

FITCH AFFIRMS UNICREDIT TIRIAC BANK & BANCA TRANSILVANIA

Fitch Ratings-Warsaw/London-20 June 2014: Fitch Ratings has affirmed UniCredit Tiriac Bank's (UCTB) and Banca Transilvania's (BT) ratings. A full list of rating actions is at the end of this rating action commentary.

BT

KEY RATING DRIVERS: IDR, VR AND SUPPORT RATING FLOOR

BT's Long-Term IDR is driven by its individual strength, reflected in its 'bb-' Viability Rating (VR).

The VR reflects the bank's strong deposit funding base, stable profitability and internal capital generation, low concentrations in the loan book, a lower share of foreign-currency lending than at peers and reasonable coverage of impaired loans with accounting provisions and high coverage of 90 days past due loans. Given the bank's risk profile and provisioning coverage, capitalisation is adequate, in Fitch's view (Fitch Core Capital (FCC) ratio of 14.8% at end-2013). BT's rating strength is its funding profile. Liquidity buffers are comfortable.

Asset quality continued to deteriorate over 2013 with impaired loans (impaired loans plus loans more than 90 days overdue but not impaired) rising to 19.1% at end 2013 (2012:15.5%) reflecting deterioration in lending to both corporate customers and to private individuals. Despite booking impairment charges at similar level as in 2012 (around 220 bp of average gross loans) the coverage of impaired loans with accounting provisions fell to 71% from 81%. Fitch views this level as still quite comfortable, especially given that exposures overdue by more than 90 days (12.6% of total gross loans at end-2013) were fully covered by accounting provisions.

BT's Support Rating (SR) of '3' and Support Rating Floor (SRF) of 'BB-' reflect the bank's systemic importance as the largest private bank with no majority shareholder and with a nationwide franchise in Romania, as a result of which Fitch believes there is a moderate likelihood that the Romanian authorities would provide support if necessary.

RATING SENSITIVITIES: IDR, VR AND SRF

In Fitch's view, the balance of risks for the VR and hence the Long-term IDR is skewed towards the positive, but upside will depend on the bank building a track record in the moderation of new impaired loan formation whilst maintaining a high level of provisioning coverage and capitalisation close to current levels. We believe these developments would require a broader recovery in the macroeconomic environment. Downside risk to the VR could come primarily from a major deterioration in asset quality, leading to a substantial worsening of capitalisation, including a further meaningful rise of net impaired loans relative to FCC (34% at end-2013), which is not likely, in Fitch's view.

The Long-term IDR would come under downward pressure only if there was both a downgrade of the VR and a downward revision of Fitch's expectation of sovereign support for the bank. Fitch expects the SR to be downgraded to '5' and SRF to be revised to No Floor within the next one to two years reflecting weakening of support propensity in respect of further progress in addressing impediments to effective bank resolution (for more information see 'Fitch Affirms SRFs of 64 EMEA Banks; Downward Revisions Likely For Most Due To Weakening Support' at www.fitchratings.com).

UCTB

KEY RATING DRIVERS: IDR, SR AND SRF

UCTB's IDRs and SR reflects Fitch's view that UCTB is a strategically important subsidiary for its ultimate parent, UniCredit S.p.A. (UC; BBB+/Negative). This view takes into account the continued high strategic importance of the Central and Eastern Europe region as a whole for UC. Although support is likely to flow through UC's fully owned subsidiary and UCTB's direct owner, UniCredit Bank Austria AG (UCBA; A/Negative), at present UCTB's IDRs and SR do not incorporate any potential support coming directly from UCBA. Fitch believes that the Austrian authorities would look to UC to provide support to the CEE subsidiaries directly before allowing any Austrian sovereign support to flow through to these entities.

RATING SENSITIVITIES: IDR, SR AND SRF

The Negative Outlook on UCTB's Long-term IDR reflects that on the parent. Therefore, a downgrade of UC's Long-term IDR would be likely to result in a downgrade of UCTB's Long-term IDR.

KEY RATING DRIVERS: VR

UCTB's VR reflects the pressure on its profitability from elevated loan impairment charges (LICs), high impaired loan ratios (21.9% at end-2013), and moderate capital levels (FCC ratio of 14.7% at end-2013) in light also of the bank's moderate coverage of impaired loans with accounting provisions (46% at end-2013).

The rating also considers the quite conservative approach to impairment recognition given that loans overdue by 90 days accounted for a much lower 11.1% of total gross loans and that they were covered 92% by all accounting provisions. It also reflects relatively high, albeit decreasing (through customer deposit growth and funds attracted from domestic institutional investors and international financial institutions) reliance on its parent for funding as well as UCTB's efficiency, limited market risk and comfortable liquidity.

RATING SENSITIVITIES: VR

Fitch views the bank's high impaired loan ratios and moderate coverage of impaired loans as negative rating drivers. However, Fitch notes a slowdown in the rate of deterioration, and that problem loans mainly derive from the bank's exposure to the troubled real estate and construction sectors built up before 2009. Given the credit risk in the bank's loan book, and the pressure on internal capital generation, Fitch notes the bank's moderate capital levels. Given the recent deterioration in the bank's performance, and the difficult operating environment, Fitch views the likelihood of an upgrade of the bank's VR as being low in the short to medium term, unless the current trends reverse significantly.

The rating actions are as follows:

Banca Transilvania S.A.:

Long-term foreign currency IDR: affirmed at 'BB-'; Outlook Stable

Short-term foreign currency IDR: affirmed at 'B'

Support Rating: affirmed at '3'

Viability Rating: affirmed at 'bb-'

Support Rating Floor: affirmed at 'BB-'

UniCredit Tiriac Bank S.A.:

Long-term foreign currency IDR: affirmed at 'BBB'; Outlook Negative

Short-term foreign currency IDR: affirmed at 'F3'

Support Rating: affirmed at '2'

Viability Rating: affirmed at 'bb-'

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Additional information is available on www.fitchratings.com

Applicable criteria, 'Global Financial Institutions Rating Criteria' dated 31 January 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

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