TOPIC 2 OF THE OGM AGENDA

Approval of the Revised Budget of Revenues and Expenses for the financial year 2020.

The economic context

The international economic environment

The coronavirus pandemic remains the main source of uncertainty for the global economy. In mid-May, the number of new cases temporarily stabilized, leading to a gradual relaxing of isolation measures. Following the easing of restrictions, the number of illnesses has risen again - especially in the United States, Brazil, and other emerging market economies - on a plateau since early August. The rate of COVID-19 infection remains high and the number of new cases is rising in Europe and other regions, fuelling fears of a strong recurrence of infections, and negatively impacting consumer confidence.

Global economic activity declined in the second quarter and began to recover with the gradual easing of isolation measures in mid-May. The ECB's macroeconomic projections for September 2020 predict that global real GDP (excluding the eurozone) will decline by 3.7% this year and expand by 6.2% and 3.8% in 2021, and respectively, 2022.

Other risks are related to the outcome of the Brexit negotiations, the increase in trade protectionism with negative long-term effects on global supply chains.[1]

EUROzone

In Q2 2020, the eurozone GDP fell by 11.8% QoQ due to the imposition of restrictive measures amid rising cases of SARS COV2 virus infection. Spain and France faced the most significant quarterly declines of GDP (-19% and -14% respectively) triggered by long-term and very large restrictions compared to other European countries. In contrast, Germany suffered a decline in GDP of only -10% in Q2 due to prudent crisis management.

Due to the easing of austerity measures decided by European countries by the end of August, the economic data published so far suggest that a recovery in the GDP of eurozone in Q3 2020 is expected. However, the main risk factor is the increase in the number of new cases of COVID-19 infections.

The annual growth rate of loans granted to non-financial corporations remained broadly stable in July at 7.0%, compared to 7.1% in June. These high rates reflect the increased liquidity need of companies to finance their ongoing expenses, working capital and to continue to build liquidity buffers, although the return to economic activity has led to some recovery in their revenues.

The domestic economic environment

The Ministry of Public Finance published the Note on the execution of the general consolidated budget on August 31, 2020, announcing that it registered a deficit of RON 54.77 bn (5.18% of GDP), of which more than half is the result of measures to combat the crisis caused by the COVID-19 epidemic. The fiscal facilities, investments and exceptional expenditures adopted to combat the effects of the COVID-19 epidemic amounted to RON 31.17 bn (2.95% of GDP).

The increase in the budget deficit for the first eight months of this year, compared to the same

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[1]European Central Bank, *Economic Bulletin* Issue 6/2020, https://www.ecb.europa.eu/pub/pdf/ecbu/eb202006.en.pdf

period last year, is explained, on the revenue side, by the unfavourable progress of budget revenues in March-August due to the crisis, while on the expenditure side there was an increase in investment expenditures by RON 5.1 bn compared to the same period of the previous year, as well as exceptional payments generated by the COVID-19 epidemic of approximately RON 8.62 bn.[2]

Domestically, there is an increase in productive investment in Q2 2020, when the economy reached the peak of the crisis induced by the incidence of the COVID-19 pandemic, an evolution that expresses the prospect of a rapid transition from the post-crisis cycle to the post-pandemic cycle.

The negative outlook on Romania and the impact of fiscal and external imbalances may influence the state’s borrowing costs on domestic and foreign markets, given that the top 3 rating agencies have scheduled revisions of Romania's sovereign rating in Q4 2020 (October 23 - Moody's; October 30 - Fitch; December 4 - S&P).

The risk factors identified for the domestic economy for the short and medium term are the evolution of international financial markets, the evolution and management of the health crisis in the current pandemic context, the dynamics of macroeconomic indicators in the Eurozone as Romania's main economic partner, economic policies and fiscal policy decisions in the electoral and pandemic context.

Stock market – BVB (BSE)

The local capital market is mainly influenced by the behaviour of foreign markets, the influence of political decisions on the stock market is rather occasional and impulsive. The evolution of the Bucharest Stock Exchange (BVB) was influenced by the volatility on the foreign markets of the last period, BVB correlating with their decreases, but not necessarily with the magnitude of the increases.

Starting with September 21, 2020, the Romanian capital market was included in the category of secondary emerging markets, according to the decision adopted by FTSE Russell in September 2019. From a historical point of view, it can be said that promoting in the secondary emerging league is the most important event since the reopening of the internal capital market 25 years ago and means a recognition of the efforts and results of this period.

Movements of the main stock market indices for various periods of time as of September 29, 2020:

Index	1W	1M	YtD	1Y
DJ Industrial Average	2.58%	-3.44%	-3.80%	3.31%
S&P 500	3.04%	-4.71%	3.24%	13.44%
Nasdaq	4.25%	-5.86%	23.55%	40.17%
DAX	0.80%	-1.56%	-3.81%	3.91%
FTSE 100	-0.10%	-1.18%	-21.86%	-19.93%
Euro Stoxx 50	1.75%	-2.49%	-14.79%	-10.60%
BET BVB	-0.13%	0.12%	-9.21%	-5.92%

The BET index has risen the least since the March lows to date, from the perspective of comparative analysis with US and European stock market indices, despite the promotion of BVB as an emerging secondary market.

[2] MFP – *Note on the execution of consolidated budget - August 2020,* https://www.mfinante.gov.ro/pagina.html?pagina=buletin&categoriebunuri=executie-bugetara,rapoarte-trimestriale,rapoarte-semestriale,rapoarte-anuale,arieratele-bugetului-general-consolidat,comunicari-opc&tab=1

Instead, this event was an important element for increasing liquidity on the Bucharest Stock Exchange, becoming more attractive for both local and foreign investors, but especially for institutional investors, by including Romanian companies in FTSE emerging market indices. The average daily value of transactions carried out in 2020 (for all types of traded instruments) was about RON 66 million, + 38% compared to 2019, when it was RON 47.6 million, being supported on the one hand the promotion of the capital market from a frontier to a secondary emerging market and on the other hand by the volatility caused by the COVID-19 crisis.

The trades carried out on the DEAL traded market starting with September 21 were performed for small number of issuers (10), their total value being of RON 264.54 million, and from the beginning of the year the total value of DEAL transactions was of RON 751.28 million (for 25 issuers). After consuming the stage of volatility brought by the actual promotion to the status of emerging market, the Bucharest Stock Exchange entered a still area, being influenced by the uncertain direction of the international stock markets, which are pending, amid the proximity of the presidential elections in the USA and a mix of macroeconomic data that make it difficult to chart a clear direction in the short term.

The Revised Budget of Revenues and Expenses for the year 2020

As stated in the information materials for topic 5 on the agenda subject to approval of OGM of April, 2020, which accompanied the proposal for revenues and expenses budget for 2020, due to the impossibility of anticipating with sufficient reliability at that time the possible changes in the financial performance of the company during 2020, the Company's management assumed to reanalyse the assumptions and estimates used in the construction of the budget in the form subject to approval, considering the possibility of returning to shareholders during the financial year 2020, with a revised budget proposal.

In the existing economic context, the management of SIF Banat-Crișana continuously analysed the evolution of the economic environment and the impact on company's performance brought by the crisis triggered by the COVID-19 pandemic, given that the previous budget proposal for revenues and expenses for the financial year 2020 was based on estimates of the most important components of the budget influenced by high uncertainty, namely:

- *dividend income* - by the decisions of the general meetings of the respective companies;
- *investment gain / loss* - high volatility and unpredictable movement of global and local capital markets.

The efforts of the management and the personnel involved in the portfolio management were mainly aimed at bettering the adverse effects of the economic decline, both on the position and financial performance of the Company and on the main holdings in the portfolio, aiming at ensuring a comfortable level of liquidity under the conditions of maintaining the operational capacity, and generating long-term cash flows.

However, developments since the budget was approved, the prolonged impact of the current pandemic on certain economic sectors and the partial recovery of stock quotes for some issuers in the Company's portfolio have required a review of the main categories of revenue and expenses in the annual planning.

The decision to convene the General Meeting of Shareholders also occurred amid a record number of cases of infection among the Romanian population (daily figures of over 2,000 cases between September 30 and October 2), a condition that significantly increases the risk of entering a the new stage of the pandemic, whose macroeconomic, social and capital markets consequences, in the event of additional restrictions or a temporary return to the state of emergency, may be comparable in severity to Q2 2020.

In these circumstances, the Company's management has chosen a prudent but realistic approach, related to the possible impact of the last quarter of the year on the figures approved by shareholders in April 2020, through the Revenues and Expenses Budget for 2020. We emphasize here that the main effect of the adjustment of the amounts included in the Budget is that of the value adjustments (accounting, without involving cash outflows) to be recognized in the expenses of the period, in the event that the assumptions taken into account in preparing the revised Budget will become reality during the last quarter of the year.

We note that these differences in value are mainly the effect of two elements required by the application of International Financial Reporting Standards: (1) the application of IFRS 9 - Financial Instruments and, implicitly, the obligation to classify some financial assets, which are not equity instruments in the strictly sense as defined in IAS 32, as measured at fair value through profit or loss and (2) the obligation to measure at fair value differences in investments in subsidiaries and associates in accordance with IFRS 10, as applied by Company of the exception regarding investment entities. Both elements require the recognition in expenses (and, on a net basis, in the line of net profit / loss on investment within the Budget) of amounts which represent the effect of the negative evolution of the fair values of the financial asset portfolio, without representing actual losses, respectively cash outflows.

Given these, we submit to the General Meeting of Shareholders the revised version of the Revenue and Expenses Budget for the financial year 2020, according to the data in the table below, prepared based on the following revised assumptions:

- Achievements of income, gains (losses) from investments and expenses items as of August 31, 2020;
- Dividend income expected to be realized by the end of the financial year, depending on the portfolio structure as of August 31, 2020 and the information available on the distribution of dividends by the companies in the portfolio;
- The average level of interest rates gained on investments made during 2020 and the estimated volume of cash placed in monetary instruments between September and December 2020;
- The net loss on marking to market the investments in financial assets measured at fair value through profit or loss (FVTPL), determined based on the amounts already recognized in profit or loss as of June 30, 2020, respectively the estimated level, weighted by the probabilities of realization of each scenario considered, regarding the level of value differences resulting from the marking to market as of December 31, 2020, both for investments for which fair value values of level 1 (market price) and for level 3 (valuation reports) are determined, according to the provisions of IFRS 13. We emphasize that these negative differences recognized in expenses are not equivalent of an actual loss in trading and do not involve a cash outflow from the Company, being only the effect of applying IFRS 9 and IFRS 10 (except for investment entities), their express requirements being that certain financial assets be recognized and measured at fair value through profit or loss for the period;
- The most probable level of the Company's functioning and operating expenses between September and December 2020, depending on their effective average level in previous months and the planned and estimated operational aspects of generating expenses by the end of the 2020 financial year.

REVISED BUDGET PROPOSAL FOR THE YEAR 2020

No.	Specifications (RON)	Proposals for 2020 (approved by the OGM of April 27, 2020 2020 (RON)	Revised proposals for 2020 November 2020
I	**Income**		
	Dividend income	101,000,000	85,000,000
	Interest income	4,500,000	8,500,000
	Other operating income	130,200	150,000
II	**Gain/(Loss) on investments**		
	Gain / (Loss) on investment property	2,466,000	2,500,000
	Gains/(Losses) from valuation of financial instruments, difference of exchange rates	(29,000,000)	(88.700.000)
III	**Expenses**		
	Commissions expenses	3,396,500	3,756,000
	Other operating expenses	22,588,800	21,225,100
IV	**Profit / (Loss) before tax**	**53,110,900**	**(17,531,100)**
V	Tax on gross due dividend	2,915,900	2,050,000
VI	**Net profit / (loss) for the year**	**50,195,000**	**(19,581,100)**

The main changes in the budgeted positions, revised according to the impact of the above assumptions, are for non-monetary items (differences in fair value from marking to market according to IFRS), which significantly influence the level of the adjusted annual result. We emphasize that the result of the investment policy is positively reflected in a forecasted volume of total revenues for 2020 amounting to RON 93.65 million, even in the context of the difficult investment environment, being only 11.3% below the previously approved version.

- **Dividend income** decreased by RON 16 million vs. the previously approved budget, given that a number of companies in the portfolio either decreased the level of distributed dividends, compared to the initial proposals, or ceased to distribute dividends during the year 2020;
- **Interest income** increased by RON 4 million vs. the previous level, given that certain investments in fixed income instruments with a significant coupon rate above the market average were kept in the portfolio, getting an interest rate above the market average for a longer period of time than initially estimated;
- **Gain/(Loss) on investments** with an unfavourable progress vs. the version approved in April 2020, given that, in the initial version, were not considered the sizing from the loss from mark to market the adverse effects of the economic decline caused by the Covid-19 pandemic on investments in closed companies (subsidiaries, associates). At that time, there was no reliable information on the main assumptions considered in determining the fair values determined by valuation techniques according to International Valuation Standards. We reiterate that these differences in value recognized in expenses (and presented on a net basis in this category of the Budget) do not represent actual losses and are not associated with cash outflows from the Company.

Total expenses were maintained at approximately the level approved in the previous budget, given that efforts to reduce operating expenses were partially affected by the increase in expenditure categories induced by organizational adjustment and ensuring continuous operation in pandemic conditions, respectively by increasing expenses independent of the influence of the company's management (commission expenses).

The tax on profits and on gross dividends due is sized according to the impact on the fiscal result of the structural change of estimated revenues and expenses, the value subject to approval representing exclusively the tax on gross dividends due, in accordance with the provisions of the Fiscal Code.

In conclusion, we once again emphasize the prudent-realistic nature of the proposal to revise the Company's Revenues and Expenses Budget and its direction towards consolidating the financial position of SIF Banat-Crișana, given that, in terms of cash flows, there is a positive difference of approximately RON 70 million between the total revenues (collected or receivable) and the total expenses (paid or payable) budgeted for 2020.

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