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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 → **Support: 0** → **Additional factors: -1**

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

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

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 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.	Extraordinary government intervention in the banking system will affect revenue in 2023.
Substantial digitalization efforts with noteworthy digital franchise.	Large holdings of home-sovereign debt securities and extraordinary tax burden.

We expect OTP Bank PLC (OTP)'s business position will remain a strength compared to most peers. OTP has maintained its strong customer franchise and leading market position during 2022 and early 2023, despite the absence of profits from Ukraine and Russia businesses and slower growth in Hungary. Strong pricing power, expertise in operations in developing countries, and high geographical revenue diversification support the business profile. We see the bank's disciplined focus on operations in countries with strong market shares as beneficial to support strong returns (see "OTP Bank PLC’s Planned Sale Of Its Romanian Subsidiary Is Consistent With Management’s Strategic Refocus," published May 26, 2023, on RatingsDirect).

We expect one-off items to shape OTP's profit and loss materially over 2023. Its earnings metrics recovered substantially, demonstrated by an adjusted return on equity (ROE) of 23% in first-quarter 2023, which is above average for many banks in Western and Central Europe. Until mid-2023, OTP has successfully closed its formerly pending acquisitions of Slovenian Nova KBM, which will add Hungarian forint (HUF) 13 billion to group profits, and Uzbek Ipoteka Bank, adding HUF200 million. At the same time, both operations require integration costs, which we expect to be in line with previous transactions. In addition, the HUF28 billion Hungarian banking tax, HUF41 billion in extraordinary windfall taxes (down HUF28 billion from HUF69 billion following the official recalculation), and deposit caps weigh on group profits. While we expect similar ROE levels for 2023 compared to the previous year, we do not expect the same number of negative one-offs in the years to come.

We remain mindful of downside risks for OTP's operations. There are also downside risks to our base case for its Ukrainian and Russian operations whether from asset quality or, in an extreme scenario, a situation where OTP is forced to close or walk away from its 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 deterioration in the countries neighboring the conflict in which OTP is still active, such as Moldova, Hungary, Romania, and Bulgaria. On top of financial risks, there is a potential for heightened compliance risks and reputational damage related to the bank's business in Russia.

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 would 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 currently not translate into lowering our issuer credit ratings 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--				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	9.6	27.5	14.3-17.5	8.4-10.2	7.4-9.0
Growth in customer loans	15.8	18.1	11.3-13.8	6.8-8.3	7.5-9.1
Growth in total assets	18.1	19.1	16.8-20.5	8.2-10.0	7.6-9.3
Net interest income/average earning assets (NIM)	3.9	4.1	4.1-4.5	4.2-4.6	4.3-4.7
Cost to income ratio	55.3	61.8	62.4-65.6	61.6-64.7	60.8-64.0
Return on average common equity	16.4	10.6	14.0-15.5	14.9-16.5	14.8-16.3
Gross nonperforming assets/customer loans	5.3	4.9	4.3-5.0	3.8-4.4	3.5-4.0
Net charge-offs/average customer loans	0.5	0.7	0.3-0.3	0.2-0.2	0.2-0.2
Risk-adjusted capital ratio	8.8	7.7	7.1-7.5	7.4-7.8	7.8-8.2

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 (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. 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 its home market of Hungary, including subsidiaries in Bulgaria, Croatia, Serbia, Slovenia, Romania, 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.

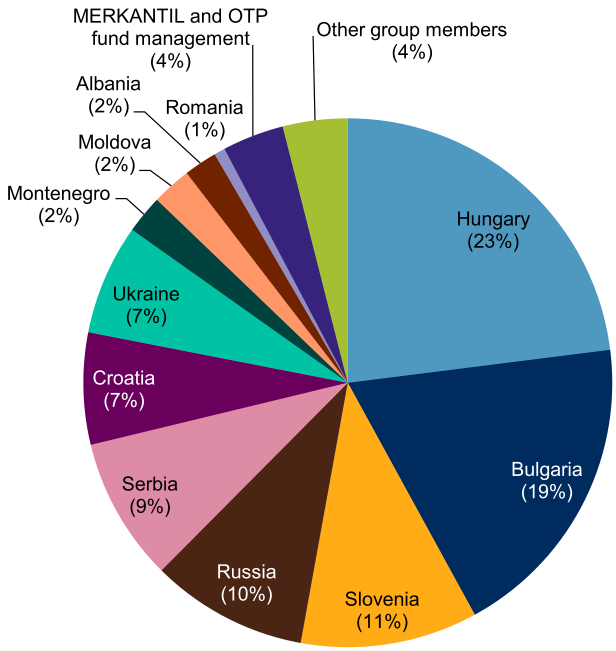
Business Position: Market Leader In Hungary With A Strong And Diversified Foreign Franchise

In our view, OTP's business position will remain a strength compared to most peers. We look for relativities with leading banks 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 continue to be supportive for 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 2023



Source: OTP group summary of the first quarter 2023 results.

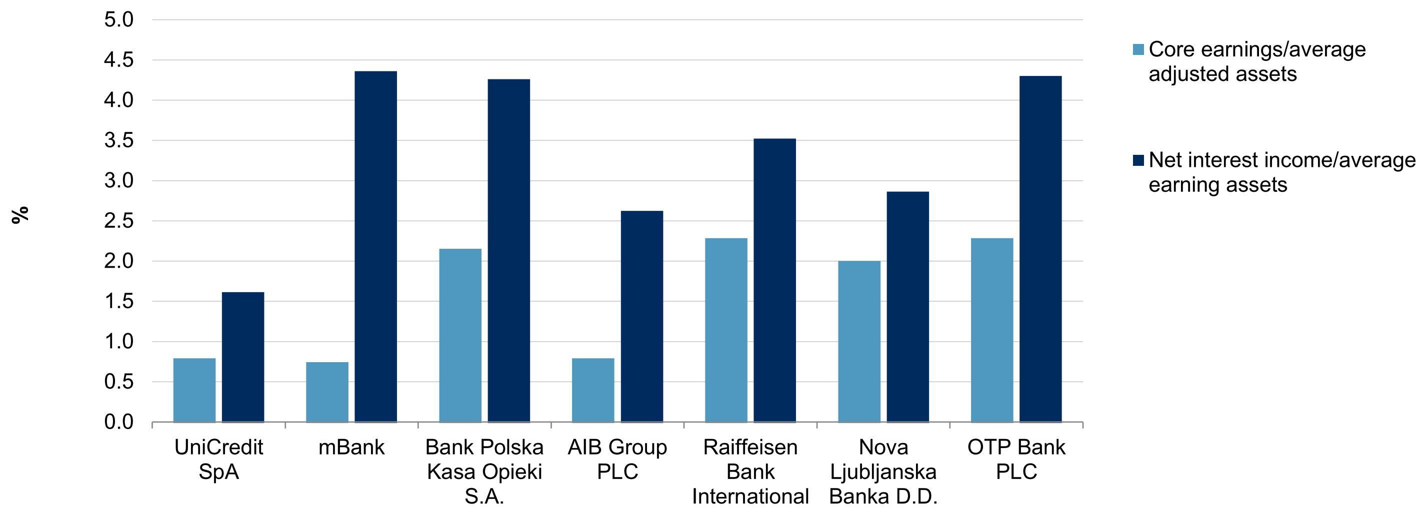
OTP has a diversified revenue stream by region and segment. Its broad mix of business activity and limited concentration risks strengthen its revenue predictability and business volume continuity. OTP has a leading position in the Hungarian market with about 34% share of the retail loan market and 42% of household deposits. In 2022, the foreign contribution to the group's consolidated net profit was 69% of the total, mainly from six foreign markets.

During 2023, OTP completed the acquisition of Slovenian Nova KBM and Uzbek Ipoteka Bank. The latter is the fifth largest bank in Uzbekistan with 7.9% market share. Despite high execution risks, we expect OTP to profit from the integration as one of the first Western banks allowed to serve 1.6 million Uzbek retail clients in the medium term.

In our view, the group's management team has sufficient capacity, skillsets, and experience to govern this large, multinational group. We expect OTP's management to continue to meet its profitability targets.

Chart 2

Operating profitability and net interest margin are highest among peers



Source: S&P Global Ratings.

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.

Capital And Earnings: Strong Earnings Retention

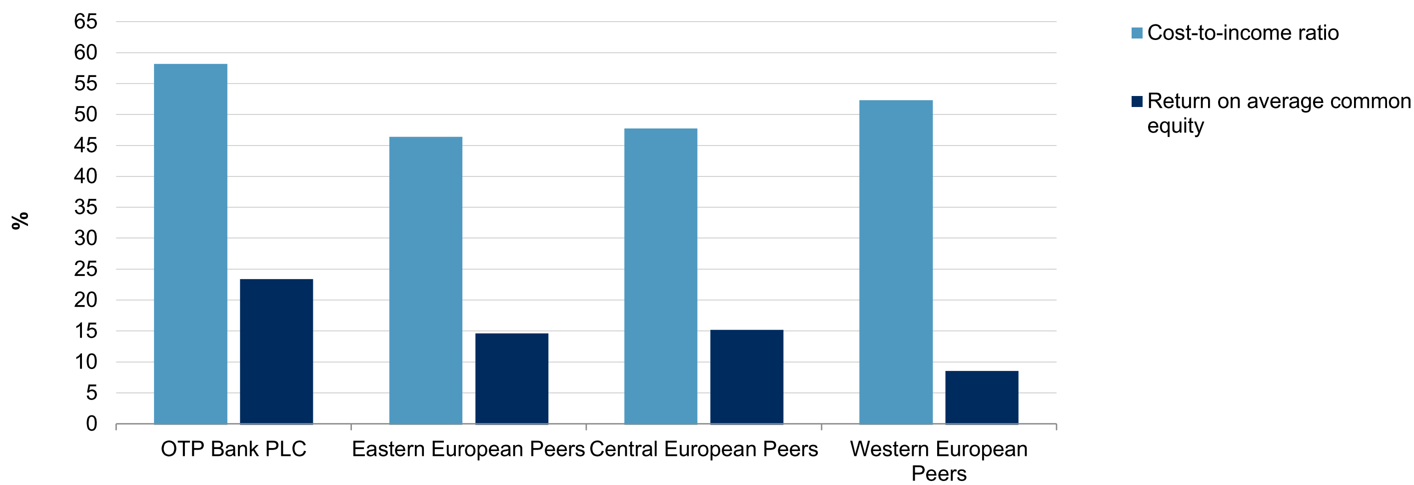
OTP's risk-adjusted capital (RAC) ratio stood at 7.7% at year-end 2022, from 8.8% at year-end 2021, due to strong credit growth accompanied by lower earnings retention. OTP announced a dividend of HUF84 billion for 2022, equaling HUF300 per share, compared to HUF3.57 in 2021, as profitability resumed.

OTP's consolidated Basel III regulatory common equity tier 1 (CET1) capital ratio decreased to 14.4% on March 31, 2023 (16.1% on Dec. 31, 2022), comfortably above the 9.6% minimum regulatory requirement. We expect the integration of Ipoteka Bank to have only a minor effect on group capital.

We expect OTP will absorb this year's one-off items and potential additional loan loss provisions in Ukraine and Russia via earnings from other markets. In our view, this will lead to satisfactory capitalization, with its RAC ratio likely to be around 8% through year-end 2024.

Chart 3

OTP has subpar efficiency but the highest return on equity among all peer groups
Core earnings/average adjusted assets and return on average common equity as of YTD



YTD--Year to date. Source: S&P Global Ratings.

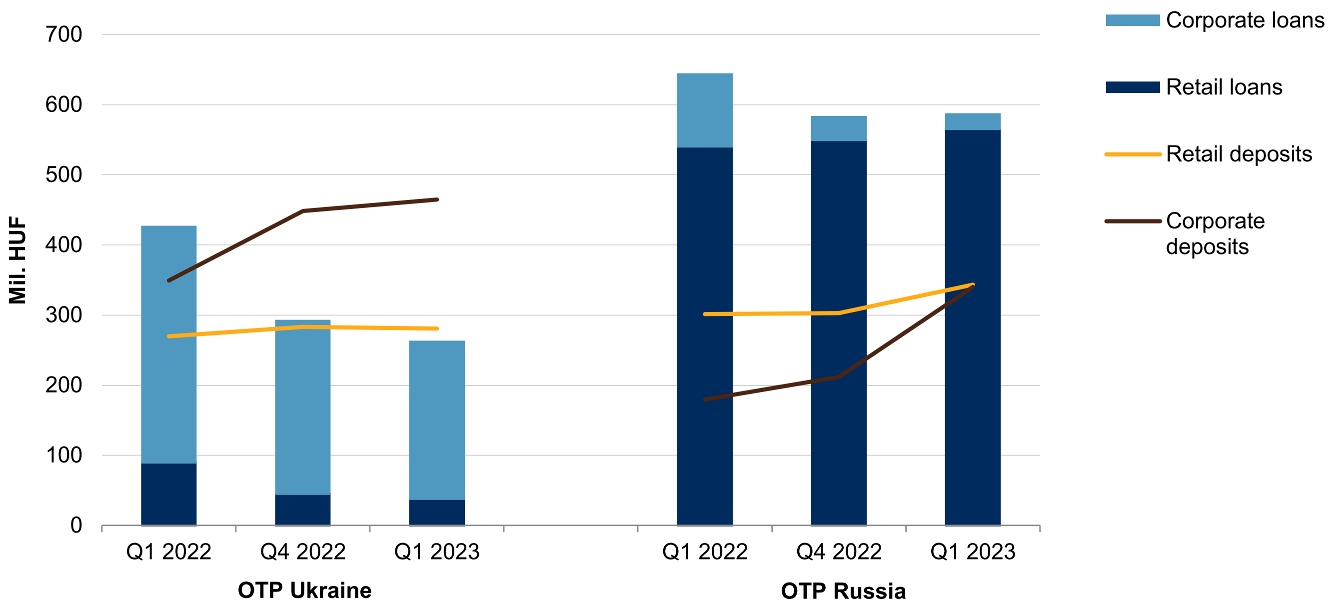
Our assessment also takes into account OTP's good earnings quality, reflected in its strong margins, low share of market sensitive income, and good geographical diversity. The earnings buffer measures the capacity for a bank's earnings to cover its normalized credit losses; we project OTP's will remain in line with the peer average (year-end 2021: 0.90% of S&P Global Ratings' risk-weighted assets).

Risk Position: Exposure To Russia And Ukraine And Neighboring Countries Creates Tail Risks To Our Capital And Earnings Forecast

We assess OTP's risk profile as weaker compared with peer banks operating in countries with similar economic risk. In our view, the downside risk in Hungary, Ukraine, and Russia as well as neighboring countries like Moldova, Romania, and Bulgaria is material, and also exacerbated by possible further sanction packages from the EU.

Chart 4

OTP has reduced exposure to Ukraine and Russia and a strong 'safe haven' role for customer deposits
OTP Ukraine and OTP Russia loan portfolio and deposits in HUF million (Q12022 versus Q12023)



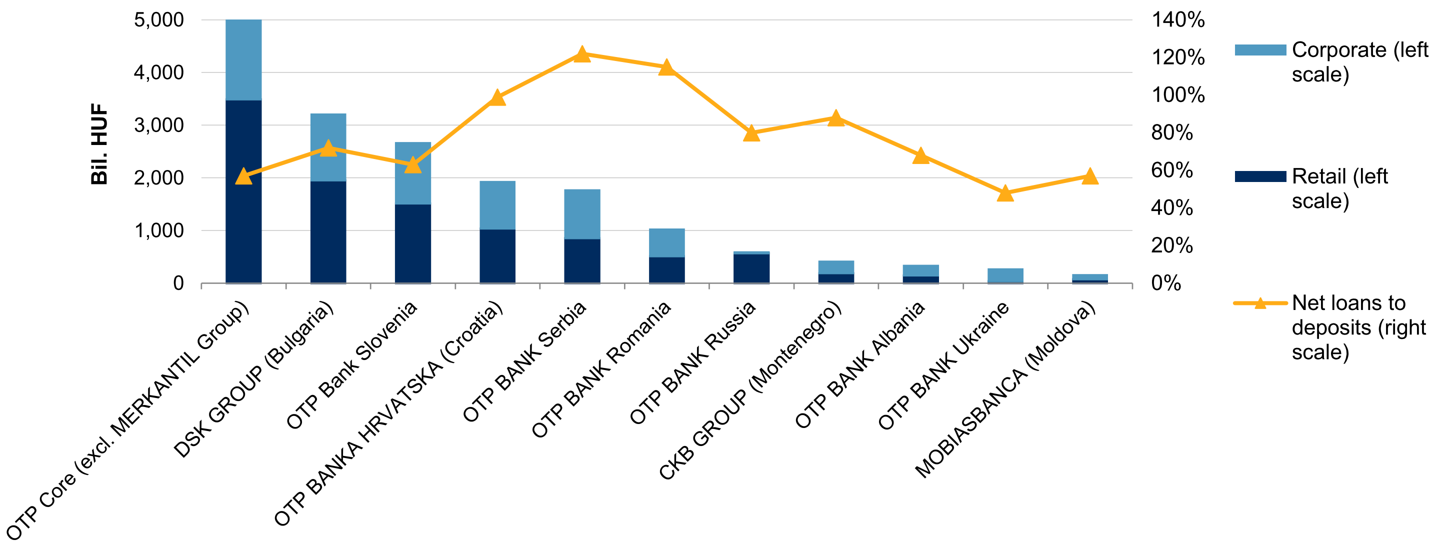
HUF--Hungarian forint. Source: S&P Global Ratings, OTP group summary of the first quarter 2023 results.

During 2022, the bank successfully managed the run-down of its Ukrainian retail and Russian corporate portfolio. Deconsolidation of both entities will therefore have a smaller effect on the bank's CET1 ratio than we previously anticipated (5 basis points [bps] and 69 bps, respectively). At the same time, the inflow of deposits in those countries remains strong due to the bank's perception as a safe haven for domestic customers. However, significant reputational risks associated with OTP's business in both countries remain.

In the bank's other operations, its risk profile continues to be supported by its large mortgage portfolio, prudent loan-to-value distribution, and good coverage of impaired assets by provisions--all of which indicate that its risk profile would likely remain relatively robust in a moderate downturn. Regulatory limitations on certain customer loan metrics contribute positively to asset quality. Moreover, in our view, the recent extraordinary expansion of the loan book does not alter the overall portfolio risk.

Chart 5

OTP has a high share of retail lending and generally sound loan-to-deposit ratios
Gross loans breakdown by country and net loan-to-deposit ratio (FX-adjusted)
as of Q1 2023



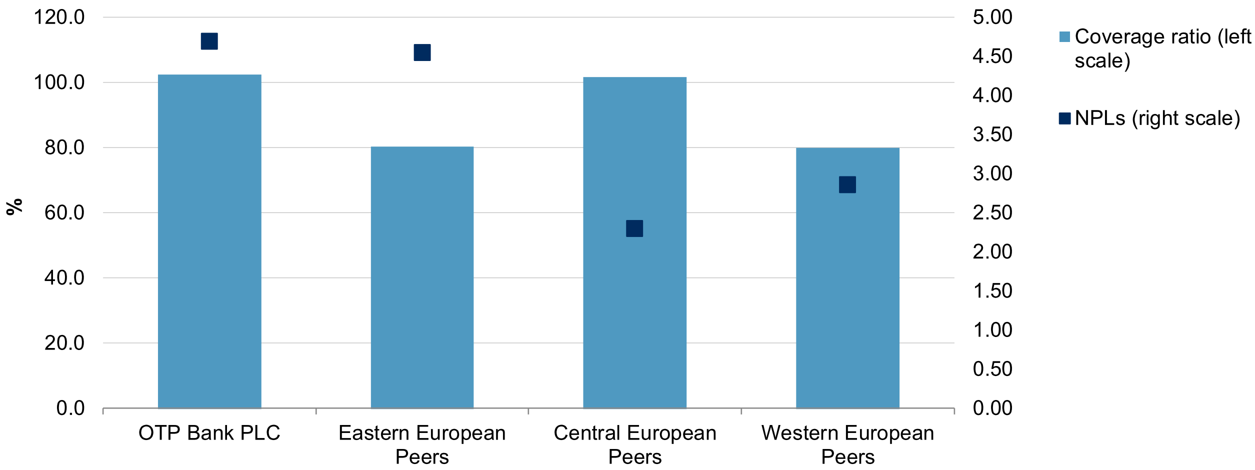
HUF--Hungarian forint. Source: OTP Bank Plc's summary of Q1 2022 results.

On March 31, 2023, 41% of OTP's total gross customer loans were to corporates, 26% residential mortgage loans, and 22% directed to consumers, with the remainder split largely between small and midsize enterprise loans and auto loans and leasing. The mortgage loan book is adequately collateralized, in our view. It has an average loan-to-value ratio of roughly 60% and the overall loan book does not show significant single-name concentrations.

Nonperforming loans (past due by at least 90 days) reduced to 3.0% in first-quarter 2023, compared with 3.2% on March 31, 2021, and Stage 3 loans reduced to 4.7% compared with 5.2%. Stage 2 loans, on the other hand, remained high at 10.4% of the portfolio on March 31, 2023, which is attributed to the bank's exposure to Russia and Ukraine.

Chart 6

OTP's coverage remains highest among peers but also shows highest NPL ratio
Loan loss reserves / adjusted NPAs and adjusted NPAs / customer loans



NPL--Non performing loans. Source: S&P Global Ratings.

Given its higher coverage of Stage 1 and 2 loans (0.9% and 10.4% respectively as of March 31, 2023), we believe that OTP follows a more conservative provisioning policy in comparison to many peers. In our view, the high coverage provides a buffer to absorb material losses that may arise due to deterioration in the credit quality of the loan portfolio.

Market risk is limited because OTP hedges most of its foreign currency and interest rate risk. The bank 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 partly hedged against foreign exchange risk.

At the same time, we closely monitor the Hungarian authorities' push to increase the holding of government securities while penalizing other investments. OTP's increasing share of government bond holdings benefit from lower risk charges, such that repricing risks might not be adequately covered by capital if the sovereign suffers from negative market sentiment.

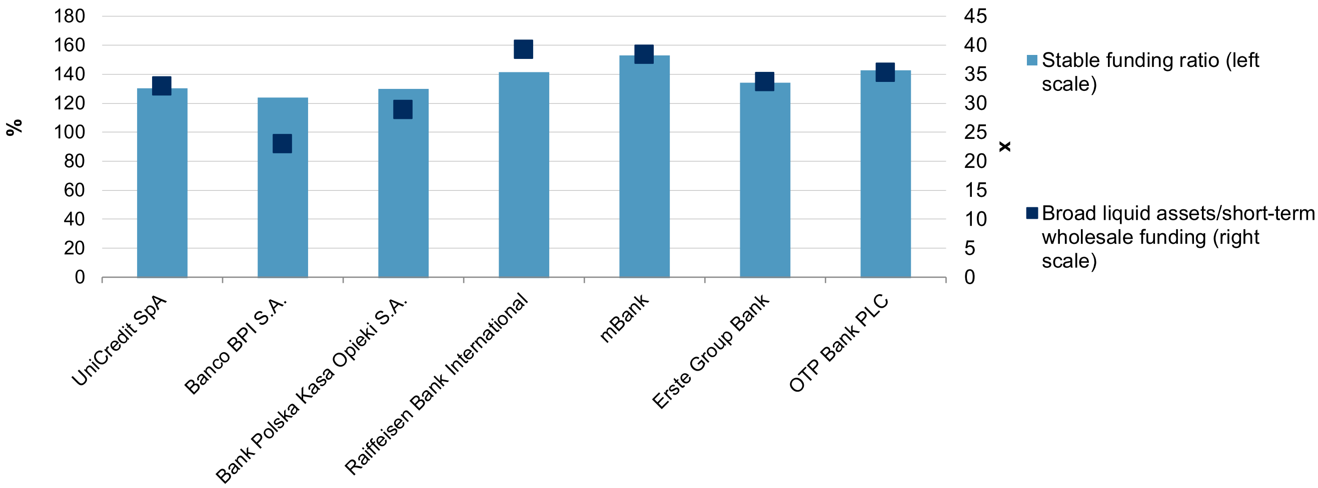
Funding And Liquidity: Granular, Largely Retail Funding Base And A High Level Of Liquid Assets

We expect OTP's funding profile to remain better than the average for domestic peers over the cycle. We also believe the bank will retain its very high liquidity buffer.

OTP witnessed a 9% year-on-year organic growth (foreign-exchange-adjusted) in customer deposits during first-quarter 2023, excluding the acquisition of NKBM. This resulted in a net loan-to-deposit ratio of 72% as of March 31, 2023. Our stable funding ratio also strengthened further to 142% on March 31, 2023, and is well placed within the peer group. We expect the ratio to be at similarly strong levels in the coming years as loan growth aligns more closely with growth in deposits. 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.

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

Coverage of total assets by broad liquid assets was high at 35.2x on March 31, 2023. This is, however, in part a reflection of the limited use of wholesale debt (12% of the funding base).

Reflecting the high share of customer deposits in the funding structure, we center our liquidity assessment on deposit-related liquidity metrics and qualitative factors. Among the main metrics we look upon is the net broad liquid assets to short-term customer deposits, which was strong at 46% on March 31, 2023. This metric is stronger than those for most banks we rate, supporting our view that OTP would withstand adverse market shocks without access to wholesale funding in the next 12 months.

Our assessment also factors in OTP's strong liquid assets, mainly cash and government bonds equivalent to about one-third of total assets. We consider OTP's subsidiaries well-equipped with liquidity buffers and could preserve a self-funded profile. That said, if OTP's subsidiaries experienced a liquidity shock, we would expect liquidity lines to be available and fungible among group members.

Support: No Uplift For External Support

In our view, OTP has high systemic importance in Hungary. However, this does not result in any uplift to the long-term rating on the bank because we consider the prospect of government support uncertain in Hungary, following the implementation of the European Bank Recovery and Resolution Directive (BRRD) in 2016.

Generally, we view the Hungarian resolution regime as effective because, among other factors, we believe it contains a well-defined bail-in process. As such, we can add uplift to the rating if a bank accumulates a sufficient buffer of loss absorbing instruments. We understand that OTP, in the unlikely scenario of nonviability, would enter a resolution as a single point of entry at OTP's headquarters in Hungary. We estimate an additional loss absorbing capacity (ALAC) ratio of about 2.4% at year-end 20231 and expect it to remain below the 3% threshold for one notch uplift to the rating during the next 12 to 24 months. Even if the bank accumulated ALAC beyond this threshold, rating uplift would be constrained by our view on the Hungarian sovereign.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We see ESG 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. OTP has implemented all the Budapest Stock Exchange's recommendations for corporate governance practice.

Its shareholder structure promotes solid governance standards, in our view. All shares are free float. About one-quarter of investors are domestic and the rest are international. There are only three 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 continue to 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.

Hybrids

We rate the group's nondeferrable subordinated debt instruments 'BB', two notches below our assessment of the issuer credit rating, reflecting the debt's contractual subordination as Tier 2 instruments and our view that BRRD creates the equivalent of a contractual write-down clause. As per the terms and conditions, we consider the instruments to be subordinated to senior creditors' claims and note that they are available to absorb losses at the point of the bank's nonviability via statutory loss absorption.

Given the notes' lack of going-concern loss absorption, we do not expect to include them in our calculation of the bank's total adjusted capital.

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.

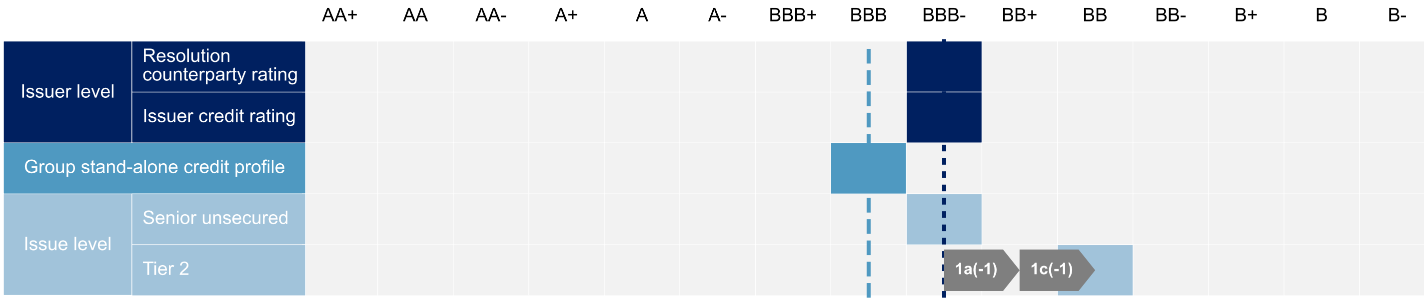
We understand OTP Mortgage Bank is key in fulfilling the group's regulatory mortgage funding adequacy ratio via issuances of mortgage covered bonds.

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, which raises no major concerns because we believe 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 believe 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.

Resolution Counterparty Ratings (RCRs)

OTP Bank PLC: Notching



Key to notching

- ----- Group stand-alone credit profile
- ------ Issuer credit rating
- 1a Contractual subordination
- 1c Mandatory contingent capital clause or equivalent

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.

We align our RCRs 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, we doubt OTP would have sufficient bail-in-able liabilities to absorb the effect on its capitalization. This possible lack of resilience is amplified by two factors. First, the bank's substantial domestic sovereign securities and loan exposures would lead to a severe erosion of equity under our standardized assumptions, 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 also about the financial stability and systemic risks that could result from bailing in these liabilities.

Key Statistics

Table 1

OTP Bank PLC--Key figures

	--Year ended Dec. 31--			
(Mil. HUF)	**2023***	**2022**	**2021**	**2020**
Adjusted assets	35,927,452	32,567,179	27,304,753	23,096,837
Customer loans (gross)	20,850,594	19,643,558	16,634,454	14,363,281
Adjusted common equity	3,116,119	3,070,755	2,772,609	2,158,270
Operating revenues	575,463	1,688,206	1,323,692	1,207,759
Noninterest expenses	334,429	1,042,863	732,112	701,467
Core earnings	194,762	369,633	469,696	259,643

*Data as of March 31. HUF--Hungarian forint.

Table 2

OTP Bank PLC--Business position

	--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**
Loan market share in country of domicile	26.5	27.0	26.5	23.0
Deposit market share in country of domicile	32.5	31.5	30.5	25.4
Return on average common equity	23.2	10.6	16.4	10.5

*Data as of March 31.

Table 3

OTP Bank PLC--Capital and earnings

	--Year ended Dec. 31--			
(%)	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	14.4	16.1	17.5	15.4
S&P Global Ratings' RAC ratio before diversification	N/A	7.7	8.8	7.4
S&P Global Ratings' RAC ratio after diversification	N/A	6.9	7.8	6.5
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0
Net interest income/operating revenues	53.9	64.6	66.1	64.8
Fee income/operating revenues	26.1	35.6	33.4	32.9
Market-sensitive income/operating revenues	1.6	(0.6)	0.2	3.0
Cost to income ratio	58.1	61.8	55.3	58.1
Preprovision operating income/average assets	2.8	2.1	2.3	2.3
Core earnings/average managed assets	2.3	1.2	1.8	1.2

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

OTP Bank PLC--Risk-adjusted capital framework data

(Mil. HUF)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	10,451,055.1	1,808,499.5	17.3	4,913,598.5	47.0
Of which regional governments and local authorities	166,407.0	51,936.5	31.2	90,815.8	54.6
Institutions and CCPs	958,233.9	289,288.1	30.2	406,055.5	42.4
Corporate	11,085,619.6	9,300,848.0	83.9	14,398,894.2	129.9
Retail	9,642,598.3	5,134,815.6	53.3	9,059,135.1	93.9
Of which mortgage	4,812,308.7	2,213,559.7	46.0	2,869,267.2	59.6
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	3,003,586.2	1,869,925.4	62.3	5,081,034.9	169.2
Total credit risk	35,141,093.2	18,403,376.6	52.4	33,858,718.2	96.4
Credit valuation adjustment					
Total credit valuation adjustment	--	23,201.5	--	0.0	--

Table 4

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

	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Market Risk					
Equity in the banking book	915,041.5	238,737.2	26.1	2,121,363.1	231.8
Trading book market risk	--	366,531.1	--	549,796.6	--
Total market risk	--	605,268.3	--	2,671,159.7	--
Operational risk					
Total operational risk	--	1,561,694.7	--	3,165,386.3	--

	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	20,593,541.2	--	39,695,264.1	100.0
Total diversification/ concentration adjustments	--	--	--	4,827,122.6	12.2
RWA after diversification	--	20,593,541.2	--	44,522,386.7	112.2

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	3,277,983.6	15.9	3,070,755.2	7.7
Capital ratio after adjustments‡	3,277,983.6	16.1	3,070,755.2	6.9

*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. RAC--Risk-adjusted capital. CCPs--Central counterparty clearing house. HUF--Hungarian forint. Sources: Company data as of Dec. 31, 2022, S&P Global Ratings.

Table 5

OTP Bank PLC--Risk position

	--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**
Growth in customer loans	24.6	18.1	15.8	11.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	12.2	13.3	13.1
Total managed assets/adjusted common equity (x)	11.6	10.7	9.9	10.8
New loan loss provisions/average customer loans	0.4	1.2	0.3	1.6
Net charge-offs/average customer loans	N.M.	0.7	0.5	0.7
Gross nonperforming assets/customer loans + other real estate owned	4.7	4.9	5.3	5.7
Loan loss reserves/gross nonperforming assets	102.1	103.5	101.4	101.8

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk-weighted assets.

Table 6

OTP Bank PLC--Funding and liquidity

	--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**
Core deposits/funding base	87.8	89.4	89.6	89.4
Customer loans (net)/customer deposits	72.5	74.0	74.7	75.6
Long-term funding ratio	97.0	97.5	97.5	97.5

Table 6

OTP Bank PLC--Funding and liquidity (cont.)				
	--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**
Stable funding ratio	141.9	139.4	140.8	138.7
Short-term wholesale funding/funding base	3.3	2.8	2.7	2.8
Broad liquid assets/short-term wholesale funding (x)	12.4	14.1	14.2	13.7
Broad liquid assets/total assets	35.3	33.5	33.3	32.3
Broad liquid assets/customer deposits	46.7	43.6	43.6	42.1
Net broad liquid assets/short-term customer deposits	32.6	30.8	41.4	40.2
Regulatory liquidity coverage ratio (LCR) (x)	196.4	172.1	N/A	N/A
Short-term wholesale funding/total wholesale funding	27.1	26.2	26.3	25.9
Narrow liquid assets/3-month wholesale funding (x)	29.9	18.2	19.7	33.9

*Data as of March 31. 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

- 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
- 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

- Bulletin: OTP Bank PLC's Planned Sale Of Its Romanian Subsidiary Is Consistent With Management's Strategic Refocus, May 26, 2023
- Hungary-Based OTP Bank PLC's Tier-2 Subordinated Notes Rated 'BB', Feb. 7, 2023
- Research Update: OTP Bank Downgraded To 'BBB-/A-3' Following Similar Action On Hungary; Outlook Stable, Jan. 30, 2023
- Banking Industry Country Risk Assessment: Hungary, Dec. 20, 2022
- Bulletin: Ipoteka Bank's Acquisition By Hungarian OTP Bank Likely To Boost Expertise And Improve Governance, Dec. 13, 2022

Ratings Detail (As Of July 7, 2023)*	
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.