S&P Global Ratings

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Research Update:

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

August 16, 2022

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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.

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