Raiffeisen Bank S.A. Budget for year-end 2020

I. Macro Outlook supporting the budget

Important opening note: the 2020 budget exercise was concluded in 2019 Q4, when the impact of the novel Coronavirus was not known. Meanwhile, the macro assumptions and perspectives changed dramatically to the worse: overall lending activity will likely shrink significantly in 2020, transactional activity will also decrease on the short-medium run, while consumer sentiment and appetite for investments in the local economy will deteriorate. RBRO will also be affected by these developments and, in addition to the negative impact in operational revenues, we also expect a worsening of the risk profile in a hard-tested economic environment. However, the bank's proven financial strength, solid earning power and capital base point towards an optimistic view of our medium-long term prospects.

Economy: 2019 revealed a favourable economic evolution and GDP increased by 4.1% compared to 2018. In the budget exercise, the 2020 outlook was still positive, but at a slower pace (+3% vs. 2019) considering factors such as the political and fiscal uncertainties and the moderate economic evolution on external markets. Private consumption was also expected to be on an upward trend in 2020, considering the higher disposable income, while industry and exports will continue to face challenges.
Macroeconomic imbalances (public budget deficit and current account deficit) were predicted to grow and continue to be the focus of investors. After public wages have been increased substantially over the past years, public pensions' surge might add additional pressure to the public budget deficit. Enlarging macroeconomic imbalances were foreseen to generate pressures for RON depreciation and an increase in yields for RON government securities.

Banking: The low levels for banking loans share in GDP (26% in 2019) reveal significant growth potential in the long run, supported by the real convergence process. As per the budget assumptions, 2020 should have exhibited some degree of growth on all types of loans (housing, consumer and loans granted to companies). RON denominated loans were expected to continue to hold the biggest share of new loans, as for Individuals the legal regulations regarding FCY loans are very restrictive. The evolution of the banking system was estimated at the time of the budget exercise to be influenced in the coming period by some political initiatives with negative impact, but also by incremental competition supported by the boost in digitalization.

Our positioning: Our future focus will point towards maintaining lending levels above the market average, considering recent salary increases and growth perspectives in an economy with reduced levels of financial intermediation. A balanced portfolio evolution is foreseen, including loans for companies and mortgages for individuals, areas where our current positioning and future strategy point towards a required accelerated increase in the following periods. As for costs, we will maintain focus on human resources and digitalization of the processes and products of the bank. The emphasis will rely on generating additional value for shareholders and improving the services offered to our clients, but at the same time costs' evolution will remain under close scrutiny.

II. Our priorities for 2020

Profitable Growth

• 2020 plans were built considering a strong, yet balanced business growth. We maintain our focus to sustainably generate value for all our stakeholders, working in the best interest of our clients, employees, shareholders and overall economy. All main business lines (Individuals, SMEs and Corporate) are in a growth mood, 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.
• The entire business is underpinned on the effectiveness of our staff, as critical success factor for the future, and on our digital capabilities, while at the same time promoting cost-awareness in everything we do. Cost optimization initiatives remain high on our agenda.
• 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

• We place the clients at the core of our every activity and we monitor the results on every segment through the Net Promoter Score (NPS)[1]. In line with our 'proper banking' values, we maintain a keen interest in improving the level of customer satisfaction and we aim for higher NPS score each year.
• We plan to grow more rapidly the customer base in the future, on all business segments.

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Simplification

• Digital transformation was high on our 2019 priorities list, aiming to provide fast, convenient and suitable services to our dynamic clients. Further simplification and automation of our processes, taking advantage of the power of robotics, driving an 'agile' way of working are all in focus for the sustainable development of our business.
• Our clients welcome this new approach and the efforts we put in reinventing the customer journey are visible in surpassing the milestone of 700 ths. digital clients[2], up by 20% vs. 2018.

People and culture

• We acknowledge the critical importance of staff in reaching our strategic objectives and we thoroughly oversee the degree of employee satisfaction, enablement and engagement. Improvements are continuously in our focus and we are glad to see in 2019 a higher level of employee effectiveness and satisfaction.

[1] Net Promoter Score, a measure of the clients' overall satisfaction with the bank, as per periodical customer surveys
[2] Clients with at least one log-in in the last month via any digital channel

III. Relevant Financials (RON mn)

Important opening note: the 2020 budget exercise was concluded in 2019 Q4, when the impact of the novel Coronavirus was not known. Meanwhile, the macro assumptions and perspectives changed dramatically to the worse and the bank's prospects for 2020 point towards a shrinkage in lending and transactional activity due to negative consumer sentiment and severely deteriorated macro environment, leading to lower gross income than originally anticipated and also worsening of the risk profile in a hard-tested economic environment.
However, the bank's proven financial strength, excellent earning power and solid capital base point towards an optimistic view of our medium-long term perspectives. Below, the original 2020 budget's assumptions/objectives:

Balance-sheet	2018	2019	yoy %	2020 budget objectives
Total assets	40,042	42,879	7%	
Loans and advances to customers, gross	26,730	28,398	6%	growth above market pace
Private Individuals	14,001	15,491	11%	keep growing, secured and unsecured
Legal entities	12,729	12,907	1%	solid growth pace
Deposits from customers	33,096	35,804	8%	
Private Individuals	19,109	21,471	12%	moderate growth
Legal entities	13,987	14,333	2%	moderate growth
Deposits from banks	642	349	-46%	
Subordinated loans	856	409	-52%	maintain solid capitalization
Debt instruments issued	516	480	-7%	new issuance in 2020

Profit and loss	2018	2019	yoy %	2020 budget objectives
Gross income	2,484	2,597	5%	moderate growth
Operating expenses	-1,279	-1,344	5%	continue investing in staff and digital
Pre-provisioning result	1,204	1,252	4%	growing
Impairment losses on loans	-174	-174	0%	prudent approach on provisioning
Net profit after tax	**881**	**779**	**-12%**	higher YoY

Metrics	2018	2019	yoy	2020 budget objectives
RoE	26.7%	20.4%	-6 pp	excellent rentability
CIR*	51.5%	51.8%	0 pp	lower YoY
L/D, net	0.78	0.76	-2%	increase
CAR**	17.6%	20.1%	2.5 pp	solid capital position

[1] The YoY decrease in subordinated liabilities vs 2018 is only a consequence of the bond format of the Ron 480 mn Tier 2 capital in Ron issued in December 2019 (included in 'Debt securities issued' in the table above); at the same time, Ron 480 mn subordinated loan was closed. In May 2019, Ron 500 mn bond issue reached maturity.

[2] CIR computed as Opex divided by Gross income.

[3] The indicator for 2018 is influenced by the April 2019 GSM decision regarding the distribution of the 2018 profit, while the indicator for 2019 does not account for the April 2020 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 2020, as presented above.

This Report was analyzed and approved by the Management Board of Raiffeisen Bank S.A in the meeting of March 23rd, 2020.

Steven van Groningen
President of the Management Board
of Raiffeisen Bank S.A.