



Rating Action: Moody's affirms Advanzia Bank's Ba1 deposit and issuer ratings; outlook changed to stable from positive

27 Jul 2023

Paris, July 27, 2023 -- Moody's Investors Service ("Moody's") today affirmed Advanzia Bank S.A.'s ("Advanzia") long-term and short-term deposit and issuer ratings of Ba1/Not-Prime and changed the outlook on the long-term deposit and issuer ratings to stable from positive.

Concurrently, Moody's affirmed Advanzia's Baseline Credit Assessment (BCA) of ba2, its 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

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 of the combined impact of high inflation, rising interest rates and an economic slowdown 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 an inflationary environment. Advanzia reported that its annualized cost of risk was 5.4% of outstanding credit card lending in the first quarter of 2023, an increase from 5.1% in Q4 2022 and 4.3% in Q1 2022. This increase was partly linked to the development of lending activities in new markets (Spain and Italy). Moody's expects that the current economic context will have negative implications 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 could suffer from higher interest rates because it can prove difficult to increase interest rates charged to credit card customers – already very high – while increased deposit rates inflate funding costs.

Lastly, Moody's notes that Advanzia decided to postpone the issuance of senior unsecured debt given current market conditions. Furthermore, the departure during the first quarter of 2023 of the Chief Executive Officer (CEO), who has not yet been replaced, also creates uncertainty at the bank.

Despite these negative developments, 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 12.9%, excluding interim profits, at end-March 2023 versus the EU Supervisory Review and Evaluation Process (SREP) CET1 minimum of 9.8% –, 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.

The ratings also incorporate Advanzia's environmental, social and governance (ESG) considerations, as per Moody's Investors Service's General Principles for Assessing Environmental, Social and Governance Risks Methodology. Advanzia's exposure to governance risks is moderate, which is reflected in a Governance Issuer Profile Score (IPS) of G-3. Although Advanzia's governance was not a key driver for today's rating action, Moody's decided to lower the bank's Management Credibility and Track Record sub-score of the governance section to 3 from 2 in order to reflect its current lack of access to the unsecured funding markets and the current management uncertainty.

CHANGE OF OUTLOOK TO STABLE FROM POSITIVE

Prior to today's change, the positive outlook on Advanzia's long-term deposit and issuer ratings reflected Moody's expectation that depositors and senior creditors would benefit from higher volume and subordination of loss-absorbing instruments in the short term since the bank planned to issue senior unsecured debt. However, the bank postponed its issuance. Moody's now believes that the issuance of loss-absorbing instruments will take longer than initially expected. As a result, the rating agency changed the outlook on Advanzia's long-term deposit and issuer ratings to stable from positive.

In addition, the stable outlook on Advanzia's long-term deposit and issuer 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 high likelihood of negative developments on net interest margins and loan-loss charges.

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

Advanzia's deposit and issuer ratings would be upgraded as a result of a decrease in loss given failure, should depositors and senior creditors benefit from higher subordination and instrument volume than is currently the case. Moody's expects upward rating pressure to materialise if the bank issues an amount approximately €120 million of senior unsecured debt or approximately €50 million of subordinated instruments, considering current balance-sheet size.

Although unlikely at present, given the unfavourable economic environment, Moody's could also 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 dwindle. Finally, further challenges to implement the bank's strategy or a prolonged absence of CEO could weigh negatively on the bank's BCA. Although unlikely at present, Advanzia's long-term deposit and issuer 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 July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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>.

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