

**ERSTE ASSET MANAGEMENT Ltd., ZAGREB**

Annual Report

for the year ending 31 December 2020

	<i>Page</i>
Independent auditors' report	1 – 5
Responsibility for the financial statements	6
Management report	7 – 11
Statement of comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Statement of cash flows	15
Notes to the financial statements	16 – 39
Regulatory financial statements	40 – 44



## Independent Auditor's Report

To the Owner of Erste Asset Management d.o.o.

### Report on the audit of the financial statements

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#### Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Erste Asset Management d.o.o. (the "Company") as at 31 December 2020, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 25 January 2021.

#### What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2020;
- the statement of financial position as at 31 December 2020;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company in the period from 1 January 2020 to 31 December 2020.



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### Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Recognition of fee revenue</i></p> <p>See note 4 to the financial statements under heading Funds management fee, note 5 under heading Portfolio management fee and note 2 under heading Summary of significant accounting policies for further information.</p> <p>The Company has recognized revenue of HRK 28.8 million for the period ended 31 December 2020, including revenue from funds management (HRK 27.1 million) and portfolio management (HRK 1.4 million).</p> <p>Although the transactions within the revenue streams are unified and revenue recognition is not complex, we focused on this area due to the significance of these items to the Company's financial statements.</p>	<p>Our audit approach to revenue was based on substantive audit testing of transactions as described below.</p> <p>For the total population of transactions each day, we recalculated the funds management fee by multiplying each fund's net asset value ("NAV") with the management fee percentage at a given date. We compared the management fee percentage used in the calculation for each fund with the fund's prospectus. We also traced the revenue transactions to the bank statements to confirm the fees were paid by the funds.</p> <p>We tested portfolio management fees on a sample basis by recalculating monthly fees the Company charges its clients. We compared the management fee percentage for individual investors with their respective contracts with the Company. We also traced the selected sample of revenue transactions to the bank statements to confirm the fees were paid.</p>

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## Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared in accordance with the requirements of Article of the Accounting Act.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement in the other information, we are required to report that fact. In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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## Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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## Auditor's responsibilities for the audit of the financial statements

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



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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- 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 independent 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 independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, 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 independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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## **Report on other legal and regulatory requirements**

### **Appointment**

We were first appointed as auditors of the Company on 18 May 2017. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 10 February 2020, representing a total period of uninterrupted engagement appointment of 4 years.



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### Other legal and regulatory requirements

Pursuant to Ordinance on structure and contents of financial statements and other reports of companies managing UCITS funds (Official Gazette: 105/2017) and Ordinance on structure and content of annual and semi-annual financial reports and other reports of alternative investment fund management companies (Official Gazette: 13/19) ("Ordinances"), the Company's Management Board prepared statements shown on pages 40 to 44 under headings Statement of financial position, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year ended 31 December 2020. Preparation of these statements is responsibility of the Company's Management Board and the statements are not integral part of these financial statements, but contain information in accordance to Ordinances. Financial information in the statements are derived from the financial statements of the Company prepared in accordance with International Financial Reporting Standards as adopted in European Union presented on pages 12 to 39 and adjusted in accordance with the Ordinances.

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The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Marija Mihaljević.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers d.o.o." in a cursive script.

PricewaterhouseCoopers d.o.o.  
Heinzlova 70, Zagreb  
26 January 2021

## RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the EU (“the IFRS”), which give a true and fair view of the financial position and results of Erste Asset Management Ltd., Zagreb (the “Company”) for that period.

The Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board of the Company continues to adopt the going concern basis in preparing the financial statements. In preparing those financial statements, the responsibilities of the Management Board of the Company, include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board of the Company is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the IFRS. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is also responsible for the preparation and content of the Management Report, in accordance with the Croatian Accounting Act and the rest of the other information.

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements and the Management Report. The Management Report was prepared in line with the requirements of Article 21 of the Accounting Act.

Signed on behalf of the Management Board:



**Josip Glavaš**

**President of the Management board**



**Snježana Šalković Dasović**

**Management board member**



**Miroslav Jurišić**

**Management board member**

**Erste Asset Management Ltd.**

Ivana Lučića 2a

10000 Zagreb

Republic of Croatia

25 January 2021



## 1. BUSINESS AND DEVELOPMENT ACTIVITIES OF THE COMPANY

### Company activities

Erste asset management d.o.o., Zagreb, Ivana Lučića 2a (the „Company“) is registered for the activities:

- management of the open-ended funds
- management of alternative investment funds
- portfolio management
- investment advisory.

The Company currently manages:

- five UCITS funds: Erste Conservative, Erste E-Conservative, Erste Adriatic Bond, Erste Adriatic Equity, Erste Adriatic Multi Asset
- three alternative funds: Erste PB1, Erste PB2 and Erste PB-AZ-1
- larger number of discretionary managed portfolios of the clients.

### The Company's business results in year 2020

Assets under management fell significantly during 2020, resulting from the impact of the crisis caused by the Sars-CoV-2 virus pandemic, which caused clients to withdraw their funds from funds and individual portfolios without re-depositing them after the situation had calmed down. Although global markets calmed down after a drastic March 2020 correction, which is absolutely evident from performance of our funds, assets under management unfortunately did not follow the same trend. In conclusion with December 2020, and compared to December 2019, the total fund assets under management decreased by HRK 1.79 million or 26.63%, of which the largest absolute decline of HRK 1.83 million relates to the Erste Adriatic Bond fund, while the largest percentage drop in assets, almost 55%, relates to Erste Conservative fund. Compared to last year, asset growth was mainly achieved in the segment of alternative funds, which increased by HRK 717 million, courtesy of new client inflow in one of the existing private alternative funds and of forming two new private alternative funds. Our new balanced fund Erste Adriatic Multi Asset also exhibited AUM growth on a year-on-year basis, but despite inter-year absolute growth, the fund's year-end assets were 42% lower than their highest level achieved this year, at the beginning of March. The dominant withdrawal of clients from the bond segment that is characterized by higher management fees resulted in lower gross revenue for the Company, so, by comparison, the total calculated management fee in December amounted to HRK 2.3 million, which represents a decrease of 50% compared to the same month last year. The total assets managed by the Company at the end of 2020 in the fund segment amounted to EUR 588.6 million or HRK 4.436 million, of which HRK 2.673 million relates to UCITS funds and HRK 1.762 million to alternative investment funds. In addition, the Company manages HRK 492 million of individual portfolio assets, bringing the total assets under the Company's management to HRK 4.928 million, as of December 2020.

In the UCITS open investment fund segment, the Company's market share at the end of 2019 was 21.59%, the Company holding the third position in the open investment fund market. At the end of, the Company continued to take third position in the same segment, but with a significantly lower market share of 14.68%. In absolute terms, in this segment and in the specified period, the Company lost over HRK 2 billion in assets, equivalent to the amount of assets lost jointly in the same period by the first three competing management companies. Looking at the same segment at the level of the fund industry, we can say that total assets fell by 19.31%, while the level of decline at the level of each individual company was quite uneven. The largest five management companies lost an average of

22.50% of their assets, and the decline at the Company level was nearly 46% indicating exceptional volatility of the Company's customer base.

Macroeconomically speaking, the general consensus is that last year is a year that everyone would like to forget, but that the generous monetary assistance launched with the aim of combating the pandemic and restarting the economy will continue to be the dominant factor in the coming years. Global central banks continue to increase their sovereign bond buyback programs, reducing interest yields on government debt. This not only implicitly allows a larger government deficit and higher government debt, but, more importantly, makes it sustainable. It is estimated that more than 25% of global government debt is currently trading at a negative yield, and this percentage is expected to increase. Portugal's 10-year bond is trading at a yield of 0.02%, Spain at 0.04%, and currently only 10-year Italy-Greece bonds are bought at a positive yield (0.54% and 0.61%, respectively). Stocks ended the year as relative winners despite a March correction, and most analysts expect them to remain investment favorites for next year, despite their high valuations.

Domestic economic growth was hit by two crises last year, but at least in one we fared better than expected. After falling by 15.1% in the second quarter, GDP in the third quarter posted a year-on-year decline of 10%. The drop of "only" 10% is a sign that the impact on the tourist season was not as catastrophic as expected. Exports of services sank 45% while the base scenario started from the 70% failure of the tourist season, which, luckily, proved to be an unrealistic figure. Personal consumption managed to slow the decline from 14% to 7.5%, and investments, for the most part thanks to construction work, improved the result from a negative 14.7% to only 3% minus. The negative result was somewhat smoothed by government consumption with a 1.5% growth, and we estimate that its impact will be crucial in the coming period. Some better news is coming in from rating agencies. S&P reaffirmed Croatia's investment grade (BBB-) in the middle of last year and kept the outlook stable. In early December, Fitch did the same. They are somewhat more cautious than their predecessors, so for this year they expect a 9% drop in GDP, and an orderly completion of the eurozone accession process (an area where there really should be no unpleasant surprises given the adopted National Plan for replacing the Croatian kuna with the euro) will be considered a good enough reason for a possible rating upgrade, by as much as two degrees. The same would definitely result in a price decrease of Croatian debt which is always good news, although, at least in this area, we are doing really well. In 2015, the Republic of Croatia paid HRK 12 billion in interest on its public debt, in the last four years this cost has been reduced by over 25% thanks to the management of state finances and improved investor perception. The 10-year Croatian bond ended the year on a yield of 0.55%. This is a great success since the same maturity only 9 months earlier was trading at a yield of over 2%, but also proof that markets feel that, at least for now, we are balancing well between state subsidies with the aim of preserving jobs and the stability of public finances.

Looking at the funds that the Company has under management, we can note that this year has been successful performance-wise, but unfortunately not so successful AUM-wise, since clients who withdraw their funds during the pandemic correction decided to stay sideways and not participate in the positive performance of the funds.

Short-term bond funds Erste Conservative and Erste E-Conservative created by the merger of MMFs and short-term bond funds generated significantly higher returns than in the previous year, in line with their change of strategy towards slightly riskier, while limiting the duration to 3. Erste Conservative achieved a 1.88% performance, with an above mentioned AUM decline of almost 55%. Erste E-Conservative grew by 3.43%, but thanks to an extremely stable customer base it was able to maintain similar AUM levels. Performance-wise, both funds took leading positions in their respective peer group.

The Erste Adriatic Bond Fund in 2020 achieved a performance of 2.72%, which is also the best result in its peer group. Unfortunately, compared to 2019, the fund lost over 52% of its AUM despite its stellar performance.

Equity fund Erste Adriatic Equity lost 13.7% of AUM with a performance of -0.03% and thus ranked a great second place within its peer group. Exposure to developed markets equities has managed to compensate to some extent for the negative contribution of exposure to the local stock market.

The Erste Adriatic Multi Asset balanced fund grew by 1.36% with a significant relative annual growth in AUM attributable solely to the low base effect, which masks the fact that the fund lost over 42% of its highest realized AUM in early March before the pandemic crisis kicked in.

In 2020, the Company merged YOU INVEST funds to the balanced fund Erste Adriatic Multi Asset. Underlying this decision is the rationalization of the Company's operations in terms of pooling similar investment strategies under the cap of one fund, especially considering the fact that the founder, Erste Asset Management GmbH, recently registered their own funds of a similar strategy, thus de facto enabling existing clients to maintain the same investment exposure. It is estimated that the merger in issue will reduce the transaction costs of the acquiring fund, while simultaneously expanding and strengthening its investor base. In 2020, the Company also launched two new alternative funds, Erste PB2 (renaming the Erste Exclusive fund) and PR-AZ1.

The biggest challenge in 2021 remains primarily the recovery of funds' assets under management that in 2020, and after the calming of the market correction, did not show a particular correlation with the positive trend in funds' performance. Given the global macroeconomic situation and a highly liquid global system, we remain positive for all investment classes and markets of our funds and expect that equity exposure will play an increasingly dominant role in the construction of an ideal balanced portfolio.

The portfolio management service records a stable interest based on an individualized approach tailored to the needs of each individual client.

In 2021 we expect the continued growth of assets under management with a slightly different structure in-between asset classes with an emphasis on bond and balanced products.

Client wise, institutional and corporate investors hold 29% of all assets of open-end investment funds with public offering, while 71% are retail investors.

### **Expected development of the Company**

The Company will continue to be dedicated to provide high quality asset management through a variety of products in order to achieve growth in the value of the assets under management. The Company shall continue with dedicated work on organizational measures of improving the business, on professional personnel trainings, on technological improvements of operational processes, on development of new products in order to ensure business growth and development.

### **Human resources**

Human resources (employees) are, alongside the assets, the Company's most valuable resource. On 31<sup>st</sup> December 2020 the Company has 19 full-time employees (31<sup>st</sup> December 2019: 20).

## 2. RISKS EXPOSURE

For the purpose of prudent risk management, the Company has set up a risk management system that is based on the size of the Company, its core business activities and the risk profile, which consists of organizational requirements, strategies, procedures and risk management measures that the Company is exposed or could be exposed in its business.

The Company identified several risk groups which could affect the Company's business:

### **Operational risk**

The Company is exposed to operational risk through its regular operations. Operational risk is the risk of loss due to inadequate or unsuccessful internal procedures or systems due to human error, fraud or external influences (such as natural disasters), and due to a lack of compliance with the applicable legal regulations. Human errors refer to the possibility of errors occurring during business processes, such as errors in dealing with transaction and / or settlement of transactions or errors in the process of asset valuation. Fraud and theft are related to the possibility of intentional illegal conduct.

The basis for operational risk management is the process analysis within the Company and the identification of potential operational risks to certain categories. Based on the analysis, the Company determines whether some measures to reduce the level of risk in certain processes need to be implemented or not.

At quarterly level, the Company's Management Board receives reports on events that can be qualify as operational risk. The base of losses due to operational risk is monitored, in which all realized losses and possible losses due to operational risk are monitored according to guidelines and terminology of the Basle Committee and the CNB regarding classification of events in the database.

### **Risks Affecting the Management of Financial Assets of the Company**

- Credit risk
- Liquidity risk
- Risk of changing the price of financial instrument

Certain portion of the profit is realized by the Company through investments in financial assets. In accordance with legal limits and with internally agreed strategy, the Company invested financial assets solely in low-risk instruments such as government bonds, deposits at domestic banks, money market funds, and the REPO operations, agreed with domestic financial institutions. The Company actively monitors all these risks, and according to all of these risks defines its investment policy.

Company specially monitors events that could affect strategic risk, reputation risk and the conflict of interest risk.

Concerning all these risks, the Company accepts a low level of risk

### **3. FINANCIAL RESULT OF THE COMPANY**

#### **Statement of comprehensive income**

The Company had HRK 1,25 million of net profit in 2020.

Total revenues of the Company are HRK 29 million. The total revenue from the management fee in the amount of HRK 28 million primarily comes from bond funds 65%, alternative investment funds 20%, from the equity funds 7%, followed by individual portfolio management service 5%, and from balanced fund 3%. Income from other financial activities amounted HRK 0.2 million, entrance and exit fee and other income amounted HRK 0.3 million.

Total expenses of the Company are HRK 27 million out of which HRK 16 million are the costs for distribution channels while other expenses are related to asset management and administrative costs.

#### **Report on financial position on 31 December 2020**

The Company's assets at the end of 2020 amounted HRK 22 million, and consists of a HRK 2 million of fixed intangible and tangible assets, HRK 7 million of long-term financial asset and HRK 13 million of current assets. Current assets consist of placements at banks HRK 11 million and short-term receivables HRK 2 million.

The Company's capital at the end of 2020 consists of the registered capital in the amount of HRK 5 million, undistributed profit in the amount of HRK 11 million and profit in 2020 of HRK 1.25 million.

The Company's liability in the amount of HRK 5 million are related to short-term liabilities for distribution fees, accounts payable, employee benefit liabilities and other liabilities.

The Company has liabilities for contracted leases of business space and cars in the amount of HRK 0.7 million spread through the next two years.

### **4. OTHER INFORMATIONS**

There were no business events that significantly influenced the operations of the Company after year end.

STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31 DECEMBER 2020  
 (all amounts are expressed in thousands of Kuna)

	Notes	2020	2019
<b>Revenue</b>			
Funds management fee	4	27,070	41,850
Portfolio management fee	5	1,357	3,859
Exit fee		218	-
Other operating income		133	3
		<b>28,778</b>	<b>45,712</b>
<b>Expenses</b>			
Service expenses	6	(18,259)	(25,851)
Staff expenses	7	(6,804)	(8,721)
Other operating expenses	8	(868)	(1,751)
Depreciation		(1,055)	(1,003)
Cost of materials		(68)	(107)
		<b>(27,054)</b>	<b>(37,433)</b>
<b>Net financial (expenses)/income</b>			
Financial income		206	215
Financial expenses		(256)	(269)
		<b>(50)</b>	<b>(54)</b>
<b>Profit before tax</b>			
		<b>1,674</b>	<b>8,225</b>
Income tax	9	(419)	(1,489)
<b>Profit for the year</b>		<b>1,255</b>	<b>6,736</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>1,255</b>	<b>6,736</b>

The accompanying accounting policies and notes are an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

*(all amounts are expressed in thousands of Kuna)*

	Notes	31 December 2020	31 December 2019
<b>ASSETS</b>			
<b>Non-current assets</b>			
Equipment		51	47
Right to use asset	10	621	1,303
Intangible assets	11	768	879
Financial asset at amortized cost	12	6,991	6,986
Deferred tax assets		<u>262</u>	<u>396</u>
<b>Total non-current assets</b>		<b><u>8,693</u></b>	<b><u>9,611</u></b>
<b>Current assets</b>			
Receivables	13	3,119	5,220
Cash and bank balances	14	<u>10,817</u>	<u>19,059</u>
<b>Total current assets</b>		<b><u>13,936</u></b>	<b><u>24,279</u></b>
<b>Total assets</b>		<b><u>22,629</u></b>	<b><u>33,890</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	15	5,000	5,000
Retained earnings		<u>12,214</u>	<u>17,695</u>
<b>Total equity</b>		<b><u>17,214</u></b>	<b><u>22,695</u></b>
<b>Liabilities</b>			
<b>Long term liabilities</b>			
Lease liabilities	18	<u>104</u>	<u>723</u>
<b>Total long term liabilities</b>		<b><u>104</u></b>	<b><u>723</u></b>
<b>Short term liabilities</b>			
Provisions	16	321	2,727
Lease liabilities	18	595	632
Other current liabilities	17	4,395	7,113
<b>Total short term liabilities</b>		<b><u>5,311</u></b>	<b><u>10,472</u></b>
<b>Total liabilities</b>		<b><u>5,415</u></b>	<b><u>11,195</u></b>
<b>Total equity and liabilities</b>		<b><u>22,629</u></b>	<b><u>33,890</u></b>

The accompanying accounting policies and notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 31 DECEMBER 2020  
*(all amounts are expressed in thousands of Kuna)*

	Issued capital	Retained earnings	Total
<b>Balance as at 1 January 2019</b>	<b>5,000</b>	<b>12,585</b>	<b>17,585</b>
Total comprehensive income	-	6,736	6,736
<b>Total comprehensive income for period</b>	<b>6,736</b>	<b>6,736</b>	<b>6,736</b>
Dividends paid	-	(1,626)	(1,626)
<b>Shareholder transactions recognized directly in equity</b>	<b>-</b>	<b>(1,626)</b>	<b>(1,626)</b>
<b>Balance as at 31 December 2019</b>	<b>5,000</b>	<b>17,695</b>	<b>22,695</b>
<b>Balance as at 1 January 2020</b>	<b>5,000</b>	<b>17,695</b>	<b>22,695</b>
Total comprehensive income	-	1,255	1,255
<b>Total comprehensive income for period</b>	<b>1,255</b>	<b>1,255</b>	<b>1,255</b>
Dividends paid	-	(6,736)	(6,736)
<b>Shareholder transactions recognized directly in equity</b>	<b>-</b>	<b>(6,736)</b>	<b>(6,736)</b>
<b>Balance as at 31 December 2020</b>	<b>5,000</b>	<b>12,214</b>	<b>17,214</b>

The accompanying accounting policies and notes are an integral part of these financial statements.



STATEMENTS OF CASH FLOWS  
 FOR THE YEAR ENDED 31 DECEMBER 2020  
 (all amounts are expressed in thousands of Kuna)

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Profit before tax	1,674	8,225
<i>Adjustments for:</i>		
Interest income	(206)	(203)
Depreciation	1,055	1,003
Interest expense	82	122
Other non-cash items	5	3
	<u>2,610</u>	<u>9,150</u>
<b>Movements in working capital</b>		
Decrease/(increase) in receivables	1,623	(593)
(Decrease)/increase in current liabilities	(4,058)	(123)
(Decrease) in provisions	(2,406)	(43)
	<u>(2,231)</u>	<u>8,391</u>
<b>Net cash used by operating activities</b>		
Income tax paid	1,546	-
	<u>(685)</u>	<u>8,391</u>
<b>Net cash realized by operating activities</b>		
<b>Cash flows from investing activities</b>		
Interest received	192	192
Purchase of equipment	(13)	(14)
Purchase of intangible assets	(253)	(218)
	<u>(74)</u>	<u>(40)</u>
<b>Net cash from investing activities</b>		
<b>Cash flows from financing activities</b>		
Payments for lease – principal	(656)	(572)
Payments for lease – interest	(82)	(121)
Dividends paid	(6,736)	(1,626)
	<u>(7,474)</u>	<u>(2,319)</u>
<b>Net cash used in financial activities</b>		
<b>Net (decrease)/increase in cash and bank balances</b>	<u>(8,233)</u>	<u>6,032</u>
Net effect in currency difference on cash and bank balances	(9)	(9)
<b>Cash and bank balances at beginning of the year</b>	<u>19,059</u>	<u>13,036</u>
<b>Cash and bank balances at end of the year</b>	<u>10,817</u>	<u>19,059</u>

The accompanying accounting policies and notes are an integral part of these financial statements.

## 1. GENERAL

Erste Asset Management Ltd., registered in Zagreb, Ivana Lučića 2a (the "Company"), is an investment fund management company. The Company was registered at the Commercial Court in Zagreb on 31 July 1998. The Croatian Securities Exchange Commission issued the operating license to the Company on 19 October 2000.

On 28 January 2010, the Croatian Financial Services Supervision Agency passed a decision granting to Company the authorization to perform the activities specified in Article 5 Paragraphs 1.4 and 1.5 of the Capital Market Act concerning the provision of investment services:

- portfolio management
- investment advisory services.

In 2020, the Company merged YOU INVEST funds to the balanced fund Erste Adriatic Multi Asset. Underlying this decision is the rationalization of the Company's operations in terms of pooling similar investment strategies under the cap of one fund, especially considering the fact that the founder, Erste Asset Management GmbH, recently registered their own funds of a similar strategy, thus de facto enabling existing clients to maintain the same investment exposure. It is estimated that the merger in issue will reduce the transaction costs of the acquiring fund, while simultaneously expanding and strengthening its investor base. In 2020, the Company also launched two new alternative funds, Erste PB2 (renaming the Erste Exclusive fund) and PR-AZ1.

### List of funds managed by the Company:

Erste Conservative, Erste E-Conservative, Erste Adriatic Bond, Erste Adriatic Equity, Erste PB1, Erste PB2, Erste PR-AZ-1, Erste Adriatic Multi Asset.

### Management Board:

Josip Glavaš	President	from 3 February 2003
Snježana Šalković Dasović	Member	from 5 November 2004
Miroslav Jurišić	Member	from 17 December 2007

### Supervisory Board:

Heinz Bednar	President	from 1 October 2013
Ivica Smiljan	Member	from 21 October 2016
Adrianus Janmaat	Vice president	from 19 May 2016

General Assembly is consisted of one member Erste Asset Management GmbH Vienna.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### *Basis of accounting*

The Company maintains its books and accounts in the Croatian kuna (HRK) and in accordance with the Croatian Accounting Act as well as the accounting principles and practices adopted by enterprises in Croatia.

### *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the EU (the "IFRS").

### *Basis of preparation*

These financial statements have been prepared under the historical cost convention. The basic accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

### *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRSs require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### *Impact of Covid 19 pandemic*

Assets under management fell significantly during 2020, resulting from the impact of the crisis caused by the Sars-CoV-2 virus pandemic, which caused clients to withdraw their funds from funds and individual portfolios without re-depositing them after the situation had calmed down. Although global markets calmed down after a drastic March 2020 correction, which is absolutely evident from performance of our funds, assets under management unfortunately did not follow the same trend. In conclusion with December 2020, and compared to December 2019, the total fund assets under management decreased by HRK 1.79 million or 26.63%, of which the largest absolute decline of HRK 1.83 million relates to the Erste Adriatic Bond fund, while the largest percentage drop in assets, almost 55%, relates to Erste Conservative fund. As a result of significantly lower assets under management throughout year 2020, management company experienced significant drop in management fee income.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Functional and presentation currency*

The financial statements are presented in Croatian kuna ("HRK"), which is the Company's functional currency. All financial information presented in Croatian kuna has been rounded to the nearest thousand. The effective exchange rate at 31 December 2020 was HRK 7.536898 for EUR 1 (2019: HRK 7.442580).

*Revenue recognition*

Revenue arising in the course of the Company's ordinary activities is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of discounts and value added taxes. Revenue from service is recognized in the period in which the services are delivered.

*Revenue from managing of open end investment funds*

The Company recognizes management fees as revenue on a daily basis over the period earned. The exit fee revenues are recognized when units are sold as percentage of sold unit value.

The Company charges a management fee to the Erste open end investment calculated on the total fund assets decreased for the value of liabilities from securities transactions. The exit fee is charged in accordance with fund's Prospectus. The breakdown of the fees charged in 2020 by the Company to Erste open-end investment funds is presented below:

<b>Erste open end investment fund</b>	<b>Management fee (%)</b>
Erste Conservative	0,20
Erste E-Conservative	0,15
Erste Adriatic Bond	1,00
Erste Adriatic Multi Asset	1,50
Erste Adriatic Equity	2,00
You Invest Solid	1,25
You Invest Balanced	1,50
You Invest Active	1,75

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Revenue from portfolio management*

The Company charges a portfolio management fee and an incentive fee for the portfolio management in accordance with the following price list.

Type of fee	Abbreviation used in the General Terms and	Aggressive strategy	Moderate Strategy	Conservative strategy	Ultra-conservative strategy
Type of fee in %		A	B	C	D
Portfolio management fee	(P1)	2	1,3	1	1
Incentive fee	(P2)	10	10	5	5
Front-end fee	(P3)	-	-	-	-
Exit fee in the first year	(P4)	1	1	1	1

The Company charges a portion of the portfolio management fee to Erste Bank for the portfolios that Erste Bank has contracted with its clients and has given to the Company for management as a delegated business.

*Interest income*

Interest is recognized in the statement of comprehensive income by reference to the principal outstanding and on accrual basis using the interest method. Interest income includes interest income from sight deposits, term deposits and interests from bonds securities.

*Lease liabilities*

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of real estate and equipment leases across the Company. These terms are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Lease liabilities (continued)*

To determine the incremental borrowing rate, the Company:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and telephones with single value item of HRK 10 thousand or less.

### *Right-of-use assets*

The Company leases office space and cars. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Right-of-use assets (continued)*

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	<u>Useful lives in years</u>
Office space	Up to 5
Cars	3 - 5

*Foreign currency translation*

Monetary assets and liabilities in foreign currencies are translated to Croatian Kuna by applying the mid exchange rate of the Croatian National Bank effective on the statement of financial position date. Income and expenditure in foreign currencies are translated at rates effective on the transaction date. Realized gains and losses on translation of foreign currency statement of financial position items are included in the statement of comprehensive income. Foreign currency gains and losses related to securities at fair value through profit and loss are included in the statement of comprehensive income as part of realized and unrealized gain/losses.

*Income tax*

The Company's current tax liability is calculated by applying the 18% tax rate to the taxable profit. Taxable result differs from accounting result as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxes, if any, are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using the liability method. Provisions are determined for the entire amount of deferred tax liabilities. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilized. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Equipment*

Equipment is stated at cost less accumulated depreciation.

Depreciation is provided under the straight-line method over the estimated useful life from 4 to 5 years based on the type of the equipment. The gain or loss arising on the disposal or retirement of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of comprehensive income.

### *Intangible assets*

Intangible assets with finite useful life are stated at purchase cost less accumulated amortization. Amortization is provided under the straight-line method over the estimated useful life of 4-5 years.

The gain or loss arising on the disposal or retirement of intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of comprehensive income.

### *Impairment of equipment and intangible assets*

At the end of each reporting period, the Company reviews the carrying amounts of its equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists and in any case for intangible assets with infinite useful life, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss, unless the relevant asset is carried at a revalue amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Cash and bank balances*

Cash and cash equivalents include cash in bank and in hand. It consists of cash in current accounts denominated in Croatian kuna and foreign currency and is carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payment of principal and interest, and (ii) they are not designated at fair value through profit or loss.

### *Receivables*

Receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

### *Financial instruments*

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC resulting in an immediate accounting loss.

The Company classifies financial assets in the measurement category at amortized cost (AC). The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Financial instruments (continued)*

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or (c) the Company does not transfer substantially all the risks and rewards of ownership of the assets but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

### *Financial assets impairment – credit loss allowance for expected credit loss (“ECL”).*

On each reporting period the Company measures and recognizes, on a forward-looking basis, the ECL for debt instruments measured at AC. Credit loss allowance is based on ECL model measurement that reflects:

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

In statement of financial position debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at 12 Months ECL”. If the Company identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Financial instruments (continued)*

#### *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

#### *Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### *Pension obligations and post-employment benefits*

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

#### *Bonus plans*

A liability for employee bonuses is recognized in provisions based on the Company's formal plan and when past practice has created a valid expectation by the Management Board that they will receive a bonus and the amount can be determined before the time of issuing the financial statements. Liabilities for bonus plans are expected to be settled within 12 months of the balance sheet date and are measured at the amounts expected to be paid when they are settled.

#### *Retirement allowances and jubilee awards*

The obligation and costs of retirement benefits and jubilee awards are determined using a projected unit credit method which considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Certain actuarial assumptions were made by the Management in this assessment.

### 3. ACCOUNTING STANDARDS

#### Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Company:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

#### New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Company has not early adopted.

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
  - The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
  - Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

Unless otherwise described above, the new standards and interpretations are either not relevant or not expected to affect significantly the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED 31 DECEMBER 2020  
 (all amounts are expressed in thousands of Kuna)

**4. FUNDS MANAGEMENT FEE**

	<b>2020.</b>	<b>2019.</b>
Erste Adriatic Bond	17,012	32,479
Erste Conservative	908	1,813
Erste E-Conservative	513	986
Erste Adriatic Equity	1,934	2,308
Erste PB1	5.449	3,347
You Invest Solid	106	177
You Invest Active	81	117
Erste PB2	245	77
You Invest Balanced	111	155
Erste Local Short Term Bond	-	154
Erste Adriatic Short Term Bond	-	171
Erste Adriatic Multi Asset	679	66
Erste PB-AZ-1	32	-
	<u>27,070</u>	<u>41,850</u>

**5. PORTFOLIO MANAGEMENT FEE**

The Company calculates and charges fee to clients for the portfolio management service. The Company realized revenue from this activity in the amount of HRK 1,357 thousand (2019: HRK 3,859 thousand).

**6. SERVICE EXPENSES**

	<b>2020.</b>	<b>2019.</b>
Exit and trailer fee	15,893	23,327
Trailer fee – portfolio management	-	326
Cost of maintenance	1,307	1,175
Financial information service providers fee	461	429
Post and phone expense	85	104
Audit services	167	132
Marketing expense	29	62
Other cost of services	317	296
	<u>18,259</u>	<u>25,851</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of Kuna)

**6. SERVICE EXPENSES (continued)**

The Company pays to Erste & Steiermaerkische Bank (the "Bank") an exit and trailer fee for the distribution of units in Erste open-end investment funds. The Bank charges an exit fee and a trailer fee on units sold through the Bank.

**7. STAFF EXPENSES**

	<b>2020.</b>	<b>2019.</b>
Net salaries	3,709	3,315
Taxes and contributions from and on salaries	3,086	2,775
Bonuses	9	2,631
	<b>6,804</b>	<b>8,721</b>

Payroll costs include HRK 285 (in 2019: HRK 254) of defined pension insurance benefits paid or calculated for payment to mandatory pension funds. The number of staff employed by the Company as at 31 December 2020 was 19 (20 as at 31 December 2019). Management Board's compensations are also included in payroll costs. Costs of bonuses are variable rewards for success. Bonuses paid during 2020 are related to the three board member in the amount of HRK 1.515 (2019: HRK 1.618) and 16 full-time employees in the amount of HRK 985 (2019: HRK 880).

**8. OTHER OPERATING EXPENSES**

	<b>2020.</b>	<b>2019.</b>
Representation and promotion	48	308
Cost of business trips (inland and abroad)	34	301
Fees to regulatory bodies	191	256
Custody fee	-	91
Employee costs	235	318
Cost of energy utilities	210	212
Fund for the protection of investors contribution	20	20
Professional training	50	70
Donations and sponsorships	17	40
Insurance premium	26	21
Other	37	114
	<b>868</b>	<b>1,751</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED 31 DECEMBER 2020  
 (all amounts are expressed in thousands of Kuna)

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**9. CORPORATE INCOME TAX**

Income tax in 2020 is calculated as 18% of the taxable profit for the year. The Company had no tax losses available to be carried forward to next fiscal periods as at 31 December 2020.

The following table reconciles the profit before tax and the income tax expense for 2020 and 2019:

	<b>2020.</b>	<b>2019.</b>
Profit before tax	1.674	8.225
Income tax at the statutory tax rate 18%	301	1.480
Impact of tax relief and other items that affect the tax base decrease	(79)	(19)
Increase in taxes due to tax non-deductible costs	5	193
<b>Current income tax</b>	<b>227</b>	<b>1.654</b>
Deferred tax from temporary differences	192	(165)
<b>Income tax</b>	<b>419</b>	<b>1.489</b>
<b>Effective tax rate</b>	<b>25,03 %</b>	<b>18,10 %</b>
Income tax paid in advance/(income tax liability)	265	(1.169)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

*(all amounts are expressed in thousands of Kuna)*

**10. RIGHT OF USE ASSET**

The statement of financial position discloses a separate item for right of use asset which includes the following:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Office space	545	1.100
Cars	76	203
	<u>621</u>	<u>1.303</u>

	<b>Office space</b>	<b>Cars</b>	<b>Total</b>
<b>Balance as at 1 January 2020</b>	1,100	203	1,303
Annual depreciation expense	(555)	(127)	(682)
<b>Balance as at 31 December 2020</b>	<u>545</u>	<u>76</u>	<u>621</u>



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED 31 DECEMBER 2020  
 (all amounts are expressed in thousands of Kuna)

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**11. INTANGIBLE ASSETS**

	<b>Total</b>
<b>COST</b>	
<b>As at 31 December 2018</b>	<b>4,900</b>
Additions	<u>218</u>
<b>As at 31 December 2019</b>	<b>5,118</b>
Additions	<u>253</u>
<b>As at 31 December 2020</b>	<b>5,371</b>
 <b>DEPRECIATION</b>	
<b>As at 31 December 2018</b>	<b>3,901</b>
Charge for the year	<u>338</u>
<b>As at 31 December 2019</b>	<b>4,239</b>
Charge for the year	<u>364</u>
<b>As at 31 December 2020</b>	<b>4,603</b>
 <b>CARRYING AMOUNT</b>	
<b>As at 31 December 2019</b>	<b>879</b>
<b>As at 31 December 2020</b>	<b>768</b>

Intangible assets relate to software and leasehold improvement.

As at 31 December 2020 and as at 31 December 2019 the Company has performed impairment testing of assets and concluded that no value adjustments are necessary.

No assets have been pledged as security as at 31 December 2020 and as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of Kuna)

**12. FINANCIAL ASSETS**

Series	Currency	Interest rate %	Maturity date	Accrued interest	Cost	Amortization premiums	Interest income	Value
<u>31 December 2020 – Financial assets at amortized cost</u>								
RHMF-O-217A8	HRK	2,75	08.07.2021.	92	6,968	7	193	6,991
								<b>6,991</b>
<u>31 December 2019 – Financial assets at amortized cost</u>								
RHMF-O-217A8	HRK	2,75	08.07.2021.	92	6,968	6	192	6,986
								<b>6,986</b>

**13. RECEIVABLES**

	31 December 2020	31 December 2019
Receivables for funds management fee	2,353	4,716
Receivables for portfolio management fee	134	299
Other receivables	632	205
	<b>3,119</b>	<b>5,220</b>

Receivables are not older than 30 days and considered fully recoverable.

**14. CASH IN BANK**

	31 December 2020	31 December 2019
<i>Bank account - domestic currency</i>		
Erste & Steiermaerkische Bank d.d.	10,801	19,032
Other banks	2	4
<i>Bank account - foreign currency</i>		
Erste & Steiermaerkische Bank d.d.	12	20
Other banks	1	1
<i>Petty cash balance</i>	1	2
	<b>10,817</b>	<b>19,059</b>

Interest rates in domestic currency on cash accounts was 0.01%. Interest rates on foreign currency are 0.00%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of Kuna)

**15. ISSUED CAPITAL**

As at 31 December 2020, the issued capital amounts of HRK 5,000 (2019: HRK 5,000). Sole owner of the Company is Erste Asset Management Management G.m.b.H., Vienna. In 2020, the Company has paid dividends of HRK 6,736 to the sole owner from retained earnings (2019: HRK 1,627).

**16. PROVISIONS**

	31 December 2020	31 December 2019
Accrued bonuses	321	2,728
	<u>321</u>	<u>2,727</u>

**17. OTHER CURRENT LIABILITIES**

	31 December 2020	31 December 2019
Agent commission payable towards the Bank	1,244	2,167
Due to employees	1,880	1,940
Other liabilities to state	238	1,437
Liabilities for distributors	220	1,167
Other liabilities	813	402
	<u>4,395</u>	<u>7,113</u>

**18. LEASE LIABILITIES**

At the reporting date, the Company had outstanding commitments under non-cancellable leases, which matured as follows:

	Car lease	Office space lease	Total
<b>Short term part</b>			
Up to one year	63	532	595
<b>Long term part</b>			
From two to five years	15	89	104
	<u>78</u>	<u>621</u>	<u>699</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of Kuna)

**18. LEASE LIABILITIES (continued)**

The following table shows the analysis of debt movements for each period shown.

	Lease liabilities	Total debt	Cash and cash equivalent	Net debt
<b>Balance as at 1 January 2019</b>	<b>(1,926)</b>	<b>(1,926)</b>	<b>13,036</b>	<b>11,110</b>
Cash flows	693	693	6,032	6,725
Accrued interest	(122)	(122)	-	(122)
Exchange rate differences	-	-	(9)	(9)
<b>Balance as at 1 January 2019</b>	<b>(1,355)</b>	<b>(1,355)</b>	<b>19,059</b>	<b>17,704</b>
Cash flows	738	738	(8,233)	(7,495)
Accrued interest	(82)	(82)	-	(82)
Exchange rate differences	-	-	(9)	(9)
<b>Balance as at 31 December 2020</b>	<b>(699)</b>	<b>(699)</b>	<b>10,817</b>	<b>10,118</b>

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company has different kinds of financial assets such as receivables from the Fund, bonds, cash and short term deposits. The main risks to the Company are interest rate risk, liquidity risk, foreign exchange risk, credit risk and operational risk. The Management reviews and determines management policies for governance of all mentioned risks as presented below:

- Risks Affecting the Management of Financial Assets of the Company
  - Credit risk
  - Liquidity risk
  - Risk of changing the price of financial instrument

*Currency risk*

Currency risk is the risk of decrease in the value of the Company's assets due to changes in the exchange rate. The Company's assets may be invested in financial instruments denominated in currencies other than HRK, and changes in the exchange rate against the HRK may cause decrease in value of that portion of the assets.

Exposure to the Company's currency risk is presented in the following currencies, expressed in thousands of HRK

	31 December 2020 EUR	31 December 2019 EUR
<b>Assets</b>		
Cash amount	8	20
<b>Total asset exposed to currency risk</b>	<b>8</b>	<b>20</b>
<b>Liability</b>		
Lease liability	699	1,355
<b>Total liability exposed to currency risk</b>	<b>699</b>	<b>1,355</b>
<b>Net assets of company exposed to currency risk</b>	<b>(691)</b>	<b>(1,335)</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of Kuna)

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

If the EUR exchange rate changes to 1% higher / lower for HRK at 31 December 2020, assuming other unchanged variables, the pre-tax profit would be lower / higher by HRK 7 thousand (2019: pre-tax profit would be lower/higher by HRK 13 thousand).

*Credit risk*

Credit risk is the risk to loss assets value which is invested in debt securities, money market instruments or deposits due to default of a debt securities issuer or a bank. Credit risk also includes the risk of decreasing in the value of a debt instrument due to decreasing in the rating of the issuer's credit rating. The Management believes that exposure to this type of risk is not significant as it is about government bonds and deposits with reputable banks.

As at 31 December 2020, the Company has no outstanding and unpaid claims (as at 31 December 2019 the Company had no due and unpaid claims).

The Company's financial assets exposed to credit risk are presented in the following categories and represent the maximum exposure to credit risk:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash account	10,817	19,057
Transferable financial instruments at amortised cost	6,991	6,986
Receivables for management fee and other receivables	2,800	5,108
Maximum credit risk exposure	<b>20,608</b>	<b>31,153</b>
Other assets not exposed to credit risk	2,021	2,737
<b>Total assets</b>	<b>22,629</b>	<b>33,890</b>

The following table shows the financial assets of the Company according to the agency's rating:

	<b>S&amp;P Rating</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash account	A	52.49%	61.18%
Transferable financial instruments at amortised cost	BBB-	33.92%	22.42%
Receivables for management fee and other receivables	No rating	13.59%	16.40%
	<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

At December 31, 2020, the bank with which the Company has a current account has no credit rating, but the rating of the parent bank is A according to Standards & Poor (as at 31 December 2019: A).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of Kuna)

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

*Liquidity risk*

Liquidity risk is the risk of loss due to the inability to sell a certain amount of financial instrument at a market price caused by a market disturbance or insufficient depth of market. For the purpose of liquidity risk management, the Company applies an active asset management / liquidity management policy, including financial and cash flows, in order to align cash inflows and outflows. Given that the Company has no financial obligation and has a significant amount of money and short-term investments, the Management believes that the risk is insignificant.

As at December 31, 2020, the Company conducted a financial liabilities maturity analysis showing the remaining period to contractual maturity.

<b>2020</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Lease liability	50	99	446	104	-	699
Other liabilities	-	4,716	-	-	-	4,716
<b>Total liabilities</b>	<b>50</b>	<b>4,815</b>	<b>446</b>	<b>104</b>	<b>-</b>	<b>5,415</b>

<b>2019</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Lease liability	53	105	474	723	-	1,355
Other liabilities	-	3,334	-	-	-	3,334
<b>Total liabilities</b>	<b>53</b>	<b>3,439</b>	<b>474</b>	<b>723</b>	<b>-</b>	<b>4,689</b>

The following table shows the maturity of undiscounted cash flows of assets and liabilities in HRK:

<b>2020</b>	<b>On demand</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Lease liability	57	114	464	103	738
Other liabilities	-	4,716	-	-	4,716
<b>Total liabilities</b>	<b>57</b>	<b>4,830</b>	<b>464</b>	<b>103</b>	<b>5,454</b>

<b>2019</b>	<b>On demand</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Lease liability	58	117	527	804	1,506
Other liabilities	-	3,334	-	-	3,334
<b>Total liabilities</b>	<b>58</b>	<b>3,451</b>	<b>527</b>	<b>804</b>	<b>4,840</b>

## 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### *Risk of changing the price of financial instrument*

The risk of changing the price of financial instrument represents the risk of falling market value of the individual financial instrument in which the Company's assets are invested. By limiting investment in debt securities of Croatia's state, deposits and short-term bond funds, i.e. low-volatility-class assets, and inactive trading, the Company secured a low risk.

### *Operational risk*

The Company is exposed to operational risk through its regular operations. Operational risk is the risk of loss due to inadequate or unsuccessful internal procedures or systems due to human error, fraud or external influences (such as natural disasters), and due to a lack of compliance with the applicable legal regulations. Human errors refer to the possibility of errors occurring during business processes, such as errors in dealing with transaction and / or settlement of transactions or errors in the process of asset valuation. Fraud and theft are related to the possibility of intentional illegal conduct.

The basis for operational risk management is the process analysis within the Company and the identification of potential operational risks to certain categories. Based on the analysis, the Company determines whether some measures to reduce the level of risk in certain processes need to be implemented or not.

At quarterly level, the Company's Management Board receives reports on events that can be qualify as operational risk. The base of losses due to operational risk is monitored, in which all realized losses and possible losses due to operational risk are monitored according to guidelines and terminology of the Basle Committee and the CNB regarding classification of events in the database.

### *Capital management*

The Company actively managed capital base to cover risks in the business. The maintenance of the Company's capital is monitored also by rules established by the Croatian Financial Services Supervisory Agency which require that capital of the investment fund management company shall at any time be equal to or higher than the higher of the following two amounts: 1) HRK 2,487 (minimal amount of the share capital required by the Investment Funds Act) and 2) HRK 2,894 (one quarter of general costs from the previous business year). There were no changes in goals, policies or procedures during 2020 and 2019.

### *Fair value*

The fair value of receivables and cash is approximately equal to the fair value due to the immediate or short-term maturity of these financial assets. The fair value of financial assets measured at amortized cost is HRK 7,104 thousand (2019: HRK 7,285 thousand)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of Kuna)

**20. RELATED PARTIES**

Company related parties are members of the Erste group and fund that are managed by the Company.

	Revenues		Expenses		Receivables		Liabilities	
	2020	2019	2020	2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Erste Conservative	908	2,413	-	-	60	154	-	-
Erste E-Conservative	687	1,286	-	-	44	63	-	-
Erste Adriatic Equity	1,978	2,548	-	-	185	213	-	-
Erste PB2	245	77	-	-	34	6	-	-
Erste PB1	5,449	3,348	-	-	504	302	-	-
Erste Adriatic Bond	17,012	40,439	-	-	1,415	3,927	-	-
You invest Solid	106	177	-	-	0	13	-	-
You invest Balanced	111	155	-	-	0	12	-	-
You invest Active	81	117	-	-	0	9	-	-
Erste Adriatic Multi Asset	678	66	-	-	79	23	-	-
Erste PR-AZ-1	32	-	-	-	32	-	-	-
Erste Group IT HR d.o.o.	-	-	376	329	-	-	-	-
Erste banka Crna Gora	-	-	30	81	-	-	3	4
Erste Card Club	-	-	451	-	-	-	36	65
Erste Asset Management GmbH	162	202	118	124	39	49	-	-
Erste & Steiermaerkische bank d.d., Zagreb	1,357	1,969	15,846	23,828	134	292	1,258	2,174
	<b>28,806</b>	<b>52,797</b>	<b>16,821</b>	<b>24,362</b>	<b>2,526</b>	<b>5,063</b>	<b>1,297</b>	<b>2,243</b>



**20. RELATED PARTIES (CONTINUED)**

During 2020, the Company had transactions with related parties: with the funds it manages transactions related to the collection of management fee, as well as transactions of investment the assets of the fund in other funds under the management of the Company.

The Depository Bank of the Company is Erste & Steiermarkische Bank with which the Company has had transactions related to the collection of the depository bank's fee, the payment of trailer fee for the sale of fund unites, the payment of the fee for the asset management services for the clients of the bank, and related to the trading of the assets of the funds. The Company holds funds in an account with the bank.

The aforementioned related parties are legal entities that are interconnected through their ownership relations and are thus also linked to the Company. These legal entities directly or indirectly through one or more intermediaries' control or are controlled or are under common control with the Company.

When considering each possible related party transaction, attention is focused on the essence of the relationship, not just the legal form.

The Company considers the Management Board to be the key management. Total expenses for the members of Management board, that refer to gross salaries, contribution expenses and bonuses, for the year ended 31 December 2020 was HRK 4,113 thousand (2019: HRK 4,188 thousand) out of that HRK 159 thousand was paid for pension fund (2019.: HRK 160 thousand).

During 2020 the Company has disbursed total of HRK 6,736 thousand to the sole owner from retained earnings (2019: HRK 1,627 thousand).

## REGULATORY FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2020

*(all amounts are expressed Kuna)*

<b>Form IFP</b>		
<b>Statement of Financial Position</b>		
Name of the investment fund management company: Erste Asset Management d.o.o.		
OIB: 68572873963		
Date: 31.12.2020.		
	(in HRK)	
	31.12.2019.	31.12.2020.
1. assets		
2. cash	19.058.672,58	10.817.375,16
3. financial assets at fair value	0,00	0,00
4. financial assets at amortized cost	6.986.265,58	6.990.624,57
5. receivables in respect of fund and portfolio management	5.016.446,25	2.487.904,59
6. other receivables	146.248,28	139.425,09
7. property, plant and equipment	47.485,18	50.699,11
8. intangible assets	878.297,22	767.873,72
9. deferred tax assets	453.520,02	261.875,67
10. other assets	1.303.405,10	1.113.185,01
11. total assets (( $\sum$ EDP2 to EDP10))	33.890.340,21	22.628.962,92
12. OFF-BALANCE SHEET ITEMS	684.571.317,23	0,00
13. capital and liability	0,00	0,00
14. capital and reserves ( $\sum$ EDP15 to EDP20)	22.695.455,93	17.214.755,60
15. subscribed capital	5.000.000,00	5.000.000,00
16. capital reserves	0,00	0,00
17. fair value reserve	0,00	0,00
18. other revaluation reserves	0,00	0,00
19. retained profit or accumulated losses	10.959.464,04	10.959.464,04
20. profit or loss for the year	6.735.991,89	1.255.291,56
21. liabilities ( $\sum$ EDP22 to EDP25)	11.194.884,28	5.414.207,32
22. liabilities in respect of fund and portfolio management	3.053.831,34	1.463.869,47
23. financial liabilities	0,00	0,00
24. other liabilities	8.141.052,94	3.950.337,85
25. deferred tax liabilities	0,00	
26. total equity and liabilities (EDP14 to EDP21)	33.890.340,21	22.628.962,92
27. OFF-BALANCE SHEET ITEMS	684.571.317,23	0,00

REGULATORY FINANCIAL STATEMENTS  
STATEMENT OF COMPREHENSIVE INCOME  
FO THE YEAR ENDED 31 DECEMBER 2020  
(all amounts are expressed Kuna)

<b>Statement of comprehensive income</b>		
<b>Name of the investment fund management company: Erste Asset Management d.o.o.</b>		
<b>OIB: 68572873963</b>		
<b>For the period: 01.01.2020.-3.12.2020.</b>		
	(in HRK)	
	31.12.2019.	31.12.2020.
28. management fee income ( ( EDP29+EDP32+EDP35+EDP38) )	50.626.196,31	30.773.740,44
29. management fee (EDP30+EDP31)	50.625.725,15	30.555.351,79
30. UCITS fund management	47.201.489,91	24.828.617,41
31. alternative investment fund management	3.424.235,24	5.726.734,38
32. income from entrance charges (EDP33+EDP34)	0,00	0,00
33. UCITS fund	0,00	0,00
34. alternative investment fund management	0,00	0,00
35. income from exit charges (EDP36+EDP37)	471,16	218.388,65
36. UCITS fund	471,16	218.388,65
37. alternative investment fund management	0,00	0,00
38. other income	0,00	0,00
39. fund management expenses (EDP40+EDP41)	-32.102.687,75	-19.378.075,59
40. costs of unit sales charges	-32.102.687,75	-19.378.075,59
41. other expenses	0,00	0,00
42. net investment fund management result (EDP28+EDP39)	18.523.508,56	11.395.664,85
43. net portfolio management income	3.386.531,40	1.327.389,71
44. investment advisory service income	0,00	0,00
45. general and administrative expenses	-14.078.812,27	-11.762.085,85
46. financial income and expenses (∑ EDP47 to EDP50)	92.623,90	112.491,20
47. net interest income	81.423,42	126.660,52
48. net exchange differences	4.862,02	-18.528,31
49. net impairment loss for expected credit losses	-3,55	-2.721,37
50. other income and expenses from financial instruments	6.342,01	7.080,36
51. other income and expenses	301.127,14	600.930,14
52. total income	55.008.061,14	32.956.104,01
53. total expenses	-46.783.082,41	-31.281.713,96
54. profit / loss before taxation (EDP42+EDP43+EDP44+EDP45+EDP46+EDP51)	8.224.978,73	1.674.390,05
55. income tax	1.488.986,84	419.098,49
56. profit / loss (EDP54 – EDP55)	6.735.991,89	1.255.291,56
57. other comprehensive income (EDP58+EDP63)	0,00	0,00
58. items that will not be reclassified to the income statement (∑ EDP59 to EDP62)	0,00	0,00
59. change in revaluation reserves: real estate, plant, equipment and intangible assets	0,00	0,00
60. change in fair value of equity instruments	0,00	0,00
61. changes to other items that will not be reclassified to the income statement	0,00	0,00
62. Profit tax relating to items that will not be reclassified	0,00	0,00
63 items that can be reclassified to the income statement (EDP64 + EDP67 + EDP70)	0,00	0,00
64. change in revaluation reserves: debt securities (EDP65 + EDP66)	0,00	0,00
65. unrealized gains / losses	0,00	0,00
66. transferred to the income statement (reclassification adjustments)	0,00	0,00
67. changes to other items that can be reclassified to the income statement (EDP68 + EDP69)	0,00	0,00
68. - gains / losses	0,00	0,00
69. transferred to the income statement (reclassification adjust.)	0,00	0,00
70. profit tax relating to items that can be reclassified to profit or loss	0,00	0,00
71. total comprehensive income (EDP56 + EDP57)	6.735.991,89	1.255.291,56

## REGULATORY FINANCIAL STATEMENTS (CONTINUED)

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

*(all amounts are expressed in Kuna)*

Form IPK								
Statement of changes in equity								
Name of the investment fund management company: Erste Asset Management d.o.o.								
OIB: 68572873963								
For the period: 01.01.2020.-3.12.2020.								
(in HRK)								
	Attributable to the equity holders of the parent						Non-controlling interest	Total equity
	Subscribed capital	Capital reserves	Revaluation of financial assets available for sale	Other revaluation reserves	Retained profit or accumulated losses	Profit or loss for the year (period)		
Prior-year opening balance	5.000.000,00	0,00	0,00	0,00	10.963.240,99	1.626.703,85	0,00	17.589.944,84
Changes in accounting policies	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Correction of prior-period error	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Prior-year opening balance (as restated)	5.000.000,00	0,00	0,00	0,00	10.963.240,99	1.626.703,85	0,00	17.589.944,84
Profit / Loss for the period	0,00	0,00	0,00	0,00	0,00	6.735.991,89	0,00	6.735.991,89
changes in fair value of financial instruments	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
other gains and losses on investments in financial instruments	0,00	0,00	0,00	0,00	0,00	-3.776,95	0,00	-3.776,95
changes in other revaluation reserves (real estate, plant, equipment and intangible assets)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Other changes in equity not attributable to the equity holders in their capacity as owners	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
tax on items directly recognized or transferred from equity and reserves	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total directly recognised prior-year (period) income and expenses	0,00	0,00	0,00	0,00	0,00	6.732.214,94	0,00	6.732.214,94
Increase/Decrease in subscribed capital	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Other payments made by the owners	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Dividends (profit) paid	0,00	0,00	0,00	0,00	0,00	-1.626.703,85	0,00	-1.626.703,85
Other distributions to owners	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Prior-year closing balance	5.000.000,00	0,00	0,00	0,00	10.963.240,99	6.732.214,94	0,00	22.695.455,93
Current-year opening balance	5.000.000,00	0,00	0,00	0,00	10.963.240,99	6.732.214,94	0,00	22.695.455,93
Changes in accounting policies	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Correction of prior-period error	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Current-year opening balance (as restated)	5.000.000,00	0,00	0,00	0,00	10.963.240,99	6.732.214,94	0,00	22.695.455,93
Profit or loss for the period	0,00	0,00	0,00	0,00	0,00	1.255.291,56	0,00	1.255.291,56
changes in fair value of financial instruments	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
other gains and losses on investments in financial instruments	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
changes in other revaluation reserves (real estate, plant, equipment and intangible assets)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Other changes in equity not attributable to the equity holders in their capacity as owners	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
tax on items directly recognized or transferred from equity and reserves	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total directly recognised income and expenses of the current year (period)	0,00	0,00	0,00	0,00	0,00	1.255.291,56	0,00	1.255.291,56
Increase/Decrease in subscribed capital	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Other payments made by the owners	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Dividends (profit) paid	0,00	0,00	0,00	0,00	0,00	-6.735.991,89	0,00	-6.735.991,89
Other distributions to owners	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Current-year closing balance	5.000.000,00	0,00	0,00	0,00	10.963.240,99	1.251.514,61	0,00	17.214.755,60

## REGULATORY FINANCIAL STATEMENTS (CONTINUED)

## STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2020

*(all amounts are expressed in Kuna)*

		Form INTi	
<b>Statement of Cash Flow (Indirect Method)</b>			
Name of the investment fund management company: Erste Asset Management d.o.o.			
OIB: 68572873963			
For the period: 01.01.2020.-31.12.2020.			
		(in HRK)	
	31.12.2019.	31.12.2020.	
108. net cash flows from operating activities (ΣEDP109 to EDP123)	9.610.234,60	-1.417.147,97	
109. profit/Loss for the current year (period) before taxation	8.224.978,73	1.674.390,05	
110. depreciation and amortisation	1.003.428,86	399.689,06	
111. value adjustment of receivables and similar write-offs and write-downs	0,00	0,00	
112. provisions	0,00	0,00	
113. interest income	-203.387,27	-208.680,92	
114. interest expense	0,00	82.020,40	
115. gains / losses on investments in financial instruments	0,00		
116. net impairment loss for expected credit losses	0,00	0,00	
117. increase / decrease in receivables from fund and portfolio management	-555.564,45	2.528.541,66	
118. increase / decrease in other receivables	-49.154,53	388.687,63	
119. interest paid	0,00	-82.020,40	
120. increase / decrease in other items of assets	0,00	0,00	
120. increase/Decrease of liabilities arising from fund and portfolio management	-466.191,88	-1.589.961,87	
122. increase / decrease in other liabilities	1.656.125,14	-4.609.813,58	
123. paid profit tax	0,00	0,00	
124. net cash flows from investing activities (ΣEDP125 to EDP134)	-1.961.239,24	-88.157,56	
125. receipts from the sale of financial instruments	0,00	0,00	
126. payments for purchase of financial instruments	0,00	0,00	
127. interest received	203.387,27	208.680,92	
12. dividends received	0,00	0,00	
129. payments for placements in loans and other financial instruments	0,00	0,00	
130. receipts from the collection of loans and other financial instruments	0,00	0,00	
131. payments for the purchase of real estate, plant, equipment and intangible assets	-2.158.288,05	-292.479,49	
132. receipts from the sale of property, plant, equipment and intangible assets	0,00	0,00	
133. other receipts from investment activities	-6.338,46	-4.358,99	
134. other Payments from investment activities	0,00	0,00	
135. net cash flows from financing activities (ΣEDP136 to EDP144)	-1.626.703,85	-6.735.991,89	
136. payment of the owner of the management company	0,00	0,00	
137. expenses for the purchase of own shares / redemption of shares	0,00	0,00	
138. pay dividends or profit shares	-1.626.703,85	-6.735.991,89	
139. loan receipts	0,00	0,00	
140. payments for repayment of received loans	0,00	0,00	
141. receipts by issued financial instruments	0,00	0,00	
142. payments on issued financial instruments	0,00	0,00	
143. other receipts from financial activities	0,00	0,00	
144. other payments from financial activities	0,00	0,00	
145. net increase/decrease in cash and cash equivalents (EDP108+EDP124+EDP135)	6.022.291,51	-8.241.297,42	
146. cash and cash equivalents at beginning of period	13.036.381,07	19.058.672,58	
147. cash and cash equivalents at end of period (EDP145+EDP146)	19.058.672,58	10.817.375,16	

## REGULATORY FINANCIAL STATEMENTS (CONTINUED)

Reconciliation between the Regulatory financial statements and financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2020

*(all amounts are expressed in thousands of Kuna)*

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Regulatory financial statements are prepared in accordance with the HANFA`s regulations which are based on the International Financial Reporting Standards as adopted by the European Union.

The main differences between the regulatory financial statements prepared in accordance with the HANFA`s regulations and the financial statements prepared in accordance with the IFRS are disclosure requirements. Regulatory financial statements are prepared in accordance with the Ordinance on structure and contents of financial statements and other reports of companies managing UCITS funds (Official Gazette: 105/2017) and Ordinance on structure and content of annual and semi-annual financial reports and other reports of alternative investment fund management companies (Official Gazette: 13/2019; further "Ordinances").

Differences are:

- Receivables in the Regulatory financial statements are presented analytically in three items while financial statements prepared in accordance with IFRS are shown in one aggregate item
- Intangible assets in the Regulatory financial statements are summarized, while in the financial statements prepared in accordance with IFRS they are presented analytically, distinguishing the right to use property related to operating leases, as required by IFRS-16
- Other short-term liabilities in the Regulatory financial statements are presented analytically in three items by type of occurrence, while in the financial statements prepared in accordance with IFRS they are shown in terms of maturity and lease items are separated according to the requirements of IFRS 16
- Income and expenses in the Regulatory financial statements are presented in such a way that the items belonging to this position in the report are netted as well as in the financial statements prepared in accordance with the IFRS, with a slightly different layout of the items. Items that participate in largest portion of revenue and expenses are shown separately in both reports.

The Company's management believes that there is no need for additional notes to the financial statements, and that is possible based on the above reconciliation make a link to the notes of financial statements prepared under IFRS and financial statements prepared under the provisions of Law on Investment Funds with Public Offering (Official Gazette 44/16 and 126/19) and the Law on alternative investment funds (Official Gazette 21/18 and 126/19) that regulates the financial reporting and the Ordinance on the structure and content of financial statements and other statements of investment fund management company of UCITS funds (Official Gazette 105/17) and the Ordinance on the structure and content of annual and semi-annual financial statements and other statements of investment fund management company of alternative investment funds (Official Gazette 13/19).