



RATING ACTION COMMENTARY

Fitch Affirms Alior Bank S.A. at 'BB'; Outlook Stable

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Fitch Ratings - Warsaw - 29 Nov 2022: Fitch Ratings has affirmed Alior Bank S.A.'s (Alior) Long-Term Issuer Default Rating (IDR) at 'BB' with Stable Outlook and Viability Rating (VR) at 'bb'. Fitch has also upgraded the National Short-Term Rating to 'F1(pol)' from 'F2(pol)'. A full list of rating actions is detailed below.

The upgrade of the National Short-Term Rating is a reassessment relative to domestic peers and considers the bank's healthy funding and liquidity.

KEY RATING DRIVERS

Alior's IDRs and VR reflect the bank's moderate market franchise and a business model that, although gradually evolving, is still characterised by a higher risk appetite than higher-rated peers' and lower earnings diversification, which make it prone to adverse changes in the business and economic conditions. The ratings also consider the bank's moderate capitalisation for its risk profile, and high, albeit reduced, amount of problem loans. The ratings are supported by Alior's healthy funding and liquidity profile.

The Short-Term IDR of 'B' is the only option corresponding to the Long-Term IDR of 'BB'.

Intervention Risk in Operating Environment: In August 2022 Fitch downgraded the Polish banks' operating environment score to 'bbb' from 'bbb+'. This reflected our view that payment holidays on local-currency (LC) mortgages are further evidence of the willingness of the Polish authorities to intervene in the banking sector and impose large additional

costs on banks. This is also reflected in Alior's ESG Relevance Score of '4' for Management Strategy.

Moderate Franchise: Alior is a medium-sized universal bank with a strategic focus on retail mass market and SME segments. We believe that its customer relationships and pricing power are weaker than larger well-established banks'. The bank's significant exposure to higher-risk asset classes and only moderate diversification of revenue sources weigh on our assessment of its business profile.

Higher Risk Appetite Than Peers': Alior's strategic focus on unsecured consumer lending and micro/SME segments has been reflected in its considerably higher cost of credit risk (loan impairment charges (LICs)/average gross loans) through the economic-cycle compared with the sector average. The bank's tightened underwriting, greater focus on collateralised lending and moderation of growth should have positive impact on its risk profile over the long term.

Gradual Loan Book Clean-Up: The Stage 3 loans ratio (10.7% at end-3Q22) has materially improved since end-2020 (14.1%), to a large extent, due to loan write-offs. However, it remains among the weakest across Fitch-rated Polish banks'. At the same time, we believe that pressures from the macroeconomic environment and slower loan growth will temporarily reverse the positive asset-quality trend. We expect cost of risk to be close to 2% in 2023 before moderating.

Rates Drive Profits Up: Profitability is likely to improve meaningfully in 2023 relative to the current year's results, which are weighed down by sizeable regulatory charges. The bank will continue to benefit strongly from high market interest rates supporting its margins. In our assessment, we have also considered Alior's high sensitivity to interest-rate movements and structurally high LICs.

Moderate Capitalisation: In our view, the bank's capitalisation is only moderate relative to the risks the bank faces, with common equity Tier 1 (CET1) and total capital ratios of 12.4% and 13.7%, respectively, at end-3Q22. At the same time, we expect that capitalisation will be supported in the next two years by improved internal capital generation and slower loan book expansion. Unreserved Stage 3 loans absorbed 25% of CET1 at end-3Q22, down from 31% at end-2021.

Stable Deposit Funding: Alior is self-funded with stable and granular customer deposits, which represented 96% of non-equity funding at end-3Q22. We expect gross loans/deposits to remain healthy at around 90% in 2023. Liquidity is well-managed and

supported by a moderate buffer of high-quality liquid assets that represented around 15% of total assets at end-1H22. The bank's liquidity coverage ratio was sound at 136% at end-1H22.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Alior's VR and IDRs have significant headroom. The ratings could be downgraded on substantial and prolonged deterioration of asset quality (Stage 3 loans ratio above 15%) that would put significant pressure on the bank's profitability and capitalisation without clear prospects for recovery.

The National Ratings are sensitive to negative changes to the bank's Long-Term IDR and the bank's credit profile relative to Polish peers'.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of the bank's VR and Long-Term IDR would require a proven record of operations with reduced risk appetite accompanied by a sustained improvement of the bank's financial profile. The latter would need to entail: i) material improvement in asset-quality metrics, in particular the Stage 3 loans at below 10% on a sustained basis; ii) a CET1 ratio of at least 14% on a sustained basis; iii) operating profit/risk-weighted assets stabilising above 1.5% for a sustained period.

The National Ratings are sensitive to positive changes to the bank's Long-Term IDR and the bank's credit profile relative to Polish peers'.

The Government Support Rating (GSR) of 'No Support' for Alior expresses Fitch's opinion that potential sovereign support for the bank cannot be relied on. This is underpinned by the Polish resolution legal framework, which requires senior creditors to participate in losses, if necessary, instead or ahead of a bank receiving sovereign support.

Domestic resolution legislation limits the potential for positive rating action on the bank's GSR. A Shareholder Support Rating could be assigned if Fitch takes the view of at least a limited probability of support from Powszechny Zakład Ubezpieczen (PZU) that effectively controls the bank.

VR ADJUSTMENTS

The business profile score of 'bb' is below the 'bbb' category implied score for Alior, due to the following adjustment reasons: business model (negative) and market position (negative).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Alior has an ESG Relevance Score of '4' for Management Strategy, due to heightened execution risk of its business plan given high management turnover in the bank. The score also incorporates our view of heightened government intervention risk in the Polish banking sector, which affects the banks' operating environment and their ability to define and execute on their strategies. These are not key rating drivers but have a negative impact on the bank's credit profile and are relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Alior Bank S.A.	LT IDR	BB Rating Outlook Stable	BB Rating Outlook Stable
	Affirmed		
	ST IDR	B Affirmed	B
	Natl LT	BBB+(pol) Rating Outlook Stable	BBB+(pol) Rating Outlook Stable
	Affirmed		
	Natl ST	F1(pol) Upgrade	F2(pol)
	Viability	bb Affirmed	bb
	Government Support	ns Affirmed	ns

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Alior Bank S.A.

EU Issued, UK Endorsed

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Banks Europe Poland
