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Ratings

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OTP Bank PLC

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OTP Bank PLC

Ratings Score Snapshot

Global Scale Ratings
Issuer Credit Rating
BBB-/Stable/A-3
Resolution Counterparty Rating
BBB-/--/A-3

SACP: bbb

Anchor	bbb-	
Business position	Strong	+1
Capital and earnings	Adequate	0
Risk position	Moderate	-1
Funding	Strong	+1
Liquidity	Strong	
CRA adjustment		0

Support: 0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Additional factors: -1

Issuer credit rating
BBB-/Stable/A-3
Resolution counterparty rating
BBB-/A-3

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Leading market position in Hungary and a strong franchise in several central, eastern, and southeastern European countries.	Exposure to Russia and Ukraine with potential negative second-round effects in neighboring countries of operation.
Sound risk-adjusted margins in core markets with a diversified loan portfolio.	Frequent extraordinary government intervention in the banking system.
Substantial digitalization efforts with noteworthy digital franchise.	Large holdings of home-sovereign debt securities and extraordinary tax burden.

We expect that OTP Bank PLC (OTP)'s business position will remain a key strength compared to most peers. Despite the recent economic recession in Hungary and high inflation in many of its countries of operations, supported by high interest rates, OTP has maintained its strong profitability over the course of 2023 and into the first months of 2024. Strong pricing power, expertise in operations in developing countries, and high geographical revenue diversification support the business profile--which has further been strengthened by the successful integration of recent acquisitions, in particular Slovenian Nova KBM. While the most recent acquisition of Ipoteka bank in Uzbekistan proved more complex than expected the impact from higher losses in Uzbek operations is so far not material in the overall group context. We expect sound and profitable organic growth while OTP is applying rigid risk and pricing standards in all core markets.

We forecast profitability to remain strong over the course of 2024, with profits slightly below 2023 levels. As confirmed by first-quarter 2024 earnings, net interest income and overall operating revenues are holding up well, with the bank reporting a return on equity of 22.7%. Because of a generally improving macroeconomic environment and subsiding inflation, we do not anticipate any material deterioration in Hungarian households' or corporates' credit risk, leading to stable asset quality metrics. At the same time, strong earnings will be somewhat counterbalanced by the Hungarian banking tax, extraordinary windfall taxes, and voluntary interest caps for newly disbursed loans, which OTP signed on to in October 2023.

However, there are still downside risks to OTP's operations. Given the ongoing Russia-Ukraine war, risks to our base case are mainly related to OTP's diminished yet ongoing presence in these two countries. On top of financial risks, there is a potential for heightened compliance risks and reputational damage related to the bank's business in Russia. Financial risks could manifest themselves through a serious deterioration in asset quality metrics or, in an extreme scenario, through a situation in which OTP would be forced to close or walk away from its local subsidiaries, leading to increased write-offs and an alteration to its geographical footprint. We will also look for signs of spill-over effects or asset quality deteriorations in the countries neighboring the conflict in which OTP is still active.

Outlook

The stable outlook reflects our view that, over the next 12-24 months, OTP Bank will withstand further second-round effects from the Russia-Ukraine war given its solid earnings across Central Eastern Europe and the Commonwealth of Independent States, which provide a buffer for inflationary and asset quality deterioration, as well as its solid funding profile.

Downside scenario

We could downgrade OTP Bank if we took a similar rating action on Hungary, which we currently consider unlikely.

If we revise down our stand-alone credit profile (SACP) by one notch this would not translate into lowering our issuer credit ratings (ICRs) on OTP Bank or our issue ratings on its hybrid instruments. We could revise down the SACP if, for example:

- OTP Bank experiences a substantial loss from its equity investments or material reputational risks affecting its franchise, stemming from its business operations in Russia or Ukraine; or
- We see a material weakening of OTP Bank's earnings capacity, or higher-than-anticipated credit losses materially hitting the group's capitalization.

Upside scenario

A positive rating action appears unlikely and would hinge upon a similar action on Hungary, or if OTP improves its prospects of withstanding a sovereign default, for example, by building loss-absorbing buffers or reducing its exposure to government securities.

Key Metrics

OTP Bank PLC--Key ratios and forecasts					
	--Fiscal year ended Dec. 31 --				
(%)	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	27.5	41.7	1.1-1.3	9.6-10.7	9.9-11.0
Growth in customer loans	18.1	8.9	13.5-16.5	13.5-16.5	13.5-16.5
Growth in total assets	19.1	20.7	11.9-14.6	12.0-14.7	12.1-14.8
Net interest income/average earning assets (NIM)	4.1	4.7	4.4-4.8	4.4-4.8	4.4-4.8
Cost to income ratio	61.8	44.9	44.5-46.8	41.4-43.6	38.5-40.4
Return on average common equity	10.6	26.7	22.9-25.3	22.7-25.1	22.1-24.4
Return on assets	1.1	2.8	2.3-2.8	2.4-2.9	2.5-3.0
New loan loss provisions/average customer loans	1.2	0.4	0.2-0.3	0.2-0.2	0.2-0.2
Gross nonperforming assets/customer loans	4.9	4.5	3.9-4.3	3.4-3.7	4.4-4.8
Risk-adjusted capital ratio	7.4	7.9	8.3-8.4	9.0-9.1	9.7-9.7

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb-' Reflecting OTP's Diversified Profile And Exposure In High Economic Risk Countries

Our bank criteria use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. Our anchor for a commercial bank operating mainly in Hungary is 'bbb-', based on an economic risk score of '5' and an industry risk score of '5'.

We take OTP's international exposure into account when analyzing its economic risks. OTP has about 55% of its operations outside of its home market of Hungary, including subsidiaries in Bulgaria, Croatia, Serbia, Slovenia, Ukraine, Russia, Montenegro, Albania, Moldova, and Uzbekistan. Our assessment of the weighted economic risks of exposure at default of customer loans in those countries (rounded average of '6') and our industry risk assessment for Hungary lead to OTP's 'bbb-' starting point for our ratings, which is in line with that for a purely domestic bank.

We anticipate the share of foreign lending will increase slightly over the medium term. OTP's domestic growth is unlikely to fully balance out potential larger-scale acquisitions, provided its footprints in Ukraine and Russia are not materially altered. As of July 30, 2024, OTP has completed the sale of OTP Bank's Romanian subsidiaries. We do not expect this sale to affect our analyses, either in the anchor calculation or in other parts of our assessment.

Business Position: Market Leader In Hungary With A Strong And Diversified Foreign Franchise

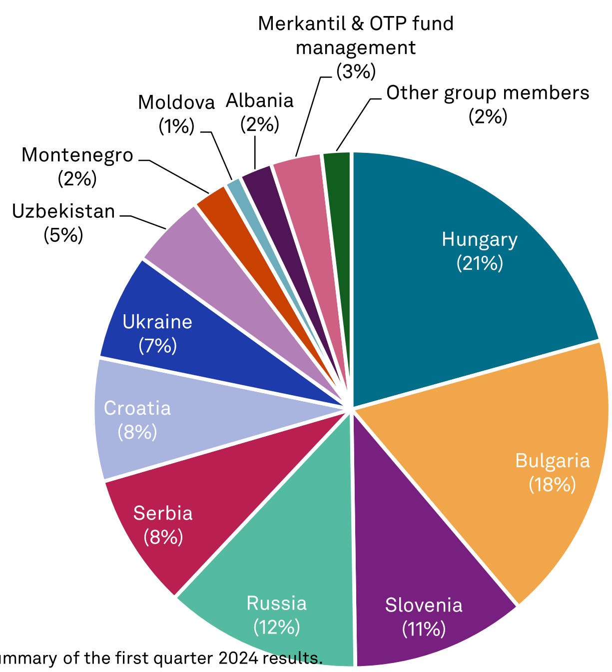
In our view, OTP's business position will remain a strength compared to most peers in countries like Italy, Spain, Poland, or Slovenia, which have similar industry risk.

Strong pricing power, expertise in operations in developing countries, and high geographical revenue diversification will support the bank's resilience, in our view. OTP's strong income generation capacity acts as a sufficient buffer against higher credit risk costs, as proven in recent years.

Chart 1

High geographical diversity of revenues

Consolidated adjusted profit after tax by geography as of Q1 2024



Q--Quarter. Source: OTP Group Summary of the first quarter 2024 results.
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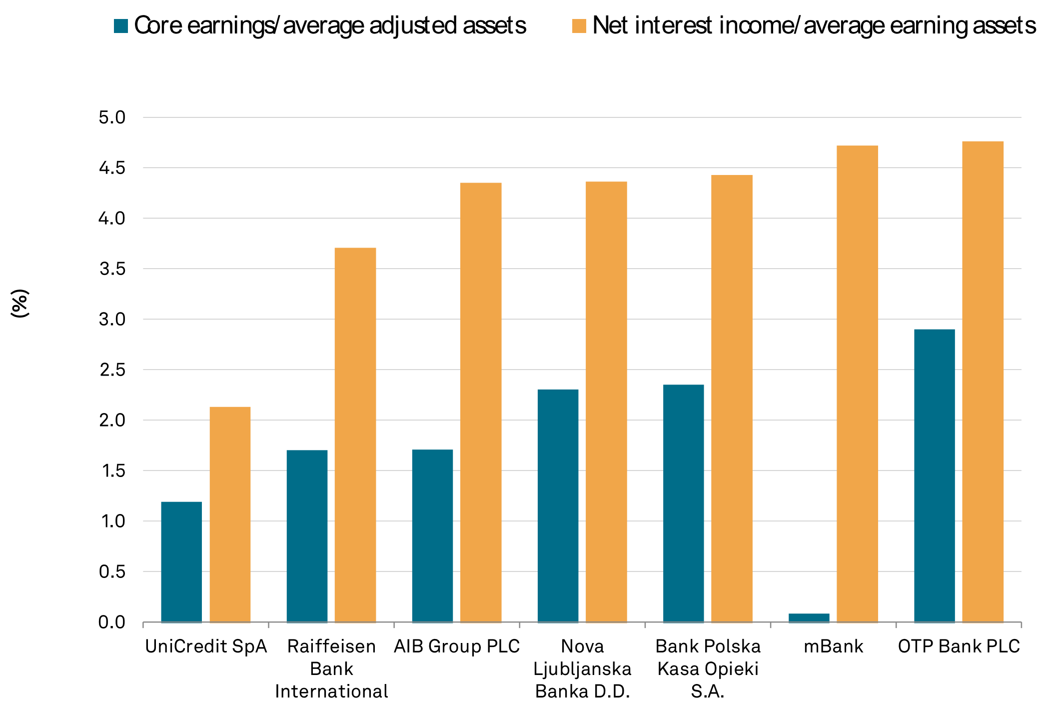
OTP has a diversified revenue stream by region and segment. Its broad mix of business activity and limited concentration risks strengthen its revenue predictability and business volume continuity. With operations in eleven countries, the bank is a key player in the Central European and Central Asian region. In Hungary, the bank has a leading position, holding a 34% share of the retail loan market and 42% of household deposits as per the end of the first quarter of 2024. In 2023, the foreign contribution to the group's consolidated net profit was 64% of the total, mainly from six foreign markets.

OTP acquired Nova KBM, Slovenia's second largest bank, and Uzbek Ipoteka Bank in 2023. The latter is the fifth largest bank in Uzbekistan, having a market share of over 7% by total assets and serving almost two million retail customers, which has made OTP one of the largest players in Uzbekistan. Alongside dynamic organic growth, these acquisitions have further boosted the size of OTP's loan portfolio. Except for Ipoteka, all of OTP's foreign subsidiaries were profitable in 2023.

We view the group's management team as having sufficient capacity, skillsets, and experience to govern this large, multinational group. We also expect OTP's management to meet its profitability targets and to successfully reposition and integrate recent acquisitions.

Chart 2

Operating profitability and net interest margin are highest among peers



Source: S&P Global Ratings.

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In our view, OTP maintains a competitive edge with its advanced digital capacities. Due to its numerous digital solutions and strong digital franchise, we consider the bank better prepared for the ongoing shift in customer preferences than many local peers. OTP Lab serves as OTP's in-house innovation hub and a point of cooperation with external networks. Past digitization efforts have significantly improved OTP's cost-efficiency.

Capital And Earnings: Strong Earnings Retention

OTP's risk-adjusted capital (RAC) ratio stood at 7.9% at year-end 2023, up from 7.4% at year-end 2022. OTP's consolidated Basel III regulatory common equity tier 1 capital ratio also rose slightly to 16.7% on March 31, 2024 (16.6% on Dec. 31, 2023), above the 10.4% minimum regulatory requirement. OTP announced a dividend of about Hungarian forint (HUF) 539 per share, compared to HUF300 for 2022, because the high interest rate environment boosted profitability.

We expect OTP to maintain its satisfactory level of capitalization, with its RAC ratio projected to increase to over 9% by 2025. Our forecast incorporates the following assumptions:

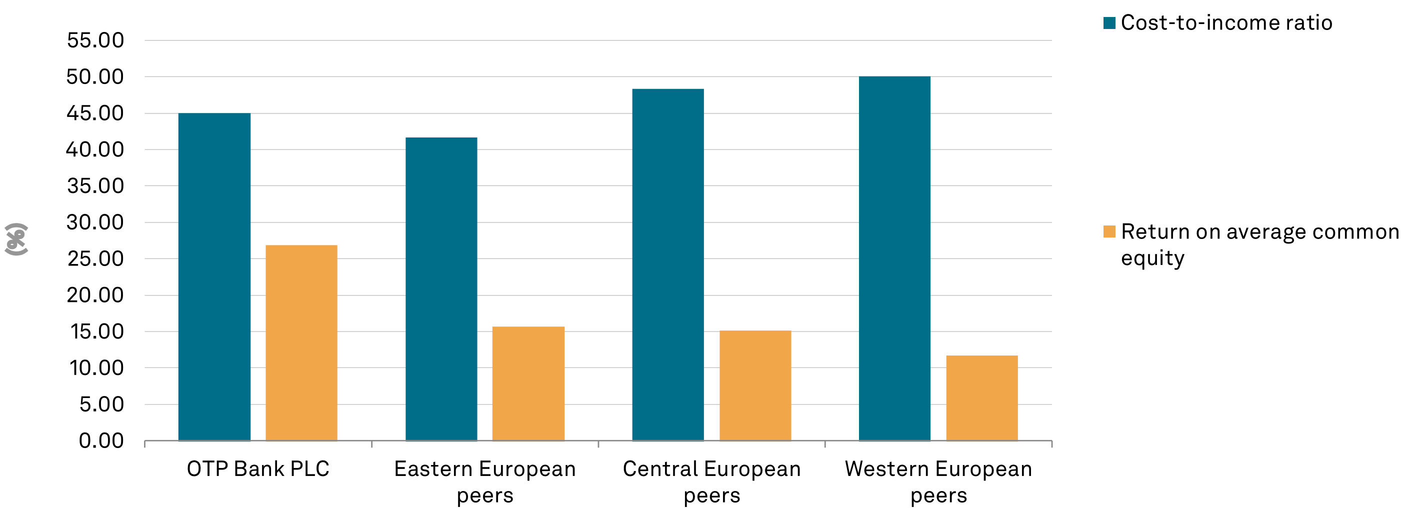
- Net interest margin decreasing to 4.6% over 2024-2025, down from 4.75% in 2023, given that interest rates are likely to have peaked;
- Stable loan growth of about 15% over 2024-2025, and S&P Global Ratings' risk-weighted assets moving in tandem;
- Growth in noninterest expenses at 3%;
- Return on average common equity to remain elevated at about 24% over 2024-2025; and
- Cost of risk to decrease to 18 basis points (bps) by 2025, as price pressures are easing and interest rates normalizing.

Our forecast does not include potential acquisitions.

Chart 3

OTP with average efficiency but highest return on equity among all peer groups

Cost-to-income ratio and return on average common equity for full-year 2023 (%)



Source: S&P Global Ratings.

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Our assessment also considers OTP's good earnings quality, reflected in its strong margins, low share of market sensitive income, and good geographical diversity. The earnings buffer measures the capacity for a bank's earnings to cover its normalized credit losses; we project OTP's three-year average will remain in line with main peers (year-end 2023: 1.6% of S&P Global Ratings' risk-weighted assets).

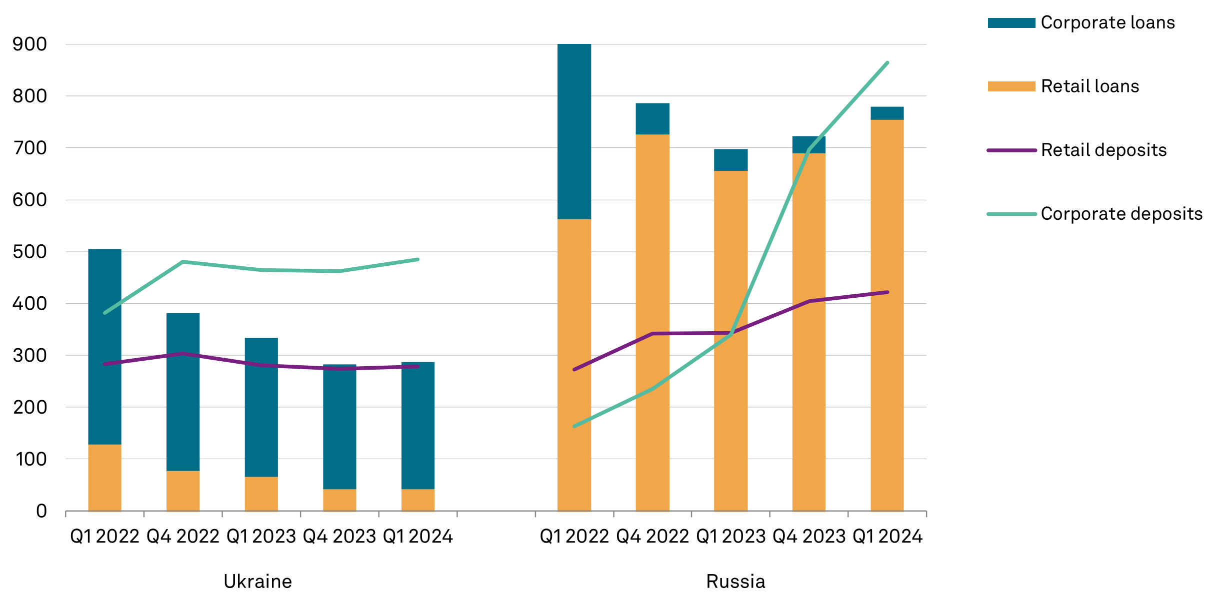
Risk Position: Tail Risks From Exposure To Russia And Ukraine

We assess OTP's risk profile as weaker compared with peer banks operating in countries with similar economic risk. In our view, the bank's presence in countries that we see as higher risk such as Russia and Ukraine, as well as neighboring countries like Moldova or Bulgaria presents material tail risks to the rating, in form of both the financial and nonfinancial risks. The group is trying to reduce its Ukrainian retail and Russian corporate portfolio to mitigate the risks. However, we do not regard an exist as a feasible in the medium term. Possible further sanction packages from the EU and other countries against Russia exacerbates the risk.

Chart 4

OTP with reduced exposures in Ukraine and Russia but strong 'safe haven' role for deposits

OTP Ukraine and OTP Russia loan portfolio and deposits in HUF million (Q1 2022 vs. Q1 2024)



Source: S&P Global Ratings, OTP Group Summary of the first quarter 2024 results.Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Risk costs stemming from OTP's operations in Russia and Ukraine have declined considerably in line with the portfolio rundown but remain high. As of year-end 2023, the loan portfolio of OTP's Russian subsidiary amounted to 3% of the bank's total net loans and the Ukrainian subsidiary amounted to 1%. Given its small size and limited intragroup funding, we consider a hypothetical deconsolidation to be manageable for OTP. Under this extreme scenario, the effect of a deconsolidation of the Russian subsidiary would amount to an estimated -5 bps and the Ukrainian subsidiary to about -11 bps.

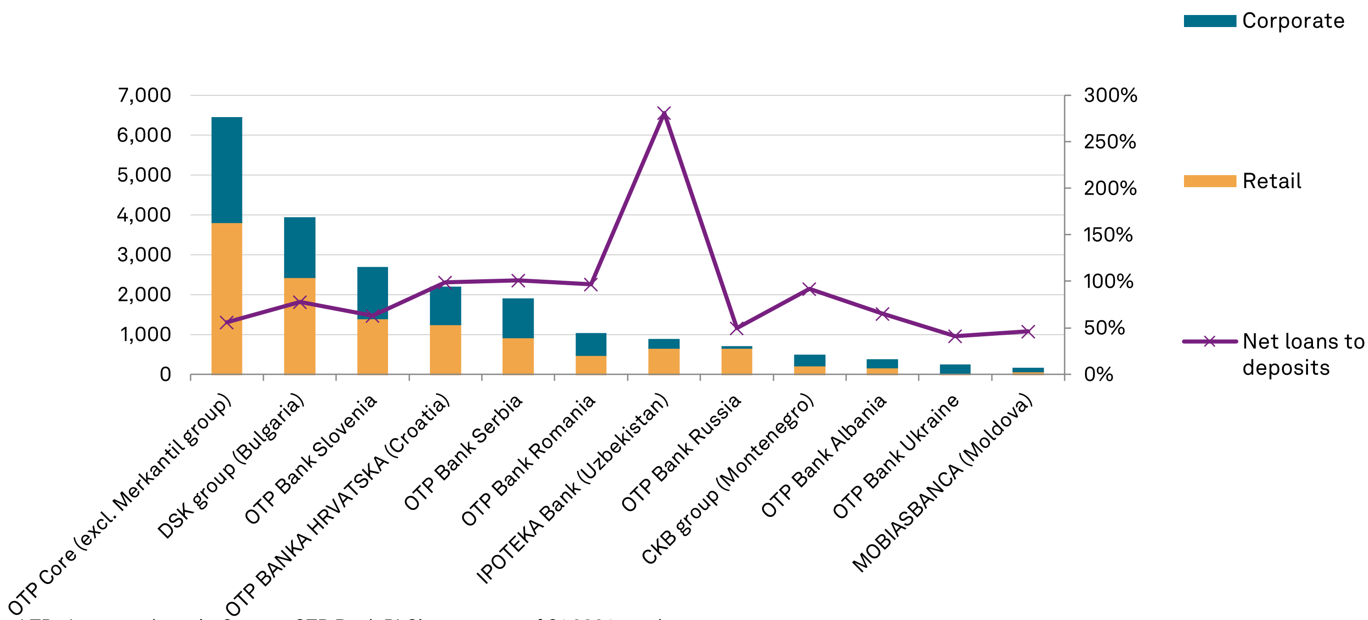
We note that the inflow of deposits in both countries remains strong, driven by the bank being perceived as a safe haven for domestic customers. This is particularly true for the Russian subsidiary, where corporate deposits have more than doubled between the first quarter of 2023 and the first quarter of 2024. Retail loan growth has picked up again substantially in Russia. Overall, we think that there are significant reputational and legal/compliance risks associated with OTP's business in Russia.

In the bank's other operations, its large mortgage portfolio supports its risk profile, prudent loan-to-value distribution, and good coverage of impaired assets by provisions--all of which indicates that its risk profile would likely remain relatively robust under a moderate downturn. Regulatory limitations on certain customer loan metrics also contribute positively to asset quality. Finally, in our view, the expansion of the loan book related to most recent acquisitions of Nova KBM and Ipoteka Bank has not altered the overall portfolio risk.

Chart 5

OTP with high share of retail lending and generally sound LTD ratios

Gross loans breakdown by country (HUF billion) and net LTD ratio (%, FX-adjusted) as of Q1 2024



LTD--Loan-to-deposit. Source: OTP Bank PLC's summary of Q1 2024 results

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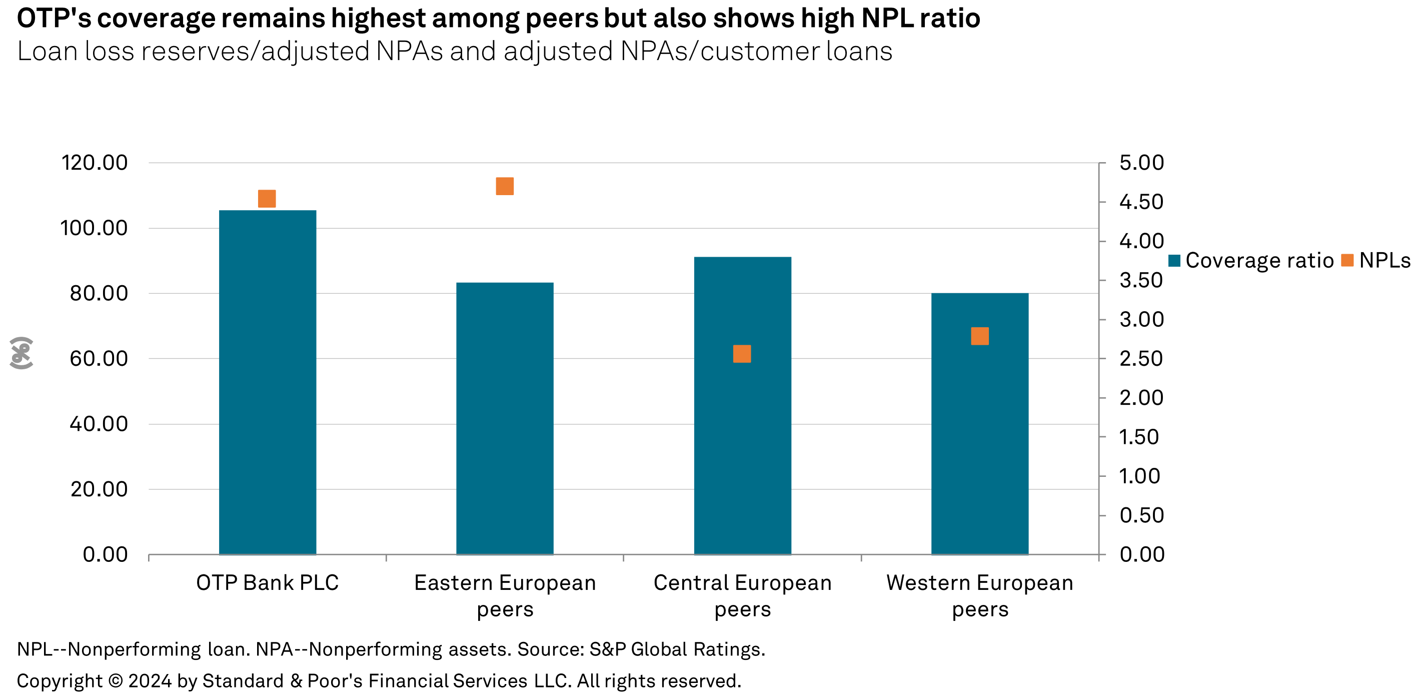
On March 31, 2024, 39% of OTP's total gross customer loans were to corporates, 27% were residential mortgage loans, and 24% directed to consumers, with the remainder split largely between small and midsize enterprise loans and auto loans and leasing. We view the mortgage loan book as adequately collateralized. The overall loan book does not show significant single-name concentrations.

Over the course of 2023, Stage 3 loans reduced to 4.3%, compared with 4.9% at year-end 2022. Stage 2 loans remained high at 13% of the portfolio as of year-end 2023, which is mainly attributed to the bank's exposure to Russia and Ukraine.

Chart 6



Coverage of Stage 3 loans stood at slightly over 60% at year-end 2023, with a particularly high coverage rate for the Russian subsidiary at about 95% and the Ukrainian subsidiary at about 78%. Given its higher coverage of Stage 1 (0.9% as of Dec. 31, 2023) and 2 loans (9.2%), we think that OTP follows a more conservative provisioning policy in comparison with many peers.

In our view, market risk overall remains limited. This is because OTP hedges most of its foreign currency and interest rate risk and provides its subsidiaries with fixed- or floating-rate internal loans to match the repricing characteristics of their loan books, thereby mitigating interest rate risk. It closes trading positions and adjusts the repricing structure of external debt to hedge interest-rate risk at the group level. Investments in network banks are also partly hedged against foreign exchange risk.

We will closely monitor Hungarian authorities' push to increase banks' holding of government securities that can increase sensitivity to market risk depending on the valuation of the government bonds. OTP's holdings of Hungarian government bonds have already increased accordingly over the last few years, a reduction in its 2024 windfall tax contribution is currently contingent upon a further rise in such holdings. OTP's share of government security holdings benefits from lower risk charges, such that repricing risks might not be adequately covered by capital if the sovereign suffers from negative market sentiment.

Funding And Liquidity: Granular, Largely Retail Funding Base And A High Level Of Liquid Assets

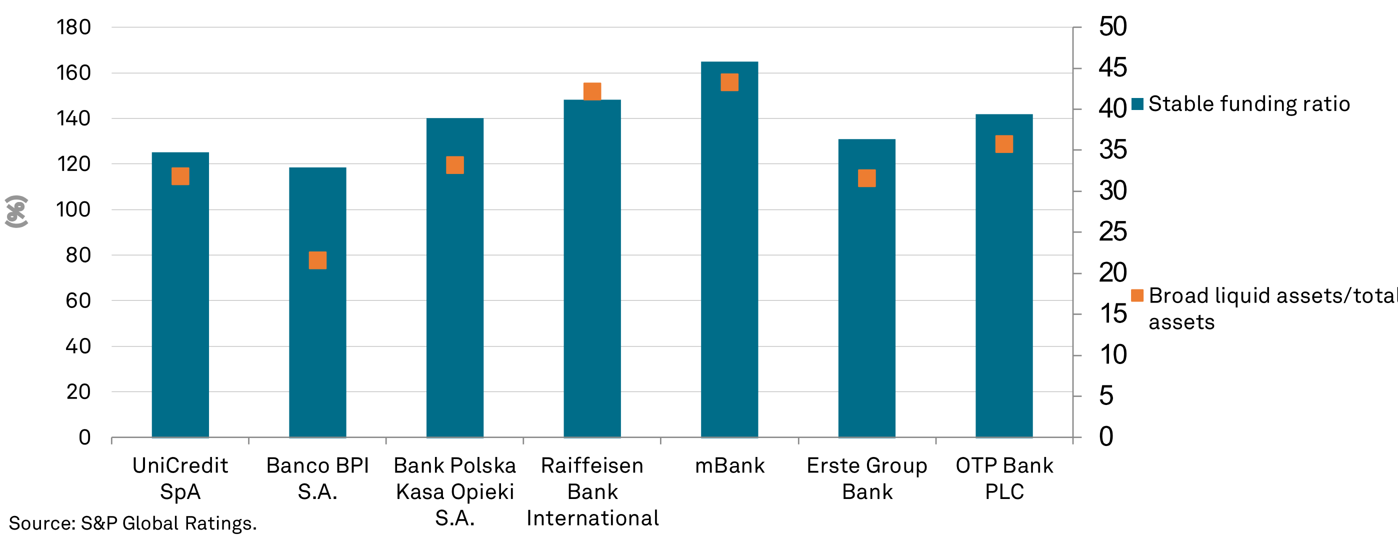
We expect OTP's funding profile to remain above average for domestic peers over the cycle. We also think that the bank will retain its very high liquidity buffer. As of March 31, 2024, its regulatory liquidity coverage ratio of 243% and net stable funding ratio of 159% exceeded regulatory requirements.

OTP witnessed a 21% year-on-year growth (foreign-exchange-adjusted) in customer deposits over the course of 2023. As of year-end 2023, customer deposits amounted to 85% of the overall funding base, which also results in a low net loan-to-deposit ratio of 72%. Our stable funding ratio also strengthened further to 141% as of the end of the first quarter of 2024 and is well placed within the peer group. We expect the ratio to remain at a similarly strong level over the coming years as loan growth aligns more closely with growth in deposits. Given the attractiveness of its franchise, the bank has not had to rely on overtly aggressive pricing to retain customers. Accordingly, we regard OTP's strong domestic retail franchise as loyal and well-diversified.

Chart 7

OTP's funding and liquidity metrics on sound levels compared to peers

Stable funding ratio and broad liquid assets/total assets



Source: S&P Global Ratings.

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We consider that OTP's individual foreign subsidiaries have similarly strong funding profiles, as indicated by its consolidated ratios. The bank is also able to collect long-term funding by issuing mortgage-covered bonds via OTP Mortgage Bank, which we assess as positive.

Our assessment factors in OTP's strong liquid assets, mainly cash and government bonds equivalent to about one-third of total assets. Accordingly, coverage of total assets by broad liquid assets was high at 14.8x on March 31, 2024. This is, however, in part a reflection of the bank's limited use of long-term wholesale debt (12% of the funding base). Reflecting the high share of customer deposits in the funding structure, we rather center our liquidity assessment on deposit-related liquidity metrics and qualitative factors. Among the main metrics we look at is net broad liquid assets to short-term customer deposits, which stood at a solid 18% on March 31, 2024, and is therefore stronger than for most banks we rate. This supports our view that OTP would be able to withstand adverse market shocks without access to wholesale funding in the next 12 months.

Support: Additional Factor Of -1 Reflecting Country Risks

We align our ICRs and resolution counterparty ratings on OTP and its subsidiary, OTP Mortgage Bank, with the foreign currency sovereign rating on Hungary (BBB-/Stable/A-3). In a hypothetical sovereign stress scenario, under which Hungary would default, we doubt OTP would have sufficient resources to absorb the effect on its capitalization. This possible lack of resilience is amplified by two factors. First, OTP has material exposure to its country of domicile, Hungary. Substantial domestic sovereign securities and loan exposures would lead to a severe erosion of equity under a sovereign stress scenario, likely pushing the bank into a nonviability scenario. Second, the bank's limited historical use of capital instruments and other term debt means that the resolution authority would need to rely heavily on a bail-in of other senior liabilities, notably corporate and other uninsured deposits, to recapitalize the bank. Although these liabilities comprise a substantial portion of OTP's balance sheet, we are cautious about the extent to which these deposits would be withdrawn in a stress situation, and about the financial stability and systemic risks that could result from bailing in these liabilities.

Resistance of foreign operations to Hungarian sovereign default may be higher, particularly reflecting strong capital buffers in some countries of operations. However, in our view, a Hungarian sovereign stress scenario will not allow for the management action on the fungibility of intragroup capital. As such, we doubt that foreign subsidiaries would provide timely support to OTP Hungary, the main operating subgroup, which is most sensitive to the sovereign default due to its large domestic government securities portfolio.

Environmental, Social, And Governance

We consider environmental, social, and governance factors for OTP as broadly in line with those of industry and domestic peers. With respect to the composition of the supervisory board, the majority are independent (nonexecutive) members. The board of directors has 11 members, while the supervisory board has six members. OTP has implemented all the Budapest Stock Exchange's recommendations for corporate governance practice.

In our view, its shareholder structure promotes solid governance standards. All shares are free float. Almost 45% of investors are domestic, with the rest being international. There are only two investors with a more than 5% share, the largest being the 8.57% owned by Hungarian Oil and Gas Co. Apart from a negligible (0.05%) government share, there are no apparent state-linked entities in the shareholder structure.

However, unpredictable government policies and the potential for government involvement in the financial sector remain a significant risk. We see the Hungarian government's successful attempt to build a leading domestic bank as diametrical to OTP's strategy. Also, corruption is not a negligible risk in OTP's regions of operation. Otherwise, we consider governance and transparency in the Hungarian banking industry at least adequate and think that this is also applicable to OTP.

OTP has a material presence in less developed European countries with weaker governance standards than Hungary's. We will monitor any potential reputational issues emerging from these countries, which could come from nonfinancial risks like deficiencies in underwriting or compliance and know-your-customer practices. This has not been the case so far and we understand that OTP takes a group-wide, uniform approach to oversight.

Group Structure And Rated Subsidiaries

We equalize our ratings on OTP Mortgage Bank with those on OTP because of its integral position in the group's strategy. Our view of its status is based on its full ownership and very close organizational and operational integration with its parent.

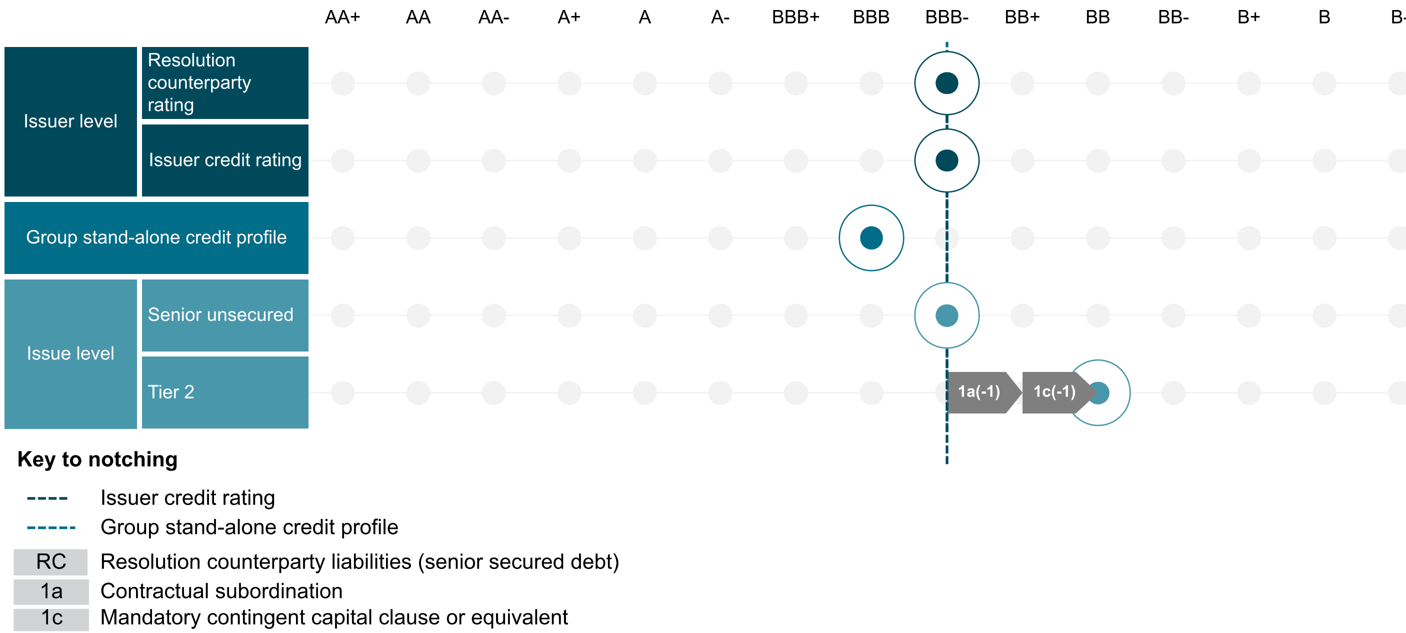
We understand OTP Mortgage Bank is key in fulfilling the group's regulatory mortgage funding adequacy ratio via issuances of mortgage covered bonds.

OTP Mortgage Bank has a leading position in retail mortgage lending in Hungary. OTP is obliged to repurchase any of OTP Mortgage Bank's nonperforming assets at face value when a loan is more than 90 days in arrears. The capital allocated to OTP Mortgage Bank is only moderate, and we think that OTP Bank will support its core subsidiary under all foreseeable circumstances if necessary.

We consider Uzbek Ipoteka Bank a moderately strategic subsidiary of OTP and incorporate potential support in our ratings on Ipoteka Bank. We do not consider Uzbekistan a key market for OTP group and expect that support to Ipoteka Bank will not be prioritized before other subsidiaries. At the same time, we think that Ipoteka will benefit from OTP's knowledge and expertise in retail lending and bank risk management systems, which could eventually lift the bank's corporate governance standards, positively differentiating the entity from other banks in Uzbekistan.

Issue Ratings

OTP Bank PLC: Notching



Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.
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Key Statistics

Table 1

OTP Bank PLC--Key figures

	--Year-ended Dec. 31--				
(Mil. HUF)	**Q1 2024**	**2023**	**2022**	**2021**	**2019**
Adjusted assets	41,188,085	39,317,786	32,567,179	27,304,753	19,879,548
Customer loans (gross)	22,259,838	21,385,765	19,643,558	16,634,454	12,942,009
Adjusted common equity	4,066,111	3,613,026	2,950,059	2,772,600	2,026,493
Operating revenues	581,374	2,392,942	1,688,206	1,323,692	1,165,195
Noninterest expenses	305,992	1,074,337	1,042,863	732,112	654,030
Core earnings	236,952	1,040,309	369,633	469,696	406,328

HUF--HUF-Hungarian forint.

Table 2

OTP Bank PLC--Business position

	--Year-ended Dec. 31--				
(%)	**Q1 2024**	**2023**	**2022**	**2021**	**2019**
Loan market share in country of domicile	26.50	26.50	27.00	26.50	22.00

Table 2

OTP Bank PLC--Business position (cont.)					
	--Year-ended Dec. 31--				
(%)	**Q1 2024**	**2023**	**2022**	**2021**	**2019**
Deposit market share in country of domicile	32.50	30.50	31.50	30.50	28.50
Return on average common equity	16.4	10.5	20.3	18.4	18.4

Table 3

OTP Bank PLC--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	**Q1 2024**	**2023**	**2022**	**2021**	**2019**
Tier 1 capital ratio	16.70	16.60	16.10	17.50	13.90
S&P Global Ratings’ RAC ratio before diversification	N/A	7.90	7.41	8.82	7.74
S&P Global Ratings’ RAC ratio after diversification	N/A	7.20	6.61	7.78	6.90
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Net interest income/operating revenues	71.81	57.95	64.64	66.05	59.82
Fee income/operating revenues	30.58	28.92	35.56	33.40	35.47
Market-sensitive income/operating revenues	-1.88	3.55	-0.56	0.18	4.59
Cost to income ratio	52.63	44.90	61.77	55.31	56.13
Preprovision operating income/average assets	2.72	3.64	2.14	N/A	2.95
Core earnings/average managed assets	2.34	2.87	1.22	N/A	2.34

N/A--Not applicable.

Table 4

OTP Bank PLC--Risk-adjusted capital framework data					
(Mil. HUF)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government & central banks	14,294,216	2,456,154	17	7,370,594	52
Institutions	1,840,982	741,114	40	1,062,444	58
Corporate	11,519,350	9,448,137	82	15,293,926	133
Retail	11,727,325	6,196,582	53	10,533,222	90
Of which mortgage	5,785,176	2,463,724	43	3,551,443	61
Securitization§	0	0	0	0	0
Other assets	2,422,417	2,187,328	90	4,279,325	177
Total credit risk	41,804,291	21,029,315	50	38,539,510	92
Market risk					
Equity in the banking book†	792,723	230,921	29	2,146,476	271
Trading book market risk	--	366,831	--	550,247	--
Total market risk	--	597,752	--	2,696,723	--
Insurance risk					
Total insurance risk	--	15,756	--	0	--
Operational risk					
Total operational risk	--	2,058,450	--	4,486,766	--

Table 4

OTP Bank PLC--Risk-adjusted capital framework data (cont.)

(Mil. HUF)	Exposure	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification	--	23,701,273	--	45,723,000	100
Total Diversification/ Concentration Adjustments	--	--	--	4,447,136	10
RWA after diversification	--	23,701,273	--	50,170,135	110

(Mil. HUF)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio	**Standard & Poor's RWA**	**Standard & Poor's RWA**	**Standard & Poor's RWA**	**Standard & Poor's RWA**
Capital ratio before adjustments	3,945,570	16.6	3,613,026	7.9
Capital ratio after adjustments‡	3,945,570	16.6	3,613,026	7.2

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. HUF -- Hungary Forint. Sources: Company data as of 'Dec. 31 2023', S&P Global Ratings.

Table 5

OTP Bank PLC--Risk position

	--Year-ended Dec. 31--				
(%)	**Q1 2024**	**2023**	**2022**	**2021**	**2019**
Growth in customer loans	16.35	8.87	18.09	N.M.	47.88
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	9.73	12.11	13.30	12.09
Total managed assets/adjusted common equity (x)	10.20	10.96	11.12	9.94	9.93
New loan loss provisions/average customer loans	-0.26	0.39	1.16	N/A	0.52
Net charge-offs/average customer loans	N.M.	0.34	0.69	N/A	1.03
Gross nonperforming assets/customer loans + other real estate owned	4.47	4.54	4.93	5.28	5.92
Loan loss reserves/gross nonperforming assets	103.38	105.07	103.48	101.43	90.60

N.M.--Not meaningful. N/A--Not applicable.

Table 6

OTP Bank PLC--Funding and liquidity

	--Year-ended Dec. 31--				
(%)	**Q1 2024**	**2023**	**2022**	**2021**	**2019**
Core deposits/funding base	84.96	85.33	89.45	89.56	88.85
Customer loans (net)/customer deposits	72.42	71.88	74.00	74.73	80.73
Long-term funding ratio	97.40	97.56	97.51	97.54	95.95
Stable funding ratio	141.24	141.51	139.41	140.83	130.16
Short-term wholesale funding/funding base	2.91	2.72	2.76	2.75	4.53
Broad liquid assets/short-term wholesale funding (x)	14.80	15.66	14.11	14.20	7.53
Broad liquid assets/total assets	35.87	35.66	33.48	33.31	28.98
Broad liquid assets/customer deposits	50.76	49.85	43.60	43.56	38.44
Net broad liquid assets/short-term customer deposits	18.30	18.04	30.79	41.44	37.01

Table 6

OTP Bank PLC--Funding and liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	Q1 2024	2023	2022	2021	2019
Regulatory liquidity coverage ratio (LCR) (%)	243.00	246.00	172.10	179.90	N/A
Short-term wholesale funding/total wholesale funding	19.38	18.51	26.19	26.31	40.67
Narrow liquid assets/three-month wholesale funding (x)	26.95	21.62	18.22	19.68	8.45

N/A--Not applicable.

OTP Bank PLC--Rating component scores

Issuer credit rating	BBB-/Stable/A-3
SACP	bbb
Anchor	bbb-
Economic risk	6
Industry risk	5
Business position	Strong
Capital and earnings	Adequate
Risk position	Moderate
Funding	Strong
Liquidity	Strong
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	-1

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And

Assumptions , Nov. 20, 2013

- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Research Update: Hungary 'BBB-/A-3' Ratings Affirmed; Outlook Stable, April 26, 2024
- Bulletin: OTP Bank's Strong Results In 2023 Reflect Its Resiliency Despite A Dip In The Fourth Quarter, March 8, 2024
- Banking Industry Country Risk Assessment: Hungary, Dec. 6, 2023
- Bulletin: OTP Bank's Mid-Year Results Show Enduring Resilience As Ipoteka Integration Progresses, Aug. 10, 2023
- OTP Bank PLC, July 7, 2023

Ratings Detail (As Of July 31, 2024)*	
OTP Bank PLC	
Issuer Credit Rating	BBB-/Stable/A-3
Resolution Counterparty Rating	BBB-/--/A-3
Senior Unsecured	BBB-
Subordinated	BB
Issuer Credit Ratings History	
30-Jan-2023	BBB-/Stable/A-3
16-Aug-2022	BBB/Negative/A-2
27-Jan-2020	BBB/Stable/A-2
Sovereign Rating	
Hungary	BBB-/Stable/A-3
Related Entities	
OTP Mortgage Bank	
Issuer Credit Rating	BBB-/Stable/A-3
Resolution Counterparty Rating	BBB-/--/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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