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FCA Bank SpA

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FCA Bank SpA

SACP	bbb-

Anchor	bbb	
Business Position	Weak	-2
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	+1
ALAC Support	0
GRE Support	0
Group Support	+1
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
BBB/Negative/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Resilient profitability, supporting capital • Strategically important to French banking group Crédit Agricole SA (CASA) • High geographic diversification	• Business concentration in car sales financing • Dependence on Fiat Chrysler Automobiles N.V.'s (FCA) franchise in Europe • Credit exposure to high-risk Southern European economies, most affected by the pandemic

Outlook: Negative

The negative outlook on FCA Bank SpA mirrors that on Italy and reflects that we could lower the rating over the next 18-24 months. We consider FCA Bank a strategically important subsidiary of CASA. Despite this, we incorporate only one notch of group support into the ratings because we consider that the uplift for group support for strategically important subsidiaries cannot lead to the subsidiary being rated above its sovereign. In FCA Bank's case, this reflects our opinion that potential extraordinary support from CASA would not be sufficient to allow the bank to withstand a sovereign default stress scenario.

Absent a sovereign downgrade, a downward revision to FCA Bank's stand-alone credit profile--for example, due to deteriorating economies in which FCA Bank operates (particularly Italy, France, the U.K., and Spain) that hits the bank's profitability and capitalization--would not lead us to lower the ratings on FCA Bank. This is because we would incorporate an additional notch of support from CASA, given our view of the bank's importance for the French group.

We would revise the outlook to stable if we revised our outlook on Italy to stable.

Rationale

FCA Bank is a 50%-50% joint venture (JV) owned by CASA (through Credit Agricole Consumer Finance [CACF]) and FCA. FCA Bank is active in the financing of European car sales for FCA.

The starting point for assigning our rating on FCA Bank is its 'bbb' anchor, which reflects the bank's geographic diversification across Europe. This reduces FCA Bank's exposure to the high economic risks we see in Italy, because only 48% of the bank's average loans outstanding are to Italian borrowers.

We expect FCA Bank's capital position will remain supported by resilient profitability and flexible dividend payout. In addition, we expect deleverage amid expected decline in cars sales to support capitalization. Therefore, we project the bank's RAC ratio will remain above 10% over the next two years, from about 11.6% in December 2019.

In addition, we anticipate that FCA Bank's credit losses will remain manageable at 60-80 basis points (bps) in line with those of other auto captive finance companies in Europe. The bank's granular loan portfolio, geographical diversification outside Italy, and prudent underwriting resulted in a very low level of credit losses over the past two-to-three years. Still, we believe the concentrated nature of FCA Bank's business continues to constrain creditworthiness because the production is correlated to the highly cyclical automotive industry.

FCA Bank benefits from the funding and liquidity support it receives from the CASA group. Under the terms of the JV agreement, funding support from CASA is sized to meet the bank's needs, even in the most stressful scenario. The rating also incorporates our view that CASA would likely provide FCA Bank with extraordinary capital and liquidity support, if needed.

Anchor: 'bbb' for a bank with a geographically diversified portfolio

Our anchor for FCA Bank is 'bbb'. This anchor compares favorably with those of banks operating almost exclusively in Italy, where FCA Bank only has 48% of its loans. The anchor benefits from the bank's high degree of diversification in countries with comparatively lower economic risk than Italy, like Germany, France, and the U.K.

We believe that Italian banks continue to face higher economic risk than most of their peers. While most banks had largely absorbed the effect of past recessions and tightened their underwriting standards, some have still meaningful legacy nonperforming exposure. An additional burden is a deteriorating economic environment. Moreover, the substantial time needed for creditors in Italy to recover collateral and settle lawsuits--due to the less effective insolvency and foreclosure procedures and judicial system--remain a weakness compared with that of most advanced economies. In this context, the sharp contraction in economic activity in 2020 amid the coronavirus outbreak is likely to affect a large number of small and midsize enterprises to which Italian banks are particularly exposed, in our opinion. We anticipate credit losses to double in 2020 and 2021 versus about 70 bps reported in 2019, to then normalize again only in 2022 when we expect Italy's GDP to be back to level close to 2019 level.

Industry risks for Italian banks are also higher than for those in peer countries, in our opinion. Their access to affordable unsecured wholesale funding remain constrained on occasion by uncertainties about the sovereign creditworthiness and economic prospects. Near-to-medium term refinancing risk has abated, given the abundant liquidity provided the European Central Bank (ECB), the large deposit funding base, and the banking sector's very low external position, with only 5% of reliance on wholesale funding. Failing business volume and margins combined with structural problems, such as high cost bases and fragmentation, will constrain the banks' capacity to absorb the likely rise in credit losses over the next couple of years.

Supportive factors for the Italian banking system are Italy's traditional focus on retail and commercial lending, and our view that its regulatory standards are aligned with international best practices mainly thanks to the ECB directly supervising more than 80% of the banking sector.

Table 1

FCA Bank SpA--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	31,430.0	30,279.8	26,938.6	23,042.1	19,268.8
Customer loans (gross)	27,893.0	26,873.7	23,691.1	20,407.7	16,967.7
Adjusted common equity	2,935.6	2,660.2	2,299.5	2,024.1	1,680.7
Operating revenues	970.8	922.5	812.1	727.8	685.1
Noninterest expenses	286.2	278.4	259.8	245.9	242.4
Core earnings	466.5	442.1	381.5	325.1	253.5

Business position: A business model concentrated on car sales financing

Our assessment of FCA Bank's business position is constrained by the bank's concentration in auto finance, despite its steadily growing profitability, in line with our assessment of other European auto-captive finance companies. Car finance and auto leasing businesses correlate to the cyclical auto industry, in our view.

The company focuses in Europe, on the FCA brand, which represents about 80% of its portfolio. The remaining 20% encompasses Jaguar Land Rover (JLR); and, marginally, the Ferrari, Erwin HymerGroup and Harley Davidson brands. We think FCA Bank will continue to leverage its JV with CASA and its successful track record of diversifying its product range by attracting new brands from outside the group. We expect the bank will continue to pursue new brand partnerships and its greater-than-peers' brand diversification will help mitigate its lack of global presence compared with most auto-captive finance peers.

Despite these constraints, FCA Bank has contained its revenue volatility in recent years. The total penetration of the financed brands has constantly remained above 40% over the past four years. We anticipate that the bank will privilege margins over volume in the current market conditions, so we expect volume to decline by more than 10% this year.

We view positively management's ability to increase its profits over the past five years while maintaining a low risk appetite. The bank did this even when Italy's economic recession was at its worst and its market share was falling.

The bank's management proved to be very conservative during the financial crisis, and in our view, the composition of the board of directors positively represents both shareholders, FCA and CASA.

Table 2

FCA Bank SpA--Business Position					
	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (mil. €)	971.6	922.5	817.2	781.8	685.1
Retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Commercial and retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	15.5	14.5	16.2	14.4	12.4

N/A--Not applicable.

Capital and earnings: Good capitalization provide a cushion amid the downturn

We believe that FCA Bank's will maintain its risk-adjusted capital ratio above 10.0% by 2022, compared to 11.6% as of December 2019. More specifically, we anticipate loans to contract by more than 10% in 2020, but expect margins decline to be contained. We expect net interest income to be in line with 2018 levels by December 2022.

We anticipate that FCA Bank will maintain efficient control of its operating expenses. We therefore expect FCA Bank's cost-to-income ratio will remain near 35%. This is better than most of its international peers.

We expect the bank's cost of risk will increase from the very low level of 2018-2019, but remain below the peak of 2010-2011 and in line with its captive finance peers.

We anticipate that the two shareholders, FCA and CASA, will remain supportive of the bank's future capitalization. We anticipate that the dividend policy will remain flexible.

FCA Bank's total adjusted capital (TAC) is made up only of common equity and does not include any hybrids, which supports its quality. Still, quality of earnings will remain modest, reflecting the bank's dependence on the performance of FCA and JLR.

Table 3

FCA Bank SpA--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	14.2	12.5	12.0	11.7	11.2
S&P Global Ratings' RAC ratio before diversification	N/A	10.7	10.0	9.2	9.2
S&P Global Ratings' RAC ratio after diversification	N/A	10.5	9.7	8.8	9.8
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Double leverage	N.M.	N.M.	N.M.	N.M.	N.M.
Net interest income/operating revenues	92.0	89.4	91.4	89.3	85.6
Fee income/operating revenues	10.5	11.8	10.3	11.0	11.7
Market-sensitive income/operating revenues	(0.5)	(0.0)	(0.5)	(0.6)	(0.5)
Noninterest expenses/operating revenues	29.5	30.2	32.0	33.8	35.4
Preprovision operating income/average assets	2.2	2.2	2.2	2.3	2.4
Core earnings/average managed assets	1.5	1.5	1.5	1.5	1.4

N.M.--Not meaningful.

Table 4

FCA Bank SpA--Risk-Adjusted Capital Framework (RACF) Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	2,053	343	17	147	7
Of which regional governments and local authorities	28	47	169	1	4
Institutions and CCPs	967	282	29	358	37
Corporate	8,664	7,266	84	8,157	94
Retail	16,260	10,539	65	12,014	74
Of which mortgage	0	0	0	0	0
Securitization§	84	70	83	66	79
Other assets†	1,615	1,034	64	2,799	173
Total credit risk	29,643	19,534	66	23,541	79
Credit valuation adjustment					
Total credit valuation adjustment	--	10	--	0	--
Market risk					
Equity in the banking book	0	0	0	0	0
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	0	--
Operational risk					
Total operational risk	--	1,598	--	1,820	--
(Mil. €)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	21,142	--	25,362	100
Total Diversification/ Concentration Adjustments	--	--	--	504	2
RWA after diversification	--	21,142	--	25,866	102
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,007	14.2	2,936	11.6
Capital ratio after adjustments‡		3,007	14.2	2,936	11.3

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31 2019, S&P Global Ratings.

Risk position: Credit losses in line with peers

FCA Bank's geographically diversified and granular loan portfolio will continue to underpin satisfactory asset quality metrics, as it did even at the peak of the 2008-2009 and 2011-2012 recessions.

We anticipate that credit losses will increase but remain broadly in line with those of its international peers in the captive automotive sector, likely ranging from 60-80 bps of customer loans in 2020-2021, after reaching a very low 8 bps in 2018. We consider this a low level of losses given the bank's geographical exposure, and well below that at most Italian banks.

FCA Bank benefits from highly granular and low-risk retail financing, which accounted for about 61% of the total loan book in 2019. Dealer financing, accounting for about 26% of the total loan book in 2019, is mostly concentrated in Italy, Germany, and the U.K. The company's dealer financing risk profile is contained by insurance and collaterals, as well as documentary protection, enabling FCA Bank to rapidly repossess cars in case of nonpayment. In our opinion, these factors, paired with FCA Bank's geographical diversification, will help the bank to contain inflows of nonperforming loans and losses through the economic downturn.

Long-term car rental--in our view, the riskiest of FCA Bank's three main business lines--is mostly concentrated in the Italian market. This business accounted for the residual 13% of the loan book in 2019.

FCA Bank's exposure to residual value risk is not material and already accounted for in the capital ratio calculation, because we classify residual value as other items and apply a higher risk weight than direct exposure to the client.

Single-name concentration risk is not material in the FCA Bank corporate loans portfolio, in our view. The top 20 clients account for about 50% of its TAC.

We expect FCA Bank will continue to cooperate closely with CACF in credit and interest risk management. This relationship can be seen in the shared credit risk policy and conservative policy risk management, as well as policies to prevent lending to FCA.

Table 5

FCA Bank SpA--Risk Position

	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	3.8	13.4	16.1	20.3	11.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	2.2	3.2	4.6	(5.7)
Total managed assets/adjusted common equity (x)	10.8	11.5	11.8	11.5	11.6
New loan loss provisions/average customer loans	0.2	0.1	0.1	0.3	0.5
Net charge-offs/average customer loans	(0.2)	(0.3)	(0.9)	(0.8)	N.M.
Gross nonperforming assets/customer loans + other real estate owned	1.1	1.1	1.3	1.5	1.8
Loan loss reserves/gross nonperforming assets	90.5	95.2	86.8	94.9	92.9

N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: CASA's continuing funding support counterbalances the wholesale funding structure

We expect the CASA group will remain strongly committed to providing funding support to FCA Bank, through unsecured and secured lines, in the context of the JV agreement that was recently extended to December 2024. Under the contractual terms, CASA funding support is sized to meet the needs of FCA Bank in a stressful scenario. This commitment counterbalances the wholesale nature of FCA funding and supports our assessment.

As of Dec. 31, 2019, CASA provided about €3.5 billion of funding, accounting for about 13.0% of FCA Bank's total funding base. Owing to FCA Bank's wholesale funding structure, in the absence of CASA support, our funding and liquidity ratios for FCA Bank would compare unfavorably with those of most commercial banks. Therefore, CASA funding remains a crucial component to the bank's overall funding profile.

Nevertheless, FCA Bank has gradually diversified its funding structure, reducing its reliance on CASA funding significantly. Furthermore, we assume the bank will maintain manageable maturities in the coming years.

In January 2015, FCA Bank received a full banking license from the Bank of Italy. In our opinion, the license enabled FCA Bank to diversify its funding source by granting access to the ECB and launch a deposit account. FCA Bank gradually increased its direct funding from the ECB, through its participation in the ECB's targeted long-term refinancing operations. We expect the bank to also make use of new TLRO, thus increasing its exposure to ECB funding.

Online deposits will not represent a material source of total funding in the next two-to-three years, in our view, but we understand that it could help to enhance the funding diversification.

In addition, we believe that FCA Bank manages liquidity conservatively by minimizing the maturity mismatch of the average maturity of its loan book with that of the term financing it receives.

Table 5

FCA Bank SpA--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	6.7	7.0	6.3	3.5	2.8
Customer loans (net)/customer deposits	1,535.6	1,459.3	1,579.0	2,868.1	3,677.2
Long-term funding ratio	71.4	68.7	73.3	77.8	54.4
Stable funding ratio	74.0	71.5	76.2	78.7	54.8
Short-term wholesale funding/funding base	31.7	34.5	29.3	24.4	50.8
Broad liquid assets/short-term wholesale funding (x)	0.3	0.3	0.3	0.3	0.1
Net broad liquid assets/short-term customer deposits	(646.2)	(730.4)	(817.5)	(5,923.5)	N.M.
Short-term wholesale funding/total wholesale funding	34.0	37.1	31.3	25.3	52.2
Narrow liquid assets/three-month wholesale funding (x)	N/A	N/A	N/A	N/A	N/A

N/A--Not applicable. N.M.--Not meaningful.

Environmental, social, and governance

We think FCA Bank is exposed to environmental risks via Fiat Chrysler Automobiles N.V. (FCA; BB+/Watch Pos/B), its 50% shareholder. In particular, we see FCA more exposed than its industry due to carbon dioxide regulations for automakers in the EU. This is because we view FCA as somewhat behind peers with regard to the electrification of its product portfolio. Given its concentration in auto finance, we believe FCA Bank's business prospects could be indirectly affected by the business and financial challenges faced by the auto industry and, specifically, by parent FCA.

We consider FCA's exposure to governance and social risks not materially different from those of industry peers. In particular, we think that the JV agreement defines a balanced composition of the board of directors and of the most important committee. We think that FCA Bank's performance benefits from the strong cooperation with CACF, particulary in risk mananagement area.

Support: One notch of group support to the stand-alone credit profile (SACP)

The long-term rating is one notch higher than the bank's SACP. This reflects our view that the bank is strategically important to CACF, CASA's core subsidiary. We see the two shareholders of FCA Bank, FCA and CASA, as highly committed to the bank. They signed the long-term partnership in December 2006 that was extended until December 2024.

We believe car financing, through JVs with auto manufacturers, is a key strategic focus for CACF. FCA Bank fits perfectly with CACF's strategy of increasing its presence in the car finance industry. Despite the Italian market downturn in 2011-2015, FCA Bank has demonstrated strong financial performance, and proven to be a stable source of profit to CACF.

Despite its strategically important status, we incorporate only one notch of group support because, under our criteria, uplift for group support for strategically important subsidiaries cannot lead to the subsidiary being rated above its sovereign. This is because we think that potential extraordinary support from CASA could not extend to a level sufficient to allow FCA Bank to withstand a stress scenario associated with a hypothetical sovereign default.

Also, we see diminished downside risk from any difficulties at FCA that could negatively influence FCA Bank's stand-alone creditworthiness because we think FCA would benefit from the merger with PSA, which would be critical to cope with the weaker global auto industry prospects that we expect amid COVID-19.

Additional rating factors: None

No additional factors affect the ratings.

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. 19, 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Banking Industry Country Risk Assessment: Italy, May 18, 2020
- Italy-Based FCA Bank 'BBB/A-2' Ratings Affirmed On Strong Capital Base And Group Support; Outlook Remains Negative, April 29, 2020
- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020
- Italy 'BBB/A-2' Ratings Affirmed; Outlook Negative, April 24, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19 Will Batter Global Auto Sales And Credit Quality, March 23, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Pandemic Is Set To Test The Resiliency Of Italy's Banks, March 13, 2020
- Italian Banks Not Adapting To The Digital World Quickly Will Be Left Behind, Feb. 17, 2020

Anchor Matrix

Industry Risk	**Economic Risk**									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	**bbb**	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 3, 2020)*	
FCA Bank SpA	
Issuer Credit Rating	BBB/Negative/A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Issuer Credit Ratings History	
30-Oct-2018	BBB/Negative/A-2
31-Oct-2017	BBB/Stable/A-2
19-May-2016	BBB-/Stable/A-3
09-Sep-2015	BB+/Positive/B

Ratings Detail (As Of July 3, 2020)*(cont.)	
Sovereign Rating	
Italy	BBB/Negative/A-2
Related Entities	
CA Consumer Finance	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Credit Agricole S.A.	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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