FitchRatings

09 May 2019 | Affirmation

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

Fitch Ratings-Milan/London-09 May 2019: Fitch Ratings has affirmed FCA Bank S.p.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook and upgraded its Short-Term IDR to 'F1' from 'F2'. A full list of rating actions is at the end of this rating action commentary.

The Short-Term IDR was placed Under Criteria Observation on 7 May 2019 following the publication of Fitch's Short-Term Ratings Criteria on 2 May 2019.

KEY RATING DRIVERS

IDRS, SENIOR DEBT AND SR

FCA Bank's ratings are based on Fitch's assessment of the availability of potential support from Credit Agricole Consumer Finance (CACF; A+/Stable/F1), and ultimately from Credit Agricole (CA; A+/Stable/F1/a+/5). CA holds a 50% stake in FCA Bank through CACF and provides ongoing support to FCA Bank, mostly through funding and liquidity, under a joint-venture 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.

The three-notch difference between CA's and FCA Bank's IDRs largely reflects the 50% ownership and the significant influence CA's joint-venture partner, FCA Italy S.p.A, has on FCA Bank's business generation.

FCA Bank's ratings are not constrained by Italy's sovereign ratings (BBB/Negative) as FCA Bank has no direct exposure to Italian sovereign risk. Fitch also believes it is less exposed to the risk of restrictions being imposed on its ability to service its obligations than deposit-taking banks, should Italy's operating environment materially worsen. Business generated in Italy accounts for less than half of the total.

The upgrade of the Short-Term IDR reflects Fitch's view that the parent's propensity to support its subsidiaries is typically more certain in the near term and we do not envisage impediments to the prompt flow of funds from the CA group to FCA Bank. Our assessment also considers the size of FCA's short-term maturities in relation to the size of the CA group and the resources it could make available and FCA Bank's long and successful track record in supporting group objectives.

FCA Bank's funding sources are sufficiently diversified, through access to various wholesale funding instruments and investor bases. The bank has also access to ECB funding. 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 the CA strategy to increase the autonomy of its subsidiaries' funding profiles. Customer deposits are gradually growing, but remain relatively immaterial (4% of non-equity funding at end-2018) in the overall funding structure.

FCA Bank's debt/tangible equity ratio is relatively weak compared with consumer finance peers, but leverage is mitigated by its less risky business model and by the good quality of FCA Bank's assets (impaired loans to gross loans ratio at 1% at end-2018). FCA Bank's regulatory capital ratios are adequate with a reported CET1 ratio of 12.45% at end-2018.

FCA Bank's profitability is average compared with its peers and benefits from stable earnings generation, good operating efficiency and limited loan impairment charges. During 2018, the economic performance slightly improved despite the accounting of EUR60 million charge to cover the related risks for an investigation undertaken by Italian Antitrust Authority over nine operators in relation to their commercial strategies.

FCA Bank Irish Branch's and 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.

RATING SENSITIVITIES

IDRS, SENIOR DEBT AND SR

FCA Bank's ratings are sensitive to changes in Fitch's assumptions about CA's propensity to support the bank. A downgrade of CA's 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. An upgrade of CA's 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.

FCA Bank's attractiveness to CA could be sensitive to a significant economic deterioration in Italy if this were to result in a material negative impact on FCA Bank's asset quality and capitalisation. FCA Bank's ratings could therefore be downgraded following a downgrade of Italy's sovereign if the latter was driven primarily by a significant deterioration in the domestic economic environment, given FCA Bank's moderate loan book exposure to the Italian consumer market (outstanding receivables of 48% at end-2018). While FCA Bank's ratings are not constrained by Italy's sovereign, Fitch would unlikely widen the notching difference between FCA Bank's and Italy's respective IDRs to above two notches, which means that if Italy was downgraded by one notch and maintained 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's Long-term IDR.

FCA Bank's ratings are also sensitive to a change in its ownership structure and the 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 sees material deterioration.

The rating actions are as follows:

FCA Bank S.p.A.:
Long-Term IDR affirmed at 'BBB+'; Outlook Stable
Short-Term IDR removed from Criteria Observation and upgraded to 'F1' from 'F2'
Support Rating: affirmed at '2'

FCA Bank S.p.A - Irish Branch:
Senior debt (including debt issuance programmes): affirmed at 'BBB+'
Short-Term IDR removed from Criteria Observation and upgraded to 'F1' from 'F2'

FCA Capital Suisse SA:
Senior debt: affirmed at 'BBB+'

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Additional information is available on www.fitchratings.com

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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