Research Update:

OTP Bank PLC Upgraded To 'BBB/A-2' On Higher Resilience Against Potential Sovereign Stress; Outlook Negative

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Overview

- Hungary-based OTP Bank PLC (OTP) has broadened its geographical presence outside its home country, with its share of the Hungarian loan book falling to 32% of the total portfolio. This trend means less exposure to country risk in Hungary, in our view.
- Because of this, we think that OTP's capital and liquidity ratios are resilient enough to withstand a potential stress scenario, even in the unlikely event of a default by Hungary. Therefore, we now rate OTP above the Hungarian sovereign.
- That said, the bank would not be immune to a potential sovereign default, and we therefore cap OTP's long-term issuer credit ratings (ICRs) at a maximum of one notch above the sovereign foreign currency rating on Hungary.
- As a result, we raised our long- and short-term ICRs on OTP Bank PLC and its core subsidiary, OTP Mortgage Bank, to 'BBB/A-2' from 'BBB-/A-3'. We also raised the long-term resolution counterparty ratings (RCRs) on both banks to 'BBB+' from 'BBB' and affirmed the short-term RCRs at 'A-2'.
- The negative outlook mirrors the negative outlook on the sovereign, Hungary. It also reflects our assessment that OTP's asset quality and financial performance could be adversely affected by rising economic and geopolitical challenges that could affect core markets.

Rating Action

On April 14, 2025, S&P Global Ratings raised its long- and short-term ICRs on OTP Bank PLC and OTP Mortgage Bank to 'BBB/A-2' from 'BBB-/A-3'. We revised the outlook on both banks to negative from stable.

At the same time, we raised the long-term RCRs to 'BBB+' from 'BBB' and affirmed the short-term RCRs at 'A-2'.

We also raised our ratings on OTP's senior unsecured debt to 'BBB' from 'BBB-' and affirmed our ratings on the subordinated debt at 'BB'.

Rationale

OTP has reduced its exposure to the country risk of Hungary in recent years, following a series of nondomestic acquisitions. OTP successfully acquired and integrated several EU and non-EU banks. The most relevant being OTP Bank Slovenia (formerly Nova Kreditna banka Maribor d.d.), the second largest bank in Slovenia. This reduced OTP's share of the loan book in Hungary to 32% as of year-end 2024 from above 40% in the last decade. While there is no immediate acquisition plan that would suggest a further decline of this ratio, we expect that OTP will continue its international expansion over time, which could further reduce country risk sensitivity to Hungary.

Therefore, we now consider that, to some extent, OTP would be able to withstand the financial stress generated by a hypothetical default of the sovereign, Hungary. This assessment justifies that our ICRs on OTP are no longer limited by the Hungarian FC sovereign rating, and therefore raised to 'BBB/A-2'. However, we think that there would still be a substantial effect on the bank's franchise and financial standing if the Hungarian sovereign were to default. Therefore, we restrict our ICR on OTP at a maximum of one notch above the sovereign FC rating on Hungary.

Our assessment of OTP's ability to withstand a sovereign default is informed by our sovereign stress test model. Under this approach, we estimate the potential credit losses and liquidity outflows that OTP could suffer in a hypothetical sovereign default scenario, and so the bank's financial resilience. Our analysis considers both the group's potential solvency on a consolidated basis, and, more challengingly, also OTP Bank PLC's as a legal entity. The modelled losses--arising principally from its home sovereign bond portfolio and domestic loan book--could be substantial. Nevertheless, we see two factors that could offer some mitigation to the depletion of its regulatory capital:

- We assume that authorities would apply resolution powers to OTP, leading to the write-down of all outstanding capital instruments and the bail-in of nonpreferred senior debt instruments.
- We assume that the Hungarian parent bank could repatriate profits and some of the excess regulatory capital held in EU subsidiaries (excluding Slovenia), that is, those within its single-point-of-entry resolution perimeter.

For non-EU subsidiaries, we see a higher likelihood that local regulators could impede the transfer of profits and excess regulatory capital to the Hungarian parent, due to diverging regulatory frameworks and national interests.

Based on these assumptions, we think that OTP would, under a sovereign stress, be able to maintain liquidity and capitalization at levels likely to be deemed acceptable by Hungarian authorities, applying some form of regulatory forbearance. This would give the bank time to restore capital and liquidity ratios back to minimum requirements.

The negative outlook on the ICRs mirrors the negative outlook on Hungary. This is because the ICRs are capped at one notch above the sovereign rating on Hungary. On April 11, the outlook on Hungary was revised to negative from stable to reflect risks to the country's public finances from the uncertain growth outlook, high interest expenditure, narrowing EU fund inflows, and spending pressures ahead of a tightly contested election in 2026 (see "Hungary Outlook Revised To Negative From Stable On Fiscal And External Risks; 'BBB-/A-3' Ratings Affirmed," published on April 11, 2025 on RatingsDirect).

The RCR upgrade and the affirmation of the hybrid debt ratings reflect our expectations of differing treatment under stress. OTP's recent issuance of senior and subordinated debt reduces the risk of default on resolution counterparty liabilities in case of resolution. This leads us to place the RCRs one notch above the ICRs, and therefore we raised the RCRs in line with the ICRs. However, we expect subordinated debt instruments to absorb losses in a hypothetical sovereign default. We therefore apply an additional notch deduction beyond our standard two-notch minimum notching for Tier 2 instruments from OTP's stand-alone credit profile (SACP).

Outlook

The negative outlook primarily mirrors the negative outlook assigned to our ratings on Hungary, OTP's home sovereign. However, negative pressure could also arise if we observe a weakening of OTP's SACP, for instance due to a deterioration of asset quality or a drag on profits related to economic and geopolitical challenges affecting its core markets.

Downside scenario

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

- We take a similar rating action on Hungary;
- The group significantly increases its country risk exposure to Hungary, contrary to our current expectations. Evidence of challenges in repatriating capital from subsidiaries in EU countries, or a substantial financial weakening of those subsidiaries, could also lead to a negative rating action;
- There is a material weakening of OTP Bank's earnings capacity, or higher-than-anticipated credit losses significantly affect the group's capitalization; or
- The bank experiences material reputational risks or other nonfinancial risks affecting its franchise, for instance due to its business operations in Russia.

A lowering of our ICR on OTP would lead to a lowering of the long-term RCR and subordinated debt ratings.

Upside scenario

We could revise the outlook to stable if we take a similar action on Hungary.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**BBB/Negative/A-2**	**BBB-/Stable/A-3**
Resolution Counterparty Rating	**BBB+/A-2**	**BBB/A-2**
SACP	bbb	bbb
Anchor	bb+	bb+
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Adequate (0)	Adequate (0)

	To	From
Issuer Credit Rating	**BBB/Negative/A-2**	**BBB-/Stable/A-3**
Resolution Counterparty Rating	**BBB+/A-2**	**BBB/A-2**
Risk Position	Moderate (-1)	Moderate (-1)
Funding	Strong	Strong
and Liquidity	Strong (+1)	Strong (+1)
Comparable ratings analysis	(+1)	(+1)
Support	(0)	(0)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Government Support	(0)	(0)
Additional Factors	(0)	(-1)

SACP--Stand-alone credit profile.

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 Outlook Revised To Negative From Stable On Fiscal And External Risks; ‘BBB-/A-3’ Ratings Affirmed, April 11, 2025
- Global Credit Conditions Special Update: Ongoing Reshuffling, April 11, 2025
- Credit Conditions Europe Q2 2025: Europe Plots A New Course, March 26, 2025

- OTP Bank Resolution Counterparty Ratings Raised To ‘BBB/A-2’; Other Ratings Affirmed And Outlook Stable, March 17, 2025
- Hungary Banking Industry Country Risk Assessment Unchanged On Evolving Industry Risks; No Ratings Affected, Jan. 24, 2025
- Banking Brief: CEE Banks Can Stomach Headwinds In The Auto Industry, Jan. 14, 2024
- Central And Eastern Europe Banking Outlook 2025: Economic Recovery Supports Banks’ Solid Performance, Dec. 11, 2024

Ratings List

Ratings Affirmed		
OTP Bank PLC		
Subordinated	BB	
Upgraded		
	To	**From**
OTP Mortgage Bank		
Issuer Credit Rating	BBB/Stable/A-2	BBB-/Stable/A-3
OTP Bank PLC		
Senior Unsecured	BBB	BBB-
Upgraded; CreditWatch/Outlook Action		
	To	**From**
OTP Bank PLC		
Issuer Credit Rating	BBB/Negative/A-2	BBB-/Stable/A-3
Upgraded; Ratings Affirmed		
	To	**From**
OTP Bank PLC		
OTP Mortgage Bank		
Resolution Counterparty Rating	BBB+/--/A-2	BBB/--/A-2