Romanian Banks – BANCA TRANSILVANIA

Equity | Romania | Banking

IEBATRUST Financial & Investment Services

BANCA TRANSILVANIA (TLV RO): Q1'16 Results

Company Update

BUY

previous: BUY

TARGET PRICE 12M (RON)	3.16
Previous Target price	3.16
SHARE PRICE (RON)	2.74

Performance	1M	3M	12M	YTD
Absolute (%)	-0.4%	24.5%	12.3%	12.8%
Relative to BET (%)	3.4%	19.2%	26.8%	20.5%

RIC	TLV.BX
Bloomberg	TLV RO
Index listed	BET, BET-TR, BET-XT, ROTX
Market Cap (RON m)	8,291.25
Market Cap (EUR m)	1,844.26
Shares Out (m)	3,026.00
52 Week Range (RON)	2.02 /2.82
% from 52 Week range	36% / -3%
Avg daily volume 6M (shares)	4,226,369

Shareholders	(%)
EBRD	11.47%
FP	2.87%
Other shareholders	85.66%

(IFRS), cons.	14A	15P	16E	17E
P/E(x) adj.	12.0	15.8	10.5	9.3
EPS adj. chg. (%)	8.9%	5.9%	n/m	12.7%
BVPS(x)	1.3	2.1	2.0	2.1
BVPS(x) adj.	1.3	1.3	1.6	1.7
P/BVPS(x) adj.	1.4	1.9	1.7	1.6
RoAE(%)	12.6%	18.6%	19.1%	20.5%
RoAA(%)	1.3%	1.1%	1.7%	1.8%
Div. Yield (%)	0.00%	16.19%	4.80%	5.95%
RON m				
Core revenues	1,601	2,439	2,481	2,652
Non-core revenues	189	288	275	275
NII	1,176	1,952	1,811	1,909
NIM (%, in avg. IEAs)	7.0%	7.6%	6.3%	6.2%
Core Tier I Ratio (%)	17.3%	22.6%	22.0%	22.2%
Loans net, chg. (%)	3.6%	39.2%	10.5%	6.7%
Deposits chg. (%)	15.2%	28.4%	4.2%	4.1%

13 May 2016

Analyst: Ana-Maria Andrus
ana.andrus@iebatrust.ro

FY'16 seems to be an exceptional year in terms of financials, TLV remains top dividend yielder for BSE among listed stocks (15%), second half of the year could be further animated by the expected announcement of the dividend policy the bank will follow since FY'17. TP remains at RON 3.16, BUY.

- We update our view on TLV with a TP of RON 3.16 and maintain our reccomendation at BUY; we used a dividend discount model exercise to value TLV, with base case scenario at FY'16E and a targeted CoE avg. at 9.4% based on a CAPM framework. Risks on both target price and recommendation are similar to BRD and remain triggered by higher than implied risk costs on lower than expected solvability as well as lower than implied growth rates on lending side mostly, and higher opex growth rate. Also, sector is dominated currently by some advserse legislative measures, as pinpointed by the recently adopted debt discharge law, applicable retroactively to mortgage loans below EUR 250k (Prima Casa excluded).
- FY'16 seem to be an exceptional year in terms of financials, carrying merger effects with extremely optimistic guidance; top dividend yielder for BSE among listed stocks (15%), and second half of the year could be further animated by the expected announcement of the dividend policy the bank will follow since FY'17. We see a decline in profitability in FY'17, since the high volatility in provisions' releases between H2'15 and Q1'16 is expected to normalize toward the end of FY'16. We believe FY'17 will be a more difficult year for the banking sector following debt discharge law entering into force and tightening lending criteria.
- Due to the adjustments that we made for this year and going onwards, target price changed very few and we have chosen to keep our TP unchanged at RON 3.16 for the time being. For FY'16, management offered very impressive guidance at some RON 848m (unconsolidated basis), despite B/S growth is seen only at 4.78% Y/Y, 8% Y/Y advance in terms of net loans and flat depos. Excluding profitability figure which seems very high, despite bottom line numbers posted in Q1'16 (RON 228m, 28% of full year guidance), an 8% growth in net loan book seems also a very high KPI for the year, which we do not estimate for BRD either.
- On the other hand, looking at Q1'16 reported numbers, 30% of FY'16 budget seems to have been achieved (assuming provisioning rates - collective and specific on gross book remain constant by year-end), thus for B/S growth rates we tend to go with the management, but we are more sceptical for the P&L lines, particularly on the provisions side, which should also translate into higher uncertainty for the period starting FY'17 due to debt discharge law. We cannot estimate the timeframe when these amounts will be booked, if there will be individuals actually turning in the keys just by free will disregarding their payment behaviour as well as financial capacity. NIM should stay average around 3.6% for next 2Y, in line with sector trends, and going onwards, we see operating profitability a must given the uncertainty upon debt discharge and potentially smaller growth rates. A much harder job is estimating contraction in growth rates also. We see B/S growth at 5% for FY'16 and only a moderate 3% for FY'17 to account for harsher lending criteria.
- We estimate FY'16 net profit at RON 816m, 4% below mgt guidance with provisions through the P&L estimated at RON 623m (-22%), which translates into CoR at 204bps, an increase of 88bps Y/Y. We see NPL ratio for FY'16 should hike to 11.3%, still below that of BRD (16.8%) and banking sector (13.68% for Feb'16, EBA definition), and 13.3% for FY'17, on the back of debt discharge impact. We cannot estimate if these levels are appropriate or not, but given past performance, we feel comfortable and find them suitable for the time being.
- At TP and currently, the stock trades at a 1.6x (1.7x) P/BV(16E) and 1.7x (1.6x) P/BV(17E), at premium above peers, but at the moment we do not find a relative valuation to be relevant due to its business model advance and growth rates implied, but we either do not reproof the premiums, as we actually embrace past 12M&YTD stock evolution. Also, trading wise the stock seems more interesting compared to BRD due to a couple of aspects that seem to compensate sector legislative burden. TLV should release by year-end a written transparent dividend policy, comprising a mix of cash and bonus shares, applicable since FY'17, which we believe will replace for the medium to long term, its usual profit capitalization model.

Financials & Valuation (Summary)

Financial Statements (IFRS, cons.)

Profit & Loss (RON Mn)	2011A	2012A	2013A	2014A	2015P	2016E	2017E
Interest income	1,836	2,010	1,882	1,798	2,417	2,291	2,402
Interest expense	(922)	(1,042)	(856)	(622)	(465)	(480)	(494)
Net Interest Income	**914**	**968**	**1,027**	**1,176**	**1,952**	**1,811**	**1,909**
Net fees & commissions	403	363	371	426	487	671	743
Core Income	**1,317**	**1,331**	**1,398**	**1,601**	**2,439**	**2,481**	**2,652**
FX income	112	148	147	127	180	180	180
Other income	62	88	76	63	108	95	95
Non-Core Income	**173**	**235**	**223**	**189**	**288**	**275**	**275**
OPEX	818	892	936	951	1,502	1,358	1,383
Pre-provision profit (PPP)	671	749	888	1,179	1,448	1,598	1,724
Impairment losses on loans	(316)	(380)	(414)	(663)	(798)	(623)	(625)
EBT	**355**	**371**	**479**	**516**	**2,301**	**976**	**1,099**
Net income, after minorities	**297**	**342**	**405**	**441**	**2,444**	**816**	**919**
IEBA net income	**297**	**342**	**405**	**441**	**467**	**816**	**919**
Dividend	0	0	0	0	1,200	410	508

Balance Sheet (RON Mn)							
Cash & Central Bank Account	4,550	5,579	4,106	4,234	5,109	5,185	5,246
Interbank placements	779	1,405	1,761	2,387	3,798	3,915	3,915
Available for sale assets	5,958	6,546	8,921	10,772	12,243	12,474	11,964
Loans, net	13,978	15,361	16,583	17,419	24,895	26,853	28,655
Lease receivables	207	203	243	244	331	343	355
Investments in associates	0	26	50	144	161	161	161
Tangible Assets, net	298	335	328	340	452	301	284
Inangible Assets, net	71	81	84	72	74	97	99
Other assets	140	175	168	184	402	402	402
Total Assets	**26,009**	**29,711**	**32,244**	**35,796**	**47,579**	**49,845**	**51,195**
Demand Deposits& Current Acc.	278	158	421	133	388	390	393
Term Deposits	20,230	23,055	25,734	29,995	38,302	39,939	41,604
Borrowings	2,853	3,325	2,485	1,053	1,130	1,295	1,062
Other liabilities	255	331	337	777	1,518	2,273	1,798
Total liabilities	**23,617**	**26,896**	**29,035**	**31,999**	**41,338**	**43,898**	**44,857**
Shareholders equity	**2,392**	**2,815**	**3,209**	**3,797**	**6,241**	**5,947**	**6,339**
Minorities	2	36	29	4	6	5	4

Market Cap	3,623,325	3,246,895	4,143,042	5,285,112	8,291,250	9,990,143	9,990,143
No of shares Year End (000)	3,015,447	3,015,447	3,015,447	3,015,447	3,026,004	3,646,038	3,646,038
No of shares Diluted (000)	2,925,447	3,015,447	3,015,447	3,015,447	3,015,447	3,387,704	3,387,704

Per share	2011A	2012A	2013A	2014A	2015P	2016E	2017E
EPS	0.10	0.11	0.13	0.15	0.81	0.24	0.27
IEBA EPS	0.10	0.11	0.13	0.15	0.15	0.24	0.27
DPS	0.00	0.00	0.00	0.00	0.40	0.11	0.14
BVPS	0.79	0.93	1.06	1.26	2.06	1.63	1.74
IEBA BVPS	0.79	0.93	1.06	1.26	1.26	1.63	1.74

Growth rates	2011A	2012A	2013A	2014A	2015P	2016E	2017E
NII	-8.3%	5.9%	6.1%	14.5%	66.1%	-7.3%	5.4%
Core-Income	-4.0%	1.1%	5.0%	14.5%	52.3%	1.7%	6.9%
Non-core income	1.4%	36.0%	-5.2%	-15.2%	52.1%	-4.6%	0.0%
Total Income	-3.4%	5.2%	3.5%	10.5%	52.3%	1.0%	6.2%
OPEX	10.4%	9.0%	5.0%	1.6%	57.9%	-9.6%	1.9%
Pre-provision profit (PPP)	-16.2%	11.6%	18.5%	32.8%	22.8%	10.4%	7.9%
EBT	n/m	4.4%	29.2%	7.6%	n/m	-57.6%	12.6%
Net income	n/m	15.0%	18.6%	8.9%	n/m	-66.6%	12.7%
IEBA net income	n/m	15.0%	n/m	8.9%	5.9%	n/m	12.7%
EPS	-47.1%	11.6%	18.6%	8.9%	n/m	-70.3%	12.7%
IEBA EPS	-47.1%	11.6%	n/m	8.9%	5.9%	n/m	12.7%
Gross Loan growth	15.7%	11.7%	9.3%	3.6%	39.2%	10.5%	6.7%
Deposit growth	16.4%	13.2%	12.7%	15.2%	28.4%	4.2%	4.1%

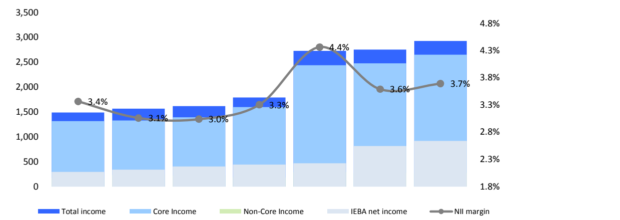
Valuation multiples	2011A	2012A	2013A	2014A	2015P	2016E	2017E
P/E(x)	11.8	9.5	10.2	12.0	3.0	11.7	10.4
P/E(x) IEBA	11.8	9.5	10.2	12.0	15.8	11.7	10.4
P/E(x) IEBA at 52wks High	15.4	11.3	12.3	n/m	12.5	11.3	10.0
P/BV(x)	1.5	1.2	1.3	1.4	1.2	1.7	1.6
P/BV(x) IEBA	1.5	1.2	1.3	1.4	1.9	1.7	1.6
DY (%)	0.0%	0.0%	0.0%	0.0%	16.2%	4.0%	4.9%

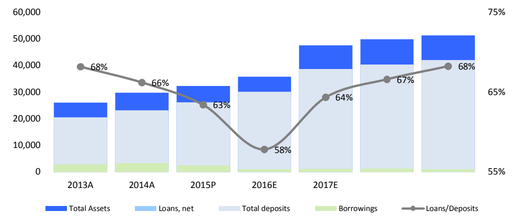
Ratios	2011A	2012A	2013A	2014A	2015P	2016E	2017E
Net Loans/Assets	54%	52%	51%	49%	52%	54%	56%
Net Deposits/Assets	79%	78%	81%	84%	81%	81%	82%
Total Equity/Assets (Tier I)	9%	9%	10%	11%	13%	12%	12%
Loans/Deposits	68%	66%	63%	58%	64%	67%	68%
Total Equity/Loans	17%	18%	19%	22%	25%	22%	22%
Interbank liabilities/Liabilities	12%	12%	9%	3%	3%	3%	2%
IEBA RoAE	13%	13%	13%	13%	19%	19%	20%
IEBA RoAA	1%	1%	1%	1%	1%	2%	2%
NII/Total income	61%	62%	63%	66%	72%	66%	65%
Impairment losses/Pre-EBT	47%	51%	47%	56%	55%	39%	36%
Impairment losses/NII	35%	39%	40%	56%	41%	34%	33%
NII margin	3.4%	3.1%	3.0%	3.3%	4.4%	3.6%	3.7%
Cost/Income	54.9%	54.3%	51.3%	44.7%	50.9%	45.9%	44.5%
Provisions/Gross loans	11.0%	12.4%	13.4%	12.2%	9.9%	12.0%	12.0%

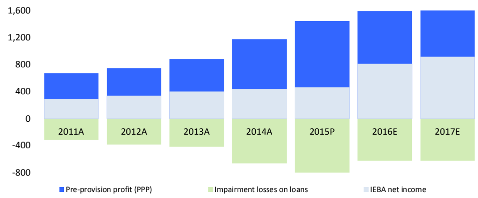
Source: SSIF IEBA Trust SA

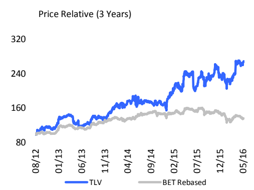
Ratios (Continued)	2011A	2012A	2013A	2014A	2015P	2016E	2017E
IeAs	25,472	29,094	31,614	35,056	46,375	48,770	50,136
IbLs	23,362	26,538	28,640	31,181	39,820	41,625	43,059
CoR (bps)	201	216	254	330	116	204	192
NIM ((Int.income - Int. Paid)/Avg. loans))	7.20%	6.97%	6.55%	6.99%	7.55%	6.32%	6.20%
Interest Income/IeAs	7.21%	6.91%	5.95%	5.13%	5.21%	4.70%	4.79%
Interest Expense/ IbLs	3.95%	3.93%	2.99%	1.99%	1.17%	1.15%	1.15%
Spread of interest	3.26%	2.98%	3.40%	3.13%	4.04%	3.54%	3.65%
Total CAR ratio	14.0%	14.0%	13.8%	17.3%	22.6%	22.0%	22.2%
Net Loans-to-Deposits ratio	68.2%	66.2%	63.4%	57.8%	64.3%	66.6%	68.2%
Gross Loans-to-Deposits ratio	76.6%	75.5%	73.3%	65.9%	71.4%	75.7%	77.5%
NPL ratio (%)	n/a	12.6%	12.6%	10.9%	9.8%	11.3%	13.3%
NPL coverage ratio (%)	n/a	n/a	103.5%	113.7%	131.2%	124.0%	132.0%
ROE-ROA differential (%)	12.0%	11.9%	12.1%	11.3%	1.6%	11.7%	13.1%
ROAA	1.2%	1.2%	1.3%	1.3%	5.9%	1.7%	1.8%
ROAE, normalized	13.3%	13.1%	13.4%	12.6%	7.5%	13.4%	15.0%

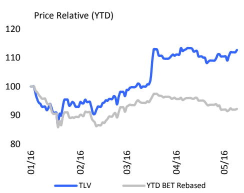
P&L and Balance Sheet Performance











Stock's information

Share price (RON)	2.74	Target price (RON)	3.16
52 weeks High price (RON)	2.82	Mkt Cap (RON)	8,291,250
52 weeks Low price (RON)	2.02		
Country	Romania	Reuters	TLV.BX
Sector	Banking	Bloomberg	TLV RO

Key macroeconomic highlights

• Romania's GDP growth remains impressive. Romania's GDP grew by 1.3% QoQ in Q4'15 (seasonally adjusted terms), a deceleration from 1.6% QoQ posted in Q2'15, based on preliminary data published by the National Statistics Data. In annualized terms, Q4'15 GDP rose by 3.7% from 3.6% in Q3'15, one of the best growth rhythms since Q1'15, when GDP growth was at 4.3% Y/Y, mostly backed by improvement in domestic demand to which all of the company's sectors contributed. At its turn, the domestic demand was supported by the improvement of income available in real terms – inflation still negative, declining financing costs as well as rebound in private lending area. Notable, also the budget deficit in Dec'15 led by the accelerated spending (RON 7.7bn, +52% Y/Y) due to higher public consumption, which is expected to produce effects starting Q1'15 – in Jan'16, the general consolidated budget posted a surplus of RON 4.7bn (0.56% of GDP), with revenues reaching RON 20.4bn (2.7% of GDP) and expenses at RON 15.6bn.

• On revenues side, income tax advanced by 48% Y/Y, VAT climbed by 17% Y/Y while excise duties climbed by 19.2% Y/Y. On expenses side, personnel costs advanced by 26% Y/Y while capital charges posted an advance by 18.6% Y/Y. For 2015, GDP growth was at 3.7% on gross series vs. 3% in FY'14 and 3.5% in FY'13. In the EU28, total government revenue was 44.9% of GDP in Q3'15, vs. 44.8% in Q2'15. Total government expenditure was 47.1% of GDP, vs. 47.4% in the previous quarter, sending budget deficit at 2.3% in GDP vs. 2.6% in Q2'15.

• In first 3Q'15 all economy industries contributed to VA growth, excluding agriculture – industry weighted some 22.7% with a volume increase of 2% Y/Y, leading to a contribution to VA at 0.5% Y/Y increase. The **positive surprise for the year was the IT&C sector that posted a significant increase in the volume of activity (12.8% Y/Y) but weight in GDP was at only 6.7%** (5.9% in Q3'15 alone) and contribution to VA growth was at 0.8% Y/Y. Retail and commerce also posted good increase in the volume of activity at 7.1% Y/Y, weight in GDP at 16.7% and contribution to VA growth at 1.1% Y/Y. **Final provisional data for FY'15 GDP was released by the National Statistics Institute on 8th of April - Q4'15 GDP data grew by 3.8% Y/Y, 1.1% QoQ and FY'15 GDP growth is at 3.8%, which is better**

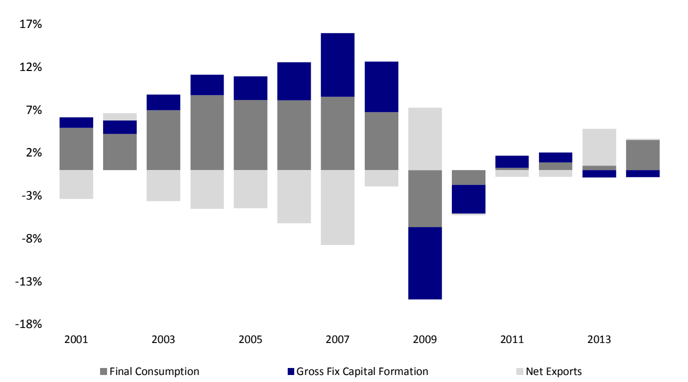
• The construction sector advanced by 14.2% Y/Y in December and 10.4% Y/Y for FY'15, Romania also saw an improvement in industrial production volume and acceleration in investments – based on National Bank (BNR) data, foreign direct investments climbed by 25% Y/Y to over EUR 3bn. The acceleration in the domestic consumption was also largely observable through net exports component of GDP, as in 2015, both exports and imports reached record high levels. 2015 exports reached 4.1% Y/Y to EUR 54.6bn, on the back of higher external demand from EU countries most as well as RON depreciation. Due to increased internal demand, imports reached EUR 63bn (+7.6% Y/Y), widening by 38% Y/Y the trade balance gap to EUR 8.4bn.

• The leading indicator for GDP private consumption component increased for the seventh month in a row in December (+0.6% MoM, +15.% Y/Y) while for the year 2015, retail sales advanced by 8.9% Y/Y, among best growth rates since 2008. Reverting to public consumption, growth rate was at 8% Y/Y to RON 243.9bn in 2015. December unemployment data reached 6.7%, flat vs. November 2015, but up 0.1pps Y/Y. In January, the evolution of the financial sector was impacted by the turbulences on the external markets as well as excess liquidity and consolidation of favorable macroeconomic momentum

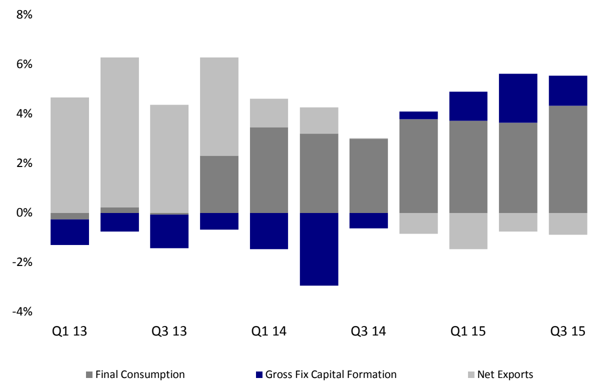
• Q1'16 GDP data will be published in June and July. The government also lowered dividend tax rate by 11pps to 5% starting FY'16 on dividend stream collected, but in order to offset these fiscal easing measures, hiked some indirect taxes, like those on properties. FY'15 retail spending, excluding automobile trade, jumped by 8.9% Y/Y on gross series.

• For the current year, we **expect the upcoming economic growth would depend on maintenance of a strong momentum of the industrial output given higher Y/Y VA in the industry side led by strengthening of external demand**. Also, recovery of consumption on the back of supportive fiscal policy - **government previously announced measures to support FY'16E economic growth at 4% implied private consumption leveraging upon recent VAT rate cut by 4pps to 20% and 19% increase in minimum wages starting May 2016**. Agriculture is expected to revert to a normal year – the National Prognosis Institute sees VA in agriculture and forestry sector at 3% Y/Y growth. The continuing of the privatizations and structural reforms as well as infrastructure investments should revive investors interest into the Romanian market and business environment that should positively impact FDIs.

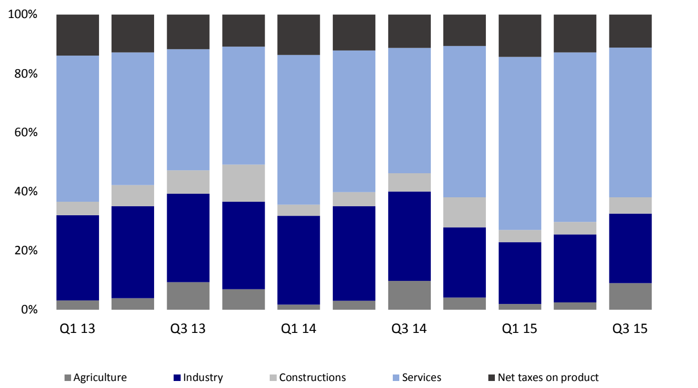
Drivers of GDP growth – annual data



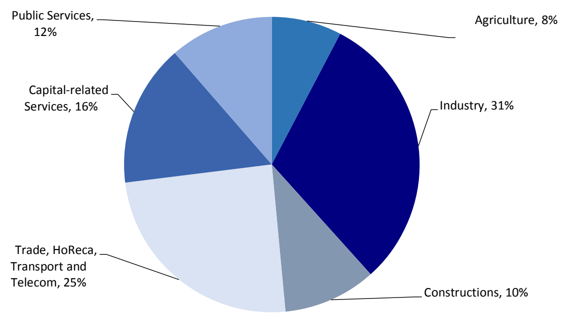
Drivers of GDP growth – quarterly data



GDP Structure – Services advance was driven by IT&C share (7%)



Structure of GDP, first 3Q'15 [% of VA]



Source: The National Statistics Institute (INSSE), IEBATRUST

• Supported by the strengthening of the industrial sector over the last two years, especially in the manufacturing sector, we expect the mining sector to continue pickup. Agriculture is expected to have a normal contribution to GDP this year, while the real-estate market progressively recovered during 2013 announced positive results for 2014 and 2015, and we should see the sector advancing in 2016 as well.

• With our economy linked to the evolutions in the euro-zone, the external demand will continue strengthening over 2016 as the mild recovery expected in the EU should provide support to exports and the external demand. Recall the high degree of trade integration with euro zone countries - 55% weight in total exports in 2014 while for 2015 trade integration strongly advanced to 71% on the back of RON devaluation while imports growth was insufficient to offset the growth rate in exports and bring a positive contribution to GDP growth from utilisation side. We expect industry and exports to continue supporting Romania's economic growth this year, while agriculture could potentially remain extremely tricky to foresee – FY'14 contribution to VA growth was at 1.5% while FY'15 brought a negative contribution at 3% Y/Y.

• Private consumption will see a gradual recovery and will begin contribution more significantly to growth levels in the second half of 2016, supported by the increase in salaries both in private and public sector. **Additionally, improving consumer confidence should help drive domestic demand higher. Confident upon Romania's economic growth potential,** Moody's improved the sovereign rating outlook from stable to positive and reconfirmed Baa3 investment grade rating. Moody's decisions reflects the significant progress recorded by Romania with respect to balancing of the macroeconomic disequilibria as well as reducing economy's vulnerability to external shocks, thus creating the premises of a solid economic growth. **At the same time, the efforts made in the past years for the fiscal consolidation process as well as reduction in the budget deficit, but also the stabilization of the government public debt represent key factors that contributed to the improvement of the rating outlook.** Fitch also retains a stable outlook, with BBB- for long term FCY debt and BBB for local current debt, whilst Standard&Poor's last revision in May 2014 led to a stable outlook opinion as well. On 10 April, **S&P reaffirmed Romania's 'BBB-/A-3 rating; outlook stable.**

• Romania's sovereign rating improved by JCRA to BBB/BBB+ from BBB-/BBB, from positive to stable outlook. According to the rating agency, the upgrade reflects the improvement in the financial system, by reducing the ratio of non-performing loans, maintaining a budget deficit below 3% under fiscal easing, strengthening of the external position as well as prospects for a sustainable economic growth.

• Recently, the World Bank announced improvement in FY'16E GDP growth rate by 0.7pps to 3.9% and by 0.6pps to 4.1% for FY'17E, thus it seems that **Romania remains top GDP growth delivery in Europe**. This year, Romania must also pay EUR 113m in interest and commissions to the European Union (EUR 104m) and World Bank (EUR 9.1m) as part of the stand-by loan contracted in 2009, while since 2007 by end of last year, having had attracted in EU funds some EUR 14bn out of a total available amount of EUR 19bn, which implies an EU fund absorption rate at 74%.

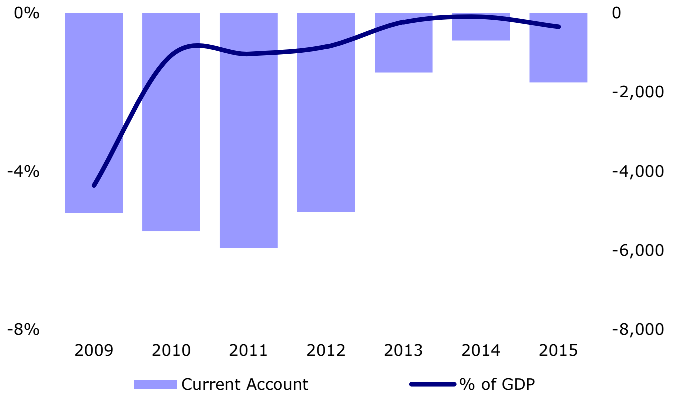
• With inflation at historically low levels, the BNR had room to ease monetary policy starting 2013 in order to support the economy. The monetary policy was cut over and over in 2013 from 5.25% to 4% and further in 2014 down to 3.5%. Currently the key policy rate stands at a historical low of 1.75% while existing levels of MRR on RON denominated liabilities were maintained at 8% but those in FX were reduced to the level of 12% from previous 14%. **Romania struggles amid negative inflation rates, but not yet deflation due to rising consumption.** Recently the BNR Governor announced that monetary policy could tighten, but not necessarily implying a hike in the key policy rate. The change in the BNR policy was expected, as coupled with the pro-cyclical fiscal policy leads to overheating economy mainly due to consumption side. The negative inflation environment remains explained by decrease in VAT rate since January 2016, partially offset by RON depreciation and acceleration in domestic demand.

• BNR debt to IMF was reduced by 47% Y/Y to EUR 1.4bn following the reimbursements made since 2009. On the other hand, short term external debt increased by 4.9% Y/Y to EUR 19.8bn. In a nutshell, the drop in FY'15 total external debt was driven by the decrease in funding costs but also due to reimbursement process. IMF improved Romania's FY'16 GDP outlook at 4.2% vs. 3.9% estimated initially.

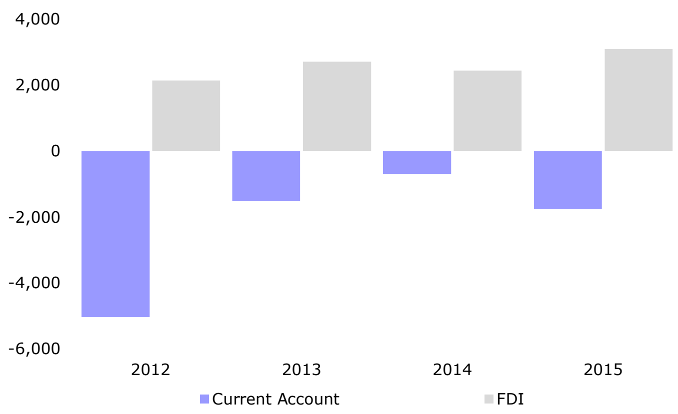
• **FDIs:** In terms of FDIs, in FY'15 the growth rate was at 25.4% Y/Y to EUR 3bn, evolution which provides with some favorable premises for short term dynamics of the domestic economy as in FY'14 Romania registered the lowest FDI in percentage among its peers – avg. FY'14 inward FDI stock in Czech Republic, Hungary, Poland and Bulgaria was around 100% of GDP while in Romania the rate was just below 40%; peer's inflows were at 4% of GDP while in Romania, the share was only 2%.

• EC warns that **Romania is still missing out on potential gains from higher FDIs**, thus significant room available in order to capture additional flows. In terms of structural and cohesion funds absorption rate, for 2007-2013 financial framework, Romania value stands at 52.59% (EUR 10.02bn), contracted grants worth EUR 20.3bn. Despite the real progress made in the past two years, the 80% target rate has not been exceeded yet and remains below the CEE average of 52%.

CA widened to EUR 1.75bn in 2015 due to EUR 897m trade gap jump



FY'15 FDIs increased by 25.4% Y/Y slightly above EUR 3bn



Source: The National Statistics Institute (INSSE), The National Bank (BNR), IEBATRUST

• Overall, the **dynamics of the CA, FDIs and total external debt confirm the positive macroeconomic momentum ahead, as well as that at least on the short term, risk for unsustainable macroeconomic disequilibria remain quite reduced.** Supporting this idea, the BNR already publicly affirmed that the tightening of the monetary policy does not necessarily imply hike in key policy rate. Also, the decision of the BNR could be influenced by the temporary nature of negative inflation rate, concerns upon overheating economy mainly due to higher consumption and public investments, while the overall local mainframe of the economy remains dominated by the excess liquidity and turbulences on external markets, elections year, while Romania has almost finalized the reimbursement of the external loans, and also under the impact of a much discussed debt discharge law – useful only to low income debtors, as per BNR point of view.

• **Summarizing, on the short term, the economy remains supported by the loosing mix of both monetary and fiscal policy – low record level of the key interest rate doubled by the excess liquidity on the monetary market, new Fiscal Code which expects 20% increase in minimum wages since May 2016, positively impacting consumption and credit activity, but focus should remain on the pro-cyclicality of the monetary & fiscal policy mix to avoid a potential overheating.**

Key Macroeconomic Figures	2014	2015	2016E	2017E
Real GDP (EUR bn)	151	159	169	181
GDP / capita (EUR)	7,600	8,018	8,519	9,121
Real GDP (%, yoy)	2.9	3.7	4.2	4.3
Private Consumption (%, yoy)	2.3	3.5	3.2	3.5
Industrial output (%, gross yoy)	6.1	2.7	5.0	5.2
CPI avg (%, yoy)	1.4	-0.59	0.0	2.3
Unemployment ILO (%)	6.8	6.7	6.6	6.6
Current Account Balance (% of GDP)	-0.5	-1.1	-1.2	-1.5
Budget Balance (EUR bn)	-5.0	-2.3	-5.1	-2.8
Trade balance (EUR bn, ytd)	-6.06	-8.37	-9.95	-11.13
Net FDI (EUR bn, ytd)	2.4	3.0	3.0	3.5
Total Deposits (% of GDP)	35%	36%	39%	39%
Retail Deposits (% of GDP)	21%	21%	22%	22%
Corporate Deposits (% of GDP)	14%	15%	16%	16%
Total Private Debts (% of GDP)	31.5	30.7%	28.8%	28.5%
Households Debts (% of GDP)	15.2	15.1%	15.1%	14.3%
Mortgage (% of GDP)	6.6	7.3%	7.3%	7.3%
Public Debt (% of GDP)	40	39	39	41
Total External Debt (EUR bn)	94.3	90.9	90.9	90.9
Official FX reserves (EUR bn)	35.5	35.49	35.49	35.49
NBR key interest rate (%)	2.75	1.75	1.75	1.75

Source: The National Statistics Institute (INSSE), National Prognosis Commission, IEBATRUST

Key highlights for the banking sector

• FY'15 total assets of RON 377bn (EUR 84bn), the maximum of last eight years. The ratio of loans to deposits reached the lowest post-crisis level, of only 85.7%, while the solvency rate remained at 17.5%. In terms of financial intermediation, Romania had the lowest weight among the countries in the region, in both terms of assets, loans and deposits.

• For 2015, the banking system posted a net profit of RON 4.87bn (slightly over EUR 1bn), stemming from 22 banks while 14 have recorded losses, as aside from the usual commisions and interest spread, the sale of non-performing loans also contributed to some good release in provisions. The concentration degree of the local banking system remains relatively moderate, slightly below the European average.

• In terms of market players, excluding the merger between Banca Transilvania and Volksbank Romania (VBRO), which put Banca Transilvania ranking third, no major changes occured, as the table below depicts. FY'15 total net assets of the banking system reached RON 377bn (+4% Y/Y), or some 53% of FY'15 GDP.

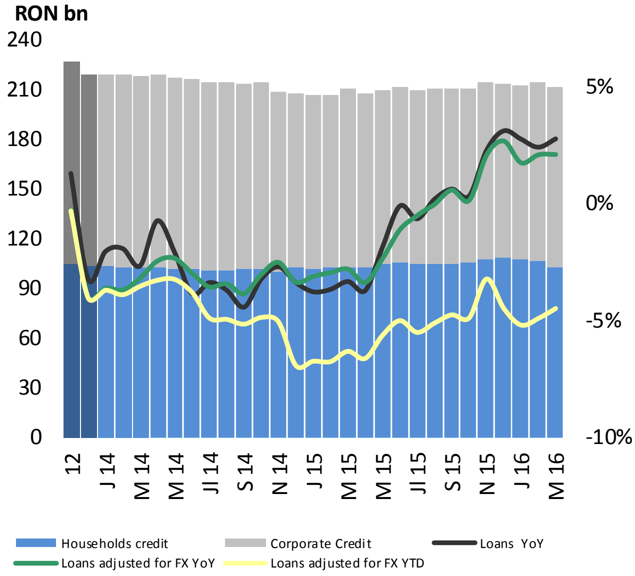
Ranking	Total Assets 2014	Total Assets 2015	Y/Y Growth	Market share 2014	Market share 2015
Total Net Asset Value (RON bn)	364	377	4%		
% in GDP	55%	53%	3%		
Cumulated value of assets (RON bn)	197	218	10.7%	54.2%	57.9%
% in GDP	30%	31%			
BCR	59	60	2%	16%	16%
BRD-SocGen	45	49	9%	12%	13%
Banca Transilvania	35	47	33%	10%	13%
Raiffeisen	29	31	9%	8%	8%
Unicredit	29	31	7%	8%	8%

Source: National Bank monthly bulletins, IEBATRUST

- In 2015, some amelioration of loan growth was felt, as total loans went to positive territory for first time since February 2013, backed by RON denominated loans, that touched record high. RON denominated loans accelerated their positive dynamics, triggered by the low historical interest rates once with the easing stance of the National Bank, thinking of the key interest rate. At the end of 2015, total loans reached RON 217.5bn, up 3% Y/Y.

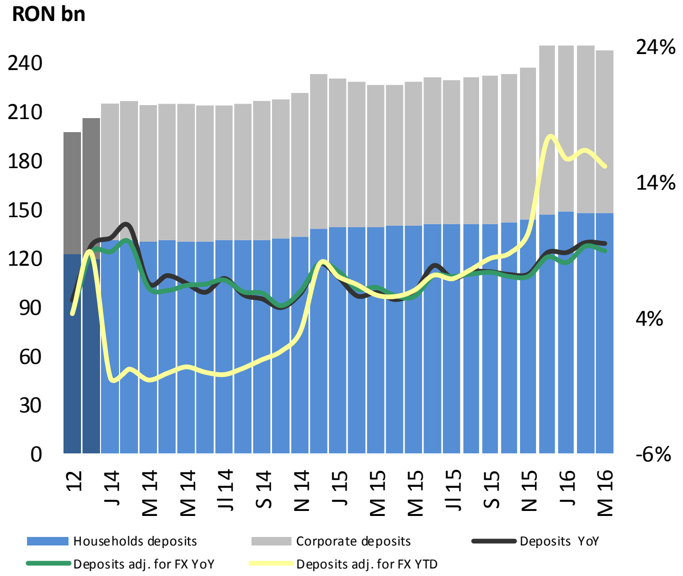
- Total domestic credit dropped by second consecutive month in January (0.7% MoM) to RON 216.1bn, the lowest level of the last three months. By currency component, RON domestic credit dropped by 0.3% MoM to RON 110bn on the back of decrease in loans for non-households by 0.9% MoM to RON 57.1bn.

Loans breakdown & growth YTD



Source: NBR, NSI, Public Finance Ministry, SSIF IEBA Trust

Deposits breakdown & growth YTD



Source: NBR, NSI, Public Finance Ministry, SSIF IEBA Trust

- As of end-January, total domestic credit to private sector advanced by 2.8% Y/Y to RON 216.1bn, influenced by 4.86% Y/Y advance in retail credit to RON 107.62bn - breakdown of RON 52.86bn (+31.3% Y/Y, +0.4 MoM), a record high level, positively influenced by the acceleration of mortgage loans ahead of the debt discharge law - mortgage loans reached

RON 52.17bn (+15.96% Y/Y). Corporate private lending reached RON 108.48bn (+0.75% Y/Y).

• Private deposits dropped by 1.2% MoM (+8.8% Y/Y) to RON 250.5bn, based on January data. RON component reached RON 168bn (-1.9% MoM,+5.8% Y/Y) due to the 5.8% MoM decrease on corporate side at RON 75bn; retail deposits advanced by 1.4% MoM to RON 93bn.

• For March, only some scarce data is available for both deposits and loans side, private corporate credit reached RON 215.2bn (-0.4% MoM, +2.4% Y/Y) backed by RON denominated loans (RON 111.32bn, +1.2% MoM, +20.7% Y/Y), while FCY denominated loans were at RON 103.92bn (-2.1% MoM, -12% Y/Y). Deposits were marginally higher (+0.1% MoM, RON 250.67bn) and seems that FCY side advanced by 1.8% MoM while RON side dropped by 0.8% MoM. Detailed data will be available in the monthly bulletin of the National Bank which will be published by the end of the month.

• **CAR ratio** for the system slightly lowered to 17.51% as of end-2015, vs. 18.69% as of Q3'15 mostly due to higher provisions in the system - **NPL ratio** reached 13.6%, lowest level in last 5 quarters, but provisioning rates tightened. Currently, Romania's NPL coverage ratio stands at 58% vs. 44% EU avg. Based on Deloitte Deleveraging 2015-2016, Romania is on top of portfolio transfers in the CEE region with sales estimated at EUR 2.5bn, with major selers incorporating BCR, Unicredit Bank and Piraeus Romania.

• Loans to deposits ratio continued its decline, reaching 86%, due to negative adjustment in FX component.

• In 2015, the banking sector reached 36 banks, but half of them have a market share of below 1%, which puts forth the idea of sector consolidation. Banks B/S are well balanced and in compliance with the highest standards in terms of loans and deposits, but also in terms of total debts and equity capital. Moreover, solvency indicators, although slightly adjusted toward the end of 2015, keep and elevated level, but correspond at the same time to one of the best prudence intervals.

• As per National Bank data, ROE-ROA differential made a significant positive slump vs. both FY'14 reaching 11.47% as of end-Dec'15, as during the year significant non-performing portfolios were sold, which released significant amounts of provisions previously booked. NPL ratio was at 13.61% down from 20.71% Y/Y.

• Consolidation seems to make fast steps as in H2'15 number of credit institutions locally reached 36, a decrease of 10% Y/Y, but there is still significant room in this regard mainly due a wide variety of small players that struggle with a market share around 2%-to-1% or even below. FY'15 was the first year when loan-to-deposit ratio dropped suddenly below 86%.

Aggregate indicators for Credit Institutions	Dec.2014	Mar. 2015	Jun. 2015	Sep. 2015	Dec. 2015
Number of credit institutions	40	40	40	39	36
of which foreign banks' branches	9	9	9	8	7
Total net assets (RON bn)	364.1	361	363.3	359.6	377.3
Assets of private-owned institutions *(% in total assets)*	91.3	91.5	91.6	91.4	91.7
Assets of foreign-owned institutions *(% in total assets)*	89.9	90.1	90.2	76.8	90.3
Capital Adequacy Ratio (≥8%) *(%)*	17.59	18.64	18.07	18.69	17.51
Leverage Ratio *(%)*	7.38	8.26	7.97	8.34	7.34
Impaired loans *(% in total loans)*	9.39	9.08	8.45	7.93	7.23
Impaired loans *(% in total assets)*	5.10	4.97	4.72	4.46	3.95
Impaired loans *(% in total debt)*	5.65	5.56	5.26	5.00	4.41
ROA *(%)*	-1.32	0.91	0.66	0.83	1.35
ROE *(%)*	-12.45	8.88	6.44	7.98	12.82
Operating income/operating expenses *(%)*	180.19	170.43	165.91	168.05	173.73
Loan-to-Deposit Ratio *(%)*	91.33	93.68	93.56	92.67	85.74
Non-performing loans ratio based on NBR's definition *(%)*	13.94	13.85	12.80	12.33	-
Non-performing loans ratio based on EBA's definition *(%)*	20.71	20.20	16.20	15.73	13.61

Source: National Bank monthly bulletins, IEBATRUST

• In February, new loan production on retail side reached RON 1.4bn, almost double compared to the volume recorded last year and vs. RON 760m in January alone, which is pretty much equal to the montly production recorded in February 2008 (RON 1.3bn). Usual new loan production for retail was at RON 300-350m. We assume this trend remains driven by significant hike in mortage loans, opposite to consumer loans, that posted a spike only in November 2015 (the stock of consumer loans remains on the downside, RON 55.45bn reported as of January vs. RON 56bn in December and 56.74bn in November).

• NIMs for the sector are rather on the downtrend, but National Bank is in first step with a trend of increasing interest rates (aside from the usual key policy hike), we expect a positive trend due to loans "repricing" faster than cost of funding side, but volumes's growth remains tricky as we believe retail loans will be primarily supported by the advance in housing loans (mostly Prima Casa), consumer loans as well as capex loans. We believe loans' advance will stall for those types of loans where the down-payment was significantly hiked following the debt discharge law.

• Fitch issued an opinion with respect to the debt discharge law impact upon the sector growth, but the opinion was ahead of deputies deciding the exclusion of Prima Casa program from law provisions. Overall, a few still remain valid:

- Romanian banking sector improving performance could be disrupted
- Retail mortgage lending could come under pressure as banks tighten their lending criteria via higher down-payments
- Capital ratios could come under pressure given increases in RWA, but Prima Casa loans were excluded from the law provisions which means that some capital relief would also be available
- Sector capitalisation would however still remain comfortable, given a CAR of 17.5% as of end-2015
- Outlook for the sector is stable, but should asset quality deterioration occur, some increased stress on capital would also exist

Deposits - Loans data (RON bn)	2013	2014	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	2015	Jan-16	Feb-16	Mar-16
Total Credit (Loans)	**299**	**296**	**302**	**303**	**298**	**301**	**302**	**299**	**305**	**307**	**305**	**305**	**307**
Total Loans - Private Credit (RON+FX)	**218**	**211**	**213**	**215**	**212**	**214**	**214**	**214**	**219**	**218**	**216**	**215**	**216**
New loan production			**2.7**	**2.3**	**-2.7**	**1.5**	**0.4**	**0.1**	**4.1**	**-1.0**	**-1.4**	**-0.9**	**1.1**
Loans (FX)	133	119	114	113	109	109	107	106	107	107	106	104	102
Loans (RON)	85	92	99	102	103	105	108	109	111	110	110	111	114
Non-government Loans (RON) - Short term	29	27	27	29	28	29	29	29	30	28	30	28	29
Non-government Loans (RON) - Medium term	28	34	37	38	38	39	40	40	40	41	38	41	42
Non-government Loans (RON) - Long term	28	31	34	36	37	38	39	40	41	41	42	42	44
Household Loans (RON+FX)	**103**	**102**	**103**	**105**	**104**	**105**	**105**	**105**	**108**	**108**	**108**	**106**	**102**
New loan production			**2.0**	**2.5**	**-0.8**	**0.5**	**0.0**	**0.5**	**2.3**	**0.3**	**-0.4**	**-1.5**	**-3.6**
Household Loans (RON)	35	40	44	46	47	49	50	51	52	53	53	54	55
Household Loans (FX)	69	62	59	59	57	56	55	54	56	55	55	53	47
Household Consumer Loans (RON+FX)	62	57	57	57	56	56	56	56	57	56	55	55	55
Household Mortgage Loans (RON+FX)	41	45	47	48	48	48	49	49	51	52	52	52	53
Corporate Loans (RON+FX)	**115**	**105**	**105**	**106**	**105**	**105**	**105**	**105**	**107**	**105**	**108**	**108**	**108**
New loan production			**0.8**	**0.8**	**-1.4**	**0.8**	**0.1**	**-0.3**	**1.5**	**-1.4**	**2.3**	**0.4**	**0.4**
Corporate Loans (RON)	51	50	53	54	53	54	55	55	56	55	54	57	58
Corporate Loans (FX)	64	55	52	52	51	51	51	50	51	51	50	51	50
Total Deposits (RON+FX)	**216**	**233**	**228**	**231**	**229**	**231**	**233**	**234**	**237**	**253**	**251**	**251**	**248**
Deposits (FX)	74	77	78	79	79	79	80	80	81	82	82	84	83
Deposits (RON)	142	156	150	152	150	152	152	153	157	171	168	167	165
Household Deposits (RON+FX)	**120**	**138**	**141**	**141**	**141**	**141**	**141**	**142**	**144**	**147**	**148**	**148**	**148**
Household Deposits (RON)	70	86	88	88	88	88	88	88	89	92	93	93	93
Household Deposits (FX)	50	52	53	53	53	53	53	54	54	55	55	55	55
Corporate Deposits (RON+FX)	**86**	**95**	**87**	**90**	**88**	**90**	**91**	**92**	**94**	**107**	**102**	**103**	**100**
Corporate Deposits (RON)	62	70	62	64	62	64	64	65	68	80	75	74	72
Corporate Deposits (FX)	24	25	25	26	26	26	27	27	26	27	27	29	28
Household Loans/Private Credit	47.3%	48.4%	48.2%	48.8%	49.1%	49.0%	48.9%	49.1%	49.3%	49.6%	49.8%	49.3%	47.4%
Household Mortgage Loans/Private Credit	18.7%	21.2%	22.1%	22.2%	22.5%	22.6%	22.8%	23.1%	23.3%	23.9%	24.1%	24.2%	24.4%
Household Consumer Loans/Private Credit	28.6%	27.2%	27.0%	26.6%	26.6%	26.4%	26.1%	26.0%	26.0%	25.7%	25.7%	25.6%	25.5%
Household Consumer Loans/Household Loans	60.4%	56.2%	56.1%	54.4%	54.2%	53.9%	53.5%	53.1%	52.7%	51.9%	51.5%	51.9%	53.8%
Household Mortgage Loans/Household Loans	39.6%	43.8%	45.9%	45.6%	45.8%	46.1%	46.5%	46.9%	47.3%	48.1%	48.5%	49.1%	51.5%
Corporate Loans/Private Credit	52.7%	49.9%	49.4%	49.3%	49.2%	49.3%	49.2%	49.1%	48.8%	48.4%	49.8%	50.2%	50.1%
Ratios - Loans/Deposits													
Total Private Loans/Total Deposits, total	101%	91%	93%	93%	93%	93%	92%	92%	92%	86%	86%	86%	87%
Loans (FX)/Deposits (FX)	181%	154%	146%	143%	138%	137%	133%	131%	133%	131%	129%	124%	123%
Loans (RON)/Deposits (RON)	60%	59%	66%	67%	69%	69%	71%	71%	71%	64%	65%	67%	69%
Household Loans/Household deposits, total	86%	74%	73%	74%	74%	74%	74%	74%	75%	74%	73%	72%	69%
Household Loans (RON)/Household deposits (RON)	49%	47%	50%	52%	54%	56%	57%	58%	58%	57%	57%	58%	59%
Household Loans (FX)/Household deposits (FX)	138%	119%	111%	111%	107%	106%	103%	101%	103%	100%	99%	96%	86%
Corporate Loans/Corporate deposits, total	134%	111%	120%	118%	119%	116%	115%	115%	114%	99%	105%	105%	108%
Corporate Loans (RON)/Corporate deposits (RON)	82%	72%	85%	84%	86%	84%	85%	84%	83%	69%	72%	77%	81%
Corporate Loans (FX)/Corporate deposits (FX)	269%	219%	206%	203%	196%	195%	188%	189%	193%	188%	186%	177%	180%
Share of FX, in													
In Total Deposits	34%	33%	34%	34%	35%	34%	35%	34%	34%	32%	33%	33%	34%
Household deposits	66%	61%	57%	56%	54%	53%	52%	52%	52%	51%	51%	50%	46%
Corporate deposits	56%	52%	50%	49%	49%	49%	48%	48%	47%	48%	47%	47%	46%
In Total Private Loans	61%	56%	54%	52%	51%	51%	50%	49%	49%	49%	49%	48%	47%
Household loans	41%	38%	38%	38%	38%	38%	38%	38%	38%	38%	37%	37%	37%
Corporate loans	56%	52%	50%	49%	49%	49%	48%	48%	47%	48%	47%	47%	46%
FX impact													
EUR/RON, avg	4.42	4.44	4.45	4.47	4.44	4.42	4.42	4.42	4.44	4.50	4.53	4.48	4.47
USD/RON, avg	3.33	3.35	3.98	3.98	4.03	3.97	3.94	3.93	4.14	4.14	4.17	4.04	4.02
EUR/USD, avg	1.33	1.33	1.12	1.12	1.10	1.11	1.12	1.12	1.07	1.09	1.09	1.11	1.11
NIM Development													
NIM - Corporate (Euro)	2.99%	2.72%	2.89%	2.88%	2.82%	2.68%	2.54%	2.46%	2.51%	2.42%	2.40%	2.37%	2.37%
NIM - Corporate (RON)	1.83%	1.56%	1.88%	1.81%	1.86%	1.74%	1.77%	1.74%	1.67%	1.41%	1.45%	1.54%	1.61%
NIM - Corporate (All business)	2.48%	2.17%	2.38%	2.34%	2.34%	2.20%	2.14%	2.08%	2.07%	1.90%	1.91%	1.93%	1.96%
NIM - Households (Euro)	2.18%	2.04%	2.08%	2.10%	2.08%	2.06%	2.02%	1.96%	1.98%	1.96%	1.93%	1.90%	1.76%
NIM - Households (RON)	1.05%	1.02%	1.31%	1.43%	1.51%	1.60%	1.69%	1.76%	1.77%	1.73%	1.68%	1.74%	1.76%
NIM - Households (All business)	1.80%	1.64%	1.75%	1.81%	1.82%	1.85%	1.87%	1.86%	1.88%	1.85%	1.81%	1.84%	1.76%

Source: National Bank monthly bulletins, IEBATRUST

Debt discharge times – volatility ahead remains with volumes negatively affected, but interest rates should hike. Retail and corporate strategy re-thinking seems a must

- This controversial law received approval from Juridical Commission of the Chamber of Deputies with following amendments to provisions: Prima Casa will be excluded, ceiling maintained at EUR 250k; the law will aply to those who are in a foreclosure procedure and also to consumer loans pledged with mortgages. The law was passed by the President, 15 days ago and starting May 13, first keys can be handed over.

• **Official quantitative data on mortgage-backed loans (FY'15):**

- FY'15 mortgage-backed stock of loans stood at RON 79.46bn (EUR 17.64bn), o/w some 69% are FCY denominated and 32% were granted in RON currency
- Out of total exposure, 36% is represented by housing loans (RON 28.67bn), 30% are represented by real estate investment loans (RON 24.06bn) and 31% are mortgage-backed consumer loans (RON 24.54bn)
- Earlier in the media, the National Bank advanced a figure of RON 2-4bn as potential impact from this law for the entire banking system, which seems to give only a short term negative momentum, but this figure was not accomodated within the quantitative data released.
- At first glance, losses for the entire **banking sector could reach approximately some 50%-60% of FY'16 banking sector estimated profitability of RON 3.2bn (flat Y/Y). FY'15 profitability adjusted for Banca Transilvania one-off gain reached around RON 3.2bn, but due to the tax impact from Volksbank taxloss carryforward, some RON 3bn seems more achievable in adjusted net profits figure.**

• **ST&LT impact (our view&market players undertaken measures): the application of the law means tightening of the lending conditions (higher downpayments, recalibration of risk scorings&risk management criteria and higher provisions, increase in RWAs and negative impact in CAR).**

• In a **bottom-up approach**, the law has several implications for the economy as a whole, affecting both Gvnm't borrowing costs – recently, following Parliament law adoption, 10Y state bond yield hiked by 7bps, despite Hungary and Poland borrowed more cheaper, which affects investors' perception against Romania particularly, hikes discounting factors and lowers valuations instead. As an example, the yield difference between 10Y RO bonds (higher graded) and 10Y HU bonds (lower graded) increased to a historical high of 73 bps and seems that investors are rather ignoring RO FY'16 GDP prospects in the area. **None of the international bodies made changes to the 4% economic growth seen for the year, although acknowledged the negative impact of the law and albeit the contruction sector could collapse significantly, but should this be the case, the effect will be faced in a higher extent during FY'18-'19, as currently none of the real-estate developers forced works to end.**

• The law applies to those mortage loans (consumer loans covered by mortagage, housing loans and real-estate investment loans carrying mortagages behind) that are underwater (loans having a balance that exceeds the current market value of the loan) – booming credit activity occurred in 2007-2008, following which, once with the start of the crisis, led value of collaterals guaranteering the loans below the scriptic balance of the loans. Another strong negative issue is the retroactivity principle that comes with the law application - this principle seems instead to be able to get cancelled by the Constitutional Court should banks and even President require a point of view in this regard.

• For BRD's case, at the end of 2015, **at group level mortgage loans book was at RON 9.48bn, o/w RON 1.49bn overdue but not impaired (80% of volume in the bucket of 1-30 days overdue) and assuming collateral market value would secure around 70%-80%,** a net **loss of RON 300m would result in a brief calculation** From another point of view, at the end of 2015, overdue depreciated loans reached RON 3.1bn (retail and non-retail, both consumer and mortgages) had as colateral only 53% of outstanding balance which puts the value that has to be covered at some RON 1.47bn in rolling NPLs – losses could be around RON 440m (30% default rate) and RON 700m at a 60% default rate. **We cannot estimate the timeframe when these amounts will be booked, if there will be**

individuals actually turning in the keys just by free will disregarding their payment behaviour as well as financial capacity. In our estimates for BRD, we kept some elevated provisioning level, at an average of RON 656m for the next 4Y, which should be more than enough to balance both debt discharge provisions, normal course of activity as well as any AQR charges (please see below more details on expected AQR). Also, should these free of will situations occur, we believe banks will find suficient manners to correct such behaviuor like blacklisting or even Credit Registry in order to signal behaviour, which would more than sure make individuals considering twice when thinking of turning keys just by chance, without actually having financial issues. Banca Transilvania instead sees some RON 250m immediate impact from this law, not booked yet in Q1'16.

• Looking back at banking sector level, around RON 19bn in gross volume was existing as of end 2008, o/w 68% covered by housing loans, while National bank data shows that RON 5bn NPLs for housing loans were created and approximately 70% were deployed by the period elapsed during 2007-2008.

• Prima Casa gross loan exposure could stand at RON 10.6bn (considering the number of borrowers of 159,106 revealed by National Bank and maximum existing ceiling worth EUR 66.5k), with a RON 423m defaulted by end of 2015 for an NPL ratio of 0.04%.

• The balance of a typical loan granted in 2007 gets amortized around 15%-20% (depending on the interest rate applicable, down-payment, maximum tenure, currency) and real-estate prices are still around 25-30% down compared to 2006 level, which means that some 15%-20% should represent some addtitional provisions or mortage loan going underwater. On real - estate market instead, 2015 was the first year when prices started hiking, but the estimated 10%-15% downside impact estimated from debt discharge, should be mitigated onwards. Real-estate developers have a strong demand from corporate side (Q1'16 demand for offices exceeded some physcological threshold), while residential segment maintains also a strong pipeline to be delivered. We see less chances for residential side to retain lower pricing due to higher borrowing costs for developers onwards and more expensive mortage bonds - should that be the case for financing method. From an economic point of view, selling price should at least cover borrowing costs for building the facility as well as securing a minimum, albeit limited margin. This should both change the reasoning of individuals as well as finance managers, uphold afloat banks' collaterals and lower state financing costs. The law affects also financing decisions of corporate managers due to the financing choice of the real-estate asset – at the inception of the asset, maybe some mortagage bonds were issued, now having 100% uncertainty translating a secured mortagage to completely unsecured status.

• **Retail strategy re-thinking underway.** Recently, banks voiced that by 2018, RON lending will be main focus for both retail and corporate side, lending structure by sector will not change and individuals will overweight vs. corporate side. Still, retail volumes will not continue being secured by Prima Casa in same manner as in the past, but would shift volumes to consumer loans and credit cards, which instead, in lack of counterbalancing housing loans, would satisfy in a lesser extent durable goods buying. From 2017 onwards, the continuity of the program would depend in our view only by the state existing guarantee or not. NPL ratio is very low and we not see any risks for individuals just turning the keys in a larger extent compared to the time period elapsed since its start.

• **Specific impact largely uncertain.** Due to lack of specific data, detailed impact on the two issuers (BRD&TLV) remains difficult to ascertain, as one would need to measure actually the spike in net cost of risk due to extra-provisioning of loan amounts that would fall under the incidence of this law, while each loan has some unique specifics (tenure, cost, downpayment) which adds further to provisions' volatility. BRD-GSG already took a recalibration of its risk management procedures which produced effects in Q4'15 (upgrade of provisioning methodology for non-defaulted portfolio&recalibration of provisioning parameters for defaulted portfolio) and mentioned that these adjustments are not necessarily related to the debt discharge law, while Banca Transilvania rather refrained (eventually RON 250m figure advanced) in commenting on how large would be the impact from additional provisioning in this regard, but we assume that due diligence process with Volksbank acquisition already made some adjustments in this regard. With respect to the increase in downpayments, several banks already took actions by asking up to 40% the upfront amount for FCY denominated loans and up to 30% for RON loans. Banca Romaneasca has severely increased down-payments for mortgage loans (35% vs. previous 15% for RON denominated mortgage loans and 40% from previous 20% for EUR denominated ones), being the third bank in the system, after Raiffeisen and Bancpost that carried such action since debates upon the law started. Based on the opinion of real-estate consultants, the law will lead to decrease in prices of buildings and will increase rents, and also other players in the system continued following these trends.

• **Prima Casa guarantee ceiling already finalized – additions do not cover the demand.** On the other hand, the vast majority of banks carrying Prima Casa program have already finalized during Q1'16 the gurantees ceiling secured by the state so far of around RON 1.7bn (extended from previously RON 1.3bn), and we do not see state securing additional volumes for the year, which could put a halt in new production volumes for individuals and forcing banks to rethink their retail strategy, eyeing more toward consumer loans and credit cards in order to achieve budgeted figures. **Q1'16 demand for Prima Casa loans was higher compared to previuos years at some extent pressured by the effects of the law. Recently, the Gvnm't added another RON 500m to the RON 1.69bn existing ceiling for Prima Casa program for 2016. We were estimating some RON 1.9bn extended ceiling for this year. According to the Ministy of Finance public point of view, the debt discharge law created a great uncertainty with respect to both the applicability of the law upon the loans contracted through Prima Casa program but also upon the impact of this law on real estate market and mortgage market. During first 4M'16 there were granted guarantees worth RON 1.2bn, up 2x Y/Y. On 13th of May, there will be some 15 days since the law was promulgated by the President, and debtors have the right, by law, to hand over their keys. Currently, banks have no operational procedures in place to run the application of the law, and when the first customer will enter bank offices to transfer keys, the Constitutional Court will be asked to state its opinion with respect to the retroactivity principle.**

• **At the same time, the Ministry of Finance will closely monitor the indicators of the mortgage market for the upcoming period and will announce its strategy for the medium-term related to the development of the Prima Casa guarantees offered by the state. In developing it, there will be some factors taken into consideration like growth of real disposable income of population following recent fiscal measures as well as the evolution of the mortage market in relation to the Prima Casa program. Final purpose of this analysis should be lack of distorsions upon the market.**

• **Bank's risk management procedures getting tighter.** We are curios how each bank risk management procedures will change with respect to these additional amounts that have to be provisioned and also upon overall application norms (when the National Bank will issue them), but roughly, we appreciate that in terms of provisions and balance sheet growth rates, the impact would be somewhat larger in the case of BRD rather than TLV due to first one maintained position in the system whilst TLV was mostly a niche bank propelled on higher ranking due to merger impact. There were no details yet announced to the breakdown of the EUR 3m overall worth of mortgage, consumer and credit cards portfolio purchase from bank of Cyprus, transaction details that were supposed to be announced by end of February, that could potentially hike the net cost of risk for TLV also, but in the case of TLV it remains difficult to appreciate the potential impact only from this side, as normalization in net cost of risk is still under way. Overall, the impact of the debt discharge law is negative and it remains to be seen how banks will find solutions in order to compensate their main KPIs.

National Bank sets new lending criteria for banks – public debate upon new legislative proposal open until 13th of May. The National Bank launched for public debate some new rules for setting lending criteria – norms that accommodate Directive 17/2014, by which borrowers' creditworthiness will be assessed more carefully in order credit practices to strengthen. Among main changes brought to the regulation framework, following items can be underlined:

- application of requirements related to creditworthiness assessment also for the non-banking financial institutions registered only in the General Register and for the other types of creditors mentioned at art. 1(2) of the regulation;
- imposing the obligation to establish the remuneration policies for staff responsible for the assessment of creditworthiness consistent with a sound risk management;
- imposing the creditors' obligation to establish, revise, document and maintain the procedures and information on which the consumer's creditworthiness assessment is based;
- regulating certain requirements related to the manner in which shall be establish the necessary information from the consumers in order to assess the creditworthiness.

Our view: For the short term, these new lending criteria will diminish the maximum amount an individual can borrow as well as reduce the tenure of the loan. On positive side, it will improve banks' asset quality and will temper B/S growth rates. We assume most of the banks will accept the regulation new norms without too much noise and amendments. On the longer term, these new tightened lending rules corroborated with the newly entered into force, debt discharge law, could set banks to look in a faster way to a more digital fingerprint upon their territorial networks, ultimately sending spreads between RoE and CoE lower.

Rating is kept at BUY – no change in TP – RON 3.16 maintained

• Despite the changes that we implied in our model for the upcoming two year, our TP remains unchanged at RON 3.16 per share and we keep our BUY reccomendation.

DDM Valuation Model

• For valuation we used a dividend discount model exercise with base case scenario at 2016E and a targeted Cost of equity average of 9.4% based on a CAPM framework. We set out 12-month target price at RON 3.16, with a 15% upside implied. For the terminal value our derived fair P/BVPS stands at 1.5x. Beta used stands at 1.07 (Blume adjustment against slope of TLV vs. BET daily growth YTD)

• We used a payout of 50% for FY'16 and a constant 65% starting FY'19 - we drag attention that by year-end a writtent transparent dividend policy will be in place, which will comprise a mix of bonus shares and cash starting FY'17).

• Our model delivers an avg. ROE around 16% over DDM assuptions on our conservative view upon future lending growth rates as well as on provisions side. Increase in borrowing costs, as expected to be driven by the negative impact of lower lending growth rates at economy level following debt discharge law, should also be counterproductive to valuations onwards. Recall that so far, no major body, locally or internationally issued some drastic negative changes for GDP growth so far – EBRD actually hiked to 4% from previuos 3.7% earlier due to GDP growth above potential due to consumption spike on lower VAT and higher wages.

• We reckon instead that the debt discharge law puts some large uncertainty ahead and currently, calculations made upon sector available data to determine law impact seem to be quite not realistic given BRD point of view, expressed durign Q1'16 conf-call. Recall that BRD CEO, declared for the media that mortgage law impact remains uncertain due to unclear application procedures. The bank started with regulatory body and auditors a reclassification of assets in order to be able to assess the reserve of provisions that needs to be in place to accommodate law provisions, but it remains a lengthy and complex process – no timeframe for process completion advanced.

• We still consider that despite the improved macroeconomic credentials ahead, currently the banking system carries some extra liquidity that can be captured only in part via consumption potential, albeit the interest rate environment remains relatively low compared to the previous 6Y before.

• Changes that we made to estimates are detailed below; and carry some offseting effects against previuos ones which left our target price unchanged for the moment – previuos target price was issued in december 2015 (following Q3'15 results) at RON 3.16.

• Risks on both target price and recommendation remain triggered by higher than implied risk costs on lower than expected solvability as well as lower than implied growth rates on lending side mostly, and higher opex growth rate. Still, RoE touching CoE seems not to be that challenging ahead, as the case for BRD, as operating structure should improve and this was also underlined by management. Also, under the uncertainty of debt discharge law regarding additional provisions to be booked, we consider that operating costs should be of main focus toward RoE maximization target. We estimate C/I to reach 45.9% in FY'16 and 44.5% in FY'17.

Table: Valuation using DDM method

Gordon Growth Model	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	TV
EPS	0.8106	0.2409	0.2522	0.3233	0.3615	0.3418	0.3856	0.4323	0.2951	
EPS normalized	0.1550	0.2409	0.2522	0.3233	0.3615	0.3418	0.3856	0.4323	0.2951	
(%) chg in EPS on normalized earnings		*55%*	*5%*	*28%*	*12%*	*-5%*	*13%*	*12%*	*-32%*	
BVPS	2.0624	1.6311	1.7385	1.8852	2.0129	2.1338	2.2699	2.4225	2.5271	
BVPS on normalized earnings	1.4090	1.6311	1.7385	1.8852	2.0129	2.1338	2.2699	2.4225	2.5271	
(%) chg in BVPS on normalized earnings		*16%*	*7%*	*8%*	*7%*	*6%*	*6%*	*7%*	*4%*	
RoE, EOP	39.31%	14.77%	14.50%	17.15%	17.96%	16.02%	16.99%	17.85%	11.68%	
RoE EOP, on normalized earnings	*11.00%*	*14.77%*	*14.50%*	*17.15%*	*17.96%*	*16.02%*	*16.99%*	*17.85%*	*11.68%*	
*Cost of Equity (Rf+β*Rp)*	*9.37%*	*9.37%*	*9.37%*	*9.37%*	*9.37%*	*9.37%*	*9.37%*	*9.37%*	*9.37%*	
RoE less CoE	*1.63%*	*5.40%*	*5.14%*	*7.78%*	*8.59%*	*6.65%*	*7.62%*	*8.48%*	*2.31%*	
Payout ratio	50%	50%	55%	55%	65%	65%	65%	65%	65%	
Dividend per share	0.3900	0.1204	0.1387	0.1778	0.2350	0.2222	0.2506	0.2810	0.1918	
Valuation metrics	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	
Risk Free rate (Rf)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Risk Premium (Rm-Rf)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Beta (β), adjusted	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	
Cost of Equity (Rf+β*Rp)	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	
Terminal value										
ROE on the long run										**12%**
Payout ratio										65%
LT Growth rate										**5.1%**
Target P/BV										**1.5x**
Terminal value per share										4.10
Present Value of Dividends		0.1138	0.1198	0.1405	0.1697	0.1467	0.1513	0.1552	0.0969	
Present Value of Terminal Value		2.07								
Present Value of Dividends&TV		**3.16**								
Last closing		2.74								
Upside/downside potential		15%								

Source: SSIF IEBA Trust

More on estimates.

• **FY'16 seems to be an exceptional year in terms of financials, carrying merger effects with extremely optimistic guidance; top dividend yielder for BSE among listed stocks (15%), second half of the year could be further animated by the expected announcement of the dividend policy the bank will follow since FY'17.** We see further decline in profitability in FY'17 as management hint was that FY'16 is an exceptional year in terms of bottom line, also the high volatility in provisions' releases between H2'15 and Q1'16 is expected to normalize toward the end of FY'16, which means higher net provision charges through the P&L. We believe FY'17 will be a more difficult year for the banking sector following debt discharge law entering into force. Due to the adjustments that we made for this year and going onwards, target price changed very few and we have chosen to keep it unchanged at RON 3.16 for the time being. For FY'16, management offered very impressive guidance, at some RON 848m (unconsolidated basis), despite B/S growth is seen only at 4.78% Y/Y, 8% Y/Y advance in terms of net loans and flat depos. Excluding profitability figure which seems very high, despite bottom line numbers posted in Q1'16 (RON 228m, 28% of full year guidance), an 8% growth in net loan book seems also a very high KPI for the year, which we do not estimate for BRD either. On the other hand, looking at Q1'16 reported numbers, 30% of FY'16 budget seems to have been achieved (assuming provisioning rates - collective and specific on gross book remain constant by year-end), thus for B/S growth rates we tend to go with the management, but we are more sceptical for the P&L lines, particularly on the provisions side, which should also translate into higher uncertainty for the period starting FY'17 due to debt discharge law. We cannot estimate the timeframe when these amounts will be booked, if there will be individuals actually turning in the keys just by free will disregarding their payment behaviour as well as financial capacity.

• NIM should stay average around 3.6% for next 2Y, in line with sector trends, and going onwards, we see operating profitability a must given the uncertainty upon debt discharge and potentially smaller growth rates. A much harder job is estimating contraction in growth rates also. We see B/S growth at 5% for FY'16 and only a moderate 3% for FY'17 to account for harsher lending criteria.

• We estimate FY'16 net profit at RON 816m, 4% below mgt guidance with provisions through the P&L estimated at RON 623m (-22%), which translates into CoR at 204bps, an increase of 88bps Y/Y. We see NPL ratio for FY'16 should hike to 11.3%, still below that of BRD (16.8%) and banking sector (13.68% for Feb'16, EBA definition), and 13.3% for FY'17, on the back of debt discharge impact. We cannot estimate if these levels are appropriate or not, but given past performance, we feel comfortable and find them suitable for the time being.

• **FY'16 management quantitative guidance:**

- Total assets' growth at 5.3%: economy sectors focus – agriculture, industrial production, exports, health services as well as projects that are co-financed by european funds
- Total gross loans growth at 5.7%
- C/I at 41.55%
- Loans over depos at 73%
- ROE maximization
- Consolidation of 3rd market position on credit cards' segment and aggressive growth on credit card segment
- Development of some alternatives for clasic deposits whose interest dropped and encouraging customers to other savings products like fund units, insurance and other type of investments
- CAPEX for the year was set at some RON 183.65m and is meant to cover mostly investments in IT and credit cards (40%), as well as buildings' workover (29%). Media vowed that Banca Transilvania is interested in building from scrap a new headquartes based in Cluj to cover the administrative part given merger, and it seems that FY'16 budget covers a wide part of this project, estimated at some EUR 20m. We believe next year budget will also comprise some good amounts in this regard.

• **Cost-to-income.** On one side, C/I seems very too optimistic for the year, Q1'16 data landed at 45.2% for the banks alone, and we estimate for the year this indicator to settle at some 45.9% at consolidated level, due to the investments to be run within credit cards segment as well as well as network, and we have also implied some 0.5% Y/Y increase in staff costs to RON 711.3m, while the increased volume of capitalized works will also drag some increased depreciation charges going onwards. All in all, we estimate opex side to drop by almost 10% Y/Y to RON 1.36bn, following the increased costs with integration booked in Q4'15, which should not exist for this year.

• **Cost of risk.** The debt discharge law already produced effects in the market in terms of tightening lending conditions (for a couple of mortgage lending products downpayments were increased severely which should harshen growth rates). Prima Casa product was withdrawn from the jurisdiction of the law, which supports faster advance on retail side and we believe existing relief on capital should at least in part offset the advance in RWAs and additional capital required – issue available for all banks in the system, not only for TLV. All in all, we keep net cost of risk elevated at RON 623m for this year and RON 625m for FY'17, with normalization in profitability occuring from FY'20 onwards. We believe for FY'16-'17 this level is enough to suport additional negative adjustments on provisions side coming from debt discharge. Management declared that some RON 250m estimated impact for debt discharge law (not booked in Q1, only budgeted for the year), but on the other hand BRD declared that has already started with regulatory body and auditors a reclassification of assets in order to be able to assess the reserve of provisions that needs to be in place to accommodate law provisions, but it remains a lengthy and complex process – no timeframe for process completion advanced; CoR already went higher in Q1'16 for BRD at 195bps due to higher provisioning on non-defaulted portfolio. Thus, we rather see the figure of RON 250m advanced by TLV quite unrealistic and that losses from debt discharge could spread for the entire functioning period of the bank going forward and will be looked like an integrated part of risks assumed by banks during normal course of business. We believe management looked in a cursory manner to the impact of this law, while BRD takes a more conservative manner with respect to assessing law impact, as the ultimate effect is upon its CAR ratio. BRD approach is also under pressure of AQR, while BRD loan portfolio also cover a wide part of the western side of the country, which is defined by better creditworthiness and wages (excluding Bucharest side).

• The loss for the entire banking sector stands at RON 2.8bn (BRD market share of 17%), TLV (ahead of merger at 10%), losses could reach some RON 476m for BRD and at least RON 280m for TLV. With respect to incorporating VBRO figures, some RON 3.3bn was added to TLV net loan book of RON 11bn for FY'15, following some 22.5% offered to customers when exchanging CHF loans into RON. For the converted CHF loans, even with the haircut, there will still be some part missing full coverage of the loan, predicatbility of LTV at which keys will be turned back to the bank remains very low.

Relative valuation

• Banca Transilvania seems to trade at a premium provided the rally posted in the market YTD, given merger impact, dividend announcement and due to the fact that Banca Transilvania remains set in the mind of investors as a potential acquisition target but also set prone to other acquisitions locally. Recently, the bank also acquired a local private investment (Capital Partners) which was integrated within banks' operations. We believe this is a more cost effective measure to evaluate the market in terms of acquisitions.

• At TP and currently, the stock trades at a 1.6x (1.4x) P/BV(16E) and 1.7x (1.2x) P/BV(17E), at premium above peers, but at the moment we do not find a relative valuation to be relevant due to its business model advance and growth rates implied, but we either do not reproof the premiums, as we actually embrace past 12M&YTD stock evolution. Also, trading wise the stock seems more interesting compared to BRD due to a couple of aspects that seem to compensate sector legislative burden. TLV should release by year-end a written transparent dividend policy, comprising a mix of cash and bonus shares, applicable since FY'17, which we believe will replace for the medium to long term, its usual profit capitalization model.

Company name	Mkt Cap	YTD	1 Year	P/E		P/B		ROE		EPS Growth		DIV Yield	
	(in EUR m)	(%)	(%)	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Powszechna Kasa Oszczednosci Bank Polski S.A.	6,810	-11	-35	11.1	10.4	1.0	0.9	8.7	9.2	1.0	9.2	1.0	9.2
Bank Handlowy w Warszawie S.A.	2,192	4	-34	17.6	15.5	1.4	1.4	8.6	9.1	1.4	9.1	1.4	9.1
BRD-Groupe Societe Generale	1,505	-20	-12	11.5	10.0	1.1	1.0	1.1	10.6	1.1	10.6	1.1	10.6
Weighted Median CEE, Russia and Turkey				12.5	11.4	1.1	1.0	7.6	9.4	1.1	9.4	1.1	9.4
UniCredit S.p.A.	4,015	-42	-54	7.4	5.6	0.4	0.3	4.8	6.3	0.4	6.3	0.4	6.3
Societe Generale S.A. (France)	5,986	-22	-25	8.4	7.7	0.5	0.5	6.0	6.4	0.5	6.4	0.5	6.4
Deutsche Bank AG	4,525	-35	-49	14.9	6.7	0.3	0.3	0.2	4.1	0.3	4.1	0.3	4.1
Erste Group Bank AG	2,263	-19	-10	9.2	8.5	0.8	0.8	9.8	9.7	0.8	9.7	0.8	9.7
Banco Popular Espanol S.A.	1,021	-32	-57	12.2	8.1	0.4	0.3	2.9	4.4	0.4	4.4	0.4	4.4
Raiffeisen Bank International AG	891	0	-10	12.9	6.0	0.5	0.5	4.3	7.7	0.5	7.7	0.5	7.7
Alpha Bank A.E.	746	-13	-87	12.8	7.2	0.4	0.3	2.7	4.9	0.4	4.9	0.4	4.9
Banco Comercial Portugues S/A	460	-29	-61	7.0	3.9	0.4	0.4	7.1	8.8	0.4	8.8	0.4	8.8
Banque Cantonale Vaudoise	1,253	4	23	18.8	18.5	1.6	1.6	8.8	8.9	1.6	8.9	1.6	8.9
Banca Popolare dell'Emilia Romagna S.C.A.R.L.	488	-36	-43	10.8	7.2	0.4	0.4	4.0	5.7	0.4	5.7	0.4	5.7
Banca Popolare di Milano S.C.A.R.L.	565	-38	-38	10.8	8.7	0.5	0.5	5.0	5.9	0.5	5.9	0.5	5.9
Sydbank A/S	2,915	-20	-30	9.2	8.4	1.1	1.0	11.7	12.4	1.1	12.4	1.1	12.4
EFG International AG	194	-44	-56	12.5	9.4	0.8	0.8	4.7	7.3	0.8	7.3	0.8	7.3
Median Rest of Europe (Developed)				10.6	7.8	0.6	0.6	5.6	7.0	0.6	7.0	0.6	7.0
Banca Transilvania S.A.	1,855	12.8	32.4	13.8	11.4	1.4	1.2	11.2	12.2	1.4	12.2	1.4	12.2
Premium/Discount to CEE, Russia and Turkey				11%	0%	30%	20%	47%	31%	30%	31%	30%	31%
Premium/Discount to rest of Europe				30%	47%	138%	119%	102%	74%	138%	74%	138%	74%
At target price - Banca Transilvania				10.7	10.1	1.6	1.7	18.7	18.9	70.7	6.0	4.7	5.5
Premium/Discount to CEE, Russia and Turkey				-14%	-11%	49%	65%	n/m	n/m	n/m	n/m	n/m	-41%
Premium/Discount to rest of Europe				1%	30%	n/m	n/m	n/m	n/m	n/m	n/m	n/m	-22%

Source: SSIF IEBA Trust, Bloomberg

Overview of Q1'16 results

• **Q1'16 results** - net profit reached RON 228.5m (+51% Y/Y) impacted by NII at RON 427.53m (+68.4%), opex advanced by 18.5% Y/Y to RON 270m, cost of risk stood at RON 59.56m (-56% Y/Y) and some RON 40m were booked as income tax expense. Net loan growth stood at 1.5% Y/Y to RON 25.49bn, depos dropped by 3.4% Y/Y to RON 37.08bn. Results are way above market expectations, both in terms of cost of risk, which looks very low, and growth figures for the operating side, which seems to give a sustainability feature for the P&L side regarding core lines following VBRO merger, issue that was severely addressed in Q4'15. Results were severely above our expectations due to merger impact. The bank did not disclose, Q4'15 and Q1'16 growth rates for P&L and B/S excluding the impact of the merger and thus we have no clear picture upon organic growth rates.

• Q1'16 is second consecutive quarter with very good results for TLV, but we do expect some higher volatility to arise in the upcoming quarters on cost of risk side (Q1'16 write-offs stood at RON 296m). Also, we reckoned some potentially increased provisions on B/S side, since net loan book growth stands at only very small in Y/Y terms (some RON 3.45bn in provisions in Q1'16 or 11.8% of total loan portfolio), and bank release confirmed excellent Q1 lending activity (35k new loans granted for retail, corporate and SME (11% share), no exact breakdown available for remaining portion); loan/deposit at 69% vs. 65% Y/Y, C/I dropped to 45.2% (contribution to depo guarantee fund booked in full in Q1'16). Coverage of NPLs with provisions and mortgage collaterals stands at 119.84%. CAR at 18.2% including Q1'16 net profit and special dividend payout proposal.

• **Conf-call headlines:**

- by year-end a written transparent dividend policy to be released which will include both bonus shares as well as cash dividends
- RON 250m estimated impact for debt discharge law (not booked in Q1, only budgeted for the year)
- no talks currently for any new acquisition but mgt remains opened; we remind to the reader that market expects some details upon takeover of credit cards portfolio from Bank of Cyprus

- no one-offs booked in NII or cost of risk – NIM landed at 3.6% and CoR at 1.3% for the quarter
- no one-offs in other elements of the P&L
- no news on treatment of bargaining gain from VBRO acquisition
- there will be some volatility on provisions side for the next quarters, mostly on releases side, but not at the level of Q1'16

Table. TLV Q1'16 IFRS unconsolidated results

(RON m) - IFRS	FY'14A (cons)	FY'15A (cons)	Y/Y	Q1'15A	Y/Y	Q2'15A	QoQ	Y/Y	H1'15	Y/Y	Q3'15A	QoQ	Y/Y	Q4'15A	QoQ	Y/Y	Q1'16A	QoQ	Y/Y
Interest income	1,798	2,417	34%	384	-14%	385	0%	-14%	769	-14%	401	4%	-7%	669	74%	54%	509	-24%	33%
Interest expenses	622	465	-25%	130	-23%	117	-10%	-25%	247	-24%	96	-18%	-35%	117	0%	-21%	82	-30%	-37%
Net interest income	**1,176**	**1,952**	**66%**	**254**	**-8%**	**268**	**6%**	**-8%**	**522**	**-8%**	**305**	**14%**	**7%**	**552**	**106%**	**94%**	**428**	**-23%**	**68%**
Net fee income	**426**	**487**	**14%**	**100**	**10%**	**111**	**10%**	**8%**	**211**	**9%**	**114**	**3%**	**7%**	**133**	**20%**	**26%**	**117**	**-12%**	**16%**
Trading Income	127	180	42%	30	13%	40	31%	34%	70	24%	44	12%	18%	65	64%	74%	37	-43%	22%
Release of AVFS gains through P&L	339	222	-34%	163	n/m	37	-77%	-45%	200	86%	-1	-102%	-101%	22	n/m	n/m	60	167%	-64%
Other income	-10	13	-223%	0	n/m	-38	n/m	297%	-38	-33%	26	n/m	n/m	60	n/m	n/m	-41	-169%	n/m
Core&Non-core Income	**2,057**	**2,854**	**39%**	**548**	**29%**	**417**	**-24%**	**-13%**	**965**	**11%**	**488**	**17%**	**-7%**	**833**	**100%**	**59%**	**599**	**-28%**	**9%**
Amort. and depreciation	66	92	39%	13	-190%	14	4%	-8%	27	-190%	14	-1%	-5%	37	169%	158%	18	-52%	33%
Opex	**812**	**1,315**	**62%**	**216**	**8%**	**242**	**12%**	**18%**	**457**	**22%**	**260**	**8%**	**25%**	**624**	**158%**	**199%**	**253**	**-59%**	**17%**
Pre-provision profit	**1,179**	**3,098**	**163%**	**333**	**47%**	**175**	**-47%**	**-37%**	**508**	**1%**	**228**	**30%**	**-28%**	**208**	**19%**	**-34%**	**328**	**58%**	**-1%**
Loan loss provisions	663	798	20%	142	39%	113	-21%	-27%	255	-1%	108	-4%	-42%	33	-71%	-82%	60	80%	-58%
EBT	**516**	**2,301**	**346%**	**190**	**54%**	**36**	**-81%**	**-71%**	**226**	**8%**	**147**	**n/m**	**14%**	**241**	**n/m**	**86%**	**269**	**11%**	**41%**
Tax on profit	73	-147	-301%	26	28%	10	-59%	-25%	36	27%	24	n/m	n/m	213	n/m	1016%	40	-81%	57%
Net profit	**442**	**2,448**	**453%**	**152**	**46%**	**39**	**-74%**	**-64%**	**190**	**5%**	**123**	**217%**	**11%**	**388**	**n/m**	**251%**	**229**	**-41%**	**51%**

Source: Company, IEBATRUST

- **April 27 O&EGSM resolutions** – shareholders approved increase of bank share capital by RON 620m, by issuing 620m new shares with a nominal value of RON 1 through capitalization of reserves for benefiting shareholders registered with Central Depository by May 31st, 2016; 18M share buy-back program for 25m shares (0.826% of share capital) at a price range between BSE market price and RON 3.5, effective since publication of EGSM resolutions by the Official Gazette, registration date is 31 May and ex-date is 30 May. Gross dividend at RON 0.396558, DIVY at 14.68%.

RECOMMENDATION SYSTEM

SSIF IEBA TRUST uses a Relative recommendation system. Such system indicates that each stock is rated on a basis of the excess return, measured by the relative value of the target (calculated) price and the current price, over a 12 months period of time.

The range of recommendations for each stock consists of 4 elements: Buy (B), Accumulate (A), Hold (H), Reduce (R).

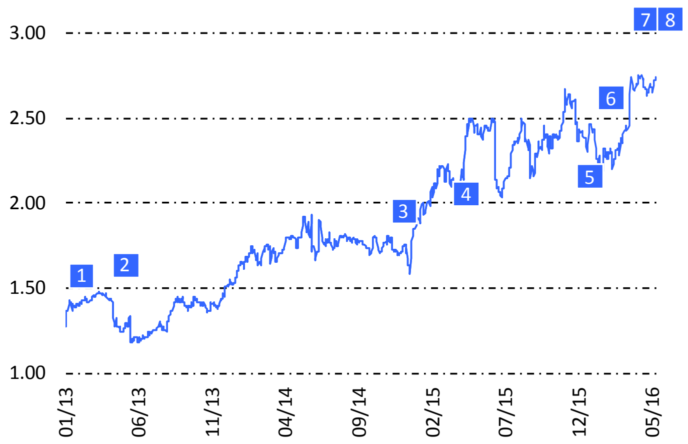
SSIF IEBA TRUST RATINGS	
BUY	The stock is expected to generate potential excess return over 15%
ACCUMULATE	The stock is expected to generate potential excess return of 5 to 15%
HOLD	The stock is expected to generate potential excess return of -5% to 5%
REDUCE	The stock is expected to generate potential excess return below -5%

Excess return: Target price/current price – 1

For the cases of Initial Public Offering, the above-mentioned recommendation system is not applied. In such cases, the recommendation is based on the comparison between the price of the Offering, and the fair value estimated by SSIF IEBA TRUST.

BANCA TRANSILVANIA

Ratings and target price history



#	Date	Rating	Target price (in RON)
1	31/01/2013	ACCUMULATE	1.50
2	21/02/2013	HOLD	1.67
3	07/02/2014	HOLD	1.58
4	31/03/2014	HOLD	1.68
5	04/05/2015	HOLD	2.41
6	24/08/2015	BUY	2.82
7	02/12/2015	BUY	3.16
8	13/05/2016	BUY	3.16

Measures Definitions

IEBA Net Income	Adjusted Net Income for one-off items	
Net Cash Flow from operations	EBITDA (+/-) other provisions (+/-)(Increase)/Decrease in Working Capital	
FCF Equity	Net Cash Flow from operations (-) CAPEX	
Net debt	Total short-term and long-term bank debt (-) cash	
EV	Market Cap (avg historic or current) + book value of minorities + Net debt	
FCFPS	FCF Equity	Diluted no of shares
EPS (or IEBA)	Reported (or IEBA) Net Income	Diluted no of shares
BVPS	Total Equity	Year end no of shares
P/E (or IEBA)	Share Price (avg historic or current)	Reported (or IEBA) EPS
P/E IEBA at 52wks High	52 weeks High price (avg historic or current)	IEBA EPS / Diluted IEBA Earnings Per Share
P/BV	Share Price (avg historic or current)	BVPS
ROE	Reported Net Income	Average Total Equity
ROCE	Reported Net Income	Average (Total debt + Total Equity)
EV/EBITDA	EV (with avg historic or current)	Reported EBITDA
EV/EBITDA (x) at 52wks High	EV using 52 weeks High market cap (avg historic or current)	Reported EBITDA
EBITDA/Net financials	Reported EBITDA	Net financials: Net interest (+/-) Net financials
EV/CE (x)	EV (with avg historic or current)	CE: Total bank debt + Total Equity
FCF Yield	FCFPS	Share Price (avg historic or current)
Dividend Yield	DPS	Share Price (avg historic or current)
Dividend Payout	Dividend	Reported Net Income

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RESEARCH

research@iebatrust.ro

Analyst
Ana-Maria Andrus
ana.andrus@iebatrust.ro

SALES & TRADING

Head of Sales

Tudor Cernica
tudor.cernica@iebatrust.ro

Senior Trader

Florin Popescu
florin.popescu@iebatrust.ro

Development Manager

Serban Marin
serban.marin@iebatrust.ro

Head of Corporate

Catalin Nae
catalin.nae@iebatrust.ro

General Manager

George Nistor
george.nistor@iebatrust.ro

SSIF IEBA TRUST

5-7, Dimitrie Pompei Bvd, 5th floor,
Body C, District 2, Bucharest 020335,
Romania

Tel.: +4021 313 0102
Fax: +4021 313 1595