



## Rating\_Action: Moody's confirms OTP Bank's Baa1 deposit ratings, changes deposit outlook to stable

---

06Feb2023

Limassol, February 06, 2023 – Moody's Investors Service (Moody's) has today confirmed the Baa1 long-term domestic and foreign currency bank deposit ratings of OTP Bank NyRt (OTP) and changed the outlook to stable from ratings under review. Concurrently, the rating agency confirmed the bank's ba1 Baseline Credit Assessment (BCA) and Adjusted BCA. Further, Moody's downgraded OTP's subordinated bond rating by one notch to Ba2 from Ba1, while it confirmed the bank's Ba3(hyb) junior subordinated bond rating and its Baa1 long-term domestic and foreign currency Counterparty Risk Ratings (CRRs).

Also, Moody's downgraded the backed long-term domestic currency issuer rating of OTP Jelzalogbank Zrt. (OTP Mortgage Bank) (OTP MB), OTP's fully owned mortgage bank, to Baa3 from Baa2 and changed the outlook to stable from ratings under review and confirmed the mortgage bank's Baa1 long-term domestic and foreign currency CRRs.

All other ratings and assessments were not affected by today's rating actions.

The rating actions are driven by the closing of OTP's acquisition of Nova Kreditna banka Maribor d.d. (NKBM), following the Slovenian competition authority's approval of the transaction, announced on 01 February 2023 [1] and concludes the ratings review initiated on 13 July 2021 and extended on 11 March 2022.

### RATINGS RATIONALE

#### -- RATIONALE FOR CONFIRMING THE BCA

The confirmation of the bank's ba1 BCA reflects a worsening operating environment in many countries that OTP operates in, including Hungary, resulting from Russia's invasion of Ukraine and increasing challenges due to a high exposure to and reliance on gas supplies from Russia, as well as due to an additional announced acquisition in a weaker economy, Ipoteka Bank (deposits Ba3 stable, BCA b2) in Uzbekistan. OTP remains exposed to significant downside risks stemming from its operations in Russia and Ukraine, which offset the benefits from the bank's enlarged operations in lower risk Slovenia after the acquisition of NKBM. At the same time, the confirmation acknowledges the resilience in the bank's financial performance despite the more challenging environment.

OTP's asset quality has been resilient to the pandemic and managed to slightly lower its share of non-performing loans (NPLs), albeit it remains at the higher end of peers, above 5%. Moody's expects OTP's asset risk to benefit from NKBM's acquisition, given the latter's stronger asset quality. However this improvement will be offset by the agency's expectation of an increase in NPLs owing to the weakening operating environments.

With 13.2% Tangible Common Equity (TCE) ratio OTP's capitalization remains good but will at

least temporarily drop because of NKBM's acquisition and remains at risk from a potential walk away from its Russian operations. OTP's profitability will improve in 2023 gradually benefitting from higher interest rates across almost all the markets it operates in, yet it will remain negatively affected by a Hungarian windfall tax in 2023 and vulnerable to a potential additional extension of government imposed caps on interest rates of certain mortgages and SME loans. The bank's largely deposit funded balanced sheet and sufficient liquid resources will remain broadly unchanged following the acquisition, and a relative strength of OTP.

#### --RATIONALE FOR THE DEPOSIT AND DEBT RATINGS

The rating actions taken on OTP's bank deposit and debt ratings reflect the confirmation of the bank's ba1 BCA and the application of Moody's Advanced Loss Given Failure (LGF) analysis. In its LGF analysis Moody's has considered the bank's current organic asset growth and funding plan and the common resolution perimeter agreed with the resolution authorities, which excludes few minor operations. Because a decision still needs to be made concerning the resolution approach of the newly acquired NKBM, the rating agency does not currently incorporate NKBM in OTP Bank's resolution perimeter and Advanced LGF analysis.

The confirmation of OTP's Baa1 long-term bank deposit ratings and CRRs continue to incorporate unchanged extremely low loss severity because of strong protection from more junior instruments outstanding, in relation to total balance sheet volume. Despite Moody's assumption of a moderate likelihood of support by the Government of Hungary (Baa2 stable) in case of need, OTP's long-term bank deposit and CR ratings do not benefit from uplift, because they are already rated higher than the government.

The downgrade to Ba2 from Ba1 on the bank's plain subordinated debt rating results from a reduced loss protection from more junior instruments in relation to the bank's balance sheet such that it results in a higher loss severity than previously assumed.

The confirmation of the Ba3(hyb) junior subordinated debt ratings incorporates an unchanged high loss severity for these instruments, which only benefit from equity at failure as loss protection.

OTP Jelzalogbank Zrt.

The downgrade of the bank's backed issuer rating by one notch to Baa3 reflects a materially lower risk protection for this instrument class compared to the rating agency's previous assessment and incorporating OTP's funding plan and maturities. The significant reduction in loss protection is partly offset by the agency's assumption of a moderate likelihood of support from the Government of Hungary for senior unsecured debt instruments, which results in one notch of rating uplift, compared with no uplift previously.

OTP MB's CRRs are aligned with the CRRs of its parent bank and its backed issuer rating is aligned with the senior unsecured debt rating that would have been assigned to its parent bank, based on the explicit and irrevocable guarantee provided by the parent bank for its mortgage bank's unsubordinated liabilities.

#### --RATIONALE FOR THE STABLE OUTLOOK

The stable outlook of OTP's long-term deposit ratings reflects Moody's view that the bank's combined credit profile will stay broadly unchanged over the next 12 to 18 months despite more difficult operating conditions. The stable outlook also captures the rating agency's expectation that OTP's credit profile will be resilient to further downside risks from the bank's exposure to

Russia and Ukraine.

The stable outlook on OTP MB's backed long-term issuer rating reflects Moody's view that OTP will achieve the volumes of loss absorbing debt envisioned in its current issuance plan over the next 12 to 18 months.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

OTP's and OTP MB's ratings could be upgraded in case of an upgrade of the bank's BCA. OTP's subordinated ratings and OTP MB's issuer ratings could be upgraded in case of a material increase in the volume of outstanding debt, such that it significantly reduces the loss severity for these instruments.

OTP's BCA could be upgraded if the bank's regional footprint sustainably shifts towards stronger economies, as measured by Moody's macro profile. The bank's BCA could also be upgraded in case of a joint improvement in the bank's key solvency and liquidity metrics.

OTP's and OTP MB's ratings could be downgraded in case of a downgrade of OTP's BCA. OTP's deposit ratings and OTP MP's issuer ratings could also be downgraded if the volume of outstanding debt instruments in relation to OTP's balance materially fall, such that the loss severity increases.

OTP'S BCA could be downgraded in case of a significant deterioration in the bank's combined solvency or if the bank's funding profile weakens.

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/ deal page for the respective issuer on <https://ratings.moodys.com>.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moody.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moody.com/documents/PBC\\_1288235](https://ratings.moody.com/documents/PBC_1288235).

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on <https://ratings.moody.com>.

#### REFERENCES/CITATIONS

[1] [https://www.otpgroup.info/static/sw/file/230201\\_CPA\\_012\\_e.pdf](https://www.otpgroup.info/static/sw/file/230201_CPA_012_e.pdf) 01-Feb-2023

Please see <https://ratings.moody.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moody.com> for additional regulatory disclosures for each credit rating.

Melina Skouridou, CFA  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Cyprus Ltd.  
Porto Bello Building  
1, Siafi Street, 3042 Limassol  
PO Box 53205  
Limassol, CY 3301  
Cyprus  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Maria Jose Mori  
Senior Vice President  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Cyprus Ltd.  
Porto Bello Building  
1, Siafi Street, 3042 Limassol  
PO Box 53205  
Limassol, CY 3301  
Cyprus  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations – Corporate Governance – Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94

105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.