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Independent Auditors' Report

(free translation¹)

To the Shareholders of Banca Transilvania S.A.

Cluj-Napoca, Cluj, str. George Baritiu nr.8
Unique Registration Code: 5022670

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

1. We have audited:

- the accompanying consolidated financial statements of Banca Transilvania S.A. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

- the accompanying separate financial statements of Banca Transilvania S.A. ("the Bank"), which comprise the separate statement of financial position as at 31 December 2020, the separate statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

2. The consolidated and separate financial statements as at and for the year ended 31 December 2020 are identified as follows:

• Consolidated Net assets/Total equity:	RON thousands 10,414,358
• Consolidated Net profit for the year:	RON thousands 1,424,078
• Separate Net assets/Total equity:	RON thousands 9,522,869
• Separate Net profit for the year:	RON thousands 1,197,305

¹ TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the consolidated and separate financial statements.

3. In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated financial position of the Group and unconsolidated financial position of the Bank as at 31 December 2020, respectively, and of their consolidated and unconsolidated financial performance and consolidated and unconsolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (“ISAs”), Regulation (EU) no. 537/2014 of the European Parliament and of the Council (“the Regulation”) and Law no. 162/2017 (“the Law”). Our responsibilities under those standards and regulations are further described in the *Auditors’ Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Bank and the Group in accordance with *International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”)* together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Romania, including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans and advances to customers

As at 31 December 2020, the consolidated financial statements include gross loans and advances to customers of RON 44,286,658 thousand, related expected credit losses of RON 3,394,114 thousand, and, for the year then ended, net charge on impairment losses recognized in the statement of profit or loss of RON 984,194 thousand (31 December 2019: gross loans and advances to customers: RON 41,872,385 thousand, related expected credit losses: RON 2,696,981 thousand and net charge on impairment losses recognized in the statement of profit and loss: RON 427,944 thousand).

As at 31 December 2020, the separate financial statements include gross loans and advances to customers of RON 43,553,961 thousand, related expected credit losses of RON 3,190,052 thousand, and, for the year then ended, net charge on impairment losses recognized in the statement of profit or loss of RON 911,369 thousand (31 December 2019: gross loans and advances to customers: RON 41,134,588 thousand, related expected credit losses: RON 2,532,673 thousand and net charge on impairment losses recognized in the statement of profit and loss: RON 364,972 thousand).

See Notes 3 *Significant accounting policies*, 4b *Financial risk management – credit risk*, 5a *Accounting estimates and significant judgements*, 15 *Net expense from impairment allowance, expected losses on assets, provisions for other risks and loan commitments*, 22 *Loans and advances to customers* to the consolidated and separate financial statements.

The key audit matter	How the matter was addressed in our audit
➤ Impairment allowances represent management’s best estimate of the expected credit losses (“ECLs”) within	Our audit procedures, performed, where relevant, with the assistance from our own financial risk

loans and advances to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires management to make complex and subjective judgements over the amount of any such impairment.

- Impairment allowances for the performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) as well as non-performing exposures (Stage 3), with amounts not exceeding certain pre-determined thresholds individually, are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk ("SICR"), forward-looking information and management judgment (together "collective impairment allowance").
- Impairment allowances for exposures in excess of the above thresholds are determined on an individual basis by means of a discounted cash flows analysis. The process relies on a number of complex assumptions, in particular those in respect of the recovery scenarios and the expected proceeds from the sale of the related collateral and minimum period for collateral disposal.
- In the wake of the COVID-19 pandemic, and also the measures applied by the government of Romania to alleviate its effects, including payment holiday moratoriums, measurement of ECLs was associated with additional complexities and an increased estimation uncertainty. In addition, application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses.
- In the wake of the above factors, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the consolidated and separate financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.

management, valuation and information technology (IT) specialists, included, among others:

- Inspecting the Bank's and its subsidiaries' ECL impairment provisioning methods and models, and assessing their compliance with the relevant requirements of the financial reporting standards. This included challenged management on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;
- Testing the design, implementation and operating effectiveness of selected controls in the impairment process. This included testing the controls over (i) completeness and accuracy of relevant data inputs (mainly for loan exposure, ratings, forbearance flags, collaterals and interest rates data), (ii) approval and monitoring of loans (iii) review of collateral valuation reports, (iv) system computation of debt service and (v) testing of the IT control environment for data security and access;
- Assessing the consistency of application of the SICR criteria and of the identification of objective evidence of impairment, and also, for a sample of exposures, independent determination of the loans' classification into the stages of IFRS 9;
- For collective impairment allowance:
 - Challenging the macroeconomic forecasts used in the ECL model in terms of their relevance and source accuracy by comparing them to our own modelled forecasts. As part of the procedure, we challenged the consideration of the economic uncertainty relating to COVID-19, by means of corroborating inquiries of the management board members and inspection of publicly available information;
 - Testing the relevance and reliability of the data used in the process of calculating the PD, EAD and LGD parameters used in the collective ECL model, on a sample basis, by reference to the supporting documentation, such as credit risk memoranda, debt service status, repayment schedules, restructuring operations and underlying data for collections occurring after default;
 - Challenging significant post-model adjustments, by evaluating key underlying assumptions, inspecting the calculation method and tracing a sample of data used back to source data. As part of this procedure, we assessed the

	<p>reasonableness of the Bank's and Group's treatment of the COVID-19 payment holiday for customers from a SICR perspective;</p> <ul style="list-style-type: none"> — Based on the outcome of the preceding procedures, recomputing the ECLs for a sample of loans. ➤ For impairment allowances calculated individually, for a sample of loans, challenging the estimates of future cash flows within the ECL measurement, with main focus on the recovery scenarios, recovery period and collateral values (including related haircuts), which we tested, on a sample basis, by reference to our analysis of historical recoveries and of the appraisals by valuation experts engaged by management, whose experience, competence and objectivity we independently assessed. Also on a sample basis, recomputing the amounts of ECLs at the reporting date. ➤ Assessing the accuracy, completeness and relevance of the ECL-related consolidated and separate financial statement disclosures against the requirements of the relevant financial reporting standards.
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Other Matter – Corresponding figures

6. The consolidated and separate financial statements of the Group and Bank as at and for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 27 March 2020.

Other information

7. The Board of Directors is responsible for the preparation and presentation of other information. The other information comprises the Board of Directors' Report and the Annual Report (prepared as per the requirements of Financial Supervisory Authority ("FSA") Regulation 5/2018), but does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Board of Directors' Report we read and report whether the Board of Directors' Report is prepared, in all material respects, in accordance with NBR Order no. 27/2010, article 32 and NBR Order no. 27/2010, articles 12, 13, 15, 16 and 17 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

Based solely on the work required to be undertaken in the course of the audit of the consolidated and separate financial statements, in our opinion:

- a) The information given in the Board of Directors' Report and Annual Report prepared as per the requirements of FSA Regulation 5/2018 for the financial year for which the consolidated and separate financial statements are prepared is consistent, in all material respects, with the consolidated and separate financial statements;
- b) The Board of Directors' Report has been prepared, in all material respects, in accordance with NBR Order no. 27/2010, article 32 and NBR Order no. 27/2010, articles 12, 13, 15, 16 and 17 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit we are required to report if we have identified material misstatements in the Board of Directors' Report and the Annual Report (prepared as per the requirements of FSA Regulation 5/2018). We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

8. Management is responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the consolidated and separate financial statements, management is responsible for assessing the Bank's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.
10. Those charged with governance are responsible for overseeing the Bank's and Group's financial reporting process.

Auditors' Responsibility for the Audit of the Consolidated and Separate Financial Statements

11. Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting

estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
14. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.
15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

16. We were appointed by the General Shareholders' Meeting on 29 April 2020 to audit the consolidated and separate financial statements of Banca Transilvania S.A. for the year ended 31 December 2020. Our total uninterrupted period of engagement is of 1 year, covering the year ended 31 December 2020.
17. We confirm that:
- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank, which we issued on 24 March 2021. We also remained independent of the audited entity in conducting the audit.
 - we have not provided to the Bank the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014.

The engagement partner on the audit resulting in this independent auditors' report is Furtuna Cezar-Gabriel.



For and on behalf of KPMG Audit S.R.L.:

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Furtuna Cezar-Gabriel

registered in the electronic public register of financial auditors and audit firms under no AF1526

Bucharest, 25 March 2021

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