

ACTIVITY PLAN AND BUDGET FOR 2022

- approved by the Ordinary General Meeting of Shareholders of April 28, 2022 -

Economic environment

Romania continued the post-pandemic economic cycle at the beginning of 2022, amid the elimination of health restrictions and the low level of real financing costs.

Concerning the COVID-19 pandemic it should be noted that the risks of the current dominant variant (Omicron) are lower, producing mild forms with symptoms specific to common colds, the mortality rate being relatively low. We cannot rule out the possibility of the resumption of the spread of COVID-19 and the emergence of mutations that could further put serious pressure on the world's economies, in the context of new restrictions, depending on the incidence rate. EU pandemic policies have outlined a plan to continue economic support programs.

Economic growth forecasts for Romania, prepared by the European Commission in February 2022, were of 4.2% for 2022 and 4.5% for 2023, respectively, while inflation is expected to rise to 5.3% in 2022 and to 2.5% in 2023¹. Given the military tensions in Ukraine, these figures are most likely to be adjusted during the current year².

In the field of capital market, the Bucharest Stock Exchange forecasts that at the end of this year the Central Counterparty will become operational, thus allowing transactions with derivatives, this making a consistent contribution to the development of the market and stock market liquidity. Preliminary results for 2021, reported by listed companies, are generally in line with investor expectations³.

In the financial markets, the risk perception intensified after the start of the conflict in Ukraine, noting the severe adjustments in the stock markets and the strong rise of the US dollar exchange rate (towards the highest level since May 2020 vs. Euro).

Following the increase in reference rates by most central banks in the region, by increasing government bond yields, along with the current risk environment, higher allocations / relocations of financial resources to fixed income financial instruments are expected.

The high exposure of banks to government securities will have an impact on the level of aggregate financial performance in the banking sector in Q1, in the context of the upward shift in the yield curve after the start of the conflict in Ukraine. NBR has already signalled the resumption of the program to buy government securities on the secondary market to counteract the risks to the evolution of the real economy and financial stability⁴.

It could be predicted since the beginning of the year that real earnings in Europe and the US will fall due to high inflation (as inflation could be higher than the rise in nominal wages), which would obviously damage consumption indicators. The new energy shock, on the one hand, will push inflation to an even higher level, and on the other hand, if there are problems in Europe's energy supply, unemployment is expected to rise, which could undermine even wage preservation and implicitly amplifies the deterioration of consumption indicators⁵.

Thus, the emergence of a stagflation-like situation in Romania and throughout Europe is a real danger because the economic slowdown will not bring automatic disinflation in addition to the depreciation of the currency (EUR vs USD and RON vs EUR/USD).

¹ [ec.europa.eu](https://ec.europa.eu/economy_finance/) _ Winter 2022 Economic Forecast

² [bloomberg.com](https://www.bloomberg.com/) Bloomberg platform

³ [bvb.ro](https://www.bvb.ro/) - Monthly Report December 2021

⁴ NBR - Report on Financial Stability, December 2021

⁵ OECD - Romania Economic Snapshot 2022

The outbreak of the war in Ukraine has naturally led to a major stock market correction that spread globally. All major stock indices have been volatile since the launch of the military offensive and some of the growths of quotations previously marked have been eroded⁶.

Under these conditions, the growth outlook has sharply deteriorated recently, not only in the short term but also in the long term. Initial estimates of macroeconomic indicators at European level will need to be readjusted to current realities.

SIF Banat-Crișana's objectives for 2022

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.

SIF Banat-Crișana has under management 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.

Given the changing perception of the nature of inflation, from transient to persistent, we are considering maintaining exposure to financial instruments that benefit of such an environment.

In this period of volatility and uncertainty, SIF Banat-Crișana will continue to closely monitor the course of the financial markets and the specific industries in which it operates.

SIF Banat-Crișana expects that at the level of the group there will be no difficulties regarding the fulfilment of the obligations towards the shareholders and the obligations towards third parties, the current and estimated cash flows being sufficient to cover the payments committed during the year.

Main lines of action in 2022

- *Calibration of the portfolio on financial assets / instruments that benefit from an inflationary context*

In the current climate, characterized by: i) high and persistent inflation, the maintenance of supply chain problems, ii) the armed conflict caused by Russia invading Ukraine, which created volatility, induced uncertainty in markets and increased commodity prices, iii) the extent and aggressiveness of economic sanctions imposed on Russia, Russian companies and certain individuals, SIF Banat-Crișana considers calibrating the portfolio to have exposure to companies that benefit from an inflationary environment (banks, companies directly exposed to the production / extraction of commodities), companies that may keep the dividend policy assumed. Are also considered opportunities that may arise in this extremely volatile period.

The *real estate* sector also presents investment opportunities to preserve savings. Although the real estate market has not corrected significantly, real estate prices and rents remain on an upward trend that is likely to continue in the next period. Real estate investments can provide an alternative to medium-term value conservation and a high long-term return with a

⁶ goldmansachs.com EU Taxonomy update

reasonable degree of risk, especially in developed areas of the country where demand will rise, and rents can generate a real positive return, not being impacted 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*

To increase the quality of SIF Banat-Crişana's portfolio, we will continue the attempts of disinvestment in non-performing companies or in those that do not meet Company's 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, to increase shareholders value.

The year 2022 the portfolio restructuring will continue, related to the new market trends, necessary to ensure a sustainable long-term profitability of SIF Banat-Crişana activity.

- *Active management in majority interests do develop the business and their performance*

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.

- *Maintaining a diversified portfolio*

The diversification of the portfolio both by asset class and within them pursues balanced alternatives that ensure a constant balance between risk and expected return, under regulated prudence conditions.

The aim is to maintain a diversified portfolio, by respecting the long-term investment objectives and policy declared by SIF Banat-Crişana as AIFRI. Investments in financial instruments with a lower exposure in the current structure, in addition to shares, may be fixed income financial instruments, fund units or other instruments.

The management and development of the portfolio will be carried out in such a way as to adapt to the overall risk profile of the Company and under the conditions of a rigorous risk management.

The Board of Directors intends that during 2022, in the process of managing the portfolio of financial instruments, not to use the leverage effect, respectively not to use methods to increase the exposure of the portfolio, to fit the average risk profile assumed.

Also, the Board of Directors, through the investment policy of SIF Banat-Crişana as AIFRI, intends not to carry out financing operations through financial instruments (SFTs) and *total return swap* instruments, defined by the EU Regulation 2365/2015.

- *Integrating the sustainability risk*

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 does not currently take into account the potential negative effects of investment decisions on sustainability factors, as this process is described in EU Regulation 2088/2019, and will take into account that with the uniform application of the disclosure requirements on the manner and the extent to which the activities of non-financial undertakings are associated with economic activities that qualify as environmentally sustainable, to provide non-financial information on the proportion of exposures aligned to the taxonomy.

- *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 for the approval OF EGM of April 2022, a new buyback program for 15,300,000 shares. The sources of financing of this program will be provided from own sources, in case the OGM approves the allocation of the net profit of the financial year 2021 to *Other reserves*.

- *Maintaining transparency and good corporate governance*

Good corporate governance and transparency in the relationship with investors, the 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.

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, hosting current, relevant, and interesting information for investors.

Also, to provide measures for protecting the shareholders of the company during the general meetings of the shareholders, SIF Banat-Crişana 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 are provided by law (vote by correspondence).

Income and Expenses Budget for the year 2022

To substantiate the Income and Expenses Budget for the year 2022, the following hypotheses were considered:

- *achieving the revenues, expenses and net result as of December 31, 2021;*
- *inflation rate BNR forecasted for 2022 (Q4) of 9.6%, with an uncertainty range of $\pm 1.5\%$;*
- *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 financial year 2021;*
- *volume of interest income, determined on the basis of the current level of monetary investments influenced by the cash entry / exit proposals for 2022 and the level of interest rate projected for 2022 for each category of monetary investments (bank deposits, corporate bonds);*
- *a net decrease from MTM of assets at fair value through profit or loss amounting to RON 20m;*
- *expenses on salaries, allowances, contributions related, and similar charges proposed, estimated based on the wage bill for January 2022, possible indexation during the year, a reward fund for employees, a reward fund for achieving the objectives/profit;*
- *financial investments depending on opportunities and market changes;*
- *repurchase of shares/distribution of dividends, generating cash outflow;*
- *endowments - mainly representing computers, office equipment and software licenses etc.*

BUDGET PROPOSAL FOR THE YEAR 2022

No.	Specifications	Proposals 2022 (RON)
I	Income	
	Dividend income	140,300,000
	Interest income	5,000,000
II	Gain / (Loss) on investments	
	Gain/(Loss) from valuation of financial instruments	(20,000,000)
III	Expenses	
	Commissions expenses	6,060,000
	Other operating expenses	26,359,000
IV	Profit before tax	92,881,000
V	Tax on gross due dividend	8,965,000
VI	Net profit for the year	83,916,000

Income estimated to be achieved in 2022 mainly include:

- **Dividend income** that represent the gross amount estimated to be collected in 2022, from portfolio companies, for the financial year 2021. 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 increasing 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 2022 in this type of assets. This item also included the interest component related to a sale of shares agreement.

Estimated gain / (loss) on investments includes a decrease in value amounting to RON 20 million from marking to market (MTM) of financial assets through profit and loss (shares of subsidiaries and associated entities).

Total expenses estimated for 2022 amount include:

- **Commission expenses** include commissions 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. including estimated expenses on stock option plan programs.
 - **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 2022 is in the amount of RON 92.9 million.

Tax on due gross dividend (to be collected) - is estimated in the amount of RON 8.9 million and includes tax on income form gross dividends estimated to be achieved in 2022, budgeted.

The net result proposed to be achieved in 2022 is in the amount of RON 83.9 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 2022.

Recent and accelerated developments of the global situation, 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 2022.

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