S&P Global
Ratings

RatingsDirect®

RCI Banque

Primary Credit Analyst:
Mathieu Plait, Paris + 33 14 420 7364; mathieu.plait@spglobal.com

Secondary Contact:
Nicolas Malaterre, Paris + 33 14 420 7324; nicolas.malaterre@spglobal.com

Research Contributor:
Divyang Jain, Mumbai; Divyang.Jain@spglobal.com

Table Of Contents

Ratings Score Snapshot

Credit Highlights

Outlook

Key Metrics

Anchor: 'bbb', Lower Than Pure French Domestic Banks Given Geographic Diversification In Higher Risk Countries

Business Position: Good Franchise In European Captive Auto Finance, And Slightly More Diverse, Stable, And Profitable Than Most Peers

Capital And Earnings: Strong Capitalization, Stable And Robust Earnings, Low Returns Volatility

Risk Position: Moderate Risk Overall, But Concentration In Auto Dealers Remains High

Funding And Liquidity: A Weaker Funding Profile Than Larger Diversified Banks, Mitigated By Conservative Liquidity Management

Table Of Contents (cont.)

External Support: Core And Insulated Subsidiary Of Renault

Additional Rating Factors: None

Environmental, Social, And Governance

Group Structure, Rated Subsidiaries, And Hybrids

Key Statistics

Related Criteria

Related Research

RCI Banque

Ratings Score Snapshot

Issuer Credit Rating
BBB-/Stable/A-3

SACP: bbb- → **Support: 0** → **Additional factors: 0**

Anchor	bbb	
Business position	Moderate	-1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB-/Stable/A-3

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Strong and recurring risk-adjusted profitability, despite the weak auto cycle.	Still a significant reliance on wholesale funding.
A regulated bank insulated from its corporate parent.	Business concentration in car financing and concentration in dealer exposures.
Strong capitalization.	Dependence on parent's franchise and product cycles.

RCI Banque's profitability remains strong, despite the weak autocycle induced by pandemic-related restrictions and supply shortages, and should remain resilient to the adverse implications of the current macro environment. The bank has strong fundamentals, with one of the industry's lowest cost-to-income ratios of 31% in 2021, and a return on average common equity (ROAE) of 13.6% in the same year--one of the highest among auto-captive peers and European banks. We expect the bank will experience limited fallout from the adverse implications of the current macro environment (inflation, rising interest rates, supply chain disruptions, sluggish growth in Europe, and the Russia-Ukraine military conflict) and note that it has fully provisioned (€101.4 million) its equity investment in the Russian joint venture (JV; RN Bank) at the end of June 2022. Its remaining exposure relates to its equity investment in RNL Leasing, amounting to a marginal amount of about €2 million.

S&P Global Ratings sees the bank's relative high dependence on wholesale funding as a relative weakness compared to larger and more diversified banks. The dependence comes despite an increase in deposit funding. This is in line with most consumer finance entities we rate in Europe. The bank is fully owned by Renault S.A. and does not benefit from funding from any banking owners, whereas most peers do under joint-venture operating models.

RCI is geographically diversified, but its business model is concentrated. The starting point for assigning our rating on the bank is the 'bbb' anchor, which is lower than that on purely domestic banks and reflects RCI's meaningful geographic diversification across Europe and in countries such as Brazil with, on average, higher economic risks than those we perceive for France. We see RCI's concentration in car financing and in dealer exposures as a weakness compared with banks with more diversified activities. This is similar to our assessment of other European auto-captive finance companies, although RCI's superior profitability versus peers' (including entities with a similar starting point) benefits the assessment.

Outlook

The stable outlook on RCI incorporates our view that the bank's financial risk profile will remain strong, with steady risk-adjusted profitability and continued conservative capital management over the next two years. Furthermore, a downgrade of Renault (BB/Negative/B) would not automatically entail a similar rating action on RCI.

Downside scenario

We could downgrade the bank if Renault's creditworthiness comes under further material pressure and RCI is unable to maintain its strong financial risk profile. In particular, we could consider a downgrade if the bank's capitalization is no longer a strength, with risk-adjusted capital (RAC) falling sustainably below 10%, or if contagion risks from Renault start affecting RCI's access to debt markets or cost of funding.

Upside scenario

An upgrade could happen only if Renault's creditworthiness doesn't deteriorate further. To raise our long-term rating on the bank, we would need to revise the SACP upward. A higher SACP would require a material change in RCI's geographic breakdown, in favor of lower economic risk countries, or if we positively change our view of the economic risks to which RCI is currently exposed and the bank maintains superior risk-adjusted profitability compared to peers. Although remote, we could consider a higher SACP if RCI's capital and funding strategy fundamentally shifts and strengthens.

Key Metrics

RCI Banque--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	(6.6)	(6.7)	(0.4)-(0.5)	2.5-3.1	3.2-3.9
Growth in customer loans	(7.5)	(4.6)	1.8-2.2	2.7-3.3	3.6-4.4
Growth in total assets	1.4	(4.5)	1.6-2.0	2.4-2.9	3.2-3.9

RCI Banque--Key Ratios And Forecasts (cont.)					
	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Net interest income/average earning assets (NIM)	2.4	2.3	2.2-2.5	2.2-2.5	2.2-2.5
Cost to income ratio	30.3	31.2	31.8-33.4	31.6-33.2	31.1-32.7
Return on average common equity	13.2	13.6	12.0-13.3	14.1-15.6	14.8-16.3
Return on assets	1.4	1.5	1.2-1.5	1.3-1.6	1.3-1.6
New loan loss provisions/average customer loans	0.7	0.1	0.4-0.5	0.3-0.3	0.3-0.3
Gross nonperforming assets/customer loans	1.6	2.3	2.4-2.7	1.9-2.2	1.7-1.9
Net charge-offs/average customer loans	0.2	0.2	0.5-0.5	0.4-0.4	0.4-0.4
Risk-adjusted capital ratio	14.4	12.3	12.0-12.6	11.6-12.2	11.2-11.8

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb', Lower Than Pure French Domestic Banks Given Geographic Diversification In Higher Risk Countries

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 lower compared with a domestic bank operating in France ('bbb+').

RCI is a geographically diversified bank, with around 35% of its exposure in France at June 2022. To determine the appropriate economic risk for a bank active in many jurisdictions, we use a blend of its exposures. RCI has exposure in lower-risk countries like Germany (16%); and in higher-risk ones like Italy (12%), the U.K. (10%), Spain (8%), Brazil (4%), Africa, Middle East, India, and Pacific (4%) and the rest of the world (11%) at June 2022. This results in a weighted-average economic risk score for RCI of close to '4' compared with a domestically focused bank, which would have an economic risk of '3'. We do not foresee a material change in RCI's geographic breakdown in the coming 12 months that would change the weighted economic risk to '3' from '4' but it cannot be excluded. Indeed, if the bank exits some countries where we see high economic risks or its exposure to lower economic risk countries increases faster than in other countries, we could revise the anchor. This could also happen if we positively change our view on the economic risks where RCI is exposed. We have a stable trend on France's economic risk, but in July 2022 we revised to negative our trend for Germany's economic risk, an important market for the bank. This reflects our view that economic risks for the German economy are increasing given its substantial exposure to energy sources from Russia, which makes it vulnerable to a potential gas shutdown. We also have a stable trend, versus positive previously, for Italy's economic risk.

RCI is domiciled and regulated in France. The trigger of a weaker anchor was due to the revision of France's industry risk to '4' from '3' in June 2021. The bank is wholesale-funded but benefits from access to deep capital markets and from liquidity support from the European Central Bank if needed. Even though RCI does not have a 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 a decent price. Still, it is facing intense competition in the auto loans market where all large universal banks are active via their consumer finance subsidiaries. The auto market is also suffering from supply shortages induced by the pandemic and the Russia-Ukraine conflict. Asset margins remain wide, although under some pressure, but net margins are still sensitive to cost of funding that typically fluctuates more for wholesale-funded entities.

Business Position: Good Franchise In European Captive Auto Finance, And Slightly More Diverse, Stable, And Profitable Than Most Peers

Our moderate assessment of RCI's business position is constrained by the bank's concentration in auto finance but benefits from good geographic diversification with a solid penetration rate (46% as of December 2021, +180 bps versus 2019 before the health crisis) for sales of the Renault-Nissan-Mitsubishi Alliance brands, excluding Lada for which the penetration rate is below 5%. The penetration rate was down 1.5 points compared to 2020, due to a refocus on the most profitable financing channels. Indeed, the transfer of short-term rental activities, for which the penetration rate was close to 80%, to Mobilize negatively affected the overall penetration rate but on a like-for-like basis it continues to increase. RCI's credit production is correlated with auto sales but its financial performance is stronger and less volatile than Renault's (chart 1) because of its pricing power and the recurring nature of the annuity-like interest received from loans and leases. The bank has been resilient in the face of current auto sector pressure and supply disruptions--as its good year-end 2021 and first-half 2022 results show. It reported a net income before minority interest of €846 million in 2021 (up 9% from 2020) and €333 million in first-half 2022, including a €101.4 million one-off provision on the equity investment in the Russian JV (RN Bank). Still, we believe RCI's business model and name affiliation cannot fully shield the bank from further negative developments in the auto sector and Renault-specific challenges given that Russia was one of its most important markets. A lastingly depressed auto cycle and further supply shortages could weigh on revenue, as could Renault's inability to adapt to rapidly changing customer preferences (such as demand for more eco-friendly cars).

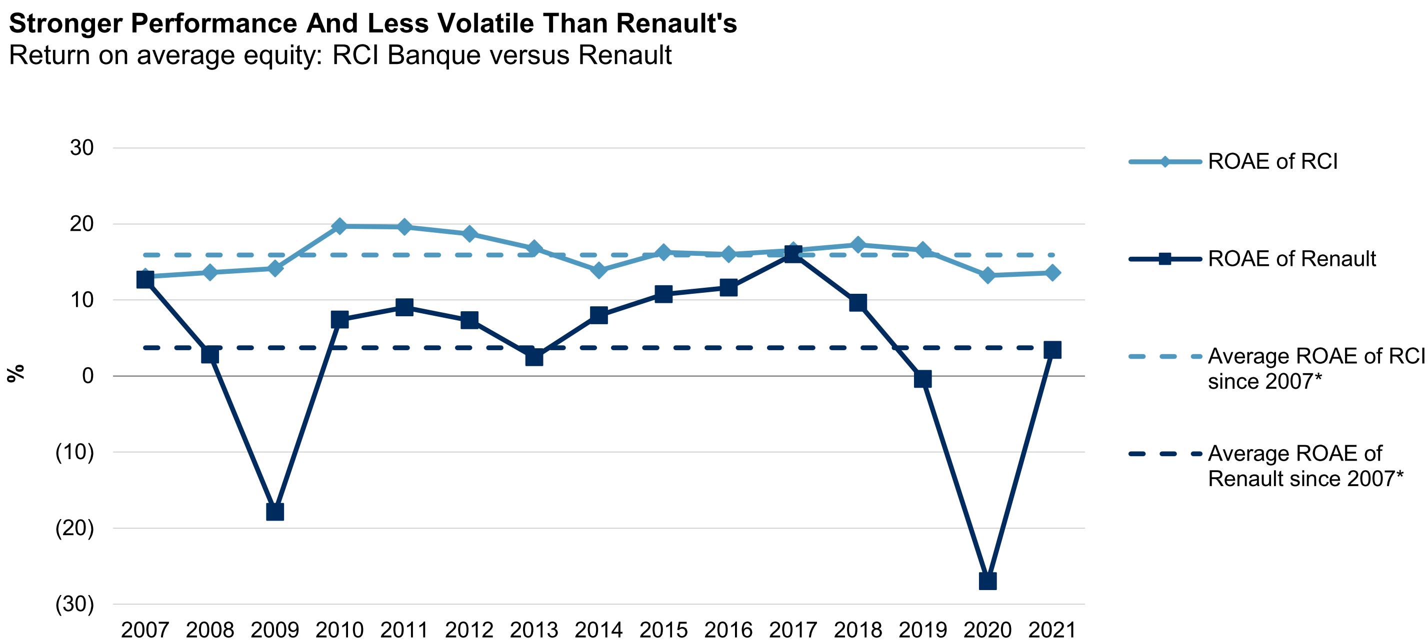
Renault wholly owns RCI, which mainly acts as a captive finance arm for the Renault-Nissan-Mitsubishi alliance brands: Renault, Dacia, Renault Samsung Motors, Nissan, Infiniti, Datsun, Mitsubishi, Lada, and Alpine. The bank supports the alliance's sales in Europe, Latin America, North Africa, South Korea, and India. The alliance is mainly present in Europe, with the region representing about one-fifth of the alliance's total unit sales and 49% for Renault as of end-2021. RCI's coverage of multiple brands and its international presence (nine brands in 36 countries, with the largest country, France, representing around one-third of loan exposures) bring some stability to its business. We expect the bank will continue expanding its activities internationally, either by entering new markets or developing some of its overseas operations. We note that RCI's exposure to Russia was mainly its equity investment in RN Bank, a self-funded JV in which it holds 30% of the economic interest and is consolidated by the equity method. The bank has now entirely provisioned this exposure.

RCI is instrumental in supporting Renault's energy transition by offering very competitive financing products to clients willing to acquire or rent more eco-friendly vehicles. As result, the new financing of electric new and used vehicles increased by 30%, reaching more than 7% of total new financing in 2021, and we believe it will continue to increase steadily by more than 15% annually in the coming two years. While offering preferential interest rates could negatively weigh on its overall margin, we believe this is manageable and note that it benefits from a system of compensation by the car manufacturer. Therefore we believe it will barely affect its profitability in the next two years.

RCI's profitability remains high and among the best in class in Europe and peers, with an ROAE at 13.57%, based on our measure at year-end 2021 (13.22% in 2020)--a little lower than pre-pandemic. 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 31.22% at end-2021 and unlikely to change much in the coming two years.

Competition from traditional banks in auto finance also keeps intensifying, with a push toward retail customers in addition to fleet financing for corporates, their core customer base.

Chart 1



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

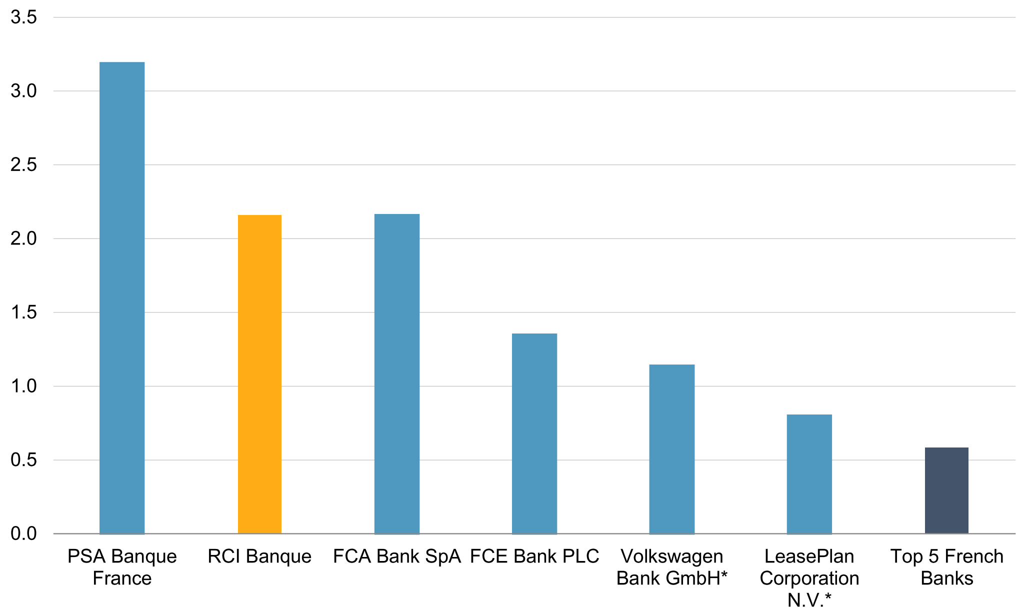
The bank was rebranded RCI Bank and Services in February 2016 (RCI Banque previously: still the legal name) and Mobilize Financial Services in May 2022 to emphasize its push into services and leasing activities, from a pure car loans provider. The bank provides financing solutions to retail customers, 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 their own. It also collects retail deposits online. This has provided the bank revenue and profit stability and, to some extent, shielded it from Renault's fortunes.

The share of operating noninterest income has continued to increase, reaching 36.75% of operating revenue in 2021 (35% in 2020) from 20% in 2014, according to our calculation. RCI recently acquired Bipi and a minority stake in Heycar (multi-brand platforms) to accelerate its development in digital capabilities and build strategic dealership partnerships. The platforms' activities are all related to car subscriptions and sales of used cars. Revenue from these services should help RCI increase its income from fee-based products.

RCI's outperformance, compared with similar rated peers, can be seen over a long cycle, particularly capital generation capabilities and risk-adjusted operating performance. We view the bank's earnings buffer--defined as the capacity for operating earnings to cover normalized losses--as strong, substantially exceeding 2% of our risk-weighted assets; 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.

Chart 2

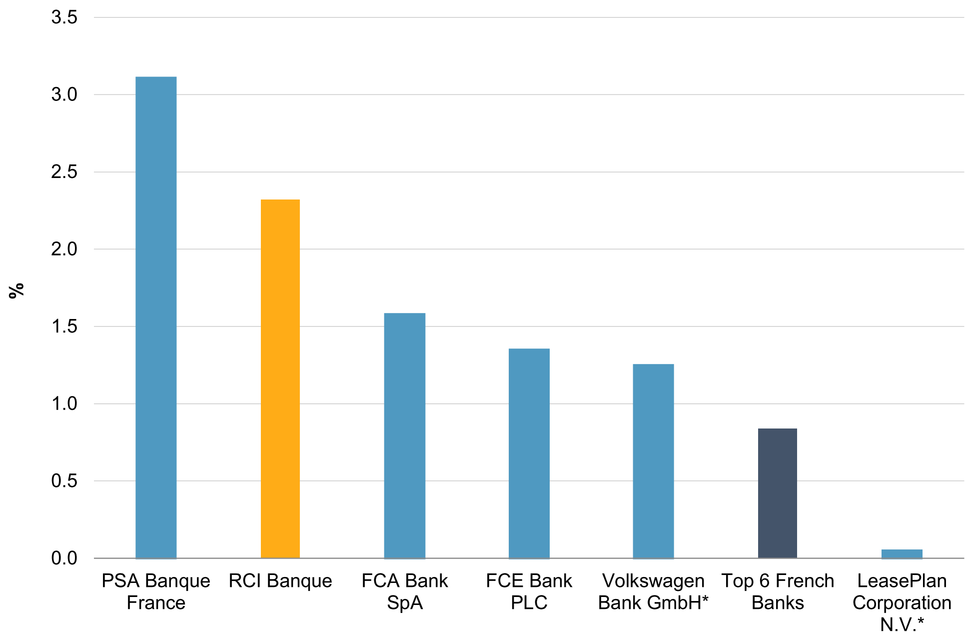
A Strong Performance Among Its Peers
Core earnings/ S&P RWA (before diversification) versus peers at end-2021



*Data as of end-2020. RWA--Risk-weighted asset. Source: S&P Global Ratings.

Chart 3

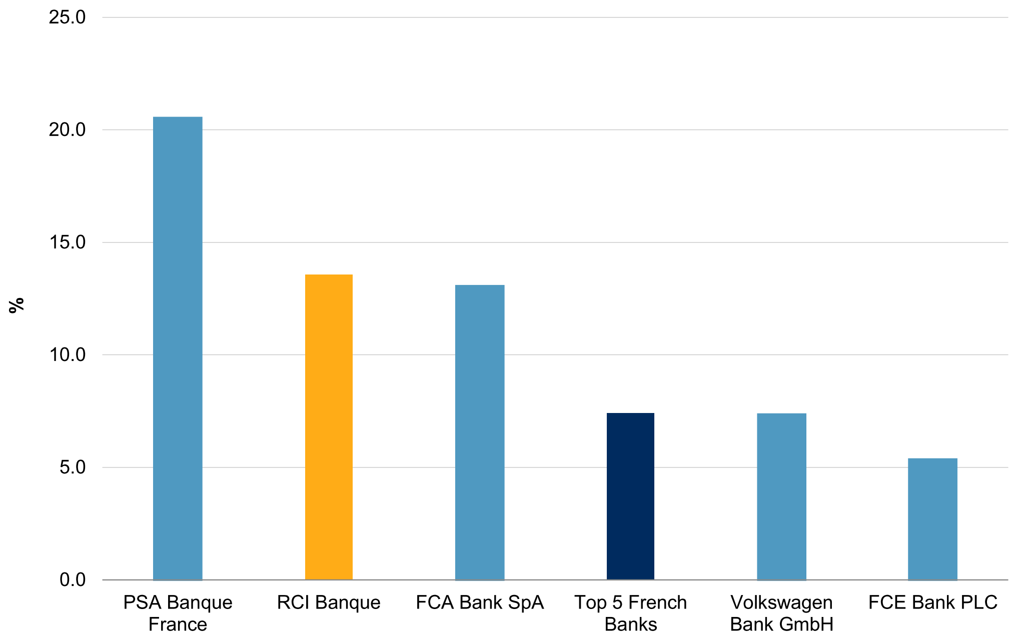
RCI Banque Has Material Earnings Buffer Compared With Peers
Normalized operating income/S&P Global Ratings RWA as of year-end 2021



*Data as of end-2020. RWA--Risk-weighted asset. Source: S&P Global Ratings.

Chart 4

Profitability Is Among The Best In Class
Return on average equity versus peers as of end-2021



Source: S&P Global Ratings.

RCI is pursuing its ambitions to consolidate and optimize its business model by maintaining high profitability, applying strict control of its structural costs, and making the best possible use of its main sources of financing and its capital. To this end, the bank has chosen to steer its profitability using return on risk-weighted assets--calculated as profit after tax divided by average risk-weighted assets, a standard indicator in the banking industry that measures a bank's profitability in relation to its risk-weighted assets--and aims to achieve a minimum of at least 1.9%. In 2021 the ratio was 2.48%, versus 2.21% in 2020.

RCI is the only auto-captive bank in Europe with a moderate business position assessment. Its size, geographic diversification, and superior and stable profitability support our view. This also considers its 'bbb' anchor, which is lower than a typical domestic French bank and lower than some of its direct peers such as Volkswagen Bank and PSA Banque France; we assess the business positions of these latter banks as more concentrated.

Capital And Earnings: Strong Capitalization, Stable And Robust Earnings, Low Returns Volatility

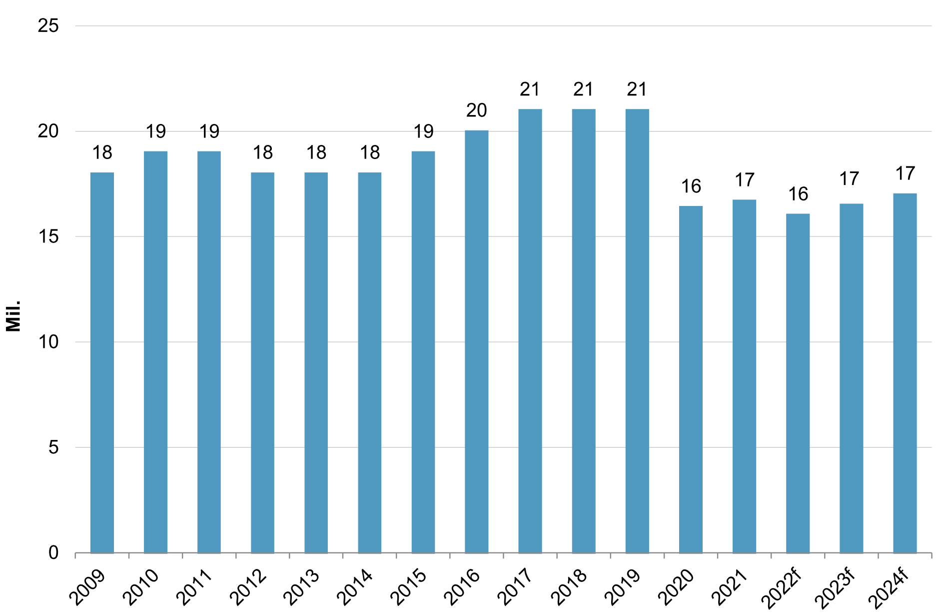
Our capital and earnings assessment supports our rating on RCI. We believe the bank's superior risk-adjusted profitability and flexible dividend policy will enable it to maintain strong capitalization despite the adverse implications of the current macro environment (inflation, rising interest rates, supply chain disruptions, sluggish growth in Europe, and the military conflict between Russia-Ukraine).

We forecast RCI's RAC ratio will remain 11.25%-11.75% in the next two years. The decrease in our RAC ratio at end-2021 to 12.3% from 14.4% at end-2020 is explained by an exceptional distribution in 2021 of reserves of €931 million when the dividend restrictions were lifted and an €800 million dividend distributed on 2021 net income in 2022 (which we deduct from our total adjusted capital).

The bank's capitalization, measured under our RAC framework, compares favorably with that of French universal banks, which tend to be 7%-10%, and is in line with captive-finance peers who are typically 10%-15%. We view risk as limited considering RCI's high profitability, its flexible dividend policy, its willingness to keep a strong capital base, and our expectation of modest loan book growth of 2% in 2022 and 3% and 4% respectively in 2023 and 2024, mainly due to challenging economic environment and supply chain challenges. Our loan book projections assume that European car sales will decrease by 3%-5% in Europe in 2022 and then increase moderately by 2%-4% in 2023 and 2024. We expect the bank's loan book to grow a bit more than car sales because of a normalization of dealers' exposures and a continuous increase in penetration rates and average amounts financed.

Chart 5

Volume Decline In 2022, With A Gradual Slow Recovery Thereafter
Global light vehicle sales per market (in million units)



f--Forecast. Source: S&P Global Ratings.

Our RAC ratio of 12.3% for RCI as of Dec. 31, 2021, is lower than the regulatory ratio (common equity tier 1 ratio: 14.8% at end 2021 and 14.7% at end of June 2022). This is mainly because of the bank's use of the internal ratings-based method (70% of net exposures at end-2021) and our risk weights, which tend to be more punitive than Basel's standardized approach to risk weights in countries with higher economic risk.

We do not expect the bank's regulatory capital ratio to be affected by the implementation of the Basel IV reforms.

Until 2009, RCI's pay-out ratio was high at 95%. It then decreased to 35%-45% in 2013-2014 and zero in 2016 and 2017, two years of brisk loan growth. In 2018 and 2019, the pay-out ratio was 19% and 57%, respectively, and it paid a dividend of €800 million in 2022 on the 2021 net income. This led to a pay-out ratio of 92%. We believe RCI will distribute close to 90%-100% of its net income in the next few years.

We consider RCI's TAC of €4.99 billion, the numerator of our RAC ratio, high-quality because it only comprises common equity.

We also consider the bank's earnings high quality. At end-2021, RCI posted one of the lowest cost-to-income ratios (31.2%) among the European captive peers and our rated European banks, reflecting its low cost base and effective cost controls, which we expect will continue. We do not expect a material shift in this ratio despite the inflationary environment. The bank has also historically displayed little returns volatility, especially in comparison with Renault. Finally, RCI's earnings provide a significant buffer against losses, which in our view will remain at similar levels in 2022 and 2023. To assess profitability over the cycle we compare preprovision income with normalized losses, such as those calculated based on the through-the-cycle annual loss rates we expect for a given class of exposure (chart 3). Therefore, RCI's pre-provision income was 3.9x higher than our calculated normalized losses at year-end 2021, much higher than for 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.

Risk Position: Moderate Risk Overall, But Concentration In Auto Dealers Remains High

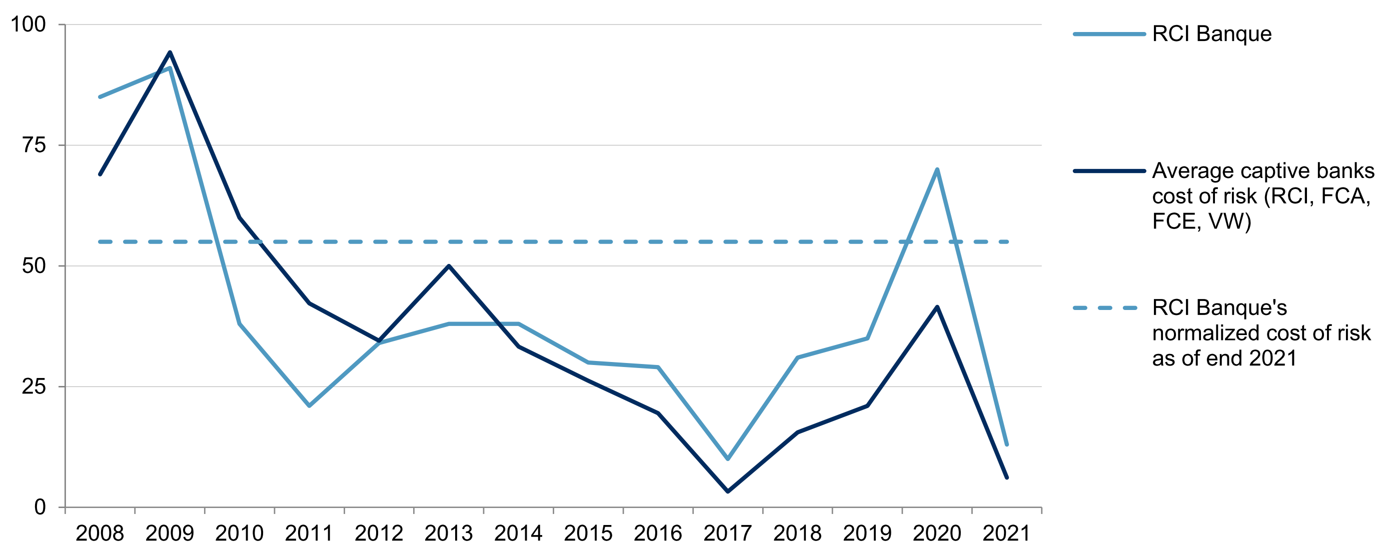
We assess RCI's risk position as neutral for the rating, balancing the low-risk nature of its exposure with its high concentration in auto dealers. Our view of low credit risk is based on the collateralized nature of the bank's credit exposure. We also believe our RAC ratio adequately captures the risks to which the bank is exposed. We therefore do not further adjust the rating via our risk position assessment.

RCI has had a track record of low credit losses since 2010, below 40 bps, due to the bank's more stringent origination criteria after the 2008 financial crisis. An exceptional year given the pandemic-related global slowdown, in 2020 RCI's cost of risk, based on our own calculation, doubled to 70 bps from 35 bps in 2019. In 2021, cost of risk was one of the lowest of the last five years at 13 bps because €117 million of provisions was released on performing loans amid economic recovery from the pandemic. We expect the ratio to increase to about 45 bps in 2022 mainly due to the €101.4 million provision already booked at the end of June on its equity investment in the Russian JV (RN Bank) and the current challenging economic environment, before normalizing to a pre-pandemic level of about 35 bps in 2023 and 2024. Overall, it has been in line with rated peers (chart 6) but we acknowledge that RCI has a conservative credit provisioning policy. The normalized cost of risk (average losses over a long period) that we calculate for RCI's exposures is at about 55 bps. We also note that RCI's strong profitability provides a significant buffer to absorb losses, with preprovision operating income to net customer loans of 279 bps at end-2021.

RCI's nonperforming loans (NPLs) stood at 1.58% at end-2021 and we believe they will peak at about 2.50% in 2022 before normalizing to below 1.80% by 2024. The cost of risk and NPLs could be higher than expected depending on the severity of the economic consequences of the Russia-Ukraine conflict but, considering the short maturity of its loan book, we believe it will be manageable.

Chart 6

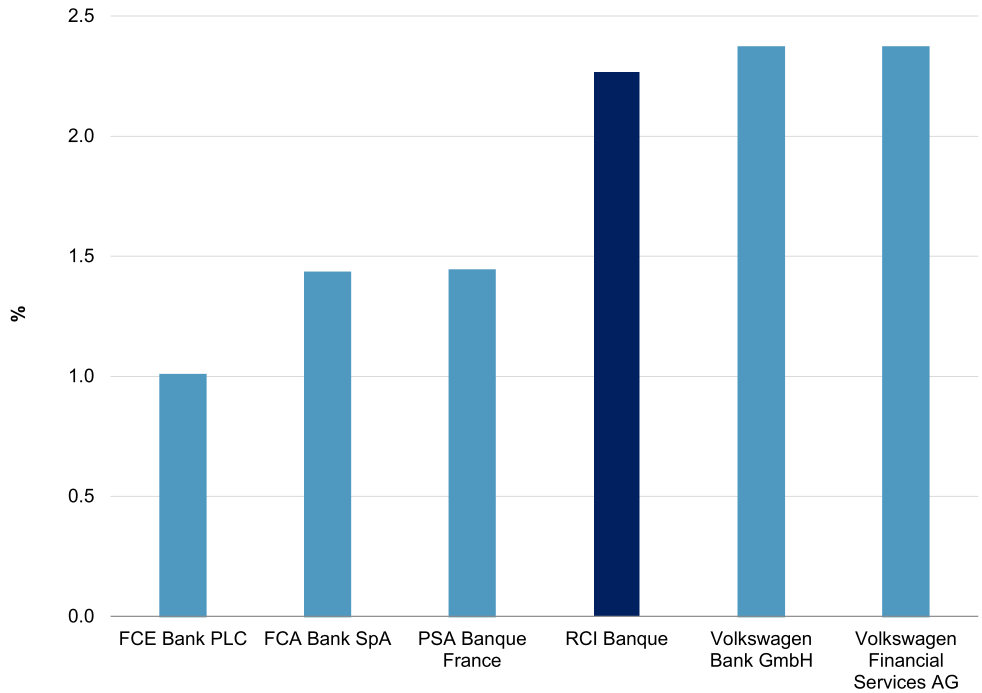
RCI Banques's Cost of Risk Versus Direct Peers



Source: S&P Global Ratings.

Chart 7

Nonperforming Loans/Customer Loans Versus Peers As Of End-2021



Source: S&P Global Ratings.

RCI has significant exposure to car dealers, mostly in France, which have been materially affected by the pandemic and related containment measures. That said, we saw an improvement in these exposures in 2021 with the reopening and recovery of the economy, leading to a reversal of €18 million of provisions (€4 million on NPLs and €14 million on performing loans). They represented about 15% of the loan book as of June 2021, down from 23% in 2019, mainly due to supply shortages. We will continue to closely monitor this exposure and any rise in risks especially as dealers are bearing the residual value risks. The dealers were eligible for the French government's help during the pandemic, which somewhat alleviated pressure on their credit quality. Historically, the cost of risk related to auto dealers has been much lower than for individual customers and we do not observe any rise yet in NPLs (0.9% in December 2021 compared with 0.9% in June 2021). Still, the exposure is much less granular, so cost of risk is sensitive to the credit quality deterioration of some large names. Positively, the exposure is short term and highly collateralized (such as cars and spare parts). Overall, 95% of exposures to dealers is collateralized.

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, the 20-largest corporate exposures excluding Renault and 20-largest dealer exposures account for 53% and about 45% of total adjusted capital, respectively, which remains manageable.

We view RCI's geographic diversification as broadly 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 might correlate somewhat.

RCI is directly exposed to the risk of residual values mainly in the U.K. This exposure amounted to €2.1 billion as of December 2021, equivalent to 3.5% of credit risk exposures. In other countries, especially in France, RCI is only indirectly exposed to this risk because dealers or Renault carry it. RCI intends to launch new products including operational leases with residual value risk borne by the bank, so we expect it to increase but not materially. As of December 2021, the residual value exposures amounted to €2.1 billion. We believe this will not increase beyond €5 billion in the next two years. The impact of the current supply shortages on residual values is difficult to assess. We will monitor this along with the residual value of electric vehicles for which there is little track record and which we believe could be affected by rapid evolving technologies.

Like most banks, RCI is subject to interest rate risk in the banking book. We view this as very limited, however, 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 €70 million by RCI policies (6% of 2021 net interest income).

Funding And Liquidity: A Weaker Funding Profile Than Larger Diversified Banks, Mitigated By Conservative Liquidity Management

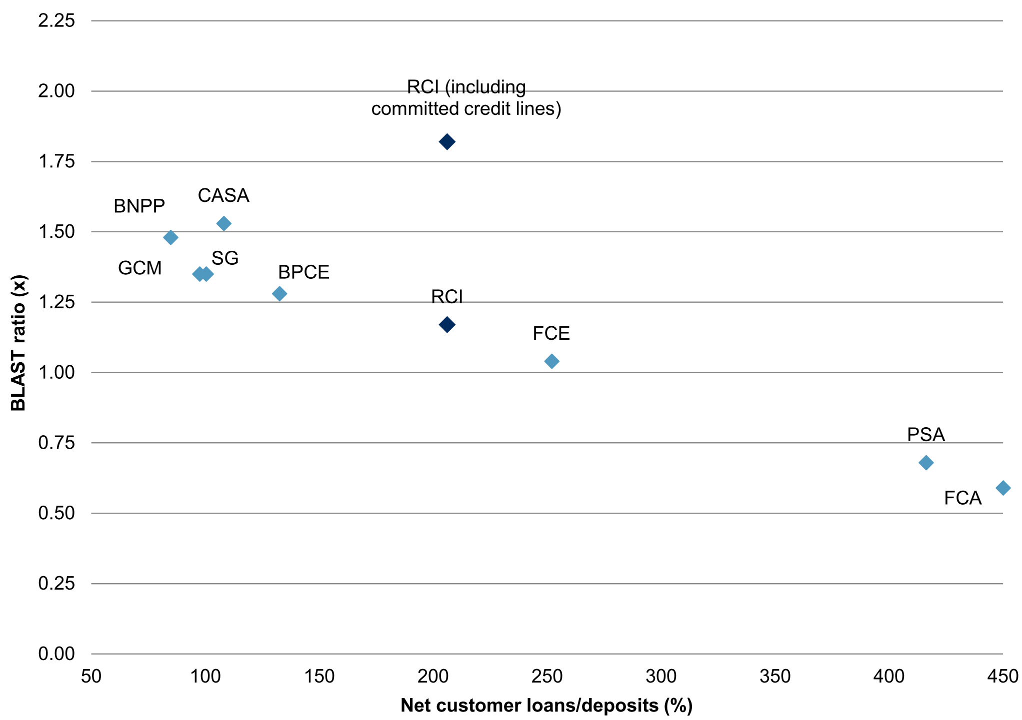
We view RCI's funding as weaker than that of large and diverse French banks and its liquidity as neutral for the ratings.

RCI's predominantly wholesale-funded profile is a relative weakness, in our view. This is in line with that of most consumer finance entities we rate in Europe. The bank's ratio of customer loans (net) to customer deposits stood at 206% at end- 2021, well above the average of about 105% for large French banks. Still, this has improved continuously over the past decade. Its NSFR stood at 131% as of December 2021.

The bank has been diversifying its funding sources, including the collection of deposits (France, Germany, Austria, the U.K., Brazil, Spain since 2020, and the Netherlands since July 2021) and lengthening its maturities (bonds with maturity greater than five years increased to 10% in 2021 from 7% in 2015), giving more flexibility and options in the event of market turbulence. RCI has also issued bonds in local markets via its local subsidiaries (South Korea, Argentina, Brazil, Morocco, and Colombia). Reflecting RCI's deposit-gathering effort over the past few years and the absence of large maturity mismatches, our stable funding ratio improved to 95% at end-2021 from 52% in 2010. We expect this ratio to remain broadly stable in the next two years. Renault's recent challenges have not altered RCI's access to funding nor translated into material higher funding costs.

Chart 8

RCI Banque's Funding And Liquidity Ratios Versus Peers As Of End-2021



BLAST--Broad liquid assets over short-term funding. Source: S&P Global Ratings.

We believe RCI will maintain the share of retail customer deposits to net loans slightly above 40% (49% as of end-2021), because they represent a source of funding whose cost is less volatile than that from capital markets and would partially shield the bank from an increase in market funding costs and preserve its margins.

We view RCI's liquidity as neutral for the ratings, reflecting our view that the bank is prepared to manage its liquidity and 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 for more than 11 months while maintaining a flat balance sheet at June 2022.

RCI's ratio of broad liquid assets to short-term wholesale funding stood at 117% at end-2021, below the large French banks whose ratios tend to be closer to 140%. However, it increases to 182% if we consider committed credit lines (€4.3 billion). Its LCR ratio stood at 525% as of December 2021, far above the minimum regulatory requirement. This, along with RCI's ability to rely on loan inflows to repay its debts more than a traditional commercial bank could, informs our adequate liquidity assessment. Auto loans have much shorter maturities (up to four years) than mortgages, which would support quick deleveraging. Overall, the bank'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.

External 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 complete funding independence. Therefore, we rate the bank above its parent and allow a rating differential of up to two notches. RCI is currently rated one notch above Renault, meaning that there is one notch of headroom in the ratings on RCI, all else remaining equal. Therefore, a downgrade of Renault by one notch would not automatically lead to a downgrade of RCI.

Additional Rating Factors: None

No additional factors affect this rating.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We do not see ESG credit factors influencing RCI's credit quality more positively, or negatively, than peers. Still, 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. A profitable energy transition at the group level might be more challenging than for peers because Renault mainly competes in the volume segment. Despite the group's experience with electric technologies, it will be difficult to maintain R&D and capex close to 10% of sales. In the context of the transition to a greener economy, RCI is an important asset to support the group's electric and electrified vehicles sales. It increased its financing of new and used electric vehicles by 30% in 2021 and we expect this to increase by more than 15% annually in the coming two years. However, the sustainability of the bank's business model partly relies on Renault's capacity to manage its energy transition.

Management and governance do not specifically influence, positively or negatively, RCI's credit profile.

Group Structure, Rated Subsidiaries, And Hybrids

DIAC: Core subsidiary

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

Key Statistics

Table 1

RCI Banque--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2022***	**2021**	**2020**	**2019**	**2018**
Adjusted assets	55,943.0	56,076.0	58,800.0	57,990.0	53,304.0
Customer loans (gross)	47,281.0	46,470.0	48,726.0	52,691.0	48,367.0
Adjusted common equity	5,557.0	4,992.0	5,911.0	4,992.0	4,912.0
Operating revenues	924.0	1,845.0	1,977.0	2,117.0	1,951.0
Noninterest expenses	345.0	576.0	600.0	603.0	575.0
Core earnings	349.0	878.0	816.0	944.0	898.0

*Half year results.

Table 2

RCI Banque--Business Position

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (mil. €)	926.0	1,857.0	1,983.0	2,125.0	1,961.0
Commercial banking/total revenues from business line	23.5	16.8	19.7	22.0	21.4
Retail banking/total revenues from business line	86.0	81.6	78.9	76.6	77.1
Commercial and retail banking/total revenues from business line	109.5	98.4	98.6	98.6	98.4
Other revenues/total revenues from business line	(9.5)	1.6	1.4	1.4	1.6
Return on average common equity	11.0	13.6	13.2	16.6	17.3

*Half year results.

Table 3

RCI Banque--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	14.7	14.8	17.3	14.4	15.5
S&P Global Ratings' RAC ratio before diversification	N/A	12.3	14.4	10.9	11.4
S&P Global Ratings' RAC ratio after diversification	N/A	13.3	16.0	12.2	12.6
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	65.0	63.3	65.0	68.6	71.4
Fee income/operating revenues	21.0	19.4	18.2	17.5	17.0
Market-sensitive income/operating revenues	7.0	0.0	(0.1)	0.8	(1.8)

Table 3

RCI Banque--Capital And Earnings (cont.)

	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Cost to income ratio	37.3	31.2	30.4	28.5	29.5
Preprovision operating income/average assets	2.1	2.2	2.4	2.7	2.7
Core earnings/average managed assets	1.2	1.5	1.4	1.7	1.7

*Half year results. RAC--Risk-adjusted capital. N/A--Not applicable.

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	7,703.2	39.9	0.5	110.2	1.4
Of which regional governments and local authorities	35.0	7.0	20.0	1.3	3.6
Institutions and CCPs	1,872.5	612.8	32.7	678.7	36.2
Corporate	11,820.1	8,340.3	70.6	9,180.7	77.7
Retail	35,276.8	17,559.0	49.8	23,257.5	65.9
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†	2,777.2	2,172.9	78.2	3,746.1	134.9
Total credit risk	59,449.9	28,724.9	48.3	36,973.1	62.2
Credit valuation adjustment					
Total credit valuation adjustment	--	254.0	--	0.0	--
Market risk					
Equity in the banking book	35.6	35.6	100.0	312.1	875.9
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	35.6	--	312.1	--
Operational risk					
Total operational risk	--	3,500.0	--	3,386.8	--
	Exposure	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	33,419.5	--	40,672.0	100.0
Total diversification/ Concentration adjustments	--	--	--	(3,206.3)	(7.9)
RWA after diversification	--	33,419.5	--	37,465.8	92.1
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		4,932.4	14.8	4,992.0	12.3
Capital ratio after adjustments‡		4,932.4	14.8	4,992.0	13.3

Table 4

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

*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, 2021, S&P Global Ratings.

Table 5

RCI Banque--Risk Position

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	3.5	(4.6)	(7.5)	8.9	7.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(7.9)	(9.9)	(10.7)	(10.1)
Total managed assets/adjusted common equity (x)	10.1	11.3	10.0	11.6	10.9
New loan loss provisions/average customer loans	0.5	0.1	0.7	0.4	0.3
Net charge-offs/average customer loans	0.3	0.3	0.2	0.2	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.2	2.3	1.6	1.3	1.3
Loan loss reserves/gross nonperforming assets	108.1	99.9	141.0	130.7	129.4

*Half year results. RWA--Risk-weighted asset. N/A--Not applicable.

Table 6

RCI Banque--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	48.4	47.3	44.0	38.0	37.1
Customer loans (net)/customer deposits	204.3	206.2	221.2	278.5	283.4
Long-term funding ratio	85.3	87.5	86.2	87.1	85.7
Stable funding ratio	90.4	95.3	93.9	86.7	86.1
Short-term wholesale funding/funding base	16.5	14.2	15.6	14.3	15.9
Regulatory net stable funding ratio	N/A	132.0	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	0.8	1.2	1.1	0.4	0.4
Net broad liquid assets/short-term customer deposits	(6.2)	6.1	2.5	(25.0)	(28.3)
Regulatory liquidity coverage ratio (LCR) (x)	N/A	524.8	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	31.9	26.9	27.8	23.1	25.3
Narrow liquid assets/3-month wholesale funding (x)	3.2	3.4	3.3	1.4	1.2

*Half year results. N/A--Not applicable.

RCI Banque--Rating Component Scores

Issuer Credit Rating	**BBB-/Stable/A-3**
SACP	bbb-
Anchor	bbb
Economic risk	4
Industry risk	4
Business position	Moderate
Capital and earnings	Strong

RCI Banque--Rating Component Scores (cont.)	
Issuer Credit Rating	**BBB-/Stable/A-3**
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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 | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Related Research

- Economic Research: A Eurozone Slowdown Is For Sure; Recession Is Less Certain, July 19, 2022
- Industry Top Trends Update: Autos EMEA, July 14, 2022
- Economic Research: Economic Outlook Eurozone Q3 2022: Inflation Dulls The Post-COVID Bounce, June 27, 2022
- Bulletin: Uncertainty On Renault's Russian Disengagement Is Balanced By Still Solid Demand And Pricing Conditions, April 26, 2022
- Research Update: French Automaker Renault Affirmed At 'BB+'; Outlook Still Negative On Delayed Recovery Of Credit Metrics, March 29, 2022
- Global Auto Sales Forecasts: Russia-Ukraine Conflict Imperils Recovery, March 22, 2022
- Ratings On 12 French Banks Affirmed Under Revised Criteria For Financial Institutions, Feb. 02, 2022

Ratings Detail (As Of September 1, 2022)*	
RCI Banque	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Local Currency	A-3
Senior Unsecured	BBB-
Short-Term Debt	A-3
Subordinated	BB
Issuer Credit Ratings History	
24-Jun-2021	BBB-/Stable/A-3
26-Feb-2019	BBB/Negative/A-2
27-May-2016	BBB/Stable/A-2
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
DIAC S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Local Currency	A-3
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

*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.