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Raiffeisen BANK
Banking așa cum trebuie

Raiffeisen Bank Romania Budget for year-end 2019

I. Macro Outlook

Economy:

The economic growth decelerated in 2018, while remaining at a solid level of 4.1%. The economic growth is expected by us to decelerate more visibly starting from 2019, respectively to 2.5%. Private consumption should act further as the main engine of GDP growth, fuelled by the rapid increases of wages and of pensions which continue in 2019. In addition, following the disappointing performance recorded in 2018, some rebound of gross fixed investments should be recorded in 2019 favored by the low base.

On the other hand, the key fiscal changes enforced unexpectedly at the end of 2018 - especially the tax on bank assets - should hamper the economic growth prospects. In addition, the deterioration of macroeconomic fundamentals (current account deficit and public budget deficit) would continue to generate concerns.

Banking:

Growth rate of outstanding loans accelerated in 2018 to its highest level in the last 10 years, respectively 7.9%. Gains were recorded for all business segments (housing loans, consumer loans, and loans granted to the companies). The low GDP share of banking loans suggests an elevated growth potential in the long run, supported by the real convergence process. In addition, clear structural improvements were recorded at the level of banks' balance sheets in the last years: share of non-performing banking loans was on a downward trend, share of FCY loans declined substantially as the majority of loans were disbursed in RON, reliance of the banking system on external funding has decreased and loans are now fully funded by domestic deposits.

On the contrary, the new bank levy is likely to impede the lending growth. The elevated level of the tax on banking assets would have a negative impact on banks' profitability, most likely resulting in an adjustment of the business strategies.

Our positioning:

For the following period we remain committed to generating value for shareholders and improving the services we offer to our customers. In 2018 we surpassed the milestone of 10% market share for lending and we plan to consolidate this position. Furthermore, people and the digital agenda will continue to be in the spotlight. We will deliver growth from our areas of strength, investing in the business while keeping a strong grip on costs.

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II. Our priorities for 2019

Profitable Growth

• We remain committed to sustainably generate value for all our stakeholders, working in the best interest of our clients, employees, shareholders and overall economy. We plan for moderate and balanced growth in the loan book across all main business lines (individuals, SMEs and corporate), with focus on financing viable business plans and, same as we did in the past, remain a trustworthy partner for our clients in reaching their financial goals. As a natural consequence, we plan to further consolidate our market position.
• We will continue investing in our staff, as critical success factor for the future, and also in our digital capabilities, while at the same time promoting a cost-aware attitude in everything we do. Cost optimization initiatives are always on our agenda, which will allow us to keep a firmly grip on overall cost development.
• We expect economic environment to be a challenging one in the near future, with regulatory restrictions, pressures from wages, inflation and implicit threats of a new phase of the economic cycle. However, our strong foundations, prudent risk strategy and disciplined approach on cost management give us the confidence that we will further expand our business in a responsible and profitable way.

Customer experience

• The client is at the center of everything we do and we are proud to see the results reflected in Net Promoter Score[1], that improved by 23% in comparison to 2017. We will further strive to grow the level of customer satisfaction, which goes hand-in-hand with our stated and proven strategy of doing 'proper banking'.
• We plan to grow more visibly the customer base in the future.

Simplification

• We acknowledge the critical importance of investments in technology and our digital capabilities. Further simplification of our processes, taking advantage of the power of robotics, promoting an 'agile' method of doing things are all in focus for the sustainable development of our business.
• The efforts we put in reinventing the customer journey are visible in surpassing the milestone of 600 ths. digital clients[2], up by 30% vs. 2017.

[1] Net Promoter Score, a measure of the clients' overall satisfaction with the bank, computed based on PI, SME and Corporate
[2] Clients with at least one log-in in the last month via any digital channel

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People and culture

• Staff is a key strategic pillar in reaching the strategic objectives and the degree of employee satisfaction, enablement and engagement are closely monitored. We strive to achieve improvements in the future and we are glad to see in 2018 a higher level of employee effectiveness and satisfaction.

III. Relevant Financials (RON mn)

Balance-sheet	2017	2018	yoy %	2019 objective
Total assets	36,085	40,042	11%	
Loans and advances to customers, gross	22,485	26,730	19%	moderate growth
Private Individuals	12,864	14,001	9%	keep growing, secured and unsecured
Legal entities	9,621	12,729	32%	smoother growth pace, consolidate
Deposits from customers	29,737	33,096	11%	
Private Individuals	17,122	19,109	12%	moderate growth
Legal entities	12,615	13,988	11%	moderate growth
Deposits from banks	749	642	-14%	low levels
Subordinated loans	849	856	1%	maintain solid capitalization
Debt instruments issued	516	516	0%	maturity and also new issuance in 2019

Profit and loss	2017	2018	yoy %	2019 objective
Gross income	2,044	2,484	22%	moderate growth
Operating expenses	-1,207	-1,279	6%	continue investing in staff and digital
Pre-provisioning result	836	1,204	44%	growing
Impairment losses on loans	-342	-174	-49%	further improvements
Net profit after tax	**491**	**881**	**79%**	growing

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Metrics	2017	2018	yoy	2019 objective
RoE	16%	27%	10 pp	slight decline, higher capital and profit
CIR*	59%	52%	-7 pp	stable
L/D, net	72%	78%	5 pp	stable
CAR**	17.1%	17.2%	0.1 pp	strengthen the capital position

* CIR computed as Opex divided by Gross income.

** The indicator for 2017 is influenced by the April 2018 GSM decision regarding the distribution of the 2017 profit, while the indicator for 2018 does not account for the April 2019 GSM decision on profit incorporation.

Note: all figures are in accordance with Group RBI reporting standards

Furthermore, we propose the approval of the Income Statement and Statement of financial position Budget for the 12 months period ending at 31 December 2019, as presented above.

This Report was analyzed and approved by the Management Board of Raiffeisen Bank S.A in the meeting of 18 March, 2019.

Steven Cornelis van Groningen

President of the Raiffeisen Bank S.A. Management Board