Budget of Raiffeisen Bank S.A. for 2023

I. Macro Outlook supporting the budget

Economy: We expect the economic growth to be subdued in early 2023 amid the negative influence of rapid increase of prices in the economy, of weak external demand and of high uncertainty about future economic developments. However, we look for an improvement of economic growth subsequently during the year on the back of favorable impact of the governmental support measures for households and companies, of the strengthening of investment activity in the public sector, of the improvement of external demand and of the moderation of inflationary pressures abroad and in Romania. We expect real GDP to grow by 2.3% in 2023 compared to 2022. Households' consumption growth should continue in 2023 – and speed up in the second half of the year – as real disposable income is expected to increase for all segments of the population. At the same time, we expect investments in the economy to remain on a growth path in 2023. Spending on infrastructure projects financed by EU funds (from the EU regular budget and from the National Recovery and Resilience Plan - NRRP) should increase in 2023. Romania could also benefit from a potential restructuring of global production chains, which has the potential to increase the country's production capacity. At the same time, we expect an improvement in export activity during this year because of the expansion of global economic activity.

The government intends to reduce the public budget deficit to 4.4% of GDP in 2023 from 5.7% of GDP in 2022. In our view, the plan for the reduction of the public budget deficit in 2023 is ambitious, and we expect the fiscal consolidation process to proceed at a slower pace than the government has assumed. We expect a reduction of the current account deficit in 2023 to 8% of GDP from the level of 9.2% of GDP recorded in 2022. Even if they would reduce in 2023 compared to 2022, both the public budget deficit and the current account deficit would remain very high, being sources of vulnerability for the economy. The progress of the fiscal consolidation process and the successful implementation of the NRRP are important objectives, their fulfilment being necessary to ensure the coverage in adequate conditions of the elevated external financing needs of both the economy and of the public sector.

We expect the intensity of inflationary pressures to decrease a lot in 2023 compared to 2022, but the end-year annual inflation rate (7% according to our current forecast) should remain well above the upper limit of 3.5% of the variation band attached to the central inflation target of 2.5%. In this context, we expect the central bank to keep the monetary policy rate unchanged at 7% throughout the year. We also expect interest rates on banking loans and deposits of households and companies to reach in 2023 the highs of the current rising cycle that began in 2021.

Among the risks whose materialization could lead to a below-expected economic performance in 2023 there are: the escalation of the war in Ukraine and/or of other global geopolitical conflicts, the deepening of the energy crisis in the European Union, the materialization of new inflationary shocks at the level of global economy, the continuation of the upward trend of interest rates as a result of the persistence of very elevated inflationary pressures, the emergence of a major fiscal slippage or the failure of PNRR implementation.

Developments in the banking industry: We expect the outstanding loans granted by banks to the private sector (households and companies) to remain on an upward trend in 2023, and positive dynamics to be recorded on all lending segments (loans for consumer and other purposes, housing loans and loans to companies). We expect the segment of loans granted by banks to non-financial companies to continue outperforming the other lending segments during this year as lending to firms should be supported by the continuation of governmental programs that provide guarantees for SME loans, by the maintaining of the economic activity on an upward trend, and by the implementation of public investment programs. Also, for 2023, we expect an improvement in the origination of consumer loans granted to households in the context of the increase in economic activity and of the growth of real disposable income. At the same time, we expect the outstanding housing loans to further increase in 2023, but the elevated uncertainty in the economy and the high level of interest rates could limit this growth quite a lot. Among the factors that are likely to hold back the expansion of loans in 2023 are the tightening of credit standards by the banks and the increase of borrowing costs (both in domestic currency and in foreign currency). The banking system is very well capitalized and has sufficient resources to support the lending activity in the next period.

Our positioning: The Bank's outlook for business activity and financial performance largely reflects the Bank's budget for 2023. We expect business growth in the coming period and the macroeconomic context to also support growth in financial intermediation in Romania. We aim to outperform the market in terms of lending growth, with balanced growth by product and customer segment. However, we believe that uncertainty will persist in the short to medium term, given that the period we have gone through has changed individual behavior to some extent, accelerated an already existing trend of digital adoption and influenced customer preferences in an environment affected by the challenges posed by the inflationary environment and the military conflict between Russia and Ukraine.

We are focusing on two major factors that underpin long-term financial strength and resilience: our people and the path to a digital environment; we continue to focus on both fronts and thereby strengthen our market positioning. Our medium to long-term strategy is aligned with the allocation of investment in the two crucial success factors for the Bank's future, namely our people and the growth of our digital capabilities.

II. Our priorities for 2023

Sustainable growth in lending

• The budget for 2023 was built on the premise of economic growth with the aim of generating sustainable value for customers, employees, shareholders, and the economy as a whole. We are working on developing the lending infrastructure as well as improving the customer enrollment flow, always with a focus on increasing the quality of the customer experience with the bank.

Excellence in personal financial planning

• Our focus on continuous improvement of services and products and our focus on understanding our clients' needs has led to the aim to build excellence in personal financial planning for clients. In 2023 we are focusing on developing our infrastructure and reshaping the universe of investment and savings products.

Digital customer experience

• Our customers' digital experience remains one of our priorities in 2023. We aim to maintain last year's growth trend on the three important pillars of the digital experience: active digital customers, 100% digital loan access and self-service.

III. Relevant Financials (RON millions)

Balance-sheet	2021	2022	yoy %	2023 budget objectives
Total assets	59,157	62,013	5%	
Loans and advances to customers, gross	32,365	39,482	22%	growth, outpace the market
Private Individuals	17,057	18,293	7%	
Legal entities	15,308	21,189	38%	
Deposits from customers	49,540	49,214	-1%	moderate growth
Private Individuals	29,772	30,408	2%	
Legal entities	19,768	18,806	-5%	
Deposits from banks	791	651	-18%	
Subordinated loans	896	803	-10%	
Debt instruments issued	1,639	3,406		more MREL issuance in 2023

Profit and loss	2021	2022	yoy %	2023 budget objectives
Gross income	2,672	3,249	22%	moderate growth
Operating expenses	-1,300	-1,480	14%	additional investment in HR and IT
Pre-provisioning result	1,373	1,769	29%	
Impairment losses on loans	-113	-148	31%	prudent approach on provisioning
Net profit after tax	788	1,235	57%	higher YoY

Metrics	2021	2022	yoy	2023 budget objectives
RoE	14.9%	23.7%	9 pp	slightly improve rentability
CIR*	48.8%	45.9%	-2.8 pp	maintaining the same level
L/D, net	0.65	0.80	22.8%	maintaining the same level
CAR**	25.6%	20.7%	-4.8 pp	solid capital position

** CIR is calculated according to reporting standards to Group RBI as Total Operating expenditure excluding SRF and deposit insurance, divided by sum of Total Gross income and Other operating result
Note: all figures are in accordance with IFRS and Group RBI reporting standards

We submit for the approval of the budgeted Income Statement and Statement of financial position for the 12-months period ending on 31 December 2023, as presented above.

This Report was analyzed and approved by the Management Board of Raiffeisen Bank S.A in the meeting on March 21st, 2023.

Zdenek Romanek

President of Raiffeisen Bank S.A. Management Board