS MR II	107,229,248	68,190,509
Technical provisions of the accident segment	26,000	0
Total	223,389,538	190,028,069

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

22.2 Changes in Technical Provisions

in EUR

Technical provisions	2019	2018
Opening balance	190,028,069	163,339,222
Change through profit or loss	33,315,899	26,668,900
Changes in claims provisions and adjustments	45,571	19,947
Closing balance	223,389,538	190,028,069

Technical provisions increased in 2019 due to the inflows of the funds and insured persons into the KS MR II fund. Changes in claims provisions represent the charged annuities that have not yet been paid for various reasons.

in EUR

Change in technical provisions	KS PPS	KS MR	KS MR II	Accident insurance	Total
Balance as at 1 January 2019	101,315,380	20,522,180	68,190,509	0	190,028,069
Increase	4,710,687	361,964	53,038,995	0	58,111,646
Decrease	-6,714,737	-4,081,094	-13,999,916	0	-24,795,747
Changes in claims provisions and adjustments	19,536	374	-340	26,000	45,570
Balance as at 31 December 2019	99,330,866	16,803,424	107,229,248	26,000	223,389,538

in EUR

Change in technical provisions	KS PPS	KS MR	KS MR II	Total
Balance as at 01.01.2018	102,491,512	25,460,572	35,387,137	163,339,222
Increase	5,528,534	435,659	41,052,939	47,017,132
Decrease	-6,721,756	-5,375,700	-8,250,776	-20,348,232
Change in claims provisions	17,090	1,649	1,209	19,947
Balance as at 31 December 2018	101,315,380	20,522,180	68,190,509	190,028,069

Note No. 23: Other Provisions

23.1. Other Provisions

in EUR

Other provisions	31 December 2019	31 December 2018
Provisions for non-achievement of the guaranteed return	8,173,478	9,888,253
Provisions for the deficit of assets of guarantee funds	474,822	1,274,930
Provisions related to employees (jubilee benefits, termination benefits and similar)	268,139	311,428
Provisions resulting from the LAT test	3,264,187	4,699,673
Total	12,180,626	16,174,284

23.2 Changes in Other Provisions

in EUR

Item	Provisions for non-achievement of the guaranteed return	Provisions resulting from the LAT test	Provisions for the deficit of assets of guarantee funds	Provisions related to employees	Total
1 January 2019	9,888,253	4,699,673	1,274,930	311,428	16,174,284
Newly set aside during the year	0	0	0	32,967	32,967
Drawing of provisions	0	0	0	-7,030	-7,030
Reversal of provisions	-1,714,775	-1,435,486	-800,108	-69,226	-4,019,595
31 December 2019	8,173,478	3,264,187	474,822	268,139	12,180,626

in EUR

Item	Provisions for non-achievement of the guaranteed return	Provisions resulting from the LAT test	Provisions for the deficit of assets of guarantee funds	Provisions related to employees	Total
1 January 2018	10,976,752	2,741,284	240,302	293,275	14,251,613
Newly set aside during the year	541,288	2,052,675	1,034,628	21,599	3,650,190
Drawing of provisions	0	0	0	-3,446	-3,446
Reversal of provisions	-1,629,786	-94,287	0	0	-1,724,073
31 December 2018	9,888,253	4,699,673	1,274,930	311,428	16,174,284

The Company sets aside provisions for failure to achieve the guaranteed rate of return when the actual net value of assets of funds implementing the investment policy of a guaranteed rate of return is lower than their guaranteed rate of return. In 2019, provisions for the ZPJU, MZP and PPS funds were reversed (in 2018, they were set aside for the KVPS, ZPJU and MZP funds).

The reversal of provisions resulting from the LAT in 2019 relates to the KS MR II and KS MR funds. New provisions were set aside in 2018 for the KS MR II fund and those of were reversed. Provisions arising from the LAT are explained in more detail under the 'Disclosures of Insurance Contracts' section.

Provisions for the deficit of assets in a guarantee fund are set aside when a guarantee fund records a deficit of assets with respect to its liabilities. Provisions are set aside in the amount of the difference between net value of assets and the liabilities to the insured (the amount of mathematical provisions). In 2019, such provisions were reversed for both annuity funds, i.e. EUR 791,836 for the KS MR II fund and EUR 8,272 for the KS MR fund, while provisions were aside for the two funds in 2018.

Termination benefits upon retirement and jubilee benefits are calculated based on the assumption on the expected employee turnover, their years of service and expected number of years until retirement while also observing the provisions of individual and collective employment contracts and the Company's internal acts. The calculation takes into account 2-percent salary growth, which is close to the ECB inflation targets, and a 2-percent discount rate. Assumptions regarding the expected employee turnover attribute the highest probability (40%) for leaving the Company to the employees with over 20 years of service until retirement, whilst employees with less than 5 years of service until retirement are attributed the probability of 0%.

Note No. 24: Other Financial Liabilities

in EUR

Item	31 December 2019	31 December 2018
Total	796	0

Other financial liabilities relate to the liabilities from interest on deposits.

Note No. 25: Operating Liabilities

in EUR

Item	31 December 2019	31 December 2018
Liabilities from direct insurance operations	0	6,000
Current tax liabilities	852,220	239,760
Total	852,220	245,760

Current tax liabilities are liabilities for the corporate income tax.

Note No. 26: Other Liabilities

in EUR

Item	31 December 2019	31 December 2018
Current liabilities to employees	287,789	270,416
Other current liabilities from insurance operations	205,600	10,858
Current trade payables	330,963	383,645
Other current liabilities	73,785	74,462
Accrued costs	137,693	144,704
Current deferred income	8,657,778	8,756,988
Financial lease liabilities	116,388	349,164
Non-current business premises leasing liabilities	1,566,929	0
Other non-current liabilities	34,714	33,636
Total	11,411,639	10,023,872

Current liabilities to employees are liabilities arising from salaries and wages for December 2019.

Other current liabilities from insurance operations are mainly liabilities for the coverage of indirect KS MR II costs disclosed vis-à-vis the Company (EUR 196,593).

Current trade payables comprise liabilities to securities dealers and to the controlling company.

Accrued costs relate to the costs of unused annual leave and other estimated costs for 2019.

Short-term deferred income is deferred income of KS MR II arising from the premiums received from the insured who expressed their intention based on the indicative calculation to take out insurance as of 1 January 2020.

Financial lease liabilities are liabilities associated with the leasing of intangible assets.

Non-current liabilities from business premises leasing relate to the lease liabilities in accordance with IFRS 16.

Other non-current liabilities are liabilities for the payout of the variable part of remuneration of the Management Board members.

Disclosures of Insurance Contracts

Composition of Long-Term Insurance Contracts

Table 25: Present gross value of future payments

in EUR

Guarantee fund	31 December 2019	31 December 2018
KS PPS	95,755,253	96,561,618
KS MR	16,799,439	20,518,569
KS MR II	106,250,665	68,189,090
Total	218,805,357	185,269,277

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

Table 26: Composition of technical provisions as at 31 December 2019

in EUR

Fund	TP for life insurance based on policies	TP for life insurance - surplus	Claims provisions	Total
KS PPS	95,755,253	2,575,010	1,000,602	99,330,865
KS MR	16,799,439	0	3,985	16,803,424
KS MR II	106,250,665	977,503	1,079	107,229,247
Total	218,805,357	3,552,513	1,005,666	223,363,536

Table 27: Composition of technical provisions as at 31 December 2018

in EUR

Fund	TP for life insurance based on policies	TP for life insurance - surplus	Claims provisions	Total
KS PPS	96,561,618	3,772,695	981,067	101,315,380
KS MR	20,518,569	0	3,611	20,522,180
KS MR II	68,189,090	0	1,419	68,190,509
Total	185,269,277	3,772,695	986,097	190,028,069

Technical provisions based on individual KS PPS policies as at 31 December 2019 deviate from total technical provisions by the amount of provisions for the equalisation of yield experience equalling EUR 2,575,010 (EUR 3,772,695 in 2018) and claims provisions totalling EUR 1,000,602 (EUR 981,067 in 2018). The calculation of the value of future payments uses the DAV2004R annuity tables and the statutory technical interest rate of 1%.

Technical provisions based on individual KS MR policies as at 31 December 2019 deviate from total technical provisions by the amount of claims provisions equalling EUR 3,985 (EUR 3,611 in 2018). The German DAV1994R annuity tables were used in the calculation of future payments.

Technical provisions based on individual KS MR II policies as at 31 December 2019 deviate from total technical provisions by the amount of provisions for the allocated part of profit of EUR 884,669, unallocated part of profit of EUR 92,834 and claims provisions totalling EUR 1,079 (EUR 1,419 in 2018). The German DAV1994R annuity tables were used in the calculation of future payments.

Adequacy of Liabilities

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

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

- the expected mortality was determined using the German D1994R mortality table for annuities, separately according to gender, that adequately describe actual mortality based on past experience;
- early terminations were not envisaged as they are not possible in line with the provisions laid down in insurance contracts;
- expected costs are the same as the accrued ones;
- the discount rate is based on the risk-free rate as at 31 December 2019 published by EIOPA and observes the effect of expected asset returns valued at amortised cost, whereby we applied the expected effect for the first time in 2019.

The Liability Adequacy Test as at 31 December 2019 showed that mathematical provisions for KS PPS were adequate, whereas a deficit of EUR 43,985 and EUR 3,220,202 was determined for KS MR and KS MR II respectively.

Changes in Interest Rates/Return

Table 28: Changes in interest rates / returns for KS PPS

in EUR

Change in liabilities/provisions	31 December 2019	31 December 2018
Increase in return by 0.25 percentage points	-2,749,120	-2,819,979
Decrease in return by 0.25 percentage points	2,888,770	2,965,112

Table 29: Changes in interest rates/returns for KS MR

in EUR

Change in liabilities/provisions	31 December 2019	31 December 2018
Increase in return by 0.25 percentage points	-297,321	-336,257
Decrease in return by 0.25 percentage points	310,784	351,196

Table 30: Changes in interest rates/returns for KS MR II

in EUR

Change in liabilities/provisions	31 December 2019	31 December 2018
Increase in return by 0.25 percentage points	-1,938,436	-1,227,571
Decrease in return by 0.25 percentage points	2,021,893	1,280,205

Change in Mortality

Table 31: Change in mortality for KS PPS

in EUR

Change in liabilities/provisions	31 December 2019	31 December 2018
Increase in mortality probability by 10%	-3,515,639	-3,433,541
Decrease in mortality probability by 10%	4,018,859	3,899,511

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 3,515,639 (EUR 3,433,541 in 2018).

Annuity tables DAV2004R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 32: Change in mortality for KS MR

in EUR

Change in liabilities/provisions	31 December 2019	31 December 2018
Increase in mortality probability by 10%	-250,141	-251,421
Decrease in mortality probability by 10%	282,182	283,285

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 250,141 (EUR 251,421 in 2018).

Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Table 33: Change in mortality for KS MR II

in EUR

Change in liabilities/provisions	31 December 2019	31 December 2018
Increase in mortality probability by 10%	-805,969	-499,096
Decrease in mortality probability by 10%	904,237	559,758

Increase of mortality probability by 10% would result in a decrease of liabilities by EUR 805,969 (EUR 499,096 in 2018).

Annuity tables DAV1994R were used in the calculation of changes in liabilities due to changes in the mortality variable.

Risk Management

Modra zavarovalnica, d. d. estimates that its own assets as well as those of the KS PPS, KS MR and KS MR II funds are exposed to credit, market, interest rate and liquidity risk within the scope of its operations. The Company's own assets as well as those of the guarantee funds (KS PPS, KS MR and KS MR II) are included in the tables presented. Of the abovementioned risk types that we assume in our operations, it is the market and credit risks that are the most important.

Capital Management – Solvency II

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

Table 34: Capital adequacy pursuant to the requirements of Solvency II

in EUR

Item	31 December 2019	31 December 2018
Solvency II		
Total capital requirement (in EUR)	148,056,788	122,828,076
Eligible own funds (in EUR)	286,712,246	252,222,122
Surplus (+)/deficit (–) of available own funds (in EUR)	138,655,458	129,394,046
Eligible own funds to total capital requirement ratio (in %)	194%	205%

Equity Risk

Equity risk or the risk of a change in the prices of equities represents the risk of the value of equity securities changing as a result of changes to market indices or the market value of individual shares.

Equity risk is managed by applying threshold value of permitted exposure as well as geographical and industry-related diversification of investments.

Table 35: Equity portfolio risk

in EUR

Change of the index by +/- 10%	31 December 2019	31 December 2018
Effect on the P&L from investments at fair value through profit or loss	+/-8,355,488	+/-6,200,236
Effect on capital from investments at fair value through other comprehensive income	+/-17,964,540	+/-17,545,391
Total	+/-26,320,028	+/-23,745,627

The effect on the P&L is demonstrated by equities at fair value through profit or loss, while the effect on capital is demonstrated by investments at fair value through other comprehensive income.

Currency Risk

Table 36: Currency composition of financial assets

in EUR

Currency	31 December 2019	31 December 2018
Assets denominated in euros	453,499,967	398,674,222
Assets denominated in US dollars	67,282,470	52,094,897
Assets denominated in other currencies	3,133,450	2,707,870
Total	523,915,887	453,476,989

As at 31 December 2019, 86% of the Company's financial assets were denominated in euros, 13% in US dollars and the remainder in other currencies.

Table 37: Currency risk of financial assets

in EUR

Change of the USD exchange rate by +/- 10%	31 December 2019	31 December 2018
Effect on profit or loss	+/-789,501	+/-170,098
Effect on capital	+/-5,938,746	+/-5,039,391
Total	+/-6,728,247	+/-5,209,489

Interest Rate Risk

The Company is exposed to interest rate risk in case of a mismatch between asset and liability cash flows.

On the asset side, interest rate risk stems from investments in securities that react to changes in the levels of market interest rates. These include investments, the income from which is linked to variable interest rates, and debt instruments where interest income is linked to a fixed interest rate despite the fact their market value changes upon any fluctuation of the level of market interest rates. Due to low interest rates, the assets were mostly exposed to the risk of reinvestment.

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 investments at amortised cost as well as by using derivatives to hedge against interest rate risk, which were not used last year by the Company.

Table 38: Analysis of investment sensitivity to changes in market interest rates as at 31 December 2019 – change in interest rates by 50 basis points

in EUR

Item	Change in interest rates	Sensitivity of interest income	Effect on fair value	Total
Investments at fair value through profit or loss	+/-0.5%	+/-15,653	+/-128,636	+/-112,984
Investments at amortised cost	+/-0.5%	0	0	0
Investments at fair value through other comprehensive income	+/-0.5%	+/-8,118	+/-177,030	+/-168,912
Total	+/-0.5%	+/-23,771	+/-305,666	+/-281,895

Table 39: Analysis of investment sensitivity to changes in market interest rates as at 31 December 2018 – change in interest rates by 50 basis points

in EUR

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

When calculating the sensitivity of interest income, financial assets with a variable interest rate were taken into account, while financial assets with a fixed interest rate were taken into account when calculating the effect on fair value.

Credit Risk

Credit risk relates to debt securities (financial assets held as bonds, commercial and treasury bills, certificates of deposits, deposits, issued loans, cash and cash equivalents) and represents the risk of investments into debt securities being repaid only in part or not to be repaid at all; maximum exposure equals the carrying amount of these financial instruments. Equities are excluded from the analysis because they do not carry any direct credit risk.

Modra zavarovalnica, d. d. employs certain procedures for the monitoring of the credit exposure to financial institutions whose instruments it holds as investments; it also has limits in place for the maximum exposure to debt securities that do not hold an investment-grade rating. Within the scope of the Company's internal rules, a business partner's credit rating is determined using the Company's 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 prudently selecting its partners (analysis of counter parties before assuming a credit risk), checking their credit rating and diversifying investments in terms of issuer, industry and geographical area. The credit risk of foreign debt securities is generally managed by investing in foreign debt securities with a credit rating provided by a recognised credit rating agency higher than BBB-, and by adjusting the portfolio's credit rating structure to the internal restrictions adopted.

Credit risk deriving from exposure to a particular bank (deposits, certificates of deposit) is managed by the Company in line with internal rules, i.e. by determining investment limits representing the permitted exposure at a particular bank in a certain period on a monthly basis. The total exposure to an individual issuer is determined on an ongoing basis and is aligned with legal regulations. No derivatives were used for hedging against credit risk.

Table 40: Exposure of financial assets to credit risk without considering potential collateral (security) as at 31 December 2019

in EUR

Internal rating	Rating	Level of expected loss	Expected loss measurement method	Gross exposure	Net exposure (less expected loss)
Low-risk investments	AAA	-0.002%	12-month expected loss	6,625,739	6,625,587
	AA	-0.009%		18,096,612	18,095,215
	A	-0.015%		85,293,672	85,282,850
	BBB	-0.055%		101,155,350	101,113,284
High risk investments	BB	-0.400%	12-month/lifetime expected loss	49,415,595	49,250,699
	B	-0.686%		347,976	347,976
Total		-0.104%		260,934,944	260,715,611

The difference between gross and net exposure is EUR 219,333 which is a revaluation adjustment for the expected losses on debt investments at amortised cost. Total impairments amount to EUR 270,189 (including debt investments at amortised cost and financial assets at fair value through other comprehensive income).

B-rated investments are those that are valued at fair value through profit or loss or other comprehensive income which is why gross exposure is equal to net exposure.

Table 41: Exposure of financial assets to credit risk without considering potential collateral (security) as at 31 December 2018

in EUR

Internal rating	Rating	Level of expected loss	Expected loss measurement method	Gross exposure	Net exposure (less expected loss)
Low-risk investments	AAA	-0.003%	12-month expected loss	3,591,395	3,591,270
	AA	-0.007%		16,828,210	16,827,297
	A	-0.012%		81,149,490	81,141,125
	BBB	-0.049%		77,792,257	77,766,939
High risk investments	BB	-0.474%	12-month/lifetime expected loss	35,574,542	35,450,426
	B	0%		1,243,663	1,243,663
Total		-0.101%		216,179,555	216,020,719

B-rated investments include an investment into a treasury bill at fair value through profit or loss, which is why no impairments were made for this investments.

Table 42: Changes in the loss allowance

in EUR

Category	Stage 1	Stage 2
Expected loss allowance as at 1 January 2019	-99,988	-118,205
Transfer from stage 1 to stage 2	0	-2,038
Financial assets derecognised in the period	30,672	37,769
Financial assets acquired in the period	-77,082	0
Other changes	-26,229	-15,088
Expected loss allowance as at 31 December 2019	-172,627	-97,562

The Company holds no investments classified as Stage 3. The Company has two debt investments classified as stage 2. One of them was transferred from stage 1 to stage 2 in 2019.

Other changes in the loss allowance are due to the changed risk parameters.

Table 43: Changes in the loss allowance in 2018

in EUR

Category	Stage 1	Stage 2
Expected loss allowance as at 1 January 2018	-94,056	-231,359
Financial assets derecognised in the period	41,465	47,293
Financial assets acquired in the period	-48,491	0
Other changes	1,093	65,861
Expected loss allowance as at 31 December 2018	-99,988	-118,205

Other changes to the loss allowance represent the reversal of impairments in the period as a result of the nearing date of maturity of the financial asset and the change to the allowance as a result of changes to risk parameters.

Table 44: Changes in the gross carrying amount and the allowance

in EUR

Category	Gross carrying amount	Loss allowance
Opening balance as at 1 January 2019	216,179,555	-218,193
Transfer from stage 1 to stage 2	348,197	-2,038
Financial assets acquired in the period	70,411,937	-77,082
Financial assets derecognised in the period	-29,907,596	68,441
Other changes	3,902,852	-41,317
Closing balance as at 31 December 2019	260,934,944	-270,189

Other gross carrying amount differences are the differences in the balance of assets as at 31 December 2018 and 31 December 2019.

Table 45: Changes in the gross carrying amount and the allowance

in EUR

Category (mutual/non-mutual)	Gross carrying amount	Loss allowance
Opening balance as at 1 January 2018	199,654,207	-325,415
Financial assets acquired in the period	46,799,455	-48,491
Financial assets derecognised in the period	-31,800,923	88,758
Other changes	1,526,816	66,954
Closing balance as at 31 December 2018	216,179,555	-218,193

Table 46: Geographical concentration of credit risk exposure of financial assets

in EUR

Region	31 December 2019	31 December 2018
Slovenia	103,531,228	86,794,176
Other countries	157,184,383	129,226,542
Total	260,715,611	216,020,719

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

Table 47: Overview of financial assets according to marketability

in EUR

Financial asset	31 December 2019	31 December 2018
Securities traded on the regulated market	469,606,584	414,876,124
Investments at fair value through profit or loss	101,317,787	66,487,531
Investments at amortised cost	155,062,313	134,018,646
Investments at fair value through other comprehensive income	213,226,484	214,369,948
Securities not traded on the regulated market	46,658,906	34,935,868
Investments at fair value through profit or loss	14,083,911	15,858,326
Investments at amortised cost	29,126,448	16,879,144
Investments at fair value through other comprehensive income	3,448,548	2,198,398
Cash and cash equivalents	7,650,396	3,664,997
Total	523,915,886	453,476,989

At the end of 2019, investments traded on the regulated market accounted for 90% of the Company's assets.

Table 48: Overview of financial assets according to carrying amount and fair value as at 31 December 2019

in EUR

Item	Carrying amount	Fair value
Investments at fair value through profit or loss	115,401,698	115,401,698
Investments at amortised cost	184,188,761	199,085,095
Investments at fair value through other comprehensive income	216,675,032	216,675,032
Cash and cash equivalents	7,650,396	7,650,396
Total	523,915,886	538,812,220

Table 49: Overview of financial assets according to carrying amount and fair value as at 31 December 2018

in EUR

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

According to its accounting policies, Modra zavarovalnica, d. d. measures its financial assets at fair value, which equals the market value of the relevant financial asset. The difference between the carrying amount and fair value occurs in investments at amortised cost.

Table 50: Hierarchy of financial asset fair values as at 31 December 2019

in EUR

Item	L1	L2	L3	Total
Financial assets at fair value	243,550,342	71,998,729	16,527,658	332,076,730
Investments at fair value through profit or loss	80,413,967	20,903,820	14,083,911	115,401,698
Investments at fair value through other comprehensive income	163,136,375	51,094,909	2,443,748	216,675,032
Financial assets with fair value disclosed	169,912,597	7,730,827	29,092,068	206,735,491
Investments at amortised cost	162,262,201	7,730,827	29,092,068	199,085,095
Cash and cash equivalents	7,650,396	0	0	7,650,396
Total	413,462,939	79,729,555	45,619,726	538,812,220

Table 51: Hierarchy of financial asset fair values as at 31 December 2018

in EUR

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

Level 1

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

Level 2

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

Level 2 thus includes debt securities of companies and financial institutions as well as government securities valued using benchmark market data and investments in shares of some Slovenian companies valued using market data of comparable listed companies.

Level 3

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

Level 3 also includes deposits and factoring of EUR 25,225,889 (EUR 16,485,809 in 2018), commercial papers of Slovenian issuers of EUR 3,866,179 (EUR 5,022,797 in 2018) and investment fund units with prices provided by third parties in the amount of EUR 6,882,909 (EUR 6,046,098 in 2018). The prices of commercial papers are calculated based on theoretical (amortised) value of commercial papers considering the interest rate applicable to the relevant purchase. Level 3 includes the joint venture investment of EUR 5,962,870 (EUR 4,962,870 in 2018), which is valued at cost. Level 3 also comprises shares of certain Slovenian companies in the total amount of EUR 3,681,880.

In 2019, investments of Slovenian electricity distribution companies valued at EUR 2,693,328 were transferred from Level 2 to Level 3. The major assumptions and variables observed in the valuation of these companies were: discount rate of 7.1% and long-term growth rate of 2%.

In 2018, shares of certain Slovenian companies in the total amount of EUR 1,137,477 were classified as Level 3 investments. The biggest investment is the one in Hit, d. d. in the amount of EUR 780,657. The value of the investment was set by the model of present value of expected free cash flows. The valuation was made based on a 7.8% discount rate. In 2018, an investment valued at EUR 449,336 was transferred from Level 3 to Level 2.

Table 52: Changes in Level 3 investments

in EUR		
Item	2019	2018
Balance as at 1 January	33,655,052	33,440,875
Disposals/maturity	-14,974,707	-23,975,803
Acquisitions	23,795,906	24,084,576
Revaluation	450,146	554,741
Reclassification	2,693,328	-449,336
Balance as at 31 December	45,619,726	33,655,052

Liquidity Risk

Liquidity risk represents the risk that the Company's liabilities will not be settled by their due date. As at 31 December 2019, Modra zavarovalnica, d. d. recorded a total of EUR 272,248,224 worth of surplus of expected non-discounted cash inflows over outflows.

Table 53: Expected actual non-discounted cash flows as at 31 December 2019

in EUR					
Item	Less than 1 year	More than 1 and up to 5 years	More than 5 years	With no maturity	Total
Investments	34,264,222	141,023,145	104,768,068	226,681,843	506,737,278
• at fair value through profit or loss	4,614,715	12,617,983	15,593,900	77,592,006	110,418,603
• at amortised cost	23,704,287	102,471,375	83,519,715	0	209,695,378
• at fair value through other comprehensive income	5,945,220	25,933,787	5,654,454	149,089,836	186,623,296
Cash and cash equivalents	7,650,396	0	0	0	7,650,396
Receivables	1,598,411	0	0	0	1,598,411
Total assets	43,513,029	141,023,145	104,768,068	226,681,843	515,986,085
Operating liabilities	852,220	0	0	0	852,220
Lease liabilities (right-of-use)	319,455	1,247,474	0	0	1,566,929
Other liabilities	9,809,996	34,714	0	0	9,844,710
Financial liabilities	796	0	0	0	796
Annuity fund liabilities	23,743,151	68,903,261	138,826,794	0	231,473,206
Total liabilities	34,725,618	70,185,449	138,826,794	0	243,737,861
Difference (assets - liabilities)	8,787,411	70,837,696	-34,058,726	226,681,843	272,248,224

Table 54: Pričakovani dejanski nediskontirani denarni tokovi na dan 31. 12. 2018

in EUR

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

Shares and other equity financial instruments are disclosed under the item "With no maturity".

Effective Interest Rates by Financial Asset Groups

Table 55: Effective interest rates by financial asset groups

in EUR

Item	2019	2018
Investments at amortised cost	1.99%	2.07%
Investments at fair value through other comprehensive income	2.03%	2.20%

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

Other Disclosures

Remuneration of the Management Board, the Supervisory Board and Workers Employed under Individual Employment Contracts

In 2019, total remuneration of the members of the Management Board, Supervisory Board and employees with individual employment contracts for performing their function and to whom the tariff section of the collective agreement does not apply amounted to EUR 922,998.

In 2019, Modra zavarovalnica, d. d. granted no prepayments or loans to members of its Management or Supervisory Boards, and neither did it assume any liabilities on their behalf.

Table 56: Gross remuneration in 2019 by category of beneficiaries

in EUR

Category of beneficiaries	Amount
Members of the Management Board	422,309
Members of the Supervisory Board	102,814
Employees employed under individual contracts	397,875
Total	922,998

Remuneration of the Members of the Management and Supervisory Boards

Table 57: Remuneration of the members of the Management Board in 2019

in EUR

Name and surname	Fixed remuneration	Outstanding payments	Fringe benefits	Holiday pay	Reimbursement of expenses	Insurance premiums	Total
Borut Jamnik	118,678	24,366	4,491	1,752	3,196	2,819	155,302
Matija Debelak	110,399	23,148	1,406	1,752	1,144	2,819	140,668
Boštjan Vovk	112,916	3,246	842	1,752	4,764	2,819	126,339

Fixed income includes gross salary receipts. Outstanding payments include the second part of variable remuneration for 2016 and the first part of variable remuneration for 2018. Reimbursements of expenses include meal and/or travel allowances and/or other reimbursements of travel expenses (per diems, mileage expenses, costs of overnight stays, parking, taxi). Fringe benefits include company cars and benefits arising from collective accident insurance as well as from collective insurance for specialist outpatient treatment, liability insurance benefit, specialist analysis and examination benefit as well as the sports activity coverage benefit. Insurance premiums represent payments of the voluntary supplementary pension insurance premium.

Table 58: Remuneration of the members of the Supervisory Board and external members of Supervisory Board committees in 2019

in EUR

Name and surname	Fixed remuneration of the SB	Fixed remuneration of the SB AC	Monthly remuneration of the SB	Monthly remuneration of the SB AC	Reimbursement of expenses	Fringe benefits	Total
Branimir Štrukelj	2,915	-	11,596	-	-	243	14,754
Bojan Zupančič	2,915	1,100	10,450	1,887	-	243	16,595
Janez Prašnikar	2,915	-	10,450	-	-	243	13,608
Goran Bizjak	2,640	1,540	10,450	3,919	924	243	19,716
Bachtiar Djalil	2,915	-	13,729	-	-	243	16,887
Roman Jerman	1,650	-	7,402	-	44	243	9,339
Boris Žnidarič	275	-	393	-	3	-	671
Natalija Stošički	1,265	220	4,311	718	96	-	6,610
Dragan Martinović (external members of the SB AC)	-	1,540	-	2,613	481	-	4,634

Fixed remuneration includes attendance fees for meetings of the Supervisory Board and its Audit Committee. Compensation includes the monthly remuneration for performing the function of member of the Supervisory Board and member of the Supervisory Board's Audit Committee. Expense reimbursements include reimbursement of travel expenses and educational/training expenses. Perks include the liability insurance benefit.

Related Party Transactions

In 2019, no transactions between Modra zavarovalnica, d. d. and the controlling entity, Kapitalska družba, d. d. were conducted at non-market conditions. Modra zavarovalnica leased business premises and IT equipment from Kapitalska družba with the total value of these services amounting to EUR 550,254.

As at 31 December 2019, Modra zavarovalnica disclosed operating liabilities to the controlling company amounting to EUR 49,904. In 2019, the Company paid dividends amounting to 3,174,950 to Kapitalska družba.

In 2019, Kapitalska družba was paying premiums for collective pension insurance of its employees to the account of open-end umbrella pension fund Modri krovni pokojninski sklad managed by Modra zavarovalnica.

Significant Events after the Balance Sheet Date

From the end of 2019 until the preparation of the Annual Report, Modra zavarovalnica recorded no significant events that would affect its financial statements for 2019.

In February 2020, financial markets recorded strongly negative trends as investors decided to move capital from risky investments into safer ones for fear of the spread of the Coronavirus and its potential negative effects on economic growth. Global stock indices thus fell by more than 20% in February 2020 which affected the returns of mutual pension funds managed by Modra zavarovalnica as well as the returns on own funds. The effect of the change in stock indices on the profit or loss or capital of Modra zavarovalnica is presented in the financial section of the annual report under risk management. The decline in economic activity could thus have a negative effect on the net premium income and the premiums for mutual pension funds, both of which affect the Company's profit or loss.

Appendix

142 Selected performance indicators

148 Financial statements pursuant to the decision of the Insurance Supervision Agency

Selected Operating Performance Ratios

Ratio		2019	Calculation
1. Total	Increase in gross written premium (index)	124	$\frac{53,462,703 \times 100}{43,190,535}$
	Life insurance	124	$\frac{53,424,749 \times 100}{43,164,734}$
	Non-life insurance	147	$\frac{37,954 \times 100}{25,800}$
2. Total	Net written premium as a % of the gross written premium	100 %	$\frac{53,462,703 \times 100}{53,462,703}$
	Life insurance	100 %	$\frac{53,424,749 \times 100}{53,424,749}$
	Non-life insurance	100 %	$\frac{37,954 \times 100}{37,954}$
3. Total	Changes in gross paid claims (index)	122	$\frac{24,835,317 \times 100}{20,394,180}$
	Life insurance	122	$\frac{24,815,317 \times 100}{20,368,181}$
	Non-life insurance	77	$\frac{20,000 \times 100}{26,000}$
4. Total	Loss ratio	46 %	$\frac{24,835,317}{53,462,703}$
	Life insurance	46 %	$\frac{24,815,317}{53,424,749}$
	Non-life insurance	53 %	$\frac{20,000}{37,954}$
5. Total	Operating costs as a % of the gross written premium	13 %	$\frac{6,916,018 \times 100}{53,462,703}$
	Life insurance	13 %	$\frac{6,867,852 \times 100}{53,424,749}$
	Non-life insurance	127 %	$\frac{48,166 \times 100}{37,954}$
6. Total	Acquisition costs as a % of the gross written premium	0,10 %	$\frac{56,024 \times 100}{53,462,703}$
	Life insurance	0,10 %	$\frac{56,024 \times 100}{53,424,749}$
	Non-life insurance	0 %	$\frac{0 \times 100}{37,954}$
7. Total	Net loss ratio	46 %	$\frac{(24,795,747 + 39,570)}{53,462,703}$
	Life insurance	46 %	$\frac{24,795,747 + 19,570}{53,424,749}$

The table continues on the next page.

Ratio		2019	Calculation
	Non-life insurance	53 %	$\frac{20,000}{37,954}$
8. Non-life insurance	Combined loss ratio	180 %	$\frac{(20,000 + 48,166) \times 100}{37,954}$
9. Life insurance	Cost ratio	13 %	$\frac{6,867,852 \times 100}{53,424,749}$
10. Life insurance	Benefit ratio	109 %	$\frac{(24,815,317 + 33,315,898) \times 100}{53,424,749}$
11. Total	Investment performance as a % of the average balance of investments	3 %	$\frac{(19,563,717 - 4,226,587) \times 100}{\frac{(516,265,490 + 449,811,991)}{2}}$
	Life insurance	3 %	$\frac{(19,509,582 - 4,220,649) \times 100}{\frac{(511,217,743 + 444,795,290)}{2}}$
	Non-life insurance	1 %	$\frac{(54,135 - 5,938) \times 100}{\frac{(5,047,747 + 5,016,701)}{2}}$
12. Total	Net claims provisions as a % of net premium income	2 %	$\frac{1,031,668 \times 100}{53,462,703}$
	Life insurance	2 %	$\frac{1,005,668 \times 100}{53,424,749}$
	Non-life insurance	69 %	$\frac{26,000 \times 100}{37,954}$
13. Total	Gross profit or loss for the year as a % of the net written premium	28 %	$\frac{14,716,562 \times 100}{53,462,703}$
	Life insurance	28 %	$\frac{14,698,563 \times 100}{53,424,749}$
	Non-life insurance	47 %	$\frac{17,999 \times 100}{37,954}$
14. Total	Gross profit or loss for the year as a % of average equity	6 %	$\frac{(14,716,562) \times 100}{\frac{(269,237,332 + 235,772,618)}{2}}$
	Life insurance	6 %	$\frac{(14,698,563) \times 100}{\frac{(264,098,231 + 230,699,466)}{2}}$
	Non-life insurance	0,35 %	$\frac{(17,999) \times 100}{\frac{(5,139,101 + 5,073,152)}{2}}$
15. Total	Gross profit or loss for the year as a % of average assets	3 %	$\frac{(14,716,562) \times 100}{\frac{(530,779,842 + 460,070,564)}{2}}$
	Life insurance	3 %	$\frac{(14,698,563) \times 100}{\frac{(525,565,146 + 454,961,051)}{2}}$

The table continues on the next page.

Ratio			2019	Calculation
	Non-life insurance	Gross profit or loss for the year as a % of average assets	0,35 %	$\frac{(17.999) \times 100}{\left(\frac{5.214.696 + 5.109.513}{2}\right)}$
16.	Total	Gross profit or loss for the year per share	0,10 €	$\frac{14.716.562}{152.200.000}$
	Life insurance	Gross profit or loss for the year per share	-	-
	Non-life insurance	Gross profit or loss for the year per share	-	-
17.	Total	Reinsurance receivables and the reinsurer's share of technical provisions as a % of the Company's equity	0 %	$\frac{0}{269.237.332}$
	Life insurance	Reinsurance receivables and the reinsurer's share of technical provisions as a % of the Company's equity	0 %	$\frac{0}{264.098.231}$
	Non-life insurance	Reinsurance receivables and the reinsurer's share of technical provisions as a % of the Company's equity	0 %	$\frac{0}{5.139.101}$
18.	Total	Net written insurance premium as a % of the average balance of equity and technical provisions	12 %	$\frac{53.462.703 \times 100}{\left(\frac{492.600.870 + 425.800.687}{2}\right)}$
	Life insurance	Net written insurance premium as a % of the average balance of equity and technical provisions	11 %	$\frac{53.424.749 \times 100}{\left(\frac{487.461.769 + 420.727.535}{2}\right)}$
	Non-life insurance	Net written insurance premium as a % of the average balance of equity and technical provisions	1 %	$\frac{(37.954) \times 100}{\left(\frac{5.165.101 + 5.073.152}{2}\right)}$
19.	Total	Average balance of net technical provisions as a % of net premium income	387 %	$\frac{(223.389.538 + 190.028.069) \times 100}{2}$ $\frac{53.462.703}{53.462.703}$
	Life insurance	Average balance of net technical provisions as a % of net premium income	387 %	$\frac{(223.363.538 + 190.028.069) \times 100}{2}$ $\frac{53.424.749}{53.424.749}$
	Non-life insurance	Average balance of net technical provisions as a % of net premium income	34 %	$\frac{(26.000 + 0) \times 100}{2}$ $\frac{37.954}{37.954}$
20.	Total	Equity as a % of liabilities	51 %	$\frac{269.237.332 \times 100}{530.779.842}$
	Life insurance	Equity as a % of liabilities	50 %	$\frac{264.098.231 \times 100}{525.565.146}$
	Non-life insurance	Equity as a % of liabilities	99 %	$\frac{5.139.101 \times 100}{5.214.696}$
21.	Total	Net technical provisions as a % of liabilities	42 %	$\frac{223.389.538 \times 100}{530.779.842}$
	Life insurance	Net technical provisions as a % of liabilities	42 %	$\frac{223.363.538 \times 100}{525.565.146}$
	Non-life insurance	Net technical provisions as a % of liabilities	0 %	$\frac{26.000 \times 100}{5.214.696}$
22.	Total	Net life technical provisions to net technical provisions	100 %	$\frac{223.363.538 \times 100}{223.389.538}$
23.	Total	Gross written premium to the average number of full-time employees	891.045 €	$\frac{53.462.703}{60}$

Ratio			2018	Calculation
1.	Total	Increase in gross written premium (index)	148	$\frac{43.190.535 \times 100}{29.238.721}$
	Life insurance	Increase in gross written premium	148	$\frac{43.164.734 \times 100}{29.225.847}$
	Non-life insurance	Increase in gross written premium	200	$\frac{25.800 \times 100}{12.874}$
2.	Total	Net written premium as a % of the gross written premium	100 %	$\frac{43.190.535 \times 100}{43.190.535}$
	Life insurance	Net written premium as a % of the gross written premium	100 %	$\frac{43.164.734 \times 100}{43.164.734}$
	Non-life insurance	Net written premium as a % of the gross written premium	100 %	$\frac{25.800 \times 100}{25.800}$
3.	Total	Changes in gross paid claims (index)	120	$\frac{20.394.180 \times 100}{16.991.250}$
	Life insurance	Changes in gross paid claims	120	$\frac{20.368.180 \times 100}{16.991.250}$
	Non-life insurance	Changes in gross paid claims	-	$\frac{26.000 \times 100}{0}$
4.	Total	Loss ratio	47 %	$\frac{20.374.232}{43.190.535}$
	Life insurance	Loss ratio	47 %	$\frac{20.348.232}{43.164.734}$
	Non-life insurance	Loss ratio	101 %	$\frac{26.000}{25.800}$
5.	Total	Operating costs as a % of the gross written premium	15 %	$\frac{6.588.033 \times 100}{43.190.535}$
	Life insurance	Operating costs as a % of the gross written premium	15 %	$\frac{6.546.177 \times 100}{43.164.734}$
	Non-life insurance	Operating costs as a % of the gross written premium	162 %	$\frac{41.856 \times 100}{25.800}$
6.	Total	Acquisition costs as a % of the gross written premium	0,1 %	$\frac{40.135 \times 100}{43.190.535}$
	Life insurance	Acquisition costs as a % of the gross written premium	0,1 %	$\frac{40.135 \times 100}{43.164.734}$
	Non-life insurance	Acquisition costs as a % of the gross written premium	0 %	$\frac{0 \times 100}{25.800}$
7.	Total	Net loss ratio	47 %	$\frac{(20.374.232 + 19.947)}{43.190.535}$
	Life insurance	Net loss ratio	47 %	$\frac{(20.368.180 + 19.947)}{43.164.734}$

The table continues on the next page.

Ratio			2018	Calculation
	Non-life insurance	Net loss ratio	101 %	$\frac{26.000}{25.800}$
8.	Non-life insurance	Combined loss ratio	263 %	$\frac{(26.000 + 41.856) \times 100}{25.800}$
9.	Life insurance	Cost ratio	15 %	$\frac{6.546.177 \times 100}{43.164.734}$
10.	Life insurance	Benefit ratio	109 %	$\frac{(20.368.180 + 26.668.900) \times 100}{43.164.734}$
11.	Total	Investment performance as a % of the average balance of investments	3 %	$\frac{(15.742.996 - 4.294.395) \times 100}{\left(\frac{449.811.991 + 432.005.763}{2}\right)}$
	Life insurance	Investment performance as a % of the average balance of investments	3 %	$\frac{(15.692.283 - 4.290.588) \times 100}{\left(\frac{444.795.290 + 426.926.738}{2}\right)}$
	Non-life insurance	Investment performance as a % of the average balance of investments	1 %	$\frac{50.713 \times 100}{\left(\frac{5.016.701 + 5.079.025}{2}\right)}$
12.	Total	Net claims provisions as a % of net premium income	2 %	$\frac{986.096 \times 100}{43.190.535}$
	Life insurance	Net claims provisions as a % of net premium income	2 %	$\frac{986.096 \times 100}{43.164.734}$
	Non-life insurance	Net claims provisions as a % of net premium income	0 %	$\frac{0 \times 100}{25.800}$
13.	Total	Gross profit or loss for the year as a % of the net written premium	16 %	$\frac{6.981.669 \times 100}{43.190.535}$
	Life insurance	Gross profit or loss for the year as a % of the net written premium	16 %	$\frac{6.976.792 \times 100}{43.164.734}$
	Non-life insurance	Gross profit or loss for the year as a % of the net written premium	19 %	$\frac{4.877 \times 100}{25.800}$
14.	Total	Gross profit or loss for the year as a % of average equity	3 %	$\frac{(6.981.669) \times 100}{\left(\frac{235.772.618 + 244.039.501}{2}\right)}$
	Life insurance	Gross profit or loss for the year as a % of average equity	3 %	$\frac{(6.976.792) \times 100}{\left(\frac{230.699.466 + 238.929.919}{2}\right)}$
	Non-life insurance	Gross profit or loss for the year as a % of average equity	0,1 %	$\frac{(4.877) \times 100}{\left(\frac{5.073.152 + 5.109.582}{2}\right)}$
15.	Total	Gross profit or loss for the year as a % of average assets	2 %	$\frac{(6.981.669) \times 100}{\left(\frac{460.070.564 + 439.020.316}{2}\right)}$
	Life insurance	Gross profit or loss for the year as a % of average assets	2 %	$\frac{(6.976.792) \times 100}{\left(\frac{454.961.051 + 433.871.392}{2}\right)}$

The table continues on the next page.

Ratio			2018	Calculation
	Non-life insurance	Gross profit or loss for the year as a % of average assets	0,1 %	$\frac{(4.877) \times 100}{\left(\frac{5.109.513 + 5.148.924}{2}\right)}$
16.	Total	Gross profit or loss for the year per share	0,05 €	$\frac{6.981.669}{152.200.000}$
	Life insurance	Gross profit or loss for the year per share	-	-
	Non-life insurance	Gross profit or loss for the year per share	-	-
17.	Total	Reinsurance receivables and the reinsurer's share of technical provisions as a % of the Company's equity	0 %	$\frac{0}{235.772.618}$
	Life insurance	Reinsurance receivables and the reinsurer's share of technical provisions as a % of the Company's equity	0 %	$\frac{0}{230.699.466}$
	Non-life insurance	Reinsurance receivables and the reinsurer's share of technical provisions as a % of the Company's equity	0 %	$\frac{0}{5.073.152}$
18.	Total	Net written insurance premium as a % of the average balance of equity and technical provisions	10 %	$\frac{43.190.535 \times 100}{\left(\frac{425.800.687 + 407.378.722}{2}\right)}$
	Life insurance	Net written insurance premium as a % of the average balance of equity and technical provisions	10 %	$\frac{43.164.734 \times 100}{\left(\frac{420.727.535 + 402.269.140}{2}\right)}$
	Non-life insurance	Net written insurance premium as a % of the average balance of equity and technical provisions	1 %	$\frac{(25.800) \times 100}{\left(\frac{5.073.152 + 5.109.582}{2}\right)}$
19.	Total	Average balance of net technical provisions as a % of net premium income	409 %	$\frac{(190.028.069 + 163.339.221) \times 100}{2 \times 43.190.535}$
	Life insurance	Average balance of net technical provisions as a % of net premium income	409 %	$\frac{(190.028.069 + 163.339.221) \times 100}{2 \times 43.164.734}$
	Non-life insurance	Average balance of net technical provisions as a % of net premium income	0 %	$\frac{0 \times 100}{25.800}$
20.	Total	Equity as a % of liabilities	51 %	$\frac{235.772.618 \times 100}{460.070.564}$
	Life insurance	Equity as a % of liabilities	51 %	$\frac{230.699.466 \times 100}{454.961.051}$
	Non-life insurance	Equity as a % of liabilities	99 %	$\frac{5.073.152 \times 100}{5.109.513}$
21.	Total	Net technical provisions as a % of liabilities	41 %	$\frac{190.028.069 \times 100}{460.070.564}$
	Life insurance	Net technical provisions as a % of liabilities	42 %	$\frac{190.028.069 \times 100}{454.961.051}$
	Non-life insurance	Net technical provisions as a % of liabilities	0 %	$\frac{0 \times 100}{5.109.513}$
22.	Total	Net life technical provisions to net technical provisions	100 %	$\frac{190.028.069 \times 100}{190.028.069}$
23.	Total	Gross written premium to the average number of full-time employees	719.842 €	$\frac{43.190.535}{60}$

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 (SKL-2009) – Appendix 1

Segment Reporting of Balance Sheet Items

in EUR

Items	31 December 2019			31 December 2018		
	Life	Non-life	Total	Life	Non-life	Total
ASSETS	525,565,146	5,214,696	530,779,842	454,961,051	5,109,513	460,070,564
A. Intangible assets	666,225	0	666,225	854,844	0	854,844
B. Property, plant and equipment	1,615,390	0	1,615,390	57,141	0	57,141
F. Investments in Group companies and associates	36,518,433	0	36,518,433	34,459,173	0	34,459,173
G. Investments	474,699,310	5,047,747	479,747,057	410,336,117	5,016,701	415,352,818
1. at amortised cost	180,600,137	3,588,624	184,188,761	147,282,517	3,615,272	150,897,789
2. at fair value through other comprehensive income	184,660,346	1,459,123	186,119,469	185,670,613	1,401,429	187,072,042
3. at fair value through profit or loss	109,438,827	0	109,438,827	77,382,987	0	77,382,987
K. Receivables	1,593,171	5,240	1,598,411	2,717,279	3,461	2,720,740
1. Receivables from direct insurance operations	0	4,090	4,090	0	2,578	2,578
3. Current tax assets	0	0	0	612,017	0	612,017
4. Other receivables	1,593,171	1,150	1,594,321	2,105,262	883	2,106,145
L. Other assets	2,983,930	0	2,983,930	2,960,850	0	2,960,850
M. Cash and cash equivalents	7,488,687	161,709	7,650,396	3,575,647	89,351	3,664,998
N. Off-balance sheet items	1,190,362,967	0	1,190,362,967	1,059,016,535	0	1,059,016,535
EQUITY AND LIABILITIES	525,565,146	5,214,696	530,779,842	454,961,051	5,109,513	460,070,564
A. Equity	264,098,231	5,139,101	269,237,332	230,699,466	5,073,152	235,772,618
1. Share capital	147,200,000	5,000,000	152,200,000	147,200,000	5,000,000	152,200,000
3. Revenue reserves	40,660,463	50,399	40,710,862	31,051,975	45,498	31,097,473
4. Revaluation reserve	66,262,673	84,672	66,347,345	46,355,762	33,159	46,388,921
8. Retained earnings	9,975,095	4,030	9,979,125	6,091,729	-5,505	6,086,224
C. Technical provisions	223,363,538	26,000	223,389,538	190,028,069	0	190,028,069
2. Technical provisions for life insurance	222,357,870	0	222,357,870	189,041,972	0	189,041,972
3. Claims provisions	1,005,668	26,000	1,031,668	986,097	0	986,097
E. Other provisions	12,177,318	3,308	12,180,626	16,171,235	3,049	16,174,284
G. Deferred tax liabilities	13,673,782	33,909	13,707,691	7,806,014	19,947	7,825,961
I. Other financial liabilities	796	0	796	0	0	0
J. Operating liabilities	850,536	1,684	852,220	239,760	6,000	245,760
1. Liabilities from direct insurance operations	0	0	0	0	6,000	6,000
3. Tax liabilities	850,536	1,684	852,220	239,760	0	239,760
K. Other liabilities	11,400,945	10,694	11,411,639	10,016,507	7,365	10,023,872
L. Off-balance sheet items	1,190,362,967	0	1,190,362,967	1,059,016,535	0	1,059,016,535

Segment Reporting of Profit or Loss Items

in EUR

Items	2019			2018		
	Life	Non-life	Total	Life	Non-life	Total
A. ET PREMIUM INCOME	53,424,749	37,954	53,462,703	43,164,735	25,800	43,190,535
- Gross written premiums	53,424,749	37,954	53,462,703	43,164,735	25,800	43,190,535
B. INCOME FROM INVESTMENTS IN ASSOCIATES	4,606,964	0	4,606,964	4,321,779	0	4,321,779
C. INVESTMENT INCOME, of which	14,902,618	54,135	14,956,753	11,370,504	50,713	11,421,217
- interest income calculated according to the effective interest rate method	70,547	0	70,547	12,291	0	12,291
- income recognised in other comprehensive income transferred to the profit or loss statement through reclassification	0	0	0	176,495	0	176,495
- gains on disposal of investments	797,264	0	797,264	461,401	0	461,401
D. OTHER TECHNICAL INCOME, of which	12,188,184	0	12,188,184	9,626,113	0	9,626,113
- fee and commission income	7,747,664	0	7,747,664	7,109,740	0	7,109,740
E. OTHER INCOME	141,930	14	141,944	114,087	27	114,114
F. NET CLAIMS INCURRED	24,815,317	20,000	24,835,317	20,368,181	26,000	20,394,181
- Gross claims paid	24,795,747	0	24,795,747	20,348,233	26,000	20,374,233
- Changes in claims provisions	19,570	20,000	39,570	19,948	0	19,948
G. CHANGE IN OTHER TECHNICAL PROVISIONS	-33,315,898	0	-33,315,898	-26,668,900	0	-26,668,900
K. OPERATING COSTS, of which	6,867,852	48,166	6,916,018	6,546,177	41,856	6,588,033
- acquisition cost	56,024	0	56,024	40,135	0	40,135
M. EXPENSES FROM FINANCIAL ASSETS, of which	4,220,649	5,938	4,226,587	4,290,588	3,807	4,294,395
- financial asset impairments	102,283	5,864	108,147	46,714	3,805	50,519
- loss on disposal of financial assets	50,180	0	50,180	149,655	0	149,655
N. OTHER TECHNICAL EXPENSES	1,124,138	0	1,124,138	3,746,370	0	3,746,370
O. OTHER EXPENSES	222,028	0	222,028	210	0	210
P. PROFIT OR LOSS BEFORE TAX	14,698,563	17,999	14,716,562	6,976,792	4,877	6,981,669
R. INCOME TAX EXPENSE	-2,471,284	-3,563	-2,474,847	-631,773	3	-631,770
S. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	12,227,279	14,436	12,241,715	6,345,019	4,880	6,349,899

Segment Reporting of the Statement of Comprehensive Income Items

in EUR

Items	2019			2018		
	Life	Non-life	Total	Life	Non-life	Total
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	12,227,279	14,436	12,241,715	6,345,019	4,880	6,349,899
II. OTHER COMPREHENSIVE INCOME AFTER TAX (a+b)	24,346,437	51,513	24,397,950	-13,247,209	-19,587	-13,266,796
a) Items that will not be reclassified to profit or loss in subsequent periods (1 + 2 + 3 + 4 + 5 + 6)	23,970,587	0	23,970,587	-12,133,146	0	-12,133,146
5. Other items that will not be reclassified to profit or loss in subsequent periods	28,433,925	0	28,433,925	-14,325,530	0	-14,325,530
6. Tax on items that will not be reclassified to profit or loss	-4,463,338	0	-4,463,338	2,192,384	0	2,192,384
b) Items that could be reclassified to profit or loss in subsequent periods (1 + 2 + 3 + 4 + 5)	375,850	51,513	427,363	-1,114,063	-19,587	-1,133,650
1.b Net gains/losses recognised in revaluation surplus in relation to investments measured at fair value through other comprehensive income	464,012	63,596	527,608	-1,370,873	-24,182	-1,395,055
5. Tax on items that could be reclassified to profit or loss in subsequent periods	-88,162	-12,083	-100,245	256,810	4,595	261,405
III. TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (I+II)	36,573,716	65,949	36,639,665	-6,902,190	-14,707	-6,916,897

Financial Statements Pursuant to the Provisions of the Decision on annual report and quarterly financial statements of insurance undertakings (SKL-2009) – Appendix 2

Profit or Loss Statement and Statement of Total Comprehensive Income

in EUR

	31 December 2019	31 December 2018
A. Technical account for non-life insurance		
I. et premium income	37,954	25,800
1. Gross written premiums	37,954	25,800
IV. Net claims incurred	20,000	26,000
1. Gross paid claims	0	26,000
5. Change in gross claims provisions (+/-)	20,000	0
VII. Net operating costs	48,166	41,856
3. Other operating costs	48,166	41,856
3.1. Depreciation of assets required for operation	5,940	4,031
3.2. Labour costs	29,491	26,676
3.3. Cost of services provided by natural persons who do not pursue an activity (costs under work contracts, copyright contracts and arising from other legal relationships), including charges borne by the Company	980	831
3.4. Other operating costs	11,755	10,318
IX. Profit or loss from non-life insurance (I+II+III-IV+V-VI-VII-VIII)	-30,212	-42,056
B. Technical account for life insurance		
I. et premium income	53,424,749	43,164,735
1. Gross written premiums	53,424,749	43,164,735
II. Investment income	19,509,582	15,692,283
1. Dividend income and profit sharing in companies	8,445,931	8,226,142
1.2. Dividend income and income from other profit sharing in associates	4,606,964	4,321,779
1.3. Dividend income and income from other profit sharing in other companies	3,838,967	3,904,363
2. Income from other investment	10,266,387	6,828,245
2.2. Interest income	4,595,726	4,183,027
2.3. Other investment income	5,670,661	2,645,218
2.3.1. Financial income from revaluation	5,278,282	2,066,590
2.3.2. Other financial income	392,379	578,628
4. Gains on disposal of investments	797,264	637,896
IV. Other net technical income	12,188,184	9,626,113
V. Net claims incurred	24,815,317	20,368,181
1. Gross claims paid	24,795,747	20,348,233
4. Change in gross claims provisions (+/-)	19,570	19,948

The table continues on the next page.

in EUR

	31 December 2019	31 December 2018
VI. Change in other net technical provisions (+/-)	-33,315,898	-26,668,900
1. Change in technical provisions for life insurance	-33,315,898	-26,668,900
1.1. Change in gross technical provisions for life insurance	-33,315,898	-26,668,900
VIII. Net operating costs	6,867,852	6,546,177
1. Acquisition costs	56,024	40,135
3. Other operating costs	6,811,828	6,506,042
3.1. Depreciation of assets required for operation	587,441	485,628
3.2. Labour costs	3,260,994	3,205,572
3.3. Cost of services provided by natural persons who do not pursue an activity (costs under work contracts, copyright contracts and arising from other legal relationships), including charges borne by the Company	136,607	122,010
3.4. Other operating costs	2,826,786	2,692,832
IX. Investment expenses	4,220,649	4,290,588
2. Expenses arising from asset management, interest expense and other financial expenses	361,947	257,300
3. Financial expenses from revaluation	3,808,522	3,883,633
4. Loss on disposal of financial assets	50,180	149,655
XI. Other net technical expenses	1,124,138	3,746,370
2. Other net technical expenses	1,124,138	3,746,370
XII. Allocated investment return transferred to the net profit or loss (-)	9,453,543	8,298,230
Profit or loss from life insurance (I + II + III + IV - V +/- VI - VII - VIII - IX - X - XI - XII)	5,325,118	-1,435,315
C. Net profit or loss of the Company		
I. Profit or loss from non-life insurance (A.IX)	-30,212	-42,056
II. Profit or loss from life insurance (B.XIII)	5,325,118	-1,435,315
III. Investment income	54,135	50,713
2. Income from other investment	54,135	50,713
2.2. Interest income	51,184	46,245
2.3. Other investment income	2,951	4,468
2.3.2. Other financial income	2,951	4,468
IV. Allocated investment return transferred from the technical account of life insurance (B.XII)	9,453,543	8,298,230

The table continues on the next page.

in EUR

	31 December 2019	31 December 2018
V. Investment expenses	5,938	3.807
2. Expenses arising from asset management, interest expense and other financial expenses	5,938	3.807
IX. Other income	141,944	114.114
1. Other income from non-life insurance	14	27
2. Other income from life insurance	141,930	114.087
X. Other expenses	222,028	210
2. Other expenses from life insurance	222,028	210
XI. Profit or loss for the period before tax (I + II + III + IV – V – VI + VII – VIII + IX – X)	14,716,562	6,981,669
1. Profit or loss for the period from non-life insurance	17,999	4.877
2. Profit or loss for the period from life insurance	14,698,563	6.976.792
XII. Income tax	1,156,701	188,758
XIII. Deferred tax	-1,318,146	-443,012
XIV. Net profit or loss for the financial year (XI – XII + XIII)	12,241,715	6,349,899
D. Comprehensive income		
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	12,241,715	6,349,899
II. OTHER COMPREHENSIVE INCOME AFTER TAX (a+b)	24,397,950	-13,266,796
a. Items that will not be reclassified to profit or loss in subsequent periods (1 + 2 + 3 + 4 + 5 + 6)	23,970,587	-12,133,146
5. Other items that will not be reclassified to profit or loss in subsequent periods	28,433,925	-14,325,530
6. Tax on items that will not be reclassified to profit or loss	-4,463,338	2,192,384
b. Items that could be reclassified to profit or loss in subsequent periods (1 + 2 + 3 + 4 + 5)	427,363	-1,133,650
1.b. Net gains/losses recognised in revaluation surplus in relation to investments measured at fair value through other comprehensive income	527,608	-1,395,055
5. Tax on items that could be reclassified to profit or loss in subsequent periods	-100,245	261,405
III. TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (I+II)	36,639,665	-6,916,897

Presentation of Assets and Liabilities of Guarantee Funds for Supplementary Pension Insurance in the Annuity Disbursement Period

Presentation of Assets and Liabilities of KS PPS

in EUR

	31 December 2019	31 December 2018
ASSETS	99,344,807	101,329,299
A. Investments in real estate and financial assets	98,641,219	100,374,540
III. Other financial assets	98,641,219	100,374,540
1. Shares and other securities with variable yield and mutual fund coupons	22,672,996	25,746,870
2. Debt securities with fixed yield	74,971,296	72,323,889
6. Bank deposits	996,927	2,303,781
B. Receivables	379	66,872
III. Other receivables	379	66,872
C. Miscellaneous assets	703,209	609,119
I. Cash	703,209	609,119
D. Short-term deferred costs and accrued income	0	278,768
3. Other short-term deferred costs and accrued income	0	278,768
LIABILITIES	99,344,807	101,329,299
B. Gross technical provisions	99,330,866	101,315,380
II. Gross technical provisions for life insurance	98,330,263	100,334,313
III. Gross claims provisions	1,000,603	981,067
E. Other liabilities	13,941	13,919
III. Other liabilities	13,941	13,919

Presentation of Assets and Liabilities of KS MR

in EUR

	31 December 2019	31 December 2018
ASSETS	16,810,589	20,533,131
A. Investments in real estate and financial assets	16,238,757	19,599,227
III. Other financial assets	16,238,757	19,599,227
1. Shares and other securities with variable yield and mutual fund coupons	367,778	723,522
2. Debt securities with fixed yield	15,780,142	18,172,957
7. Other financial assets	90,837	702,748
B. Receivables	476,011	484,291
III. Other receivables	476,011	484,291
C. Miscellaneous assets	95,821	449,613
I. Cash	95,821	449,613

The table continues on the next page.

in EUR

	31 December 2019	31 December 2018
LIABILITIES	16,810,589	20,533,131
B. Gross technical provisions	16,803,424	20,522,180
II. Gross technical provisions for life insurance	16,799,439	20,518,569
III. Gross claims provisions	3,985	3,611
E. Other liabilities	7,008	8,556
III. Other liabilities	7,008	8,556
F. Accrued costs and deferred income	157	2,395

Presentation of Assets and Liabilities of KS MR II

in EUR

	31 December 2019	31 December 2019
ASSETS	116,087,105	76,946,110
A. Investments in real estate and financial assets	111,606,748	72,683,834
III. Other financial assets	111,606,748	72,683,834
1. Shares and other securities with variable yield and mutual fund coupons	31,619,597	23,412,524
2. Debt securities with fixed yield	72,395,707	43,902,620
6. Bank deposits	5,083,227	2,899,955
7. Other financial assets	2,508,217	2,468,735
III. Other receivables	2,020	792,696
C. Miscellaneous assets	1,643,922	862,432
I. Cash	1,643,922	862,432
D. Short-term deferred costs and accrued income	2,834,415	2,607,148
3. Other short-term deferred costs and accrued income	2,834,415	2,607,148
LIABILITIES	116,087,105	76,946,110
B. Gross technical provisions	107,229,248	68,190,509
II. Gross technical provisions for life insurance	107,228,168	68,189,090
III. Gross claims provisions	1,080	1,419
E. Other liabilities	200,720	2,822
III. Other liabilities	200,720	2,822
F. Accrued costs and deferred income	8,657,137	8,752,779

Technical Account of Guarantee Funds for Supplementary Pension Insurance in the Annuity Disbursement Period

Technical Account of the PPS Guarantee Fund

in EUR

	Postavka	2019	2018
I.	TRANSFER OF CASH ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE PLAN	2,725,973	2,902,890
	4. Mutual pension fund	2,725,973	2,902,890
II.	INVESTMENT INCOME	5,532,220	5,762,864
	1. Dividend income and profit sharing in companies	1,231,642	1,730,855
	2. Income from other investment	4,300,578	4,032,009
	2.2. Interest income	1,773,018	1,815,913
	2.3. Other investment income	2,527,560	2,216,096
III.	CLAIMS INCURRED	6,734,273	6,738,847
	1. Claims paid	6,714,737	6,721,757
	2. Change in claims provisions	19,536	17,090
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	2,004,050	1,193,222
	1. Change in technical provisions for life insurance (+/-)	2,004,050	1,193,222
VI.	VI. INVESTMENT EXPENSES	3,527,970	3,043,456
	2. Expenses arising from asset management, interest expense and other financial expenses	40,249	51,045
	3. Financial expenses from revaluation	3,487,721	2,992,411
VII.	PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)	0	76,673
VII.a.	Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)	0	76,673

Technical Account of the MR Guarantee Fund

in EUR

	Postavka	2019	2018
I.	INVESTMENT INCOME	481,217	721,056
	1. Dividend income and profit sharing in companies	1,634	19,877
	2. Income from other investment	479,583	701,179
	2.2. Interest income	360,146	423,069
	2.3. Other investment income	119,437	278,110
III.	CLAIMS INCURRED	4,081,468	5,377,349
	1. Claims paid	4,081,094	5,375,700
	2. Change in claims provisions	374	1,649
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	3,719,130	4,940,041
	1. Change in technical provisions for life insurance (+/-)	3,719,130	4,940,041

The table continues on the next page.

in EUR

	Postavka	2019	2018
VI.	INVESTMENT EXPENSES	118,879	250,587
	2. Expenses arising from asset management, interest expense and other financial expenses	101,981	120,648
	3. Financial expenses from revaluation	16,898	129,939
VII.	PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)	0	33,161
VII.a.	Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)	0	33,161

Technical Account of the MR II Guarantee Fund

in EUR

	Postavka	2019	2018
I.	TRANSFER OF CASH ASSETS FROM THE SUPPLEMENTARY PENSION INSURANCE PLAN	50,698,776	40,261,845
	2. Other insurance companies	1,225,645	917,864
	3. Other pension companies	493,415	441,771
	4. Mutual pension fund	48,979,716	38,902,210
II.	INVESTMENT INCOME	3,626,165	1,557,584
	1. Dividend income and profit sharing in companies	45,578	89,772
	2. Income from other investment	3,580,587	1,467,812
	2.2 Interest income	1,137,230	592,064
	2.3 Other investment income	2,443,357	875,748
III.	CLAIMS INCURRED	13,999,576	8,251,985
	1. Claims paid	13,999,916	8,250,776
	2. Change in claims provisions	-340	1,209
IV.	CHANGE IN OTHER NET TECHNICAL PROVISIONS (+/-)	-39,039,078	-32,802,163
	1. Change in technical provisions for life insurance (+/-)	-39,039,078	-32,802,163
V.a.	Net operating costs	48,883	31,375
	3. Other operating costs	48,883	31,375
	3.4 Other operating costs	48,883	31,375
VI.	INVESTMENT EXPENSES	1,237,405	722,235
	2. Expenses arising from asset management, interest expense and other financial expenses	1,077,525	0
	3. Financial expenses from revaluation	159,880	722,235
VII.	PROFIT OR LOSS OF THE GUARANTEE FUND (I+II-III+IV-V-VI)	48,883	43,046
VII.a.	Profit or loss of the guarantee fund (I+II-III+IV-V.a-VI)	0	11,671

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