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# 2017

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

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# Banca Transilvania Financial Group

## Summary of the Financial Results

	THE BANK		THE GROUP	
Financial Information of the Group	2017	2016	2017	2016
ROE (net profit/annual average of shareholder equity)	18.34%	21.52%	18.42%	21.37%
ROA (net profit/annual average net assets)	2.21%	2.58%	2.26%	2.62%
Cost/income	48.53%	41.05%	49.54%	42.24%
Total income net, RON thousand	2,675	2,805	2,917	2,973
Provisions for credit risk, RON thousand	1,353	(654,223)	(29,221)	(658,087)
Gross profit, RON thousand	1,378,500	999,123	1,442,622	1,058,837
Net profit, RON thousand	1,185,979	1,228,440	1,242,468	1,277,013
Basic earnings per share			0,2870	0,2931
Diluted earnings per share			0,2866	0,2925
Tier 1 own funds, RON thousand	6,513	5,399	6,682	5,525
RWA, RON thousand	32,338	30,222	33,062	30,699
Total Assets, RON thousand	59,302	51,770	59,805	51,944
Total shareholders' equity, RON thousand	6,970	5,984	7,140	6,153
Other information				
No. of branches	495	543		
No of active employees	7,007	7,014	7,513	7,522

\* Due to rounding differences, the number presented in this document might not add up to the total, and the presented percentages might not reflect the absolute figure.

# The CEO's Message to the Shareholders

## Top 10 Accomplishments of Banca Transilvania in 2017

Banca Transilvania Financial Group in 2017: positive results, organic growth, focus on efficiency and digital banking projects.

Several of these aspects are outlined below, with details regarding both 2017 achievements and 2018 plans:

- Total banking assets amounted to RON 59.3 billion, 15% increase YoY. The Group closed the year with RON 59.8 billion in terms of total assets. The net profit of Banca Transilvania was of RON 1,186 million, while Banca Transilvania Financial Group reached RON 1,242 million in terms of net profit;
- Over 190,000 new loans were granted in 2017 for a total of RON 12.7 billion. More than 10,000 retail clients purchased a house during 2017 with mortgage/home equity financing from Banca Transilvania;
- BT Microfinantare IFN S.A., a company with the specific focus to help small business grow, is now supporting around 3,500 micro-companies;
- The Bank refined an entire BT Pay collection that comprises payment wearables – watch, bracelet, sticker – and, beginning January 2018, BT Pay wallet application, unique on the Romanian market and dedicated to shopping and money transfers by phone;
- To the benefit of our customers, we launched the program Despre credite, cu responsabilitate, to facilitate a deeper understanding of lending implications, with the aim of taking responsible decisions;
- Nelimitat in Reteaua BT is an innovative facility for SMEs that includes a current account package with unlimited operations, zero costs for online transactions and for debit instruments concluded between BT SMEs customers. Entrepreneurs have received this novelty with high interest, as nearly 125,000 of them now benefit from the Nelimitat in Reteaua BT package;
- Livia, the robot, was also a project started in 2017. This is a communication channel available to our customers as an alternative to Facebook Messenger and Skype. During January and February 2018, the robot responded to more than 200,000 queries submitted by our clients in relation to their current accounts and to the Bank's products and services;
- Over 3 million customers are using cards issued by Banca Transilvania and 5 transactions are concluded every second with our cards;
- To simplify banking for our clients, we continued investing in technology. Part of these investments went to adding new functionalities to BT Express, our automated payment machine, and to BT Express Plus, our multifunctional ATM. These banking points help client with cash deposits and withdrawals, payment of invoices, foreign exchange and PIN personalization. During 2017, more than 100,000 cash deposits

were performed each month through our BT Express Plus. Banca Transilvania has a network of 1,800 ATMs, automated payment machines and multifunctional ATMs;.

- We took a step further with the project named Bucurestiul Intreprinzator, a program where celebrities are promoting the story behind entrepreneurs from Bucharest. The main purpose of this campaign, which effectively consists of an online platform presenting people and ideas that brought their contribution to transforming Bucharest into the most entrepreneurial city in Romania, is to provide inspiration and salute innovation

### **Challenges Brought in 2018 by New Regulation**

2018 is expected to be interesting and challenging, with new fiscal regulations, impacting us and our clients through their direct and indirect effects.

Beside the fiscal aspects, other major topics, for which we prepare in collaboration with our advisors, relate to General Data Protection Regulation and MiFID 2. Our goal is to ensure a proper compliance with the requirements of new regulations, without adverse impact on our clients.

Other challenges on our 2018 regulatory agenda comprise the implementation of the new accounting standard IFRS 9 – Financial Instruments and PSD2 Directive that aims to change the traditional banking.

**Ömer Tetik**

CEO, Banca Transilvania

## Leaders Committee Structure

### **Ömer Tetik**

since 2013

Chief Executive Officer(CEO)

### **Luminița Runcan**

since September 2014

Deputy CEO - Chief Risk Officer (CRO)

### **Leontin Toderici**

since November 2005

Deputy CEO - Chief Operations Officer (COO)

### **George Călinescu**

since February

Deputy CEO - Chief Financial Officer (CFO)

### **Gabriela Nistor**

since August 2013

Deputy CEO, Retail Banking

### **Andrei Dudoiu**

since January 2016 - until December 2017

Deputy CEO - Corporate

### **Tiberiu Moisă**

since May 2016

Deputy CEO, Banking for SME



# Message from the Chairman of the Board of Directors

## We are preparing for a new dimension of Banca Transilvania

Dear Shareholders,

I am honored to deliver this message on behalf of the entire Board of Directors of Banca Transilvania, on the occasion of releasing the Board of Directors' Report for 2017 and in the context of the forthcoming General Shareholders' Meeting.

I start by expressing gratitude for your support and trust in Banca Transilvania, in our ambitious plans and in the team behind that brings them to reality.

The results attained by the Financial Group Banca Transilvania in 2017, detailed in this report, demonstrate the sound financial position of our Bank and represent the ground for our ambitious plans in 2018. We delivered good profitability. We continued to invest in top-notch technology and took the first step in fintech by investing in a Romanian start-up. We have also succeeded to streamline aspects of our business model for our 2.2 million customers and we have maintained a prudent lending policy. It was truly a full year for our Bank, but at the same time we stood by the promises we made to the Bank's Shareholders.

The smooth running of things in BT translated into higher interest of the stock market for BT shares. TLV was the most liquid symbol traded on the Bucharest Stock Exchange in 2017. We rejoice when we learned that, for 2017, Banca Transilvania scored 9.5 out of 10 points in the evaluation performed by the BSE related to investors' communication of listed entities.

The stock market's appreciation, against the backdrop of market interest rate hikes, has increased the Bank's profitability profile. During the current year, the Romanian stock market was the only European market that ended up on the plus side in February. Moreover, BET, the main stock index embedding the evolution of the Bucharest Stock Exchange, surged by 9% in the first two months of 2018, thus imprinting the highest growth rate of the European markets

2018 will be the year during which, in addition to further organic growth, we will manage the integration of Bancpost into our business and we will begin to replicate our business model abroad, in the Republic of Moldova, at Victoriabank. We are geared up for the new dimension of Banca Transilvania.

I am confident that the Bank's success story will add a new chapter. It will be busy and challenging, but with support from our shareholders, our clients and our team we will achieve our ambitious objectives and continue to fuel the Romanian economy and its entrepreneurs.

**Horia Ciorcilă**

Chairman of BT's Board of Directors

## The Structure of the Board of Directors

### **Horia Ciorcilă**

Chairman

### **Thomas Grasse**

Member

### **Ivo Gueorguiev**

Member

### **Costel Ceocea**

Member

### **Vasile Pușcaș**

Member

### **Doru Costel Lionăchescu**

Member

### **Mirela Ileana Bordea**

Member

## The Board of Directors Committees

### Audit Committee

**Ivo Gueorguiev**

Chairman

**Thomas Grasse**

Member

**Doru Costel Lionăchescu**

Member

### Remuneration and Nomination Committee

**Horia Ciorcilă**

Chairman

**Ivo Gueorguiev**

Member

### The Risk Management Committee

**Thomas Grasse**

Chairman

**Ivo Gueorguiev**

Member

**Costel Ceoce**

Member

## The Relationship with Shareholders/Investors

The General Shareholders' Meetings , 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 related regulations.

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

During the year 2017, there were 4 conference calls with investors.

The contact details for Investors Relations are the following:

- Phone: +40 264 407 150
- Fax: +40 264 407 179
- [investor.relations@btrl.ro](mailto:investor.relations@btrl.ro)
- [www.bancatransilvania.ro/en/investor-relations](http://www.bancatransilvania.ro/en/investor-relations)
- [www.bancatransilvania.ro](http://www.bancatransilvania.ro)
- [facebook.com/BancaTransilvania](https://facebook.com/BancaTransilvania)
- [twitter.com/b\\_Transilvania](https://twitter.com/b_Transilvania)
- [linkedin.com/company/banca-transilvania](https://linkedin.com/company/banca-transilvania)

Banca Transilvania prepares yearly a financial communication calendar to inform its shareholders; the calendar is published both on the BT site /SHARHOLDERS/FINANCIAL CALENDAR, and on the BVB site ([www.bvb.ro](http://www.bvb.ro)).

## The Calendar for 2018 is the Following:

1. Presentation of the preliminary financial results for 2017	February 15, 2018
2. Conference call for the presentation of the results	February 16, 2018
3. Annual General Shareholders' Meeting held to approve the 2017 annual financial results	April 25, 2018 (first call) April 26, 2018 (second call)
4. Presentation of the preliminary financial results for 2017, individual and consolidated	April 27, 2018
5. Presentation of the financial results – Q1, 2018	April 27, 2018
6. Call Conference - Presentation of the financial results – Q1, 2018	April 30, 2018
7. Presentation of the financial results – Q2, 2018	August 10, 2018
8. Call Conference - Presentation Of The Financial Results – Q2, 2018	August 13, 2018
9. Presentation of the financial results – Q3, 2018	November 13, 2018
10. Call Conference - Presentation of the financial results – Q3, 2018	November 14, 2018

## Proposals Regarding 2017 Profit Distribution and Share Capital Increase

The Board of Directors submitted for approval by the General Shareholders' Meeting (GSM) the proposal to distribute the profit amounting to RON 1,185,979,233, as follows:

### Proposal for Profit Distribution 2017

Proposal for Profit Distribution 2017	AMOUNTS (RON)
Gross profit	1,378,500,129
Current/deferred tax on profit	(192,520,895)
Net profit	1,185,979,233
5% Legal reserve fund from gross profit	(68,925,006)
Reserves from the net deferred profit BG	(36,012,567)
Net profit to be distributed	1,081,041,660

Dividends distribution is performed based on GSM decision, at the proposal of the Board and depends on the value of the distributable profit and the future capitalization needs of the Bank.

The dividends are distributed to the shareholders proportionally with the participation quota to the share capital. The income generated by dividends is subject to withholding tax. Payment of dividends is performed based on the legal requirements in force and GSM decision regarding profit distribution and setting the level for the dividend. The Bank paid dividends to its shareholders both from the profit registered in 2015, as well from 2016 profit.

The Board of Directors proposes for approval the distribution of profits by granting dividends amounting to RON 610,000,000. The gross dividend/share amounts to 0.1405063951.

The Board also proposes to increase the Bank's share capital from RON 4,341,439,404 to RON 4,812,481,064, with the amount of RON 471,041,660, representing reserves from the 2017 net profit.

<b>PROPOSAL FOR PROFIT DISTRIBUTION 2017</b>	<b>AMOUNTS (RON)</b>
Total Reserves Available for Distribution	1,081,041,660
Capitalization of Net Profit Reserves 2017	471,041,660
Share Capital at the Record Date	4,341,439,404
Yield / Share % Capitalization	0.1084989600

As a result of the share capital increase by RON 471,041,660, for every 100 shares held, another 10.84989600 new shares will be assigned (respectively a number of new shares corresponding to the ratio RON 471,041,660 /RON 4,341,439,404).

## Short Presentation of the Group

### Banca Transilvania S.A.

Banca Transilvania S.A. (the “Bank”) is a joint-stock company registered in Romania. The Bank started its activity as a banking institution in 1993 and is licensed by the National Bank of Romania to conduct banking activities. The Bank started its activity in 1994 and its main operations involve banking services for legal entities and individuals.

The Group Banca Transilvania (“Group”) includes the parent-company, Banca Transilvania S.A. and its subsidiaries, based in Romania and in the Republic of Moldova. The consolidated and separate financial statements as at 31.12.2017 comprise Banca Transilvania S.A (the “parent company” or “BT”) and its subsidiaries (hereinafter referred to as the “Group”).

The Group has the following fields of activity: banking carried out by Banca Transilvania S.A., leasing and consumer loans carried by BT Leasing Transilvania IFN S.A., BT Operational Leasing S.A, BT Direct IFN S.A. and BT Leasing MD S.R.L., asset management carried by BT Asset Management S.A.I S.A. The Bank has also control over 2 investment funds which it also consolidates through the global consolidation method.

The Bank carries out its banking activity through its head office located in Cluj-Napoca, 54 branches, 413 agencies, 19 bank units, 7 healthcare division units throughout the country, 2 private banking agencies in Romania and Italy and 1 regional office located in Bucharest (2016: 54 branches, 447 agencies, 33 bank units, 7 healthcare division units and 2 private banking agencies in Romania and Italy and 1 regional center located in Bucharest).

In 2013 the Bank opened a branch in Italy, which began its operational activity in 2014. Currently the Bank holds 3 branches in Italy.

The Group’s number of active employees as at 31 December 2017 was 7,513 (2016: 7,522 employees).

The Bank’s number of active employees as at December 31, 2017 was 7,007 (2016: 7,014 employees).

The registered address of the Bank is Str. George Barițiu nr. 8, Cluj-Napoca, Romania.

The share capital had the following structure:

Equity holders of the Bank	31.12.2017	31.12.2016
European Bank for Reconstruction and Development (EBRD)	8.60%	8.60%
Romanian individuals	19.75%	16.97%
Romanian companies	30.97%	29.32%
Foreign individuals	1.80%	1.82%
Foreign companies	38.88%	43.29%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

The Group's subsidiaries are represented by the following entities:

<b>Subsidiary</b>	<b>Domeniu de activitate</b>	<b>2017</b>	<b>2016</b>
BT Capital Partners S.A.	Investments	99.59%	99.59%
BT Leasing Transilvania IFN S.A.	Leasing	100.00%	100.00%
BT Investments S.R.L.	Investments	100.00%	100.00%
BT Direct IFN S.A.	Consumer Loans	100.00%	100.00%
BT Building S.R.L.	Investments	100.00%	100.00%
BT Asset Management SAI S.A.	Asset Management	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	Insurance Broker	99.95%	99.95%
BT Asiom Agent de Asigurare S.R.L.	Insurance Broker	99.95%	99.95%
BT Safe Agent de Asigurare S.R.L.	Insurance Broker	99.99%	99.99%
BT Intermedieri Agent de Asigurare S.R.L.	Insurance Broker	99.99%	99.99%
BT Compania de Factoring S.R.L.	Factoring	-	100.00%
BT Operational Leasing S.A.	Leasing	94.73%	94.73%
BT Leasing MD S.R.L.	Leasing	100.00%	100.00%
BT Microfinantare IFN S.A.	Consumer Loans	100.00%	100.00%
BT Transilvania Imagistica S.A.	Other Healthcare Activities	96.64%	89.71%
Improvement Credit Collection S.R.L.	Activity of the Collection Agents and Credit Reporting Bureaus	100.00%	100.00%
Sinteza S.A.	Manufacture of Other Organic Basic Chemicals	50.15%	46.98%
Chimprod S.R.L.	Manufacture of Basic Pharmaceutical Products	50.03%	46.87%

As at December 31, 2017 the Group controls but does not consolidate S.C. Timesafe S.R.L. The company is active in the financial technology field. The Group did not include this company in its consolidated financial statements due to immateriality of its total assets (December 31, 2017: RON 558 thousand) of its share capital (December 31, 2017: RON 80 thousand) and of its loss (December 31, 2017: RON 418 thousand) in total assets, share capital and profit of the Group.



Group subsidiaries where the Bank holds direct participations are the following:

Subsidiary	Field of Activity	% Direct Equity	% Total Equity
BT Capital Partners S.A.	Investments/Brokerage	99.59%	99.59%
BT Leasing Transilvania IFN S.A.	Leasing	51.72%	100.00%
BT Investments S.R.L.	Investments	100.00%	100.00%
BT Direct IFN S.A.	Consumer Finance	93.70%	100.00%
BT Building S.R.L.	Real estate	98.94%	100.00%
BT Asset Management SAI S.A.	Asset Management	80.00%	80.00%
BT Leasing MD S.R.L.	Leasing	100.00%	100.00%
Improvement Credit Collection S.R.L.	Activity of the Collection Agents and Credit Reporting Bureaus	99.89%	100.00%
BT Microfinantare IFN S.A.	Consumer Loans	100.00%	00.00%

Total assets and net profit of the subsidiaries in which the Bank holds direct equity is presented below:

Subsidiary	Total Assets (RON thousand)		Net profit (RON thousand)	
	2017	2016	2017	2016
BT Leasing Transilvania IFN S.A.	781,908	541,754	20,187	14,099
BT Asset Management SAI S.A.	41,808	44,546	17,361	12,188
BT Investments S.R.L.	56,339	60,395	4,906	422
Improvement Credit Collection S.R.L.	12,911	14,308	3,250	4,558
BT Direct IFN S.A.	138,105	132,760	2,696	3,461
BT Leasing MD S.R.L.	82,034	57,517	2,075	1,580
BT Capital Partners S.A.	62,545	66,868	1,820	377
BT Microfinantare IFN S.A.	171,277	12,503	(752)	(1,499)
BT Building S.R.L.	79,743	82,788	(3,031)	819

\*Figures presented according to Romania Accounting Standards (RAS)

## BT Capital Partners S.A.

BT Securities S.A. was established in 2003, following the change in the name and registered office of Transilvania Capital Invest S.A.

At the beginning of 2016, BT Securities – the brokerage company of Banca Transilvania Financial Group – became BT Capital Partners S.A., after taking over the investment banking activity of Capital Partners, the most important independent consulting Romanian company in the field of M&A and Corporate Finance, thus becoming an exclusive member of M&A International, one of the largest global alliances of independent companies in the field of mergers and acquisitions.

In its new formula, BT Capital Partners S.A. provides consulting services for fund raising on the capital market, consultancy on mergers and acquisitions, brokerage services, structuring of complex financing schemes and strategic management counselling, market research and strategic advisory.

As at 31 December 2017 the Company had 57 active employees (2016: 65 employees). The company undertakes its activity through its headquarters located in Cluj-Napoca, no. 74-76 Constantin Brâncuși Street, ground floor, Cluj County, Romania, and through 11 work units.

## **BT Leasing Transilvania IFN S.A.**

BT Leasing Transilvania IFN S.A. was registered in 1995 as a privately owned joint-stock company, established under the Romanian laws. It was initially incorporated under the name of BT Leasing Transilvania S.A., which was changed to the current name in February 2003. The company operates through its head office located in Cluj-Napoca, 1 agency and 20 working points (2016: 1 agency and 24 working points) throughout the country. The company leases a wide range of vehicles and technical equipment.

The number of active employees at 31 December 2017 was 115 (2016: 105 employees).

The registered address of BT Leasing Transilvania IFN S.A. is: no. 74-76 Constantin Brancusi Street, Cluj-Napoca, Romania. 1 Cluj-Napoca, Romania.

## **BT Direct IFN S.A.**

BT Direct IFN S.A. is a non-banking financial institution set up in 2003. The company's activity object is represented by retail financing, through consumer loans granted to individuals.

During 2017, BT Direct IFN S.A. increased its loan portfolio (comprising consumer loans and personal needs loans), amounting to RON 94 million, the balance of total loans as at the end of 2017 being of RON 162 million, with 10% higher vs. 2016.

As at 31 December 2017, the number of active employees was 44 (2016: 41 active employees).

BT Direct IFN S.A. operates through its head office located at the following address: 74-76 Constantin Brancusi Street, Cluj-Napoca, Romania.

## **BT Building S.R.L.**

BT Building S.R.L is a Romanian limited liability company, performing its activity based on its Constitutive Act, Law no.31/1990 on companies, republished with subsequent amendments and the Romanian legislation in force. The company is closed and self-administered in a unitary system. The main object of activity is the lease and sub-lease of own or rented property.

## **BT Asset Management SAI S.A.**

BT Asset Management SAI S.A is an investment management company, member of Banca Transilvania Financial Group, authorized by the National Securities Commission (currently the Financial Supervisory Authority, hereinafter referred to as „ASF”) by decision no. 903/29.03.2005, ASF Public Register No. PJR05SAIR/120016 dated 29.03.2005.

BT Asset Management SAI manages open-end and closed-end investment funds. As at December 31, 2017, BT Asset Management SAI managed 11 investment funds, of which: 9 open-end funds and 2 closed-end funds, counting over 54,000 investors and assets under management of more than RON 4,062 billion.

BT Asset Management SAI S.A offers a full range of investment products, from fixed income funds, mixed funds and index funds, to equity funds. The opening to the capital market is provided to customers through investments in Romania, as well as in the EU countries (mainly Austria); placements can be made both in RON and in EUR.

The number of active employees at 31 December 2017 was 27 (2016: 25 employees).

The company's registered address is: Cluj-Napoca, no. 22 Emil Racoviță Street, 1st floor, Cluj County.

## **BT Microfinanțare IFN S.A.**

BT Microfinanțare IFN S.A. is a non-banking financial institution set up in 2016 with the purpose of financing small business. The company has its headquarters located in Bucharest, no. 43 Sos. București – Ploiești.

In 2017 approx. 3,500 micro-companies received funding from BT Microfinanțare IFN S.A. (loans for support and development of the daily activity, purchase of goods, payment of suppliers, investment in business units and/or opening of new units, equipment), the balance of the loans at the end of 2017 being RON 159.8 million (2016: RON 7.2 million ).

## **BT Leasing MD S.R.L.**

BT Leasing MD S.R.L., based in Republic of Moldova, Chișinău, was established in 2008 by Banca Transilvania. The company's activity object is financial leasing.

At the end of 2017 BT Leasing MD S.R.L. registered a profit of RON 2,075,272 (2016: RON 1,580,170).

## Improvement Credit Collection S.R.L.

Improvement Credit Collection S.R.L., having its registered office in no. 1, George Barițiu Street, Cluj-Napoca, Cluj County, Romania, with the fiscal identification code 32011970 and the registration code at the Trade Register no.J12/1240/2016, recorded a share capital of RON 901,010 at December 31, 2017.

Improvement Credit Collection S.R.L. was set-up in 2013, the share capital increasing by co-partnering with BT Investment S.R.L., and its headquarter moved from Bucharest to Cluj-Napoca in 2016. The object of its activity is defined by the NACE code 8291 – Activities of collection agents and credit reporting bureaus/ debit collection activity (category: late collection).

In 2017 Improvement Credit Collection S.R.L. registered a gross profit in the amount of RON 3,970,441 vs. RON 5,342,342 in 2016.

In 2016 the company merged with cu S.C. Improvement Credit (by absorption), the latter becoming the absorbing entity. The merger process finished on 16.01.2017.

## Main Events in 2017

2017 was a year full of important events ranging from launching of new products, digitalization process, and BT's involvement in activities with social, cultural and economic impact.

Here are the main events of the year:

### February:

Banca Transilvania introduces a new and free of charge facilities to BT Express payment machines: cash deposits (RON, EUR, USD) into the own BT opened account and currency exchange. The newly added features simplify the customers' access to 2 of the main banking operations.

### March:

The 17th edition of BT Cross. This year's edition was called "Alergarea după ZâmBT" (Running after smiles), being addressed to both amateur and professional runners of all ages.

### April:

BT is the Official Partner of the Petrom European Men and Women's Artistic Gymnastics Championships 2017.

### May:

Premiere in Romania: Launch of Livia robot, new experience in the communication with our clients, via Facebook Messenger or Skype.

BT Leasing Moldova is market leader in the Republic of Moldova according to the value of fixed assets leased.

**June:**

Banca Transilvania, in the top 10 social brands, along companies with Samsung, Coca-Cola or Vodafone.

BT Leasing receives a loan from EBRD in amount of EUR 20 million to increase financing access for the Romanian SMEs.

BT Capital Partners intermediates the EUR 550 million bond issue of Globalworth Investment Fund.

Banca Transilvania launches the BT contactless watch, a new payment instrument that can replace the shopping card in the country and abroad.

**July:**

BT becomes the Partner of the House of His Royal Majesty Mihai I.

**August:**

BT market capitalization of RON 11 billion , historical maximum.

BT in top 50 (32nd place) the most wanted employers in Romania.

Best Bank award in Romania and CEE's Best Bank for SMEs granted by British Euromoney in 2017.

Redesign for BT24 Mobile Banking & Internet Banking: new experience for customers.

**September:**

BT the most valuable banking brand in Romania.

Banca Transilvania in Top 100 the most powerful Romanian brands in 2017.

BT Capital Partners has led the brokerage consortium of the first issue of corporate bonds settled in EUR, listed on the Bucharest Stock Exchange.

**October:**

The largest forestry voluntary action in Transylvania. Over 1,500 volunteers participated to the planting of Banca Transilvania forest.

BT market leader with 3 million issued cards.

Fitch re-affirms Banca Transilvania's Ratings

Banca Transilvania ranked third in the top of the largest banks in South-East Europe.

Financial Group BT enters in the fintech domain. BT Investments become shareholder of Timesafe, the developer of Pago payment application.

**November:**

Banca Transilvania launched the BT Pay Sticker, which can replace the shopping card at the retailers in the country and abroad.

Banca Transilvania plans to invest in one of the largest banks in Moldova, Victoriabank.

Banca Transilvania and Eurobank Ergasias, agreement to buy SC Bancpost S.A., ERB Retail Services IFN SA and ERB Leasing IFN S.A.

Banca Transilvania, one of the most valuable 10 companies in Romania, based on an analysis performed by Ziarul Financiar, in collaboration with BT Capital Partners and Veridio.

**December:**

BT Microfinantare IFN S.A., over 3,000 small businesses financed in 2017.

Banca Transilvania offered support to 250,000 companies.

Banca Transilvania in the top of best employers in 2017.

## Realization of 2017 Strategy

### What we targeted for 2017:

To continue our prudent lending policy.

To continue investing in top-notch technologies.

To prepare new online platforms to be anywhere, anytime for our customers, via our branches' network and online access.

To continue to make BT business model more efficient.

### What we Have Accomplished:

#### 1. Qualitative Objectives:

- Simplification and de-bureaucratization of internal processes and, implicitly, more time available for clients, used both for new sales and maintaining of existing relationships;
- Increase of customers' satisfaction by improving access to the Bank's products and services and by enhancing the quality of the commercial relationships;
- Redesign the BT24 Mobile Banking and Internet Banking applications in order to offer clients a new experience;
- Continued the rebranding activities at the units level, the consolidation of Banca Transilvania as a powerful Romanian brand and the positioning as a Bank dedicated to SMEs;
- Increase the loan portfolio quality measured by the non-performing loan ratio as defined by EBA (NPE ratio): 6.03% by end of 2017, as compared with 9.84% as of end of 2016;
- Focus to new segments of activity such as creative industries and liberal professions;
- Launch of the BT Microfinantare IFN S.A. campaign dedicated to small and very small businesses. Over 3,000 businesses financed during past year.

In 2017, the Bank obtained scores over the average in terms of satisfaction ratios, measured internally based on the collected feedback from BT's customers (54,743 clients transmitted their feedback over the phone and 9,887 via e-mail). The clients were included in the satisfaction surveys after interacting with one of the agencies/branches within BT network.

We mention below the aforementioned ratios:

- NPS BT\*(recommendation of the Bank): 76.88
- Average ratio regarding the quality of the services offered by employees\*\* (Human Interaction): 9.59
- Average ratio regarding products and processes\*\*(satisfaction degree and ease of access): 9.21

- Average ratio regarding the overall cooperation with BT<sup>\*\*</sup>: 9.34

\*the recommendation score (NPS) may contain values ranging between -100 and +100;

\*\*average satisfaction ratios may have values ranging between 1 and 10.

In 2017 an external measurement study regarding the recommendation degree was performed by Kantar MillwardBrown Agency. From the results, BT situates on the 2nd place amongst the most important banks in Romania, both on the residential segment and companies. Also, the recommendation score was higher for BT than the market average, and exceeds the score of the other banks, as large as BT.

## **2.Operational/IT performance:**

- Automation of day-to-day activities, utilization of advanced digital tools. During 2017, a number of new tools were launched such as robot Livia, a new client interaction channel via Facebook Messenger and Skype, the BT contactless watch and BT Pay Sticker;
- Defining a flexible functioning structure by implementing modern organizational solutions that are applicable in the banking system, such as Architecture, Business Relationships Management and Governance, Vendor Management;
- Redefining of a centralized support that proves to be more efficient in the relationship with Group's subsidiaries;
- Active participation in the projects to simplify the way our clients interact with the Bank;
- Continue the projects Bank of the Future, BT Express and BT Express Plus, respectively;
- Upgrading the cards' system infrastructure and increase of processing capacity of cards' transactions;



### 3. Quantitative Objectives:

RATIO	PROPOSAL	ACHIEVEMENTS
Total assets	RON 54.11 billion , increasing with 4.5% vs. 2016	RON 59.30 billion , increasing with 15% vs. 2016
Gross profit	RON 1,014.26 million	RON 1,378.5 million , increasing with 36% vs. 2017
Deposits from customers	RON 43.78 billion , increasing with 4.6% vs. 2016	RON 49.10 billion , increasing with 17% vs. 2016
Loans to customers	RON 31.37 billion , increasing with 6% vs. 2016	RON 31.69 billion , increasing with 8% vs. 2016
Total equity	RON 6.63 billion	RON 6.97 billion , increasing with 16% vs. 2016
Cards issued at the end of the year 2017	3.00 million cards	3.02 million cards
Loan / Deposit ratio	0.73	0.65
Investment budget	RON 364.16 million (VAT included)	RON 220.71 million (VAT included)

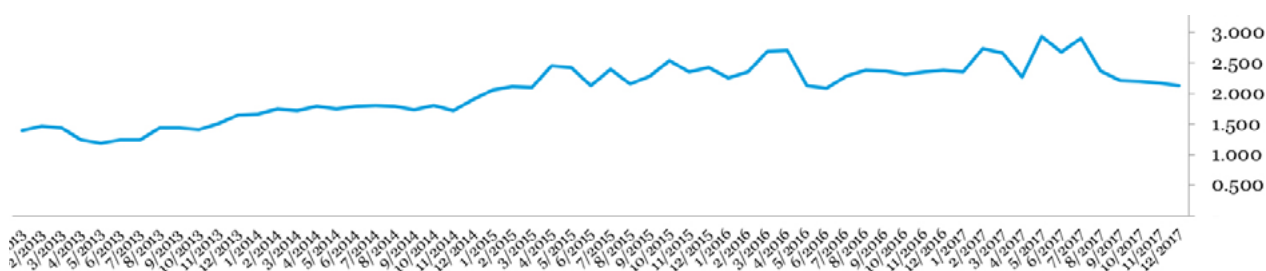
In terms of total assets, the market share increased to 13.9% as of the end of 2017, Banca Transilvania consolidating the second position within the Romanian banking system.

During 2017, Banca Transilvania was evaluated by Brand Finance, one of the largest companies in the sector of brand strategy and evaluation, as the most valued Romanian banking brand. Banca Transilvania brand was launched in Cluj-Napoca in 1994.

The Bank's capitalization reached RON 9.2 billion, equivalent of 2 billion euros, as of 31 December 2017 (31 December 2016: RON 8.7 billion, equivalent of EUR 1.9 billion).

The evolution of the Bank's quoted shares is presented in the graphic below:

**TLV price evolution - January 2013 - December 2017**



## New Strategic Objectives

### Objective qualitative:

- Bancpost integration into BT business;
- Extending BT business model in the Republic of Moldova through Victoriabank;
- Consolidation of BT's organic growth;



- Continue to invest in technologies, digitalization, innovation and process simplification;
- Customer relationship optimization to give them the best experience with BT.

### Quantitative objectives:

- Total assets: 6.4% increase
- Total loans, gross: 7.3% increase
- Total deposits from customers: 3.5% increase
- Cost/Income ratio: 46.95%
- Loans/Deposit ratio: 66.9%

## Development Plan for 2018

Investment budget for 2018	
Buildings – agencies and branches	66,208
Investments IT and cards, of which:	173,515
Hardware IT	23,901
Software IT	94,864
Retail and cards, of which:	54,750
Hardware, retail cards	29,062
Software, retail cards	25,688
Security	27,203
Other	17,558
Special projects	82,113
<b>Total Investments RON thousand, VAT included</b>	<b>366,597</b>

## Projections of the Financial Position and Profit and Loss Account for 2018

In projecting indicators for 2018, it has been considered an average inflation rate of 2.5% and an average exchange rate of 4.6558 RON/EUR.

The Bank estimates a growth rate of 6.4% for total assets as compared with previous period (up to RON 63.091 million). The structure of assets is envisaged to comprise a weight of 53.9% of gross loans, a weight of 17.01% of cash and cash equivalents and a weight of 28.2% of investments in treasury bills.

As regards the structure of liabilities and equity forecasted for 2018, the Bank considered a growth rate of resources from non-banking clients of 3.5% as compared with 2017, meaning a weight in total assets of 80.6%.

The 2018 revenue and expenditure budget indicators that are subject of GSM approval are designed in such a way as to support the business objectives and are correlated with the specific prudential and regulatory legislation requirements.

The elements of the Statement of Financial Position and of the Profit and Loss Account forecasted for 2018 are presented below:

### Income and Expenses Budget 2018

Statement of Financial Position (RON mil.)	Budget proposal 2018
Cash and cash equivalents	10,733
Investment securities	17,771
Loans and advances to customers (gross)	33,995
Loan provisions	(1,903)
Fixed assets	694
Equity investments	1,454
Other assets	345
<b>Total assets</b>	<b>63,091</b>
Deposits from customers	50,832
Loans from financial institutions	1,619
Subordinated liabilities	2,039
Other liabilities	1,216
<b>Total liabilities</b>	<b>55,705</b>
Total equity	6,371
Profit/Loss for the year	1,015
<b>Total equity</b>	<b>7,386</b>
<b>Total liabilities and equity</b>	<b>63,091</b>

Profit and Loss Account (RON thousand)	Budget proposal 2018
Interest income	2,523
Interest expenses	(500)
Net interest income	2,023
Net commission income	655
Net trading income	264
Contribution to the Guarantee Fund	(58)
Other income	143
<b>Total Income</b>	<b>3,027</b>
Personnel expenses	(771)
Other operating expenses	(503)
Depreciation and amortization	(104)
Other liabilities	(44)
<b>Total Expenses</b>	<b>(1,421)</b>
Net impairment charges	(398)
<b>Profit Before Tax</b>	<b>1,208</b>
Income tax	(193)
<b>Net Income</b>	<b>1,015</b>

The organic growth strategy of the Bank will be consolidated by acquiring Bancpost and by the shares held starting with 2018 in Victoriabank. Pending the approval of the National Bank of Romania and the Competition Council, Bancpost and Banca Transilvania will operate independently.

As shareholder in Victoriabank, Banca Transilvania proposes the following targets:

- To offer support to the private business environment in the Republic of Moldova, with special attention to the SME and Micro sector;
- To develop a wide range of products and services for individuals;
- To align the corporate governance and organizational culture of Victoriabank with those of Banca Transilvania Financial Group;
- To invest in the personal and professional development of individuals with entrepreneurial spirit from Moldova.

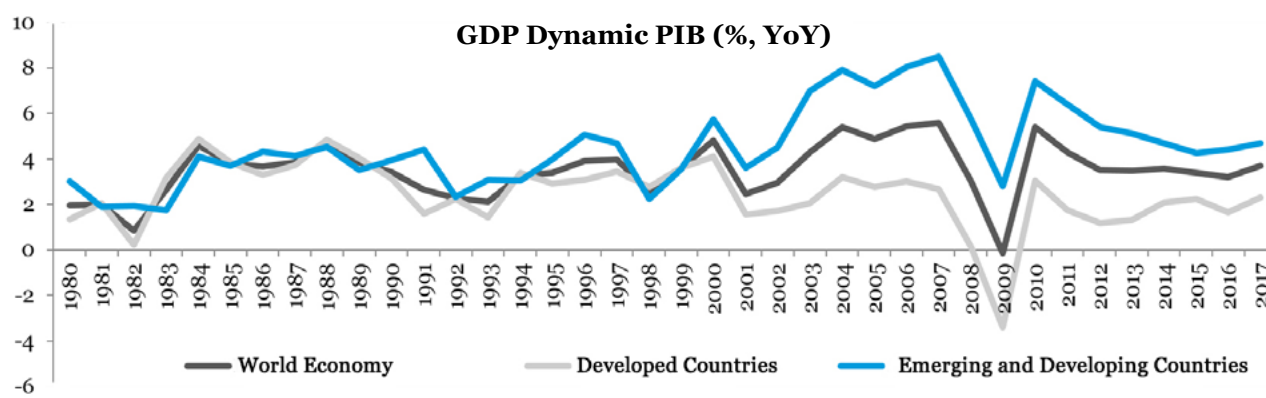
# Management Report

## Macroeconomic Considerations

The global economy continued to improve in 2017, given the acceleration of the fixed investments in the developed countries, with spill-over impact for the emerging and developing states.

The upward trend for the fixed investments was supported by several factors over the past quarters: the low level of real financing costs, the perspective of tax reform in the States, the acceleration of international trade and the ongoing digitalization.

The first estimates of the International Monetary Fund (IMF) indicate an increase of the GDP with a pace of 3.7% YoY in 2017 (the best dynamics in 2011), accelerating from 3.2%YoY in 2016.



**Source: Fondul Monetar Internațional (FMI)**

From the supply side perspective there can be noticed the increase of the manufacturing, on the back of the acceleration of the global trade: the PMI indicator rose in 2017 to the highest level since 2011.

At the same time, the services sector presented last year the best performance since 2015, an evolution also supported by the Digital Revolution.

The US economy accelerated in 2017 (2.3% YOY), given the increase of the fixed investments (4% YOY), determined by the low real interest rates and by the outlook regarding the tax reform (signed by president Trump in December).

In the Euro Area the GDP advanced by 2.3% YoY, the highest pace since 2007, an evolution influenced by the expansionary monetary policy implemented by the European Central Bank and by the acceleration of the world economy.

Last, but not least, in China (the second largest economy of the world) the GDP accelerated to 6.9% YOY in 2017, an evolution supported by the improvement of the net foreign demand.

As regards the financial side of the economy there can be noticed the increase of the sovereign financing costs in 2017, determined by the acceleration of the growth pace in the real economy and by the increase of the mid-run inflationary expectations.

At the same time, the stock markets climbed to record high levels in 2017, an evolution triggered by the economic policy outlook in the main economies, the excess liquidity, the low level of the real interest rates, the positive news of the listed companies, the inflexion of the commodities prices and the stabilization of the geo-political risk perception. According to the estimates published by the National Statistics Institute (INS), the Romanian economy grew by 7% YoY in 2017 (up from 4.8% YoY in 2016), the best pace since 2008.

From the point of view of economic growth pace, Romania was leader in the region and also among the first countries in Europe and globally last year.

<b>The evolution of the main macroeconomic financial ratios</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Real GDP (% YoY)	3,50	3,10	4,00	4,80	7,00
Inflation rate, IPC (% YoY, annual average)	4,01	1,07	-0,59	-1,53	1,34
Unemployment rate (average, %)	7,10	6,80	6,80	5,90	4,93
Monetary policy interest rate (% end of year)	4,00	2,75	1,75	1,75	1,75
ROBOR (3M) (% annual average)	4,22	2,54	1,33	0,78	1,15
ROBOR (6M) (% annual average)	4,60	2,84	1,58	1,03	1,33
Euribor (3M) (% annual average)	0,22	0,21	-0,02	-0,26	-0,33
<b>EURIBOR (3M) (% annual average)</b>	<b>0,34</b>	<b>0,31</b>	<b>0,05</b>	<b>-0,17</b>	<b>-0,26</b>
EURO/RON, END OF YEAR	4,4847	4,4821	4,5245	4,5411	4,6597
USD/RON, END OF YEAR	3,2551	3,6868	4,1477	4,3033	3,8915
EURO/USD, END OF YEAR	1,3791	1,2141	1,0887	1,0541	1,1993

\*The National Statistics Institute, the National Bank of Romania, the European Central Bank, Eurostat

This evolution was triggered by the contribution of the domestic demand, given the implementation of unprecedented expansionary policy-mix.

On the one hand, The National Bank of Romania (the NBR) maintained the monetary interest rate at the record low level of 1.75%.

On the other hand, the Administration implemented expansionary fiscal policies, leading to the increase of the public expenses by 14% YoY to RON 276.1 billion and the intensification of the budgetary deficit weight in GDP to 2.9% in 2017 (from 2.4% in 2016).

The private consumption (the main GDP component) accelerated in 2017, growing by the best pace since 2008, due to the increase of the real disposable income of the population, the acceleration of the lending (also supported by the affordable level of the real interest rates) and the wealth effect (as a consequence of the increase of the financial and real estate price).

At the same time, the fixed investments resumed in 2017, given the exports' impulse and the strong momentum in the domestic consumption, in a context of record low financing costs.

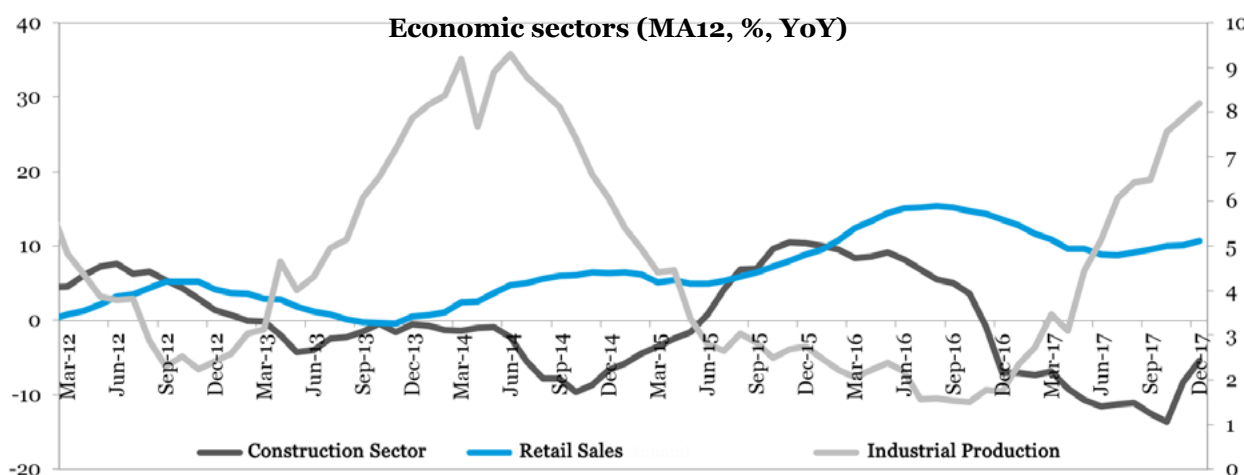
Last, but not least, the public consumption presented a positive contribution to the economic growth pace in 2017, amid the implementation of fiscal and budgetary policies and relaxed incomes.

On the other hand, the net foreign demand had an unfavorable contribution to the dynamics of the economy in 2017, as the imports climbed by a higher pace compared with the exports. As regards the aggregate supply there can be noticed an acceleration of the Romanian industry in 2017 (the industrial production rose by 8.2% YoY, the highest pace since 2007), as the manufacturing component improved, given the strong exports and the dynamics of the domestic consumption.

At the same time, the retail sales increased by 10.7% YoY in 2017, an evolution supported by the expansionary policy-mix.

Last but not least, the primary sector recorded an annual double digit growth rate in 2017, given the favorable weather climate and the investments made in recent years in this sector. On the other hand, the construction sector (labor and capital intensive) declined for the second consecutive year in 2017 by 5.4% YoY, given the imbalanced structure of public investment and the high level of risk perception for medium-term investment projects.

The resume of the fixed investments and the migration of the active population contributed to the continuity of the improvement trend on the labor market, the number of unemployed and the unemployment rate declining in 2017 to the minimum values of the 1990s.



**Source: Institutul Național de Statistică (INS), prelucrări BT**

However, in 2017, there can be noticed the accumulation of challenges in terms of mid-run macro-financial stability.

On the one hand, the YoY dynamics of the consumer price dynamics returned to the positive ground after the fading out of the impact determined by the implementation of the New Fiscal Act.

On the other hand, the expansionary and pro-cyclical economic policy-mix contributed to the widening of the twin deficits, with the aggregate level of the macroeconomic imbalance returning to the 2012 level (the weight of the budget deficit in GDP came close to 3% and the current account deficit was above 3% of GDP in 2017).

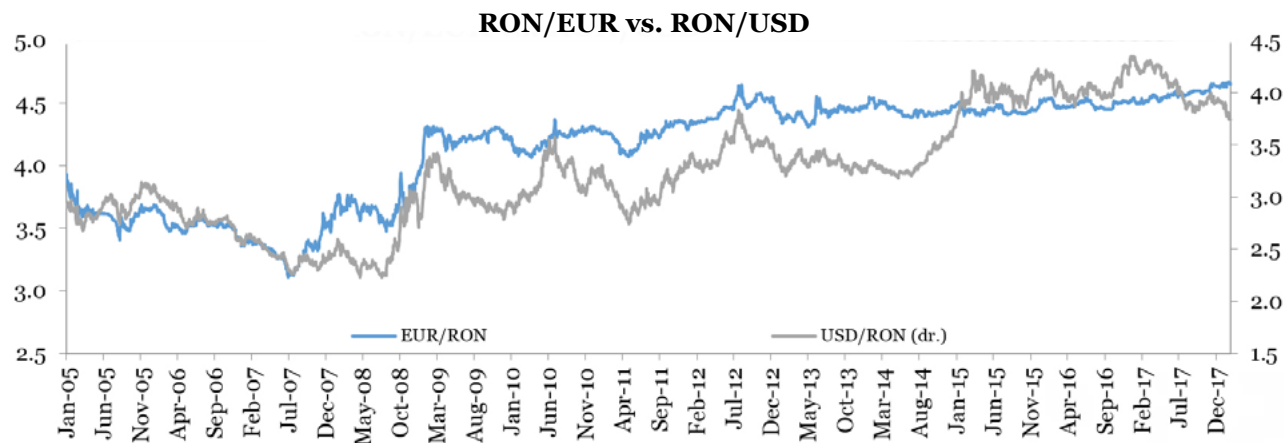
The intensification of inflationary pressures in the second half of last year led the NBR to launch the post-crisis monetary cycle (by narrowing the interest rate corridor of the standing facilities around the benchmark interest rate).

The recalibration of inflationary expectations and the accumulation of risks to domestic financial stability on the medium term, in conjunction with global and European macroeconomic developments and prospects, have led to an increase in financing costs since the autumn of 2017.

Thus, ROBOR at three months and ROBOR at six months stood at 2.05% and 2.27% at the end of last year, significantly increasing compared to the end-2016 levels (0.90% and 1.11%).

Also, the yield curve went up in 2017, with interest rates rising more prominently over short and medium maturities. As regards the annual average interest rate on government securities for 10 years (benchmark for the cost of financing in the economy), an average level of 3.91% was recorded in 2017, up by 18.6% YoY. This trend converged with those in global markets (in the US, the ratio climbed by 26.9% YoY to 2.33%, and in Germany this ratio increased by 181.1% YoY to 0.38% in 2017), being also influenced by internal factors: the evolution of the economy at a pace above potential, the acceleration of inflationary expectations, the accumulation of tensions and risks to medium-term macro-financial stability.

At the end of 2017, the interest rate on 10-year sovereign bonds stood at 4.32%, being 1.9pp above the level recorded in the United States. As for the foreign exchange market, the EUR/ RON exchange rate fluctuated in the range (4.4888 – 4.6597) in 2017, recording an annual average of 4.57 (record level) (up by 1.7% against 2016). This development was mainly influenced by domestic factors, including public tensions, the accumulation of medium-term macro-financial stability challenges and the NBR signals (preference for interest rates as instruments of monetary policy and higher exchange rate flexibility).



**Source: BNR**

Last but not least, the stock market continued to grow in 2017, as the enthusiasm on the international markets and the news from domestic companies (including the dividend policy at the state-owned companies) have counterbalanced the intensification of investment risk perception. Thus, the BET ended in 2017 with an advance of 9.4%, a slower pace than the S & P 500 in the United States (19.4%).

In 2017 lending accelerated, driven by several factors: the dynamic of the economy at a pace above potential, with a positive impact on credit demand; the improving financial performance and increasing competition in the banking sector, with positive impact on the quality of credit supply; the First House Program (which contributed to the increase of the mortgage credit to record values); the low level of the real financing costs.



Thus, according to NBR statistics, the non-government credit balance recorded a YoY increase by 4.6% in 2017. It is highlighted the increase in the national currency denominated loans by 15.1% YoY: the household and corporate components increased by 22% YoY and 8% YoY respectively.

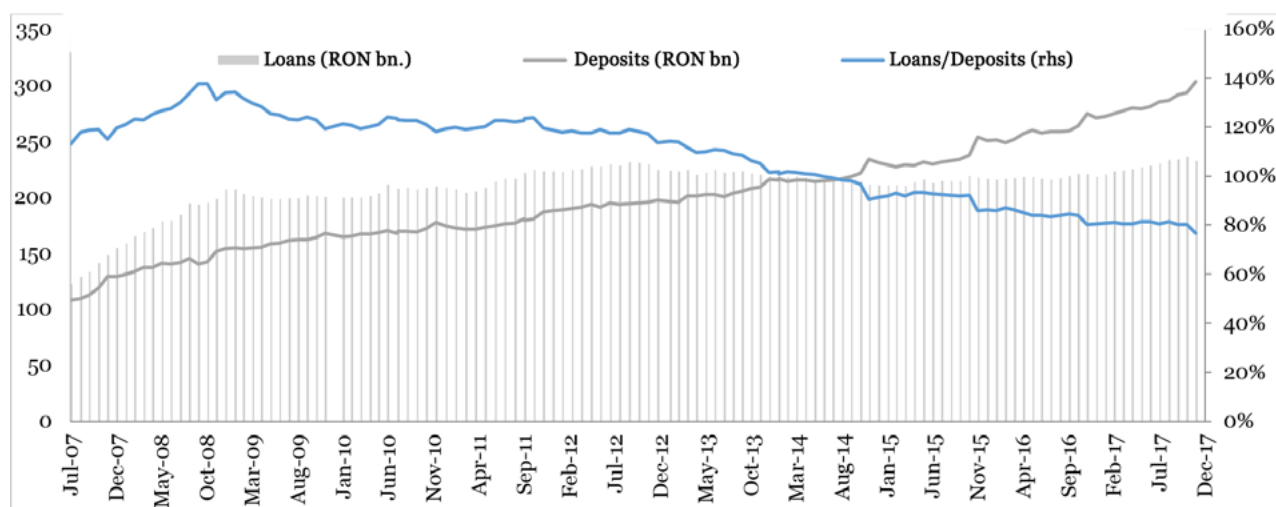
On the other hand, the average foreign currency denominated non-governmental loans adjusted by 8.1% year-on-year in 2017: the population and companies segments decreased by 12.4% year on year and 3.6% year on year.

The balance of total non-governmental loans stood at RON 232.3 billion at the end of 2017, up by 5.6% compared to the end-2016 level.

At the same time, the non-governmental deposits continued to increase in 2017, to new record high levels (RON 302.8 billion at the end of the year), due to the monetary policy decisions in Romania and the high level of saving triggered by the tensions and the challenges in the economy.

Thus, the average balance of non-governmental deposits increased by 9.9% year-on-year in 2017: the household and corporate components climbed by annual dynamics of 10.4% and 9.1% respectively. Therefore, the Loans / Deposits ratio continued the downward trend in 2017 to historical low levels (76.7% at year-end).

**Loans vs. deposits (non-gouvernement)**



Source: BNR

## Romanian Banking System

The financial performance in the domestic banking system improved in 2017, an evolution influenced by the economic growth, the affordable level of the real financing costs, the monetary policy outlook and the decline of the nonperforming assets.

According to the statistics released by the National Bank of Romania, the average volume of total banking assets was RON 406.6 billion in 2017, up by 6.8% as compared with 2016 level.

The banking sector registered a net total profit of RON 5.4 billion last year, increasing with over 30% YoY (ROA at 1.32% and ROE at 12.68%).



As concerns the non-performing loans (NPL) a downward trend can be noticed in 2017, reaching a level of 6.4% at the end of the year (the minimum in 2009). Last year this ratio registered an average level of 8.42%, decreasing from 11.54% in 2016.

## **Banca Transilvania Financial Group Performance**

BT's operating efficiency continued to follow a positive trend, with higher volumes of operations and lower costs for customers.

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

## **Statement of Financial Position for the Bank and the Group**

BT ended the year 2017 with total assets amounting to RON 59,302 million, 15% higher compared to 2016. Gross placements in loans increased with 8% as compared with 2016, while customer deposits grew by 17%. The Bank exceeded the budgeted assets with 10%. Consolidated total assets amounted to RON 59,805 million.

The financial position at the end of 2017 is presented below:

	BANK				GROUP		
(RON million)	Achievements 2017	Budget 2017	Achievements 2016	$\Delta 2017 /$ 2016	Achievements 2017	Achievements 2016	$\Delta 2017 /$ 2016
	(1)	(2)	(3)	(4)=(1)/ (3)-1	(5)	(6)	(7)=(5)/ (6)-1
Loans	31,693	31,367	29,380	8%	32,121	29,478	9%
Provisions	(1,779)	(1,852)	(2,170)	-18%	(1,872)	(2,244)	-17%
Cash and cash equivalents	11,940	7,075	8,040	49%	11,986	8,079	48%
Securities	16,116	15,982	15,180	6%	16,096	15,178	6%
Intangible assets	690	775	585	18%	770	648	19%
-Property and equipment and intangible assets	533	629	449	19%	770	648	19%
-Investments in associates	157	147	137	15%	0	0	
Other assets	642	765	754	-15%	704	805	-12%
<b>Total assets</b>	<b>59,302</b>	<b>54,113</b>	<b>51,770</b>	<b>15%</b>	<b>59,805</b>	<b>51,944</b>	<b>15%</b>
<b>Total equity</b>	<b>6,970</b>	<b>6,634</b>	<b>5,984</b>	<b>16%</b>	<b>7,140</b>	<b>6,153</b>	<b>16%</b>
Subordinated loan	415	424	424	-2%	415	424	-2%
Deposits from customers	49,099	43,781	41,852	17%	48,932	41,681	17%
Deposits from banks	1,228	2,071	2,494	-51%	1,615	2,552	-37%
Other liabilities	1,590	1,203	1,016	57%	1,703	1,134	50%
<b>Total liabilities and equity</b>	<b>59,302</b>	<b>54,113</b>	<b>51,770</b>	<b>15%</b>	<b>59,805</b>	<b>51,944</b>	<b>15%</b>

Loan/deposit ratio was 64.5% at the end of 2017; gross loans amounted to RON 31,693 million, whereas customer deposits amounted to RON 49,099 million at end of 2017. This ratio decreased compared with 2016 (70.2%), trend registered in the entire banking system, nevertheless still below the value recorded at the level of the entire banking system (76.7%). These new minimum historical levels come to confirm the liquidity surplus in the domestic economy and the structural changes in the banking sector.

**Loan portfolio.** At the end of 2017, Banca Transilvania's gross loan portfolio balance was 8% higher than at the end of 2016, in spite of the fact that in 2017, loans amounting to RON 904 million were written-off. New exposures were created for diverse activity domains, both at the level of activity areas and as well as on groups of debtors.

Non-performing loans PAR >90 represent 3.05% of Banca Transilvania's total loan portfolio, a significant improvement compared to the 4.62% as at the end of 2016; non-performing exposures according to EBA stand at 6.03% as at December 2017.

**Provision balance:** Banca Transilvania recorded for 2017 a net result from impairment allowances for financial assets, provisions for risks and charges and loan commitments amounting to 1,4 million RON (including recoveries from loans previously written-off). The

provisions registered in 2017 are in line with the Bank's prudential approach as concerns credit risk management. The coverage of non-performing loans with related provisions and mortgage collateral remains at a comfortable level of 127.01% and in line with the Bank's risk appetite. The total balance of adjustments is RON 1,779 million as at 31.12.2017, decreasing with 18% vs. the previous year. The provisions for risks and other charges mainly comprise provisions for litigations and other risks assumed through the merger with Volksbank and such provisions amount to RON 269 million.

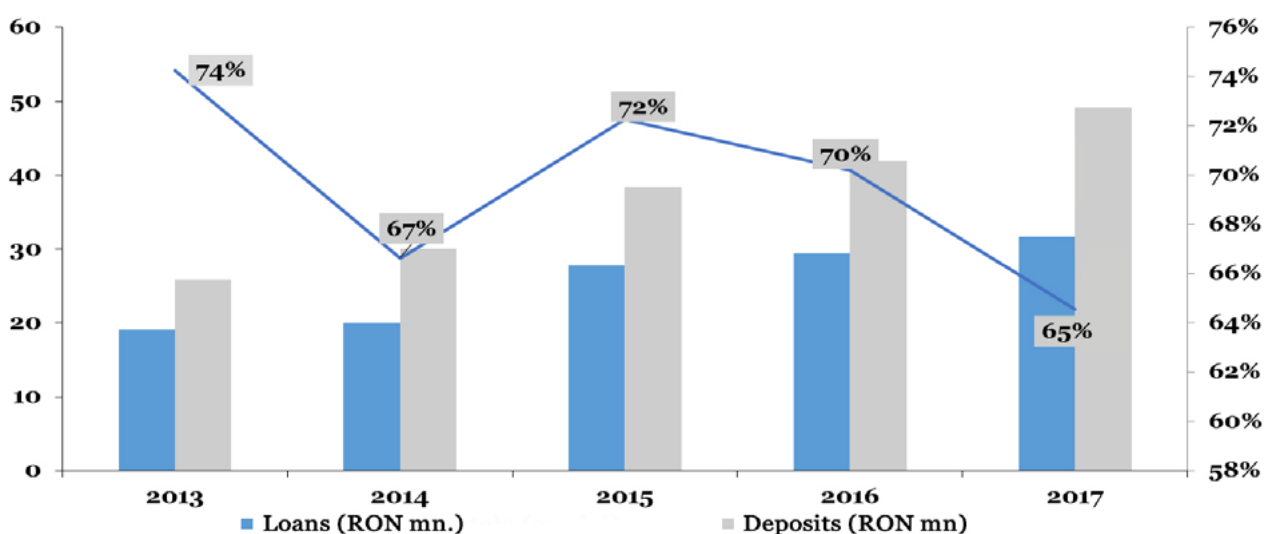
**Cash and cash equivalents:** At the end of 2017, the BT's quick ratio was 53.66%. Cash and cash equivalents were in amount of RON 11,940 million, notably 49% higher than in the previous year, above the minimum level considered to be acceptable by the Bank in terms of liquidity risk. Cash and cash equivalents comprises mainly cash on hand, placements with central banks and other banks, approximatively 45% of the amounts in this category (RON 5,351 million) being represented by the minimum required reserve held with the NBR.

**Securities:** Securities increased by more than 6% vs. last year, reaching RON 16,116 million, at the Bank's level. The highest weight in this category is represented by the Government Bills in amount of 15,227 million RON.

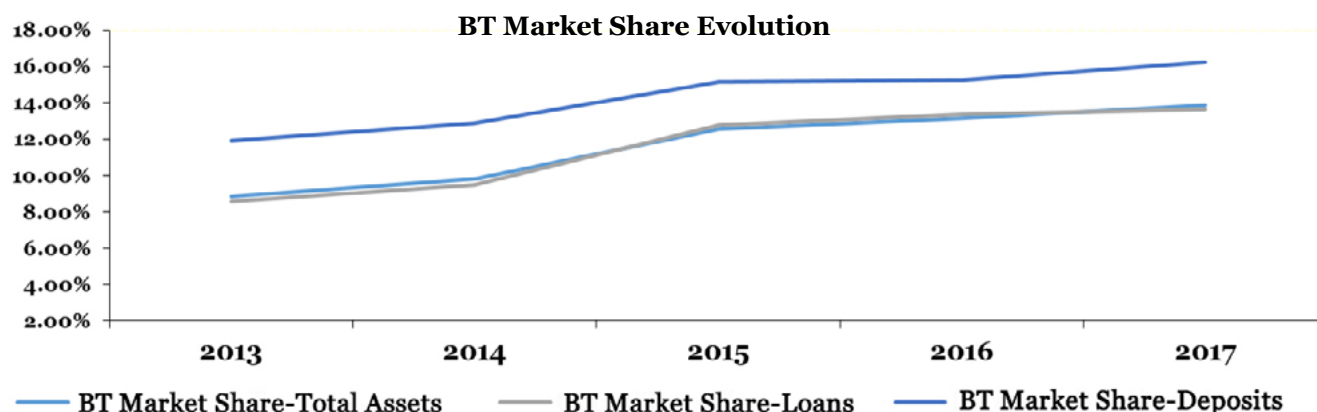
**Fixed assets:** Fixed assets increased by 18% vs. 2016, up to RON 690 million, mainly due to the IT investments volume increase, for the purpose of digitalization and improvement of banking processes. Tangible assets represented RON 408 million (land and buildings: RON 181 million), intangible assets increased to RON 126 million and financial assets to RON 157 million.

**Customer deposits:** Deposits increased by 17% vs. the previous year, more than the general growth rate of 10% recorded at the level of the banking system. As at December 31, 2017, the customer deposit breakdown was the following: 62% retail deposits and 38% company deposits.

Loans / Deposits 2013 - 2017



Market share in terms of total assets is 13.9% as at 31.12.2017. The Bank's position in the banking system in terms of total assets, loans and deposits is the following:



The equity of Banca Transilvania as of 31.12.2017 amounted to RON 6,970,073,547, of which:

- Share capital registered with the Trade Register, consisting of 4,341,439,404 shares with a nominal value of 1 RON/share, together with RON 86,501,040 representing the inflation adjustment on the share capital and fixed assets revaluation utilized for the share capital increase that was not fulfilled up to the transition date to the International Financial Reporting Standards as adopted by the European Union;
- Premiums for conversion of bonds into shares: RON 28,380,553;
- Statutory reserves: RON 413,521,730;
- Banking risk reserves: RON 77,892,714;
- AFS revaluation reserve: RON 52,176,192;
- Fixed assets revaluation reserve: RON 20,415,897;
- Retained earnings (excluding profit for the year and profit appropriation): RON 864,831,308;
- Own shares: RON (32,139,518);
- Profit of the year: RON 1,185,979,233;
- Profit allocation: RON (68,925,006).

As at 31.12.2017 the Group had outstanding own shares (26.5 billion shares) in the amount of RON 47,427 thousand, while Banca Transilvania had outstanding own shares (15 billion shares) in amount of RON 32,140 thousand. Banca Transilvania redeemed the shares to grant them to their employees as remuneration.

During 2017, the Bank did not redeem any of its shares for trading purposes.  
Elementele componente ale contului de profit și pierdere la 31 decembrie 2017, comparativ cu anul 2016 și cu prevederile bugetate:

## Statement of Profit and Loss Account

	BANK				GROUP		
(RON million)	Achievements 2017	Budget 2017	Achievements 2016	Δ 2017/2016	Achievements 2017	Achievements 2016	Δ 2017/2016
	(1)	(2)	(3)	(4)=(1)/(3)-1	(5)	(6)	(7)=(5)/(6)-1
<b>Total operational income</b>	<b>2,675.46</b>	<b>2,812.11</b>	<b>2,804.71</b>	<b>-5%</b>	<b>2,916.88</b>	<b>2,972.50</b>	<b>-2%</b>
of which							
- Net interest income	1,808.45	1,857.31	1,710.73	6%	1,890.82	1,764.03	7%
- Net commission income	580.95	583.56	509.46	14.0%	626.80	546.27	15%
<b>Operational expenses</b>	<b>(1,298.32)</b>	<b>(1,245.10)</b>	<b>(1,151.36)</b>	<b>13%</b>	<b>(1,445.03)</b>	<b>(1,255.58)</b>	<b>15%</b>
<b>Operational result</b>	<b>1,377.15</b>	<b>1,567.01</b>	<b>1,653.35</b>	<b>-17%</b>	<b>1,471.84</b>	<b>1,716.92</b>	<b>-14%</b>
Impairment expenses, net*	1.35	(552.75)	(654.22)	-100%	(29.22)	(658.09)	-96%
<b>Gross profit</b>	<b>1,378.50</b>	<b>1,014.26</b>	<b>999.12</b>	<b>38%</b>	<b>1,442.62</b>	<b>1,058.84</b>	<b>36%</b>

\*As compared to the 2017 budget as approved by the GSM, the external auditors have recommended, in accordance with the market best practices related to the presentation of financial statements, the reclassification of budgeted revenues from sale of non-performing loans from the operational revenues to recoveries (net impairment expense). The budgetary reclassification amounting to RON 112.5 million affected the operational revenues and net impairment expense, but not the gross profit.

The gross profit of Banca Transilvania recorded RON 1,378.5 million for the year ended 31 December 2017, while the gross profit of the Financial Group Banca Transilvania amounted to RON 1,442.6 million, increasing by 38% and, respectively 36%, as compared with previous period. The net profit of Banca Transilvania amounts to RON 1,186 million, while that of the Group recorded RON 1,242 million.

The cost-to-income ratio reached the level of 48.5% during 2017, in the context of additional costs being generated by the acquisition projects (Bancpost and Victoriabank) the Bank was involved in. This indicator is closely monitored by the management, while the Bank aims for an enhanced operational efficiency in 2018.

**Operational income** reaches RON 2,675,46 million in 2017, 5% less than the previous year, in which the Visa Europe transaction in amount of RON 185 million took place. The Bank registered a 5% lower operational income as compared to the budgeted level.

The most important income categories are the following:

- Net interest income: RON 1,808.45 million in 2017, decreasing with 6% vs. the previous year. A significant weight of 15% in this income category is represented by securities income in amount of RON 263 million. The trend in the Group was similar with the trend in the Bank.

- **Net commission income:** The growth of the net fees and commission income is 14%, reaching RON 580.95 million, close to the budgeted level. The number of operations performed via BT accounts grew by 20% vs. the previous year, the Bank offering services at smaller costs than in 2016.
- **Net trading income:** This type of income increased with 22% at the level of the Bank and with 41% at Group level, while the net income from FX operations augmented with 26%, both at the Bank and Group level. At Group level there was a consistent increase of the net income from financial assets at fair value through profit and loss.
- **Net gains from sale of financial instruments available for sale** recorded a value of RON -4.1 million, decreasing vs. 2016 (RON 402.2 million), year in which BT registered a profit from the Visa Europe transaction in amount of RON 185 million.

**Operational expenses** before the net expenses with loan impairment allowances, provisions for risk and charges and lending commitments were RON 1,298.32 million at the end of the last year vs. RON 1,151.36 million in 2016. The increase of operational expenses was mainly due to the acquisition projects in 2017, and the efforts regarding the digitalization and optimization of banking processes. At Group level the evolution of the operational expenses was influenced mainly by the evolution of the Bank's expenses.

**Personnel expenses** Personnel expenses both at Group and Bank level increased with 15%, respectively 13% vs. 2016. These increases are mainly because of new salary policies initiated in 2017, based on internal fairness and alignment with market trends.

The Bank continued the program for performance rewarding, the Stock Options Plan, in which the employees with good performances may exercise their right and option to purchase a number of shares issued by the Bank. The granting terms and conditions are the following: the achievement of performance and prudential ratios in 2017, and the accomplishment of objectives regarding the implementation of the new accounting and reporting rules. The program generated for Banca Transilvania and the Group expenses of RON 35.7 million, equivalent of 17 million shares.

**Operational result** is with 17% below the previous year, reaching RON 1,377.15 million.

**Net impairment expenses:** record a positive net value of RON 1.35 million, as compared to the net expense of RON 654.22 million in 2016.

**Gross profit** in 2017 was RON 1,378.5 million, as compared to RON 999.12 million in the previous year at Bank level. At Group level, the gross profit was RON 1,442.62 million, as compared to RON 1,058.84 million in the previous year.

## Banking Prudential Ratios

The most significant ratios for the Bank's evolution, amongst those monitored by the National Bank of Romania via the prudential monitoring system, are presented below:

Ratio	Level	BT level 31.12.17	BT level 31.12.16
Liquidity Ratio	Min =1	2.50-25.23	1.89-17.54
CAR	> 8%	21.10%	19.02%

Notă: \*CAR was computed taking into account the net profit as at 31.12.2017 (without profit, this ratio is 17.43%).

The solvency ratio is at a comfortable level of 21.10%, with the annual profit included. An adequate level of the capital and the general financial ratios was maintained, in accordance with the banking principles.

## Performance of Business Lines

In 2017 Banca Transilvania continued to offer support to the Romanian entrepreneurs and the local economy, creating added value for its shareholders and for the customers. 2017 was the year in which the Bank and the Group modified its business lines to efficiently offer tailored services for companies. Thus, business models were refined for large corporate customers (over RON 100 million annual turnover) and mid corporate clients (between RON 9 million and RON 100 million annual turnover). In addition, the specialization regarding the business needs of SME entrepreneurs consists in a differentiated approach between Micro Business (companies with an annual turnover of over RON 2 million) and SMEs (the companies with an annual turnover between RON 2 million and RON 9 million). The change in business lines materialized in specialized teams, tailored products and dedicated interaction models.

### The Evolution of the Client Base

The number of active clients per business lines increased in 2017 by 7% as compared to the previous year, being structured as followed:

BT Active Customers*	31.12.2017	31.12.2016	2017/2016
Large Corporate Clients	1,315	1,305	0.8%
Mid Corporate Clients	7,349	7,072	3.9%
SME Clients	14,231	12,463	14.2%
Micro Business Clients	221,849	198,406	11.8%
Retail Customers	2,183,335	2,048,573	6.6%
<b>TOTAL</b>	<b>2,428,079</b>	<b>2,267,819</b>	<b>7.1%</b>

\*The classification of companies into business lines is regulated by internal rules which set the conditions for the classification of clients per business segments.

In 2017 the 3 million issued cards threshold was exceeded by the Bank and the number of performed transactions increased by 20%, in the context in which 40% of the newly incorporated companies in Romania had chosen to work with the Bank.

Besides the services made available by the Bank via its network, over 937 thousand customers use internet banking from Banca Transilvania and over 370 thousand customers use the mobile banking platform offered by the Bank.



## Large Corporate Clients

Within this structure, over 1,300 customers with a large business are assisted by a centralized team of managers and experts in finance restructuring. This type of organization allows a specialization on industries and an individual professional approach.

The positive results of the first year after the implementation translate into a production of over RON 2.79 billion new loans, an increase with 15.3% of commission income vs. the previous year and a growth with 10.4% of customer deposits. The Large Corporate loans' balance reached RON 5.2 billion at end of 2017.

## Mid Corporate Clients

Over 7,300 mid corporate clients are assisted by the 54 branches of the Bank through local teams, in a business model which puts emphasis on the immediate needs of the customer. In 2017 new loans for Mid Corporate customers reached RON 2.82 billion.

The balance of the loans increased by 4.8%, reaching RON 5.6 billion. The balance of the deposits augmented with 25.5%, reaching the value of 5.95 billion RON. Income increased with 2% as compared with the previous year. BT Ultra Web, BT Ultra ERP, BT Ultra Mobile, BT Eliberare de Instrumente de Debit Online, the digital signature are but a few apps launched in 2017, optimizing the Bank - companies relationship and as well as the business partnerships.

## Small and Medium Enterprises (SMEs)

This business segment has over 14,000 active customers. The business model was improved by developing loan analysis systems, with remarkable results in diminishing the necessary timing in offering solutions to the customers' requests. As a consequence, last year almost 4,000 new loans were granted, amounting to RON 1 billion.

Loan balance increased by 9.1% vs. the previous year, to RON 1.54 billion. As a remarkable performance in 2017, a boost of income with 11% as compared with the previous year and a raise of deposits' balance with 10.9% (balance RON 1.47 billion at the end of the year) can be noted. Banca Transilvania has a diversified system to support the SMEs, 3 out of 5 SMEs in Romania are working with BT.

## Micro Business Clients

Almost 222,000 active customers are managed by this business line. The financing model based on a rapid platform sustains a superior lending performance, the loan balance for Micro Business raising with 17.7%, up to the level of RON 2.73 billion.

BT could not have missed the government program, Start-Up Nation. BT becomes the partner of 4,500 start-up companies, participating in this program, and grants 1,500 bridge loans.

As regards the operations sector, "Nelimitat" current account package has been launched. "Nelimitat" is the first operational package that includes a number of unlimited online transactions ordered between companies, clients of the Bank.



Other key performance figures: the balance of the deposits augmented with 28.3% vs. the previous year (totaling at the end of the year RON 6.21 billion), and income increase was 25% higher as compared with the previous year.

## Retail Customers

2017 was the year of best trading volumes in the card activity segment. The volumes increased in 2017 vs. 2016 with RON 10.33 billion, which translates into a 26.15% boost.

Deposits from retail customers in 2017 were RON 30.4 billion, increasing by 15.4% vs. the level registered in 2016 (RON 26.4 billion).

As at December 31, 2017, Banca Transilvania's portfolio counted 3.02 million cards, generating transactions almost 27.37% higher relative to the similar period of the previous year. The Bank's market share in terms of card transactions volumes is over 20%. BT has in its portfolio over 383,726 credit cards.

The Bank has a number of 1,247 terminals, of which 214 are multifunctional machines, 1,033 ATMs, 42,066 POS machines and works with over 962 retailers using e-commerce. At the end of 2017, there were 937,491 clients using BT24 Internet Banking, about 29% more than in 2016. At the same time, the number of BT24 Mobile Banking users reached 370,740, increasing by approximately 54.17% from the previous year.

2017 was the year of novelties in the cards segment. Banca Transilvania together with Mondaine, OT-Morpho and Mastercard launches the BT contactless watch, a new payment instrument that can replace the shopping card in the country and abroad. The watch functions based on the contactless technology, which allows the users to pay faster and in a more secure way.

The end of 2017 marked a new stage, the launch of the payment sticker BT Pay. Any object on which this sticker is applied to becomes a payment means to any retailer. The sticker, the Payment Bracelet launched in 2016 and the BT Watch are the contactless payment accessories belonging to the BT Pay Collection, collection that the Bank customers have at their disposal for shopping purposes, both in the country and abroad.

In 2017 as well, the Bank launched the STAR card shopping app for the customers who have a STAR shopping card issued by BT. The app offers information regarding the 11,000 retailers who participate in this loyalty program.

Banca Transilvania launches a new client communication channel, via Facebook Messenger and Skype, i.e. Livia, the robot, providing clients with information on the accounts, products and services they have with BT.

Unique in Romania, the chatbot offers 24/7, free-of-charge information that could be obtained only with the help of the BT teams in the branches, agencies and call center: IBAN and the balance of current accounts in RON, EUR or USD; amounts to be paid for the credit cards; number of loyalty points accumulated on the STAR shopping card; detailed regarding the interest, installments, fees or attachments, respectively the FX rates.

In 2017, the BT24 Mobile Banking platform was improved, via new options: rapid access

of transactions history and account details, respectively the possibility to personalize the background. All of the above mean a step forward regarding client experience when using the banking services on the smart phone.

2017 was also a year of awards received by the Bank for its card performance:

For the 7th time in the past 8 years, Banca Transilvania was designated “Bank of the year” for its card activity, based on indicators such as: the number of cards issued, the volume of transactions generated by BT’s portfolio, new products, contracts with merchants for card payment acceptance, etc. The award was granted for 2016 results, during the NoCash Gala - the most important annual event in the e-payment industry. At the same event, Banca Transilvania was recognized as leader, for the following categories:

- “The issuer with the most active credit cards”
- “The Year’s Shopping Card” - Visa Electron from BT”

The loans designed for this segment increased by 10.6% vs. the previous year, reaching RON 16.7 billion. Retail income registered a decrease of 9% compared to 2016, but excluding the gain from Visa Europe transaction, the variation of was positive vs. 2016, +9%.

## Treasury

The treasury activities in Banca Transilvania are complementary to the other products and services offered to the customers of the five business lines of the Bank.

The principles and strategic objectives governing the Treasury activities are:

- Precaution - with respect to the management of liquidity surplus, the due date of assets and debts, the interest rate structure and the market risks to which the Bank is exposed, in line with the risk limits established in the Bank’s Risk Strategy and/or the regulations governing the Romanian banking sector;
- Dispersion - as concerns counterparty exposures’ limits arising from all specific treasury operations;
- Income maximization - under prudent conditions and considering the estimated multiannual evolution of cyclical macroeconomic indicators.

Following the general trend of the increasing number of operations at the Bank level, FX activity was also stimulated, the FX income increasing 26% vs. the previous year, reaching RON 217 million in 2017.

## Risk Management

The objective of Banca Transilvania Financial Group in terms of risk management is to integrate the assumed medium-risk appetite in the bank’s decision-making process, by promoting a proper alignment between assumed risks, available capital and performance targets, while also considering the tolerance to financial and non-financial risks. In determining the risk appetite and tolerance, the Group takes into consideration all the

material risks it is exposed to, given its specific activity and being mainly influenced by the credit risk.

Risk management is part of all decisional and business processes that take place in the Group's and the Bank's activity. Within this context, BT's management:

- Continuously assesses the risks likely to affect the Bank's business and goals and takes actions whenever any changes appear in its business conditions;
- 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 pertaining to the Bank's activity in general and where applicable, at the level of the business lines.
- Identifies the risks: The Bank's exposure to business-related risks in its daily operations and transactions (including lending, dealing, and capital market operations) is identified and aggregated in the Bank's risk management infrastructure.
- Evaluates/measures the risk: The Bank performs an evaluation of identified risks by specific models and calculation methods: a system of ratios with related limits, a methodology for assessing the risk events likely to generate losses, calculation of specific risk provisions for impaired assets, estimation of the future evolution of assets value, etc.
- Monitors and controls the risks: The policy and the procedures implemented for an effective risk management are meant to mitigate risks inherent to the 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 the specific and performance of the operations.
- Reports the risk: 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, comprehensible and significant reports in due time, and to be able to exchange relevant information on risk identification, quantification or assessment and monitoring.
- Computes and assesses the internal capital and the needs of internal capital: For the assessment of capital adequacy to risks, the Bank identifies and evaluates all significant risks to which it is or might be exposed. The Bank continuously calculates and assesses its internal capital and internal capital requirements to cover the Bank's business needs and risks.

The main risk categories to which the Group is exposed to, are:

- Credit risk
- Liquidity risk
- Operational risk

- Market risk
- Interest rate risk related to activities outside the trading book
- Reputational risk
- The risk associated with excessive usage of leverage
- Strategic risk
- Compliance risk

## Credit Risk

The management of credit risk 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 credit portfolio;
- Integrated IT systems to manage the relationship with the clients and originate loans, both for loans granted to companies, and to individuals;
- Individual counterparty rating system;
- Risk assessment system for transactions;
- Validation process of the models;
- Risk assessment system for new credit products / significant changes in the existing products;
- Active management of loan portfolio;
- Concentration limits on client/group of clients/products/regional/sectorial/collateral suppliers/types of collateral;
- Pricing methodology based on risks;
- Methodology for loan monitoring / review after credit granting;
- Methodology for credit risk provisioning;
- Methodology for the calculation of prudential adjustments;
- Methodology for identifying higher real or potential risk (early warning);
- Methodology for identifying and management of high risk assets;

- Proactive management of fraud risk;
- Continuous improvement of the overdue collection process;
- Back-testing methodology for provisions allocated to the Bank's loan portfolio regarding the adequacy of the default probability parameter, the non-repayment status and the provision level;

The management of credit risk consists mainly in:

- Organizing an internal procedure system, capable to create the legal framework applied in the lending process, allowing the avoidance and minimization of risks offset; development/improvement of credit risk management procedures (strategy, policies, norms related to credit risk management); permanent enhancement of approval /loan granting activities;
- The maintenance of an adequate process for credit management, control and monitoring;
- In the 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 2017 was “medium”.

## Liquidity Risk

The liquidity risk appetite in 2017 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 within BT.

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.

Efficient liquidity management is performed also intraday to ensure all the assumed settlements/payments by the Bank, on own behalf or on the customers' behalf, in RON or FCY, over the account or cash, within the internal, legal and compulsory limits.

Moreover, the Bank also applies a liquidity buffer to cover the additional liquidity needs

that may occur on a short period of time under stress conditions.

During 2017, the Bank recorded rating 1 liquidity ratios, indicating a more than comfortable liquidity in a general economic context still fragile.

Furthermore, attention is given to:

- Correlation of the growth rate of resources/loans;
- Diversification of the range of instruments correlated with the institution's risk appetite;
- Monitoring of liquidity coverage ratio (LCR)
- Adequate capital allocation.

## Operational Risk

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

To identify, evaluate, monitor and diminish the operational risk, the Bank:

- permanently assesses the operational risk exposures, based on historical data;
- assesses the products, processes and systems to determine the associated risk levels and to implement the necessary measures to eliminate/diminish the risk or bring them to acceptable levels.

In order to achieve the main objective of efficient operational risk management within the current banking activity, 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.

The Group's strategy for decreasing the exposure to operational risk is based mainly on permanent compliance with the current legal framework and market conditions, personnel training, the efficiency of the internal control systems (organization and implementation), continuous improvement of IT systems and consolidation of IT security systems of the Bank, usage of alternative means to reduce the risks (signing of specific insurance policies, implementing measures to limit and reduce the effects of identified operational risk incidents via current activity standardization, automatization of a large number of processes, continuously monitored; reducing the redundant data volume collected at the level of different entities of the Bank; assessment of products, processes and systems in order to determine the significant ones in terms of inherent operational risk), capitalizing the recommendations and conclusions resulted as a consequence of performed controls by internal and external bodies in the operational risk field, update of continuity plans, as well as the evaluation and testing of the processes on a regular basis.

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

The operational risk appetite determined a priori for 2017 was "medium-low".



## Market Risk

The market risk profile adopted by Banca Transilvania was “low-medium” due to the structure and size of the trading portfolio, the prudential approach of all operations running such a risk and the numerous limits implemented and daily monitored within the Bank’s current business. In order to reduce market risk inherent for operations performance, the Bank adopted a prudential approach to protect its profits from fluctuations in prices, interests and exchange rates on the market, which represent external and independent factors. The Bank implements a series of principles in terms of quality, maturity, diversity and risk degree of the constitutive elements.

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 and Price Risk** - the management of this type of risk is adapted and permanently adjusted to the Romanian and international financial-banking market conditions and the general economic background. The interest rate risk is analyzed within the stress tests performed for the portfolio of securities held by the Bank and the price risk is analyzed within the stress tests related to the share and fund unit portfolio held by the Bank.

**Foreign Exchange Risk** - the Bank applies a series of rules with regard to operations sensitive to exchange rate fluctuations, the realization, registration and mark-to-market thereof, as well as the impact of exchange rates on the Bank’s assets, liabilities and balance sheet.

**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 Related to Activities Outside the Trading Book Interest Rate Risk Related to Activities Outside 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, 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.

A detailed analysis of credit, liquidity and market and interest rate risk is available in the Group's consolidated financial statements. The Group fits within the assumed risk limits of the Bank, promoting an adequate alignment for the assumed risks, available capital and performance targets, taking into consideration the tolerance to financial and non-financial risk.

## **Reputational Risk**

The reputation risk is the risk to incur losses or to fail in achieving estimated profits due to the lack of public confidence in the integrity of the Group. The appetite to reputational risk for 2017 was established at "low", based on public and business partners' confidence maintenance and the economic-financial position of the Bank. 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 favorable environment for investments and access to capital; continuous and open communication with stakeholders (shareholders, mass-media, clients, partners, employees, authorities, etc.).

## **Leverage Related Risk**

The leverage concept represents the relative dimension of assets, off balance-sheet commitments and contingent obligations to pay, to render a service or to grant real guarantees, inclusive of obligation arising from the financing received, assumed commitments, derivative instruments or repo transactions and exclusive of obligations that can only be executed during the liquidation of the institution, in relation to the own funds of the institution.

Banca Transilvania treats cautiously the issue of leverage related risk, taking into consideration the potential increases of this risk as a result of own funds deterioration due to expected or incurred losses in accordance with applicable accounting regulations. The a priori risk appetite of Banca Transilvania towards the leverage related risk was set to "low" in 2017, determined through the utilization of some quantitative methods for evaluation and mitigation.

## **Strategic Risk**

The strategic risk is the current or future risk for profits and capital to be negatively affected by changes in the business environment, by unfavorable 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 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, the Group 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 Group’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 Group had to meet. Thanks to the involvement and support of this function, the possible impact of any legal and regulatory changes on the Group’s activities has been assessed on an ongoing basis.

The main levers through which the Group ensures an efficient management of the compliance risks are the following:

- (1) implementing, as a continuous process, of exposure limits and monitoring of ratios reflecting in an effective way the processes exposed to compliance risk within the Group;
- (2) continuous monitoring of apps designed to meet the development strategies of the Group, as well as to the new legal requirements;
- (3) staff involvement via training activities, regarding the events falling under the compliance risk range, to diminish this type of risk.
- (4) periodical internal and external audit of compliance function, thus ensuring the control over the implementation manner of the legal requirements in force;
- (5) implementing and /or taking over in the compliance management of certain processes which should lead to an effective management of the requirements on conflicts of interest.

The relevant ratios managing the compliance function also target the KYC (“know your customer”) area for the purpose of preventing and fighting money laundering and terrorism financing as well as the area of international sanctions.

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

## **Capital Adequacy**

The internal capital adequacy assessment process within Banca Transilvania is part of the administration and management process of the credit institution, of its decision-making culture, which states that the management body ensures the proper

identification, measurement, aggregation and monitoring of the Bank's risks, and provides for an adequate internal capital in line with the risk profile and the use and development of sound risk management systems.

The following computation methods are used by the Bank and the Group:

- Credit risk: RWA (risk weighted assets) standardized approach;
- Market risk: capital requirements with respect to the foreign exchange risk and the trading portfolio are calculated based on the standardized approach;
- Operational risk: capital requirements for the coverage of operational risk are calculated according to the basic indicator approach.

The Group manages its capital base in a flexible manner, by monitoring regulatory capital requirements, 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, supplementary 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 2017 audit focused mainly on risk management as well as the assessment of the overall control system implemented on transactions and / or processes / flows, covering the entire range of risks. The assessment of the control system was performed based on the internal audit methodology, one of the main objectives being the insurance of financial and operational information reliability and integrity, as a result of an independent and objective evaluation of the internal control system and of the systems which manage the risks in relationship with the financial reporting processes.

The internal control framework of the Group is structured on three levels, respectively the functions that present 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 first control level is performed by the operational units which are responsible to ensure that at the level of each structure/activity is created a control and prevention environment for the risk, as part of the daily operations, and the second and third control level are performed via the three independent control functions, as follows:

- risk management function ensures the management and control of identified risks via specific evaluation processes;

- the compliance function ensures the compliance, operational and credit risk management;
- the internal audit function ensures the objective examination of the total activities of the Group, for the purpose of an independent assessment of risk, of the internal control system, management and execution processes, to sustain the proposed objectives achievements and issues recommendations for the efficient improvement of these activities.

The external auditor of the Bank - PricewaterhouseCoopers Audit S.R.L. - has audited the individual and consolidated financial statements as at December 31, 2017.

According to the audit opinion, the individual and consolidated financial statements reflect a true and fair view in all significant aspects of Banca Transilvania's separate and consolidated financial position, separate and consolidated results and separate and consolidated cash flows according to the International Financial Reporting Standards, endorsed by the European Union.

## The Management of Human Resources

The total number of employees in Banca Transilvania as of 31 December 2017 was 7,719 employees (31 December 2016: 7,680 employees).

The average number of employees during 2017 was 6,989 in Banca Transilvania (2016: 6,934 employees).

The Bank's number of active employees as at December 31, 2017 was 7,007 (2016: 7,014 employees).

The average age of employees in 2017 was 36.38 years (2016: 36.03 years). Gender distribution in 2017 showed: 75.61% women and 24.39% men (2016: 75.85% women and 24.15% men).

In 2017 the Human Resources priorities were: capitalization of interpersonal relations and entrepreneurial spirit of staff, professional development and well-being of each colleague, supporting performance and profitability and improving the organizational climate.

## Recruitment

Given the need to engage new colleagues in specific areas in the Bank, coupled with a continuing need to launch the opportunities we have in the Bank, it has been decided since 2016 to organize internships as part of the recruitment process to ensure "nursery" of talent, carefully selected and prepared. Prior to running the project, focus groups with student students from Cluj-Napoca faculties or presidents of student organizations were conducted in order to determine the real need for their learning and the optimal period for organizing such internships.

Thus, starting with the spring of 2017, the internship program offered by the Bank runs under the BT Journey brand. At the same time, in order to be more present in the academic environment, a collaboration protocol with the Babeş-Bolyai University was concluded

with the main purpose of conducting joint research projects in the specific fields of the university, promoting the Bank among student circles and the professorial staff and drifting the students towards working experience / internship in specific fields.

In 2017 we applied, together with BT Club, for EU funds financing designated for an internship project whereby, during a period of 2 years, we will extend the internship model implemented in the Cluj university center to 10 other university centers in the country, reaching a target group of 240 students. At the beginning of 2018 the project was approved, its value being of EUR 480,000, of which:

At the beginning of 2018 the project was approved, its value being of EUR 480,000, of which:

- EUR 400,000 for Banca Transilvania
- EUR 80,000 for BT Club
- plus the Bank's own contribution of EUR 20,000

The project is called "Take the first step towards a successful career" and aims to increase the employability of 240 students from the North-West, West, Center, North-East, South-East, South-West-Oltenia and South-Muntenia areas by participating in learning programs run directly at the workplace.

The short- and long-term benefits of this project are:

- improving the employer image of BT among youngsters;
- raising awareness on the benefits of participating in workplace dedicated learning programs through promotional campaign and counseling sessions;
- training and development of professional skills tailored to the latest labor market developments;
- the formation and development of transversal, transferable skills necessary to maintain the competitiveness of an employee;
- increasing the level of employment among students;
- increasing the employment rate of young people at local, regional and, implicitly, national level;
- developing social partnerships to optimize the educational offer in the field of applied technology within the financial-banking sector (partnerships between educational institutions and employers);
- correlation of the specializations organized in the field of applied technology within the financial-banking sector with the labor market requirements, in the context of the relevant national strategies.

## Professional Development

2017 was the year during which technology was introduced in employee training / development. The use of technology offers benefits both to employees and to the organization, enabling the available resources to be maximized. The technology offers ease of access to training material, knowledge accumulation and has an important impact on productivity, eliminating travel times and optimizing the time needed for training.

This form of training / development does not replace traditional development methods (training sessions, workshops etc.), so blended-learning programs have been implemented, combining different learning methods and tools to meet the different needs of our colleagues and streamlining the training process.

During 2017, the Bank continued the “Star BT” Career Management Program, dedicated to talented, ambitious and passionate colleagues about BT and banking.

About this program:

- It is a managerial development program for the BT team;
- It was launched in 2014 and has over 80 graduates so far;
- It is run together with Qualians Romania under the Harvard Business Publishing license;
- Includes online courses and workshops in Romanian and English;
- Requires online testing of assimilation of the presented concepts and obtaining a Harvard Business Publishing diploma, if test results are greater than 70%;
- It also assumes a rigorous selection based on the performance obtained in the Bank, on the development potential, on the Hogan’s assessment of the managerial potential and on career interviews.

In 2017, 31 colleagues from 22 departments, with an average age of 34 years and an average tenure of 9 years of working experience with Banca Transilvania, benefited from this Star BT program.

## **Organizational climate**

The Human Resources Department aims to offer a superior experience to colleagues by making Banca Transilvania a valued workplace, where employees work with pleasure and feel that they develop both professionally and personally.

To achieve this goal, the largest BT Employee Experience Index (BT EEI) was launched in June last year. The study was based on three main objectives: measuring the Net Promotion Score by the employer (eNPS), measuring the quality of the interaction between managers and the team members they coordinate, and collecting proposals/recommendations that would increase employee satisfaction. This initiative resulted in a series of changes that improved significantly the organizational climate (according to the results obtained in the second measurement of the same study).

## **Performance evaluation**

During 2017, the platform and the performance evaluation system changed with the following objectives: developing and implementing a performance management system for employees within Banca Transilvania to enable real-time feedback in an interactive way; simplifying the performance evaluation process; increasing the commitment, motivation, results and professionalism of both BT employees and managers and personalizing rating by function/roles.

## **Benefits**

The well-being of BT team was and remains a priority for Bank's management as a basis for the "human banking" concept that the Bank aims for, in order to motivate employees and to become a working place where all colleagues have the opportunity to learn, grow and feel good as part of the team.

Thus, in 2017, the following additional benefits were introduced: inclusion of a screening package for the early prevention of the most common types of cancer in the medical analysis package - 1,677 medical investigations were carried out and as a result of this program 304 cases of changes or early cancer and 41 malignancies were identified and treated, saving 345 lives; increasing the value of meal vouchers, raising the minimum wage for colleagues performing specific banking activity; contribution to voluntary pensions pillar III.

## **Remuneration Policy**

The Remuneration Policy is approved by the Board of Directors. The Bank ensures a fair and competitive remuneration, with strict correlation with skills and performance, with two components, properly balanced: the fixed component and the variable component. The fixed remuneration reflects relevant professional experience and organizational responsibility as set out in the employee's job sheet, as part of the terms of employment. The fixed remuneration is sufficiently consistent and represents a sufficiently large proportion of total remuneration so as to allow the application of a fully flexible policy on variable remuneration components, including the possibility of not paying any of its components. The variable remuneration reflects a sustainable and risk-adjusted performance, as well as a performance that exceeds the performance required to meet the employee's job description as part of the employment terms. The variable remuneration is not automatically guaranteed or carried over from one year to the next. The distribution mechanism of the variable

remuneration component does not guarantee amounts to be paid over several years. Thus, the variable remuneration is subject to an annual, fair, review process. Guaranteed bonuses are forbidden.

The Bank identified the persons forming the specified group (identified personnel of the Bank) considering the requirements of NBR Regulation no 5/2013, EU Regulation no 575/2013, EUR Directive no 36/2013 and EU Delegated Regulation no 604/2014.

## **Social Responsibility and Environment Protection**

BT continued to get involved in the life of the community also in 2017, so the contribution to programs of financial & entrepreneurial education, sports, culture and social areas amounted to RON 23.11 million.

Banca Transilvania pays attention to compliance with environmental and social legislation in force, to using appropriate environmental and social practices, which represent relevant factors in demonstrating effective business management.

In line with its policy of social involvement, encouragement of volunteering, but also environmental friendliness, Banca Transilvania continued its afforestation activities in 2017. Two of these are:

- Transilvania Forest 4.0;
- Tritenii de Jos, 53 km from Cluj-Napoca: 40,000 seedlings were planted on an area of 10 hectares (October 2017, together with the Tasuleasa Social Association).

The Bank benefits from an international “green building” certificate as, for certain spaces where it carries-out its activities, it chose state-of-the-art equipment, endowments and technologies with increased energy efficiency to minimize environmental impact.



## Corporate Governance

Corporate governance represents the set of responsibilities and practices of the company's management, aiming at providing a strategic direction and ensuring that the set objectives will be achieved, that risks are properly managed and that the company's resources are responsibly used, having in the same time an adequate behavior towards third parties.

Banca Transilvania S.A. uses the Code of Corporate Governance of the Bucharest Stock Exchange, considering the former's capacity as issuer on the capital market, and applies the principles defined by it. The Code of Corporate Governance of BSE is available on the official website of BSE ([www.bvb.ro](http://www.bvb.ro)). Currently, there are no provisions of the Code for which compliance is not ensured by Banca Transilvania.

## General Shareholders Meeting

The General Shareholders' Meeting (GSM) is the authority that ensures the Bank's strategic direction with the main duties to set strategic organizational objectives and to allocate the resources needed to meet them.

The General Shareholders' Meeting is representing all of the Bank's shareholders. Its decisions, taken in compliance with the law and the Articles of Association, shall be binding upon all shareholders, including those shareholders who have not attended the meetings.

Each shareholder may participate in the General Meetings, either in person or through a special power of attorney given in original to another person, whether or not the latest is a shareholder of the Bank, in accordance with the law. The power of attorney should be submitted with the Bank five days before the date of the General Meeting. Legal entities are represented in the General Meetings through their legal representatives or other empowered persons.

The General Meetings take place at the Bank's headquarters, or in another appropriate place, announced in advance through the convocation.

The General Meetings may be ordinary and extraordinary and will be convened by the Board of Directors, according to the law.

The convocation for any GSM will be published in the Official Gazette and in one of the national papers and will include the place and date of the meeting, as well as the agenda, indicating explicitly all the issues that will be debated. The date of the meeting shall not be less than 30 days from the date of publication of the convocation.

Ordinary meetings shall be held at least once a year and the annual general meeting shall be held no more than four months after the end of the financial year. Apart from the issues on the agenda, these meetings are bound:

- to discuss, approve or amend the annual financial statements on based on the reports submitted by the Board of Directors or, as the case may be, by the financial auditor, and to set the dividend;
- to elect and revoke the members of the Board of Directors;



- to appoint and set the minimum contractual period of the financial auditor and to revoke the financial auditor;
- to set the remuneration of the Board of Directors for the current year, unless this has been set in the articles of the Constitutive Deed;
- to rule on the activity of the Board of Directors;
- to establish the Budget of Revenues and Expenses and the working hours for the following financial year;
- to decide on the pledging, rental or ceasing of one or more units of the Bank.

Regarding the redemption of its own shares, the Board of Directors may initiate the redemption procedure only on the basis of a decision issued by the Extraordinary GSM, under the conditions provided by Law no. 31/1990 and the capital market legislation. The presence of shareholders representing at least 35% of the share capital is required for the validation of decisions issued by Ordinary GSM. Decisions shall be taken based on a majority of the votes expressed. On the date set for the second convocation, the meeting may take place irrespective of the share of the shareholders represented and the resolutions will be taken based on the majority of votes of those present.

Members of the Board of Directors may not vote at ordinary GSM, either personally or through a trustee, on the discharge of their management of the Bank or on a matter in which their person or their management is in question.

In order for the Extraordinary GSM to be valid, the presence of the shareholders representing at least 35% of the share capital is required, the decisions being taken with the majority of the votes held by the shareholders present or represented (in accordance with Article 115 (2) of the Law no. 31/1990). If at the first convocation the above quorum is not achieved, a second meeting will be held, requiring the presence of shareholders representing at least one fifth of the share capital, and the decisions on the issues from the agenda of the previous general meeting shall be taken with the majority of the votes held by the shareholders present or represented (in accordance with Article 115 (2) of Law 31/1990). The Board of Directors is obliged to convene the Ordinary or Extraordinary General Meeting at the request of the shareholders, representing at least 5% of the share capital, which must be written and motivated. If it fails to convene the GSM, a court at the registered office of the Bank may order the convocation by designating one person among the shareholders that will preside over the meeting.

The decisions of the GSM are taken by open vote. The secret vote is mandatory for the election of the members of the Board of Directors, for their revocation and when taking decisions on the responsibility of the members of the administration, steering and control bodies within the Bank.

The GSM of the Bank shall be led by the Chairman of the Board of Directors or by a representative appointed by the Chairman from the members of the Board of Directors. There will also be elected 1-3 secretaries from the present shareholders to verify the presence, to indicate the share capital represented by each shareholder present to the GSM, to verify the minutes of the technical secretary regarding the number of shares represented

at the meeting and to ensure compliance with all the formalities required by the law and the Constitutive Deed on the GSM.

Shareholders of Banca Transilvania have all the rights conferred by the law and by the Bank's Constitutive Deed, including Law no. 31/1990, by the banking legislation and by the capital market legislation, within the limits established by the law and by the Constitutive Deed.

The following might be included amongst the aforementioned rights (non-exhaustive list):

- The right to be informed about the GSM – valid for any shareholder. Provides access to annual financial statements, BoD / auditors / censors reports;
- The right to formulate written questions before the GSM;
- The right to be permanently informed – valid for any shareholder. Provides access to the register of GSM deliberations, as well as access to other Constitutive Deeds of the company within the limits of the law;
- The right to vote – valid for any shareholder based on the principle of one vote for one share;
- The right to receive dividends if the legal requirements are met;
- The right to act for the annulment of the GSM decision – conferred on the shareholder who voted against or withheld its vote during the GSM within the limits set by law;
- The right to convoke the GSM – applicable for any shareholder holding at least 5%;
- The right to enter new items on the GSM agenda – applicable for any shareholder holding at least 5%;
- The right to claim censorship – only applicable for the shareholder who holds at least 5%, while censors and auditors are required to verify.

The shareholders of Banca Transilvania can exercise all the rights conferred by the law and by the Bank's Constitutive Deed, including Law no. 31/1990, the banking legislation and the capital market legislation, within the limits established by the law and by the Constitutive Deed.

Further details on the General Meeting of Shareholders, as well as on shareholders' rights can be found within the Bank's Constitutive Deed, accessible on the Bank's website, Investments Relations Section, Corporate Governance Tab.

Details of the GSM proceeding can be found in the GSM's convocation, on the Bank's website, Investments Relations Section, GSM Tab.

## Board of Directors

The management structure of Banca Transilvania includes the supervisory governing body - the Board of Directors and the senior management body – the Executive Committee.

The senior management of the Bank is provided by individuals who are empowered with the current activity of the credit institution and are responsible to the supervisory governing body for the way in which the Bank is steered, on the basis on their mandate and management contracts, relevant NBR regulation, on the provisions of Law 31/1990 and on internal regulations.

The administration of Banca Transilvania is entrusted by the General Shareholders' Meeting to a Board of Directors elected for a mandate of 4 years, consisting of 7 directors elected by the shareholders within the GSM – either on the end of the mandate or on the occasion of one or more vacancies within the BoD. The Board of Directors is, in accordance with the provisions of the specific regulations issued by the NBR, the body with the function of guidance, coordination, supervision and control. Banca Transilvania has the following structure:

- Chairman of the Board of Directors;
- 6 members of the Board of Directors.

The eligibility criteria for adherence to the Board of Directors are those set out in the specific legislation (Law 31/1990 – Commercial Companies Law, Government Emergency Ordinance 99/2006 and the specific regulations of the National Bank of Romania), as well as those stipulated in the Articles of Association of Banca Transilvania.

Currently, Banca Transilvania does not have a significant shareholder. Following the approval of the shareholders in the GSM and before the actual start of their mandate, the new members of the Board of Directors must obtain prior approval from the National Bank of Romania.

Members of the Board of Directors are not involved in the fulfillment of operational tasks within the Bank – these being an exclusive attribute of senior management, Executive Committee.

### Responsibilities of the Board of Directors

- Monitoring the achievement of the strategy and objectives stipulated in the policy statement adopted by the General Shareholders' Meeting, respectively scrutinizing the medium term strategic plan and approving and reviewing, at least on an annual basis, the general strategies and policies related to the Bank's activity;
- Adoption of the draft activity program, of the Budget of Revenues and Expenses, of the investment program and of the Profit and Loss Statement, drafting the administrators' report on the activity of the Bank, which will be presented for the approval of the General Shareholders', drafting the proposals for the distribution of the net profit to be submitted for approval of the General Shareholders' Meeting;

- Approving and implementing a strategic plan for at least two years, to be reviewed at least annually;
- Approving the Organization and Administration Regulation, the Code of Ethics and Conduct, the organizational structure and the principles for remuneration and loyalty of staff, approving the individual exposures to a person that have special relations with the Bank, within the limits set by the Board of Directors;
- Supervising the compliance risk management;
- Designing the necessary conditions for an independent, permanent and effective compliance function;
- Constantly assessing capital adequacy towards risks, allocating capital in an appropriate manner regarding the risks faced by the credit institution and by the subsidiary companies;
- Approving as loss the debts for which all recovery paths have been exhausted or those that cannot be recovered under economic conditions, as well as losses caused by employees as a consequence of the normal operational risk, within the limits approved by the specific internal regulations of the Bank;
- Supervising, through the Corporate Secretary, of the manner in which the leaders and other executive managers adhere to the provisions of the Code of Ethics and Conduct and the compliance of their decisions and activities with the Bank's relevant strategy, policies and regulations so as to ensure a framework for lawfulness, efficiency and risk control (strategic and reputational) and to prevent any potential losses arising from these aspects on the Bank's activity;
- Approving the accounting policies, the financial control policies and policies for the management of significant risks.

The Board of Directors usually meets on a monthly basis and whenever necessary, in the presence of at least half of its members, and can exercise its specific tasks through committees set up at BoD level and composed of 2-3 members, on the basis of the mandate and in compliance with the legal requirements applicable to that body. The committees set up at the level of the Board of Directors are: the Audit Committee, the Remuneration and Nomination Committee and the Risk Management Committee. The Board of Directors and the committees set up by it are governed by corporate governance reference terms published on the Bank's website.

In 2017, the Board of Directors convened eight times. The composition of the Board of Directors of Banca Transilvania and the professional training of its members as of 31 December 2017 is as follows:

Member	Position	Personal information
<b>Horia Ciorcilă</b> Date of first election: April 2002 Term of current mandate: April 2014 – April 2018 Non-executive Director Presence in BoD during 2017: 8 out of 8 meetings	Chairman	Polytechnic Institute of Cluj-Napoca, Faculty of Automation and Computers. Full biography (including current position occupied within other companies) is available on the Bank's website at: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Thomas Grasse</b> Date of first election: April 2014 Term of current mandate: April 2014 – April 2018 Non-executive Director Presence in BoD during 2017: 8 out of 8 meetings	Member	Polytechnic Institute of Cluj-Napoca, Faculty of Automation and Computers. Full biography (including current position occupied within other companies) is available on the Bank's website at: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Ivo Gueorguiev</b> Date of first election: April 2014 Term of current mandate: April 2014 – April 2018 Non-executive Director Presence in BoD during 2017: 8 out of 8 meetings	Member	Alberta University, Edmonton, Canada. Full biography (including current position occupied within other companies) is available on the Bank's website at: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Costel Ceoceă</b> Date of first election: April 2010 Term of current mandate: April 2014 – April 2018 Non-executive Director Presence in BoD during 2017: 8 out of 8 meetings	Member	Al.I. Cuza University, Iași, Faculty of Economic Sciences and PhD in industrial engineering. Full biography (including current position occupied within other companies) is available on the Bank's website at: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Vasile Pușcaș</b> Date of first election: April 2012 Term of current mandate: April 2014 – April 2018 Non-executive Director Presence in BoD during 2017: 8 out of 8 meetings	Member	Babeș- Bolyai University, Cluj-Napoca, Faculty of History and Philosophy and PhD in History. Full biography (including current position occupied within other companies) is available on the Bank's website at: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Doru Costel Lionăchescu</b> Date of first election: April 2016 Term of current mandate: April 2016 – April 2018 Non-executive Director Presence in BoD during 2017: 8 out of 8 meetings	Member	The Faculty of Electronics and Telecommunications within the Technical University of Bucharest. Full biography (including current position occupied within other companies) is available on the Bank's website at: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>

Member	Position	Personal information
<b>Mirela Ileana Bordea</b> Date of first election: April 2017 Term of current mandate: April 2017 – April 2018 Non-executive Director Presence in BoD during 2017: Not applicable, the member was approved by the National Bank of Romania in September 2017. Since the approval, she participated in all BoD meetings, namely 3 out of 3	Member	Academy of Economic Studies, Bucharest/ International Economic Relations Department. Full biography (including current position occupied within other companies) is available on the Bank's

The Secretariat of the Board of Directors as well as that of the committees established at the BoD level is assured by a secretary, a position exercised by Ioana Olănescu – Executive Director of the Corporate Governance and Contentious Division.

During 2016, there was a vacant position within the Board of Directors of Banca Transilvania as a result of death of one of the Bank's directors. The position was occupied by the appointment of Mrs. Mirela Ileana Bordea from the General Shareholders' Meeting in April 2017 (the director started to exercise the mandate after the approval of the NBR). Currently, the Board of Directors consists of 4 independent directors and is composed entirely of non-executive directors.

Please note that in 2017, the Remuneration and Nomination Committee assessed the Board of Directors and its committees for the financial year 2017. No significant issues were identified and minor issues requiring adjustment were reviewed within the Board of Directors along with relevant solutions to be implemented in 2018 in order to optimize the work of the Board of Directors and its committees.

Banca Transilvania S.A. has implemented a policy on the evaluation of the Board of Directors Council that can be accessed on the Bank's website, Disclosure Requirements tab: <https://www.bancatransilvania.ro/en/investor-relations/corporate-governance/>. By accessing the same link you can obtain information on the current situation of the Bank at the level of remuneration practices.

## Audit Committee

The Audit Committee of the Board of Directors operates under the applicable legal framework: the Law on Commercial Companies – Law 31/1990 and the Corporate Governance System of Banca Transilvania.

The number of members and the competence of the Committee are approved by the Board of Directors.

The Audit Committee supervises the performance of external auditors, makes recommendations on their appointment and remuneration, and reviews the internal audit system developed by the Head of the Internal Audit Department, who responds to the Board of Directors for this system. The Committee has the right to make recommendations to the Board of Directors on the effectiveness of the Internal Audit Department's performance



and on the remuneration of the head and staff of that department. The members of the Audit Committee meet regularly with the external auditor of the Bank to discuss any issues related to the auditing activities, as well as the Bank's management's responses, assessing the degree of objectivity and independence of opinions expressed by external auditors. The Committee monitors compliance with the legal provisions in Romania regarding financial statements and accounting principles, observes the provisions of the National Bank of Romania, assesses the external auditor's report on the financial statements, reviews and pre-approves the financial statements of the Bank. The full list of responsibilities delegated to the Audit Committee is mentioned in the Regulation of the Audit Committee, a regulation published on the Bank's website.

## **Audit Committee's Report Related to 2017 Financial Year**

The Audit Committee, composed of 3 non-executive members and including a majority of independent members of the Board of Directors, met eight times during 2017, in addition to some telephone conferences and in-absentia meetings to review, discuss and approve numerous ad-hoc topics. The composition of the Audit Committee during the year 2017 was:

- Ivo Gueorguiev – Chairman of the Audit Committee; Independent non-executive director with audit experience, participated in 8 out of 8 meetings during 2017;
- Thomas Grasse – Member; Independent non-executive director with audit experience, participated in 8 out of 8 meetings during 2017;
- Doru Costel Lionăchescu – Member; Independent non-executive director with audit experience, participated in 7 out of 8 meeting during 2017.

The temporary vacant position due to the death of a member was occupied in January 2017.

During the meetings held in 2017, the Audit Committee carried out the following actions:

- Approval of the external auditor and determination of the price level paid for the services rendered;
- Examination of the financial statements and the audit report prepared by the external auditor for the year 2016, analyzing the significant accounting and reporting aspects and their impact on the financial statements;
- Monitoring of the effectiveness of internal control, internal audit and risk management by analyzing the specific reports provided by the Bank's control functions and other relevant reports;
- Analyzing the NBR reports and implementing the communicated recommendations;
- Implementing the recommendations of the external auditor's letter addressed to management;
- Surveillance of transactions with affiliated parties and third parties with special relation to the Bank

During 2017, the Audit Committee met with PwC, the external auditor of the Bank, and worked with the Deputy Chief Financial Officer on all versions of the Bank's financial results, audited and reviewed by the external financial auditor, recommending the Board of Directors to approve them.

Audit planning and reporting meetings were held with the external auditor also without the presence of the management team. The Audit Committee discussed the updated information received from the external auditor and the Bank's management relative to the Romanian legislative changes impacting the banking system, notably the current and future changes to IFRS accounting standards and the adoption of IFRS9, applicable starting with 1 January 2018.

The Audit Committee also examined the robustness of the Bank's internal controls, working both with the external auditor and the internal auditor to closely monitor any deficiencies identified in the internal control and to observe the follow-up of such deficiencies by careful analysis of their remediation. In addition, the Audit Committee has obtained information on external regulatory controls (of the competent institutions).

The Audit Committee is responsible for assessing the performance, objectivity and independence of the external auditor and for the delivery of quality audit reports. For the year 2017, the Audit Committee considered that both the main partner and the wider teams, as well as the terms of remuneration and engagement of the appointed auditor, are appropriate for approval. On the basis of the independence statement obtained by the Audit Committee and its own assessment of the auditor, the Audit Committee concluded that PwC is independent in its audit engagement granted by Banca Transilvania and that it can provide also services outside the audit area.



## Remuneration and Nomination Committee

The Remuneration and Nomination Committee is a body subordinated to the Board of Directors, designed to give independent opinions on remuneration policies and practices, on incentives related to risk, capital and liquidity management, on nomination policies and on the exercise of duties mandated by the Board of Directors on this segment of activity.

The composition of the Remuneration and Nomination Committee is as follows:

- Chairman of the Board of Directors;
- maximum 2 BoD members.

This Committee analyzes and ensures that the general principles, remuneration policies and staff benefits are in line with the Bank's business strategy, long-term values and objectives of Banca Transilvania. The Remuneration and Nomination Committee meets at least twice a year or whenever it is needed at the request of one of its members or the Bank's executive directors.

## Remuneration and Nomination Committee's Report Related to 2017 Financial Year

As of 31 December 2017, the Remuneration and Nomination Committee is composed of:

- Horia Ciorcilă
- Ivo Gueorguiev

while the percentage of independent members is 50%.

The Remuneration and Nomination Committee met twice during 2017 and both members were present each time. The Chairman of the Risk Management Committee participated as guest in both meetings, ensuring that remuneration practices established are in line with the credit institution's risk management requirements.

During the sessions held in 2017, the Remuneration and Nomination Committee carried out the following activities:

- Analyzed and ensured that the general principles, remuneration policies and staff benefits are consistent with the business strategy, objectives, values and long-term interests of the Group. In this regard:
- Analyzed and approved the Staff Remuneration Policy;
- Ensured the fulfillment of the requirements related to:
  - Involvement of internal control system staff (audit, risk and compliance) and HR staff in the development of remuneration policy;

- Ensuring conditions for Bank staff to have access to remuneration policy, while the performance evaluation process to be properly and transparently formalized for employees;
- Promoting a remuneration policy that ensures healthy and effective risk management;
- Correlation of remuneration policy with the Bank's business strategy, objectives, values and long-term interests, including implementation of measures to avoid conflict of interest;
- Working closely with other internal bodies and ensuring that remuneration policy is in line with the Bank's strategy and it is promoting sound and effective risk management;
- Evaluating the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risk, liquidity and capital levels, that the general remuneration policy is in line with the Bank's strategy and it promotes sound and effective risk management and that it is aligned with the business strategy, objectives, culture and corporate values and long-term interests of the institution;
- Analyzed the general principles of the remuneration policy and informed the Board of Directors on how this was implemented; ensured an independent internal staff evaluation at centralized level and its compliance with the Remuneration Policy;
- Directly supervised the level of remuneration of the risk management, compliance and audit coordinators (Director and Deputy Directors of the Risk Management, Internal Audit and Compliance Division);
- Prepared decisions on remuneration, including decisions that have implications from a risk and risk management perspective within BT (in preparation of decisions, the Remuneration and Nomination Committee should consider the type of risk events affecting remuneration conditions for Bank's employees, including those who occupy key positions and should take into account the long-term interests of shareholders, investors and other stakeholders in the Bank);
- Endorsed the total annual remuneration of the members of the Executive Board / Leaders' Committee and approved the remuneration of the executive directors;
- Has analyzed and ensured that the general principles and policies regarding the staff nomination are in line with the business strategy, objectives, values and long-term interests of Banca Transilvania. In this respect:
  - Identified and recommended for the approval of the governing body candidates for vacant positions within the management body, assessed the balance of knowledge, skills, diversity and experience within the governing body, prepared a description of roles and capabilities for the appointment of a particular position and assessed expectations as to the time allocated to the job;
  - assessed the structure, size, composition and performance of the governing body and made recommendations to the governing body about any changes;

- assessed the knowledge, skills and experience of each member of the governing body and the management body as a whole and reported accordingly to the governing body the results obtained;
- regularly reviewed the policy of the management body as regards the selection and appointment of senior management and made recommendations to the management body.

## **The Risk Management Committee**

The Risk Management Committee is a body subordinated to the Board of Directors, being responsible for the independent review, evaluating and recommending actions on the Bank's risk strategy, profile, appetite and risk tolerance, risk management system, risk policies, as well as being responsible for the adequacy of the capital to the risks assumed. The Risk Management Committee monitors compliance with the NBR regulations and its recommendations on risk management and compliance functions in the Bank, both of which are subordinated to the Deputy Chief Risk Officer.

The number of members and competencies of the Risk Management Committee are determined by the Board of Directors. The full list of responsibilities of the Committee is determined by the Organization Rules of the Risk Management Committee published on the Bank's website.

## **Risk Management Committee's Report Related to 2017 Financial Year**

The Risk Management Committee is composed of three non-executive and largely independent members of the Board of Directors and met 8 times during 2017, in addition to several ad-hoc telephonic conferences on ad-hoc issues. Emergency resolutions have also been approved, based on votes by e-mail. During its meetings, the Risk Management Committee carefully examined the Bank's position with regard to the risks assumed, their management and compliance with the risk management system. These discussions prepared the positions presented in the plenary BoD sessions on strategic issues in the area of risk management and compliance.

In 2017, the Risk Management Committee was composed of:

- Thomas Grasse: Chairman, non-executive independent director with risk management experience, attending 8 out of 8 meetings;
- Ivo Gueorguiev: Member, non-executive independent director with risk management experience, attending 8 out of 8 meetings;
- Costel Ceoceca: Member, non-executive director with risk management experience, attending 8 out of 8 meetings.

During the sessions held in 2017, the Risk Management Committee covered the following topics:

- reviewed and evaluated the robustness, adequacy and effectiveness of the risk management system in Banca Transilvania and within the Group, focusing on risk strategies and policies for 2017 on the basis of reports prepared by the risk management functions in the Bank;
- supervised and made recommendations on the implementation of the risk management strategy by the Board of Directors;
- refined the risk management policy framework by addressing risk management methodologies, risk management processes and assessing their impact on the Bank's financial statements;
- reviewed credit, market, liquidity, operational, compliance and strategic risk management reports;
- supervised and evaluated the principles of internal capital allocation, in accordance with Basel and NBR provisions;
- assessed the reports on the non-performing and restructured loans, as well as the results obtained by the recovery and collection departments;
- supervised, evaluated and made recommendations on the remodeling of risk management and compliance functions in order to adapt structures to the current size of the Bank;
- working closely with other internal bodies has ensured that remuneration policy is in line with the Bank's strategy and promotes robust and effective risk management;
- assessed business continuity management and plans to restore the Bank's liquidity position.

The Committee was actively involved with the Deputy Chief Executive Officer, CRO and other members of the Board of Directors in developing and improving the infrastructure and risk management system to ensure better risk mitigation in the Bank's activities after the acquisition and integration of Volksbank Romania. We are comfortable that we have a continuous process of identifying, assessing and managing the risks to which the Bank is exposed.

The Committee has also been involved in overseeing significant individual exposures as well as those to affiliated parties, ensuring implementation and compliance to avoid conflicts of interest. The Committee had regular meetings with the Bank Leaders to evaluate and review the situation of exposures, portfolios or sub-portfolios, particularly those that were underperforming or restructured. In addition, measures taken for mitigating market, liquidity, interest rate, operational etc. risk were monitored, correlating them with the Bank's growth aims.

Various simulations of stress tests and their results have been analyzed and evaluated, the Committee regularly receiving reports on the Bank's risk profile and capital position.

In addition, the Committee also took into account the risk assessment of the Bank in the opinion of the regulator.

The Risk Management Division functions as an independent entity within the Bank. The department supports a broad set of controls covering the identification and risk management process. The Committee has reviewed the main documents covering risk policies and procedures and monitors their compliance.

## Executive Committee/Leaders' Committee

The Bank's leaders are appointed by the Board of Directors and are required to meet the legal conditions in force and to be approved by the NBR prior to starting their mandate according to their position. Under the relevant legal provisions, the Board of Directors mandated the Bank Leaders jointly (and with some exceptions, individually) with the exercise of the Bank's organizational and steering duties. The rules and procedures of the Leaders' Committee are approved by the Board of Directors. Any amendment to this document must be adopted by the Board of Directors and will operate after approval.

The composition of the Leaders' Committee of Banca Transilvania and the professional training of its members on 31 December 2017 is as follows:

Member	Position	Personal information
<b>Ömer Tetik</b> Since June 2013	Chief Executive Officer	Middle East Technical University, Ankara, The Faculty of Economic Sciences, Honor Student. Full biography is available by accessing the following link: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Luminița Runcan</b> Since September 2014	Deputy Chief Executive Officer Chief Risk Officer (CRO)	Babes-Bolyai University of Cluj-Napoca, Faculty of Economic Sciences. Babes Bolyai University, Faculty of Law. Full biography is available by accessing the following link: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Leontin Toderici</b> Since November 2005	Deputy Chief Executive Officer Chief Operations Officer (COO)	Technical University Cluj-Napoca, Faculty of Automation and Computer Science. Babes-Bolyai University, Faculty of Economic Sciences. Full biography is available by accessing the following link: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>George Călinescu</b> Since September 2013	Deputy Chief Executive Officer Chief Financial Officer (CFO)	"Al. I. Cuza" University, Iasi, Romania, The Faculty of Economics and Business Administration, The American University in Bulgaria, Blagoevgrad, Bulgaria; Applied Economics, Business Administration. Full biography is available by accessing the following link: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Gabriela Nistor</b> Since August 2013	Deputy Chief Executive Officer Retail Banking	Faculty of Economics, "Al. I. Cuza" University of Iasi, Institute of Financial Services & Visa International. Full biography is available by accessing the following link: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>
<b>Andrei Dudoiu</b> Since April 2015 Until December 2017	Deputy Chief Executive Officer	ASE Bucharest, The Faculty of Finance, Banks and Accounting. Full biography is available by accessing the following link: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>

<b>Member</b>	<b>Position</b>	<b>Personal information</b>
<b>Tiberiu Moisă</b> Since May 2016	Deputy Chief Executive Officer Banking for IMM	The Bucharest University of Economic Studies Finance, Banking and Stock Exchange. INDE (ASE Romania & CNAM France) – Executive MBA. Executive MBA, Sheffield University (UK) – Postgraduate Diploma. Full biography is available by accessing the following link: <a href="https://www.bancatransilvania.ro/en/about-us/">https://www.bancatransilvania.ro/en/about-us/</a>

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

## Assets and Liabilities Committee

The main objective of the Assets and Liabilities Committee is the management of the Bank's assets and liabilities. The Committee is appointed by the Leaders' Committee.

The meetings of the Assets and Liabilities Committee occur on a periodical basis (regularly monthly) or whenever required by any member of the committee.

The Assets and Liabilities Committee receives informative materials and reports from the specialized departments within the Bank, it analyzes them and adopts decisions with respect to the management of the interest risk / FX risk / liquidity risk / price risk and the related activity segments, for the purpose of an adequate management of the Bank's assets and liabilities. The decisions shall include exact terms and specific responsibilities.

## Procurement Committee

The main objective of the Procurement Committee is to decide the procurement policy in BT and to approve all investments involving costs outside the contractual framework or exceeding the cost limits stipulated by contract by more than EUR 1,000 / request.

## Human Resources Committee

The HR Committee is established to develop and increase the efficiency of the decision making process in connection with BT's employees. The Human Resources Committee meets at least monthly or whenever necessary.

## Committee for Credit Policy and Approval

The Committee for Credit Policy and Approval has as main objective to establish BT's credit policy and to approve the credit facilities which exceed in terms of value or conditions the competences of other bodies or employees of the Bank.

## **Head Office Credit and Risk Committees**

The main purpose of the Head Office Credit and Risk Committees is to analyze and approve loans, respectively to restructure loans based on the granted competences.

The Committee for Credit Policy and Approval authorizes CCR1, CCR2 and Mediation Committee (CM) to approve loans (the competence is established by specific internal regulations).

## **Recovery and Workout Committee**

The main purpose of the Recovery and Workout Committee is to analyze and make decisions for the implementation of the recovery solutions proposed by the Credit Recovery-Workout Department. The recovery solutions are aimed mainly at the redressal of the selected customers in difficulty, who can no longer sustain the debt service from their current activity or at the identification of adequate solutions ensuring a better recovery of the amounts due to the Bank.

## **Committee for Monitoring Debt Enforcement and Realization of Assets**

The Committee for Monitoring Debt Enforcement and Realization of Assets is appointed by the Leaders' Committee and its main responsibility is to supervise the management of real-estate assets which are under enforcement or arise from the execution of collaterals backing the loans granted to retail or company clients.

## **Special Committee for Approval of Legal Enforcement/ Litigation Status**

The Special Committee for Approval of Legal Enforcement / Litigation Status (CAES) has as main objective the analysis and decision-making on triggering forced execution procedures for customers proposed by debit collection officers within the Debt Collection Division. Individuals and legal entities are targeted, having arrears that can no longer be recovered consensual.

## **Financial Institutions Credit Committee**

The purpose of the Financial Institutions Credit Committee is to supervise the activities involving the credit exposure of Banca Transilvania in relation to Romanian or foreign financial institutions.

CCIF approves all the derogations from the applicable internal rules and procedures regarding the cooperation between Banca Transilvania and other financial institutions in Romania or abroad.



## Branch Credit and Risk Committee

The purpose of the Branch Credit and Risk Committees is to analyze and approve loans, respectively to restructure loans (the generic term is loan approval) based on the granted competences.

The componence of the Branch Credit and Risk Committee is designed to meet the requirements relating to the size and structure of staff within Banca Transilvania's branches.

The following types of credit and risk committees at branch level:

a.Credit and Risk Committee approving the loans granted to Corporate clients at the branch competence level;

b.Credit and Risk Committee approving the loans granted to Corporate clients at the headquarters competence level;

c.Credit and Risk Committee approving the loans granted to SME and Micro clients at the branch competence level (companies, PFA, micro-companies, family companies, other SMEs and Micro clients);

d.Credit and Risk Committee approving the loans granted to SME and Micro clients at the headquarter competence level (companies, PFA, individuals businesses, family businesses, other SMEs and Micro clients);

e.Credit and Risk Committee approving the loans granted to retail clients.

## Data and Business Intelligence Steering Committee

The Data and Business Intelligence Steering Committee reflects the commitment of the Bank's management to the data governance and strategic monitoring of the implementation program named Data Warehouse (DW) and Business Intelligence (BI).

The Committee establishes, supports and monitors the capabilities regarding the data management within the Bank and represents the point where problems or decisions that impact one or more areas or functions are escalated.



## The Group Policy Regarding Diversity

This policy aims to establish how to promote diversity within the Group's governing bodies (the Board of Directors and the Executive Committee).

The Financial Group Banca Transilvania recognizes and embraces the benefits of a diversified management body in order to enhance the quality of its performance.

The principles described herein are applicable to all entities within the BT Financial Group.

The administration of Banca Transilvania is entrusted by the General Shareholders' Meeting to a Board of Directors elected for four years, consisting of 7 directors elected by the shareholders at the GSM, either on the expiry of the mandate or specifically, in the event of one or more vacancies. The eligibility criteria in the Board of Directors are those stipulated in the specific legislation, as well as those stipulated in the Articles of Incorporation of Banca Transilvania S.A.

The Board of Directors shall designate the members of the Board of Directors, taking into account the recommendations of the Remuneration and Nomination Committee. At the level of Transilvania S.A., the management body is represented by the members of the Board of Directors and the Executive Committee.

In order to achieve sustainable and balanced development, Banca Transilvania perceives the increased leadership diversity as an essential element in supporting the achievement of its strategic objectives. In designing the structure of the management body, taking into account the diversity considerations, we have included, but not limited to, gender, age, cultural and educational profile, ethnicity, professional experience, skills, knowledge and working experience. All appointments within the governing body are based on meritocracy, and candidates will be considered on the basis of objective criteria, taking into account the benefits brought by diversity of this body.

Banca Transilvania S.A. points out that, although the diversity and variety of experiences and views represented in the management body should always be taken into account, a candidate should not be selected or excluded, either exclusively or largely, on the grounds of race, color, sex, national origin or sexual orientation. In selecting a candidate, the Remuneration and Nomination Committee shall prioritize the skills, national and international experience or cultural profile that would complement the existing governing body, recognizing that the Bank's activities and operations are diverse and of a national nature with a global impact.

Reflecting on the global character of banking activities, the directors and administrators of Banca Transilvania are citizens of Romania, as well as citizens and residents in other member states. Most BT directors and managers come from domestic and international banking environments.

Banca Transilvania S.A. believes that while the governing body should not adhere to a fixed number of directors, a governing body of 6-14 members, generally, provides a large and diverse group to address the important issues faced by the credit institution, being at the same time small enough to encourage personal involvement and constructive discussion.

The current directors and managers of Banca Transilvania S.A. must have been in management positions in various organizations or within Banca Transilvania, demonstrating their ability to exercise top management responsibilities and to steer the Bank. They have been executive members of prestigious international institutions, where they have developed their skills and experience in business strategy and development, innovation, operations, brand management, finance, compliance, decision-making and risk management. These skills, as well as the accumulated experience, enable them to provide a sound judgment of the problems faced by an international company in today's environment, by ensuring that these areas are supervised in the Bank and thus assessing BT's performance.

All members of the management body also have significant experience in corporate governance and complex business supervision through their status of executive managers, directors, administrators or other relevant functions within other large institutions.

Some Bank directors have gained experience in areas relevant to financial and banking institutions such as audit, risk management and stock markets. All of these skills and experiences are relevant to current strategies as well as to encourage Bank development, enabling managers and directors to provide diverse perspectives, valuable advice and critical points about new business opportunities, product launches, new markets, solutions for the problems faced by the institution, as well as those faced by the banking system at both local and national level.

### **Measurable objectives concerning the maintenance of the standards of diversity in the management body of Banca Transilvania**

The selection of candidates will be based on a range of diversity perspectives, including, but not limited to, gender, age, cultural and educational profile, ethnicity, professional experience, skills, knowledge and seniority. The final decision will be based on the merit and contribution that the selected candidates will bring to the governing body. The composition of the governing body (including gender, ethnicity, age, seniority) will be communicated periodically through Banca Transilvania's website.

The Board of Directors and the Executive Committee of Banca Transilvania perceive diversity as a factor in choosing members of the management body, acknowledging that the diversity promoted in its composition provides significant benefits to the Bank. The Remuneration and Nomination Committee uses a number of criteria in selecting candidates for the position of administrator, director or manager, including background diversity. Banca Transilvania S.A. considers that a possible eligible member of the management body should be able to work in a collegiate way with people from different educational, cultural and business backgrounds and must have skills that complement the attributes of existing members.

Banca Transilvania S.A. also encourages the presence of female members within the governing body in order to ensure the balance and high performance of society. However, Banca Transilvania S.A. believes that the appointment of a member within the governing body cannot be done only on the basis of gender, as such practices lead to the discrediting of its competence and independence.

Therefore, we believe that the efficient and sustainable development of the Bank can be achieved by providing a framework for personal growth and development of female employees (under the same conditions as men).

In this respect, we mention that during 2017, the number of female employees attending trainings for professional development was 68.44% of the total number of employees. We also mention that, at the level of middle management employment, 47.06% of those appointed in these positions were female. At the level of the Board of Directors, the vacancy was occupied by a female person who has the necessary experience to fill this position and who was validated by the Remuneration and Nomination Committee, thus fulfilling Banca Transilvania's target of increasing the representation of female gender within the governing body of the Bank.

Banca Transilvania S.A. already ensures a space of sustainable growth of its employees through professional courses that are offered without discrimination of any kind based on: the needs of its employees, the types of work performed and the functions exercised.

### **Monitoring and Reporting**

The Remuneration and Nomination Committee will regularly monitor the European requirements related to the composition of the management body from a diversity perspective.

In order to maintain and develop a balanced, functional and efficient management body, the Remuneration and Nominalization Committee (when appointing a candidate) may, from time to time, consider other attributes, experiences or competences it considers relevant at the time of the decision.

Thus, the Remuneration and Nomination Committee may consider diversity in the evaluation of candidates for membership in the governing body. Banca Transilvania S.A. considers that diversity in terms of cultural profile, experience, abilities, race, gender and national origin is an important element in the composition of the governing body. The Remuneration and Nomination Committee discusses diversity considerations with regard to each candidate, as well as, periodically, with regard to the composition of the management body as a whole.

The Remuneration and Nomination Committee outlines a pattern of proper abilities and characteristics required by members of the governing body, in light of its current composition. This assessment includes expertise (including international and financial /banking experience), independence, integrity, diversity and age, as well as technical abilities linked to banking, production, finance, marketing, technology and public politics. The main eligibility criteria considered are those arising from legal requirements, with the Committee ensuring that part of the management body remains independent

## Human Rights Principles

These principles lay down guidelines on the observance of human rights in the activities carried-out by Banca Transilvania, as well as by the companies within the Financial Group Banca Transilvania

The Bank supports, through social responsibility practices, the Romanian entrepreneurial spirit, responsible business, sustainable growth, quality, solidarity, responsibility, involvement and building positive relationships with stakeholders, other than banking. In implementing social responsibility policies, Banca Transilvania makes the best of its efforts to ensure a continued respect for fundamental human rights by encouraging and developing good practices in this area.

Banca Transilvania is a credit institution registered in Romania, operating in Romania and Italy. Subsidiaries of Banca Transilvania operate in Romania, as well as in the Republic of Moldova. In this context, Banca Transilvania and its subsidiaries reaffirm their commitment to compliance with European and national requirements on the protection of human rights, including but not limited to the rights set forth in the European Convention on Human Rights.

In this respect, Banca Transilvania and the companies within the BT Financial Group meet: In connection with **the employees of the Financial Group Banca Transilvania**, Banca Transilvania and its subsidiaries respect all the requirements for the protection of human rights, discourage any internal practice that might affect and / or damage the fundamental rights of its employees. Also, Banca Transilvania encourages its employees to develop their knowledge on the human rights, so as to ensure compliance with these requirements in their relationships with customers and beyond. Any violation of fundamental human rights by employees of the Financial Group Banca Transilvania is sanctioned in accordance with the legal provisions and internal rules.

In relation to **the community**, Banca Transilvania and its subsidiaries make every effort to ensure a high standard of respect for human rights. Moreover, through the activities of its foundations (Clujul are Suflet Foundation, BT Caritatea Foundation, etc.), Banca Transilvania supports the community in reaching the values supported by BT, providing the community with support and with a better communication and understanding at the social level.

In relation to **the companies with which they enter into business relations**, in the process of selecting third parties, the maximum attention is paid to initiating collaborations only with those entities that assume compliance with the human rights principles mentioned above, their activities being adequately monitored, in compliance with the applicable legal provisions.

## Practices for the Prevention of Corruption and Bribery

Companies within the Financial Group Banca Transilvania **do not tolerate any form of bribery and / or corruption**. No employee / member of the governing body of any company within the Financial Group Banca Transilvania will accept or grant any inappropriate advantage of any kind (incentives), regardless of whether the person providing or requesting such an advantage works in the public sector or private sector. It is also forbidden to offer or receive any form of bribe, or to practice traffic of influence, either directly or through intermediaries.

Therefore, any of the following **activities** are **strictly forbidden**:

- Receiving money or other benefits from clients or third parties to perform their duties or to intervene to an employee / manager to do or not to do anything in their job duties;
- Payment or offering a benefit that violates domestic laws or regulations;
- Payment or offering a benefit to „getting” a business.

Employees / members of the governing bodies of any of the companies with the Financial Group Banca Transilvania **will not make any kind of facilitation payments; Facilitated payments are „payments** performed to accelerate things” or „additional fees”, usually small amounts of money, unofficial, handed over to civil servants or government officials in order to obtain, urgent or postpone a routine action to which someone has access under a legal right (e.g. issuing a permit, a license, an agreement or an immigration visa, scheduling an inspection associated with the execution of the contract, the provision of services or the release of products withheld in customs).

Companies within the Financial Group Banca Transilvania have designed a fair and formal framework for selecting suppliers, collaborators, brokers, consultants, intermediaries and all other third parties acting on behalf of group companies or are supporting group companies in the conduct of their business.

In relation to the companies with which they enter into business relations, in the process of selecting third parties, the maximum attention is paid to initiating collaborations only with those entities that assume compliance with the human rights principles mentioned above, their activities being adequately monitored, in compliance with the applicable legal provisions.

**Note: The Bank applies the above requirements in accordance with legal provisions and in accordance with applicable internal rules and regulations. These principles are complemented by the aforementioned normative acts and documents.**

## Protection Against Money Laundering

Banca Transilvania monitors transactions through AML Mantas application, offered by Oracle. Appropriate scenarios providing immediate protection against money laundering are implemented within the application, through an appropriate monitoring of:

- 1) high risk entities;
- 2) fast transfers of funds;
- 3) high value transactions;
- 4) networks of accounts, entities and customers;
- 5) structuring/avoiding the reporting threshold.

The way in which money laundering prevention and control is carried out is also pursued through an internal control process of the client portfolio based on predefined criteria. Taking into account the ones mentioned in the present report, the activity carried out by Banca Transilvania in the financial year 2017 is subject to a discussion and the following situations are proposed to the General Shareholders' Meeting for approval:

- Individual and consolidated financial statements:

1. Individual and consolidated profit and loss statement;
2. Individual and consolidated statement of the other elements of comprehensive result;
3. Individual and consolidated statement of financial position;
4. Individual and consolidated statement of changes in equity;
5. Individual and consolidated cash flow statement,

prepared in accordance with the NBR Order no. 27/2010 for the approval of the Accounting Regulations in compliance with the International Financial Reporting Standards adopted by the European Union, with subsequent amendments, The Accounting Law no. 82/1991, republished and O.U.G. 99/2006, together with the Report of the Board of Directors and the Independent Auditor's Report;

- Allocation of profit for the financial year 2017;
- Proposal to increase the share capital;
- Proposals for the Revenues and Expenditures Budget and the Development Plan for 2018.

This annual report was prepared in compliance with the provisions of Order no. 27/2010 for the approval of the Accounting Regulations in compliance with the International Financial Reporting Standards adopted by the European Union with subsequent amendments.

**Board of Directors**

**President,  
Horia Ciorcilă**

