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Research Update:

France-Based RCI Banque Ratings Affirmed At 'BBB/A-2' Following Government Support Review; Outlook Remains Negative

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Overview

- We consider that potential extraordinary government support for European banks will likely decrease as resolution frameworks are put into place.
- We are affirming our 'BBB/A-2' counterparty credit ratings on RCI Banque.
- The negative outlook reflects the possible removal of government support by year-end 2015 and the implications for RCI Banque of the bank's growth in emerging markets or the weak economic recovery in the eurozone on its capitalization.

Rating Action

As previously announced on April 29, 2014, Standard & Poor's Ratings Services affirmed its 'BBB/A-2' counterparty credit ratings on France-based captive finance company RCI Banque and its core subsidiary DIAC S.A. The outlook is negative.

Rationale

The affirmation follows the completion of our review of potential extraordinary government support for European banks (see "Standard & Poor's To Review Government Support In European Bank Ratings," published on March 4, 2014, on RatingsDirect). We observe that European authorities are taking steps to increase the resolvability of banks and require creditors rather than taxpayers to bear the burden of the costs of failure (see "Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review," published on April 29, 2014). In the near term, we expect that governments will remain supportive of systemically important banks' senior unsecured creditors while resolution frameworks take shape. From January 2016, however, the EU Bank Recovery and Resolution Directive (BRRD) is set to introduce the mandatory bail-in of a minimum amount of eligible liabilities, potentially including certain senior unsecured obligations, before governments could provide solvency support. Accordingly, we believe that the potential extraordinary government support available to RCI Banque's senior unsecured bondholders will likely diminish within our two-year rating horizon.

Currently, we consider that RCI Banque has "moderate" systemic importance to France, which we view as "supportive" of private-sector commercial banks. We also believe the bank is "insulated", as our criteria define the term, from its parent Renault S.A. given its higher stand-alone credit profile (SACP),

its regulatory and legal status as a bank, and its high degree of operational independence. As a result, and in line with our criteria, the 'BBB' long-term counterparty credit rating on RCI Banque stands one notch above the 'bbb-' SACP and is capped at two notches above the rating on its parent. We could remove this notch and reduce the maximum difference between the rating on RCI Banque and its parent by one notch shortly before the January 2016 introduction of the BRRD's bail-in powers for senior unsecured liabilities. These rules would indicate to us that EU governments would be much less able to support senior unsecured bank creditors, even though it may take several more years to eliminate concerns about financial stability and the resolvability of systemically important banks.

Specifically, if we perceive that support for senior unsecured creditors is less predictable under the new legislative framework, we would likely remove the one notch of government support from our ratings on RCI Banque and potentially reduce the maximum difference between the rating on RCI Banque and its parent by one notch. This would most likely arise from a reclassification of France's support for private-sector commercial banks to "uncertain" under our criteria. Any decision to reclassify governments would be subject to our review of the final resolution legislation and technical standards, and other relevant information.

If, on the other hand, our view was that extraordinary government support may still be forthcoming to RCI Banque's senior unsecured creditors, we could retain one notch of support in the ratings and maintain a two-notch maximum difference between the rating on RCI Banque and its parent. This would be the case if authorities publicly confirmed their supportive stance toward senior unsecured creditors, or if we believed that precautionary capital injections would still be likely under the new legislation to minimize the wider economic impact of the resolution of a systemically important bank. In this case, we may consider that France remained "supportive" and that RCI Banque retained "moderate" systemic importance.

In addition to our view of the SACP and potential extraordinary government support, future rating actions on RCI Banque may also result from other relevant factors. These may include measures to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments (see "Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks," published on April 29, 2014).

We view DIAC as a "core" subsidiary of RCI Banque under our criteria, and therefore equalize the long-term counterparty credit rating on DIAC with that on RCI Banque. The negative outlook on DIAC mirrors that on RCI Banque.

The potential reduction of extraordinary government support in the counterparty credit and senior unsecured issue ratings on RCI Banque has no impact on the subordinated issue ratings. We have long believed that subordinated creditors would not receive extraordinary government support in a stress scenario, and for that reason we already notch these instruments down from the SACP.

Outlook

The negative outlook indicates that we may lower the ratings on RCI Banque by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails. Specifically, we may reduce the maximum difference between the rating on RCI Banque and its parent by one notch and lower the long-term counterparty credit rating by one notch if we consider that extraordinary government support is less predictable under the new EU legislative framework. We could also revise our view of RCI's systemic importance in France to "low" from "moderate" if support from the French government in times of need became weaker than we currently factor into the rating.

The negative outlook also reflects our view that the bank's growth in emerging markets, or a protracted sluggish economic recovery across the eurozone could negatively affect its creditworthiness. This would lead us to revise down our current assessment of RCI's capital position by lowering our projected risk-adjusted capital (RAC) ratio below 10%.

In addition to potential changes in the SACP and government support, we will review other relevant rating factors when taking any rating actions. These might include any steps RCI Banque might take to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments.

We could revise the outlook back to stable if we consider that potential extraordinary government support for RCI Banque's senior unsecured creditors is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability; or if we believe that other rating factors, such as a large buffer of subordinated instruments, fully offset increased bail-in risks. We might also revise the outlook to stable if we saw RCI Banque demonstrating that it had enough earnings generation and capital build-up capacity to maintain a capital position compatible with our current assessment.

If we lowered our long-term rating on Renault we would likely lower our ratings on RCI Banque.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
SACP	bbb-
Anchor	bbb+
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)

Funding and Liquidity	Below Average and Adequate (-1)
Support	+1
GRE Support	0
Group Support	0
Sovereign Support	+1
Additional Factors	0

Related Criteria And Research

Related criteria

- Group Rating Methodology, Nov. 19, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Related research

- 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
- Standard & Poor's To Review Government Support In European Bank Ratings, March 4, 2014

Ratings List

Ratings Affirmed

RCI Banque

DIAC S.A.

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

RCI Banque

Senior Unsecured	BBB
Subordinated	BB+
Commercial Paper	A-2

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