Banca Transilvania
Update report
August 2012

Regional Bank

BANCA TRANSILVANIA

New Strategy Ahead

Buy (12m)

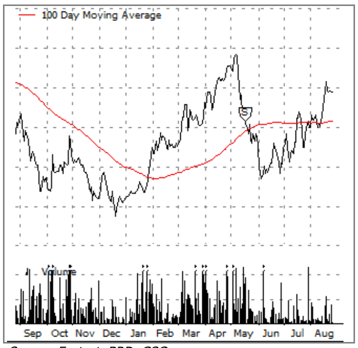
Price 27/08/12	12m target
RON 1.088	RON 1.244

Sector
Weighting
Neutral
Market Share
6%
Last Recommendation
Buy (TP: RON 1.28) on 27 Oct'11

Type of investment

Acquisition target	✓
Profitability target strategy	✓

1 year- Price, Volume, MA 100



Source: Factset, BRD GSG

Banca Transilvania on www.bancatransilvania.ro

- **Update** We kept unchanged Banca Transilvania (BT) stock rating at **Buy** with a 12M TP of **RON 1.24** (vs. RON 1.28, previously) and potential upside of 13.97% from current closing. We have included 2015e estimations and the new number of shares following Apr'12 share capital increase. We have revised upward 2012e EPS to RON 0.18 (+12.5% yoy), and we estimated net profit CAGR 2012-15e at 12.6%. However, we see limitations of gross banking income growth potential on medium term (CAGR 2012-15e: 0.2%) for BT, because of: constraints for increasing interest income, in spite of interest related to AFS securities (approx. 26.8% of H1'12 total interest income); marginally higher funding costs as BT has a quite stable retail clients' base; almost stable evolution of net fee income. Moreover, developments on NPLs side are important because: 1) new NPLs might appear as a result of poor economic recovery that will result in provisions expenses, but we expect BT to be better positioned compared with peers; 2) old NPLs for which restructuring efforts have reached an end, and BT might be compelled to book losses related to them, but losses should be limited due to provisions booked (BT has coverage ratio above 100%). Indeed, the bank can sell also NPLs to specialized recovering companies, cleaning its balance sheet, but we foresee NPLs sales to have marginal impact on bank's performance.
- **Catalysts for the share price** Positive trajectory of net profit, improvements in solvency ratio, and firm actions for NPLs management should be main fundamental drivers. Prospects of selling a majority stake in BT haven't waived, but we think is less likely to have a transaction within next months, mainly given the pressures on European banks to foster their solvency ratios and still not too attractive local economy outlook.
- **12m target price and methodology** Our 12M TP price was determined using GGM applied for 2015e without any change in model's parameters compared with our previous report. Also, we didn't incorporate any premium for selling a majority stake in BT to an existing and/or a new shareholder. Currently, the shares are trading at P/BV'12e of 0.8x, lower by 25.5%, compared to selected Polish banks, and at 0.7x P/BV'13e, lower by 29.1% to the same benchmark, in spite of higher ROaE anticipated for 2012e and 2013e compared with peers, but revealing higher risk aversion towards CEE banks stocks given poor economic outlook and significant dependence on foreign banks financing (including Greek banks for some countries).
- **Alternative scenarios and risks to our valuation** Main risks arise from feeble economic recovery with negative impact for BT on NPLs side, whilst BT almost reached its budgeted loans and deposits level in H1'12. Moreover, BT is less exposed to foreign capital outflows compared with its local private-foreign owners' peers, but we shouldn't exclude ST financing risks. Also, any change in regulations decided by NBR should have an impact on bank's fundamentals.

Share data			
RIC BATR.BX, Bloomberg TLV RO			
52-week range			0.77-1.18
Sh value'12e (RONm) - GGM			2,368
Market cap. (RONm)			2,070
Free float (%)			67
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	7.2	10.5	10.5
Relative to BET	3.6	7.1	5.7

Financial data (RONm)*	**12/10**	**12/11**	**12/12e**	**12/13e**
Gross operating income #	800.7	671.3	743.2	759.2
Net income	134.2	297.2	337.6	385.7
Total assets	21730.3	26008.8	30126.7	31423.6
Total loans	12439.4	14185.0	15899.3	16922.1
Total deposits	17279.1	20257.3	23908.8	25256.9
EPS (RON)	0.10	0.16	0.18	0.20
EPS adj* (RON)	0.10	0.16	0.18	0.20
BV (RON)	1.49	1.26	1.42	1.61

* adj for one-off gain,#before provisions

Ratios	**12/10**	**12/11**	**12/12e**	**12/13e**
P/E adj (x)	11.36	6.97	6.14	5.37
P/BV (x)	0.73	0.87	0.77	0.68
Dividend yield (%)	na	na	na	na
Risk costs (bps)	488	212	214	173
Cost to income ratio	49.7%	57.3%	54.6%	54.9%
Total loans/Total deposits	72.0%	69.0%	66.5%	67.0%
NIM**	5.3%	4.2%	3.7%	3.6%
ROaE (%)	6.9%	13.3%	13.3%	13.4%

**based on avg. IEA

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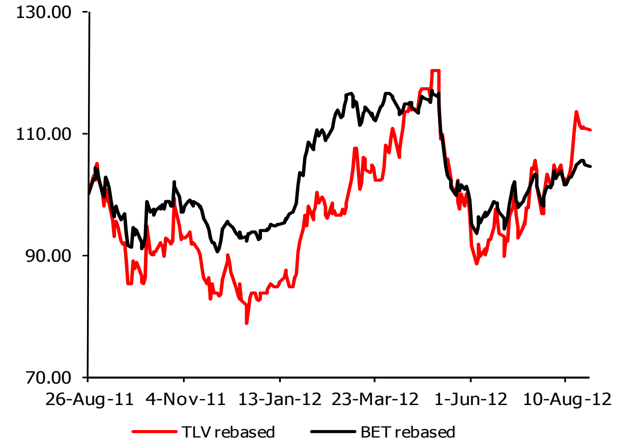
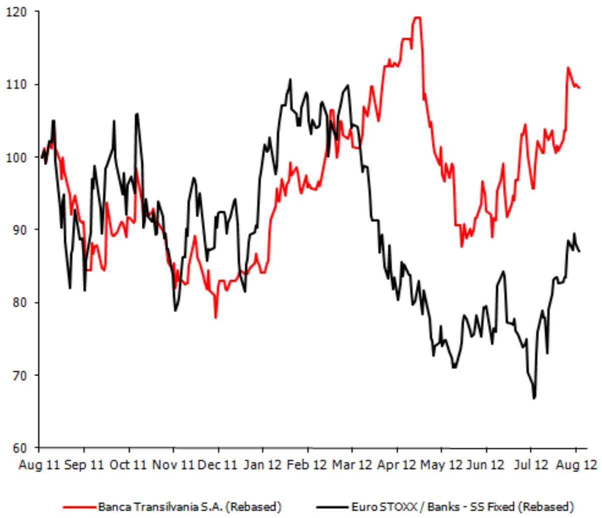
Market performance

TLV vs. BET share price performance, rebased (yoy)



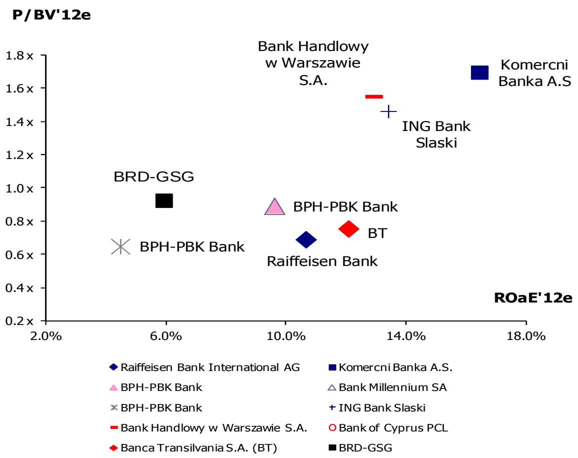
TLV shares underperformed BET by 5.2% on avg. for Aug'11-Aug'12, in spite of ytd rally of TLV shares (+32.1% ytd) vs. BET (+11% ytd).

TLV vs. European peers price performance, rebased, RON denominated, fixed FX rate (yoy)



TLV shares outperformed its European peers (commercial banks) by approx. 7% on avg. over Aug'11-Aug'12, given that European banking shares were highly under pressures, mainly because of Eurozone debt crisis and their exposure on emerging markets.

TLV vs. its peers (P/BV'12e and ROaE'12e)

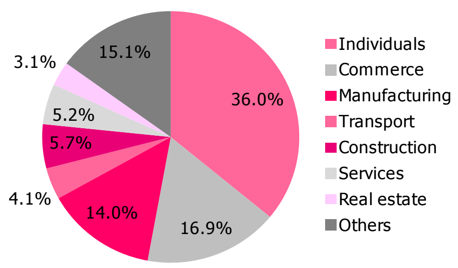


TLV ROaE'12e at 12.1% above 10.1% avg. ROaE'12 for Polish peers doesn't justify the 25.5% discount at which TLV is trading in terms of P/BV'12e compared to its Polish peers, unless other indicators are considered.

Source: FactSet, BRD GSG

Bank's anatomy

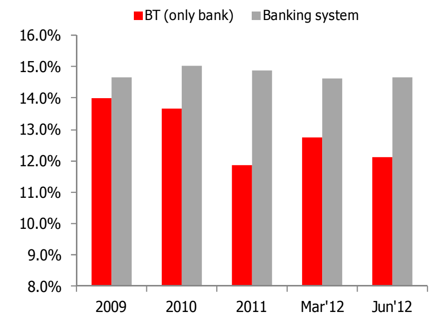
Loans' breakdown (end-Jun'12)



Quite good balance of loans portfolio between individuals and corporates, without no major changes in the past two years.

Source: BT H1'12 IFRS Individual Financial Statements, BRD-GSG

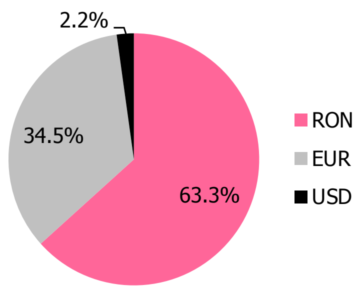
Solvency ratios



BT is going to improve its solvency ratio up to the average banking system level (14.7% as of end-Jun'12) also through bonds issuance.

Source: BT H1'12 BoD Report (based on RAS standards) NBR, BRD-GSG

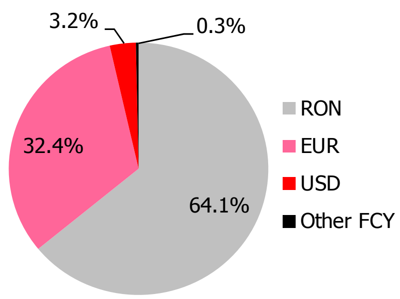
FX loans breakdown (end-2011) (RON 13.98bn)



RON was most favoured currency for loans granted by BT, contrary to the banking system trend. There is no reason to believe a significant change has happened within H1'12.

Source: BT 2011 IFRS Consolidated Financial Statements, BRD-GSG

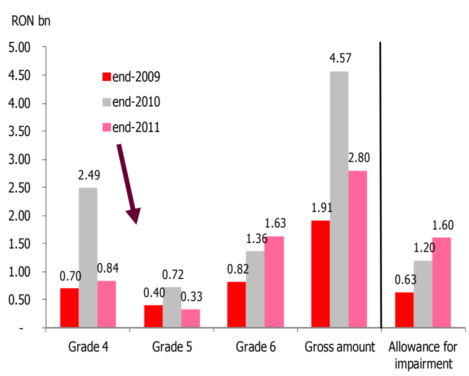
FX deposits breakdown (end-2011) (RON 12.98 bn)



The majority of clients' deposits are RON denominated (64%), so there is no significant FX mismatch risk.

Source: BT 2011 IFRS Consolidated Financial Statements, BRD-GSG

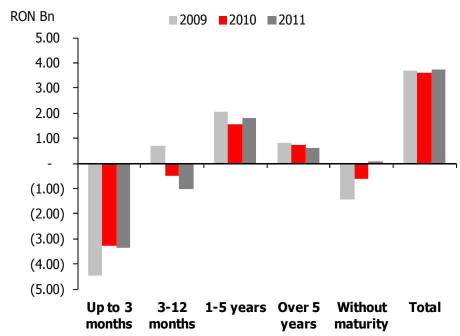
Past due & individually impaired loans and afferent allowance for impairment (balance) (2009-2011)



Past due & individually impaired loans (grade 4) declined in 2011 vs. end - 2010 allowing for lower impairment expenses, only RON 0.32bn (-51.2% yoy) in 2011.

Source: BT 2011 IFRS Consolidated Financial Statements, BRD-GSG

Maturity surplus/(shortfall) profile



Persistent and consistent with overall banking system, ST mismatch maturity between assets and liabilities.

Source: BT 2011 IFRS Consolidated Financial Statements, BRD-GSG

Valuation

Target price calculation and fundamental valuation

- We kept unchanged Banca Transilvania (BT) stock rating at **Buy** with a 12M TP of **RON 1.24** (vs. RON 1.28, previously) and potential upside of 13.97% from current closing. Our GGM model applied for 2015e for BT, resulted in a fair value of RON 0.99 per share, which led to a 12M target price of RON 1.24, supporting our current recommendation. GGM model has been constructed based on the assumptions more detailed in *Key drivers and outlook* section together with the *Risks* associated.
- BT stock (+32.1% ytd) posted one of the largest ytd advance amongst stocks listed on BSE, in spite of pressures on banking stocks on Eurozone markets and worldwide, as a result of poor economic outlook, exposure on Greek debt securities, Eurozone debt crisis worries, needs for restructuring and requirements for higher solvency ratios. However, BT business model has led to relative better profit evolution comparing with peers in the past six months, higher lending activity whilst keeping credit risk costs under control. Also, BT isn't exposed to rapidly outflows from foreigners as foreign owned banks, and proved to have a good clients' base providing with the necessary financing. Indeed, the bank is exposed to Cyprus economy through its branch, but we believe that a potential negative impact is rather limited on bank's performance and solvency.
- We presented the main inputs of our valuation model, as resulted from our estimations:

Indicator	**2012e**	**2013e**	**2014e**	**2015e**
LT ROE normalised	12.47%	12.57%	11.85%	12.33%
Fair P/BV	0.763	0.848	0.781	0.825
BV	1.4216	1.6116	1.8141	2.0548
DPS	0.00	0.00	0.00	0.00
Cost of equity	15.25%	14.20%	14.20%	14.20%
PV BV	0.94	1.04	0.94	0.99
PV DPS	0.00	0.00	0.00	0.00
Fair value per share	0.99			
Target price 12M	**1.2444**			
Closing Price as of 27/08/2012	1.0880			
Upside(Downside) potential	**+14.38%**			

Source: BRD GSG estimates

Cost of equity assumptions

- We left unchanged the risk-free rate of 7% for 2012e, and of 6.5% for 2013-15e in our previous report; and equity risk premium of 7.5% in 2012e and kept constant at 7% for 2013-15e. Thus, we have used a cost of equity of 15.25% for 2012e and a constant one of 14.2% for 2013-15e.

Indicator	**2012e**	**2013e**	**2014e**	**2015e**
LT Risk Free Rate	7.00%	6.50%	6.50%	6.50%
Equity Risk Premium	7.50%	7.00%	7.00%	7.00%
β	1.1	1.1	1.1	1.1
Cost of Equity	15.25%	14.20%	14.20%	14.20%

Source: BRD GSG estimates

Sensitivity analysis

- The variation in target price as a function of ROE and g is showed in the table below. The resulting upside/downside potential ranges between -16.7% and +16.5%, showing significant volatility.

12m target price

LT ROE normalised/g	2.50%	3.00%	3.50%	4.00%	4.50%
LT ROE normalised -2%	1.01	0.99	0.96	0.93	0.91
LT ROE normalised -1%	1.14	1.12	1.10	1.08	1.06
LT ROE normalised =12.33%	1.27	1.25	**1.24**	1.23	1.22
LT ROE normalized +1%	1.27	1.25	1.24	1.23	1.22
LT ROE normalised +2%	1.27	1.25	1.24	1.23	1.22

Source: BRD GSG estimates

Upside/Downside potential

LT ROE normalised/g	2.50%	3.00%	3.50%	4.00%	4.50%
LT ROE normalised -2%	-7.25%	-8.56%	-11.54%	-14.00%	-16.72%
LT ROE normalised -1%	4.60%	3.08%	1.42%	-0.41%	-2.42%
LT ROE normalised =12.33%	16.45%	15.46%	14.38%	13.19%	11.87%
LT ROE normalized +1%	16.45%	15.46%	14.38%	13.19%	11.87%
LT ROE normalised +2%	16.45%	15.46%	14.38%	13.19%	11.87%

Source: BRD GSG estimates

Peers comparison

- Greek banks experienced a historical downward pressure ytd, so we have taken out them from our peer group analysis, as multiples have been negatively influenced by Greek sovereign debt crisis with an escalation of risk aversion towards Greek banks stocks. Greek banks have been replaced with Raiffeiesen, Komercni and Bank of Cyprus. Of course, a comparison with these banks might not have a high relevance given their higher size (except Bank of Cyprus), but their exposure on Romania market makes them quite relevant comparables.

- BT trades at discount of 25.5% in terms of P/BV'12e to Polish banks, whilst in terms of P/BV'13e BT is trading at higher discount of 29.1% to the same benchmark. Avg. ROaE'12e for Polish banks stands at 10.1% below BT's 12.1%, pointing us to state that 25.5% discount in terms of P/BV'12e for BT shares isn't justifiable, unless you consider weak expectations in terms of EPS for BT comparing with selected banks from Poland.

- For 2012e, consensus sees a ROaE'12e at 12.1% for BT, below our estimation of 13.3%.

Bank	Country	Market Cap. (EURm)	P/E			P/BV			ROaE			Div Yield			Payout ratio			EPS adj (EUR)		
			11	12e	13e	11	12e	13e	11	12e	13e	11	12e	13e	11	12e	13e	11	12e	13e
Raiffeisen Bank International AG	Austria	5,474	7.0 x	6.9 x	6.6 x	0.5 x	0.7 x	0.6 x	10.1%	10.7%	10.2%	5.2%	20.0%	451.4%	26.6%	20.0%	20.3%	3.95	4.11	4.33
Komercni Banka A.S.	Czech Republic	5,909	15.8 x	10.9 x	10.9 x	1.6 x	1.7 x	1.6 x	12.3%	16.4%	15.2%	4.8%	64.1%	nm	64.0%	64.1%	68.4%	9.80	14.29	14.56
Average	**Austria&Czech**		**11.4 x**	**8.9 x**	**8.7 x**	**1.1 x**	**1.2 x**	**1.1 x**	**11.2%**	**13.6%**	**12.7%**	**5.0%**	**42.0%**	**nm**	**45.3%**	**42.0%**	**44.4%**	**6.88**	**9.20**	**9.45**
Bank Millennium S.A.	Poland	1,090	10.5 x	10.1 x	9.6 x	1.0 x	0.9 x	0.8 x	10.8%	9.6%	9.0%	0.0%	1.9%	3.6%	0.0%	18.8%	34.4%	0.09	0.09	0.10
Bank BPH S.A.	Poland	726	15.1 x	15.2 x	13.5 x	0.5 x	0.6 x	0.6 x	5.0%	4.5%	4.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.63	0.67	0.82
Getin Holding S.A.	Poland	295		1.9 x	5.4 x		0.5 x	0.5 x	0.2%		9.3%		0.0%	0.0%		0.0%	0.0%	0.00		
ING Bank Slaski S.A.	Poland	2,615	12.0 x	12.2 x	11.5 x	1.6 x	1.5 x	1.3 x	14.6%	13.4%	12.3%	1.0%	1.5%	3.4%	11.1%	17.7%	39.5%	1.52	1.70	1.89
Bank Handlowy w Warszawie S.A.	Poland	2,553	15.5 x	12.9 x	12.9 x	1.4 x	1.6 x	1.5 x	11.4%	12.9%	11.8%	4.1%	5.6%	6.9%	49.6%	72.3%	88.3%	1.26	1.50	1.55
Average	**Poland**		**13.6 x**	**10.4 x**	**10.0 x**	**1.1 x**	**1.0 x**	**1.0 x**	**8.4%**	**10.1%**	**9.4%**	**1.3%**	**1.8%**	**2.8%**	**15.2%**	**21.8%**	**32.4%**	**0.70**	**0.99**	**1.09**
Bank of Cyprus PCL	Cyprus	334	0.5 x	1.6 x	2.0 x	0.3 x	0.2 x	0.2 x	-53.9%	7.5%	9.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.31	0.12	0.11
Average	**Cyprus**		**0.5 x**	**1.6 x**	**2.0 x**	**0.3 x**	**0.2 x**	**0.2 x**	**-53.9%**	**7.5%**	**9.2%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.31**	**0.12**	**0.11**
Banca Transilvania S.A.	**Romania**	**464**	**10.2 x**	**6.8 x**	**5.8 x**	**0.7 x**	**0.8 x**	**0.7 x**	**13.3%**	**12.1%**	**12.3%**	**0.0%**	**1.0%**	**1.6%**	**0.0%**	**6.5%**	**9.4%**	**0.02**	**0.03**	**0.03**
BRD-Groupe Societe Generale S.A.	Romania	1,309	8.5 x	15.9 x	9.2 x	1.2 x	0.9 x	0.9 x	8.4%	5.9%	9.6%	1.6%	1.3%	2.3%	23.8%	21.1%	21.5%	0.33	0.17	0.25
Average	**Romania**		**9.4 x**	**11.3 x**	**7.5 x**	**1.0 x**	**0.8 x**	**0.8 x**	**10.9%**	**9.0%**	**10.9%**	**0.8%**	**1.1%**	**2.0%**	**11.9%**	**13.8%**	**15.4%**	**0.17**	**0.10**	**0.14**
Premium/Discount Austria&Czech banks			**-10.2%**	**-23.8%**	**-33.2%**	**-34.8%**	**-36.7%**	**-39.9%**	**18.3%**	**-10.9%**	**-3.4%**	**nm**	**nm**	**nm**	**-100.0%**	**-84.5%**	**-78.8%**	**-99.7%**	**-99.7%**	**-99.7%**
Premium/Discount Poland banks			**-24.6%**	**-35.3%**	**-41.8%**	**-38.4%**	**-25.5%**	**-29.1%**	**58.1%**	**19.6%**	**30.6%**	**nm**	**nm**	**nm**	**-100.0%**	**-70.1%**	**-71.0%**	**-96.6%**	**-97.1%**	**-97.2%**
Premium/Discount Cyprus bank			**1784.1%**	**320.9%**	**194.5%**	**139.6%**	**311.7%**	**290.6%**	**nm**	**61.4%**	**33.2%**	**nm**	**nm**	**nm**	**nm**	**nm**	**nm**	**-92.3%**	**-76.1%**	**-72.8%**

**as of 24 August 2012*

Source: FactSet, BRD GSG

Key drivers and outlook

We have adjusted our GGM model to incorporate estimations for 2015e and we revised 2012-14e numbers, following latest results released.

Strategy shifts towards profitability targets achievement

- During the first six months of 2012, BT outpaced local banking system growth in terms of assets (+12.2% ytd vs. +2.6% ytd for banking system), loans (+7% ytd vs. +1.8% ytd for banking sector) and deposits (+9.3% ytd vs. +2% ytd total residents' deposits at banking sector level) gaining market shares.

  Our new estimates should reveal bank's strategy shift, as announced by BT's representatives. Thus, the new bank's strategy aims at meeting profitability and return targets, and to less extent, at posting higher business volumes. Considering H1'12 IFRS, we estimate 2012 growth rates higher than 10% yoy for assets (+15.8% yoy), loans (+12.4% yoy) and deposits (+18.0% yoy), and we see one digit growth rate for 2013-15e for these indicators.

Stable deposits base, with loans/deposits below 1 for 2012-15e

- BT funding base is represented by customers' deposits, mainly individuals, who proved to have a stable behavior in the past months in spite of increasing competition on local market, as they constantly own approx. 66.1% of BT's customers' deposits (end-2011, and end-Jun'12, respectively). It is unlikely to see massive withdrawals from bank, unless something very negative is going to happen. Also, the bank has the intention to extend the subordinated loans worth EUR 60m contracted from five credit institutions which expires in 2013. We believe that interest associated to this subordinated loans will be paid (EURIBOR+3.4%) (approx. EUR 2.5m) by the end of 2013. Moreover, BERD (owns 14.61% of BT as of end-Jun'12) and IFC are likely to support the bank with funds if needed.

  Referring to loans/deposits ratio, we have lowered loans/deposits ratio from 75% in 2012-13e in our previous report to 66.75% on avg. for 2012-13e, given latest developments pointing to a level of 67.7% as of end-Jun'12 and bank's officials statement considering it to be adequate. The potential concerns (for the entire local banking system, too) arise from materializing maturity risk as the largest part of deposits is on short term vs. loans granted, mainly on medium-long term.

Rising deposits rates and lower ability to increase interest revenues will squeeze NIM in coming years (from 4.2% in 2011 to 3.25% in 2015

- The need for changes of banks' business model and higher demand for retail funding following a slow deleverage process run by foreign-parent banks increased deposits rates. This added to persistent lower ability to increase interest income from loans granted, which remains main revenues item and which couldn't be replaced by interest from government securities (approx. 26.8% of H1'12 total interest income vs. 15.4% 2011 of total interest income) or by other revenues items. Moreover, BT is booking at interest income level revenues from government securities sold in Q1'12 and Q2'12, in total amount of approx. RON 49m during first six months of the year. However, we believe that these revenues will be netted when IFRS consolidated results will be released as it is likely that companies within BT group are buyers of those securities given the poor liquidity on secondary markets.

  Thus, we foresee net interest margin (NIM) to continue its downward trajectory from approx. 4.2% in 2011 up to 3.25% in 2015e, higher yoy decline expected to see in 2012e (3.74%).

NFI margin expected to remain almost stable for 2012-15e

- We anticipate net fee income divided by average total assets (NFI margin) to remain almost flat between 2012e (1.41%) and 2015e (1.40%), with very low chances for a revival in their evolution in spite of increasing assets base, unless banking services is diversified to meet clients' new needs. However, the ratio reduction is higher in 2012e to 1.41% from 1.6% in 2011.

- On expenses side, we don't expect growth rates to exceed 2.95% on avg. for 2012-15e, as personnel expenses shouldn't post rise whilst bank network is expected to be optimized.

Apparently, BT is less exposed to NPLs rise vs. entire banking system, but NPLs ratio is still seen at 10.6% on avg. for 2012-15e

- It appears NPLs started to escalate in entire banking system since the beginning of the year, as NPLs ratio reached 16.76% as of end-Jun'12 (vs. 14.33% as of end-Dec'11, and 13.35% as of end-Jun'11). Still, BT shows a better control of any NPLs increase, as BT 90 overdue loans accounted for 10.48% from total portfolio as of end-Jun'12 (vs. 8.62% as of end-Dec'11). In our opinion, main reasons behind this difference between BT and the banking system might be: the 3.5 years average maturity of corporate loans which should make easier any necessary restructuring process; FX denominated loans accounting for approx. 35-36% of loans (vs. approx. 65% at banking system level), protecting, to some extent, bank's clients from depreciation of local currency.

  Additionally, BT showed a significant improvement of loans quality at the end of 2011, as the value of loans classified in Grade 4 in 2011 declined to RON 0.84bn (-66.2% yoy) from RON 2.49bn in 2010, without any rise of the value of loans with poorer rating (Grade 5 and Grade 6, respectively. There is likely to see a reversal into Grade 4 from the other groups (Grade 1-3) generating higher NPLs in coming period, if debtors' financial standing is worsening following poor economic outlook.

  Our current estimation of NPLs ratio is for 11.21% end-2012e, continuing to inch up to 11.86% as of end-2013e. However, we consider NPLs to post a decline to 9.16% as of end-2014e and reach 10.2% as of end-2015e.

BT coverage ratio above 100% might be a good shelter against significant provisions booking in coming years

- As we have already stated, poor economic recovery put persistent pressures on banks' balance sheet, so NPLs management (including restructuring) is critical for bank's bottom line together with discovering services and products to generate revenues. Main way to deal with NPLs is provisioning policy, which BT seems aggressively followed, as its coverage ratio is constantly above 100% (107% as of end-Jun'12), but preserving to some extent its bottom line.

  Considering loans portfolio breakdown (low exposure on real estate, approx. 14.4% of total retail loans are mortgage loans, to which we add 3.01% real estate loans) which lowers the chances to book additional provisions to reflect lower valuation of real-estate guarantees and BT coverage ratio, provisions creation process should slowly advance compared with banking system. We see provisions expenses (including impairment losses) to decline from RON 364.2m in 2012e up to RON 194.3m in 2015e, with coverage ratio above 100% and risk costs expressed in bps to decline from 214 bps in 2012e up to 90.5 bps in 2015e.

- Below, we list main items of P&L and balance sheet for the period 2011 - 2015e:

Indicator (RONm)	**2011**	**2012e**	**2013e**	**2014e**	**2015e**
Net interest income	934.4	987.7	1,027.8	1,028.7	1,024.7
Net fee income	382.2	395.8	433.9	448.1	468.3
Total operating expenses	(818.4)	(839.0)	(866.2)	(892.3)	(919.3)
Gross banking income before provisions	671.3	743.2	759.2	752.4	746.6
Impairment and provisions expenses (incl. net recoveries from loans written-off)	(315.8)	(364.2)	(322.5)	(287.4)	(194.3)
Net profit	297.2	337.4	385.5	409.2	482.0
Total assets	26,008.8	30,126.7	31,423.6	32,592.2	34,307.8
Loans (incl net investment lease)	14,185.0	15,899.3	16,922.1	18,092.9	19,244.9
Non-performing loans (NPLs)	2,799.3	1,991.6	2,263.7	1,881.2	2,231.1
Customer deposits	20,257.3	23,908.8	25,256.9	26,413.0	27,492.7
Shareholders' equity	2,389.8	2,703.3	3,065.0	3,450.3	3,908.4

Source: Banca Transilvania, BRD GSG estimates

Q2'12/H1'12 IFRS results and 2012 Budget

BT almost achieved budgeted balance sheet items as of end-Jun'12, whilst H1'12 gross profit is 49.7% of the budgeted level

On August 1, 2012 Banca Transilvania (BT) reported its Q2'12/H1'12 IFRS financial results, according to which H1'12 net profit advanced by 48% yoy up to RON 179.62m, by 3.7% lower than our estimation of RON 186.48m, and by 9.3% higher than Reuters consensus of RON 164.4m (avg.), respectively. H1'12 credit risk costs came at RON 179.13m (+14.7% yoy), by 4.7% higher than our anticipation of RON 171.12m, and by 2.3% lower than avg. Reuters consensus, respectively.

Q2'12 net profit came at RON 87.8m (+27% yoy), down 4.4% qoq, driven mainly by 10.3% qoq decline of net interest income (NII) to RON 211.62m (vs. BRD-GSGe: RON 255.83m), which was not offset by 8.4% qoq higher net fee income of RON 106.8m (vs. BRD-GSGe: RON 96.62m). Also, net trading result came lower by 33.4% qoq at RON 26.27m (vs. BRD-GSGe: RON 31.5m) in Q2'12. In Q2'12, total provisions expenses have been reduced a little bit (-4.1% qoq) up to RON 80.48m.

All in all, gross profit declined by 21.9% qoq to RON 84.71m in Q2'12, but positive effect of Q2'12 negative income tax expenses helped the bottom line to reach RON 87.8m, down only 4.4% qoq.

In terms of balance sheet, bank's loans reached RON 15.02bn (+6.9% ytd) (vs. BRD-GSGe: RON 14.91bn), whilst customer deposits came at RON 22.17bn (+9.3% ytd) (vs. BRD-GSGe: RON 21.74bn). Total assets advanced by 12% ytd to RON 28.97bn (vs. BRD-GSGe: RON 27.31bn) as of end-Jun'12, mainly as a result higher by 30% ytd of AFS securities portfolio.

The bank announced NPL ratio of 10.48% better than our anticipation of 12.03% and a coverage ratio of 107.7% as of end-Jun'12. Loans to deposits ratio remains below 1 at 0.76 as of end-Jun'12, whilst solvability ratio is 12.12% (including net profit) as of end-Jun'12 (vs. 12.73% as of end-Mar'12) higher than NBR requirements.

Comparing H1’12 results with BT’s 2012 budget, we believe there are good prospects for bank to reach its targets, based on H1’12 results and BT’s good track record in achieving its targets settled at the beginning of each year.

Moreover, we believe that there are chances for lower performance in H2’12 vs. H1’12 considering the downward revision of 2012 GDP growth, the estimated lower performance of construction and industry sector (BT largest exposure is on industry sector), whilst we believe provisions expenses formation will be kept under control. Below we list Q1’12/H1’12 IFRS financial results for Banca Transilvania, only.

Balance sheet (IFRS, RONm)	**Q1'12**	**H1'12**	**H1'12 BRD-GSGe**	**2012 B***	***H1’12 Actual/ BRD-GSGe***	***H1’12 Actual /2012 B***
Cash and cash equivalents	4,564.00	4,435.66	3,920.76	5,677.00	*13.1%*	*78.1%*
Placements with banks	539.09	1,332.71	519.09	nav	*156.7%*	*na*
Investment securities(AHS&HTM)	7,368.00	7,535.53	7,242.62	6,812.00	*4.0%*	*110.6%*
Securities at fair value through P&L	nav	32.02	34.20	nav	*-6.4%*	*na*
Loans&advances to customers (incl net investment lease), gross value	16,250.00	16,932.75	16,742.56	17,400.00	*1.1%*	*97.3%*
Provisions stock	*1,779.00*	*1,913.02*	*1,830.47*	*2,059.00*	*4.5%*	*92.9%*
Loans&advances to customers (incl net investment lease), net value	14,471.00	15,019.73	14,912.09	15,341.00	*0.7%*	*97.9%*
Tangible&Intangible assets	409.00	339.05	336.68	434.00	*0.7%*	*78.1%*
Financial assets		72.78	72.78	73.00	*0.0%*	*99.7%*
Total other assets	114.00	200.21	265.75	193.00	*-24.7%*	*103.7%*
Total assets	**26,926.00**	**28,967.69**	**27,313.50**	**28,530.00**	***6.1%***	***101.5%***
Shareholders’ equity	2,502.00	2,550.36	2,361.11	2,594.00	*8.0%*	*98.3%*
Subordinated liabilities	267.00	267.91	266.96	399.00	*0.4%*	*67.1%*
Banks deposits	2,502.13	260.16	250.00	nav	*4.1%*	*na*
Customers deposits	21,080.00	22,172.79	21,737.74	22,584.00	*2.0%*	*98.2%*
Borrowings from banks	2,750.00	3,400.15	2,363.19	2,715.00	*43.9%*	*125.2%*
Other liabilities	327.00	316.31	334.49	238.00	*-5.4%*	*132.9%*
Total shareholders' equity and liability	**26,926.00**	**28,967.69**	**27,313.50**	**28,530.00**	***6.1%***	***101.5%***

**2012 Banca Transilvania Budget; Source: Q1'12, BT H1'12 IFRS Individual Financial Statements*

Income statement (IFRS, RONm)	**Q1'12**	**Q2'12**	**H1'12**	**H1'12 BRD-GSGe**	**2012 B***	***H1’12Actual/ BRD-GSGe***	***H1’12Actual /2012 B***
Net interest income	235.87	211.62	447.50	491.70	985.50	*-9.0%*	*45.4%*
Net fee income	98.48	106.80	205.28	195.10	410.00	*5.2%*	*50.1%*
FX market income	39.45	26.27	65.72	70.95	135.00	*-7.4%*	*48.7%*
Other revenues	19.44	7.22	26.66	24.55	25.40	*8.6%*	*105.0%*
Total income (net banking income + non-interest income)	**393.24**	**351.92**	**745.16**	**782.30**	**1,555.90**	***-4.7%***	*47.9%*
Personnel expenses	(91.98)	(116.42)	(208.40)	(186.17)	(396.00)	*11.9%*	*52.6%*
Depreciation&Amortization expenses	(12.25)	(11.59)	(23.84)	(12.47)	nav	*91.2%*	*na*
Other operating expenses	(96.64)	(85.69)	(182.33)	(191.35)	(400.20)	*-4.7%*	*45.6%*
Total operating expenses	**(200.85)**	**(213.73)**	**(414.58)**	**(389.99)**	**(796.20)**	***6.3%***	***52.1%***
Pre-provision profit(Gross operating income)	**192.39**	**138.19**	**330.58**	**392.31**	**759.70**	***-15.7%***	***43.5%***
Impairment and provisions expenses	(83.88)	(80.48)	(164.36)	(171.12)	(425.00)	*-3.9%*	*38.7%*
Operating gross income after provisions	**108.51**	**57.71**	**166.22**	**221.20**	**334.70**	***-24.9%***	***49.7%***
Income tax	(16.69)	30.09	(13.60)	(34.73)	nav	*nm*	*na*
Net income	**91.82**	**87.80**	**179.62**	**186.48**	**nav**	***-3.7%***	***na***

**2012 Banca Transilvania Budget; Source: Q1'12, BT IFRS Individual Financial Statements Banca Transilvania*

Risks

Costs of funds raising is going to be important for BT's bottom line together with economy's evolution

Main downside risks are related to slower economic recovery than initially expected, as 2012 GDP growth rate has been revised downward by local Government, IMF and other financial institutions. The latest estimation for 2012e GDP growth rate announced in Aug'12 by the Government is 1.2% revised downward from 1.5%-1.7%, whilst IMF sees GDP up 0.9% yoy in 2012e (vs. 1.5% yoy, previously) and up 2.5% yoy in 2013e, respectively. Poor economic outlook will hamper credit demand and will delay the improvement in NPLs ratio.

As we have state above, BT seems to have a better position in the banking system as regards NPLs ratio, but we don't rule out the increase in provisions expenses as loans' restructuring process might end for some of the bank's debtors. Finally, this will lead to higher provisions and lower coverage ratio.

Actions to raise own funds to increase solvency ratio

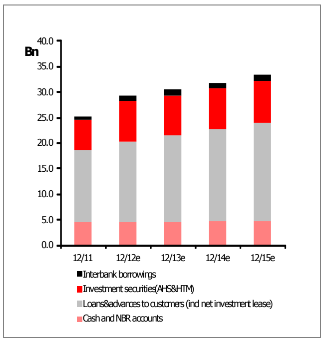
Another risk arises from solvency ratio preservation, as BT's solvency ratio is below banking system average, but higher than current NBR requirement (8%). Moreover, BT's solvency ratio (including net profit) is declining for each quarter (12.73% end-Mar'12 vs. 12.12% end-Jun '12), because of increasing RWA and/or lower own funds, certainly triggering the necessity of increasing BT's own funds. A possible cause of lower own funds might be the negative difference between lower IFRS provisions (used to present financial results) and higher prudential provisions (calculated according RAS accounting standards), which is used to adjust bank's own funds as stated by the regulations.

Thus, is very likely to see BT issuing bonds in order to strength solvability ratios, according to bank's official statements. For any type of own funds increase, the costs of the funds will be important in order to protect bank's profitability.

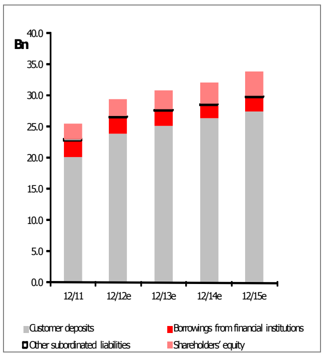
EBRD and IFC likely to support the bank

81.8% of the local banking sector is owned by foreigners and concerns of deleveraging rose constantly since 2009. BT shareholding structure reduces this risk, as there is less likely to see one of bank's shareholders to sell entire stake. Moreover, the two financial institutions, EBRD and IFC might support bank's activity with financial resources. As regards, Bank of Cyprus (owning approx. 9.7% of the bank), an exit might be too costly, given the acquisition price in Dec'09 was approx. RON 1.28 per share. Additionally, BT didn't make any official request for additional share capital to boost solvency ratio.

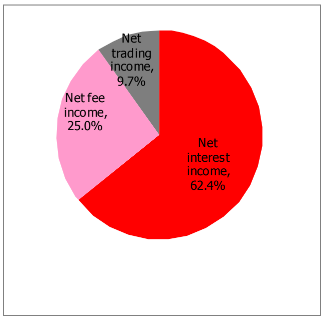
Main IEA Breakdown



Main Sh Equity and Liabilities Breakdown



2012e Gross Banking Income



Major shareholders (%) as of June 2012

EBRD	14.61
Bank of Cyprus	9.71
IFC	3.54
Romanian individuals	24.9
Romanian legal entities	26.58
Foreign individuals	2.0
Foreign legal entities	18.69

Regional Bank
27/08/2012

BANCA TRANSILVANIA BUY RON 1.088

12M TP
RON 1.2444

Valuation*	**12/09**	**12/10**	**12/11**	**12/12e**	**12/13e**	**12/14e**	**12/15e**
Average no of shares (m)	1086.34	1398.69	1903.04	1903.04	1903.04	1903.04	1903.04
Share price	1.088	1.088	1.088	1.088	1.088	1.088	1.088
P/E (x)	8.65	11.36	6.97	6.14	5.37	5.06	4.30
P/E adj (x)	12.05	11.36	6.97	6.14	5.37	5.06	4.30
P/BV (x)	0.65	0.73	0.87	0.77	0.68	0.60	0.53
Price/tangible book value (x)	0.65	0.75	0.89	0.79	0.69	0.61	0.54
Dividend yield (%)	na	na	na	na	na	na	na
Per share data (RON)							
EPS	0.09	0.10	0.16	0.18	0.20	0.21	0.25
EPS adj**	0.13	0.10	0.16	0.18	0.20	0.21	0.25
BV	1.68	1.49	1.26	1.42	1.61	1.81	2.05
Tangible Book value per share	1.67	1.45	1.22	1.38	1.57	1.77	2.02
Gross dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income statement (IFRS,RONm)							
Net interest income	754.3	996.3	934.4	987.7	1,027.8	1,028.7	1,024.7
Net fee income	370.8	374.9	382.2	395.8	433.9	448.1	468.3
Net trading income	143.2	119.0	111.6	153.2	116.6	120.9	125.9
Total banking income	1316.8	1541.9	1,489.7	1,582.2	1,625.3	1,644.7	1,665.9
Total operating expenses	-717.1	-741.2	-818.4	-839.0	-866.2	-892.3	-919.3
Gross operating income before provisions	599.7	800.7	671.3	743.2	759.2	752.4	746.6
Impairment & provisions expenses(incl write offs)	-490.8	-647.0	-315.8	-364.2	-322.5	-287.4	-194.3
Other items	93.6	4.7	0.0	25.0	25.0	25.0	25.0
Operating gross income after provisions	202.5	158.5	355.4	404.0	461.7	490.0	577.2
Income tax expenses from continuing operation	-21.0	-24.5	-58.2	-66.7	-76.2	-80.9	-95.2
Reported net profit	136.7	134.2	297.2	337.6	385.7	409.4	482.2
Adjusted net profit	98.1	134.0	297.2	337.4	385.5	409.2	482.0
Balance sheet (IFRS,RONm)							
Total assets	19,613.0	21,730.3	26,008.8	30,126.7	31,423.6	32,592.2	34,307.8
Cash and NBR accounts	3,187.0	3,701.1	4,550.3	4,476.7	4,536.5	4,625.1	4,781.8
Loans&advances to customers (incl net investment lease)	11,753.1	12,439.4	14,185.0	15,899.3	16,922.1	18,092.9	19,244.9
Non-performing loans (NPLs)	1,911.3	4,573.9	2,799.3	1,991.6	2,263.7	1,881.2	2,231.1
Investment securities(AHS&HTM)	2,585.1	3,781.8	5,817.6	7,852.7	7,970.4	8,090.0	8,211.3
Interbank borrowings	1,535.9	1,237.2	779.0	1,114.7	1,115.5	928.9	1,097.8
Property&equipment	305.0	287.6	297.5	364.5	375.4	386.7	398.3
Intangible assets	12.4	48.9	70.6	70.2	71.2	72.3	73.4
Customer deposits	14,989.2	17,279.1	20,257.3	23,908.8	25,256.9	26,413.0	27,492.7
Bank deposits	259.1	333.2	251.2	301.3	314.2	325.9	343.1
Borrowings from financial institutions	2,160.4	1,593.3	2,593.0	2,569.4	2,273.7	2,004.7	2,212.8
Other subordinated liabilities	253.7	257.6	260.1	261.0	258.0	258.0	252.0
Shareholders' equity	1,830.2	2,087.9	2,389.8	2,703.3	3,065.0	3,450.3	3,908.4
Minorities	7.8	2.1	2.0	2.0	2.0	2.0	2.0
Ratios							
Net interest income/Avg total assets (%)	4.10%	4.82%	3.91%	3.52%	3.34%	3.21%	3.06%
Net interest income/Avg IEA (%) (NIM)	4.53%	5.32%	4.20%	3.74%	3.57%	3.42%	3.25%
Net fee income/Avg total assets (%)	2.02%	1.81%	1.60%	1.41%	1.41%	1.40%	1.40%
ROaA(%)	0.74%	0.65%	1.25%	1.20%	1.25%	1.28%	1.44%
ROaE (%)	7.87%	6.85%	13.28%	13.26%	13.37%	12.57%	13.11%
Cost to income ratio (%)	56.54%	49.74%	57.31%	54.60%	54.88%	55.85%	56.79%
NPLs/customer loans (gross) (%)	15.60%	33.70%	17.83%	11.21%	11.86%	9.16%	10.20%
Provisions expenses/NPLs (%)	43.27%	30.89%	63.48%	106.25%	106.84%	143.57%	127.29%
Provisions/Avg gross loans (bps)	4.04%	4.88%	2.12%	2.14%	1.73%	1.43%	0.905%
Total assets growth (yoy)	14.37%	10.79%	19.69%	15.83%	4.30%	3.72%	5.26%
Total customer deposits growth (yoy)	23.91%	15.28%	17.24%	18.03%	5.64%	4.58%	4.09%
Total customer loans growth (yoy)	5.48%	6.39%	14.42%	12.36%	6.50%	6.97%	6.41%
Net interest income growth (yoy)	27.27%	32.08%	-6.21%	5.71%	4.06%	0.08%	-0.39%
Net fee income growth (yoy)	-2.72%	1.11%	1.93%	3.56%	9.65%	3.27%	4.51%
Reported net profit growth (yoy)	-62.02%	-1.86%	121.54%	13.57%	14.26%	6.14%	17.79%
Total customer loans(incl net lease investments)/Total customer deposits	78.41%	71.99%	69.00%	66.50%	67.00%	68.50%	70.00%
Customer deposits/Total assets (%)	76.42%	79.52%	77.89%	79.36%	80.38%	81.04%	80.14%
Total equity/Total assets (%)	9.37%	9.62%	9.20%	8.98%	9.76%	10.59%	11.40%

*Valuation ratios for past years are based on current price; ** adjusted for one-off gain

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BRD-GSG rating system (August 2012)

Premium List
Selected from stocks expected to outperform the market by over 25%.

Buy
Expected to outperform the market by at least 10%.

Hold
Expected to perform in line with the market +/–10%.

Sell
Expected to underperform the market by at least 10%.

Assumptions
12 month time horizon and flat market over forecast period.

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