

ACTIVITY PLAN AND BUDGET FOR 2021

(approved by the Ordinary General Meeting of Shareholders of April 26, 2021)

Economic environment

The COVID-19 pandemic has shaped the EU's financial and macroeconomic environment starting with March 2020. The unprecedented shock caused by COVID-19 in 2020, both at EU and global level, initially led to a sudden cessation of economic activities and a sharp deterioration in the short-term economic outlook. This was partly a consequence of the necessary containment measures taken. To mitigate the impact on the economy, governments have implemented several support measures, such as supplementary schemes, statutory loan moratoriums, government-guaranteed loans, and direct subsidies. These complemented the monetary policy and prudential actions taken by ECB and other EU central banks and supervisors. However, the unprecedented slowdown in the economy has led to a projected decline in real GDP of 6.9% for the EU in 2020 vs. the previous year (excluding the United Kingdom) and an increase of 0,7% of the unemployment rate.

Persistent concerns about the possible course of the COVID-19 pandemic and its economic implications are causing adverse confidence effects worldwide and prolonging the economic contraction. These shocks could be triggered by a mutation in the virus, significant failures in the distribution or acceptance of vaccines, possible subsequent restrictions following the recurrence of waves of infections or other unexpected adverse developments in containing the pandemic. The simultaneous worsening of the economic outlook is reflected in a global decline of long-term risk-free rates, from an already historically low level, a sustained decline in GDP and rising unemployment.

Reconsideration of market participants' expectations, amid declining corporate earnings, leads to a sudden and considerable adjustment in the valuation of financial assets. Increased market volatility, rising asset yield correlations and rising borrowing costs increase expectations of the spread of insolvencies in the non-financial corporate sector. Changing risk sentiment among market participants leads to significant capital outflows from emerging market economies, further aggravating the slowdown in global economic activity. A longer contraction in global growth has a sustained negative impact on EU exports, investment, and consumption. The resurgence of protectionist measures or the intensification of geopolitical tensions further reduces economic activity inside and outside the EU¹.

The economic decline in Romania caused by the COVID-19 pandemic was of 3.9% of GDP, while the GDP growth in 2021 is forecast by CNSP at 4.3%. Given the uncertainties created by the persistence of the pandemic, the Fiscal Council advances a range of positive GDP progress between 4-5% for 2021.

Measures to support the economy in 2020 were constrained by the size of the structural deficit of the public budget, of over 5% of potential GDP in 2019.

In Romania, the Government forecasts a growth of 4.3% in 2021, a figure that is achievable, but it is depending on the course of the pandemic. Vaccines and mass vaccination are the big news of 2021, as they allow better protection of the population. But the pandemic persists this year as well and there are fears about new strains.

¹ *European Systemic Risk Board (ESRB), Macro-financial scenario for the 2021 EU-wide banking sector stress test, 29/01/2021 (updated on 12/02/2021)*

According to officials from the European institutions and governments, the economic recovery is expected to be more visible in the second half of the year. For Romania's economy, it is necessary for the main EU economies to recover, depending largely on exports to the EU.

The current macroeconomic budgetary framework (both in the Budget Law for 2021 and in the SFB 2021-2023) is based on macroeconomic projections, which, in this financial year, are influenced by the impact of the pandemic. The recovery of the economy is forecast for 2021 in Romania by a real GDP dynamic of 4.3% and a deflator of 2.8%. The increase in the number of employees in the economy is forecast at 1.6% at the same time with an increase in gross wage of 4.5%.²

SIF Banat-Crișana's objectives for 2021

SIF Banat-Crișana's investment strategy on long term aims at maximizing the performance of the portfolio to increase the value of the assets under management and the investment income.

SIF Banat-Crișana aims to effectively manage a diversified portfolio of high-quality assets, able to provide a steady flow of revenues, the preservation and growth of capital on the medium to long term, to increase shareholder value and attaining high return for the capital invested.

Strategic allocations by asset classes and within each class are based on assessments of the individual attractiveness of investment opportunities under the conditions of the existing market environment and analysis of prospects for each investment.

The investment decision-making process is formalized through internal procedures and competence levels approved by the Board of Directors of the company.

SIF Banat-Crișana manages a complex portfolio, consisting of the following main categories of financial instruments: shares, bonds, and fund units. The company applies an exit strategy tailored to the specificity of each investment, defined based on the investment objectives, the exit transaction (trigger) conditions.

The differentiated approach adopted by the Company for each of its interest aims at seizing an aggregate return, generated by dividend income and capital gain.

The evolutions of the pandemic situation in the last 12 months have had a major social and economic impact, both at the economy level and for each company, the main concern being focused on adapting to the continuous challenges of this period.

The gradual recovery of the economy and inflation signals will support liquid asset markets during 2021.

Approaching 2021 from a solid financial position and with a diversified portfolio, the company's management further emphasizes the need to focus on quality assets, both in the capital market and in the real estate market.

Main lines of action in 2021

- *Optimizing portfolio quality through business investment projects or stable assets, generating cash flow or with growth potential while optimizing the risk-return balance*

In an economic climate with low interest rates and prospects for currency devaluation, where fixed income instruments have negative, zero or negligible real returns, equities and real estate

² The Fiscal Council of Romania, the Opinion of the Fiscal Council on the State Budget Law, the Law on the Social Insurance Budget for 2021 and the Fiscal-Budgetary Strategy 2021-2023

are investment alternatives with a satisfactory return along with reasonable risk parameters.

Periods of recession/crisis can provide opportunities to enter (buy) issuers with solid economic fundamentals at undervalued prices. *Blue chip* issuers from BVB with lower *beta* and companies with a stable and constant dividend policy are worth watching. Considering the entire period of evolution of the COVID-19 pandemic and the positive advancement of stock market indices in the second half of 2020, we expect a correction in stock prices during 2021, followed by a return, as growth estimates economic are confirmed.

The *real estate* sector also provides investment opportunities for the conservation of savings. Although the real estate market has not corrected significantly, real estate prices, rents and the number of transactions have decreased and this trend could probably continue in the coming months. Real estate investments can provide an alternative to preserving value in the medium term and a high return in the long term with a reasonable degree of risk especially in developed areas of the country where demand will increase and rents can generate a real positive return, unimpacted by inflation as long as the price for most sale-purchase and rental contracts is set in euros.

- *Continuing portfolio restructuring by reducing minority interests that do not fit the Company's investment strategy*

In order to increase the quality of the portfolio, we will continue the attempts to disinvest in non-performing companies or in those that do not meet our investment strategy. Shareholdings with exhausted growth potential or those that have reached the estimated target price are also considered as exit objectives.

The exit from these companies will create sources for reinvestment in assets with higher returns, maintaining the chosen risk profile of the portfolio and ensuring long-term sustainable profitability of SIF Banat-Crişana's activity, in order to increase the shareholders value.

The year 2021 brings the need to continue the portfolio restructuring even more in line with the new market trends, to ensure a sustainable long-term profitability of SIF Banat-Crişana activity.

- *Active management in majority interests*

We will continue our efforts of active management of majority interests in the portfolio, to increase the performance of these companies and for a smooth passing through the current economic shock. Through SIF Banat-Crişana's representatives on their boards will be promoted and supported professional management teams and negotiated competitive performance criteria.

These shareholdings are subject to rigorous analysis and monitoring by the company's analysts, tracking both financial results, prospects, opportunities, and potential risks, to support the implementation of business efficiency measures and the introduction of good corporate governance practices and modern techniques management.

Minority interests are also constantly observed, monitoring their activity, financial results, decisions and strategies of majority shareholders, to get the most complete picture of the outlook, benefits or potential implications with effect on minority shareholders and the defence of their rights, if necessary, in compliance with the legal and statutory provisions.

- *Adapting to major economic challenges*

Portfolio diversification, both on asset classes and within them, pursues balanced alternatives that ensure a constant steadiness between the risks and the expected profit, under the regulated conditions of prudence.

It is sought to diversify SIF Banat-Crişana's portfolio in financial instruments with a lower exposure in the current structure. Such instruments, other than shares, may be fixed income financial instruments, fund units or other instruments in accordance with the applicable diversified investment policy.

Managing and developing the portfolio will be tailored to suit the Company's overall risk profile and under rigorous risk management.

The Board of Directors proposes that in the course of managing the portfolio of financial instruments during the year 2021, the leverage effect should not be used, viz. methods of increasing the exposure of the portfolio will not be used, to fit the risk profile chosen.

Also, the Board of Directors, through its investment policy for 2021, proposes that financing operations through financial instruments (SFTs) and *total return swap* instruments, as defined by EU Regulation 2365/2015, should not be carried out.

- *Sustainability risk management in the investment decision-making process*

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

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

The manifestation 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.

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

- *Buyback program*

SIF Banat-Crişana aims at maintaining a balance between the remuneration of shareholders and the need to finance new investments from the reinvested-obtained profit. The strategy of maintaining this balance aims both at increasing the long-term investment attractiveness for SIF1 shares and maintaining the potential for future development of the company, ensuring the long-term sustainable profitability of the activity for the benefit of increasing the value created for shareholders. The remuneration of SIF Banat-Crişana shareholders can be applied for their benefit by dividend distribution, but also by the decision to reinvest the profit or repurchase Company's own shares, for the stated purpose of increasing the value of shares and implicitly, increasing shareholder value.

The Board of Directors submitted to the EGM for approval in April 2021, a new redemption program for a number of 15,000,000 shares. The sources of financing of this program will be provided from own sources, in case the EGM approves the allocation of the net profit of the financial year 2020 to Other reserves.

- *Maintaining transparency and good corporate governance*

Good corporate governance and transparency in the relationship with investors, the general public, the media and the economic environment are a constant of Company's management

actions. We are certain that through improved activity and sustainable financial performance in the medium and long term, both the shareholders' and investors' confidence in the actions of the Company's management and the attractiveness of the capital market are achieved.

Ensuring business continuity in the context of the COVID-19 pandemic remains one of our priorities, SIF Banat-Crișana continuing to adapt and improve the measures taken to ensure safe, continuous, and minimized risk at all levels.

The company attaches importance and will make all necessary efforts to maintain communication without interference with investors, partners, collaborators, authorities, market bodies, etc., ensuring continuous information and reporting, but mainly through means of distance communication. The Company's website (www.sif1.ro) will continue to be a useful communication platform and will host current, relevant, and interesting information for investors.

Also, to provide measures for the protection and prevention of the shareholders of the company during the general meetings of the shareholders, SIF Banat-Crișana will ensure the proper information of the shareholders, will provide the possibility of using mainly the electronic means of communication and will facilitate the possibility of expressing the right to vote within the GMS by alternate means to participate directly or through a representative, as provided by law (vote by correspondence).

- *Legislative changes with impact on the activity*

With the implementation of the AIF legislation (AIF Law no. 243 of December 2019 and ASF Regulation no. 7 of April 2020) SIF Banat Crișana is classified in the category of alternative investment funds addressed to retail investors (AIFRI). The line of action for 2021 is to adapt the Fund's documents to the new legislative requirements and to obtain the authorization as AIFRI of closed-ended type, self-managed.

Income and Expenses Budget for the year 2021

To substantiate the Income and Expenses Budget for the year 2021, the following hypotheses were considered:

- *achieving the revenues, expenses and net result as of December 31, 2020;*
- *inflation rate BNR forecasted for 2021 of 2.5%, with an uncertainty range of $\pm 1\%$;*
- *average interest rate estimated for bank deposits, government securities and corporate bonds denominated in RON and EURO;*
- *estimated gross income from dividends to be collected from portfolio companies for the year 2020;*
- *volume of interest income, determined on the basis of the current level of monetary investments influenced by the cash entry / exit proposals for 2021 and the level of interest rate projected for 2021 for each category of monetary investments (bank deposits, corporate bonds);*
- *a net loss from MTM of assets at fair value through profit or loss of RON 14 million (shares, fund units);*
- *expenses on salaries, allowances, contributions related, and similar charges proposed, estimated based on the wage bill for January 2021, possible indexation during the year, a reward / promotion fund for employees, a reward fund for achieving the objectives/profit as part of the variable component of remuneration;*
- *financial investments depending on opportunities and market developments;*
- *repurchase of shares, which will generate cash outflow;*
- *endowments - mainly representing computers, office equipment and software licenses etc.*

BUDGET PROPOSAL FOR THE YEAR 2021

No.	Specifications	Proposals 2021 (RON)
I	Income	
	Dividend income	94,027,000
	Interest income	2,100,000
II	Gain on investments	
	Gain/(Loss) from valuation of financial instruments	14,000,000
III	Expenses	
	Commissions expenses	5,091,800
	Other operating expenses	22,785,950
IV	Profit before tax	82,249,250
V	Tax on gross due dividend	511,200
VI	Net profit for the year	81,738,050

Income estimated to be achieved in 2021 mainly include:

- **Dividend income** that represent the gross amount estimated to be collected in 2021, from portfolio companies, for the financial year 2020. Dividend income estimation was based on the information released by listed companies in the portfolio on the profit allocation and estimations based on the preliminary results and the dividend policy of non-listed companies. An increase in the volume of this income is expected as compared to the previous year, given the growing contribution of dividends from majority interests.
- **Interest income** is related to monetary investments such as bank deposits, and corporate bonds denominated in RON and euro, estimated on the average volume of placements estimated to be invested in 2021 in this type of assets.

Estimated gain / (loss) on investments includes a net gain of RON 14 million from marking to market of financial assets through profit or loss (shares of subsidiaries and associated entities).

Total expenses estimated for 2021 amount include:

- **Commission expenses** include commissions (fees) payable to ASF on market net asset, Depozitarul Central for keeping the records of shareholders, depository bank, to Bucharest Stock Exchange, and financial investment services companies (brokerage firms).
- **Other operating expenses** include:
 - **Expenses with personnel, administrators, and executives**, representing salaries, allowances, awards, social contributions, etc. Were also included expenses that would result from the two stock option plans in progress, through which shares will be granted to directors.
 - **Additional expenses** comprising costs of services, travel, maintenance costs, utilities, supplies, depreciation, etc.
 - **Other expenses** mainly include expenses for organizing the general meetings of shareholders, investor relations activities, promotional activities and publication of materials, expenses of protocol.

Gross profit estimated for the year 2021 is in the amount of RON 82.2 million.

Tax on due gross dividend (to be collected) - is estimated in the amount of RON 0.5 million and include tax on income form gross dividends estimated to be achieved in 2021, budgeted.

The net result proposed to be achieved in 2021 is in the amount of RON 81.7 million.

NOTE: The Income and Expenses Budget was prepared based on the management's best estimates given the information available at the time of preparation, weighted with a prudent approach of the main risks affecting the prospects for 2021.

Recent and accelerated developments of the global situation regarding COVID-19, together with the impact on social and economic level and their implications on Romania cannot be anticipated with satisfactory reliability at this time, thus leading to the impossibility of forecasting, in a reasonable manner, the possible variations on the financial performance of the company during the financial year 2021.

The assumptions and estimates used in the construction of the budget in the form submitted for the approval of the GMS will be continuously reviewed and we are considering the possibility of returning to the shareholders during this year with a revised budget proposal once the socio-economic developments are stabilized and the investment prospects are clarified.

Bogdan-Alexandru DRĂGOI

Chairman of the Board of Directors