

FINANCIAL STATEMENTS

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)
Years Ended December 31, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Financial Statements

Years Ended December 31, 2015 and 2014

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Report of Independent Auditors

The Board of Directors and Stockholder
Fiat Chrysler Finance North America, Inc.

We have audited the accompanying financial statements of Fiat Chrysler Finance North America, Inc. (a wholly owned subsidiary of Fiat Chrysler Finance Europe S.A., whose ultimate parent is Fiat Chrysler Automobiles N.V.) (the Company), which comprises the statements of financial position as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements (all expressed in U.S. dollars), which have been prepared in conformity with International Financial Reporting Standards.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards; this includes the design, implementation, and maintenance of the internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards.

Ernst + Young LLP

February 18, 2016

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Statements of Financial Position
(U.S. Dollars in Thousands, Except Share Information)

		December 31	
	Notes	2015	2014
Assets			
Cash and cash equivalents	3	\$ 206,134	\$ 274,091
Amounts owed by affiliated companies	13	1,911,917	1,736,574
Financial derivatives – at fair value	4	72,204	108,300
Deferred tax assets	11	2,980	5,251
Property, plant, and equipment	5	50	61
Prepaid expenses and other assets		92	975
Total assets		\$ 2,193,377	\$ 2,125,252
Liabilities and stockholder's equity			
Liabilities:			
Bank borrowings	6	\$ 45,055	\$ 195,054
Borrowings from affiliated companies	13	609,607	216,842
Notes payable	7	1,188,318	1,364,235
Financial derivatives – at fair value	4	135,191	141,371
Accrued expenses and other liabilities		189	184
Total liabilities		1,978,360	1,917,686
Stockholder's equity:			
Capital stock (no par value; authorized 5,000 shares; 380 shares outstanding at assigned value)		190,090	190,090
Retained earnings		28,036	23,046
Cash flow hedge reserve		(3,109)	(5,570)
Total stockholder's equity		215,017	207,566
Total liabilities and stockholder's equity		\$ 2,193,377	\$ 2,125,252

See accompanying notes.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Statements of Income
(U.S. Dollars in Thousands)

		Year Ended December 31	
	Notes	2015	2014
Revenues:			
Interest income	15	\$ 81,111	\$ 81,612
Other financial income	16	143	93
Other income	17	810	881
Net result on hedging and trading activities	4	–	8,242
Total revenues		82,064	90,828
Expenses:			
Interest expense	15	69,028	78,191
General and administrative expenses		1,799	1,802
Other financial expenses	16	3,320	3,728
Net result on hedging and trading activities	4	1,425	–
Total expenses		75,572	83,721
Income before provision for income taxes		6,492	7,107
Provision for income taxes	11	1,502	3,433
Net income		\$ 4,990	\$ 3,674

See accompanying notes.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Statements of Comprehensive Income
(U.S. Dollars in Thousands)

	Year Ended December 31	
	2015	2014
Net income	\$ 4,990	\$ 3,674
Other comprehensive income (loss):		
Gross amount reclassified to the income statement	4,962	3,898
Gross amount reclassified to the cash flow hedge reserve	(374)	(4,478)
Tax impact of amounts reclassified to the income statement	(2,300)	(1,807)
Tax impact of amounts reclassified to the cash flow hedge reserve	173	2,076
Net change on cash flow hedge reserve	2,461	(311)
Total comprehensive income	\$ 7,451	\$ 3,363

See accompanying notes.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Statements of Changes in Stockholder's Equity
(U.S. Dollars in Thousands, Except Share Information)

	Capital Stock		Retained Earnings	Cash Flow Hedge Reserve (Note 4)	Total Stockholder's Equity
	Shares	Amount			
Balance – December 31, 2013	380	\$ 190,090	\$ 19,372	\$ (5,259)	\$ 204,203
(Losses) gains recognized in the cash flow hedge reserve (net of tax)	–	–	–	(2,402)	(2,402)
Recognized portion of cash flow hedge reserve in the income statement (net of tax)	–	–	–	2,091	2,091
Net income	–	–	3,674	–	3,674
Balance – December 31, 2014	380	190,090	23,046	(5,570)	207,566
(Losses) gains recognized in the cash flow hedge reserve (net of tax)	–	–	–	(200)	(200)
Recognized portion of cash flow hedge reserve in the income statement (net of tax)	–	–	–	2,661	2,661
Net income	–	–	4,990	–	4,990
Balance – December 31, 2015	380	\$ 190,090	\$ 28,036	\$ (3,109)	\$ 215,017

See accompanying notes.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Statements of Cash Flows
(U.S. Dollars in Thousands)

	Year Ended December 31	
	2015	2014
Operating activities		
Net income	\$ 4,990	\$ 3,674
Adjustments to reconcile net income to cash flows provided by (used in) operating activities:		
Depreciation	27	25
Accrued interests (net)	(66,779)	(26,406)
Taxes and duties to be settled	144	88
Change in other assets/liabilities and other adjustments	(79,419)	49,071
Cash flow provided by (used in) operations	(146,027)	26,452
Net decrease in amounts owed by affiliated companies	(168,890)	(497,247)
Net increase in borrowings from affiliated companies	391,951	91,185
Net cash flow provided by (used in) operating activities	82,024	(379,610)
Investing activities		
Purchases of property, plant, and equipment	(15)	(9)
Net cash flow used in investing activities	(15)	(9)
Financing activities		
Net (decrease) increase in borrowings from bank	(149,964)	9
Net cash flow (used in) provided by financing activities	(149,964)	9
Net (decrease) in cash and cash equivalents	(67,955)	(379,610)
Cash and cash equivalents – beginning of the year	274,089	653,699
Cash and cash equivalents – end of the year	\$ 206,134	\$ 274,089
 Cash paid in the period for:		
Interest, net of refunds	\$ 70,680	\$ 81,376
Income taxes	\$ 565	\$ 3,810

See accompanying notes.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements
(Expressed in U.S. Dollars in Thousands)

December 31, 2015

1. Business Description and Organization

Fiat Chrysler Finance North America, Inc. (the Company), a wholly owned subsidiary of Fiat Chrysler Finance Europe S.A., was incorporated on August 5, 1996, and began operations on September 15, 1996. The Company is ultimately controlled by Fiat Chrysler Automobiles N.V. (formerly known as Fiat S.p.A.), incorporated in the Netherlands. The Company's principal place of business is located at 7 Times Square Tower, Suite 4306, New York, NY 10036. On October 12, 2014, Fiat S.p.A. merged with and into Fiat Chrysler Automobiles N.V. which resulted in changes to the names of the group and its subsidiary companies. The company formerly known as Fiat Finance North America Inc. is now known as "Fiat Chrysler Finance North America Inc." as of November 14, 2014. The Company performs cash management, investment and corporate finance services and working capital financing for all Fiat Group companies in the North American region. On February 18, 2016, the Board of Directors authorized the issuance of the Company's financial statements.

2. Basis of Accounting and Summary of Significant Accounting Policies

The Company's financial statements are prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The Company's financial statements consist of the statements of financial position, statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows, with related notes. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates relate mainly to the fair value of financial derivatives and notes payable.

The accounting records of the Company are maintained in US dollars (USD), which represents the main functional currency of the Company; the financial statements are denominated in this currency.

Assets and liabilities denominated in currencies other than USD are converted into USD at the exchange rates prevailing at the balance sheet date. Income and expenses denominated in currencies other than USD are converted into USD at the average exchange rates prevailing on the transaction date. Both unrealized and realized foreign exchange differences are recognized in the statement of income in the other expenses line item.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

2. Basis of Accounting and Summary of Significant Accounting Policies (continued)

For initial recognition of standardized purchases and sales of financial assets (contracts requiring delivery of an asset within a period of time determined by market regulation or convention), the Company uses the settlement date accounting.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at fair value plus transaction costs.

Amounts owed by affiliated companies where they have a fixed term are measured at amortized cost using the effective interest rate method. Assets that do not have a fixed term are measured at cost. As an exception to the above policy, amortized cost is not used for short term current assets and liabilities (including cash and cash equivalents), given the immateriality of the impact of the effective interest rate method.

Borrowings are initially recognized at fair value adjusted for any income and expense directly attributable to the liability. Fair value of borrowings is normally equivalent to the total funds received. With the exception of on demand and short-term borrowings, subsequent measurement is at amortized cost using the effective interest rate method.

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to reduce the carrying value of the equipment over the useful expected economic life (5–7 years).

Derivative financial instruments used to manage currency and interest rate risks arising from the Company's financial assets and liabilities are recorded at fair value. The Company follows IAS 39, Financial Instruments: Recognition and Measurement, which provides that all derivative instruments should be recognized as either assets or liabilities depending on the rights and obligations under the contract and that all derivative instruments be measured at fair value. Fair value is defined as the amounts for which an asset could be exchanged, or liability settled between knowledgeable, willing parties in an arm's length transaction. For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives will be reflected in current earnings, together with changes in the fair value of the related hedged item with reference to the hedged risk. The fair value hedges in which the

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

2. Basis of Accounting and Summary of Significant Accounting Policies (continued)

Company engages includes hedges of medium-term loans to affiliates and notes issued. On these fair value hedges, the Company specifically hedges interest-rate and/or currency risk. These hedges have been deemed highly effective. For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating-rate assets, liabilities, or forecasted transactions, the accounting treatment will depend on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flow, changes in the derivatives' fair value will not be included in current earnings but will be reported as cash flow hedge reserve (net of tax) in the statement of changes in stockholder's equity. These changes in fair value will be included in earnings of future periods when earnings are also affected by the variability of the hedged cash flows. On these cash flow hedges, the Company currently hedges the change in the dollar value of bond flows due to change in foreign exchange rates. These hedges have been deemed highly effective. The Company from time to time may enter into derivative contracts that do not meet the criteria for hedge accounting; therefore, even though these contracts are substantially hedging exchange rate risks, these are considered trading. Realized and unrealized foreign exchange gains and losses in the trading derivative's fair value, as well as the interest accruals associated with the trading derivatives are reported in net result on hedging and trading activities.

The Company follows the provisions of IFRS 13 – Fair Value Measurement, which clarifies the determination of fair value for the purpose of the financial statements and is applicable to all IFRSs permitting or requiring a fair value measurement or the presentation of disclosures based on fair value.

The Company follows the provisions of IAS 12 (Revised), Income Taxes, which requires the recognition of deferred tax assets and liabilities attributable to temporary differences as determined using the asset and liability method. Current taxes represent a prudent estimate of taxes owed to tax authorities for the financial year and are determined by applying the applicable tax rate to taxable income, which is pre-tax profit adjusted in accordance with the tax regulations governing the taxability/deductibility of income and expenses. Income taxes are recognized in the statement of income, except where they relate to items charged or credited directly to equity or other comprehensive income, in which case the tax effect is also recognized in the statement of comprehensive income.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

3. Cash and Cash Equivalents

Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. Amounts on deposit, available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as cash and cash equivalent. Time deposits, current accounts and money market accounts that meet the above criteria are reported at par value on our balance sheet, which also represents their fair value. In 2015 of \$206,134 in cash and cash equivalents of which \$95,000 related to term deposits and \$111,134 related with current account balances both held with primary financial institutions. In 2014 of \$247,091 in cash and cash equivalents of which \$95,000 related to term deposits and \$120,095 related with current account balances held with primary financial institutions.

4. Financial Derivatives

Financial derivatives consist of interest rate swap, cross currency swap and forward foreign exchange swap agreements entered into by the Company in order to hedge exposure to interest rate and cross currency movements, in connection with (i) fixed rate lending to affiliates funded by floating-rate liabilities, (ii) notes issued in currencies other than USD or bearing interest at a fixed rate and (iii) lending to affiliates in currencies other than USD. Specific policy guidelines are established to ensure that asset and liability interest rate and currency positions are matched. Therefore, the Company believes that the fair value of the derivative financial instruments at year-end was or will be offset by similar and opposite unrealized gains and losses on its existing short or medium term loans to affiliates and on the notes issued. The following indicates the type of swaps and hedges used and their fair values. These swap contracts will mature within the next three years. The swaps primarily hedge the risks on the notes payable, in some cases the risk is hedged by more than one derivative simultaneously.

Fiat Chrysler Finance North America, Inc.
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Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

4. Financial Derivatives (continued)

	Notional Amount	Fair Value
December 31, 2015		
Fair value hedge:		
Interest rate swaps	\$ 707,655	\$ 63,370
Cross currency swaps	467,916	(104,841)
<hr/>		
Cash flow hedge:		
Forward foreign exchange swaps	-	-
Trading:		
Forward foreign exchange swaps	1,121,895	(21,516)
Total derivative instruments	\$ 2,297,466	\$ (62,987)
	Notional Amount	Fair Value
December 31, 2014		
Fair value hedge:		
Interest rate swaps	\$ 789,165	\$ 99,810
Cross currency swaps	574,030	(50,104)
<hr/>		
Cash flow hedge:		
Forward foreign exchange swaps	35,083	(3,675)
Trading:		
Forward foreign exchange swaps	1,184,630	(79,102)
Total derivative instruments	\$ 2,582,908	\$ (33,071)

The amount recorded in the cash flow hedge reserve for a total of \$(3.1) million and \$(5.6) million (net of tax) as of December 31, 2015 and 2014, respectively, is expected to be reversed according to the duration of the underlying notes payable (final maturity 2017). With reference to the above cash flow hedge reserve, deferred tax assets of \$2.7 million and \$4.8 million have been recognized directly in equity in the cash flow hedge reserve as of December 31, 2015 and 2014, respectively. In 2015 and 2014, the ineffectiveness of cash flow hedges, recognized in the statement of income in net result on hedging and trading activities, was a gain of \$4 thousand and a loss of \$60 thousand, respectively.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

4. Financial Derivatives (continued)

In 2015 and 2014, a loss of \$3 million and a loss of \$3 million, respectively, were recognized in the statement of income in net result on hedging activities related to the discontinuation of cash flow hedges.

For fair value hedges, the gains and losses arising from the valuation of interest rate and cross currency swaps and interest rate swaps to be recognized in accordance with fair value hedge accounting and the gains and losses arising from the respective hedged items are set out in the following table:

	Year Ended December 31	
	2015	2014
Currency risk:		
Net gains on qualifying hedges	\$ (53,896)	\$ (70,916)
Fair value changes in hedged items (notes payable)	53,896	70,916
Net gains	\$ —	\$ —
Interest rate risk:		
Net losses on qualifying hedges	\$ (34,261)	\$ (26,898)
Fair value changes in hedged items	34,433	27,016
Net gains	\$ 172	\$ 118

For the years ended December 31, 2015 and 2014, a loss of \$14 million and a gain of \$13 million, was recognized in the statement of income in net result on hedging and trading activities related to the discontinuation of fair value hedges, respectively.

As of December 31, 2015 and 2014, the ineffectiveness arising from transactions treated as fair value hedges referring to the hedging relationships related to the notes payable was a gain of \$172 thousand and a gain of \$118 thousand, respectively. The ineffectiveness arising from fair value hedges related to fixed rate lending to affiliates was not material. The net result of gains and losses on hedging and trading activities was a loss of \$1.4 million and a gain of \$8.2 million in 2015 and 2014, respectively. Net results from just trading activities were a loss of \$(21.5) million and \$(79.1) million in December 31, 2015 and 2014, respectively.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

5. Property, Plant, and Equipment

Property, plant, and equipment consist of the following: office machinery, computer equipment and furniture.

The changes in 2015 and 2014 of property, plant, and equipment are represented below:

	Year Ended December 31	
	2015	2014
Beginning balance	\$ 61	\$ 77
Additions	16	9
Depreciation	(27)	(25)
Ending balance	\$ 50	\$ 61
Gross carrying amount	\$ 276	\$ 260
Accumulated depreciation	(226)	(199)
Net carrying amount	\$ 50	\$ 61

6. Bank Borrowings

The Company had bank borrowings based on various benchmark rates plus a spread. As of December 31, 2015 and 2014, the Company had drawn \$45 million and \$195 million, respectively, on its available lines of credit. At December 31, 2015 the Company had \$150 million in unutilized lines of credit available. At December 31, 2014 the Company had fully drawn its lines of credit. Information on the expiry dates of such borrowings are presented in Note 10 Information on Financial Risks below. Interest expenses are recorded on the accrual basis of accounting.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

7. Notes Payable

The Company participates as an issuer in a EUR 20 billion Global Medium-Term Notes Program, together with Fiat Chrysler Finance Canada, Ltd., Fiat Chrysler Finance Europe S.A., and Fiat Chrysler Automobiles N.V. The notes are unconditionally and irrevocably guaranteed by the ultimate Parent Company (Fiat Chrysler Automobiles N.V.). As of December 31, 2015 and 2014, the Company had one note outstanding with a notional value of EUR 1 billion bearing an interest rate of 5.625% which matures on June 12, 2017. As the note is issued in a currency other than US Dollars and with a fixed interest rate, the Company entered into cross currency and interest rate swaps in order to hedge such exposure (see Note 4).

8. Commitments and Contingencies

The Company had outstanding standby letters of credit issued on behalf of affiliated companies of \$10.6 million and \$11.2 million at December 31, 2015 and 2014, respectively. These contract amounts represent the amounts at risk should the contracts be fully drawn upon and the affiliate defaults.

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

9. Estimated Fair Value of Financial Instruments

The below fair values have been determined by reference to available market information and the following methodologies:

	Nominal Value	Carrying Value	Fair Value	Difference
December 31, 2015				
Assets:				
Cash and cash equivalents	\$ 206,101	\$ 206,134	\$ 206,134	\$ –
Amounts owed by affiliated companies	1,894,821	1,911,917	1,919,625	7,707
Total assets	\$ 2,100,922	\$ 2,118,052	\$ 2,125,759	\$ 7,707
Liabilities:				
Bank borrowings	\$ 45,055	\$ 45,055	\$ 45,055	\$ –
Borrowings from affiliated companies	609,127	609,607	609,607	–
Notes payable	1,088,700	1,188,318	1,114,420	(73,898)
Total liabilities	\$ 1,742,882	\$ 1,842,980	\$ 1,769,082	\$ (73,898)
Derivatives:				
Interest rate swaps	\$ 707,655	\$ 63,370	\$ 63,370	\$ –
Cross currency swaps	467,916	(104,841)	(104,841)	–
Forward foreign exchange swaps	1,121,895	(21,516)	(21,516)	–
Total derivatives	\$ 2,297,466	\$ (62,987)	\$ (62,987)	\$ –
	Nominal Value	Carrying Value	Fair Value	Difference
December 31, 2014				
Assets:				
Cash and cash equivalents	\$ 274,087	\$ 274,091	\$ 274,091	\$ –
Amounts owed by affiliated companies	1,725,973	1,736,574	1,746,434	9,860
Total assets	\$ 2,000,060	\$ 2,010,665	\$ 2,020,525	\$ 9,860
Liabilities:				
Bank borrowings	\$ 195,022	\$ 195,054	\$ 205,621	\$ 10,567
Borrowings from affiliated companies	216,777	216,842	216,842	–
Notes payable	1,214,100	1,364,235	1,333,592	(30,643)
Total liabilities	\$ 1,625,899	\$ 1,776,131	\$ 1,756,055	\$ (20,076)
Derivatives:				
Interest rate swaps	\$ 789,165	\$ 99,810	\$ 99,810	\$ –
Cross currency swaps	574,030	(50,104)	(50,104)	–
Forward foreign exchange swaps	1,219,713	(82,777)	(82,777)	–
Total derivatives	\$ 2,582,908	\$ (33,071)	\$ (33,071)	\$ –

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

9. Estimated Fair Value of Financial Instruments (continued)

IFRS 7 requires financial instruments recognized in the statement of financial position at fair value to be classified on the basis of a hierarchy that reflects the significance of the inputs used in determining fair value.

The fair value of financial instruments is determined by taking into consideration market parameters at the balance sheet date and using valuation techniques widely accepted in the financial business environment and that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

IFRS 13 requires all assets and liabilities for which fair value is measured or disclosed in the financial statements to be categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

Level 1 – Unadjusted quoted prices in the active market for identical assets or liabilities;

Level 2 – Inputs other than quoted prices, included within Level 1, that are observable for the asset or the liability either directly (i.e., prices) or indirectly (i.e., derived from prices);

Level 3 – Inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

9. Estimated Fair Value of Financial Instruments (continued)

The following table provides an analysis under this hierarchy of the financial instruments measured or disclosed at fair value:

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Assets measured at fair value:				
Interest rate swaps	\$ —	\$ 63,370	\$ —	\$ 63,370
Cross currency swaps	—	—	—	—
Forward foreign exchange swaps	—	8,834	—	8,834
Liabilities measured at fair value:				
Interest rate swaps	—	—	—	—
Cross currency swaps	—	104,841	—	104,481
Forward foreign exchange swaps	—	30,350	—	30,350
Assets for which fair value is disclosed:				
Amounts owed by affiliated companies	—	1,919,625	—	1,919,625
Liabilities for which fair value is disclosed:				
Bank borrowings	—	45,055	—	45,055
Borrowings from affiliated companies	—	609,607	—	609,607
Notes payable	1,114,420	—	—	1,114,420
	Level 1	Level 2	Level 3	Total
December 31, 2014				
Assets measured at fair value:				
Interest rate swaps	\$ —	\$ 99,810	\$ —	\$ 99,810
Cross currency swaps	—	—	—	—
Forward foreign exchange swaps	—	8,490	—	8,490
Liabilities measured at fair value:				
Interest rate swaps	—	—	—	—
Cross currency swaps	—	50,104	—	50,104
Forward foreign exchange swaps	—	91,267	—	91,267
Assets for which fair value is disclosed:				
Amounts owed by affiliated companies	—	1,746,434	—	1,746,434
Liabilities for which fair value is disclosed:				
Bank borrowings	—	205,621	—	205,621
Borrowings from affiliated companies	—	216,842	—	216,842
Notes payable	1,333,592	—	—	1,333,592

Fiat Chrysler Finance North America, Inc.
(A Subsidiary of Fiat Chrysler Finance Europe S.A.)

Notes to Financial Statements (continued)
(Expressed in U.S. Dollars in Thousands)

9. Estimated Fair Value of Financial Instruments (continued)

Financial Instrument	Fair Value Method
Amounts owed by affiliated companies	Carrying value for short term and variable interest instruments. Discounted cash flows for long term, fixed and variable interest instruments.
Bank borrowings	Carrying value for short term and variable interest instruments. Discounted cash flows for long term, fixed and variable interest instruments.
Borrowings from affiliated companies	Carrying value for short term and variable interest instruments. Discounted cash flows for long term, fixed and variable interest instruments.
Notes payable	Market prices (if available) or discounted cash flow for long term financial instruments.

Financial Instrument	Fair Value Method
Interest rate swaps	Discounted cash flow of expected interest streams.
Cross currency swaps	Discounted cash flow of interest and principal streams.
Forward foreign exchange swaps	Forward exchange rate estimated on the basis of the prevailing exchange rate and interest rates in the two currencies at the balance sheet date.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics, and the risks of asset or liability and the level of the fair value hierarchy as above.

In 2015 and 2014, there were no transfers among the levels of fair value.

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Notes to Financial Statements (continued)
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9. Estimated Fair Value of Financial Instruments (continued)

Due to the management judgment required in interpreting market information, the estimates presented above approximate the amounts that the Company could realize in a current market transaction.

In applying discounted cash flow techniques, a discount rate commensurate with market conditions at December 31, 2015, the relevant currency and the risk of the underlying instrument were used. In all cases, fair values were translated into USD using the exchange rates ruling at the balance sheet date.

The estimated fair value of both amounts owed by affiliates and borrowings from affiliates reflects the “spreads” at which the debt was traded on the market at year-end.

10. Information on Financial Risks

The Company is exposed to various financial risks in the course of its operations. The Company regularly monitors and manages its exposure in a conservative and prudent manner, as required by the Fiat Chrysler Automobiles Group’s financial risk management policy.

The quantitative data reported in the following does not have any value of a prospective nature, in particular the sensitivity analysis on market risks, and the Company is unable to reflect the complexity of the market and its related reaction which may result from every change which may occur.

Credit Risk – The credit risk of the Company is represented by loans granted to affiliated companies and by the investments of excess cash in the market.

Management believes the credit risk to be extremely low. The majority of the assets consist of loans to affiliated companies and cash and cash equivalents.

Market investments are made according to strict regulations and policies which define minimum counterparty rating requirements and limits to amounts invested in single counterparties in order to avoid concentration of risk.

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Notes to Financial Statements (continued)
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10. Information on Financial Risks (continued)

Loans to affiliated companies are granted at arms' length rates and their terms are regulated by standard Inter-company Agreements. None of the outstanding loans to affiliates as of December 31, 2015 and 2014, were delinquent or written off.

Exchange Rate Risk – The notes payable and specific loan receivables from an affiliated party are denominated in a currency other than USD and as a result, the Company is exposed to risk resulting from changes in the currency exchange rate versus USD. It is the Company's policy to use derivative financial instruments to fully hedge its exchange rate risk exposure.

Sensitivity Analysis

The potential loss in fair value of derivative financial instruments held by the Company at December 31, 2015 and 2014, for managing exchange rate risk, which would arise in the case of a hypothetical, unfavorable and instantaneous change of 10% in the exchange rates, amount to approximately \$97 million and \$138 million, respectively. These amounts will be potentially offset by the change of the underlying instruments (mainly the notes payable).

Liquidity Risk – The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at December 31, 2015 and December 31, 2014, respectively. Liquidity risk arises if the Company is unable to obtain under acceptable economic conditions the funds needed to carry out its operations. The Company's liquidity position for December 31, 2015 and December 31, 2014 are as follows (in nominal value):

	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
December 31, 2015						
Assets:						
Cash and cash equivalents	\$ 111,101	\$ 95,000	\$ –	\$ –	\$ –	\$ 206,101
Amounts owed by affiliated companies	515,567	987,372	–	408,978	–	1,911,917
	<u>626,115</u>	<u>1,074,807</u>	<u>–</u>	<u>400,000</u>	<u>–</u>	<u>2,100,922</u>
Liabilities:						
Bank borrowings	55	45,000	–	–	–	45,055
Borrowings from affiliated companies	609,127	–	–	–	–	609,127
Notes payable	–	–	–	1,088,700	–	1,088,700
	<u>609,182</u>	<u>45,000</u>	<u>–</u>	<u>1,088,700</u>	<u>–</u>	<u>1,742,882</u>
Net	<u>\$ 16,933</u>	<u>\$ 1,029,807</u>	<u>\$ –</u>	<u>\$ (688,700)</u>	<u>\$ –</u>	<u>\$ 358,040</u>

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10. Information on Financial Risks (continued)

	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
December 31, 2014						
Assets:						
Cash and cash equivalents	\$ 149,087	\$ 125,000	\$ –	\$ –	\$ –	\$ 274,087
Amounts owed by affiliated companies	1,045,748	280,225	–	400,000	–	1,725,973
	<u>1,194,835</u>	<u>405,225</u>	<u>–</u>	<u>400,000</u>	<u>–</u>	<u>2,000,060</u>
Liabilities:						
Bank borrowings	22	45,000	–	150,000	–	195,022
Borrowings from affiliated companies	216,777	–	–	–	–	216,777
Notes payable	–	–	–	1,214,100	–	1,214,100
	<u>216,799</u>	<u>45,000</u>	<u>–</u>	<u>1,364,100</u>	<u>–</u>	<u>1,625,899</u>
Net	<u>\$ 978,036</u>	<u>\$ 360,225</u>	<u>\$ –</u>	<u>\$ (964,100)</u>	<u>\$ –</u>	<u>\$ 374,161</u>

The derivatives reflected for liquidity risk below are stated in nominal amount and do not imply exchange of notional amounts. Their maturity profile is as follows:

	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
December 31, 2015						
Interest rate swaps	\$ –	\$ –	\$ –	\$ 707,655	\$ –	\$ 707,655
Cross currency swaps	–	–	–	467,916	–	467,916
Forward foreign exchange swaps	–	854,051	240,908	26,935	–	1,121,895
Total derivatives	<u>\$ –</u>	<u>\$ 854,051</u>	<u>\$ 240,908</u>	<u>\$ 1,202,506</u>	<u>\$ –</u>	<u>\$ 2,297,466</u>

	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
December 31, 2014						
Interest rate swaps	\$ –	\$ –	\$ –	\$ 789,165	\$ –	\$ 789,165
Cross currency swaps	–	–	–	574,030	–	574,030
Forward foreign exchange swaps	–	1,071,790	147,923	–	–	1,219,713
Total derivatives	<u>\$ –</u>	<u>\$ 1,071,790</u>	<u>\$ 147,923</u>	<u>\$ 1,363,195</u>	<u>\$ –</u>	<u>\$ 2,582,908</u>

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Notes to Financial Statements (continued)
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10. Information on Financial Risks (continued)

The Company's financial guarantees are counter guaranteed by Fiat Chrysler Automobiles Group Affiliates on behalf of which the financial guarantees have been issued. Their maturity profile is as follows:

	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
December 31, 2015						
Financial guarantees	\$ -	\$ 4,695	\$ 5,892	\$ -	\$ -	\$ 10,587
December 31, 2014						
Financial guarantees	\$ -	\$ 6,725	\$ 4,509	\$ -	\$ -	\$ 11,234

Interest Rate Risk – The Company provides fixed rate medium and long term financing to certain affiliated companies. The interest rate profile of our liabilities may not necessarily match that of these specific assets. In order to manage these risks, the Company uses interest rate swaps with the object of mitigating, under economically acceptable conditions, the potential variability of interest rates.

Sensitivity Analysis

In assessing the potential impact of changes in interest rates, the Company separates fixed rate financial instruments (for which the impact is assessed in terms of fair value) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).

The fixed rate financial instruments consist of loans granted to affiliated companies and notes payable.

The potential loss in fair value of fixed rate financial instruments (including the effect of interest rate derivative financial instruments) resulting from a hypothetical, unfavorable and instantaneous change of 10% in market interest rates, would have resulted in a charge to income of approximately \$1,135 thousand and \$551 thousand at December 31, 2015 and 2014, respectively. The decrease of the impact is due to the change in the fix/floating mix of the funding.

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Notes to Financial Statements (continued)
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10. Information on Financial Risks (continued)

Floating rate financial instruments mainly include loans granted to affiliated companies.

A hypothetical, unfavorable and instantaneous change of 10% in short-term interest rates applied to floating rate financial assets and liabilities and derivatives financial instruments, would have resulted in a charge to income of approximately \$663 thousand and \$462 thousand at December 31, 2015 and 2014, respectively.

11. Income Taxes

The components of income tax expense for the years ended December 31, 2015 and 2014, are as follows:

	Year Ended December 31	
	2015	2014
	<i>(USD in Thousands)</i>	
Current tax expense (recovery):		
Federal	\$ (29)	\$ 1,926
State and local	1,387	1,420
Deferred tax expense	144	87
Total income tax expense	\$ 1,502	\$ 3,433

The differences between the theoretical rate and the Company's effective tax rate are mainly attributable to non-deductible permanent differences and the results of certain one-time events such as the one discussed below. This resulted in a theoretical tax rate of 46.36% as opposed to an effective tax rate of 23.13% and 48.31% at December 31, 2015 and 2014, respectively. The decrease in the effective tax rate was the result of the Company claiming certain foreign withholding tax credits during 2015 which had previously not been claimed due to uncertainty over the limitation of the foreign tax credit within the Company's affiliated group. After performing a detailed review of the applicable tax laws it was determined that the Company could take a foreign tax credit for the withholding tax in lieu of deducting the withholding tax as an expense. As a result of differences between book and tax basis, the Company has recorded a deferred tax asset of \$2.7 million and \$4.8 million related to certain derivative contracts and a deferred tax asset of \$293 thousand and \$437 thousand related to other items at December 31, 2015 and 2014, respectively.

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Notes to Financial Statements (continued)
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11. Income Taxes (continued)

Tax effect on income recognized in the cash flow hedge reserve had a positive impact of \$2.3 million and \$1.8 million in 2015 and 2014, respectively.

12. Stockholder's Equity

The share capital of the Company amounts to USD 190,090 represented by 380 shares fully subscribed and paid up with no nominal value. As of December 31, 2015 and 2014, a cash flow hedge reserve of \$(3.1) million and \$(5.6) million (net of tax) was recorded to be released upon the maturing interest portions of the notes payable, respectively. The Company is not subject to any specific constraints on equity within its course of business. Management believes that the capital structure of the Company is fully adequate to its operations.

13. Transactions With Affiliated Parties

Cash management services provided by the Company are funded primarily from the receipt of excess cash from affiliated companies, capital market transactions, and revolving credit lines from third parties; such balances are used for investment and for the financing of the working capital needs of other affiliated companies. Amounts owed by affiliated companies consist of short term loans maturing within one year and medium term loans maturing over one to two years. Borrowings from affiliated companies consist of short term loans maturing within one year. For transactions having a duration of less than or equal to one year it is believed that the carrying value approximates the fair value. For transactions having duration of more than one year they are reported at fair value. They are carried out at arm's length, considering the services rendered.

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Notes to Financial Statements (continued)
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13. Transactions With Affiliated Parties (continued)

The impact on the financial statements of transactions with affiliates appears below:

	Year Ended December 31	
	2015	2014
Interest income	\$ 48,995	\$ 46,530
Other income	810	880
Interest expense	3,056	581
Other expenses	386	444
Net result on hedging and trading activities	12,749	1,487
Amounts owed by affiliated companies	1,911,917	1,736,574
Financial derivatives – at positive fair value	2,885	6,583
Borrowings from affiliated companies	609,607	216,842
Financial derivatives – at negative fair value	828	241

14. Operating Lease

The Company has entered into a lease agreement for office space commencing on June 1, 2011 expiring July 31, 2016. The Company does not have the option to automatically renew at the end of the initial lease term. Management expects that in the normal course of business, the operating lease will be renewed or replaced.

In 2015, the minimum rental commitments are as follows:

2016	\$ 132
Total minimum lease payments	\$ 132

In 2014, the minimum rental commitments are as follows:

2015	\$ 227
2016	132
Total minimum lease payments	\$ 359

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Notes to Financial Statements (continued)
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15. Interest Income and Interest Expense

Interest income is comprised of interest on cash and cash equivalents, loans with affiliated parties and derivatives. Interest expense is comprised of loans with affiliated parties, loans with banks and derivatives.

16. Other Financial Income and Other Financial Expenses

Other financial income is comprised of letter of credit fees. Other financial expenses are comprised of letter of credit fees, commitment fees with banks, guarantee with affiliated companies and withholding taxes.

17. Other Income

In 2015 and 2014, other income includes annual service fees of \$758 and \$815, respectively, charged to CNH Industrial Finance North America, Inc. in exchange for services provided by the Company.

18. Subsequent Events

Management has evaluated subsequent events through February 18, 2016, the date these financial statements were available to be issued.

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