MOODY'S
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Credit Opinion: RCI Banque

Global Credit Research - 17 Jan 2014

Noisy-le-Grand, France

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa3/P-3
Bank Financial Strength	D+
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Senior Unsecured	Baa3
Subordinate -Dom Curr	Ba1
Commercial Paper	P-3
Other Short Term -Dom Curr	(P)P-3
Parent: Renault S.A.	
Outlook	Stable
Corporate Family Rating	Ba1
Senior Unsecured	Ba1
Commercial Paper -Dom Curr	NP
Other Short Term -Dom Curr	(P)NP
Companhia de Cr., Financ. e Invest. RCI BR	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba1
Issuer Rating -Dom Curr	Ba1
NSR Issuer Rating -Dom Curr	Aa1.br
RCI Banque Sucursal Argentina	
Outlook	Stable
Issuer Rating -Dom Curr	Ba3

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Key Indicators

RCI Banque (Consolidated Financials)[1]

	[2]6-13	[2]12-12	[2]12-11	[2]12-10	[2]12-09	Avg.
Total Assets (EUR million)	29,333.0	28,767.0	27,105.0	24,110.0	24,245.0	[3]4.9
Total Assets (USD million)	38,128.5	37,926.2	35,186.2	32,344.6	34,785.3	[3]2.3
Tangible Common Equity (EUR million)	2,632.0	2,609.0	2,485.0	2,380.0	2,253.0	[3]4.0
Tangible Common Equity (USD million)	3,421.2	3,439.7	3,225.9	3,192.9	3,232.5	[3]1.4
Net Interest Margin (%)	3.2	3.5	3.8	3.9	3.7	[4]3.6
PPI / Average RWA (%)	--	4.0	4.1	4.3	3.6	[5]4.0
Net Income / Average RWA (%)	--	2.5	2.6	2.7	1.8	[5]2.4
(Market Funds - Liquid Assets) / Total Assets (%)	67.9	73.2	76.7	75.3	71.0	[4]72.8

Core Deposits / Average Gross Loans (%)	**12.5**	**6.1**	**3.0**	**2.9**	**3.0**	[4]**5.5**
Tier 1 Ratio (%)	**11.0**	**11.1**	**10.5**	**10.6**	**10.4**	[5]**10.7**
Tangible Common Equity / RWA (%)	**--**	**12.1**	**11.8**	**12.5**	**12.7**	[5]**12.3**
Cost / Income Ratio (%)	**31.1**	**30.9**	**30.0**	**30.6**	**34.8**	[4]**31.5**
Problem Loans / Gross Loans (%)	**3.4**	**3.5**	**3.5**	**4.8**	**6.1**	[4]**4.3**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**27.0**	**27.0**	**26.5**	**32.1**	**40.2**	[4]**30.6**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

RCI's standalone BFSR of D+, equivalent to a standalone credit assessment of baa3, is supported by (1) the bank's franchise which reflects its role as a strategic captive for Renault S.A. (Renault; Ba1, stable), and (2) its sound risk management and financial fundamentals, including high and stable earning streams as well as limited credit losses on both its retail and dealer exposures. The D+/baa3 standalone credit assessment therefore reflects the strengths of the subsidiary and a credit profile healthier than that of its parent.

At the same time, the standalone BFSR is constrained by the bank's lack of business diversification, large exposures to car dealers as well as the reliance on confidence-sensitive wholesale-funding, albeit progressively being reduced. These are characteristics more commonly associated with non-investment-grade ratings, as shown by the rating levels of other non-bank auto finance companies with similar business models.

RCI's strategic role within the Renault / Nissan alliance closely ties its standalone creditworthiness to the strength of its parent, Renault. So far, Renault and Nissan Motor Co., Ltd. (A3, stable) have demonstrated a high degree of resilience to macroeconomic pressures despite the cyclical nature of the car market, which in turn affords a degree of protection to RCI.

Following the announcement of the French government's funding assistance extended to Banque PSA Finance (BPF), we have considered that there was a similar probability of systemic support for RCI, in the event of need. However, the probability we assign to support being provided is insufficient to translate into uplift for RCI's long-term ratings, given its D+/baa3 standalone credit profile.

Rating Drivers

- RCI is a key vehicle of the strategy of its industrial parent

- RCI's risk profile remains high because of some structural features

- RCI exhibited strong resilience to the current difficult operating environment despite cyclical nature of the car market

- RCI is highly reliant on wholesale funding, a key credit weakness ; partly mitigated by limited refinancing risk, an increasing deposit base and an adequate liquidity buffer

- Adequate capitalisation supports the bank's risk profile

- RCI exhibited limited deterioration to date in the bank's retail, corporate and dealer loan books

Rating Outlook

The outlooks on the standalone BFSR and the long-term debt and deposit ratings are stable.

What Could Change the Rating - Up

The bank's monoline business model and its captive status inherently limit any upwards pressure on the ratings that could develop following (1) a material reduction in the reliance on wholesale funding; or (2) any other material

improvement in the bank's credit fundamentals.

What Could Change the Rating - Down

A downgrade of RCI's ratings could materialise if (1) the parent's credit profile weakens; or (2) the bank's credit fundamentals deteriorate. However, systemic support considerations could limit the magnitude of such a downgrade, whereby RCI's long-term ratings could remain at Baa3 in the event of only mild downwards pressure on the bank's standalone credit profile.

DETAILED RATING CONSIDERATIONS

Our detailed considerations for RCI's current standalone credit assessment of D+/baa3 are based on the bank's semi-annual report 2013. Our scorecard uses RCI's financial ratios for the period 2010-12. Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics.

RCI IS A KEY VEHICLE OF THE STRATEGY OF ITS INDUSTRIAL PARENT

RCI is a wholly-owned captive finance company that supports the sales of the Renault/Nissan alliance by offering auto loans to customers (both individual and corporates) and loans to dealers to help them finance their inventories. RCI also offers related services such as maintenance, insurance and roadside assistance, and has started offering savings accounts through the Internet in February 2012. In 2013, RCI started collecting deposits in Germany (current and term savings accounts) and launched a term deposit offer in France. On 15 January 2014, RCI announced that total savings accounts exceeded EUR4.3 billion at the end of December 2013, which represented approximately 17% of outstanding loans. As a result of its mandate as a captive finance company, the bank's franchise is reliant on the performance of the brands of the Renault/Nissan group alliance. Moreover, the wholesale funded nature of the bank means that its franchise may quickly suffer in the event of market turmoil.

RCI is one of the largest automotive captive banks in Europe, in terms of total assets and loans, reflecting the market shares of the Renault/Nissan alliance brands. The bank operates in 36 countries across the globe. Its main markets are those where its parent is most active in Europe: France, Germany and Italy and, to a lesser extent, Spain and the UK. The bank has also been increasingly active in new markets such as South America (Brazil and Argentina), "Asia-Pacific" (South Korea), Eurasia (Russia) and the "Euromed-Africa" region (Turkey, Morocco, Romania).

Loans to retail customers and to corporate clients (excluding dealers) can take the form of long-term leases, which are almost exclusively finance leases (EUR6.5 billion, as at 30 June 2013) and to a much lesser extent operating leases (EUR180 million, as at 30 June 2013). The residual value risk was reported to be of EUR463 million at year-end 2012, which also includes the risk on used vehicle financed to dealers, and is therefore limited.

Although ancillary products and services, such as credit cards, have been developed in recent years to improve customer loyalty, we believe they do not materially enhance the bank's diversification, which remains mainly focused on existing customers of the Renault/Nissan alliance car brands.

RCI'S RISK PROFILE REMAINS HIGH BECAUSE OF SOME STRUCTURAL FEATURES

As is the case with other captive companies, RCI's creditworthiness is constrained by corporate management issues, while we view its credit risk management as sound. Unlike many other finance companies, RCI has a full banking license, and for this reason it is subject to similar regulatory prudential standards (capital , liquidity, etc.) as other credit institutions and to ongoing supervision. This oversight, together with access to central bank refinancing facilities, provides a certain level of protection to creditors.

One of RCI's main risks is the lack of business diversification, as it is a captive specialised institution. As such, a downturn in sales volumes of Renault/Nissan alliance brands could result in lower origination volumes and therefore lower revenues. It also results in relatively high credit risk concentration towards car dealers, which represented 29% of the bank's loan book of EUR25.8 billion, as at end-June 2013. Although we recognise that this portfolio is granular, as it comprises a large number of borrowers, the high degree of correlation among car dealers leads us to consider these exposures cumulatively from a credit risk concentration viewpoint. Nevertheless, we believe that RCI is sufficiently strong to absorb losses resulting from these exposures, which are short-term and secured on vehicles, in a highly adverse scenario of widespread dealer defaults and a significant increase in retail loan losses.

Despite a certain degree of independence, RCI is closely linked with its parent Renault, as it is an important vehicle of the group strategy and therefore highly influenced by the group commercial policy and sales volumes.

We consider this as an overriding issue for the risk positioning factor.

We note that no members of RCI's supervisory board is truly independent insofar as that they have ties to either RCI or the Renault/Nissan alliance. We believe that this could potentially give rise to conflicts of interest between RCI and its parent. We nonetheless take comfort from the presence of independent board members at the level of its parent Renault, which we believe should provide for an independent perspective on RCI's strategy and risk management.

RCI EXHIBITED STRONG RESILIENCE TO THE CURRENT DIFFICULT OPERATING ENVIRONMENT DESPITE CYCLICAL NATURE OF THE CAR MARKET

RCI's net profit margins are high, owing to the profitable car-financing activities (including packaged products, which are less price-sensitive than plain-vanilla loans) and contained funding costs. On customer financing transactions, RCI seeks to pass any increases in funding costs onto customers. In addition, it benefits indirectly from marketing initiatives undertaken by its parent, which are therefore cost-neutral for the bank. RCI has maintained stable profit margins over recent years and we do not expect margins to decline significantly because of its predominately variable cost base.

Given its status as a captive specialised institution, RCI lacks income stream diversification. In common with its peers, RCI's profitability is also characterised by its reliance on net interest income, which for half-year 2013 represented 77% of its net banking income.

Given its cost structure, RCI has the ability to sustain a significant fall in volume without jeopardising its profitability. The bank's business model is such that the cost structure includes only a low proportion of fixed costs, allowing RCI to adjust to lower volumes and thereby maintain its level of returns. At 30 June 2013, the cost-to-income ratio stood at 31%, broadly in line with that reported for full years 2012, 2011 and 2010. This reflects the fact that the RCI benefits from various services provided by the group (e.g.; distribution channels).

RCI IS HIGHLY RELIANT ON WHOLESALE FUNDING, A KEY CREDIT WEAKNESS ; PARTLY MITIGATED BY LIMITED REFINANCING RISK, AN INCREASING DEPOSIT BASE AND AN ADEQUATE LIQUIDITY BUFFER

RCI is mainly wholesale-funded, making it vulnerable to sudden changes in investors' confidence. Restricted market access could lead to a shortening of the bank's maturity profile and higher funding costs, which would constrain loan origination. This would in turn affect the strength of RCI's franchise and ultimately reduce its earnings generation, particularly if any funding constraints coincided with higher loan impairments. However, we recognize that RCI (1) strives to match its assets and liabilities thereby limiting maturity transformation and refinancing risk; and (2) that it has access to considerable liquidity, principally in the form of committed bank credit lines to bridge any mismatches or temporary market access restrictions.

We note positively that the bank (1) receives very limited funding from the Renault group, and (2) has started collecting internet deposits from retail customers in 2012, which accounted for approximately 17% of outstanding loans as at year-end 2013 (loan balance as at end-June 2013). In January 2014, RCI announced that it now targeted a deposit base representing 20-25% of its outstanding loans by 2015, one year prior the previous target date. Despite significant progress in this field, we believe it will take time for the bank to grow its retail deposit book to an extent that would significantly reduce RCI's reliance on market funds. Nonetheless, the funds collected in 2013 - a total of EUR3.4 billion - represent a significant 52% of RCI's funding plan for the year.

RCI claims to have a funding surplus because it finances its loan book with longer term liabilities, resulting in little refinancing risk. Funds outstanding through Euro CD/CP programmes (domestic and international) totaled EUR1.2 billion, or 5% of funding, as at end-June 2013. Funds drawn under these programmes are fully covered, in accordance with RCI's policy, by confirmed bilateral back-up lines with banks of high credit standing. The bank has been able to issue debt of various maturities on the markets on a number of occasions in the past couple of years and in different currencies. We also take comfort from the geographic spread of the resources and investors. In addition, RCI had available a portfolio of cash and securities for liquidity management purposes.

Securitisation is used both for funding purposes and to increase asset liquidity. Its use has increased over the years and has stabilised between 2006 and 2012. At end-June 2013, securitisation represented 14% of the bank's funding. Although recourse to asset-backed securities (ABS) funding appears more difficult in the current environment we note that RCI still has a sizeable pool of securitizable assets available. In a stress scenario, RCI should therefore be able to increase its recourse to securitization to make its balance sheet more liquid and create ECB-eligible assets.

In its 2012 financial report, RCI stated that it could carry out its commercial business activity for more than twelve months without having recourse to unsecured public funding markets, due to its EUR6.9 billion available liquidity. However, in this scenario it would use EUR4.4 billion of its available confirmed lines of credit, which we believe could be subject to changes in availability and pricing.

ADEQUATE CAPITALISATION SUPPORTS THE BANK'S RISK PROFILE

RCI Banque had a core Tier 1 ratio of 11.0% (including transitional capital floors) as at 30 June 2013, down from 11.1% at year-end 2012. We believe that RCI Banque's economic solvency is adequate given its risk profile. Securitisation transactions remain on the balance sheet and do not generate any capital relief.

As part of our recent review on the European auto banks, we considered the extent to which the aggregate exposures to car dealers were posing risks to RCI. This is because although this portfolio is well diversified in terms of borrowers and geographies, we consider that these exposures represent substantial aggregate risks due to their correlation. We concluded that based on the current risk profile of Renault and related consequences for its network of dealers, RCI's capital is sufficiently strong to absorb losses resulting from these exposures in a highly adverse scenario of widespread dealer defaults and significant increase in retail loan losses.

RCI EXHIBITED LIMITED DETERIORATION TO DATE IN THE BANK'S RETAIL, CORPORATE AND DEALER LOAN BOOKS

At 30 June 2013, RCI's problem loans represented 3.42% of total loans, close to 2012's level. The portfolio remained well-provisioned with loan loss reserves accounting for 80% of problem loans, as at end-June 2013. We see RCI's customer base as relatively risky and note that high provisions have been sustained over time, and that RCI experienced a sharp deterioration in asset quality in the recession, notably in Spain and Romania, before improving since 2010.

Going forward, we expect a degree of negative pressure on asset quality due to the continuously weak operating conditions, especially in Europe.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a global local currency (GLC) deposit rating of Baa3 for RCI Banque, with a stable outlook. The rating reflects RCI's BCA of baa3.

We have not assigned any systemic support to RCI Banque. Following the announcement of the French government's funding assistance for BPF, we considered that there was a similar probability of systemic support for RCI, in the event of need. However, the probability we assign to support being provided is insufficient to translate into uplift for the long-term ratings, given RCI's current D+/baa3 standalone credit profile.

Notching Considerations

Ratings for RCI's senior subordinated obligations are notched off its fully-supported long-term GLC deposit rating. Moody's assigns a rating of Ba1 (with a stable outlook) to these senior subordinated obligations. Please refer to Moody's methodology for rating subordinated debt, which is included in "Global banks" published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Foreign Currency Deposit Rating

Moody's foreign currency deposit ratings for RCI Banque are Baa3/Prime-3, with a stable outlook.

Foreign Currency Debt Rating

Moody's foreign currency debt ratings for RCI Banque are Baa3/Prime-3, with a stable outlook.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability

to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

RCI Banque

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C-	
Factor: Franchise Value						D+	Neutral
Market share and sustainability				x			
Geographical diversification		x					
Earnings stability			x				
Earnings Diversification [2]					x		
Factor: Risk Positioning						D	Neutral
Corporate Governance [2]				x			
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks				x			
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness			x				
- Quality of Financial Information		x					
Credit Risk Concentration					x		
- Borrower Concentration			x				
- Industry Concentration					x		
Liquidity Management					x		
Market Risk Appetite	x						
Factor: Operating Environment						B-	Weakening
Economic Stability			x				
Integrity and Corruption		x					
Legal System		x					
Financial Factors (50%)						C	
Factor: Profitability						A	Neutral
PPI % Average RWA (Basel II)	4.15%						
Net Income % Average RWA (Basel II)	2.58%						
Factor: Liquidity						E	Neutral
(Market Funds - Liquid Assets) % Total Assets					75.07%		
Liquidity Management					x		
Factor: Capital Adequacy						A	Neutral
Tier 1 Ratio (%) (Basel II)	10.75%						
Tangible Common Equity % RWA (Basel II)	12.13%						
Factor: Efficiency						A	Neutral
Cost / Income Ratio	30.52%						
Factor: Asset Quality						C	Neutral
Problem Loans % Gross Loans			2.97%				
Problem Loans % (Equity + LLR)			21.23%				
Lowest Combined Financial Factor Score (15%)						E	
Economic Insolvency Override						Neutral	
Aggregate BFSR Score						C-	
Aggregate BCA Score						baa1/baa2	
Assigned BFSR						D+	
Assigned BCA						baa3	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.

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