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Research Update:

RCI Banque 'BBB/A-2' Ratings Affirmed Following Upgrade Of Parent Renault; Outlook Stable

Primary Credit Analyst:

Stanislas De Bazelaire, Paris +33 1 44 20 66 54; stanislas.bazelaire@spglobal.com

Secondary Contact:

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

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Overview

- We raised our ratings on carmaker Renault S.A., French auto financier RCI Banque's full owner, to 'BBB/A-2' from 'BBB-/A-3' on Nov. 17, 2017.
- The long-term ratings on Renault and RCI are now at the same level, and we continue to regard the bank as a core subsidiary. However, we now include one notch of group support in our rating on the bank based on our view of Renault's increased ability to provide extraordinary support, and we consequently no longer include a positive notch of adjustment notch to derive our 'BBB' long-term rating on RCI.
- We are therefore affirming our 'BBB/A-2' long- and short-term ratings on RCI.
- The stable outlook incorporates our view that the bank's financial profile will remain strong, with steady risk-adjusted profitability and continued conservative capital management over the next two years. It also reflects our stable outlook on Renault and our view that RCI will remain a core subsidiary of Renault over the next two years.

Rating Action

On Nov. 30, 2017, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on France-based auto financier RCI Banque and its core subsidiary, DIAC S.A. The outlook on both entities is stable.

At the same time, we raised our issue rating on RCI's subordinated debt program to 'BB+' from 'BB'.

Rationale

The affirmation follows our upgrade of RCI's sole owner, carmaker Renault S.A., on Nov. 17, 2017 (see "French Car Manufacturer Renault Upgraded To 'BBB/A-2'; Outlook Stable," on RatingsDirect). The upgrade reflects our forecast that Renault will sustain its EBITDA margin at 9%-10% over the next two years, thanks to continued revenue growth, cost discipline, and dividends received from associates.

In our view, Renault's improved creditworthiness will underpin solid operating performance at RCI in the next two years, particularly in terms of new business volumes and more competitive funding costs. We continue to view RCI's revenue generating capacity as resilient and predictable, and its earnings streams as geographically diverse. Capital management is conservative, and the

payout strategy aims to keep the bank's solvency strong. We expect our risk-adjusted capital (RAC) ratio for RCI will remain higher than 10% in 2017 and 2018. RCI's profile is dominated by its exposure to retail clients and dealers. Credit costs are moderate, benefiting from a supportive environment in Europe and the collateralized nature of most exposures. We expect the bank's cost of risk will hover around 30 basis points in 2017. The bank still relies on wholesale funding, but less so than in the past, due to the dynamic collection of retail deposits, which now make up around one-third of total commercial assets.

The long-term ratings on Renault and RCI are now at the same level. We continue to regard the bank as a core subsidiary, but we now include one notch of group support in our long-term rating on the bank, based on our view of Renault's increased ability to provide potential extraordinary support if needed. Consequently, we no longer include a positive notch of adjustment notch to derive our 'BBB' long-term rating on RCI. The positive adjustment reflected RCI's outperformance versus peers in terms of risk-adjusted profitability, and its insulation with respect to Renault, which had enabled us to rate RCI higher than Renault before our upgrade of the carmaker.

We think our earnings buffer ratio (2% at year-end 2016) for RCI will remain elevated, on the back of good cost control and strong revenue growth of service activities, as seen in the bank's first-half 2017 results.

In our rating on RCI's subordinated debt program, we now factor in that Renault's potential extraordinary support to RCI would extend to subordinated issues, based on our view that RCI is a core subsidiary of its parent. Consequently, we raised our rating on the debt program. RCI had no outstanding subordinated debt issuances as of Nov. 30, 2017.

Outlook

The stable outlook on RCI incorporates our view that its financial profile will remain strong, with steady risk-adjusted profitability and continued conservative capital management over the next two years. It also reflects our stable outlook on Renault and our view that RCI will remain a core subsidiary of Renault over the next two years.

We could consider a downgrade if Renault's creditworthiness came under pressure and RCI was unable to maintain its superior financial profile versus similarly rated peers.

An upgrade of RCI would follow an upgrade of Renault, because we view the bank as a core subsidiary of the carmaker. We believe such a scenario is unlikely in the next two years. Additionally, raising our long-term rating on RCI, based on its own merits, would necessitate an upward revision of its SACP by more than one notch. A higher SACP would require a fundamental shift and strengthening in RCI's capital and funding strategy. At this stage, we also regard this as a remote scenario.

Ratings Score Snapshot

	To	From
Issuer credit rating:	BBB/Stable/A-2	BBB/Stable/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	Below average
And Liquidity	Adequate (-1)	Adequate (-1)
Support	(+1)	(0)
ALAC support	(0)	(0)
GRE support	(0)	(0)
Group support	(+1)	(0)
Sovereign support	(0)	(0)
Additional factors	(0)	(+1)

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

RCI Banque

DIAC S.A.

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

RCI Banque

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

DIAC S.A.

Certificate Of Deposit	A-2
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Upgraded

	To	From
RCI Banque		
Subordinated Debt	BB+	BB

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

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.capitaliq.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.

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