MOODY'S INVESTORS SERVICE

Credit Opinion: FCA Bank S.p.A.

Global Credit Research - 26 Jun 2015

Torino, Italy

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba1
Issuer Rating	Baa2
FCA CAPITAL IRELAND P.L.C.	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa2
FCA Capital Suisse SA	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa2

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Key Indicators

FCA Bank S.p.A. (Consolidated Financials)[1]

	[2]**12-14**	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	**Avg.**
Total Assets (EUR million)	**16,934.2**	**16,562.8**	**15,741.9**	**17,002.9**	**17,231.9**	[3]**-0.4**
Total Assets (USD million)	**20,491.3**	**22,822.5**	**20,754.0**	**22,072.2**	**23,117.3**	[3]**-3.0**
Tangible Common Equity (EUR million)	**1,698.3**	**1,581.9**	**1,453.4**	**1,361.8**	**1,320.5**	[3]**6.5**
Tangible Common Equity (USD million)	**2,055.0**	**2,179.8**	**1,916.1**	**1,767.8**	**1,771.5**	[3]**3.8**
Problem Loans / Gross Loans (%)	**1.7**	**2.1**	**2.5**	**2.8**	**2.4**	[4]**2.3**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**12.3**	**15.8**	**18.7**	**23.3**	**20.2**	[4]**18.1**
Net Interest Margin (%)	**2.6**	**2.6**	**2.8**	**2.7**	**2.6**	[4]**2.7**
Net Income / Tangible Assets (%)	**1.2**	**1.1**	**1.1**	**0.9**	**0.9**	[4]**1.0**
Cost / Income Ratio (%)	**54.0**	**56.9**	**57.7**	**57.1**	**61.2**	[4]**57.4**
Market Funds / Tangible Banking Assets (%)	**83.7**	**84.9**	**85.7**	**87.2**	**87.6**	[4]**85.8**
Liquid Banking Assets / Tangible Banking Assets (%)	**4.9**	**4.7**	**3.5**	**4.7**	**4.6**	[4]**4.5**
Gross Loans / Total Deposits (%)	**201.0**	**16,570.8**	**25,916.2**	**25,408.1**	**25,178.4**	[4]**18,654.9**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

FCA Bank's (FCAB) Baa2/P-2 senior debt and deposit ratings take into account the bank's standalone creditworthiness, parental support and the introduction of our new bank rating methodology and specifically our Advanced LGF analysis.

The bank's ba3 BCA is underpinned by its sound solvency profile, with (i) low asset risk; (ii) adequate capital levels and (iii) satisfactory although below peers profitability. The BCA is constrained by (i) FCAB's wholesale funding profile and modest liquidity as well as its (ii) monoline business model and commercial dependence on the Fiat Chrysler Auto group (FCA NV, rated B1, stable).

Our expectation of a high probability of support from Credit Agricole SA (CASA; A2/baa2 adjusted BCA) reduces FCAB's probability of default compared to the ba3 BCA by two notches to an adjusted BCA of ba1.

FCAB'S BCA IS SUPPORTED BY ITS MACRO PROFILE OF STRONG

As an auto-captive bank diversified across Europe, FCAB benefits from operating in countries which give an overall macro profile of Strong on a weighted average basis. In particular, UK, Germany and France, which we assess as Very Strong- account for 45% (Note 1) of average loans. Italy and Spain (Moderate +) 41% and 4% respectively and other 11 European Union countries (Strong +) 10%.

Rating Drivers

BCA supported by a strong macro profile in the EU

Solid solvency profile, with low asset risk, adequate capital and sound profitability

Wholesale funding profile and low liquidity

Monoline business model and commercial dependence on FCA constrain BCA

Rating Outlook

The outlook for the bank's ratings is stable

What Could Change the Rating - Up

Upward pressure could be exerted on the BCA as a result of (1) higher risk-adjusted profits in line with European auto captive peers; (2) more robust capitalisation, (3) a stronger stock of liquidity or (4) a sustainable recovery of FCA NV's creditworthiness. A higher BCA would prompt an upgrade of FCAB's issuer and deposit ratings.

What Could Change the Rating - Down

A weakening of FCAB's solvency profile or a deterioration affecting FCA NV's creditworthiness could have negative rating implications for the bank's BCA. In addition to a lower BCA, any weakening of support from CASA (e.g., through the termination of the joint-venture agreement) would exert downward pressure on the bank's issuer and deposit ratings.

DETAILED RATING CONSIDERATIONS

SOLID SOLVENCY PROFILE, WITH LOW ASSET RISK, ADEQUATE CAPITAL AND SOUND PROFITABILITY

We consider FCAB's solvency profile as sound, assigning a score of baa1.

We view FCAB's asset risk as low (scoring a3), with problem loans accounting for just 1.8% of gross lending in 2014 (Note 2), declining since 2011 and roughly fully covered with loan loss reserves, the highest coverage in Italy. The low asset risk is the result of solid risk management systems and culture but also typical of the business, considering that cars are 1) of critical importance for consumers, which tend to pay them with priority over other debts and 2) easy to repossess and re-sale.

We view FCAB's Core Tier 1 ratio of 11.7% in 2014 (December 2013: 11%) as solid (scoring baa2) relative to its low risk profile. Our opinion also takes into account the intention of CASA - as laid out in the shareholders' agreement - to maintain an adequate level of capital. Although this agreement does not represent an obligation for

CASA, it should provide FCAB with sufficient equity resources in the future and reaffirms its strategic importance to its shareholders. The bank has increased its capital ratio from 7.2% in 2007 by consistently retaining more than 50% of profits.

We view the bank's profitability as good (scoring baa1) at 1.1% of tangible assets in 2014 but lower than its main peer RCI Banque (Baa1/Baa1 stable, baa3) due to higher operating expenses and smaller critical mass. With average outstanding credit volumes broadly unchanged at EUR 14.7 billion, net profit grew by 6.3% to EUR 182 million in 2014 owing to lower loan loss provisions of EUR 83 million (EUR 101 million in 2013) and stable revenue generation. Importantly, net profit has consistently grown since 2007 and throughout the crisis, with the exception of 2009 owing to a one-off negative income item.

We believe this trend will continue given 1) our expectations of economic growth in Europe in 2015 and 2016 (about 1.5% in the euro area and about 2.5% in the UK) and 2) increased commercial penetration, a leading indicator of future profitability.

(Note 1) Unless noted otherwise, data in this report is sourced from the company, company reports, Moody's Banking Financial Metrics and the Bank of Italy and include Moody's standard adjustments.

(Note 2) Problem loans include: non-performing loans (sofferenze), 30% of watchlist (incagli - including only an estimate of those over 90 days overdue), restructured (ristrutturati) and past due leases (scaduti).

WHOLESALE FUNDING PROFILE AND LOW LIQUIDITY

We view liquidity and funding as a weakness (scoring b3) because, having only recently received a banking license, FCAB is dependent on wholesale funding, which can be subject to sudden changes in investor confidence and may ultimately result in restricted market access and increased funding costs. However, compared to other captive companies, FCAB benefits more from parental funding, which accounted for 26% of total funding (including equity) in 2014. Other important funding sources are well established securitisations (25%), the market (20%) and interbank (17%) with the remainder being equity. Overall we note considerable diversification in the bank's funding sources. We note that the extension of the JV agreement led to the signing of a new funding agreement between FCAB, CASA and Credit Agricole Consumer Finance (unrated), which is the subsidiary through which CASA owns FCAB's share. According to the new funding agreement, which has come into force in January 2015, FCAB will continue to benefit from the financial support of its banking shareholder. In our view, CASA's support is a key rating driver, reflected in our adjustments from the macro-adjusted scores.

FCAB was able to tap the wholesale markets several times over the last three years, denoting access to alternative funding sources. We expect this to continue, given the current favourable environment in wholesale markets.

FCAB received a banking license in Italy in January 2015, which allows it to access the ECB and take retail deposits. It was previously established as a non-bank financial institution, regulated and supervised by the Bank of Italy. While we believe that gathering significant deposits would take several years, the access to the ECB would be achievable in a shorter term, considering the possibility to retain securitisations which are eligible as collateral. This will enhance funding diversification and liquidity.

As typical of auto-captive banks, FCAB's maturities of assets and liabilities are fully matched and market risks are hedged. We anticipate FCAB to report a strong Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) this year.

MONOLINE BUSINESS MODEL AND COMMERCIAL DEPENDENCE ON FCA CONSTRAIN BCA

We qualitatively adjust downwards by one notch the bank's adequate (ba1) financial profile for the bank's monoline business model, although we recognise that this is somewhat offset by significant geographical diversification, reflected in the sound and resilient profitability and we cap the BCA to ba3, one notch above the industrial parent, in line with other auto captive banks.

FCAB has three main activities: dealer financing (24% of average outstanding assets), retail financing (67%) and long-term rental (9%). FCAB's fundamentals are correlated to the trend of the European auto manufacturing industry. Having declined by 1.7% in 2013 (ACEA data), the European Union passenger car market grew by 5.6% in 2014. However we note that car demand is weaker in FCA's home market Italy (+4.2%), which is currently well below its last peak in fiscal year 2007 and represents approximately 50% of FCA's passenger car registration in Europe. We also note intense price competition among mass market manufacturers and FCA's declining market share in the European passenger cars segment of 5.9% in 2014 (8.1% in 2011).

This monoline business is somewhat mitigated by FCAB's good geographical diversification, as the company operates directly or through various subsidiaries in 16 European countries, including Italy. This diversification enhances FCAB's franchise, reducing concentration risk in any specific region, and provides for some resilience of its profitability. While the largest market for the company remains Italy, which accounted for 41% of the average outstanding credit volume at end-2014, FCAB benefits from substantial revenue streams from the other European countries in which it operates.

FCAB is an auto-captive bank with a business model based on supporting the vehicle sales of its direct shareholder, FCA's car manufacturer FCA NV. Given significant commercial dependence on the business success of its parent company, its financial strength is inherently linked to - and to a certain extent (ba3) constrained by - that of FCA NV (including Maserati), although FCAB also provides financial services to other non-FCA brands, namely Jaguar and Land Rover (accounting for more than 18% of the average outstanding in 2014).

Notching Considerations

AFFILIATE SUPPORT

Our expectation of a high probability of support from CASA (baa2 adjusted BCA) reduces FCAB's probability of default compared to the ba3 BCA by two notches to an adjusted BCA of ba1. This expectation is based on FCAB's status as a consistently well performing and strategic subsidiary for CASA and the comfort provided by the extension of the joint venture agreement with FCA until 2021.

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

FCAB is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an Operational Resolution Regime. Our standard assumptions, which are applied to FCAB, are residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and a 25% probability to deposits being preferred to senior unsecured debt. We exclude from our balance sheet at failure deposits and assets relating to foreign subsidiaries, which are outside the scope of Italian authorities.

Under these assumptions, FCAB's senior debt and deposit ratings are likely to face very low loss-given-failure, due to the loss absorption provided, potentially, by senior unsecured debt should deposits be treated preferentially in a resolution, as well as the volume of senior debt itself. This results in the deposits and senior ratings being positioned two notches above the adjusted BCA of ba1.

The resulting PRAs are set out in the table below.

CR ASSESSMENT

The CR Assessment is positioned at baa1(cr).

The CR Assessment is positioned three notches above the Adjusted BCA of ba1, based on the cushion against default provided to the senior obligations represented by the CR Assessment by subordinated instruments amounting to 40% of Tangible Banking Assets. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

GOVERNMENT SUPPORT

There is no uplift from our expectation of a low probability of government support.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

FCA Bank S.p.A.

Macro Factors	
Weighted Macro Profile	**Strong**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.1%	a3	←→	a3	Collateral and provisioning coverage	Long-run loss performance
Capital						
TCE / RWA	-	-	←→	baa2	Nominal leverage	Capital retention
Profitability						
Net Income / Tangible Assets	1.1%	baa1	←→	baa1	Return on assets	Loan loss charge coverage
Combined Solvency Score		-		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	83.7%	caa3	←→	b3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	4.9%	b3	←→	b2	Access to committed facilities	Additional liquidity resources
Combined Liquidity Score		caa2		b3		

Financial Profile	**ba1**

Qualitative Adjustments	**Adjustment**
Business Diversification	-1
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**-1**

Sovereign or Affiliate	Ba3

constraint	
Scorecard Calculated BCA range	**ba2 - b1**
Assigned BCA	**ba3**
Affiliate Support notching	**2**
Adjusted BCA	**ba1**

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Deposits	2	0	baa2	0	Baa2	Baa2

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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