Raiffeisen Bank S.A.

Directors' Report

31 December 2021

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 2021

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".

2. RAIFFEISEN BANK'S STRATEGY

Despite challenging, 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. We kept also in 2021 our priority to maintain a safe environment for both our clients and staff and we continued to provide all the necessary hygienic and protection equipment in order to ensure a safe working environment. During 2021 we continued to offer accessible financing solutions to our clients to sustain key sectors of our economy, real estate and retail consumers, 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 R-Flex, 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.

3. ECONOMIC & BANKING ENVIRONMENT IN 2021

Economic activity continued to improve in 2021 and Gross Domestic Product (GDP) increased by 5.6% from 2020 in real terms. Also, the level of real GDP in 2021 was 1.7% above the one recorded in 2019, the year before the COVID-19 pandemic. The economy recovered quickly in the first half of 2021, benefitting from the support measures for individuals and companies adopted by the Government and by the Central Bank in the context of COVID-19 pandemic and also from fewer mobility restrictions enforced to limit the spreading of pandemic. However, the economic advance almost stalled in the second half of 2021 amid the cumulative action of several factors with a negative impact on economic activity: major disruptions that emerged in the global supply and distribution chains of goods, the reintroduction of restrictions on the mobility of population in the autumn, the rapid increase in the prices of consumer goods and services and moderate investment activity. A very good performance was recorded in 2021 in agriculture sector, especially for cereal crops.

The public budget deficit calculated according to the national methodology decreased to 6.7% of GDP in 2021 from 9.6% of GDP in 2020, the level being lower than planned. The fiscal consolidation process was supported in 2021 by both the rapid growth of public revenues and the strict control over public spending. However, Romania's public budget deficit from 2021 was one of the highest among those observed in the other countries from the region. Also, the current account deficit in Romania in 2021 (7.0% of GDP, up from 5.0% of GDP in 2020) was the highest in the region.

Prices of consumer goods and services increased by 8.2% during 2021. In the context of increasing inflationary pressures, in the fourth quarter of 2021 the Central Bank (NBR) started to tighten the monetary policy stance. Thus, the monetary policy interest rate was increased two times, from 1.25% to 1.75%. The NBR has also tightened the control over money market liquidity conditions and widened the spread between the interest rate on the credit facility and the interest rate on the deposit facility. These measures have allowed money market interest rates to rise more than the monetary policy interest rate. Increases in money market interest rates have begun to gradually be incorporated into increases in interest rates on loans and deposits for Bank's customers.

The rapid economic recovery that materialized in the second half of 2020 and during 2021 was favourably reflected in the financial situation of the population and companies, allowing them to properly support the debt service related to outstanding loans and to contract new loans. In this context, the outstanding loans granted by banks to the private sector (households and companies) increased by 14.5% during 2021, this being the fastest annual dynamics recorded since the onset of the financial crisis in 2008. The best performance was recorded in case of loans granted by banks to non-financial companies that increased by 19.4% year-over-year in terms of outstanding amounts. The improvement of lending on this segment benefitted also to a large extent from the generous guarantee schemes provided by the Government (IMM Invest program). Outstanding housing loans continued to rise rapidly in 2021, their advance totalling 12.9% during the year. In 2021, the loans for consumer and other purposes recorded the weakest performance, increasing by only 5.1% in terms of outstanding amounts. Lending on this segment continued to be adversely impacted by the prolongation of pandemic. Outstanding deposits of households and companies continued on an upward trend in 2021, increasing by 13.6% during the year. Households' deposits increased by 10.5% in terms of outstanding amounts, while deposits of non-financial companies increased by 18.6%.

The non-performing loans ratio in the banking system was on a gradually decreasing trajectory in 2021 as the majority of borrowers continued to adequately fulfill their debt service and the balance of total loans grew rapidly. Thus, non-performing loans ratio decreased from 3.83% in December 2020 to 3.47% in current year. The profitability of the banking system improved in 2021 due to the strengthening of lending activity and due to the release of provisions made in 2020 as the risks foreseen did not materialize.

4. GROUP'S BUSINESS PERFORMANCE IN 2021

a) Highlights

We are very pleased with our 2021 achievements. In an environment still dominated by the effects of the pandemic, we continued to prioritize the safety of our clients, staff and we supported the real economy, while maintaining excellent financial results. The Bank's foundations are in very good shape: strong total capital ratio before profit incorporation at 21%, NPLs below market average and an L/D ratio at 66%, positioning us very well to continue our sustainable growth strategy.

Funding the real economy is a prime objective for us. Newly approved loans reached Eur 4.1 bn in 2021, +35% YoY. Eur 1.5 bn new loans were granted to private individuals, at all-time high levels. On lending to companies, our active participation in IMM Invest and supranational programs allowed us to complement the Bank's own lending offer and remain a trusted partner for our clients in their road to success, while at the same time supporting the real economy.

Double-digit growth for both loans and deposits, +15% YoY thus confirming once again that we are a trustworthy partner for our clients in good times and bad, committed to provide sustainable, qualitative banking products and actively promote a culture of 'proper banking'. This evolution of customer loans and deposits was a strong driver for the +3% in NII vs prior year, thus compensating the negative impact from decreasing market rates and lower customer margins.

The digital agenda gets our full attention: clients actively[1] using our digital channels increased by 30% in 2021, exceeding 1 million (50% of our customer base). Our footprint is almost fully migrated to cashless (243 of the total 300 units) in order to make the transfer of cash operations to multifunctional machines. We consistently tried to improve our digital capabilities to bring material improvements in the way we run our business and in the way we are perceived by clients.

First issuance of green bonds in Romania. On May 7th, RBRO successfully issued its inaugural MREL eligible Ron 400 mn green bond. It was the first Green Bond issued by a local bank, aimed to finance projects with environmental benefits. The issuance was a total success, paving the way for other issuers to follow the trend of sustainable funding. During June, RBRO issued the second green bond, worth Ron 1.2 bn. The Bank's MREL base reached Ron 1.6 bn at the end of 2021.

[1] Private individual and SME clients who logged in the mobile or online application at least once in the last month

b) Balance sheet developments

Raiffeisen Bank Romania's success resides in the balanced and sustainable business growth. We stayed true to our 'proper banking' principles, maintaining a robust development of our balance-sheet while providing much-needed funding for the real economy especially in the current context of pandemic-driven uncertainty. RBRO maintained also in 2021 a strong commercial performance:

After the unprecedented events of 2020 caused by the COVID-19 pandemic, 2021 could be seen as a recovery year, given the fact that we managed to regain momentum and offer our best products and services for our customers financial needs. Hence, we remained close to our clientele by listening to its 'voice' and providing accessible financing through Governmental support programs, such as IMM Invest, supranational guarantee schemes such as EaSI and Cosme for SME clients, but also 'Noua Casa' for individual customers. Our commercial efforts showed a strong development for the balance sheet, fueled especially by an intensified 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	**2021**	**2020**	Variation	**2021**	**2020**	Variation
Cash and balances with Central Bank	11,288	10,854	4%	11,285	10,854	4%
Loans and advances to Banks at amortized cost	1,518	972	56%	1,505	971	55%
Loans and advances to customers at amortized cost	32,974	28,772	15%	32,500	28,221	15%
Financial assets mandatorily at fair value through P&L	258	394	-35%	243	379	-36%
Investment securities at fair value through OCI	3,661	3,213	14%	3,564	3,151	13%
Investment securities at amortized cost	8,550	6,096	40%	8,414	5,913	42%
Sundry assets	1,584	1,752	-10%	1,646	1,794	-8%
Total assets	**59,833**	**52,053**	**15%**	**59,157**	**51,283**	**15%**

2021 was a good year in terms of new business, with a great performance for our loan production following several measures taken in order to diminish the effects of pandemic and offer our clients a wide range of products in accordance with their needs and financial perspectives. In order to maximize our impact in the real economy, we took an active role in the Governmental program IMM Invest and other risk sharing programs from European Investment Fund, which, alongside our own lending offer, allowed us to increase the loans stock for companies at double-digit pace, especially in the MidMarket segment, where we saw excellent business momentum. Furthermore, we also achieved a significant growth of almost 20% for the new loans granted to small local entrepreneurs and SME clients. The second half of the year came with very good results especially on private individuals loans, which led to record levels for full-year loan production, higher by 40% in comparison with last year.

The net loans stock increased by 14% versus the prior year, balanced among segments. On Private Individuals, the lending activity exceeded our expectations on both personal and housing loans, while

Corporate loan stock grew by an excellent 17%, especially driven by Mid-Market clients. Notably, our stock for unsecured loans consolidated by 14% vs the end of 2020, grounded mainly on our commitment to offer more advantageous prices to our customers, which led to all-time high levels for our monthly production. Moreover, secured loans book also moved on positive ground, +10% year over year fueled by 'Noua Casa' Governmental program and our continued efforts to adapt the Bank's own offer to the clients expectations for fast, convenient and price-advantageous mortgage product. Overall, we have high ambitions regarding the lending process for the following period as our main objective is to provide a wide range of financial solutions in order to fulfill our customers needs at suitable prices while also encouraging them to use our digital channels for the main products and services related to lending activity.

The balance sheet is continuously leaning towards local currency business, as a share of around 70% of our loan book is RON-denominated, with main influence from Retail lending where a weight of near 85% of the total loan stock is RON-denominated.

Loans and advances to customers, before provisioning

	Group				Bank			
	2021		2020		2021		2020	
amounts in Ron million	Non-Retail[2]	Retail	Non-Retail	Retail	Non-Retail	Retail	Non-Retail	Retail
Total	13,594	36,109	12,561	17,543	13,621	36,020	12,425	17,080
LCY	8,809	20,177	6,359	14,770	8,828	20,036	6,338	14,678
FCY	4,785	15,932	6,202	2,773	4,793	15,984	6,087	2,402

We increased our securities holdings throughout 2021, 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 challenging period for the local economy.

In 2021 we reached close to the Eur 12 bn landmark in terms of size of the balance-sheet and we are very satisfied with almost 15% asset growth achieved YoY. Looking at the structure and drivers of this growth in size, we move to the customer liability side of the balance-sheet:

During 2021, we grew significantly from both private individual clients current accounts and corporate negotiated deposits. We need to mention, especially for 2020 but also in 2021 to a certain extent, the background of delayed spending behavior and uncertainty of the clients in the perspectives of the overall economy and in some cases also regarding personal financial prospects on the short-medium term. Customer liabilities showed a very robust growth in 2021, by 14% year over year, further proof that we continued to be reliable and trusted partner for our clients. We see this development fully aligned with our commitment to build solid and sustainable foundations for the development of our balance-sheet.

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

The Bank reaffirms its commitment to become the leading sustainable financial group in the local market: in a premiere for the Romanian capital market, RBRO successfully issued its first two green bond issuances in local currency (Eur 324 mn equivalent), the second issuance being also the largest corporate bond in RON ever listed on the Bucharest Stock Exchange. The use of proceeds will aim to focus on assets with positive environmental impact, supporting Romania's transition to a sustainable and carbon neutral economy. At the same time, the bonds will strengthen the own funds and eligible liabilities position of the bank, in line with regulatory requirements, enabling sustained growth rates in customer lending. Main components related to the liability side of the balance-sheet are illustrated below:

Condensed liability positions	Group			Bank		
amounts in Ron million	**2021**	**2020**	Variation	**2021**	**2020**	Variation
Deposits from Banks, loans from Banks and other FIs	703	771	-9%	366	356	3%
Deposits from customers	49,701	43,552	14%	49,641	43,395	14%
Debt securities issued	2,119	480	>100%	2,119	480	>100%
Subordinated liabilities	323	416	-22%	323	416	-22%
Sundry liabilities	1,632	1,330	23%	1,509	1,259	20%
Equity	5,355	5,504	-3%	5,199	5,377	-3%
Total liabilities and equity	**59,833**	**52,053**	**15%**	**59,157**	**51,283**	**15%**

With regards to the liabilities denomination, the structure between RON and foreign currencies remains in favor of the former and closed the year at around 65/35 ratio. We do note, however, that a lot of clients still prefer to keep their savings in hard currencies, especially EUR, even though the interest rates offered for such deposits in the market are not attractive.

Deposits from customers

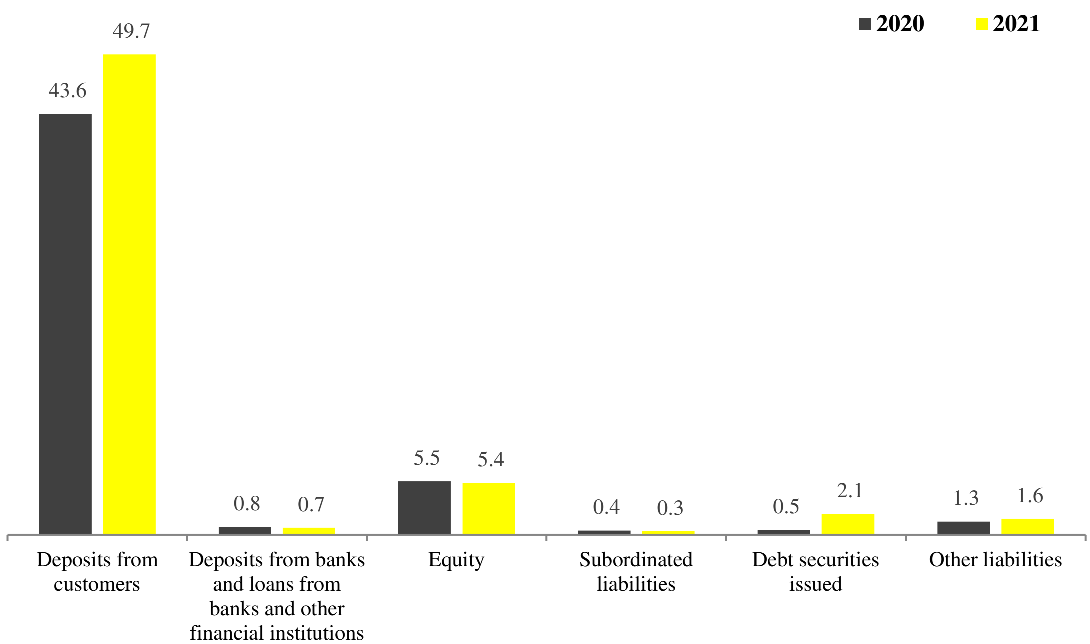
	Group				Bank			
	2021		2020		2021		2020	
amounts in Ron million	Non-Retail	Retail	Non-Retail	Retail	Non-Retail	Retail	Non-Retail	Retail
Deposits from customers	13,442	36,261	11,326	32,227	13,469	36,172	11,358	32,037
LCY	8,737	20,249	7,584	18,284	8,756	20,108	7,606	18,094
FCY	4,705	16,012	3,742	13,943	4,713	16,064	3,752	13,943

The group has strengthened its foundations during the year and maintained diverse funding sources: we remain high 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 average equity position during these challenging times, have all granted the Group a solid footing for the future as the economy regains steam.

Funding Sources, end of year balances

RON billion



c) Major Profit and Loss components

amounts in Ron million	Group 2021	Group 2020	Group Variation	Bank 2021	Bank 2020	Bank Variation
Net interest income	1,794	1,750	3%	1,755	1,707	3%
Net fee and commission income	576	528	9%	526	485	8%
Net trading income	360	333	8%	360	334	8%
Net gain from other fin. instr. at fair value through P&L	-13	17	<-100%	-13	17	<-100%
Other income	29	34	-15%	48	70	-31%
Operating and personnel expenses	-1,593	-1,575	1%	-1,484	-1,519	-2%
Net provisioning for impairment losses on financial assets	-108	-316	-66%	-184	-321	-43%
Goodwill	0	0	n/m	0	0	n/m
Share of gain from associates and joint ventures	3	0	n/m	0	0	n/m
Income tax expense / revenue	-229	-134	71%	-220	-129	70%
Net profit after taxes	**819**	**637**	**29%**	**788**	**644**	**22%**

Net profit of the Group stood at Ron 819 million in 2021, up by around 30% YoY. This increase came on the background of improved business momentum and transactional activity and also on the background of a low cost of risk, favored by the recovered economic activity and improvements in macroeconomic scenarios, thus confirming and consolidating the sound risk profile of our loan portfolio.

The earning power is in excellent shape underpinned by diversity in revenue streams. Worth noting:

The positive result of +3% YoY in net interest income was mainly triggered by the loan-book dynamic, which covered for the impact of contracting margins, being also supported by strong inflows in current accounts. The growth in bonds portfolio of around 30% YoY also contributed to this positive development. The increase in Robor rates had a mild contribution in Q4.

Commissions are higher by 9% YoY thanks to intensified transactional activity. However, worth noting that 2020 result was affected by the unusually low business activity in lockdown and our conscious efforts of providing our clients with safe, convenient and cost-effective transactional services, thus encouraging also the usage of electronic channels in a period in which cash usage was particularly risky from a sanitary standpoint. Additionally, during 2021 we continued to migrate our cash operations from branches to multifunctional machines and electronic channels. 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.

Trading income decreased YoY by 40%, due to some big opportunities we had in 2020 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 increased significantly YoY, based on intensified transactional activity which brought higher FX volumes, in line with increased client appetite for spending and propensity for travel.

Operational expenses are relatively constant YoY on the background of a higher attention paid to operational costs and the booking of higher provisions for possible future litigation losses. We kept also in 2021 our priority to maintain a safe environment for both our clients and staff and we continued to provide all the necessary hygienic and protection equipment in order to ensure a safe working environment for our employees and clients. On the other hand, starting Q2'20, we also made efforts to limit the need for physical presence of our clients in the branches during the lockdown period, by commissioning couriers to deliver the cards directly to our clients' homes (cost we incurred also in 2021). In the new context generated by COVID-19 pandemic we moved our focus to invest more in the two crucial success factors for the future of our Bank, namely our staff 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 can mention that IT expenses have been on an upward trend in the recent years and 2021 was not an exception: we invest in the automation of our processes and our digital capabilities which help us to generate more business and facilitate customer interaction. On the other hand, the increase was almost entirely offset by our tight grip on non-essential expenses and better control for those costs which are not aligned with the strategic goals of the Bank, such as cash handling/processing and rent expenses.

2020 cost of risk was significantly affected by the booking of big 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. 2021 confirmed the sound risk profile of our loan portfolio and we reported very low risk costs of Ron 108 mn, - 66% YoY.

d) **Customers and distribution**

The active customer base increased by 4% in 2021, up to 2.3 million clients. At 2021 year-end, Raiffeisen Bank's network numbered 300 units (333 in 2020), over 25,800 EPOS and over 1,100 ATMs, out of which 455 MFMs (multifunction machines).

5. OUTLOOK FOR 2022

a) Economic developments

We expect the economy to continue on an upward trend in 2022, the economic advance being sustained by the declining in intensity of the pandemic, by substantial inflows of funds from the European Union, and by the easing of bottlenecks in global supply and distribution chains. The decrease in the intensity of pandemic expected to materialize in 2022 should have a positive impact primarily on the activity of sectors that provide services characterized by intensive social contact (hospitality, tourism, recreational and cultural services). The easing of bottlenecks in global supply and distribution chains should lead to improved activity in the exporting industries, with the automotive industry (car manufacturing and manufacturing of parts and accessories for transport means) having the largest recovery room. In 2022, there should be a large increase in investments financed from funds received from the European Union (as a result of increasing absorption of funds allocated in the multiannual budget of the European Union for period 2014-2020 and of starting the implementation of the National Recovery and Resilience Plan - NRRP).

Among the risks that could result in an economic performance below expectations in 2022 there are: an unfavorable trajectory of the pandemic, a failure to implement the NRRP, a high level of inflation rate that would negatively affect the purchasing power of the population, a major fiscal slippage, the effects of geopolitical conflicts at global or regional level.

We expect the fiscal consolidation process to continue in 2022, with the public budget deficit being reduced in line with the target agreed with the European Union. However, the risks for a fiscal slippage remain. Achieving the public deficit target of 5.8% of GDP requires the government to maintain a very strict control over public spending, which could be difficult to achieve in the context of an elevated inflation rate. The progress of the fiscal consolidation process and the successful implementation of the NRRP are important objectives, their fulfillment being necessary in order to ensure an adequate coverage of the high external financing needs of the economy as a whole and of the public sector in particular.

There is a very high degree of uncertainty about the level of inflation that will be recorded in 2022, given that it will depend very much on the decisions of the Government/Parliament on the evolution of electricity and natural gas prices. However, inflationary pressures would remain elevated in 2022, with the inflation rate expected to far exceed the NBR's inflation target. Therefore, the Central Bank is expected to continue to raise the monetary policy interest rate during 2022 and the interest rates on banking loans and deposits should increase.

b) Developments in the banking industry

We expect the stock of loans granted by banks to the private sector (population and companies) to continue on an upward trend in 2022, and gains to be recorded on all lending segments (loans for consumer and other purposes, housing loans and loans granted to companies). The advance would be supported by the increasing trend in economic activity with a favorable impact on the financial situation of companies and population, as well as on their demand for loans. Increase in outstanding loans of companies will continue to be supported by Governmental guarantees programs in place for this segment of customers. The implementation of the National Recovery and Resilience Plan should also generate an additional demand for loans at the level of the companies that would take part in the realization of the investments included in this plan. Although interest rates would increase in 2022, their level is not expected to become prohibitive for new lending. Also, the banking system is very well capitalized and has sufficient resources to support lending.

The current geopolitical context brings significant risks of non-fulfilment of the forecasts of financial plans for all the local companies, the environment being uncertain at the time when these financial statements are published as there are significant risks associated with the trends mentioned above.

c) Our perspectives

The Bank's prospects regarding the business activity and the financial performance are largely reflected in the Bank's budget for 2022, given the macro and geopolitical context valid at the beginning of the year. Meanwhile, the events with potential material impact on the Bank's business perspectives determine us to constantly reassess the business and financial estimates and the latest projections indicate, both at the level of the banking system and for Raiffeisen, a more temperate pace for our evolution compared to the initial assumptions used during the budgetary period and which are mentioned below.

We expected 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 considered 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 an increasing interest rates environment thus leading to higher interest revenues; also, our objective for the coming period is to originate higher business 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.

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 our clients' financial purposes.

In April 2021, we launched together with Raiffeisen Bank the online subscriptions in the Smart Mobile application. Private individual clients can now invest online, directly from Smart Mobile, in any of our investment funds. Raiffeisen Asset Management’s investments funds are denominated in RON, EUR and USD and cover a wide range of financial needs and customer profiles.

SmartInvest plans have enjoyed a high interest from investors in 2021, the number of newly opened investment plans being almost triple compared to the previous year, while exceeding by 50% the budget. Denominated in EUR and RON, SmartInvest represents a solution to build-up capital, while benefiting from expected better yields compared to classic savings instruments (saving accounts or deposits). It provides access to the growth potential of both global and local stock markets, in conditions of professional investment and risk management.

At the end of 2021, 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 reached Eur 14.9 million.

By the end of 2021, Raiffeisen Asset Management S.A. was the second largest player on the local mutual funds market, with a market share of 22.6% and assets under management exceeding Eur 1.15 bn.

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 RON or EUR, offering fixed or variable interest finance for various types of projects and assets, such as vehicles and equipment. Raiffeisen Leasing offer is also available in Raiffeisen Bank network units.

On 31.12.2021, Raiffeisen Leasing IFN S.A. had assets amounting Eur 222 million and a number of approximately 10,500 active contracts. The company consolidated its portfolio, confirming in 2021 the established strategic lines, registering a balanced structure in terms of customer segments and financed assets and an adequate risk management.

In 2021, Raiffeisen Leasing financed significantly higher new volumes compared to the previous year, +50%. The company continued to support economic activity by supporting customers affected by the COVID-19 pandemic in the form of a public or private moratorium and by promoting dedicated SME programs: COSME, SME Leasing.

Integrating ESG approach into Raiffeisen Leasing’s business strategy, promoting together with the bank new products and partnerships for ‘green’ asset financing, with a positive environment impact is part of Raiffeisen Leasing’s goals for the coming years.

Raiffeisen Leasing's vision translates into “Leasing as it should be” 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 Banca pentru 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 2021, ABL registered a portfolio of 3,600 contracts from the saving and lending activity, having a total contractual amount of Ron 73,8 million; savings deposits from customers amounted to Ron 45.6 million and total loans amounted to Ron 56.6 million. In 2021, ABL posted an operational negative result of Ron 29,9 million, significantly impacted by the provision booked related to the litigation with the Court of Accounts (Ron 21,4 million).

7. RESEARCH AND DEVELOPMENT

The main interest areas from the last period have been accelerating the development of digital solutions in line with business strategy, increasing the digital experience of our customers, Agile transformation but focusing on speed and adaptability, stability and performance of services, data analysis and machine learning. All this based on the research area, having as central point the client's behavior.

The pandemic has accelerated the customers trend towards a predominantly digital consumption in terms of consumed banking services. The experience of this period shows us that we have adapted to both digital trends and pandemic times.

We owe this to our strong digital capabilities and years of focus on research and development as key strategic direction.

We have launched the digital onboarding, remote enrollment for private individuals, directly from the smartphone, through the Smart Mobile applications. We have continued to expand the digital e-token experience for all individuals with the digital activation of the Smart Mobile solution. Also, we started the implementation of this concept for SME customers, as well. We have accelerated the digital loans sale, both for private individuals SMEs.

Through the new FX trading platform, legal entities customers benefit from advantageous prices differentiated according to the transaction amounts that allow us to fight the rates offered by the competitors. The R-Flex product was awarded by Amazon Web Services for “The Most Innovative Solution”, being the first commercially implemented project to use an event-based approach (EDA) and data streaming technology.

The pandemic has also accelerated the implementation of alternative cash solutions, relieving our branches of repetitive work, such as cashiering. Cash operations performed at the cashier can be done on multifunctional machines or can have alternative solutions (Raiffeisen Online, Smart Mobile, Collection, multi-currency deposit equipment).

The Smart Market ecosystem, a tool that will be launched soon, will bring in a common area all customer segments - PI, SMEs, Corporate, contributing to increasing the loyalty rate and x-sell.

We started redesigning the Bank's public portal, based on group standards and current market principles. Also, we started to implement an omnichannel CMS based on Adobe Experience Manager for a unique digital experience and a modern and flexible native cloud solution.

Implementing new solutions in cloud, as well as migrating existing applications in cloud is one of the main directions of the Bank's strategy. Our strategy is to achieve scalability and modernization for our banking applications, through easier maintenance and automation of the infrastructure provisioning.

One of the ongoing strategic initiatives is the Agile transformation of our organization; one of the principles we follow is to be adaptive and agile in what we do.

New technologies and tools designed to support digital availability, as well as Agile methodology, are based on continuous scale integration, or continuous delivery practice, in order to shorten the system development lifecycle and deliver high software quality. Modernizing our integration platforms and implementing new real-time integration capabilities is one of our main development directions and one of the most important elements for supporting business ideas. We continue to implement an infrastructure based on microservices and events, developed on a modern technology, to support the availability of data in real time.

Regarding advanced analytics, data analysis, we continue to implement a state-of-the-art hybrid infrastructure to support the development and production of machine learning and artificial intelligence models. Implemented use cases cover: transaction anomaly detection using deep learning models, understanding transactional ecosystem using graph theory, media screening, predicting customer churn for corporate customers using machine learning, processing external collateral assessment reports using natural language processing.

In addition to the ongoing implementation of our new Data Warehouse (EIM), we are focusing on the gradual addition of new data capabilities to a new data & BI ecosystem.

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. 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.

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, Risk Committee and Model Commitee, 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 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.

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, 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

Starting 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 defense 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's 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.

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 alin.(3) - 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 and training 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, CTFFT, 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.

The Bank is committed to combating financial crime and ensuring that its products are not misused for the purpose of money laundering, terrorism financing etc.

The Bank has zero tolerance for offering the banks products or services to clients or to parties who engage in money laundering, terrorist financing, or use banking services to facilitate illegal activities including bribery, corruption, tax evasion, human trafficking, red light businesses/adult entertainment (collectively "illicit activities").

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 the legislation in force, the General Meeting of Shareholders has a series of main competences.

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 next 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 31.12.2021, the Supervisory Board structure and the 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
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
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
Claudia Patricia Pendred - Independent member
With a vast banking experience, former director of the EBRD Romania and graduate of the MBA program of INSEAD (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 2021, 4 Supervisory Board meetings took place and their decisions were made by the unanimous votes of the attending members. Also, a number of 34 decisions were made by circulation.

The Supervisory Board has set up a number of 4 committees from among its members, namely: the Audit Committee, the Nomination Committee, the Remuneration Committee and the Supervisory Board Risk Committee.

The 4 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 the Audit Committee on the essential issues arising from the statutory audit and, in particular, on the significant internal control deficiencies in the financial reporting process.

Audit Directorate regularly provides the Audit Committee with reliable information about its activity carried out. The Audit Committee acknowledge 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 the internal audit recommendations included in 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 Mihăescu – Chairman (Independent member on the Supervisory Board)
Vacant position* – member;
Pedro Miguel Weiss – member (Independent member on the Supervisory Board).
*on 09.02.2022 SB approved Hannes Moesenbacher (SB vice-president) as Audit Committee member

During 2021, 4 Audit Committee meetings took place, the Committee's decisions being made by the unanimous votes of the attending members. Also, there were 3 decisions made by circulation.

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:
Claudia Patricia Pendred – Chairman (independent member on the Supervisory Board)
Johann Strobl – Member
Pedro Miguel Weiss – Member (independent member on the Supervisory Board)

During 2021, the Nomination Committee held 1 meeting, their decisions being made by the unanimous votes of the attending members. Also, it was 1 decision made by circulation.

Remuneration Committee

The Remuneration Committee is responsible for preparing the decisions on remuneration, including those which have implications for the risk and risk management of the credit institution concerned and which are to be taken by the Supervisory Board.

Also, CREM is responsible for issuing the decisions on the remuneration of the Management Board and Supervisory Board members, in accordance with the GSM decision.

When preparing such decisions, CREM shall take into account the long-term interests of shareholders, investors and other stakeholders 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:
Ana Maria Mihăescu – Chairwoman (independent member on the Supervisory Board)
Claudia Patricia Pendred – Member (independent member on the Supervisory Board)
Johann Strobl – Member (SB Chairman)

During 2021, 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.

The Supervisory Board Risk Committee

The Supervisory Board Risk Committee advises the Supervisory Board and the Management Board on the Bank's risk appetite and strategy and assists the Supervisory Board and the Management Board in overseeing the implementation of that 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:
Pedro Miguel Weiss – Chairman (independent member on the Supervisory Board)
Claudia Patricia Pendred – Member (independent member on the Supervisory Board)
Hannes Mösenbacher – Member (Supervisory Board vice-president)

During 2021, the Supervisory Board Risk Committee held 2 meetings, its decisions being made by the unanimous votes of the attending members. Also, there were 2 decisions made by circulation.

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 31.12.2021, the Management Board structure and the professional background of its members were:
Steven van Groningen – President, coordinator of President Division (CEO)
Master in the Corporate Law, University of Leiden, The Netherlands
Vacant position* – Vice-president, coordinator of Treasury & Capital Markets Division
Vladimir Kalinov – Vice-president, coordinator of Retail Division
Graduate of the Marketing and Management Institute, New Delhi, and of the Faculty of Commerce, University of New Delhi, India
Cristian Sporiș – Vice-president, coordinator of Corporate Division
Graduate of the Faculty of Finances, Insurance, Banks and Stock Exchanges, Bucharest University of Economic Studies, Romania
Mircea Busuioceanu – Vice-president, coordinator of Risk Division (CRO)
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, coordinator of Operations & IT Division (COO)
MBA in Financial-Banking Management, "Alexandru Ioan Cuza" University of Iași, Romania
Mihail Ion - Vice-president, coordinator of Financial Controlling & Accounting Division (CFO)
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 legal requirements and 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 on further actions to be taken;

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

● 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 Organisation and Operation (ROO) - in Romanian called ROF;

● Approve the Organisational 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 10 committees, namely: Asset and Liabilities Committee, Risk Committee, Credit Committee, Problem Loan Committee, Private Individuals Credit Committee, Rules and Procedures Committee, Security Council, Cost & Investment Committee, Investment Committee & 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 2021, the Management Board held 53 meetings, and its decisions were made by the unanimous votes of the attending members. Also, 21 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 established and functions as a decision-making body on exposures for the following types of clients: Corporates, Specialized Lending Project, SME, Financial institutions, Regional and Local Authorities, etc, as delegated by the Management Board, according with Credit Decision Authority By-Laws of the Management Board of RBRO.

CC is responsible for complying with all relevant internal regulation applicable to companies of the Raiffeisen Bank International Group AG ("the Group"), including but not limited to the Group and Local Credit (Risk) Policies and the principles and the standards outlined in the relevant Group Credit Manuals for respective segments.

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.

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.

Cost & Investment Committee

The Cost & Investment Committee (CIC) is the body for acknowledgement and approval of relevant cost items, cost saving initiatives, overruns at bank level and 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. CIC also decides on wallets structures per divisions for IT change initiatives, including small initiatives (short flows). In special cases the CIC also conducts individual Project reviews.

Investment Committee

The Investment Committee is aimed at endorsing and monitoring the investment strategy supporting the «Investment Advisory Services». The «Investment Advisory Services» comply with the rules set by the supervision authorities and it is carried out based on the procedure regarding investment consultancy services for FWR clients.

The Investment Committee approves:

- master portfolios for which the investment advisory is offered;
- product categories (asset classes) which may be included in the model portfolios associated with master portfolios, based on DRM and group regulations;
- maximum risk limits of a model portfolio associated to an investment profile as assessed via the appropriateness test;
- strategical and tactical allocation within asset classes.

Product Governance Committee

The Product Governance Committee 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, according to the REG-2015-0075 Product Governance Process (PGP) V2.0 and corresponding Annexes.

A product governance process (PGP) needs to be done for all in-scope products manufactured and distributed (including third-party products) and has the purpose:

- to fulfil the legal and compliance requirements to offer this specific product to the defined end client and
- to provide strategic decisions if and via which a product should be offered.

The products / financial instruments covered by the Product Governance Committee are approved products such as: mutual funds, bonds, derivative products. For the insurance products having an investment component, the distribution strategy is approved within ICOM.

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 favour 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 AND 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:

- 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.
- The principles of compensation incorporate measures to avoid the conflict of interest.

● The compensation policy and principles 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).

● Compensation is based on a functional structure and it is linked to performance. Besides, special rules are applied to the personnel whose professional activity has a material impact on the risk profile.

● Compensation is competitive, sustainable and reasonable and it is defined in accordance with the relative value of work, market and practice.

● The fixed compensation is defined in principle in accordance with the market conditions.

● The compensation structure (variable payment proportion relative to the fixed compensation) is balanced, allowing each employee to have an adequate level of remuneration based on the fixed salary.

● All variable payment programmes include minimum levels of performance and a maximum payment threshold.

● 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.

● The personnel employed in controlling functions is 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 favour of the fixed remuneration. If an employee is paid a variable compensation, this is done for the measured performance. Performance is translated into results and behaviour: '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 function, too.

The Fit & Proper Policy in Raiffeisen Bank S.A. establishes the applicable internal procedures and the criteria for assessing compatibility, in accordance with the local legal provisions (NBR Regulation no. 5/2013 on prudential requirements for the credit institutions, NBR Regulation no. 12/2020 on the authorization of credit institutions and changes in their situation, Romanian legal entities and the Romanian branches of third parties' credit institutions). Also, the policy defines the measures applicable in the 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 progressed by the appointment of Mrs. Ana Maria Mihăescu and Claudia Patricia Pendred 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 15.03.2022.

Mihail Ion
Vice-president of the Board of Directors
Raiffeisen Bank S.A.