FitchRatings

04 Jun 2015 3:44 PM GMT/UTC

# Fitch Upgrades Banca Transilvania, Affirms 3 Other Romanian Banks

Fitch Ratings-London-04 June 2015: Fitch Ratings has upgraded Banca Transilvania's (BT) Long-term Issuer Default Rating (IDR) to 'BB' from 'BB-' and removed it from Rating Watch Evolving (RWE). The agency has also affirmed the Long-term IDRs of UniCredit Tiriac Bank S.A. (UCTB) at 'BBB' and ProCredit Bank (Romania) (PCBR) at 'BBB-', and maintained Garanti Bank S.A.'s 'BB+' Long-term IDR on Rating Watch Positive (RWP). The Outlooks on BT, UCTB and PCBR are Stable.

The agency has also upgraded the Viability Ratings (VRs) of BT to 'bb' from 'bb-' and of GBR and PCBR to 'b+' from 'b'. A full list of rating actions is available at the end of this commentary.

KEY RATING DRIVERS - IDRS AND SUPPORT RATINGS

BT

BT's IDRs are driven by the bank's VR and therefore share key rating drivers. The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that sovereign support, while possible, can no longer be relied upon for Banca Transilvania, as for most other commercial banks in the European Union.

UCTB

UCTB's IDRs and Support Rating reflect Fitch's view that UCTB is a strategically important subsidiary for its ultimate parent, UniCredit S.p.A. (UC; BBB+/Stable/bbb+). The Stable Outlook reflects that on the parent. Fitch has upgraded UCTB's Short-term IDR to 'F2' from 'F3', reflecting available liquidity support from its parent.

UCTB's recent announcement of its parent's purchase of an additional 45% stake in UCTB, bringing its total stake to 95.6%, will not have an impact on UCTB's IDRs, as support from UC is already factored into the ratings.

GBR

GBR's IDRs and Support Rating are driven by the potential support it can expect to receive from its parent, Turkey-based Turkiye Garanti Bankasi S.A. (TGB; BBB-/RWP). GBR's support-driven Long-term IDR is one notch below that of its parent, reflecting Fitch's view that GBR is a strategically important subsidiary of TGB.

The RWP on GBR reflects the RWP placed on TGB's ratings. This in turn reflects the announcement made by Banco Bilbao Vizcaya Argentaria S.A. (BBVA; A-/Stable) in November 2014 that it intends to increase its stake in TGB to 39.9% from the current 25% (see 'Fitch Places Garanti on RWP; Revises Support Rating Floors of Privately-Owned Turkish Banks' at www.fitchratings.com). The RWP on GBR's IDR reflects Fitch's view that TGB's credit profile, and hence its ability to support GBR, may strengthen as a result of BBVA's increased stake.

To date, there has been no indication that BBVA is considering changing TGB's strategy in Romania that would lead to a marked reduction of the strategic importance of GBR or of TGB's willingness to support it.

PCBR

PCBR's Long-term IDRs and Support Rating are driven by potential support from its parent, ProCredit Holding AG & Co. KGaA (PCH; BBB/Stable). PCBR's support-driven Long-term IDR is one notch below that of its parent based on the strategic importance of the CEE region and a track record of capital and liquidity support. The Stable Outlook reflects that on the parent.

VIABILITY RATINGS

The upgrade of BT's VR and Long-term IDR reflect improvements in BT's capitalisation, stabilisation of asset quality and Fitch's expectation that the acquisition of Volksbank Romania (VBRO) should improve BT's franchise, while having a neutral to positive impact on its key credit metrics.

The bank's VR also reflects its strong deposit funding base and liquidity position, stable profitability and internal capital generation, low loan concentrations, a lower share of foreign currency lending than at peers and reasonable coverage of impaired loans (high coverage of 90 day past due loans) by reserves. However, the rating also reflects BT's still weak asset quality.

Fitch expects that the acquisition of VBRO (completed in April 2015) will improve BT's franchise and bring potential benefits of greater scale efficiency. Based on information available, Fitch expects that the transaction should be neutral or slightly positive for BT's capitalisation and should not give rise to significant asset quality risks given significant reserves created pre-acquisition, which will be used to finance the conversion of Swiss franc mortgage loans at below market rates. The liquidity position of the combined entity is likely to be moderately weaker than BT's before the acquisition, but will still be comfortable, given large buffers built up by BT prior to the transaction closing.

BT's funding profile is a rating strength. At end-2014, customer deposits accounted for a high 95% of total funding. They were granular and predominantly (62% of the total) retail. At end-2014, BT's liquidity position was ample, with unencumbered liquid assets (including mandatory reserves) equivalent to 55% of customer deposits and a loan to deposit ratio of just 68%. This buffer should comfortably absorb the need to replace remaining parental funding at VBRO and finance the acquisition.

Fitch considers BT's capitalisation strong as reflected by its Fitch Core Capital (FCC) ratio of 17.5% at end-2014. Improvement over 2014 was driven by reasonable internal capital generation and almost flat risk weighted assets. Better coverage of DPD90 loans (those overdue by 90 days or more) has also improved the quality of BT's capital. The acquisition of VBRO is likely to be either neutral or positive given VBRO's recapitalisation by former shareholders and the large buffers to support conversion of CHF mortgages. BT's capitalisation should also be supported by negative goodwill on the VBRO acquisition.

Asset quality largely stabilised at BT in 2014, with DPD90 loan generation at around 0.9% of average gross loans, down from around 2% in 2013. However, the reduction of the DPD90 ratio to 11.1% from 14.8% was fully driven by write-offs. Coverage of impaired loans remained stable at a reasonable 70%, and uncovered impaired loans were 29% of FCC (end-2013: 34%). DPD90 loans are more than 80% covered with specific provisions and more than fully covered by IFRS provisions.

Based on available data, we estimate that the clean-up of bad debt at VBRO before acquisition resulted in asset quality and provision coverage ratios being comparable at both banks. The offer to VBRO's CHF borrowers to convert their loans into RON or EUR at favourable rates is attractive and should result in high take-up and therefore material reduction of future risks related to this part of VBRO's portfolio.

UCTB's VR reflects Fitch's view of the bank's weak asset quality, its only just adequate capital levels and modest operating profitability. However, the VR also factors in the bank's solid pre-impairment operating performance and its strong liquidity profile.

UCTB's headline impaired loans ratio (19.9% of gross loans at end-2014) reflects a relatively conservative identification of potentially problematic exposures. Regulatory NPLs of 12.6% at end-2014 compare well with the sector average, with DPD90 exposures somewhat lower at 10.0%. The difference between impaired loans and the NPL/DPD90 ratios is mainly driven by some large, potentially problematic commercial real estate exposures.

Fitch views UCTB's capitalisation, with a FCC ratio of 13.4% at end-2014 (end-2013: 14.7%), as only adequate. This reflects the high level of unreserved impaired loans at end-2014, amounting to 77% of FCC. Operating performance continues to be constrained by high loan impairment charges, a contracting net interest margin and high levels of liquid assets.

The upgrade of GBR's VR reflects improvements in the bank's funding profile (an increase in the share of customer deposits), a longer track record of solid pre-impairment operating profitability and improved prospects for the Romanian economy.

However, asset quality remains weak, with NPLs of 15.5% (EBA definition) at end-2014 and their coverage with IFRS reserves at a modest 56%. Regulatory NPLs of 12.8% at end-2014 compare well with the sector average (13.9%). Locally sourced customer deposits increased to 57% of total non-equity funding, and cross-border fiduciary deposits have declined as a source of funding for the bank (16% of total funding excluding derivatives at end-2014). The bank's FCC ratio (16% at end-2014) is only adequate given the bank's growth targets and considerable levels of unreserved NPLs relative to the capital base (53%).

The upgrade of PCBR's VR reflects the bank's track record of stable operating profitability and good asset quality through the cycle compared to other Romanian banks, and improved prospects for the Romanian economy. Pre-impairment profitability remains constrained by the bank's small size, high cost base and low diversification of revenues, but bottom line performance is supported by moderate loan impairment charges. Impaired loans stood at 9.8% at end-2014.

The FCC ratio increased to 13.8% at end-2014, and internal capital generation, while limited, remains adequate relative to the bank's modest growth targets.

RATING SENSITIVITIES
IDRS

BT's IDRs are driven by the bank's VR and therefore share its key rating sensitivities.

UCTB and PCBR's IDRs are sensitive to changes in their parents' ratings, or in Fitch's view of the commitment on the part of UC and PCH to their respective subsidiaries, or to the wider CEE region.

Fitch will resolve the RWP on GBR upon the resolution of the RWP on TGB's ratings, which is expected in 1H15or shortly afterwards. Following the resolution of the RWP on TGB and the likely upgrade of its ratings by one notch to 'BBB', Fitch is likely to upgrade GBR to 'BBB-'.

VRS
A further upgrade of BT's VR is unlikely in the near term. Over the medium term, an upgrade would require the smooth integration of VBRO, a material improvement in asset quality, and maintenance of strong capital and liquidity positions. A downgrade could result from the merger having a significant negative impact on financial metrics (not currently anticipated by Fitch), a material increase in risk appetite, further deterioration of asset quality or materially weaker capitalisation.

An upgrade of UCTB's VR would require a material reduction in impaired loans and higher levels of coverage by IFRS reserves. A downgrade could result from significant deterioration in asset quality and capital metrics.

Further upgrades of GBR's and PCBR's VRs are unlikely in the short term. For GBR, a VR upgrade would require the bank achieving its targeted growth while improving asset quality and maintaining adequate capital levels. A further VR upgrade for PCBR would require the bank improving its operating efficiency and internal capital generation capacity, whilst maintaining good asset quality. Downgrades of the two banks' VRs could result from significant deterioration in asset quality and capital metrics.

The rating actions are as follows:
BT:
Long-term foreign currency IDR: upgraded to 'BB' from 'BB-'; off RWE, Outlook Stable
Short-term foreign currency IDR: affirmed at 'B'
Viability Rating: upgraded to 'bb' from 'bb-'; off RWE
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'

GBR
Long-term IDR: 'BB+', maintained on RWP
Short-term IDR: 'B', maintained on RWP
Support Rating '3'; maintained on RWP
Viability Rating: upgraded to 'b+' from 'b'

PCBR
Long-term foreign currency IDR: affirmed at 'BBB-'; Outlook Stable
Short-term foreign currency IDR: affirmed at 'F3'
Long-term local currency IDR: affirmed at 'BBB-' Outlook Stable
Short-term local currency IDR: affirmed at 'F3'
Viability Rating: upgraded to 'b+' from 'b'
Support Rating: affirmed at '2'

UCTB:
Long-term foreign currency IDR: affirmed at 'BBB'; Outlook Stable
Short-term foreign currency IDR: upgraded to 'F2' from 'F3'
Support Rating: affirmed at '2'
Viability Rating: affirmed at 'bb-'

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