Raiffeisen BANK
Banking aşa cum trebuie

ANNUAL REPORT

(In accordance with F.S.A. no. 1/2006 regarding issuers
And issues of securities)
For the financial year 2017*

31 December 2017

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 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), while the object of activity includes monetary intermediation, 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 March 2017 Raiffesen Bank obtained control on Raiffeisen Leasing IFN S.A and ICS Raiffeisen Leasing S.R.L. by acquiring 49.99% in Raiffeisen Leasing IFN S.A.
The amount paid in this transaction was EUR 9,378 ths (RON 42,724 ths).

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:

RON MN	2017
Net profit	491
Turnover	2,603
Administrative expenses	1,258
Market share in terms of assets	8.42%
Liquidity indicator according to NBR requirements	1.05-14.16
Solvency ratio (CAR)*	15.92%
CET1 *	13.5%
Total Assets	36,085
ROE	15.76%

*before profit incorporation

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;

Raiffeisen Bank services approximately 2 million individuals, approx. 100 ths SMEs and 5,600 corporate companies. At year-end 2017, Raiffeisen Bank's network numbered 451 units, over 1,000 ATMs, 19,000 EPOS and 189 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

	12/2016	12/2017
Loans to customers	44%	48%
Deposits from customers	19%	17%
Transactions	22%	23%
Investments & trading	8%	3%
Other	7%	9%

Loans to customers category includes: interest and commissions income and expenses for loans granted to customers (Overdraft, Credit cards, Mortgages, Investment loans).
The category *Deposits from customers* includes interest and commissions income and expenses for standard term and negociable deposits, saving accounts and current accounts.
The *Transaction*s category includes commission income and expenses for payments, foreign exchange, cash transactions and electronic banking.

The *Other* category includes commission income and expenses from banccasurance, 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.

We know that the foundations for customer focus primarily lie in the quality of basic services. At the same time, Raiffeisen Bank is continuously involved in activities which add value and boost our competitiveness.

In 2017, our partnership with the EIF continued with the launch of two new programs meant to facilitate the access to financing for small and medium companies in advantageous terms.
The two programs mentioned above are: "Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises" (COSME), denominated in RON, with total portfolio volume of EUR 180 mn and "Small and Medium-sized Enterprises Initiative" (SMEi), denominated in RON and EUR, with total portfolio volume of EUR 340 mn.

Both programs have an EIF portfolio guarantee attached (50% for COSME and 60% for SMEi) and both have the purpose to support the competitiveness of SMEs in Romania offering advantageous funding conditions (lower collateral requirement and substantial financial benefit transferred).

In the same time, Raiffeisen Bank aimed to provide better self-service tools for its clients in 2017.
Last year, Raiffeisen Bank added almost 50 new multifunctional machines, offering to more customers the possibility to make RON deposits, foreign exchange transactions or pay their invoices.

Another achievement in this arena is that we now have an approval process for personal loans originations that is done 100% online. The digital transformation will stay in the forefront of our agenda also in the following period.

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

Lending activity in the market showed more evident signs of recovery in 2017. Outstanding loans granted by the banks to the private sector (households and companies) increased by 5.4% in 2017, while they went up by 1.2% in 2016. Also, for the first time since 2009, all three major lending segments posted positive dynamics in 2017 in terms of outstanding amounts: +3% for companies, +13% on housing loans, and consumer and other purposes loans inched up by 2.%.

Raiffeisen Bank continued to deliver upon the growth strategy and increased the business size in 2017, too. The fastened pace on lending, through sharpened focus on each of the bank's major segments managed to achieve close to 10% increase in the stock of net loans for Private Individuals, SMEs, and Corporate. The only fall in balances came on loans granted to non-bank financial institutions, where we had some maturities on short-term, sell-buy-back deals.

2017 brought forth an excellent performance for the bank's loan production, with newly approved loans reaching RON 13.6 billion, up by 19% compared to 2016. Almost 60% of these amounts went to local entrepreneurs and big companies (up by 21% yoy). At the same time, personal and housing loans disbursed to individuals also grew significantly in 2017, by 15%, to RON 4.7 billion. We are especially pleased with the mortgage loans originations this year, which doubled compared with 2016, on the background of rising housing market and a more stable legislative environment.

Deposits from customers once again showed strong, double-digit growth pace (+13%), helped primarily by Retail current accounts (+25% yoy). Deciding factors in this respect are the growth in average wages by some 15% in the economy, as well as the bank's strategy aimed towards *„income clients"*, via a highly advantageous offer of current account packages, with low costs and a wide array of services included.

The bank is well equiped to outpace the market and achieve its growth objectives, backed by the customer-centric approach, the simplification and digitalization efforts, strong franchise and its diversified funding sources. Deposits are likely to continue accumulating, especially for individuals, given the economic upward trend and higher disposable income.

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;

Raiffeisen Bank continued to consolidate its position on the Romanian banking system.
By the end of 2017, the bank held a market share of 9.35% on lending activities (vs. 9.31%* at the end of 2016). Raiffeisen Bank's market share for deposits also had a positive development, reaching 11.68% for December 2017 vs. 10.87%* a year before.
(Source: internal calculation based on the National Bank's available data).

** The market share for 2016 was recalculated due to change in methodology. In the previous paragraph we used the same methodology to calculate the market share for 2016 and 2017 in order to have comparability.*

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 end-2017, Raiffeisen Bank S.A. recorded a total of 5,835 employees, 85% of them with university education. 51% of the total number of employees are trade union members.75% of the employees are women, 25% men and the average age is 37 years old.

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 conflicting elements.
Through the training programs offered to the employees, Raiffeisen Bank aims to directly contribute to their professional and personal development, and also to maintain the equilibrium between the professional and personal life.

Through the year 2017, the bank initiated and continued several programs that are derived from the bank strategy and aligned to the organizational culture, targeting the development and consolidation of the functional and leadership competencies of the employees, as well as increased involvement on behalf of the employees.
The programs addressed both the business and support segments, so that the professional competencies may develop in balanced manner, at bank level.

The well-being program RStyle reveals the fact that Raiffeisen Bank acknowledged the influence of a competitive professional environment upon the employees, the constant pressure, and the bank focus on the important aspects in employees' lives: health, personal development, hobbies, activities, child care and education, parenting, and so on.
RStyle program offers easy to implement and professional solutions to employees, that are meant to support their health, self-awareness, personal development, improvement of professional relations, aspects that impact the daily life.

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.

Through the amplitude of performed activities, the banking sector has an essential role in the economic development of Romania. The reduction of material resources involves risks for companies as well as for communities. It has a direct influence on the companies' performance, but also on the final users, and Raiffeisen Bank S.A. understands that, as leader in the community, it must be an example in promoting responsible practices in this area. The Bank finances innovative projects and develops internal initiatives in order to limit the use of material resources so that it can deal with current and future challenges. This double approach, through internal and external actions, contributes to the reduction of the company's impact on the environment, while it generates measurable benefits.

One of the strategic directions of the Bank in the CSR (Corporate social responsibility) area is urban ecology, thus contributing to rebuilding cities on the principles of durable development. In 2017, the Bank continued to promote the need for environmental protection and reduction of energy consumption, by supporting annual bike-sharing programs, developed in partnership with Green Revolution Association. The developed projects promote the principles of environmental protection and a healthy life style, facilitating the reduction of pollution level caused by human activities and educating the participants about its various negative effects. Since 2010, the Bank is part of programs that encourage the use of bikes as an alternative transportation method.

The Bank's performance regarding environmental protection considerably improved in the last years and continues to be an integral part of the business model. The direct impact on the environment, generated by the Bank, is summed up, mainly, to energy, water and paper consumption. This report contains information about the consumption of material resources from all working points of the Bank, head offices and agencies, whose total area is 126,310 sqm.

- **Paper and electrical, electronic and electric appliance wastes (WEEE-s)**

The financial products and services offered by the company impact the level of material resources and, implicitly, the environment. As a financial services provider, the company uses paper for customer information - pre-contractual information, printing loan contracts, but also for administrative and promotion activities.

Type of consumed resources	Volume in 2017
Paper (kg)* *non-recycled paper	294,425
Printed materials, for the sale of financial products and services (kg)	12,000
Printer cartridge and toners (pieces)	6,400

According to the internal data, the Bank recycles 98,521 kg of paper in 2017. This process became a standard practice in the Bank.

Recycled materials	Volume in 2017
Paper (kg)	98,521
WEEE-s (kg)	70,294

- Wastes

The company annually registers the quantity of hazardous and non-hazardous wastes, produced in the performance of its activities. The internal management system of wastes provides the separate collection of each type, in all working points. All kitchens are provided with a separate wastes collection system, consisting of bins for paper, plastic - glass - metal and household waste. Starting with 2017, the Bank registers the household waste quantities in head offices as well as its agencies, fact which determined an increase of the reported household waste quantity.

Types of recycled wastes	Volume in 2017
Lighting objects (kg)	1,044
Batteries (kg)	3,869
Plastic (kg)	2,533
Quantity of waste dumped at landfill (kg)	6,477,317

- Energy

The reduction of the energy consumption is one of the Bank's priorities, especially due to the impact on the environment and on costs. The Bank registers detailed information regarding the energy consumption, in order to have a real and documented image based on which it sets actions.

Total consumption of energy	Volume in 2017
Electricity and energy for cooling (KWh)	22,385,000
Energy for heating (gas) (KWh)	14,480,000

- Transportation

The Bank recommends and supports the use of alternative transportation means. The Bank follows the latest innovative tendencies in technology and it progressively adopts transportation solutions that are friendlier with the environment for its employees.

Fuel consumption	Volume in 2017
Diesel fuel (liters)	480,444
Petrol fuel (liters)	92,270
Diesel for generators (liters)	5,396

The total distance traveled by taxi, cars from the company fleet and personal cars was 9,486,829 kilometers.

Total number of cars	521
Number of Diesel cars	458
Number of electric/hybrid cars	3
Number of petrol cars	60
Distance traveled by taxi, cars from company fleet and personal cars (km)	9,486,829

Transportation of employees/goods/for work interests	2017
Distance traveled by employees by personal car, for work interests (km)	1,030,224 km (about 82,000 l)
Distance traveled by employees by taxi, for work interests (km)	723,888 km (about 58,000 l)
Quantity of goods transported by courier services (t)	160 t
Distance traveled by employees by company car (km)	7,732,717

- Water consumption

The increase of employees' awareness level regarding water consumption and communication of policies on environmental protection are part of the concrete measures plan for water saving in the workplace. In 2017, the 5,265 employees of the Bank managed to reduce the water consumption by 11,475 m^3. The Bank does not have proper infrastructure for recycling or reusing water, reason for which the most efficient measure it can take regarding this matter is the reduction of consumption.

Consumed water (m^3)	Volume in 2017
Total volume of consumed water	55,000

- Social and environmental risks

Raiffeisen Bank implemented a social and environmental risk policy with the purpose of financing those projects which are environmentally and socially sound and sustainable in the long run, to minimize environmental and social risk both for the bank, and for our partners, to comply with the national and international requirements and standards regarding the environmental and social risks. This policy targets social, environmental and work situations and covers several aspects related to human resources management, procurement policy, different financial activities (investments, lending, etc), internal environment requirements – the efficiency of resources and energy consumption, the pollution prevention, recycling, etc., and also the organizational capacity and competence in setting the responsible areas which are able to implement this policy.

Before structuring of any financial transaction, existing or potential customers are screened in order to determine their risk level, which is classified as follows: low, medium and high. The main criteria that affect the risk level related to a financing project are: business sector, term of loan, size of loan and collateral offered.

Litigation or sanctions regarding legislation for environmental protection – there were no such cases registered during January 1 – December 31, 2017.

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 the loss arising from the non-performance of its clients' or counterparty's contractual obligations. The Bank manages and controls credit risk by setting limits on the size of the risk accepted for individual counterparties as well as for geographical or industrial concentrations and by monitoring these limits. The Bank is exposed to credit risk through both its lending, trading and investing activities as well as in situations where it acts as an intermediary on behalf of its clients or third parties when it carries out financing activities for financial leasing operations, or in its capacity as issuer of guarantees.

Credit risk management is based on related credit risk policies, credit risk manuals, and tools and processes developed for that purpose. These set targets, restrictions and recommendations for lending activity. The restrictive criteria and recommendations refer to:

- *Geographic concentration criterion* - maximum percentages for each geographic area are set;
- *The criterion of diversification by economic sectors* - maximum percentage exposures are set for each sector of activity;
- *Eligibility criteria* - eligibility criteria for general, restricted industries, start-up companies, etc. are established;
- *Rating Criteria* (for Corporate and Medium SME Clients) - maximum risk-adjusted limits are set on rating grades;
- *Maturity criterion* - maximum percentages of exposure are set for different maturity;
- *Currency Criteria* - limits on maximum exposure in currencies are set;
- *The collateral criterion* - maximum percentages of unsecured loans are set;
- *Risk-to-profit ratio* - Minimum values for this report are set for new transactions.

More detailed analyzes of the loan portfolio are based on customer ratings. Ratings are granted separately on different classes of assets using rating and scoring models. The default probabilities of the individual rating classes are estimated for each class of assets.
Rating models for non-retail asset classes are developed at Raiffeisen Bank International Group (RBI Group) group, incorporating 27 rating classes for corporate customers and 10 rating classes for financial and sovereign financial customers. For local retail classes, local scorecards based on group standards were developed.

Within the risk management activity, monthly monitoring of the Early Warning Signs for the mid-sized SME and corporate clients portfolio is also carried out. The activity of monitoring the warning and classification of clients by risk categories is independent of the granting and the credit administration.

The purpose of the activity is to identify early clients with potential difficulties in repayment and addressing their problems.

In the table below, the risk concentrations on product (for retail) and on economic sectors (for corporate) are presented:

In RON thousand	31 december 2017	31 december 2016
Retail customers, of which:		
Flexi	5,244,732	4,645,085
Mortgage	4,622,010	4,040,945
Consumer loans guaranteed with mortgage	1,662,033	1,944,249
Credit Card	2,516,014	2,152,308
Overdraft	1,596,525	1,440,046
Investment	514,190	520,966
Other	9,897	6,377
Corporate customers, of which:		
Agriculture	682,805	628,031
Electricity, oil & gas	1,713,188	1,010,665
Manufacturing	2,528,280	2,313,557
Construction	2,987,227	2,196,387
Wholesale and retail trade	3,996,636	3,819,098
Services	3,288,708	3,037,221
Public sector	573,088	707,999
Total	**31,935,333**	**28,462,934**

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 prefer short term access to their funds, borrowers need the possibility to repay the loans under medium to long term horizons, 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 limits, whose role 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.

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.

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 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 2017 is as follows:

RON thousands	Less than 3 months	3-12 months	1-5 years	Over 5 years	Without maturity	Total
Assets						
Cash and cash with Central Bank	6,391,767	0	0	0	2,080,084	8,471,851
Loans and advances to banks	85,641	0	0	0	0	85,641
Loans and advances to customers	14,166,044	4,866,328	2,266,799	123,761	0	21,422,932
Investment securities	1,299,323	1,141,473	2,532,297	237,401	0	5,210,494
	21,942,775	**6,007,801**	**4,799,096**	**361,161**	**2,080,084**	**35,190,917**
Liabilities						
Deposits from banks	501,239	0	7,050	0	0	508,289
Deposits from customers	15,542,081	5,848,909	8,342,837	2,921	0	29,736,748
Loans from banks and other financial institutions	99,934	61,570	73,201	5,895	0	240,600
Debt securities issued	0	16,929	499,294	0	0	516,223
Subordinated liabilities	849,017	0	0	0	0	849,017
	16,992,271	**5,927,408**	**8,922,381**	**8,817**	**0**	**31,850,877**
Effect of derivatives held for risk management purposes	289,922	-22,080	-172,214	-87,945	0	7,683
Net position	**5,240,426**	**58,313**	**-4,295,499**	**264,399**	**2,080,084**	**3,347,723**

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 of decreasing value of assets and liabilities denominated in other currencies than local currency following the change in foreign exchange rates.

Foreign exchange risk management is performed 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

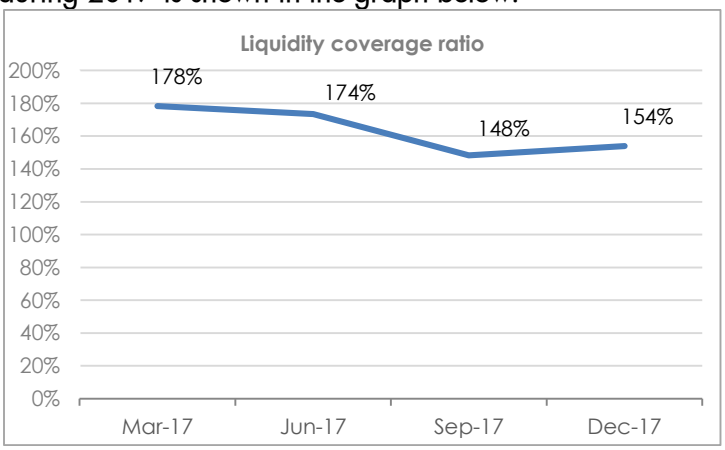
a) Presentation and analysis of the trends, elements, events or uncertainty factors which affect or could affect the bank's cash position in comparison with the same period of the previous year.

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 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, NBR Regulation 25 / 2011 (regarding NBR 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).
The previous period, 2017, 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 2017 is shown in the graph below:



In 2017, the LCR indicator recorded a relatively stable value at comfortable levels well above the 80% regulatory limit for 2017). 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. In the first half

of 2017, the high quality liquid assets remained at a relatively constant level with a slight upward trend, which increased in the second half of the year. With regard to liquidity outflows, the main factors during 2017 were stable retail deposits that had an upward trend throughout the year and operational deposits which showed a higher growth in the second half of 2017. On the liquidity inflows side changes in inflows from financial institutions were the main factor of variation in 2017.

Although there is no regulatory limit for NSFR in 2017, the Bank calculates and follows 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. In 2017, the NSFR indicator was stable, with its value fluctuating around 150% (151% in March 2017 and 147% respectively in June 2017).

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 taking into account a series of criteria as follows:

- Alignment of projects to the long and medium term investment strategy
- The realized investment projects must meet minimum return requirements
- The investments must be consistent with the Bank's risk appetite
- The need to be in line with all banking sector specific rules and regulations.

In the last 3 years the resources allocated to investments projects added up EUR 77 million, equivalent of 25% of net average profit from the same period.

The resource deployment towards investment programs is highly correlated to the Bank's strategic goals:

- **Customer experience and business growth**. An important part of the Bank's resources is focused on the identification of the specific customers' need 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**.

- **Compliance and regulatory**. Adjusting the internal systems and processes to be in line with legal and other regulatory requirements.

2017 highlights and accomplishments for the investment portfolio are summarized below:

- In order to **increase the diversity of the services offered to the clients**, the bank extended the network of multi-function cash machines. At the end of 2017, 189 Multi-Function Machine (MFM) are available to our customers for cash operations (besides cash disbursement, these devices provide additional options such as cash deposits and foreign exchange operations).

- **Digital transformation at full speed**. The investments in digitalization continued in order to offer our clients quick and easily accesible services. The usage of alternative channels is on an ascending trend, with the number of digital customers increasing by more than 40% in 2017, up to 475 thsd. This comes as further proof that the results of our investments made to improve their experience with Raiffeisen Online and Smart mobile applications were highly appreciated.

- **Simplification of internal processes and facilitating collaboration within the organization**. Automation and continuous optimization of the key processes in the Bank stay among the priorities, highly correlated with equiping our employees with new modern tools of communication and collaboration. Among noteworthy initiatives, we can mention the implementation of Corporate & SME new lending applications, core system and data warehouse upgrade.

- **The traditional distribution channel remained an important topic on the Bank's Agenda also in 2017.** The Bank carefully focuses on each new location selection criteria and this helped in the optimization of the occupied space by approx. 2,500 square meters (branches and headquarters) and the activity from 27 branches was interrupted.

- **Compliance and regulatory investments** increased significantly with high amounts dedicated to delivering the requirements from IFRS9, MiFID, MAD, etc.

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

Economic growth surged in 2017 as real Gross Domestic Product (GDP) advanced by 6.9%. Similar to previous years, private consumption acted further as main engine of GDP growth on the demand side. The fast increase of private consumption was backed by improvements recorded on the labor market (solid increase of wages and decline of unemployment rate).

The additional hikes of wages in the public sector and of pensions maintained the individuals' propensity to spend at elevated levels. Gross fixed investments provided some signs of rebound in 2017, as their dynamics returned to the positive territory, following the decline in 2016. The advance of exports of goods and services was surpassed by a more rapid increase of imports, which resulted again in a negative contribution of net exports to the GDP growth. At the same time, the external imbalances (current account deficit and foreign trade deficit) widened further in 2017. Turning to the supply side, gross value added in industry and in services posted sound increases in 2017. Moreover, the GDP advance from last year was explained to some extent by the spike of gross value added in

agriculture. The real GDP excluding agriculture went up by 6.5% in 2017, which is a slower growth rate compared to that posted by real GDP.

The public budget deficit (cash terms) stood at 2.8 % of GDP in 2017, slightly below the target set initially (3.0% of GDP). Despite the additional fiscal easing measures enforced, the jump of the public budget deficit above 3% of GDP in 2017 was avoided on the back of a cut in public investments (-10%) as well as with the help of one-off payments in special dividends received from state owned companies and by reversing the cut of excise duties for fuels.

The annual inflation rate returned to the positive territory at the beginning of 2017 and it increased rapidly, ending last year at 3.3%. The main driver of the inflation rate in 2017 was the strengthening of underlying inflationary pressures. Furthermore, several large adverse supply side shocks (increase of administered prices, increase of oil price, RON depreciation) also contributed to the increase of the inflation rate.

The National Bank of Romania (NBR) kept the monetary policy rate unchanged at 1.75% at all the monetary policy meetings in 2017. Until September, money market interest rates (ROBOR) were significantly below the key interest rate as excess liquidity preserved in the money market. In Q4, ROBOR rates jumped exceeding the key rate as a liquidity shortage emerged at the level of the banking sector. Also, the NBR adjusted its rhetoric and it announced a change in its strategy aiming to reduce the interests' rate volatility by allowing a more flexible exchange rate. At the first two monetary policy meetings in 2017, the NBR narrowed the corridor between the interest rates at the permanent facilities to ±1 percentage points around the key rate from ±1.5 percentage points.

Lending activity showed more evident signs of recovery in 2017. Outstanding loans granted by the banks to the private sector (households and companies) increased by 5.4% in 2017, while they went up by 1.2% in 2016. Also, for the first time since 2009, all three major lending segments – loans granted to the companies, housing loans, and loans for consumer and other purposes – posted positive dynamics in 2017 in terms of outstanding amounts. Fastest advance was again recorded in case of housing loans (13.1%) that there were propped up further by the "First Home" governmental program. While improving, dynamics of loans granted to the companies and of loans for consumer and other purposes remained modest (3.0% and 2.0% respectively). Similar to the previous years, the advance of outstanding banking loans in 2017 was exclusively driven by RON denominated loans (+15.7%), while a sharp decrease was recorded in case of FCY denominated loans (-10.3% in euro equivalent). In this context, share of FCY loans in total loans granted by banks to the private sector decreased to 37.9% in December 2017 from 43.4% in December 2016. The reliance of domestic banks on foreign capital reduced further as the share of foreign liabilities in total gross assets decreased to 10% in December 2017 from 11.7% in December 2016. Moreover, the loans-to-deposits ratio decreased further in 2017 as the advance of deposits of households and companies held with banks (10.3%) outpaced that of loans (5.4%). The profitability of the banking system improved in 2017 thanks to good macroeconomic conditions, reviving lending activity, and due to reduction of net impairment loss. The capital adequacy ratio at the level of the banking system remained also elevated (18.9% in December 2017). NPLs ratio stood at 6.4% at the end of 2017, down from 9.6% at the end of 2016.

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 14th September 2016 the distribution of dividends was approved in total amount of RON 330 mio. (representing a gross dividend in value of RON 27,500/share) for the financial exercise of 2015. All the dividends were distributed to the shareholders.

Through Resolution no.1 by the Ordinary General Meeting of Shareholders dated 24th 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 and the dividends were paid withing the legal payment term..

By diminishing the value of the distributed dividends the strengthening of the Bank's capital position is pursued.

The Raiffeisen Bank S.A. Management Board's proposal for approval by the Ordinary General Meeting of Shareholders of May 2nd, 2018 is the distribution of the dividends related to the financial exercise of the year 2017, in a total pre-tax amount of RON 252,000,000, amount corresponding to a gross dividend in amount of RON 21,000/share, whitch shall be paid begining with the date of June 12th, 2018 within the timeframe provided by the law (maximum six months from the GSM date).

This proposal will be submmited for approval to the Ordinary General Meeting of Shareholders of May 2nd, 2018.

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) CV (family name, first name, age, skills, professional expertise, position and length of employment);

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
SEVELDA*	KARL	PRESIDENT OF THE SUPERVISORY BOARD	28.04.2015-24.04.2017
STROBL	JOHANN	PRESIDENT OF THE SUPERVISORY BOARD	25.04.2017-29.04.2018
GRÜLL	MARTIN	VICEPRESIDENT OF THE SUPERVISORY BOARD	28.04.2015-28.04.2019
MÖSENBACHER	HANNES	MEMBER	24.042017–24.04.2021
LENNKH	PETER	MEMBER	29.04.2014-29.04.2018
BREUER**	KLEMENS JOSEF	MEMBER	27.04.2016-01.11.2017
IOAN	ILEANA ANCA	INDEPENDENT MEMBER	19.04.2013-19.04.2017
ANDREAS	GSCHWENTER	MEMBER	27.04.2016-27.04.2020
ANA-MARIA	MIHAESCU	INDEPENDENT MEMBER	14.09.2016-14.09.2020

*Mr. Sevelda Karl submitted his resignation starting with 24.04.2017.
**Mr. Klemens Josef Breuer submitted his resignation starting with 01.11.2017.

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
ROSSEY*	CARL C.H.	VICE-PRESIDENT	02.05.2015- 01.03.2017
SPORIS	CRISTIAN-MARIUS	VICE-PRESIDENT	02.05.2015- 30.06.2018
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
ION	MIHAIL CATALIN	VICE-PRESIDENT	14.07.2017-31.12.2018

*Mr. Rossey Carl C.H. submitted his resignation starting with 01.03.2017.

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:

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 volume of Raiffeisen Banks at the end of 2017 is RON 36.1 bn, with an increase of 8% as compared to previous year, through core customer business: the deposits base shows once again double digit growth pace and continues to provide fuel for healthy business development, while the loan book growth, +8% yoy, comes from all our major customer segments.

The main components of total assets are:

% of total assets	2017	2016	2015
Loans and advances to customers, net	59.4%	59.1%	57.7%
Cash and cash equivalents	23.5%	24.5%	22.2%
Investment securities	14.4%	11.5%	13.0%

Loans to customers increased by 8% as compared to the end of 2016, and by 18% as compared to the end of 2015, a remarkable achievement that proves our solid positioning in the Romanian banking market.

In an economic environment where private consumption is the chief driver behind the GDP advance, we acknowledge the importance of setting the grounds for a solid and sustainable future growth. In this context, offering bespoke banking solutions to legal entities is essential and we have taken steps to achieve loan growth in a balanced and responsible way: our legal entities loan portfolio expanded by 10% in 2017, with similar growth pace shown by Corporate and SME customers. New volumes greater yoy by 21% for Corporate and by 20% for SMEs stood at the heart of this noteworthy development.

Our balance-sheet and capital position remained solid, with assets and funding profile dominated by the customer business. Main developments related to the liabilities side of the balance-sheet are seen below:

Status of liabilities:

RON ths	2017	2016	2015
Deposits from banks and loans from banks and other financial institutions	748,889	1,720,601	2,251,557
Deposits from customers	29,736,748	26,381,841	23,743,196
Debt securities issued	516,123	515,961	746,285
Subordinated liabilities	849,017	954,973	950,436
Other liabilities	710,576	622,495	593,404

Liabilities growth, +8% compared to 2016 and +15% compared to 2015, comes mainly from the developments in customer current accounts. In a market dominated until recently by very low interest rates, our clients know their money is in good hands at all times and this places us in a good position to continue developing our business on sound foundations.

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 ths	2017	2016	2016	Variation 2017 vs. 2016
Net interest income	1,151,933	1,111,062	1,053,520	4%
Net fee and commission income	568,290	607,977	609,206	-7%
Net trading income	310,781	300,633	288,261	3%
Operating and personnel expenses	-1,257,658	-1,163,698	-1,202,487	8%
Net impairment loss on financial assets	-244,277	-469,269	-289,012	-48%
Net profit	**491,177**	**451,629**	**437,564**	**9%**

Net profit of the Bank expanded by 9% yoy and reached Ron 491 mn in 2017. Diversified income streams have set the grounds for our consistent track record of resilient earning power. At the same time, the sound risk strategy and efficiency initiatives position the Bank well in order to create future value to all our stakeholders, in an increasingly regulated environment.

The Bank's vision and purpose are oriented towards the needs of the customers and the real economy. This is the main underlying driver behind a resilient earning power. The underlying revenues[1] remained

[1] Without the Eur 21 mn proceeds from VISA Europe share sale in 2016

stable in 2017, on the background of higher net interest income and pressures coming from the net fees and trading income. Details below:

The net interest income grew sensibly in 2017 for the second year running, by 4%. Our loan book dynamic (+8%) provided the primary growth fuel, while the rates for customer deposits continued to trend at record low levels in the local market. We are confident that our core revenues will remain on an upward trend, as a natural consequence of the faithful adherence to our organic growth strategy.

In spite of an increased competitive environment, with notable pressures on pricing, our payment-driven fees were slightly up, by 1%. On the downside, we witnessed a decrease in fees charged for our current account packages, which was expected considering that an important goal for us was offering highly cost-efficient solutions for our clients' saving and transactional needs. Coupled with the fastened pace of digitalization, we are convinced that the long-term benefits for the bank and our clients will largely surpass the short term decrease in revenues. Additionally, insurance fees were reported lower based on some non-recurring revenues received from third parties in 2016.

Trading income was positively influenced by intensified FX trades by the clients. The main driver for growth was the higher transacted volume by 5%, with especially good developments noticed for the transactions by SME and Corporate clients via the online platform.

Our clients' repayment behavior improved also in 2017, for individuals as well as companies, and risk costs have consequently dropped by almost 50% as compared with 2016. If we exclude the impact of non-recurring events in both periods, like the impact of the walk-away law, CHF conversion campaign or changes in provisioning methodology, we can outline a 25% improvement in the underlying provisions for loan losses in 2017 vs 2016. These positive developments are also visible in the quality of our loan portfolio: the NPL ratio dropped to levels close to 6%, down by 2pp vs the same period of 2016. This achievement was possible thanks to a combination of increased loan production, disciplined repayments from our clients and the coherent implementation of an array of tools for managing the non-performing loan portfolio.

Raiffeisen Bank invested in technology and enhancing its digital capabilities, with the aim of running lean, client-oriented processes and ultimately deliver quality, accessible and fast products for its clients. We are also operating in an economic environment characterized by growing costs, chiefly labor-related, but also with an inflationary background lately. As a result, the Bank's operating expenses were 8% higher yoy, affected also by some non-recurring events which led to a lower reported figure in 2016.

Dividends declared and paid:
2015: RON 606 million
2016: RON 330 million
2017: RON 180 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	2017	2016	2015
Cash and cash equivalents at 1 January	8,733,257	8,107,242	8,732,037
Net cash flows used in operating activities	1,143,864	1,668,736	- 26,691
Net cash flows used in investing activities	-161,903	-15,082	- 41,023
Net cash flows used in financing activities	-1,198,800	-1,027,639	- 557,081
Cash and cash equivalents at 31 December	8,516,418	8,733,257	8,107,242

Annexes

Please see the Annexes attached to the Romanian version of the Annual Report.
The Annual Report for 2017 is available at:
https://www.raiffeisen.ro/despre-noi/guvernanta-corporativa/rapoarte-anuale/