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Summary:

FCA Bank SpA

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Table Of Contents

Major Rating Factors

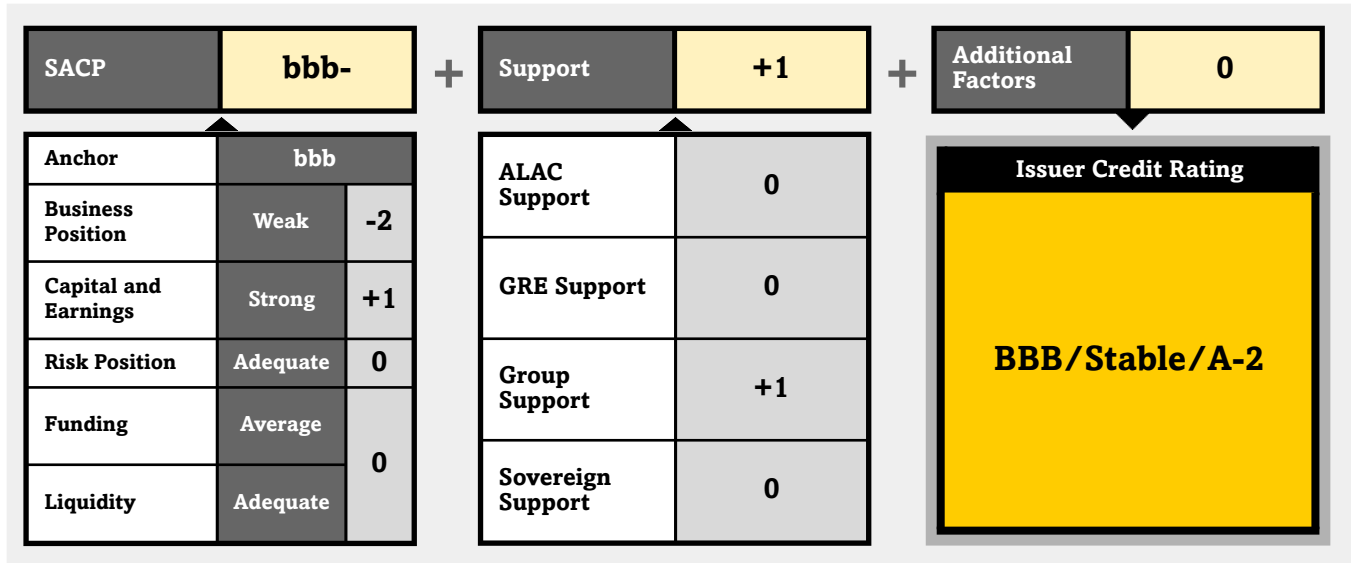
Outlook

Rationale

Related Criteria

Summary:

FCA Bank SpA



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Strong profitability supports capital. • Strategically important to French banking group Crédit Agricole S.A. (CASA). • High level of geographic diversification. 	<ul style="list-style-type: none"> • Business concentration on car sales financing. • Dependence on Fiat Chrysler Automobiles's (FCA) franchise in Europe. • Credit exposure to high-risk Southern European economies.

Outlook: Stable

The stable outlook mirrors that on Italy. As we consider FCA Bank to be a strategically important subsidiary for CASA--its 50% owner--uplift for group support for these types of entities 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. We anticipate that FCA Bank will likely maintain strong capitalization as indicated by its risk-adjusted capital (RAC) ratio at about 10.6% at end-2016, as we expect the bank's internal capital generation to be sufficient to sustain growth.

We could upgrade FCA Bank in the next 12-24 months if we upgraded Italy and if, at the same time, we perceived a stronger creditworthiness of the owner of the remaining 50%--FCA--indicating diminishing downside risks for FCA Bank's business profile and reputation.

We could lower the ratings if we lowered the ratings on Italy or, although not in our base case, we anticipated that extraordinary support from CASA would materially diminish.

Rationale

FCA Bank is a joint venture (JV) active in the financing of European car sales for FCA. FCA Bank is a 50%-50% JV ultimately owned by CASA through Credit Agricole Consumer Finance and by 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 45% of the bank's average outstanding loans are to Italian borrowers. Most of FCA Bank's remaining activity is in countries where we see lower economic risk than Italy, such as Germany, France, and the U.K.

We expect FCA Bank's capital position to remain supported by strong profitability and flexible dividend pay-out. We expect these factors to counterbalance meaningful expansion of the bank's business with the loans book increasing by 20.3% in 2016 and 7.7% in the first six months of 2017. As such, we project that the bank's RAC ratio will remain at about 10.6%, where it was as of December 2016, over the next two years.

In addition, we anticipate that FCA Bank's credit losses will remain in line with those of other auto captive finance companies in Europe. This has been the case in recent years, as a result of the bank's granular loan portfolio, geographical diversification outside Italy, and prudent underwriting. That said, we think the bank's creditworthiness remains constrained by the concentrated nature of its business, as the production is correlated to the highly cyclical automotive industry.

FCA Bank benefits from the funding and liquidity support it receives from 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.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - November 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013

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-

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