

> From: MOODY'S EPI
> Sent: Thursday, October 09, 2003 3:22 PM
> To: Dambrine, Patricia
> Subject: London - MOODY'S CONFIRMS A2/P-1 DEPOSIT RATINGS OF THE HUNGARIAN
> LAND CREDIT AND MORTGAGE BANK (FHB); A1 COVERED BOND RATING REMAINS ON
> REVIEW FOR POSSIBLE DOWNGRADE; OUTLOOK ON D- FINANCIAL STRENGTH RATING IS
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> London, 09 October 2003 -- Moody's confirmed the A2/P-1 deposit ratings of
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> the Hungarian Land Credit and Mortgage Bank (FHB). It maintained FHB's A1
> covered bond rating on review for downgrade. Moody's also changed to
> positive from stable the outlook on FHB's D- financial strength rating
> (FSR).
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> FHB's A2/P-1 deposit ratings and its A1 covered bond ratings were placed > on review for downgrade
> on 23 June 2003 to reflect the mortgage bank's > uncertain post-privatisation ownership structure and
> support mechanisms. > The mortgage bank is due to be privatised before year-end.
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> The review focused on (i) the ownership structure devised by the Hungarian
>
> State post-privatisation; (ii) the support mechanisms created to
> underpin FHB's continued creditworthiness; (iii) the willingness of new > shareholders to inject capital in
> the bank to support its long-term
> viability and their business plan for the bank; and (iv) the long-term
> viability of FHB's business model.
>
> Moody's said that it confirmed FHB's A2/P-1 deposit ratings taking into > account the amendment made
> by the Government in July 2003 to an earlier > issued Decree on the bank's privatisation. The
> Government communicated, > in the amended Decree, that 50% minus one share of the directly and
> indirectly owned shares held by the State in FHB should be sold through a > public offer. In
> consequence, the State should maintain a controlling
> interest in FHB, observed Moody's.
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> Based on the amended Decree and taking into account subsequent public
> statements made by the Government, Moody's said that it expected the
> Hungarian State to remain the majority shareholder of FHB for the
> foreseeable future and to continue to support the bank if need be. FHB
> plays a key role in refinancing the subsidised mortgage loans of a number > of banks in Hungary. It has
> also launched and continues to actively
> contribute to the development of the Hungarian public covered bond
> market. In consequence it would be highly unlikely, commented Moody's,
> that the State would disengage from FHB.
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> The A1 covered bond rating of FHB remains on review for possible downgrade
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> by Moody's. Moody's rating approach for Hungarian mortgage bonds
> emphasizes the relative strengths of this instrument compared to unsecured
> obligations, and the application of the Hungarian mortgage bond framework
> leaves the door open to cover pool deficiencies. With
> respect to FHB, the mortgage bank is working towards implementing stricter
> mortgage-bond cover mechanisms. These new mechanisms should be
> stricter than those presently required by the Hungarian banking
> authorities.
> Moody's said that the review will focus on the outcome of
> this process in the coming months, notably on any agreement reached
> between FHB and the Hungarian banking authorities on stricter bond
> coverage.
>
> Finally, the outlook on FHB's D- financial strength rating was changed to > positive from stable to reflect
> the mortgage bank's strengthening
> franchise, the expected continued dynamic growth of its activities in the > short-to-medium term, and its
> improving efficiency. Along with positively
> developing financials, Moody's said that it would expect to also see
> increasingly tight risk management and controls being implemented within > the bank in the future.
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> Based in Budapest, Foldhiteles Jelzálogbank Rt, the Land Credit and
> Mortgage Bank (FHB), reported IAS audited total assets of HUF 114.2
> billion (Euro 485 million) and net profits of HUF 303.4 million (Euro 1.3 > million in 2002, vs. a loss in
> 2001. At 30 June 2003, FHB reported total > assets of HUF 204.7 billion (Euro 772 million) and net profit
> of HUF 1.3
> billion (Euro 4.9 million).
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