

Research Update:

OTP Bank Resolution Counterparty Ratings Raised To 'BBB/A-2'; Other Ratings Affirmed And Outlook Stable

March 17, 2025

Overview

- OTP Group's recent issuance of senior and subordinated debt reduced the risk of default on resolution counterparty recovery of liabilities under a hypothetical scenario of a Hungary default and effective resolution of the group.
- The group has also maintained robust performance, while keeping good asset quality indicators and strengthening its capital buffers.
- We therefore raised our long and short-term resolution counterparty ratings on OTP Bank and its core subsidiary OTP Mortgage Bank to 'BBB/A-2' from 'BBB-/A-3'.
- At the same time, we affirmed our long and short-term issuer credit ratings on OTP Bank and OTP Mortgage Bank at 'BBB-/A-3'.
- The stable outlook on the long-term issuer credit rating balances our view of OTP's good earnings across its countries of operation and solid capital and funding profile against the risk of potential asset quality deterioration amid high geopolitical risks.

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Rating Action

On March 17, 2025, S&P Global Ratings raised its long and short-term resolution counterparty ratings (RCRs) on OTP Bank and OTP Mortgage Bank to 'BBB/A-2' from 'BBB-/A-3'.

At the same time, we affirmed our long- and short-term issuer credit ratings on OTP Bank and OTP Mortgage Bank at 'BBB-/A-3'. The outlook is stable.

We also affirmed the senior unsecured debt ratings at 'BBB-' and subordinated debt ratings at 'BB'.

Rationale

OTP's RCRs are higher than the rating on the sovereign. We have raised our RCRs on OTP reflecting the increasing buffer of senior and subordinated liabilities that we expect to protect RCR liabilities from bail-in in case of a group resolution under a hypothetical default scenario of Hungary. RCR liabilities are those liabilities that may be protected from default in an effective resolution process.

We now set the RCR on OTP one notch above our long-term issuer credit rating on the bank, and thus one notch above the sovereign rating on Hungary. In a hypothetical sovereign default scenario, we believe OTP would likely be resolved and the bail-in of the bail-in-able instruments (including senior preferred obligations) would enable OTP to absorb the impact without triggering a default of the bank's RCR liabilities.

In addition, OTP's sensitivity to Hungarian sovereign stress has somewhat decreased over recent years as the share of Hungarian operations has steadily declined (32% of the loan book at year-end 2024 compared with 36% at year-end 2022).

While we see higher risks in the domestic banking industry, we think that OTP is less prone to those systemic risks than are its local peers. We see risks in the Hungarian banking system due to higher risk of government interference amid an increasing risk of perceived corruption and lower governance standards, impairing the effectiveness of the institutional framework. While OTP is exposed to local governance and corruption risk, we think that the risks are lower than for local peers. We consider the governance at OTP Group to be better than the system average in Hungary, supported by international stakeholder expectations. Among other factors, we see as positive that OTP's equity is free floating and that the bank has a 55% share of foreign owners. We also see as positive the European Central Bank's involvement in the supervision, contributing to OTP's adherence to governance and risk standards in the EU.

The group continues to outperform peers, demonstrating stronger profitability and efficiency. Following a track record of above-peer-average returns and supported by our expectation of the recovering economic environment in its main countries of operations, we now think that the OTP group will continue to outperform peers' risk-adjusted profitability. As such, we have introduced a positive comparable ratings analyses adjustment notch in our rating analyses for OTP.

Both return on equity at 23.5% for 2024 and a cost-to-income ratio at 41.3% indicate a strong earnings buffer, better than the peer average. In our base case, we expect this advantage to persist in the medium term.

At the same time, in our analyses, we reflect our view that OTP does not compromise on risk standards, as demonstrated by the positive trend in the group's Stage 3 loans (3.6% at end-2024) amid continued strong coverage by provisions (estimated S&P Global Ratings' ratio of approximately 100%) and improving capitalization (Tier 1 regulatory capital ratio of 18.9% at year-end 2024 and estimated 8.5% S&P Global Ratings' risk-adjusted capital ratio). On the negative side, we continue to see OTP as exposed to financial and nonfinancial tail risks relating to the Russia-Ukraine war. As of end-2024, exposure to Russia was 5% and exposure to Ukraine was 2% of the total loan book.

Outlook

The stable outlook balances our view of OTP's good earnings across its countries of operation and solid capital and funding profile against the risk of potential asset quality deterioration amid high geopolitical risks.

Downside scenario

We could downgrade OTP Bank and OTP Mortgage Bank in the next two years if:

- 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 significantly hitting the group's capitalization.

Upside scenario

A positive rating action would hinge upon a similar action on Hungary, or if OTP Bank improves its prospects of withstanding a hypothetical sovereign default of Hungary.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB-/Stable/A-3	BBB-/Stable/A-3
Resolution Counterparty Rating	BBB/A-2	BBB-/A-3
SACP	bbb	bbb
Anchor	bb+	bbb-
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Moderate (-1)	Moderate (-1)
Funding	Strong	Strong
and Liquidity	Strong (+1)	Strong (+1)
Comparable ratings analysis	(+1)	(0)
Support	(0)	(0)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Government Support	(0)	(0)
Additional Factors	(-1)	(-1)

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

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Hungary Banking Industry Country Risk Assessment Unchanged On Evolving Industry Risks; No Ratings Affected, Jan. 24, 2025
- Hungary 'BBB-/A-3' Ratings Affirmed; Outlook Stable, Oct. 25, 2024

Ratings List

***** OTP Bank PLC *****

Ratings Affirmed

OTP Bank PLC

OTP Mortgage Bank

Issuer Credit Rating	BBB-/Stable/A-3
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OTP Bank PLC

Senior Unsecured	BBB-
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Subordinated	BB
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Upgraded

	To	From
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OTP Bank PLC

OTP Mortgage Bank

Resolution Counterparty Rating	BBB/--/A-2	BBB/--/A-3
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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