

**Report of the Board of Directors of
Banca Transilvania**

- 2016 -

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MACROECONOMIC CONSIDERATIONS

The global economy continued to lose momentum in 2016, given the intensifying challenges for the globalisation process, more visible across the developed countries. Overall, 2016 was a transition year within the post-crisis economic cycle, being noticed the escalation of the populism and protectionism pressures and the policy-mix related uncertainties, with unfavorable spill-over effects for investments.

According to the first estimates of the International Monetary Fund (IMF) the global economy rose by 3.1% YoY in 2016, the slowest pace since 2009, the year of the first wave of the Great Recession.

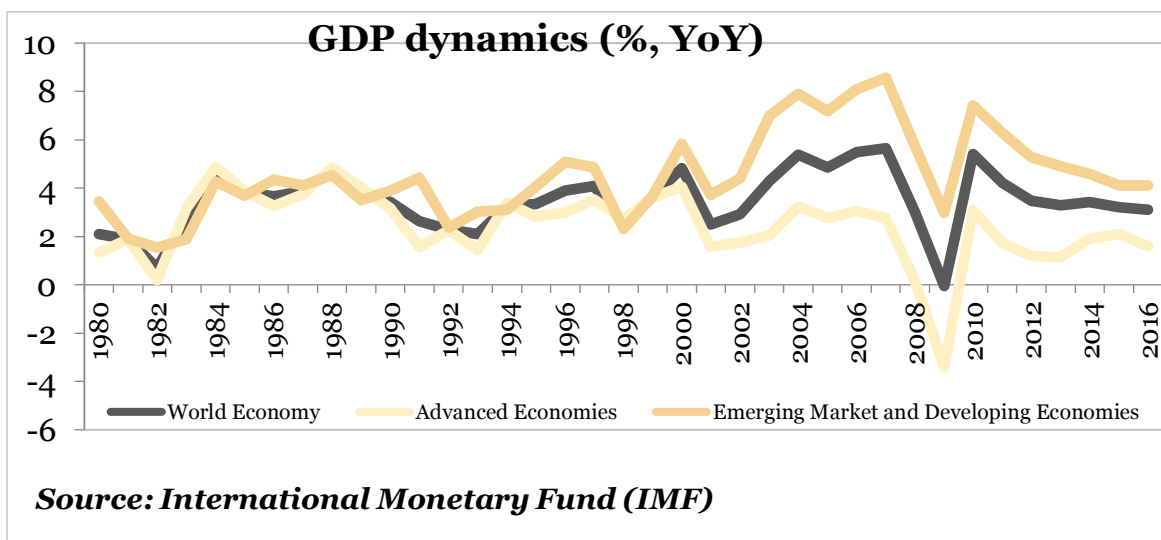
In the Euro Area the post-crisis recovery process consolidated in 2016, given the strong influence of the expansionary monetary policy implemented by the European Central Bank (ECB). However, the YoY dynamics of the GDP diminished from 2% in 2015 to 1.7% in 2016, due to several challenges: the populist pressures (pro-Brexit vote), the terrorism and the structural problems across the banking sector.

On the other hand, in the emerging market and developing economies the economic growth pace stagnated at 4.1% YoY in 2016, as the transition continued in China, while a tough climate persisted in Brazil and Russia.

The evolution of the second economy of the world slowed down from 6.9% YoY in 2015 to 6.7% YoY last year, the slowest pace since the 1990s, while in Brazil and Russia the GDP contracted by 3.5% YoY and by 0.6% YoY.

The stock markets presented a high degree of volatility last year, given the incidence of several shocks (including the pro-Brexit vote). There can be noticed the exuberance at the end of 2016 (in US Dow Jones and S&P 500 hit record high levels), supported by the perspectives regarding the implementation of ambitious expansionary fiscal and public investments policies by the Trump Administration, in a context of unprecedented excess liquidity.

Last, but not least, on the foreign exchange markets 2016 it was the year of the US dollar, the main currency of the world appreciating towards the highest levels since the early 2000s. This evolution was determined by the economic policy signals in the United State (issued both by Fed and by president Trump in the election campaign).



Romanian macroeconomic climate and banking sector evolutions in 2016:

According to the flash estimates of the National Institute of Statistics (NIS) the Romanian economy advanced by 4.8% YoY in 2016, with a higher pace than 3.9% YoY in 2015. The best GDP evolution of the last eight years was determined by the acceleration of the domestic demand, under the influence of the expansionary economic policy.

On one hand, the National Bank of Romania (NBR) kept the monetary policy interest rate at 1.75% (a record low level). On the other hand, the Government implemented expansionary fiscal and income policies: the budget deficit GDP ratio rose from 0.8% in 2015 to 2.8% in 2016, according to the statistics published by the Ministry of Finance.

The private consumption (the main component of GDP) gathered pace last year (7.4% YoY, according to the preliminary estimates published by NIS), due to the increase of the real disposable income of the population and to the acceleration of the RON credit markets.

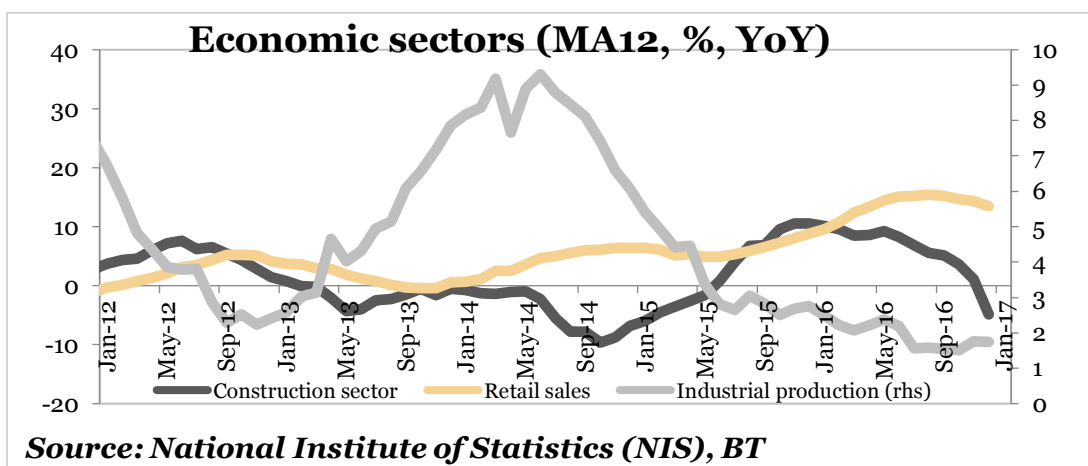
On the other hand, the fixed investments (the engine of the economy) stagnated in 2016, as the increase in 1H was counterbalanced afterwards by the foreign uncertainties and the domestic distortions. The slowing down of this indicator is reflected by the deceleration of the industrial production (1.7% YoY – the slowest pace since 2009) and of the construction sector (1.8% YoY).

However, the NBR data show the improvement of the foreign direct investments, by 31% YoY to EUR 3.9bn in 2016, the highest level since 2008, according to NBR.

Last but not least, the net foreign demand continued to have a negative contribution to the YoY dynamics (-0.8pp) of the economy last year. However, there can be noticed an improvement at the end of 2016, as the gap between the YoY growth paces of exports and imports narrowed.

The consolidation of the positive macroeconomic climate last year was confirmed by the continuity of the positive momentum on the labor markets, the number of the unemployed decreasing to record low levels (the unemployment rate declined to the lowest level since 2008).

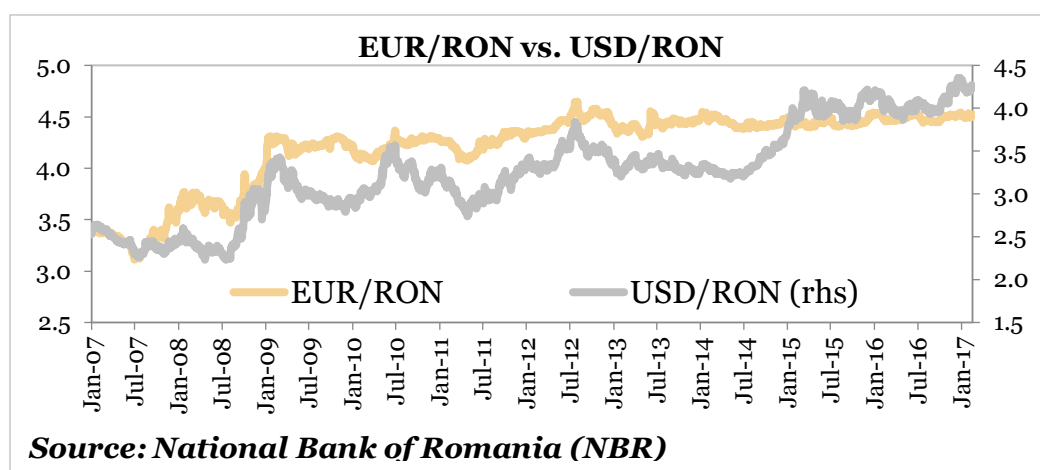
2016 was also a good year for Romania in terms of macro-financial stability, as reflected by the decline of the financing costs to record low levels. However, at the end of the year one can notice the intensifying risks related to the financial stability: the twin deficits problem (the public finance deficit and the current account deficit converged towards 3% of GDP).



In this context, there can be noticed the stabilization of the money market interest rates around record low levels and a gradual upward pressure at the end of 2016. ROBOR for 3 months and 6 months ended 2016 at 0.90% and 1.11%, respectively, up by around 20 basis points compared with the record low levels registered during the autumn.

On the other hand, the interest rates for the sovereign bonds rose in the second half of 2016, an evolution determined by the increase of the global financing costs (given the monetary policy outlook in US) and by the prospects regarding the acceleration of the nominal GDP in Romania. The yield for the 10 YR treasury bonds ended 2016 at around 3.5%, higher by around 1 pp compared with the level in the United States.

As regards the FX markets the NBR reference for EUR/RON fluctuated within the interval (4.4444 – 4.5411) in 2016, being noticed the appreciation pressures after the pro-Brexit vote and at the end of the year (due to the pre and post-electoral tensions in Romania). Overall, last year EUR/RON recorded an average level of 4.4918, up by 1.06% YoY.



Last but not least, the domestic stock markets increased in 2016, with the BET index climbing by 1.2% to 7,085.1 p., an evolution determined by the positive climate on the global markets and by the improvement of the financial results of the listed companies.

In 2016 the domestic credit markets climate improved, under the influence of: the post-crisis economic cycle, the low level of the financing costs and the First House Program.

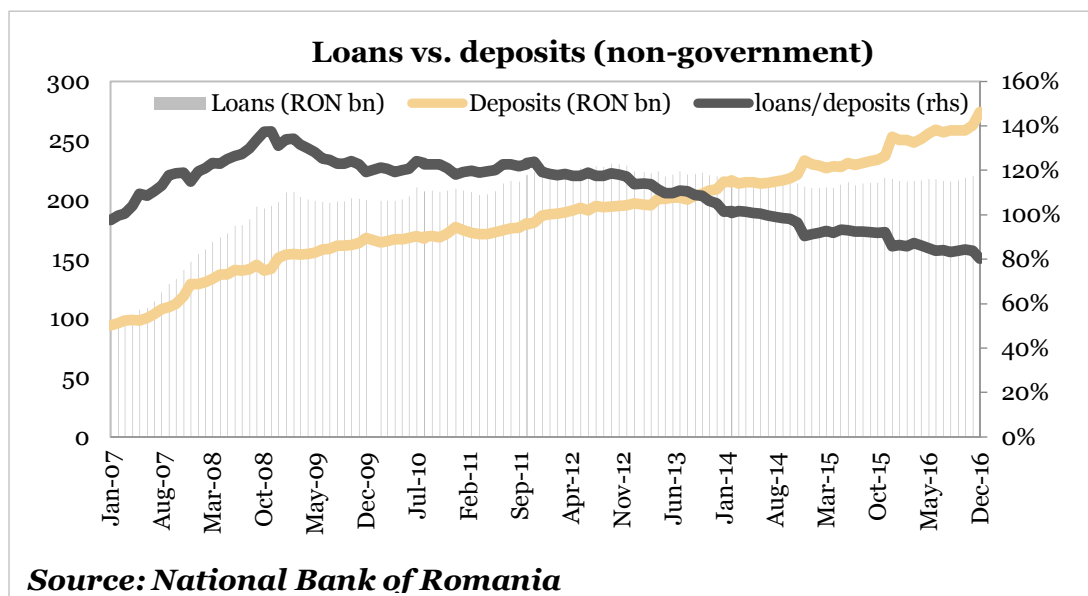
According to the NBR statistics the total non-government loans increased on average by 1.9% YoY last year. There can be noticed the advance of the RON-denominated loans, by 16.6% YoY: the household and corporate components rose by 29.9% YoY and 5.5% YoY, respectively.

On the other hand, the FX-denominated non-government loans contracted, on average, by 11.6% YoY in 2016: the household and corporate segments diminished by 14% YoY and 9% YoY, respectively.

At the same time, the non-government deposits continued the upward trend last year, under the influence of the following factors: the increase of the disposable income and of the savings ratio at the household level; the improvement of the financial results and the high degree of prudence within the corporate sector.

The non-government deposits increased on average by 10.6% YoY in 2016, as the corporate and household components advanced by 13.6% YoY and 8.6% YoY, respectively. This indicator ended 2016 at RON 274.2bn, a record high level.

In this context, the loans/deposits ratio continued to decline last year, reflecting the excess liquidity in the banking sector. At the end of 2016 the indicator hit a record low level (80.3%).



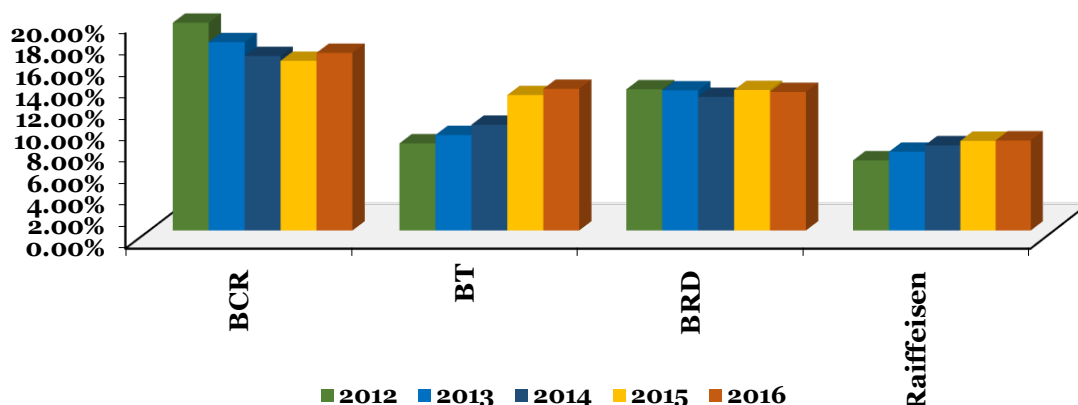
The domestic banking sector consolidated in 2016, an evolution influenced by the improvement of the macroeconomic climate and by the continuity of the balance sheet restructuring process. According to NBR data the volume of the total assets presented a record high level at the end of 2016 (RON 393.9bn), up by 4.4% YoY. The yearly average of the total assets was RON 380.6 bn last year, up by 4.2% YoY. On the other hand, the net aggregate result of the banking sector diminished by 7.4% YoY to RON 4.3 bn in 2016: ROA (return on assets) at 1.10%, ROE (return on equity) at 10.67%. Last, but not least, the non-performing loans ratio declined in 2016, to 9.46% in December (down by 4.1 pp YoY).

BANCA TRANSILVANIA IN 2016: OBJECTIVES AND ACHIEVEMENTS

During 2016, Banca Transilvania oriented its strategy towards the consolidation of its market position, organic growth with a dispersed risk approach and a clear focus on improving operational efficiency.

In terms of Total assets, the market share of Banca Transilvania increased to 13.14% at the end of 2016 and the Bank reached the second place in the top of the Romanian banking system

Top Banks - market share based on total assets 2012 - 2016



The Bank's results and activities have been acknowledged by several awards obtained by Banca Transilvania during 2016:

- The best bank in Romania (Euromoney);
- The award for local entrepreneurship support ("People and businesses changing Romania" Gala, Wall-Street.ro);
- Banca Transilvania, the most traded share on the Bucharest Stock Exchange in 2016 (turnover of RON 2.2 billion in 2016) – Bucharest Stock Exchange, Inauguration of the 2017 Stock Exchange Year;
- Banca Transilvania, the best communication strategy and investors relationship in 2016 of a listed company (award established by public vote) – Bucharest Stock Exchange, Inauguration of the 2017 Stock Exchange Year .

Beside the regular banking activities, during 2016 the bank passed through its second rebranding process, reaffirming its position as a Romanian bank, supporter of the Romanian entrepreneur.

QUALITATIVE OBJECTIVES established and achieved by BT in 2016:

- Focus on financing the strategic sectors for Banca Transilvania: agriculture, industrial production, export, medical sector, European Funds financing schema projects;
- Increasing the attention paid to newer target customers in the area of creative industries and vocational activities;
- Increase in the quality of the loan portfolio;
- Important investments in technology and digital capacities to become an omni-channel bank;
- Up-grade of the Internet & Mobile Banking applications;
- Successful re-branding; strong brand; the bank for SMEs;
- Development of the Micro credits project;
- Applying the new European Funds financing schema for the period 2014-2020;
- Implementing several steps within the internal digitalisation process.

QUANTITATIVE OBJECTIVES assumed and achieved by BT in 2016:

INDICATOR	BUDGET	ACTUALS
Total Assets	RON 49.85 billion, 5 % higher than 2015	RON 51.77 billion, 9% higher than 2015
Gross profit	RON 906.6 million	RON 999 million, 10% increase than 2016 budget
Deposits from clients	RON 40.44 billion, 5% higher than 2015	RON 41.9 billion, 9% increase compared to 2015
Loans and advances to customers	RON 29.50 billion, 6% higher than 2015	RON 29.38 billion, 6% increase compared to 2015
Shareholder's Equity	RON 5.63 billion	RON 5.98 billion, 2% decrease compared to 2015
Cards issued in 2015	2.54 million cards	2.8 million cards
Loans / deposits ratio	0.73	0.72
Investment budget	RON 183.65 million (including VAT)	RON 120.96 million (including VAT)

PERFORMANCE PER BUSINESS LINES IN 2016

2016 is another year which brought growth in terms of customers number, of operations performed through the bank, next to an important number of new loans, about 175,000 loans being granted by Banca Transilvania during this year.

CLIENT BASE EVOLUTION:

The number of active clients per business lines increased in 2015 by 5% as compared to the previous year:

BT active clients	31.12.2016	31.12.2015	2016/2015
Corporate*	11,769	11,355	4%
IMM*	207,477	190,899	9%
Retail	2,048,573	1,949,216	5%
TOTAL	2,267,819	2,151,470	5%

* The classification of the legal persons into the category of Large Companies or SMEs is according to internal definitions.

Beside the services provided through the physical network, over 800 thousand clients are BT Internet banking users and almost 250 thousand clients utilise the mobile banking application.

CORPORATE BANKING

The success of the banks in relation to the (large) corporate clients is driven by the product and services offer that needs to include the investment banking, evaluations, development strategies proposals, market consolidation advice etc. Within this context, in order to adapt our services to their expectations, new specialists have been added to our organisation, bringing more value to the relationship with these clients.

The Corporate loan portfolio stayed on a growing path, reaching a total exposure of RON 11,071 million, even though, RON 1,103 million have been written-off during the year. Cash loan production amounted to RON 2.74 billion, while the non-cash facilities were in amount of RON 0.51 billion. The deposits raised from corporate clients by the end of 2016 were 2.2% higher than those in 2015, reaching RON 10,090 million. At the end of 2016, the Corporate business line had almost 12,000 active clients. The average ticket for the new corporate loans was around RON 600 thousand, more than 4,700 loans being processed during the year. Operational revenues increased by 3.8% in 2016 versus 2015.

SMALL AND MEDIUM ENTERPRISES (SMEs):

Almost 18,000 new loans were granted in 2016 to SME clients, totalling over RON 1.6 billion, with an average ticket of RON 86 thousand. The operational revenues increased in 2016 by 17.2%.

The SME loan portfolio was RON 3,221 million at the end of 2016, which is 4.7% higher than the previous year (despite the non-performing loans recorded in off-balance and provisioned in proportion of 100% in amount of RON 293 million). The deposits raised from SME clients increased by 3.3% in 2016, reaching RON 5,407 million.

RETAIL BANKING

2016 brought consistent growth in the retail banking sector. The loans granted to this segment grew by 10.7% as compared to the previous year, reaching RON 15,088 million (despite the non-performing loans recorded in off-balance and provisioned in proportion of 100% in amount of RON 600 million). Retail deposits in 2016 amounted to RON 26,355 million, 13.2% higher than 2015 amounts (RON 23,286 million).

Banca Transilvania ended 2016 with a total of 2.82 million cards, generating a volume of transactions 25% higher than in the previous year. The Bank's market share based on the card transaction volumes is of almost 20%. Banca Transilvania reached a number of 329,000 credit cards under the STAR loyalty programme.

2016 was the best year in terms of increases in the card transaction volumes. The increase in volume was of RON 6.49 billion in 2016 versus 2015, i.e. by 18.91%.

The Bank has a number of 1,120 ATMs, 31,800 POSs and collaborates with more than 600 retailers using e-commerce.

At the end of 2016 there were more than 800,000 BT24 Internet Banking users, an increase by 21% vs. 2015. At the same time, the number of clients using BT24 Mobile Banking went up to 240,000, increasing by 77% as compared to last year.

In 2016 the Internet and Mobile Banking improved with new functions: fingerprint authentication; online change of passwords; preferential FX rates; online reset of the PIN codes; SEPA facilities for the FCY payments and simplification of the payments' flow; extension of the facilities for the legal entities to invest in BTAM funds; multiple acces (on mobile banking), with a simple user ID switch.

BT launched the first wearable (payment bracelet) in Romania.

BTSign UP was launched in December, the platform providing online acces to apply for an account and a debit card in RON. The site is oriented towards attracting new individual clients, as a step towards digitalisation and simplification.

2016 was also the year of Retail related awards:

- In 2016 Banca Transilvania was voted for the 6th time in the last 8 years as the „Bank of the Year” in the cards business, based on: number of cards issued, volume of transactions, new products, new agreements with retailers, etc. The award was granted at the NoCash 2015 Awards, BT being also recognized as leader in the following categories:
- “The highest number of debit cards issued” – Visa Electron BT
- “The shopping card of the year” – Visa Electron BT
- “The year premiere” – BT & Western Union – for the transfer of the money at ATM on any MasterCard or Maestro card issued in Romania

TREASURY

The treasury activities in Banca Transilvania are organised along and corellated with other products and services offered across the business lines. The principles and strategic objectives related to treasury activity are:

Prudentiality – with regard to the liquidity position management, the maturity structure of the assets and liabilities, interest rate structure and the market risks , according to the risk limits established in the Bank’s Risk strategy and/or in the applicable banking system regulations;

Dispersion – refers to the counterparty exposure limits, resulting from all the treasury transactions

Revenue maximisation - with a prudent approach and taking into consideration the macroeconomic cycle.

Further to the increase in the number of operations, the income related to the FX activity increased by 20%, reaching RON 172 million in 2016.

OPERATIONAL / IT PERFORMANCES:

- Significant improvement of the service quality and client experience
- Implementing streamlined processes
- Pursuing outsourcing opportunities to support the focus on the core business
- Standardisation of project implementation
- Preparing the operational infrastructure and growing the automation level for processes performed by and via the bank

HUMAN RESOURCES:

The total number of BT employees as at 31 December 2016 was 7,759 (31 December 2015: 7,552).

The average number of BT employees during 2016 was 6,921 (in 2015: 6,427).

Number of active employees as at 31 December 2016 was: 6,999 (as at 31 December 2015: 6,854).

The average age of employees was 36.03 years (in 2015 – 36.9 years). Distribution by gender in 2016: 75.85 % women and 24.15% man (in 2015 - 76 % women and 24 % men).

In 2016, the Human Resources activity focused on growing the preferred employer brand recognition, on employees' professional and personal development and on continuing the integration process of the colleagues coming from Volksbank Romania.

Regarding BT employees' development and motivation, over 18.000 hours of training "in the classroom" were organised, with over 6,000 participants. The e-learning platform was accessed more than 85,000 times, in search of the 107 internally developed courses.

In 2016 video tutorials were introduced to help employees learn fast, conveniently and easy. The adoption and acceptance rates of these tutorials is higher than 80%.

The training programme for branch managers, organised with external partners was successfully launched and it included 60 managers; the objective is to develop managerial and soft skills.

The closing event for the BT Branch Mall Marathon project took place in 2016 (the project was started in 2015); receiving an award at the Excellence in Human Resources Awards Gala in April 2016.

The Bank continued the integration activities for the colleagues coming from Volksbank Romania, 77% of them continuing their careers with Banca Transilvania, as a solid proof of the successful

merger which brought Banca Transilvania the award “The CEO – HR team of the year” at the Excellence in Human Resources Awards Gala in April 2016, organised by the HR Club.

BANK’S RATING AND FUNDING

In October 2016 Fitch Ratings reaffirmed the rating for long term financing of Banca Transilvania at “BB” level, with stabile perspective, and BT viability ratings (VR) at “BB” level.

During October 2016, EUR 38 million were disbursed within the second tranche under the agreement signed with EIB in 2014, for a total amount of EUR 150 million.

BANCA TRANSILVANIA’S NETWORK AS AT DECEMBER 31, 2016:

The Bank operates through its head office located in Cluj-Napoca, 54 branches, 447 agencies, 33 working points, 7 healthcare specialised locations and 2 private banking agencies (including Italy) plus 1 regional center in Bucharest.

An extensive refurbishment program is to be started in 2017.

ECONOMIC AND FINANCIAL RESULTS AS AT 2016

The Bank’s operating performance continued the positive trend, with higher operation volumes and lower costs for the clients.

FINANCIAL POSITION OF THE BANK AND OF THE GROUP

The separate and consolidated financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union (NBR’s Order no. 27/2010 as subsequently amended and supplemented) are presented below:

Banca Transilvania ended the year 2016 with total assets amounting to RON 51,770 million, 9% higher than end of 2015 total assets. The largest increase as compared to 2015 was recorded in investment securities (23%), followed by loans and advances to customers (6%). The Bank exceeded its budgeted figures by 4%. At consolidated level, the total assets amount to RON 51,944 million.

Balance sheet structure at the end of 2016:

RON million	BANK				GROUP		
	Achieved 2015	Budget 2016	Achieved 2016	Δ 2016/2015	Achieved 2015	Achieved 2016	Δ 2016/2015
	(1)	(2)	(3)	(4)=(3)/(1)-(1)	(5)	(6)	(7)=(6)/(5)-(1)
Loans and advances to customers	27,740	29,510	29,380	6%	28,049	29,530	5%
Impairment allowances	-2,632	-2,603	-2,169	-17%	-2,823	-2,296	-18%
Cash and cash equivalents	8,887	7,105	8,040	-10%	8,907	8,079	-9%
Investment securities	12,389	14,716	15,180	23%	12,417	15,178	22%
Fixed assets	495	686	585	18%	527	648	23%
- Tangible and intangible fixed assets	409	591	449	10%	527	648	23%
- Equity investments	85	95	136	61%	0	0	0%
Other assets	464	441	754	62%	502	805	60%
Total Assets	47,343	49,855	51,770	9%	47,579	51,944	9%
Equity	6,118	5,637	5,984	-2%	6,241	6,153	-1%
Subordinated liabilities	416	391	424	2%	416	424	2%
Deposits from customers	38,395	40,444	41,852	9%	38,302	41,681	9%
Deposits from banks	1,374	2,397	2,494	82%	1,518	2,552	68%
Other liabilities	1,040	986	1,016	-2%	1,102	1,134	3%
Total Liabilities and Equity	47,343	49,855	51,770	9%	47,579	51,944	9%

BT's loans-to-deposit ratio was 70.2%, similar to the previous years level, while at sector level the ratio continued to decrease reaching 79.3%, a percentage which reflects the excess liquidity in economy and the structural transformations in the banking sector.

The loan portfolio: As at the end of 2016, the loan portfolio is 6% higher than in 2015, despite the aggressive write-off campaign performed during the year (RON 1,995 million have been fully provisioned and written-off during 2016). Banca Transilvania continued to diversify its portfolio with regard to both economic sector and the type of clients.

The non-performing loans PAR>90 days represent 4.62% of the total loan portfolio as at December 31, 2016, a significant improvement as compared to 9.75% in 2015, the EBA NPE being at 9.84% as at December 2016.

Provisions balance: In 2016 Banca Transilvania recorded net expenses with provisions for other risks and loan commitments in amount of RON 654.2 million (including the impact of the loans written-off of RON 1,995 million), versus RON 794.95 million in 2015. The coverage level of non-performing loans with mortgage collateral and specific provisions is at 117.47%, which is a comfortable level in accordance with the Bank's risk appetite. The balance of loan loss provisions as at 31 December 2016 amounts to RON 2,169 million. Remaining provisions for other risks and

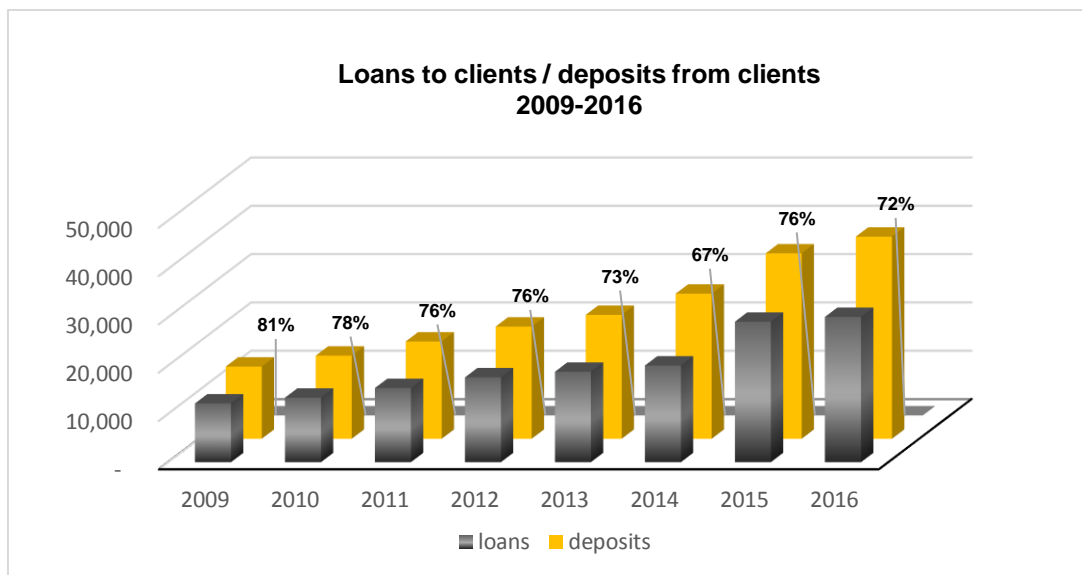
charges include provisions for litigations and other risks related to Volksbank in amount of RON 432 million.

Cash and cash equivalents: As at the end of 2016, the liquidity ratio is at 49.62%, while the banking system average is at 40.28%. The cash and cash equivalents count for RON 8,040 million out of which the minimum mandatory reserve required by NBR amounts to RON 4,211 million.

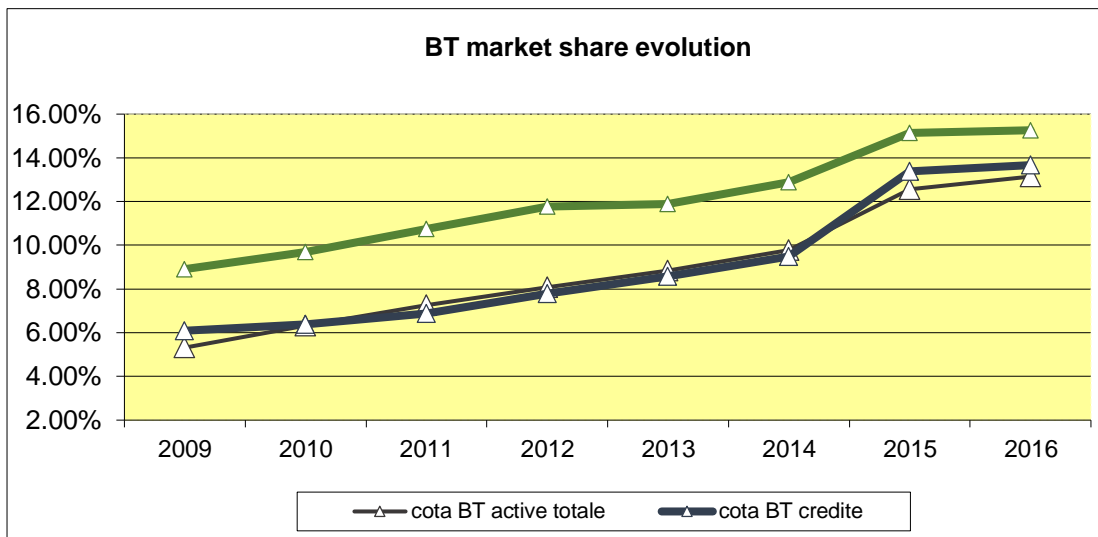
The Securities position increased by more than 23% versus last year, reaching RON 15,180 million of which RON 14,578 million are Romanian government T-bills.

The fixed assets figure grew by 18% versus 2015 to reach RON 585.37 million, mainly due to the increase in equity participations. Tangible assets represented RON 370.30 million (land and buildings in amount of RON 217.45 million), intangible assets of RON 78.40 million and long term financial assets of RON 136.67 million.

Deposits from clients. As of December 31, 2016, 63% of the deposits were in RON and 37% in other currencies. Deposits increased in 2016 by 9% versus the previous year, the pace being above the 8% general growth recorded at the banking system level.



With regard to total assets, the the Bank's market share as of December 31, 2016 was 13.14%. In terms of total assets, loans and deposits, the Bank's position in the banking system is presented in the following chart:



As at 31.12.2016, the **shareholders' equity** amounted to 5,984,088,587 RON, of which:

- the share capital counts 3,646,047,792 shares with a nominal value of 1 RON/share to which RON 86,501,040 million is added as capital adjustment to inflation and surplus from the revaluation of fixed assets, which was not booked prior to the transition to the International Financial Reporting Standards as endorsed by the European Union;
- conversion premium: RON 28,374,353;
- legal reserves: RON 344,596,724;
- reserves for bank risks: RON 77,892,714;
- reserves from revaluation of securities available for sale: RON 10,790,305;
- reserves from revaluation of tangible and intangible assets: RON 27,187,748;
- retained earnings (except profit of the year and the profit distribution): RON 600,759,473;
- treasury shares: RON (16.545.727);
- profit: RON 1,228,440,318;
- profit distribution: RON (49,956,153);

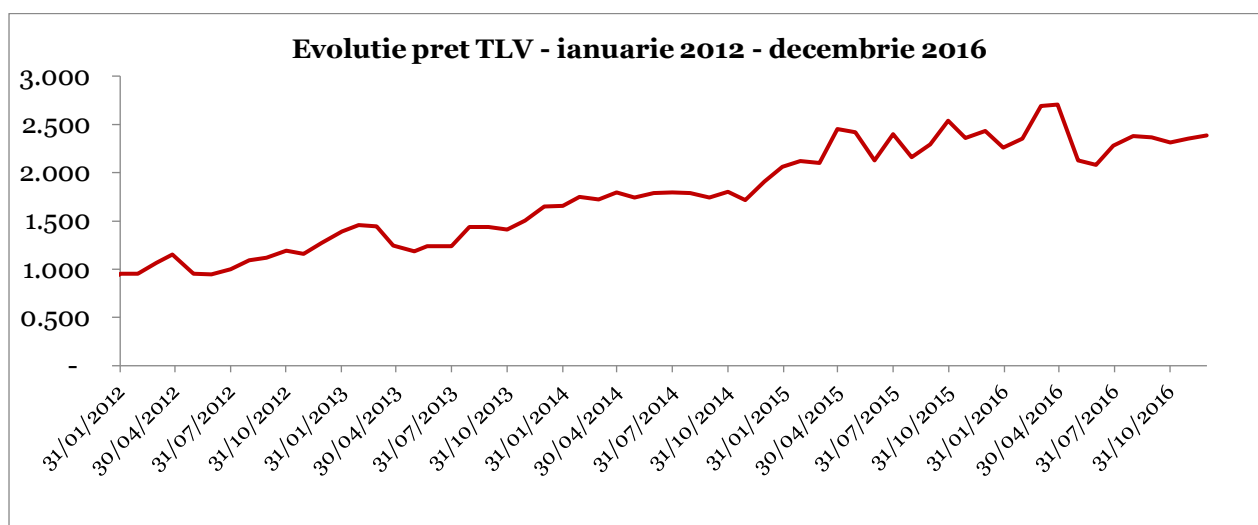
The Board of Directors of Banca Transilvania decided to propose to the General Shareholders' Meeting the distribution of 2016 profits in form of a cash dividend for the amount of RON 219 million and by increasing the share capital with the amount of RON 695 million.

The share capital recorded with the Trade Registry at the beginning of 2016 was RON 3,026,003,679 and was increased under the decision of the General Extraordinary Shareholders' Meeting with RON 620,044,113 from the reserves of 2015 net profit and by conversion of some convertible bonds into shares. At the end of 2016, the share capital recorded with the Trade Registry was of RON 3,646,047,792.

Share capital structure as of 31.12.2016:

	31 Dec 2015	31 Dec 2016
European Bank for Reconstruction and Development (EBRD)	11.46%	8.60%
Romanian individuals	16.77%	16.97%
Romanian companies	32.99%	29.32%
Foreign individuals	1.89%	1.82%
Foreign companies	36.89%	43.29%
Total	100.00%	100.00%

The Bank's market capitalization as of 31 December 2016 was RON 8.70 billion respectively EUR 1.91 billion (31 decembrie 2015: RON 7.35 billion, respectively EUR 1.63 billion).



PROFIT AND LOSS ACCOUNT:

The elements of the profit and loss account as at 31 December 2016, as compared to 2015 and the budget approved for 2016 are summarized below:

PROFIT AND LOSS ACCOUNT (RON million)	BANK				GROUP		
	Achieved 2015 (1)	Budget 2016 (2)	Achieved 2016 (3)	Δ 2016/2015 % (4)=(3)/(1)-1	Achieved 2015 (5)	Achieved 2016 (6)	Δ 2016/2015 % (7)=(6)/(5)-1
NET INCOME	2,755.39	2,738.30	2,823.39	2%	2,854.15	3,006.64	5%
out of which							
- net interest income	1,909.78	1,757.70	1,710.73	-10%	1,952.18	1,764.03	-10%
- net commission income	457.52	506.60	509.46	11%	486.99	546.27	12%
OPERATING EXPENSES	1,345.90	1,137.70	1,170.05	-13%	1,406.52	1,289.71	-8%
OPERATING RESULT	1,409.49	1,600.60	1,653.34	17%	1,447.63	1,716.93	19%
Provisions, net	794.96	693.90	654.22	-17%	797.51	658.08	-17%
GROSS PROFIT	614.53	906.70	999.12	63%	650.12	1,058.84	62%
Bargaining gain from Volksbank acquisition	1,650.60	-	0	-	1,650.60	-	-
GROSS PROFIT (with BG)	2,265.13	906.70	999.12	-55%	2,300.72	1,058.84	-54%

At the end of 2016 the gross profit of Bancii Transilvania (stand-alone) is RON 999 million, while at Group level the gross profit amounts to RON 1,058.84 million. The net profit, for the same period, of Bancii Transilvania is RON 1,228 million and the Group has a net profit of RON 1,277 million. Operational efficiency remained a point of focus and the cost / income ratio for 2016 was at 41%. Excluding the one-off impact of VISA transaction, in amount of RON 185 million, the cost / income ratio is at 44%.

According to IAS 12 „Income taxes” guidelines regarding the recognition of deferred tax assets following a business combination, correlated with the Romanian fiscal legislation, the Bank calculated a deferred tax asset generated by the fiscal losses of Volksbank Romania and recognized it starting with the effective date of the merger. For the recognition of the deferred tax asset the fiscal treatment of Volksbank Romania acquisition gain was also taken into account.

The deffered tax asset increased in December 2016 to RON 374 million, versus december 2015 when it was at RON 111 million. The growth is mainly driven by the recognition in 2016 of the deffered tax asset related to Volksbank Romania acquisition gain.

Operating Income totals RON 2,823.39 million as at 31.12.2016, 2% higher than in the previous year and by 3% higher than the budgeted figure.

The most important income categories are:

- *Net interest income*: RON 1,710.73 in 2016, 8% higher than the previous year’s figure, excluding the impact from the VB portfolio behaviour. 13% of the interest income is linked to the securities portfolio.

- *Fee and commission income*: the growth was 11.4% in 2016, reaching RON 509.46 million, 1% over the budgeted level. The volume of transactions through BT accounts increased by over 9% versus 2015.

- *Net trading income*: net income from FX transactions increased in 2016 by 20% versus 2015 to an amount of RON 172.35 million. The net income from sale of available-for-sale securities was RON 402.23 million in 2016.

Operating expenses before provisions counted for RON 1,170.05 million in 2016, as compared to RON 1,345.9 million, in 2015. The correction is due to the synergies obtained from the integration process of BT and VB businesses.

- *Staff expenses*: at Bank level and at Group level the staff expenses decreased from an amount of RON 650 million in 2015 to RON 631 million in 2016 (at Group level the decreased from RON 676 million in 2015 to RON 666 million in 2016), again driven by synergies resulting from the business integration of BT and VB.

The Bank has a Stock Option Plan for employees with outstanding performance, who can exercise the option to buy a number of shares issued by the Bank if certain performance and prudential ratios are achieved in 2016. This programme generated costs in amount of RON 30 million last year. As at 31.12.2016 Banca Transilvania booked the amount of 16,546 thousandRON,

representing own shares (7 million shares) redeemed in order to be granted to employees as performance related remuneration.

- *Operating expenses*: RON 466 million in 2016, 25% lower than in 2015.

The Operating Result is 17% higher than last year

The net provision expense: RON 654.22 million, 18% lower than in 2015.

Gross Profit in 2016 is RON 999 million, versus RON 2,265 million (out of which bargaining gain from Volksbank acquisition RON 1,651 million) in 2015.

PRUDENTIAL AND PROFITABILITY RATIOS :

Among the ratios monitored by the National Bank of Romania under the prudential supervision system, the most significant ones for the Bank's evolution are presented below:

No.	Ratio	Level	31.12.16	31.12.15**	31.12.14
1	Liquidity ratio	Min =1	1.89-17.54	2.26-21.08	2.77-22.57
2	Solvency ratio *	> 8%	19.02%	22.26%	17.32%
3	ROA (net profit / total net assets)		2.58%	5.63%	1.36%
4	ROE (net profit / shareholder's equity)		21.52%	45.21%	13.21%

*Note: * the solvency indicator was determined taking into account the net profit as at 31.12.2016 (without profit the ratio is 16.16%);*

*** including the financial impact of VB acquisition.*

The CAR of BT is at a comfortable level of 19.02%, with the annual profit included. An adequate level of the capital and the general financial ratios was maintained, in accordance with sound banking principles. The return on assets and equity followed a positive trend.

PROPOSALS REGARDING 2016 PROFIT DISTRIBUTION AND SHARE CAPITAL INCREASE

The Board of Directors prepared the following profit distribution proposal:

PROPOSED PROFIT DISTRIBUTION 2016	AMOUNTS (RON)
Profit before tax	999,123,051
Income tax current / deferred	229,317,267
Net Profit	1,228,440,318
5% legal reserve fund from gross profit	49,956,153
Reserves from net profit representing deferred tax for BG	264,096,036
Net Profit to be distributed to reserves	914,388,129

The Board of Directors proposes the distribution of the profit by granting dividends in total amount of RON 219 million. Gross dividend per share is RON 0.0600650382.

The Board of Directors also proposes the share capital increase from RON 3,646,047,792 to RON 4,341,435,921, incorporating the amount of RON 695,388,129 reserves from 2016 net profit.

PROPOSED SOURCES FOR SHARE CAPITAL INCREASE	AMOUNTS (RON)
Reserves from 2016 net profit	914,388,129
TOTAL RESERVES USED FOR CAPITAL INCREASE	695,388,129
Share Capital at record date	3,646,047,792
Yield per share %	0.1907238107

After the share capital increase with RON 695,388,129, for each 100 shares, **19.07238107** new shares will be allocated (respectively a number of new shares corresponding to the ratio 695,388,129 RON/3,646,047,792 shares).

STATEMENT REGARDING CORPORATE GOVERNANCE

The corporate governance is a set of responsibilities and management practices aiming to provide a strategic direction and to ensure that its goals will be achieved, respectively to ensure that risks are properly managed and that the company resources are responsibly used.

Banca Transilvania S.A. is a joint stock company incorporated in Romania and registered with the Trade Registry under no.J12/4155/1993 with the tax identification no RO5022670.

The Bank has its head office in Cluj-Napoca, str. G.Baritiu, nr.8, Cluj County.

The Bank operates pursuant to Company Law no.31/1990 (as subsequently amended) and the Government Emergency Ordinance No. 99/2006 for credit institutions and capital adequacy (as subsequently amended). According to Article 6 in the Bank's Articles of Association, its fields of activity may be summarized under the term "other monetary intermediation".

The risk identification, assessment, monitoring, control and reporting system has been developed and applied by the Bank including in its internal control and risk management related to financial reporting processes, in order to furnish trustworthy, relevant and complete information to the structures involved in the decision making process and to external users, as well as to ensure compliance with the legal framework for financial reporting and the internal policies and procedures.

Banca Transilvania S.A. applies the Bucharest Stock Exchange Code of Corporate Governance of considering its capacity as issuer on the stock market. The Bucharest Stock Exchange Code of Corporate Governance can be found on the official website of the Bucharest Stock Exchange

(www.bvb.ro). At present the Bank complies with all articles in the previously mentioned Code of Corporate Governance.

Governing body of Banca Transilvania:

The strategic management is ensured by the General Meeting of Shareholders, which has the responsibility to set strategic objectives for the organization and to allocate the necessary resources for their implementation.

The governing structure of Banca Transilvania includes the body with a supervisory function – the Board of Directors and top management bodies - Leaders / Leaders' Committee. The top management of the Bank is ensured by individuals with powers for the current management of the Bank, who are responsible for its fulfilment to the governing body, based on management contracts, relevant NBR regulations, the provisions in the law 31 / 1990 and internal regulations.

Board of Directors

BT's management is entrusted by the General Meeting of Shareholders to a Board of Directors elected for a mandate of four years, consisting of seven directors, elected by the shareholders during the GSM – either upon the mandate expiry or on a case-by-case basis, in case of one or more vacancies. In accordance with specific regulations issued by the NBR, the Board of Directors is the guidance, coordination, supervision and control body and has the following structure:

- Chairman of BT's Board;
- 6 members.

The eligibility criteria regarding the Board of Directors are set out in the specific legislation (Law no.31/1990 on companies, Government Emergency Ordinance No.99/2006 and the specific regulations of the NBR) and in Banca Transilvania's articles of association.

Currently, Banca Transilvania does not have a significant shareholder. New Board members have to be approved by the GSM first and after that, before actually starting their mandate, they must obtain the National Bank of Romania approval.

The members of the Board are not involved in daily operational duties – these are to be accomplished by the executive management exclusively.

The Board responsibilities are: supervises the achievement of the strategies and objectives provided in the declaration of policies adopted by the GSM and in the medium-term strategic plan; approves and reviews the general strategies and policies regarding the Bank's activity, at least on an annual basis; adopts the Activity plan and the revenues and expenditure budget, the investment plan, profit and loss accounts and drafts the Bank's activity report subsequently submitted for approval by the GSM; prepares the proposals for the distribution of the net profit and submits them for approval by the General Meeting of Shareholders; approves and implements a strategic plan for a period of 2 years, which should be reviewed at least annually; approves the Rules of Organization and Management, the Code of Ethics and Conduct and the Organizational charts, as well as the remuneration and additional incentives principles; approves the individual exposures to related parties within the limits set by the Board; supervises the compliance risk management;

ensures that the Bank can rely on an independent, permanent and effective compliance function; assesses the capital adequacy in relation to risks, performing adequate capital allocations to the assumed risks, both for the Bank and for the Group subsidiaries; approves writing off debts for which all ways of recovery have been exhausted, the recovery of which cannot be achieved in economic conditions, as well as losses caused by employees as a consequence of the normal bank risk in the current activity, following the approval limits established in the internal regulations of the Bank; supervises, through the Corporate Secretary, the implementation of the Code of ethics and Conduct by the leaders and the executive directors and the conformity of their decisions and activities with the relevant strategies, policies and regulations of the Bank, in order to ensure a lawful, efficient and risk control (strategy and reputational) framework, meant to prevent any potential losses arising from these aspects of the company's activity; approves the accounting and financial control system and the significant risk management policies.

The Board of Directors approves the set of internal rules for BT.

The Board of Directors reunites at least once a month and whenever it is necessary in the presence of at least half of its members and may delegate specific responsibilities to committees composed of 2-3 members in line with the applicable legal requirements. The committees established by the Board of Directors are: Audit Committee, Remuneration and Nomination Committee, Risk Management Committee. In 2016, the Board of Directors reunited 8 times. The Board and Committee operate according the reference rules on Corporate Governance published on the bank's website.

The Board members and their professional background as at December 31, 2016 are as follows:

Horia Ciorcila – Chairman

- Polytechnic Institute in Cluj, Faculty of Computer Science and Automation; Complete biography (including current functions in other companies) can be access following the link: <https://www.bancatransilvania.ro/despre-noi/>;
- Date of first election: April 2002;
- Present mandate duration: April 2014 – April 2018;
- Non-executive director;
- Board of director's presence for year 2016: 8.

Thomas Grasse – Board member

- Bankakademie Frankfurt -Business School of Finance and Management and HYPO-Bank Mannheim Branch, Apprenticeship in Banking. Complete biography (including current functions in other companies) can be access following the link: <https://www.bancatransilvania.ro/despre-noi/>;
- Date of first election: April 2014;
- Present mandate duration: April 2014 – April 2018;
- Independent non-executive director;
- Board of director's presence for year 2016: 8.

Ivo Gueorguiev- Board member

- Alberta University, Edmonton, Canada. Complete biography (including current functions in other companies) can be access following the link: <https://www.bancatransilvania.ro/despre-noi/>;
- Date of first election: April 2014;
- Present mandate duration: April 2014 – April 2018;
- Independent non-executive director;
- Board of director’s presence for year 2016: 7.

Costel Ceoceca – Board member

- Al.I. Cuza Iasi University, Faculty of Economics, and PH.D. in industrial engineering . Complete biography (including current functions in other companies) can be access following the link: <https://www.bancatransilvania.ro/despre-noi/>;
- Date of first election: April 2010;
- Present mandate duration: April 2014 – April 2018;
- Non-executive director;
- Board of director’s presence for year 2016: 6.

Vasile Puscas – Board member

- Faculty of History and Philosophy, “Babeş-Bolyai” University, Cluj-Napoca, PH.D. in History. Complete biography (including current functions in other companies) can be access following the link: <https://www.bancatransilvania.ro/despre-noi/>;
- Date of first election: April 2012,
- Present mandate duration: April 2014 – April 2018.
- Non-executive director;
- Board of director’s presence for year 2016: 8.

Doru Lionachescu – Board member

- Faculty of electronics and telecommunication, Polytechnic Institute Bucharest. Complete biography (including current functions in other companies) can be access following the link: <https://www.bancatransilvania.ro/despre-noi/>;
- Date of first election: Aprilie 2016;
- Present mandate duration: April 2016 – April 2018;
- Independent non-executive director;
- Board of director’s presence for year 2016 - not applicable because the Board member was approved by NBR in December 2016.

The secretariat duties of the Board of Directors and Committees are ensured by the Corporate Secretary, represented by Ioana Olanescu – Executive director of Corporate and Legal Governance. Currently, there is an open position in BT’s Board of Directors, following the decease of one of the directors of the bank.

The Board of Directors has 3 independent directors, all members being non-executive directors.

In 2016, the Remuneration and Nomination made an assessment of the Board of Directors and its Committee for the fiscal year 2016. According to this assessment there were no significant problems and the identified minor problems were analyzed in the Board of Directors providing solutions for the optimal functioning of Board and Committees.

Banca Transilvania has implemented a policy on Board assessment which can be accessed following the link bellow:

<https://www.bancatransilvania.ro/en/investor-relations/corporate-governance/> - disclosure requirements tab,

The same link provides information regarding the Bank's current remuneration practices.

Audit Committee

The Audit Committee within the Bank's Board of Directors operates under the applicable legal and regulatory framework: Company Law no. 31/1990- and the Bank's Governance system

The number of Committee members and the Committee competences are determined by the Board of Directors.

The Audit Committee supervises the external auditors' performance, makes recommendations on their nomination and remuneration, and evaluates the internal audit system which is developed by the Head of the Internal Audit Division, who is fully accountable to the Board of Directors. The Committee is authorised to make recommendations to the Board of Directors on the performance of the Internal Audit Division and on the remuneration of the division's manager and staff. Committee members had regular meetings with the Bank's external auditor to discuss any issues or difficulties arising in the course of the audit activity and the Bank management's responses, as well as to evaluate the degree of the auditor's objectivity and independence. The Committee monitors the compliance with the Romanian statutory and regulatory requirements relating to the financial statements and accounting principles, with the National Bank of Romania's requirements; appraises the external auditor's report on the IFRS statements; previews and pre-approves the Bank's IFRS Financial statements. The full list of the Committee's responsibilities is given in the Audit Committee Rules, published on the Bank's website.

Audit Committee's Report

The Audit Committee, comprising three non-executive members and a majority of independent Board members met in person 8 times in 2016 with additional phone conferences and meetings in absentia to review, discuss and approve various matters on an ad hoc basis. During 2016 the Committee consisted of:

Ivo Gueorguiev– Audit Committee chairman; independent non-executive director with audit experience;

Thomas Grasse – Audit Committee member; independent non-executive member with audit experience;

Roberto Marzanati – Audit Committee member; independent non-executive member with audit experience until May 2016.

A temporary vacancy due to the decease of one of its members was closed in January 2017.

Main issues addressed by the Committee in 2016:

- Approval of the Bank's IFRS auditor and determination of the level of fees payable to the auditor;
- Review of the IFRS Financial Statements and the external audit report for 2016, review of the significant accounting and financial reporting aspects as well as their impact on the Bank's Financial Statements;
- Supervision and review of the robustness and efficiency of the Bank's internal controls, based on the reports provided by Bank's control functions ;
- Review and approval of the Internal Audit Division's work plan for 2017-2019;
- Reshaping the Internal Audit Division's organization and methodologies, adapting them to Bank's enlarged corporate structures following the integration of Volksbank Romania;
- review of the NBR reports and implementation of their recommendations.
- implementation of external auditor's recommendations in the management letter
- Affiliated and related party transactions.

In 2016, the Committee regularly met the Bank's newly appointed external auditor PwC and worked with the Chief Financial Officer on all audited and auditor-reviewed financial releases of the Bank, making recommendations to the Board of Directors approving them. Audit planning and reporting meetings were held with the external auditor including sessions without the management's presence. The Committee assessed, also in light of the new Romanian legislation which came into force 2016, the reasonableness of the material accounting policies, the Management's accounting judgements on the valuation of Bank's assets, essential to the IFRS Financial Statements with focus on the Bank's portfolio of investment securities, loan portfolios, Real Estate and other collateral valuations and related impairment charges, as well as loan loss provisions. The Committee also discussed updates received by the external auditor and the Bank's Management on changes to the Romanian law with impact on banks, in particular the law on giving in payment, as well as current and forthcoming changes to the IFRS accounting standards, and on the adoption of IFRS9, scheduled to become effective as of 1 January 2018.

The Committee had regular meetings with the Head of the Internal Audit Division to review and approve Internal Audit Division's annual and the rolling multi-year, risk-based work plan. Due to the Bank's enlarged corporate structure following the acquisition and merger with Volksbank Romania we initiated a review of the Internal Audit Division function aimed to adapt the methodology, organization and resources to the requirements of the combined entity. The Committee recommended the Board of Directors to approve the respective implementation plan.

The Committee also reviewed the robustness of Bank's internal controls working both with the external IFRS auditor and Internal Audit to closely track any identified shortcomings and to scrutinize the remediation follow-up with vintage analyses being carefully maintained. Furthermore, the Audit Committee obtained information on external regulatory inspections.

The Committee is responsible for the assessment of the performance, objectivity and independence of the external IFRS auditor and for the delivery of quality audits. In 2016, the Committee considered the suitability of the lead engagement partner and wider teams, as well as the remuneration and engagement terms of the appointed auditor. Based on the auditor's declaration of independence obtained by the Audit Committee and its own assessment, the Committee remains satisfied that PwC is independent in providing their audit services to Banca Transilvania and will continue to deal with requests for the auditors to perform non-audit services, ensuring that any non-audit services contracts will not jeopardise the full independence of Bank's external auditor.

Remuneration and Nomination Committee:

The Remuneration and Nomination Committee is subordinated to the Board and its purpose is to provide independent opinions on the remuneration policies and practices, on the incentives for risk management, capital adequacy and liquidity management, on the nomination policies and to exercise the powers mandated by the Board of Directors in this field of activity.

The Remuneration and Nomination Committee has the following structure:

- Chairman of the Board
- 2 Board members

The committee examines and ensures that the general principles and policies for staff remuneration and benefits correspond to the business strategy, values and long-term objectives of BT. The Remuneration and Nomination Committee meets at least twice a year or whenever necessary, at the request of one of its members or the Bank's leaders.

At the end of year 2016, the Remuneration and Nomination Committee was composed by Horia Ciorcila and Ivo Gueorguiev and the independent member percent is 50%. Currently, the Remuneration and Nomination Committee has an open position, following the decease of one of the directors of the bank.

During 2016, Remuneration and Nomination Committee reunited 5 times and the two members, metioned above, were present each time.

In 2016, the Remuneration and Nomination Committee conducted the following activities:

- analyzed and ensured that the general principles and policies for remuneration and staff benefits correspond with the business strategy, objectives, values and long-term interests of BT; in this regard, they:
- analysed and approved the personnel remuneration policy;
- monitored the compliance with the legal requirements regarding:

- The involvement of the internal control functions (audit, risk and compliance), of the human resources department and of the external auditor in the elaboration of the remuneration policy;
 - the proper context for the bank staff's access to the remuneration policy while also ensuring that the evaluation process of the staff is formalized properly and thus full disclosure is achieved.
 - Promotion of the remuneration policies that ensure a healthy and efficient risk management, eliminating the risks that exceed the bank's risk tolerance;
 - Correlation of the remuneration policy with the business strategy, objectives, values and long-term interests of the bank including implementation of measures for conflict of interest prevention.
 - the close cooperation with other internal bodies to ensure that the remuneration policy is compliant with the strategy of the bank and that it promotes a solid and efficient risk management:
 - assessment of the mechanisms and systems to make sure that the remuneration system properly considers all risk types, liquidity and capital levels and that the general remuneration policy is in line with the bank's strategy and promotes a solid and efficient risk management, being compliant with the business strategy, objectives, culture, corporate values and long-term interests of the institution;
- periodically analyzed, at least annually, the general principles of the remuneration policy and has informed the Board of Directors on how to implement it; ensured the centralized performance of the independent internal evaluation and the compliance with the remuneration policy.
- directly monitored the remuneration level of the of the risk management, compliance and audit coordinators, compliance and audit function (the Risk Management, Internal Audit and Compliance managers and deputy managers).
- prepared the decisions regarding the remuneration, including those which have implications in terms of risk and risk management in BT (in the preparation of decisions, the Remuneration and Nomination Committee must analyse the type of risk-generating events related to the conditions of the bank employees' remuneration, including of those who occupy key positions, taking into account the long-term interests of shareholders, investors and other stakeholders in the bank).
- authorized the total annual remuneration of the members of the Leaders' Committee and approved the remuneration of the Executive managers;
- analysed and ensured that the general principles and policies for the nomination of staff, meet with business strategy, objectives, values and long-term interests of BT; in this regard the committee:
- identified and recommended for approval by the management body the candidates for the vacancies within the management body, evaluated the balance of knowledge, skills, diversity and experience within the management body and prepared a description of the roles and capabilities for the appointment to a particular position, and evaluated the expectations regarding the time for the realization thereof;

- assessed the structure, size, composition and performance of the management body and made recommendations to the management body in this regard;
- assessed the knowledge, skills and experience of each member of the management body and the management body as a whole and reported the findings to the Board of Directors;
- regularly reviewed the policy of the management body regarding to the selection and appointment of the senior management and made recommendations to the Board.

Risk Committee

The Risk Committee of the Board of Directors is responsible for the independent review, assessment and recommendations for any actions to be taken by the Board of Directors regarding the Bank's risk management strategy, risk profile, risk appetite and tolerance, risk management system, risk policies, as well as regulatory capital adequacy for the assumed risks. The Committee monitors the compliance with the National Bank of Romania's requirements and recommendations relating to the Risk Management and Compliance functions of the bank, both functions reporting to the Chief Risk Officer of Banca Transilvania.

The number of Committee members and their competences are determined by the Board of Directors. The full list of the Committee's responsibilities is given in the Risk Committee Rules, published on the Bank's website.

Risk Committee's Report

In 2016, the Risk Committee, comprising three non-executive members and a majority of independent Board members convened in person 9 times, with additional phone conference meetings for ad hoc matters. It also passed urgent resolutions by way of circular voting. At its meetings, the Risk Committee closely examined the Bank's risk situation and risk management as well as compliance risk management system. Its discussions were devoted to preparing for the plenary Board of Directors meetings and the in-depth treatment of the meeting deliberations with regard to strategic Risk and Compliance Management issues. During 2016 the Committee consisted of:

Thomas Grasse – Chairman Risk Committee; independent non-executive Director with risk experience;

Ivo Gueorguiev– Risk Committee member; independent non-executive Director with risk experience;

Costel Ceoceca – Risk Committee member; non-executive Director with risk experience;

Main issues addressed by the Committee in 2016:

- Review and assessment of the robustness, adequacy and effectiveness of Banca Transilvania's and Banca Transilvania Group's Risk Management system, with focus on the overall parent bank and BT Group's risk strategy and risk policy for 2016, as well as on budgeted periods, based on the reports provided by the Bank's Risk Management functions;

- Supervision and recommendations as regards the implementation of the approved risk management strategy by the Leaders' Committee;
- Refinement of the Bank's specific Risk Management policies framework, dealing with risk management methodologies and processes, including the assessment of their impact on the Financial Statements of the Bank;
- Frequent Credit, Market, Liquidity, Operational, Compliance and Strategic risk management reports provided by the Risk Management function of the Bank.
- Supervision and assessment of the Bank's internal capital allocation (ICAAP) principles and systems established under the applicable rules of the Basle Committee and the National Bank of Romania's recommendations;
- Non-performing and restructured loans portfolio reports, as well as Bad Debt Collection and Recovery results reports including strategies and policies of the Bank's competent units;
- Supervision, assessment and recommendations for the reshaping of the Bank's Risk Management and Compliance Risk Management functions, aimed at adapting to the increased demands of Banca Transilvania's enlarged corporate structure following the acquisition and merger with Volksbank Romania;
- Consideration, together with other competent Governing bodies at the Bank level, of the employee remuneration systems, to review the appropriateness of its design and to ensure that the inherent incentives comply with key elements of the Bank's long-term strategy and promote a solid and efficient risk management;
- Consideration of the Bank's business continuity, as well as of its Liquidity recovery plan.

In 2016, the Risk Committee together with the Bank's Chief Risk Officer and other members of the Leaders' Committee was actively involved in extending and refining the Bank's risk infrastructure and risk management systems, for a better and more efficient mitigation of risks and for a better alignment with the Bank's evolving business strategy, after the merger with Volksbank Romania. We are comfortable that there is a continuous process implemented for identifying, evaluating and managing the main risks faced by the Bank.

The Committee was also involved in overseeing the Bank's significant individual exposures and related parties' lending transactions, the implementation and compliance of the Bank's conflict of interest policy, as well as the lending to Banca Transilvania Group companies and had regular meetings with the Leaders' Committee to review the status of certain large loan and other credit exposures, as were portfolios and sub-portfolios, in particular non-performing and restructured exposures. In addition, we supervised the measures for the mitigation of market, operational, interest rate, liquidity and other risks, balancing those against the Bank's strategic growth ambitions. Within its review of the Bank's IT Security system, the Risk Committee was especially briefed on cyber-crime prevention activities.

We reviewed and assessed a number of Bank-managed stress testing simulations and their results and received regular reports on the Bank's risk profile and capital position, where we seek to ensure that the Bank's risk profile is properly calibrated to its capital position. In addition, the Committee meetings also addressed the risk assessment of Banca Transilvania by its regulators.

We are confident that the Risk Management Division of the Bank is established as an independent unit within the Bank. This Division supports the risk owners in maintaining a Bank-wide set of controls, in line with the framework which covers the controlling of risks and the risk identification process. The Committee reviewed the key documentation which stipulates the risk procedures and policies and we monitored the compliance with such procedures and policies.

Leader's Committee

The Bank's leaders are appointed by the Board of Directors and, in compliance with the legal provisions in force, they must be authorized by the National Bank of Romania before starting the effective exercise of their function. Under the relevant legal provisions, the Board mandated the Bank's leaders jointly (with some exceptions, individually) to exercise the organization and the management of the Bank's activity. The rules and procedures for the Leaders' Committee are approved by the Bank's Board of Directors. Any modification of this document must be adopted by the Board of Directors and will become effective only after such approval.

The structure of the Leaders' Committee is as follows:

- Chief Executive Officer (CEO);
- Deputy CEO - Chief Risk Officer (CRO);
- Deputy CEO - Chief Operations Officer (COO);
- Deputy CEO- Retail Banking;
- Deputy CEO - Corporate;
- Deputy CEO - Chief Financial Officer (CFO);
- Deputy CEO – Banking for SMEs;

The Leaders' Committee analyses, endorses, approves or forwards for approval to the Board of Directors the following: internal regulations, reports on cost monitoring, the project of the budget of revenues and expenditures, investment program project, balance sheet, profit and loss account, the report on the Bank's activity.

Assets and Liabilities Committee (ALCO)

The main objective of the ALCO is to manage the Bank's assets and liabilities. The committee is appointed by the Leaders' Committee.

The ALCO meetings are held regularly (usually monthly) or, whenever necessary, at the request of any committee member.

The ALCO receives information and reports from the specialized departments, analyses them and makes decisions with regard to the management of the interest rate risk, foreign currency risk, liquidity risk, price risk and related fields, for a proper management of the Bank's assets and liabilities. Decisions contain specific deadlines and responsibilities.

Procurement Committee (C. Ach.)

The main objective of the Procurement Committee is to establish the procurement policy of BT and to approve all investments involving expenditure outside a contractual framework or that exceeds the cost limits contractually regulated with amounts higher than 1000 euro / request.

Human Resources Committee (CRU)

The role of the Human Resources Committee is to develop and to increase efficiency of the decisions regarding BT's employees. The committee meets at least once a month or whenever it is necessary.

Loan Policy and Approval Committee (CPAC)

The mission of the loan policy and approval committee is to establish the Bank's lending policy and to approve loans with values or conditions exceeding the competences of other bodies or persons in the Bank. CPAC also approve loans that are under the competence of credit committees in branches (CCRS), but that don't not have unanimous votes in these committee.

Loan and Risk Committees in Head Office (CCR1 and CCR2)

The main objective of the Loan and Risk Committees in the Head Office is to analyse and approve loans and loan restructurings, respectively, in accordance with their competence limits.

The Loan policy and approval committee mandates CCR1 and CCR2 to approve loans (the competence is set in the specific internal regulations).

CCR2 may approve credit values not exceeding 10% of its own competence limit for clients who at the time of analysis exceeded already the CCR2 competence for individual or group exposures and are under the competence of CPAC.

Committee for Credit Remediation and Workout (CRW)

The Committee for Credit Remediation and Workout mainly focuses on analysing and deciding with regard to the implementation of the remediation solutions proposed by the Department for Credit Remediation and Workout. The remediation solutions are aimed to improve the situation of the selected customers facing difficulties, who cannot sustain their current debt service from their current business or at finding appropriate solutions to increase exposure recovery.

Committee for Enforcement Monitoring and Realization of Assets (CMESVA)

The Committee for enforcement monitoring and realization of assets is established by the Leaders' Committee and its primary responsibility is to oversee the management of real estate assets that are under the enforcement procedure or that come from the foreclosure of the collateral related to the loans given to individuals or companies.

Special committee for approval of enforcement/litigation actions (CAES)

The main objective of the Committee for approval of enforcement/litigation is to analyse and decide the commencement of the enforcement actions for the clients proposed by the debt collection officers within the Debt Collection Department. These action can be taken against individuals or companies having overdue amounts which can not be recovered in other way, by amicable agreement. The competences of this Committee are for clients with exposure greather than EUR 100,000 and lower than EUR 150,000 and that have provided securities interests in movable property (at least one product with securities interest) or with an exposure greater than EUR 150,000, regardless of the collateral type.

Committee for Loans to Financial Institutions (CCIF)

Committee for Loans to Financial Institutions supervises BT credit exposures to financial institutions in Romania and abroad.

CCIF approves all derogations to the internal regulations and procedures that determine the work procedure for other financial institutions in the country and abroad.

Loan and Risk Committee in the branches (CCRS)

The main objective of the Loan and Risk Committees in the branches is to analyse and approve loans and loan restructurings (further referred as loan approval), respectively, under their competence limits.

The structure of the Loan and Risk Committees in the branches is meant to match the staff size and structure in the BT branches.

There are 3 types of Loan and Risk Committees at branch level:

- a. Loan and Risk Committee for the approval of loans to Corporate** clients: no. of members, at least 3 persons;
- b. Loan and Risk Committee for the approval of loans to SME clients;**
- c. Loan Committee for the approval of loans to Retail clients;**

The decisions of the committees are made by consensus (voting yes/no by all members).

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The General Meetings of Shareholders, as well as the shareholders' rights and obligations, are governed by Law no. 31/1990 on trading companies and Law no. 297/ 2004 on the capital market and also by other realated regulations.

The Bank issues periodical reports, providing relevant information to the Bank's shareholders and investors.

During 2016, there were 4 teleconferences with investors.

The contact details for Investors Relations are the following:

Tel: + 40 264 407 150

Fax: + 40 264 407 179

investor.relations@btrl.ro

www.bancatransilvania.ro/en/investor-relations

www.bancatransilvania.ro

www.bt24.ro

facebook.com/BancaTransilvania

twitter.com/b_Transilvania

linkedin.com/company/banca-transilvania

BT's policy regarding diversity

General considerations regarding diversity in the management of Banca Transilvania.

The purpose of this policy is to establish the ways to promote diversity in the management of the Bank (within the Board of Directors and the Leader's Committee). Banca Transilvania acknowledges and embraces the benefits of a diversified management as a means to increase the quality of its performance.

The principles described in this policy are applicable to all entities within the BT Financial Group.

The management of the Bank is entrusted by the General Meeting of the Shareholders to a Board of Directors elected for a 4 year mandate, composed of 7 directors, elected by the shareholders during the GMS either when a mandate expires or when there is an open position for any reason. The eligibility criterias for the Board of Directors are those mentioned in the specific official regulations, as well as those set in the Articles of Association of Banca Transilvania S.A.

The Board of Directors appoints the Leaders' Committee, considering the nominations coming from the Remuneration and Nomination Committee. The top management of Banca Transilvania is ensured by the members of the Board of Directors and the Leaders' Committee.

Having in mind a stable and sustainable development, Banca Transilvania perceives the increase in diversity at management level as an essential element necessary to achieve its strategic objectives. The design of the management structure considered without limitation: gender, age, cultural and

educational profile, ethnic origin, professional experience, abilities, knowledge and seniority. All nominations in the management bodies are based on meritocracy and candidates will be selected based on objective criteria, considering the benefits of diversity.

Banca Transilvania S.A. underlines the fact that, although diversity, variate experience and different opinions in the governing body should always be considered, a candidate should not be elected or excluded mainly based on race, gender, national origin or sexual orientation. In selecting a candidate, the Remuneration and Nomination Committee assesses with priority his abilities, national and international experience and cultural profile which would complete the existing governing body, acknowledging the fact that Bank's operations are diverse and with a national and global impact.

Considering the global character of banking activity, BT's managers and directors are both Romanian citizens and citizens of other member states. The majority of managers and BT directors come from Romanian or international banking environment.

Banca Transilvania considers that, while the governing body should not have a fixed number of members, generally a governing body composed of 6-14 members offers a sufficiently large and diverse opinion in approaching the important issues confronted by the Bank, being also small enough to encourage personal involvement and constructive discussions.

Current BT managers and directors should have occupied management functions in different organisations or in BT, proving their capacity to exercise top leadership activities or company management. They were executive members in different top international organisations where they developed abilities regarding strategic and business development, innovation, operations, brand management, finance, compliance, decision-taking and risk management. These abilities, as well as the accumulated experience allow them to offer sound opinions on the issues the BT is facing in current business environment, ensuring the monitoring of those areas in the Bank and assessing BT performances.

Likewise, all management members have a large experience in corporate governance and the monitoring of complex business, considering their former positions of executive managers, managers, directors or other relevant functions in large institutions.

Some of Bank's directors have a significant experience in credit institutions in areas like audit, risk or stock market. All these abilities and experience are relevant for the current strategies and the Bank's development, allowing managers and directors to offer divers development perspectives, valuable advice and critical opinions with regard to new business opportunities, product launches, approaching new markets and solutions to different problems the credit institution is facing in its local and national business environment.

Measurable objectives in maintaining diversity standards in the governing body of BT.

Candidate selection will be performed based on diversity principles, without limitation to gender, age, cultural and educational profile, ethnic origin, professional experience, abilities, knowledge

and work experience. The final decision will be based on meritocracy and the contribution that a candidate will bring to the governing body. The structure of the management body (including gender, ethnic origin, age and experience) will be communicated periodically through the Bank's website.

The Board of Directors and the Leaders' Committee consider diversity as a factor in electing the members of the governing body, knowing that diversity offers important benefits to the Bank. The Remuneration Nomination Committee uses a series of criterias in selecting candidates for the manager and director positions, including base diversity.

The Bank considers that a possible eligible member of the governing bodies should be able to work in good relation with the colleagues from different educational, cultural and business environments and should have abilities which completes the abilities of existing memebers.

Banca Transilvania promotes the presence of female members in the governing body in order to ensure an equilibrium and good performance of the company. Still, the Bank considers that nominating a member in the governing body cannot be based solely on gender, and that this practice would influence its competence and independence.

We consider that the durable and efficient development of the Bank can be achieved by ensuring a personal development framework for female employees (in the same condition as male employees).

In this respect, we mention that during 2016 the numbers of female employees which participated in proffesional traning courses was 72% of the total employees, an increase of 65% versus 2015. Also we mention that from the total middle management enrolments, 50% were female employees.

The Bank develops a sustainable development area of its employees thorough professional training which is offered without discrimination to all its employees based on their needs, work requirements and current positions.

Monitoring and reporting

The Remuneration and Nomination Committee regularly monitor the European requirements with regard to the diversity of the management body.

In order to mantain and develop a balanced, functional and efficient governing body the Remuneration and Nomination Committee can sometime consider (at a candidate election) also other attributes, experiences and competences that can be relevant at the decision-making moment.

The Remuneration and Nomination Committee can consider diversity in aassessing the candidates to the governing bodies. The Bank considers that diversity reported to the cultural profile, experience, abilities, race, gender and ethnic origin is an important element in selecting the candidates. The Remuneration and Nomination Committee considers diversity in relation to each candidate and periodically in relation to the structure of the management body as a whole.

The Remuneration and Nomination Committee outlines a model of the necessary abilities and characteristics of the governing body members, considering its current structure. This evaluation includes considerations for experience (including international or in other credit institutions), independence, integrity, diversity and age, as well as technical abilities related to specific banking operations, finance, marketing, technology and public relations. The main eligibility criterias considered are those coming from legal requirements, the Committee ensuring that a part of the governing body remains independent.

FINANCIAL CALENDAR FOR 2017

Each year, Banca Transilvania prepares a financial calendar for its shareholders, whereas such calendar is made public both on BT's website/Investor Relations/Financial calendar and on the site of the Bucharest Stock Exchange (www.bvb.ro).

The calendar for 2017 is presented below:

1. Presentation of the preliminary financial results for 2016	15 February 2017
2. Conference call for presentation of the preliminary financial results	16 February 2017
3. Annual General Meeting of Shareholders	26 April 2017
4. Presentation of the financial results for 2016	27 April 2017
5. Presentation of the financial results – Q1 2017	27 April 2017
6. Conference call for presentation of the financial results – Q1 2017	28 April 2017
7. Presentation of the financial results – Q2 2017	10 August 2017
8. Conference call for presentation of the financial results - Q2 2017	11 August 2017
9. Presentation of the financial results – Q3 2017	13 November 2017
10. Conference call for presentation of the financial results – Q3 2017	14 November 2017

RISK MANAGEMENT

The objective of Banca Transilvania Financial Group in terms of risk management is the integration of the assumed medium risk appetite within the bank's decision-making process, by promoting the adequate balance between the assumed risks, the available capital and the performance targets, considering at the same time the tolerance to financial and non-financial risks. In determining the appetite and tolerance to risk, the Group takes into account all significant risks to which it is exposed given the specificity of its activity, a major influence being linked to the credit risk.

Risk management is part of all the decision-making and business processes in Banca Transilvania, and in this respect the bank's management:

- Continuously assesses the risks which affect or are likely to affect the bank's business and goals and takes actions whenever changes appear in its business environment.

- Ensures the existence of an adequate activity management framework within the bank, considering both internal factors (the complexity of the organizational structure, the nature of the activity, staff quality and fluctuation) and external factors (macroeconomic factors, legislation changes, competition changes in the banking sector, technological progress).

The risk management framework includes internal regulations, limits and controls that ensure the identification, assessment, monitoring, mitigation and reporting of the risks arising from the bank's activity overall and, where applicable, at the level of business lines.

- risk identification: Bank's exposure to normal banking risks from daily operations and transactions (lending activity, trading, equity market activity) is identified and aggregated in the bank's risk management infrastructure

- risk evaluation/measurement: the Bank performs a valuation of the risks identified using specific models and methods: a system of ratios with related limits, a methodology for assessing the risk events likely to generate losses, calculation methodology for specific credit risk provisions, assumptions regarding the future evolution of assets' value, etc.

- risk monitoring and control: The policy and the procedures implemented for an effective risk management are meant to mitigate risks inherent in the bank's business. The bank implemented procedures for the supervision and approval of decision and trading limits per person/ unit/ product etc. Such limits are monitored daily/ weekly/ monthly depending on operations.

- risk reporting: For the specific risk categories, the bank has established transparent regular reporting mechanisms, so that the management body and all the relevant units are provided with precise, concise, intelligible and significant reports in due time, and are able to exchange relevant information on risk identification, quantification or assessment and monitoring.

- calculation and assessment of internal capital and capital requirements: For the assessment of capital adequacy to risks, the Bank identifies and evaluates all significant risks to which it is or might be exposed. Banca Transilvania continuously calculates and assesses its internal capital and internal capital requirements, in order to cover the bank's business needs and related risks.

The main risk categories to which the Bank is exposed are: credit risk, liquidity risk, operational risk, market risk, interest rate risk in the trading book, reputation risk, risk of excess leverage, strategic risk and compliance risk.

CREDIT RISK

The credit risk management framework is periodically updated and improved. It is designed to cover all credit exposures deriving from the banking business and includes the following basic components:

- Lending methodology to ensure a healthy loan portfolio;

- Integrated IT systems for the management of client relationships and loan origination, both for companies and individuals

- individual counterparty rating system;

- risk assessment system for transactions;
- risk assessment system for new lending products/ significant changes of the existing products;
- active loan portfolio management;
- Concentration limits per client / group of clients / products / regions /sectors/ guarantee suppliers / guarantee types;
- Pricing methodology based on risks;
- Methodology for loan monitoring / review after granting;
- Methodology for credit risk provisioning;
- Methodology for the calculation of prudential adjustments;
- Methodology for the early identification of effective or potential credit risk increase (early warning);
- Methodology for the identification and management of high risk assets;
- Proactive management of fraud risk;
- Continuous improvement of the overdue credit collection process;
- Back-testing methodology for provisions allocated to the bank's loan portfolio regarding the adequacy of the probability of default indicator, the default status and the provision level.

The credit risk management consists mainly in:

- The organization of a proper system of norms and procedures in this field, establishing the regulatory framework for the lending process in order to avoid or to minimize risk occurrence;
- development / improvement of credit risk management procedures (strategy, policies, norms related to credit risk management);
- ongoing improvement of the credit approval / granting process;
- The maintenance of an adequate process for credit management, control and monitoring;
- Organizational structure of the bank – there are departments and committees with responsibilities in credit risk supervision and management.

The credit risk appetite determined *a priori* for 2016 was “medium”.

LIQUIDITY RISK

The liquidity risk appetite in 2016 was “medium-low” due to the structural correlations of the bank's assets and liabilities, namely the mix of instruments designed for the use of temporary liquidity excess, but also due to the weight of stable resources raised from clients in total funds; the liquidity risk profile is determined in a conscious manner and in line with the international and domestic market conditions, but also by considering the bank's sound development under the current legal circumstances, with the purpose to achieve both prudential and profitability requirements. Liquidity management is centralized.

The main principle in determining the types of instruments used by the Treasury in order to use temporary liquidity excess is investment portfolio diversification (over 5 types/categories), considering the reversed correlation between the risk degree and the liquidity level, establishing minimum and/or maximum accepted levels for the relevant categories of investments, granting

special attention to liquid assets easily convertible into cash that are eligible for collateral, without materially affecting the initial yield of investments, notably their profitability.

For a sound management of liquidity risk, the Bank is constantly concerned with raising liquidities via treasury operations, external financing, capital markets, etc, taking into account several factors such as the issuer's rating, the issuance maturity and volume, trading markets.

The operative management of liquidity occurs also on an intraday basis, so as to ensure the execution of all settlements / payments of the bank carried out in its own name or on behalf of its customers, in RON or FCY, on accounts or in cash, within the internal, legal and mandatory limits.

Moreover, the Bank also applies a liquidity buffer for the purpose to cover the additional liquidity needs that may occur on a short period of time under stress conditions.

During 2016, the Bank recorded 1st rating liquidity ratios, indicating a more than comfortable liquidity position in a still fragile general economic context.

Attention is also given to:

- correlation of the growth rate of resources/loans;
- diversification of the range of instruments correlated with the institution's risk appetite;
- adequate capital allocation.

OPERATIONAL RISK

Operational risk represents the risk to incur losses from defective processes, errors generated by the internal systems, inadequate employee activities and other external events.

In order to identify, assess, monitor and mitigate operational risk, the bank:

- assesses on an ongoing basis the exposure to operational risk, based on historical data
- assesses the products, processes and systems in order to determine their associated risk levels and the measures required for the removal / diminishment of such risks to acceptable levels.

In order to mitigate the inherent risks arising from the bank's operating activities, it is necessary to continuously monitor the controls implemented at different levels, to assess their efficiency, and to implement adequate measures for the reduction of the impact of operational risk events. Banca Transilvania's Strategy for the diminishment of operational risk exposures is based mainly on the permanent update of regulatory documentation in line with the legal regulations and market conditions, staff training, efficiency of internal control systems (organization and exercise), constant improvement of IT solutions and consolidation of the bank's security systems, the use of additional means to reduce risks (insurance policies against risks), application of measures to limit and to mitigate the effects of operational risk incidents, such as: current activity standardization, automation of processes to the largest possible extent, with control keys monitored on a permanent basis; reduction of redundant data collected by the bank's related entities; evaluation of products, processes and systems in order to determine sensitivities to operational risk, implementation of the recommendations and the conclusions resulting from the controls carried out by internal and external bodies, the update, evaluation and testing of business continuity plans on a regular basis.

The operational risk assessment is closely related to the Bank's overall risk management process: its results are part of the operational risk monitoring and control process and are constantly compared with the risk profile defined in the risk management strategy.

MARKET RISK

Banca Transilvania's market risk appetite was "medium-low" due to the structure and the size of the trading portfolio, the prudential approach of all operations subject to such a risk and the numerous limits implemented and daily monitored within the bank's current business. In order to reduce market risk, the bank adopted a prudential approach to protect its profits from fluctuations in prices, interest rates and exchange rates on the market, which represent exogenous, external, independent factors. The Bank implements a series of principles in terms of quality, maturity, diversity and risk of all trading book positions.

Banca Transilvania performs a daily evaluation of all banking positions, marking to market its trading book, of the positions at the directly available closing prices, coming from independent sources, such as: prices on the stock exchange, electronic quotations, quotations from several independent, well-known brokers, in accordance with the applicable internal regulations and monitors the "warning" or "alert" levels, using backup plans in case of unstable market conditions. The market risk analysis is based on the three main risk sub-categories below, with the purpose of combining prudential and profitability requirements:

Interest rate risk and price risk: the management of such risk is adapted and permanently adjusted to the Romanian and international financial and banking market conditions, as well as to the overall economic context. The interest rate risk is analysed within the stress tests performed for the portfolio of securities held by the Bank and the price risk is analysed within the stress tests related to the share and fund unit portfolio held by the Bank.

Foreing exchange risk: the Bank applies a set of rules for operations exposed to foreing exchange risk, in regard to how those can be conducted, booked and marked to market, as well as evaluating the impact of exchange rate fluctuations in the assets and liabilities of the Bank.

Settlement risk: represents a possible loss that could occur because of a wrong settlement of the treasury operations; the purpose of this risk management type is to adopt a prudent policy regarding the selection of counter-parties, custodians, the management of counter-party operations and the maturities of the related operations.

INTEREST RATE RISK IN THE TRADING BOOK

The interest rate risk profile in activities outside BT's trading book is "low", the bank adopting a set of strict principles for the management and monitoring of such risk, establishing a risk management process capable of keeping interest rates within prudential limits. The interest rate risk management is to minimize the possible negative impact on net income, as well as to preserve the economic value of the equity under the conditions of adverse fluctuations of the interest rates.

The bank uses management tools such as GAP analysis, static or dynamic and the economic value of assets, forecasts regarding the interest rate trends, the interest types and levels of the bank's

products, depending on currency and maturity, the volumes of different balance-sheet items sensitive to interest rates, fees and commissions, directly or indirectly influenced by interest rate changes, limits recommended in the interest rate gap management.

REPUTATION RISK

The reputation risk is the risk to incur possible losses or to fail in achieving estimated profits due to the lack of public confidence in the integrity of the Bank. The reputation risk appetite has been established as “low” by maintaining the confidence of the public and the business partners in the bank’s integrity, economic and financial position. The management of the reputation risk is performed by way of: undertakings in order to attract the best partners, both clients and suppliers; recruitment and retention of best employees; minimizing litigations; strict regulations; prevention of crisis situations; and the consolidation of the bank’s credibility and the shareholders’ confidence; ongoing improvement of the relationship with shareholders; establishing a more favourable environment for investments and access to capital; continuous and open communication with stakeholders (shareholders, mass-media, clients, partners, employees, authorities, etc.).

STRATEGIC RISK

Strategic risk is the current or future risk for profits and capital to be negatively affected by changes in the business environment, by unfavourable business decisions, improper implementation of decisions or the low adaptability to changes in the business environment. The strategic risk appetite has been established as “low” based on the following aspects: risk management practices are an a part of BT’s strategic planning, the exposure to strategic risk reflects strategic goals that are not excessively “aggressive” and are compatible with the developed business strategies, the business initiatives are well designed and supported by communication channels, operating systems and adequate delivery networks.

COMPLIANCE RISK

In accordance with the requirements of NBR’s Regulation no. 5/2013 on prudential requirements for credit institutions, Banca Transilvania ensures the ongoing development of the compliance activity, thus providing a permanent and efficient compliance risk management framework.

In this respect, the compliance function, as an integral part of the bank’s control functions, has provided the management body with consultancy on the implementation of the legal and regulatory framework and on the standards that the bank had to meet; thanks to the involvement and support of this function, the possible impact of any legal and regulatory changes on the bank’s activities has been assessed on an ongoing basis.

The main tools for an efficient management of compliance risk are: establishment of exposure limits and elaboration of ratios that reflect the bank’s processes exposed to compliance risk; (2) investment in state-of-the art software solutions; (3) raising employees’ awareness through

training on the events that fall under the category of compliance risk and means to mitigate such risk; (4) regular internal and external auditing of the compliance function, thus ensuring control over the implementation of the legal requirements.

The relevant ratios for the management of the requirements of the compliance function refer to KYC and AML / terrorist financing, as well international sanctions.

Through a consistent approach strategy for compliance risk management, the process has been extended to the level of the BT Group.

The compliance objectives for the forthcoming period focus on the implementation of certain European legal requirements on capital, monetary and FX markets and in the field of payments, data protection and AML and terrorist financing.

CAPITAL ADEQUACY

The internal process for the assessment of capital adequacy to risks is integrated in the administration and management process of Banca Transilvania and in its decision making culture, according to which the management body must ensure the proper identification, measurement, aggregation and monitoring of risks, the preservation of internal capital levels adjusted to the bank's risk profile, as well as the use and development of sound risk management systems.

The Bank and the Group use the following calculation methods for the determination of capital requirements:

Credit risk: risk-weighted assets are calculated based on the standard method;

Market risk: the standardised approach is used for measuring the required capital for foreign exchange and trading book risk;

Operational risk: capital requirements for the coverage of operational risk are calculated according to the base method.

The Group manages its capital base in a dynamic manner, by monitoring regulatory capital ratios, by anticipating the adequate adjustments required for the achievement of its objectives, as well as by optimizing the structure of assets and shareholders' equity.

Planning and monitoring take into consideration the total own funds (core tier 1, additional tier 1 and tier 2) on the one hand and risk-weighted assets (RWA) on the other hand.

INTERNAL AND EXTERNAL AUDIT

The general objectives of the 2016 audit focused mainly on risk management, as well as on the assessment of the overall control system implemented on transactions and / or processes / flows, covering the entire range of risks. The control system assessment was carried out in line with the internal audit methodology, one of the main objectives being that of ensuring the reliability and integrity of financial and operational data, as a result of an independent and objective evaluation

of the internal control system and of the risk management systems in connection with the financial reporting process.

The internal control framework of the Bank is structured on three levels, respectively the functions that are exposed to and manage risks (operational units), the functions of risk supervision (the risk management function and compliance function) and the function that provides an independent assessment, respectively the internal audit function.

Thus, the 1st control level is linked to the operational units, which are responsible for ensuring an appropriate risk control and prevention environment within each operational structure/activity, as part of their daily operations; the 2nd and 3rd control levels are associated with the three independent control functions, as follows:

- The *Risk Management Function*, ensures the management and control of identified risks by means of specific assessment processes;
- The *Compliance Function*, ensures the management of compliance / operational / credit risks;
- The *Internal Audit Function*, ensures the objective examination of the Bank's overall activities, for the purpose of an independent evaluation of risk management, of the internal control system, of the management and execution processes, in order to support the achievement of objectives; it also issues recommendations for the improvement of such activities.

The external auditor of the Bank, PricewaterhouseCoopers Audit SRL, audited the separate and consolidated financial statements of Banca Transilvania as at December 31, 2016.

According to the audit opinion, the separate and consolidated financial statements reflect in all significant aspects the Bank's and Group's financial position, the individual and consolidated result and cash flows in conformity with the International standards of Financial Reporting endorsed by the European Union.

BANCA TRANSILVANIA GROUP STRATEGY

Banca Transilvania has benefited from the support of its shareholders, clients and employees in respect to the new branding concept launched in 2016. The new identity suggests the idea of modernity, Romania, respect and energy, the values with are part of BT culture.

Banca Transilvania Group finished 2016 with total assets of RON 51.95 billion, out of which RON 51.8 billion belong to the Bank. 2016 brought a new consolidation phase for BT Group.

MEMBERS OF BANCA TRANSILVANIA FINANCIAL GROUP

The concept which governs the activity of the BT Financial Group is "client service", based o cross-selling, flexibility regarding client needs and usage of centralized IT systems.

Banca Transilvania's objective resides in maximising the contribution of the subsidiaries to the value of the Bank and in optimizing the resources within the Group. In order to achieve these objectives, a set of measures have been identified:

- Integrated business – a more focused approach to cross-selling (including by defining group specific products) and optimisation of intra-group financing structure.
- Banca Transilvania commits to ensure an adequate level of capitalisation to its subsidiaries and to improve the risk management functions by involving the audit and compliance functions of the bank in the activity of subsidiaries.
- The gross value of Bank’s investments in its subsidiaries, in accordance with the International Financial Reporting Standards endorsed by EU, at the end of 2016 increased versus 2015 by 8.3%, from RON 126.19 million to RON 136.67 million.

The group subsidiaries in which the Bank holds direct participations are:

Subsidiary	Business profile	% Direct equity	% Total equity investment
BT Capital Partners SA	Investments /brokerage	99.59%	99.59%
BT Leasing Transilvania IFN SA	Leasing	51.72%	100.00%
BT Investments SRL	Investments	100.00%	100.00%
BT Direct IFN SA	Consumer finance	93.70%	100.00%
BT Building SRL	Real estate	98.94%	100.00%
BT Asset Management SAI SA	Asset management	80.00%	80.00%
BT Leasing MD SRL	Leasing	100.00%	100.00%
Improvement Credit Collection S.R.L.	Credit collection	99.89%	100.00%
BT Microfinantare IFN s.A.	Consumer finance	100.00%	100.00%

During 2016 the direct investment of Banca Transilvania in BT Building increased by RON 40 million and a new company, BT Microfinantare S.A., was established with a BT investment of RON 11.7 million. Also Compania de Factoring merged with Improvement Credit Collection SRL. As at 31.12.2016, BT Invest held 9,648,498 TLV shares and a percent of 0.264629% of share capital.

BT Leasing Transilvania IFN S.A.

BT Leasing Transilvania IFN S.A. was incorporated in 1995 as a privately owned joint-stock company. The company operates through its Head Office located in Cluj-Napoca, 1 agency and 24 operational units (2015: 1 agency si 20 operational units) throughout the country. The company leases various types of vehicles and technical equipment.

During 2016 the company concluded 2,412 leasing contracts (2015: 1,316 contracts). The total value of the financed assets in 2016 was over 91 million EUR. At the end of 2016 the company managed a total of 4,899 active contracts (2015: 2,786). The total revenues in 2016 was 20% than in the previous year.

The number of active employees at 31 December 2016 was 107 (2015: 104).

The company proposes financing solutions for a rapid and simplified financial support, customised offers and financial consultancy to choose the optimum solution.

For 2017, the main objectives of BT Leasing are: portfolio increase by 24%; maintaining PAR at max 10%; reaching the target of at least EUR 120 Mil from new contracts financing; increase the market share.

BT Asset Management SAI S.A.

BT Asset Management SAI is a company specialised in the management of asset management from the Banca Transilvania Group, operating in the field of management of investment funds, addressed to the individuals and legal persons, providing numerous investment options in order to reach the optimum benefits from the stock market. The registered address of BT Asset Management SAI S.A is: Emil Racovita str. no. 22, Cluj-Napoca.

At the end of 2017 BT Asset Management realised an increase in revenues of 34% versus previous year while assets increased by 40%. BT Asset Management SAI S.A provides a full range of investment products, from fixed income funds, diversified investment funds, index funds to equity funds. The opening to the capital market is provided to customers through investments in Romania and other EU member states (especially Austria); investments are available both in RON and EUR. Integration of the open funds trading in the BT24 platform is currently under approval at ASF, together with the project for the digitalisation of operations.

As at 31 December 2016, the number of employees was 28 (2015: 23).

BT Asset Management SAI manages both open and closed end investment funds. As of 31 December 2016, BT Asset Management SAI managed 11 investment funds, out of which 9 were open-end and 2 were closed-end funds, with a total of over 47,000 investors and assets under management over 3.242 billion RON.

BT CAPITAL PARTNERS S.A.

BT Securities S.A. the brokerage company of the BT financial group became BT Capital Partners S.A. at the beginning of 2016 as a result of merging with the investment banking activities of Capital Partners, the most important Romanian consultancy company in the field of M&A and Corporate Finance, becoming also the exclusive member in Romania of M&A International, one of the largest global network alliance of independent companies in merger and acquisitions business.

BT Capital Partners offers assistance for capital funding through the stock exchange, brokerage services, consultancy for mergers and acquisitions, complex finance structuring, market research and strategic consultancy.

As at 31 December 2016, the number of active employees was 63 (2015: 58). The company operates through its Head Office, located in Cluj-Napoca, 74-76 Constantin Brancusi street, ground floor and through 11 operational units.

The commission income increased by 38% in 2016 versus previous year from 5,790,105 lei to 7,984,153 lei, while interest income remained at the same level. During 2016 the company achieved a net profit of 377,433 lei.

In the top of the romanian brokerage companies, BT Capital Partners lies on the 5th place with a market share of 9.71%.

During 2016 the company intermediated succesfully 2 bond issues for International Investment Bank and Cable Communication System with a value of 300 million lei and 350 million EUR.

BT DIRECT IFN SA

BT Direct IFN SA is a non-banking financial institution set up in 2003, having as object of activity the retail financing, through consumer loans granted to individuals.

In 2016, BT Direct IFN SA signed loan contracts (consumer loans and personal needs) with a value 24% higher than in 2015, the total balance of loans as of 31 December 2016 being RON 148 million.

As at 31 December 2016, the number of active employees was 43 (2015: 39).

BT Direct IFN SA operates through its head office located in Cluj-Napoca, 74-76 Constantin Brancuși street.

IMPROVEMENT CREDIT COLLECTION

Improvement Credit Collection S.R.L, was registered in 2013, having as single shareholder Compania de Factoring, and on 16 April 2014 its share capital increase through the participation of Banca Transilvania as new shareholder. Currently the share capital of ICC is divided between Banca Transilvania with RON 900,000 and BT Investments with 1,010 RON.

In 2016 a decision was taken to merge ICC with Compania de Factoring SRL (by absorbing this entity which had the same object of activity), ICC being the absorbing entity.

The activity of ICC includes the collection by mutual agreements with debtors, monitoring and controlling of loan portfolios outsourced by Banca Transilvania starting with April 2014, which represents the main driver of the ICC revenues.

Regarding the realised budget for 2016, the company achieved the following: development of the organisational structure and increase in efficiency of available resources necessary for the collection and monitoring of the loan portfolio in its own menegement or outsourced activities from other institutions/companies. Using its own developed organisational structure, in 2016 the company realised a net profit of RON 4.5 million.

BT MICROFINANTARE IFN S.A.

The company has its head-office in Bucharest, 43 Bucuresti – Ploiesti road, ground floor, room 10, sector 1, fiscal identification number 36380482, Trade Registry number J408/10298/02.08.2016 and has as of 31 December 2016 a share capital of 11,760,000 lei with the following structure: BANCA TRANSILVANIA S.A. 11,742,000 Ron (99.85%) and BT INVESTMENTS S.R.L. 17,600 Ron (0.15%).

BT MICROFINANTARE IFN S.A. is member of the BT Financial Group and is included in the General Registry of the National Bank under the id RG-PJR-41-110318/02.12.2016.

The main object of activity is under the classification code NACE 6492 - “Other credit granting (companies micro-financing)”.

BT MICROFINANTARE IFN S.A. started its lending activities on the 8 december 2016.

As at 31 December 2016 BT MICROFINANTARE IFN S.A. had 71 active employees and 10 operational units.

The companies with a turnover under RON 1 million will be financed through BT Mic no matter of their activity line or organisational form: commercial companies, authorised individuals, freelancers, individuals with economic activity.

ENVIRONMENTAL POLICY

BT pays attention to the compliance with the environmental and social legislation in force and to the use of appropriate social and environmental practices, as important factors of effective business management.

In line with its policy related to social responsibility, volunteering and environment protection, Banca Transilvania continued the reforestation activities also in 2016. Two of them are:

- Padurea Transilvania (“Transilvania Forest”), Sanmihaiu de Campie, Bistrita-Nasaud: 40,000 saplings were planted on an area of 10 hectare, in cooperation with Asociatia Tasuleasa Social (March 2016)

- Padurea Oamenilor Intreprinzatori (“The Forest of Entrepreneurial People”), Baragan-Jegalia: 20,000 saplings were planted on an area of 3 hectare, in cooperation with Asociatia Mai Mult Verde (November 2016)

The Bank holds an international “green building” certificate, for some of its business spaces and for the choice of last generation technologies and equipment, with high energetic efficiency and lower environmental impact.

SOCIAL RESPONSIBILITY AND HUMAN RESOURCES , RESPECT HUMAN RIGHTS AND COMBATING CORRUPTION AND BRIBERY

Banca Transilvania has implemented a management system of environmental, social responsibility, respect for human rights and fighting corruption and bribery, based on the best practices and the principles published and adopted by institutions such as the EBRD and IFC.

Banca Transilvania granted almost RON 18 million during 2016 for social responsibility programs in areas like financial and entrepreneurial education, volunteering, sport, culture and social causes.

BT Club offered financial education support for 8,000 local entrepreneurs through 60 meetings organised in 2016 all over the country.

Banca Transilvania became the official partner of “Vreau sa fiu Antreprenor” program of the Business Leaders Foundation. Through this collaboration, the Bank continued to support the entrepreneurial education for future generations. “Vreau sa fiu antreprenor” is a series of 25 national events organised through-out the country during 6 months. These events ensure an action and social platform for the leaders in the private business environment and facilitate the meeting between them, pupils and students. During these meeting, the addressed topics were: what entrepreneurship means, what it means to own a business and which are the challenges of an entrepreneur. During the last 3 years, the foundation organised 100 events with more than 100 speakers and almost 13,000 pupils and students.

OTHER INFORMATION

Regarding the preparation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union and the finance activity.

The information presented in the separate and consolidated financial statements for the financial period ended 31 December 2016 is based on the accounting rules provided by the Law no. 82/1991, as further amended and supplemented, by NBR Order no.27/2010 for approval of the accounting regulations in accordance with the International Financial Reporting Standards adopted by the European Union, as subsequently amended and supplemented, NBR regulation 5/2013 and EU regulation 575/2013, as well as with other NBR relevant instructions.

The statements of financial position, profit and loss, other comprehensive income, cash flow, changes in shareholders' equity and the accounting policies and explanatory notes were prepared in accordance with NBR's Order 27/2010 for the approval of the accounting regulations in accordance with the International Financial Reporting Standards adopted by the European Union, as further amended and supplemented. The line items included in the statement of financial position correspond with the data booked in the trial balance and truthfully reflect the assets and liabilities determined following the annual patrimony count

The revenues, expenses and separate and consolidated financial results for 2016 are accurately reflected in other comprehensive income and the net profit distribution proposals are made in accordance with the applicable laws and regulations.

The Bank had computed and paid its tax obligations to the state budget and special funds on a monthly basis, together with its quarterly/ semi-annual obligations to the local budget, and made income tax pre-payments on a quarterly basis, in accordance with the applicable laws and regulations.

INFORMATION ABOUT THE PROJECTED EVOLUTION OF THE GROUP IN 2017

QUANTITATIVE OBJECTIVES for 2017:

- Total assets: 4.5% increase;
- Total gross loans: 6.0% increase;
- Total deposits from customers: 4.6% increase;
- Cost to income ratio: 42.6%;
- Loans to deposits ratio: 72.8%;
- Consolidation of the 2nd position on the market based on total assets;
- An active presence in the online environment by developing specific applications, taking into account the increasing demand for mobile banking and a more dynamic presence in social media;
- New products, as alternatives for traditional deposits (having a decreasing interest rate) and encouraging clients to buy other products: funds; insurance; other investments;

QUALITATIVE OBJECTIVES for 2017:

- Simple and streamlined internal processes and, implicitly, more time for interactions with clients – for selling purposes and for maintaining the existing relationships
- Automation of routine activities, utilisation of advanced digital instruments

INVESTMENT PLAN FOR 2017

Investment budget for 2017 (in RON thousand):

• Branches and buildings	102,641
• IT and cards investments	170,497
✓ Hardware IT	44,623
✓ Software IT	83,446
• Retail and Cards	42,428
✓ Retail cards hardware	30,744
✓ Retail cards software	11,684
• Security	37,119
• Other	15,950
• Special projects	37,955

Total investments: RON 364,163 thousand including VAT

BUDGETED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF PROFIT AND LOSS FOR 2017

The 2017 budgeted figures are based on BT's separate financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union, this being the single reporting framework for Romanian credit institutions since January 1, 2012.

An average annual inflation rate of 2.5% per year and an average exchange rate of 4.52 RON/EUR, were used in the 2017 estimates.

The assets are expected to increase by 4.5% as compared to the 2016 levels (up to RON 54,113 million). Regarding the assets structure, the estimated gross loan weight is 58.9%, cash and cash equivalents are 13.1%, while the T-bills are 29.5 %.

The budgeted structure of the liabilities for 2017 includes an increase in customer deposits by 4.6% as compared to 2016, to 80.9 % weight in total liabilities. The budget proposition for 2017, submitted for the GSM approval, is aligned with the proposed business objectives and is correlated with the prudential and supervisory standards and regulations.

The main items budgeted for the 2017 Statement of Financial Position and Statement of Profit and Loss are presented below:

BUDGETED STATEMENT OF FINANCIAL POSITION FOR 2017

Statement of Financial Position (RON mil.)	BVC proposal 2017
Cash and cash equivalents	7,074.76
T-Bills	15,981.58
Gross Loans	31,367.39
Loan provisions	(1,851.67)
Fixed assets	628.70
Investments in other entities	146.67
Deferred tax assets	198.32
Other assets	567.14
Total assets	54,112.90
Deposits from clients	43,780,86
Interbank deposits & borrowings	2.070,89
Subordinated loan	424.11
Other liabilities	1,202.92
Total liabilities	47,478.79
Shareholders' equity	5,782.13
Profit/loss for the year	851.98
Total equity	6,634.11
Total liabilities and equity	54,112.90

Statement of Profit and Loss (RON Mil.)	BVC proposal 2017
Interest income and similar income	2,135.82
Interest expense	(278.51)
Net interest income	1,857.31
Net fees and commissions	583.56
Net trading result	271.69
Contribution to Deposit Guarantee Fund	(50.19)
Other income	262.25
TOTAL REVENUES	2,924.61
Loans provision charge	(665.25)
Staff costs	(683.50)
Operating expenses	(422.60)
Depreciation	(85.00)
Other expenses	(54.00)
Bargaining gain *	-
PROFIT BEFORE TAX	1,014.26
Income tax/Revenues from DTA	(162.28)
NET INCOME AFTER TAXES	851.98

Considering the information presented in this report, we submit to discussion the activity performed by the Bank in 2016 and we propose to the General Shareholders Meeting the approval of the following statements:

1. Separate and consolidated financial statements;
2. Separate and Consolidated Profit and loss account;
3. Separate and Consolidated Statement of other comprehensive income;
4. Separate and Consolidated Statement of financial position
5. Separate and Consolidated Statement of changes in shareholders' equity
6. Separate and Consolidated Statement of cash flows

prepared in compliance with NBR Order nr. 27/2010 for the approval of the accounting regulations conforming with the International Financial Reporting Standards adopted by the European Union, as amended and completed, the Accounting Law no. 82/1991, the Gov. Emergency Order 99/2006 together with the Board of Directors' Report and the Independent Auditor's Report;

- Distribution of 2016 net profit;
- Share capital increase proposal;
- The proposed Budget of income and expenses and the Investment plan for 2016.

This Report has been prepared in accordance with the requirements of NBR Order no. 27/2010 for the approval of the accounting regulations conforming with the International Financial Reporting Standards adopted by the European Union, as subsequently amended and completed.

Board of Directors

Chairman,

Horia Ciorcila