

MFB Hungarian Development Bank

Private Limited Company

Issuer Rating Report



Credit strengths

- Funding guarantee and other financial support from the Hungarian state
- Supportive legal framework
- Strategic policy role
- Robust balance sheet

Credit weaknesses

- Modest but stable profitability
- Limited loan portfolio diversification

Ratings & Outlook

Foreign & local currency

Long-term issuer rating	BBB/Stable
Senior unsecured debt	BBB/Stable
Short-term issuer rating	S-2/Stable

Rating rationale and Outlook

MFB Hungarian Development Bank's (MFB's) BBB rating reflects the guarantee framework for its liabilities provided by Hungary (BBB/Stable), which is the key factor for aligning MFB's ratings with the ratings of the sovereign. The funding guarantee amount is capped by Hungary's central budget, and the bank is prohibited from exceeding this limit in its debt-raising activities.

Scope acknowledges i) a record of financial support from Hungary, which has strengthened MFB's capitalisation and liquidity; ii) the supportive legal framework, making any changes to the bank's business model unlikely; and iii) MFB's high strategic importance to the sovereign as a key government-related entity delivering competition-neutral services, with a unique policy function in the country. The bank has a robust balance sheet with a sound asset quality and good capitalisation. MFB's modest profitability and limited loan portfolio diversification reflect the development bank's public policy mandate.

The Stable Outlook on Hungary's BBB rating drives the Outlook for MFB and represents Scope's view that risks to the ratings are balanced over the next 12 to 18 months.

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Scope's approach to rating MFB Hungarian Development Bank

MFB Hungarian Development Bank		
Public sponsor	Hungary (BBB/Stable)	
Step 1: Integration with the public sponsor (QS1)	Rating approach	Top-down
Step 2: Top-Down approach (QS2)	Downward notching from Hungary	0 - 1
Step 3: Equalisation factor	Applied	0 (BBB/Stable)
Final rating	BBB/Stable	

Note: For further details, please see Scope's [Government Related Entities Rating Methodology](#).
Source: Scope Ratings GmbH

Positive rating-change drivers

- Upgrade on the Hungarian state

Negative rating-change drivers

- Downgrade on the Hungarian state
- Changes to guarantee that weaken government support

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Bloomberg: RESP SCOP

I. Level of integration with public sponsor

To determine the level of integration of a GRE with its public sponsor, we structure our analysis around four analytical components: i) Legal status, ii) Purpose & activities; iii) Shareholder structure; and iv) Financial interdependencies. Based on this analysis, we adopt either the Top-Down or Bottom-Up approach to assign the ratings. The Top-Down approach takes the public sponsor's rating as the starting point for the assessment, while the Bottom-Up approach starts from the GREs' stand-alone credit fundamentals.

The level of integration between MFB Hungarian Development Bank and the Hungarian state (BBB/Stable) is assessed as 'High' which results in the application of the Top-Down approach.

Assessment of the GRE's integration with the public sponsor - Qualitative Scorecard 1 (QS1)

Analytical component	Assessment (score)	Analytical rationale
Legal status (40%)	Medium (50)	MFB Zrt. (Private limited company) has a private legal form and implies that the bank could be subject to private insolvency proceedings. But unlike other banks with a private legal form, MFB is an entity created under public law, with the legal status, tasks and activities of the bank defined by Act XX of 2001 (MFB Act), which entails close central government oversight over MFB's activities.
Purpose & activities (20%)	High (100)	As a development bank, MFB has as its main objective addressing shortcomings in the financial market. It provides funding opportunities to businesses in areas where commercial banks cannot provide financing efficiently, including preferential loans to businesses, carrying out fund management and providing other financial services within the framework of its mission.
Shareholder structure (20%)	High (100)	100% state-owned.
Financial interdependencies (20%)	High (100)	MFB is tasked with distribution of EU funds which involves providing financial support to Hungarian state-affiliated public entities.

Approach adopted

Top-Down

Source: Scope Ratings GmbH

II. Indicative notching vis-a-vis Hungary

We apply the Top-Down approach that takes the public sponsor's rating as the starting point and then negatively adjusts it by up to three notches (although exceptions can apply). The extent of the downward notching is based on our assessment of: i) Control and regular support; and ii) Likelihood of exceptional support.

Top-Down Approach - Qualitative Scorecard 2 (QS2)

Analytical pillar	Pillar assessment	Analytical component	Assessment (score)	Analytical rationale
Control and regular support	High	Strategic and operational decision making	High (100)	MFB's organisation, functioning and tasks are almost fully legislation-based. The MFB Act sets out the rules for the bank's operations.
		Key personnel, governing & oversight bodies	High (100)	Certain laws enable the Hungarian state to alter MFB's strategy and mandate and to appoint and dismiss key personnel including members of governing and oversight bodies.
		Ordinary financial support	High (100)	To support MFB's financial position and lending, Hungary has strengthened MFB's capital position on several occasions.
Likelihood of exceptional support	High	Strategic importance	High (100)	Unique policy role to support the country's key economic and public objectives; high-level cooperation with other national promotional institutions and the EU.
		Substitution difficulty	High (100)	MFB does not compete with other government-related financial institutions. The risk that MFB's business model would change is remote.
		Default implications	High (100)	A hypothetical default by MFB on its debt could lead to political and reputational repercussions. Additionally, there may be spill-over risks to other major GREs due to significant financial interdependencies with the Hungarian State and the domestic economy.

Final indicative notching

0-1

Source: Scope Ratings GmbH

III. Rating equalisation factor

The existence of individual guarantee/liability support mechanisms has a major impact on the credit quality of a GRE versus that of the respective public sponsor. In cases where the GRE benefits from a statutory guarantee, explicit guarantee or laws to similar effect covering all, or most of its debt obligations, we follow the equalisation approach and align the GRE's rating with that of its public sponsor.

MFB benefits from established, multi-layered and explicit liability support mechanisms provided by the Hungarian state, which we define as MFB's public sponsor. The MFB Act requires the Hungarian state to provide statutory guarantees over the bonds issued by MFB; credits and loans taken; deposits collected from the interbank market, and replacement costs of currency and interest rate swaps entered into by MFB for fundraising purposes¹.

The MFB Act stipulates that MFB cannot incur guaranteed liabilities beyond the upper limits approved in Hungary's central budget for a given year. As Hungarian law requires explicit, direct and irrevocable guarantees for MFB's payment obligations in connection with its fundraising, only a parliamentary act can amend, revoke or restrict these guarantees.

With this robust liability support mechanism in place, MFB's ratings are aligned with those of its public sponsor, Hungary (BBB/Stable).

¹ Paragraphs 1(a), 1(c) and 1(d) of Article 5 of the MFB Act provide for a statutory guarantee (in Hungarian: készfizető kezesség) in the form of an absolute direct suretyship.



Appendix I. Limits of guarantees provided by the state, HUF m

	Budgetary limit 2023	Utilisation 31 December 2023	
Repayment funding guarantee	3,500,000	2,741,349	78%
Back-to-back guarantee	1,700,000	1,183,886	70%
Foreign exchange risk hedging arrangements	2,000,000	1,477,809	74%
Interest subsidy	700,000	58,504	8%

Source: MFB Hungarian Development Bank Private Limited Company, Scope Ratings GmbH



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Appendix II. Stand-alone figures

	2017	2018	2019	2020	2021	2022
Balance sheet summary (HUF m)						
Assets						
Interest-bearing assets	880,909	881,935	1,119,324	1,568,065	1,812,930	1,975,700
<i>thereof:</i> Cash and debt securities	182,440	146,879	156,971	457,387	604,489	607,202
<i>thereof:</i> Loan portfolio	698,469	735,056	962,353	1,110,678	1,208,441	1,368,498
Non-interest-bearing assets	156,540	174,696	116,850	315,065	378,859	754,893
Other assets	148,623	172,465	191,260	185,601	209,880	239,384
Total assets	1,186,072	1,228,603	1,427,433	2,068,731	2,401,669	2,969,978
Total equity and liabilities						
Shareholders' equity	223,788	220,525	221,123	363,443	448,942	648,133
External funds	948,363	984,567	1,156,050	1,501,077	1,849,589	2,256,124
Other liabilities	13,031	19,372	46,355	202,339	99,663	61,015
Provisions	890	2,713	3,905	1,872	3,475	4,706
Total equity and liabilities	1,186,072	1,228,603	1,427,433	2,068,731	2,401,669	2,969,978
Income statement summary (HUF m)						
Total operating income	14,385	13,201	11,267	15,903	28,188	54,178
Net interest income	7,922	9,156	9,307	13,779	24,354	37,578
Dividend income	6,636	4,136	1,530	1,830	1,684	1,405
Net commission and fee income	-173	-91	430	293	2,150	4,090
Total operating expenses	-6,962	-8,298	-11,707	-20,591	-20,179	-10,800
Expenses of banking operations	-10,062	-9,833	-9,907	-10,893	-12,526	-13,728
<i>Personnel expenses</i>	-6,340	-6,802	-6,837	-6,816	-7,752	-8,360
Other administrative expenses	-3,501	-2,732	-2,436	-3,071	-3,704	-4,050
Depreciation	-221	-299	-634	-1,006	-1,070	-1,318
Expense reimbursement	4,552	3,341	3,535	3,932	4,078	4,541
Effect on profit of changes in impairment and provisions	-1,452	-1,806	-5,335	-13,629	-11,731	-26,492
Other income/expenses	5,253	-883	840	-4,145	-3,624	-10,944
Profit/loss for the year	12,676	4,020	400	-8,832	4,385	5,942
Selected ratios						
<i>Return on assets (%)</i>	1.1	0.3	0.0	-0.4	0.2	0.2
<i>Return on equity (%)</i>	6.1	1.8	0.2	-4.0	1.2	1.0
<i>Cost-income ratio (%)</i>	69.6	70.9	68.5	50.2	34.4	22.0
<i>Leverage (total balance sheet/equity)</i>	5.3	5.6	6.5	5.7	5.4	4.8
<i>Liquid assets (% of total assets)</i>	15.4	12.0	11.0	22.1	25.2	7.5
<i>CET1 ratio (%)</i>	32.8	26.7	20.9	22.4	16.6	16.6

Source: MFB Hungarian Development Bank Private Limited Company, Scope Ratings GmbH



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