# 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+/Stable/F1), and ultimately from Credit Agricole (CA; A+/Stable/F1). CA holds a 50% stake in FCA Bank via CACF and provides support to 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/F3).

Fitch does not factor any support from Fiat Chrysler into FCA Bank's ratings.

**IDR Notched Down Thrice:** 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.

**Rating Above the Sovereign:** Fitch Ratings rates FCA Bank one notch above Italy's sovereign rating (BBB/Negative) as FCA Bank has no direct exposure to Italian sovereign risk. Fitch also 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.

**Upgrade of Short-Term IDR:** The upgrade follows an update of our rating criteria and reflects the typically higher certainty of parental support in the near term, the lack of impediments to the prompt flow of funds from the CA group to FCA Bank and FCA Banks's role in the CA group.

**Parent's Funding Gradually Reducing:** 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 that started in 2010, which 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:** An upgrade of CA and CACF's IDRs could result in an upgrade of FCA Bank's Long-Term IDR if the Italian operating environment does not deteriorate and if FCA Bank's exposure to Italian sovereign risk remains limited. Conversely, a downgrade of CA and CACF's IDRs would likely result in a downgrade of FCA Bank's IDR, reflecting a weakening of their ability to support a strategically important subsidiary.

**Sovereign Rating:** Fitch would unlikely widen the notch difference between FCA Bank and Italy's respective IDRs to above two notches. Hence, if Italy is downgraded by one notch with a Negative Outlook, we would likely revise FCA Bank's Outlook to Negative. Likewise a downgrade of Italy by more than one notch would lead to a downgrade of FCA Bank' IDR.

**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' ratings would come under pressure if Italy becomes a less strategically important market for CA, which could arise if the operating environment in Italy materially deteriorates.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | BBB+ |
| Short-Term IDR | F1 |
| Support Rating | 2 |
| **Sovereign Risk** | |
| Long-Term Foreign-Currency IDR | BBB |
| Long-Term Local-Currency IDR | BBB |
| Country Ceiling | AA |

### Outlooks

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

## Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (October 2018)

Short-Term Ratings Criteria (May 2019)

## Related Research

Fitch Affirms FCA Bank at 'BBB+'/Outlook Stable; Upgrades Short-Term IDR to 'F1' (May 2019)

Fitch Places 31 EMEA Bank ST Issuer Ratings Under Criteria Observation (May 2019)

Fitch Affirms Italy at 'BBB'; Outlook Negative (August 2019)

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## Significant Changes

### Integration between Fiat Chrysler and Peugeot SA Group Could Affect FCA Bank's Ratings in the Medium Term

Fiat Chrysler has been vocally interested in the consolidation of the automotive industry for many years, exploring potential M&A activity with various partners. On 31 October 2019, the boards of Fiat Chrysler and Peugeot SA agreed to work towards a merger and finalise the discussions in the subsequent weeks.

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.

## Institutional Support Assessment

### FCA Bank's role in the CA group

Fitch deems FCA Bank to be a strategically important subsidiary for CA due to its strategy in Italy. CA confirmed its commitment to the country, most recently underwriting a put option for 10% of Agos Ducato's shares (from 61% to 71%). We do not deem FCA Bank to be a core subsidiary because its sale would not materially alter CA's own profile, although a displosal 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 for the promotion of the group's car sales (FCA Bank financed 48% of sales in 1H19 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.

## Company Summary and Key Qualitative Assessment Factors

### Operating Environment

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

FCA Bank chiefly 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 and Germany are, thus, the largest markets (48% and 17% of outstanding loans, respectively, at end-1H19), followed by the United Kingdom, France and Spain. Fitch views positively this geographical diversification relative to domestic peers operating only in Italy, especially in terms of higher loan origination and lower credit risk.

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

#### *Car-Financing Resilient Despite Decreasing Car-Sales in Key Markets*

In 2018, the automotive market in FCA Bank's countries of operations registered 15.2 million new passenger cars and commercial vehicles, in line with the previous year (+0.3% yoy). However, in 9M19 new car registrations contracted by 2% and, despite an uptick in October, Fitch expects this trend to continue until end-2019 and for 2020. Sales of new cars contracted in all key markets, but for Germany (+2.5%), but the origination of new loans picked up as automotive companies promoted their financing solutions as marketing tool. Combined EMEA shipments of FCA brands declined by 4% in 9M19, driven by the weakening economic cycle and the uncertainty among consumers about the transition from the diesel technology towards more environmentally friendly engines.

### Company Profile

#### *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 (60% of loans at end-1H19), for both individual and SME end-customers, and dealer financing (28%), mainly for working capital needs. FCA Bank also directly owns the group's rental company, Leasys S.p.A., which offers long-term rental solutions (12% of outstanding lease portfolio at end-1H19) and is expanding in short-term rental as well. FCA Bank's performance is linked to the car sales of Fiat Chrysler. However, in Fitch's view, FCA Bank has more stable performance than Fiat Chrysler because, when sales are low, a higher proportion is achieved through captive financing.

FCA Bank originates about 80% of its new loan for 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 (10 as of 2019). Jaguar and Land Rover represent the bulk of the non-captive operations (17% of new loans by volume in 2018).

### *Ongoing Simplification of the Corporate Structure*

FCA Bank's international presence drives its organisational complexity, due to different local regulations. FCA Bank operates through 27 legal entities and nine branches in the different jurisdictions, comprising banks, non-bank financial institutions and pure corporates subject to different controls, regulation and supervision mechanisms. However, the tight integration of the subsidiaries and their relatively small size means that visibility of the parent into the various legal entities is high. Fitch views positively that FCA Bank has been replacing some of its current subsidiaries with foreign branches since mid-2016, simplifying management and improving capital fungibility.

FCA Bank has gradually spun-off the rental business from the different group's companies and moved all new and/or previous subsidiaries specialised in the rental business under Leasys, which now acts as a sub-holding for this business line.

## Management and Strategy

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

Fiat Chrysler and CA renewed their shareholders' agreement in 2019 until December 2024, according to which Fiat Chrysler appoints the chief executive and CA the chief financial officer and the chief credit officer. Fitch sees positively the current governance structure that 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 the headquarters in Turin. The management's top line has been in FCA Bank for considerable time and has a good degree of depth and experience, in Fitch's view.

### *Growth of Leasing, Digitalisation and Electrification*

FCA Bank expects high growth potential in car leasing through Leasys, especially towards individuals as a natural development to meet a growing demand by customers. The envisaged growth strategy across businesses is, in our opinion, moderate and sustainable. FCA Bank started to cooperate with Amazon Motors, for a full online rental portal, and plans to increase clients' usage of digital tools, including for online pre-eligibility assessment. FCA Bank plans also to increase the number of electric charging points across the network of mobility stores, Leasys' offices and dealers' outlets.

## 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.

## Summary Financials and Key Ratios

| | 30 Jun 2019 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|---|---|
| | 6 Months - Interim | Year End | Year End | Year End | Year End |
| | EURm | EURm | EURm | EURm | EURm |
| | Reviewed - Unqualified | Audited - Unqualified | Audited - Unqualified | Audited - Unqualified | Audited - Unqualified |
| **Summary Income Statement** | | | | | |
| Net interest & dividend income | 349.0 | 661.4 | 588.8 | 501.4 | 444.5 |
| Net fees and commissions | 49.4 | 109.2 | 83.4 | 80.0 | 80.1 |
| Other operating income | 0.0 | 152.9 | 138.2 | 178.5 | 142.1 |
| Total operating income | 398.4 | 923.5 | 810.4 | 759.9 | 666.7 |
| Operating costs | 366.5 | 322.3 | 222.4 | 240.6 | 229.8 |
| Pre-impairment operating profit | 31.9 | 601.2 | 588.0 | 519.3 | 436.9 |
| Loan & other impairment charges | 23.0 | 20.7 | 32.6 | 74.9 | 96.5 |
| Operating profit | 8.9 | 580.5 | 555.4 | 444.4 | 340.4 |
| Other non-operating items (net) | 304.7 | -32.9 | -34.3 | -27.9 | 19.0 |
| Tax | 75.1 | 159.2 | 138.6 | 104.9 | 110.3 |
| Net Income | 238.5 | 388.4 | 382.5 | 311.6 | 249.1 |
| Other comprehensive income | -7.9 | -5.7 | -7.7 | -63.7 | 28.7 |
| Fitch comprehensive income | 230.6 | 382.7 | 374.8 | 247.9 | 277.8 |
| | | | | | |
| **Summary Balance Sheet** | | | | | |
| | | | | | |
| Gross Loans | 24,330.7 | 23,854.6 | 21,305.3 | 18,838.7 | 15,734.6 |
| - ow impaired | 307.6 | 287.0 | 300.0 | 298.1 | 302.3 |
| Loan loss allowances | 271.4 | 266.6 | 259.1 | 282.8 | 280.7 |
| Net loans | 24,059.3 | 23,588.0 | 21,046.2 | 18,555.9 | 15,453.9 |
| Interbank | 2,023.5 | 2,116.9 | 1,398.9 | 1,358.2 | 1,121.1 |
| Derivatives | 135.4 | 63.4 | 72.3 | 137.2 | 147.0 |
| Other securities & earning assets | 19.1 | 2,584.8 | 2,873.1 | 1,626.9 | 1,197.5 |
| Total earning assets | 26,237.3 | 28,353.1 | 25,390.5 | 21,678.2 | 17,919.5 |
| Cash and due from banks | 767.4 | 377.0 | 8.4 | 1.5 | 1.6 |
| Other assets | 4,879.6 | 1,806.4 | 1,788.1 | 1,603.9 | 1,588.1 |
| Total assets | 31,884.3 | 30,536.5 | 27,187.0 | 23,283.6 | 19,509.2 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 2,035.6 | 1,822.7 | 1,483.5 | 264.3 | 3.9 |
| Interbank and other short-term funding | 10,225.3 | 9,807.2 | 8,555.6 | 8,459.0 | 8,100.5 |
| Other long-term funding | 14,757.6 | 14,577.2 | 13,336.3 | 11,087.6 | 8,244.3 |
| Trading liabilities and derivatives | 114.9 | 57.6 | 48.9 | 75.9 | 69.4 |
| Total funding | 27,133.4 | 26,264.7 | 23,424.3 | 19,886.8 | 16,418.1 |
| Other liabilities | 1,642.8 | 1,394.3 | 1,250.3 | 1,159.0 | 993.4 |
| Pref. shares and hybrid capital | n.a | n.a | n.a | n.a | n.a |
| Total equity | 3,108.1 | 2,877.5 | 2,512.4 | 2,237.8 | 2,097.7 |
| Total liabilities and equity | 31,884.3 | 30,536.5 | 27,187.0 | 23,283.6 | 19,509.2 |
| | | | | | |
| **Ratios (annualised as appropriate)** | | | | | |
| | | | | | |
| **Profitability** | | | | | |
| Operating profit/RWAs | 0.1 | 2.7 | 2.8 | 2.5 | 2.1 |

## Summary Financials and Key Ratios

| | 30 Jun 2019 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|---|---|
| NII/average earning assets | 2.6 | 2.5 | 2.6 | 2.6 | 2.8 |
| Non-interest expense/gross revenue | 92.0 | 34.9 | 27.4 | 31.7 | 34.5 |
| Net Income/average equity | 16.1 | 14.4 | 16.0 | 14.6 | 12.4 |
| | | | | | |
| **Asset Quality** | | | | | |
| Impaired loans ratio | 1.3 | 1.2 | 1.4 | 1.6 | 1.9 |
| Growth in gross loans | 2.0 | 12.0 | 13.1 | 19.7 | 13.2 |
| Loan loss allowances/impaired loans | 88.2 | 92.9 | 86.4 | 94.9 | 92.9 |
| Loan impairment charges/average gross loans | 0.2 | 0.1 | 0.2 | 0.4 | 0.7 |
| | | | | | |
| **Capitalisation** | | | | | |
| Fitch Core Capital ratio | n.a | 12.0 | 11.5 | 11.1 | 11.5 |
| TCE ratio | 9.1 | 8.7 | 8.4 | 8.7 | 9.7 |
| CET 1 ratio | 13.0 | 12.5 | 12.0 | 11.3 | 10.5 |
| Basel leverage ratio | 10.6 | 10.2 | 9.6 | n.a | n.a |
| Net impaired loans/FCC | n.a | 0.8 | 1.8 | 0.8 | 1.2 |
| | | | | | |
| **Funding & Liquidity** | | | | | |
| Loans/customer deposits | 1,195.3 | 1,308.8 | 1,436.2 | 7,127.8 | 403,451.3 |
| LCR | 222.0 | 259.0 | 105.0 | n.a | n.a |
| Customer deposits/funding | 7.5 | 7.0 | 6.4 | 1.3 | 0.0 |
| NSFR | 106.0 | 110.0 | 109.0 | n.a | n.a |

Source: Fitch Ratings, Fitch Solutions, FCA Bank

## Key Financial Metrics – Latest Developments

### Asset Quality

#### *Granular and Collateralised Portfolio*

In Fitch's view, asset quality is stable through the cycle and exhibits low non-performing loans, thanks to its granularity and collateral coverage. FCA Bank's portfolio consists of secured loans, backed by automotive vehicles and dealers' assets (working capital and outlets). Therefore, swift repossession upon borrower's default leads to a limited cost of risk and impaired loans ratio (0.26% and 1.26%, respectively, at end-1H19). The highly granular portfolio is a direct consequence of FCA Bank's business model as 60% of outstanding loans are in the retail segment at end-1H19. Exposures to dealers are adequately diversified by borrower (top 20 was equal to 6.4% of gross loans at end-2018) as well as by country.

Impairment coverage of problem loans is high and has remained at about 90% for some years, despite the coverage by specific reserves being only 47% at end-1H19, reflecting the presence of valuable collateral. The higher total coverage benefits from the significant amount of collective impairments on Stage 1 loans under IFRS 9.

### Earnings and Profitability

Profitability has improved over recent years and is in line with broader industry averages, in Fitch's view. In 1H19, the interest income was the main revenue source and benefited from growing volumes and a stable net interest margin, due to the parallel decline in portfolio yield and cost of funding. Other revenue mainly comes from the rental business, net of its operating costs and fleet amortisation, and we expect this stream to increase in the medium term. Operating efficiency is sound thanks to a 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 programs among wholesale investors.

#### *Anti-Trust Fine Weighs on Profitability*

The Italian Anti-Trust Authority levied a EUR179 million fine on FCA Bank in January 2019, within an investigation on alleged information exchanges among nine captive car finance companies to coordinate their strategies. FCA Bank recognised a EUR60 million provision although the fine is temporarily frozen. The process is expected to begin in early 2020, but Fitch has no visibility about the possible outcome.

### Capitalisation and Leverage

#### *Sound Capital Buffers*

FCA Bank's capitalisation is modest, but partial mitigation comes from a secured loans portfolio and a prudent capital retention policy. FCA Bank decreased its pay-out policy to strengthen capitalisation while growing its assets by more than half between 2015 and 2018.

In 2017, capitalisation was strengthened by a EUR330 million subordinated debt and a 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.

### 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 11% of total debt at end-1H19. Under the agreement (expiring in December 2024), CA is committed to provide funding and liquidity constant and available to FCA Bank, priced at market terms and in the amount to fill the bank's need 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 started to collect customer deposits, which at end-1H19 had grown but remained relatively immaterial (4% of non-equity funding).

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 euro medium-term note programme and its securitisations.

In addition, it also has access to ECB Funding (i.e. targeted longer-term refinancing operations (TLTRO) and TLTRO 2) and, in 2018, FCA Bank began issuing through a new European commercial paper programme. FCA Bank plans to utilise the recently announced TLTRO 3.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.