

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Advanzia Bank's deposit and issuer ratings to Baa3; outlook stable

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Inaugural senior unsecured debt issuance rated Baa3 with stable outlook

Paris, April 19, 2024 -- Moody's Ratings ("Moody's") today upgraded Advanzia Bank S.A.'s ("Advanzia") long-term and short-term deposit and issuer ratings to Baa3/Prime-3 from Ba1/Not Prime. The rating agency also assigned a long-term rating of Baa3 with a stable outlook to the bank's planned inaugural issuance of €200 million senior unsecured debt due 2028. The outlook on the long-term deposit and issuer ratings remains stable.

Concurrently, Moody's affirmed all other ratings and assessments of Advanzia, including its Baseline Credit Assessment (BCA) and Adjusted BCA of ba2, as well as its long-term and short-term Counterparty Risk (CR) Assessments of Baa2(cr)/Prime-2(cr) and Counterparty Risk Ratings of Baa2/Prime-2.

RATINGS RATIONALE

The upgrade of Advanzia's long-term deposit and issuer ratings to Baa3 from Ba1 was triggered by the planned issuance of senior unsecured debt, which will result in lower loss given failure for these classes of instruments under Moody's Advanced Loss Given Failure (LGF) analysis. The deposit, issuer and senior unsecured debt ratings of Baa3 reflect (1) Advanzia's BCA and Adjusted BCA of ba2, (2) Moody's Advanced LGF analysis indicating a very low loss severity in the event of the bank's failure, resulting in a two-notch uplift in favour of these instruments, and (3) a low probability of government support, resulting in no uplift.

Moody's affirmation of Advanzia's BCA of ba2 reflects Moody's view that whilst the bank is facing a more challenging operating environment for consumer lenders because borrowers suffer from increased prices of goods and services, higher interest rates and a lackluster economic environment in Europe, it should be able to maintain its current credit profile in the next 12-18 months.

Moody's considers that unsecured revolving loans to retail individuals are a high-risk asset class, which is likely to incur increased credit losses in a higher-interest rate environment. Advanzia reported that its cost of risk was 6.0% of average outstanding credit card loans in 2023, an increase from 5.1% in 2022 and 4.1% in 2021. This increase was partly linked to the development of lending activities in new markets (Spain and Italy), as well as lower recovery performance on defaulted loans which has been reflected in the bank's provisions for expected credit losses. Moody's expects that the current economic context will continue to have a negative impact on default and recovery rates, including on the terms and conditions of the disposals of non-performing loans, which the bank undertakes on an ongoing basis.

In addition, Advanzia's profitability decreased in 2023, with net income representing 2.2% of tangible assets versus 3.6% in 2022. This decrease in profitability mainly stemmed from the decline in net interest margins due to increasing costs of deposits, as well as higher cost of risk. Moody's believes that the bank has further flexibility to increase interests charged to credit card customers – already high – although this may bear negative implications on the cost of risk eventually.

Despite these pressures on asset quality and profitability, the very high margins reported by Advanzia enable it to continue accruing material amounts of capital. Although the current capitalisation offers only modest buffers above regulatory minima – the common equity tier 1 (CET1) capital ratio was 12.6%, excluding interim profits, at year-end 2023 versus the EU's Supervisory Review and Evaluation Process (SREP) CET1 minimum of 10.5% including countercyclical buffer –, Moody's believes that the bank has the ability to swiftly adjust its capital management in case of need, for example by a more conservative dividend policy and slower loan origination.

Lastly, Advanzia's funding profile is dependent on price-sensitive online saving deposits, which the bank was able to grow by 15% in 2023. The bank wants to gradually diversify its funding into more stable, albeit confidence-sensitive, market funding instruments, as illustrated by the current issuance of senior unsecured debt. Moody's views the increasing diversification of funding sources, including greater use of securitization, as positive for the quality and maturity profile of the bank's funding.

STABLE OUTLOOK

The stable outlook on Advanzia's long-term deposit, issuer and senior unsecured debt ratings reflects Moody's view that the bank will be able to maintain an adequate credit profile over the outlook horizon thanks to the very high profitability of its lending activities, despite a significant likelihood of negative developments on net interest margins and loan-loss charges.

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

Although unlikely at present given the unfavourable economic environment, Moody's

could upgrade the BCA if Advanzia decided to substantially increase its capitalisation buffers, while preserving its profitability and risk profile.

Moody's could downgrade the BCA and ratings as a result of a significant deterioration in asset quality impacting profitability and capitalisation. In addition, a downgrade could also occur if net interest margins and profitability were to substantially decrease. Although unlikely viewing today's upgrade, Advanzia's long-term deposit and senior unsecured debt ratings could also be downgraded as a result of an increase in loss given failure, should these instruments benefit from lower subordination and instrument volume than is currently the case.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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