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Banks

Romania
Credit Update

UniCredit Tiriac Bank S.A.

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Individual	D
Support Rating	1
Sovereign Risk	
Foreign Long-Term IDR	BBB
Local Long-Term IDR	BBB+
Country Ceiling	A-

Outlooks

Foreign Long-Term IDR	Negative
Sovereign Foreign Long-Term IDR	Negative
Sovereign Local Long-Term IDR	Negative

Financial Data

UniCredit Tiriac Bank S.A.

	30 June 08	31 Dec 07
Total assets (USDm)	6,237.5	5,223.3
Total assets (RONm)	14,389.8	12,828.3
Total equity (RONm)	1,671.2	1,511.9
Operating profit (RONm)	192.6	338.4
Published net income (RONm)	177.2	262.5
Comprehensive income (RONm)	159.7	255.6
Operating ROAA (%)	2.83	2.77
Operating ROAE (%)	24.20	24.45
Internal capital generation (%)	20.07	18.47
Eligible capital/ weighted risks (%)	10.62	12.27
Total regulatory capital ratio (%)	11.59	15.12

Analysts

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Rating Rationale

- The Issuer Default Ratings (IDRs) and Support Rating of UniCredit Tiriac Bank S.A. (UCTB) reflect the support it can expect to receive from its ultimate parent Unicredit S.p.A (UC, rated 'A+'/Negative Outlook/'B/C'), through its fully owned subsidiary UniCredit Bank Austria AG (UCBA, rated 'A'/Negative Outlook/'B/C'). The Individual Rating reflects sound profitability, good asset quality and comfortable liquidity. This is balanced by risks associated with accelerated loan growth and a high share of FX lending as well as declining but adequate capitalisation.
- Following the merger between Banca Comerciala HVB Tiriac (HVB Tiriac) and UniCredit Romania (UCR) in June 2007, UCTB's focus for the rest of that year was on restructuring and planning future growth. Profitability was much better than that of peers in 2007 and continued to improve in H108, mainly due to growing lending activity in the higher yielding consumer loan and SME sectors and good efficiency.
- Although asset quality remained good in H108, accelerated loan growth and FX lending to unhedged borrowers present potential risks. Nevertheless, advanced risk measurement systems (adapted from UC's systems) and close monitoring of the risks provide some comfort.
- UCTB aims to gradually reduce its reliance on related-party funding and improve the diversification of its funding sources by 2010. Liquidity is comfortable, similar to other banks in Romania, owing to stringent regulatory measures. Capital ratios continued to decline in H108, mainly due to the growth of risk weighted assets. Higher levels of capital would provide a larger buffer against risks associated with accelerated growth.

Support

In Fitch Ratings' opinion, there is an extremely high probability that support would be provided by the ultimate parent, UC, should it be needed.

What Could Trigger a Downgrade?

- A change in UC's ability and/or willingness to support UCTB could affect the latter's IDRs and Support Rating; however, the IDRs are constrained by Romania's Country Ceiling and the Outlook on UCTB's Foreign Currency Long-Term IDR reflects that of the sovereign. A lower Country Ceiling, in the event of a downgrade of the sovereign, would result in a downgrade of UCTB's IDRs and Support Rating.
- The upside for UCTB's Individual Rating is limited and may be triggered by improvements in the macroeconomic environment and sustained profitability without a considerable deterioration in asset quality or weakening capitalisation.

Profile

UCTB is the seventh-largest bank in Romania by total assets with a market share of around 5%. UCTB was formed as a result of several mergers, the latest one being between HVB Tiriac and UCR in June 2007. UCTB is 50.61%-owned by UCBA, which is 99.99%-owned by UC and serves as UC's management holding company in Central and Eastern Europe (CEE). UC is one of the Europe's largest banks and is active in 22 countries.