

**Announcement: Moody's extends the ratings review on OTP Bank NyRt's and its mortgage bank's ratings**

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Limassol, March 11, 2022 -- Moody's Investors Service (Moody's) has today extended the review for upgrade on OTP Bank NyRt's (OTP) Baa1 local and foreign currency long-term deposit ratings, the review for downgrade on the bank's Ba1 subordinated debt rating and the review for upgrade on the bank's Ba3(hyb) junior subordinated debt rating. The review for upgrade of the bank's ba1 Baseline Credit Assessment (BCA) was also extended as well as the review for downgrade on OTP Jelzalogbank Zrt. (OTP MB), OTP's wholly owned mortgage bank, Baa2 backed long-term issuer rating.

**RATINGS RATIONALE**

The ratings review on OTP's BCA and debt ratings and OTP MB was initiated on 13 July 2021 (please see Moody's takes rating actions on OTP Bank NyRt and its mortgage bank subsidiary, [https://www.moodys.com/research/--PR\\_449321](https://www.moodys.com/research/--PR_449321)), to reflect the potential benefits to the bank's credit profile stemming from the acquisition of Nova Kreditna banka Maribor d.d. (NKBM, Baa1 ratings under review, ba1 review for upgrade), Slovenia's second largest bank which is expected to close in the second quarter of this year. The review on the debt and long-term deposit ratings of OTP also considered (1) OTP's medium-term issuance plans that will enable the bank to meet its minimum requirement of eligible liabilities and own funds (MREL) as well as (2) the bank's expanded resolution perimeter following NKBM's acquisition. Both are elements which the agency incorporates in its Advanced Loss Given Failure (LGF) analysis that drive the notching uplift in deposit and debt ratings and the different review directions for different instruments.

The extension of the ratings review reflects Moody's view that the bank's strengthened financial performance, particularly capitalization and profitability, provides it with ample buffers to withstand the deterioration in the performance of its operations in Ukraine and Russia. The rating agency expects OTP's operations in Russia and Ukraine to be negatively impacted by the consequences of the military conflict caused by Russia's invasion of Ukraine and international sanctions imposed on Russia's economy and financial system.

OTP's accounting net profit grew by 76% to HUF456 billion (EUR1.3 billion) translating to a strong return of assets of 1.66% as of 31 December 2021. The bank's asset quality also improved with credit costs in 2021 declining to HUF73 billion from HUF188 billion in 2020.

The bank's strong profitability as well as the sale of treasury shares in the last quarter of 2021 led to an increase in its capitalization, despite strong assets growth. The bank's Common Equity Tier 1 (CET 1) ratio rose to 16.9% and its total Capital Adequacy Ratio (CAR) to 18.4% as of December 2021, up from 15.4% and 17.7% as of December 2020 respectively. OTP also maintains significant liquidity buffers with its liquidity coverage ratio at 180% as of 31 December 2021 significantly above the 100% minimum requirement.

The bank's significant buffers allow it to withstand the potential shocks coming from its operations in Russia and Ukraine, even after considering the additional capital decline following the acquisition of NKBM, which Moody's estimates will be around 120 basis points (bps). According to OTP, the decrease in its capitalization ratios from walking away or losing these operations would be 27 bps for the Ukrainian operations and 116 bps for the Russian subsidiary. Moody's considers this decline to be manageable considering the bank's excess capital buffers. OTP is subject to 8.8% regulatory minimum CET 1 capital requirement and 13.2% for total CAR.

Moody's will use the review period to achieve better visibility concerning the execution of NKBM's acquisition including customary regulatory approvals as well as the resilience of OTP's performance to the impact of Russia's invasion of Ukraine. During the review period the agency will also incorporate in its Advanced LGF analysis any revisions to the bank's MREL funding plan.

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

OTP Bank NyRt

OTP's long-term deposit ratings could be upgraded following an upgrade of its BCA.

The Ba1 subordinated bond rating could be confirmed at current levels following an upgrade of the bank's BCA.

The Ba3(hyb) rating on OTP's junior subordinated bond could be upgraded following an upgrade of the bank's BCA.

A downgrade of OTP's long-term deposit ratings is unlikely given the review for upgrade of its BCA. However, the ratings could be confirmed at current levels if Moody's expectation concerning the improvement of the bank's credit profile does not materialize.

The Ba1 subordinated debt rating would be downgraded by one notch if the bank's BCA is confirmed at its current level.

OTP Jelzalogbank Zrt.

OTP MB's Baa2 backed long-term issuer rating could be confirmed following an upgrade of the parent bank's BCA or downgraded by one notch in the absence of an improvement in OTP's BCA.

#### PRINCIPAL METHODOLOGY

The methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

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