TUESDAY, 17/05/2022 - Scope Ratings GmbH

Scope affirms A rating on FCA Bank SpA, changes Outlook to Positive

The change in Outlook reflects the prospect of tighter integration into the Crédit Agricole group.

Rating action

Scope Ratings GmbH (Scope) has today affirmed its ratings on FCA Bank SpA (FCAB) and changed the Outlook to Positive. The following ratings have been affirmed:

- Issuer rating of A with a Positive Outlook (from Stable)
- Senior unsecured debt rating of A with a Positive Outlook (from Stable)

Rating rationale

FCAB has entered a period of significant change as the bank's shareholders, Crédit Agricole and Stellantis, have announced[1] the termination of their long-standing joint venture and the purchase by Crédit Agricole of Stellantis' stake in the issuer.

Following the completion of the transaction, FCAB will be a wholly owned subsidiary of the Crédit Agricole group.

The change in Outlook to Positive (from Stable) reflects Scope's view that, upon the completion of the announced transaction, the credit profile of FCAB will be more closely aligned to that of Crédit Agricole. However, as the deal is only expected to be completed in 2023, Scope still considers the current rating level appropriate.

The issuer rating reflects FCAB's solid standing as one of Europe's largest car-finance providers, operating in 17 European countries as well as in Morocco, primarily serving the brands of the Stellantis group. Under the announced terms, the bank's perimeter is set to shrink significantly. The non-banking activities of FCAB subsidiary Leasys (excluding Leasys Rent) will be transferred to a new joint venture between Stellantis and Crédit Agricole, and new origination will suffer from the termination of the partnership with the Stellantis group. The bank will continue to finance cars in the retail market as well as independent dealers. Scope expects FCAB to develop a strategy centred around the consolidation of current white-label agreements, the pursuit of new partnerships and the expansion of the rental and mobility business through Leasys Rent.

FCAB's upcoming shift in business model, from being a captive of the Stellantis group to an independent finance provider within the Crédit Agricole group, will afford the bank higher strategic freedom and could be a powerful catalyst for a faster transition to a more environmentally friendly business given Crédit Agricole's focus on environmental, social and governance issues.

The ratings are supported by FCAB's strong earnings generation capacity and asset quality. Financial performance has proved resilient, with the double-digit return on equity driven by high cost-efficiency and low cost of risk.

The ratings further benefit from FCAB's comfortable headroom above its minimum capital requirements. As of December 2021, FCAB had a transitional CET1 ratio of 18.4% and a total capital ratio of 20.3%. The regulatory requirement is for the bank to meet a CET1 ratio of 7% and a total capital ratio of 10.5%. The fully loaded leverage ratio of 13.6% as of year-end 2021 is high compared to peers', reflecting the high average RWA intensity of FCAB's balance sheet.

The bank has diversified funding sources over the past decade, adding deposits, medium-term notes and commercial paper. FCAB has also drawn on the ECB's TLTRO III programme. The balance of funding is made up of securitisations and committed bank lines, especially from Crédit Agricole.

FCAB's ratings benefit from one notch of uplift on account of the relationship with its 'financial' shareholder, Crédit Agricole. The French group, which holds a 50% stake in the bank, provides both banking expertise and continuous financial support. Scope believes it has both the ability and willingness to support FCAB in case of need.

Scope anticipates that, upon a successful execution of the announced transaction, FCAB's credit profile would further improve on account of its higher integration into the Crédit Agricole group, even with the likely decline in business perimeter and volumes.

FCAB's issuer rating is two notches above the rating of the Republic of Italy (BBB+/Stable). In accordance with Scope's bank rating methodology, no mechanistic caps are applied based on the sovereign rating, although sovereign risk is considered for each issuer. In FCAB's case, the correlation between the bank and the sovereign is low due to FCAB's geographic diversification and lack of exposure to Italian sovereign bonds.

Outlook and rating-change drivers

Scope's Positive Outlook indicates that the risks to the current rating level are skewed to the upside.

What could move the credit rating up:

- The completion of the announced transaction as planned (which Scope considers likely), resulting in a higher integration of the bank into the Crédit Agricole group, could have positive rating implications, even with the likely decline in business perimeter and volumes.

What could move the credit rating down:

- A failure to complete the transaction and/or evidence of lower commitment from Crédit Agricole would increase strategic uncertainty as to the bank's future and could lead to a credit rating downgrade.

Rating construct

Operating environment: supportive

Business model: consistent

Initial mapping refinement: high

Initial mapping: bbb/bbb+

Long-term sustainability (ESG-D): developing

Adjusted anchor: bbb

Earnings capacity and risk exposures: supportive

Financial viability management: comfortable

Additional factors: neutral factor

Standalone rating: a-

External support: subsidiary, less integrated

Approach: bottom-up

Support notches: 1

Long-term issuer rating: A

Rating driver references
1. Crédit Agricole Consumer Finance and Stellantis signed binding agreements for their strengthened partnership (April 1, 2022)

Stress testing & cash flow analysis
No stress testing was performed. No cash flow analysis was performed.

Methodology
The methodology used for these Credit Ratings and/or Outlooks, (Financial Institutions Rating Methodology, 28 January 2022), is available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of

the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at

https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information
The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.
The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.
Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.
Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlooks and the principal grounds on which the Credit Ratings and/or Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures
These Credit Ratings and/or Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlooks are UK-endorsed.
Lead analyst: Marco Troiano, Managing Director
Person responsible for approval of the Credit Ratings: Pauline Lambert, Executive Director
The Credit Ratings/Outlooks were first released by Scope Ratings on 17 May 2019. The Credit Ratings/Outlooks were last updated on 16 June 2021.

Potential conflicts
See www.scoperatings.com under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

Conditions of use/exclusion of liability

SHARE

CONTACT INFO

Marco Troiano
Analyst

m.troiano@scoperatings.com

Marco Troiano
Team leader

m.troiano@scoperatings.com

ISSUERS	**1**
INSTRUMENTS	**11**