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RCI Banque

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RCI Banque

SACP	bbb-		+	Support	0	+	Additional Factors	+1

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

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB/Negative/A-2

Major Rating Factors

Strengths:

- Strong and recurring risk-adjusted profitability, despite weak auto cycle.
- A regulated bank insulated from its corporate parent.
- Strong capitalization.

Weaknesses:

- Predominantly wholesale funded.
- Business concentration in car financing.
- Dependence on parent's franchise and product cycles.

Outlook: Negative

The negative outlook indicates that we could lower the ratings on RCI in 2020-2021 if we take a similar action on Renault. This is because we maintain our view that RCI cannot be rated more than two notches above its parent. It also reflects the possibility that industry risks could increase for the French banking sector in the wake of the COVID-19 pandemic. We could also lower the ratings if the bank's earnings capacity stopped outperforming similarly rated peers. This could be due to intensifying pressures on the auto market resulting from the COVID-19 pandemic and containment measures, or rising funding costs and difficult access to capital markets as a result of contagion risk from Renault.

Downside scenario

A downgrade of Renault would entail a similar downgrade of RCI. Irrespective of our rating on Renault, the rating on RCI is sensitive to rising industry risks in France, in particular margin pressure in a durably low interest rate environment. We could also remove the notch of flexibility and lower the long- and short-term issuer credit ratings on RCI to 'BBB-/A-3' if contagion risks from Renault start to crystallize and affect RCI's access to debt markets, or cost of funding. This could be the case if the challenges faced by Renault or tensions within the alliance negatively affect RCI's operations and activities, notably regarding funding costs and strategic focus, or if the intense pressure we see in the auto market, partly resulting from the COVID-19 pandemic, reduces RCI's profitability and new business volumes beyond our expectations.

Upside scenario

We would revise the outlook to stable in 2020-2021 if we took a similar action on Renault and if we saw a stabilization in industry risks in the foreseeable future. Such action could happen only if our view of RCI's SACP remained unchanged and resilient to the impact of COVID-19 and to challenges faced by the parent and the auto sector as a whole.

Rationale

The ratings on RCI balance the bank'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 relatively low credit risk inherent to collateralized exposures. We also factor one notch of adjustment, to reflect RCI's outperformance of similarly rated peers over a long cycle. While we do not expect RCI to be immune to the impacts of the COVID-19 crisis, we note that it is entering this uncertain environment on a strong footing. It has solid earnings capacity, a low cost-to-income ratio at about 30%, and strong capitalization, with an expected S&P Global Ratings risk-adjusted capital (RAC) ratio remaining comfortably above 10% over the next two years. Although we see its wholesale-funded profile as a weakness, we note that its refinancing needs are lower in 2020 than in recent years at about €0.75 billion-€1.5 billion, of which €750 million was already issued in January, compared with an average of €3 billion-€4 billion for previous years.

At 'BBB', the ratings on RCI reflect its own financial strength. As we view the entity as insulated, as per our criteria, we rate it above its parent, Renault. Still, we expect the distance between the two entities will not exceed two notches.

Anchor:'bbb+', reflecting the creditworthiness of an average French bank despite substantial geographic diversity

The anchor, or starting point for a bank rating, draws on our Banking Industry Country Risk Assessment (BICRA) methodology. Overall, we use a 'bbb+' anchor for RCI, which is identical to domestic bank operating in France.

Still, RCI is a geographically diversified bank, with slightly less than a third of its exposures in France (31%). To determine the appropriate economic risk for a bank active in many jurisdictions, we use a blend of its exposures. Some are in lower risk countries like Germany (16%), others in similarly risky country like South Korea (5%) and others in higher risk countries like Italy (12%), the U.K. (9%), Spain (9%), Brazil (5%), and the rest of the world (13%). Although the weighted-average economic risk score for RCI is slightly higher than a pure domestic bank (close to '4'), this is not high enough, in our view, to warrant a weaker anchor. We note RCI operates in many countries where economic risks are under pressure, such as France, Germany, Spain, the U.K., or Italy.

RCI's industry risk score of '3' reflects that it is domiciled and primarily regulated in France. The bank is wholesale-funded but benefits from access to deep capital markets and from liquidity support from the European Central Bank, as other banks, if need be. Even if RCI does not have an historical retail deposit franchise, the existence of a credible deposit protection scheme in France and the relatively high savings rate have allowed the bank to collect stable deposits at decent price. Still, the bank suffers from intense competition in the auto loans market where all large universal banks are active via their consumer finance subsidiaries. Asset margins remains wide, although under some pressure, but net margins remains sensitive to cost of funding, which fluctuate typically more for wholesale funded entities.

Table 1

RCI Banque--Key Figures					
	--Year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	57,990	53,304	49,619	43,228	36,977
Customer loans (gross)	52,691	48,367	44,911	39,307	32,807
Adjusted common equity	4,992	4,912	4,426	3,811	3,343
Operating revenues	2,117	1,951	1,643	1,473	1,351
Noninterest expenses	603	575	522	463	429
Core earnings	944	898	752	623	564

Business position: A European captive auto finance company supporting the car sales of the Alliance brands and pursuing its expansion into services

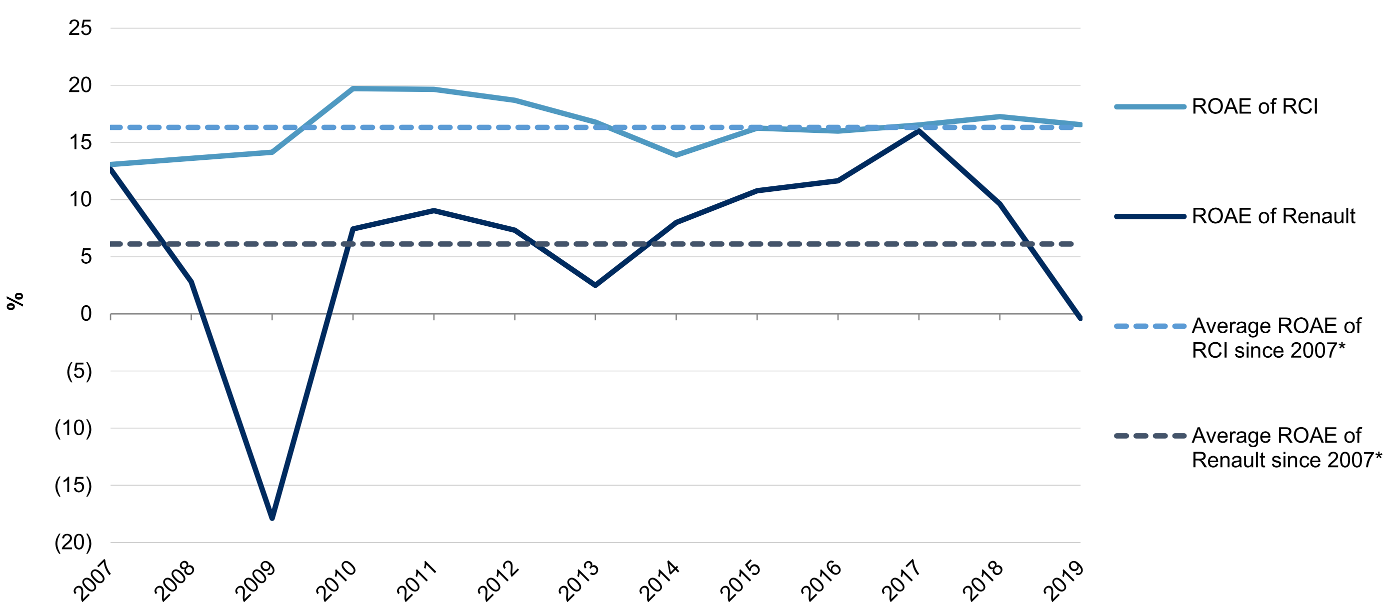
Our assessment of RCI's business position is constrained by its concentration in automotive finance, despite its relatively good geographic diversification and solid and increasing penetration rate (42.2% as of December 2019, up 150 bps from December 2018) on sales of the Renault-Nissan-Mitsubishi Alliance brands. RCI's credit production is correlated with auto sales, but its financial performance is stronger and less volatile than Renault's (see chart 1) due to its pricing power and the recurring nature of the annuity-like interest received from loans and leases. While we expect RCI to be resilient against the current automotive sector and economic downturns, as observed in the past, we believe RCI's business model and name affiliation will not fully shield the bank from any negative developments in the auto sector and Renault-specific challenges. In particular, a durably depressed auto cycle could weigh on revenues, as would be Renault's inability to adapt to rapidly changing customer preferences (more environmental friendly cars).

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, Mitsubishi, Lada and Alpine. 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 52% for Renault as of end-2019. RCI's coverage of multiple brands and its international presence (nine brands in 36 countries, with the largest country, France, representing a bit less than one-third of loan exposures) 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. An example of this strategy is Russia, an important market for Renault, where RCI is present via a joint-venture, RN Bank JSC (BB+/Stable/B).

RCI's profitability remains high with a return on average equity (ROAE) at 16.6%, based on our measure at year-end 2019, and little changed over the past five years. We view this stability as an indication that the business model is sound, stemming from RCI's strategy to balance growth and profitability. The bank's business model, notably the absence of a branch network, implies a structurally low cost base, with an efficiency ratio at 28.5% at end-2019 and unlikely to change much in 2020. Also, competition from traditional banks in auto finance keeps intensifying, with a push toward retail customers in addition to fleet financing for corporates, their core customer base.

Chart 1

Return On Average Equity: RCI Banque Versus Renault



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

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 and deposits, from a pure car loans provider. 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. It also collects retail deposits online.

The share of operating noninterest income continued to increase, reaching 31% of operating revenues in 2019 (29% in 2018) from 20% in 2012, according to our calculation. We note that RCI transferred its recently acquired mobility start-ups (Karhoo, Marcel, Yuso, and iCabbi) to Renault's newly created subsidiary--Mobility As and Industry (M.A.I)--as part of Renault's strategy to accelerate its development in new mobility services and build strategic partnerships. Revenues from such services were still at an early stage, thereforesuch transfers will not have a material impact on RCI's revenue split.

Table 2

RCI Banque--Business Position

	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	2,125	1,961	1,657	1,484	1,369
Commercial banking/total revenues from business line	22.0	21.4	24.0	24.5	21.8
Retail banking/total revenues from business line	76.6	77.1	74.2	74.7	77.7
Commercial & retail banking/total revenues from business line	98.6	98.4	98.2	99.2	99.5
Other revenues/total revenues from business line	1.4	1.6	1.8	0.8	0.5
Return on average common equity	16.6	17.3	16.5	16.0	16.3

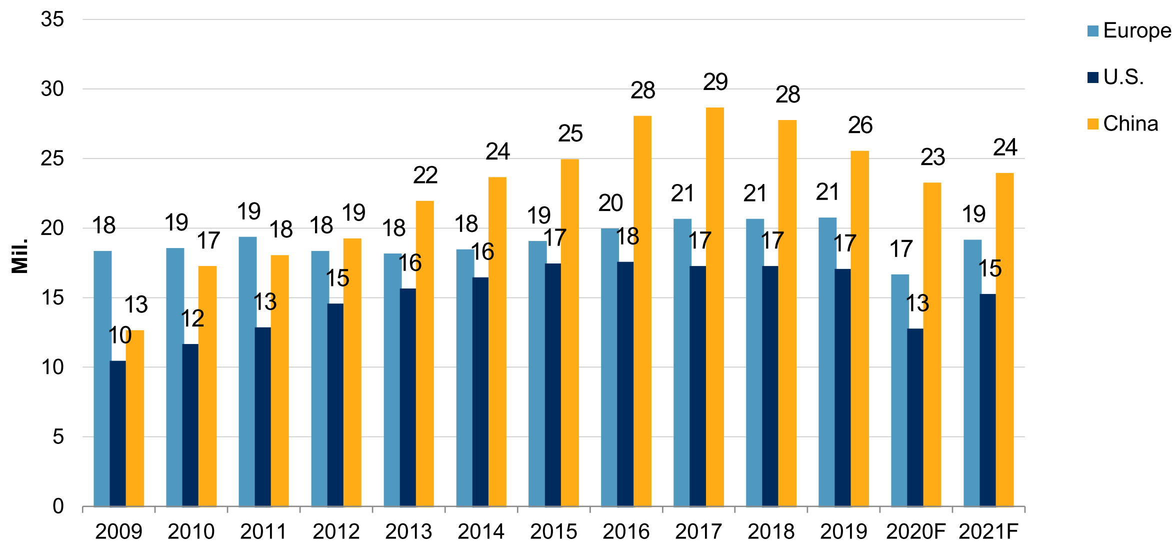
Capital and earnings: Strong capitalization and stable earnings with low volatility of returns

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 it to maintain strong capitalization despite the difficult conditions.

We forecast RCI's risk-adjusted capital (RAC) ratio will remain at about 11.0%-11.25% in the next two years. RCI's capitalization compares favorably with that of French universal banks, which tend to be around 7%-10%. We view downside risk as limited considering RCI's high profitability, flexible dividend policy, and our expectation that the loan book will likely contract by about 4% in 2020, due to weak new credit production during the lockdown period, before moderately increasing afterwards by 1% in 2021/2022. Our loan book projections are based on the assumption that European car sales will decline by about 20% in Europe in 2019 followed by a rebound of about 15% in 2021 (see chart 2). This is also considering the relative short-term maturity of RCI's loan book and strong growth over the past few years.

Chart 2

Volume Decline In 2020 And Gradual Recovery Thereafter
Global light vehicle sales per market (in million units)



F--S&P Global Ratings forecast. Source: S&P Global Ratings.

Our RAC ratio of 10.9%, for RCI as of Dec. 31, 2019, is lower than the regulatory ratio. This is mainly because of RCI's use of the internal ratings-based (IRB) method (66% of net exposures at end-2019) and our risk weights, which tend to be more punitive than Basel's standardized approach to risk weights in countries with higher economic risk (fully loaded core Tier 1 ratio of 14.4% as of December 2019). Even if the proposed €300 million additional dividend, presented at RCI's annual general meeting on 29 April 2020, has not yet been distributed in line with ECB recommendations, we assume RCI will distribute it in the near future. Therefore, our 10.9% RAC ratio factors in such distribution.

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. In 2018, RCI declared a dividend of €163 million for the year (19% payout) followed by a dividend of €511 million in the year 2019 (57% payout). 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 €5 billion, the numerator of our RAC ratio, to be high quality because it only comprises common equity.

We also consider RCI's earnings to be of high quality. At end-2019, RCI posted the lowest cost-to-income ratio (28%) 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 losses, which in our view will inevitably rise in 2020 and 2021. To assess the profitability over the cycle we compare pre-provision income with normalized losses, i.e those calculated based on through-the-cycle annual loss rates we expect for a given class of exposure (see chart 5). As such, RCI's preprovision income was 4.3x higher than our calculated normalized losses at year-end 2019, much higher than most universal banks in France. It also shows that the historically strong profitability in previous years was not overly flattered by the benign cost of risk.

Table 3

RCI Banque--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	14.4	15.5	15.0	15.7	15.6
S&P Global Ratings’ RAC ratio before diversification	10.9	11.4	11.0	10.4	10.6
S&P Global Ratings’ RAC ratio after diversification	12.2	12.6	12.3	11.4	12.5
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	68.6	71.4	74.4	73.5	75.3
Fee income/operating revenues	17.5	17.0	17.2	0.7	0.7
Market-sensitive income/operating revenues	0.8	(1.8)	0.9	0.7	(0.4)
Noninterest expenses/operating revenues	28.5	29.5	31.8	31.4	31.8
Preprovision operating income/average assets	2.7	2.7	2.4	2.5	2.7
Core earnings/average managed assets	1.7	1.7	1.6	1.6	1.6

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 & central banks	3,149.9	450.4	14.3	282.5	9.0
Of which regional governments and local authorities	105.0	21.0	20.0	3.8	3.6
Institutions and CCPs	1,775.3	565.8	31.9	752.4	42.4
Corporate	18,399.2	12,164.9	66.1	15,018.8	81.6
Retail	34,691.9	15,835.1	45.6	22,906.0	66.0
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	2,460.3	1,886.8	76.7	3,431.5	139.5
Total credit risk	60,476.6	30,903.1	51.1	42,391.3	70.1
Credit valuation adjustment					
Total credit valuation adjustment	--	158.0	--	0.0	--
Market Risk					
Equity in the banking book	3.1	3.1	100.0	26.8	875.0
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	3.1	--	26.8	--

Table 4

RCI Banque--Risk-Adjusted Capital Framework Data (cont.)

Operational risk					
Total operational risk	--	3,850.9	--	3,288.3	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	34,915.1	--	45,706.3	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(4,869.3)	(10.7)
RWA after diversification	--	34,915.1	--	40,837.0	89.3
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		5,032.1	14.4	4,991.9	10.9
Capital ratio after adjustments‡		5,032.1	14.4	4,991.9	12.2

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡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 2019', S&P Global Ratings.

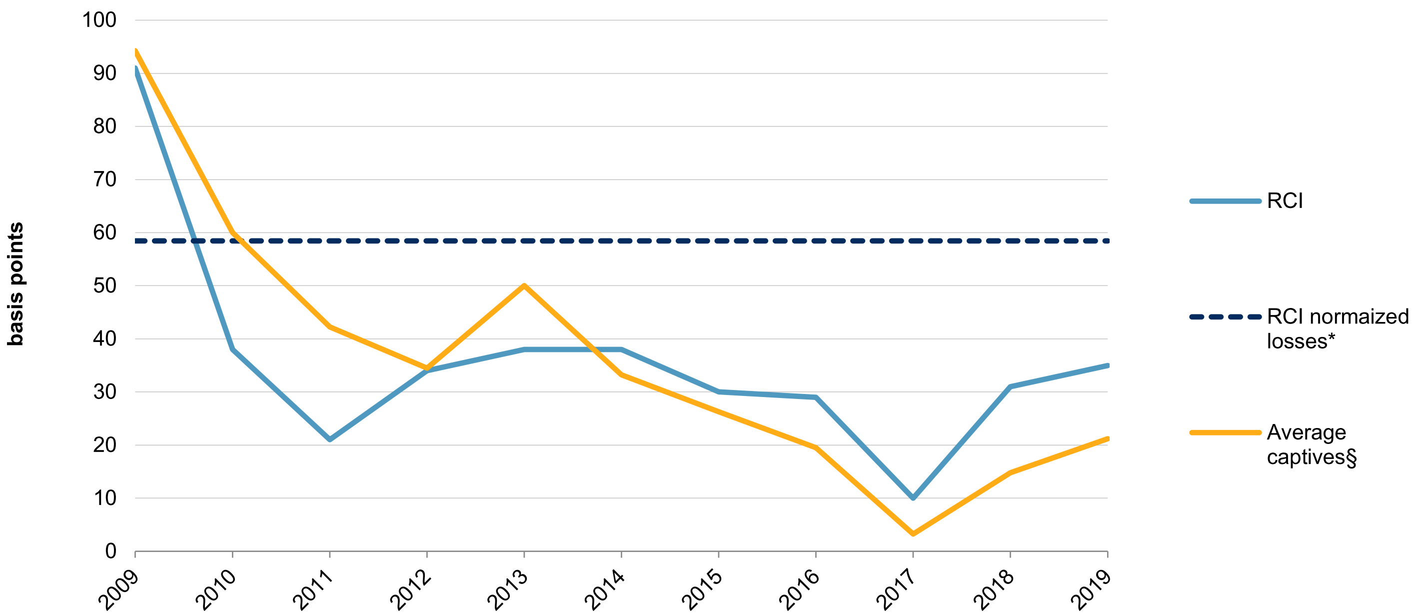
Risk position: Moderate risk overall, but concentration in auto dealers remains high

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. Overall, it has been in line with that of peers we rate (see chart 3). Due to the global economic slowdown in light of the COVID-19 pandemic, we expect the cost of risk to double in 2020, likely exceeding 70 bps from 35 bps in 2019 and we believe the cost of risk will remain elevated in 2021. We note the normalized cost of risk (average losses over a long period) is at about 60 bps. However, we note that RCI's strong profitability provides a significant buffer to absorb losses, with a pre-provision operating income to net customer loans of 292 bps at end-2019.

Chart 3

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-2019.
§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 significant exposure to car dealers, mostly in France, which could be materially affected by the COVID-19 pandemic. They represented about 23.3% of the loan book at end-2019 and we believe this has increased over the past few months as a result of the lockdown period. We will closely monitor such exposures and any rise in risks, especially if unsold inventories increase materially. We expect some dealers to benefit, if needed, from the French government's measures to ease pressure on local businesses during the pandemic, which could somewhat alleviate the pressure on their creditworthiness. However, we expect losses to rise in this segment. Historically, the cost of risk related to auto dealers has been much lower than for individual customers. That said, these exposures are much less granular and therefore the cost of risk is sensitive to the deterioration in credit quality of some large names. Positively, these exposures are short term and highly collateralized (such as cars and 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 significantly mitigated by cash collateral. More broadly speaking, the 20-largest corporate exposures excluding Renault and 20-largest dealer exposures account for 68% and about 61% of total adjusted capital, respectively, which remains manageable.

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 situations may be somewhat correlated.

RCI is directly exposed to the risk of residual values in the U.K. mainly. The exposure to residual values amounted to €1.9 billion as of end-2019, equivalent to 3.2% of credit risk exposures. In other countries, and especially in France, RCI is only indirectly exposed to this risk, as dealers or Renault carry this risk. The impact of the current crisis on the second hand market, and therefore residual values, is currently difficult to assess, but this is something that we will carefully monitor, along with the residual value of electric vehicles for which there is little track record and we believe could be affected by rapid evolving technologies.

Like most banks, RCI is subject to interest rate risk in the banking book, though we view this as very limited, especially considering the relatively short-term nature of its assets (which are funded with longer maturities). A 100 bps rate rise will have an impact on net interest income capped at €50 million by RCI policies (3.4% of 2019 net interest income).

Table 5

RCI Banque--Risk Position					
	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	8.9	7.7	14.3	19.8	11.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(10.7)	(10.1)	(10.0)	(9.0)	(15.3)
Total managed assets/adjusted common equity (x)	11.6	10.9	11.2	11.4	11.1
New loan loss provisions/average customer loans	0.4	0.3	0.1	0.3	0.3
Net charge-offs/average customer loans	0.2	0.2	0.2	0.3	0.4
Gross nonperforming assets/customer loans + other real estate owned	1.3	1.3	1.3	1.5	2.5
Loan loss reserves/gross nonperforming assets	130.7	129.4	113.4	112.2	82.9

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

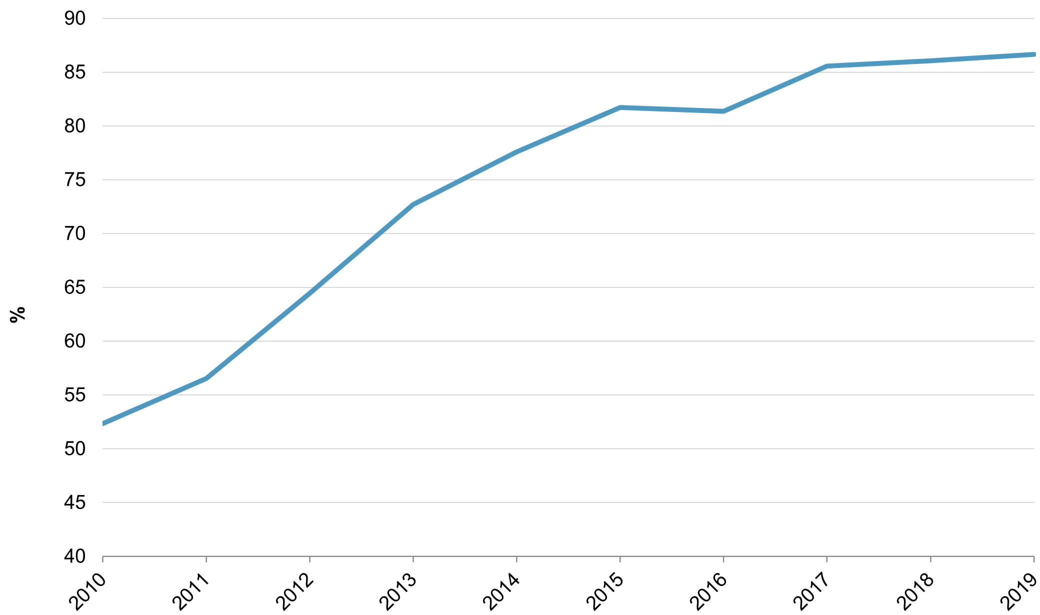
We view RCI's funding as weaker than that of large and diverse French banks and its liquidity as neutral for the rating.

RCI's predominantly wholesale-funded profile is a weakness, in our view. This is in line with most consumer finance entities we rate in Europe. RCI's ratio of customer loans (net) to customer deposits stood at 278% at end-2019, well above the average of about 113% for large French banks. Still, this has continually improved over the past decade.

The bank has been diversifying its funding sources, including the collection of deposits (France, Germany, Austria, the U.K., and Brazil since March 2019) and lengthening its maturities (four seven-year senior unsecured issuances were made in 2016-2017 and one eight-year senior unsecured issuance in 2018), giving more flexibility and options in the event of market turbulence. RCI has also issued a €850 million Tier 2 hybrid instrument in November 2019. 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 87% at end-2019 from 52% in 2010. We expect this ratio to continue to grow moderately in 2020 and 2021. Uncertainty surrounding Renault group's strategy and governance has not altered RCI's access to funding nor translated into material higher funding costs at this stage.

Chart 4

RCI Banque's Stable Funding Ratio



Source: S&P Global Ratings.

We believe RCI will maintain the share of retail customer deposits to net loans at more than one-third (38% as of end-2019), even if market conditions are back to pre-COVID-19 crisis levels, 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. Indeed, under stressed conditions where access to market funding would be closed, the liquidity reserve computed by RCI would allow it to cover its stressed outflows during approximately 12 months while maintaining a flat balance sheet.

RCI's ratio of broad liquid assets to short-term wholesale funding stood at 44% at end-2019, below that of the large French banks, where ratios tend to be above 100%. However, it increases to 107% if we take into account committed credit lines (€4.5 billion).

This, along with 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. Overall. RCI's assets are funded with longer-dated liabilities.

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 6

RCI Banque--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	38.0	37.1	37.6	36.2	34.8
Customer loans (net)/customer deposits	278.5	283.4	279.4	291.2	293.9
Long-term funding ratio	87.1	85.7	86.3	82.4	80.1
Stable funding ratio	86.7	86.1	85.6	81.4	81.7
Short-term wholesale funding/funding base	14.3	15.9	15.2	19.5	22.1
Broad liquid assets/short-term wholesale funding (x)	0.4	0.4	0.4	0.3	0.4
Net broad liquid assets/short-term customer deposits	(25.0)	(28.3)	(28.6)	(46.8)	(50.5)
Short-term wholesale funding/total wholesale funding	23.1	25.3	24.4	30.5	33.8
Narrow liquid assets/3-month wholesale funding (x)	1.4	1.2	1.1	0.7	0.8

Support: Core and insulated subsidiary of Renault

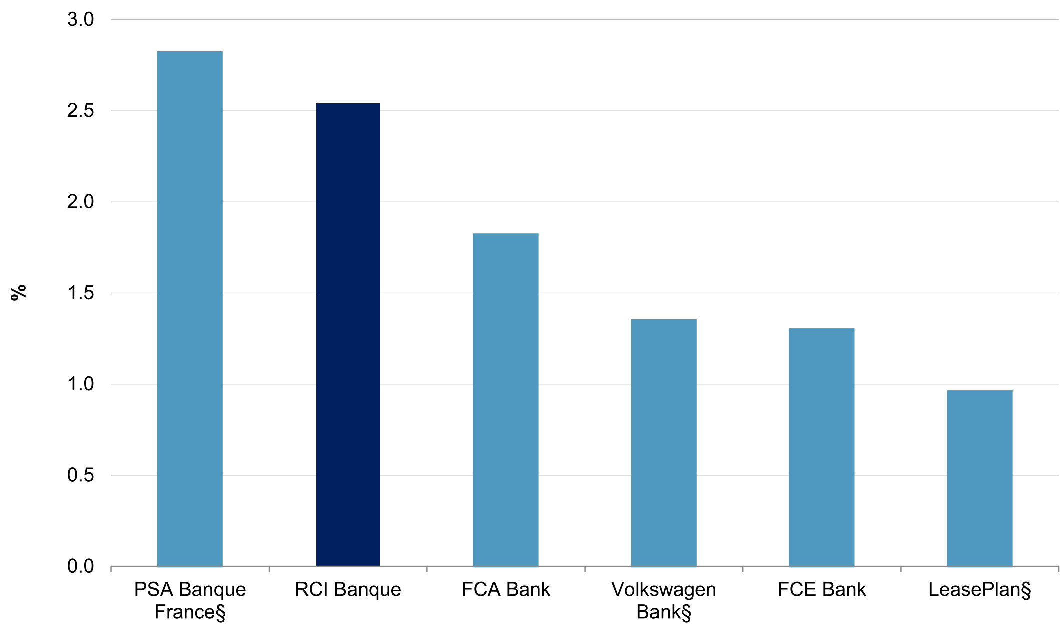
We believe RCI is insulated from its 100% owner, Renault, due to France's favorable insolvency laws and its regulated status as a bank, supervised by the European Central Bank and the French regulator. This means that there is limited capacity for the parent to repatriate cash flows outside the regulatory perimeter, a high degree of operational independence, and total funding independence. Therefore, we rate the bank above its parent and allow a rating differential of up to two notches, a level that is now reached.

We incorporate one notch of uplift above the 'bbb-' stand-alone credit profile (SACP) to reflect RCI's outperformance of similarly rated peers over a long cycle, particularly capital generation capabilities and risk-adjusted operating performance. We view RCI's earnings buffer--defined as the capacity for operating earnings to cover normalized losses--as strong, exceeding 2% of our risk-weighted assets over time; this is strong for a bank operating in relatively low-risk countries. We expect this buffer to remain firmly above 2% in the next two years despite challenges from the COVID-19 pandemic.

While we think that RCI's business model and name affiliation will not fully shield the bank from developments in the auto sector and Renault-specific challenges, we note that it is entering this uncertain environment on a strong footing. We expect its solid earnings capacity, low cost-to-income ratio and relatively low 2020 refinancing needs to allow RCI to maintain a strong earnings buffer while navigating through the crisis.

Chart 5

Earnings Buffers As Of End-2019



Source: S&P Global Ratings. §Data as of end-2018 for PSA Banque France, FCA Bank, Volkswagen Bank and LeasePlan. 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.

Environmental, Social And Governance

At this stage, we do not see ESG credit factors for RCI Banque influencing the bank's credit quality more positively, or negatively, than peers. Still, over time, environmental and governance factors will have to be monitored, due the ownership structure (linked to its parent Renault) and the car-finance business model.

Like any carmaker, environmental considerations are important for Renault, especially due to its large share of volume sales in Europe (52% in 2019). In order to meet the EU's 2020/2021 CO_2 emissions target of around 93g/km for its average car fleet in Europe, compared with 112g/km in 2018, Renault is stepping up its efforts to electrify its portfolio and will constrain, at least temporarily, Renault's operating profitability and free cash flow generation due to the associated R&D costs and capex. In the context of transitioning to a greener economy, RCI Banque is an important asset to support the electric and electrified vehicles sales of the group. As such, RCI increased its financing of electric new and used vehicles by 46% and we expect it to increase by 50% in 2020. We note, though, that the sustainability of RCI's business model partly hinges on Renault's capacity to manage its energy transition.

Management and governance do not specifically influence, positively or negatively, RCI's credit profile. Still, the group as a whole has recently suffered from turnover of top management, notably since Mr. Ghosn's arrest, which is likely to pose some uncertainty about the successful execution of the company's strategy. We will continue to monitor how managerial, and potential strategic changes, might affect RCI's activities and creditworthiness going forward.

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

- General Criteria: Group Rating Methodology, July 1, 2019
- 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: 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

- Q&A: COVID-19 And The Auto Industry--What's Next?, June 9, 2020
- RCI Banque 'BBB/A-2' Ratings Affirmed Despite Renault Downgrade; Outlook Remains Negative, April 10, 2020
- French Automaker Renault Downgraded To 'BB+/B' On Weaker Metrics Due To COVID-19; Outlook Negative, April 9, 2020
- COVID-19 Will Batter Global Auto Sales And Credit Quality, March 23, 2020
- RCI Banque 'BBB/A-2' Ratings Affirmed Despite Renault CreditWatch Negative Placement; Outlook Negative, Feb. 20, 2020
- RCI Banque, Aug. 22, 2019

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 July 9, 2020)*

RCI Banque	
Issuer Credit Rating	BBB/Negative/A-2
Commercial Paper	A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB
Issuer Credit Ratings History	
26-Feb-2019	BBB/Negative/A-2
27-May-2016	BBB/Stable/A-2
25-Oct-2012	BBB/Negative/A-2
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
DIAC S.A.	
Issuer Credit Rating	BBB/Negative/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
RCI Banque Sucursal Argentina	
Issuer Credit Rating	
Argentina National Scale	raBBB-/Negative/raA-3
Renault S.A.	
Issuer Credit Rating	BB+/Negative/B
Commercial Paper	
Local Currency	B
Senior Unsecured	BB+
Short-Term Debt	B

Ratings Detail (As Of July 9, 2020)*(cont.)

*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.