S&P Global Ratings

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RCI Banque

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RCI Banque

SACP	bbb-
Anchor	bbb+	
Business Position	Weak	-2
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Below Average	-1
Liquidity	Adequate	

+

Support	+1
ALAC Support	0
GRE Support	0
Group Support	+1
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
BBB/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Strong and recurring risk-adjusted profitability. • A regulated bank insulated from its corporate parent. • Strong capitalization.	• Predominantly wholesale funded. • Business concentration in car financing. • Dependence on parent's franchise and product cycles.

Outlook: Stable

S&P Global Ratings' stable outlook on France-based auto financer RCI Banque (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 of RCI 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 stand-alone credit profile (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.

Rationale

The starting point for our ratings on RCI is our 'bbb+' anchor. This reflects our view of the risk for an average bank domiciled in France, operating with RCI's geographic reach.

Our 'BBB' long-term rating on the bank reflects adjustments made to the anchor, to take into account risks specific to RCI, including support from parent Renault S.A. (BBB/Stable/A-2).

Overall, we balance RCI's business concentration and predominantly wholesale-funded profile against its superior risk-adjusted profitability, the parent's dividend flexibility, RCI's strong capitalization, and the low credit risk inherent to collateralized exposures. We also factor one notch of group support from Renault, as our issuer credit rating on the carmaker is one notch above RCI's 'bbb-' SACP.

Anchor:'bbb+', reflecting the creditworthiness of an average French bank operating within RCI's geographic reach

We base the anchor on our Banking Industry Country Risk Assessment (BICRA) scores in the countries in which RCI operates.

We assess the weighted-average economic risk score for RCI at '4' on a scale of 1 to 10 ('1' being the lowest risk and '10' the highest). This is higher than the '3' economic risk score (same scale) for a bank with 100% exposure to France. For further information on our BICRA on France, please refer to "Banking Industry Country Risk Assessment: France," published July 11, 2018. Our calculation is based on the geographic breakdown of RCI's net outstanding loans at end 2017: France (30%), Germany (16%), the U.K. (11%), Italy (12%), Spain (10%), Brazil (4%), South Korea (4%), and the rest of the world (14%). RCI's industry risk score of '3' reflects that it is domiciled and primarily regulated in France.

The combination of the blended economic risk and industry risk results in a 'bbb+' anchor.

Table 1

RCI Banque Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	49,619.0	43,228.0	36,977.0	31,925.0	29,415.0
Customer loans (gross)	44,911.0	39,307.0	32,807.0	29,400.0	27,258.0
Adjusted common equity	4,426.0	3,810.9	3,343.3	2,841.2	2,539.0
Operating revenues	1,643.0	1,473.0	1,351.0	1,200.0	1,214.0
Noninterest expenses	522.0	463.0	429.0	423.0	383.0
Core earnings	752.3	623.4	563.8	456.1	496.8

Business position: A European captive auto finance company extending into services

Our assessment of RCI's business position is constrained by its concentration in automotive finance, despite its relatively good geographic diversification and solid and increasing penetration rate (42% as of June 2018, up one percentage point from June 2017) on sales of Alliance brands. RCI's credit production is correlated with auto sales, but its financial performance is higher and less volatile than Renault's (see chart 1), due to its pricing power and the recurring nature of revenues from loans and leases.

Renault wholly owns RCI, which mainly acts as a captive finance arm for the Renault-Nissan-Mitsubishi alliance brands: Renault, Dacia, Renault Samsung Motors, Nissan, Infiniti, Datsun and Mitsubishi. The bank supports the alliance's sales in Europe, Latin America, Northern Africa, South Korea, and India. The alliance is mainly present in Europe, with the region representing about one-quarter of the alliance's total unit sales and 51% for Renault as of end-2017. The bank provides various financing solutions to retail customers, corporates, and dealer networks, as well as services such as loan-related insurance, car insurance, warranty extensions and maintenance contracts, which are also offered on a stand-alone basis.

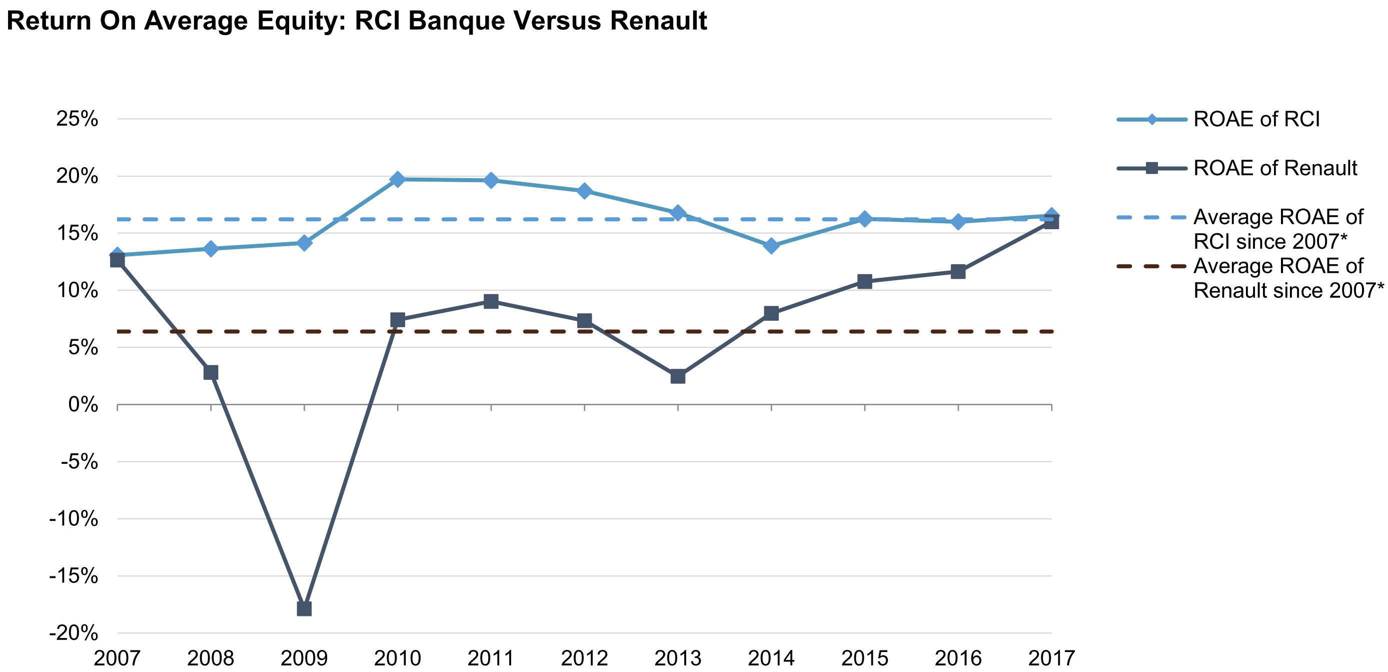
RCI's coverage of multiple brands and its international presence (36 countries) bring some stability to its business. We expect RCI will continue expanding its activities internationally, either by entering new markets or by developing the size of some of its overseas operations, particularly in Russia, an important market for Renault, where RCI is present via a joint-venture, RN Bank JSC (BB+/Stable/B).

The bank was rebranded RCI Bank and Services in February 2016 (RCI Banque previously, which remains the legal name) to emphasize its push into services. The share of operating noninterest income has increased to 26% of operating revenues in 2017 from 20% in 2012, according to our calculation, and should continue increasing as mobility services gain importance over time.

RCI's profitability has been lower for the past four years--with an return on average equity (ROAE) averaging 16% by our measure--compared with 2010-2012, when ROAE revolved around 19%-20% by our measure, as a result of RCI's strategy to balance growth and profitability. Also, competition from traditional banks in auto finance has intensified, with a push toward retail customers in addition to fleet financing for corporates, their core customer base.

RCI acquired a number of start-ups that operate reservation (Karhoo, Marcel) or fleet-management (Yuso) platforms in 2017 to meet evolving customer mobility needs. It has moved its headquarters to the center of Paris bringing it closer to the start-ups ecosystem. Revenues from such services are still at an early stage.

Chart 1



Source: S&P Global Ratings. ROAE--Return on average equity. *ROAE as per S&P Global Ratings' calculation.

Table 2

RCI Banque Business Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. €)	1,657.0	1,484.0	1,369.0	1,219.0	1,232.0
Commercial banking/total revenues from business line	24.0	24.5	21.8	21.9	20.0
Retail banking/total revenues from business line	74.2	74.7	77.7	77.4	79.1
Commercial & retail banking/total revenues from business line	98.2	99.2	99.5	99.3	99.1
Other revenues/total revenues from business line	1.8	0.8	0.5	0.7	0.9
Return on average equity	16.5	16.0	16.3	13.9	16.8

Capital and earnings: Strong capitalization and stable earnings

Our capital and earnings assessment supports our rating on RCI. We believe that RCI's superior risk-adjusted profitability and flexible dividend policy will enable RCI to maintain a strong capitalization.

We forecast RCI's risk-adjusted capital (RAC) ratio will remain at about 10.5%-11% in the next two years. RCI's capitalization compares favorably with that of French universal banks, which tend to be more in the 7%-10% range. We view downside risk as limited, considering RCI's high profitability, flexible dividend policy, and our expectation that loan book growth will slow somewhat (+10% in 2018 and +7% in 2019, after +14% in 2017 and +20% in 2016), as seen in the first half of 2018 (net assets up by 5.6% versus end 2017).

Our RAC ratio of 11.0% for RCI as of Dec. 31, 2017, is lower than the regulatory ratio. This is mainly because of RCI's use of the internal ratings-based (IRB) method (68% of net exposures at end-2017) and our risk weights, which tend to be more punitive than Basel's standardized approach to risk weights in countries with higher economic risk (phased-in core Tier 1 ratio of 14.8% as of June 2018).

Until 2009, RCI's payout ratio was high, at 95%. It then decreased to 35%-45% in 2013-2014 and to zero in 2016 and 2017, two years of brisk loan growth. We believe RCI's slower growth in the next two years could decrease the need for earnings retention and lead to higher dividend payouts.

We consider RCI's total adjusted capital (TAC) of €4.4 billion, the numerator of our RAC ratio, to be of high quality as it only comprises common equity.

We consider RCI's earnings to be of high quality as well. At end-2017, RCI posted the lowest cost-to-income ratio (32%) among the European captive peers that we rate, reflecting its low cost base and effective cost control, which we expect will continue. Also, we note that RCI has historically displayed little volatility of returns, especially in comparison with Renault (see chart 1). Finally, RCI's earnings provide a significant buffer against normalized losses--based on through-the-cycle annual loss rates we expect for a given class of exposure (see chart 4).

Table 3

RCI Banque Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	15.0	15.7	15.6	11.5	11.7
S&P Global Ratings' RAC ratio before diversification	11.0	10.4	10.6	10.0	10.0
S&P Global Ratings' RAC ratio after diversification	12.3	11.4	12.5	12.0	12.0
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	74.4	73.5	75.3	79.3	76.1
Fee income/operating revenues	17.2	0.7	0.7	0.9	0.7
Market-sensitive income/operating revenues	0.9	0.7	(0.4)	(0.2)	0.2
Noninterest expenses/operating revenues	31.8	31.4	31.8	35.3	31.5
Preprovision operating income/average assets	2.4	2.5	2.7	2.5	2.9
Core earnings/average managed assets	1.6	1.6	1.6	1.5	1.7

Table 4

RCI Banque Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	2,817	589	21	407	14
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	1,253	702	56	363	29
Corporate	16,952	10,244	60	14,116	83
Retail	29,199	13,447	46	19,667	67

Table 4

RCI Banque Risk-Adjusted Capital Framework Data (cont.)					
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	1,961	1,353	69	2,752	140
Total credit risk	52,183	26,335	50	37,305	71
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	26	76	288	232	875
Trading book market risk	--	0	--	0	--
Total market risk	--	76	--	232	--
Operational risk					
Total operational risk	--	3,178	--	2,555	--
		Basel III RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		29,589		40,092	100
Total diversification/concentration adjustments		--		(4,012)	(10)
RWA after diversification		29,589		36,080	90
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		4,442	15.0	4,426	11.0
Capital ratio after adjustments‡		4,442	11.9	4,426	12.3

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk position: Low risk, but concentration in auto dealers remains high

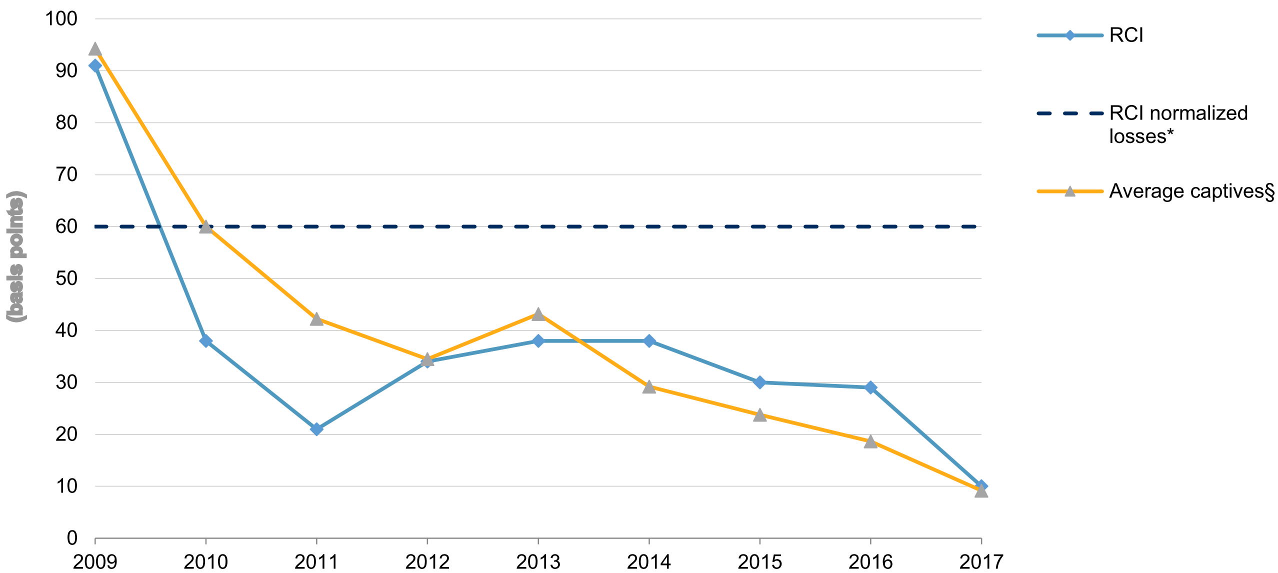
We assess RCI's risk position as neutral for the rating, balancing the low-risk nature of its exposure with its high concentration on auto dealers. Our view of low credit risk is based on the collateralized nature of the bank's credit exposure.

The bank has a track record of low credit losses since 2010, meaning below 40 basis points (bps), due to the bank's more stringent origination criteria after the 2008 financial crisis. It has been overall in line with that of the peers we rate (see chart 2). We don't expect origination policies to change and therefore anticipate that cost of risk will remain low in 2018. We expect the impact of the first-time application of International Financial Reporting Standard 9 on credit loss provisions to be limited and not to not affect our assessment of the bank's capitalization.

We note that RCI's strong profitability provides a significant buffer to absorb losses, with a pre-provision operating income to average loans of 266 bps at end-2017, versus a maximum of 91 bps in the aftermath of the financial crisis.

Chart 2

RCI Banque's Cost Of Risk Versus Peers'



Source: S&P Global Ratings. *Our calculation of normalized losses is based on exposures as of end-2017. §Calculated based on data since 2016 for PSA Banque France, 2013 for LeasePlan, and 2009 for RCI Banque, FCE Bank, FCA Bank and Volkswagen Bank.

RCI has high exposure to auto dealers, which account for about one-quarter of net outstanding loans. Historically, cost of risk on auto dealers has been much lower than on individual customers. However, these exposures are much less granular and therefore cost of risk related to them potentially more volatile. These exposures are low risk, in our view, because they are short term and highly collateralized (cars, spare parts).

The most significant single-name loan exposure is, by far, to Renault. The risk associated with RCI's exposure to Renault-owned dealers is mitigated to a very significant extent by cash collateral. More broadly speaking, the 20-largest corporate exposures excluding Renault and 20-largest dealer exposures account for 74% and about 60% of total adjusted capital respectively, which is fairly low.

We view RCI's geographic diversification as neutral for the ratings. The bank operates in 36 countries. However, France accounts for one-third of the loan book and other Western European countries (Germany, U.K., Italy, and Spain) for nearly one-half. In other words, about 80% of RCI's exposure is to Western European countries, whose economic situation is correlated.

RCI is exposed to the risk on residual values in the U.K. only. In other countries, this risk is carried by dealers or the parent carmaker. The exposure to residual values amounted to €2.0 billion as of end-2017, equivalent to less than 5%

of credit risk exposures.

Table 4

RCI Banque Risk Position					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Growth in customer loans	14.3	19.8	11.6	7.9	0.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(10.0)	(9.0)	(15.3)	(17.0)	(16.3)
Total managed assets/adjusted common equity (x)	11.2	11.4	11.1	11.3	11.6
New loan loss provisions/average customer loans	0.1	0.3	0.3	0.4	0.4
Net charge-offs/average customer loans	0.2	0.3	0.4	0.5	0.6
Gross nonperforming assets/customer loans + other real estate owned	1.3	1.5	2.5	3.0	3.5
Loan loss reserves/gross nonperforming assets	113.4	112.2	82.9	79.9	77.4

RWA--Risk-weighted assets.

Funding and liquidity: A below-average funding profile, mitigated by conservative liquidity management

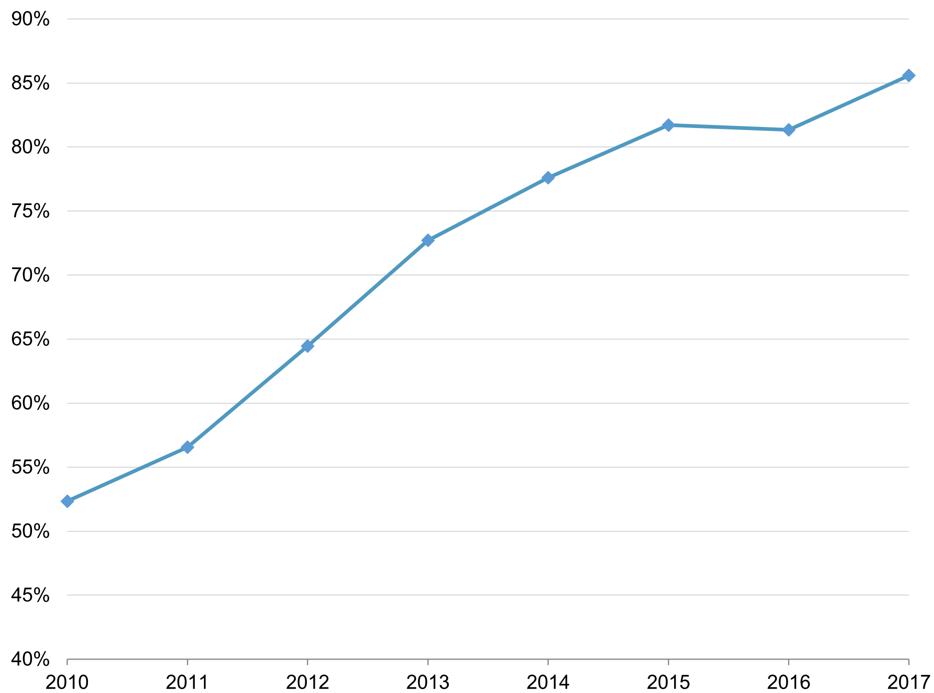
We view RCI's funding as weaker than that of French large banks on average and its liquidity as neutral for the rating.

RCI's predominantly wholesale-funded profile is a weakness, in our view. RCI's ratio of customer loans (net) to customer deposits stood at 279% at end-2017, well above the average of about 110% for large French banks.

The bank has been diversifying its funding sources, including the collection of deposits (France, Germany, Austria, and the U.K.), and lengthening their maturities (four seven-year senior unsecured issuances were made in 2016-2017 and one eight-year senior unsecured issuance in 2017), giving more flexibility and options in the event of market turbulence. Reflecting RCI's deposit-gathering effort over the past few years and the absence of large maturity mismatches, our stable funding ratio has improved to 86% at end-2017 from 52% in 2010.

Chart 3

RCI Banque's Stable Funding Ratio



Source: S&P Global Ratings.

We believe RCI will maintain the share of customer deposits to net loans at about one-third (36% as of end-2017), despite market conditions being more supportive of funding via financial markets, as they represent a source of funding whose cost is less volatile than that from capital markets.

We view RCI's liquidity as neutral for the rating, reflecting our view that the bank is prepared to successfully manage its liquidity, and is likely to survive under stressful conditions for more than six months, with a limited dependence on the central bank thereafter.

RCI's ratio of broad liquid assets to short-term wholesale funding stood at 38% at end-2017, well below that of the large French banks, where ratios tend to be above 100%. However, it increases above 100% if we take into into account committed credit lines (€4.4 billion).

This, plus RCI's ability to rely on loan inflows to repay its debts more than a traditional commercial bank could, explains our adequate liquidity assessment. Auto loans have much shorter maturities (up to four years) than mortgages, which would support quick deleveraging.

RCI's refinancing is completely independent from Renault's, which is one of the factors that differentiates our ratings on the bank and its parent.

Table 5

RCI Banque Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Core deposits/funding base	37.6	36.2	34.8	27.2	20.7
Customer loans (net)/customer deposits	279.4	291.2	293.9	393.0	516.4
Long-term funding ratio	86.3	82.4	80.1	78.8	73.2
Stable funding ratio	85.6	81.4	81.7	77.6	72.7
Short-term wholesale funding/funding base	15.2	19.5	22.1	23.6	29.9
Broad liquid assets/short-term wholesale funding (x)	0.4	0.3	0.4	0.2	0.2
Net broad liquid assets/short-term customer deposits	(28.6)	(46.8)	(50.5)	(87.3)	(150.1)
Short-term wholesale funding/total wholesale funding	24.4	30.5	33.8	32.4	37.7
Narrow liquid assets/3-month wholesale funding (x)	1.1	0.7	0.8	0.4	0.5

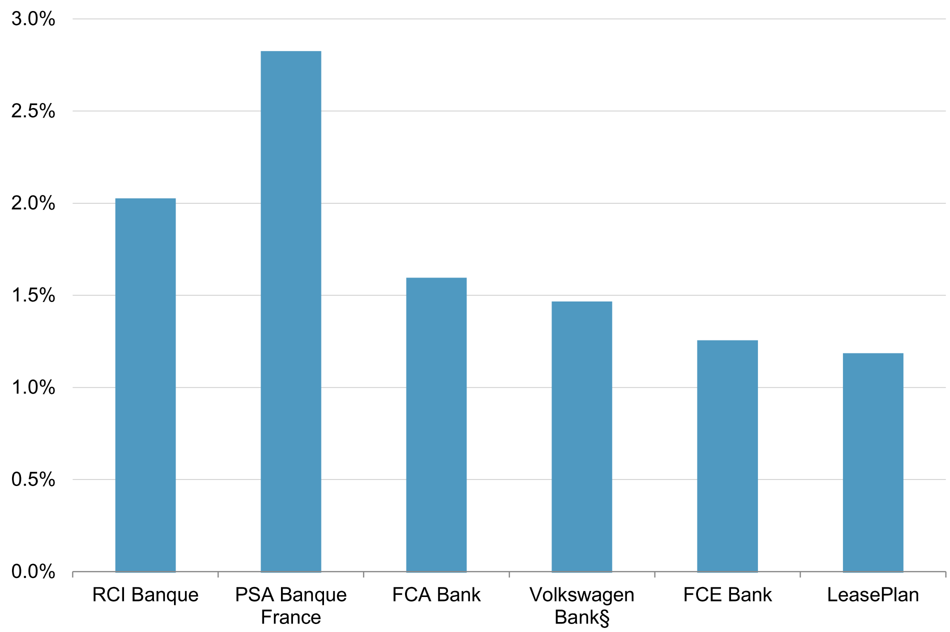
External support: Benefitting from parent's support

We believe RCI is insulated from its 100%-owner Renault, due to France's favorable insolvency laws, as well as RCI's regulatory and legal status as a bank and high degree of operational independence. As a result, RCI can potentially be rated higher than Renault (by up to two notches) based on its own creditworthiness.

Our ratings on RCI and Renault are currently aligned. Given that our assessment of RCI's SACP is one notch lower than our issuer credit rating on Renault, we factor one notch of group support in our rating on RCI. That said, should we lower our rating on Renault, we may continue to rate RCI at the current level, provided it maintains its superior risk-adjusted profitability versus peers ,with a similar SACP (measured by our earnings buffer, which stood at 2% at end-2017).

Chart 4

Earnings Buffers As Of End-2017



Source: S&P Global Ratings. §Data as of end-2016 for Volkswagen Bank. We define earnings buffer as preprovision operating income minus one-off items and S&P Global Ratings' normalized credit losses divided by our assessment of risk-weighted assets.

DIAC: Core subsidiary

We consider DIAC S.A. (DIAC) to be a core subsidiary of RCI mainly because it is the entity through which RCI serves the French market, its main market. As such, we align our ratings on DIAC with our ratings on RCI.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: France, July 11, 2018
- Russia-Based RN Bank JSC Ratings Affirmed At 'BB+/B'; Outlook Stable, May 8, 2018
- French Car Manufacturer Renault Upgraded To 'BBB/A-2'; Outlook Stable, Nov. 17, 2017
- RCI Banque 'BBB/A-2' Ratings Affirmed Following Upgrade Of Parent Renault; Outlook Stable, Nov. 30, 2017

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	**bbb+**	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 23, 2018)	
RCI Banque	
Issuer Credit Rating	BBB/Stable/A-2
Certificate Of Deposit	
Local Currency	A-2
Commercial Paper	A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Issuer Credit Ratings History	
27-May-2016	BBB/Stable/A-2

Ratings Detail (As Of August 23, 2018) (cont.)	
25-Oct-2012	BBB/Negative/A-2
03-Nov-2010	BBB/Stable/A-2
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
DIAC S.A.	
Issuer Credit Rating	BBB/Stable/A-2
Certificate Of Deposit	
Local Currency	A-2
Senior Unsecured	BBB
RCI Banque Sucursal Argentina	
Issuer Credit Rating	
Argentina National Scale	raAA/Stable/raA-1+
Renault S.A.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
Short-Term Debt	A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.