

# ANNUAL REPORT

(In accordance with law 24/2017 and F.S.A. no. 5/2018 regarding issuers  
and issues of securities)

For the financial year 2018\*

31 December 2018

RAIFFEISEN BANK S.A.

Registered office: Sky Tower Building, 246 C Calea Floreasca, 014476, Bucharest 1

Telephone number: +40 21 306 1000

Fax number: +40 21 230 0700

Unique registration code with the Trade Registry Office: 361820

Number in the Trade Registry: J40/44/1991

Subscribed and paid in capital: 1,200,000,000 RON

Regulated market where the issued securities are traded: Bucharest Stock Exchange

ISIN: RORFZBDBC036

\* The translation of the Annual Report is a free translation from Romanian, which is the official version.

## **1. Analysis of the bank's activity**

### **1.1. a) Description of the bank's main activity**

The purpose of the Bank is to engage itself in any activities within the area of banking and financial operations and in any activities related thereof/to these operations, according to the Romanian legislation in force, within the limits of the license issued by the National Bank of Romania.

The Bank's main domain of activity is represented by the activity of monetary intermediation (CAEN 641).

The Bank's main object of activity is represented by other activities of monetary intermediation (CAEN 6419).

The object of activity of the Bank includes monetary intermediation activities, activities that are bound to the financial domain, as well as nonfinancial operations under mandate or fee operations.

### **b) Mention of the bank's setting up date**

Raiffeisen Bank S.A. resulted from the merger between Banca Agricola – Raiffeisen S.A. and Raiffeisenbank (Romania) S.A. The merger was effected through the absorption of the second entity by the first one and was approved by the Extraordinary General Shareholders' Meeting of May 18th, 2002 and registered with the Trade Registry Office on June 28th, 2002.

### **c) Description of any significant merger or reorganization of the bank, its branches or controlled companies, during the financial year**

Not the case.

### **d) Description of asset acquisitions and/or alienation;**

In 2018 Raiffesen Bank as the sole owner of RAIFFEISEN SERVICES SRL decided the closing and liquidation of the aforementioned company. Consequently, the participation of RON 30,000 was closed.

### **e) Description of the main results of the bank's evaluation.**

Please see the Annexes attached to the Romanian version of the Annual Report.

### 1.1.1. General evaluation elements:

<i>RON mn</i>	2018	2017
Net profit	881	491
Turnover	2,858	2,603
Administrative expenses	1,320	1,258
Market share in terms of assets	8.88%	8.42%
Liquidity indicator according to NBR requirements	min. 1.31	min. 1.05
Solvency ratio (CAR)	17.2%	15.9%
Total Assets	40,041	36,085
ROE	26.7%	15.8%

### 1.1.2. Evaluation of the bank's technical expertise

Description of the main products manufactured and/or services rendered by mentioning:

#### a) the main outlets for each product or service and the distribution methods;

The client base has grown slightly against 2017, by 1%, exceeding 2 million individual clients, approx. 90 thsd SMEs and 5,700 corporate companies. At year-end of 2018, Raiffeisen Bank's network had 419 units (decreased from 451 units in 2017), over 900 ATMs, 20,000 EPOS and 220 multifunctional machines (MFM).

#### b) the weight of each product or service type in the income and in the total turnover for the last three years

% of total assets	Dec-18	Dec-17
Loans to customers <sup>1</sup>	43%	48%
Deposits from customers <sup>2</sup>	20%	17%
Transactions <sup>3</sup>	21%	23%
Investments & trading <sup>4</sup>	4%	3%
Other & capital benefit <sup>5</sup>	12%	9%

Note:

<sup>1</sup> Interest and commission income and expenses for loans granted to customers;

<sup>2</sup> Income and expenses for standard term and negotiable deposits, saving accounts and current accounts);

<sup>3</sup> Commission income and expenses for payments, foreign exchange, cash transactions, electronic banking;

<sup>4</sup> Trading income;

<sup>5</sup> Commission income and expenses from bancassurance, investment mutual funds, leasing, Raiffeisen banking for houses

**c) new products considered for which a substantial amount of assets shall be involved during the next financial year as well as the development stage of these products.**

Concerning the lending products, an excellent achievement for us is the growth of 23% on Corporate segment, followed by SME with 13% rise compared to 2017. We are particularly satisfied with this increase being achieved in a balanced manner, with project finance, overdrafts, investments, trade finance and supranational programs showing very good development. The fruitful partnerships with EIF continued in 2018, with the purpose to facilitate the access to bank funding for small & medium sized companies. The COSME and SME Initiative programs are the newest success stories from a string of highly rewarding partnerships with supranational entities, materialized in loans to our SME customers with advantageous terms both for the bank and the customers.

PI segment's development is also noteworthy with 10% year-over-year higher net loans. We still see strong demand for personal loans, in line with the evolution of consumption in the local economy, for which we seek to provide suitable, increasingly convenient and fast financial solutions, while at the same time moving towards a fully digitalized lending process.

#### **1.1.3. Evaluation of the provision of technical and material resources (domestic and imports)**

Not applicable.

#### **1.1.4. Evaluation of the sales activity**

##### **a) Description of the sales evolution on the domestic and/or international market and the medium and long term sales estimates**

The economic growth decelerated in 2018, while remaining at a solid level of 4.1%. The economic growth is expected by us to decelerate more visibly starting from 2019, respectively to 2.5%. Private consumption should act further as the main engine of GDP growth, fuelled by the rapid increases of wages and of pensions which continue in 2019. In addition, following the disappointing performance recorded in 2018, some rebound of gross fixed investments should be recorded in 2019 favored by the low base.

On the other hand, the key fiscal changes enforced unexpectedly at the end of 2018 - especially the tax on bank assets - should hamper the economic growth prospects. In addition, the deterioration of macroeconomic fundamentals (current account deficit and public budget deficit) would continue to generate concerns.

For the following period we remain committed to generating value for shareholders and improving the services we offer to our customers. People and the digital agenda will continue to be in the spotlight. We will deliver growth from our areas of strength, investing in the business while keeping a strong grip on costs.

We expect the economic environment to be a challenging one in the near future, with regulatory and legislative restrictions in sight, foreseeable pressures from wages, inflation and the challenges inherent to a new phase of the economic cycle. Nevertheless, our strong foundations underpinned by a customer centric approach and prudent risk strategy give us the confidence to further expand our business in a responsible and profitable way, as we have proven throughout our history of doing 'proper banking' in Romania.

In this context we plan for moderate and balanced growth of the loan book in 2019, with increased focus on maintaining a good quality portfolio. As in the past, we seek to accompany the higher portfolio of loans with comparable rises in customer sources for funding.

We expect the strong business growth from 2018 and our plans for further expand our business in 2019 to fuel our earning power in an increasingly competitive environment and once more put us in a position to deliver value-added for all our stakeholders.

**b) Description of the competition within the bank's field of activity, of the market share, of the bank's products or services and of its main competitors;**

In 2018, Raiffeisen Romania exceeded the strategic goal of a 10% market share for lending activity and in the future the plan is to strengthen this position. The market share of the bank for deposits has increased during 2018, reaching at year end 8.5%. In terms of the ATM and MFM fleet, the total number of machines at year end was 1159, translating in a market share of 10.4% for Raiffeisen (active machines).

**c) Description of any significant dependency of the bank on a single customer or on a group of customers whose loss would have a negative impact on the bank's income.**

The bank complies with the requirements and limitations imposed by the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms regarding large exposures. None of the large exposures is above the maximum limit of 25% out of Own Funds.

**1.1.5. Evaluation of issues related to the bank's employees/staff**

**a) The number and the expertise of the bank's employees as well as of the percentage of union member employees.**

As of December 2018, Raiffeisen Bank S.A had a total number of active employees of 5.021, out of which 82% have an university degree (4.139 employees). 51% of the total number of employees are members of the trade union (2.572 employees).

3805 employees are women, representing 76% of total employees.

All data reported takes into consideration the total number of active employees at the end of 2018.

**b) Description of the relationship between manager and employees as well as of any conflict elements which characterize this relationship.**

The relationship between managers and employees is a normal, working one, without any conflict elements.

2018 marked the continuation and launching of training programs that are derived from our strategy and aligned to our organizational culture, aimed at the development of both functional capabilities but also leadership ones and the increase in our employees' engagement.

As for the network branches, in 2018 we redesigned and launched a new structure for the learning program for new hires, aligned to the branch activity specific. This includes induction, product, operations, credit, client relationship trainings and combines alternative learning methods, suited to the current business context and aligned with the new trends and technologies.

For the employees based in our headquarter, we continued the professional and leadership capabilities development programs. In 2018 we reintroduced a new approach of the First time manager program addressed to those who take on a team management position. The program aims to help them in their transition to a manager role and provide them with the proper tools so that they can further develop the people and the teams they work with.

We continued and extended Raiffeisen Banking University program, a quite unique approach in employees' development. Within this program we identify and officially acknowledge the Bank's experts in various banking related fields. Employees who, based on their expertise, are able to develop and deliver training sessions to other colleagues interested to develop professionally, and who are able to share practical and applied knowledge. In 2018 the program included 50 internal trainers, 117 training sessions and 1700 participants.

We also continued and developed RStyle, our wellbeing program, with the purpose of promoting and supporting an optimum work life balance. The program has been running for 5 years and registered an increasing number of participants from one year to another. It includes workshops and events implemented throughout the year on various areas: sport, nutrition, health, personal development and parenting.

**1.1.6. Evaluation of issues related to the impact of the issuer's main activity on the environment  
Synthetic description of the impact of the issuer's main activity on the environment as well as of any current or anticipated litigation in connection with the breaching of environment protection legislation.**

The activities that the bank carries out involve a high consumption of resources, whether we are talking about materials or energy. The company's commitment to sustainable development requires, in addition to analyzing the social and economic impacts, the analysis of the environmental factors the bank influences and has a direct or indirect impact on.

Locally, the Directorate is responsible for overseeing the activities to identify the exposure to environmental risks of the existing Risk Management Committee within the Bank.

The Compliance Division closely monitors the activity at all Bank's work points and assesses the risks of non-compliance with environmental legislation. Where appropriate, the Compliance Division recommends to the Risk Committee the necessary measures in order to minimize the risk of non-compliance with current legislation.

Environmental policy is regularly updated in line with the Group's directives, with national legislation and best international practices.

The Human Resources Department is responsible for informing and training Bank staff on adopting an environmental friendly behavior (including environmental policy training), while the Procurement and Infrastructure Management Department monitors and reports on resource consumption within the company, and provides the entire necessary infrastructure for the selective collection and disposal of waste.

#### **Measures to reduce the environmental impact:**

- The company is in the process of replacing neon lighting with LED lighting to reduce its energy consumption. In 2018, three light boxes were replaced.
- In 2018, the company began to identify waste collectors in the cities where it operates to contract selective waste collection services
- In administrative offices, the infrastructure for the selective collection of plastic, glass, metal and paper is in place. In order to inform and educate employees about the importance of recycling of reusable materials, the company has conducted information campaigns
- To make water consumption more efficient, sensors have been installed to the water evacuation mechanisms of the toilets in the administrative offices
- Around 38% of the electricity used by the company comes from renewable energy sources (according to the invoices issued by the electricity supplier)
- 29% of the community investment budget was allocated to urban ecology projects.

- **Investments risks from a social and environmental protection perspective**

The purpose of the Bank is to grant loans responsibly. Thus, the Bank has introduced several risk assessment criteria in corporate crediting policies. In 2014, the Bank introduced a policy on social and environmental risk management that became part of the Social and Environmental Management System (SESM). The policy applies to all areas of activity and is used to evaluate all potential corporate clients.

The main goals are:

- financing projects that have acceptable social and environmental protection risks, sustainable on the long term
- minimizing social and environmental risks for the Bank
- minimizing social and environmental protection risks for the Bank's partners (customers and / or suppliers)

- compliance with national and international legal requirements and social and environmental protection standards

Through this policy, the company wishes to reduce social and environmental risks for the Bank and its clients and partners in three key areas:

- Financial (monetary sanctions, failure to repay loans, loss of assets value as a result of failure to fulfill obligations)
- Legal (court actions against the Bank, clients or partners due to non-compliance with laws or contractual agreements)
- Reputational (reputational damage by association with clients who do not follow business ethics and responsibility principles)

The risk level is classified into three categories (low, medium and high). The main criteria refer to environmental risks (environmental protection, health and safety) and social risks (social and labor) associated with financing a certain project (loan / investment), and the assessment includes: activity field, loan period, size of the loan and offered collateral guarantees. The social and environmental risk assessment process is implemented through integrated working instructions in the lending process of legal entities.

In 2018, there are no records of fines or warnings for non-compliance with environmental protection or sponsorship laws or regulations.

#### **1.1.7. Evaluation of the research and development activity**

Expenses during the financial year as well as of those estimated for the next financial year in connection with the research and development activity:

Development of information programs for in-house needs, as well as perfecting the current IT programs already in place represent the main research and development activities performed by the Bank.

#### **1.1.8. Evaluation of the bank's risk management activity**

Description of the bank's exposure to price, credit, liquidity and cash flow risks.

Description of the bank's risk management related policies and objectives.

### **Risk management framework**

The Management Board has the overall responsibility for the establishment and oversight of the risk management framework. Assets and Liabilities Committee (ALCO), Credit Risk Committee, Risk Management Committee and Problem Loan Committee are responsible for developing and monitoring the bank's risk management policies in their specified areas. All committees report regularly to the Management Board.



The framework for risk management is defined in the risk strategy, elaborated and reviewed with annual frequency. The risk profile is also reviewed with an annual frequency and comprises of the evaluation of all risks considered significant.

The 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 compliance with the approved limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. This process of risk management is critical to the bank's continuing profitability and each individual within the bank is responsible for the risk exposures relating to their responsibilities.

The Audit Committee reports to the Supervisory Board and has the responsibility to monitor the compliance with risk management procedures. Internal Audit assists the Audit Committee in these functions.

Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The stress testing exercises are a common practice in the bank. The stress tests are either locally developed or developed and run at Raiffeisen Bank International level. The bank has in place a "Business stress testing concept paper" which establishes the steps, concepts, methodologies and timelines in stress testing process. All stress testing results are assessed, analyzed and reported to local management.

### **Credit risk management**

Credit risk is the risk that the bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. The bank is exposed to credit risk through its lending, trading and investing activities, in situation where it acts as an intermediary on behalf of customers or other third parties, or it issues guarantees.

The bank's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The bank is exposed to credit risk on various other financial assets, including derivative instruments and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the bank is exposed to credit risk through loan commitments as well as issued guarantees.

In order to minimize this risk, certain bank procedures are in place to screen its customers before granting loans and to monitor their ability to repay the principal and interest for the duration of the loan contracts and for the establishment of exposure limits. The Management Board has delegated the

responsibility for the credit risk management to the Credit Committee. A separate Risk Division, reporting to the Chief Risk Officer, is responsible for oversight of the bank's credit risk, including:

- Formulating credit policies, by pursuing the target of maintaining a healthy loan portfolio, by establishing adequate limits and defining specific lending criteria for certain products, client's categories, etc.
- Establishing and implementing procedures related to: the treatment and valuation of collateral, periodical loan reviews, classification and loan portfolio reporting, legal documentation related to loans and lending activity, monitoring and treatment of non-performing loans, ensuring compliance with the regulatory requirements;
- Establishing an approval structure for underwriting and renewing loan facilities: the approval limits can be settled at the individual level to certain designated risk analysts or at the Credit Committee level or other authorities designated at bank level. The approval limits are stipulated in the Credit Committee Bylaws and are established on different criteria like the loan amount, compliance with the credit policies;
- Evaluation and review of the credit risk takes place in accordance with the approval limits set out in the Credit Committee Bylaws as well as with the regulatory requirements;
- Limiting concentrations of exposure to counterparties, geographical areas, industries, and by issuer, loan classification category, market liquidity and country (for investment securities). The concentration risk is monitored throughout the portfolio management activity, is analyzed on a monthly basis through reports and presented to the personnel involved in the lending activity as well as to the management;
- Developing and maintaining the client classification systems depending on the risk grading. Unitary client classification systems are used at bank level depending on the client risk grading. These systems comprise both scoring and rating methodologies. The bank performs periodical reviews of the clients' classification systems. The risk grading measured through the above mentioned systems stands at the base of determining the loan loss provision necessary to cover the default risk;
- Reviewing and monitoring the compliance of business units with the limits established through the Credit Policies and internal norms;
- Regular reports are provided to Credit Committee on loan portfolio quality and appropriate corrective actions are proposed and implemented;
- Providing information, advice, guidance and expertise to business units in order to promote credit risk management best practice throughout the bank.

The major concentrations of credit risk arise by type of customer in relation to the bank's loans and advances and credit commitments. The concentration of credit risk that arises from financial instruments that have similar economic characteristics is analyzed both at portfolio level and also for customer segment. The ability to meet contractual obligations is similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by individual counterparty and by type of customer in relation to the bank's loans and advances, commitments to extend credit and guarantees issued. In the table below, the risk concentrations are presented:

In RON thousand	31 December 2018
<b>Retail customers, of which:</b>	
Personal loan	5,905,944
Mortgage	4,992,691
Consumer loans guaranteed with mortgage	1,304,834
Credit Card	938,563
Overdraft	547,478
Investment financing	962,314
<b>Non-retail customers, of which:</b>	
Corporate lending	6,832,671
Project finance	1,828,799
Financial institution non-bank	1,620,260
Small business (SMB)	1,086,386
Public sector	312,883
Sovereign	29,648
<b>Total gross exposure</b>	<b>26,362,471</b>
Specific impairment allowance	(972,502)
<b>Total loans and advances to customers at amortised cost</b>	<b>25,389,969</b>

## Liquidity Risk

Definition: Liquidity risk is the risk of negatively affecting profits and capital due to the bank's inability to meet its expected and unexpected obligations regarding current or future cash flows and collateralization needs.

Sources of liquidity risk: Liquidity risk is generated in the normal course of banking activity being a consequence of the bank's response to client needs. While depositors need short term access to their funds, borrowers need the possibility to repay the loans in medium to long term timeframes, therefore by responding to these needs the Bank accepts a degree of liquidity risk that has to be actively managed.

### Liquidity risk management

The Management Board defines the liquidity risk strategy based on recommendations made by the units responsible for liquidity and funding management in cooperation with the area responsible for monitoring and controlling of liquidity risk. Management Board approves each year the limits which are applied to measure and control liquidity risk as well as the Bank's funding plan.

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

- for normal business conditions, using a set of limit the role of the limits is to prevent the accumulation of liquidity risk from current activity of the Bank;
- for stress conditions, tolerance is the Bank's capacity to operate for an acceptable time without significant changes to the strategy or business model.

Treasury and Capital Markets Division is responsible for the management of liquidity and funding risk of the Bank, while Risk Management Division has responsibilities for liquidity risk monitoring and controlling, as defined in the liquidity and funding strategies.

For liquidity management, the Bank assesses monitors and forecasts the liquidity behavior of products and business segments and maintains long-term liquidity, including stable deposits, in excess of illiquid assets, at an optimal cost, as defined by its risk appetite.

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

The main tools used for liquidity and funding risk management both in going concern and stress test are:

- The liquidity gap report: used to identify and measure the maturity mismatch between assets and liabilities;
- Liquidity scorecard: tool for assessing the robustness of the balance sheet structure (loans to deposits ratio, funding concentration, size of liquid assets in relation to total obligations, etc.);
- NBR liquidity indicator: the Bank has to comply with a regulatory liquidity indicator defined by National Bank of Romania which sets minimum liquidity risk standards at banking system level. The indicator is calculated monthly and represents the ratio between the actual (assets) liquidity and the required (liabilities) liquidity, including cash flows related to off balance sheet positions;
- Funding scorecard: the Bank ensures that funding risk is mitigated through the monitoring of several triggers, among which: the concentration in sources of wholesale funding, maturity concentration, the dependence on short term funding and the percentage of unencumbered assets;
- Early warning system: used for monitoring financial markets and internal liquidity indicators in order to anticipate accumulation of risks and potential stress conditions;
- Internal stress test: scenario based analysis used to evaluate Bank's ability to operate in stress conditions;
- Regulatory liquidity coverage ratio: scenario based analysis standardized at banking system level, used to evaluate Bank's ability to operate in stress conditions, as described in CRR/ CRD IV package. According to the standard, banks are required to hold an adequate stock of unencumbered high quality assets (HQLA) to cover potential liquidity outflows in stress

conditions. The liquidity coverage ratio requires banks to have an adequate level of high quality liquid assets to deal with potential liquidity outflows in crisis situations that can be converted into cash to meet liquidity needs over the course of 30 of calendar days in the face of a liquidity crisis.

- The net stable funding ratio (NSFR) defined as a ratio between the available stable funding and the necessary stable funding. Available stable funding is represented by the portion of capital and financing that is expected to be available to the bank on the one-year horizon covered by NSFR.

At Bank level, there are pre-established trigger levels set for the main tools which are monitored and, in case a breach is observed or anticipated, a specific action plan is taken based on senior management decision.

For stress conditions, the Bank maintains a sufficient liquidity buffer that can be used to compensate the limited access to funding sources and liquidity outflows during stress periods. The Bank determines the necessary liquidity buffer based on stress test analysis. In addition, the Bank defines a contingency plan which establishes responsibilities and specific actions that can be taken to strengthen liquidity position on short term and reduce liquidity risk on medium to long term.

From liquidity gap perspective usually, the most significant liquidity gap is registered in the first interval (up to 3 months) mainly due to non-banking customers, which prefer short term maturities for deposits and long term maturities for loans. This behavior that determines a negative gap in the first interval generates a positive gap on the other intervals (longer than 3 months). In practice, the negative gap in the first bucket does not represent outflows, as most customer deposits are rolled over or replaced by new deposits. In the same time, the bank's securities portfolio can be converted into cash in a short term (through repo or sale), being a reserve that diminishes the liquidity risk in the first bucket.

## **Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and others will affect the bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The main risks at which the bank is exposed are interest rate risk and foreign exchange risk.

**Interest rate risk** is the risk of loss from fluctuations in the present value of future cash flows or fair values of interest rate sensitive financial instrument because of a change in market interest rates.

Sources: This risk appears because of the mismatch between interest rate sensitive assets and interest rate sensitive liabilities and is found both in the trading book and in the banking book.

Interest rate risk management

Interest rate risk is managed primarily by monitoring the interest rate gap and a set of pre-approved limits. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities

The derivative financial instruments used by the Bank to reduce the interest rate risk include interest rate swaps and cross currency swaps, their value fluctuates depending on the interest rates variations. A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2018 is as follows:

<i>In RON thousand</i>	<b>Less than 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash with Central Bank	5,201,634	-	-	-	1,995,588	7,197,222
Loans and advances to banks at amortised cost	435,126	-	-	-	-	435,126
Financial assets mandatorily at fair value through profit or loss	239,679	112,663	15,872	294	-	368,508
Loans and advances to customers at amortised cost	17,413,375	3,895,493	3,555,641	525,460	-	25,389,969
Investment securities at fair value through other comprehensive income	750,634	1,061,861	1,275,165	116,647	-	3,204,307
Equity instruments at fair value through other comprehensive income	48,023	-	-	-	-	48,023
Investment securities at amortised cost	134,138	354,237	1,057,361	762,335	-	2,308,071
	<b>24,222,609</b>	<b>5,424,254</b>	<b>5,904,039</b>	<b>1,404,736</b>	<b>1,995,588</b>	<b>38,951,226</b>
<b>Liabilities</b>						
Deposits from banks	529,157	6,913	-	-	-	536,070
Deposits from customers	17,260,393	6,109,480	9,708,652	15,048	-	33,093,573
Loans from banks and other financial institutions	45,001	27,026	34,329	1,918	-	108,274
Debt securities issued	-	516,179	-	-	-	516,179
Subordinated liabilities	739,081	-	-	116,598	-	855,679
	<b>18,573,632</b>	<b>6,659,598</b>	<b>9,742,981</b>	<b>133,564</b>	<b>-</b>	<b>35,109,775</b>
Effect of derivatives held for risk management purposes	407,674	(46,639)	(113,317)	(240,983)	-	6,735
<b>Net position</b>	<b>6,056,653</b>	<b>(1,281,983)</b>	<b>(3,952,259)</b>	<b>1,030,189</b>	<b>1,995,588</b>	<b>3,848,188</b>

The management of interest rate risk through the set of interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios.

According to EBA requirements (EBA/GL/2015/08), measurement and monitoring of interest rate risk in the banking book is done based on two approaches: economic value and net interest income (NII) volatility. Economic value perspective expresses the change in the bank's economic value as a result of sudden and unexpected changes in interest rates. Net interest income volatility perspective expresses the impact on net interest income as a result of changes in interest rates under different scenarios.

**Foreign exchange risk** is the risk value decrease of assets and liabilities denominated in other currencies than local currency following the change in foreign exchange rates.

Foreign exchange risk management is done at bank level based on the open foreign exchange currency position per each currency and per total.

#### **1.1.9. Estimates of the bank's future activity**

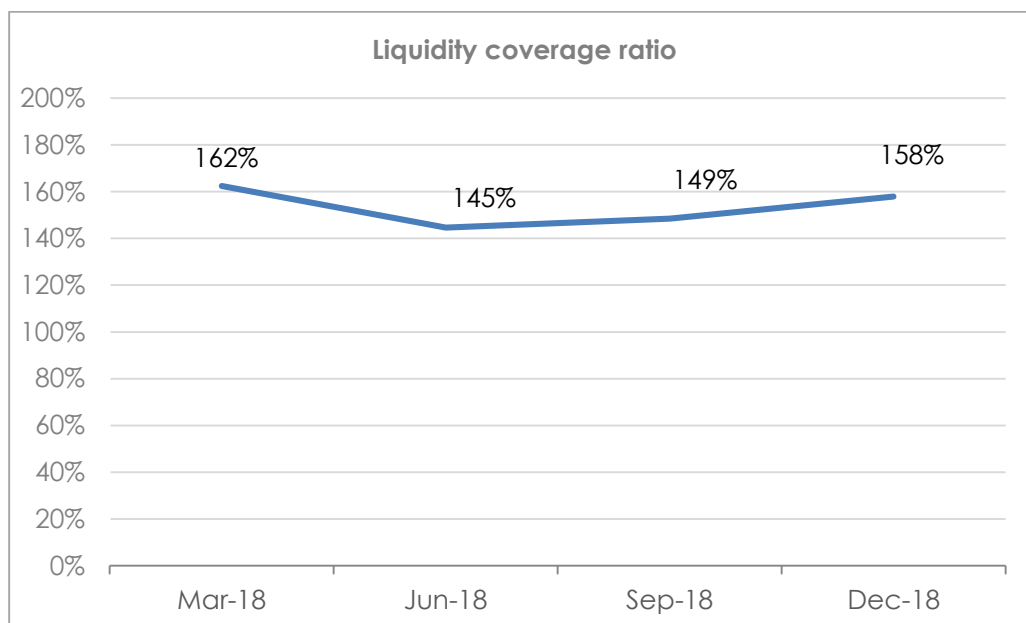
**a) Presentation and analysis of the trends, elements, events or uncertainty factors which affect or could affect the bank's cash position in comparison with the same period of the previous year.**

Liquidity risk management is an important part of the internal risk management process, as it ensures the continuous availability of funds at the bank level in order to meet daily needs. The liquidity risk management framework at the bank level is made both from the perspective of internal liquidity risk management and from the perspective of regulatory requirements regarding liquidity.

From internal liquidity risk perspective, the Bank has established a series of liquidity limits both for going concern and stress conditions. For going concern, the Bank has defined a set of liquidity risk limits both in the short and long term. The role of liquidity limits is to prevent the accumulation of liquidity risk from the bank's current activity. Under stress conditions (considering a combined bank and market scenario), the Bank has to demonstrate its ability to operate for a certain period of time without having to fundamentally change its business strategy or model.

From a regulatory perspective, the liquidity management framework envisages compliance with the requirements of the NBR Regulation no. 5/2013 (Liquidity Indicator) and of Regulation 575/2013 of the European Parliament and Council of the European Union (Liquidity Coverage Ratio - LCR, Net Stable Financing Indicator - NSFR, Additional Liquidity Reporting Monitoring Metrics - ALMM). As in the previous period, 2018 was characterized by a broad liquidity position of the Bank, this being generated mainly by the significant volume of customer deposits. As a result, there were no liquidity limit breaches (both in terms of going concern and stress conditions).

The evolution of LCR during 2018 is shown in the graph below:



In 2018, the LCR indicator recorded a relatively stable value at comfortable levels well above the 100% regulatory limit for 2018). The high level of LCR is the result of the good liquidity position of the bank and of the high quality liquid assets holdings. The high quality liquid assets holdings are represented by cash at the Central Bank and eligible bonds for the Central Bank's liquidity facilities.. With regard to liquidity outflows, the main factors during 2018 were stable retail deposits that had an upward trend throughout the year. On the liquidity inflows side changes in inflows from reverse repo transactions were the main factor of variation in 2018.

Although there is no regulatory limit for NSFR in 2018, the Bank also calculates the values of the NSFR indicator. The NSFR indicator is defined as a ratio between the available stable funding and the necessary stable funding. Stable available funding is defined as the share of the capital and financing expected to be available to the Bank on the 1-year horizon covered by the NSFR indicator. In 2018, the NSFR indicator was stable, with its value fluctuating around 135%.

**b) Presentation and analysis of the effects of current and future capital expenditure on the bank's financial position in comparison with the same period of the previous year.**

Raiffeisen Bank assesses the investment opportunities and deploys the necessary resources considering criteria such as:

- alignment of projects to the long and medium term investment strategy
- realized investments must be value accretive by meeting minimum return requirements
- the investments must be consistent with the Bank's risk appetite
- compliance with all rules and regulations.



In the last 3 years the resources allocated to investments projects added up to Eur 89 million, representing almost 22% of what has been generated as a net average profit in the same period.

Resource deployment towards investment programs is highly correlated with the Bank's strategic goals:

- **Customer experience and business growth.** An important part of the Bank's resources is focused on identifying the specific needs of clients and customizing accordingly the banking products and services.
- **Simplification.** The Bank seeks to identify and implement those specific methods that allow continuous simplification of the internal processes and activities.
- **Infrastructure and business administration.** The costs needed to run the business and maintain the existing infrastructure.
- **Compliance and regulatory.** Adjusting the internal systems and processes to line up to the legal and other regulatory requirements.

In 2018 capital expenditures reached EUR 29.9 mn, representing approximately 15% out of the net profit of the period. This amount is very close to the one registered in 2017.

2018 highlights and accomplishments for the investment portfolio are summarized below:

- **Increasing the number of multifunction machines for cash operations:** at the end of 2018, 242 such machines (approximately 80 more than in the same period of the past year) were available for our clients for different cash operations (cash disbursement, cash deposits in RBRO and third party accounts, foreign exchange operations, etc.).
- **Simplification and efficiency of internal processes:** automation and continuous optimization of the key processes in the Bank stay among priorities. Among initiatives, we mention the implementation of more efficient Corporate & SME lending applications, core system upgrade, new IT service management tool and improved collateral management application.
- **Digital transformation:** digital investments continued in order to improve the Internet Banking and Smart mobile platforms and to offer our clients quick and easily accesible services. As a consequence the number of digital clients increased considerably (aprox. 26% higher compared 2017).
- **The traditional distribution channel** remains an important topic on the Bank's Agenda as a result of focusing on offering convenience to our customers and a pleasant interaction in each of our branches As a result, 5 branches were relocated in 2018 and we continue the refurbishments on the next generation branch model. The activity was interrupted in 32 branches.

- Significant investments were also dedicated to delivering the **compliance and regulatory requirements** from: IFRS 9, MiFID II, MAD, GDPR, Basel etc.

**c) Presentation and analysis of the events, transactions and economic changes which significantly affect the income generated by the bank's main activity.**

The real Gross Domestic Product (GDP) advanced by 4.1% in 2018. Despite decelerating compared to the elevated dynamics in 2017 (7.0%), the economic growth remained solid in 2018. Similar to the previous years, private consumption – which advanced by 5.3% in 2018 – remained the main driver of the GDP advance. The rapid increase of wages (by around 8% in real terms in 2018) boosted households' appetite to spend. The Government continued to hike wages in the public sector (as well as pensions) also in 2018. On the other hand, the performance of gross fixed investments was modest in 2018, as these decreased compared to 2017 (-3.2%). The failure to implement the major infrastructure projects and to improve the absorption of EU funds had a negative impact on the performance of investments. Exports of goods and services increased by 5.4 % in 2018, as their advance decelerated compared to previous two years. The slowdown of economic growth in the Euro area in the second half of 2018 contributed to the deceleration of exports' advance. Similar to the previous years, imports of goods and services posted a more rapid increase (9.1%) than exports, resulting in a negative contribution of net exports to the economic growth. At the same time, this resulted also in the enlargement of the current account deficit. The economic growth was broad based also in 2018, as gross value added increased in almost all sectors of activity: services (3.6%), industry (4.1%) and agriculture (10%). The performance of construction sector was disappointing also in 2018 (-5.6%).

Public budget deficit target for 2018 (3% of GDP) was met as effective deficit was marginally below (2.9% of GDP, according to cash standards). Important budgetary expense aggregates increased rapidly in 2018, outpacing the targets set at the beginning of the year. Additional public revenues had to be raised (i.e. supplementary special dividends from majority state owned companies, extraordinary inflows from EU funds) in order to prevent the jump of the public budget deficit above the target. At the end of 2018, the Government approved an ample package of key fiscal changes, including, among others, a tax on the financial assets of banks.

Consumer prices increased by 3.3% in 2018. The annual inflation rate reached its highest level in May-June and it declined afterwards, returning inside the Central Bank's inflation target band (2.5%  $\pm$  1 pp) towards the end of 2018. Also on the positive side, underlying inflationary pressures stabilized during 2018.

The National Bank of Romania (NBR) hiked three times the key interest rate, to 2.50% from 1.75%, in the first half of 2018. The rapid increase of the inflation rate and the deterioration of the inflation outlook asked for increase of the monetary policy rate. In addition, the Central Bank performed a tight control over liquidity conditions in the money market. Money market interest rates (ROBOR) were quoted above the level of the key interest rate, so the monetary policy stance was tighter than implied by the level of the key rate for the majority of the year.

Lending activity improved in 2018, as the pace of growth for banking loans recorded the highest level in the last ten years. The total stock of banking loans granted to the private sector (households and companies) increased by 7.9% in 2018 (dynamics assumes a constant EUR/RON exchange rate). Gains were recorded for all lending segments in 2018. Similar to the previous years, the fastest advance was recorded in case of housing loans (11.0%). Good dynamics were also recorded in case of loans for consumer and other purposes and of loans granted to companies, 6.9% and 6.1%, respectively. Also, similar to previous years, the advance of total loans was driven exclusively by RON denominated loans (+13.6%), while FCY denominated loans decreased by 1.3% in EUR equivalent. Still, FCY loans granted to companies showed evident signs of recovery in 2018.

The Banks' balance sheets continued to record structural improvements in 2018. The share of non-performing loans in total loans remained on a downward trend, reaching 5.0% in December 2018, down from 6.4% in December 2017. The share of FCY loans in total loans granted by banks to the private sector decreased further, to 34.6% in December 2018, down from 37.9% in December 2017. The reliance of domestic banks on foreign capital reduced further as the share of foreign liabilities in total gross assets decreased to 8.6% in December 2018, from 10.0% in December 2017. In addition, loans are fully funded by domestic deposits. Following the ample cleanup process in place during the past years, the banks' profitability improved further in 2018 on the back of the lending expansion and favored by the good macroeconomic conditions.

## **2. The bank's tangible assets**

### **2.1. The location and main features of the production equipment owned by the bank.**

Not applicable.

### **2.2. Description and analysis of the extent of the bank's property wear-and-tear.**

The tangible assets of Raiffeisen Bank S.A. comprise mainly of information technology and communication equipment, items of furniture and office equipment, vehicles, buildings and building refurbishments. These are depreciated and replaced as they are decommissioned.

### **2.3. Potential issues related to ownership rights over the bank's tangible assets.**

At the end of 2017, Raiffeisen Bank S.A. was involved in 2 litigations relating to ownership rights of tangible assets in its property.

## **3. The market for the securities issued by the bank**

### **3.1. The markets in Romania and in other countries where the securities issued by the bank are traded.**

Raiffeisen Bank S.A. issued a senior unsecured bond in May 2014 which is traded at the Bucharest Stock Exchange.

**3.2. Description of the bank's dividend policy. Mention of the dividends owed/paid/accrued within the last 3 years and, if necessary, the reasons for a possible reduction in dividends during the last 3 years.**

Raiffeisen Bank S.A. sets itself to distribute dividends to its shareholders every year.

Through Resolution no.1 by the Ordinary General Meeting of Shareholders dated 24<sup>th</sup> April 2017 the distribution of dividends was approved in total amount of RON180 mio. (representing a gross dividend in value of RON15,000/share) for the financial year 2016. All the dividends were distributed to the shareholders.

Through Resolution no. 1 by the Ordinary General Meeting of Shareholders dated 2<sup>nd</sup> May 2018 the distribution of dividends was approved in total amount of RON 252 mio. (representing a gross dividend in value of RON 21,000/share) for the financial exercise of 2017. All the dividends were distributed to the shareholders.

The Raiffeisen Bank S.A. Management Board's proposal for approval by the Ordinary General Meeting of Shareholders of April 23<sup>rd</sup>, 2019 is the distribution of the dividends related to the financial exercise of the year 2018, in a total pre-tax amount of RON 444,000,000, amount corresponding to a gross dividend in amount of RON 37,000/share, which shall be paid beginning with the date of May 7<sup>th</sup>, 2019 within the timeframe provided by the law.

This proposal will be submitted for approval to the Ordinary General Meeting of Shareholders of April 23<sup>rd</sup>, 2019.

**3.3. Description of any activity involving the bank's purchasing its own shares.**

Not applicable.

**3.4. Where the bank owns branches, mention of the number and the nominal value of the shares issued by the parent bank and held by the branches.**

Not applicable.

**3.5. Where the bank has issued bonds and/or other debt securities, presentation of the way in which the bank fulfills its obligations towards the holders of such securities.**

Raiffeisen Bank S.A. fulfills its obligations to bondholders by paying annual coupons and offering the right of redemption of principal at maturity or on a different payment date, in case of early redemption, according to the Prospectus.

**4. Bank administration**

**4.1. Presentation of the bank's administrators and the following information for each administrator:**

a)

In the dual management system adopted by Raiffeisen Bank S.A., the administration and the representation of the Bank are ensured by the Supervisory Board and the Management Board.

#### Supervisory Board

SURNAME	FIRTS NAME	OFFICE	TERM OF OFFICE
STROBL	JOHANN	PRESIDENT OF THE SUPERVISORY BOARD	02.05.2018-01.05.2022
GRÜLL	MARTIN	VICEPRESIDENT OF THE SUPERVISORY BOARD	28.04.2015-28.04.2019
GSCHWENTER	ANDREAS	MEMBER	27.04.2016-27.04.2020
LENNKH	PETER	MEMBER	02.05.2018-01.05.2022
MÖSENBACHER	HANNES	MEMBER	25.10.2017-23.04.2021
IOAN	ILEANA ANCA	INDEPENDENT MEMBER	24.04.2017-23.04.2021
MIHAESCU	ANA-MARIA	INDEPENDENT MEMBER	19.01.2017-14.09.2020
STEPANENKO	ANDRII	MEMBER*	07.02.2019-01.05.2022
JANUSZEWSKI	ŁUKASZ JANUSZ	MEMBER*	07.02.2019-01.05.2022

\*Supervisory Board members approved by NBR on 07.02.2019

#### Management Board:

SURNAME	FIRST NAME	OFFICE	TERM OF OFFICE
VAN GRONINGEN	STEVEN CORNELIS	PRESIDENT OF THE MANAGEMENT BOARD	02.05.2015- 01.05.2019
STEWART	JAMES DANIEL, JR.	VICE-PRESIDENT	02.05.2015- 01.05.2019
SPORIS	CRISTIAN-MARIUS	VICE-PRESIDENT	01.07.2018-30.06.2021
KALINOV	VLADIMIR NIKOLOV	VICE-PRESIDENT	01.07.2017- 30.06.2021
BUSUIOCEANU	IANCU- MIRCEA	VICE-PRESIDENT*	01.01.2017-31.12.2018
POPA	NICOLAE-BOGDAN	VICE-PRESIDENT*	01.01.2017-31.12.2018
MIHAIL CATALIN	ION	VICE-PRESIDENT*	14.07.2017-31.12.2018

\*Mr. Bogdan Popa's mandate has been extended until 31.12.2022

Mr. Mircea Busuioceanu's mandate has been extended until 31.12.2022

Mr. Mihail Ion's mandate has been extended until 30.06.2020

The CV-s of the Supervisory Board and Management Board members are presented in *Appendix 5 CV-uri membri CS si Directorat Raiffeisen Bank S.A.*

b) any agreement, understanding or family connection between the respective administrator and another person who is responsible for appointing him/her administrator:

b) any agreement, understanding or family connection between the respective administrator and another person who is responsible for appointing him/her administrator:

Not the case.

c) the administrator's equity participation in the company's capital;  
 Not the case.

d) the list of affiliated parties to the company.  
 See Appendix 3\_Persoane affiliate Raiffeisen Bank S.A.

**4.2. Submission of the list of the bank's executive management members. For each member the following information shall be included:**

a) Terms of office for the person who is member of the executive management;  
 Please see point 4.1 letter a).

b) Any agreement, understanding or family connection between that person and another person who is responsible for appointing him/her member of the executive management;  
 Not applicable.

c) Equity participation of that person in the bank's capital.  
 Not applicable.

**4.3. For all the persons referred to in items 4.1. and 4.2, it shall be mentioned the possible litigation or administrative proceedings in which they have been involved in the last 5 years, referred to their activity within issuer, as well as those related to the capacity of that person to fulfill the attributions within the issuer.**

Not applicable.

**5. Financial and accounting statements**

**Presentation of an analysis of the current economic and financial position in comparison with the previous 3 years, with reference to at least:**

**a) Balance sheet items: assets accounting for at least 10% of total assets; cash and other liquidities; reinvested profits; total current assets; total current liabilities;**

Total assets of Raiffeisen Bank at the end of 2018 were RON 40 bn, with an increase of 11% against 2017, through core customer business. Loans and advances to customers volumes had a year-over-year increase of 20%, while the deposits and current accounts base grew by +11%, this trends were shown on all our major customer segments.

The main components of total assets are:

% of total assets	2018	2017	2016
Loans and advances to customers	64.3%	59.4%	59.1%
Cash and cash equivalents	18.0%	23.5%	24.5%
Investment securities	13.8%	14.4%	11.4%

Loan production was in an excellent shape in 2018 with newly approved loans at the historical highest level, reaching RON15.2 billion, up by 12% compared to 2017.

We strongly believe that an economy at the peak of the cycle needs solid foundations to cope with future headwinds and in this context we see the financing of viable projects and business plans for SME and Corporate clients of paramount importance. More than 60% of the amounts granted to our clients went to companies and local entrepreneurs (up by 16% yoy), via an array of quality financial solutions for investments, working capital, trade finance, big projects or loans granted in favorable conditions in cooperation with the EIF.

New personal and housing loans disbursed to individuals during 2018 also hit new historical highs for the Bank, reaching RON 4.8 billion. While mortgage originations rose only mildly vs. 2017, new personal loans increased with 9% yoy, in a context of strong demand fueled by the rising wages in the local economy.

All in all, we are very pleased with how we performed in 2018 on lending, fully aligned with our strategy of healthy growth on all our core business lines.

Concerning the net loans stock evolution, an excellent achievement for us is the growth of 23% on Corporate segment, followed by SME with 13% rise vs. 2017. PI segment's development is also noteworthy with 10% yoy higher net loans. We still see strong demand for personal loans, in line with the evolution of consumption in the local economy, for which we seek to provide suitable, increasingly convenient and fast financial solutions, while at the same time moving towards a fully digitalized lending process.

Sell-buy-back transactions concluded with non-bank financial institutions increased significantly during 2018 vs. 2017, by RON 1 billion. These deals have a short tenor and are low risk, highly liquid financial instruments.

We have a solid capital position, comfortably above regulatory requirements and we are well placed to meet future challenges and sustain our strategy of growth. The Bank's remarkable revenue-generating capacity has been proven over the years, which gives us the confidence and the means to put into practice our ambitions for growth. Main developments related to the liabilities side of the balance-sheet are seen below:



Liabilities:

RON thsd	2018	2017	2016
Deposits from banks and loans from banks and other financial institutions	644,344	748,889	1,720,601
Deposits from customers	33,093,573	29,736,748	26,381,841
Debt securities issued	516,179	516,223	515,961
Subordinated liabilities	855,678	849,017	954,973
Other liabilities	836,111	710,476	622,495

Deposits from customers once again showed double-digit growth pace (+11%), as further confirmation of the trust we gained from our customers over the years.

During 2018, out of the total growth of RON 3.4 billion, the most relevant drivers were the PI current accounts, which added RON 2 billion net inflows to the stock (+23%), on the background of a labor market with increased wages by around 8% in real terms in 2018 and our offer of highly convenient current account packages.

Corporate expanded the deposits base by close to RON 1 billion, while developments for the other products and segments were considerably smoother in 2018.

**b) profit and loss account: net sales ; gross income; cost and expenditure items accounting for at least 20% of net sales or gross income; risk and various expenses provisions; reference to any sale or interruption of an activity segment during the last year or estimated for the next year; dividends paid;**

The major Profit and Loss components are:

RON thsd	2018	2017	2016
Net interest income	1,499,973	1,151,933	1,111,062
Net fee and commission income	616,491	568,290	607,977
Net trading income	357,988	310,781	300,633
	-	-	-
Operating and personnel expenses	1,319,826	1,257,658	1,163,698
Net impairment loss on financial assets	-174,546	-244,277	-469,269
Profit net	881,087	491,177	451,629

The Bank's earning power strengthened in 2018, fueled by our diversified income streams and the excellent organic growth, achieved on the background of increasing market rates.



Our net interest income grew substantially in 2018, by 30%. We can outline the main drivers behind this development as follows: the loan book dynamic (+15% in underlying<sup>1</sup> terms) was strong enough to offset the impact from decreasing margins, aided also in terms of P&L by the substantial inflows in PI current accounts; after several years of decline, market rates for local currency entered an upward trend starting 2017 Q4, with positive impact for our net interest income. This also prompted us to make the first steps in increasing the interest rates offered for customer deposits, thus aiming to build a strong term deposits base.

Net commission income marked a 9% increase yoy. We are happy to see higher volumes of transactions processed by the bank on behalf of our customers, which more than offset the impact of increasingly convenient and cheap payment solutions offered to our clients via electronic channels.

Transactional income was positively influenced by intensified FX trades by the clients. The main driver for growth was the higher traded volume by 15%, with especially good developments noticed for SME and Corporate clients via the online platform.

Risk costs decreased by half vs. 2017, as a reflection of the continued discipline in repayment behavior from our clients, on the background of significant increases of wages in the local market and an overall benign credit environment, with macro factors at the peak of the economic cycle. Both 2017 and 2018 were affected by some non-recurring events, while the underlying development in 2018 vs. 2017 (one-off events carved out) shows lower loan loss provisions by approx. 25%. The quality of our loan portfolio reflects this positive evolution: the NPL ratio dropped to levels close to 4%, down by 2pp vs the same period of 2017. This achievement emerged from a combination of favorable economic background, disciplined repayments from our clients and continued adherence to our prudent risk strategy.

Operating expenditures were reported on 6% year-over-year increase as a result of running the business in an economic environment characterized by growing costs, mainly labor-driven, on top of which inflationary pressures started to make their presence felt. We acknowledge the critical importance of skilled and satisfied workforce in reaching our strategic objectives and we also see the current investments in technology and digital capabilities as key success factors for the future. These factors are also outlined by the structure of the increase in operating expenses for the Group in 2018, thus proving our commitment to invest in the sustainable development of our business.

Net profit of the Group expanded by 76% year-over-year and got close to the level of RON 900 mn in 2018. A combination of strong yet balanced business growth, benign risk environment typical for an economy at the peak of the cycle, close monitoring of operational expenses, all created the perfect context for value creation for all our main stakeholders, be they shareholders, clients, company staff and State.

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<sup>1</sup> Underlying growth for loans carves out the impact from higher sell-buy-back transactions vs. 2017

Dividends declared and paid:  
 2016: RON 330 million  
 2017: RON 180 million  
 2018: RON 252 million

**c) Cash flow:** all the changes occurred in the cash flow generated by the bank's main activity, by investments or financial activities, the cash flow at the beginning and at the end of the period.

In RON thousand	2018	2017	2016
Cash and cash equivalents at 1 January	8,516,418	8,733,257	8,107,242
Net cash flows used in operating activities	-391,814	1,143,864	1,668,736
Net cash flows used in investing activities	-109,050	-161,903	-15,082
Net cash flows used in financing activities	-384,395	-1,198,800	-1,027,639
Cash and cash equivalents at 31 December	7,631,159	8,516,418	8,733,257

#### Annexes

Please see the Annexes attached to the Romanian version of the Annual Report,  
 The Annual Report for 2018 is available at:

<https://www.raiffeisen.ro/despre-noi/guvernanta-corporativa/rapoarte-anuale/>