

Rating Action: Moody's affirms FCA Bank's deposit and issuer of Baa1; outlook stable

11 Oct 2019

Paris, October 11, 2019 -- Moody's Investors Service, ("Moody's") today affirmed the Baa1 long-term deposit ratings of FCA Bank S.p.A. (FCA Bank, or "the bank"), its long-term issuer rating of Baa1, its standalone Baseline Credit Assessment (BCA) of ba1, and its Adjusted BCA of baa3.

The outlook on the bank's long-term deposit ratings and issuer rating remains stable.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

BCA

FCA Bank's BCA was affirmed at ba1 reflecting its sound asset quality, good levels of capital and resilient profitability. Problem loans accounted for 1.3% of gross loans as of June 2019, which compares favorably with the European Union average of 3.1% at the same date and with the Italian banking system average of 8.7% at end-2018.

Capital ratios are gradually improving despite loan growth thanks to good internal capital generation, with the Common Equity Tier 1 (CET1) capital ratio increasing to 13.2% at end-June 2019 from 12.5% at end-2018.

The bank's profitability is sound, in line with that of its main peers, supported by a track record of a low cost of risk, with a return on tangible assets of 1.5% in the first half of 2019. Increasing market share in most of FCA Bank's markets will further support its profitability.

Set against this strong solvency profile, FCA Bank has a high reliance on market, which is however mitigated by the funding by its 50% shareholder Credit Agricole S.A. (CASA, Aa3/ Aa3 stable, a3), while liquid assets represented a low 8.8% of tangible assets at end-June 2019.

FCA Bank's BCA is tied to the credit strength of the bank's other 50% shareholder, car manufacturer Fiat Chrysler Automobiles N.V. (FCA, Ba1 stable) given its status as a captive bank. This involves deep commercial links as well as a broader strategic role for the bank within the group. Therefore, FCA Bank's BCA is unlikely to exceed FCA's rating of Ba1 by more than one notch, as for other rated auto captives.

FCA Bank's BCA also reflects its monoline status and low business diversification.

ADJUSTED BCA

FCA Bank's Adjusted BCA was affirmed at baa3 to reflect the high probability of affiliate support from CASA, resulting in a one-notch uplift from the BCA of ba1. The Adjusted BCA of CASA was upgraded to a3 from baa1 on 19 September 2019 (see Moody's upgrades Credit Agricole S.A.'s long-term deposit and senior unsecured debt ratings to Aa3 from A1; outlook changed to stable; https://www.moodys.com/research/--PR_409949). This did not result in an upgrade of FCA Bank's own Adjusted BCA as Moody's considers that the benefit of CASA's improved ability to support the bank is limited by the fact that FCA Bank (1) is 50%-owned by CASA rather than being consolidated; and (2) carries a different brand.

DEPOSIT AND ISSUER RATINGS

The affirmation of FCA Bank's Baa1 long-term deposit and issuer ratings reflects: (1) the affirmation of the Adjusted BCA of baa3; (2) the protection afforded by the volume of debt, as assessed under Moody's Advanced Loss Given Failure (LGF) analysis; and (3) the constraint of Italy's sovereign rating of Baa3, as Moody's does not typically rate bank instruments more than two notches above the sovereign.

OUTLOOK

The stable outlook on FCA Bank's Baa1 long-term deposit ratings reflects the stable outlook on Italy's Baa3 sovereign debt rating. In accordance with our Banks methodology, bank ratings do not typically exceed the related sovereign bond rating by more than two notches, reflecting our view that the expected loss of rated bank instruments is unlikely to be significantly lower than that of the sovereign's own debt.

The stable outlook on FCA Bank's long-term issuer rating reflects Moody's expectation that the bank's financial performance will continue to be sound in the medium term.

WHAT COULD CHANGE THE RATINGS UP/DOWN

An upgrade of FCA Bank's BCA could be driven by: (1) a substantial increase in capitalization; (2) stronger recurring earnings; and/or (3) a material improvement of its liquidity profile. An upgrade of FCA Bank's BCA could lead to an upgrade in the Adjusted BCA.

An upgrade of the deposit and issuer ratings is unlikely given Italy's sovereign rating of Baa3. An upgrade of Italy's sovereign rating could lead to an upgrade of FCA Bank's deposit ratings.

A downgrade of the bank's BCA could result from: (1) a reversal in current asset risk trends with an increase in the stock of problem loans; (2) a weakening of FCA Bank's risk-absorption capacity because of deteriorating profitability and/or capital levels; and/or (3) a significant deterioration of the bank's liquidity profile. A downgrade of the BCA would likely lead to a downgrade of the issuer rating. A downgrade of the Italian government's bond rating would also likely lead to a downgrade of the issuer and deposit ratings.

LIST OF AFFECTED RATINGS

Issuer: FCA Bank S.p.A.

..Affirmations:

-Long-term Counterparty Risk Ratings, affirmed Baa1
-Short-term Counterparty Risk Ratings, affirmed P-2
-Long-term Bank Deposits, affirmed Baa1, outlook remains Stable
-Short-term Bank Deposits, affirmed P-2
-Long-term Counterparty Risk Assessment, affirmed Baa2(cr)
-Short-term Counterparty Risk Assessment, affirmed P-2(cr)
-Long-term Issuer Rating, affirmed Baa1, outlook remains Stable
-Baseline Credit Assessment, affirmed ba1
-Adjusted Baseline Credit Assessment, affirmed baa3

..Outlook Action:

-Outlook remains Stable

Issuer: FCA Bank S.p.A., Irish Branch

..Affirmations:

-Long-term Counterparty Risk Ratings, affirmed Baa1
-Short-term Counterparty Risk Ratings, affirmed P-2
-Long-term Counterparty Risk Assessment, affirmed Baa2(cr)
-Short-term Counterparty Risk Assessment, affirmed P-2(cr)
-Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook remains Stable
-Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Commercial Paper, affirmed P-2

..Outlook Action:

....Outlook remains Stable

Issuer: FCA CAPITAL IRELAND P.L.C. (debts assumed by FCA Bank S.p.A., Irish Branch)

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook remains Stable

..No Outlook assigned

Issuer: FCA Capital Suisse SA

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook remains Stable

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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