

## CREDIT OPINION

17 August 2023

Update

Send Your Feedback

### RATINGS

#### RCI Banque

Domicile	Paris, France
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## RCI Banque

Update following rating upgrade

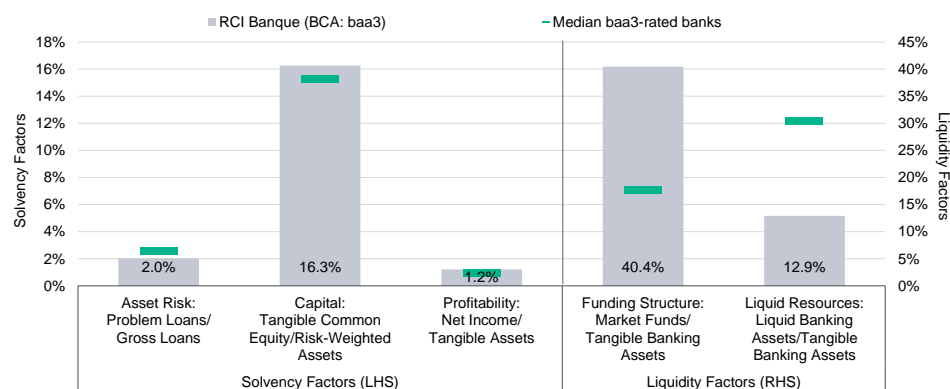
### Summary

[RCI Banque](#) (RCI)'s Baa1 long-term deposit and senior unsecured debt ratings reflect (1) the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of baa3; and (2) two notches of uplift under our Advanced Loss Given Failure (LGF) analysis, stemming from the large volume of senior unsecured long-term debt resulting in a very low expected loss rate on these instruments.

RCI's baa3 BCA reflects both the bank's strategic role for its parent [Renault S.A.](#) (Renault, Ba1 stable) and its sound financial fundamentals, including moderate asset risk, capitalization which is commensurate with its risk profile, and good, albeit slightly declining, profitability. At the same time, the BCA is constrained by the bank's lack of business diversification and exposures to car dealers, while we factor in RCI's high reliance on confidence-sensitive wholesale funding.

Exhibit 1

### Rating scorecard- Key financial ratios



Scorecard values as of year-end 2022

Source: Moody's Financial Metrics

## Credit strengths

- » RCI is essential to its parent's strategy.
- » The bank's asset risk is moderate.
- » Capitalisation is commensurate with the bank's risk profile.
- » RCI has maintained sound profitability through the credit cycle.
- » The bank has limited refinancing risk, an increasing deposit base and an adequate liquidity buffer.

## Credit challenges

- » RCI's risk profile remains high mainly because of its captive status and lack of business diversification.
- » The car market is cyclical.
- » The bank has some credit concentration vis-à-vis car dealers.
- » The bank relies on wholesale funding to a significant degree.

## Outlook

The stable outlook on RCI's long-term deposit and senior unsecured ratings is underpinned by our expectation that RCI will maintain its sound capitalization and stable profitability over the outlook period, while asset quality deterioration will remain contained. It also results from the stable outlook of Renault's rating, reflecting the intrinsic linkages between both companies.

## Factors that could lead to an upgrade

- » RCI's BCA could be upgraded in case of the occurrence of both (i) higher profitability and contained asset risk, and stable capital base, and (ii) an upgrade of its parent Renault. An upgrade of RCI's BCA would likely result in an upgrade of its long-term debt and deposit ratings.

## Factors that could lead to a downgrade

- » Owing to the intrinsic interlinkages between the captive and its automotive parent, RCI's ratings are highly dependent on the creditworthiness of Renault. Therefore, a downgrade of Renault would likely result in a similar action on RCI's ratings. A downgrade of RCI's ratings could also result from a substantial deterioration in the bank's asset quality and profitability. A substantial reduction in outstanding senior unsecured debt could lead to a higher expected loss on this instrument, and in turn would prompt a lower rating.

## Key indicators

Exhibit 2

### RCI Banque (Consolidated Financials) [1]

	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (EUR Million)	60,424.0	56,236.0	58,886.0	58,080.0	53,394.0	3.1 <sup>4</sup>
Total Assets (USD Million)	64,487.3	63,721.3	72,050.3	65,194.7	61,037.1	1.4 <sup>4</sup>
Tangible Common Equity (EUR Million)	5,929.0	6,033.0	6,194.0	5,599.0	5,192.0	3.4 <sup>4</sup>
Tangible Common Equity (USD Million)	6,327.7	6,836.0	7,578.7	6,284.9	5,935.2	1.6 <sup>4</sup>
Problem Loans / Gross Loans (%)	2.0	2.3	1.6	1.3	1.3	1.7 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	16.3	18.1	17.8	16.0	16.3	16.9 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.6	14.9	10.6	10.4	10.4	12.2 <sup>5</sup>

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Net Interest Margin (%)	2.2	2.1	2.2	2.6	2.7	2.4 <sup>5</sup>
PPI / Average RWA (%)	4.0	3.6	3.9	4.5	4.4	4.1 <sup>6</sup>
Net Income / Tangible Assets (%)	1.2	1.5	1.4	1.6	1.7	1.5 <sup>5</sup>
Cost / Income Ratio (%)	31.5	31.5	30.7	28.8	29.8	30.5 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	40.4	42.7	45.6	51.5	54.0	46.8 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	12.9	15.4	15.2	6.7	7.0	11.4 <sup>5</sup>
Gross Loans / Due to Customers (%)	200.8	210.9	226.2	283.2	288.2	241.9 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

## Profile

RCI is a captive finance company and a wholly owned subsidiary of the French auto manufacturer Renault. The bank provides sales financing for Renault Group's brands (Renault, Dacia, Alpine and Renault Korea Motors) worldwide and for Nissan Group's brands (Nissan, Infiniti, Datsun) mainly in Europe and South America. In the Netherlands, the bank finances Mitsubishi Motors. It also operates through joint ventures in India. As of June 2023, the bank operated in 34 countries, divided into four major world regions: Europe, the Americas, Africa-Middle-East-India and Pacific, and Eurasia.

Because RCI is chartered as a bank, it has to comply with all the European regulations: Capital Requirements Directive (CRD5), Capital Requirements Regulation (CRR2), Bank Recovery and Resolution Directive (BRRD2), among others. The bank has been supervised by the European Central Bank since January 2016 because it is considered a "Significant Institution", given the size of its balance sheet.

RCI's financing penetration rate<sup>1</sup> was 43.3% at end June 2023, and its consolidated balance sheet size was €62.7 billion as of the same date.

## Detailed credit considerations

### RCI is a key vehicle for the strategy of its industrial parent, Renault

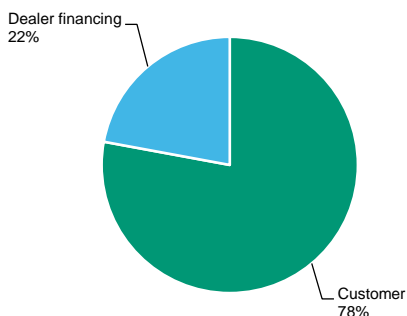
RCI is a wholly owned captive finance company that supports the sales of the Renault/Nissan Alliance by offering financing solutions to retail customers and corporate clients (78% of total net outstanding financing, see Exhibit 3) as well as loans to dealers to help them finance their inventories and activities (22% of total net outstanding financing, see Exhibit 3).

Leasing outstanding amounts represent exposure to retail and corporate customers only, i.e. exclude the dealers network. These are almost exclusively finance leases (38% of outstanding customer portfolio) and, to a much lesser extent, operating leases (just 4% of outstanding customer portfolio, see Exhibit 4).

Exhibit 3

**Financing portfolio is mostly focused on retail and corporate customers....**

Breakdown by business segment, in % of total outstanding financing

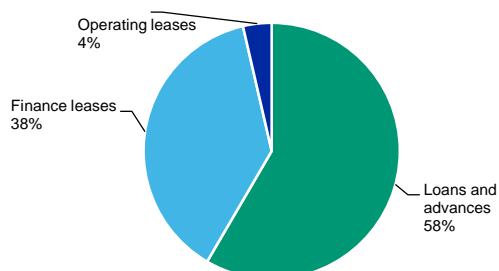


Source: RCI Banque's Investor presentation, Moody's Investors Service

Exhibit 4

**...with a significant proportion of leasing contracts among financing solutions to customers**

Breakdown by product, in % of total outstanding Customer portfolio (i.e. excluding Dealer financing)



Source: RCI Banque's Investor presentation, Moody's Investors Service

Ancillary products and services, such as insurance, warranty extensions and maintenance contracts, have been developed over the years to improve customer loyalty and boost profitability. While these services are an integral part of RCI's financing and mobility offering, we believe they do not enhance the bank's diversification, which remains mainly focused on existing customers of the Renault-Nissan Alliance car brands.

**Asset risks are moderate despite high concentrations**

In normal circumstances, we consider that asset risks at RCI are moderate because of the collateralised nature of its exposures and overall benign asset quality metrics. The problem loan ratio of the bank is contained, standing at 2% at end June 2023, stable compared to end 2022. The portfolio is well provisioned, with loan loss reserves accounting for 55% of exposures in default.

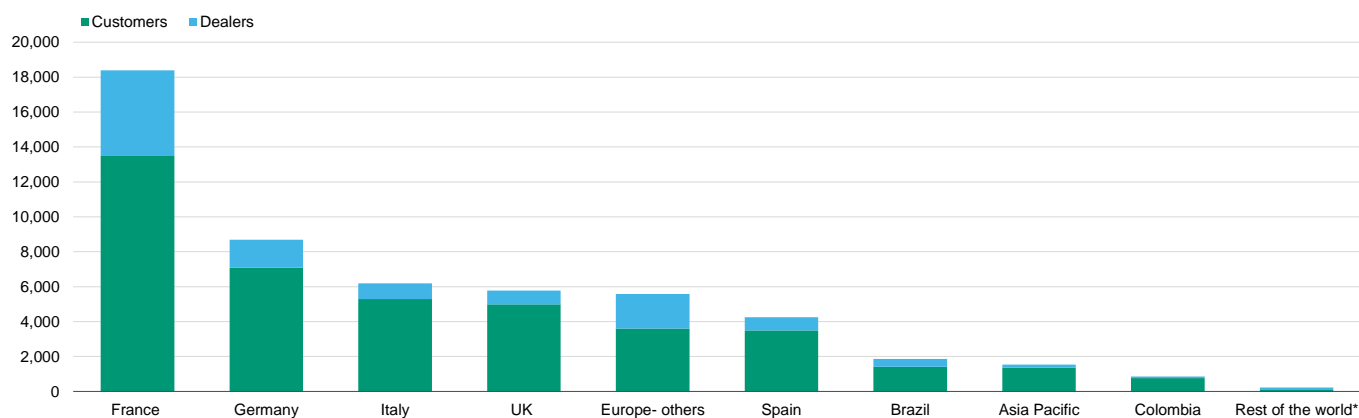
However, credit risk concentration in car dealers distribution network of the Renault-Nissan Alliance is high and represented around 22% of the bank's loan book as of the end of June 2023. We believe this exposure may be a source of risk given the degree of correlation among car dealers' performance, particularly during a downturn. Positively, this segment has historically represented rather low asset risks due to the highly collateralized exposures and the fast asset rotation, allowing RCI to reduce the exposure quickly in case of a deterioration of the dealer's financial situation. NPL ratios in this segment are very low (0.4% of outstanding loans at end June 2023), losses on receivables written-off have been limited and rather stable in proportion of average dealer outstanding (0 basis points in June 2023, 11 bps in 2022, 3 bps in 2021), while the coverage ratio<sup>2</sup> remains adequate, standing at 41.2% of defaulted dealers receivables.

Given that the bulk of the residual value risk on lease operations is borne by its parent company and dealers, the direct residual value risk of RCI was limited to €3.02 billion as of June 2023 (€2.51 billion as of 2022 year-end), essentially stemming from its leasing business in the UK. As RCI intends to develop used vehicle financing, subscription and operating lease offers, the residual value exposure is expected to increase. We consider that this increasing risk is mitigated by the bank's multi-brand fleet and its proven track record of residual value management.

All these factors are reflected in our assigned score of baa2 for asset quality.

Exhibit 5

### Loan book breakdown by geography in June 2023 End-user customers and car dealers net assets (€ millions)



Source: RCI Banque's Investor presentation, Moody's Investors Service

### Capitalisation is commensurate with the bank's risk profile

RCI reported a fully loaded Common Equity Tier 1 (CET1) capital ratio of 14% as of June 2023 vs 14.5% as of 2022 year-end. The bank's CET1 ratio remains well above the CET1 regulatory requirement of 10.73%.<sup>3</sup> The CET1 ratio had increased to 17.3% at end 2020 due to the ban on dividends decided by the ECB during the Covid pandemic. RCI has since then resumed its flexible dividend payout policy, whereby dividend payments are high (€800 million paid in 2022, equating to a 92% pay-out ratio), but can be reduced to support loan growth and preserve the distance to the regulatory minimum. We believe the bank's economic solvency remains adequate, given its risk profile, and expect the capital level of the bank to remain consistent with our assigned Capital score of a2.

### RCI has maintained sound profitability despite the cyclical nature of the car market

RCI has consistently generated comfortable net banking income exceeding 4% of average performing assets over the last five years (4.2% in 2022), supported by several factors.

- » The resilience of the bank's net interest income stems from its profitable car-financing activities including packaged products such as leasing associated with ancillary services, which are less price sensitive than plain vanilla loans, and contained funding costs.
- » The number of service contracts sold per vehicle has been progressively increasing hence gradually improving the services margin (as % of average customer assets).
- » The relatively long-term tenure of the car-financing contracts mitigates to some extent the effects of the car market cycles and reduces income volatility.

Profitability has nonetheless declined in the first half of 2023 (net banking income amounted to 3.9% of average performing assets), due to the impact of interest rate swaps hedging sight deposits, which are recognized at market value, in a context of rising interest rates. The sharp increase in refinancing costs since the second half of 2022 will take time to be fully passed on to customers because of both competitive pressure and already high charges incurred by customers, but this will be slightly offset by an expected increase in lending volumes.

RCI displays sound cost efficiency, with a cost-to-income ratio of around 37% in the first half of 2023. This strong cost efficiency reflects the fact that the bank benefits from various services provided by Renault and the network of car dealers (for example, distribution channels), as well as from the group's marketing initiatives.

The bank's cost of risk decreased to 0.38% of average performing assets in the first half of 2023 (from 0.49% in the first half of 2022), but we expect it to deteriorate compared to the historically-low level given the economic downturn.

These factors are reflected in our assigned profitability score of baa1.

### RCI relies on wholesale funding, a credit weakness, partly mitigated by its limited refinancing risk, increasing deposit base and adequate liquidity buffer

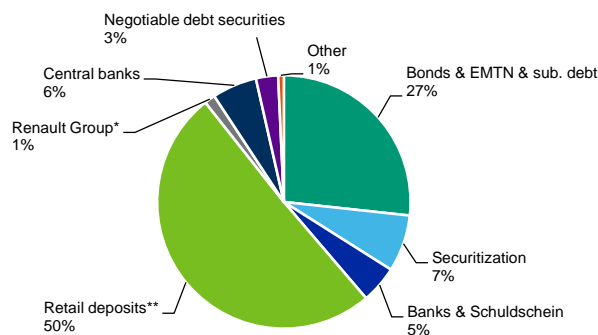
Wholesale funding represented approximately 47% of the bank's total funding as of June 2023. While the share of wholesale funding has materially reduced since RCI started collecting internet deposits from retail customers in 2012 (currently accounting for around 50% of financial liabilities), we still consider that RCI is vulnerable to sudden changes in confidence. Restricted market access could lead to higher funding costs, which would constrain loan origination. This would harm RCI's franchise and ultimately reduce its earnings, particularly if funding constraints were to coincide with higher loan impairments. Our assigned Combined Liquidity score of ba2 reflects this relative weakness.

RCI's reliance on wholesale funding is however mitigated by its efforts to finance its loan book with longer-term liabilities, resulting in little refinancing risk. The bank also has a comfortable liquidity buffer of €13.3 billion as of June 2023 to bridge any mismatches or temporary market access restrictions. This buffer was almost 28% composed of high-quality liquid assets (HQLA) and 38% of ECB-eligible assets. The bank receives very limited funding from Renault. RCI claims that it would be able to maintain its commercial business activity during 12 months without access to external funding.

The bank has been able to issue debt of various maturities and in different currencies in the markets in the past couple of years. We also acknowledge the geographical diversification of the resources and investors. The bank still has a sizeable pool of assets that could be securitized and used for central bank refinancing in a stress scenario.

Exhibit 6

#### Funding sources as percentage of total funding (€52.7 billion), as of June-end 2023



\*of which 700m EUR deposit granted as collateral to offset credit exposure on Renault owned dealers

\*\*of which €18.71bn (35.5%) sight deposits, €7.97bn (15.1%) in term deposits

Source: Moody's Investors Service, RCI Banque's investors presentation

## ESG considerations

### RCI Banque's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7

#### ESG Credit Impact Score

# CIS-3

## Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.



Source: Moody's Investors Service

RCI's **CIS-3** indicates limited impact of ESG considerations on the ratings to date, with potential for greater negative impact over time, mainly due to high environmental and social risks. The environmental risk is driven by the exposure of its lending product to the decarbonization of the economy, similar to the exposure of its ultimate automotive parent. RCI also faces high social risks primarily reflecting the exposure of its parent Renault S.A. to societal trends and shifts in customer demand and transportation preferences.

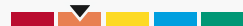
Exhibit 8

#### ESG Issuer Profile Scores

ENVIRONMENTAL

# E-4

## Highly Negative



SOCIAL

# S-4

## Highly Negative



GOVERNANCE

# G-2

## Neutral-to-Low



Source: Moody's Investors Service

### Environmental

RCI faces high environmental risks due to its role as a facilitator of sales for its parent. RCI's high carbon transition risk is consistent with the global auto manufacturing sector because of stricter environmental regulation and the trend towards low and zero emission vehicles.

### Social

RCI faces high social risks, in line with other retail consumer-focused banks. Thus, it is exposed to fines and reputational damage due to product mis-selling or other types of misconduct. High cyber and personal data risks are also key considerations as more applications are submitted online. RCI's key product is auto financing, the demand for which is subject to societal trends like higher adoption of mass transportation and heightened environmental awareness and is highly correlated to the ability of its parent to meet consumers' demand.

### Governance

RCI faces low governance risks, given the limited reliance of its funding and liquidity on the parent. The bank has well-developed risk management and governance practices in place, in line with industry practices. RCI's score for board structure, policies and procedures is aligned with that of Renault, given RCI's strategic importance to its parent. The bank is a regulated and supervised entity, which mitigates risks from limited board independence.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Affiliate support

We believe RCI benefits from a high probability of support from its parent, Renault. This view is underpinned by the bank's strategic importance to the car manufacturer. The bank is a wholly owned subsidiary of Renault and is fully integrated into its strategy. The bank finances around 45% of the new vehicles registered by Renault Group's brands, which highlights the critical importance of a financial captive as a means to facilitating car sales. The bank also plays a critical role for Renault through the financing of its dealer network.

To date, RCI's ratings have not benefited from any affiliate support uplift from Renault because Renault's rating (Ba1 Stable) is lower than the bank's baa3 BCA.

### Loss Given Failure (LGF) analysis

Our Advanced LGF analysis applies to RCI, given that the bank is subject to an operational resolution regime under the Bank Recovery and Resolution Directive (BRRD), which was transposed into French law on 20 August 2015.

In accordance with our methodology, we apply our LGF analysis, taking into consideration the risks faced by the different debt and deposit classes across the liability structure should the bank be put in resolution. We assume a residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior deposits and a 5% runoff in preferred deposits, and assign a 25% probability to junior deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

In addition, we apply a proportion of 10% of deposits considered junior, given that the deposit base is predominantly comprised of online retail deposits.

Under these assumptions, RCI's deposits and senior unsecured debt are likely to face a very low Loss Given Failure because of the loss absorption provided by the large amount of senior unsecured debt. This results in a two-notch LGF uplift from the adjusted BCA of baa3 for both deposits and senior unsecured debt.

### Government support

We expect a low probability of government support for debt and deposits, resulting in no uplift for both the long-term deposits and senior unsecured debt issued by the bank.

### Counterparty Risk (CR) Assessment

#### RCI's CR Assessment is A3(cr)/Prime-2(cr)

The CR Assessment, before government support, is positioned three notches above the Adjusted BCA of baa3, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments, amounting to 28.6% of tangible banking assets. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than the expected loss; therefore, we focus purely on subordination and take no account of the volume of the instrument class.

### Counterparty Risk Ratings (CRRs)

#### RCI's CRRs are A3/Prime-2

The CRRs for RCI, before government support, are positioned three notches higher than the Adjusted BCA of baa3, based on the level of subordination to CRR liabilities in the bank's balance sheet, and assuming a nominal volume of such liabilities.



## Rating methodology and scorecard factors

Exhibit 9

### RCI Banque

<b>Macro Factors</b>						
<b>Weighted Macro Profile</b>		<b>Strong</b>	<b>100%</b>			
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.0%	a3	↔	baa2	Sector concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.3%	aa3	↔	a2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.2%	baa1	↔	baa1	Earnings quality	Expected trend
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	40.4%	b1	↔	b1	Extent of market funding reliance	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.9%	ba1	↔	baa3	Access to committed facilities	
Combined Liquidity Score		ba3		ba2		
Financial Profile						
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				baa2 - ba1		
Assigned BCA				baa3		
Affiliate Support notching				-		
Adjusted BCA				baa3		
<b>Balance Sheet</b>						
		<b>in-scope (EUR Million)</b>	<b>% in-scope</b>	<b>at-failure (EUR Million)</b>	<b>% at-failure</b>	
Other liabilities		14,974	271%	16,825	30.5%	
Deposits		26,440	47.9%	24,589	44.5%	
Preferred deposits		23,796	43.1%	22,606	40.9%	
Junior deposits		2,644	4.8%	1,983	3.6%	
Senior unsecured bank debt		11,286	20.4%	11,286	20.4%	
Dated subordinated bank debt		850	1.5%	850	1.5%	
Junior subordinated bank debt		14	0.0%	14	0.0%	
Equity		1,657	3.0%	1,657	3.0%	
Total Tangible Banking Assets		55,220	100.0%	55,220	100.0%	

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	28.6%	28.6%	28.6%	28.6%	3	3	3	3	0	a3
Counterparty Risk Assessment	28.6%	28.6%	28.6%	28.6%	3	3	3	3	0	a3 (cr)
Deposits	28.6%	4.6%	28.6%	25.0%	2	3	2	2	0	baa1
Senior unsecured bank debt	28.6%	4.6%	25.0%	4.6%	2	2	2	2	0	baa1
Dated subordinated bank debt	4.6%	3.0%	4.6%	3.0%	-1	-1	-1	-1	0	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	2	0	baa1	0	Baa1	Baa1
Dated subordinated bank debt	-1	0	ba1	0	Ba1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 10

Category	Moody's Rating
<b>RCI BANQUE</b>	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	Baa1
Subordinate -Dom Curr	Ba1
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2
<b>PARENT: RENAULT S.A.</b>	
Outlook	Stable
Corporate Family Rating	Ba1
Senior Unsecured -Dom Curr	Ba1
Commercial Paper -Dom Curr	NP
Other Short Term -Dom Curr	(P)NP
<b>RCI BANQUE SUCURSAL ARGENTINA</b>	
Outlook	Stable
Issuer Rating -Dom Curr	Caa1

Source: Moody's Investors Service

## Endnotes

- 1 The penetration rate represents the percentage of cars sold by Renault for which RCI Banque provided financing to the client.
- 2 Provisions on non-performing loans, in %.
- 3 This is composed of 4.5% of regulatory minimum, 1.13% of Pillar 2 SREP requirement, a capital conservation buffer of 2.5% and 0.42% of countercyclical capital buffer, the latter is expected to increase to 0.52% by year end 2023.

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