Raiffeisen Bank S.A.

Directors' Report

31 December 2020

On Financial Statements prepared in accordance with International Financial Reporting Standards as endorsed by the European Union

FREE TRANSLATION

DIRECTORS' REPORT ON CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

31 DECEMBER 2020

1. GROUP DESCRIPTION

Raiffeisen Bank S.A. is a top universal bank on the Romanian market, offering a wide range of high-quality financial products and services. Raiffeisen Bank Romania S.A. operates since 1st of July 2002 following the merger by acquisition of Raiffeisen Bank Romania S.A. by Banca Agricola Raiffeisen S.A. through issue of shares. The merger between the two banks was performed as at 30 June 2002 in order to streamline the operations of the Raiffeisen Group in Romania.

The Bank holds:

- 99.99% investment in Raiffeisen Asset Management S.A., an asset management company with the purpose of administrating funds launched by the Group
- 99.99% interest in Raiffeisen Leasing IFN S.A.
- 99.99% interest in Aedificium Banca pentru Locuinte S.A., an entity exclusively dedicated to saving and lending business.

On May 1'st 2014 Raiffeisen Bank merged with Raiffeisen Capital and Investment S.A., a brokerage company providing stock exchange brokerage services to local and foreign customers.

In March 2017 the Bank gained control on Raiffeisen Leasing IFN S.A. and ICS Raiffeisen Leasing S.R.L. through the acquisition of 746,769 shares with a nominal value of 10 Ron, accounting for 49.99% from Raiffeisen Leasing IFN S.A. The decision was made in order to simplify the shareholder structure within the Raiffeisen Group.

Raiffeisen Bank gained control over Aedificium Bank, as of July 2019 (at that time called Raiffeisen Banca pentru Locuinte) by acquiring 45,000 shares for Eur 1 mn from Bausparkasse Schwäbisch Hall AG and 45,535 shares for some Eur 1 mn from Raiffeisen Bausparkasse Gesellschaft m.b.H., reaching the 99.99% holding percentage. As of October 2019 Raiffeisen Banca pentru Locuinte changed the name into Aedificium Banca pentru Locuinte S.A.

During 2020, ICS Raiffeisen Leasing S.R.L. from the Republic of Moldova, a company held 100% by Raiffeisen Leasing IFN S.A., has ceased its activity and has been liquidated.

The Bank has consolidated the financial statements of its subsidiaries in accordance with IFRS 10 "Consolidated Financial Statements".

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2. RAIFFEISEN BANK'S STRATEGY

Despite challenging and rapidly changing economic environment, RBRO continues to be a pillar of the Romanian economy, staying true to the 'proper banking' culture and swiftly coming to the aid of clients, whenever they are in need. During these trying global times, RBRO has supported the local economy and clients by providing effective private and public moratorium options, by wavering POS transaction fees early on as the pandemic developed, sending cards directly to clients' homes, paying State taxes and our suppliers ahead of time, actively taking steps to ensure a sanitary safe environment in our branches for our clients and employees, providing accessible financing solutions while also accelerating the development of our online capabilities.

As a top universal bank, aiming to become the most recommended financial institution in Romania, RBRO strives to help its customers achieve their objectives and build enduring home banking relations. We seek to meet the everchanging needs of our clients through digital channels and our helpful staff and we create value by offering effective customer-centric solutions that are convenient and user-friendly. We are committed to providing sustainable and qualitative banking solutions for our customers, by actively promoting a culture of 'proper banking', that relies on responsibility, trust and competence.

Continued digitalization has become an even more important focal point for the bank, as we are aiming to provide fast, reliable and effective financial services for the fast-changing needs of our dynamic clients and ultimately reinvent the customer journey.

From a business perspective, we continue to bring to the market innovative products such as Rflex, the dedicated foreign exchange solution for corporate clients, we push for continued education, development and strengthening of the business ties within the real market economy with programs such as 'Elevator Lab', which aims to design the future banking model, and the "Factory by Raiffeisen Bank" program that gives great support to start-up companies (over 100 financing facilities of up to Eur 50 ths. during our third edition in 2020).

3. ECONOMIC & BANKING ENVIRONMENT IN 2020

The outbreak of the COVID-19 pandemic in the first quarter of 2020 led to a large and rapid contraction of economic activity due to introduction of social distancing restrictions that were necessary to curb the spread of the disease. The economic recovery process that started in May has materialized at a faster pace than initially expected, being supported by the rebound of households' consumption, by production processes and by international trade. The economic recovery has benefitted from the bold measures aimed to help the individuals and the companies and that were adopted by the government and the central bank: transfers for technical unemployment and short-time work schemes, tax deferrals without incurring penalties, moratoria on loans repayments, decrease of interest rates in the economy and the offering of government guarantees for banking loans. The segment of companies providing services to the population was the most negatively affected by the introduction and maintenance for a long period of time of the social distancing restrictions. Agriculture also contracted sharply in 2020 due to severe drought. During 2020, there was observed a very good performance for investments that increased in the first three quarters by 6.3% compared to the similar period of 2019. The real Gross Domestic Product decreased by 3.9% in 2020 compared to 2019, while its level from Q4 2020 was 1.5% below that recorded in Q4 2019.

The public budget deficit rose to 9.8% of GDP in 2020 from 4.6% of GDP in 2019. This large jump was fueled to a large extent by the outbreak of COVID-19 pandemic, which required additional public spending (temporary and unforeseen) to combat it and generated also losses of public revenues (especially in terms of tax deferrals). However, the widening of the public budget deficit in 2020 compared to 2019 was also supported by the increases of wages in the public sector, of pensions and of child allowances that have materialized in the period 2019-2020.

The high uncertainty surrounding developments on the political scene and the situation of public finances, as well as the risk for a sovereign rating downgrade to "non-investment grade" category led the central bank (NBR) to remain prudent in the monetary policy conduct during 2020. Thus, the NBR has reduced the monetary policy interest rate three times in 2020, from 2.5% to 1.5%. At the same time, the central bank showed a firm commitment to provide the necessary liquidity to cover the financing needs of the public and private sectors, aiming at the gradual reduction of interest rates in lei and avoiding the "unnecessary" depreciation of the domestic currency. To this end, the NBR increased the volume of bilateral repo operations and began to buy Government securities in lei from the secondary market.

Outstanding loans granted by banks to the private sector (households and companies) remained on an upward trend in 2020, increasing by 5.4% from 2019 (dynamics computed using a constant EUR/RON rate to assess the change in the value of loans denominated in foreign currency). The fastest dynamics materialized in the case of outstanding housing loans (9.3%), and the weakest performance was registered in the case of outstanding loans for consumption and other purposes (contraction of 2.1%). Outstanding loans granted by banks to non-financial companies increased by 4.3% in 2020 compared to 2019, and a revival of lending activity was recorded in the second half of the year amid the start of the IMM Invest governmental program (guarantees provided by government to the SMEs for banking loans). Outstanding banking deposits of households and companies again increased faster than outstanding loans of these customer segments in 2020, respectively by 13.6%. Large advances in term of balances were recorded for all segments: deposits of individuals and deposits of companies, deposits in lei and deposits in foreign currency. Non-performing loans ratio in the banking system increased during the second quarter, but the advance was limited (from 3.94% in March to 4.38% in June). Moreover, it gradually declined thereafter to 3.89% in November. The favorable development was supported by the broad set of measures adopted by the authorities to support the economy, including the moratoria on loans repayments and the suspension of foreclosure procedures.

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4. GROUP'S BUSINESS PERFORMANCE IN 2020

a) Highlights

We are proud with our achievements during the past year, one that tested everyone's resilience and brought forth many new challenges. We prioritized the safety of our clients, staff and we supported the real economy in a very difficult period, while still achieving above-market RoE[1] of 14%. The group's foundations are in very good shape: solid capital adequacy at 23%, NPLs below market average and an L/D ratio of 68%.

The Bank approved new loans of Eur 2.9 bn in 2020, thus helping clients to realize their objectives or to better cope with the headwinds brought by the lockdown period and by the general hike in macro uncertainty. More than Eur 1 bn new loans were granted to private individuals, while our participation in the IMM Invest program was a major factor for sustaining the lending activity for companies in the second part of the year.

In times of crisis, people turn to the safety of the strongest and most trustworthy banks: ***RBRO achieved in 2020 an excellent 21% growth in deposits***, on the backdrop of delayed spending, turmoil on the equity markets and growing uncertainty in the overall economy. We remain a trustworthy partner for our clients in good times and bad, committed to use this fuel to act upon our strategic objective of financing the real economy.

We kept the digital agenda at the forefront of our attention: clients actively[2] using our digital channels increased by 17% in 2020, exceeding 870,000 or 40% of our customer base. We reached a total of 48 cashless branches and we accelerated the transfer of cash operations to multifunction machines. We will continue to push for greater ease and faster access to banking services, by enhancing our digital capabilities.

The proper way of doing banking was put to the test in the last year: early in the onset of the pandemic and lockdown, we took swift measures to support our partners by hastening payments to suppliers and wavering POS fees for corporate and SME clients, we ensured sanitary safety for clients and employees visiting our branches and we started delivering the cards at our clients' homes, in order to limit unnecessary exposure.

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[1] Computed for the Bank: Net profit divided by the average value for Equity in the period, not including the 2020 profit

[2] Private individual clients who logged into digital channels at least once in the last month

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b) Balance sheet developments

Raiffeisen Bank Romania's success during this difficult period resides in the balanced and sustainable business model. We stayed true to our 'proper banking' principles, maintaining a robust development of our balance-sheet while providing much needed support for the real economy.

The past year has been one of unprecedented events, with the COVID-19 pandemic having a quick and deep impact in the economy and affecting, in one way or another, all aspects of day-to-day life. Such circumstances found us in close contact with clients' needs and we acknowledged the difficulties they faced by stepping up with adequate support, offering both private and public moratorium options for individuals and companies. As our clients tried to adapt to the new conditions, we remained swift in providing accessible financing through both traditional products as well as Government support programs such as IMM Invest.

We remain committed for future sustainable growth, with a close tap on client needs: we pay special attention to the lending activity addressed to companies, both local entrepreneurs and corporate clients, while at the same time remaining a trustworthy partner for our individual customers in meeting their financial needs.

The main developments related to the asset side of the balance-sheet are seen below:

Condensed assets positions		Group			Bank	
amounts in Ron million	**2020**	**2019**	Variation	**2020**	**2019**	Variation
Cash and cash with Central bank	10,854	6,507	67%	10,854	6,506	67%
Loans and advances to banks at amortized cost	972	207	>100%	971	201	>100%
Loans and advances to customers at amortized cost	28,773	27,594	4%	28,221	26,961	5%
Financial assets mandatorily at fair value through P&L	394	364	8%	379	344	10%
Investment securities at fair value through OCI	3,213	2,398	34%	3,151	2,326	35%
Investment securities at amortized cost	6,096	4,953	23%	5,913	4,674	26%
Sundry assets	1,751	1,833	-4%	1,794	1,866	-4%
Total assets	**52,053**	**43,856**	**19%**	**51,283**	**42,879**	**20%**

2020 started off rather well in terms of loan production, but the pandemic and lockdown period have severely lowered new loans generated in the second quarter, with many clients postponing such decisions due to safety concerns and growing uncertainty regarding the prospects of the economy and also their personal financial perspectives. The second half of the year saw a recovery in confidence especially on private individuals with new loans granted by RBRO during this period reaching similar levels as in 2019, despite still being impacted by the difficult context. SME also stood out, with 14% increase in overall term loan production during 2020, when new loan originations supported strongly by the new IMM Invest program.

Looking at the net loans stock evolution vs. 2019, the reported year-over-year growth of 5% was positively influenced by the rise on small and medium company loans by more than 10%, while on private individuals, the lending activity excelled especially for mortgage loans, which increased by nearly 10% vs. 2019 and compensated for the small decline in unsecured loans vs the end 2019; the demand for personal loans in the market plummeted during Q2, while the recovery during the second half of the year contributed to the PI unsecured loans rising by 3% vs. June 2020. Looking at the lending process, we seek to provide suitable financial solutions for our clients' needs, increasingly convenient and fast, as we move with a higher proportion of the portfolio towards a fully digitalized lending process.

The clients' preference towards local currency is confirmed and visible in the currency mix of the loan book, with the RON share exceeding 70% weight in 2020, mostly influenced by Retail lending where nearly 85% of loan book is RON denominated:

Loans and advances to customers, before provisioning

	Group				Bank			
	2020		2019		2020		2019	
amounts in Ron million	Non-Retail[3]	Retail	Non-Retail	Retail	Non-Retail	Retail	Non-Retail	Retail
Total	12,561	17,543	11,941	16,781	12,425	17,080	11,787	16,268
LCY	6,359	14,770	6,113	13,591	6,338	14,679	6,092	13,516
FCY	6,202	2,773	5,828	3,190	6,087	2,401	5,695	2,751

We increased significantly our securities holdings in 2020, in line with our strategy to lengthen the average duration of the assets, optimize the structure of the balance-sheet and the net interest margin, while at the same time provide necessary funds to the local Government in a tough period.

In 2020 we surpassed the Eur 10 bn landmark in terms of size of the balance-sheet and we are very pleased with the 20% growth achieved yoy, at almost double the speed of the market (+11%). Looking at the structure and drivers of this growth in size, we move to the customer liability side of the balance-sheet:

Customer liabilities showed very strong growth in 2020, by more than 20% year-over-year, further proof of the trust we gained from the part of our clients, who see us as reliable partners in good times and bad. We see this development fully aligned with our commitment to build solid and sustainable foundations for the development of our balance-sheet in the future, focused on funding the real economy and helping our clients succeed.

During 2020, a significant growth vs. 2019 came from private individual clients' current accounts, which increased by over 30% yoy. We need to mention here the background of delayed spending behavior and growing uncertainty in the perspectives of the overall economy and in some cases also uncertainties regarding personal financial prospects on the short-medium term. The turmoil on the equity markets especially during Q2 of 2020 has also led to a migration from asset management funds towards the safety of the strongest and most reliable banks.

[3] Retail clients include personal individuals and legal entities with an annual turnover below Eur 1 million (Micro clients)

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Small and medium entities also had a notable positive development of 22% against prior year, mostly coming from current account balances that grew year-over-year by 24%. The same trend was registered on corporate clients with a rise by 14% in liabilities, entirely from current accounts.

Main components related to the liability side of the balance-sheet are illustrated below:

Condensed liability positions	Group			Bank		
amounts in Ron million	**2020**	**2019**	Variation	**2020**	**2019**	Variation
Deposits from banks, loans from banks and other FIs	771	822	-6%	356	351	1%
Deposits from customers	43,553	36,109	21%	43,395	35,802	21%
Debt securities issued	480	481	0%	480	481	0%
Subordinated liabilities	416	409	2%	416	409	2%
Sundry liabilities	1,329	1,204	10%	1,259	1,141	10%
Equity	5,504	4,831	14%	5,377	4,695	15%
Total liabilities and equity	**52,053**	**43,856**	**19%**	**51,283**	**42,879**	**20%**

With regards to the liabilities' denomination, the structure between RON and foreign currencies has moved towards the former and closed the year at around 60/40 ratio, in favor of RON denominations.

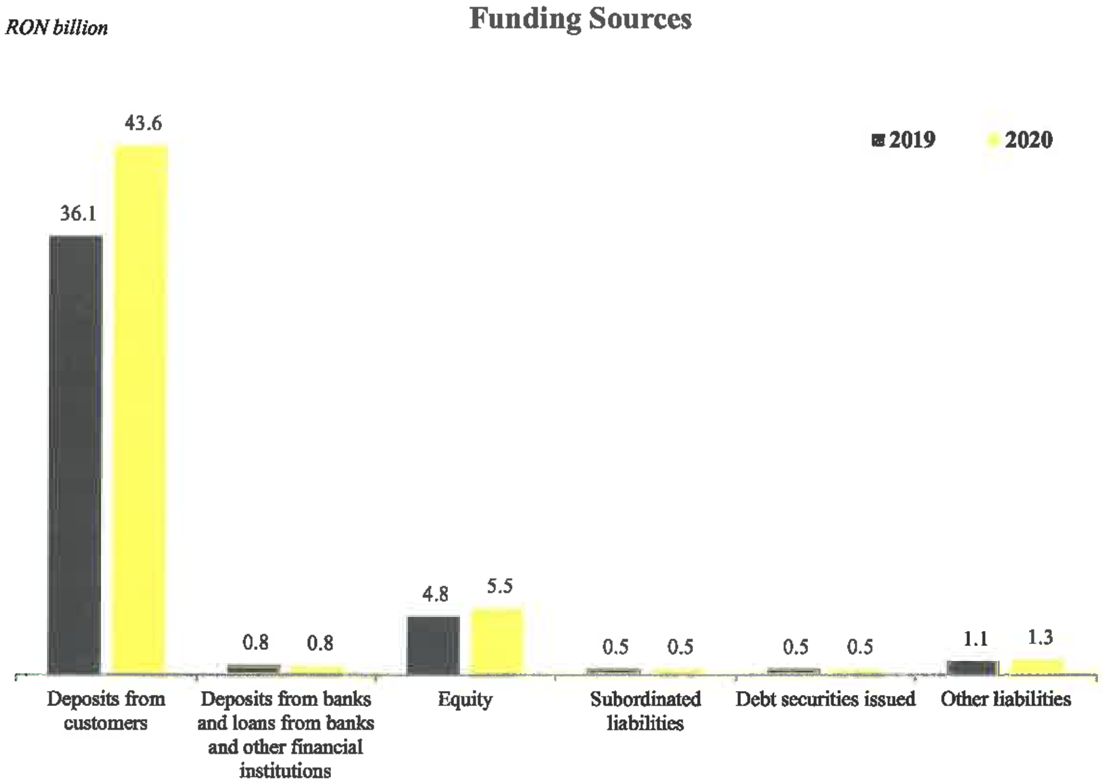
We do note, however, that relatively many clients still prefer to keep their savings in foreign currency, even though the interest rates offered for such deposits in the market are very low.

Deposits from customers

	Group				Bank			
	2020		2019		2020		2019	
amounts in Ron million	Non-Retail	Retail	Non-Retail	Retail	Non-Retail	Retail	Non-Retail	Retail
Deposits from customers	11,326	32,227	9,863	26,246	11,358	32,037	9,880	25,922
LCY	7,584	18,284	6,875	14,996	7,606	18,094	6,887	14,672
FCY	3,742	13,943	2,988	11,250	3,752	13,943	2,994	11,250

The group has strengthened its foundations during the year and maintained diverse funding sources: we remain highly liquid on both local currency and foreign currency, as we enjoy a positive perception from the part of our clientele, as a sound and secure financial institution during times of continued uncertainty.

The strong rise in deposits from customers during the year, as well as our cautious policy to retain profits and grow the equity position during these challenging times, have all granted the Group a solid footing for the future as the economy regains steam and lending demand recovers in the near future.



c) Major Profit and Loss components

amounts in Ron million	Group 2020	Group 2019	Group Variation	Bank 2020	Bank 2019	Bank Variation
Net interest income	1,750	1,759	-1%	1,707	1,719	-1%
Net fee and commission income	527	584	-10%	485	534	-9%
Net trading income	333	333	0%	334	333	0%
Net gain from other fin. instr. at fair value through P&L	17	40	-57%	17	40	-57%
Other income	34	30	14%	72	34	112%
Operating and personnel expenses	-1,575	-1,556	1%	-1,519	-1,512	0%
Net provisioning for impairment losses on financial assets	-316	-176	79%	-321	-187	72%
Goodwill	0	7	n/m	0	0	n/m
Share of gain from associates and joint ventures	0	2	n/m	0	0	n/m
Income tax expense / revenue	-134	-188	-29%	-129	-180	-28%
Net profit after taxes	**637**	**835**	**-24%**	**644**	**779**	**-17%**

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Net profit of the Group stood at Ron 637 million in 2020, down by 24% vs. 2019. This decrease came on the background of the deteriorated economic context generated by COVID-19 pandemic. During 2020, our primary concern was to ensure business continuity, focus on the health and safety of our employees and customers.

Worth noting the main factors which led to this evolution in net profit: suppressed demand for new lending during lockdown, implementation of private and public moratoria in order to help our customers cope with current difficulties, temporary wavering of some transactional fees to encourage electronic payments, additional costs in order to ensure our employees' health and a rise in provisions booked as overlays for the deteriorated macroeconomic outlook and the possibility for some clients to see their repayment capabilities affected.

Net interest income was on a slight downward trend year-over-year, impacted by sluggish lending growth and contracted margins (lower market rates for LCY by 60 bps on average vs 2019 and also due to low-risk programs and IMM Invest which were in scope for Legal Entities).

Net commission income declined year-over-year in 2020, by 10%. This decrease came mainly as an effect of the non-recurrent weak transactional activity during the lockdown period, during Q2. Additionally, worth noting also the increasingly convenient and low-priced payment solutions provided to our clients through digital channels, higher penetration for 'zero cost' current account packages provided to Individuals, migration of cash operations from branches to multifunctional machines and electronic channels, fee waivers applied during Q2 for POS transactions. We see this trend as an integral part of our efforts to tighten the relationship with our clients and make concrete steps towards a transactional activity that is fast, convenient and cost-effective for the bank and clients.

2020 also presented some opportunities, mainly from increased volatility in the market during Q2 as swap rates for RON placements hovered in the low double digits, thus leading to some profitable deals which allowed us to increase our trading result. On the other hand, FX business was affected to a high degree by the new macro environment triggered by the COVID-19 pandemic: lower FX volumes after an initial hike in mid-March due to lockdown in the emergency state, low appetite for acquisitions/spending, low propensity for travel due to restrictions in place for most of 2020. All-in-all, net trading income remained flat year-over-year.

2019 was the first year in which 'Tax on assets' has been applied to Romanian banks, as per OUG 114/2018, which brought a cost of around Ron 50 mn in our operating expenses (no such costs booked in 2020). Another event with regulatory background was the contribution for deposit insurance and single resolution fund fee, which was Ron 15 mn lower in 2020, year-over-year. We should also outline, within the 2020 cost base, approx. Ron 100 mn negative impact due to prudent provisioning for possible future losses arising from litigations.

The underlying operating cost base (w/o non-recurring events and regulatory contributions for deposit guarantee schemes) shows Ron 50 mn increase year-over-year. The safety and health of employees and customers was our main concern during 2020, the bank providing during the pandemic everything necessary for their protection, from hygienic-sanitary materials, separation panels to sending over 450,000 cards through couriers to client's homes. We took advantage of our technical capabilities to offer our head-office employees the option to work from home without significant productivity losses, while additional expenses were deployed by the bank in branches, where work conditions were adapted to the paramount need to ensure the safety of our staff and clients. In underlying terms, the new context generated by the pandemic encouraged us to accelerate the scrutiny of those costs which are not aligned with our aim for the future of banking and focus to invest more in the two crucial success factors for the future of our bank, namely our people and the strength of our digital capabilities. In line with the Bank's strategy of investing more in these important pillars for the bank's future success, we see that the main areas of growth in operating costs are identified in staff-related and IT expenses.

The Group's risk costs were affected in 2020 by the booking of additional provisions to compensate for the deteriorated macroeconomic environment, possible new defaults following harsh perspectives for some industries and overlays for future effects expected after the expiry of moratoria.

d) Customers and distribution

The active customer base was maintained in 2020 at approximately 2.2 million clients. At year-end 2020, Raiffeisen Bank's network numbered 333 units (351 in 2019), over 23,000 EPOS and over 1,100 ATMs, out of which 391 MFMs (multifunction machines).

5. OUTLOOK FOR 2021

a) Economic developments

We expect the economic recovery process that started in 2020 to continue in 2021 and to be fostered by progress in deployment of vaccines in Romania and abroad. Increase in immunization of population against the new coronavirus should result in a broad-based rebound in activity of companies providing high contact-intensive services (hospitality, tourism, recreational and cultural activities). Economic growth should also be supported in 2021 by the extension of government measures to support the individuals and companies, by the increase in the absorption of European funds and by the initiation of investment programs financed from the Next Generation EU recovery program. At the same time, exports' growth should be supported by accelerating foreign demand. We expect agricultural output to return towards its normal level after the large contraction in 2020 caused by severe drought, with the agriculture making so a significant positive contribution to economic growth in 2021. We currently estimate a real GDP growth of 5.2% in 2021 from 2020.

The year 2021 should also mark the beginning of the fiscal consolidation process. However, this should be a long-term and gradual one, given that the level of the public budget deficit in 2020 (9.8% of GDP) has a large structural component (resulting from the substantial increases of public sector wages and of pensions over the last years). In fact, the government has already approved a series of measures aimed at limiting the advance of public spending in 2021 (freezing of wages and bonuses in the public sector to the levels from end-2020, for instance). Also, the government intends not to increase pensions in 2021. Under these conditions, we consider that the public budget deficit could be reduced towards 7% of GDP in 2021.

The initiation and the progress of the fiscal consolidation process create premises for the rating agencies to maintain the sovereign rating in the "investment grade" category, for investors not increasing their risk aversion for lei denominated assets, and for leu witnessing only reduced depreciation pressures. This favorable domestic context and the projected low level of interest rates in foreign markets should allow the central bank to maintain unchanged the monetary policy interest rate at 1.25% until the end of 2021.

Also, money market interest rates (ROBOR at 3 months for instance) could decline further, coming closer to the level of the monetary policy rate. The low level of RON interest rates is an additional factor that should support economic growth in 2021.

b) Developments in the banking industry

We expect the stock of loans granted by banks to the private sector (households and companies) to continue on an upward trend in 2021, and positive developments to be recorded in all credit segments (loans for consumption and other purposes, housing loans and loans to companies). The advance would be supported by the strengthening of economic growth process which will materialize in an increase of households' disposable income and of corporate profits. Also, lending to non-financial companies is expected continue to be supported by Government programs providing loans guarantees. The stock of deposits of households and companies could still be expected to increase at a faster pace than the stock of loans contracted by these categories of clients.

For the year 2021, there is a high degree of uncertainty with regards to the evolution of the unemployment rate, of the number of bankruptcies and of the volume of non-performing loans. The expiry of the support measures introduced in 2020 to help the individuals and the companies to cope with the crisis is expected to lead to a deterioration of all three indicators. However, the banking system is very well capitalized (solvency ratio of 23.2% in December 2020), which should allow banks to successfully weather these possible adverse developments.

c) Our perspectives

We expect the following period to be one of recovery, with good perspective for growth as the customers return to a more traditional behavior and economic activity picks up. Still we consider that uncertainty will linger in the short and medium term while the lockdown period has likely altered to some extent individual behavior and has hastened an already existing trend for digital adoption and redefined the way work is being done with diverging impact between industries. We see good perspective for underlying growth also from the low level of financial intermediation in Romania versus EU average; furthermore, supplier's credit is still the preferred mean of financing operations for many small companies, ahead of bank lending, while recent events and materialized risks have all confirmed that this is a real and sizeable growth opportunity for the local banking system on the short-medium run.

We aim to outpace the market on lending, with balanced growth for our loan book slightly more concentrated on legal entities loans and individual mortgage loans, where our current positioning and our strategic targets would warrant a quicker pace in the coming period. The market moved towards a low interest rates environment with considerable pressure on interest income at the banking level which we intend to counter through higher volumes.

We acknowledge two major factors at the foundation of a resilient and highly performing earning power on the long-run: our people and the path to digital, and we continue to maintain focus on both and thus secure our positioning in the market. The new context generated by the pandemic encouraged us to accelerate the scrutiny of those costs which are not aligned with our aim for the future of banking and focus to invest more in the two crucial success factors for the future of our bank, namely our people and the strength of our digital capabilities; this is a road we will pursue also in the coming period.

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6. SUBSIDIARIES

ASSET MANAGEMENT

S.A.I. Raiffeisen Asset Management S.A. (RAM) is the asset management company of the Group in Romania. RAM's objective is to develop a large range of products to best serve clients' financial needs.

During 2020 we maintained a constant focus to improve our range of financial products, in order to remain aligned with the financial markets environment and to meet our investors' expectations. Thus, we completed our offer with a new international equities fund, Raiffeisen Global Equity, the first locally managed investment fund which incorporates environmental, social, and corporate governance (ESG) factors in its investment policy. The fund is denominated in Euro and has attracted a great deal of interest from investors. We also launched an international bond fund denominated in Euro, Raiffeisen Global Bonds and extended our investment plans solutions with two new products, Euro SmartInvest Now and Euro SmartInvest Time.

At the end of 2020, Raiffeisen Asset Management was the only asset management company in Romania offering both open investment funds and a voluntary pension fund. The social capital amounting RON 10,656,000 is 99.99% owned by Raiffeisen Bank S.A. The total assets exceeded EUR 13,7 million.

By the end of 2020, Raiffeisen Asset Management S.A. was the second largest player on the local funds market, with a market share of 22% and assets under manage-ment exceeding EUR 1 billion.

FINANCIAL LEASING ACTIVITY

Raiffeisen Leasing IFN S.A. has been representing the Raiffeisen Group on the Romanian Leasing Market since 2002. The company share capital is RON 14,935,400 and offers a wide range of products for SMEs, corporations and, in a small part, for individuals.

The company provides customized financing solutions in Lei or Euro, offering fixed or variable interest finance for various types of projects and assets, such as vehicles, equipment. Raiffeisen Leasing offer is also available in over 350 RAIFFEISEN Bank agencies.

On 31.12.2020, Raiffeisen Leasing IFN S.A. had assets amounting 215 million Euros and a number of approximately 10,100 active contracts. The company consolidated its portfolio, confirming in 2020 the established strategic lines, registering a balanced structure in terms of customer segments and financed assets and an adequate risk management.

In 2020, Raiffeisen Leasing supported clients affected by the COVID-19 pandemic, through measures in the form of private and public moratoria, which targeted individuals, legal entities, PFA and individual businesses. Customers could opt to defer payment of installments for up to 9 months.

Raiffeisen Leasing offer remained in line with the market context last year. Raiffeisen Leasing's portfolio performed well in the context of the pandemic.

The year 2020 was difficult for both the national and the global economy, being marked by restrictions, blockages and postponements of some important investments, in the context of the COVID-19 pandemic.

Although there are not any official data yet from the leasing market for 2020, it is estimated that in the leasing industry there were contractions on new business. Raiffeisen Leasing's major focus was to support customers affected by COVID-19, ensuring the portfolio and balanced management of the business.

Raiffeisen Leasing's vision translates into "Leasing asa cum trebuie" slogan, which means integrity, transparency and a sense of responsibility towards the clients. Through all its guiding principles and fundamental beliefs the company aims for a balanced and healthy growth for its clients, sustaining viable businesses in a responsible way, by avoiding over-indebtedness, providing easy access to finance, through process efficiency and innovative leasing products.

SAVING AND LENDING BUSINESS

Aedificium Bancapentru Locuinte S.A. (ABL) offers a product denominated in Ron that is based on the combination of the saving and the lending phase and offers to customers the financing of housing domain improvements by affordable Ron denominated loans with fixed interest rates.

At the end of 2020, ABL registered a portfolio of 27 thousand contracts from the saving and lending activity, having a total contractual amount of Ron 460,8 million, savings deposits from customers amounting to Ron 136.8 million and total loans granted worth Ron 56.6 million. In 2020, ABL posted an operational negative result of Ron 47.4 million, significantly impacted by the provision booked related to the litigation with the Court of Accounts (Ron 43.7 million).

7. RESEARCH AND DEVELOPMENT

The past year has proven that we are prepared to adapt quickly to a volatile environment. We owe this to our robust digital capability and years of focus on research and development as a main strategic direction. The main areas of focus were the digital experience, new technologies & tools to support digital readiness, Agile methodology, data analytics and machine learning. We successfully navigated the challenges of fast switch to a work-from-home environment at a large scale, with limited impact in productivity; it helped a lot that we were already invested in the needed infrastructure.

Digital experience improved with e-token for all private individual customers and digital activation of Smart Mobile solution as well as integrating customer feedback platform in this solution. New technologies and tools to support digital readiness and Agile methodology refer to scale continuous integration or continuous delivery practice in order to shorten the systems development life cycle and provide high software quality. We started building a microservices infrastructure and continued to develop Omnichannel Layer concept to sustain flexibility, decoupling and reusability with a direct benefit in time-to-market business services. We also build an events-based infrastructure for sustaining real time data availability, based on modern technology like event streaming.

In the data analytics and machine learning field, we integrated and improved internal reporting systems and we explored Big Data infrastructure and implemented an advanced analytics sandbox for machine learning.

8. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The objective of financial reporting is to reflect the true and fair view of the statement of financial position, statement of comprehensive income and statement of cash flows, both consolidated and separate. Compliance with all accounting and financial reporting requirements is a prerequisite. The Management Board is responsible for defining and establishing a suitable internal control and risk management system that cover all financial reporting process.

The internal control system intended to provide the management all the needed information to ensure continuously improving internal control for accounting. The internal control system is designed to comply with all relevant guidelines and regulations and to optimize the conditions for specific control measures.

The consolidated and separate financial statements are prepared in accordance with Order No. 27/2010 of the National Bank of Romania and subsequent amendments which require that these consolidated and separate financial statements to be prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated and separate financial statements are published within first four months of the financial year following the reporting period.

Control environment

The internal control system in place includes:

- The hierarchical decision-making process for approving the Group and Bank directives and departments instructions.
- Process description for preparation process, quality control, approval, publication, implementation and monitoring the directives and instructions.
- Regulation for revision and repeal of directives and instructions.

The management of each Group member is responsible for implementing the Group directives. Compliance with regulations is monitored by the internal audit missions.

The Audit Committee monitors the accounting process and the effectiveness of internal control, audit and risk management system. The task of the Audit Committee includes the supervision of the annual audit of the consolidated and separate financial statements, which is done at least annually. The Audit Committee is responsible for preparing the Supervisory Board recommendation for selecting the financial auditor. Moreover, the Audit Committee discusses the efficiency of the risk management system and internal control system. The internal audit must provide to the Audit Committee with quarterly reports in areas audited and with audit findings resulted from the audit performed. The consolidated and separate financial statements are prepared within the Accounting Directorate, which reports to Chief Financial Officer.

Risk assessments

Significant risks relating to the Group accounting process are evaluated and monitored by the Management Board. Complex accounting standards can increase the risk of errors, as well as the use of inconsistent valuation standards. A difficult business environment can also increase the risk of significant financial reporting errors, also the estimation of the assets, especially of those affected by credit risk.

Control measures

All control measures constitute part of the day-to-day business processes and are used to prevent, detect and correct any potential errors or inconsistencies in the financial reporting. Control measures range from managerial reviews of interim results to the specific reconciliation of accounts, through analyzing ongoing accounting processes. The local management is responsible for ensuring implementation of mandatory internal control measures, such as the separation of functions and the principle of dual control.

Consolidation of the financial statements

The preparation of separate financial statements is carried out by each Group member. The Bank has consolidated the financial statements of its subsidiaries in accordance with IFRS 10 "Consolidated Financial Statements".

Information and communication

Before publication, the consolidated and separate financial statements are presented to the Board of Directors for approval and submitted to the Supervisory Board. The Supervisory Board is informed of the result of the audit by a statutory report regarding the audit of the consolidated financial statements by the auditor. The consolidated and separate financial statements are published on the company's website.

The annual consolidated and separate financial statements are presented for the approval to the Annual General Meeting, according to legislation in place and based on the Director's and financial audit reports issued for the respective financial year.

9. RISKS

Raiffeisen Group approaches risk in a prudent manner, in line with its long-term development goals.

Risk management

The risk management function is independent from the business and it is focused on the administration and control of the credit, market, liquidity, operational and reputational risk. The management body has overall responsibility for the establishment and oversight of the Bank's risk management framework. In this respect, it established the Assets & Liabilities Committee (ALCO), Credit Committee, Problem Loans Committee and Risk Committee, which regularly report to the Management Board and are responsible for developing and monitoring the Bank's risk management policies in the specified areas.

Raiffeisen Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to risk limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions, products and services offered.

Starting January 2014 following the issuance and coming into force of the EU Directive and Regulation regarding Basel III implementation, the Bank reports to the National Bank of Romania (NBR) the Leverage Ratio, the Liquidity Cover Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The Bank also completed in 2014 the implementation and reporting of the European Banking Authority (EBA) standards concerning forbearance and non-performing exposures. The NBR and EBA regulations on recovery and resolution are applied by the Bank starting from 2015.

Starting from 2018 the Bank applies the IFRS9 requirements.

In the context of the complex regulatory environment, the Bank continues the efforts to adapt its IT architecture and the risk policies and procedures to the new legislative requirements and to the market evolution.

Credit risk

Credit risk analysis and assessment functions for all activity segments are fully centralized and currently represent a single point of contact for the entire Bank. Credit risk activity is organized by industries and specialized by customer segments. This allows a quick reaction to any major change in the micro or macroeconomic environment of Raiffeisen Bank or its customers. Starting with 2009, the Bank implemented a standardized early warning system in order to monitor certain categories of non-retail borrowing customers and retail borrowing customers. This system monitors, on a monthly basis, the selected portfolio in order to identify early warning signs and explain them. Based on these signs, customer portfolio is split into risk groups and actions/ strategies are proposed for the customers considered problematical.

Raiffeisen Bank received NBR approval to determine the capital requirement for credit risk according to internal rating models approach (IRB), starting with 2009, July 1st. Regarding the retail portfolio, Raiffeisen Bank received NBR approval to determine the capital requirement for credit risk according to advanced internal rating models approach (AIRB), starting with 2013, December 1st.

Market risk

Regarding market risk, the Bank currently uses the standard approach for capital requirement calculation. The market risk management is currently implemented through a market risk limits and warning levels structure applied to the Bank's exposures towards interest rate risk both from trading book and from banking book, foreign exchange risk and other subtypes of market risks. The close monitoring process and the monitoring frequency of the established limits and warning levels assure a prudent market risk profile for Raiffeisen Bank.

Liquidity risk

Assets and Liabilities Committee (ALCO) defines the liquidity risk strategy based on recommendations made by Balance Sheet and Portfolio Management Directorate, which is responsible for liquidity and funding management in cooperation with Group Risk Control and Portfolio Management Directorate, the area responsible for monitoring and control of liquidity risk. ALCO approves each year the limits which are applied to measure and control liquidity risk as well as the Bank's funding plan, which subsequently is approved by the Supervisory Board. The funding plan is updated at least annually in accordance with the balance sheet funding needs, taking into consideration all regulatory requirements imposed by the competent and resolution authorities.

The risk tolerance represents the foundation of the liquidity risk management framework and is defined:

- for normal business conditions as a maximum allowed maturity mismatch between assets and liabilities, for different time buckets. This prevents the accumulation of significant liquidity risk from current activity.
- for stress conditions, as a minimum level of liquid assets held as reserve. This ensures the Bank's capacity to absorb liquidity shocks for an acceptable time without significant changes to the strategy or business model.

The liquidity management function ensures the Bank has the capacity to respond to client needs and meet payment obligations. To achieve this objective, a conservative liquidity management is performed, aimed at maintaining adequate long-term funding, within a stable deposit base to support the bank's lending programs. In addition, on short term, an optimum level of readily available liquidity is maintained, which provides the ability to cover promptly the clients' requests for payments.

The Bank holds a sufficient buffer of liquid assets that can be used to compensate the limited access to funding sources and liquidity outflows during stress conditions. Liquidity management is performed in compliance with all regulatory requirements defined both at European and national levels. The transfer pricing mechanism represents an important instrument for the management of liquidity risks. It covers the balance sheet and off balance sheet elements and is designed to allocate all costs and benefits to the business segments in a way that incentivizes the efficient use of liquidity.

Diversification of our funding profile in terms of investor types, products and instruments is an important element of the liquidity management framework. Our core funding resources come from retail clients while other customers' deposits, interbank deposits and borrowings are additional sources of funding. This improves the Bank's flexibility in funding and diminishes, generally speaking, the liquidity cost.

Operational risks

Staring with 2010, January 1st, Raiffeisen Bank determines and reports the capital requirement for operational risk, using the standard approach based on the National Bank of Romania's approval from November 2009. This approval was based on the operational risk management framework developed throughout the Bank using the three lines of defence model and the advanced instruments such as: operational risk incidents database, operational risk indicators, risk scenarios, risk assessment matrix. Operational risk management framework is continuously improved being aligned with the operational risk management framework implemented at Group level. The Group received ECB approval for using the Advance Measurement Approach.

Reputational Risk

At bank level the management of reputational risk is structured on the following directions: defining the management framework and identification, evaluation, monitoring and management of the risk. In order to implement the risk strategy for reputational risk, the bank defined and approved the Reputational Risk Policy which details the roles and responsibilities regarding reputational risk and also the tools used to insure a proper management and control of this risk.

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Several tools specific for reputational risk are used:

- reputational risk indicators – indicators that measure the perception and behavior of the customers – number of complaints, indicators that measure the public perception in the mass-media, relationship with the state authorities.
- reporting of reputational risk events which are managed using specific flows and actions
- assessment of reputational risk using risk scenarios
- assessment of reputational risk as part of the bank risk profile.

Reputational risk is a priority for the Bank and we have a continuously focus to improve the management process especially on the level of the awareness of all the employees using specialized training programs.

Compliance risks

As defined in the local regulatory framework (NBR Regulation no. 5/2013 on prudential requirement for credit institutions) compliance risk is the current or future risk of affecting profits, own funds or liquidity, which may lead to significant financial loss or which may affect the reputation of a credit institution, as a result of violations or non-compliance with the legal and regulatory framework, with the agreements, recommended practices or ethical standards.

In Raiffeisen Bank, the compliance function is a permanent and effective second line of defense function, with the main responsibilities to identify, advice, assess, monitor and report on compliance risks and is represented by the Compliance Directorate. In RBRO, the Compliance Directorate has a periodic reporting obligation to both the management body in their executive and supervisory function and also a direct reporting line to the latter.

In RBRO, the management bodies oversee the implementation of the Compliance Policy, that is communicated and available for all staff on the Bank's intranet.

In order for properly addressing and managing compliance risk, taking also into account that compliance with laws and regulations is one of the main objectives of the organization as a whole, at RBRO level it was implemented the threes lines model, which allows for specific duties related to compliance risk and control/mitigants to be assigned and coordinated across all lines, as follows:

- **FLOD (First Line of Defense)** is represented by business areas, operations, IT etc, and their main responsibility is to own and manage risk by ensuring that the control environment is established as part of the day-to-day operations, considering also the provisions of art 29 - NBR Regulation no. 5/2013: *„The entire staff of a credit institution must be fully aware of their responsibilities in terms of risk management. The responsibility for risk management should not be limited to risk specialists or internal control functions. Operating units, under the supervision of the management body, are primarily responsible for the day-to-day risks management, taking into account the credit institution's risk appetite and risk capacity and in accordance with the credit institution's policies, procedures and controls."*

- **SLOD (Second Line of Defense)** is represented by the Compliance Directorate and its main responsibilities refer to: identification, advising, assessment, monitoring and reporting on compliance risks.

• **TLOD (Third Line of Defense)** is represented by the Internal Audit function and its main responsibility refer to an independent assurance of effectiveness and efficiency of internal control framework.

In RBRO, the Compliance area includes the following topics: AML, KYC, CFT, FISA, MIFID, MAD, Whistleblowing, Code of Conduct, Internal Control Framework, FATCA/CRS.

The compliance risk at RBRO level is assessed periodically, at least on an annual basis; the reassessment can be triggered by relevant compliance related events such as: changes in the regulatory framework; identified deficiencies as a result of compliance SLOD controls/Regulators Controls etc.

10. CORPORATE GOVERNANCE

Corporate governance stands for the set of principles and mechanisms based on which the company's management exerts its prerogatives of management and control with the purpose of reaching the envisaged objectives through implementing the adopted strategy, having an ongoing fair behaviour towards its clients, counterparts, shareholders, investors or supervisory authorities.

Raiffeisen Bank S.A. (The Bank) pays major importance to a responsible and transparent management in order to maintain fair information and confidence of different interested parties (not only of the participants on the capital market). Therefore, the Bank applies the principles defined in the Corporate Governance Code (CGC) of the Bucharest Stock Exchange (BSE), which can be found on their web page – www.bvb.ro.

The general meeting of shareholders (GMS)

The General Meeting of Shareholders ("GMS") is the supreme authority of the Bank. The General Meeting of Shareholders may be Ordinary or Extraordinary. In accordance with the Articles of Incorporations of the Bank and legislation in force, the General Meeting of Shareholders has a series of main competencies.

The Ordinary General Meeting of Shareholders' main competences:

- To discuss, to approve or to modify the annual financial statements of the Bank, upon the analysis of the Management Board's and Supervisory Board's reports, as well as that of the report and the opinion issued by the financial auditor, and to establish the dividends, if any;
- To elect the members of the Supervisory Board and the financial auditor of the Bank;
- To revoke the members of the Supervisory Board and the financial auditor of the Bank, whenever considered necessary;
- To set the remuneration for the Supervisory Board members, as well as the general principles and limitations with respect to the additional remuneration of the Supervisory Board members, as well as the general principles and limitations with respect to the remuneration of the Management Board members;
- To consider the performance of the Management Board members, to discharge them of liability and to decide to sue them, as case may be;
- To approve the budget of revenues and expenses and the business plan for the following fiscal year.

The Extraordinary General Meeting of Shareholders' main competences:

- The change of the legal form of the Bank;
- The merger of the Bank with other companies;
- The dissolution or the split of the Bank;
- The issuance of bonds and conversion of such bonds from a category into another or into shares;
- Decrease the bank's share capital;
- Any amendments to the Articles of Incorporation of the Bank.

The following competencies have been delegated to the Management Board:

- Change the bank's HQ;

- Modify the bank's object of activity, except for the change of the main field of activity and of the main object of activity;

- Increase of the share capital of the Bank, except when the increase of the share capital is made through an increase of the nominal value of the shares (if such is not performed by incorporation of reserves, benefits and issuance premiums) when the resolution approving the increase of the share capital shall be taken by the EGMS with unanimity of votes;

- The establishment or the closing down of certain ancillary headquarters, such as: agencies, and other similar units with no legal personality.

The conducting of the General Meetings of Shareholders, as well as the regulations with respect to the shareholders' rights and obligations, are regulated by Law no. 31/1990 on trading companies.

Administration structure

The administration of Raiffeisen Bank S.A. is performed by the dual management system consisting of the Management Board and the Supervisory Board. The dual management system allows for the segregation of the company's management responsibilities – carried out by the Management Board – from the responsibilities of control/supervision that are fulfilled by the Supervisory Board. The dual management system ensures the operational decision-making process to become efficient, while increasing control over the decision makers.

The Supervisory Board

The Supervisory Board exercises an ongoing control over the Bank's current management activity conducted by the Management Board. The Supervisory Board consists of 9 members appointed by the General Meeting of Shareholders within four-year mandates, being possible to be re-elected for additional mandates. As at 31.12.2020, the Supervisory Board structure and professional background of its members were as follows:

Johann Strobl – Chairman

Ph.D. in Economics at the University of Economics and Business Administration, Vienna, Austria

Hannes Mösenbacher – Vice-president

Ph.D. in Economics at the University of Economics and Business Administration, Vienna, Austria

Peter Lennkh – Member

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Master in Economics and Business Administration at the University of Economics and Business Administration, Vienna, Austria

Andreas Gschwenter – Member

MBA at the University of Innsbruck, Austria

Ileana-Anca Ioan – Independent member

Graduate of the Romanian-Canadian MBA Program and the Faculty of Automation of the Bucharest Polytechnic Institute

Ana Maria Mihăescu – Independent member

Graduate of the Faculty of International Economic Relations, Academy of Economic Studies, Bucharest

Andrii Stepanenko – Member

Ph.D. in Finance, Kiev National University of Economics, Ukraine

Lukasz Janusz Januszewski – Member

Master Degree of Economics, University of Warsaw, Poland

Pedro Miguel Weiss - Independent member

Master of Business Administration, Duke University, Fuqua School of Business, Durham, North Carolina, U.S.A., holding a certificate of Young Managers Program in 1989 from INSEAD, Fontainbleau, France

The main competences of the Supervisory Board:

- To set the exact number of Management Board members, as well as their competences;
- To appoint and revoke the Management Board members;
- To verify the Bank's managerial operations are compliant with the law, with the Articles of Incorporation and with the resolutions of the General Meeting of Shareholders;
- To provide the General Meeting of Shareholders with at least a yearly report with regard to the supervision activity undertaken;
- To convene the General Meeting of Shareholders on an exceptional basis, should this be required in the best interest of the Bank;
- To establish advisory committees as required by law, but not only, as these will be considered necessary in order to develop the Bank's activities. The committees will consist of Supervisory Board members;
- To approve and to periodically review the general principles of the remuneration policy as well as its implementation. To directly oversee the remuneration of the senior officers in the risk management and in compliance functions.

During 2020, 4 Supervisory Board meetings took place and their decisions were made by the unanimous votes of the attending members. Also, a number of 19 decisions were made by circulation.

The Supervisory Board has set up a number of 5 committees from among its members, namely: the Audit Committee, the Nomination Committee, the Remuneration Committee, the Executive Credit Committee and the Supervisory Board Risk Committee.

The 5 committees set up by the Supervisory Board:

Audit Committee

The objectives of the Audit Committee are to contribute to the improvement of the Bank activity (in developing and maintaining a good management practice) and to assist the Management Board and the Supervisory Board in their missions.

Audit Committee acts as the interface between the bank and the statutory auditor or audit firm and has an important contribution to keep a transparent relationship with the Bank's shareholders.

The statutory auditor or audit firm shall report to Audit Committee on the essential issues arising from the statutory audit and, in particular, on significant internal control deficiencies in financial reporting process.

Audit Directorate regularly provides Audit Committee with reliable information about its activity.

The Audit Committee acknowledges the synthesis of the audit reports concluded by the internal audit and informs the Management Board about the decisions considered appropriate for the improvement of the Bank's activity and of the internal control, based on internal audit recommendations from audit reports.

The responsibilities, organization and way of operation are defined by the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Audit Committee is made up of 3 Supervisory Board members, namely:

Ana Maria Mihaescu – Chairman (Independent member on the Supervisory Board)

Andreas Gschwenter – Member

Ileana-Anca Ioan – Member (Independent member on the Supervisory Board)

During 2020, 4 Audit Committee meetings took place, the Committee's decisions being made by the unanimous votes of the attending members.

Nomination Committee

The Nomination Committee identifies and recommends to the Supervisory Board or the Bank's GMS to approve of the candidates who will fill in the vacancies on the Management Board, and the Supervisory Board, respectively, and it regularly assesses the balance of knowledge, skills, diversity and experience within the Supervisory Board and Management Board as well as the knowledge, skills and experience of each member of the Supervisory Board and of the Management Board and of the management bodies (Supervisory Board and respectively Management Board) as a whole.

The responsibilities, the organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Nomination Committee is made up of 3 Supervisory Board members, namely:

Johann Strobl – Chairman

Hannes Mösenbacher – Member

Ileana - Anca Ioan – Member (independent member on the Supervisory Board)

During 2020, the Nomination Committee held 2 meetings, their decisions being made by the unanimous votes of the attending members.

Remuneration Committee

The Remuneration Committee assists the Supervisory Board in so far as remuneration is concerned, in particular that of the Management Board's and Supervisory Board's members in compliance with the principles and limits approved by GMS and taking into consideration the long-term interests of the shareholders, investors and other interest holders in the Bank. The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Remuneration Committee is made up of 3 Supervisory Board members, namely:

Johann Strobl– Chairman

Hannes Mösenbacher – Member

Ileana - Anca Ioan – Member (independent member on the Supervisory Board)

During 2020, the Remuneration Committee held one meeting, its decisions being made by the unanimous votes of the attending members. Also, there were 2 decisions made by circulation.

Executive Credit Committee

The Executive Credit Committee is empowered to approve the granting of loans including credit lines and contingent liabilities to a single borrower (or to one of more borrowers of an "economic entity") and country risk decisions which require the approval of the Supervisory Board according to the Bylaws of the Credit Committee approved by the Supervisory Board.

Also, the Executive Credit Committee is empowered to approve the restructuring, setting aside or releasing provisions and write-off of a problematic exposure and other matters in connection with handling of problem loan exposures of a single borrower (or one of more borrowers of an "economic entity") which require the approval of the Supervisory Board according to the Bylaws of the Problem Loan Committee approved by the Supervisory Board

The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Executive Credit Committee is made up of 2 Supervisory Board members, namely:

Hannes Mösenbacher – Chairman

Peter Lennkh – Member

During 2020, the Executive Credit Committee held 45 meetings, its decisions being made by the unanimous votes of the attending members.

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The Supervisory Board Risk Committee

The Supervisory Board Risk Committee provides consultancy to the Supervisory Board and Management Board on the Bank's strategy and risk appetite, and it assists the Supervisory Board and Management Board with supervising the implementation of the respective strategy. The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Supervisory Board Risk Committee is made up of 3 Supervisory Board members, namely:

Hannes Mösenbacher– Chairman

Johann Strobl – Member

Peter Lennkh – Member

During 2020, the Supervisory Board Risk Committee held 2 meetings, its decisions being made by the unanimous votes of the attending members.

Management Board

The Management Board ensures the managing of the Bank's current business and it consists of 7 members appointed by the Supervisory Board for mandates of up to 4 years, with the possibility of being re-appointed for additional time periods.

As at 31.12.2020, the Management Board structure and the professional background of its members were:

Steven van Groningen – President

Master in the Corporate Law, University of Leiden, The Netherlands

James Daniel Stewart, Jr. – Vice-president

Graduate of Finances and International Relations, University Lehigh-Bethlehem, BA USA

Vladimir Kalinov – Vice-president

Graduate of the Marketing and Management Institute, New Delhi, and of the Faculty of Commerce, University of New Delhi, India

Cristian Sporiş – Vice-president

Graduate of the Faculty of Finances, Insurance, Banks and Stock Exchanges, Bucharest University of Economic Studies, Romania

Mircea Busuioceanu – Vice-president

Graduate of the Executive MBA Program, University of Sheffield, and the Faculty of Finances, Banks and Accounting, Bucharest University of Economic Studies, Romania

Bogdan Popa – Vice-president

MBA in Financial-Banking Management, "Alexandru Ioan Cuza" University of Iaşi, Romania

Mihail Ion - Vice-president

Ph.D. in Economics at the Academy of Economic Studies, Bucharest and graduate of the Faculty of Finances, Insurance, Banks and Stock Exchanges, Finance and Banks specialization, Academy of Economic Studies, Bucharest

The Duties of MB

- Convening the GSM according to the legal requirements and the Articles of Incorporation of the Bank;
- Establishing the reference date for the shareholders entitled to vote in GSM;
- Making proposals for changes to the Articles of Incorporation of the Bank;
- Preparing and submitting to SB, at least every 3 months, a written report regarding the management of the Bank, its activity and its possible evolution as well as information regarding any other matters that could significantly influence the Bank;
- Preparing and providing SB periodically a report regarding the quality of the compliance management, including the assessment of compliance risks;
- Providing SB with the yearly financial situations and its performance report as soon as they have been issued, together with its proposal regarding the distribution of any profit before presenting the said proposal for the GMS' approval;
- Elaborating and periodically, at least once a year, revising the business plan and overall policies and strategies related to the credit institution activity;
- Forecasting the investment plan and income statement and submitting it to the GSM' approval.

With regard to the recovery activity, the duties of the Management Board are the following:

- assessment of the actual financial situation of the bank and of the potential threats;
- decision to initiate a recovery measure;
- nomination of the recovery team responsible to implement the initiated measure;
- monitoring of the execution of the initiated recovery measure and decision to be taken.

According to the Articles of Incorporation the following duties have been delegated by GSM to the MB:

- Relocation of headquarters to another address;
- Modification to the bank's object of activity except for the change to the main field of activity and of the main object of activity;
- Increase in the bank's share capital, except for the case when this is made through an increase in the nominal value of the shares (on condition that the increase is not achieved through the incorporations of reserves, benefits and issuance premiums), in which case the decision regarding the share capital increase will be made by the Extra-ordinary GSM unanimously;
- Establishment and closing down of any territorial bank units with no legal personality.

The main competences of the Management Board:

- The Management Board has all the powers of management and disposal and of authorization of all transactions falling within the Bank's scope and has competences in the field of monitoring the appropriate and productive functioning of the internal control system, except for the competences expressly granted by law or by other Bank's regulations to the Supervisory Board's and/or the GSM's competence(s);
- Take measures to adopt all business decisions for the implementation of the provisions of the business plan and the budget of Bank;
- Approve the Rules of Organization and Operation (ROO) - in Romanian called ROF;
- Approve the Organizational Chart and internal structure of the directorates;

- Approve the Collective Bargaining Contract – in Romanian called CCM;
- Appoint and revoke the Directors in the HQ and network and decide their remuneration. For territorial units, no matter the type, these competences are delegated to the Vicepresident, coordinator of Retail Banking Division;
- Approve the acquisition/sale/disposal of assets;
- Approve the set-up/closure of new subsidiaries;
- Approve capital increase/decrease of subsidiaries;
- Approve Bank investments/divestment in other companies or financial institutions;
- Establish competencies regarding credit granting (Credit Committee);
- Approve the credit terms for 3rd parties in special relationship with the bank;
- Approve the number of personnel and establish the remuneration policy in the Bank;
- Approve the credit norms for bank's employees;
- Establish the various committees under its supervision provided by the law, may establish other committees and ratifies their decisions;
- The Management Board approves/reviews the Bank's strategies and policies (including those risk-related) and reviews and submits to Supervisory Board Risk Committee for approval the risk strategy, the risk profile and the Bank's risk manual as well as the results of the yearly risk assessment;
- Any other competences pursuant to mandatory legal provisions (that cannot be legally delegated).

The Management Board set up a number of 9 committees, namely: Asset and Liabilities Committee, Risk Committee, Credit Committee, Problem Loan Committee, Private Individuals Credit Committee, Project Portfolio Committee, Rules and Procedures Committee, Security Council and Investment & Product Governance Committee.

Also, mention should be made that the Management Board has delegated a series of competences:

- To the Credit Committee – the implementation of the credit policies within the limit of the competences granted and the administration of the credit risk;
- To the Risk Committee – the supervision of the implementation and observation of the "General Principles of Risk Management" in Raiffeisen Bank S.A., except for the liquidity risk and market risk (delegated to the Asset and Liabilities Committee) and the lending risk (delegated to the Credit Committee);
- To the Asset and Liabilities Committee – the management of the Bank's balance-sheet and the drawing up of the overall financial policy of Raiffeisen Bank S.A.; the monitoring and establishing of the limits for the liquidity risk and the market risk; the approval of the pricing strategy (interest rates, commissions and fees, and taxes);
- To the Rules and Procedures Committee – the approval of the rules and procedures to be applied in the Bank.

During 2020, the Management Board held 67 meetings, and its decisions were made by the unanimous votes of the attending members. Also, 15 decisions were made by circulation.

The 9 committees set up by the Management Board:

Asset and Liabilities Committee (ALCO)

ALCO is responsible for managing the bank's Balance Sheet aiming at achieving sustained growth, profitability and solvency. The main goal is to manage assets and allocate funding sources by aligning growth and profitability targets as well as funding mix and capital constraints in order to meet return and risk objectives. From within the Risk Framework, the ALCO:

- sets the strategies for the management funding, liquidity, interest rate risk and market risk as well as capital planning;
- establishes guidelines to meet various applicable regulatory rules and statues;
- forms a consistent co-policy with other policies of the Bank therefore aligning the management of various risks facing the bank;
- approves the pricing strategy (interest rates, commissions and fees).

Risk Committee (RC)

RC approves the bank's Risk and Internal Control System Frameworks and ensures, through proper policies, standards and methods of Risk Management, that these risks are controlled, with defined boundaries. Supervising the policies, standards and methods implementation, RC ensures risk is within the risk appetite accepted by the Bank.

Credit Committee (CC)

The Credit Committee is authorized to review and decide on all the limit exposures additional to the existing individual approval competences and it is responsible for observing the rules and regulations, as they are mentioned in the Credit/Lending Manual and the Bank's endorsed lending procedures.

Problem Loan Committee (PLC)

The Problem Loan Committee is established and operates as a decision-making body with regard to the problem exposures and it has the authority to approve the first applications immediately after being transferred to the Credit Restructuring and Recovery Directorate, applications for restructuring/recovery strategies, credit reviews, debt write-offs, IFRS provision build-up and release for all types of clients.

Private Individuals Credit Committee

The Private Individuals Credit Committee has the authority to decide non-standard PI Credit Applications and post disbursement requests. The PICC is structured on two different decision levels and has the power to decide on credit applications up to Eur 2 mn.

Project Portfolio Committee (PPC)

The Project Portfolio Committee (PPC) is the decision body which reviews the performance of the existing Project Portfolio, examines and selects new Projects, prioritizes selected Projects, examines the viability of the Project Portfolio based on the bank's strategy and reshapes the Project Portfolio, in its quality of product owner of projects backlog. In special cases the PPC also conducts individual Project reviews. PPC also decides on wallets structures per divisions for small initiatives.

Raiffeisen BANK

Rules and Procedures Committee

The Rules and Procedures Committee approves the rules, procedures and other regulations within the Bank and makes sure that they are compliant with the operational requirements and compatible with the other internal and external regulations.

Security Council

The Security Council of Raiffeisen Bank is the top decision forum regarding security within Raiffeisen Bank Romania. The Security Council propose to the Directorate the security strategy, decides security policies and should express the commitment of top management regarding the active support for security within the organization. The Security Council is also representing an interdisciplinary forum regarding security where possible interdisciplinary issues are solved.

The Security Council role is to increase the visibility of security function within organization and should make the top management aware of security current status and security current risks.

Investment & Product Governance Committee

The Investment & Product Governance Committee acts on two distinct areas of competence:

- The Investment Advisory competence is aimed at endorsing and monitoring the investment strategy supporting the «Investment Advisory Services»;
- The Product Governance competence manages the bank's «Product Governance Process» for financial instruments offered to specific target markets regardless if they are distributed for execution only, advisory free or advisory. A PGP needs to be done for all in-scope products manufactured and distributed (including third-party products) and has the purpose:

  a) to fulfil the legal and compliance requirements to offer this specific product to the defined end client and

  b) to provide strategic decisions if and via which a product should be offered.

CONFLICTS OF INTEREST

At RBRO level, there are in place dedicated Conflict of Interest policies for both RBRO's staff and Management bodies (Management and Supervisory Board). The management bodies are responsible for the establishment, approval and oversight of effective implementation of conflict of interest (COI) policies.

RBRO is monitoring COIs in order to prevent bribery and corruption as well as any other conduct that could negatively impact the RBRO's clients and partners. The internal COI policies are intended to effectively identify, assess, manage and mitigate or prevent actual and potential conflicts of interest, including those related to financial services performed by the bank.

The internal policies impose staff and management bodies to report immediately any situation that could result in a conflict of interest stemming from close relationships, supplementary jobs, events participations, gifts, invitations and trades with financial instruments. Conflict of interests could as well arise in relation with corruption, fraud and market abuse.

Where conflicts of interest arise, RBRO assesses their materiality and takes appropriate mitigation measures.

In respect to policies applied to management bodies, the Management Board members should declare to the Supervisory Board all the personal interests significant for the transactions involving both the Bank and the Group companies, as well as any other conflicts of interest. They must inform the other Management Board members, too. The Management Board members also filling in management positions within other companies should ensure a fair balance between the interests of the companies in question.

The Supervisory Board members should immediately report to the President of the Supervisory Board all the potential conflicts of interest. In the event the President himself is faced with a conflict of interest, he should immediately report it to his Vice-president. The company contracts concluded with the Supervisory Board members that compel them to render a service in favor of the company or a subsidiary, outside their obligations as Supervisory Board members, in exchange of a compensation at all insignificant, requires the approval of the Supervisory Board. This also applies to contracts concluded with companies in which a Supervisory Board member has a significant financial interest.

PRACTICES OF REMUNERATION, SELECTION AND ELEMENTS OF DIVERSITY

The system of remuneration of Raiffeisen Bank S.A. promotes a fair and efficient risk management and does not encourage assuming risks over the tolerated levels. This is in line with the Bank's and Raiffeisen Bank International (RBI) Group's long-term business strategy, objectives, values and interests and it incorporates measures to avoid conflict of interest.

The remuneration policies of Raiffeisen Bank S.A. are approved by the RBRO Supervisory Board through the Remuneration Committee.

The compensation system in Raiffeisen Bank S.A. is governed by the following principles:

1. The Compensation system supports the company's long-term business strategy and objectives, its interests and values by using the set of key performance indicators (KPI) of RBI and the key cultural competences.
2. The principles of compensation incorporate measures to avoid the conflict of interest.
3. The compensation policy and principles are in accordance with and promote solid and efficient risk management practices and avoid variable payment for assuming risks over the tolerant level for the institution through KPIs and process management (e.g.: the process of Assessing Performance, risk committees).
4. Compensation is based on a functional structure and IT is linked to performance. Besides, special rules apply to the personnel whose professional activity has a material impact on the risk profile.
5. Compensation is competitive, sustainable and reasonable and it is defined in accordance with the relative value of work, market and practice.
6. The fixed compensation is defined in principle in accordance with the market conditions.
7. The compensation structure (variable payment proportion relative to fixed compensation) is balanced, allowing each employee to have adequate level of remuneration based on fixed salary.
8. All variable payment programs include minimum levels of performance and a maximum payment threshold.

9. The individual performance is the consequence of the results obtained and of the competences, based on both quantitative and qualitative measures, valued within the process of performance assessment and considering financial and non-financial criteria.
10. The personnel employed in control functions are compensated independently from the business unit they supervise, has the appropriate authority and their remuneration is determined on the basis of achieving their own objectives without taking into consideration the results of the area they monitor. The fixed and variable remuneration structure should be in favor of the former.

If an employee is paid a variable compensation, this is done for the measured performance. Performance is translated into results and behavior: "what" and "how", according to the system of performance management. Therefore, all the variable compensation schemes are linked to the management of performance or a comparative system of setting the targets.

Measuring the performance for the employees holding control functions (e.g. risk, audit, compliance) reflects the specific requirements of the respective positions.

Compensating the employees holding control functions is in accordance with touching the objectives related to the respective functions and, in an independent manner, by the business areas they supervise, but in proportion with their role in the Bank.

In Raiffeisen Bank S.A., the recruitment policy for selecting the management structure members establishes the criteria and procedure according to which the compatibility of those proposed / appointed as members of the management body should be assessed, and the assessment criteria of those holding key functions, too.

The Fit & Proper Policy in Raiffeisen Bank S.A. establishes the applicable internal procedures and criteria for assessing compatibility, in accordance with the local legal provisions (NBR Regulation no. 5/2013 on prudential requirements for credit institutions, NBR Regulation no. 6/2008 on beginning the activity and modifications in the situation of the credit institutions, Romanian legal entities and Romanian branches of third parties' credit institutions). The policy also defines measures applicable in situations whereby those persons are not compatible with the positions in question and how permanent compatibility is ensured.

As both the EBA guidelines and the NBR Regulation no. 5/2013 contain mentions with regard to the importance of diversity at the top level management, in addition to the standard set of compatibility criteria as regulated through the fit and proper policy, we are aware that the differences in gender, culture, education and experience of the top management members can only add more value to our organization.

Having in view the current structure of the management body, we precisely state that the principle of diversity from the gender point of view has been implemented by the appointment of Mrs. Ileana-Anca Ioan and Mrs. Ana Maria Mihăescu as independent members on the Supervisory Board of Raiffeisen Bank S.A.

This Report was analysed and approved by the Management Board of Raiffeisen Bank S.A in the meeting of March 22, 2021.

Mihail Ion

Vice-president of the Board of Directors

Raiffeisen Bank S.A.