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

Report on the audit of the financial statements

Our opinion

In our opinion:

- the consolidated financial statements of Banca Transilvania S.A. (the "Bank") and its subsidiaries (together the "Group") give a true and fair view the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and National Bank of Romania Order 27/2010, as subsequently amended ("NBR Order 27/2010"); and
- the separate financial statements of the Bank give a true and fair view the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with IFRS and NBR Order 27/2010.

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

What we have audited

The Group's consolidated financial statements and the Bank's separate financial statements (collectively the ''financial statements''), set out on pages 1 to 157, comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

The consolidated financial statements as at 31 December 2017 are identified as follows:

- Total equity and reserves: RON 7,140,112 thousands;
- Net profit for the year: RON 1,242,468 thousands.

The separate financial statements as at 31 December 2017 are identified as follows:

- Total equity and reserves: RON 6,970,073 thousands;
- Net profit for the year: RON 1,185,979 thousands.

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

Basis for opinion

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

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

Independence

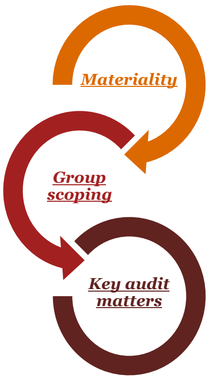
We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Regulation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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group and the Bank are in accordance with the applicable law and regulations in Romania and that we have not provided non-audit services that are prohibited under Article 5(1) of the EU Regulation no. 537/2014.

The fees for non-audit services that we have provided to the Group and the Bank, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 16 to the financial statements.

Our audit approach

Overview



Overall materiality:
RON 69 million for both consolidated and separate financial statements.

Group scoping:
We planned and scoped our audit for 2017 reflecting the Group's current structure whereby the Bank represents practically all of the Group's assets, liabilities, revenue and profit before tax. Hence, we defined the Bank as the sole significant component within the Group and so it was subject to a full scope audit of its financial information.

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

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

Group scoping

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

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

We planned and scoped our audit for 2017 reflecting the Group's current structure whereby the Bank represents the vast majority of the Group's assets (more than 99%), liabilities (more than 99%), operating income (94%) and profit before tax (96%). Hence, we defined the Bank as the sole significant component within the Group and so the Bank was subject to an audit of its complete financial information. For the top 3 remaining components we performed analytical procedures where appropriate and on the remaining components no procedures were considered necessary. We also performed procedures on the consolidation process including checking intra-group eliminations.

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

Materiality

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

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

Overall materiality	RON 69 million (2016: RON 50 million)
How we determined it	Approximately 5% of profit before tax per the consolidated and separate statement of comprehensive income for the year ended 31 December 2017.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the Bank is most commonly measured by its stakeholders, and it is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee we would report to them misstatements identified during our audit above RON 3.45 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers in the financial statements We focused on this area because management makes significant subjective judgements over both the timing of recognition of impairment losses and the estimation of the size of such impairment, which is a complex area of accounting. The basis of the provision for impairment for loans and advances to customers is described in the significant accounting policies note. An assessment of the provision for impairment for loans and advances to customers is performed individually for loans that are considered significant and have impairment triggers, and collectively for other loans, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, and the amount that is likely to be recovered from the debtor in the event of such default. Statistical models are used for assessment of collective impairment for different categories of loans. The categories are determined based on the grouping of loans with similar credit risk characteristics.	We assessed the impairment methodology for compliance with IAS 39 "Financial instruments: Recognition and measurement". We assessed and tested on a sample basis the design and operating effectiveness of controls over impairment data and calculations. For loans that are assessed individually for impairment, the controls included those used by management to ensure that the list of loans assessed individually is complete and up to date, that individual assessments are appropriately reviewed for the significant changes in the assessed level of provision for impairment, being subject to an escalated review. For collectively assessed loans, the controls included those to ensure that the data inputs used for key parameters estimation, probability of default ("PD") and loss given default ("LGD"), is completely and accurately transferred from the Bank's data warehouse to the statistical models and is regularly updated, that repayments are properly allocated to the correct loans balance and that days past due are accurately calculated by the Bank's system.

Key audit matter	How our audit addressed the key audit matter
Estimates of impairment for certain categories of mortgage loans were impacted since 2016 by the Law 77/2016 regarding deed in payment for some real estate assets for cancelling/writing-off the obligations assumed by debtors through loans (Deed in Payment Law) and subsequent rulings by the Romanian Constitutional Court related to this law, which increased the uncertainty around the probability of default for affected clients of the Bank and Group and the degree of judgement required by management to assess the required level of provision for such loans. See Note 3 - Significant accounting policies, pages 26-27 and note 5 - Accounting estimates and significant judgments, pages 90-91, to the financial statements.	With respect to collateral for loans we also assessed and tested controls to ensure that the collateral is properly registered, and the collateral valuation is regularly assessed by qualified valuators. Further, we assessed that appropriate haircuts are applied to collateral market value, with regard to the estimated time and costs of realising such collateral, and that the collateral is properly allocated to the relevant loan. In addition, we tested on a sample basis i) collateral valuations performed by the Bank and by their appointed external valuators using our own valuation specialists, and ii) individual impairment assessments performed by the Bank. We also examined a sample of loans and advances, which had not been identified by management as impaired and formed our own judgement as to whether that was appropriate. In respect of the collective impairment provisions we validated management's assessment of the required level of provision by using our credit risk modelling experts to re-perform the collective assessment for the most significant loans portfolios, following the Bank's methodology and using its historical observed data. We performed tests to ensure that the impairment provisions determined by the Bank for the selected portfolios were complete and accurate. With respect to the impact of the Deed in Payment Law we evaluated management's assessment of provision for impairment of eligible mortgage loans and we ensured that the key judgements made by management in determining the related provision are

Key audit matter	How our audit addressed the key audit matter
	reasonable. We checked that all such eligible loans were included in the analysis and we tested on a sample basis that Deed in Payment notifications received by the Bank from debtors are properly included in the Bank's system. In the case of some impairment provisions, we formed a different view from that of Bank's management, but, in our view, the cumulative differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements.
Tax treatment of bargain gain that arose from the acquisition of Volksbank S.A. in 2015 We focused on this area because the tax treatment of the bargain gain of RON 1,650 million that arose in 2015 continued to be subject to considerable uncertainty and will not be fully determined until a final resolution is reached with the Romanian tax authorities ("RTA"). The Bank considers the bargain gain recorded in 2015 to be non-tax deductible. During 2017, the Bank started a legal action against the fiscal decision issued by the RTA (which considered the bargain gain to be taxable), asking for its cancellation and issuance of another one, favourable to the Bank. The Court, through civil sentence 355/9.11.2017, as communicated on 9 January 2018, accepted the claim of the Bank, cancelled the fiscal decision and required the RTA to issue a solution favourable to the Bank in respect of	Together with our tax specialists, we examined the correspondence between the Bank and the relevant tax authorities and between the Bank and its external advisors. Further we examined the background to the issue and used our knowledge of the relevant Romanian tax legislation and other similar taxation matters to assess the available evidence and the approach taken by management of the Bank. We have analysed the developments of the legal action started by the Bank against RTA and obtained the comments of the legal advisor for this file. As result of the above audit procedures, we did not object to management's assertion that it is appropriate for the bargain gain to be treated as non-taxable income in the 2017 and 2016 financial statements. While we do not take exception to Management's conclusion that the tax position is sustainable, nevertheless, as set out in the

Key audit matter	How our audit addressed the key audit matter
the bargain gain treatment. The RTA has appealed this decision, and the next procedural steps require the Bank to submit a statement of defence ("întâmpinare"). See Note 5 - Accounting estimates and significant judgments, pages 91-92 to the financial statements.	financial statements, the final resolution of this issue is subject to future decision of the High Court of Justice, following the RTA's appeal. Hence, the fiscal treatment of the bargain gain as non-taxable income is subject to inherent uncertainty and the final resolution of this matter may not be in line with management's current assessment. We evaluated whether the disclosures within the financial statements appropriately address the significant uncertainties that exist around determining the tax treatment of the bargain gain and found them to be appropriate.
Litigation provisions for allegedly abusive clauses in loan contracts We focused on the provision for allegedly abusive clauses recorded in "Provisions for other risks and charges" line in Note 34 as the measurement of the provision involves making significant judgement and estimates by management of the Bank. Management developed a methodology to estimate the required provision for allegedly abusive clauses. The methodology involves making assumptions about the number of future legal cases to be brought against the Bank and the financial outcome of current and possible future cases. The Bank reassessed the level of provision during 2017, based on potential mitigating factors and released part of the provisions previously recorded. See also Note 5 - Accounting estimates and significant judgments, page 93 of the financial statements.	We examined the data used by management in determining the provision for allegedly abusive clauses and the analysis performed by management to assess the required level of provision. We tested the accuracy of the nature, categorisation and history of claim volumes and settlement amounts. We then assessed whether the key assumptions underpinning the provision calculation, including future claim volumes and settlement amounts, were appropriate by developing and using our own model to assess the level of provision and compared the output to management's assessment. In doing so, we considered the inherent uncertainty in the estimate of the required level of provision. This uncertainty could ultimately result in significantly different amounts being required to settle the obligation from those calculated by management. However, in our view management's assessment is within a reasonable range of

Key audit matter	How our audit addressed the key audit matter
	possible outcomes in the context of the high degree of uncertainty, which exists around these claims. We evaluated whether the disclosures within the financial statements appropriately address the significant uncertainties that exist around determining the provision and found these to be adequate.

Other information - Administrators' Report

The Administrators are responsible for the preparation and fair presentation of other information. The other information comprises the Administrators' Report (which includes also the non-financial statement), but does not include the financial statements and our auditor's report thereon. We obtained these other information prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Administrators' Report, nor the non-financial statement.

In connection with our audit of the financial statements, our responsibility is to verify if the non-financial statement was provided. The non-financial statement has been prepared by the Administrators.

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

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

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

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

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

In addition, in light of the knowledge and understanding of the Group and Bank and its environment obtained in the course of the audit of the financial statements as at 31 December 2017, we are required to report if we have identified material misstatements in the Administrators’ Report. We have nothing to report in this respect.

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's or Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were appointed as financial auditors of the Bank in the Ordinary General Shareholders Meeting on 8 October 2015 for the four financial years ended 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019. The total period of uninterrupted engagement is of 2 years covering the financial years ended 31 December 2016 and 31 December 2017.

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

Refer to the original signed Romanian version

On behalf of

PricewaterhouseCoopers Audit SRL
Barbu Vacarescu Street, no. 301-311, București
Audit firm registered with
the Chamber of Financial Auditors of Romania under no 6/25 June 2001

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

Bucharest, 23 March 2018