INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BANCA TRANSILVANIA SA

Report on the audit of the financial statements

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Banca Transilvania S.A. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and the National Bank of Romania ("NBR") Order 27/2010, "for approving accounting Regulations in accordance with IFRS, applicable to credit institutions" and subsequent amendments ("NBR Order 27/2010"); and
- the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with IFRS and NBR Order 27/2010.

Our opinion is consistent with our additional report to the Bank's Audit Committee dated 24 March 2019.

What we have audited

The Group's consolidated financial statements and the Bank's separate financial statements (collectively the "financial statements"), set out on pages 1 to 183, comprise:

- the Consolidated and Separate Statements of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2018;
- the Consolidated and Separate Statements of Financial Position as at 31 December 2018;
- the Consolidated and Separate Statements of Changes in Equity for the year ended 31 December 2018;

This version of our report/the accompanying documents is a translation from the original, which was prepared in Romanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

- the Consolidated and Separate Statements of Cash Flows for the year ended 31 December 2018; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

The consolidated financial statements as at 31 December 2018 are identified as follows:

- Total equity: RON 7,880,073 thousands;
- Profit for the year: RON 1,260,680 thousands.

The separate financial statements as at 31 December 2018 are identified as follows:

- Total equity: RON 7,411,216 thousands;
- Profit for the year: RON 1,219,391 thousands.

The Bank's registered office is in Cluj-Napoca, Cluj, 8 George Baritiu Street, Romania and the Bank's unique fiscal registration code is RO5022670.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law 162/2017 regarding statutory audit of annual financial statements and annual consolidated financial statements and regarding changes to other regulations ("the Law"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

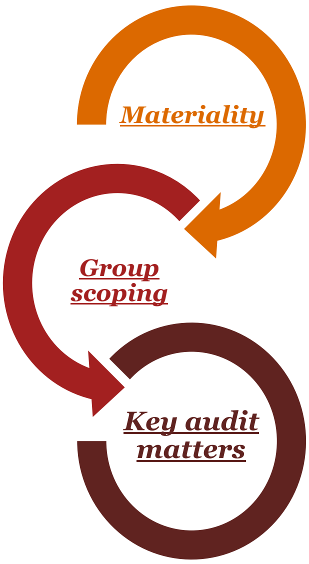
We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code.

To the best of our knowledge and belief, we declare that the non-audit services that we have provided to the Group and the Bank are in accordance with the applicable law and regulations in Romania and that we have not provided non-audit services that are prohibited under Article 5(1) of the Regulation.

The non-audit services that we have provided to the Group and the Bank, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 17 “Other operating expenses” to the financial statements.

Our audit approach

Overview



Overall materiality:
RON 82 million for both consolidated and separate financial statements.

Group scoping:
We planned and scoped our audit for 2018 reflecting the Group’s current structure whereby the Bank and its main subsidiary, B.C. Victoriabank SA, represents practically all of the Group’s assets, liabilities, revenue and profit before tax. Hence, we defined the Bank and B.C. Victoriabank SA as the sole significant components within the Group and so these two were subject to a full scope audit of their financial information.

Key audit matters:

- Application of IFRS 9 “Financial Instruments” in the calculation of expected credit loss (“ECL”) allowances for loans and advances to customers;
- Litigation provisions for allegedly abusive clauses in loan contracts; and
- Business combinations performed during 2018.

These key audit matters were considered key for both the audit of the consolidated and separate financial statements.

Group scoping

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and separate financial statements as a whole, taking into account the structure of the Group and of the Bank, the accounting processes and controls, and the industry in which the Group and the Bank operate.

We planned and scoped our audit for 2018 reflecting the Group's current structure whereby the Bank, merged with former Bancpost, represents the vast majority of the Group's assets (more than 95%), liabilities (more than 95%), operating income (more than 91%) and profit before tax (approximately 99%). Whilst the Bank's main subsidiary as at 31 December 2018, B.C. Victoriabank SA, accounts for only approximately 4% of total assets, total liabilities and operating income and under 1% of total profit before tax of the Group, we have still designated this subsidiary as a significant component, being the largest subsidiary and also a foreign operation of the Group that was newly acquired during 2018. Hence, we defined the Bank and B.C. Victoriabank SA as the sole significant components within the Group and so these two were subject to an audit of their complete financial information. We issued instructions to the component audit team of B.C. Victoriabank SA that specified the allocated materiality level, risk assessment, reporting requirements etc. and we performed a review of their working papers during the completion phase of their audit. We also performed procedures on the consolidation process including checking intra-group eliminations.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	RON 82 million for both consolidated and separate financial statements.
How we determined it	Approximately 5% of profit before tax as per the Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018 being the lower of the consolidated and separate profit before tax for the year.

Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the Bank is most commonly measured by its stakeholders, and it is a generally accepted benchmark. We chose 5%, which is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee we would report to them misstatements identified during our audit above RON 4 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Application of IFRS 9 "Financial Instruments" in the calculation of ECL allowances for loans and advances to customers We focused on this area because this is a new and complex accounting standard requiring the management to implement new models and procedures. In addition, these models and calculations require the management to make complex and subjective judgements over both the timing of recognition of ECL and the estimation of the size of ECL. On 1 January 2018, IFRS 9 was adopted by the Group and replaced the previously applied IAS 39 for credit loss allowance (which is still applied in the financial statements for the 2017 comparative period). Under IFRS 9, the basis of creating expected credit loss allowances is	In relation to the implementation of the new ECL models for measuring credit loss allowance both on adoption of IFRS 9 on 1 January 2018 and as at 31 December 2018, we assessed the appropriateness of the key assumptions used in the methodologies and models of the Group and their compliance with the principles and requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. Given that the Bank represents around 99% of the total balance of loans and advances to customers, we have set out below the specifics of how we responded to this key audit matter in the Bank. We assessed and tested on a sample basis the design and operating effectiveness of key controls over ECL data and calculations.

Key audit matter	How our audit addressed the key audit matter
significantly different from the previous standard and the new disclosure requirements are also significantly different. Therefore, we focused on the design and application of the new comprehensive ECL models introduced by the management to assist them to comply with IFRS 9. For significant loans and advances to customers in Stage 1, 2 or 3, ECL are assessed individually based on probability weighted scenarios of cash flow forecasts. The key assumptions here are the expected cash flows (from both operating cash flows and recoveries from collateral) and the weighting attached to the different scenarios. For non-significant loans and advances to customers in Stage 1, 2 and 3 an assessment of the expected credit loss allowance is performed collectively, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, definition of significant increase in credit risk, exposure at the moment of default and the estimated recoveries from defaulted loans. Statistical models are used for determination of the key assumptions including different future macro economic scenarios. As this is the first year of adoption of IFRS 9, there is limited experience available to back-test the charge for ECL with actual results. There is also a significant increase in the number of data inputs required for the impairment calculation. This increases the risk around completeness and accuracy of certain	The controls included those over the input of critical data into the source systems, and the flow and transformation of data between source systems to the impairment calculation software engine. We verified the reconciliation of the output of the ECL calculation software engine with the accounting records. We tested, on a sample basis, the key controls to ensure that repayments are properly allocated to the correct loans balance and that days past due are accurately calculated by the Bank's system. We also tested application of the default definition and tested, on a sample basis, the appropriateness of the default flagging. We assessed the model performance controls for main risk parameters across key portfolios. We tested, on a sample basis, the key inputs and assumptions used in the back-testing exercise. With regards to the identification of significant increase in credit risk, we have assessed the adequacy of staging allocation results and tested on a sample basis the appropriateness of the application of quantitative and qualitative staging criteria. We tested the adequacy of the probability of default and loss given default estimates for a sample of portfolios, including by re-calculating the parameters based on the same historical datasets used by the Bank. We tested the macroeconomic scenarios employed by the Bank in the ECL estimation process, including by assessing the reasonableness of the forecasted variables, the weights of alternative scenarios and deviation of estimates to the baseline scenario. We have tested, on a sample basis, the accuracy of

Key audit matter	How our audit addressed the key audit matter
data used to create assumptions and operate the models. Note 3 – "Significant accounting policies", Note 4 – "Financial risk management", and Note 5 – "Accounting estimates and significant judgments" to the financial statements provide detailed information on the ECL for loans and advances to customers and the effect of adoption of new ECL models.	macroeconomic information used by the Bank to analyse historical default patterns. For individually assessed loans, we tested, on a sample basis, the approval of the key inputs and assumptions such as discount rates used, estimated operating cash flows, estimated recoveries from collateral, and type and weighting attached to the different forecast scenarios. In addition, we tested, on a sample basis, the collaterals' valuations performed by the Bank's valuation experts using our own valuation specialists. In the case of some expected credit losses, we formed a different view from that of management, but, in our view, the total ECL allowance is within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements.
Litigation provisions for allegedly abusive clauses in loan contracts We focused on the provision for allegedly abusive clauses recorded in "Provisions for non-performing loans, risks and charges" line in Note 35 "Provisions for other risks and loan commitments" as the measurement of the provision involves making significant judgement and estimates by the management of the Bank. The management developed a methodology to estimate the required provision for allegedly abusive clauses. The methodology involves making assumptions about the number of future legal claims to be brought against the Bank, the potential cash out-flow required to settle the claims and the outcome of current	We examined the data used by management in determining the litigation provision for allegedly abusive clauses and the analysis performed by management to assess the required level of provision. We tested the accuracy of the nature, categorisation and history of claim volumes and settled amounts for closed litigations. We then assessed whether the key assumptions underpinning the provision calculation, including future legal claims to be brought against the Bank, the potential cash out-flow required to settle the claims and the outcome of current and possible future claims, were appropriate by developing and using our own model to assess the level of provision and compared the output to management's assessment.

Key audit matter	How our audit addressed the key audit matter
and possible future claims. These assumptions are inherently difficult to estimate and the estimation uncertainty is high. Management reassessed the level of provision during 2018, based on a decreasing trend of the number of new claims opened against the Bank and the impact on the assumption regarding future legal claims to be brought against the Bank. This reassessment led to a release of a part of the provisions previously recorded. See also Note 5 – "Accounting estimates and significant judgments" to the financial statements.	In making our own estimate regarding the future legal claims to be brought against the Bank and the outcome of current and possible future claims we considered the recent history of new legal claims opened against the Bank and the outcome for legal claims started against the Bank. For validation of these updated assumptions we have tested on a sample basis i) the recent history of outcomes for claims started against the Bank for which final Court decisions have been issued; and, ii) also the recent trend of new litigations started against the Bank, against supporting documentation. In doing so, we considered the inherent uncertainty in the estimate of the required level of provision, especially in the light of the impact on future claims volumes. This uncertainty could ultimately result in significantly different amounts being required to settle the obligation from those calculated by management. However, in our view management's assessment is within a reasonable range of possible outcomes in the context of the high degree of uncertainty that exists around these future claims.
Business combinations performed during 2018 In November 2017, the Bank signed the agreement for the acquisition of the majority stake held by Eurobank Group in Bancpost S.A., ERB Retail Services IFN SA and ERB Leasing IFN SA. After succesful completion of the conditions precedent, the Bank obtained control over the 3 companies in April 2018. In case of B.C. Victoriabank SA, the Bank concluded that the control was obtained in April 2018 upon acquisition of shares through	We assessed compliance of the acquisition accounting policy with the requirements of IFRS 3, "Business combinations". Based on this and other supporting documentation we have assessed the appropriateness of the date of control that was determined by management. Together with our valuation specialists, we audited the purchase price allocation reports prepared by external, independent certified valuers to assess the recognition and measurement of identifiable assets acquired, and liabilities assumed.

Key audit matter	How our audit addressed the key audit matter
the Moldovian Stock Exchange and appointment of a new general manager of the subsidiary. As of 31 December 2018, the Bank controls, together with European Bank for Reconstruction and Development ("EBRD"), over 66% of total shares in B.C. Victoriabank SA, through a special purpose vehicle, in which the Bank holds majority of the shares and voting power. We focused on these acquisitions as they involved making significant judgements and estimates by management of the Bank regarding: • date of obtaining control; • recognition and measurement of identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquires; and • recognition and measurement of goodwill or a gain from a bargain purchase. In case of each of the above acquisitions, management obtained purchase price allocation reports prepared by external, independent certified valuers in order to determine the fair value of assets, liabilities and contingent liabilities acquired and that formed a basis for any resulting goodwill or a bargain purchase gain. On 31 December 2018, the Bank legally merged with Bancpost S.A., which involved the operational and accounting data transfer from Bancpost S.A. IT legacy systems to the Bank's IT systems.	We have assessed the measurement period adjustments performed by the management post the acquisition dates that affect the fair value of assets and liabilities acquired, along with subsequent changes in the acquisition price that resulted from closing procedures performed, and we recalculated the impact on the bargain purchase gain. In testing the transfer of data of former Bancpost SA into the systems of the Bank following the legal merger we tested, on a sample basis, the key controls over completeness and accuracy of the data transferred. In testing these controls, we involved our IT experts to assess the overall data migration project and we assessed the Bank's data migration trial testing documentation and results, and inspected the formal sign-offs for each phase of the migration including final go-live. We have then analysed the relevance of data fields selected by the Bank for reconciliation, whether the resolution in case of differences following the reconciliation was appropriate and assessed the quantitative and qualitative results of the Bank's reconciliation process, both from operational and financial perspectives. We have validated, on a sample basis, the accuracy and completeness of the loans and advances to customers, current accounts and customer deposits' operational data migrated from Bancpost S.A. against underlying physical documentation. Also, Bancpost S.A. balances with other banks and financial instruments transferred to the Bank were confirmed, on a sample basis, with counterparties and depositories. Upon completion of our work as described above, where in the case of some specific estimates, we formed a different view from that of Bank's

Key audit matter	How our audit addressed the key audit matter
We focused on the legal merger as it involved complex transfers of data and roll forward of the fair values of assets and liabilities acquired. The Bank disclosed these significant transactions in Note 3 a) (viii) – "Significant accounting policies - Basis of consolidation - Presentation of the legal merger through absorption in the financial statements", Note 50 – "Acquisition of Bancpost S.A., ERB Leasing IFN S.A., ERB Retail IFN S.A.' and Note 51 – "Acquisition of Victoriabank S.A." of the financial statements.	management, the cumulative impact of these differences was within a reasonable range of outcomes in the context of the overall acquisition accounting effects as disclosed in the financial statements.

Reporting on other information including the Administrators' Report

The Administrators are responsible for other information. The other information comprises the Administrators' Report and the Non-Financial Statement but does not include the financial statements and our auditor's report thereon. We obtained the other information prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Administrators' Report and the Non-Financial Statement.

In connection with our audit of the financial statements, our responsibility is to verify whether the Non-Financial Statement was provided. The Non-Financial Statement has been prepared by the Administrators.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Administrators' Report, we read it and we report whether this was prepared in all material respects, in accordance with NBR Order 27/2010 articles 37 and 38.

Based exclusively on the work undertaken in the course of our audit of the financial statements, in our opinion:

- the information given in the Administrators' Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;

- the Administrators' Report has been prepared, in all material respects, in accordance with NBR Order 27/2010 articles 37 and 38.

In addition, in light of the knowledge and understanding of the Group and Bank and its environment obtained in the course of the audit of the financial statements for the financial year ended 31 December 2018, we are required to report if we have identified material misstatements in the Administrators' Report. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation of the accompanying financial statements that give a true and fair view in accordance with IFRS and the NBR Order 27/2010 and with the accounting policies presented in the Note 3 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's or Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as financial auditors of the Bank at the Ordinary General Shareholders Meeting on 8 October 2015. The total period of uninterrupted engagement appointment is of 3 years covering the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018.

The engagement partner on the audit resulting in this independent auditor's report is Paul Facer.

Refer to the original signed Romanian version

Paul Facer
Financial auditor
registered with the Public Electronic Register of financial auditors and audit firms under no. 3371

On behalf of

PricewaterhouseCoopers Audit SRL
301-311 Barbu Văcărescu Street, Bucharest
Audit firm
registered with the Public Electronic Register of financial auditors and audit firms under no. 6

Bucharest, 24 March 2019