

Raiffeisen Bank S.A. Budget for year-end 2021

I. Macro Outlook supporting the budget

Economy: 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 their levels from the end of 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 lei witnessing only reduced depreciation pressures. This favourable 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.

Banking: 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 will continue to be supported by government programs providing loans guarantees for this segment of customers. Also in 2021, the stock of deposits of households and companies could 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 abolition this year 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 22.8% in September 2020) and should cope successfully with these adverse developments.

Our positioning: 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.

II. Our priorities for 2021

Profitable Growth

- 2021 budget was built considering a strong, yet balanced business growth and a steady recovery following 2020 Coronavirus crisis. 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 projected to grow, with focus on financing viable and sustainable business plans, even more important in the aftermath of the hard-tested economic environment.
- Cost optimization initiatives remain on top of our agenda in 2021. 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; this is a road we will pursue also in the coming period. 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 our achievements on every segment through the Net Promoter Score indicator (NPS)¹. We maintain a keen interest in improving the level of customer satisfaction and we target a higher NPS score each year, aiming to transform continuous innovation and digitalization into superior customer experience.
- Customer base growth continues to be in our focus in each segment.

Simplification

- Digital transformation remains high on our priorities list. 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 areas of focus for the future are the digital experience of the client (enhanced mobile/online capabilities), new technologies and tools to support digital readiness, Agile methodology, data analytics and machine learning.
- Our clients welcome this approach and the efforts we put in reinventing the customer journey are visible in surpassing 850 ths. digital clients², up by almost 20% vs. 2019.

People and culture

- We acknowledge the critical importance of staff in reaching our strategic objectives and paid attention to their wellbeing during the past year. 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 already invested in the needed infrastructure. In 2020 we were pleased to see a higher level of employee effectiveness and satisfaction and our goal is to continue this trend.

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)

Balance-sheet	2019	2020	yoy %	2021 budget objectives
Total assets	42,879	51,283	20%	
Loans and advances to customers, gross	28,398	29,862	5%	growth, outpace the market
Private Individuals	15,491	16,119	4%	
Legal entities	12,907	13,743	6%	
Deposits from customers	35,804	43,399	21%	moderate growth
Private Individuals	21,471	26,370	23%	
Legal entities	14,333	17,029	19%	
Deposits from banks	349	352	1%	
Subordinated loans	408	415	2%	maintain solid capitalization
Debt instruments issued	480	479	0%	MREL issuance starting 2021
Profit and loss	2019	2020	yoy %	2021 budget objectives
Gross income	2,636	2,594	-2%	moderate growth
Operating expenses	-1,344	-1,404	4%	cost base optimization
Pre-provisioning result	1,292	1,189	-8%	growing
Impairment losses on loans	-174	-303	74%	prudent approach on provisioning
Net profit after tax	779	644	-17%	higher YoY
Metrics	2019	2020	yoy	2021 budget objectives
RoE	20.4%	13.9%	-6 pp	improve rentability
CIR*	51.8%	53.7%	1 pp	lower YoY
L/D, net	0.76	0.66	-14%	increase
CAR**	23.5%	23.1%	-0.3 pp	solid capital position

* CIR is calculated as Total Operating expenditure excluding SRF, divided by sum of Total Gross income and Other operating result

** The indicator for 2020 does not account for the GSM decision on profit distribution

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 2021, as presented above.

This Report was analyzed and approved by the Management Board of Raiffeisen Bank S.A in the meeting of March 8th, 2021.

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