SIF BANAT-CRIȘANA

POLICY ON INTEGRATING ESG RISKS IN THE INVESTMENT DECISION-MAKING PROCESS

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1. GENERAL ASPECTS

SIF Banat-Crișana S.A. as a participant on the financial market, acknowledges that global sustainability challenges, including climate change, resource scarcity and human rights, are critical and need to be addressed. In this regard, to provide long-term value to our shareholders, we use comprehensive risk management policies that include environmental and social risks.

Sustainability risks can have a negative impact on all areas of activity and types of risk, real estate or property provided as collateral or covered by insurance can be damaged or even destroyed. The time horizon and the extent of sustainability risks are extremely uncertain and the historical basis for assessing the impact of future sustainability risks is insufficient.

Sustainability risks can become relevant and lead to pressures on the value of assets in the short term, as well as in the medium and long term. The physical and transitional risks are interdependent, as globally the longer is prolonged the gradual reduction of greenhouse gas emissions, the more severe the physical consequences of climate change will be.

2. REFERENCE DOCUMENTS

The regulations applicable to financial market participants on transparency concerning the integration of sustainability risks and taking into account the negative effects on sustainability in their activities and on the disclosure of information on sustainability in financial products are the EU Regulation no. 2088/2019 on sustainability-related disclosures in the financial services sector and EU Regulation no. 852/2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

Starting with August 1, 2022, Delegated Regulation (EU) no. 1255/2021 amending Delegated Regulation (EU) no. 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers entered into force.

3. SUSTAINABILITY RISK MANAGEMENT

The concept of sustainable investment is based on sustainability. This refers to the idea of producing goods and services in a way that does not consume irreplaceable resources and that do not harm the environment. The term “sustainability” can also refer to other areas of the economy, for example, the financial or investment sector.

Sustainability is based on the three pillars: (i) economy; (ii) environment, and (iii) social.

“Sustainable” investment refers to the way in which the capital is managed and its direction, and for investments to be considered sustainable they are redirected to prevent and combat climate change, protect the environment, and promote responsible social activity.

Sustainability risks are environmental, social or governance events or conditions that, if they occur, have, or may have a significant negative impact on an issuer's assets, financial position and income, or reputation.

3.1 Integrating the sustainability risk in the investment decision-making process

Integrating the sustainability risk is defined as “the explicit and systematic inclusion of ESG factors in the investment analysis and investment decisions”, a holistic approach to investment analysis in which important factors – traditional financial factors and ESG factors – are identified and assessed to form an investment decision.

The objective of the Company regarding the sustainability risk is to manage a portfolio of financial instruments for which sustainability risk factors (ESG) have been integrated into the investment process, in line with the objectives established by the European Green Pact to guide capital flows and towards sustainable investments.

The strategy of the Company regarding the integration of sustainability risk in the investment decision-making process focuses on the objectives of sustainable development, the financial instruments of the issuers for which there is exposure, or the investment is intended being subject to the sustainability testing process based on ESG criteria.

In the investment decision-making process, SIF Banat-Crișana analyses the sustainability risk of issuers with regard to the criteria applied to determine whether an economic activity qualifies as sustainable and contributes substantially to one or more of the sustainability objectives.

SIF Banat-Crișana considers the following criteria in the analysis of the impact of sustainability factors on the investments in the portfolio:

Economic activities pursuing environmental sustainability objectives:

(a) climate change mitigation; (b) adaptation to climate change; (c) the sustainable use and protection of water and sea resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems.

Economic activities pursuing the objectives of social sustainability:

(a) compliance with established labour standards, occupational safety, and health protection; (b) adequate remuneration, fair working conditions, diversity and training and development opportunities; (c) exclusive projects and consideration for the interests of communities and social minorities; (d) customer responsibility (responsible marketing, product quality, data confidentiality).

Economic activities that pursue good governance practices:

(a) sound management structures (fiscal honesty, anti-corruption measures, transparency of information, data protection, etc.); (b) guarantees of employees' rights; (c) the remuneration of relevant staff based on sustainability criteria.

The integration of sustainability related factors in the decision-making process is based on **three components:**

1. Documenting

• *Information gathering:* analysts gather financial and ESG information from multiple sources (e.g. company reports and third-party research reports, company surveys, etc.);

• *Materiality analysis:* investment managers analyse relevant financial and ESG information to identify significant financial and ESG factors impacting a company, sector and/or country;

• *Investment monitoring:* Investment Officers collaborate with companies/issuers to manage significant financial and ESG factors and monitor the outcome of engagement and/or voting activities.

2. Investment and portfolio analysis: analysts assess the impact of significant financial and ESG factors on the corporate and investment performance of a company, sector, country and/or portfolio. This may result in adjustments to forecasted financial data, valuation model variables, valuation multiples, forecasted financial ratios, internal credit ratings and/or portfolio weightings.

3. Investment decision: The significant financial factors and ESG factors identified and assessed are considered in making the decision to increase, maintain, decrease the stake or not to invest.

ESG integration does not mean that investments in certain sectors, countries and companies are prohibited, portfolio returns are sacrificed to achieve ESG integration techniques, irrelevant ESG factors affect investment decisions, and financial factors are ignored or major changes in investment policy are required.

SIF Banat-Crișana believes that investing in companies that perform well and in ESG will benefit from long-term competitive advantages, reduced risks of decline and consolidated reputation. Good corporate governance enables higher profits, lower expenses, and more innovation. It also reduces volatility by reducing financial risks and lowering funding costs. Companies that adhere to the principles of sustainable development and social and environmental standards will be able to provide high-quality products and services, which in turn will increase customer loyalty and employee motivation.

3.2 Integrating the sustainability risk in the risk management system

Integrating the assessment and management of sustainability risk in the risk management system is part of both the pre-investment verification process and the investment monitoring process and is in constant connection with the Fund's investment strategy and objectives in terms of portfolio allocation.

Sustainability risks can have a significant impact on other types of risk existing at the investment level and can be a factor that contributes to their materialization: i) credit risk / counterparty risk; ii) market risk; iii) liquidity risk; iv) operational risk; v) strategic risk and vi) reputational risk.

The occurrence or materialization of a sustainability risk factor in a way that is not anticipated may have a negative impact on the value of an investment, and therefore on the total value of the asset under management with a negative impact on the market price of SIF1 shares traded on BVB.

Measures to mitigate the manifestation of sustainability risk in investment decisions:
- Identifying events and sources of sustainability risk;
- Estimating the frequency and impact on investment objectives;
- Monitoring the limits established by the investment policy and the risk management policy;
- Execution of various exit strategies adapted and correlated with a series of internal and external factors;
- Reporting the results of sustainability risk monitoring;
- Allocation of responsibilities regarding the management of sustainability risks within the Company.

The assessment of the sustainability risk related to the investment portfolio is carried out qualitatively at the issuer level, based on the evaluation criteria mentioned in the methodology, and at the aggregate level of the portfolio, the weight of issuers whose activity qualifies as sustainable relative to the total assets under management is calculated.

At Company level, the recipients of the reports regarding the manifestation of the risk related to sustainability are the senior management, the portfolio management functions and the key functions.

SIF Banat-Crișana's remuneration policy promotes effective and sound risk management, without the remuneration structure encouraging excessive risk-taking in relation to sustainability risks, being correlated with risk-adjusted performance.

Governance, responsibilities, conflicts of interest

The ESG policy considers the investment strategy chosen, responsible governance and business organization. The board of directors has overall responsibility for business and risk strategy, its communication and implementation within the entity, and for maintaining an appropriate business structure with risk responsibilities, processes, resources, and functions.

Senior management ensures that ESG risk integration policies at the level of the investment decision and in the risk management system are properly and effectively implemented and periodically checks that the approved risk limits are respected, can assess the risks and take the necessary measures to mitigate them.

The responsibility for integrating ESG factors into the investment process rests with the first line of defence against risk, namely the operational departments that analyse, assess, and propose investment management.

The central focus of the ESG Policy is the risk management. This considers the processes of risk identification, management, and control, together with methods and procedures with specific reference to the inclusion of sustainability risks in the investment decision-making process.

Within the operationalization of ESG at the level of investment decisions, the risk management function is functionally and hierarchically separated from other tasks with which it could come into conflict, thus the personnel responsible for the portfolio management does not exert undue influence on the outcome of risk analyses. Periodic reports are fairly communicated to all parties.

3.3 The interaction of the ESG Policy with other procedures

The ESG Policy at the investment decisions level is correlated and interacts with the following procedures regarding investment activity, portfolio, and risk management:

- The procedure on the prior verification at the time of the investment which describes the minimum criteria to be considered in issuing a risk opinion;
- The procedure on investing in municipal and corporate bonds considers the stages of completing the transaction and following the progress of investment.
- The procedure on the analysis and making investments in shares where the elements taken into account in the preliminary analysis of investment opportunities are provided, including by risk assessment;
- The procedure on the monitoring of the issuers in the portfolio including by identifying the possible risks regarding their activity.
- Engagement policy and principles on exercising the voting rights for the portfolio under the management

3.4 Periodic revision

SIF Banat-Crișana’s management structure, through the Board of Directors (CA) and the Audit Committee, periodically approves and revises both the risk strategy and the significant risk management policy.

To effectively monitor the risks, the Company evaluates the risk management systems at an appropriate frequency, at least once a year, and adapts them when necessary.

The Risk Management Office periodically analyses and reviews the adequacy of the ESG Policy, in accordance with the criteria set out in the Significant Risk Management Policy, and suggests amendments, if necessary.

Escalation

Circumstances that require escalation, including if the limits of risk indicators are exceeded, are similar to those set out in the *Significant Risk Management Policy*.

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This Policy on the integration of sustainability risks in the investment decision-making process (*ESG Policy*) complements *The Significant Risk Management Policy* of SIF Banat-Crișana's and it is supplemented by the *Methodology for integrating sustainability risks into the investment decision-making process.*

The ESG policy (prepared in Romanian) was approved by the Board of Directors by Decision no. 2 of October 11, 2022.

Chairman of the Board of Directors, CEO
Bogdan-Alexandru Drăgoi