# “Banca Transilvania First Quarter 2023 Financial Results Conference Call”

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***Participants*:**

***Mr. Ömer Tetik, – Chief Executive Officer***

***Mr. George Calinescu, – Deputy Chief Executive Officer - Chief Financial Officer***

***Mrs. Luminita Runcan, – Deputy Chief Executive Officer - Chief Risk Officer***

***Mrs. Diana Mazurchievici –Director - Head of ESG & Investor Relations***

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Popi your Chorus Call operator.

Welcome and thank you for joining the Banca Transilvania conference call to present and discuss the First Quarter 2023 Financial Results Conference Call.

At this time, I would like to turn the conference over to: Mr. Omer Tetik, CEO, Mr. George Calinescu, Deputy CEO – CFO, Mrs. Luminita Runcan, Deputy CEO - CRO & Mrs. Diana Mazurchievici, Director- Head of ESG & Investor Relations.

Mr. Tetik, you may now proceed.

TETIK Ö: Hello, thank you very much for joining us. I'm here, as mentioned, with my colleagues and after a brief presentation of the results we will try to answer your questions during a Q&A session. During this call, maybe, it's a premiere for us, at least, we have also investors from DCM, analysts from debt capital markets. We'll like to organize ourselves better for separate calls to answer your questions and to listen to your observations better in time. And hopefully if we will be able to manage the logistics until then, we are planning to do our next conference call related to the June results in a video format. At least, you will be able to see ourselves and also the presentation live on screen, once we set everything.

So, after a relatively, I would say, good year for Romania in 2022 with over 4.7% GDP growth, still the Romanian economy - with the highest level of economic confidence indicators, increase of exports and also increase of foreign direct investments - shows signs of stability and continuity. Definitely there is still a lot of potential to capture, because we are -- although our GDP/ per capital income had been growing substantially in the last couple of years – so, we are below our peers from Western European countries. But with the Recovery and Resilience Funds – PNRR and several aspects which we will try to present, also the change in corporate banking investment, industrial environment.

The prospects also for this year are quite good. We don't see much of a talk about any recession, maybe a slowdown in economic growth, but Romanian economy seems to deliver economic growth also this year. Inflation had also been on a decreasing trend. If you are following the Eurostat figures, it's already 12.2% at the end of March, and we are coming close to 10%, most probably at the end of May.

Energy prices, especially, gas and electricity, are much lower than last year's and petroleum prices are also lower with the summer's agricultural input effect, the inflation pressures will probably ease down. And this end of the year, we are expecting to see a single-digit number, which gives us also kind of confidence in the National Bank of Romania's policy, where expectations are that the interest rate cycle has peaked. And from now on, we don't expect maybe one, but, most probably, no increases, so as to support the economic growth. This is also seen in the robust local market interest rates. So, there's quite a rapid deceleration -- reversal in the interest rates.

Banking sector - First Quarter had not been as good as those from previous years because of the high interest rate environment and high lending cost growth. There are several aspects: in retail, we see lower demand due to higher interest rates, but also a lot of mortgage lending has been accelerated during the last quarter, actually last days of 2022, because of the changes in the fiscal regime. Starting with 2023, VAT on residential transactions has been increased to 19%. This motivated customers' banks to accelerate their lending during the last quarter of 2022.

But, on the other hand, we see corporate lending picking-up, but also corporate deposits picking-up, so companies in Romania are maintaining their liquidity position investing further with or without European Union funds or with state aid. And we see, I'd say, a growth of last year's 12% of total assets this year. Most probably, the growth will be single digit, but most of the growth will be coming from corporate lending, as we expect, and the numbers so far are showing this trend.

On the other hand, despite the interest rate increases, inflationary pressures, we still see a positive trend in NPL generation and NPLs, Non-Performing Loans, are well below 3%, at 2.66%, and we don't see any, let's say, trend change there even the month after the First Quarter.

I would like to come back to our numbers. We have been also reading a couple of the analysts' estimates and how they interpreted it. So, we try to give some guidance and clearance on the numbers, but definitely during the Q&A session or after our call, if you have any further questions, please do not hesitate to contact us.

For us, the First Quarter of this year had been, more or less, in line with the banking sector trend in Romania, namely: growth in corporate lending, decrease in retail lending. But still, we have managed to present -- for us, at least, from our point of view -- strong profitability, in line, actually even slightly higher-than-expected, budgeted levels. Our Net Interest Income reached over 1 billion RON whereas the quarterly Net fee and commission income reached 0.250 million RON.

There is an increase in operating expenses, as compared to last year, but part of it is also kind of a spillover effect related to the increases which we have seen in the last quarters during 2022. Our Cost Of Risk has been at negative level, minus 24 basis points, with Net Interest Margin as compared to one year ago, higher by 40 basis points at 3.2% and with a solid cost to income ratio of below 47%. We managed to deliver exceptional return on equity - about 34%.

If you had time to read our budget proposal approved by the General Shareholders Assembly, you will have more let's say, guidance about where we see ourselves at the end of the year. And as I said, although, I cannot give much of information about how Second Quarter is going ahead, I can basically confirm that we are in line with our budgeted numbers. And, also, there is the decrease in the interest rates in the entire banking and local markets. It's improving our risk indicators and also our financial position.

The First Quarter of the year, if we include also the profit, we closed at 17.22% in terms of Tier 1 Capital Ratio. Our total Capital Adequacy Ratio stands at 19.86%. As you may know, already public information, in April, following Easter holidays, we managed to tap the market for our MTN program, attracting EUR 500 million from investors to support our Capital Base and ESG lending growth.

When you look at the income structure, by the way -- I guess I forgot to mention, but the presentation is already uploaded on the website of the bank. In case you cannot access it, you can always drop an e-mail to the Investor Relations’ address, so you go to the presentation by accessing the link provided to you. Coming back, our net interest income, as compared to last year's First Quarter increased by 27.3%. Net fee and commission income with almost 15%. And the changes in the Net trading income and Net gain and loss from financial assets, more or less netting each other off, helped us provide the profitability level that we have presented.

The trend of decrease that you had been asking also sometimes, on the Net interest margin especially, when we started paying higher interest rates to deposits, thanks to the stabilization of our current account base and also diversification of the deposits portfolio. Plus, higher lending rates with repricing, our frequent repricing, assured us to deliver a 3.2% level, 320 basis points of Net interest margin.

We have been continuing our activity in terms of lending, despite the decrease in demand, especially on the retail side, as I said due to interest rate hesitation or problems of, maybe, eligibility. In the SME segment, because of the upcoming “SME Invest” programs, most of the lending had been postponed. So, we will see both with us and rest of the banking system more accelerated growth in the Second and Third Quarters of this year. But loans to companies, in general, had a good performance, with a sound increase.

Our deposit base was also quite solid. The ones who had been historically following us, you may remember that usually during the First Quarter of each year, our deposit base was either stable or slightly decreasing due to tax payments, dividend payments and so on. But this year, we have seen a continuous growth in deposit base, which continues also in the months ahead. Our retail banking portfolio indicate loans, as I mentioned, it was more or less stable, but the support of retail customers to the deposit base is significant, from our point of view.

SME and corporate banking, let's say, the pause in SME banking has been compensated by corporate banking and we see more opportunities on the pipeline for the next quarter, for next months ahead. Our NPL ratio, NPL coverage ratio, according to EBA definition is close to 200% but if we include, if you look at the NPL coverage ratio for PAR90, including mortgages or real estate collaterals, it is close to 130%. And the NPL ratio is below the market average. It stands at 2.40%, 240 basis points.

Our loan provisions have been slightly increasing during the First Quarter, by 1.3% for the Bank itself, where we have the bulk of the production, and, thanks to some strong recovery from the corporate loans side and also adjustment of the PDs, as we do quarterly, we do have a minus level of the cost of risk. We are estimating that for the year, the guidance will be still between 50 basis points to 70 basis points or higher. Our budgeted level is over 100 basis points, but we are planning, we will be adjusting the numbers, thus informing you during the course of the year, based on the trend of the market.

Our solvency capital ratio is at almost 20% at the end of the March, at the end of the First Quarter. And our risk-weighted asset debt is at 40%. Our liquidity, as you have seen for the last year's quarters is quite strong with loan-to-deposit ratio of 55% and with LCR at 345%. Definitely the extra liquidity coming from the MTM program is also helping us. I don't want to enter into too much of details of the GSM resolutions, that you may have already know from the posted presentation. Briefly, it was decided partially to increase our share capital and then it was decided not to pay dividends and decided to approve the shares stock option plan.

Other than that, we are also absorbing by merger BT building, which owns some real estate where the bank itself is the tenant. And this year, most of the investments, our investment budget, will be going to technology side, digitalization which especially focuses on our wallet application BT Pay, which became the most popular application payment channel in Romania. And we are expecting BT Pay to become our main banking platform as the main digital channel in the relation with our customers.

During the First Quarter, all subsidiaries of the Group performed well, contributing to the bottom line.

The only one not generating new business, Idea Bank, that we are now under the license of Idea Bank, continuing the project of building our digital bank. Hopefully, towards the end of the year or early next year, we will be launching our first digital banking platform at Idea Bank. Other than that, all subsidiaries have seen stable growth and profitability.

I would like to stop here and leave the floor for Q&A. And as I mentioned in case we cannot answer any questions on the spot, we will try to update the presentation or come back to you directly once we have the answer. Thank you very much.

OPERATOR: The first question comes from the line of Le Phuong Hai Thanh with Concorde. Please go ahead.

LE PHUONG H: Hi, thanks for the presentation. Just a couple of questions from my side. The first one would be on your NIM outlook because, if I heard it correctly, you don't expect that much or that significant change in monetary policy for this year and I was wondering if we may have seen the peak of NIM already maybe in the First Quarter, or do you see a chance for an improvement from this level? And also on the capital side, I saw that your regulatory equity Tier 1 declined in absolute terms.

And I'm not sure about the changes, the transitional changes because of the regulatory change. And I was wondering like if there was any negative impact in the quarter? And if we should expect any further negative impact apart from what you have guided so far?

And then my third question would be on retail lending, and you said you expect it to pick up maybe in the Second or Third Quarter. And I was wondering if you still expect it to go down further from Q1 level and then go up or maybe like from this level that we have seen in the first quarter? Thank you.

TETIK Ö: Good afternoon, Hai. Actually, I also read your comments today. Thank you very much. First of all, coming back to the Net interest margin outlook. As our big chances are in retail and we had been adjusting our loan portfolio with a gap - because of IRCC, which entered, I mean most part of the interest rate increases and the repricing has been reflected starting with January and starting with April. On the other hand, we are not expecting any significant increase of the Net interest margin. So, I would say that most probably, we will be stable around these levels.

And I say, once we see, we are sure about the trend in the Interest rate decreases, when we start also adjusting our Deposit interest rates, we might be benefiting from a temporary increase, which in time, again, in a competitive market, might be adjusted. So briefly, you can say that, it will be more or less around this level. And then capital, as you said, big, I mean, the impact is coming from not applying, because of the regulations, of the transitory filters and treatment of reevaluation. So, there is nothing more to come.

And actually, we see a positive impact from the reevaluation now. As you know, most of our portfolios, except for 1 billion RON, except for EUR 200 million, our portfolio is available for sale. So, we will see especially in the Second Quarter and from now on that the impact will be on the positive side, hopefully on the positive side.

The retail lending, we see some interest coming back. We don't expect numbers such as those recorded in 2021 or early 2022, during this year. But on the other hand, we have started growing our base portfolio on the net, but with much smaller debts. Again, this year the increase will mainly come from the SME and corporate lending. I don't know if it answers your questions?

LE PHUONG H: Yes, it answers perfectly. Thank you.

TETIK Ö: Thank you.

OPERATOR: The next question comes from the line of Brzoza Robert of PKO BP Securities. Please go ahead.

BRZOZA R: Hello everyone. Thank you for the presentation. I have three quick questions. One is on the risk-weighted assets. Could you explain the reason for the 3 billion increase quarter-to-quarter in the risk-weighted assets given the flattish development on customer loans? Second, regarding regulatory costs, should we expect the level from the First Q ‘23 to be representative for also ‘24 potentially for ’25?

And are there any new developments regarding second half of the year and regarding the dividend payments, could we think of it as depending to some extent on the development of government bond yields? Second, on the growth in the deposit base, in the domestic banking system? Thank you.

TETIK Ö: I will start with the last one. I mean, here, I would try to refrain from any, let's say, commitment regarding the date. Definitely, we are comfortable about our business growth, but also capital position and capital generation possibility. But, we also have the strong recommendation from European and local supervisory authorities. Coming back to what you said, I mean until we see certain changes in the market trends, more, better comfort from the interest rate environment and also a relaxation on the authority side.

We would rather maintain our position, but also, we are aware that both our shareholders and investors will appreciate. On the other hand, this is also a challenging year with MREL requirements and several market volatility. So, I think we are creating good value for our shareholders, but also to our bond investors now. I would say this is mainly the issue. Coming back to … sorry, your second question, I forgot, I have to admit. If you can please repeat?

BRZOZA R: That was on the regulatory cost and the one was also on risk-weighted asset increase quarter-to-quarter? Thanks.

TETIK Ö: Yes. Risk-weighted assets, the main increase is coming from , I mean, part of it , smaller part, I would say, is coming from the lending growth, but mainly it's coming from the revaluation of the fixed income portfolio, where, with the decrease of interest rates, it has an impact. And we have been replacing some of the portfolio. But regulatory costs, we don't have a...

MAZURCHIEVICI D: On the regulatory cost Robert, is this related to the expense with the Guarantee Fund, Guarantee and Resolution Fund or what exactly?

BRZOZA R: My question is whether the current level of the regulatory cost, especially the deposit insurance scheme is sustainable more or less going forward? Because it's been down year on year?

TETIK Ö: The calculation of the deposit guarantee scheme is quite complex and I'll say there is not a simple formula but we don't expect, as you remember, last year it increased as compared to previous year, and now it decreased, the level for this year. It is very much related to the composition of deposits, with the type of customers and level of growth, market share and so on. But we don't think that, even if it increases next year, it will have such a significant impact on our bottom line. So, when we prepare our budget, we are including factoring within.

BRZOZA R: Right. Can I add one more question please, on your risk cost guidance? Because correct me if I'm wrong, I understand you have improved your guidance to 50 to 70 bps and the question is, is it on the consolidated basis? Because on the standalone budget, if I recall, you said 90 bps on average? And second, if I'm right with this assessment, then maybe you can clarify in more detail where this improvement is coming from? Thank you.

TETIK Ö: Robert, this is, how do I say, we maintain our guidance of 90 basis points. But as we have discussed, this is not a target that we really want to meet. It depends very much on the economic developments. So far, both the Romanian economy and NPL generation or customer's behavior performed better than we have forecasted.

That's why I would say that we maintain a 90 basis points in order to also calculate forward-looking our capital ratios and for reporting purposes. It depends very much on the recovery that we might or we might not have. I would not change your model, or I would not suggest changing models now.

BRZOZA R: Got it. Thank you very much.

TETIK Ö: Thank you.

OPERATOR: Thank you. The next question comes from the line of Sechel Ioana with BRK Financial Group. Please go ahead.

SECHEL I: Good afternoon. First of all congratulations on your quarterly results. We have seen that the CEO, Mr. Tetik, has stated that Banca Transilvania is aiming to increase its market share in the coming period. Could this be a new acquisition targeted by the bank, perhaps an expansion into other markets or other regions? That's my question. Thank you.

TETIK Ö: Thank you very much. Thank you very much for following also my declaration. But I'll say, at least I can start with what we will not do. We are not planning to go to other markets. So, we are not going to extend our presence outside Romania. We think that in Romania there is still a lot to do in terms of banking and financial markets. It's a challenging environment, if there will be commercially, financially viable options, opportunities, we will definitely look into those opportunities.

We are focusing more on organic growth. At our size now, acquisitions of smaller banks don't change our business model or strategy too much. When we did acquisitions 10 years, 8 years, 7 years ago, it was different, now we will be much more careful. It should be a very attractive transaction for investors and shareholders. But yes, if there will be an attractive target, we will look to it. Still, maintaining the organic growth is the main scope.

SECHEL I: Thank you.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Management for any closing comments. Thank you.

TETIK Ö: Thank you very much for joining us. And I hope we were that clear, so that no more questions were needed. But please, if you have any observations or questions do not hesitate to contact our Investor Relations address. I think it's also comfortably for you to know that our Executive Management is following the address as well, so that we make sure that answers are being provided at the right level in due time. Diana has been doing a good job there. We will try to come back to you in short-time, if you have further questions in the coming days. And other than that, looking forward to meeting you in the upcoming events or during our next call, as I said, which we hope to organize with the video conference. Thank you very much.