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Ratings

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Alior Bank S.A.

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Alior Bank S.A.

Ratings Score Snapshot

Issuer Credit Rating
BB/Stable/B

SACP: bb-

Anchor	bbb	
Business position	Constrained	-2
Capital and earnings	Adequate	0
Risk position	Constrained	-2
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

Support: +1

ALAC support	0
GRE support	0
Group support	+1
Sovereign support	0

Additional factors: 0

Issuer credit rating
BB/Stable/B

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
Potential for extraordinary support from Alior's controlling shareholder, state-related PZU (A-/Stable/--), backed by an emergency risk transfer facility to PZU, in case of a need.	Higher sensitivity to economic downturns due to a focus on consumer finance and lending to small- to mid-size enterprises (SMEs).
Funding profile dominated by resilient customer deposits and sound coverage with liquid assets.	High level of nonperforming loans (NPLs)compared to local peers, reflecting a focus on riskier lending.
Established market share in high-margin, granular consumer finance.	Pressure on earnings due to government-mandated extraordinary costs, and fee and rate caps on the consumer finance business.

Internal capital generation is back on track. With net profit of PLN683 million ($157 million) in 2022, up from PLN482 million in 2021, Alior's new management team continues to demonstrate its ability to deliver decent profitability after a prolonged period of underperformance. The material improvement in profitability in 2022 was largely driven by increased interest rates, but S&P Global Ratings acknowledges management's effort to de-risk the bank. We think that a focus on decreasing risk in the lending portfolio and implementing tighter lending rules is also likely to benefit earnings stability over the cycle. Alior's '2023+' strategy includes a focus on digitalization, and environmental, social, and governance (ESG) initiatives, and should help protect the bank's franchise in the competitive and highly-digitalized Polish banking market. Cooperation with the state-controlled insurance group PZU should continue to deliver revenue and costs synergies.

We expect pressure on asset quality to be offset by risk reduction and the working out of legacy loans. We consider Alior to be more sensitive to downturns than most of its peers. This is due to its focus on lending to SMEs, which tend to be more vulnerable to economic cycles, and its high share of consumer lending. We expect some improvement in asset quality over the next two years because Alior is altering the structure of its loan portfolio toward less risky mortgage loans and collateralized lending and reflecting its generally tighter lending standards. An improving NPL ratio is also supported by regular sales of NPLs. We regard as feasible management's target to fully work out the legacy NPL portfolio by end of 2024. Despite improvement, we expect that Alior's NPLs will remain around 10% over the next two years, compared to a peer average of about 7%.

A negligible exposure to Swiss franc (CHF) denominated mortgage loans and related litigation is a competitive advantage. This is especially beneficial, given that several competitors continue to allocate the majority of their operating profits to building significant litigation provisions, mainly related to CHF denominated loans. Alior, meanwhile, can invest earnings in its business.

Outlook

The stable outlook on Alior relates to the next 12 months. It is underpinned by our expectation of organic lending growth, with no material new credit quality problems.

We expect that Alior will remain moderately strategic to the Polish state-controlled insurance group PZU, which will provide support if needed.

Upside scenario

We could upgrade the bank in the next 12 months if we believe its importance to PZU had increased. Alternatively, an upgrade could come from our upward revision of Alior's stand-alone credit profile (SACP). This would require a greater build-up of capital, that lifted our risk-adjusted capital (RAC) ratio sustainably and materially above 10%, and a meaningful improvement in asset quality metrics. In addition, we would expect stability in the management team.

Downside scenario

We could lower the rating if the quality of the loan portfolio unexpectedly worsens beyond our base-case scenario or if aggressive growth caused Alior's RAC ratio to deteriorate to below 7%.

The rating could come under more pressure if there is continued turnover of top management, especially if this is accompanied by an unclear business strategy, lack of earnings prospects, and an adverse effect on the bank's franchise.

We could also lower the rating if we considered that Alior's importance to PZU had decreased. This could result, for example, due to the announcement of disinvestment plans.

Key Metrics

Alior Bank S.A.--Key Ratios And Forecasts					
	--Fiscal year ended Dec. 31--				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	2.6	20.5	2.7-3.3	2.2-2.7	2.0-2.4
Growth in customer loans	1.8	-2.4	1.8-2.2	2.7-3.3	3.6-4.4
Growth in total assets	5.6	-0.2	1.2-1.5	2.0-2.5	2.7-3.3
Net interest income/average earning assets (NIM)	3.5	4.3	4.3-4.7	4.3-4.8	4.3-4.8
Cost to income ratio	50.0	51.6	52.7-55.4	55.1-57.9	53.9-56.6
Return on average common equity	7.7	11.3	9.1-10.0	8.6-9.5	8.7-9.6
Return on assets	0.6	0.8	0.7-0.8	0.7-0.8	0.7-0.9
New loan loss provisions/average customer loans	1.6	1.6	1.7-1.8	1.5-1.6	1.4-1.6
Gross nonperforming assets/customer loans	11.8	9.9	10.5-11.6	10.2-11.3	9.8-10.8
Net charge-offs/average customer loans	2.1	2.7	1.6-1.6	1.6-1.6	1.5-1.5

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb' For Banks Operating Predominantly In Poland

We use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Poland is 'bbb'.

We expect the polish economy to prove its resilience amid elevated inflation, volatile financing conditions, weakening European demand, and uncertainty over the disbursement of some parts of EU transfers. The labor market should remain strong, with unemployment staying at historical lows, which should support house prices and prevent a material rise in credit losses in the retail business. Nevertheless, and despite significant economic support from the government, we expect NPL's, especially in the SME sector, will rise due to high energy costs and increased interest rate. On the other hand, the sharp increase in interest rates should provide a boost to the bank's operating profitability, due to its largely variable loan book. That should, in turn, provide room to absorb rising costs over 2023.

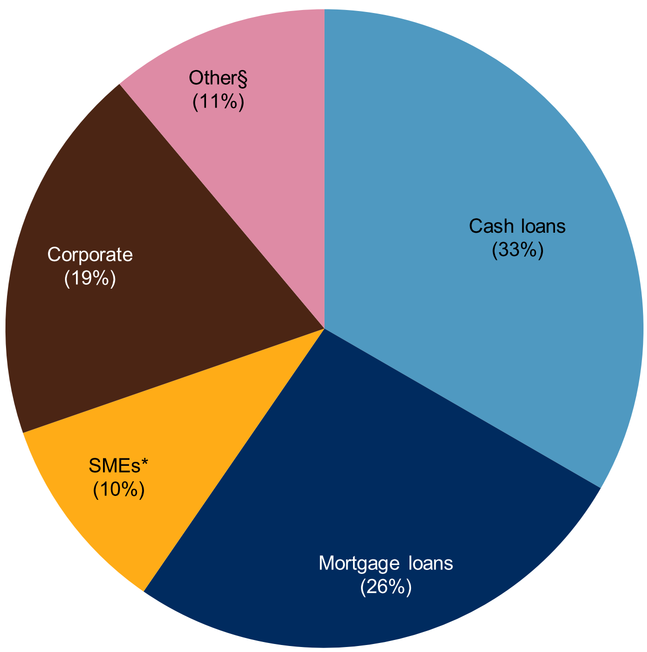
Our industry risk assessment considers the high level of government involvement in the Polish banking sector (through state ownership of domestic banks), and the state's track record of intervention (through both measures and verbal threats) as negative for the banking sector's competitive dynamics and its governance. This, combined with long-standing risks to financial stability due to legal risk related to legacy CHF mortgages, has resulted in Polish banks having only moderate access to international capital markets. This will make it harder for domestic banks to attract investors to bond issuances that are classified as part of the minimum requirement for own funds and eligible liabilities, and thus make it harder to meet these requirements, which come into force at the beginning of 2024.

Business Position: Volatile Business Segments

Alior's strategy focuses its operations on high-margin and higher-risk products, predominantly for retail customers and SMEs. This makes its earnings inherently volatile. Alior is likely to be more vulnerable to an economic downturn than most of its peers, which we structurally reflect in the ratings. We expect Alior's consumer finance franchise to remain solid with an about 15%-20% share of the Polish market, or 10%-15% of the traditional cash loans segment. Alior's management wants to increase the group's 3% share of mortgage lending in an effort to stabilize its volatile revenues. We expect the strategy may face some headwinds due to decreased demand for mortgages.

Chart 1

Loan Portfolio Split

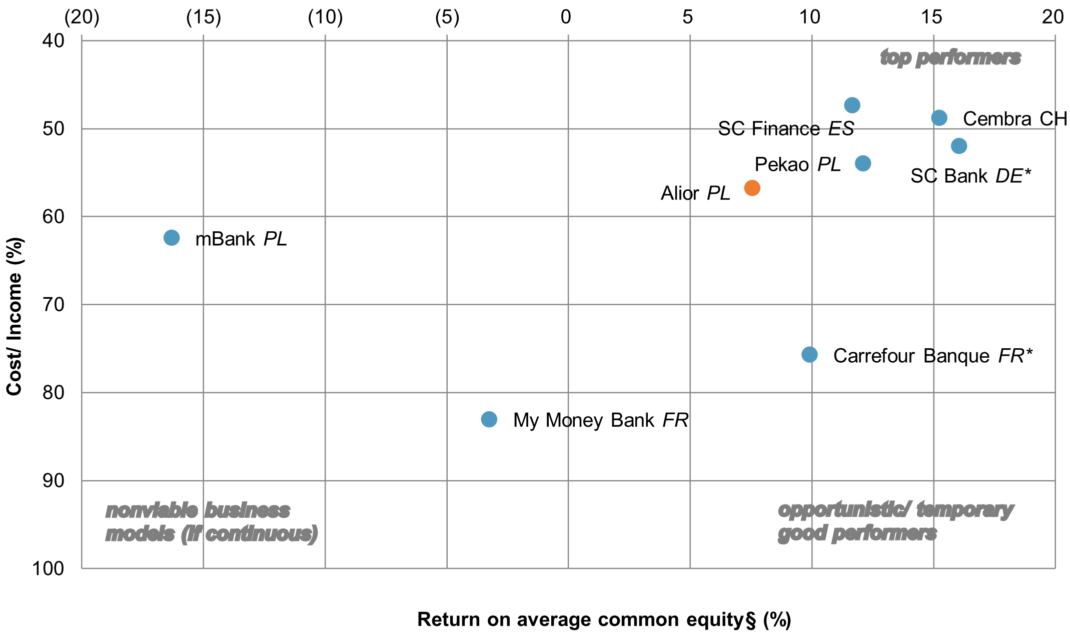


Total value 58 billion polish zloty (about €13 Billion). *SMEs: Small and midsize enterprises incl. micro-businesses. §predomir
business segments (mainly SMEs) with 92% of vehicle leasing agreements. Data as of Dec. 31, 2022.
Source: S&P Global Ratings, Company Reports.

We consider Alior to be less diversified, in terms of business lines, and with a more opportunistic customer base than larger domestic peers such as Bank Polska Kasa Opieki S.A. or mBank. At the same time, we acknowledge that the bank may increase its market shares of less risky products, while some of its main competitors remain focused on costly, legacy FX-mortgage loans litigation. Alior's growth is also less affected by the current fall in demand for mortgages because of its relatively low share of that product in its overall portfolio.

Chart 2

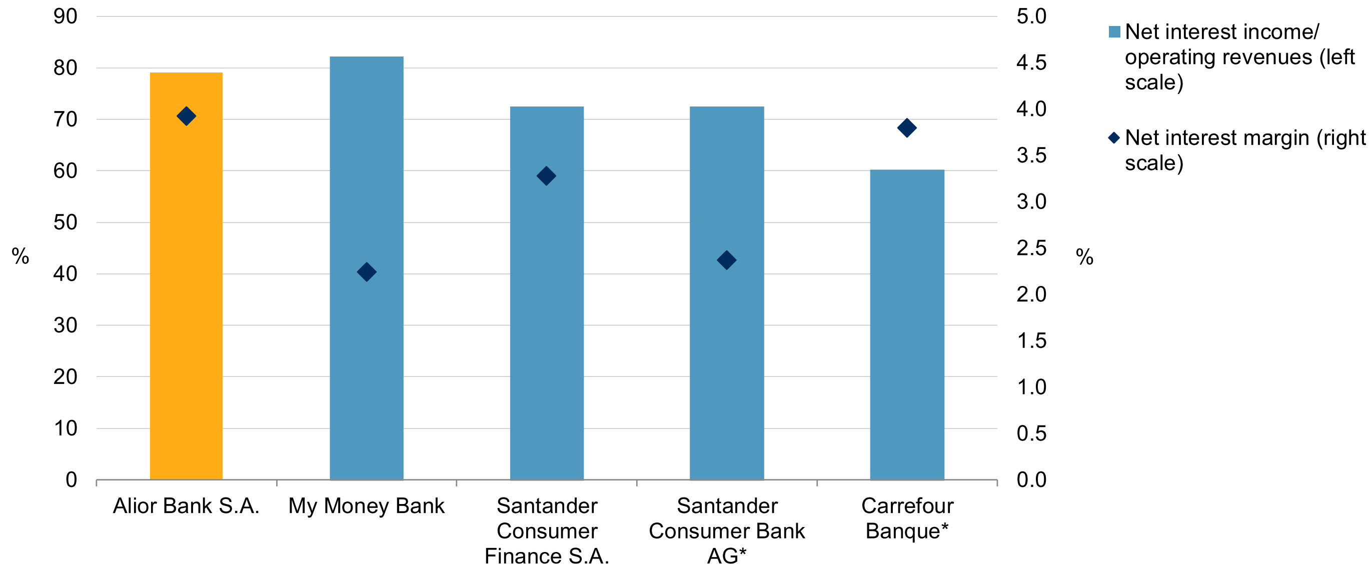
Alior's Solid Operating Efficiency And Profit Are Relatively Sensitive To A Downturn
Alior versus consumer finance or Polish banking market peers in 3Q 2022



Q--Quarter. *Reported Data as of Dec. 30, 2021. § Some time differences in risk provisioning may result from management decisions. Source: S&P Global Ratings.

Chart 3

Alior's Business Relies Heavily On Net Interest Income And Generates Strong Margins



*Data as of Dec. 31, 2021. Source: S&P Global Ratings, Bank financial disclosures.

Capital And Earnings: Stable Capital Buffers, Based On Our Assumption Of Full Earnings Capitalization And Potential Support From PZU If Needed

The bank's RAC ratio was 8.56% as of end-2021, up from 7.91% as of end-2020. We expect the ratio to improve, to between 9%-10% in the next two years, due to management's focus on de-risking and plans for full earnings retention.

With a Tier 1 ratio of 13%, Alior's capital buffer at the end of 2022 was 435 basis points (bps) above its 8.65% minimum regulatory Tier 1 capital ratio. Reflecting management focus on capital, we expect that Alior will be able maintain a sufficient buffer above the regulatory minimum over the next two years. The group's total capital ratio of 14.2%, at the end 2022, is 354 bps above its regulatory minimum of 10.65%.

Alior benefits from a PLN4 billion emergency risk-transfer facility from PZU that it can trigger should it come close to breaching its regulatory ratios, which we do not assume in our base case forecasts. Our projected base-case RAC ratio for Alior for the next 18-24 months reflects the following assumptions:

- Annual growth in loans of about 2%-3% in 2023-2024;
- An increase in operating revenues of about 3%;
- Cost of risk of about 160 bps–170 bps throughout 2024;

- No dividend payments until at least 2024.

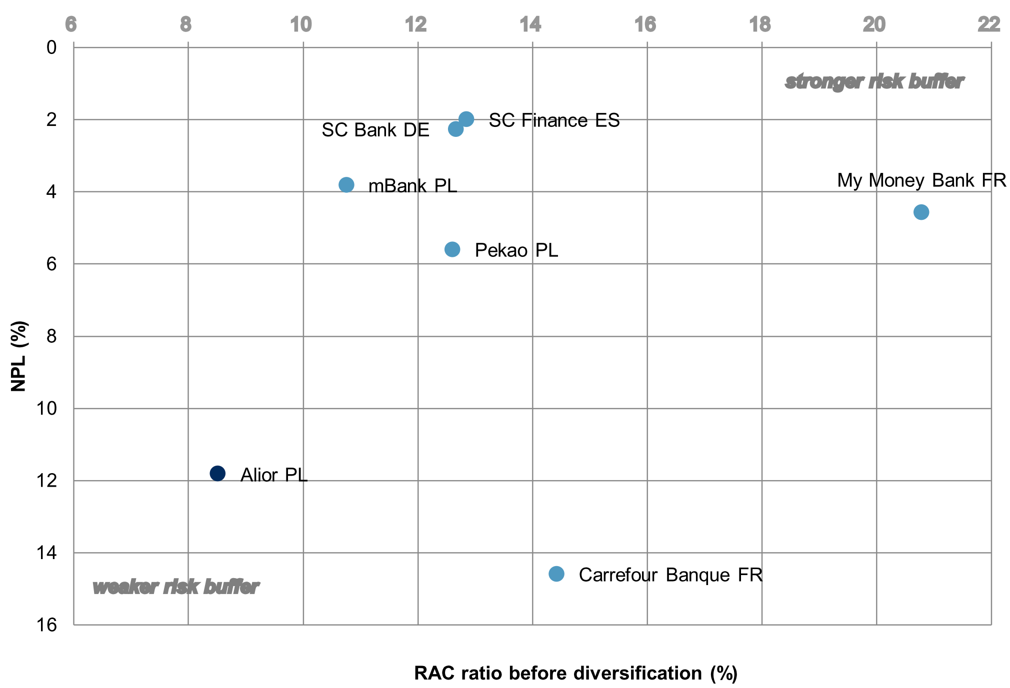
Risk Position: Focus On Riskier Market Segments

We think that in an adverse economic scenario, Alior's asset quality is likely to be more impacted than its peers. This results from its lending focus on customers who tend to be more vulnerable to economic cycles and a high share of consumer lending.

Alior's asset-quality metrics and loan-loss track record are significantly weaker than those of most of its domestic peers, and some of its foreign peers with relatively similar product mixes, for example, Santander Consumer Finance or My Money Bank.

Chart 4

Alior's Risk Metrics Are Weak Compared To Polish And Consumer Finance Peers



RAC--Risk-adjusted capital. NPL--Nonperforming loan. Data as of Dec. 31, 2021. Source: S&P Global Ratings.

Alior's loan portfolio is granular and single-name concentrations are marginal because of the small sizes of individual retail loans. In addition, we note an increasing amount of state support and guarantee programs for Polish banks' borrowers.

Due to Alior's short operating history, which began in 2008, its Swiss Franc-denominated legacy mortgages are negligible. In the business and corporate segments, there is slightly higher exposure to foreign currency loans, mostly euro-denominated loans, but these are secured predominantly by customers' cash flows in the same currency and we do not see a comparable legal risk. Overall, foreign currency comprises about 10% of Alior's total loan portfolio, meaning the bank's foreign currency exchange risk is limited.

Funding And Liquidity: A Solid Retail Franchise Provides Deposit Funding Stability

Alior's funding is in line with that of the Polish banking sector, and its liquidity is sound because of its customer-deposit-based funding profile and lack of reliance on wholesale funding. Moreover, we believe that PZU would provide liquidity support if required. Alior's stable funding ratio was 125% as of end 2022, a sound level that we expect the bank will maintain over the coming years. Polish banks generally have elevated stable funding ratios, reflecting their customer-deposit focused profiles.

Our measure of core customer deposits to total funding was strong at 98% as of end 2022. Alior's online platform, wide branch network, and the loyalty of its customer base provide the bank with access to stable domestic deposit funding, of which about 70% is deposits from retail clients and about 30% from commercial customers. Alior's funding metric compares well with other European consumer finance banks, such as Bank Norwegian AS, and is stronger than most French niche banks.

Alior has no reliance on wholesale funding from debt capital markets. The bank has sufficient net broad liquid assets to cover about 28% of its total customer deposits as of end 2022. We believe that Alior's liquidity portfolio, which consists almost entirely of domestic sovereign bonds, will continue to represent a high portion of its balance sheet.

Support: One Notch Uplift For Potential Support From PZU

We assess Alior as being of moderately strategic importance to PZU and we see potential for some support from the group if needed, as demonstrated historically. We add one notch uplift to our 'bb-' SACP because of likely support from PZU, resulting in a 'BB' issuer credit rating on Alior.

We currently do not factor in any uplift to the bank's SACP from additional loss-absorbing capacity, as we think the main source of support would come from PZU. We acknowledge that Alior's recovery plan relies on support from PZU, that we already recognize in our ratings on the bank.

Additional Rating Factors

No additional factors affect the ratings.

Environmental, Social, And Governance

Chart 5

ESG Credit Indicators

N/A—Not available. 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 Indicator Definitions And Applications," published Oct. 13, 2021.

Governance factors are a negative consideration in our credit rating analysis of Alior. We consider that frequent top management changes, which took place up until 2022, represent a risk to the stability of the bank's business strategy, its reputation, and franchise compared with domestic peers'. Alior's social and environmental credit factors are in line with those of its peers in the banking industry.

It remains unclear if the significant turnover in Alior's top management has ended. The track record of change established in recent years highlights governance weaknesses and adds uncertainty to the bank's business strategy. At the same time, we acknowledge that there seems to have been no evident damage to the bank's franchise from the personnel changes. Furthermore, we consider the current management team to be on track to de-risk the bank, while protecting its competitive market position in Poland, and improving profitability after years of poor performance.

Key Statistics

Table 1

Alior Bank S.A.--Key Figures			
	--Year-ended Dec. 31--		
(Mil. PLN)	2022	2021	2020
Adjusted assets	82,486	82,622	78,217
Customer loans (gross)	62,072	63,579	62,462
Adjusted common equity	6,772	5,859	5,542
Operating revenues	4,382	3,637	3,545
Noninterest expenses	2,260	1,819	1,886
Core earnings	738	495	(311)

PLN--Polish zloty.

Table 2

Alior Bank S.A.--Business Position

	--Year-ended Dec. 31--		
(%)	2022	2021	2020
Total revenues from business line (Mil. PLN)	4,381.6	3,637.1	3,545.5
Commercial banking/total revenues from business line	42.0	38.6	37.2
Retail banking/total revenues from business line	63.9	58.5	52.3
Commercial & retail banking/total revenues from business line	105.9	97.2	89.5
Trading and sales income/total revenues from business line	(5.9)	2.8	10.5
Investment banking/total revenues from business line	(5.9)	2.8	10.5
Return on average common equity	11.3	7.7	(4.7)

PLN--Polish zloty.

Table 3

Alior Bank S.A.--Capital And Earnings

	--Year-ended Dec. 31--		
(%)	2022	2021	2020
Tier 1 capital ratio	13.0	12.6	13.6
S&P Global Ratings' RAC ratio before diversification	N/A	8.5	7.9
S&P Global Ratings' RAC ratio after diversification	N/A	6.5	6.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0
Net interest income/operating revenues	81.2	76.9	80.3
Fee income/operating revenues	18.2	21.1	17.9
Market-sensitive income/operating revenues	0.8	2.5	4.6
Cost to income ratio	51.6	50.0	53.2
Preprovision operating income/average assets	2.6	2.2	2.1
Core earnings/average managed assets	0.9	0.6	(0.4)

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

Table 4

Alior Bank S.A.--Risk-Adjusted Capital Framework Data

	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	18,843,777,285	723,417,404	4	1,506,949,226	8
Of which regional governments and local authorities	290,653	58,050	20	52,802	18
Institutions and CCPs	1,707,653,045	814,285,362	48	405,009,590	24
Corporate	12,236,259,737	9,300,735,331	76	10,538,261,603	86
Retail	44,578,197,400	25,431,307,930	57	28,720,771,385	64
Of which mortgage	16,711,254,314	8,074,217,036	48	6,096,399,446	36
Securitization§	0	0	0	0	0
Other assets†	12,513,665,402	7,403,457,107	59	16,055,676,325	128
Total credit risk	89,879,552,869	43,673,203,133	49	57,226,668,129	64

Table 4

Alior Bank S.A.--Risk-Adjusted Capital Framework Data (cont.)

Credit valuation adjustment					
Total credit valuation adjustment	--	45,977,907	--	0	--
Market risk					
Equity in the banking book	223,649,494	400	0	2,236,494,940	1,000
Trading book market risk	--	261,250,000	--	391,875,000	--
Total market risk	--	261,250,400	--	2,628,369,940	--
Operational risk					
Total operational risk	--	3,708,290,650	--	8,925,622,494	--
		Basel III RWA		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	48,926,222,090	--	68,780,660,563	100
Total diversification/ Concentration adjustments	--	--	--	21,937,611,536	32
RWA after diversification	--	48,926,222,090	--	90,718,272,099	132
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC Ratings ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,199,997,000	12.7	5,858,839,800	8.5
Capital ratio after adjustments‡		6,199,997,000	12.5	5,858,839,800	6.5

*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.PLN -- Poland Zloty. Sources: Company data as of 'Dec. 31 2021', S&P Global Ratings.

Table 5

Alior Bank S.A.--Risk Position

	--Year-ended Dec. 31--		
(%)	**2022**	**2021**	**2020**
Growth in customer loans	(2.4)	1.8	1.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	31.9	18.2
Total managed assets/adjusted common equity (x)	12.2	14.2	14.2
New loan loss provisions/average customer loans	1.6	1.6	3.0
Net charge-offs/average customer loans	2.7	2.1	1.6
Gross nonperforming assets/customer loans + other real estate owned	9.9	11.8	14.5
Loan loss reserves/gross nonperforming assets	72.9	71.2	68.9

N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

Alior Bank S.A.--Funding And Liquidity			
	--Year-ended Dec. 31--		
(%)	**2022**	**2021**	**2020**
Core deposits/funding base	97.8	97.1	96.0
Customer loans (net)/customer deposits	81.4	80.9	84.1
Long-term funding ratio	99.9	99.2	98.5
Stable funding ratio	125.1	124.8	122.8
Short-term wholesale funding/funding base	0.1	0.8	1.2
Regulatory net stable funding ratio	133.0	132.0	122.0
Broad liquid assets/short-term wholesale funding (x)	402.8	34.2	20.1
Broad liquid assets/total assets	24.2	23.6	21.8
Broad liquid assets/customer deposits	28.3	27.2	25.7

Alior Bank S.A.--Rating Component Scores	
Issuer Credit Rating	**BB/Stable/B**
SACP	bb-
Anchor	bbb
Economic risk	4
Industry risk	5
Business position	Constrained
Capital and earnings	Adequate
Risk position	Constrained
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	0
GRE support	0
Group support	+1
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015

- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Polish Banks Remain In Choppy Waters Amid Economic Resilience And Continuing Legal Risks, Feb. 21, 2023
- Poland 'A-/A-2' Foreign Currency Ratings Affirmed; Outlook Stable, Feb. 17, 2023
- Polish Banks To Be Hit By Government Action Allowing Broad-Based "Credit Holidays", July 20, 2022

Ratings Detail (As Of March 28, 2023)*	
Alior Bank S.A.	
Issuer Credit Rating	BB/Stable/B
Issuer Credit Ratings History	
24-Jun-2021	BB/Stable/B
27-Apr-2020	BB/Negative/B
16-Jan-2019	BB/Stable/B
Sovereign Rating	
Poland	
Foreign Currency	A-/Stable/A-2
Local Currency	A/Stable/A-1
Related Entities	
Powszechny Zaklad Ubezpieczen na Zycie S.A.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Powszechny Zaklad Ubezpieczen S.A.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	A-/Stable/--
Towarzystwo Ubezpieczen Wzajemnych Polski Zaklad Ubezpieczen Wzajemnych	
Financial Strength Rating	
Local Currency	A-/Stable/--

*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.