

Research Update:

OTP Bank PLC Outlook Revised To Negative After Similar Action on Hungary; Ratings Affirmed

August 16, 2022

Overview

- On Aug. 12, 2022, S&P Global Ratings revised its outlook on Hungary to negative from stable because external risks, including potential cuts to EU funds and reduced gas flows, could weigh on the country's growth prospects and endanger post-pandemic fiscal consolidation.
- We continue to cap our issuer credit rating on OTP Bank at the level of our foreign currency sovereign ratings on Hungary, because we doubt that the bank would have sufficient capital resources to absorb a hypothetical sovereign default scenario.
- We therefore revised our outlook to negative from stable and affirmed our 'BBB/A-2' ratings on OTP Bank.
- The negative outlook means we could downgrade OTP Bank by one notch within the next 24 months if we take a similar action on the sovereign.

Rating Action

On Aug. 16, 2022, S&P Global Ratings revised its outlooks on OTP Bank PLC and its core subsidiary OTP Mortgage Bank to negative from stable. At the same time, we affirmed our 'BBB' long-term and 'A-2' short-term issuer credit ratings on the bank.

Rationale

The outlook revision follows a similar action on Hungary. This reflects increasing external pressure on the sovereign's economic and fiscal profiles amid the Russia-Ukraine conflict, including more expensive energy supply from Russian sources, supply chain issues, and fiscal and monetary tightening (see "Hungary Outlook Revised To Negative From Stable On Fiscal And Economic Risks; 'BBB/A-2' Ratings Affirmed," published Aug. 12, 2022, on RatingsDirect). In our view, there is an at least one-in-three chance of a downgrade over the next two years if Hungary's economic or fiscal profile significantly worsen beyond our base case.

PRIMARY CREDIT ANALYST

Lukas Freund
Frankfurt
+ 49-69-3399-9139
lukas.freund
@spglobal.com

SECONDARY CONTACTS

Anna Lozmann
Frankfurt
+ 49 693 399 9166
anna.lozmann
@spglobal.com

Markus W Schmaus
Frankfurt
+ 49 693 399 9155
markus.schmaus
@spglobal.com

The ratings on OTP Bank and its core subsidiary OTP Mortgage Bank are capped by our sovereign rating on Hungary. OTP displays a similar stand-alone credit profile (SACP), at 'bbb', as the sovereign. Although the bank has a very diversified footprint in eastern Europe, we do not currently rate it above the sovereign because we doubt that it would survive a hypothetical sovereign default. In time, we could revise this stance if our modeling suggests that its resilience has substantially improved, whether aided by further diversification, stronger capitalization, or improved resolvability with associated stronger subordinated buffers.

Outlook

The negative outlook for the next 24 months reflects our view that a negative rating action on OTP Bank could either stem from increasing macroeconomic pressure, leading to deteriorating asset quality and capitalization, or a similar rating action on the sovereign.

Downside scenario

We could downgrade the bank if one or more of the following occur:

- We take a similar rating action on Hungary, since we doubt that the bank would have sufficient capital resources to absorb a hypothetical sovereign default scenario.
- OTP Bank's stand-alone creditworthiness deteriorates materially, following a worsening of macroeconomic conditions, which could weaken its asset quality and/or reduce capitalization well beyond our base case.
- A substantial loss of its equity investments in Russia or Ukraine or credit losses in those countries that far exceed our current projections, particularly if this spills over to its wider markets.

Upside scenario

We could revise the outlook back to stable if we take a similar action on Hungary, since external pressures remain manageable.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Negative/A-2

Stand-Alone Credit Profile: bbb

- Anchor: bbb-
- Business Position: Strong (+1)
- Capital and Earnings: Adequate (0)
- Risk Position: Moderate (-1)
- Funding & Liquidity: Strong/Strong (+1)
- Comparable Ratings Adjustment: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

- Hungary Outlook Revised To Negative From Stable On Fiscal And Economic Risks; 'BBB/A-2' Ratings Affirmed, Aug. 12, 2022
- OTP Bank PLC, June 15, 2022
- OTP Bank PLC's China Joint Venture Presents A Long-Term Growth Opportunity, June 7, 2022
- Hungary-Based OTP Bank Ratings Affirmed Despite Escalating Ukraine Conflict; Outlook Remains Stable, Mar. 3, 2022
- Central And Eastern European Bank Ratings Affirmed Under Revised FI Criteria, Jan. 27, 2022
- ESG Credit Indicator Report Card: EMEA Banks, Jan. 19, 2022

Ratings List

Ratings Affirmed

OTP Bank PLC

OTP Mortgage Bank

Resolution Counterparty Rating BBB/--/A-2

OTP Bank PLC

Senior Unsecured BBB

Ratings Affirmed; Outlook Action

To	From
----	------

OTP Bank PLC

OTP Mortgage Bank

Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
----------------------	------------------	----------------

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.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.