SWIFT: BTRLRO22
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. Reg. Com.: J12 / 4155 / 1993

REGULATORY DISCLOSURE REPORT
BANCA TRANSILVANIA GROUP
2015

In accordance with EU 575/2013 Capital Requirements Regulation, Part 8

Introduction

With this document, Banca Transilvania Financial Group fulfils its disclosure requirements under Part8 of the Capital Requirements Regulation (CRR, EU 575/2013).

This document is available on the bank's website (https://www.bancatransilvania.ro/) and was published at the time of the official release of BT's Annual Report.

This is a free translation of the original document in Romanian, which is the official document.

Content:

Sediul Central
Cluj-Napoca, Cluj
Str. G. Bariţiu nr. 8, 400027
Tel.: +(4)0264.407.150 | Fax: +(4)0264.407.179
www.bancatransilvania.ro

Risk management Objectives and policies

RISK MANAGEMENT STRATEGIES AND PROCESSES

The Group's Strategy in terms of risk management is to ensure the capital adequacy to the bank's risk appetite and to achieve the estimated budgeted ratios under controlled risk conditions, for the purpose of business continuity and the protection of our shareholders' and clients' interests.

Banca Transilvania Group sets its risk appetite in accordance to the general business strategy, the Group's own funds and its risk management experience.

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.

a) Credit Risk Management

The Group and the Bank are exposed to credit risk through the trading, lending, leasing, investment and guarantee issuing activities. The credit risk arising from trading and investment activities is mitigated by selecting only counterparties with good credit standing and by monitoring their activities and ratings, by using exposure limits and, when necessary, by requesting collaterals.

The Group's and the Bank's primary exposure to credit risk arises from loans and advances to customers.

The amount of credit risk exposure is represented by the carrying amounts of the assets on the separate/ consolidated statement of financial position. The Group is exposed to credit risk derived from other financial assets, including derivative instruments and debt investments; the current credit risk exposure with respect to these instruments is equal to the carrying amount of the assets in the separate/ consolidated statement of financial position. In addition, the Group is exposed to off balance sheet credit risk from credit and guarantee commitments

In order to minimize the risk, the Group and the Bank have defined procedures to assess customers before loan granting, to monitor their capacity to reimburse the principal and related interest during the entire loan period and to define exposure limits. In addition, the Group and the Bank have implemented procedures for monitoring the risks related to the loan portfolio and have defined exposure limits by types of loans, economic sectors, types of collateral, maturity and so on.

The Group holds collateral for loans and advances to customers in the form of pledges over cash deposits, mortgages over property, guarantees and other pledges over equipment and/or receivables. The estimates of fair value of the collaterals are based on the collateral value assessed at the date of lending, except when a loan is individually assessed subsequently. Collaterals are generally not held over loans and advances to banks.

The Board of Directors has delegated the credit risk management responsibility to the Leaders' Committee, Credit Policy and Approval Committee, Head Office Credit and Risk committees (credit approval), Credit and Risk Committees in branches/ agencies and Workout Committee, except for loans above certain tresholds (amount or risk profile) specified in internal regulations. Also, a Risk Management Division operates within the Bank and reports to the above mentioned Head Office Committees and has responsibilities for:

- The identification and assessment of specific risks within the lending activity;
- Monitoring the observance of internal policies specific for lending activities; Elaborating proposals for the reduction of specific risks, in order to maintain healthy standards in the lending activity;
- The approval and monitoring of the internal rating systems and of the internal models used in risk assessment;
- Monitoring the loans granted, in accordance with the client's financial performance, loan type, collateral type and debt service, in accordance with the internal lending policies and procedures;
- The approval and monitoring of ratios related to the establishment/modification of the branches' lending competences, according to specific internal policies;
- The periodic reviews and recommendations to the Leaders' Committee on the risk levels accepted by the Group and the Bank;
- Identifying, monitoring and controlling the credit risk at branch level and subsidiary level;
- The observance of the internal policies and procedures, the NBR regulations and the applicable legislation within the lending activity of the local units;
- The elaboration of proposals for reducing specific risks, in order to maintain certain lending standards at each branch level;
- The risk analysis with respect to new lending products/changes of loan products, including recommendations to the involved Departments;
- The approval of counterparty exposure limits;
- The periodical reporting to the Board of Directors and the Leaders' Committee on the evolution of significant risks (the implications of risk correlation, forecasts etc.);
- Loan portfolio analysis, both at individual level and by group of financial assets with similar characteristics in order to determine if there is any objective evidence of impairment, and assessment of impairment losses and related allowances in accordance with IFRS.

Each Branch/Agency implements at local level the Group's and the Bank's policies and regulations regarding credit risk, having loan approval competences established by the Leaders' Committee. Each Branch is responsible for the quality and performance of its loan portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Head Office approval.

The Internal Audit Department and the Internal Control Department carry out periodical reviews of the branches and agencies.

b) Liquidity risk

Liquidity risk is generated by the Group's inability to meet its outstanding payment obligations at their due date. Liquidity risk has 2 components: the difficulty in procuring funds at maturity in order to refinance current assets or the inability to convert an asset into cash at a value near its fair value in a reasonable period of time. The Group is permanently acting to manage this type of risk.

The Group has access to a diverse funding base. Funds are raised by using a broad range of instruments, including deposits from customers or from banks, loans from development institutions and financial institutions and share capital. Access to diverse funding sources improves the flexibility to attract funds, limiting the dependence on one type of financing and on one type of partner and leading to an overall decrease of financing costs. The Group tries to maintain a balance between continuity and flexibility in attracting funds, by signing financing contracts with different maturities and in different currencies. The Group continually assesses liquidity risk by identifying and monitoring changes in the financing contracts, and by diversifying the sources of funding.

The Assets and Liabilities Management Committee (ALCO) of the Bank is responsible with the periodic review of liquidity indicators and with the establishment of corrective measures regarding balance sheet figures, so as to eliminate unacceptable deviations in terms of liquidity risk.

c) Market Risk

Market risk represents the current or prospective risk that the earnings of the Group or the Bank and the value of financial instruments held may be negatively affected by adverse market movements in interest rates, foreign exchange rates or other financial ratios. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on investments.

Fair value of financial instruments

The Group and the Bank measure the fair value of financial instruments by using the following fair value hierarchy:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments

where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to derive the fair value, that reflects a price for the financial instrument at the reporting date, price that would be obtained by the market participants acting at arm's length.

The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair value. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The fair value of financial instruments that are not traded in an active market (for example bonds) is determined by using valuation techniques. The management uses its judgment to select the valuation method and makes assumptions that are mainly based on market conditions existing at the date of the consolidated/ separate statement of the financial position.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of the fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and selection of prepayments and appropriate discount rates. The Group's percentage of this type of instruments in the portfolio is not significant.

Financial assets and liabilities

The Group considered that the effective transaction prices would be situated between the informative BID-ASK quotations obtained, which are rather an interval within which the Group could have realistically negotiated the quotations for each series and taking into account the volume of its portfolio, and thus, the Bank used an average price for each series in its estimation.
The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy;
- In classifying financial assets as "held-to-maturity", the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by its accounting policy.

If the Group fails to keep these investments to maturity other than for the specific circumstances mentioned in IAS 39, they will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortized cost.
If the entire class of held-to-maturity investments is tainted, the fair value would not be significantly different from the carrying amount.

c1) Interest rate risk in the banking book

Interest rate risk represents the current or future risk for profit and capital to be negatively affected as a result of adverse changes in interest rates.

The Group is exposed to interest rate risk resulting from:

- Fixed income security trading (interest rate risk from trading activities)

- Funds raised and placed in relation to non-bank customers (interest rate risk from banking activities).

- The main sources of interest rate risk are represented by the imperfect correlation between the maturity dates (for fixed interest rates) or the pricing reset dates (for variable interest rates) with respect to interest bearing assets and liabilities, the adverse changes of the yield curve (un-parallel shift of interest rate curves related to interest bearing assets and liabilities).

- The management of interest bearing assets and liabilities is carried out in the context of the Group's exposure to interest rate fluctuations. The Group uses a mix of fixed and variable interest bearing instruments to control the mismatch between the dates on which the interest on assets and liabilities is adjusted to the market rates or the maturity mismatch between assets and liabilities.

- Interest rate risk is managed by monitoring the interest rate GAP (mismatch) and by means of a system of limits and indicators approved on maturity bands (time intervals) for interest reset.

- The Assets and Liabilities Management Committee is the body that monitors the compliance with these limits, being assisted in the daily monitoring by the Treasury Department.

- Interest rate risk management within the limits is accompanied by the analysis of the sensitivity of the Group's/the Bank's financial assets and liabilities to different standard interest rate scenarios.

c2) Currency Risk

The Group is exposed to currency risk through open positions generated by foreign currency transactions. The Group manages the currency risk based on strict open position and "stop-loss" limits monitored in real time. There is also a risk that the values of net monetary assets and liabilities in foreign currency will change when translated into RON as a result of exchange rate variation.

The Group manages the exposure to market risk by daily monitoring the market value of the held-for-trading portfolio in relation to a system of risk limits approved by the Assets and Liabilities Committee. The held-for-trading portfolio includes fixed-income securities issued on the Romanian or the European market (treasury securities, bonds whose issuers have ratings higher than the sovereign rating), denominated in RON, EUR and USD, as well as shares issued by Romanian entities and traded on the Bucharest Stock Exchange (which are not directly exposed to interest rate and currency risk, but are exposed to price risk).

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's and the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour or natural disasters that lead to business disruption. Operational risks arise from all of the Group's and the Bank's operations and are faced by all business entities.

The Group's and the Bank's objective is to manage operational risk in order to ensure a reasonable achievement of performance targets (efficiency and effectiveness), information objectives (credibility, integrity, continuity) and to mitigate the losses resulting from the materialization of this risk category.

In order to reduce the inherent risk in the operational activities of the Group and the Bank, a general risk management framework was developed for managing these risks, in accordance with the defined business objectives, the assumed risk appetite, the applicable national and international laws and regulations and the internal norms and policies on operational risk, which are part of the corporate governance framework.

The primary responsibility for the development and implementation of controls addressing operational risk is assigned to the senior management within each business unit. These responsibilities are consistent with the general operational risk management standards of the Group and the Bank in the following areas:

- requirements for appropriate segregation of duties, including independent authorization of transactions;
- requirements for dual control principle implementation on transactions processing and any other activity associated with a significant level of risk;
- requirements for transaction reconciliation and monitoring;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- establishment of relevant indicators and associated acceptability limits regarding operational risk;
- requirements for periodic assessment of existing operational risks and implementation of adequate controls and procedures to address the identified risks;
- operational loss reporting requirements and proposed remediation actions;
- a formalized approach to business continuity with a focus on the IT infrastructure (public services, hardware, software, human resources) due to its high degree of support in business activities;
- training and professional development programmes for all business lines and for all the Group's and the Bank's employees; development of ethical and business standards;
- IT risk as a component of operational risk;
- computation of capital requirements for operational risk;
- risk mitigation, including insurance where the underlying risk is not controllable.

THE STRUCTURE AND ORGANISATION OF THE RISK MANAGEMENT FUNCTION

The risk management function in is independent from the operational functions, being a core component within the institution. It ensures that the risks are identified, measured and reported accordingly.

The risk management function, coordinated by the Chief Risk Officer, plays an important role within the bank, ensuring that the bank has efficient risk management processes in place and being involved:

a) in the drafting and review of strategies and in the decision making process (together with operational units and the management body);
b) in the analysis of transactions with affiliated parties (with the collaboration of Counterparty Credit Risk Management Department, Treasury Department, Corporate Governance and Legal Disputes Department, Accounting Department, Reporting Department);
c) in the identification of risks arising from the complexity of the bank's legal structure (in collaboration with Corporate Governance and Legal Disputes Department);
d) in the evaluation of significant changes;

e) in the measurement and internal assessment of risks (in collaboration with Reporting Department);
f) in risk monitoring;
g) in other issues related to unapproved exposures

Risk management in Banca Transilvania is performed at 2 levels:

I. strategic level (management body)
   a. Board of Directors / Risk Management Committee
   b. Leaders' Committee
II. current operational level
   a. Asset-Liability Committee
   b. Credit Policy and Approval Committee
   c. Workout Committee
   d. Deputy CEO Chief Risk Officer / Deputy CEO Chief Operations Officer / Executive Manager, Risk Management
   e. Treasury
   f. Risk Management dept.
   g. Underwriting Department
   h. Internal Control Department
   i. Operational units (departments in the headquarters and territorial units

The Board of Directors has the responsibility regarding the definition and monitoring of the general risk management framework for the Group. The Bank's risk management is performed at two levels: a strategic level represented by the Board of Directors and the Leaders' Committee and an operational level represented by: Assets - Liabilities Committee (ALCO), Credit Policy and Approval Committee, Head Office Credit and Risk Committees (loan approval), Credit and Risk Committee of the branches/agencies, Workout Committee (CRW), the Bank's Leaders, Executive Directors and risk management structures within the Bank that are responsible for the definition and/or monitoring of risk management policies in their field of expertise. The Board of Directors periodically reviews the activity of these committees.

The Board of Directors monitors the compliance with the Group's risk policies and the adequacy of the general risk management framework in connection with the risks to which the Group is exposed.

The Risk Management Committee advises the Board of Directors regarding the risk appetite and the global strategy regarding the management of the current and future risks and assists the Board of Directors in overseeing the implementation of the strategy by the Leaders' Committee.

The Group's Audit Committee reports to the Board of Directors and is responsible for monitoring compliance with the Bank's risk management procedures. The Audit Committee is assisted in these functions by the Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Board of Directors and the Management of the subsidiaries which constitute the Group have responsibilities regarding significant risk management in correlation with their specific business characteristics and applicable laws and regulations..

<u>THE SCOPE AND NATURE OF RISK REPORTING AND MEASUREMENT SYSTEMS</u>

For the identification and measurement of risks, the bank has developed forward-looking instruments (anticipative tools such as crisis simulations) and backward-looking instruments (retrospective tools, such as periodical risk management reports). Banca Transilvania implements and maintains sufficient control systems and mechanisms in order to provide prudent and reliable estimates regarding the risk to which the bank is exposed

The bank has implemented mechanisms for periodical and transparent reporting with respect to risks, in order to provide timely, accurate, comprehensible and relevant reports to the management body and the relevant structures for the exchange of relevant information on risk identification, measurement, assessment and monitoring.

The Board of Directors and the Risk Management Committee establish the type, volume, format and frequency of information regarding risks

The Group holds guarantees for loans and advances to customers in the form of pledge over cash deposits, mortgage over property, guarantees and other pledges over equipment and/or receivables. The estimates of fair value are based on the collateral value assessed at the date of lending, except when a loan is individually assessed subsequently. Collateral is generally not held over loans and advances to banks

DECLARATION APPROVED BY THE MANAGEMENT BODY ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS OF THE INSTITUTION

We hereby confirm that the risk management systems established within Banca Transilvania Financial Group are adequate with regard to the Bank's risk profile and strategy.

RISK STATEMENT APPROVED BY THE MANAGEMENT BODY, DESCRIBING THE INSTITUTION'S OVERALL RISK PROFILE ASSOCIATED WITH THE BUSINESS STRATEGY.

Within the Report from the Board of Directors of Banca Transilvania, published on the Bank's website, contains information related to the institution's overall risk profile associated with the business strategy, including key ratios and figures, which can provide external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.

NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY

Board of Directors member	No. terms	Leader's Committee member	No. terms
HORIA CIORCILĂ	5	ÖMER TETIK	1
ROBERTO MARZANATI	3	LUMINIŢA RUNCAN	1
THOMAS GRASSE	1	LEONTIN TODERICI	1
IVO GUEORGUIEV	1	GEORGE CĂLINESCU	1
VACANT	-	GABRIELA NISTOR	1
VASILE PUŞCAŞ	2	ANDREI DUDOIU	1
COSTEL CEOCEA	2	TIBERIU MOISĂ	1

POLICY REGARDING THE SELECTION, MONITORING, ASSESSMENT AND PLANNING OF THE MANAGEMENT BODY SUCCESSION IN BANCA TRANSILVANIA

GENERAL PRESENTATION OF BANCA TRANSILVANIA'S MANAGEMENT BODY AND THE PROCEDURE FOR THE NOMINATION AND APPOINTMENT OF THE MANAGEMENT BODY OF BANCA TRANSILVANIA SA

The management body of Banca Transilvania SA, in the meaning of the NBR Regulation no. 5/2013, includes the management body with a supervisory function (the Board of Directors) and the top management structures ensuring the management function (the Leaders/Leaders' Committee).

The supervisory responsibility in Banca Transilvania is granted by the General Shareholders' Meeting (GSM) to the Board of Directors which is mandated for a period of 4 years, formed by 7 directors elected by the shareholders during the GSM, or upon the mandate expiry, or on a case by case basis if there is one or several vacant positions. The structure of the Board of Directors is the following:

- Chairman of the Board of Directors;
- Vice-chairman of the Board of Directors;
- 5 members.

The Chairman and the Vice-chairman of the Board of Directors are elected by the Board of Directors from its members.

In the Chairman's absence, the Board meetings will be conducted by the Vice-chairman, who will perform the tasks with the same rights and responsibilities as the Chairman (legally elected).

The eligibility criteria for the Board of Directors are stipulated in the specific legislation and in the bank's Articles of Association.

In accordance with the applicable banking regulations, the members of the Board are subject to the following eligibility criteria:

- they must have a good reputation and experience adequate to the nature, extent and complexity of the credit institution's activity and to the assigned responsibilities, in order to ensure a prudent and sound management of the bank;
- they have theoretical and practical knowledge adequate to the banking activities;
- their professional qualifications and experience are compatible with the function held;
- they have not suffered criminal convictions and they have not been involved in any public scandal.

The management, organization and coordination of the current activity are ensured by the bank's leaders (CEO and Deputy CEOs) appointed by the Board of Directors, who jointly form the Leaders' Committee. The Board is the only body entitled to appoint and dismiss the bank's leaders (CEO and Deputy CEOs) from their function, at any time, on a justified basis, establishing the remuneration and mandate for of each of them.

THE MANAGEMENT BODY SELECTION GUIDELINES

a) Eligibility and incompatibility

The members of BT's management body must be natural persons exclusively, with Romanian or foreign citizenship, in any proportion, and:

(i) at individual level:

- they must have a good reputation and experience adequate to the nature, extent and complexity of the credit institution's activity and to the assigned responsibilities, in accordance with the criteria established below, they must have performed their previous professional activity in accordance with prudent and sound principles and they must have and maintain their capacity to perform their activity to the bank's best interest, in accordance with sound and prudent banking practices;

• they must be approved by the NBR before starting to exercise their responsibilities, in accordance with Regulation no. 6/2008;

• they must strictly exercise the administrative responsibilities assigned to them;

(ii) at collective level:

• they must have proper qualifications and competences, in accordance with the criteria established below, in order to be able to make decisions fully aware of all aspects related to the Bank's activities, in line with their competences.

Apart from the conditions stipulated by the applicable legislation regarding the members of the management body of a banking institution, a person cannot be elected in the bank's management body and, if already elected, such person is revoked from its position in the following situation:

• there is a legal disposition, a court sentence, or a decision of another authority, which prohibits the exercise of administration and/or management functions within a credit institution, a financial institution or an insurance-reinsurance company.

Upon the examination of the prior approval request and at any time during the mandate period, the NBR is authorized to analyze the observance of the minimum conditions stipulated by banking law and the specific secondary legislation, to assess all circumstances and information regarding the activity, reputation, moral integrity and the experience of the persons appointed/approved on the position of member of the management body and to decide whether the established conditions are fulfilled both and individual and at collective level.

The Bank does not encourage the occupation of several job positions simultaneously. The members of the management body do not perform any activity outside the bank, if such activity may negatively affect the bank's image, may generate conflicts of interest, or may affect their performance within the bank (inobservance of working hours, lower efficiency on the job as a result of work overload, reputational risk etc.).

The members of the bank's management body may contribute with financing and may participate in the activity of non-profit organizations (humanitarian associations, sports associations, religious/ cultural/scientific organizations etc.) outside the working hours. The involvement in political activities is possible outside the bank, after the working hours, provided that the respective member of the management body does not act as a representative of the bank in such relationships and does not obtain advantages resulting from its position as member of the bank's management body. The potential application for local or central administration positions based on political criteria, or the participation in election campaigns as a candidate on behalf of a certain political party must be notified to the Board of Directors, which will assess the impact on the activity performed by the respective member of the management body.

THE CRITERIA OF SELECTION AND ASSESSMENT OF THE APPROPRIATENESS OF THE MANAGEMENT BODY MEMBERS

The management body must be overall considered as sufficiently adequate.

The criteria to be considered during the selection and adequacy assessment process are the following:

- professional competence criteria;

- reputation criteria;
- governance criteria;

Professional competence criteria

In order to assess the compatibility of a member of the management body, consideration will be given to the knowledge and competences acquired during the academic and practical experience. In this respect, the assessment will take into account the overall criteria stipulated below and aspects related to responsibility sharing.

As concerns the academic experience – the assessment will focus on the level and profile of academic studies and whether such studies are linked to financial and banking services or other relevant areas – studies in finance and banking, economics, law, administration, national & international scholarships, relevant training and professional development courses.

As concerns the professional experience - the assessment will focus on the practical experience related to prior job positions, by taking into account the following:

- work seniority linked to such positions;
- nature and complexity of the activities carried out on the respective positions, including the organizational structure;
- competences, decision making capacity and responsibilities;
- technical skills acquired on such positions related to the activity of credit institutions and the comprehension of risks arising from the activity of credit institutions;
- number of subordinated employees.

In general, the criterion regarding the sufficient practical and professional experience (including management positions and a long enough employment period) is considered to be fulfilled if there is proof of management activity carried out within a credit institution for a period of minimum 5 years, on relevant supervision and control positions, preferably on middle management positions, at least.

With respect to the Board of Directors, the education level, the special knowledge and the professional evolution of this body will be assessed individually and jointly, in order to ensure the utmost professional diversity among its members. Additionally, for the appointment of the mandatory specialized committees (such as the Audit Committee, the Nomination and Remuneration Committee) consideration shall be given to the sufficient experience of the committee members in the respective areas of activity, so that the whole committee covers the expertise required by the legislation in order to carry out its activity and its members (individual members) fulfill the tasks related to their position in an appropriate manner.

The knowledge required refers to the following:

- main rights and obligations of the BoD and of the Leaders' Committee;
- collaboration between the management body and the coordinators of the internal control independent functions;
- knowledge in terms of practices, policies, legislation and regulations applicable in the financial-banking sector;
- knowledge in terms of risk management principles, procedures and practices;
- functioning and structure of the credit institution;
- Committees reporting to the Board of Directors;

- Knowledge in the interpretation and understanding of financial information at least at a level which qualifies the respective person to participate in the collective decision making process within the management body.

Reputation criteria

Apart from the professional competence criteria, another adequacy premise is represented by the good reputation and personal credibility. A member of the management body has a good name when there is no reason of doubt as concerns his/her reputation or there is proof attesting his/her good reputation. The good reputation is affected by the existence of any indicia leading to justified objections related to the capacity of the candidate to ensure a prudent management of the credit institution.

In this respect, the following factors with impact on reputation shall be assessed:

a) observance of professional standards

b) correct economic standing

a) Observance of professional standards

Verification criteria:

The professional career of the candidate has an evolution which allows for the assumption of a law abiding behavior.

In the assessment of the previous professional activity of the candidate, the following aspects are considered as highly severe and therefore damaging to the personal credibility and reputation of the person:

- the dismissal from a management position as a result of the supervisory authority intervention;
- the denial of the professional license, or the withdrawal/termination/cancellation of such professional license
- the dismissal from management positions and from positions which are based on economic, fiduciary or any other considerations, including a special degree of confidence, due to reasons correlated with the integrity, honesty and trustworthiness of the respective person.
- Similar reasons leading to the resignation from the previous functions, in case such resignation was not initially based on the decision of the respective person.

b) Correct Economic Standing

Verification criteria:

Candidate’s affidavit stating his/her correct economic situation.

- No bankruptcy procedure is declared with regard to the company of which the candidate is a shareholder/director, the business activity of which is based to the determined extent on his/her person, unless an economic recovery plan was concluded and completed during the bankruptcy procedure; this also applies to the cases in which a similar situation exists or existed abroad.
- No civil, administrative or criminal proceeding, extensive investigations or open risk positions related to loans or assumed borrowings exist, to the extent that such events could have a major impact on the candidate’s financial standing.

- The Bank does not hold information of a contrary content.

Additionally, the assessment can also consider the following information:

- A solvency notice from certain credit control institutions or a notice from a similar authority abroad, showing the existence of an imprudent financial behavior, and/or of certain disproportionately high financial obligations assumed.

The candidate shall be informed that he/she must disclose his/her financial standing, within his/her obligation to cooperate in case of doubts of certain supervisory authorities of the financial market in Romania with regard to his/her good financial standing.

In order to assess aspects concerning personal credibility and good reputation one shall have in view the aspects laid down in the applicable legal provisions, as well as the data obtained from additional sources.

Governance Criteria

The following criteria shall be taken into account for the assessment of the management body's adequacy:

1. Sufficient time for the exercise of his/her duties

The correspondence with the minimally established period for the exercise of the considered role shall also be taken into account.

2. In order to assess the degree of independence, honesty and integrity, one shall request information to check for potential causes of conflicts of interests:

a. Previous positions within the institution, as well as positions held in other companies

b. Personal, professional or economic connections with the majority shareholders of the credit institution or of the affiliated companies

c. Personal, professional or economic connections with the other members of the management body

Personal, professional or economic connections have in view financial interests (e.g. loan, participations) and non-financial or relationship interests (e.g. close relationships such as spouse, official partner, partner, child, parent or other relationship with the person sharing the same hosehold) of the person and of his/her relatives up to 2nd degree with the other members of the management and of the Board of Directors or with the majority shareholders of the credit institution or of the affiliated companies.

POLICY ON DIVERSITY WITH REGARD TO SELECTION OF MEMBERS OF THE MANAGEMENT BODY

General perspectives regarding diversity in the current management body of Banca Transilvania

This policy aims to promote diversity within Banca Transilvania S.A.'s management body (Board of Directors and Leaders' Committee). Banca Transilvania S.A. recognizes and embraces the benefits of a diversified management body as a pathway to improve the quality of its performance.

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

The Administration of Banca Transilvania is entrusted by the General Shareholders Meeting to a Board of Directors elected for one term of office lasting four years. The Board of Directors consists of 7 directors elected by the shareholders in the General Shareholders Meeting, either at the expiration of their mandate, or individually, in case of vacancies. The eligibility criteria for the Board of Directors are stipulated in specific legislation, as well as in the Articles of Incorporation of Banca Transilvania S.A.

The Board of Directors shall appoint the members of the Leaders Committee whilst also considering the recommendations of the Remuneration and Nominalization Committee. In Banca Transilvania S.A., the management body is represented by the members of the Board and the Leaders' Committee.

In order to achieve sustainable and balanced development, Banca Transilvania views the diversity of the management body as an essential element in supporting its strategic objectives. In designing the structure of the management body, in regard to issues of diversity we considered several criteria, among which: gender, age, cultural and educational profile, ethnicity, professional experience, skills, knowledge and work experience. All appointments to the management body are based on meritocracy, and applicants will be considered on the basis of objective criteria, taking into account the benefits of diversity within the body.

This policy governing Board diversity policy complements *Banca Transilvania's selection, surveillance, evaluation and succession policy*.

Banca Transilvania S.A. believes that although the diversity and variety of experiences and viewpoints represented in the management body should always be considered, a candidate should not be chosen nor excluded solely or largely because of race, color, gender, national origin or sexual orientation. In selecting a candidate, The Remuneration and Nominalization Committee firstly assesses the skills of the candidate, the national and international experience and cultural profile which would complement the existing management body, recognizing that the Bank's operations and activities are diverse and global in nature and national in impact.

Reflecting the global nature of banking, Banca Transilvania's directors and Executive Officers are citizens of Romania as well as citizens and residents of other Member States. Most BT managers and directors have a domestic and international banking background.

Banca Transilvania S.A. believes that, while the management body does not have to adhere to a fixed number of directors, in general, a management body made up of 6 to 14 members offers a large and diverse group to address important issues facing credit institution while being small enough to encourage personal involvement and constructive discussions.

The current directors and executive officers of Banca Transilvania S.A. must have held senior positions in various organizations or in Banca Transilvania, proving their ability to exercise leadership responsibilities related to management positions. They were senior executives in the prestigious international institutions, where they developed skills and experience in terms of strategy and business development, innovation, operations, brand management, finance, compliance, decision-making and risk management. This skill and experience gained allows them to offer sound judgment regarding the problems faced by an international company in today's environment, ensuring surveillance of these areas of the Bank's activity and thus assessing the performance of BT.

All members of the management body also have significant experience in corporate governance and supervision of complex businesses through their status as executives, directors, managers or other relevant functions in other large institutions. Some bank directors have gained experience in areas relevant to financial and banking institutions such as audit, risk management and stock markets. All these skills and experiences are relevant to current strategies and they encourage the growth of the Bank, enabling the executive officers and the directors to provide on outlook of various valuable and critical issues and viewpoints in regard to new business opportunities, product launches, new market perspectives, problems faced by the bank and the banking system both locally and nationally.

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

Selection of candidates will be based on a diverse range of perspectives, including but not limited to gender, age, cultural and educational profile, ethnic, professional experience, skills, knowledge and work experience. The final decision will be based on merit and the added value that the selected candidates will bring to the management body. The composition of the management body (including gender, ethnicity, age, seniority) will be communicated regularly through Banca Transilvania's website.

The Board of Directors and Leaders Committee perceive diversity as a factor in electing the members of the management body, whilst also acknowledging that promoting diversity within the management body provides significant benefits for the Bank. Remuneration and Nomination Committee uses various criteria in selecting candidates for the position of executive officer and director, including the in-depth diversity.

An eligible candidate for the position of member of the BT management body must be able to work in a collegial manner with people from different educational, cultural and business backgrounds and must have skills that complement the existing members' attributes.

Banca Transilvania S.A. encourages the presence of female members in the management body in order to ensure equilibrium and high performance. However Banca Transilvania S.A. considers that the appointment of a new member of the management body cannot be made solely on the basis of gender, given that such practices lead to the defamation of the competence and independence of said member. Thus we believe that efficient and sustainable development of the Bank can be achieved by providing a framework for growth and personal development of female employees (under the same conditions as their male counterparts). The employees of today can become tomorrow's leaders.

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

Surveillance and disclosure

Remuneration and Nominalization Committee will ensure compliance with European requirements regarding the diversity of the management body.

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

The Remuneration and Nominalization Committee may consider diversity in assessing the candidates for membership of the management body. Banca Transilvania S.A. considers that cultural diversity in regard to the profile, experience, skills, race, gender and national origin is an important element in the composition of the management body. The Remuneration and Nominalization Committee discusses diversity concerns in relation to each candidate, and periodically reviews the composition of the management body as a whole.

The Remuneration and Nomination Committee outlines a pattern of adequate skills and characteristics required of the members of the management body, in light of its current composition. This evaluation includes issues of expertise (including international and banking-related experience), independence, integrity, diversity, age and technical skills related to banking, finance, marketing, technology and public policy. The main eligibility criteria considered are those arising from legal requirements. The committee must ensure that the management body remains independent.

THE RISK MANAGEMENT COMMITTEE

The Risk Management Committee is a body subordinated to the Board of Directors and established in order to issue competent and independent opinions regarding the policies and practices of risk management, capital adequacy to risks and the bank's risk appetite and to exercise the attributions awarded by the Board of Directors in this area of activity.

The Risk Management Committee currently contains 3 directors. Its main responsibilities are: to advise the BoD regarding the risk appetite and the global strategy for the management of current and future risks to which the bank is exposed; to assist the BoD in supervising the implementation of such strategy by the Leaders' Committee. The overall responsibility as concerns risk management belongs to the Board of Directors.

The Risk Management Committee meets on a quarterly basis or whenever required, upon the request of its members or of the bank's management. In 2015, the Risk Management Committee had 7 meetings.

INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY

The bank has implemented mechanisms for periodical and transparent reporting with respect to risks, in order to provide timely, accurate, comprehensible and relevant reports to the management body and the relevant structures for the exchange of relevant information on risk identification, measurement, assessment and monitoring.

The Board of Directors and the Risk Management Committee establish the type, volume, format and frequency of information regarding risks.

DAR- Risk Analysis and Portfolio Management Department is responsible for the daily monitoring and observance of approved risk limits during the bank's activity, in order to ensure that the risks arising from treasury operations are correlated with the appetite for risk assumed by the bank. Any deviation from such limits is immediately reported to the executive risk manager, the treasury manager and to the CRO and submitted for analysis in the following Asset-Liability Committee meeting.

Ratios related to the bank's risk appetite are monitored on a monthly basis, the results being synthesized in the specific risk reports submitted to the attention of Asset-Liability Committee / Leaders' Committee for information and analysis.

Reports are submitted to Board of Directors / Risk Management Committee at least on a quarterly basis.

Scope of application

Banca Transilvania S.A. (the "Bank") was incorporated in Romania in 1993 and is licensed by the National Bank of Romania to conduct banking activities. The Bank started its activity in 1994 and its main operations involve banking services for legal entities and individuals.

On December 10, 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 April 7, 2015. On 30 December 2015, the legal merger through absorption between Banca Transilvania S.A. (as merging company) and Volskbank Romania S.A. (as merged company) was finalised.

Further to the merger, the absorbing Bank took over all the rights and obligations of the absorbed bank Volksbank Romania S.A., which was dissolved without liquidation by transferring all the accounting assets and liabilities, as well as the rights and obligations to the absorbing Bank.

Due to the differences between the regulations, Banca Transilvania Financial Group ("the Group") is defined in accordance with two separate consolidation perimeters, as follows:

- Consolidated group for IFRS purposes – in accordance with IFRS 10
- Consolidated group for prudential purposes – in accordance with articles 18 and 19 of the Regulation (EU) No 575/2013

Consolidated Group for IFRS Purposes

IFRS 10 establishes a single control model applicable to all entities, including special-purpose entities.

The amendments brought forth by IFRS 10 require the management to exert significant reasoning in order to determine the entities that are controlled, and thus need to be consolidated by a parent entity.

In accordance with IFRS 10 "Consolidated Financial Statements", the Group controls an entity it has invested in, when it entirely holds the following:

- Power over the investee;
- Exposure or rights to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of the investor's returns;

All the subsidiaries directly or indirectly controlled by Banca Transilvania are consolidated using the global consolidation method.

The Group Banca Transilvania ("Group") includes the parent-company, Banca Transilvania S.A. ("Bank") and its subsidiaries, based in Romania and in the Republic of Moldova.

The consolidated financial statements of the Group for the financial exercise completed on December 31st, 2014 comprise of the financial statements of Banca Transilvania S.A. and of its subsidiaries, which comprise the whole Group.

The subsidiaries comprise of the following entities:

Subsidiary	Field of activity	December 31, 2015	December 31, 2014
BT Securities S.A.	Investments	99.40%	98.68%
BT Leasing Transilvania IFN S.A.	Leasing	100.00%	100.00%
BT Investments S.R.L.	investments	100.00%	100.00%

BT Direct IFN S.A.	consumer loans	100.00%	100.00%
BT Building S.R.L.	investments	100.00%	100.00%
BT Asset Management S.A.I S.A.	management of assets	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.95%	95.00%
BT Asiom Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.95%	95.00%
BT Safe Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.99%	99.99%
BT Intermedieri Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.99%	99.99%
BT Compania de Factoring S.R.L.	factoring	100.00%	100.00%
BT Operational Leasing S.A.	Leasing	94.73%	94.73%
BT Leasing MD SRL	Leasing	100.00%	100.00%
Transilvania Imagistica S.A.	other activities related to human health	89.71%	88.38%
Improvement Credit Collection SRL	Activities of collection agencies and the loan reporting offices	100.00%	100.00%

The Group's fields of activity are: banking through BANCA TRANSILVANIA S.A (the "Bank"), leasing and consumer loans through BT Leasing Transilvania IFN S.A, BT Operational Leasing S.A, BT Direct IFN S.A and BT Leasing MD S.R.L., asset management through BT Asset Management S.A.I S.A. Likewise, the Bank holds more than 50% in two investment funds which it also consolidated with the global integration method.

Consolidated for legal/accounting purpose – IFRS10

	Fully consolidated		**Equity method**	
Number of units	2015	2014	2015	2014
As of 1/1	17	17	0	
Included for the first time in the financial period	3	0		
Merged in the financial period	-1	0		
Excluded in the financial period	-1	0		
As of 31/12	18	17	0	0

Consolidated Group for Prudential Purposes

The regulations underlying the prudential consolidation are the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 and Regulation (EU) No 575/2013 of the European Parliament and of the Council.

In 2015, the difference between the Group consolidated for prudential purposes and the one consolidated for accounting IFRS purposes resides in three investment funds that are undertakings for collective investment, without legal personality and a company indirectly held by one of these investment funds. These entities are not subject to the provisions laid down in Regulation no. 575 /2013 on on prudential requirements for credit institutions and investment firms.

In 2014, the difference between the Group consolidated for prudential purposes and the one consolidated for accounting IFRS purposes resides in two investment funds that are undertakings for collective investment, without legal personality and a company indirectly held by these investment funds. These entities are not subject to the provisions laid down in Regulation no. 575 /2013 on on prudential requirements for credit institutions and investment firms.

The financial statements consolidated for prudential purposes for the financial exercise ended on December 31st, 2015 comprise the financial statements of Banca Transilvania S.A. and of its subsidiaries, which form the whole Group. The subsidiaries comprised in the prudential consolidation are:

Subsidiary	Field of activity	December 31, 2015	December 31, 2014
BT Securities S.A.	Investments	99.40%	98.68%
BT Leasing Transilvania IFN S.A.	Leasing	100.00%	100.00%
BT Investments S.R.L.	investments	100.00%	100.00%
BT Direct IFN S.A.	consumer loans	100.00%	100.00%
BT Building S.R.L.	investments	100.00%	100.00%
BT Asset Management S.A.I S.A.	management of assets	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.95%	95.00%
BT Asiom Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.95%	95.00%
BT Safe Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.99%	99.99%
BT Intermedieri Agent de Asigurare S.R.L.	activities auxiliary to insurance and pension funds	99.99%	99.99%
BT Compania de Factoring S.R.L.	factoring	100.00%	100.00%
BT Operational Leasing S.A.	Leasing	94.73%	94.73%
BT Leasing MD SRL	Leasing	100.00%	100.00%
Improvement Credit Collection SRL	Activities of collection agencies and the loan reporting offices	100.00%	100.00%

Consolidated for prudential purposes

	Fully consolidated		Equity method	
Number of units	2015	2014	2015	2014
As of 1/1	14	14	0	7
Included for the first time in the financial period	2	0		
Merged in the financial period	-1	0		
Excluded in the financial period	-1	0		-7
As of 31/12	14	14	0	0

Own funds

REQUIREMENTS RELATED TO OWN FUNDS

Reconciliation of own funds elements with the balance sheet in the audited financial statements of the institution

Capital base in thousand lei	2015
Shareholders' equity according to the Group's balance sheet	6,240,807
Non-controlling interests	6,120
Anticipated dividend	-1,200,000
Additional value adjustments	-93,234
Goodwill	-376
Deferred tax assets	-105,461
Intangible assets	-74,471
Other adjustments	-165,055
Common Equity Tier 1 capital	**4,608,329**
Total Tier 1 capital I	**4,608,329**
Tier 2 instrument	416,424
Other adjustments	-39,927
Total Tier 2 capital	**376,497**
Total capital base	**4,984,826**

Statement of financial position

Assets in thousand lei	IFRS 2015	Prudential 2015
Cash reserve	6,796,343	6,796,326
Loans and advances to banks	2,063,050	2,062,192
Loans and advances to customers	28,207,311	28,199,220
Impairment losses on loans and advances	-2,796,912	-2,801,582
Trading assets	155,386	58,527
Derivatives	5,642	5,642

Financial investments	12,242,959	12,378,572
Intangible fixed assets	74,848	74,847
Tangible fixed assets	452,266	447,513
Other assets	420,188	404,870
Total assets	**47,621,079**	**47,626,127**

Liabilities and Equity in thousand lei	**IFRS 2015**	**Prudential 2015**
Deposits from banks	1,174,675	1,174,675
Deposits from customers	38,646,506	38,670,640
Provisions for liabilities and charges	708,199	708,171
Derivatives	5626.41	5626.41
Other liabilities	428,836	394,719
Subordinated capital	416,424	416,424
Equity	6,240,813	6,255,872
Consolidated equity	3,788,564	3,804,438
Consolidated profit/loss	2,446,128	2,445,043
Non-controlling interests	6,120	6,391
Total equity and liabilities	**47,621,079**	**47,626,127**

Own funds (prudential)

Own funds in thousand lei	**31/12/2015**
Capital instruments and the related share premium accounts	3,140,821
Retained earnings	1,317,444
Accumulated other comprehensive income (and any other reserves))	580,691
Funds for general banking risk	77,893
Minority interests (amount allowed in consolidated CET1)	6,391
Common Equity Tier 1 (CET1) capital before regulatory adjustments	5,123,239
Additional value adjustments	-93,234
Intangible assets (net of related tax liability)	-74,471
Goodwill	-376
Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met)	-105,461
Unrealised gains and losses	-76,391

Other transitional adjustment	-164,977
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-514,910
Common Equity Tier 1 (CET1) capital	4,608,329
Tier 1 capital (T1 = CET1 + AT1)	4,608,329
Tier 2 (T2) capital: instruments and provisions	376,497
Tier 2 (T2) capital before regulatory adjustment	376,497
Tier 2 (T2) capital: regulatory adjustments	0
Total regulatory adjustments to Tier 2 (T2) capital	0
Tier 2 (T2) capital	376,497
Total capital (TC = T1 + T2)	4,984,826
Risk weighted assets	27,587,989
Common Equity Tier 1 (as a percentage of total risk exposure amount	16.70%
Tier 1 (as a percentage of total risk exposure amount	16.70%
Total capital (as a percentage of total risk exposure amount	18.07%

Capital requirements

CAPITAL REQUIREMENTS

Capital requirement for credit risk

Banca Transilvania calculates the risk-weighted exposure amounts for credit, counterparty credit and dilution risk using the standardise approach according to Directive 2013/36/EU, Chapter 2 of Part Three, Title II.

thousand lei

RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	1,587,664
Central governments or central banks	0
Regional governments or local authorities	167
Public sector entities	4,506
Multilateral Development Banks	0
International Organisations	0
Institutions	46,143
Corporates	500,602
Retail	498,080
Secured by mortgages on immovable property	206,052
Exposures in default	262,001
Items associated with particular high risk	0
Covered bonds	0
Claims on institutions and corporates with a short-term credit assessment	163
Collective investments undertakings (CIU)	0
Equity	0
Other items	69,949

Capital requirement for market risk

Banca Transilvania calculates Risk exposure amount for position, foreign exchange and commodities risks usind the standardised approaches in accordance with points (b) and (c) of Article 92(3) of Directive 2013/36/EU.

Thousand lei

Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	4,236,125
Traded debt instruments	3,487,039
Equity	666,085
Foreign Exchange	83,000
Commodities	0

Capital requirement for operational risk

Banca Transilvania calculates the risk exposure amount for operational risk in accordance with Part Three, Title III, Chapters 2 of Directive 2013/36/EU.

Thousand lei

Total risk exposure amount for operational risk (opr)	**3,495,554**

Exposure to counterparty credit risk

SETTING CREDIT LIMITS RELATED TO COUNTERPARTY CREDIT RISK EXPOSURES

Throughout its activity, Banca Transilvania has exposures to other Romanian or foreign banks through treasury and trade operations, in local or foreign currency, within certain exposure limits.
Exposure limits are calculated and they govern two types of operations: treasury and trade, these representing Banca Transilvania's maximum exposures on a partner bank, calculated as a percentage of own funds. Treasury operations are divided depending on the type of transaction, foreign exchange market (operational risk) or money market (credit risk) and depending on the date of settlement, respectively on maturity. Exposure limits according to the date of settlement, respectively maturity are not cumulative, but exclusive.

The method for determining exposure limits uses the principle of comparison between individual financial ratios calculated for the partner bank and the average ratios calculated for the group of banks it belongs to. Finally, financial ratios are weighted with quality indicators, indicators regarding the control of the Bank and the country rating;
The data which represents the basis for determining the exposure limit for partner banks:

- financial ratios
- quality indicators
- indicators regarding bank control
- country rating

MANAGEMENT OF FINANCIAL INSTRUMENTS ELIGIBLE AS GUARANTEES

Banca Transilvania keeps records of the financial instruments portfolio held in its own name and behalf, providing daily information regarding volume, number, maturity, yield (etc.), the entity and jurisdiction of assets /financial instruments eligible for guarantee.
In accordance with the legislation in force, financial instruments held in its own name can be used in order to guarantee certain financial obligations undertaken by Banca Transilvania. Pledging of financial instruments is made directly on the account of the guarantee supplier (non-possesory pledge).

Internal-operational records reflect in a distinct manner the financial instruments which are pledged (differentiated on purposes, depending on the guaranteed obligation) and the financial instruments which are free from liens. Such clear distinction of pledged instruments results in the proper and real time determination of the quantity of financial instruments available for trading in the bank's own account.
Monitoring the value of financial instruments in its own portfolio is performed daily (available balance, market value, haircut, etc.).

FINANCIAL RISKS RELATED TO FINANCIAL INSTRUMENTS OPERATIONS

In carrying out transactions with derivative financial instruments, the Bank is subject to market risk, credit risk, operational risk and legal risk associated with derivative products.
Control over derivative operations include proper separation of obligations, monitoring of risk management, supervision of management and other activities designed to ensure that the control objectives of the bank will be achieved. These control objectives include the following:

- Authorized execution. Derivative transactions are executed in accordance with policies approved by the bank.
- Comprehensive and accurate information. Information regarding derivatives, including information related to fair value, is recorded on time, it is complete and correct when recorded in the accounting system and it is classified, described and reflected in an appropriate manner and in accordance with the provisions of EU regulation 648/2012 (EMIR).
- Preventing or detecting errors. Errors in processing of accounting data for derivatives are prevented or detected on time.
- Permanent monitoring. Activities involving derivatives are monitored on a permanent basis to recognize and measure events that affect related assertions present in financial statements.
- Evaluation. Changes in the value of derivatives are recorded and appropriately presented to the competent authorities, both operationally and in terms of control. The assessment is part of the ongoing monitoring activities, in compliance with EU regulation 648/2012 (EMIR).

At this time, Banca Transilvania does not hold within its portfolio (current balance) Interest Rate Swaps type financial derivatives (FD), namely options.

Capital buffers

In 2015 no capital buffers were applied.

Indicators of global systemic importance

In 2015 no Indicators of global systemic importance were applied.

Credit risk adjustments

DEFINITIONS FOR ACCOUNTING PURPOSES OF 'PAST DUE' AND 'IMPAIRED'

Individually impaired loans and securities

Individually impaired loans and securities are loans and securities with respect to which the Group and the Bank consider that difficulties may occur in collecting the principal and interest due according to the contractual terms of the loan / securities agreement.

Past due but not individually impaired loans and securities

Loans and securities with respect to which the interest or principal payments are past due, but the Group and the Bank believe that an individual impairment is not appropriate considering the value of the security/collateral available and/or the stage of collection of the amounts owed to the Group and the Bank.

DESCRIPTION OF THE APPROACHES AND METHODS ADOPTED FOR DETERMINING SPECIFIC AND GENERAL CREDIT RISK ADJUSTMENTS

Allowances for impairment

The Group and the Bank determine an allowance for impairment losses that represents an estimate of the incurred losses on the loan portfolio. The main components of this allowance are represented by an individual loan loss component that relates to individually significant exposures, and a collective loan loss component established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that may be subject to individual impairment.

As at 31 December 2015, the Group and the Bank changed the calculation methodology for the collective impairment allowances as follows:

- In the calculation methodology for unimpaired loans without impairment signs, the loss identification period has been set to 12/12 on each portfolio, resulting from the frequency with which clients are submitted to individual impairment analysis and from the fact that in the collective analysis provisions are calculated for clients which have DPD over 15 days;
- For restructured non-performing loans, there is a new methodology implemented for loan loss provisions similar to the methodology used for restructured defaulted loans and for loans to clients in insolvency.

Impairment losses on loans and advances

The Group reviews the loan portfolio (including net investments in lease) to assess the impairment thereof, at least semi-annually (on a monthly basis for the Bank). In determining whether an impairment loss should be recorded in the consolidated/ separate income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans/ lease receivables before the decrease can be identified for an individual loan/ receivable in that portfolio. For example, the observable data might be the un-favourable changes in the customers' payment behaviour from within a group or due to economic, national or local circumstances which correlate with default incidents of a debtors' group.

The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience, including assessing the effects of uncertainty on the local financial markets related to valuation of assets and operating environment of debtors. The loan impairment assessment considers the visible effects of current market conditions on the individual/collective assessment of loans and advances to customers' impairment. Hence, the Group has estimated the impairment loss provision for loans and advances to customers based on the internal methodology and assessed that no further provision for impairment losses is required except as already provided for in the consolidated and separate financial statements.

Write-off policy

Based on a specific analysis, the Group and the Bank may decide to derecognize a depreciated asset either through write-off or through off-balance registration. The analysis of financial assets subject to write-off is performed periodically with respect to assets which exceeded the recovery horizon and/or are fully provisioned (based on the assessment of significant changes affecting the financial performance of the borrower/issuer, changes causing the impossibility to pay the obligation, or changes resulting in insufficient amounts to cover the whole exposure after guarantee enforcement).

The Group and the Bank hold collateral against loans and advances to customers in the form of mortgages over land and buildings, pledges on equipment and inventories, insurance policies and other guarantees. The Group and the Bank have ownership rights over these guarantees until the end of the contract. The estimates of fair value are based on the collateral value assessed on the loan granting date and periodically updated afterwards.

TOTAL AMOUNT OF EXPOSURES AFTER ACCOUNTING OFFSETS AND WITHOUT TAKING INTO ACCOUNT THE EFFECTS OF CREDIT RISK MITIGATION, BY TYPE OF EXPOSURE CLASSES

	thousand lei
Loans and advances	27,012,889
Central banks	0
General governments	31,803
Credit institutions	1,736,719
Other financial corporations	137,115
Non-financial corporations	11,458,408
Households	13,648,844

	General governments	Other financial corporations	Central Banks	Households	Credit institutions	Non-financial corporations
Agriculture, forestry and fishing						1,129,833
Mining and quarrying						89,856
Manufacturing						3,108,306
Electricity, gas, steam and air conditioning supply						468,248
Water supply						125,964
Construction						1,162,183
Wholesale and retail trade						2,802,595
Transport and storage						706,589
Accommodation and food service activities						367,972
Information and communication						216,764
Real estate activities						355,863
Professional, scientific and technical activities						248,193
Administrative and support service activities						163,482
Public administration and defence, compulsory social security	31,803					33
Education						51,772
Human health services and social work activities						358,396
Arts, entertainment and recreation						18,525
Other services						83,834
Financial and insurance activities		137,115	0		1,736,719	0
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use				13,648,844		0
LOANS AND ADVANCES	31,803	137,115	0	13,648,844	1,736,719	11,458,408

	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
Daily due	9,426	0	2,096	2,121,690	735,208	2,868,420
Up to 1 year	3,383	1,736,719	111,507	4,790,746	939,505	7,581,860
More than 1 year, up to 5 years	12,541	0	21,997	3,730,367	4,118,729	7,883,634
More than 5 years	6,453	0	1,515	815,605	7,855,402	8,678,975
Without maturity	0	0	0	0	0	0
Total	31,803	1,736,719	137,115	11,458,408	13,648,844	27,012,889

	Impaired exposures gross values	Past due, but not impaired – gross values	Specific allowances for financial assets, individually estimated	Specific allowances for financial assets, collectively estimated and Collective allowances for incurred but not reported losses on financial assets
Loans and advances	4,428,132	1,725,121	-1,688,107	-1,113,474
Central banks	0	0	0	0
General governments	10,964	840	-6,093	-3,011
Credit institutions	0	0	0	0
Other financial corporations	3,503	1,624	-29	-3,685
Non-financial corporations	3,317,562	559,955	-1,541,559	-545,599
Households	1,096,103	1,162,702	-140,426	-561,179

	Opening balance 01/01/2015	Increases due to amounts set aside for estimated loan losses during the period	Decreases due to amounts reversed for estimated loan losses during the period	Decreases due to amounts taken against allowances	Transfers between allowances	Other adjustments	Closing balance 31/12/2015
Allowances for financial assets (on balance)	-2,512,676	-2,489,976	606,118	1,628,026	0	-33,074	-2,801,581
Hereof specific allowances for financial assets, individually estimated	-1,581,084	-1,204,513	204,126	927,339	-3,836	-30,140	-1,688,107
Hereof specific allowances for financial assets, collectively estimated and collective allowances for incurred but not reported losses on financial assets	-931,592	-1,285,463	401,992	700,687	3,836	-2,934	-1,113,474
Allowances for financial assets (off-balance)	-23,921	-90,337	17,880	45,671	0	-1,420	-52,127
Total	-2,536,597	-2,580,313	623,998	1,673,697	0	-34,494	-2,853,708

Direct write-downs and recoveries recorded directly in the income statemens:

Direct write-down	750,193
Income received on written-down claims	-71,211

SWIFT: BTRLRO22
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. Reg. Com.: J12 / 4155 / 1993

Unencumbered assets

UNENCUMBERED ASSETS

thousand lei

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	730,450		46,895,677	
Equity instruments	0	0	179,591	179,591
Debt securities	730,450	730,450	11,739,769	11,739,769
Other assets	0	0		

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	0	0
Equity instruments	0	0
Debt securities	0	0
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	0	0

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	276,319	301,936

Use of External Credit Assessment Institutions

Banca Transilvania does not use External Credit Assessment Institutions to calculate risk weighted assets.

Exposure to market risk

Risk exposure amount for position, foreign exchange and commodities risks)	4,236,125
Traded debt instruments	3,487,039
Equity	666,085

Foreign Exchange	83,000
Commodities	0

Operational risk

Banca Transilvania uses the basic approach for the assessment of own funds requirements for operational risk.

Exposures in equities not included in the trading book

Banca Transilvania does not have exposures in equities not included in the trading book.

Exposure to interest rate risk on positions not included in the trading book

EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

Banca Transilvania Group is exposed to interest rate risk resulting from:

- Fixed income security trading (interest rate risk from trading activities)
- Funds raised and placed in relation to non-bank customers (interest rate risk from banking activities).

The main sources of interest rate risk are represented by the imperfect correlation between the maturity dates (for fixed interest rates) or the pricing reset dates (for variable interest rates) with respect to interest bearing assets and liabilities, the adverse changes of the yield curve (un-parallel shift of interest rate curves related to interest bearing assets and liabilities).

The management of interest bearing assets and liabilities is carried out in the context of the Group's/the Bank's exposure to interest rate fluctuations. The Group and the Bank use a mix of fixed and variable interest bearing instruments to control the mismatch between the dates on which the interest on assets and liabilities is adjusted to the market rates or the maturity mismatch between assets and liabilities.

Interest rate risk is managed by monitoring the interest rate GAP (mismatch) and by means of a system of limits and indicators approved on maturity bands (time intervals) for interest reset.

The Assets and Liabilities Management Committee is the body that monitors the compliance with these limits, being assisted in the daily monitoring by the Treasury Department.

Interest rate risk management on positions not included in the trading book is carried out throught the standardized approach for calculation of the potential changes in the group's ecconimic value due to changes on the interest rates, according to BNR Regulation no. 5/2015.

The standard movement of interest rates used is of +/-200 basis points, for eash currency that exceeds 5% of total assets or liabilitie from the banking book (Ron si Eur).

The results of the analysis at consolidated level can be found in the table below:

Potential change in economic value	ths lei
Own funds	4,984,826
Potential decrease in economic value +/-200bp	
Total value	88,934
Imapct in own funds	1.78%

Exposure to securitisation positions

Banca Transilvania is not exposed to securitisation positions.

Remuneration policy -

THE REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is subordinated to the Board of Directors and issues competent and independent opinions on the remuneration policies and practices, on the remuneration of the personnel involved in risk management, capital adequacy and the bank's liquidity, on the nomination policies and exercise of the attributions mandated by the Board of Directors in this field of activity.

The Remuneration and Nomination Committee consist of the following directors:

1. Chairman of the Board of Directors

2. Member of the Board of Directors

3. Member of the Board of Directors

The Remuneration and Nomination Committee (REMCO) meets at least twice a year or an time this is necessary, upon the request of one of its members or of the bank's leaders. In fiscal year 2015, REMCO met twice. The Board of Directors is informed with regard to the decisions made by the Remuneration and Nomination Committee after each meeting.

LINK BETWEEN THE TOTAL REMUNERATION AND PERFORMANCE

The remuneration policy comprises:

- the fixed remuneration, established according to the assumed level of responsibility and representing a relevant part of the total remuneration,

- the variable remuneration, conditional upon the achievement of certain previously established targets and the prudential management of risks. This is based on the design of incentives adapted to the Bank's long-term interest, taking into account also future risks.

If the remuneration is correlated with the performance, the amount of the total remuneration is based on the combined assessment of the individual performance, the performance of the respective operational unit and the general results of the credit institution, whereby the assessment of the individual performance takes into account both financial and nonfinancial aspects, such as: gained knowledge/obtained qualifications, personal development, compliance with the systems and controls of the credit institution, involvement in the business strategies and significant policies of the credit institution and the contribution to the team's performance;

Performance assessment takes place within a multi-annual framework, in order to make sure that the assessment process is based on the long-term performance and that the actual payment of the performance-based remuneration components is spread over a period that considers the business cycle of the credit institution and the specific risks of its activity;

DEFERRAL POLICY:

Provided the vesting criteria are met, the deferral policy for the Identified Personnel is:

- in the granting year (for the performance of the previous year) - 60% of the variable remuneration.

- the remaining 40% of the variable remuneration is deferred in tranches equal to 13.33% each, for a period of minimum 36 months and it shall be granted conditional upon the fulfillment of the following criteria:

- The achievement of the gross profit target for the year prior to the granting of the deferred share by minimum 90%;

- Keeping liquidity at an optimum level, while maintaining the *quick ratio* within the limit of the risk appetite assumed for the year prior to the granting of the deferred share

- Alignment between the bank's general risk profile and the risk appetite for the year prior to the granting of the deferred share;

If the amount of the variable remuneration is very high, at least 60% of such amount shall be deferred. The deferral period is established in accordance with the business cycle, the activity type, its risks and the activities of the concerned personnel, but it shall be of minimum 36 months.

CRITERIA USED FOR PERFORMANCE MEASUREMENT AND RISK ADJUSTMENT:

- Achievement of the gross profit target;

- Keeping liquidity at an optimum level, while maintaining the quick ratio within the limit of the assumed risk appetite;

- Keeping the solvability level (calculated in relation to the internal capital) compliant with the Internal Process for the Adjustment of Capital to Risks;

- Alignment between the bank's general risk profile and the risk appetite for the year prior to the granting of the deferred share;

- Keeping the bank at least on the 3rd top position in terms of assets held at the end of the assessed year

RATIOS BETWEEN FIXED AND VARIABLE REMUNERATION

The total annual remuneration of the personnel category the professional activity of whom have a significant impact on the bank's risk profile consists of a fixed component and a variable one that cannot exceed 100% of the fixed component of the total annual remuneration.

The fixed and variable component of the total remuneration are properly balanced and the fixed component represents a share sufficiently large from the total remuneration, so as to allow for a fully flexible policy regarding the components of the variable remuneration, including the possibility of not paying any component thereof.

INFORMATION ON THE PERFORMANCE CRITERIA ON WHICH THE ENTITLEMENT TO SHARES, OPTIONS OR VARIABLE COMPONENTS OF REMUNERATION IS BASED

- Achieving the gross profit target for the assessed year (for the basic part) and/or for the previous year (for the deferred part);

- Keeping liquidity at an optimum level, while maintaining the quick ratio within the limit of the risk appetite assumed for the assessed year (for the basic part) and/or for the previous year (for the deferred part);

- Keeping the solvability level (calculated in relation to the internal capital) compliant with the Internal Process for the Adjustment of Capital to Risks for the assessed year (for the basic part);

- Alignment between the bank's general risk profile and the risk appetite assumed in the assessed year (for the basic part) and/or for the previous year (for the deferred part);

MAIN PARAMETERS AND RATIONALE FOR THE STRUCTURE OF THE VARIABLE REMUNERATION

The performance measurement used to calculate the components of the variable remuneration or the component portfolios of the variable remuneration includes an adjustment for all current and future risk types and takes into account the cost of capital and required liquidity.

The allocation of the variable remuneration components in BT also considers all current and future risk types;

A significant part, representing in all cases at least 50% of any variable remuneration, must consist of an adequate ration between:

(a) cash;

and

(b) shares or other instruments that can be fully converted into instruments of the types included in tier 1 own funds or cancelled, which in any case shall properly and continuously reflect BT's credit quality and shall be suitable for the variable remuneratio.

REMUNERATION FOR THE FINANCIAL YEAR 2015 FOR THE IDENTIFIED PERSONNEL OF BANCA TRANSILVANIA

Total gross remuneration (RON thd., gross)	of which **Gross fixed remuneration (RON thd., gross)**	of which **Gross variable remuneration (RON thd., gross)**	**No. of beneficiaries**
44.063	23.887	20.176	71

Sediul Central
Cluj-Napoca, Cluj
Str. G. Bariţiu nr. 8, 400027
Tel.: +(4)0264.407.150 | Fax: +(4)0264.407.179
www.bancatransilvania.ro

BREAKDOWN OF THE VARIABLE REMUNERATION FOR THE FINANCIAL YEAR 2015 FOR THE IDENTIFIED PERSONNEL OF BT

Gross variable remuneration in cash (RON thd., gross)	Gross variable remuneration in TLV shares (RON thd., gross)	Gross variable remuneration in share-linked instruments	Gross variable remuneration in other types of instruments
100	20.076	0	0

OUTSTANDING AND UNPAID DEFERRED REMUNERATION

No cases of non-payment of the outstanding deferred remuneration have been recorded.

DEFERRED REMUNERATION AWARDED DURING THE FINANCIAL YEAR, PAID OUT AND REDUCED THROUGH PERFORMANCE ADJUSTMENTS

There have been no situations in which the deferred remuneration reduced through performance adjustments was not paid to the senior management and members of staff whose actions have a material impact on the risk profile of the institution.

NEW SIGN-ON AND SEVERANCE PAYMENTS FOR CESSATION OF THE EMPLOYMENT RELATIONSHIP

In the financial year 2015, new sign-on payments, in the form of installation allowance for 1 employee, were awarded to the senior management and members of staff whose actions have a material impact on the risk profile of the institution. In the financial year 2015, no severance payments were awarded to the senior management and members of staff whose actions have a material impact on the risk profile of the institution.

SEVERANCE PAYMENTS FOR CESSATION OF THE EMPLOYMENT RELATIONSHIP

In the financial year 2015, no severance payments were awarded to the senior management and members of staff whose actions have a material impact on the risk profile of the institution.

NUMBER OF INDIVIDUALS BEING REMUNERATED EUR 1 MILLION OR MORE PER FINANCIAL YEAR

No staff member falls into this category.

Leverage

Within the framework of EU Regulation no.575/2013 and in addition to the total capital requirements, the leverage ratio was implemented as a new instrument to limit the risk of excessive indebtedness. The leverage ratio is the ratio of capital to the leverage exposure, specifficaly the tier 1 capital in relation to unweighted exposure on and off the statement of financial position
The Basel Committee initially set a minimum ratio of 3 per cent. After a review to be undertaken by the Basel Committee in the first half of 2017 and possible modification of the minimum ratio, the leverage ratio will become effective as of 1 January 2018.

Reconciliation of the total exposure measure with the relevant information disclosed in published financial statements	Applicable amount
Total assets as per published financial statements	47,621,079
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-36,937
Adjustments for derivative financial instruments	5,642
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	6,214,711
Other adjustments	-5,642
Total leverage ratio exposure	**53,798,852**

On-balance sheet exposures (excluding derivatives and SFTs)	Applicable amount
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	47,584,141
(Asset amounts deducted in determining Tier 1 capital)	0
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**47,584,141**

Other off-balance sheet exposures	Applicable amount
Off-balance sheet exposures at gross notional amount	6,214,711
(Adjustments for conversion to credit equivalent amounts)	0
Other off-balance sheet exposures	**6,214,711**

Capital and total exposures	Applicable amount
Tier 1 capital	4,608,329
Total leverage ratio exposures	53,798,852
Leverage ratio (transitional)	**8.57%**

Split-up of on balance sheet exposures	Applicable amount
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	34,990,732
Trading book exposures	0
Banking book exposures, of which::	34,990,732
Covered bonds	0
Exposures treated as sovereigns	6,089,046
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	64,035
Institutions	1,829,407
Secured by mortgages of immovable properties	7,475,102
Retail exposures	9,503,052
Corporate	5,888,050
Exposures in default	2,247,442
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1,894,598

Use of the Internal Ratings Based Approach to credit risk

Banca Transilvania does not Internal Ratings Based Approach for credut risk assessment.

Sediul Central
Cluj-Napoca, Cluj
Str. G. Barițiu nr. 8, 400027
Tel.: +(4)0264.407.150 | Fax: +(4)0264.407.179
www.bancatransilvania.ro

Use of credit risk mitigation techniques

<u>**CREDIT RISK MITIGATION TECHNIQUES**</u>

Banca Transilvania has solid and adequate policies and procedures in writing, regarding credit risk mitigation techniques in order to control residual risk.
We hereby mainly refer to the following aspects:

- the internal procedures for the assessment of goods, the manual for applying the internal procedure for the assessment of goods for the purpose of establishing bank guarantees, which diminishes the risk that a recognized guarantee is not enforced at its recognized value
- the lending rules both for legal entities and individuals provide for a mandatory legal opinion as part of the credit documentation, in order to minimize the legal risk regarding guarantee enforcement
- internal procedures for the assessment of assets and the lending rules both for legal entities and individuals specify the obligation of the periodic revaluation of guarantees.

Banca Transilvania revises on a regular basis, but at least annually, the adequacy, effectiveness and the operation of these policies and procedures.

The guarantee method used by BT is customized according to the customer's risk profile, the type of loan or other elements, according to the provisions of the lending rules.

Setting the amount of the properties proposed as loan guarantees is made through evaluations based on the appraisals carried out by specialized personnel and recorded in the evaluation reports attached to the loan documentation, based on which the fair value of the goods and the value for guarantee are established.
In the lending agreement, in the guarantee agreement and in the Bank's accounting records, guarantees are recorded at the guarantee value determined by weighting the market value set in the evaluation reports with the ratios for adjusting guarantees to risk.

All goods proposed to be taken as guarantee meet the following conditions:

- they are placed in the civil circuit
- they are noticeable
- they can be precisely ascertained or are ascertainable;
- they are in the exclusive property of the borrower or the guarantor, as applicable, and this can be proven with legal documents
- they are correctly and fully recorded in public records
- they are not the object of any litigation or debt enforcement procedure
- there is a market for the goods proposed as guarantee, so they could be easily sold in case of the guaranteed debtor's insolvency

In Banca Transilvania, the following activities are performed in order to determine the fair value of real guarantees:

a. **The valuation activity of the goods proposed as guarantee** is carried out based on the International Valuation Standards, the Regulations of the National Bank of Romania concerning the valuation of bank guarantees and Regulations of the National Association of Valuers in Romania and is aimed at determining the fair value and the value of the guarantee for the movable and immovable property proposed as collateral for loans granted to customers, values determined at the date of their acceptance as a bank guarantee.

b. **The revaluation activity of the goods accepted by the Bank as guarantees** is based on the International Valuation Standards, the Romanian Valuation Standards for goods, the provisions of NBR Reg. 5/2013, as well as the provisions of the Internal Lending Rules of Banca Transilvania, where they provide that more frequent assessments be performed in comparison to the general regulations mentioned above.

MAIN TYPES OF COLLATERAL TAKEM BY THE INSTITUTION

The group accepts the following types of collateral:

- ***Real estate mortgage*** on immovable asstes owned by the clientor other guarantors .

Goods that are eligible to be the subject of mortgage:

- land with existing buildings
- buildings, lands and their accessories
- land free of constructions
- construction without the related land

According to their destination, contructions can residentian or non-residential (commercial).

- ***Mortgage on movable property***: All movable tangible and intangible assets which have an economic value and which can be tranfered to the bank or to a third party, in care of foreclosure of the mortgage can be object of a mortgage on movable property.

thousand lei

CREDIT RISK MITIGATION TECHNIQUES	UNFUNDED CREDIT PROTECTION		FUNDED CREDIT PROTECTION	
	GUARANTEES	CREDIT DERIVATIVES	FINANCIAL COLLATERAL: SIMPLE METHOD	OTHER FUNDED CREDIT PROTECTION
Central governments or central banks	0	0	0	0
Regional governments or local authorities	-4,907	0	-17	0
Public sector entities	-1,370	0	-6,016	0
Multilateral Development Banks	0	0	0	0
International Organisations	0	0	0	0
Institutions	0	0	0	0
Corporates	-167,552	0	-217,756	0
Retail	-227,847	0	-1,257,686	0

Secured by mortgages on immovable property	0	0	-19,414	0
Exposures in default	0	0	-1,030	0
Items associated with particular high risk	0	0	0	0
Covered bonds	0	0	0	0
Securitisation positions SA	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment;	0	0	-27	0
Collective investments undertakings (CIU)	0	0	0	0
Equity	0	0	0	0
Other items	0	0	0	0

Use of the Advanced Measurement Approaches to operational risk

Banca Transilvania does not use Advanced Measurement Approaches to assess operational risk.

Use of Internal Market Risk Models

Banca Transilvania does not use any Internal Market Risk Models.