FitchRatings

FITCH UPGRADES FCA BANK TO 'BBB', OUTLOOK POSITIVE

Fitch Ratings-Milan/London-08 July 2015: Fitch Ratings has upgraded FCA Bank (FCABank)'s Long-term Issuer Default Rating (IDR) to 'BBB' from 'BBB-' with a Positive Outlook and Short-term IDR to 'F2' from F3'. The Support Rating has been affirmed at '2'. Fitch has also upgraded FCA Capital Ireland plc's senior unsecured debt rating, including its EUR6bn EMTN programme to 'BBB'/'F2' from 'BBB-'/'F3'. FCA Capital Suisse's CHF125m senior unsecured notes (ISIN: CH0248542877) maturing in July 2017 have been upgraded to 'BBB' from 'BBB-'.

FCABank is one of Europe's largest providers of car finance. It operates as a joint venture (JV) between Credit Agricole Consumer Finance (CACF, A/Positive) and FCA Italy S.p.A., 100% owned by Fiat Chrysler Automobiles N.V. (FCA; BB-/Negative).

The upgrade reflects Fitch's more positive assessment of the degree of strategic importance of FCABank for the Credit Agricole group, supported by its sound performance track record. As a result, we have reduced the difference between FCABank's Long-term IDR and that of CACF to three notches from four.

The Positive Outlook reflects the revision of the Outlook on FCABank's ultimate bank shareholder CA (see 'Fitch Revises Credit Agricole's Outlook to Positive; Affirms at 'A'' published on 23 June 2015 at www.fitchratings.com) and on its consumer finance subsidiary CACF to Positive, as CACF's ratings drive those of FCABank.

KEY RATING DRIVERS
IDRs, SENIOR DEBT AND SUPPORT RATING
FCABank's IDRs and Support Rating are based on potential support from Credit Agricole (A/Positive/a), which holds a 50% stake in FCABank through CACF.

The reduced notching reflects Fitch's opinion that FCABank's robust track record of growing net profits, strengthened capitalisation through internal capital generation and conservation of sound asset quality, ultimately make it a more attractive investment for CA than at the onset of the JV. The three notches continue to reflect the 50% ownership.

FCA's ratings do not have a direct influence on those of FCABank as Fitch regards FCA as a pure industrial partner from a rating perspective. However, FCA's commercial effectiveness is relevant to FCABank's business volumes and profitability and ultimately influences the attractiveness of the investment to CA. FCABank's performance has been resilient since the onset of the car market crisis in Europe and brand and geographic diversification have somewhat reduced the influence of FCA sales on FCABank's profitability. However, they remain closely linked.

FCABank's funding and liquidity benefit from the JV agreement under which CA is committed to provide support. The terms of the agreement, originally signed in 2006, were last revised in July 2013 and have been effective since January 2015, after the original agreement expired at end-2014. The agreement naturally expires in December 2021, with automatic renewals for three-year periods.

Based on the terms of the agreement, Fitch believes that the propensity of CA to support FCABank is high. CA undertakes to make funding and liquidity constant and available to FCABank. Funding and liquidity is to be priced at market terms and its size is to fill the needs of FCABank, including under the most stressful scenarios.

FCABank's funding autonomy and attractiveness in the capital market relies on CA's presence in the JV. However, FCABank's funding sources are sufficiently diversified and its successful acquisition of full bank status in early 2015 would be instrumental in achieving further funding diversification. The bank plans to tap European Central Bank funding and attract customer deposits in the coming quarters, with a higher contribution expected from the former. At end-2014, CA's contribution to non-equity funding declined to about 30% of the total (end-2013: 36%) with the balance raised mainly through securitisations and wholesale bonds.

FCABank's weighted and unweighted capital ratios have steadily improved since the beginning of the JV, underpinned by healthy internal capital generation. The tangible equity/tangible assets ratio was above 10% at end-2014, which is robust. The reported CET1 ratio was adequate at 11.7% at the same date.

Asset quality metrics compare well with domestic bank and consumer finance peers, supported by FCABank's sound underwriting standards and credit risk control, and by the expansion into wealthy European economies such as UK and Germany.

FCA Capital Ireland plc and Fidis Finance SA's senior unsecured notes are unconditionally and irrevocably guaranteed by FCABank and rank pari passu with the guarantor's senior unsecured obligations.

At 'F2', the higher of the two possible Short-term IDRs for entities with a Long-term IDR of 'BBB' reflects Fitch's assumption that liquidity support from the shareholder will be forthcoming.

RATING SENSITIVITIES
IDRS, SENIOR DEBT and SUPPORT RATING
FCABank's IDRs, senior debt ratings and Support Rating are sensitive to changes in Fitch's assumptions regarding the ability and propensity of CACF, and ultimately of CA, to provide support.

Any reduction in CA's commitment to provide liquidity support would put FCABank's ratings under pressure. Shareholders are committed to keeping FCABank adequately capitalised. Any changes to this commitment would put FCABank's ratings under pressure, as in Fitch's opinion, it would indicate CA's reduced propensity to support the bank. Pressure on FCABank's ratings would also arise if CACF reduced its stake in FCABank or exited the JV agreement, which Fitch does not currently expect.

Provided that Fitch's assessment of the strategic importance of FCABank for CA remains unchanged, an upgrade of FCABank's ratings would require an upgrade of CA's Long-term IDR, which has a Positive Outlook.

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Applicable Criteria
Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865351