Strategy and Finance Division

Investor Relations & DCM

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Extraordinary announcement

Asset Quality Review and Stress Test results of OTP Bank Plc.

On 26 October 2014 the National Bank of Hungary published the following announcement on the outcome of the Asset Quality Review (AQR) and Stress Test with regard to OTP Bank Plc. on its website:

„THE HUNGARIAN PARTICIPANT OF THE EU-WIDE STRESS TEST DOES NOT NEED TO ADJUST ITS FIGURES

Budapest, 26 October 2014 – In the case of OTP Bank, the only Hungarian participant of the stress test published by the European Bank Authority today, there is no need to modify the Common Equity Tier 1 capital or any other parameters, as the review found negligible deficiencies only. By its own decision, the Magyar Nemzeti Bank also participated in the Asset Quality Review of euro area credit institutions, reviewing the Hungarian subsidiaries of these market participants. The results of these reviews will be used in the own supervisory activity of the Magyar Nemzeti Bank.

The European Banking Authority (EBA) published the results of the 2014 stress test today. The test is aimed at assessing the resilience of participating European banks on a three year horizon under a hypothetically adverse macroeconomic scenario using a common methodology developed by the EBA, and applied consistently across all participating banks. From Hungary it was OTP Bank Plc. (OTP Bank) taking part in the 2014 stress test process, given that OTP Bank is the prominent representative of the local financial sector with a market share exceeding 25 per cent out of total assets. Through its subsidiaries OTP Bank is present in eight different countries in the Central and Eastern European region.

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Prior to the stress test and in accordance with the recommendations of EBA (https://www.eba.europa.eu/documents/10180/449802/EBA-Rec-2013-04+Recommendations+on+asset+quality+reviews.pdf) the Magyar Nemzeti Bank has completed a detailed asset quality review (AQR) at OTP Bank. In line with the decision of the MNB's Financial Stability Board – and in order to strengthen investor confidence – the AQR process at OTP Bank was implemented on the base of the methodology set for the asset quality review by the European Central bank (ECB) and with the involvement of an independent auditor company. Thus the results of the review are comparable with the findings of the EU-based stress test which also incorporates the AQR outcome.

In accordance with the EBA recommendation as well as the ECB methodology, the Magyar Nemzeti Bank continuously checked the AQR process and implemented the functions of technical coordination and quality assurance. Under the AQR process more than 50 per cent of the risk weighted assets and in total 14 different portfolios of OTP Group were covered, including the corporate and small and medium-sized enterprise (SME) exposures of OTP Bank, as well as retail mortgage loans and unsecured household loans both in Hungary and at the foreign subsidiaries.

Overall, the detailed review of the corporate portfolio sample has identified that no additional provisioning is required. With regard to the reviewed household portfolios, collective provisioning model according to the ECB's methodology, calculated with a provisioning surplus in case of all household portfolios. Overall, the AQR process found only minor deviations and deficiencies, which did not require any modification either in the Common Equity Tier1 (CET1) capital serving as a base for the stress test or other parameters.

From the perspective of OTP Bank, the most important component of the stress test was the calculation of impairment losses stemming from credit risk. Given the product composition of the banking group, the increase in impairment losses would be remarkable in a potential stress scenario compared both to the 2013 fact figure and to the baseline scenario. These losses are also reflected in changes in the credit institution's retained earnings.

With respect to the capital position, however, which is the most important result of the stress test, OTP Bank demonstrated strong results. OTP Bank's Common Equity Tier1 ratio stood at 11.95% at the end of the three year stress period, significantly exceeding the capital hurdle rate which is set at 5.5% Common Equity Tier 1 ratio under the adverse scenario. Even with fully phased-in EU capital requirement regulations (CRD IV), the fully-loaded CET1 ratio would reach 11.98 per cent under the stress scenario, which can be also regarded as favourably high. Besides the favourable outcome it must be also emphasised that, in line with the methodological notes, the losses stemming from the provisions of the Settlement Act were not taken into account by OTP Bank, but they were indicated in the tables to be published by EBA.As opposed to the former practice, the responsibility for quality assurance of the published stress test data lied with the national supervisory bodies, in this case, the Magyar Nemzeti Bank.

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Simultaneously with the announcement of stress test results, the European Central Bank (ECB) published the results of its own Comprehensive Assessment, including the results of the Asset Quality Review (AQR) and the EU stress test. The Magyar Nemzeti Bank also participated in the Asset Quality Review processes conducted at the subsidiaries of selected euro-area banks in full compliance with ECB methodology. The findings reconfirmed the conclusions of the central bank's former inspections. The methodological principles and results of these AQR processes will be used in the own supervisory activity of the Magyar Nemzeti Bank."

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