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FCA Bank SpA

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FCA Bank SpA

SACP	bbb-	+	Support	+1	+	Additional Factors	0

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

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

Issuer Credit Rating
BBB/Stable/A-2

Major Rating Factors

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

Outlook: Stable

The stable outlook mirrors that on Italy. Since we consider FCA Bank to be a strategically important subsidiary for CASA (its 50% owner), under our criteria, uplift for group support for these types of entities cannot lead to us rating the subsidiary 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. We anticipate that FCA Bank capitalization will gradually strengthen, reaching a risk-adjusted capital (RAC) ratio of about 10.5%-10.8% by end-2020, because we expect that the bank's internal capital generation will be sufficient to sustain growth.

We could upgrade FCA Bank in the next 12-24 months if we upgraded Italy, because we would incorporate an additional notch of support from CASA, given our view of its importance for CASA group.

We could lower the ratings if we downgraded Italy or, although not our base case, if we anticipated that extraordinary support from CASA would materially diminish or FCA creditworthiness would materially deteriorate.

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 47% of the bank's average outstanding loans are to Italian borrowers.

We expect FCA Bank's capital position will remain supported by strong profitability and flexible dividend pay-out. We expect these factors will counterbalance meaningful expansion of the bank's business, after the loan book increased by 16% in 2017. As such, we project that the bank's RAC ratio will moderately increase over the next three years, from about 10% in December 2017 to 10.5%-10.8% by end-2020.

In addition, we anticipate that FCA Bank's credit losses will remain 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. That said, we believe the concentrated nature of the bank's business continues to constrain its 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 needs of FCA Bank, even in the most stressful scenario.

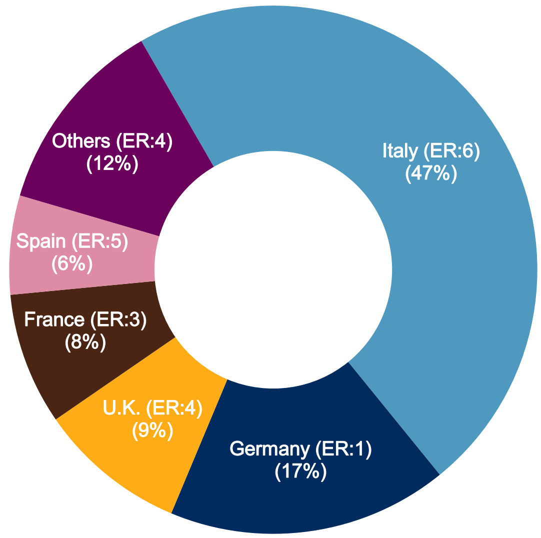
The rating also incorporates our view that CASA would likely provide FCA Bank with extraordinary capital and liquidity support, if needed.

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 47% of its loans. The anchor benefits from the bank's high degree of diversification in countries with comparatively lower economic risk than that of FCA Bank's domestic market, in our view.

Chart 1

FCA Bank SpA -- Geographic Breakdown By Net Portfolio As of December 2017



ER--Economic risk, on a scale of '1' (lowest risk) to '10' (highest risk). Source: S&P Global Ratings.

We expect that the Italian economy will continue to recover from the past recession, supporting Italian banks' efforts to repair their balance sheets. This process will be gradual, in our view, because Italy's GDP might take another four years to return to its prerecession level. High government debt of about 130% of GDP is likely to continue to constrain the government's flexibility to adjust its fiscal policy to support economic growth. In such a context, we would need to see more evidence of a substantial further contraction of nonperforming exposures before considering that the economic risks faced by Italian banks have reduced.

Industry risks for Italian banks are likely to remain higher than for banks in peer countries. Better economic conditions, improving asset quality, banks' planned actions on cost-cutting, and the ECB's accommodating measures will help the Italian banking sector to improve its profitability over the next couple of years. However, we expect most banks will report only modest profitability because ultra-low interest rates will continue to weigh on revenues, while investments in digitization and costs arising from new regulatory requirements will become an increasing burden, particularly for small-to-midsize enterprises. Improving efficiency will therefore remain key for the Italian banking sector and could lead to further consolidation in the coming years, in our opinion.

Table 1

FCA Bank SpA Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	26,938.6	23,042.1	19,268.8	16,716.7	16,347.6
Customer loans (gross)	23,691.1	20,407.7	16,967.7	15,271.3	15,238.7
Adjusted common equity	2,299.5	2,024.1	1,680.7	1,559.5	1,470.9
Operating revenues	812.1	727.8	685.1	607.4	591.0
Noninterest expenses	259.8	245.9	242.4	222.3	225.4
Core earnings	381.5	325.1	253.5	215.0	183.5

Business position: A business model concentrated on car sales financing

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

The company is focused in Europe, on the FCA brand, which represents about 80% of its portfolio. The remaining 20% encompasses Jaguar Land Rover (JLR), as well as, marginally, the Maserati, Ferrari, and Erwin HymerGroup 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 FCA group. It recently signed cooperation agreements with Aston Martin. We expect FCA Bank will continue to pursue new brand partnerships and its greater-than-peers' brand diversification will help mitigate the bank's lack of global presence compared with most auto captive finance peers.

Despite these constraints, FCA Bank has managed to contain its revenue volatility in recent years. The total penetration of the financed brands has constantly remained above 40% over the past four years. We expect that car sales prospects in Europe over the next two years will remain supportive of FCA Bank's business growth. In particular, we observe that FCA and JLR have been gradually recovering their market share in Europe since 2014 (from 7.0% in 2014 to 8.7% in 2017), after suffering more than most peers from the financial crisis.

As such, we expect FCA Bank will continue to report resilient revenues. 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 the bank's 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 of the bank's shareholders, FCA and CASA.

Table 2

FCA Bank SpA Business Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Loan market share in country of domicile	N/A	1.3	1.1	1.0	0.9
Deposit market share in country of domicile	N/A	0.0	0.0	0.0	0.0
Total revenues from business line (mil. €)	817.2	781.8	685.1	607.4	591.0
Retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0

Table 2

FCA Bank SpA Business Position (cont.)					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average equity	16.2	14.4	12.4	9.8	9.9

N/A--Not applicable.

Capital and earnings: Strong capitalization supports growth

We anticipate that FCA Bank's capital ratio will gradually increase over the next two years thanks to its ability to maintain resilient operating profit and contain the cost of risk. We forecast that FCA Bank's RAC ratio will be about 10.5%-10.8% by end-2020, compared with 10% as of December 2017.

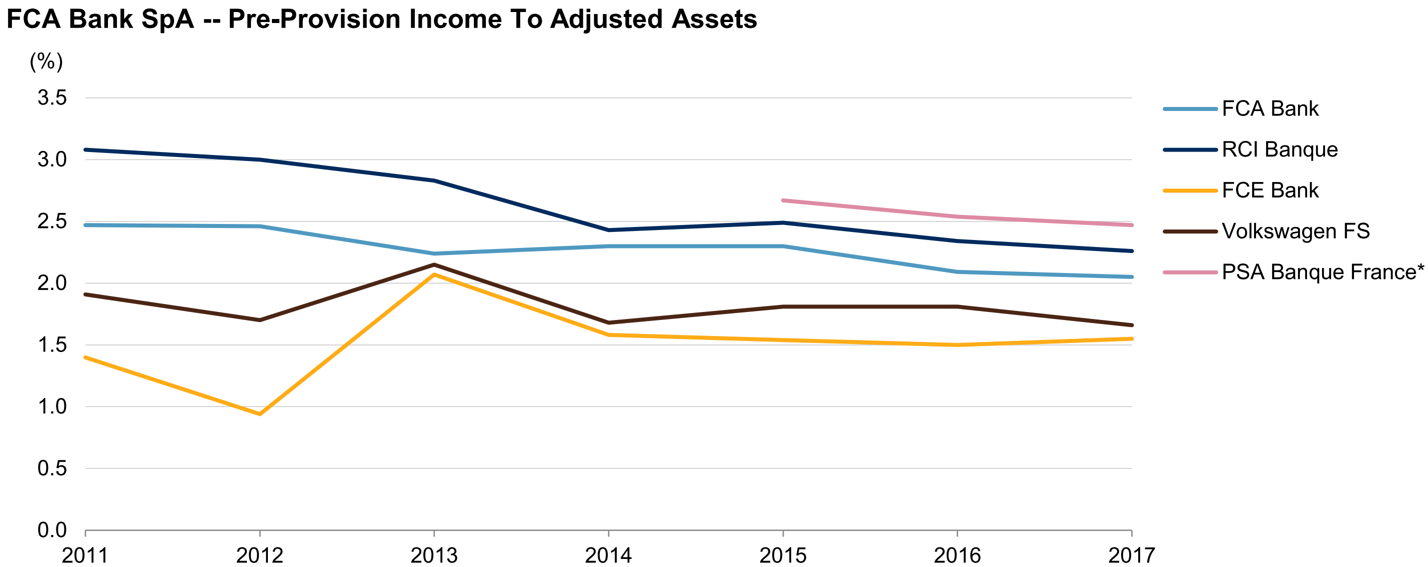
For 2018-2020, we expect capitalization will be sustained by:

- Continuous revenue growth, although at a moderate pace compared with the previous two years.
- Constant costs control.
- Contained cost of risk.
- Continuous earning retention.

Specifically, we think that FCA Bank will continue to expand its loan book, although at a lower pace compared with the significant expansions of the past two years (16% in 2017 and 20% in 2016). This mainly reflects the bank's expanding brand diversification, good car sales prospects, and stable penetration of FCA and JLR. Although we anticipate a slight interest margin contraction, we expect this expansion will continue to drive revenue growth in 2018-2020.

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 close to its current figure of 30%. This is better than most of its international peers. We also expect the bank's pre-provision income to average assets will remain above 2%, better than most of its peers.

Chart 2



*PSA Banque France was formed in 2015 as a 50:50 joint venture between Groupe PSA and Santander Consumer Finance. Source: S&P Global Ratings.

We expect the bank's cost of risk will moderately increase from the very low levels of 2017, but remain well 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 and expansion. We are assuming the pay-out ratio for the coming years will be in line with the 50% of the years 2014-2016. As such, our projected RAC factors in earnings retention of about €170 million-€190 million per year in 2018-2020.

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

Table 3

FCA Bank SpA Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	2017	2017	2010	2010	2010
Tier 1 capital ratio	12.0	11.7	11.2	11.7	11.0
S&P Global Ratings RAC ratio before diversification	10.0	9.2	9.2	9.1	10.2
S&P Global Ratings RAC ratio after diversification	9.7	8.8	9.8	9.6	11.0
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	91.4	89.3	85.6	83.1	82.3
Fee income/operating revenues	10.3	11.0	11.7	14.6	16.9
Market-sensitive income/operating revenues	(0.5)	(0.6)	(0.5)	(0.5)	(0.2)

Table 3

FCA Bank SpA Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Noninterest expenses/operating revenues	32.0	33.8	35.4	36.6	38.1
Preprovision operating income/average assets	2.2	2.3	2.4	2.3	2.3
Core earnings/average managed assets	1.5	1.5	1.4	1.3	1.1

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

FCA Bank SpA Risk-Adjusted Capital Framework 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	963	334	35	60	6
Of which regional governments and local authorities	26	31	121	1	4
Institutions and CCPs	1,198	219	18	460	38
Corporate	8,351	7,081	85	8,115	97
Retail	13,541	9,436	70	9,980	74
Of which mortgage	0	0	0	0	0
Securitization§	921	211	23	277	30
Other assets†	1,376	1,220	89	2,552	185
Total credit risk	26,350	18,499	70	21,444	81
Credit valuation adjustment					
Total credit valuation adjustment	--	12	--	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	--	1,296	--	1,523	--
(Mil. €)		**Basel III RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification		19,818		22,967	100
Total Diversification/Concentration Adjustments		--		739	3
RWA after diversification		19,818		23,706	103
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,712	13.7	2,300	10.0

Table 4

FCA Bank SpA Risk-Adjusted Capital Framework Data (cont.)				
Capital ratio after adjustments‡	2,712	13.7	2,300	9.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes deferred tax assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Central counterparty. RAC--Risk-adjusted capital. RW--Risk weight. RWA--Risk-weighted assets. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

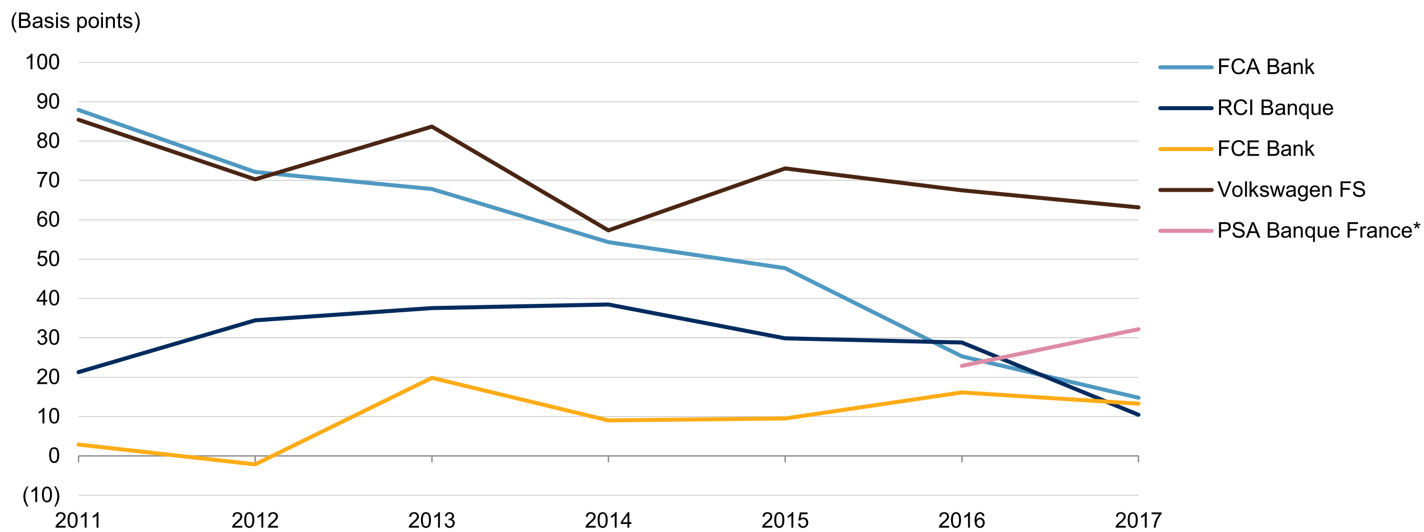
Risk position: Very low credit losses in line with peers

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 economic recession.

We anticipate that its credit losses will remain in line with those of its international peers in the captive automotive sector, likely ranging around 30 basis points (bps) of customer loans in 2018-2020, after reaching a very low 15 bps in 2017. We consider this a low level of losses given the bank's geographical exposure, and well below that at most Italian banks.

Chart 3

FCA Bank SpA -- Cost Of Risk



*PSA Banque France was formed in 2015 as a 50:50 joint venture between Groupe PSA and Santander Consumer Finance. Source: S&P Global Ratings.

FCA Bank benefits from highly granular and low-risk retail financing, which accounted for about 63% of the total average loan book in 2017.

Dealer financing, accounting for about 28% of the total average loan book in 2017, 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, have helped 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 9% of the average loan book in 2017, stable from 2016.

Single-name concentration risk is not material in the FCA Bank corporate loans portfolio, in our view. The top 20 clients account for about 53% 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.

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

Table 5

FCA Bank SpA Risk Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	16.1	20.3	11.1	0.2	4.6
Total diversification adjustment / S&P Global Ratings RWA before diversification	N/A	3.8	(5.7)	(4.9)	(7.0)
Total managed assets/adjusted common equity (x)	11.8	11.5	11.6	10.9	11.3
New loan loss provisions/average customer loans	0.1	0.3	0.5	0.5	0.7
Net charge-offs/average customer loans	(0.9)	(0.8)	N.M.	0.3	0.4
Gross nonperforming assets/customer loans + other real estate owned	1.3	1.5	1.8	2.1	2.5
Loan loss reserves/gross nonperforming assets	86.8	94.9	92.9	84.7	75.1

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

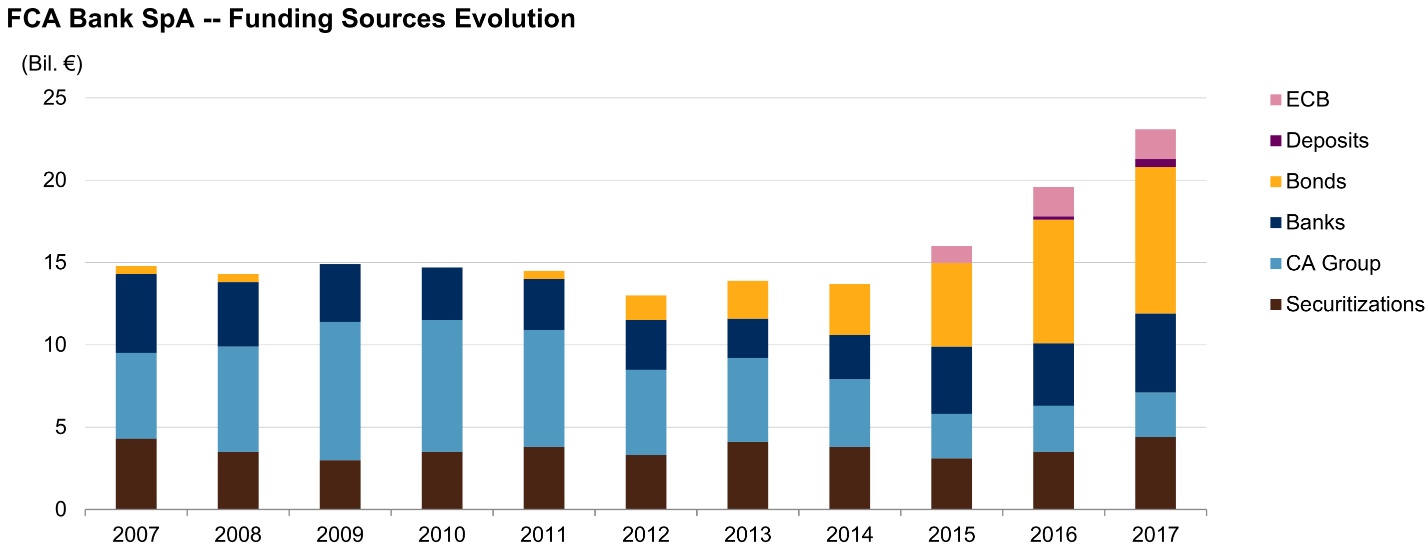
Funding and liquidity: CASA's continuing funding support counterbalances wholesale funding structure

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 2022. Under the contractual terms, CASA funding support is sized to meet the needs of FCA Bank even in the most stressful scenario. This is reflected in our assessment of FCA Bank's funding as average and liquidity as adequate.

As of Dec. 31, 2017, CASA provided about €2.7 billion of funding, accounting for about 11.5% 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.

That said, we note that FCA Bank has gradually diversified its funding structure, reducing its reliance on CASA funding significantly over time. Furthermore, we assume that FCA Bank will maintain manageable maturities in the coming years.

Chart 4



Source: S&P Global Ratings.

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 European Central Bank (ECB) and launch a deposit account. It also helped FCA Bank to further contain its cost of accessing wholesale funding sources. FCA Bank gradually increased its direct funding from the ECB, through its participation in the ECB's targeted longer-term refinancing operations. That said, reliance on ECB funding has increased over time, since in the past it was provided through CASA.

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 and contain funding costs.

In addition, we consider 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. The bank's loan portfolio is short-term, with more than 50% of assets maturing within one year as of end-December 2017.

Table 6

FCA Bank SpA Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	6.3	3.5	2.8	0.9	0.6
Customer loans (net)/customer deposits	1,579.0	2,868.1	3,677.2	11,460.8	17,809.7
Long term funding ratio	20.4	77.8	54.4	60.1	54.2
Stable funding ratio	20.1	78.7	54.8	59.7	53.9
Short-term wholesale funding/funding base	87.4	24.4	50.8	44.8	51.0
Broad liquid assets/short-term wholesale funding (x)	0.0	0.3	0.1	0.1	0.1

Table 6

FCA Bank SpA Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Net broad liquid assets/short-term customer deposits	(2,014.1)	(1,641.4)	N.M.	(17,019.7)	(16,468.1)
Short-term wholesale funding/total wholesale funding	93.3	25.3	52.2	45.2	51.3

N.M.--Not meaningful.

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 recently extended until December 2022.

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 been successful in demonstrating strong financial performance, and has proved to be a stable source of profit to CACF.

Despite its strategically important status, we incorporate only one notch of group support, since, 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, given the recent upgrade of FCA (BB+/Positive/B), we see diminished downside risk from any difficulties at FCA that could negatively influence FCA Bank's stand-alone creditworthiness, nor CACF's willingness to support FCA Bank.

Related Criteria

- 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: Group Rating Methodology, Nov. 19, 2013
- Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Bulletin: The Appointment Of The New Government In Italy Has No Immediate Effect On The Sovereign Rating, June 1, 2018
- Research Update: Italy's Ratings Affirmed At 'BBB/A-2'; Outlook Stable, April 27, 2018
- Research Update: Fiat Chrysler Automobiles Upgraded To 'BB+' On Stronger Leverage; Outlook Remains Positive, Feb. 5, 2018
- Banking Industry Country Risk Assessment: Italy, Nov. 16, 2017
- Positive Actions Taken On Italian Banks On Reduced Economic Risks And Sovereign Upgrade, Oct. 31, 2017
- Research Update: Credit Agricole Outlook Revised To Positive On Gradually Strengthening Capital And Risk Profile, Oct. 25, 2017

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 June 26, 2018)	
FCA Bank SpA	
Issuer Credit Rating	BBB/Stable/A-2
Short-Term Debt	A-2
Issuer Credit Ratings History	
31-Oct-2017	BBB/Stable/A-2
19-May-2016	BBB-/Stable/A-3
09-Sep-2015	BB+/Positive/B
17-Jun-2014	BB+/Stable/B
24-Jul-2013	BB+/Negative/B
12-Jul-2013	BBB-/Watch Neg/A-3
Sovereign Rating	
Italy	BBB/Stable/A-2

Ratings Detail (As Of June 26, 2018) (cont.)	
Related Entities	
FCA BANK S.P.A.	
Senior Unsecured	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.