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**Research Update:**

## **FCA Bank SpA 'BBB/A-2' Ratings Affirmed After Fine For Cartel Allegations; Outlook Negative**

**Primary Credit Analyst:**

Regina Argenio, Milan (39) 02-72111-208; [regina.argenio@spglobal.com](mailto:regina.argenio@spglobal.com)

**Secondary Contact:**

Alessandro Ulliana, Milan (39) 02-72111-228; [alessandro.ulliana@spglobal.com](mailto:alessandro.ulliana@spglobal.com)

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## Research Update:

# FCA Bank SpA 'BBB/A-2' Ratings Affirmed After Fine For Cartel Allegations; Outlook Negative

## Overview

- On Jan. 9, 2019, the Italian antitrust authority fined FCA Bank SpA €179 million due to allegations that almost all automotive captive banks operating in Italy formed a cartel and unlawfully exchanged information on leasing and auto financing conditions between June 2003 and April 2017.
- We believe that FCA Bank will be able to absorb the fine with no material impact on its capital position.
- Consequently, we are affirming our 'BBB' long-term and 'A-2' short-term issuer credit ratings on FCA Bank.
- The outlook remains negative, mirroring the negative outlook on Italy.

## Rating Action

On Jan. 11, 2019, S&P Global Ratings affirmed its 'BBB' long-term and 'A-2' short-term issuer credit ratings on FCA Bank SpA. The outlook remains negative.

## Rationale

The affirmation reflects our expectation that FCA Bank's high earning capacity will be sufficient to absorb the €179 million fine it has received from the Italian antitrust authority with limited impact on its overall solvency. The fine, which the bank will appeal, was due to allegations that almost all automotive captive banks operating in Italy formed a cartel and unlawfully exchanged information on leasing and auto financing conditions between June 2003 and April 2017. The penalty imposed on FCA Bank is part of an overall €678 million sanction. The affirmation also reflects FCA Bank's flexibility to adapt its dividend policy to preserve its capitalization. Specifically, we expect that FCA Bank will retain its 2018 earnings in full as it will not upstream any dividends to its shareholders. This should allow the bank to maintain its risk-adjusted capital ratio slightly above 10.5% in 2020 despite the fine.

We do not expect that the result of the Italian antitrust authority's investigation will materially affect FCA Bank's future business because most of its competitors have faced the same allegations and charges (see "FCE Bank, RCI Banque, And VW Bank Have Ample Capital And Earnings To Absorb Fines From Italian Competition Authority," published Jan. 11, 2019). Consequently, we do

not anticipate a major impact on FCA Bank's reputation that could affect its future revenues. Still, we will monitor any future developments or any legal implications that this issue might have.

In our view, FCA Bank remains a strategically important subsidiary of Credit Agricole S.A. (CASA), its 50% owner, and consequently would benefit from CASA's support if needed. The flexible dividend policy supports our view.

## Outlook

The negative outlook on FCA Bank over our horizon of the next 24 months mirrors that on Italy. We consider FCA Bank to be a strategically important subsidiary for CASA. We cap ratings uplift for group support for strategically important entities at the level of the rating on their sovereign. In FCA Bank's case, this reflects our opinion that potential extraordinary support from CASA will not be sufficient to allow FCA Bank to withstand a sovereign default stress scenario.

Absent a sovereign downgrade, a downward revision of FCA Bank's stand-alone credit profile due to a deterioration in the financing conditions for Italian banks that hits FCA Bank's profitability and internal capital generation would not lead us to lower the ratings on FCA Bank. This is because we would incorporate an additional notch of support from CASA, given our view of FCA Bank's importance for the French group.

We would revise the outlook to stable if we revised the outlook on Italy to stable.

## Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
SACP	bbb-
Anchor	bbb
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and (0) Adequate
Support	(+1)
ALAC Support	(0)
GRE Support	(0)
Group Support	(+1)
Sovereign Support	(0)

Additional Factors (0)

## Related Criteria

- Criteria - Financial Institutions - 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- FCE Bank, RCI Banque, And VW Bank Have Ample Capital And Earnings To Absorb Fines From Italian Competition Authority, Jan. 11, 2019

## Ratings List

Ratings Affirmed

FCA Bank SpA

Issuer Credit Rating	BBB/Negative/A-2
Senior Unsecured	BBB

### Additional Contact:

Financial Institutions Ratings Europe; FIG\_Europe@spglobal.com

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