

## TOPIC 8 ON THE OGM AGENDA

**Presentation by the Board of Directors of SIF Banat-Crişana of a report to the shareholders of the company on the benefits or losses resulting from investments made in 2017, 2018 and until April 30, 2019. Their justification and the results of each investment (date of acquisition, issuer, cost of acquisition, participation in share capital increases, fair value at 31.12.2018, positive / negative differences, eventual interest, dividends received).**

The investment strategy of SIF Banat-Crişana, presented in the activity programs and assumed by the management of the company, aims to maximize the performance of the portfolio to increase the value of the assets under management and the investment income.

Between 2017 and April 30, 2019, as in the previous periods, the lines of action in the portfolio management and the operations executed by SIF Banat-Crişana were encompassed in the objectives approved by the shareholders in the annual activity programs and aimed at:

- establishing a diverse portfolio of assets capable of achieving the targeted returns at the assumed risk level;
- increasing the quality of the portfolio, as a basis for its value appreciation and the ability to ensure a steady flow of income for the company;
- managing and developing the portfolio so as to adapt to the overall risk profile;
- improving corporate governance practices.

The investments made by SIF Banat-Crişana, including those between 2017 and April 30, 2019, comply with the categories of financial instruments established by Law no. 297/2004 regarding the capital market, modified and completed by Government Emergency Ordinance no. 32/2012 and the prudential holding limits provided by the CNVM Regulation no. 15/2004 on the authorization and functioning of investment management companies, collective investment undertakings and depositaries.

Strategic allocations by asset classes and within each class are based on assessments of the individual attractiveness of investment opportunities, in the context of the macroeconomic and market environment existing at the time of each investment / disinvestment.

On this date, SIF Banat-Crişana manages a complex portfolio, consisting of the following main categories of financial instruments: shares, corporate bonds and fund units.

**One of the investment objectives pursued, in the annual activity programs approved by the shareholders of the company, was to diversify the portfolio both on asset classes and within them, through balanced alternatives that ensure a constant equilibrium between the risks and the expected profit, under the regulated prudential conditions.**

The progress of SIF Banat-Crișana's **assets portfolio breakdown** by SIF Banat-Crișana according to the "Assets and liabilities statement" for the analysed period is presented below:

Type of instrument	2016		2017		2018		Q1 2019	
	value RON mn.	[%] TA	value RON mn.	[%] TA	value RON mn.	[%] TA	value RON mn.	[%] TA
Listed shares	1,502.14	77.22	2,061.13	78.90	1,616.96	72.52	1,615.18	69.78
Unlisted shares	163.84	8.42	166.55	6.38	207.40	9.30	189.81	8.20
Govt. bonds	102.72	5.28	65.47	2.51	-	0.00	-	0.00
Corporate bonds	6.34	0.33	48.53	1.86	48.66	2.18	121.04	5.23
Bank deposits and cash available	42.31	2.18	16.13	0.62	35.27	1.58	84.48	3.65
Unlisted non-UCITS securities	64.50	3.32	230.40	8.82	295.68	13.26	280.35	12.11
Receivables and other assets	63.33	3.26	24.27	0.93	25.84	1.16	23.72	1.02
<b>TOTAL ASSETS</b>	<b>1,945.18</b>	<b>100</b>	<b>2,612.48</b>	<b>100</b>	<b>2,229.80</b>	<b>100</b>	<b>2,314.58</b>	<b>100</b>

\*TA - Total Assets calculated as per ASF regulations

Table no. 1 - Breakdown of assets under management (TA\*) during 2016 - Q1 2019

## VALUE OF ASSETS UNDER MANAGEMENT

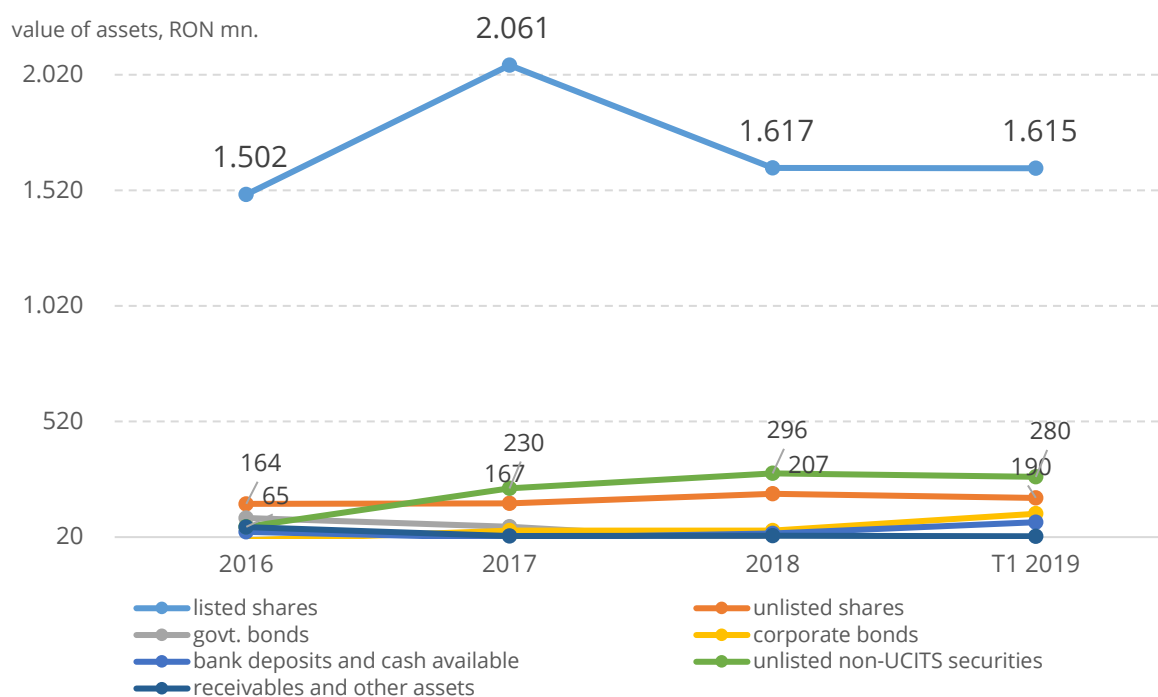


Chart no. 1 - Value of assets under management on types of assets

It is noted that between 2016 and 2019, the largest stake of financial instruments on which SIF Banat-Crișana has exposure is the listed shares (variation between 70% and 79% of the TA),

followed by the exposure on the non-UCITS (ro: AOPC) unlisted securities (variation between 3% and 13% of TA), unlisted shares (variation between 6% and 9% of TA).

The progress of the value of the assets under management is correlated with the evolution of the capital market due to the significant shareholdings in listed companies on both the Bucharest Stock Exchange and the Vienna Stock Exchange.

Company's **revenues structure** had a positive progress, highlighting a qualitative leap in the portfolio, that validates the strategy and investment efforts of recent years.

Table no. 2 – revenues breakdown for 2016 - 2018

Indicator	2016	% TR	2017	% TR	2018	% TR
Dividend income (RON)	101,624,336	94.83	81,469,412	95.93	110,224,602	95.95
Investment income from fixed income instruments (interest + coupons) (RON)	5,314,722	4.96	3,277,959	3.86	4,399,872	3.83
Other operating revenues (RON)	225,646	0.21	180,497	0.21	252,136	0.22
<b>Total Revenues (TR)</b>	<b>107,164,704</b>	<b>100</b>	<b>84,927,868</b>	<b>100</b>	<b>114,876,610</b>	<b>100</b>

source: Standalone financial statements of SIF Banat-Crişana S.A.

To summarize the achievements of 2017-2018, we present the revenue structure over a longer period that highlights the favourable trend of recent years:

## BREAKDOWN OF TOTAL REVENUES

revenues, RON mn.

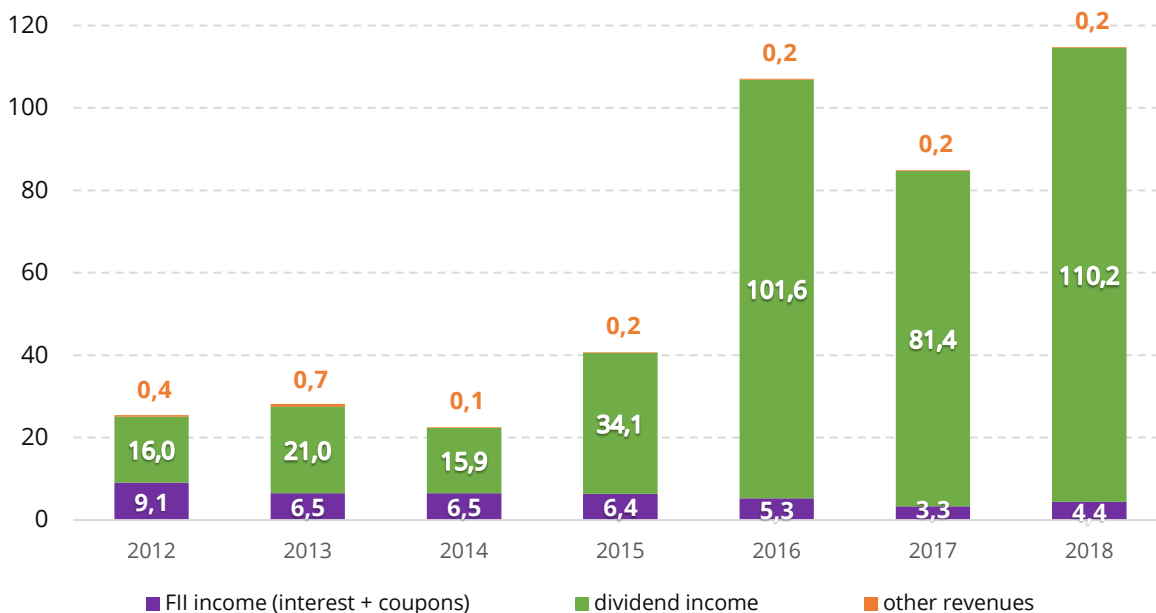


Chart no. 2 – Breakdown of total revenues

In the last 3 years, the main source of revenues for SIF Banat-Crişana is the dividends collected from the companies in the portfolio. The breakdown of revenues on the main counterparties was presented to shareholders in Note 7 of the standalone financial statements for the financial years ended December 31, for of each year.

Looking at the whole sector of investment funds listed on the Bucharest Stock Exchange, in terms of income from the dividends collected by the 5 SIFs, SIF Banat-Crișana (SIF1) had the highest dividend income in 3 of the last 4 years, except for 2016 when SIF2 ranked first and SIF1 second.

Table no. 3 – Dividend income collected by the 5 SIFs (RON mn.)

years	2012	2013	2014	2015	2016	2017	2018
SIF1	16.0	21.0	15.9	<b>34.1</b>	101.6	<b>81.4</b>	<b>110.2</b>
SIF2	24.2	30.4	28.7	27.7	<b>118.7</b>	73.3	95.5
SIF3	16.7	13.7	13.2	15.7	25.6	42.4	64.7
SIF4	14.3	13.3	14.9	18.1	60.5	41.0	56.9
SIF5	<b>40.0</b>	<b>40.6</b>	<b>44.5</b>	29.5	44.2	68.3	90.6

### COMPARATIVE DIVIDEND REVENUES

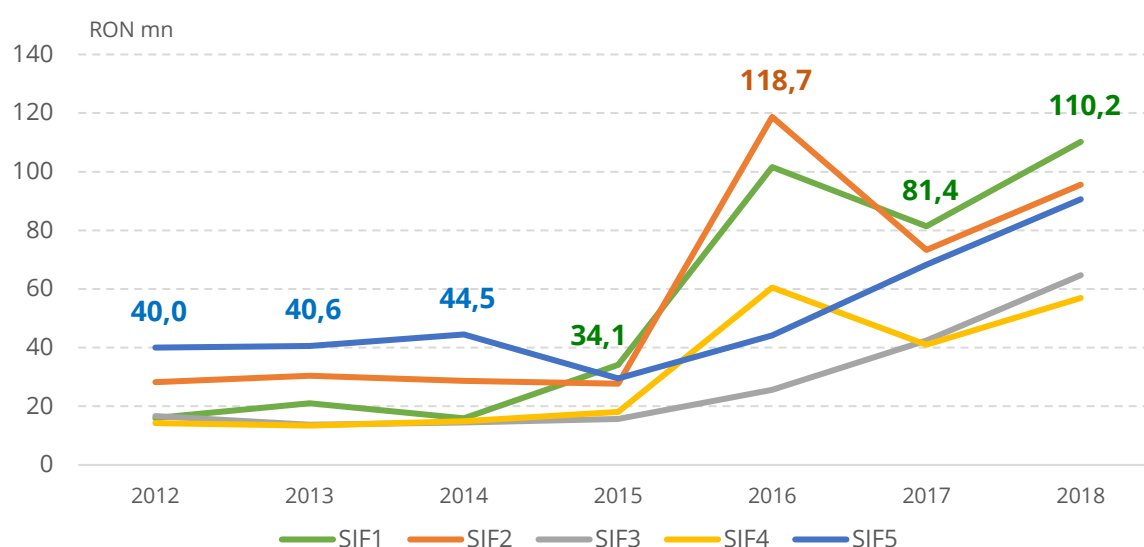


Chart no. 3 – Comparative progress of dividends collected by the 5 SIFs

### Rationale of portfolio diversification

**Concentration risk**, due to the vulnerability arisen from exposures to entities having common or similar features, relates to all the assets held by the Company, regardless of the period of their ownership. By reducing this type of risk, it is intended to avoid a too large exposure, which is too risky concentration-wise, to a single debtor / issuer at the level of the Company.

Due to the specificity and history of the portfolio, the highest exposure is in the banking sector, investments in the banking sector proved to be profitable and with a risk-return profile in the parameters of the Company's investment objectives.

In 2016, SIF Banat-Crișana started an ample process of portfolio diversification and optimization through acquisitions and sales of financial instruments, as presented in the chart below.

### VALUE OF TRANSACTIONS DURING 2016 – Q1 2019 AND COMPLYING WITH THE INVESTMENT OBJECTIVES

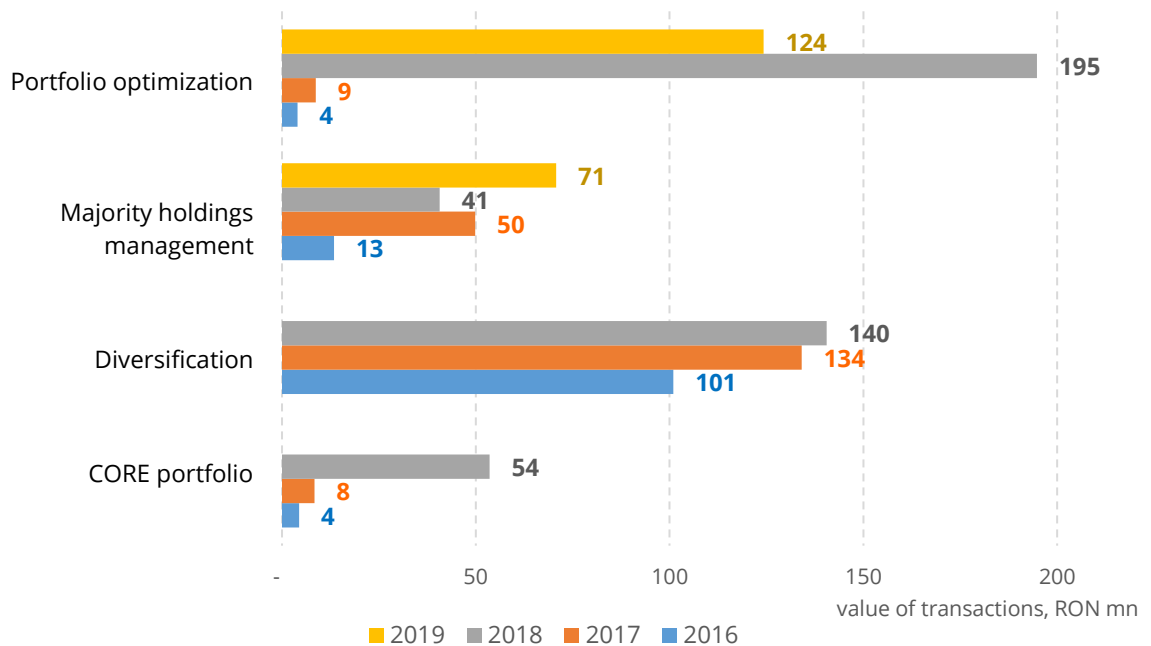


Chart no. 4 – Complying with the investment objectives assumed and approved by OGM

Compliance with the holding limits regulated by the Financial Supervisory Authority for non-UCITS (ro: AOPC) with a diversified investment policy, in accordance with the provisions of art. 188 of CNVM Regulation no. 15/2004), is one of the main directions for managing and controlling the risk associated with the asset portfolio.

The analysis of the compliance on holding limits is performed both monthly with the approval of the net asset calculation reports, as well on the event as part of the pre-investment verification procedure. Pursuant to the SIF Banat-Crișana Investment Risk Management Policy, it was pursued the compliance of the portfolio with the holding limits provided by Law no. 297/2004, CNVM Regulation no. 15/2004 and the ASF Rule no. 14/2013 amended by the ASF Regulation no. 2/2018.

During the analysed period, no legal prudential limit was exceeded.

Concerning the limitation of the exposure on a single issuer to 10% of the total assets, SIF Banat-Crișana holdings of shares issued by banking companies listed on BVB (BSE) and Vienna are the only exposures exceeding 10% of the total assets managed as at December 31, 2018, falling within the statutory holding limit increased up to a maximum of 40% of the total asset value. However, the high degree of concentration on the sector and the limitation of exposure on a single issuer in the listed instrument category to 10% of the total assets - according to CNVM Regulation no. 15/2004, art. 188, lit. (b) - advocate an exposure-based approach by gradually reducing exposure to bank issuers in the portfolio and diversifying the investment allocation by increasing exposure to other sectors to maintain / reduce the overall investment risk of the portfolio that is considered to be medium.

**Please note that SIF Banat-Crișana has undertaken legal steps to inform investors about its main investments or disinvestments (their value and resulting gain or loss) by means**

**of the activity reports (annual, half-yearly, quarterly<sup>1</sup>) and the notes to the financial statements published<sup>2</sup>.**

**The detailed statement of SIF Banat-Crişana investments (on issuers), prepared according to Annex 17 of Regulation no. 15/2004, is published quarterly and is available to investors on SIF Banat-Crişana's website and on the BVB/BSE website<sup>3</sup>.**

## ACQUISITIONS

Between January 2017 and March 2019, SIF Banat-Crişana („the Company”) made total placements denominated in RON and foreign currency, amounting to **RON 515,814,683**, the fair value (including the value collected from sale of assets in the analysed period) on March 31, 2019 these investments (including the associated benefits: dividends, interest, amounts distributed by investment funds to participants) amounted to **RON 551,414,210**.

The breakdown of SIF Banat-Crişana investments is as follows:

### Shares

- The Company has made 3 investments by participating in the share capital increase with cash contribution to portfolio companies (subsidiaries or subsidiaries of subsidiaries). **The total value of the contribution was of RON 53,429,687**. On March 31, 2019, **the fair value** of these holdings amounted to **RON 61,822,831**, SIF recording, in the analysed period, **total dividends** in the amount of **RON 3,175,106** related to these investments. **The total gross gain** associated with these investments is of **RON 11,568,250**. SIF Banat-Crişana participated with cash contribution at the establishment of a branch, amounting to **RON 119,988**. At the date of this analysis, SIFI SPV TWO has no activity.

- The Company acquired through a direct transaction a residual stake in one of its subsidiaries, amounting to **RON 30,000**, and recognized as free of charge shares to a portfolio company in the amount of **RON 34,021**. The fair value of these holdings as at March 31, 2019 was of **RON 22,832**, the Company also receiving dividends related to these holdings amounting to **RON 4,262**.

- SIF Banat-Crişana acquired shares of companies listed in Romania and Austria in a total amount of **RON 75,129,004**, the fair value as of March 31, 2019 of these investments being of **RON 77,171,019**, SIF collecting during the period total dividends amounting to **RON 8,504,164** related to these investments. Thus, **the total gross gain** associated with these investments is of **RON 10,546,179**.

In terms of the Company's acquisitions per year, we mention that:

- In **2017** shares were purchased in the amount of **RON 21,350,207**, the fair value (including dividends received) as at **March 31, 2019** being of **RON 39,320,231**.

- In **2018** shares were purchased in the amount of **RON 106,535,179**, the fair value (including dividends received) as at **March 31, 2019** being of **110,643,870**.

- Between January and March 2019, shares were purchased in the amount of **RON 857,314**, the fair value as at **March 31, 2019** being of **RON 856,100**.

<sup>1</sup> Board of Directors' reports for the years 2017 and 2018 and Quarterly Report for Q1 2019 are published on Company's website: <http://www.sif1.ro/en/investor-relations/raportare-financiara/financial-results/>

<sup>2</sup> Annual financial statements 2017 – purchases and sales of shares – note 10 and 18, Annual financial statements 2018 – purchases and sales of shares – note 11, 17 and 18; Quarterly reporting March 2019 – purchases and sales of shares – note 14 and 15.

<sup>3</sup> Detailed statement of investments: <http://www.sif1.ro/en/investments/portfolio/>

## **Bonds**

The Company invested in two main categories of fixed income instruments in the analysed period: **government bonds** and bonds issued by trading companies (**corporate bonds**).

Government bonds

- SIF Banat-Crişana purchased in 2017 **govt. bonds** in the total amount of **RON 39,109,055** (nominal value RON 37,425,000). These investments were capitalized between October 2017 and December 2018, the proceeds from their sale amounting to **RON 38,259,049**, the total income from interest of these investments amounted to **RON 1,128,660**. Thus, the **total gross gain** on these investments is of **RON 278,654**, given that the average immobilized liquidity during the period of holding was of RON 25.5 million.

- Between March 2017 and December 2018, the Company sold government bonds purchased between March and June 2016. The total value paid for these bonds was of **RON 100,989,637** (nominal value of **RON 98,880,000**). The value received for sale was of **RON 99,891,123**, the total interest income from these investments amounting to RON 3,858,376. Thus, the **total gross gain** associated with these investments is of **RON 2,759,862**, given that the average immobilized liquidity during the period of holding was of 54.3 million.

The objective of holding government bonds was to increase the yields obtained through the monetary investments made, given the reduction of the risk associated with these investments. We note that between 2017 and 2019, the average interest rate obtained by the Company at the amounts placed in bank deposits was of 1.7%.

Corporate bonds:

- The Company placed between March 2017 and January 2019 the amount of **RON 112,462,985** in bonds issued by trading companies (denominated in RON or euro), out of which **RON 107,598,125** in bonds issued by subsidiaries of the Company (**RON 36,885,125** and **15,000,000 euro** respectively). On March 31, 2019, the fair value of these investments was of **RON 113,421,418**. We note that these investments are not impaired, the Company records the interest on these investments on a monthly basis in the profit and loss account and has collected the coupon within the terms set in the prospectus. As at March 31, 2019, the total interest income from these investments was of **RON 4,251,843**. Thus, the **total gross gains** associated with these investments is of **RON 5,210,276**.

- We note that in May 2019, euro bonds issued by a subsidiary of the Company were redeemed, amounting to **EUR 12,800,000**, collecting a coupon related to redeemed securities amounting to **EUR 248,285**.

The investment objective of holding these financial instruments represented, for the Company, the diversification of alternatives for placements in fixed income instruments, obtaining nominal returns far higher than bank deposits and, in the case of the subsidiaries of the Company issuing the debt instruments, ensuring the flexibility of the financing structure and reducing financial costs compared to classical funding and maximizing added value generated by the Company and its subsidiaries.

## **Fund units issued by closed-end investment funds**

One of the investment objectives pursued within the annual activity programs approved by the General Shareholders' Meetings of the Company was portfolio diversification, both on asset classes and within them, through balanced alternatives and under regulated prudential conditions. Thus, in line with the applicable diversified investment policy, exposure to securities issued by non-UCITS (AOPC)/AIF, instruments that had a low weight within the managed portfolio, was increased.

**The total value of units issued by UCITS/non-UCITS allowed** under Reg. 15/2004, Art. 188 (h) is **up to 50% of the assets managed**. At the end of **March 2019**, the weight of holdings in fund units in the SIF Banat-Crișana portfolio was of **12.11%** of the total assets.

At the same time, we specify that the risk profile is annually assessed and monitored against the established level of risk. As a result of the holdings in fund units, SIF Banat-Crișana's global risk profile has not changed and is in line with the risk appetite assumed and declared to investors, the prudential limits of holding are being respected.

From the point of view of the performance of the Company's investments in fund units, we mention that:

- Between January 2017 and March 2019, fund units were subscribed in a total amount of **RON 235,499,943**.
- During July 2018 – March 2019, the Company redeemed fund units, collecting the total amount of **RON 41,609,771**.
- The fair value of placements in fund units as at March 31, 2019 was of **RON 242,496,461** (also considering the amounts distributed by funds from the dividends received from participating interests during the period under review)

## SALES

Between 2017 and March 31, 2019, the Company executed sales of financial instruments (shares, bonds) and redemptions (fund units) in the total amount of **RON 402,860,188**, structured as follows:

- **Sales of shares:** totalled **RON 223,100,244**, recording an accounting gain (recognized in each financial year when the respective sales transactions were recorded) in the amount of **RON 126,823,086**, respectively a gain from the value of acquisition of **RON 119,177,487**. The difference between these two results is due to the fact that the cost level of the IFRS for the share (according to which the accounting result is determined in each financial year) is influenced by any previously adjusted impairment adjustments, inflation differences recorded under IAS 29 or other amounts resulting from recognition of fair value differences in profit / loss on account of the book value (for securities previously classified as available for trading). Considering each year, share sales were:

- **2017:** Sales in total amount of **RON 8,702,107**, with an **accounting gain** of **RON 2,249,771** and a loss from the acquisition value of **RON 2,742,319**, representing sales of residual stakes.
- **2018:** Sales in the total amount of **RON 111,649,592**, with an **accounting gain** of **RON 71,300,597** and a gain from the acquisition value of **RON 65,617,357**.
- **January - March 2019:** Sales in the total amount of **RON 102,748,546**, with an **accounting gain** of **RON 53,272,718** and a gain from the acquisition value of **RON 56,302,449**.

- **Sales of government bonds:** totalled **RON 138,150,172 (value received)**, at a **purchase price** of **RON 140,098,693**. The total coupon recorded on revenues during the period of ownership was of **RON 4,987,036**, resulting in a cash gain of **RON 3,038,516**.

- **Redemption of fund units:** totalled **RON 41,609,771**, with an **accounting loss** of **RON 3,215,850**, respectively a gain from the purchase / subscription value of **RON 855,939**.

Note that at the date of transition to IFRS 9 (January 1, 2018), with the reclassification of investments in asset units available for sale at fair value through profit or loss, the Company



recognized in the retained earnings the amount of **RON 68,204,116**, representing favourable value differences for fund units held in the portfolio as at December 31, 2017.

We reiterate that SIF Banat-Crişana has taken legal steps to inform investors about its main investments or disinvestments, their value and the resulting gains / losses, both through the activity reports and through the notes to the financial statements, prepared and published in accordance with the legal provisions.

In support of this, we make it clear that the request and argumentation of the group of shareholders is based precisely on the public information to investors undertaken both by SIF Banat-Crişana and its listed subsidiaries, according to their legal obligations of continuous or periodical reporting.

Regarding the newly established companies, we mention that SIFI SPV TWO was set up in November 2018 and currently does not undertake commercial activity. The amount invested by SIF Banat-Crişana in the share capital of this company is of **RON 119,988**.

The investment objective of bonds issued by companies subsidiaries of SIF Banat-Crişana or SIF Imobiliare Plc was, for the Company, the diversification of alternatives of placements in fixed income instruments, obtaining nominal returns much higher than bank deposits and, in case of subsidiaries of the Issuing Company of some debt instruments, ensuring the flexibility of the funding structure, and reducing financial costs compared to classical funding and maximizing added value generated by the Company and its subsidiaries.

Regarding the Company's investments in fund units, in addition to the above reasoning, we also state that SIF Banat-Crişana has no right or the possibility, directly or indirectly, to influence the managers of investment funds it holds in the portfolio as regards the expression or exercise of a certain right to vote in general meetings of shareholders of companies in the portfolio of closed-end investment funds managed by investment management companies, since:

- SIF Banat-Crişana does not hold securities granting a control position within the entities that have the status of fund manager;
- SIF Banat-Crişana is not represented in the management of fund managers, neither at the level of the board of directors nor at the executive management level, and thus cannot influence in any way the investment and management policy of the fund managers;
- Fund units have no rights attached to grant SIF Banat-Crişana possibility to intervene in the investment policy of the funds, to impose the acquisition or disposal of certain financial instruments, or to impose the exercise in a certain way of the rights attached to the financial instruments held by funds. The rights of investors in fund units are limited to those specified in the constituent documents (right of withdrawal, redemption, information, access to periodic reports, etc.). Moreover, SIF Banat-Crişana has no special or additional rights as the other investors in funds and has not assumed additional obligations towards the fund managers.

### **SIF1 shares on BVB**

Between 2017 and Q1 2019, SIF Banat-Crişana, in compliance with the assumed objectives, succeeded in providing the investors an effective return, by the stock exchange progress of the issuer SIF1 as compared to the BET-FI index, the most relevant benchmark for the financial investment companies, as presented in the following chart:



Chart no. 5 – SIF Banat-Crișana (SIF1) stock price, compared to the progress of BET-FI index;  
source BVB/BSE website

Analysing the chart, it is noticed that the stock market evolution of SIF1 consistently exceeds the BET-FI index dynamics, providing higher returns to investors compared to average performance of issuers that are part of the index component. This confirms that investment policies have had a beneficial effect on the overall results attained by the Company.

While profitability indicators were above the sectoral average, the portfolio structure was optimized to become more balanced.

### **Bogdan-Alexandru DRĂGOI**

Chairman of the Board of Directors