

# FCA Bank S.p.A.

## Key Rating Drivers

**Support Drives IDRs:** FCA Bank S.p.A.'s Issuer Default Ratings (IDRs) are based on the availability of potential support from CA Consumer Finance (CACF; A+/Negative), and ultimately from Credit Agricole (CA; A+/Negative). CA holds a 50% stake in FCA Bank through CACF and supports FCA Bank, mostly through funding and liquidity, under a joint-venture (JV) agreement with FCA Italy S.p.A, a 100% subsidiary of Fiat Chrysler Automobiles N.V. (BBB-/Stable). The Negative Outlook mirrors that on CA.

**IDR Notched Down:** The three-notch difference between CA's and FCA Bank's IDRs largely reflects the 50% ownership and the significant influence CA's JV partner, FCA Italy S.p.A, has on FCA Bank's business generation. Fitch Ratings does not factor any support from Fiat Chrysler into FCA Bank's ratings.

**Rating Above the Sovereign:** Fitch rates FCA Bank two notches above the sovereign rating of Italy (BBB-/Stable) as the former has no direct exposure to Italian sovereign risk. Fitch believes FCA Bank is less exposed than universal banks to the risk of restrictions imposed on its ability to service its obligations if Italy's operating environment were to materially worsen.

**Parent's Funding Gradually Decreasing:** FCA Bank's funding sources are sufficiently diversified, through access to various wholesale funding instruments and investor bases. CA's propensity to provide funding if needed remains high, in our view, despite the reduction of CA's contribution to non-equity funding from 2010. This is part of CA's strategy to increase the autonomy of its subsidiaries' funding profiles. Customer deposits are gradually growing, but remain relatively immaterial in the overall funding structure.

**Stable Profitability:** FCA Bank's profitability is average compared with its peers and benefits from stable earnings generation, good operating efficiency and limited loan impairment charges.

## Rating Sensitivities

**Change in CA, CACF's IDRs:** Fitch could upgrade FCA Bank's Long-Term IDR if CA's, CACF's and Italy's IDRs were all upgraded. Fitch could revise the Outlook on FCA Bank's Long-Term IDR to Stable, if the Outlooks on CA's and CACF's IDRs were revised to Stable at their current ratings, while Italy's was affirmed at 'BBB-/Stable'. A downgrade of CA and CACF's IDRs would likely result in a downgrade of FCA Bank's IDR, reflecting a lower ability to support a strategically important subsidiary.

**Sovereign Rating:** While FCA Bank's ratings are not constrained by Italy's sovereign, Fitch is unlikely to widen the notching difference between FCA Bank's and Italy's IDRs to above two notches. This means that, if Italy was downgraded, we would also downgrade FCA Bank. It also means that we would keep FCA Bank's Outlook at Negative if CA's Outlook was revised to Stable at the current rating, but Italy's Outlook was revised to Negative.

**Change in Ownership Structure:** FCA Bank's ratings are sensitive to change in the ownership structure and JV agreement. The notching difference between FCA Bank's and CACF's IDRs could narrow if CACF significantly increases its stake in FCA Bank above the 50% it currently holds while remaining committed to Italy as a strategic market. Conversely, FCA Bank's ratings would come under pressure if Italy became a less strategically important market for CA. This could happen if the operating environment in Italy materially deteriorated.

**Retail Deposits in Funding Mix:** Fitch would narrow the notching difference between FCA Bank's and Italy's IDRs to one if the deposit base increased and became a material part of its funding, although this is not considered likely in the medium term.

## Ratings

### Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F1

### Local Currency

Support Rating	2
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### Sovereign Risk

Long-Term Foreign-Currency IDR	BBB-
Long-Term Local-Currency IDR	BBB-
Country Ceiling	AA-

### Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

## Applicable Criteria

[Non-Bank Financial Institutions Rating Criteria \(February 2020\)](#)

[Bank Rating Criteria \(February 2020\)](#)

## Related Research

[Fitch Affirms FCA Bank S.p.A. at 'BBB+'; Outlook Negative \(May 2020\)](#)

[Fitch Downgrades Italy to 'BBB-'; Outlook Stable \(April 2020\)](#)

[Fitch Revises FCA Bank's Outlook to Negative on Similar Action to Parent \(April 2020\)](#)

[Coronavirus Impact Will Test EMEA NBFIs' Business Models \(March 2020\)](#)

[Fitch Takes Action on 8 French Banking Groups On Coronavirus Growth Uncertainties \(March 2020\)](#)

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**FCA Bank (Irish Branch) and FCA Capital Suisse SA - Debt Rating Classes**

Rating level	Rating
Senior unsecured	BBB+

Source: Fitch Ratings

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FCA Bank Irish Branch's senior unsecured notes rank pari passu with FCA Bank's senior unsecured obligation. FCA Capital Suisse SA's senior unsecured notes are unconditionally and irrevocably guaranteed by FCA Bank, and rank pari passu with the guarantor's senior unsecured obligations.

Fitch rates FCA Bank Irish Branch's and FCA Capital Suisse SA's senior unsecured debt ratings at 'BBB+'. This is in line with the Long-Term IDR of FCA Bank because we do not believe that internal resolution debt and equity buffers would offer obvious incremental protection over and above the institutional support benefit already factored into the bank's IDRs.

## Ratings Navigator

Institutional Support				Value
Parent IDR				A+
Total Adjustments (notches)				-3
<b>Institutional Support:</b>				<b>BBB+</b>
Support Factors (negative)	Equalised	1 Notch	2+ Notches	
Parent ability to support and subsidiary ability to use support				
Parent/group regulation		✓		
Relative size		✓		
Country risks			✓	
Parent Propensity to Support				
Role in group		✓		
Potential for disposal		✓		
Implication of subsidiary default		✓		
Integration		✓		
Size of ownership stake			✓	
Support track record		✓		
Subsidiary performance and prospects		✓		
Branding			✓	
Legal commitments		✓		
Cross-default clauses			✓	

Bar Chart Legend	
Tick Colors - Influence on final IDR	
■	Higher influence
■	Moderate influence
■	Lower influence

## Significant Changes

### Operating Environment Affected by Coronavirus Pandemic

The banking sector outlook has deteriorated since the coronavirus shock relative to our previous expectations of a stabilisation in performance and further asset quality improvement in 2020. We revised down the sector outlook for Italian banks to Negative from Stable, and also revised the outlook on the assessment of the operating environment for the banks to Negative from Stable in March 2020. The deep recession will likely amplify credit quality risks and put pressure on earnings and profitability for the banking sector. At 26 May 2020, Fitch expected a 9.5% GDP contraction in 2020 and a partial 4.2% recovery in 2021. The government's support measures for corporates and households, including guarantees on loans to SMEs, should partly support asset quality and mitigate the adverse impact on banks.

### Sovereign Downgrade

In April 2020, Italy's sovereign rating was downgraded to 'BBB-/Stable' from 'BBB/Negative', due to the significant impact of the global coronavirus pandemic on Italy's economy and the sovereign's fiscal position.

Structurally, Italy continues to have a large, high value-added, diversified and wealthy economy. The Italian private sector has some buffers to withstand the sharp short-term deterioration in the economic outlook. Household debt is extremely low (53% of GDP in 3Q19) compared to other European countries, and net financial wealth (financial assets minus financial liabilities) at 195% of GDP is well above the level across the eurozone (153%)

### CA's Outlook Revised to Negative

Fitch revised CA's Outlook to Negative from Stable, while affirming the group's 'A+' Long-Term IDR and 'a+' Viability Rating, because the economic fallout from the coronavirus outbreak represents a medium-term risk to CA's ratings.

The bank entered the economic downturn from a relative position of strength given its very diverse business model and leading franchise in multiple segments. The group's low-risk appetite, sound asset quality together with a solid capital position, resilient profitability and strong funding are supportive of the ratings. However, the economic and financial market fallout from the pandemic creates additional downside risks to its operating environment, asset quality, earnings and capitalisation.

## Institutional Support Assessment

### FCA Bank's Role in the CA Group

Fitch considers FCA Bank to be a strategically important subsidiary for CA due to its strategy in Italy and in automotive leasing, as indicated in CA's 2022 Ambitions. However, we do not consider FCA Bank to be a core subsidiary because its sale would not materially alter CA's own profile, although a disposal is highly unlikely.

### High Integration in Fiat Chrysler Automobiles Caps Support from CA

Besides changes in the Italian operating environment, the attractiveness of FCA Bank for CA is ultimately influenced by its role in and by the viability of the industrial strategy of Fiat Chrysler Automobiles. FCA Bank plays an important role in the promotion of the group's car sales (FCA Bank finances about 50% of group's sales in its countries of operations), shares the same brand and has a high level of management and operational integration. The prominent role of Fiat Chrysler Automobiles drives the three-notch difference between CACF and FCA Bank's IDRs.

### Merger of Fiat Chrysler and Peugeot SA Group

The announced merger between Fiat Chrysler and Peugeot SA may entail a re-organisation of their respective captive lenders. However, the groups' priority seems to achieve industrial synergies first. We expect no changes, at least until the expiration of FCA Bank's shareholders' agreement (end-2024). Any notice about changes in the structure must be communicated by end-2021.

Once the transaction is completed and the strategy for the financial services of the resulting group is clarified, Fitch will assess the potential impact on FCA Bank's ratings.

## Company Summary

### Captive Lender, with Moderate Portfolio of Non-FCA Brands

FCA Bank is the captive finance arm of Fiat Chrysler, offering financing solutions to support the group's car sales. Core businesses are retail financing (61% of loans at end-2019), for both individual and SME end-customers, and dealer financing (26%), mainly for working capital needs. FCA Bank's performance is linked to the car sales of Fiat Chrysler. However, in Fitch's view, FCA Bank's performance is more stable than Fiat Chrysler because, when sales are low, a higher portion is achieved through captive financing.

FCA Bank originates most of its new loans from brands owned by Fiat Chrysler, but it has been gradually increasing the number of brands to which it provides financial services as a non-captive bank (13 brands at end-2019 and about 20% of new loans by volume in 2019). Jaguar and Land Rover represent the bulk of the non-captive operations (17%), followed by Ferrari (4%). Other brands represent marginal, but growing, share and we expect further growth of the non-captive operations in the medium term.

### Increasing Focus on Rental Solutions

FCA Bank directly owns the group's rental company, Leasys S.p.A., which offers long-term rental solutions (13% of outstanding lease portfolio at end-2019) and is expanding in short-term rental as well. Long-term rental provides a wide range of products (car rental and fleet management, both FCA-brand vehicles and multi-brand products) to large customers, SMEs, professionals and individuals, typically for a period of 12-48 months. Leasys S.p.A. in Italy accounts for about 65% of the business and acts as sub-holding for the long-term rental business undertaken by other subsidiaries and branches in Europe (total fleet of about 280,000 cars at end-2019).

Leasys is still a minor profit contributor, but Fitch expects FCA Bank to achieve its highest growth potential in this segment, as it transitions from asset financing to the provision of mobility services. Leasys has about a 30% market share in operating leasing by number of vehicles in Italy and is a niche player in other countries, but it is growing fast (26% CAGR between 2016 and 2019), in line with a long-term trend away from direct car ownership.

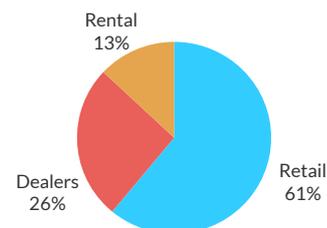
## Qualitative Assessment Factors

### Operating Environment

#### Focus on Italy, but Pan-European Presence

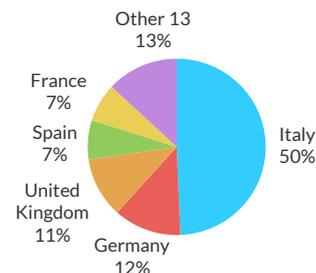
FCA Bank promotes car sales of Fiat Chrysler brands across western Europe (17 countries) and Morocco, so the distribution of its loan portfolio mirrors the sales volumes of Fiat Chrysler in the various countries. Italy is the largest market (48% of outstanding loans at end-2019),

Business Lines by Portfolio at End-2019



Source: Fitch Ratings

Share of Operating Income by Country in 2019



Source: Fitch Ratings

followed by Germany, the United Kingdom, France and Spain (40% in total). Fitch views positively this geographical diversification outside Italy, especially in terms of higher loan origination and lower credit risk.

FCA Bank obtained its banking licence in 2015 and it is regulated directly by the Bank of Italy and indirectly by the European Central Bank (through CA).

### ***Car Sales Hit by Pandemic***

Car-financing has been historically more resilient than other bank lending, due to a higher portfolio granularity and to a strong payment discipline by borrower to keep their cars. Credit risk is thus lower than at other banks, which are exposed to small and medium enterprises. We expect that asset quality at car lenders may moderately weaken from a low base. Strong safety nets in continental Europe should limit jobs dislocation and cushion the deterioration of credit quality across retail clients, while dealer financing could require a re-profiling as cars are sold later than originally expected.

The coronavirus pandemic will depress car sales in 2020, since dealers have been forcibly closed during the lockdown period and clients delay large expenses in uncertain conditions. We expect that delayed consumption will only partially be postponed in 2H20. However, lower car sales will less than proportionally translate in lower car loans origination, as car manufacturers will use car loans from their captive lenders to promote their car sales.

### **Management and Strategy**

#### ***Integrated Corporate Culture, Tested Track Record***

Fiat Chrysler and CA renewed their shareholders' agreement in 2019 until December 2024, under which Fiat Chrysler appoints the chief executive (General Manager Giacomo Carelli) and CA the chief financial officer (Deputy General Manager Franco Casiraghi) and the head of credit. Fitch sees this governance structure positively as it integrates CA's risk governance and the industry expertise of Fiat Chrysler. The JV's corporate culture benefits from the physical proximity to Fiat Chrysler, with whom FCA Bank shares its headquarters in Turin. The senior management has been with FCA Bank for a considerable length of time and has a high degree of depth and experience, in Fitch's view.

#### ***Stable Long-Term Strategy, Focus on Leasys***

FCA Bank's strategy reflects a medium-term horizon and has been consistent over time. FCA Bank's core goal is the growth of its rental business (Leasys) and, possibly, of new mobility ecosystems, especially towards individuals as a natural development to meet a growing demand by customers. Other targets are the cooperation with new non-FCA manufacturers, digitalisation and the internationalisation of Leasys within Western Europe. The overall group's business expansion is in our opinion moderate and sustainable.

### **Risk Appetite**

#### ***Robust Risk Governance, Driven by CA***

FCA Bank's risk framework mirrors CA's and is monitored at CA's level. FCA Bank's credit policies and scorecards are decided centrally, while approval authority at each operating entity is limited. Scorecards are tailored for each product and country, with regular calibration and no possibility of manual override. Impairment policy is prudent, in Fitch's view, and the granular portfolio is collectively impaired according to statistical models. Residual-value risk is assessed quarterly against the evolution of the market for used cars, ensuring that FCA Bank can resell them on the secondary market.

Foreign exchange and interest rates are hedged in highly liquid derivative markets and CA standards encompass a conservative policy on liquidity matching.

## Financial Metrics

### Asset Quality

#### Moderate Impact from Coronavirus-Induced Crisis

We project impaired loans to increase by end-2020 to about 2%-3% of the gross loan portfolio. Car loans should be less affected by the quarantine than corporate and SME loans owing to their high granularity, the focus on employees (86% of retail portfolio) and to the clients' high payment discipline. Dealer financing presents limited credit risk, because the financed stock of cars held at dealerships incurs minimal depreciation and does not need to be increased. We expect the origination of problem loans to subside in 2021.

FCA Bank's portfolio consists of secured loans, backed by automotive vehicles and dealers' assets (working capital and outlets). Swift repossession on a borrower's default leads to a limited cost of risk, materially below the impaired loans ratio in the last ten years. The impairment coverage of problem loans is high and has remained at about 90% for some years, despite the coverage by specific reserves being only 49% at end-2019, reflecting the presence of valuable collateral.

### Earnings and Profitability

#### Lower Origination Reduces Interest Income

Lower origination will reduce FCA Bank's pre-tax income by up to one-third in 2020 in Fitch's view, but we expect a rebound in 2021. Positively, FCA Bank's modest profitability reflects a low credit risk in its portfolio. Operating efficiency is sound owing to good cost control and to the absence of a proprietary outlet network. Funding costs benefit from access to ECB facilities and from the healthy appetite for FCA Bank's secured and unsecured issuance programmes among wholesale investors.

The litigation against the Italian Antitrust Authority may still impact earnings, although FCA Bank has already provisioned EUR60 million out of the potential fine of EUR178.9 million. The court hearing has been delayed to October 2020 following the introduction of additional reasons by some plaintiffs and we do not expect any impact to crystallise during 2020.

### Capitalisation and Leverage

#### Sound Capital Buffers

FCA Bank's capitalisation is sound (CET1 of 14.2% at end-2019) and further supported by a secured loans portfolio and a prudent capital retention policy. Lower origination of new loans should lead to a RWA contraction in 2020, but we expect capitalisation to remain at current levels in the medium term. The full impairment of the antitrust fine would be manageable as it accounts for about 60bp of CET1.

In December 2019, capitalisation was strengthened by a second significant-risk-transfer transaction, through which FCA Bank optimised its risk-weighted assets calculating the capital absorption on the securitisation notes rather than the underlying loans (total relief of EUR 640 million).

### Funding and Liquidity

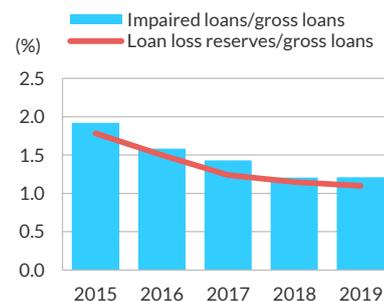
#### Diversified Wholesale Funding, Small Portion of Deposits

FCA Bank's funding and liquidity are underpinned by the JV agreement with CA, which provided 13% of total debt at end-2019. Under the agreement (expiring in December 2024), CA is committed to provide funding and liquidity constantly to FCA Bank, priced at market rates and enough to meet the bank's needs even in the most stressful scenarios. Fitch believes funding support from CA, if needed, would be timely and adequate, but we also expect an increasingly autonomous funding profile.

The bank's funding is largely wholesale (e.g. bonds, bank debt, ECB loans). Since 2015, when it received a full bank status, the bank collects customer deposits, which at end-2019 had grown but remained relatively immaterial (4% of non-equity funding). In addition, FCA Bank has access to ECB Funding (i.e. targeted longer-term refinancing operations) and issues European commercial paper.

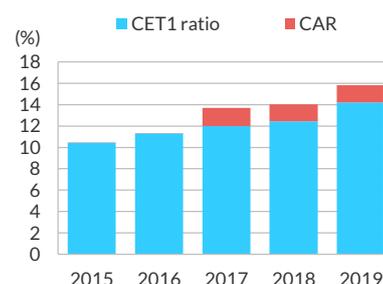
FCA Bank has significantly diversified its wholesale funding, both in terms of counterparties and instruments. It regularly taps the debt capital markets through its EUR12 billion medium-term note programme and its securitisations. The current crisis has increased the cost of funding for securitised transactions, but we do not expect limitations in terms of access to funding.

### Asset Quality



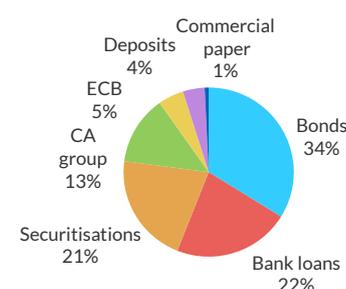
Source: Fitch Ratings

### Capitalisation & Leverage



Source: Fitch Ratings

### Funding Sources



Source: Fitch Ratings

**Balance Sheet**

EUR million	2019	2018	2017	2016	2015
<b>Assets</b>					
Cash & Equivalents	585	363	0	0	0
Due from Banks & Financial Assets	2,093	2,230	2,180	1,645	1,490
Gross Receivables	24,176	23,862	21,521	18,839	15,735
Memo: Impaired Receivables Included Above	299	288	308	298	302
Less: Receivable Loss Allowances	-271	-274	-267	-283	-281
Net Receivables	23,905	23,588	21,254	18,556	15,454
Goodwill and Intangible Assets	263	247	237	226	218
Tax Assets	300	274	269	259	281
Fixed Assets	3,197	2,547	1,959	1,491	1,168
Insurance Reserves	13	10	11	16	22
Other Assets	1,350	1,279	1,276	1,091	876
<b>Total Assets</b>	<b>31,706</b>	<b>30,536</b>	<b>27,187</b>	<b>23,284</b>	<b>19,509</b>
<b>Liabilities</b>					
Deposits from Clients	1,799	1,823	1,483	702	454
Deposits from Banks	10,278	9,807	8,556	8,022	7,651
Debt Securities	14,857	14,577	13,336	11,088	8,244
Tax Liabilities	238	192	167	131	109
Other Liabilities	1,121	997	932	870	709
<b>Total Liabilities</b>	<b>28,293</b>	<b>27,396</b>	<b>24,474</b>	<b>20,812</b>	<b>17,166</b>
<b>Total Equity</b>	<b>3,413</b>	<b>3,140</b>	<b>2,713</b>	<b>2,471</b>	<b>2,343</b>
<b>Total Liabilities and Equity</b>	<b>31,706</b>	<b>30,536</b>	<b>27,187</b>	<b>23,284</b>	<b>19,509</b>

Source: Fitch Ratings, FCABank S.p.A.

## Income Statement

EUR million	2019	2018	2017	2016	2015
<b>Revenue</b>					
Interest Income	930	903	855	764	729
Interest Expense	-237	-242	-266	-263	-285
Commission Income	148	164	133	123	120
Commission Expense	-46	-55	-49	-43	-40
<b>Net Interest Income</b>	<b>795</b>	<b>771</b>	<b>672</b>	<b>581</b>	<b>524</b>
Income from Operating Leasing, Net	658	539	463	430	392
Labour and Administrative Costs	-278	-268	-252	-245	-227
Depreciation & Amortisation	-452	-375	-319	-287	-265
Other Operating Expenses	0	-76	5	-11	-6
Other Income, Net	-39	-22	-16	-5	19
Impairment Expenses	-47	-21	-33	-47	-77
<b>Pre-Tax Income</b>	<b>638</b>	<b>548</b>	<b>521</b>	<b>417</b>	<b>359</b>
Income Tax	-171	-159	-139	-105	-110
<b>Net Income</b>	<b>467</b>	<b>388</b>	<b>383</b>	<b>312</b>	<b>249</b>

Source: Fitch Ratings, FCABank S.p.A.

## Summary Analytics

(%)	2019	2018	2017	2016	2015
<b>Asset Quality Metrics</b>					
Impaired Loans / Gross Loans	1.2	1.2	1.4	1.6	1.9
Loans Loss Allowances / Impaired Loans	90.5	95.2	86.8	94.9	92.9
Impaired Loans Less Loss Allowances / Equity	0.9	0.5	1.5	0.7	1.3
Loans Impairment Charges / Average Gross Loans	0.1	0.1	0.1	0.3	0.2
Growth of Gross Loans	1.3	10.9	14.2	19.7	15.4
<b>Earnings and Profitability Metrics</b>					
Pre-Tax Income / Average Assets	2.1	1.9	2.1	1.9	2.0
Pre-Tax Income / Average Equity	19.5	18.7	20.1	17.3	16.0
Operating Expenses / Net Revenues	35.2	34.8	37.7	42.4	43.6
Depreciation Expenses / Total Revenues	57.1	48.6	47.7	49.8	50.9
Interest Income / Average Gross Loans	4.1	4.3	4.5	4.7	5.4
Interest Expense / Average Debt	1.1	1.2	1.5	1.7	2.1
<b>Capitalization and Leverage Metrics</b>					
Debt / Tangible Equity (x)	9.4x	10.0x	10.6x	10.0x	8.9x
Capital Adequacy Ratio	15.8	14.0	13.7	11.3	10.5
CET1 Ratio	14.2	12.5	12.0	11.3	10.5
Impaired Receivables Less Loss Allowances / Equity	0.9	0.5	1.5	0.7	1.3
<b>Funding and Liquidity Metrics</b>					
Unsecured Debt / Total Debt	79.0	78.0	81.0	82.1	80.6
Parental Funding / Total Funding	13.1	11.6	11.7	14.4	16.9
Unsecured Debt / Total Non-Parental Debt	75.9	75.1	78.4	79.0	76.7

Source: Fitch Ratings, FCABank S.p.A.

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