Independent auditor's report

To the Shareholders of Banca Transilvania S.A.

Our opinion

In our opinion:

– the consolidated financial statements of Banca Transilvania S.A. (the Bank) and its subsidiaries (together the Group) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and 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 National Bank of Romania Order 27/2010, as subsequently amended ("NBR Order 27/2010"); and

– the separate financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with IFRS and NBR Order 27/2010.

What we have audited

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

- the consolidated and separate statements of financial position as at 31 December 2016;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

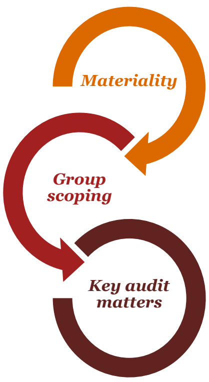
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 with the ethical requirements that are relevant to our audit of the financial statements in Romania. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview



Overall materiality:

RON 50 million for both consolidated and separate financial statements.

Group scoping:

We planned and scoped our audit for 2016 reflecting the Group's current structure whereby the Bank represents practically all of the Group's assets, liabilities, revenue and profit before tax. Hence we defined the Bank as the sole significant component within the Group and so it was subject to a full scope audit of its financial information.

Key audit matters:

- Impairment of loans and advances to customers
- Tax treatment of the bargain gain that arose from the acquisition of Volksbank S.A. in 2015; and
- Litigation provisions for abusive clauses in loan contracts.

These Key Audit Matters were considered key for both the audit of the consolidated and separate financial statements.

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. 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 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 50 million
How we determined it	Approximately 5% of profit before tax per the consolidated and separate statement of comprehensive income for the year ended 31 December 2016.
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 we would report to them misstatements identified during our audit above RON 2.5 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
Impairment of loans and advances to customers in the financial statements We focused on this area because the management makes significant subjective judgements over both the timing of recognition of impairment losses and the estimation of the size of such impairment, which is a complex area of accounting. The basis of the provision for impairment for loans and advances to customers is described in the significant accounting policies note. An assessment of the provision for impairment for loans and advances to customers is performed individually for loans that are considered significant, and collectively for other loans, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, and the amount that is likely to be recovered from the borrower in the event of such default. Statistical models are used for assessment of collective impairment for different categories of loans. The categories are determined based on the grouping of loans with similar credit risk. Estimates of impairment for certain categories of mortgage loans were impacted in 2016 by the new Law 77/2016 regarding deed in payment for some real estate assets for cancelling/writing-off the obligations assumed by debtors through loans (Deed in Payment Law) and subsequent rulings by the Romanian Constitutional Court related to this law, which increased the uncertainty around the probability of default for affected clients of the Bank and the degree of judgement required by	We assessed and tested on a sample basis the design and operating effectiveness of controls over impairment data and calculations. For loans that are assessed individually for impairment, the controls included those used by management to ensure that the list of loans assessed individually is appropriate and up to date, that each individual assessment is appropriately reviewed with significant changes in the assessed level of impairment being subject to an escalated review, and the discount rate used in the cash flow assessments is appropriate. For collectively assessed loans the controls included those to ensure that the key inputs to the statistical models are regularly updated, that repayments are properly allocated to the correct loans balance, that days past due are accurately calculated by the Bank's system and that data used for impairment modelling purposes is automatically transferred from the Bank's data warehouse. With respect to collateral for all loans we also assessed and tested controls to ensure that the collateral is properly registered, the collateral valuation is regularly assessed by qualified valuators and appropriate haircuts are applied to collateral valuations, and that the collateral is properly allocated to the relevant loan. In addition, we tested on a sample basis i) collateral valuations performed by the Bank using our own valuation specialists, and ii) individual impairment assessments performed by the Bank. We also examined a sample of

Key audit matter	How our audit addressed the key audit matter
management to assess the required level of provision for such loans. See Note 3 - Significant accounting policies, pages 24-25 and note 5 - Accounting estimates and significant judgments, pages 85-86, to the financial statements.	loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate. With respect to the collective impairment provision we validated management's assessment of the required level of provision by using our credit risk modelling experts to re-perform the collective assessment using our own independent credit risk models and the Bank's own historical data, and performed tests to ensure that the data used in the Bank's assessment was complete. We also inspected back testing performed by management of key model inputs, including estimated recoveries from collaterals for defaulted loans. Further, with respect to the impact of the Deed in Payment Law we specifically evaluated and validated management's approach for assessing impairment of eligible mortgage loans to ensure that all such eligible loans were included in the analysis, that the key judgements made by management in determining the appropriate level of provision were reasonable, and we checked the accuracy of management's calculations, based on the assumptions applied. In the case of some impairment provisions, we formed a different view from that of management, but in our view the total differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements.

Key audit matter	How our audit addressed the key audit matter
Tax treatment of bargain gain that arose from the acquisition of Volksbank S.A. in 2015 We focused on this area because the tax treatment of the bargain gain of RON 1,650 million that arose in 2015 is subject to considerable uncertainty and will not be fully determined until a final resolution is agreed with the Romanian tax authorities. In the Group's IFRS financial statements for the year ended 31 December 2015 the Bank treated the bargain gain as taxable income. However, during 2016 the Bank reconsidered its assessment based on the arguments determined by management of the Bank and its external tax advisors (as disclosed in the financial statements). Consequently, management concluded, in 2016, that the bargain gain is non-taxable income and during 2016 submitted a corresponding rectifying tax return for 2015. The effect of this change in assessment in the 2016 financial statements resulted in a credit to the Income Tax charge for 2016 arising from a change in estimate in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8). See Note 5 - Accounting estimates and significant judgments, pages 86-88 to the financial statements.	Our tax specialists examined the correspondence between the Bank and the relevant tax authorities and between the Bank and its external advisers. We examined the background to the issue and used our knowledge of the relevant Romanian tax legislation and other similar taxation matters to assess the available evidence and the approach taken by management of the Bank. We reviewed the arguments put forward by the management of the Bank to support the treatment of the bargain gain as non-taxable and we reviewed the Romanian tax authority's conclusions in their correspondence with the Bank. Taking into account our understanding of Romanian tax legislation, European jurisprudence and other factors affecting this issue we concurred with management's assertion it is appropriate for the bargain gain to be treated as non-taxable income in the 2016 financial statements. We support management's assessment that their decision to reconsider the bargain gain as non-taxable income came about during 2016 as a result of gaining increased experience of the matter and greater insight based on the analysis performed by management and their external tax consultants. As such we consider that it is appropriate for management to treat this change as a change in estimate in accordance with IAS 8. Nevertheless, as set out in the financial statements, the final resolution of this issue is subject to future negotiation and agreement with the Romanian tax authority and possible legal challenge. Hence the fiscal treatment of

Key audit matter	How our audit addressed the key audit matter
	the bargain gain as non-taxable income is subject to inherent uncertainty and the final resolution of this matter may not be in line with management's current assessment. We evaluated whether the disclosures within the financial statements appropriately address the significant uncertainties that exist around determining the tax treatment of the bargain gain and found them to be appropriate.
Litigation provisions for abusive clauses in loan contracts We focused on the provision for abusive clauses recorded in "Provisions for other risks and charges" line in Note 34 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 abusive clauses. The methodology that involves making assumptions about the number of future legal cases to be brought against the Bank and the outcome of current and possible future cases. These assumptions are inherently difficult to estimate, and the estimation uncertainty was heightened in 2016 by the publicity that existed around the proposed law to enforce banks to convert Swiss Franc denominated loans into local currency (Proposed Swiss Franc Law). See also Note 5 - Accounting estimates and significant judgments, page 88, to the financial statements.	We examined the data used by management in determining the provision for 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 settlement amounts. We then assessed whether the key assumptions underpinning the provision calculation, including future claim volumes and settlement amounts, were appropriate by developing and using our own model to assess the required level of provision and comparing the output to management's assessment. 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 following the recent publicity around the Proposed Swiss Franc Law. 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 which exists around these claims.

Key audit matter	How our audit addressed the key audit matter
	We evaluated whether the disclosures within the financial statements appropriately address the significant uncertainties that exist around determining the provision and found these to be adequate.

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 financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls within the Group and the Bank, and the industries in which the Group operates.

We planned and scoped our audit for 2016 reflecting the Group's current structure whereby the Bank represents the vast majority of the Group's assets (99%+), liabilities (99%+), operating income (94%+) and profit before tax (94%+). Hence, we defined the Bank as the sole significant component within the Group and so the Bank was subject to an audit of its complete financial information. For the remaining components we performed analytical procedures.

In addition to the experts and specialists, referred to in the Key Audit Matters above, that we engaged to assist us on the audit we also engaged IT auditors for assessing the overall control environment, IT general controls and automated controls surrounding the Group's and the Bank's key financial systems we wished to place reliance upon.

Other information

Report on conformity of the administrators' report

The administrators are responsible for the preparation and fair presentation of the administrators' report in accordance with the requirements of NBR Order 27/2010 articles 37 and 38, and for such internal control as management determines is necessary to enable the preparation of an administrators' report that is free from material misstatement, whether due to fraud or error.

The administrators' report is not a part of the financial statements.

Our report on the financial statements does not cover the administrators' report.

In connection to our audit of the financial statements, we have read the administrators' report accompanying the financial statements and we report that:

– we have not identified in the administrators' report information which is not consistent, in all material respects, with the information included in the accompanying financial statements;
– the above mentioned administrators' report includes, in all material aspects, the information required by NBR Order 27/2010 articles 37 and 38; and
– in the light of our knowledge and understanding acquired during the audit of the financial statements for the year ended 31 December 2016 in respect of the Group and the Bank and its environment, we have not identified material misstatements in the administrators' report.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and NBR Order 27/2010, 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 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 of 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 the 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 and 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 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 and the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group and Bank audits. 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.

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
Statutory auditor registered with
the Chamber of Financial Auditors of Romania under no 3371/17 February 2010

On behalf of

PricewaterhouseCoopers Audit SRL
Audit firm registered with
the Chamber of Financial Auditors of Romania under no 6/25 June 2001

Bucharest, 24 March 2017