

Research Update:

FCA Bank SpA Outlook Revised To Stable On Similar Action On Italy; 'BBB/A-2' Ratings Affirmed

October 29, 2020

Overview

- On Oct. 23, 2020, S&P Global Ratings revised the outlook on Italy to stable from negative and affirmed the 'BBB/A-2' ratings.
- We think this removes the main risk to FCA Bank SpA's creditworthiness.
- Although the COVID-19 pandemic continues causing economic uncertainty in Italy, we still expect FCA Bank's parent, Credit Agricole S.A. (CASA), will provide sufficient support if FCA Bank's asset quality, earnings, and capitalization come under pressure.
- We are revising the outlook on FCA Bank to stable from negative and affirming our 'BBB/A-2' long- and short-term issuer credit ratings on the bank.
- The stable outlook primarily reflects our expectation that CASA would likely provide support if deteriorating economic conditions weakened FCA Bank's stand-alone creditworthiness.

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Rating Action

On Oct. 29, 2020, S&P Global Ratings revised the outlook on FCA Bank to stable from negative and affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on the bank.

Rationale

The outlook revision to stable from negative follows the revision of the outlook on Italy to stable. It also follows an update to our macroeconomic view on Italy. We think the outlook revision on Italy removes the main risk to FCA Bank's creditworthiness. Although we still expect the COVID-19 pandemic to cause a severe recession in Italy in 2020, we think FCA Bank's creditworthiness will likely remain less susceptible to further deteriorations in the operating environment.

We consider FCA Bank a strategically important subsidiary for CASA because it is an important pillar in CASA's business strategy in consumer finance. We think CASA will provide extraordinary support to FCA Bank, if needed, to preserve the value of FCA Bank--an otherwise profitable subsidiary--even in the event of a deterioration of FCA Bank's stand-alone creditworthiness.

However, this potential extraordinary support from CASA would not be sufficient to allow the bank to withstand a sovereign default stress scenario, leading us to cap the ratings on FCA Bank at the level of the sovereign ratings on Italy.

Under our base case, we expect the pandemic will put pressure on borrowers' creditworthiness, leading to lower forecasted earnings and increasing credit loss provisions in 2020-2021. However, we expect FCA Bank's sound capital buffer will help it offset these issues.

We also continue to factor in the funding support we expect from CASA over the upcoming quarters, in line with the terms of the joint-venture (JV) agreement. Considering funding and liquidity are the main risks for the bank's predominantly wholesale-funded business model, having a strong and supportive owner is a clear strength that supports our 'BBB' rating on the bank.

We will monitor developments on the merger between Fiat Chrysler Automotive N.V. (FCA) and Peugeot S.A. (Peugeot). Following the merger, we think FCA and Peugeot might reconsider their respective long-term strategies for their captive finance subsidiaries. We will therefore reassess how the new group's JV agreements develop and how this might affect FCA Bank.

Outlook

The stable outlook on FCA Bank mirrors that on Italy. It reflects our opinion that FCA Bank will likely receive extraordinary support from CASA in case of stress. However, this support will not extend to a level sufficient to allow FCA Bank to withstand a sovereign default stress scenario.

Downside scenario

We could lower the ratings if we downgraded Italy. Although not our current base case, we could also downgrade FCA Bank if we anticipated that extraordinary support from CASA would materially diminish. A downward revision of FCA Bank's stand-alone credit profile--for example, due to a deterioration in the economies in which the bank operates (particularly Italy, France, U.K., and Spain) harming the bank's profitability and capitalization--would not lead to a downgrade, absent a sovereign downgrade and provided FCA Bank remained a strategically important subsidiary for CASA. This is because we would incorporate an additional notch for support from CASA.

Upside scenario

Although the probability of an upgrade is remote, we could raise the ratings on FCA Bank in the next 12-24 months if we upgraded Italy, provided our view on potential support from CASA had not changed.

Ratings Score Snapshot

Table 1

FCA Bank SpA -- Ratings Score Snapshot

Issuer Credit Rating	BBB/Stable/A-2
SACP	bbb-

Table 1

FCA Bank SpA -- Ratings Score Snapshot (cont.)

Anchor	bbb
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	(+1)
ALAC Support	(0)
GRE Support	(0)
Group Support	(+1)
Sovereign Support	(0)
Additional Factors	(0)

SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Group Rating Methodology, 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- 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

- Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2', Oct. 23, 2020
- EMEA Financial Institutions Monitor 4Q2020: Banks Prepare As Winter Is Coming, Oct. 23, 2020
- How COVID-19 Is Affecting Bank Ratings: October 2020 Update, Oct. 22, 2020
- Economic Research: European Economic Snapshots: A Second COVID-19 Wave Is Dampening

The Recovery, Oct. 14, 2020

- COVID-19 Puts The Brakes On Capital Strengthening For The 50 Largest European Banks, Oct. 14, 2020
- Banking Horizons Europe 2020: COVID-19 As A Catalyst For Change, Oct. 13, 2020
- European Bank Asset Quality: Half-Year Results Tell Only Half The Story, Sept. 28, 2020
- FCA Bank SpA, July 3, 2020
- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020

Ratings List

Outlook Action / Ratings Affirmed;

	To	From
FCA Bank SpA		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2

Ratings Affirmed

FCA Bank SpA	
Senior Unsecured	BBB

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