CAPITAL intelligence

PRESS RELEASE

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CIB BANK RATINGS ACTION

Capital Intelligence (CI) the international rating agency, today announced it has affirmed CIB Bank's long-term and short-term foreign currency ratings at BBB and A3 respectively, with a Negative outlook. The financial strength rating has, however, been lowered by one notch to BBB, with a Negative outlook. This is a reflection of the difficult operating environment and the adverse impact it will have on the bank's asset quality and profitability. The Support rating remains at 2.

CIB was established in 1980 by a consortium of leading Japanese and European banks together with local interests. CIB's initial focus was on wholesale banking and international trade. Corporate banking, where it has a strong franchise, continues to be CIB's most important source of revenue, but the bank has plans in place to increase its share of retail business.

CIB has a consistent profitability record, although its performance for the first half of 2009 was severely affected by markedly higher credit costs as asset quality deteriorated sharply due to the unfavourable economic climate. Although non-performing loans have risen, they were fully covered by loan-loss reserves. Of concern is that the bank has a relatively large exposure to the commercial real estate sector and this could leave it vulnerable to losses should there be a sharp correction in this market.

A cash injection in 1H09 strengthened capital adequacy, comfortably meeting regulatory requirements. However, Hungarian banks' capital adequacy must be viewed in conjunction with the large volume of foreign currency loans, typically denominated in the Euro or Swiss franc, they extended to domestic borrowers. This is an inherent weakness of the country's banking system. The depreciation of the Hungarian forint (HUF) since the last quarter of 2008 has increased the debt servicing burden on borrowers who may already be experiencing slower cash flow due to the tough economic conditions. Any further fall in the HUF would lead to an inflation of the book value of the banks' foreign currency loans when translated into the local currency. This would increase their nominal risk-weighted assets, potentially weakening the banks' capital adequacy at a time when they could be facing higher risk of defaults.

Liquidity is weak as reflected in CIB's high loans to customer deposit ratio, again an inherent characteristic of the Hungarian banking system. A programme of campaigns and promotions to attract retail savers during 1H09 has resulted in the subsequent improvement in this ratio. CIB's highly rated parent bank has provided a substantial amount of funding to the bank.

CIB Bank is the wholly-owned subsidiary of Italy's Intesa Sanpaolo S.p.A. Originally known as Central-European International Bank, CIB Bank adopted its current name on 1 January 2008 upon its merger with another Hungarian bank – Inter-Európa Bank – which was also owned by its parent banking group. Through this merger the bank has achieved costs savings, which was reflected in the improvement of the cost ratio.

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