FitchRatings

RATING ACTION COMMENTARY

# Fitch Places FCA Bank's 'BBB+' IDR on Watch Positive

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Fitch Ratings - Milan - 12 Jan 2022: Fitch Ratings has placed FCA Bank S.p.A.'s 'BBB+' Long-Term Issuer Default Ratings (IDR) and '2' Support Rating of on Rating Watch Positive (RWP) following the announced reorganisation of Stellantis N.V.'s captive finance providers.

FCA Bank's shareholders, Credit Agricole S.A. (CA; A+/Stable) and Stellantis (BBB-/Positive), have announced that FCA Bank will become a wholly-owned subsidiary of CA after the spinning-off its long-term rental business (about 15% of total assets) into a separate joint venture (JV). The transaction is expected to be executed in 1H23 once the relevant anti-trust authorities and market regulators have provided the required authorisations.

Following the transaction, FCA Bank will be renamed and focus on financing retail sales as an independent bank (ie partnering with non-Stellantis car manufacturers) as well as on car-dealer financing (such non-captive segment currently representing about 20% of FCA Bank's loan portfolio). FCA Bank will continue to originate loans from the sale of Stellantis brands until 1H23 and then gradually run down this portfolio.

## KEY RATING DRIVERS

The rating actions reflect Fitch's anticipation that FCA Bank's Long-Term IDR will be upgraded to 'A-' upon the transaction's execution in 1H23. This reflects Fitch's expectation that CA's propensity to support FCA Bank will increase after acquiring the full ownership of FCA Bank, including due to higher reputational risk for CA in case of FCA Bank's default. Fitch also believes that FCA Bank will remain attractive for CA, despite the expected termination of its distribution agreement with Stellantis, because car finance (including dealer finance) remains a strategically important segment for CA.

FCA Bank's ratings are already based on Fitch's assessment of the availability of potential support from CA Consumer Finance (CACF) and, ultimately, from CA. CA provides ongoing support to FCA Bank, mostly through funding and liquidity, under a JV agreement with FCA Italy S.p.A., a 100% subsidiary of Stellantis. The agreement will remain in place until the transaction's execution.

FCA Bank's ratings are not constrained at the level of Italy's sovereign rating (BBB/Stable), because FCA Bank has no direct exposure to Italian sovereign risk. Fitch also believes that FCA Bank is less exposed than universal deposit-taking banks to the risk of restrictions being imposed on its ability to service its obligations, should Italy's operating environment materially worsen. Business generated in Italy accounts for nearly 50% of the bank's total and retail deposits accounted for only 9% of total non-equity funding at end-1H21. However, Fitch is unlikely to widen the notching difference between FCA Bank's and Italy's IDRs to above two notches, capping FCA Bank's Long-Term IDR at 'A-' despite full ownership by CA.

Fitch expects that FCA Bank's standalone profile will be under pressure after the reorganisation, due to a weaker franchise and execution risks relating to the implementation of a new strategy outside Stellantis.

Fitch expects FCA Bank's business and balance sheet to remain in line with pre-reorganisation performance until end-2022. We then expect the balance sheet to gradually reduce to about half over a three-year period, as the portfolio from Stellantis brands amortises, in the absence of new white-label agreements with non-Stellantis car manufacturers or of materially larger dealer-financing volumes. FCA Bank will also have to adjust its funding plans to its lower needs, but we do not expect a reduction in funding availability. FCA Bank's capitalisation following the reorganisation will depend on the terms of Leasys' spin-off and we expect that excess capital will be present and distributed after end-2023.

Fitch has also placed on RWP the senior unsecured debt instruments rated 'BBB+' issued out of FCA Bank's Irish Branch and FCA Capital Suisse SA. The senior unsecured debt ratings are aligned 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.

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 did not place Leasys' Short-Term IDR of 'F1' on RWP, because that is already at the level of CA's Short-Term IDR.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-Following the completion of the reorganisation, Fitch expects to upgrade FCA Bank's Long-Term IDR to 'A-' and Support Rating to '1'

-Fitch could resolve the Rating Watch and affirm FCA Bank's ratings at their current level, if the reorganisation of Stellantis' captive finance providers fails to be implemented. Fitch would also review the ratings if the reorganisation plan changes significantly from what has been already communicated

-In the short term, before the completion of the reorganisation, Fitch could upgrade FCA Bank's Long-Term IDR if CA's and CACF's IDRs are all upgraded, while Italy's IDR is affirmed, the Italian operating environment remains stable and FCA Bank's exposure to Italian sovereign risk remains limited

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-In the short term, before the transaction's execution, a downgrade of CA's and CACF's IDRs would result in a downgrade of FCA Bank's IDR, reflecting a weakening of the parents' ability to support a strategically important subsidiary.

-In the short term, before the transaction's execution, FCA Bank's ratings are not constrained at the level of Italy's sovereign, but 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 is downgraded by two notches, we would downgrade FCA Bank by one notch

-Fitch would narrow the notching difference between FCA Bank's and Italy's IDRs to one notch, if the bank's deposit base increases and becomes a material source of funding, although this is not deemed likely in the medium term

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings of FCA Bank are driven by parental support from CA.

## ESG CONSIDERATIONS

As support-driven issuers have strong linkages to their support providers, the ESG Credit-Relevance Score assigned to the 'supported' subsidiaries often mirrors those of their corporate and financial institution parents. This reflects our opinion that many of the ESG elements at the parent level are credit-relevant for the subsidiary.

Therefore, FCA Bank's scores are mostly aligned with those of CA. FCA Bank differs from CA with scores for 'GHG Emissions' at '3' and 'Energy Management' at '2', reflecting the focus on the automotive industry.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. ESG issues are credit neutral or have only a minimal credit impact on Leasys, either due to their nature or the way in which they are being managed. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

## RATING ACTIONS

| ENTITY / DEBT | RATING | PRIOR |
|---|---|---|
| FCA Capital Suisse SA | | |

| | | |
|---|---|---|
| senior unsecured | LT BBB+ Rating Watch Positive<br><br>Rating Watch On | BBB+ |
| FCA Bank S.p.A. | LT IDR BBB+ Rating Watch Positive<br><br>Rating Watch On | BBB+ Rating Outlook Stable |
| | ST IDR F1 Affirmed | F1 |
| | Support 2 Rating Watch Positive<br><br>Rating Watch On | 2 |
| FCA Bank S.p.A. (Irish Branch) | | |
| senior unsecured | LT BBB+ Rating Watch Positive<br><br>Rating Watch On | BBB+ |
| senior unsecured | ST F1 Affirmed | F1 |

**VIEW ADDITIONAL RATING DETAILS**

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## APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| FCA Bank S.p.A. | EU Issued, UK Endorsed |
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