FCA Bank SpA
Issuer Rating Report

A STABLE

Overview

Scope Ratings has assigned an issuer rating of A to FCA Bank SpA (FCAB), with a Stable Outlook. Senior unsecured debt was also rated at A, with a Stable Outlook.

Highlights

- The FCA banking group is one of the largest specialised providers of car finance in Europe, operating in 17 European countries, as well as in Morocco. As a captive of FCA Group, FCAB serves mostly its parent's brands, although it also provides financial services to other brands such as Ferrari, Jaguar - Land Rover and Aston Martin.
- The ratings benefit from FCAB's relationship with its two shareholders, FCA Group and Crédit Agricole Group (through wholly owned subsidiary Crédit Agricole Consumer Finance), which provide commercial business and financial support respectively.
- FCAB's issuer rating is two notches above the rating of the Republic of Italy (BBB+/Negative). In accordance with our bank rating methodology, we do not impose any mechanistic sovereign cap, although sovereign risk is taken into account when assessing individual issuers. In FCAB's case, we consider that the bank and the sovereign should be decorrelated due to FCAB's geographic diversification and lack of exposure to Italian domestic sovereign risk.
- FCAB has a well-tested business model, with higher returns than for traditional, lower-risk banking activities. It is proving resilient even in deep recessions such as the current one, with revenues comparing well with previous years' levels and cost of risk being just a few basis points above the 2019 level as of June 2020. FCAB is supervised by the Bank of Italy and indirectly by the ECB. FCAB's regulatory capital ratios are strong and compare well with domestic and international peers.
- Although it is diversifying its funding sources, FCAB remains dependent on Crédit Agricole Group's financial support.

Rating drivers (summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:

- 50/50 joint venture combining FCA Group's commercial strength with Crédit Agricole Group's financial support
- Strong player in the fast-growing car finance market in Europe
- Solid standalone financial fundamentals, underpinned by strong business growth
- Predominantly wholesale funding sources but well diversified; contribution from Crédit Agricole remains important

Ratings & Outlook

Issuer rating	A
Outlook	Stable
Senior unsecured debt rating	A
Outlook	Stable

Lead Analyst

Marco Troiano, CFA
m.troiano@scoperatings.com

Team Leader

Dierk Brandenburg
d.brandenburg@scoperatings.com

Scope Ratings GmbH

111 Buckingham Palace Road
UK-London SW1W OSR

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating-change drivers

Change in Crédit Agricole's credit fundamentals. FCAB's relationship with Crédit Agricole Group is key to the rating, as the shareholder provides both banking expertise and important financial support. Any changes in Crédit Agricole Group's credit fundamentals could influence FCAB's rating.

Shareholder retreat from partnership. The partnership between FCA Group and Crédit Agricole was renewed in July 2019 and will expire at the end of 2024. Although the joint venture has been successful so far, there is no assurance that the two shareholders will maintain it beyond 2024. Any sign of retreat by either of the two would lead to a rating review.

Firmer commitment by shareholders beyond 2024. Evidence that the Crédit Agricole Group would be willing to support FCAB with equity and debt funding beyond 2024 could lead to higher ratings.

Evidence that FCA Bank's standalone performance can withstand a severe economic deterioration. FCA Bank's financials are in line with some of the strongest banking groups in Europe. A strong track record of resilient performance in the current crisis could benefit the ratings.

Rating drivers (details)

50/50 joint venture combining FCA Group's commercial strength with Crédit Agricole's financial support

Longstanding partnership with Crédit Agricole

FCA Bank SpA (FCAB) is a 50/50 joint venture between FCA Italy and Crédit Agricole Consumer Finance, the consumer arm of Crédit Agricole Group. FCAB, the parent company of the FCA banking group (Figure 1), was created in 2006 when it absorbed the activities of Fidis Retail Italia S.p.A., FCA Group's former automotive retail financial company, as well as the dealer financing and rental businesses of Fidis Servizi Finanziari S.p.A. The banking group, previously named FGA Capital, obtained its banking licence in Italy in January 2015 and is today a banking group operating in 17 European countries and in Morocco (Figure 2). FCAB is regulated as a bank by the Bank of Italy and supervised by the ECB as part of the Crédit Agricole Group. In 2019, the partnership between FCA Group and Crédit Agricole Consumer Finance was extended until 2024. Any partner can withdraw from the agreement with three years' prior notice.

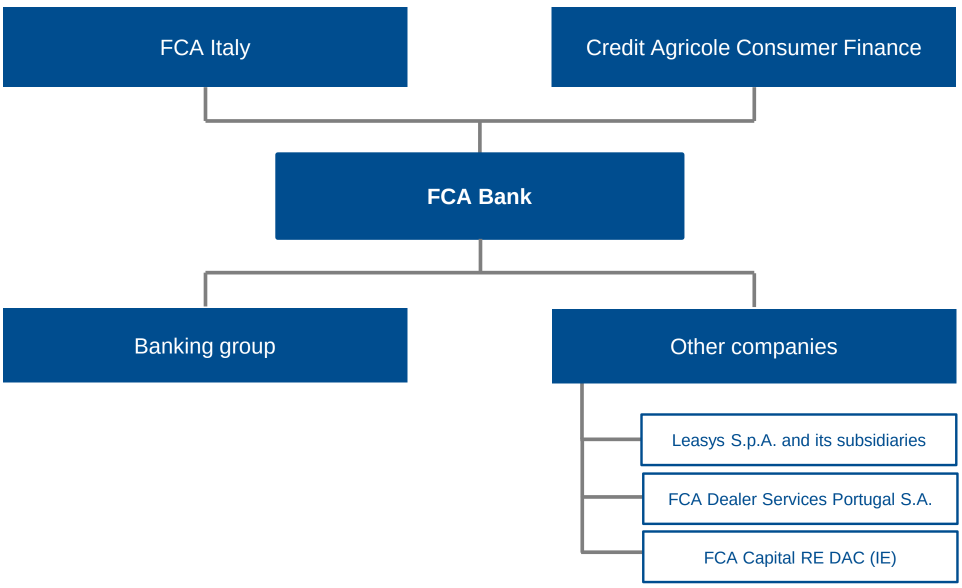
FCAB carries out its business by combining the banking expertise of Crédit Agricole Consumer Finance and the commercial strength of a well-diversified portfolio of carmaker brands.

High likelihood of shareholder support

We see a very strong probability of support from both FCA Group and Crédit Agricole Group. Firstly, FCAB carries the FCA name and is instrumental in financing FCA customers and dealers; secondly, and more relevant to the rating level, we believe Crédit Agricole Group would fully support FCAB under most scenarios.

Over the years, Crédit Agricole Group has committed a material level of resources to FCAB on top of its equity investment, enhanced by a 10-year, Tier 2 subordinated loan of EUR 330m signed in 2017. Significant funding of currently EUR 4.1bn, but part of the larger commitment, has also been provided to FCAB. Most of this funding is due by the joint venture's end date (currently December 2024), allowing unsecured third-party creditors to pull out of FCAB if the joint venture is not renewed.

Figure 1: FCAB's structure



Source: FCAB, Scope Ratings

Strong player in the fast-growing car finance market in Europe

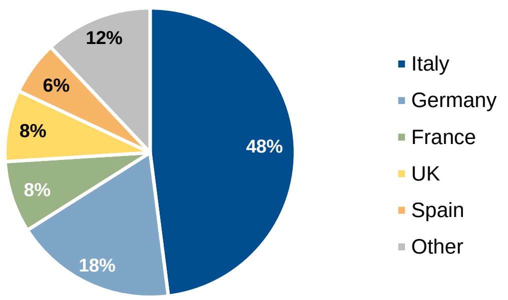
Major specialised player in car finance

With EUR 30bn in total assets, FCAB is one of the largest specialised car finance providers in Europe. FCAB's core activity is to support the sale of cars and commercial vehicles manufactured by its industrial partners. It is specialised in three segments: retail car loans, dealer (wholesale) financing, and mobility (rental) (Figure 3).

At the banking group level, FCAB offers loans, leasing, and insurance to retail customers. At the same time, it supports the activity of dealers with 'floorplan' and working capital financings (short-term borrowings), medium-term loans to back capital expenditures, and commercial lending. The banking group has also started to offer more traditional banking services, such as internet-based deposits (in Italy and Germany) and credit cards (in Italy only).

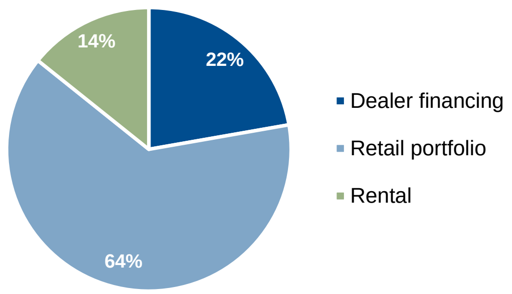
The non-banking arm of FCAB is largely represented by Leasys SpA and its subsidiaries and focuses primarily on rental business. Leasys has 20 years' experience in company vehicle management systems in Italy, including fleet management, leasing, and rental. In the last two years, FCAB launched an internationalisation plan for Leasys with the goal of expanding beyond its original Italian roots. Moreover, Leasys gathers most of the group's initiatives in electric and sustainable mobility. The group gathered its UK, French and Dutch businesses under the Leasys brand and opened branches in Spain, Germany (2017), and Belgium (2018). In 2020, Leasys acquired the AIXIA group in France and the Drivalia Car Rental in Spain to strengthen its short-term rental business activities.

Figure 2: FCAB loan book, by country (H1 2020)



Source: Company data, Scope Ratings

Figure 3: Loan book composition (H1 2020)



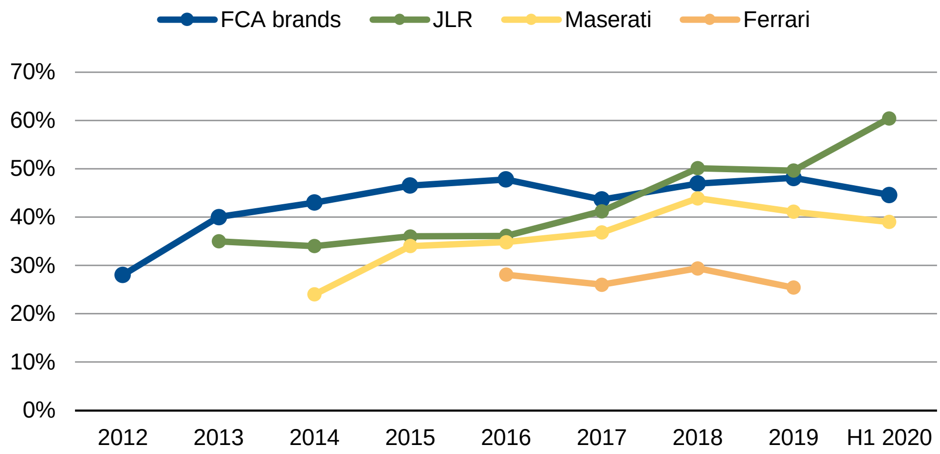
Source: Company data, Scope Ratings

Growing penetration rates drive volumes

In June 2020, FCAB's penetration rate[1] for FCA brands stood at 44.7%. This represents a decrease of 3.5pp from the previous year's level, a result of less promotional campaigning and fewer purchases from customers with which the bank has a high penetration rate. Besides the FCA brands, which account for approx. 80% of FCAB's newly originated loans, FCAB has partnered with other automotive manufacturers, including Jaguar Land Rover (2008), Ferrari (2016), Aston Martin (2018), Groupe Pilote and Lotus (2019). As at June 2020, FCAB is collaborating with 19 automotive brands. The penetration rate for the entire brand portfolio stood at 45.7% (Figure 4).

[1] The penetration rate is the share of financed vehicles over total vehicle registrations.

Figure 4: FCAB's market penetration on new car registrations (June 2020)



Source: Company data, Scope Ratings.

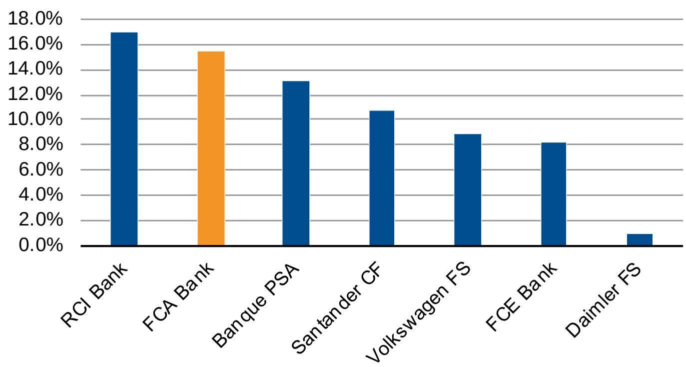
Solid standalone financial fundamentals, underpinned by strong business growth

Profitability is strong, both relative to Italian banks and to car finance specialists

FCAB's financial fundamentals are very strong. From 2014 to 2019, the bank reported an average return on equity of 14.5%. FCAB's profitability not only compares very well with Italian banking peer levels but is also higher than most European car finance companies' (Figures 5 and 6).

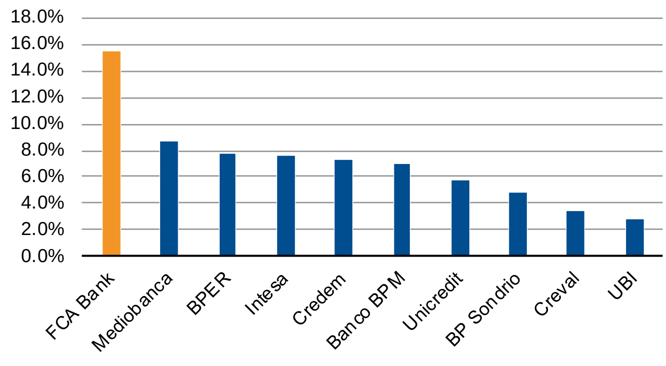
Despite the Covid-19 impact on new business in the first half of 2020, the bank recorded a positive net income, with a return on average equity of 13.8%.

Figure 5: 2019Y return on average equity: FCAB v European car finance peers



Source: SNL, Scope Ratings

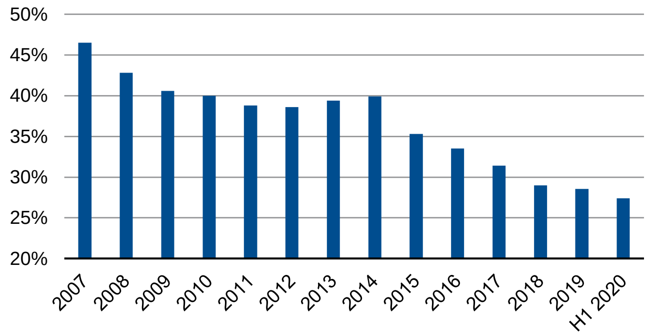
Figure 6: 2019Y return on average equity: FCAB v Italian banks



Source: SNL, Scope Ratings
Note: Banca MPS excluded for graphical reasons (return on average equity of negative 11.3%); Mediobanca figure refers to financial year ending 30 June 2019

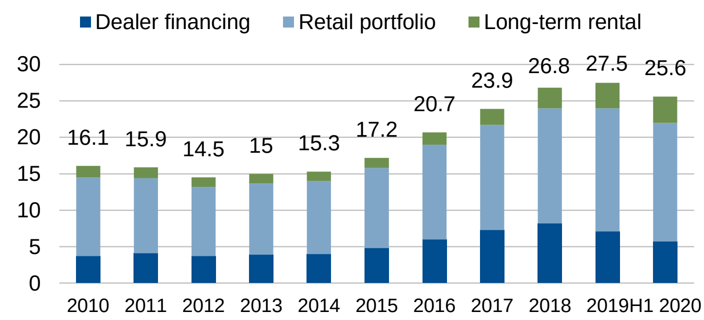
The high profitability is the result of fast growth in business volumes and revenues, which has allowed FCAB to increase its operating leverage (Figure 7), coupled with a cost of risk that has been kept under control. The bank's outstanding loans have increased considerably, from EUR 15bn in 2013 to EUR 27.5bn in December 2019, mainly thanks to new collaboration agreements but also to a higher market penetration rate (Figure 8). As FCAB grew in size, both its cost/income and cost/asset ratios improved significantly.

Figure 7: FCAB's cost/income ratio development, 2007 to H1 2020



Source: FCAB, Scope Ratings

Figure 8: FCAB's business growth, 2010 to H1 2020 (EUR m)



Source: SNL, Scope Ratings

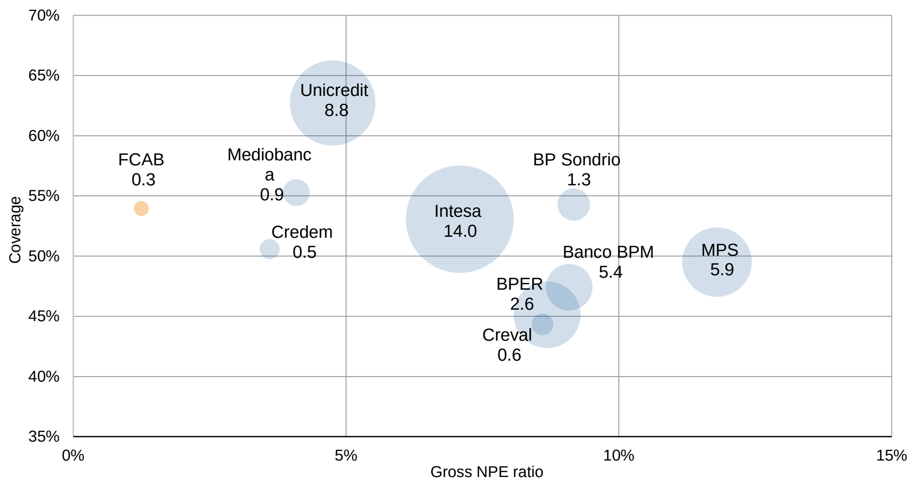
Another driver for the higher profitability in recent years has been the reduction in the cost of risk, from the peak of 93 bps in 2009 to 30 bps in H1 2020. In our view, this was prompted by the more supportive macro environment in Europe (especially in Italy) in the past few years.

Low level of non-performing loans relative to Italian banks

Today, FCAB's asset quality is strong, particularly when compared to that of other Italian banks, some of which are still dealing with the long tail of the Great Financial Crisis (Figure 9). As of June 2020, the bank's gross non-performing-exposure ratio stood at 1.2%, with a coverage at 54% (increased by 5pp since the beginning of the year).

In our view, the low level of non-performing loans is the result of a well-diversified loan book, which includes exposures to several European countries and has helped smoothen out the impact of the weak business cycle in Italy, as well as the predominance of retail granular and collateralised loans in FCAB's mix.

Figure 9: Gross non-performing-exposure ratio and coverage in H1 2020, FCAB v Italian banks



Source: Company data, Scope Ratings
Note: Bubbles represent net non-performing loans (EUR bn)

FCAB is exposed to residual value risk in some of the countries in which it conducts leasing (particularly the UK) and rental businesses.

Supervised by ECB as part of Crédit Agricole Group

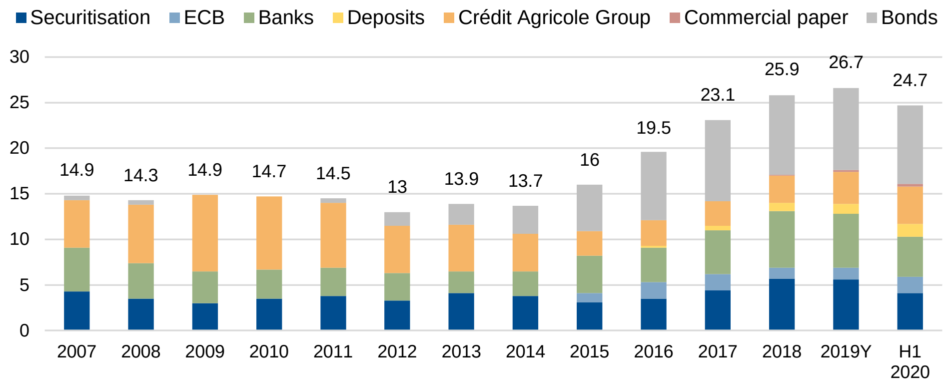
FCAB is subject to the supervision by the ECB under the Single Supervisory Mechanism, which requires it to undertake internal capital adequacy assessment processes on a consolidated basis. At the end of June 2020, FCAB had a transitional CET1 ratio of 15.6% and a total capital ratio of 17.3%. FCAB has no outstanding CRD4-compliant AT1 notes but has EUR 330m of CRD4-compliant Tier 2 (fully loaded) loans. The fully loaded leverage ratio of 11.26% as of the end of June 2020 is high compared to peers'. The liquidity coverage ratio stood at 228% and the net stable funding ratio at 113%, both slightly higher compared to the levels from one year before.

Predominantly wholesale funding sources but well diversified; contribution from Crédit Agricole remains important

Historically, FCAB funded itself via securitisations, interbank loans and loans from Crédit Agricole Group. When funding conditions deteriorated during the Great Financial Crisis, funding from Crédit Agricole Group increased, peaking at EUR 8.4bn in 2009 (approx. 56% of total funding).

Since then, FCAB has materially diversified its funding sources through its EMTN programme and, more recently, via deposits and central bank funding, thereby reducing its reliance on Crédit Agricole (Figure 10).

Figure 10: FCAB funding, 2007 to H1 2020 (EUR m)



Source: Company data, Scope ratings

The FCA banking group's funding sources as of June 2020 consisted of:

• Senior bonds (EUR 8.6bn, 35% of total funding) issued under the EUR 12bn EMTN programme through FCAB's Irish branch.

• Crédit Agricole Group (EUR 4.1bn, 17% of total funding), an important source of financial muscle for FCAB. We believe Crédit Agricole Group would likely extend its funding if necessary.

• Unsecured funding from third-party banks other than Crédit Agricole (EUR 4.4bn, 18% of total funding).

• Securitisations of retail car loans and leasings (EUR 4.1bn, 17% of total funding), largely used for funding, with junior tranches retained and senior tranches either directly placed with investors or used as ECB collateral. Asset risk is normally retained, although the mezzanine and junior tranches were sold in two transactions (A-best 15 and A-best 17) achieving deconsolidation from a prudential standpoint.

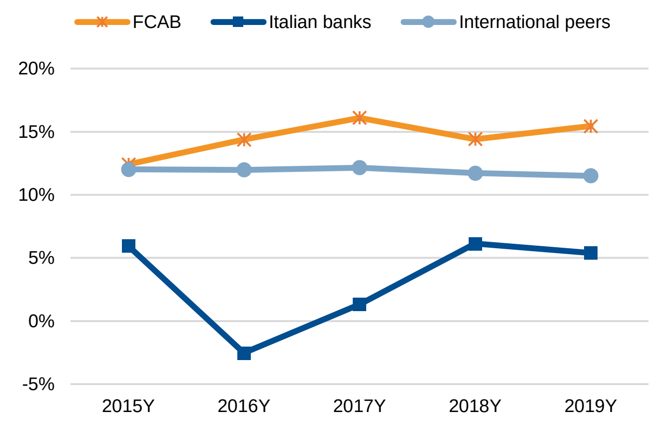
• ECB TLTRO (EUR 1.8bn, 7.3% of total funding). In H1 2020, the group drew EUR 1,500m of TLTRO III, also repaying expiring TLTRO II. Collateral consists of an ABS senior tranches and credit claims.

• Euro commercial paper. Under the EUR 750m programme, FCAB had EUR 330m of commercial paper outstanding as of June 2020.

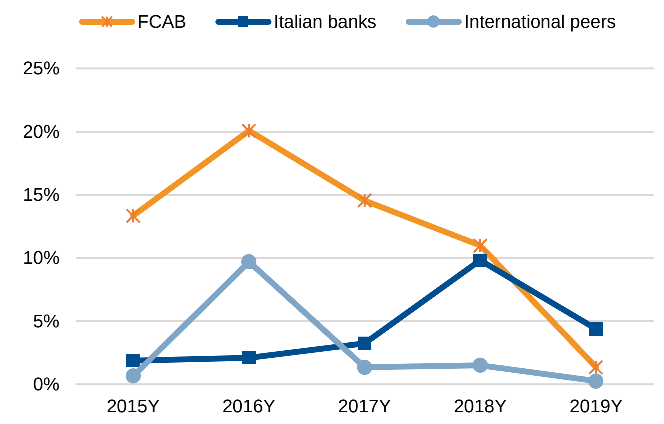
• Deposits collected with 'Conto Deposito', the banking group's online savings product (EUR 1.4bn; 6% of funding).

I. Appendix: Peer comparison

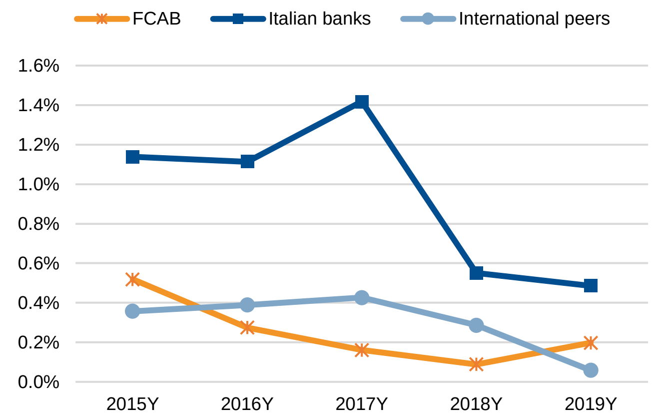
Return on average equity (%)



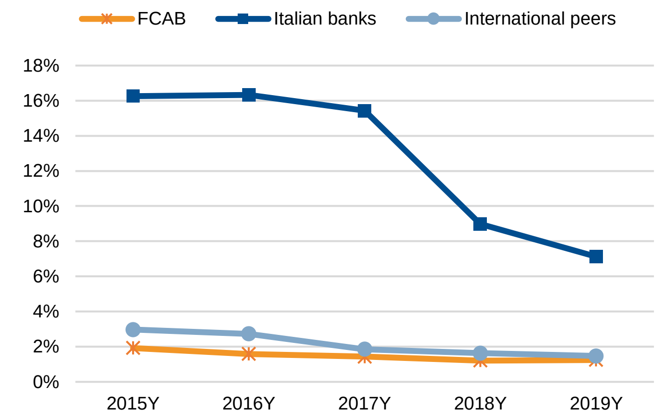
Net loan growth (%)



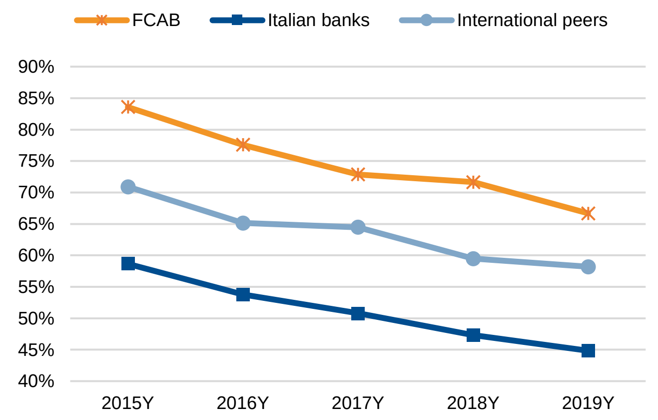
Cost of risk (%)



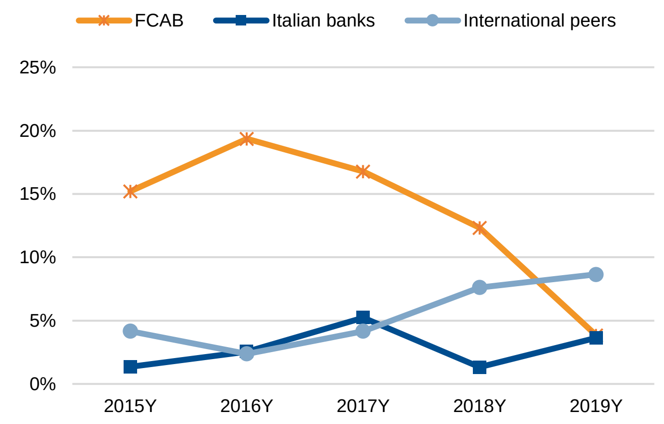
Problem loans/gross customer loans (%)



Risk-weighted assets/assets (%)



Asset growth (%)



*Italian banks: Intesa Sanpaolo, Monte Paschi, Credito Emiliano, Mediobanca, BP Emilia Romagna, BP Sondrio, Banca Carige, Credito Valtellinese.
International peers: FCE bank, BMW bank, Daimler FS, RCI Banque, Volkswagen FS, Banque PSA Finance, Santander CF.
Source: SNL, Scope ratings

II. Appendix: Selected financial information – FCA Bank SpA

	2016Y	2017Y	2018Y	2019Y	2020H1
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	2,996	2,098	2,519	2,583	2,904
Total securities	147	82	73	95	117
of which, derivatives	137	72	63	85	107
Net loans to customers	18,556	21,254	23,588	23,905	21,699
Other assets	1,585	3,753	4,356	5,123	5,253
Total assets	**23,284**	**27,187**	**30,536**	**31,706**	**29,974**
Liabilities					
Interbank liabilities	8,022	8,556	9,807	10,278	9,983
Senior debt	11,088	13,336	14,577	14,857	13,115
Derivatives	76	49	58	95	101
Deposits from customers	702	1,483	1,823	1,799	1,946
Subordinated debt	0	0	0	0	0
Other liabilities	1,159	1,250	1,394	1,506	1,454
Total liabilities	**21,046**	**24,675**	**27,659**	**28,535**	**26,599**
Ordinary equity	2,199	2,469	2,829	3,116	3,317
Equity hybrids	0	0	0	0	0
Minority interests	39	43	48	55	58
Total liabilities and equity	**23,284**	**27,187**	**30,536**	**31,706**	**29,974**
Core tier 1/ common equity tier 1 capital	*2,042*	*2,373*	*2,724*	*3,001*	*2,993*
Income statement summary (EUR m)					
Net interest income	501	589	661	693	325
Net fee & commission income	80	83	109	102	47
Net trading income	-4	-4	0	-5	-3
Other income	430	451	516	624	359
Operating income	**1,007**	**1,119**	**1,287**	**1,415**	**729**
Operating expenses	543	565	720	736	401
Pre-provision income	**464**	**554**	**566**	**679**	**328**
Credit and other financial impairments	47	33	21	47	28
Other impairments	0	0	-2	-7	NA
Non-recurring income	NA	0	0	0	0
Non-recurring expense	NA	0	0	0	0
Pre-tax profit	**417**	**521**	**548**	**638**	**301**
Income from discontinued operations	0	0	0	0	0
Income tax expense	105	139	159	171	75
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	3	5	5	7	3
Net profit attributable to parent	**309**	**378**	**383**	**460**	**222**

Source: SNL, Scope Ratings

III. Appendix: Selected financial information – FCA Bank SpA

	2016Y	2017Y	2018Y	2019Y	2020H1
Funding and liquidity					
Net loans/ deposits (%)	NA	1433%	1294%	1329%	1115%
Liquidity coverage ratio (%)	213%	105%	230%	241%	228%
Net stable funding ratio (%)	109%	109%	110%	106%	116%
Asset mix, quality and growth					
Net loans/ assets (%)	79.7%	78.2%	77.2%	75.4%	72.4%
Problem loans/ gross customer loans (%)	1.6%	1.4%	1.2%	1.2%	1.2%
Loan loss reserves/ problem loans (%)	94.9%	86.8%	95.2%	90.5%	97.9%
Net loan growth (%)	20.1%	14.5%	11.0%	1.3%	-18.5%
Problem loans/ tangible equity & reserves (%)	13.0%	12.1%	9.9%	9.4%	8.1%
Asset growth (%)	19.3%	16.8%	12.3%	3.8%	-10.9%
Earnings and profitability					
Net interest margin (%)	NA	2.6%	2.7%	2.6%	2.5%
Net interest income/ average RWAs (%)	2.9%	3.1%	3.2%	3.2%	3.2%
Net interest income/ operating income (%)	49.8%	52.6%	51.4%	49.0%	44.6%
Net fees & commissions/ operating income (%)	7.9%	7.5%	8.5%	7.2%	6.5%
Cost/ income ratio (%)*	53.9%	50.5%	56.0%	52.0%	55.0%
Operating expenses/ average RWAs (%)	3.2%	3.0%	3.5%	3.4%	3.9%
Pre-impairment operating profit/ average RWAs (%)	2.7%	2.9%	2.7%	3.2%	3.2%
Impairment on financial assets / pre-impairment income (%)	10.2%	5.9%	3.7%	7.0%	8.4%
Loan loss provision/ average gross loans (%)	0.3%	0.2%	0.1%	0.2%	0.2%
Pre-tax profit/ average RWAs (%)	2.4%	2.8%	2.6%	3.0%	3.0%
Return on average assets (%)	1.5%	1.5%	1.3%	1.5%	1.5%
Return on average RWAs (%)	1.8%	2.0%	1.9%	2.2%	2.2%
Return on average equity (%)	14.4%	16.1%	14.4%	15.4%	13.8%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	11.3%	12.0%	12.5%	14.2%	15.3%
Tier 1 capital ratio (%, transitional)	11.3%	12.0%	12.5%	14.2%	15.4%
Total capital ratio (%, transitional)	11.3%	13.7%	14.0%	15.8%	17.1%
Leverage ratio (%)	9.4%	9.6%	10.2%	10.6%	10.7%
Asset risk intensity (RWAs/ total assets, %)	77.6%	72.9%	71.6%	66.7%	65.1%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	0.0%	0.0%	0.0%	NA

Source: SNL, Scope Ratings
*Data is presented according to SNL's reclassification template, with D&A included in expenses both for the leasing and the car rental business

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

London

111 Buckingham Palace Road
UK-London SW1W 0SR

Madrid

Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan

Regus Porta Venezia
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Oslo

Karenslyst allé 53
0279 Oslo

Phone +47 21 623142

info@scoperatings.com
www.scoperatings.com

Disclaimer