Independent Auditor's Report

To the Shareholders of Banca Transilvania S.A.

Report on the audit of the financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Banca Transilvania S.A. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the National Bank of Romania (NBR) Order no. 27/2010 for approving accounting Regulations in accordance with International Financial Reporting Standards, applicable to credit institutions and subsequent amendments (the "NBR Order 27/2010").

Our opinion is consistent with our additional report to the Audit Committee dated 23 March 2020.

What we have audited

The Group's and the Bank's consolidated and separate financial statements, comprise:

- the consolidated and separate statement of profit or loss at 31 December 2019;
- the consolidated and separate statement of other comprehensive income for the year then ended;
- the consolidated and separate statement of financial position as at 31 December 2019;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statement of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

The consolidated and separate financial statements as at 31 December 2019 are identified as follows:

Total consolidated equity:	RON thousands 9,213,836;
Consolidated net profit for the year:	RON thousands 1,847,893.
Total separate equity:	RON thousands 8,496,443;
Separate net profit for the year:	RON thousands 1,620,512.

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 and subsequent amendments (the “Regulation”) and Law 162/2017 regarding statutory audit of annual financial statements and annual consolidated financial statements and regarding changes to other regulations and subsequent amendments (the “Law”). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated and separate 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

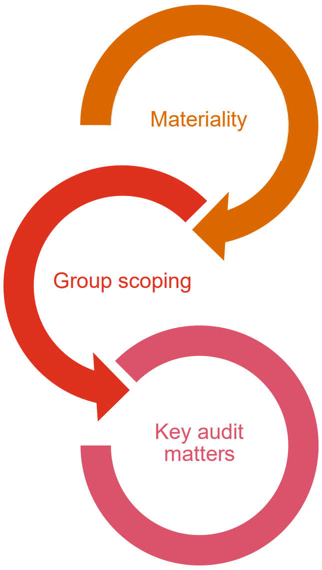
We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Romania,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

To the best of our knowledge and belief, we declare that 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 2019 to 31 December 2019, are disclosed in Note 17 to the consolidated and separate financial statements.

Our audit approach

Overview



- Overall materiality for both consolidated and separate financial statements is RON thousands 94,400, which represents 5% of profit before tax of the Bank.

- We planned and scoped our audit for 2019 reflecting the Group's current structure whereby the Bank and its main subsidiary, B.C. Victoriabank SA, represent a very significant part of the Group's assets, liabilities, revenue and profit before tax. Hence, we defined the Bank and B.C. Victoriabank SA as the most significant components within the Group and so these entities were subject to a full scope audit of their financial information.

- Application of IFRS 9 "Financial Instruments" in the calculation of expected credit losses ("ECL") allowances for loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate 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 of 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated and separate 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 consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Bank materiality for the consolidated and separate 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 consolidated and separate financial statements as a whole.

Overall Group and Bank materiality	RON thousands 94,400 for both consolidated and separate financial statements.
How we determined it	5% of profit before tax of the Bank as per the consolidated and separate statement of profit or loss for the year ended 31 December 2019 being the lower of the Group's and the Bank's profits 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 in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RON 5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate 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 expected credit losses ("ECL") allowances for loans and advances to customers	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 focused on this area because this is a complex accounting standard requiring the management to make complex and subjective	In relation to the ECL models for measuring credit loss allowance as at 31 December 2019, we assessed the appropriateness of the key

Key audit matter	How our audit addressed the key audit matter
judgements over both the timing of recognition of ECL and the estimation of the amount of ECL. IFRS 9 has introduced an expected loss model, which requires a forward-looking approach to estimating credit losses arising on loans and advances. This approach significantly differs from the incurred loss model applied before 2018. For significant loans and advances to customers that are assessed individually, the ECL is computed based on probability weighted scenarios of cash flow forecasts. The key assumptions 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 that are assessed collectively, the key assumptions used in ECL computation are: 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 just the second year since adoption of IFRS 9, there is still limited experience available to back-test the estimate of ECL against the actual results. There is also a significant increase in the number of data inputs required for the ECL calculation that is sourced from multiple systems. This increases	assumptions used in the methodologies and models of the Bank 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. We assessed and tested on a sample basis the design and operating effectiveness of key controls over ECL data and calculations. 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 ECL calculation software. We verified the reconciliation of the output of the ECL calculation software with the accounting records. We tested, on a sample basis, the key controls over allocation of repayments to the correct loans balance and the accurate calculation in the Bank's system of days past due. We also tested the application of the default definition and tested, on a sample basis, the appropriateness of the default flagging in the Bank's system. We assessed the ECL 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 reasonableness of staging allocation results and tested on a sample basis the application of quantitative and qualitative staging criteria. We considered the appropriateness of the underlying data used in the calculations of the probability of

Key audit matter	How our audit addressed the key audit matter
the risk around completeness and accuracy of certain 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 consolidated and separate financial statements provide detailed information on the ECL for loans and advances to customers and the effect of adoption of new ECL models.	default and loss given default. For a sample of portfolios, we re-calculated the parameters based on the same historical datasets used by the Bank. We assessed the macroeconomic scenarios employed by the Bank in the ECL estimation process, including assessment of the reasonableness of the forecasted variables, the weights of alternative scenarios and deviation of estimates to the baseline scenario. For individually assessed loans, we tested, on a sample basis, the approval of the key inputs and assumptions such as estimated operating cash flows, estimated recoveries from collateral, and type and weighting attached to the different forecast scenarios. 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.

How we tailored our group audit scope

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 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 2019 reflecting the Group’s current structure whereby the Bank represents the vast majority of the Group’s assets (95%), liabilities (96%), operating income (87%) and profit before tax (89%). Whilst the Bank’s main subsidiary as at 31 December 2019, 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. Hence, we defined the Bank and B.C. Victoriabank SA as the most significant components within the Group and so the Bank and B.C. Victoriabank SA were subject to an audit of their complete financial information.

Reporting on other information including the Consolidated Administrators’ Report

The Administrators are responsible for the other information. The other information comprises the Consolidated Administrators’ Report but does not include the consolidated and separate financial statements and our auditor’s report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information, including the Consolidated Administrators’ Report.

In connection with our audit of the consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to verify whether the Consolidated Non-Financial Statement was provided.

We confirm that the Consolidated Non-Financial Statement has been prepared by the Administrators.

With respect to the Consolidated Administrators’ Report, our responsibility is to consider whether the Consolidated Administrators’ Report was prepared in accordance with NBR Order 27/2010 articles 37 and 38 (and in accordance with articles 32-34 from NBR Order 27/2010 republished on 10 February 2020).

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

- the information given in the Consolidated Administrators’ Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements;
- the Consolidated Administrators’ Report has been prepared in accordance with NBR Order 27/2010 articles 37 and 38 (and in accordance with articles 32-34 from NBR Order 27/2010 republished on 10 February 2020).

In addition, in light of the knowledge and understanding of the Group and the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Consolidated Administrators’ Report. We have nothing to report in this regard.

Responsibilities of management and those charge with governance for the consolidated and separate financial statements

Management is responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and NBR Order 27/2010, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the 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 and the Bank and 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 consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate 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 consolidated and separate 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 the 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 Group's and 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 consolidated and separate 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 and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 management 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 charge 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 charge with governance, we determine those matters that were of most significance in the audit of the consolidated and separate 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 auditors of Banca Transilvania S.A. on 8 October 2015. Our appointment has been renewed by Ordinary General Shareholders' resolution representing a total period of uninterrupted engagement appointment of 4 years, covering the financial years ended 31 December 2016 up to 31 December 2019.

The financial auditor responsible for carrying out the audit resulting in this independent auditor's report is Ana-Maria Butucaru.

Refer to the original signed Romanian version

Ana-Maria Butucaru
Financial Auditor registered with the Public Electronic Register of financial auditors and audit firms under no. AF 3378

Stefan Friedemann Weiblen
Administrator

On behalf of
PricewaterhouseCoopers Audit S.R.L
Audit firm registered with the Public Electronic Register of financial auditors and audit firms under no. FA6

Bucharest, 27 March 2020