



**BANCA TRANSILVANIA®**

SWIFT: BTRLR022

Capitalul social: 3.026.037.641 lei

C.U.I. RO 50 22 670

R.B. - P.J.R. - 12 - 019 - 18.02.1999

Nr. Inreg. Registrul Comertului: J12 / 4155 / 1993

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

**- 2015 -**

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## MACROECONOMIC CONSIDERATIONS

The global economy lost steam in 2015, due to the intensity of the structural challenges in the emerging and developing economies. To this evolution also contributed the adjustments on the global financial markets, determined by the inflexion of the monetary policy in US. According to the International Monetary Fund (IMF) the global GDP increased by 3.1% YoY in 2015 (the lowest pace since 2009), down from 3.4% YoY in 2014, due to the deceleration of the emerging and developing countries (from 4.6% YoY in 2014 to 4% YoY in 2015). The developed economies slightly accelerated, from 1.8% YoY in 2014 to 1.9% YoY in 2015.

The US economy consolidated in 2015 (2.4% YoY). The private consumption acceleration and the labor markets' performance determined FED to launch a new monetary cycle in December 2015, increasing the reference interest rate from (0.0%-0.25%) to (0.25% - 0.50%).

In the Euro Area the GDP climbed by 1.6% YoY in 2015, speeding up from 0.9% YoY in 2014, due to the dynamics of the domestic demand, supported by the expansionary monetary policy implemented by the European Central Bank (ECB).

As regards the emerging and developing economies the deceleration in China (to 6.9% YoY, the lowest pace since the 1990s) and the incidence of recessions in Brazil and Russia (the GDP declined by 3.8% YoY and by 3.7% YoY, respectively) were the main topics in 2015.

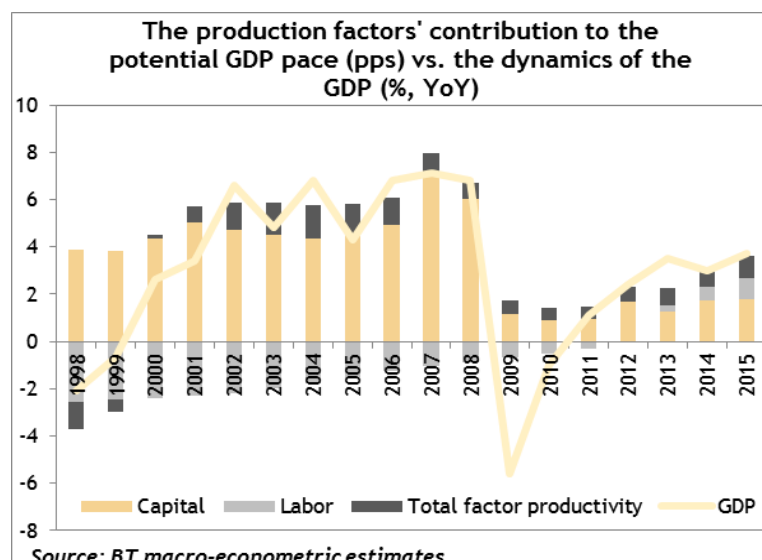
In the financial side of the economy there can be noticed the low level of the inflationary pressures (influenced by the decline of the commodities' prices) and the increasing divergence in terms of monetary policies across the world. The event of 2015 was the decision of the IMF to include the YUAN in the SDRs basket starting 1 October 2016.

During 2015 the financial markets reacted to the divergent monetary policies of the main central banks around the world and to the structural challenges in the emerging economies, being noticed an increasing volatility, due to the rotation of the international financial flows.

The European shares increased (the EuroStoxx 50 by 3.8%), while the US dollar appreciated against the EURO (towards the highest level since 2003).

### **The Romanian macroeconomic and banking sector climate in 2015:**

The Romanian economy increased by 3.7% YoY in 2015, the best performance since 2008, according to the preliminary data published by the National Institute of Statistics (NIS). 2015 represented a benchmark year for the domestic economy, with a balanced distribution of the contribution of the production factors to the dynamics of the potential GDP, in a context of macro-financial consolidation (as expressed by the low levels of the current account and public finance deficits and by the balanced behaviour of the private sector in terms of investments and consumption). At the same time, the economic convergence process towards the Euro Area consolidated in 2015, either in nominal or in real terms.



There can be noticed the performance of the domestic demand, supported by the expansionary policy-mix. The fixed investments rose for the second year in a row, with an accelerating dynamics (7.5% YoY) generating positive spill-over effects, an evolution confirming the entry of the Romanian economy in the post-crisis cycle.

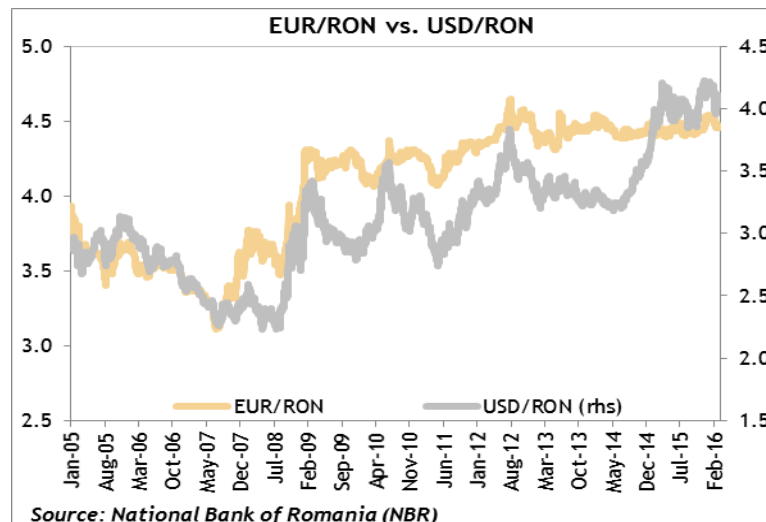
At the same time, in 2015 the private consumption (the main component of the GDP) accelerated to over 6% YoY, according to the NIS data (the best pace since 2008), evolution supported by the increase of the real disposable income of the population (given the higher salaries, the VAT cut for food and food services, from 24% to 9% starting 1 June 2015 and the decline of the international oil prices) and by the re-launch of the credit markets.

The public consumption had a positive contribution to the YoY GDP dynamics in 2015 (around 0.2 percentage points), being noticed the acceleration of the investments in December (up by over 50% YoY, to RON 7.7bn, according to the data published by the Ministry of Finance). Last, but not least, the exports continued to climb in 2015 (by 4.7% YoY), given the acceleration of the Euro Area and the depreciation of the RON real effective exchange rate. The imports rose with a higher pace (8.4% YoY), given the dynamics of the domestic demand.

As regards the financial side of the economy there can be noticed the negative YoY dynamics of the consumer prices starting June, an evolution determined by the VAT cut for food and food services. The mid-run outlook for the consumer prices and the consolidation of the macro-financial stability determined the National Bank of Romania (NBR) to continue the interest rate cut cycle in 2015, towards the record low level of 1.75%.

In 2015 the international macro-financial climate and the domestic factors (the speed-up of the economy, the policy-mix news - the adoption of the New Fiscal Act and the political news) influenced the evolution of the financial markets in Romania. There can be noticed the consolidation of the convergence towards the Euro Area in terms of the interest rates, both on the money markets and on the sovereign bonds markets.

On the FX markets the EUR/RON fluctuated in the interval (4.3965 - 4.5381) in 2015, while the yearly average consolidated at 4.4446.

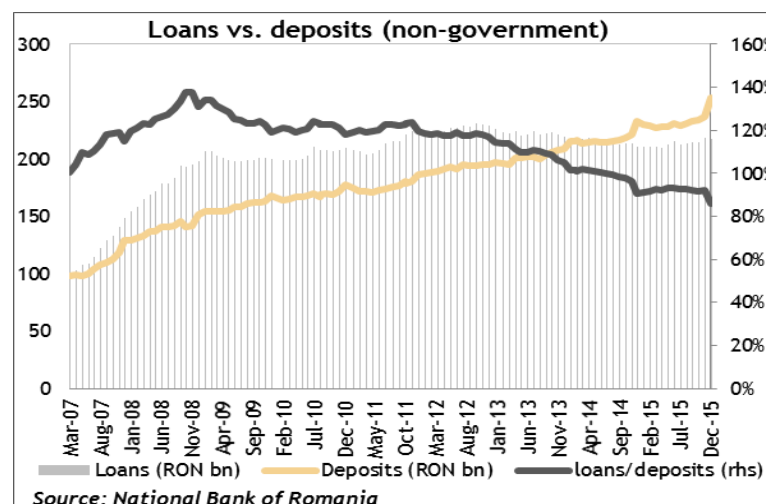


Last, but not least, on the Stock Exchange, the BET Index ended 2015 with a decline of 1.1%, an evolution diverging from that of the European Dow Jones Stoxx 600 (up by 6.8%).

The credit markets re-launched in 2015, due to the RON component dynamics, supported by: the decline of the financing costs and their convergence towards the Euro Area; the improvement of the economic confidence; the increasing competition in the banking sector.

The YoY dynamics of the non-government loans improved to 3% in December 2015 (a level of RON 217.5bn), the highest pace since the autumn of 2012: the RON component rose by 19.7% YoY (to RON 110.3bn), while the FX component decreased by 9.9% YoY (to RON 107.2bn). In other words, in 2015 continued the re-balancing process on the credit markets: at the end of the year the weight of the RON component in the total non-government loans was 50.7% (close to the highest level since 2007). However, in 2015 the average volume of the non-government loans declined by 0.9% YoY, as the increase of the RON component by 12.8% YoY was counterbalanced by the decline of the FX component, by 10.9% YoY.

The non-government deposits continued the increase in 2015, to new high levels (RON 235.5bn in December), an evolution also influenced by the Government spending policy. Overall, the average volume of the non-government deposits increased by 7% YoY in 2015. Consequently, in 2015 the loans/deposits ratio hit new record low levels (85.8% in December), being confirmed the excess liquidity and the diminishing dependence on foreign financing.



As regards the banking sector, 2015 was the first year of the post-crisis cycle. The dynamics of this sector were strongly influenced by several factors last year: the acceleration of the Romanian economy through the fixed investments and private consumption, with positive spill-over effects for the real disposable income of the population and for the financial flows of the companies; the decline of the financing costs to record low levels; the sale of non-performing loans; the diminishing dependence on foreign financing, due to the increasing domestic savings ratio; the continuity of the consolidation process (the number of the players declined to 36 at the end of the year).

According to NBR statistics the total assets of the banking sector rose by 3.6% YoY to RON 377.3bn (record high level) in 4Q2015. Overall, in 2015 the average volume of the assets in the banking sector climbed by 2.9% YoY to RON 365.3bn.

The net aggregate result of the banking sector hit a record high level in 2015 (RON 4.9bn): ROE (return on equity) and ROA (return on assets) at 12.82% and 1.35%.

Last, but not least, the non-performing loans ratio continued to decline in 2015 (11.65% in November, the lowest level of the past five years), while the capital adequacy ratio consolidated at a level almost twice the minimum benchmark (17.51% vs. 8%).

## **BANCA TRANSILVANIA IN 2015: OBJECTIVES AND ACHIEVEMENTS**

In the General Shareholder's Meeting dated 8th October 2015, the shareholders of Banca Transilvania (BT) have approved the merger with Volksbank Romania (VBRO). The merger process started in April 2015 and ended on 31 December 2015, all intermediary steps being completed in due time.

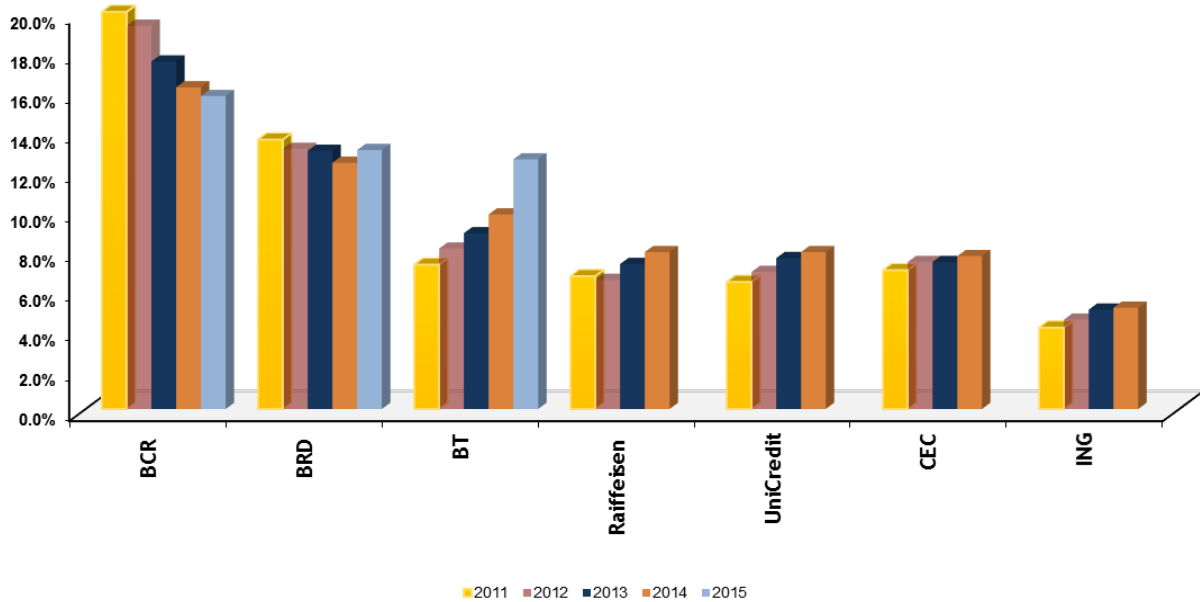
The novation of VBRO CHF loans was successfully implemented: 83% of eligible Volksbank clients with CHF denominated loans have accepted the conversion offer and became BT clients.

The Bank implemented a program to grant exposure reductions for over 15,000 VBRO individual clients, the total value of the program being around RON 290 million.

The strategical development of the branch network at country level has been defined, together with the alignment functions in treasury, risk, conformity, anti-fraud and internal audit, as well as implementing actions to reduce potential operational risks.

The market share of BT increased to 12.57% at the end of 2015 based on total assets and the Bank consolidated the 3rd place in the top of the romanian banking system.

**Top Banks - market share based on total assets  
2011 - 2015**



**The most important awards obtained by Banca Transilvania in 2015 were:**

- Oskar Capital for BT, “Best financial institution in Romania”.
- “Bank of the Year” during the Leader’s Financial Awards, organized by Business Arena;
- Banca Transilvania, one of the most admired and appreciated brands, according to Superbrands 2015;
- BT was designated „Bank of the Year in eCommerce”, award received during the “GPeC Romanian eCommerce Awards Gala”;
- BT was designated „Bank of the Year” for its outstanding results in cards activity during 2014 in the NOCASH Gala;
- BT, in top 10 most valuable romanian companies according to Ziarul Financiar rankings;
- KidCONT from BT targeting children, designated by Forbes the „Banking product of the year”;

**QUALITATIVE OBJECTIVES established and achieved by BT in 2015:**

- Implementing the new European Funds financing schema for the period 2014-2020;
- Development of the factoring business with focus of strategic economic sectors;
- Specific developments finished for the new CRM application Oracle-Siebel. Going live with the new Loan Origination application in all BT branches;
- The development of a more controlled and secure environment in order for the clients to be able to access the Bank’s mobile applications on tablets and smartphones;
- Development of the BT24 application and preparation for bulk processing of salaries;

- Maintaining and consolidating the 3rd position in top romanian banks in terms of assets;
- Increase in the quality of the loan portfolio;
- Orientation towards new target customers in the area of creative industries and liberal activities.

#### QUANTITATIVE OBJECTIVES assumed and achieved by BT in 2015:

INDICATOR	BUDGET	ACTUALS
Total Assets	RON 44 billion, 23% higher than 2014	RON 47.34 billion, 33% higher than 2014
Gross profit	RON 2,226 million, 341% higher than 2014	RON 2,265 million, 348% higher than 2014 (including VBR acquisition bargaining gain of RON 1,651 million)
Deposits from clients	RON 35.5 billion, 18% higher than 2014	RON 38.4 billion, 28% higher than 2014
Loans and advances to customers	RON 27.4 billion, 38% higher than 2014	RON 28 billion, 40% higher than 2014
Shareholder's Equity	RON 5.9 billion, 59% higher than 2014	RON 6,118 million, higher by 65% than 2014
Cards issued in 2015	2.5 million cards	2.54 million cards
Loans / deposits ratio	0.70	0.72
BT24 Internet Banking and Mobile Banking transactions	Development of the new BT24 application and preparation for the bulk salaries processing	Realised
Investment budget	EUR 24.92 million (VAT included)	EUR 23.53 million (VAT included)

#### BUSINESS LINES PERFORMANCES IN 2015

##### CLIENT BASE EVOLUTION:

The number of active clients per business lines increased in 2015 by 14% as compared to the previous year, being structured as follows:

BT active clients	31.12.2015	31.12.2014	2015/2014
Corporate*	11,355	9,840	15%
IMM*	190,899	165,993	15%
Retail	1,949,216	1,718,191	13%
<b>TOTAL</b>	<b>2,151,470</b>	<b>1,894,024</b>	<b>14%</b>



*\* The classification of the legal persons into the category of Large Companies or SME's is regulated by internal rules setting the conditions for the classification of clients per business segments.*

In a year of recovery for lending and consumption, but also with new challenges in the market, BT Financial Group managed to increase organically by 10% in the lending activity and by 19% in deposits, above these adding also the positive impact from Volksbank acquisition. BT focused mainly on SME and Retail client base, developing also other complementary areas like agribusiness and medical equipment.

The cash and non-cash new loans disbursed in 2015 were in amount of RON 6.57 billion, corresponding to 27,800 new contracts.

## CORPORATE BANKING

The Corporate loan portfolio grew by 10.6% in 2015 reaching a total lending volume of RON 11,027 million. This increase occurred even if non-performing loans in amount of RON 435 million which were provisioned 100% have been moved in off-balance sheet accounts. New cash loans production was RON 4.18 billion while the non-cash facilities granted were in amount of RON 0.841 billion. The resources raised from corporate clients by the end of 2015 were 26% higher than those in 2014, reaching RON 9,873 million. On the 31<sup>th</sup> of December 2015, the Corporate business line had a portfolio of 11,355 active clients. The average ticket for the new corporate loans of RON 5 billion (cash and non-cash), was RON 400 thousand. The total number of new loans granted to corporate clients in 2015 was 10,221. Operational revenues increased by 4.8% in 2015 versus 2014.

## SMALL AND MEDIUM ENTERPRISES (SME'S):

On 31.12.2015, the number of active SME clients was 190,899 which is 15% higher than in 2014. The resources generated by the SME business line increased by 44.75% in 2015, reaching RON 5,235 million. The SME loan portfolio was RON 3,077 million at the end of 2015, which is 19.3% higher than the previous year (despite the non-performing loans recorded in off-balance and provisioned in proportion of 100% in amount of RON 60 million). More than 17,600 new loans were granted in 2015 totalling over RON 1.5 billion, with an average ticket of over RON 100 thousand. Operational revenues increased in 2015 by 5.12%.

## EVOLUTION OF BUSINESS SECTORS:

The *Healthcare Department* reached a balance of RON 1,192 million, which is 22.5% higher than in 2014 (RON 973 million), with new loans in amount of RON.

The *Agribusiness sector* granted new loans in amount of RON 902 million.

The *Transaction Banking Department* managed an 11% increase of total income from operations (excluding Trade Finance and FX revenues) in all business lines for companies in 2015.

## RETAIL BANKING

In 2015 the Retail area brought consistent growth for the Bank, being the year of Volksbank clients' integration in BT organisation. The increase in Retail loans stock was 82.6% higher than last year, reaching a total amount of RON 13,633 million, out of which 36% is due to Volksbank merger (despite the non-performing loans recorded in off-balance and provisioned in proportion of 100% in amount of RON 235 million). The resources from retail clients in 2015 amounted to RON 23,286 million, which is 25.2% higher than the level recorded in 2014 (RON 18,595 million), out of which 8% is due to Volksbank merger.

The Retail active clients, at 31 December 2015, were 1,949,216, higher by 13% than last year (1,718,191), out of which 4% increase is represented by Volksbank clients.

Banca Transilvania ended 2015 with a total of 2,547,184 cards issued and a market share of 18.50% in cards transactions. The cards portfolio increased by 8.5% during 2015. Star BT program increased the transactions with retailers based on credit cards by 30% in 2015.

Launching the BT Flying Blue program at the end of 2014 consolidated the Bank's position in the premium segment, a more positive image for BT Group and a portfolio of cards with activation rate above 80%.

In 2015 Banca Transilvania was designated for the 5th time in the last 7 years the „Bank of the Year” in the cards market, based on indicators like: number of cards issued, volume of transactions, new products, new agreements with retailers for acceptance of card payments, etc. The award was granted at the NoCash 2015 Awards, BT being also recognized as leader also in the following categories:

- Visa Electron BT was designated the best “Shopping card of the year”: the most used card for payments at retailers with over 22 million commercial transactions
- The highest number of debit cards issued: over 300.000 Visa Electron BT cards
- The highest number of credit cards issued: 70.000 Star Forte cards
- The highest number of Corporate cards issued: 46.000 business cards
- The highest number of business cards transactions turnover: 53.6 transactions/year/card and average annual turnover of 51,624 RON/card (the most active cards in the market)
- The highest number of transactional volumes in the banking system: 76 million transactions, which generated a volume of RON 28,800 million, higher by 15,4% fata de 2013
- The best results in e-commerce in Romania: over 4,6 million online payments

The Bank has a number of 1,015 ATM's, 25,352 POS's and collaborates with more than 500 retailers using e-commerce.

At the end of 2015 there were 660,000 BT24 Internet Banking clients, higher by 25% than in 2014. In the same time the number of clients using BT24 Mobile Banking increased by 65% at over 135,000. Following the merger with Volksbank the total number BT24 users increased by almost 16,000 clients.

In 2015 the Internet and Mobile Banking improved with new functions: online account opening, purchase of vignettes, manage BT Asset Management fund units and buying credits for mobile phone cards.

#### TREASURY:

Driven by the increased lending activity, there was an increase of 19% in FX volumes which reached RON 143 million last year.

The Bank's Treasury activities increased in 2015 mostly due to the higher volume of fixed-income holdings, the AFS portfolio increasing by 13.66% versus 2014.

#### OPERATIONAL / IT PERFORMANCES:

The objectives proposed and achieved in 2015 were:

- The integration of the Volksbank network by defining a strategy at national level;
- Production phase of module 2 of the new CRM Oracle-Siebel application dedicated to Corporate lending in the second semester of 2015;
- Centralization of the garnishment processing;
- Implementing the new solution for collection of past due amounts;
- Implementing the SEPA module in relation with Transfond both in RON and EUR for the Italy branch;

#### HUMAN RESOURCES:

On 31 December 2015, the total number of BT employees was 7,522 people (2014: 6,811 people).

The average number of BT employees in 2015 was 6,427 people (2014: 6,161 people).

Number of active employees as at 31 December 2015 was 6,854 people (2014: 6,236 persons), out of which 366 is the increase from Volksbank merger.

The average age of employees was 36.9 years (in 2014-35.25 years). Distribution by gender: 76% women and 24% men (in 2014 - 76% women and 24% men).

In 2015, the Human Resources activity was focused on main two directions:

1. Development and motivation of Banca Transilvania employees
2. Preparing for the merger with Volksbank

1. With regard to the development and motivation of BT employees there were organised over 16,000 hours “in-class” courses with over 5,800 participants. The e-learning platform was accessed over 11,000 times for the 17 courses internally developed. Also, we launched the program “Star BT” in which participated 81 employees involved and loyal to the Bank. The program was organized in two series: BT Entrepreneur Leader’s Academy delivered by Qualians under license of Harvard Business Publishing and Start BT Leadership organised together with Fun Training.

The participants completed 4 quarterly modules with the objective to develop behaviour and competences specific to BT managers. The studied modules included: manager vs leader, strategic thinking, efficient communication, leadership, team motivation, coaching, performance management, time management, goal setting and stress management, organising resources, performance measurement.

2. In preparation of the merger with Volksbank several specific activities for human resources management have been performed to identify the similarities and differences between the internal organizational culture of the two companies, their common values, and to ensure the onboarding in the future organization of the Volksbank employees with abilities similar to the BT employees and which will be part in the future developments of BT. At 31 December 2015 a number of 366 Volksbank employees joined BT, for the other not selected the Bank offered several alternatives.

### **BANK’S RATING AND FINANCING SOURCES**

Fitch Ratings improved the rating of Banca Transilvania, according to the BT annual rating report: one notch increase in the IDR rating for long term financing, from “BB-“ to “BB” with stabile perspective. In the same time, following the Volksbank acquisition, Fitch removed Banca Transilvania from RWE rating monitoring category. The rating agency improved also the BT viability ratings (VR) from “BB-” to “BB”.

According to the National Bank of Romania supervision report for 2015-2016 the Bank’s rating was improved to “global rating 2 - medium-low”.

In 2015 the first tranche of EUR 75 million was used from the total EUR 150 million contract signed with EIB in 2014.

With regard to the BERD-ROSEFF contract, in 2015 an amount of EUR 15 million was disbursed in tranche 2. Through the JEREMIE program the Bank increased the financing amount with EUR 8 million out of which EUR 5 million were already used.

### **BANCA TRANSILVANIA'S NETWORK AS AT DECEMBER 31, 2015:**

The Bank operates through its head office located in Cluj-Napoca, 60 branches, 455 agencies, 31 units, 9 healthcare units. At the end of the last year, 551 units were operational (apart from HO, Italy branch and CRB).

### **ECONOMIC AND FINANCIAL RESULTS IN 2015**

The year 2015 has been the best in BT history and confirms that organic development targets have been achieved, together with Volksbank integration.

#### **FINANCIAL POSITION**

Despite lower interest rates and NIM levels to economically unsustainable levels, Banca Transilvania obtained very good results in 2015. The separate and consolidated financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union (NBR's Order no. 27/2010 as subsequently amended and supplemented) are presented below:

BT ended the year 2015 with total assets amounting to RON 47,343 million, which is 33% higher than those at the end of 2014. The largest increase as compared to 2014 was recorded in loans and advances to customers (40%), followed by cash and cash equivalents (34%). The Bank exceeded its budgeted figures by 8%. The budgeted total assets for 2015 were RON 43,778 million.

Balance sheet structure at the end of 2015 is presented below:

RON million	BANK				GROUP		
	Achieved 2014	Budget 2015	Achieved 2015	Δ 2015/2014	Achieved 2014	Achieved 2015	Δ 2015/2014
	(1)	(2)	(3)	(4)=(3)/(1)-(1)	(5)	(6)	(7)=(6)/(5)-(1)
Loans and advances to customers	19,854	27,429	27,740	40%	20,166	28,012	39%
Impairment allowances	-2,337	-2,497	-2,632	13%	-2,503	-2,786	11%
Cash and cash equivalents	6,605	6,090	8,887	35%	6,621	8,907	35%
Investment securities	10,905	11,861	12,389	14%	10,916	12,417	14%
Fixed assets	435	623	495	14%	412	527	28%
- Tangible and intangible fixed assets	360	537	409	14%	412	527	28%
- Equity investments	75	86	85	13%	0	0	0%
Other assets	157	272	464	195%	184	502	173%
<b>Total Assets</b>	<b>35,619</b>	<b>43,778</b>	<b>47,343</b>	<b>33%</b>	<b>35,796</b>	<b>47,579</b>	<b>33%</b>
<b>Equity</b>	<b>3,702</b>	<b>5,870</b>	<b>6,118</b>	<b>65%</b>	<b>3,797</b>	<b>6,241</b>	<b>64%</b>
Subordinated liabilities	395	405	416	5%	395	416	5%
Deposits from customers	30,045	35,562	38,395	28%	29,995	38,302	28%
Deposits from banks	1,082	1,252	1,374	27%	1,186	1,518	28%
Other liabilities	395	689	1,040	163%	423	1,102	160%
<b>Total Liabilities and Equity</b>	<b>35,619</b>	<b>43,778</b>	<b>47,343</b>	<b>33%</b>	<b>35,796</b>	<b>47,579</b>	<b>33%</b>

The ratio between loans, in amount of RON 27,740 million, and deposits from customers of RON 38,395 million, is at 72.24%, ensuring a favourable position in the banking system which registered an average of 85.8%. In 2015 the loans-to-deposits ratio continued to decrease in the banking system reaching minimum levels in December 2015 (85.8%) which reflects the excess liquidity in the economy and the continuous structural transformations in the banking sector.

**The loan portfolio:** In 2015 Banca Transilvania granted 160,000 new loans in a total amount of RON 8,674 million with focus on both individuals and legal entities.

In 2015 the loan portfolio grew by 40% versus the end of 2014 despite the non-performing loans recorded in off-balance and provisioned in proportion of 100% in amount of RON 730 million. Banca Transilvania continued to diversify its portfolio with regard to both economic sector and the type of clients. Banca Transilvania granted to almost 34,000 individuals, clients of Volksbank, haircuts to loan exposures in amount of RON 1.5 billion through conversion of CHF denominated loans and reduction of the total amounts due to the Bank.

**The structure of the loan portfolio as at 31.12.2015 is:**

- by types of currencies: 71.5% in lei; 28.5% in FX;
- by types of business: 43.38% households, 13.17% trade; 13.46% industries; 6.84% construction; 4.54% agriculture; 3.70% services; 14.91% others;
- by maturity terms: 34,4% short term; 30,2% medium term; 35,4% long term

The non-performing loans PAR>90 days represent 9.75% of the total loan portfolio as at December 31, 2015 as compared to 10.87% at the end of 2014, continuing to be under the average of the banking system in Romania.

**Provisions balance:** Despite the fully provisioned loans taken in off-balance sheet, in 2015 BT recorded net impairment allowance assets, provisions for other risks and loan commitments in amount of RON 795.06 million. The coverage degree of non-performing loans with mortgage guarantees and related provisions represented 119%, which is a comfortable level in accordance with the Bank's risk appetite. The balance of loan loss provisions as of 31 December 2015 is at RON 2,632 million out of which 1,546 million represent individual provisions and 1,086 million are collective provisions. Provisions for other risks and charges include provisions for litigations and other risks registered through Volksbank merger in amount of RON 648 million.

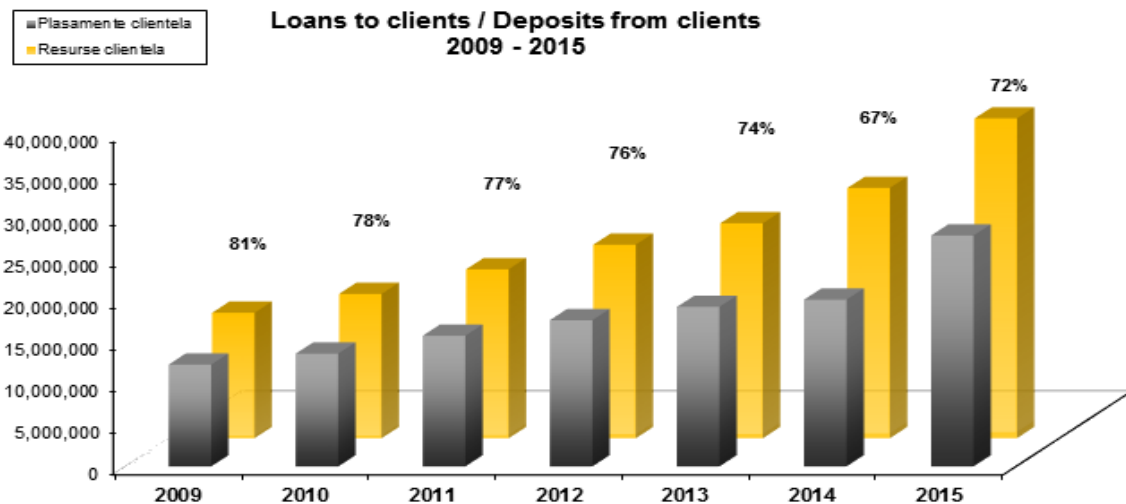
**Cash and cash equivalents.** At the end of 2015, the liquidity coverage ratio was 52.33%, significantly higher than the average in the system, the Bank being over liquid. Cash and cash equivalents were in amount of RON 8,887 million, which is 35% higher than in the previous year and over the minimum level considered to be acceptable by the Bank in terms of liquidity risk. Cash and cash equivalent includes mainly cash in hand, cash and balances at central banks and credit institutions, the main weight in this group (RON 4,156 million) is represented by the minimum required reserve with the NBR.

**Securities** increased by more than 14% versus last year, reaching RON 12,389 million, as of December 31, 2015. The main weight in this group (11,713 mil.) is held by T-bills.

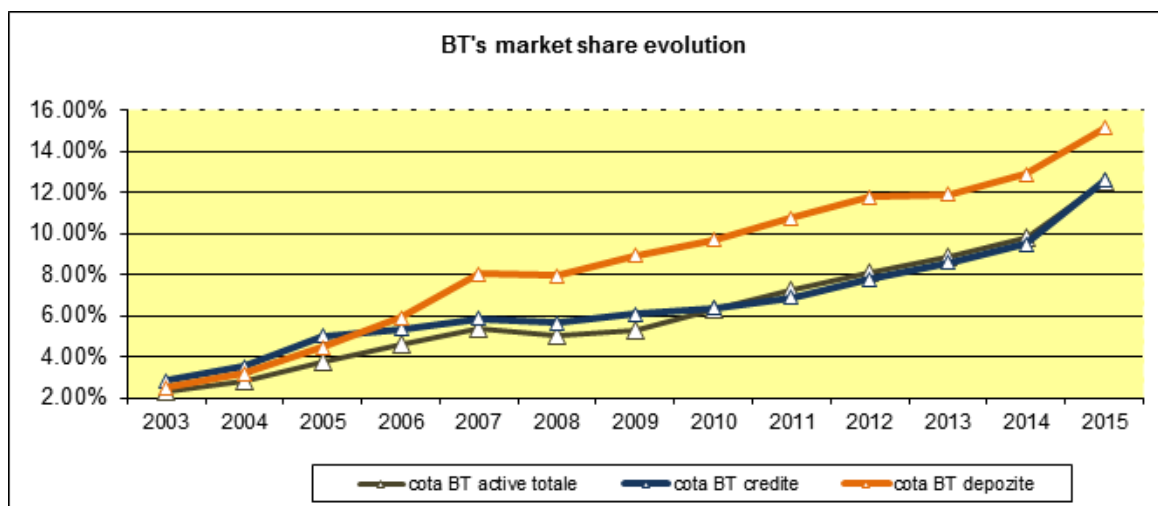
**The non-current assets** increased by 14% versus 2014 to reach RON 495 million, due to tangible and intangible assets which were made available for use in 2015. Tangible assets represented RON 337 million (land and buildings in amount of RON 219 million), intangible assets of RON 73 million and long term financial assets of RON 85 million.

## Deposits from clients

As of December 31, 2015, 61% of the deposits were in RON and 39% in other currencies. Deposits increased in 2015 by 28% versus the previous year, the pace being above the 7% general growth recorded at the level of the banking system.



With regard to total assets, loans and deposits, the Bank's position in the banking system is the following:



As at 31.12.2015, the **shareholders' equity** was in amount of RON 6,117,760,457 of which:

- share capital recorded with the Trade Registry representing 3,026,003,679 shares with a par value of 1 RON/share to which RON 86,501,040 million is added as capital adjustment to inflation and surplus from the revaluation of fixed assets, which was not made until the transition to the International Financial Reporting Standards as endorsed by the European Union.
- premiums for conversion of bonds into shares: RON 28,316,504;



- legal reserves: RON 294,640,571;
- reserves for bank risks: RON 77,892,714;
- reserves from revaluation of securities available for sale: RON 187,927,993;
- reserves from revaluation of tangible and intangible assets: RON 27,377,080;
- treasury shares: RON -;
- retained earnings: RON 84,688,899;
- profit: RON 2,417,668,444;
- profit distribution: RON 113,256,467.

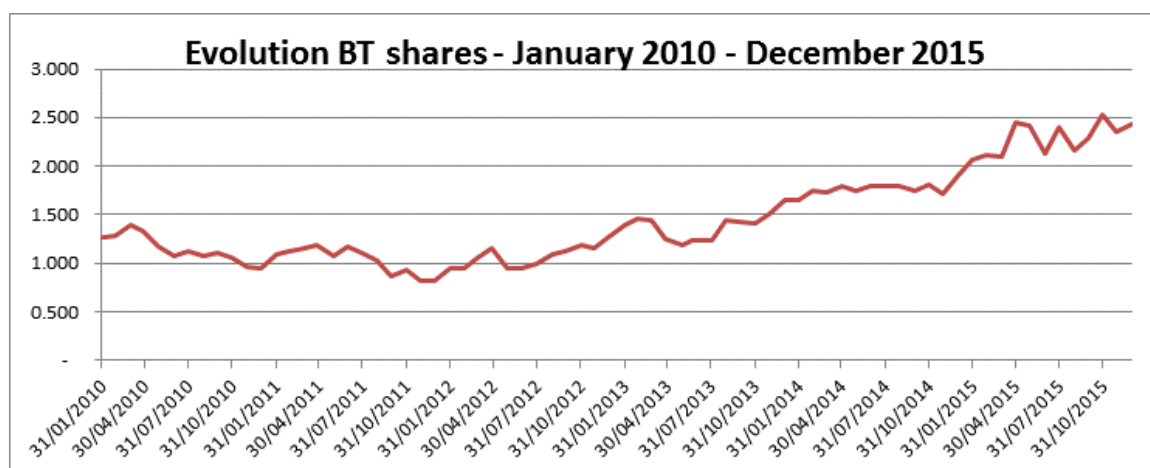
The Board of Directors of Banca Transilvania decided to propose to the General Shareholders' Meeting the distribution of 2015 profits in form of a cash dividend in total amount of RON 1,200 million and free shares by increasing the share capital with the amount of RON 620 million. This decision is based on the very positive results of Banca Transilvania during 2015 and the equity surplus at the end of 2015.

The share capital recorded with the Trade Registry at the beginning of 2015 was RON 2,608,623,861 and was increased under the decision of the General Extraordinary Shareholders' Meeting with RON 417,379,818 from reserves of 2014 net profit. At the end of the year, the share capital recorded with the Trade Registry reached the value of RON 3,026,003,679.

Share capital structure as of 31.12.2015:

	31 Dec 2014	31 Dec 2015
European Bank for Reconstruction and Development (EBRD)	14,33%	11,46%
Romanian individuals	17,70%	16,77%
Romanian companies	31,30%	32,99%
Foreign individuals	2,00%	1,89%
Foreign companies	34,67%	36,89%
Total	100,00%	100,00%

The Bank's market capitalization as of 31 December 2015 was RON 7.35 billion respectively EUR 1.63 billion (31 December 2014: RON 5.61 billion respectively EUR 1.25 billion).



### PROFIT AND LOSS ACCOUNT:

The elements of the profit and loss account as at 31 December 2015, compared to 2014 and the budget projections are summarized below:

PROFIT AND LOSS ACCOUNT (RON million)	BANK				GROUP		
	Achieved 2014 (1)	Budget 2015 (2)	Achieved 2015 (3)	$\Delta$ 2015/2014 % (4)=(3)/(1)-(1)	Achieved 2014 (5)	Achieved 2015 (6)	$\Delta$ 2015/2014 % (7)=(6)/(5)-(1)
NET INCOME	1,977.89	<b>2,183.6</b>	2,755.49	39%	2,056.61	2,854.26	39%
out of which							
- net interest income	1,137.60	<b>1,343.2</b>	1,909.89	68%	1,175.68	1,952.29	66%
- net commission income	408.38	<b>465.8</b>	457.52	12%	425.55	486.99	14%
OPERATING EXPENSES	827.20	<b>1,298.1</b>	1,345.90	63%	877.95	1,406.52	60%
OPERATING RESULT	1,150.69	<b>885.5</b>	1,409.59	22%	1,178.66	1,447.74	23%
Provisions, net	645.64	<b>221.7</b>	795.06	23%	663.02	797.62	20%
GROSS PROFIT	505.05	<b>663.80</b>	614.53	22%	515.64	650.12	26%
Bargaining gain from Volksbank acquisition	0	<b>1,562.7</b>	1,650.60	-	0	1,650.60	-
GROSS PROFIT (with BG)	505.05	<b>2,226.5</b>	2,265.13	348%	515.64	2,300.72	346%

**Gross Profit** of Banca Transilvania at the end of 2015 is RON 2,265 million versus RON 505 million in 2014. The Net Profit is RON 2,418 million in 2015 versus RON 434 million in 2014. At group level the Gross Profit in 2015 is RON 2,301 million. Volksbank Romania contributed with RON 395 million to the group results during the nine months from acquisition date to 31 December 2015 (effective date of the merger). According to IAS 12 „Income taxes” guidelines regarding the recognition of deferred tax assets following a business combination, correlated with the romanian fiscal legislation, the Bank calculated a deferred tax asset generated by the fiscal losses of Volksbank Romania and recognized it starting with the effective date of the merger.

Operating Income is RON 2,755.49 million in 2015, higher by 39% than the previous year. Versus the budgeted amount there was an increase of 26%.

**The most important income categories are:**

- *Net interest income*: was RON 1,909.89 million in 2015, 68% higher than in the previous year. Gross interest income in amount of RON 2,370 million increased with 35% compared with 2014, and the interest expense decreased compared with 2014 with 25%, due to lower margins. The interest income includes also an amount of RON 531 million representing the positive impact from the modification in recoverability estimates of Volksbank loan portfolio between acquisition date and reporting date. A significant weight of 10% in interest income belongs to securities income in amount of 230 million lei. At Group level the increase in net interest income was 66% in 2015 versus the previous year.

- *Fee and commission income*: RON 457.52 million, which is 2% under the budgeted level. The volume of transactions in BT accounts increased by 9% versus 2014 and the increase in net transactions commission income was 12% in 2015.

- *Net trading income*: the net income from FX transactions increased in 2015 by 19% versus 2014 to an amount of RON 179.4 million. The net income from sale of available-for-sale securities was RON 222.09 million in 2015.

**Operational expenses without provisions** were RON 1,345.09 million in 2015 versus RON 827 million in 2014. The increase was mainly due to the Volksbank merger related costs and to the organic increase in Bank's activity. At Group level, the Operating Expenses was mostly influenced by Bank's expenses. The costs related to Volksbank merger included third-party consultancy costs, legal expenses, valuation expenses and other general administrative expenses.

- *Staff expenses*: at Bank level and at Group level the staff expenses increased to an amount of RON 650 million in 2015 versus RON 450 million in 2014 (at Group level the increase is from RON 474 million in 2014 to RON 677 million in 2015). The increase as compared to last year is due the Volksbank integration costs as well as to the organic growth of the Bank's activity.

The Bank has a Stock Option Plan in which employees with outstanding performance can exercise the option to buy a number of shares issued by the Bank. The terms of the plan are as follows: the Bank should obtain specific performance and prudential indicators in 2015 and achieved several targets for finalising the implementation of the new accounting and reporting regulations. In this program the Bank awarded to its employees stock options for the purchase of 19,956,000 shares

with a vesting period of up to 3.3 years. This generated costs in amount of RON 80.74 million last year.

- *Operating expenses*: RON 617.96 million lei in 2015, representing an increase of 93% versus the previous year, the main increase being due to Volksbank merger.

- *Expenses with depreciation* increased in 2015 by 35% to an amount of RON 77.6 million at Bank level and by 39% to an amount of RON 91.7 million at Group level mainly due to closing of some of the Volksbank branches.

**The Operating Result** is 22.5% higher than last year. In 2015 the Operating Profit was RON 1,410 million due to an efficient activity management and to the organic growth of the Bank. The cost-to-income ratio was 30.5% in 2015 (47.8% without the Bargaining Gain from Volksbank acquisition) versus 41.4% in 2014, during 2015 several actions for cost optimisation being implemented.

**The net provision expense**: RON 795.06 million, 23% higher than in 2014.

**Gross Profit** in 2015 was RON 2,265 million versus RON 505 million in 2014, the increase being influenced by the bargaining gain from Volksbank acquisition in amount of RON 1,651 million.

#### **BANKING PRUDENTIAL RATIOS (CAMPL):**

Banca Transilvania continues to have liquidity excess compared to the average of the system.

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

No.	Ratio	Level	Rating	31.12.15	31.12.14	31.12.13
1	Liquidity ratio	Min =1		2.26-21.08	2.77-22.57	2.12-23.59
2	Solvency ratio *	> 8%	1	22.26%	17.32%	13.78%
3	ROA (net profit / total net assets)**	0.6%-2.9%	4	5.63%	1.36%	1.25%
4	ROE (net profit / shareholder's equity)**	> 11% 8 -10.9%	5	45.21%	13.21%	12.79%

*Note: \* the solvency indicator was determined taking into account the net profit as of 31.12.2015 (without profit the ratio is 13.68%); \*\*ROA without bargaining gain from VBR acquisition is at 1.79% and ROE is 18.48%.*

The prudential ratios ensure a favourable position of the Bank in the banking system. BT has a consistent deposit base, which allowed for an optimum liquidity ratio. Thus, the liquidity ratio as at 31.12.2015 ranged between 2.26 and 21.08 on the 5 maturity bands, much above the minimum level required by the NBR's regulations.

The solvency ratio of BT is at a comfortable level of 22.26%, with the annual profit included. An adequate level of the capital and the general financial ratios was maintained, in accordance with the banking principles.

The ROA and ROE ratios featured a positive trend.

#### **PROPOSALS REGARDING 2015 PROFIT DISTRIBUTION AND SHARE CAPITAL INCREASE**

The Board of Directors submits the proposal to distribute the profit in amount of RON 2,417,668,444 as follows:

<b>PROPOSED PROFIT DISTRIBUTION 2015</b>	<b>AMOUNTS (RON)</b>
<b>Profit before tax</b>	<b>2,265,129,335</b>
Income tax current / deferred	(152,539,109)
<b>Net Profit</b>	<b>2,417,668,444</b>
5% legal reserve fund from gross profit	113,256,467
<b>Net Profit to be distributed to reserves</b>	<b>2,304,411,977</b>

The Board of Directors proposes the distribution of the profit by granting dividends in total amount of RON 1,200 million. Gross dividend per share is RON 0.3965581868.

The Board of Directors also proposes the share capital increase from RON 3,026,037,641 to RON 3,646,037,641, with the amount of RON 620 million from reserves constituted from 2015 net profit.

<b>PROPOSED SOURCES FOR SHARE CAPITAL INCREASE</b>	<b>AMOUNTS (RON)</b>
<b>Reserves from 2015 net profit</b>	<b>2,304,411,977</b>
<b>TOTAL RESERVES USED FOR CAPITAL INCREASE</b>	<b>620,000,000</b>
<b>Share Capital at record date</b>	<b>3,026,037,641</b>
<b>Yield per share %</b>	<b>20.48883965</b>

After the share capital increase with RON 620,000,000, for each 100 shares, 20.48883965 new shares will be assigned (respectively a number of new shares corresponding to the ratio 620,000,000/3,026,037,641 shares).

## **CORPORATE GOVERNANCE**

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

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

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

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

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

Banca Transilvania S.A. applies the Bucharest Stock Exchange Code of Corporate Governance of considering its capacity as issuer on the stock market. The Bucharest Stock Exchange Code of Corporate Governance can be found on the oficial website of the Bucharest Stock Exchange ([www.bvb.ro](http://www.bvb.ro)). As of 31 December 2015 the only non-compliant element was the publication on the Bank's website of a policy regarding budgets and forecasts according to art D.3 in the Code.

The Bank issued a policy regarding budgets which was approved by the Board of Directors and published on the Bank's website. Currently the Bank complies with all articles in the Code of Corporate Governance.

### **Governing body of Banca Transilvania:**

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

The governing structure of Banca Transilvania includes the body with a supervisory function - the Board of Directors and top management bodies - Leaders / Leaders' Committee. The top

management of the Bank is ensured by individuals with powers for the current management of the Bank, who are responsible for its fulfilment to the governing body, based on management contracts, relevant NBR regulations, the provisions in the law 31 / 1990 and internal regulations.

### ***Board of Directors***

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

- Chairman of BT's Board;
- Vice-chairman of BT's Board;
- 5 members.

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

Currently, Banca Transilvania has a significant shareholder - the European Bank for Reconstruction and Development - EBRD (in accordance with the applicable law and authorized by the NBR to exercise this capacity) - a shareholder who, in accordance with the Articles of Association is entitled to appoint and keep one of the seven members of the Board, (subject to the approval by the GSM). After the approval of the shareholders and before the actual start of their mandate, the new Board members must obtain the prior approval by the NBR.

The members of the Board are not involved in the carrying the operational duties - these are to be accomplished by the top management exclusively.

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

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

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

The Board of Directors delegates the approval of the remuneration policy for BT staff to the Remuneration Committee.

The Board of Directors meets at least once a month and whenever it is necessary in the presence of at least half of its members and may delegate specific responsibilities to committees composed of 2-3 members in line with applicable legal requirements. The committees established by the Board of Directors are: Audit Committee, Remuneration and Nomination Committee and Risk Management Committee.

The members of the Board of Directors and their professional background as of December 31, 2015 are as follows:

- **Horia Ciorcila** - Chairman
  - Polytechnic Institute in Cluj, Faculty of Computer Science and Automation;
- **Roberto Marco Marzanati** - Vice-chairman
  - Business Administration in Turin, Italy;
- **Thomas Grasse** - Board member;
  - Bankakademie Frankfurt -Business School of Finance and Management and HYPO-Bank Mannheim Branch, Apprenticeship in Banking
- **Ivo Gueorguiev** - Board member;
  - Alberta University, Edmonton, Canada
- **Costel Ceocea** - Board member
  - University "Al.I. Cuza" in Iasi, Faculty of Economics, PH.D. in industrial engineering
- **Vasile Puscas** - Board member;
  - Faculty of History and Philosophy, "Babeş-Bolyai" University, Cluj-Napoca, PH.D. in History



For the time being, there is one member vacancy in the Board of Directors, further to the decease of one of the Bank's administrators.

### ***Audit Committee***

The Audit Committee consists of Board members who do not have management positions and it operates under the legal framework, i.e. the International Standards on Auditing, ISA 260-18, 2005-CFAR, the Company Law no. 31/1990, BT's Rules of Organization and Management BT. The number and the competencies of the committee are approved by the Board of Directors and it has a structure of 3 non-executive Board members.

The Audit Committee has responsibilities regarding: the financial statements - important aspects regarding the accounting principles and the presentation of the financial statements, including any significant changes in the Bank's choice or application of accounting principles; internal control - analysis by the internal and external audit of the internal control concerning the financial statements and obtaining reports and recommendations in connection to the findings; internal audit; external audit; reporting and other responsibilities.

### ***Risk Management Committee***

Risk Management Committee is subordinated to Board of Directors, which task consists in issuing proficient and independent opinions on risk management policies and practices, risk capital adequacy and risk tolerance of the Bank and also to exercise the responsibilities mandated by the Board of Directors in this area of business.

Risk Management Committee consists now of 3 Directors.

The main responsibilities are: to consult the Board of Directors regarding the risk appetite and the global risk management strategy of the Bank for present and future risks; to assist the Board of Directors in supervising the implementation of the strategy by the Committee of Directors.

The general responsibility regarding risk management is assigned to Board of Directors.

### ***Remuneration and Nomination Committee***

Remuneration and Nomination Committee is subordinated to the Board and has been created to provide independent opinions on the remuneration policies and practices, on the incentives for risk management, the Bank's capital and liquidity, on the nomination policies and to exercise the powers mandated by the Board of Directors in this field of activity.

Composition of the Remuneration Committee:

- Chairman of the Board
- Two Board Members

The committee examines and ensures that the general principles and policies for staff remuneration and benefits correspond to the business strategy, values and long-term objectives of

BT. The Remuneration Committee meets at least twice a year or whenever necessary, at the request of one of its members or the Bank's leaders.

### ***Leaders' Committee***

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

Membership of the Leaders' Committee:

- Chief Executive Officer (CEO);
- Deputy CEO - Chief Risk Officer (CRO);
- Deputy CEO - Chief Operations Officer (COO);
- Deputy CEO- Retail Banking;
- Deputy CEO - Corporate & SME;
- Deputy CEO - Chief Financial Officer (CFO);
- Deputy CEO - Network and Business Development

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

### ***Assets and Liabilities Committee (ALCO)***

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

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

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

### ***Procurement Committee***

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

### ***Human Resources Committee (CRU)***

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

### ***Loan policy and approval committee (CPAC)***

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

### ***Loan and Risk Committees in the Head Office (CCR1 and CCR2)***

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

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

CCRC2 may approve credit values not exceeding 10% of its own competence limit for clients who at the time of analysis exceeded already the CCRC2 competence for individual or group exposures and are under the competence of CPAC.

### ***Committee for Loan Remediation and Workout (CRW)***

The Committee for Loan Remediation and Workout is mainly focused on analysing and deciding with regard to the implementation of the remediation solutions proposed by the Department for Loan Remediation and Workout. The remediation solutions aim at remediating the situation of the selected customers facing difficulties, who cannot sustain their current debt service from their current business or at finding appropriate solutions to increase recovery.

### ***Committee for monitoring enforcement and sale of assets (CMESVA)***

The Committee for monitoring enforcement and sale of assets is established by the Leaders' Committee and its primary responsibility is to oversee the management of real estate assets that are in enforcement process or come from the sale of guarantees of loans given to natural or legal persons.

### ***Committee for credits to Financial Institutions (CCIF)***

Committee for credits to Financial Institutions has the role to supervise BT credit exposures to financial institutions in Romania and abroad.

CCIF approves all derogations to the internal regulations and procedures that determine the way of working with other financial institutions in the country and abroad.

### ***Loan and Risk Committee in the branches (CCRS)***

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

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

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

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

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

## **RELATIONS WITH SHAREHOLDERS AND INVESTORS**

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

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

## **FINANCIAL CALENDAR FOR 2016**

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

The calendar for 2016 is presented below:

1. Presentation of the preliminary annual financial results 2015	15 February 2016
2. Conference call for presentation of preliminary financial results	16 February 2016
3. Annual General Meeting of Shareholders	27 April 2016
4. Annual report	28 April 2016
5. Presentation of the financial results - Q I 2016	28 April 2016
6. Conference call for presentation of financial results - Q I 2016	28 April 2016
7. Presentation of the financial results - Q II 2016	12 August 2016
8. Conference call for presentation of financial results - Q II 2016	16 August 2016
9. Presentation of the financial results - Q III 2016	14 November 2016
10. Conference call for presentation of financial results - Q III 2016	15 November 2016

## **RISK MANAGEMENT**

Risk management is part of all decision-making and business processes in Banca Transilvania. 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 an appropriate framework for the management of the Bank's activities in accordance with the Bank's structure, business and inherent risks, through its regulatory system (strategies, policies, rules, procedures, regulations) and controls (by individuals, departments, committees), operational flows, determination of specific costs.

- **Risk identification:** 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

- **Risk assessment/measurement:** 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.

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

- **Risk reporting:** the internal reporting of risk exposures is performed by departments based on business lines and consolidated at the level of the whole Bank. The management is permanently informed about the risks inherent to the Bank business.

- **Calculation and assessment of capital and capital requirements:** for the assessment of capital adequacy to risks, the Bank identifies and evaluates all significant risks to which it is or might be exposed. 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 Bank is exposed are: credit risk, liquidity risk, operational risk, market risk, interest rate risk in the banking book, reputation risk, strategic risk and compliance risk.

#### CREDIT RISK

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

- underwriting methodology to ensure a healthy loan portfolio;
- individual counterparty rating system;
- risk assessment system for transactions;
- risk assessment system for new lending products/ significant changes of the existing products;
- active loan portfolio management;
- concentration limits by: region, industry, product, client, collateral type, guarantee suppliers;
- risk based pricing methodology;
- methodology for loan monitoring/ review after granting date;
- credit risk provisioning methodology;
- prudential adjustments calculation methodology;
- methodology for early identification of actual or potential credit risk increases (early warnings);
- methodology for identification and management of distressed assets;
- fraud risk management;
- continuous improvement of the collection process.

The credit risk management consists mainly in:

- the organization of a proper system of norms and procedures, establishing the regulatory framework for the lending process in order to avoid or to minimize risks;
- developing/ improving credit risk management procedures (strategy, policies, norms for credit risk management)
- management of own funds (monitoring aggregate exposure vs. own funds), capital requirements simulations, compliance with internal rules regarding capital adequacy (ICAAP);
- maintenance and periodical review of a hierarchical system for the approval of loan exposure limits;
- monitoring credit risk on business lines and at portfolio level;
- management of critical exposures (loans classified into inferior performance categories, loans presenting impairment triggers, etc).
- organizational structure of the Bank - departments and committees with responsibilities in credit risk supervision and management.

#### LIQUIDITY RISK

The liquidity risk profile adopted in 2015 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 and the weight of stable resources raised from clients in total funds. The Bank's liquidity management is centralized.

The main principle in determining the types of instruments used by the Treasury in order to use temporary liquidity excess is the easy convertibility into cash, without 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. During 2015, the Bank recorded liquidity ratios above 1, indicating a comfortable liquidity in a general economic context still fragile.

Attention is given to:

- correlate the growth pace of resources/loans;
- diversify the range of instruments correlated with the institution's risk appetite;
- adequate capital allocation.

#### OPERATIONAL RISK

Operational risk represents the risk to incur losses from defective processes, errors generated by the IT system, inadequate employee activities and other external events. The Bank monitors continuously the operational risks relating to the current activities of clients, banking practices, frauds, application of the management decisions, ethical aspects involving BT employees.

In order to reduce such risks, the Bank implemented policies, norms and procedures, thus improving operational risk governance. Operational risk exposures are diminished through a permanent update of regulatory documentation in line with the legal regulations and market conditions, via staff training, constant improvement of IT solutions and consolidation of the Bank's security systems, the use of additional means to reduce risks (insurance policies against risks), use of applications and specific tools to monitor transactions and banking activities in general, in order to mitigate operational risks, including the risk of internal and external fraud, the application of measures to limit and to mitigate the effects of operational risk incidents, the application of the recommendations and the conclusions resulting from the control carried out by internal and external bodies, the update, evaluation and testing of business continuity plans on a regular basis.

Relevant information in terms of operational risks, including the material losses are tracked and analysed systematically, as part of the risk management system of the Bank. This information is translated into specific reports (which contain graphics, quantitative and qualitative evolutions) that are periodically presented to the internal control committees, the Leaders' Committee and the Board of Directors. 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.

#### MARKET RISK

The market risk profile adopted by Banca Transilvania was "low to 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, 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. Banca Transilvania performs a daily evaluation of all banking positions, marking to market its trading book, monitoring "warning" or "alert" levels, using backup plans in case of unstable market conditions.

#### INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk in the banking book profile is "low", the Bank adopting a set of strict principles for the management and monitoring of such risk.

The interest rate risk is initially addressed by the Bank through a neutral position in main currencies - EUR and USD - and an "aggressive" position in national currency. The Bank uses management tools such as GAP analysis, static or dynamic and the economic value of assets.



## REPUTATION 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 Bank. The reputation risk profile was “low” by maintaining the confidence of the public and the business partners in the Bank’s integrity, economic and financial position. The management of the reputation risk is based on undertakings in order to attract the best partners, both clients and suppliers, on the recruitment and retention of best employees, on the management of litigations, strict regulations, prevention of crisis situations and the consolidation of the Bank’s credibility and the shareholders’ confidence, improving the relationship with shareholders, the establishment of a more favourable environment for investments and access to capital and on continuous and open communication with stakeholders (shareholders, mass-media, clients, partners, employees, authorities, etc.).

## RISC STRATEGIC

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

## COMPLIANCE RISK

Compliance risk is the current or future risk to damage profits and capital, which may result in fines, damages and / or termination of contracts or that may affect the Bank’s reputation as a result of violations or non-compliance with the legal and regulatory framework, agreements, recommended practices or ethical standards.

In BT’s perspective, compliance risk relates to compliance with a broader regulatory framework which is not strictly related to banking activities, namely compliance with labour law and work safety and protection legislation, quality in constructions, prevention of fires, etc.

The objectives of compliance risk management are: identification of compliance risks, compliance risk assessment, compliance risk monitoring, compliance risk reporting.

The compliance function, which is responsible for compliance risk management, has the role to assist the management structure in identifying, assessing, monitoring and reporting compliance risk related to the Bank’s activities.

In BT, the compliance function is approached separately from the risk management function and the audit function, but the Bank's internal regulations provide for mechanisms to ensure a close cooperation between these three functions.

## INTERNAL AND EXTERNAL AUDIT

During 2015, a number of 17 branches and 80 agencies (within an ad-hoc mission), were audited for Banca Transilvania (BT) and also, the processes within BT Headquarter, according to the annual audit plan. At the same time, 8 subsidiaries were audited and 15 special missions were also performed. It should be also mentioned that, during 2015, were audited for Volksbank, a number of 49 branches, being performed 26 special missions also.

The 2015 audit's general objectives, were mainly focused on risk management and assessing the overall control system, implemented for transactions and / or processes / flows' deployment, covering the entire range of risks. The assessment of the control system was conducted according to the Internal Audit Statute and considering the principles contained by the International Audit Standards, one of the main objectives being to ensure the reliability and integrity of the financial and operational information, as a direct result of an independent and objective evaluation of the control system and internal risk management systems, in relation to the financial reporting process.

The Bank's internal control framework is structured into three levels, respectively the functions owning and managing the risks (the operational units), the functions of risk monitoring (risk management and compliance functions) and the function that provides an independent review, respectively the internal audit function.

Therefore, the first level of control is performed by the operational units, which are responsible to ensure that, at the level of each structure / activity, a control and risk prevention environment is established, as part of the daily operations. As aforementioned, the two and three control levels are performed by the three independent control functions, as follows:

- The *Risk Management Function*, ensures the management and control of the risks identified following specific evaluation processes' deployment;
- The *Compliance Function*, ensures the management of non-compliance and reputational risks;
- The *Internal Audit Function*, ensures an objective examination of the overall Bank's activities, for an independent assessment of risk management, the internal control system and the management and execution processes, in order to support the fulfillment of the established objectives and, at the same time, issues recommendations for improving the effectiveness of these activities.

The external auditor of the Bank, KPMG Audit SRL, audited the separate and consolidated financial statements of Banca Transilvania as at December 31, 2015.

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

### **BANCA TRANSILVANIA GROUP POLICY**

On 10th December 2014, the Group signed the acquisition contract for 100% of the shares of Volksbank Romania S.A. The Group took the control over Volksbank Romania S.A. on 7 April 2015. On 30 December 2015, it was finalised the merger through absorption between Banca Transilvania (as merging company) and Volksbank Romania S.A. (as merged company). No new shares were issued as part of the acquisition of Volksbank Romania S.A. At the acquisition date, the Group reimbursed to the former shareholders of Volksbank Romania S.A. the balance of the funding provided of EUR 451 Mil. and CHF 206 Mil.

BT Securities and BT Leasing managed to reach significant market share and, together with BT Assets Management, succeeded to cover a wide range of financial products. For 2016, the BT subsidiaries maintain their accounting records in compliance with the Romanian legislation and with the legislation in the Republic of Moldova. These records are named statutory accounts. These accounts have been restated to reflect the differences between the statutory and IFRS accounts.

### **MEMBERS OF BT FINANCIAL GROUP**

The Bank ensures an adequate level of capitalization to its subsidiaries, improving risk management by involving the Bank's audit and compliance functions.

The gross value of investments in the group at the end of 2015, according to the International Standards for Financial Reporting endorsed by the European Union, increased by 8% as compared to 2014, respectively from RON 116.86 million to RON 126.19 million lei.

The group subsidiaries in which BT holds direct participations are

Subsidiary	Business profile	% Direct investment	equity % Total equity investment
BT Securities SA	Investments/Brokerage	99.40%	99.40%
BT Leasing Transilvania IFN SA	Leasing	51.72%	100.00%
BT Investments SRL	Investments	100.00%	100.00%
BT Direct IFN SA	Consumer finance	93.70%	100.00%
BT Building SRL	Real estate	4.17%	100.00%
BT Asset Management SAI SA	Assets Management	80.00%	80.00%
BT Compania de Factoring SRL	Factoring	99.45%	100.00%
BT Leasing MD SRL	Leasing	100.00%	100.00%
Improvment Credit Collection	Credit collection and reporting	99.89%	100.00%

During 2015 the direct investment of Banca Transilvania in BT Securities was increased with the amount of RON 10.03 million.

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

BT Leasing Transilvania IFN S.A. has its head office in Cluj-Napoca, str. G.Baritiu, nr. 1 and it was incorporated in 1995 as a privately owned joint-stock company. The company operates through its Head Office located in Cluj-Napoca, 1 agency and 20 operational units (2014: 1 agency si 23 operational units) throughout the country. The company leases various types of vehicles and technical equipment. The number of active employees at 31 December 2015 was 105 (2014: 105).

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

As of the end of 2015, BT Leasing manages a total of 2,786 contracts (2,149 at 31 December 2014), which represent leasing receivables (principal, VAT excluded) of RON 352 Mil. (2014: RON 281 Mil.).

In 2016, the target of BT Leasing are: portfolio increase by 75%; maintaining PAR at max 10%; reaching the target of at least EUR 85 Mil from new contracts; increase the market share by 3%.

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

BT Asset Management SAI S.A. is a commercial company, member of Banca Transilvania Financial Group, that is operating in the management of open investment funds established in Romania or in another EU member state, as well as in the management of closed investment funds subject to prudential oversight.

BT Asset Management SAI is a company specialised in the management of asset management from the Banca Transilvania Group, operating in the field of management of investment funds,

addressed to the individuals and legal persons, providing numerous investment options in order to reach the optimum benefits from the stock market.

The object of activity of BT Asset Management SAI defined by the classification code CAEN 6499 is "Other types of financial intermediation" (management of undertakings for collective investments in transferable securities established in Romania or in other member state). The structure of the holdings at 31 December 2015 is: 80% Banca Transilvania, 10% SIF Banat-Crisana, 10% SIF Muntenia.

BT Asset Management SAI S.A provides a full range of investment products, from fixed income funds, diversified investment funds, index funds to equity funds. The opening to the capital market is provided to customers through investments in Romania and other EU member states (especially Austria); investments are available both in lei and euro.

As at 31 December 2015, the number of employees was 23 (2014: 23).

BT Asset Management SAI manages the following (i) open investment funds: BT Obligatiuni, BT Euro Obligatiuni, BT Clasic, BT Euro Clasic, BT Index Romania ROTX, BT Index Austria ATX, BT Maxim respectiv (ii) closed investment funds: BT Invest, BT Invest 1.

The assets managed at 31 December 2015 are 57,04% higher than the assets at 31 December 2014. At the end of 2015, BT Asset Management SAI market share was 10.02%, considering the value of the assets managed and it was ranked 4th among investment fund managers in Romania. The gross profit of 2015 is of RON 10,89 Mil, 41,35% higher than the previous year.

The situation of the implementation of the 2015 projects is as follows:

- In June 2015, it was launched the BT Euro Clasic fund - denominated in euro, having a diversified investment policy;
- In 2015, the company was ranked 4th among the investment fund managers in Romania;
- Development of the mobile selling team: 3 zone managers and back-office support;
- Integrating the open investment fund transactions in the Bank's platform BT24

The main objectives of the budget proposed by BT Asset Management SAI in 2016 are: reaching a market share of 11.25% and maintaining a ROE higher than 20%, through sustaining measures for the company and for the selling process, so that the budget project a gross result of RON 11.97 Mil, increasing by 9.85% compared to 2015.

The registered address of BT Asset Management SAI S.A is: Emil Racovita str. no. 22, Cluj-Napoca.

#### **BT Securities S.A.**

BT Securities S.A. operates through its Head Office, located in Cluj-Napoca, Maestro Business Center, 21 Decembrie 1989 avenue no. 104, 1st floor, and through 11 operational units. The

object of activity of the company is financial brokerage and fund management (financial brokerage agents), but also ancillary activities related to financial brokerage. BT Securities S.A. was set up in 2003 as a result of the change of the name and of the registered address of the company Transilvania Capital Invest S.A..

In 2015, BT Securities had a number of achievements: increase the market share main segment BVB to 4.54% in 2015 (2.73% in 2014), reverting to profit, successful finalisation of two offers for the Bucharest Town Hall of EUR 500 Mil. and International Investment Bank of RON 111 Mil.

The main objectives of BT Securities for 2016 are: increase the market rate, of the company profitability, consolidation/development of the corporate finance activity: public offers, M&A and investment banking, developing new products and relaunch the existing ones, adjusting the organisation chart according to strategy as well as developing products with a higher complexity degree.

As of 31 December 2015, the number of employees was 58 (2014: 62).

#### **BT Direct IFN SA**

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

In 2015, BT Direct IFN SA signed a number of 12,455 loan contracts (consumer loans) of RON 82.29 Mil., representing an increase in new loans granted of 52% compared to 2014. At 31 December 2015, the total portfolio was of RON 112.91 Mil, higher by 41.08% than in 2014.

The total revenues from financing transactions, increased by 23,05% compared to 2014. In 2015, the gross profit of BT Direct IFN S.A. was RON 4.32 mil., higher by 12.50% than in 2014.

In 2016, the target of BT Direct, given the actual macro-economic and consumer credit market conditions, is the increase of the loan volume by 40% compared to 2015 and an increase of the net profit by 27.1% compared to 2015, which would determine a Return on Equity (ROE) of 14%.

As of 31 December 2015, the number of active employees was 39 (2014: 29).

BT Direct IFN SA operates through its head office located in: 1 George Baritiu Street, Cluj-Napoca, Romania.

#### **IMPROVEMENT CREDIT COLLECTION**

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

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

The gross result of RON 7,449,410 is 277% higher than last year. Considering the budgeted targets for 2015, the company budgeted and realised the following: development of the organisational structure and increase in efficiency of available resources necessary for collection and monitoring the loan portfolio of Banca Transilvania outsourced to ICC.

#### **BT INVESTMENTS S.R.L.**

BT Investments SRL, has as main activity the lending based on lending contracts; in 2006 the company changed its CAEN code to 6619-ancillary activities for financial transactions, with the exception of insurance and pension funds activities.

From registration onwards, the share capital increased gradually through cash contributions or through incorporation of reserves, by the end of 2015 the share capital was RON 50,939,900.

During 2015 there were changes in the equity investments owned by BT Investments so at 31 December 2015 these were as follows:

- At companies in BT Group (RON)	2014	2015
BT LEASING	24,374,134	24,374,134
BT DIRECT	1,693,472	1,693,472
BT BUILDING	3,321,892	3,321,892
COMPANIA DE FACTORING	200,000	200,000
BT OPERATIONAL LEASING	4,084,997	4,084,997
- At companies outside BT Group (RON)	2014	2015
RADIO NAPOCA	12,550	12,550

At the end of 2015 the results of BT Investments SRL are as follows:

- total revenues: RON 771,300
- total expenses: RON 153,745
- net result - profit: RON 617,555

#### **BT LEASING MOLDOVA**

BT Leasing Moldova, member of the Banca Transilvania Group, is a company registered in 2008 having as main activity finance leasing. The share capital is totally owned by Banca Transilvania. Analysing the trends in the Republic of Moldova financial market, the financing policy aims to permanently identify and finance new projects in the field of new and second hand auto market,

trucks, utility vehicles, equipments, machinery through the specific leasing products offered which are ment to support the investments of legal entities and the needs of private individuals.

During 2015, several new leasing products were personalised, the most succesful being the „Leasing 7%” product which was promoted by the auto dealers and shortly (in 4 months) reached a share of 7.7% in the portfolio of BT Leasing MD as of 31 December 2015, almost 43% of the financed amounts being granted during the last quarter of 2015. The rebranding effects will be noticed more in 2016:

- in 2015 a new loan agreement between BT Leasing Moldova and EBRD was signed, with a total value of EUR 4 million, creating a better image for BT Leasing MD.

During 2015, the financed amounts increased by 75%, the loan portfolio increased by 39%, surpassing EUR 7 million. The main sector in the portfolio is the auto segment, which took BT Leasing MD in top 3 leasing companies in the Republic of Moldova.

For 2016 it was budgeted an increase of financed amounts of 9% versus 2015 and an increase in total portfolio of 20% versus 2015.

### **COMPANIA DE FACTORING**

Compania de Factoring SRL, is a limited liability company registered in 2006 with head-office in Sos. Bucuresti-Ploiesti no. 43, sector 1 Bucuresti, Romania. The main activity is defined by CAEN code 8291 - Activities of collection agencies and credit reporting units.

During 2015 the activity of the company focused on improving the collection of outstanding past due debts, reschedule of debts and constant monitoring of liquidity.

The activity of the company is based on collection of past due debts coming from factoring operations financed until the factoring activity was transferred to the Bank.

In 2015 the company realised a gross profit in amount of RON 526 thousand.

For 2016 the company aims to identify new strategies to increase recoverability of amounts and minimize the costs of collections.

### **ENVIRONMENTAL POLICY**

Banca Transilvania develops actions in emphasizing the importance of the environment protection and social responsibility in environmental protection through the energy efficiency, green building, paper collection etc.

“Transylvania reforestation” is part of the BT social involvement and responsibility programme "Banca Transilvania - environmentally friendly". The Bank proposes to contribute to the protection



and re-creation of the natural environment. It was an opportunity to encourage volunteering activities, to offer to the community an example of good practices and to be part of a project for the future, for the next generations. In the 2015<sup>th</sup> edition of the “Transylvania reforestation” programme, during one day there were planted 40,000 trees on an area of 10 hectares, in Budești-Fanate, between Cluj and Bistrita. A similar action took place in 2014 and it will be continued in 2016.

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

### **CORPORATE SOCIAL RESPONSIBILITY**

In addition to its business objectives, Banca Transilvania is socially involved via the following foundations: “Cluj are Suflet”, “BT Charity” and “Transilvania”. The “Cluj are Suflet” foundation is the greatest social project initiated and developed by BT, helping young people between 14 and 20 years old (from underprivileged families or under social care) to have a better life.

In over 7 years of activity, the foundation provided assistance to 1,700 teenagers.

Social responsibility projects in which Banca Transilvania has involved in 2015 were:

1. „Clujul are Suflet” - the biggest social involvement project of the Bank, that helped over 1,700 people in 7 years to have a better life and to be socially integrated, to continue the studies and to find a working place
2. BT cross - is one of the most popular competition from the Cluj International Marathon, reaching a participation of 1500 persons;
3. U-BT - Banca Transilvania has taken over starting 2015 CSU U-Mobitelco, which became CSU U-BT Cluj-Napoca;
4. The Women National Basket Team - BT became in 2015 the official sponsor of the women national basket team in the qualification campaign to EuroBasket Women 2017;
5. Napoca Rally Academy - includes initiatives related to motor sports, as well as social educational and entertaining activities;
6. Ghita Muresan Summer Camp - basketball dedicated program in Romania, especially to children and their parents, conceived as a summer camp;
7. International Theatre Festival in Sibiu - considered the most important annual event in the field of arts in Romania and third in scope and importance in Europe;
8. Somes Delivery - long term cultural project, which will take place along the Somes river in Cluj-Napoca and it will approach another segment of the river at each edition, so that the whole route to be transformed in time;

9. Comedy International Festival "Comedy Cluj" - the biggest theme festival dedicated to the comedy movies in Europe, reached the seventh edition in 2015;
10. Cluj European Capital of Culture 2021 - the project supports the participation of Cluj-Napoca in the competition for the European Capital of Culture in 2021.

## **OTHER INFORMATION**

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

The information presented in the separate and consolidated financial statements for the financial period ended 31 December 2015 is based on the accounting rules provided by the Law no. 82/1991, as further amended and completed, by NBR Order no.27/2010 for approval of the accounting regulations in accordance with the International Financial Reporting Standards adopted by the European Union, as amended and completed by NBR Order no. 29/20.12.2011, NBR Order no.1/30.01.2013 and other relevant NBR instructions.

The obligations to the state, local budget and special funds were correctly determined and the related payments were made according to the legal provisions.

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

The revenues, expenses and separate and consolidated financial results for 2015 are reflected accurately in other comprehensive income and the net profit distribution proposals are made in accordance with the applicable laws and regulations.

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

The patrimony count was carried out in accordance with the Accounting Law no. 82/1991, as further amended and completed, the Governmental Emergency Ordinance no. 99/2006, as further amended and completed, the Order no.2861/2009, as further amended and completed, and the results were faithfully reflected in the statement of financial position.

## **SUBSEQUENT EVENTS**

On February 29, 2016 it was finalised the acquisition of a Retail loan portofolio from Bank of Cyprus Public Company Limited Nicosia Romania branch. The fair value of the acquired portfolio amounted to RON 7,955 thousand (EUR 1,780 thousand as at transaction date).

On March 11, 2016, Banca Transilvania Financial Group acquired Capital Partners through BT Securities. Following this transaction, the Group will take over the investment banking business, the brand and a specialized M&A team.

In November 2015 the Romanian Parliament approved a law for giving in payment of certain mortgages to settle the credit related obligation of debtors. This law regulates the debtor's right to settle entirely debt from a loan contract by transferring to the lender the ownership right on the mortgage under certain regulated conditions.

The President of Romania has sent the law back to re-examination. On 18<sup>th</sup> of December 2015, the Central European Bank issued from its own initiative a notice with regard to this law project. The notice mentioned the unjustified potentially negative impact that some of the provisions may have on the Romanian economy and the financial stability.

The most debated aspects (including with representatives of the National Bank of Romania) are referring to:

- The retroactive application of the law which applies also to the lending contracts in place not only to the contracts concluded after its ratification;
- Type of loans - the initial project covered all loan contracts between individuals and credit institutions guaranteed by real estate. The proposals from the National Bank included limitations only to residential real estate and exclusion of "Prima Casa" program.
- The value of the loan - the initial project included all loan contracts no matter of the value of the loan. The current proposals limited the application of the law only to contracts under 150.000 EUR

Social aspects - the initial project included all types of debtors. The current proposal introduce a minimum indebttness ratio of 65%.

## **INFORMATION ABOUT THE PROJECTED EVOLUTION OF THE GROUP IN 2016**

For 2016, Banca Transilvania Financial Group plans to develop a new microfinance business model in order to continuously support the Romanian entrepreneurship.

### **QUANTITATIVE OBJECTIVES for 2016:**

- Total assets: 5.3% increase;
- Total gross loans: 5.7% increase;
- Total deposits from customers: 5% increase;
- Cost to income ratio: 41.55%;
- Loans to deposits ratio: 73%;
- Maximizing the return on equity ( ROE);
- Consolidation of the 3rd position on the cards market and an aggressive increase in credit cards;
- An active presence in online environment by developing specific applications, taking into account the increasing demand for mobile banking and a more dynamic presence in social media;
- New products definition, as alternatives for traditional deposits (having a decreasing interest rate) and encouraging clients to buy other products: unit funds; insurance; other investments;

### **QUALITATIVE OBJECTIVES for 2016:**

- Focus on financing the strategic sectors for BT, such as: agriculture, industrial production, exports, medical services, EU co-financed projects;
- Development of the factoring activities for customers;
- Complete the specific steps for customization and implementation of a new application - FICO Retail Loan Origination;
- Focus on new business segments, such as creative industries and liberal professions;
- Improving the loan portfolio quality;
- Development of the Internet Banking and Mobile Banking applications;
- Grow and develop the Microfinance project.

## **INVESTMENT PLAN FOR 2016**

Investment budget for 2016:

- |                            |                  |
|----------------------------|------------------|
| • Branches and buildings   | RON 54.07 milion |
| • IT and cards investments | RON 74.72 milion |
| • Other                    | RON 14.73 milion |
| • Security                 | RON 13.73 milion |
| • Special projects         | RON 26.40 milion |

Bank's investments RON 183.65 milion

## **BUDGETED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF PROFIT AND LOSS FOR 2016**

The 2016 budgeted ratios are based on BT's separate financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union, this being the single reporting framework for Romanian credit institutions since January 1, 2012.

An average annual inflation rate of 2.0% per year and an average exchange rate of 4.38 RON/EUR, were used in preparing the 2016 estimates.

The assets are expected to increase by 5% compared to the 2015 levels (up to RON 49,855 million). Regarding the assets structure, the estimated gross loan weight is 61.6%, cash and cash equivalents are 14.2%, while the T-bills are 29 %.

The budgeted structure of the liabilities for 2016 includes an increase in non-banking customer deposits by 5% as compared to 2015, to a 81.1 % weight in total liabilities.

The budget ratios for 2016, submitted for the GSM approval, are determined in order to support the proposed business objectives and are correlated with the prudential and supervisory standards and regulations.

The main items budgeted for 2016 Statement of Financial Position and Statement of Profit and Loss are presented below:

Statement of Financial Position (RON Mil.)	ACT 2015	BVC proposal 2016
Cash and cash equivalents	8,887	7,105.6
T-Bills	12,389	14,716.1
Gross Loans	27,740	29,509.8
Loan provisions	(2,632)	(2,602.5)
Fixed assets	410	590.5
Investments in other entities	85	94.9
Deferred tax assets	111	86.5
Other assets	353	354.0
<b>Total assets</b>	<b>47,343</b>	<b>49,854.8</b>
Deposits from clients	38,395	40,443.9
Interbank deposits & borrowings	1,374	2,396.9
Subordinated loan	416	391.2
Other liabilities	1,040	985.9
<b>Total liabilities</b>	<b>41,225</b>	<b>44,217.9</b>
<b>Total equity</b>	<b>6,118</b>	<b>5,636.9</b>
<b>Total liabilities and equity</b>	<b>47,343</b>	<b>49,854.8</b>

Statement of Profit and Loss (RON Mil.)	ACT 2015	BVC proposal 2016
Interest income and similar income	2,369.8	2,240.2
Interest expense	(459.9)	(482.6)
<b>Net interest income</b>	<b>1,909.9</b>	<b>1,757.7</b>
<b>Net fees and commissions</b>	<b>457.5</b>	<b>506.6</b>
<b>Net trading result</b>	<b>401.5</b>	<b>254.8</b>
Contribution to Deposit Guarantee Fund	(95.3)	(80.5)
Other income	81.9	299.8
<b>TOTAL REVENUES</b>	<b>2,755.5</b>	<b>2,738.3</b>
Loans provision charge	(795.1)	(693.9)
Staff costs	(650.3)	(605.5)
Operating expenses	(461.7)	(406.0)
Depreciation	(77.6)	(85.2)
Other expenses	(156.3)	(41.0)
Bargaining gain *	1,650.6	-
<b>PROFIT BEFORE TAX</b>	<b>2,265.1</b>	<b>906.7</b>
Income tax/Revenues from DTA	152.5	(58.5)
<b>NET INCOME AFTER TAXES</b>	<b>2,417.7</b>	<b>848.2</b>

Considering the information presented in this report, we submit to discussion the activity performed by the Bank in 2015 and we propose to the General Shareholders Meeting the approval of the following statements:

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

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

- Distribution of 2015 net profit;
- Share capital increase proposal;
- The proposed Budget of income and expenses and the Investment plan for 2016.

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

**Board of Directors**

**Chairman,**

**Horia Ciorcila**