S&P Global Ratings

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Research Update:

Italy-Based FCA Bank Upgraded To 'BBB-/A-3' From 'BB+/B' On Improved Business Stability; Outlook Stable

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Overview

- Increased diversification and improving business prospects should gradually bring greater stability to Italy-based FCA Bank's revenue stream and strengthen its assets and earnings growth.
- In light of this, we believe the bank's business profile has structurally and sustainably improved.
- We are therefore raising our long- and short-term counterparty credit ratings on FCA Bank to 'BBB-/A-3' from 'BB+/B'.
- The stable outlook reflects our view that FCA Bank will maintain a risk-adjusted capital ratio of above 10% over the next two years and experience credit losses in line with those of most peers.

Rating Action

On May 19, 2016, S&P Global Ratings raised its long- and short-term counterparty credit ratings on Italy-based FCA Bank to 'BBB-/A-3' from 'BB+/B'. The outlook is stable.

Rationale

The upgrade reflects our opinion that FCA Bank's business prospects have improved, and our expectation that it will continue to grow its loans and earnings while maintaining resilient asset quality over the next two-to-three years.

We believe FCA Bank will continue to deliver sustainable asset growth (3%-4%) in 2016 and 2017, supported by improving car sales prospects in Europe. We believe FiatChryslerAutomobile (FCA) and Jaguar Land Rover's (JLR) combined market share is gradually improving and sales prospects remain favorable. In this context we believe the bank will also benefit from increased FCA/JLR sales, financed by loans from FCA Bank.

Compared with peers (who are more focused on captive customers), we think FCA Bank will continue to leverage off its joint venture partnership with Credit Agricole SA (CASA), and its successful track record of diversifying its product range by attracting new brands from outside the FCA Group. The bank's partnerships currently include JLR and more recently Germany-based Erwin Hymer Group, as well as Maserati and Ferrari in Italy. In our opinion, these relationships will help mitigate FCA Bank's lack of global presence--compared with most auto captive peers--notwithstanding its widespread presence in most European markets.

As such, we expect FCA Bank to continue reporting resilient revenues. The bank did this even when Italy's economic recession was at its worst, and the bank's market share was falling. We believe its track record of revenue stability and earnings is aligned with most peers.

We also believe FCA Bank will be able to increase its assets while preserving its capital position. We expect net profit will rise to €260 million-€270 million annually in 2016 and 2017, driven by loan growth and cost control and still declining credit losses (45 to 55 basis points of outstanding loans in 2016 and 2017).

We continue to consider FCA Bank a moderately strategic subsidiary of CASA, which leads us to apply a one-notch upward adjustment to our long-term rating on FCA Bank from the bank's stand-alone credit profile.

Outlook

The stable outlook reflects our expectation that FCA Bank will likely gradually improve its risk-adjusted capital (RAC) ratio to close to 10% (from 9.25% in 2015) and sustain its resilient asset quality metrics over the next 24 months. It also reflects our view that CASA will remain committed to providing timely and sufficient funding and liquidity to FCA Bank.

We could lower the rating if we thought FCA Bank's RAC ratio was likely to remain sustainably below 10%. This could result from lower-than-expected earnings retention and/or greater asset expansion.

Although not our base case, if we were to lower the long-term sovereign credit rating on Italy, this would likely trigger a review of FCA Bank's SCAP. At that time, we would assess the potential impact of the underlying economic and market environment implied in the sovereign downgrade on the bank's future business, capital, asset quality, and refinancing costs.

We could consider upgrading FCA Bank if we were to both upgrade the sovereign and if we anticipated a material improvement in the economic or operating conditions in Italy. A reduction of economic risks faced by FCA Bank in Italy or the U.K. is unlikely to be sufficient by itself to trigger a positive rating action FCA Bank.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB-/Stable/A-3	BB+/Positive/B

SACP	bb+	bb
Anchor	bbb-	bbb-
Business Position	Weak (-2)	Weak (-3)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Average (0)	Average (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
GRE Support	0	0
Group Support	+1	+1
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

Related Criteria

- Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Ratings: Methodology And Assumptions, Nov. 19, 2013
- Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Upgraded; Outlook Action

	To	From
FCA Bank SpA		
Counterparty Credit Rating	BBB-/Stable/A-3	BB+/Positive/B

FCA Capital Ireland PLC		
Senior Unsecured*	BBB-	BB+

*Guaranteed by FCA Bank SpA.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.