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Research Update:

RCI Banque 'BBB/A-2' Ratings Affirmed On Government Support And ALAC Review; Outlook Remains Negative

Primary Credit Analyst:

Nicolas Hardy, Paris (33) 1-4420-7318; nicolas.hardy@standardandpoors.com

Secondary Contact:

Nicolas Malaterre, Paris (33) 1-4420-7324; nicolas.malaterre@standardandpoors.com

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Overview

- We believe the prospect of extraordinary government support for French banks is now uncertain in view of the country's well-advanced and effective resolution regime.
- We are therefore removing the one notch of uplift for government support that we had previously incorporated into the long-term counterparty credit ratings on RCI Banque.
- In our opinion, if RCI Banque were to fail, given its moderate size and operating model we are not clear as to whether the banking authorities would permit it to continue its operations as a going-concern. Therefore we have not factored RCI Banque's potential build-up of additional loss-absorbing capacity (ALAC) into our rating.
- However, in accordance with our criteria, we are affirming our 'BBB' long-term counterparty credit rating on RCI Banque. The rating remains one notch above the bank's 'bbb-' stand-alone credit profile because the bank is an outperformer in its peer group of 'BBB' and 'BBB-' rated banks. We note the bank's resilient and strong profitability over the past decade, even in difficult times, and recent improvements to its funding.
- The outlook remains negative, but it now reflects the challenges the bank faces to sustain above-average profitability metrics in the next 18 to 24 months. We expect margin pressures to gradually intensify, stemming both from the low interest rate environment and higher funding costs.

Rating Action

As previously announced on Dec. 2, 2015, Standard & Poor's Ratings Services affirmed the long- and short-term counterparty credit ratings on France-based RCI Banque at 'BBB/A-2'. We also affirmed the ratings on its core subsidiary DIAC. The outlooks on both remain negative.

Rationale

We believe that the prospect of extraordinary government support for the French banking sector is now uncertain following the expected full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We do not completely exclude the possibility of such support and we consider that systemically important French

institutions such as RCI Banque face several more years of structural and balance sheet reforms to address their "resolvability" (mitigating the systemic impact if they fail). Nevertheless, we believe the French government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework. We have therefore reclassified the tendency of the French government to support private sector commercial banks as "uncertain" under our criteria, and removed the one notch that we previously included for government support in the long-term counterparty credit rating on RCI Banque.

We have maintained the 'bbb-' SACP. However, we have added one notch of uplift above the SACP because we view RCI Banque as outperforming most of its 'BBB' and 'BBB-' rated peers in terms of capital generation capabilities and therefore financial flexibility. The earnings buffer--measured according to our criteria and defined as the capacity for operating earnings to cover normalized losses--is strong. It exceeded 2% of Standard & Poor's risk-weighted assets between 2013 and first-half 2015. We expect it to remain firmly above 2% in the next two years.

We view RCI Banque's overall creditworthiness as commensurate with a 'BBB' long-term counterparty rating when compared with peers. In recent years it has improved its funding profile, which used to be more a rating weakness than it is now. The bank is gradually broadening its refinancing sources: it has increased its portion of retail customer deposits; leveraged its digital capabilities; and targeted a 30% ratio of retail deposits to total funding by end-2016. This ratio stood at over 25% at mid-year 2015 and at almost 0% five years ago. We see its 30% target as achievable.

At this stage, we do not incorporate the improved funding profile into the bank's stand-alone credit profile. This is because we believe that the stability of RCI Banque's deposits has yet to be demonstrated, given the short history and untested resilience, and because it will continue to rely on wholesale funding anyway. The bank has raised retail deposits via direct channels since February 2012 in France, February 2013 in Germany, May 2014 in Austria, and this year in the U.K. We also consider that the bank has good access to the market for refinancing, including its most recent €500 million senior unsecured debt issuance (early November 2015). We also observe that the bank does not rely on the group's available cash to fund its lending business.

We view the French resolution regime as "effective" under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. However, we believe that if RCI Banque were to fail, it would not likely represent a major systemic risk due to its size and operating model. It is therefore not clear to us whether the banking authorities would need or intend to permit the bank to continue its operations as a going-concern if it failed. We have therefore not considered RCI Banque's potential build-up of additional loss-absorbing capacity. We have also recategorized the bank as being of "low" systemic importance to the French

banking system--previously we regarded it as "moderately systemic".

We understand that the bank plans to continue to actively maintain its Standard & Poor's risk-adjusted capital ratio at just above 10%. We also understand that the bank does not plan to issue any material amounts of bail-in-able debt.

We believe RCI Banque is insulated from its 100%-owner, Renault, due to France's favorable insolvency laws as well as RCI Banque's regulatory and legal status, stronger SACP than Renault's, and high degree of operational independence. In accordance with our criteria, we set the bank's indicative issuer credit rating one notch above its SACP, and therefore one notch above its parent. This is because we believe that the bank's demonstrated resilient and strong profitability, as well as recent improvements to its funding, enhance its creditworthiness and further insulate it from potential distress at the parent company level.

Outlook

The negative outlook indicates that we could lower the ratings on RCI Banque in the coming 18-24 months if the momentum we observe relating to the gradual strengthening of the funding profile were to falter, or if the bank's earnings capacity ceased to outperform compared with similarly rated peers. Specifically, we may remove this notch of flexibility and lower the long- and short-term counterparty credit rating by one notch to 'BBB-/A-3' if we observed core customer deposits becoming more volatile than we had expected; or the corresponding funding costs outweighed the funding diversification benefit; or access to financial markets became more difficult than we currently assume.

We see a downward revision of RCI Banque's 'bbb-' SACP as unlikely. Our opinion reflects the more positive economic prospects in Europe, with increased new vehicle sales in the European auto market since mid-2013 (excluding Russia); our understanding of the bank's commitment to maintain strong capitalization; and the bank's good liquidity management and low credit risk.

We would revise the outlook to stable if we saw the bank's evolving funding profile improving further, while not undermining profitability, with funding costs not substantially reducing the group's profitability.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB/Negative/A-2	BBB/Negative/A-2

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

Related Criteria And Research

Related Criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Commercial Paper I: Banks, March 23, 2004
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital Methodology And Assumptions, Jan. 25, 2015
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Rating Government-Related Entities: Methodology And Assumptions, Mar. 25, 2015
- Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related Research

- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Oct. 1, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014

Ratings List

Ratings Affirmed

RCI Banque

DIAC S.A.

Counterparty Credit Rating	BBB/Negative/A-2
Certificate Of Deposit	
Local Currency	A-2

RCI Banque

Senior Unsecured	BBB
Certificate Of Deposit	A-2
Commercial Paper	A-2

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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