MOODY'S INVESTORS SERVICE

CREDIT OPINION
25 January 2019

Update

Rate this Research

RATINGS

RCI Banque

Domicile	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	Positive
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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

Semiannual update

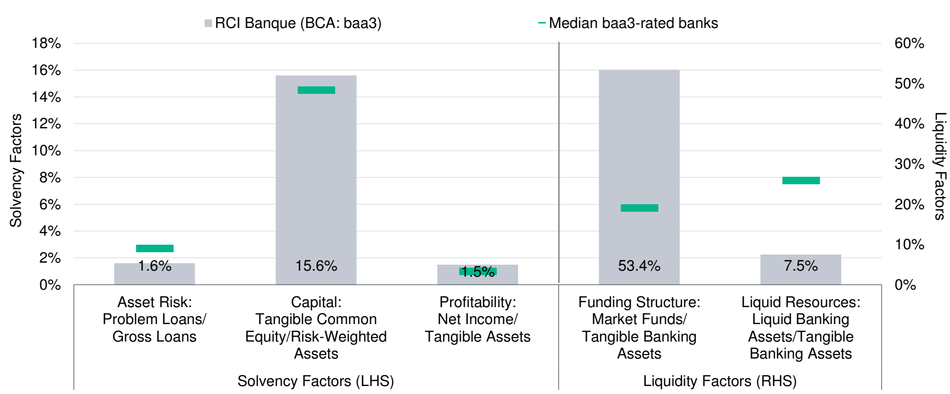
Summary

RCI Banque's (RCI) Baa1 long-term deposit and senior unsecured debt ratings reflect (1) the bank's baa3 Baseline Credit Assessment (BCA) and Adjusted BCA; and (2) two notches of uplift under our Advanced Loss Given Failure (LGF) analysis, stemming from the large volume of senior long-term debt. The outlook on the long-term deposit and senior unsecured debt ratings is positive (since 26 January 2018), which is in line with the positive outlook on the parent company Renault S.A. (Renault, Baa3 positive).

RCI's BCA of baa3 is supported by the bank's role as a strategic captive for Renault and its sound risk management and financial fundamentals. The bank's earnings streams are strong and stable, credit losses on its retail and corporate exposures are low and capitalisation is commensurate with its risk profile.

At the same time, the BCA is constrained by the bank's lack of business diversification and large exposures to car dealers. Moreover, we factor in RCI's high reliance on confidence-sensitive wholesale funding, although it is somewhat mitigated by the absence of maturity transformation and the collection of online deposits, which represent one-third of the bank's funding.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

RCI's strategic role within the Renault/Nissan Alliance results in its standalone creditworthiness being closely tied to the strengths/weaknesses of its parent, Renault. So far, Renault and Nissan Motor Co., Ltd. (A2 negative) have demonstrated a high degree of resilience to macroeconomic pressures despite the cyclical nature of the car market, which, in turn, is protective of RCI's creditworthiness.

We assign a Counterparty Risk (CR) Assessment of A3(cr)/Prime-2(cr) and Counterparty Risk Ratings (CRRs) of A3/Prime-2 to RCI.

Credit strengths

» RCI is essential to its parent's strategy.

» The bank's asset risk is moderate.

» Adequate capitalisation supports the bank's risk profile.

» RCI has maintained strong 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 in nature.

» The bank has some credit concentration vis a vis car dealers.

» The bank relies on wholesale funding.

Outlook

RCI's deposit and senior unsecured debt ratings carry a positive outlook, in line with the positive outlook on the parent company, Renault.

Factors that could lead to an upgrade

» Given the high support assumption, RCI's Adjusted BCA could be upgraded in case its parent, Renault were to be upgraded (see the outlook above). The bank's BCA could be upgraded following (1) a material reduction in its reliance on wholesale funding, or (2) any material improvement in its asset quality or solvency. In any case, owing to the bank's close links with Renault, the BCA of RCI will not exceed the carmaker's rating by more than one notch, in line with our approach for rating auto captives.

» An upgrade of the BCA or the Adjusted BCA would likely prompt an upgrade of the bank's deposit and senior unsecured ratings. Under our Advanced LGF analysis, the long-term and short-term deposit and senior unsecured debt ratings could be improved following a significant issuance of subordinated instruments, which we do not expect in the short term.

Factors that could lead to a downgrade

» A downgrade of RCI's ratings could materialise if (1) the parent's rating is downgraded by more than one notch, which is unlikely, given the positive outlook; or (2) the bank's credit fundamentals deteriorate.

Key indicators

Exhibit 2

RCI Banque (Consolidated Financials) [1]

	6-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR million)	52,942	49,709	43,320	37,073	32,023	15.4[4]
Total Assets (USD million)	61,813	59,690	45,692	40,272	38,750	14.3[4]
Tangible Common Equity (EUR million)	4,922	4,615	3,976	3,384	3,048	14.7[4]
Tangible Common Equity (USD million)	5,747	5,542	4,194	3,676	3,688	13.5[4]
Problem Loans / Gross Loans (%)	1.2	1.3	1.5	2.5	3.0	1.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	-	15.6	16.1	15.9	15.9	15.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.4	10.8	12.8	19.9	23.2	15.4[5]
Net Interest Margin (%)	2.8	2.7	2.7	3.0	3.1	2.9[5]
PPI / Average RWA (%)	-	4.1	4.4	4.6	4.1	4.3[6]
Net Income / Tangible Assets (%)	1.7	1.5	1.4	1.5	1.4	1.5[5]
Cost / Income Ratio (%)	30.1	32.0	31.4	31.5	35.1	32.0[5]
Market Funds / Tangible Banking Assets (%)	53.7	53.4	54.5	55.7	60.9	55.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	8.0	7.5	7.0	9.3	6.2	7.6[5]
Gross Loans / Due to Customers (%)	280.2	283.5	296.3	300.1	402.5	312.5[5]

[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 due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Source: Moody's Financial Metrics

Profile

RCI Banque (RCI) adopted its current name in 2002. Previously named Renault Crédit International, RCI became the sole shareholder of Diac SA (founded in 1924) and obtained its banking licence in 1991.

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, Renault Samsung Motors and Dacia) worldwide and for Nissan Group's brands (Nissan, Infiniti and Datsun) mainly in Europe and South America. It also operates through joint ventures in Russia and India. As of 30 June 2018, the bank operated commercially in 36 countries, divided into five major world regions: Europe, the Americas, Africa-Middle East-India, Eurasia and Asia Pacific.

For new vehicles (cars and light utility vehicles) registered by Renault and Nissan worldwide, RCI reported a 39.7% financing penetration rate[1] in H1 2018. At end-June 2018, the bank reported a consolidated balance sheet of €52.9 billion.

Because RCI is chartered as a bank, it has to comply with all European regulations (Capital Requirements Directive [CRD4], Capital Requirements Regulation, Bank Recovery and Resolution Directive, etc. The bank has been supervised by the European Central Bank since January 2016 because it is considered a significant institution. In February 2016, RCI adopted a new commercial name, RCI Bank and Services.

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 auto loans to customers (both individuals and corporates) and loans to dealers to help them finance their inventories and activities. RCI also offers related services such as maintenance, insurance and roadside assistance, etc. Lastly, the bank collects deposits through online savings accounts in France, Germany, Austria and the UK to diversify its funding.

Loans to retail customers and corporate clients excluding dealers (€35 billion at end-June 2018) can also take the form of long-term leases. Leases are almost exclusively finance leases (€11.5 billion at end-June 2018) and, to a much lesser extent, operating leases (€0.9 billion net of depreciation and impairments at end-June 2018).

Although ancillary products and services, such as insurance, warrantee extensions and maintenance contracts, have been developed in recent years so as to improve customer loyalty and boost revenue, 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.

Asset risks are moderate despite some concentration vis a vis car dealers

At end-June 2018, RCI's problem loans to customers represented 1.2% of gross loans (December 2017: 1.3%). This portfolio is well provisioned, with stage 3 loan-loss reserves accounting for 60% of problem loans at end-June 2018 (including stage 1 and stage 2 allowances in the numerator, the coverage of problem loans is 132%). Asset performance has been stable since 2015 with an annual cost of risk of less than 40 basis points (bps) of average outstanding loans. In 2017, the bank's cost of risk was particularly low, at 11 bps, mainly because of provision reversals on the dealer financing business. The cost of risk was 37 bps in H1 2018.

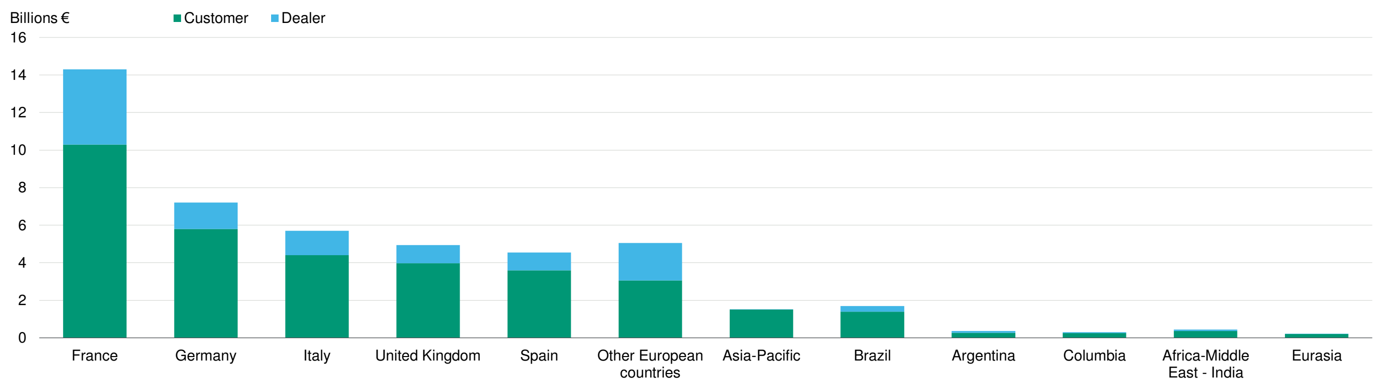
One of RCI's main risks is the lack of business diversification because it is a captive specialised institution. As such, a downturn in sales volumes of Renault/Nissan Alliance brands would likely result in lower origination volumes and, therefore, lower revenues. The downturn would also result in relatively high credit risk concentration in car dealers, which represented 24% of the bank's loan book of €46 billion at end-June 2018. Although we recognise that this portfolio, which comprises a large number of borrowers, has performed well in the past, we believe these exposures constitute a quasi single risk, given the degree of correlation among car dealers' performance, in particular during a downturn.

Given that the bulk of the residual value risk on lease operations is borne by its parent company, the residual value risk at the level of RCI was limited to €2.1 billion at end-June 2018.

Exhibit 3

Credit risk towards car dealers represents 24% of RCI's loan book

Loan book mix as of the end of June 2018 - End-user customers and car dealers (€ billion)



Source: Company data

Adequate capitalisation supports the bank's risk profile

RCI reported a fully-loaded Common Equity Tier 1 capital ratio of 14.4% at end-June 2018 versus 14.7% as of year-end 2017. Its Tier 1 leverage ratio was 8.4% at the same date (8.6% at year-end 2017). The slight decrease in both ratios is primarily due to 6% increase in the bank's exposures. We believe the bank's economic solvency is adequate, given its risk profile. This solvency is reflected in our assigned Capital score of a1.

RCI has maintained strong profitability despite the cyclical nature of the car market

RCI consistently generated a comfortable net banking income exceeding 4% of average performing assets over the past five years (4.5% in H1 2018). The resilience of the bank's net interest income, representing around 75% of its net banking income, stems from profitable car-financing activities (including packaged products such as leasing associated with ancillary services, which are less price sensitive than plain vanilla loans), contained funding costs and the fact that RCI has the ability to pass increases in funding costs onto its customers. 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. The contribution of ancillary products and services to net banking income represented close to 1.8% of average performing assets in H1 2018.

The bank also has good cost efficiency because of its low fixed costs, which accounted for around 1.4% of its average performing assets and resulted in a cost-to-income ratio of around 30% in H1 2018 (1.3% and 32% respectively in full-year 2017). This high cost efficiency reflects the fact that the bank benefits from various services provided by Renault (for example, distribution channels), as well as from the group's marketing initiatives.

RCI was fined by Italy's competition authority, Autorità Garante della Concorrenza e de Mercato (AGCM) on 9 January 2019 along with eight other auto captives for exchanges of commercial information on the main characteristics of their loans between 2003 and 2017. The fine imposed to RCI was €125 million, representing around 30% of the bank's H1 2018 net profit, which is manageable. RCI announced that it will appeal the AGCM's decision but this will likely take more than two years to conclude. RCI also has a litigation in Switzerland on the same issue.

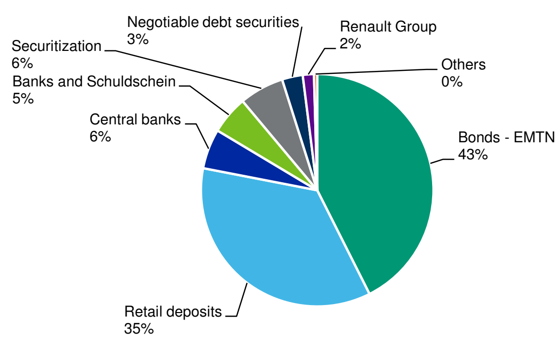
RCI relies on wholesale funding, a credit weakness, partly mitigated by limited refinancing risk, an increasing deposit base and an adequate liquidity buffer

RCI is mainly wholesale funded, making it vulnerable to sudden changes in investor 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 generation, particularly if funding constraints coincide with higher loan impairments. Our assigned Combined Liquidity score of b1 reflects the relative weakness of the bank's funding and liquidity for the rating.

However, we recognise that RCI (1) strives to match its assets and liabilities, thereby limiting maturity transformation and refinancing risk; and (2) has access to liquidity, principally in the form of committed bank credit lines to bridge any mismatches or temporary market access restrictions.

Positively, the bank (1) receives very limited funding from the Renault Group; and (2) has started collecting internet deposits from retail customers in 2012, which currently account for around one-third of net outstanding loans, at the level targeted by RCI.

Exhibit 4
RCI increasingly funds itself with online retail deposits
Funding sources as a percentage of total funding (end-June 2018)



Source: Company data

RCI claims to have a funding surplus because it finances its loan book with longer-term liabilities, resulting in little refinancing risk.

The bank has been able to issue in the markets debt of various maturities and in different currencies in the past couple of years. We also acknowledge the geographical diversification of the resources and investors. Securitisation is used both for funding purposes and to create assets eligible for Central Bank refinancing. At end-June 2018, securitisation represented 6% of the bank's funding. The bank still has a sizeable pool of available securitisable assets. In a stress scenario, the bank should, therefore, be able to increase its recourse to securitisation to make its balance sheet more liquid and create European Central Bank-eligible assets.

In its H1 2018 report, RCI stated that its €10.9 billion available liquidity[2] would allow it to carry out its commercial business activity for 12 months while preserving a 100% liquidity coverage ratio in a stressed liquidity scenario, namely, without being able to access the capital markets. In this shutdown scenario, RCI would use its €4.4 billion available confirmed lines of credit, which we believe could be subject to changes in availability and pricing.

Our Funding Structure score of b2 reflects the bank's large dependence on market funding.

RCI's BCA is supported by its Strong Macro Profile

RCI's operating environment is heavily influenced by that of European countries and its Macro Profile is in line with the European Union's average Macro Profile i.e. Strong.

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 more than 38% of 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 was at the same level as the bank's BCA. If Renault's rating was to be upgraded by one notch as a follow-up to the positive outlook assigned on 15 January 2018, the continued assumption of a high probability of support would result in one notch of affiliate support uplift. This scenario prompted our decision to revise the outlook on the bank's ratings to positive.

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, which was transposed into French law on 20 August 2015.

In accordance with our methodology, we, therefore, apply our LGF analysis, considering the risks faced by the different debt and deposit classes across the liability structure should the bank be put on 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 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 constituted 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 BCA (baa3) for both deposits and senior unsecured debt (Baa1).

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

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

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

The CR Assessment, prior to 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 41% 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 expected loss; therefore, we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRRs)

Our CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

RCI's CRRs are positioned at A3/Prime-2

The CRRs for RCI, prior to government support, are 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 5

RCI Banque

Macro Factors		
Weighted Macro Profile	**Strong**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.6%	a2	←→	a3	Sector concentration	Long-run loss performance
Capital						
TCE / RWA	15.6%	a1	←→	a1	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	1.5%	a2	←→	a3	Earnings quality	Return on assets
Combined Solvency Score		a2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	53.4%	b3	←→	b2	Extent of market funding reliance	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	7.5%	ba3	←→	ba2	Access to committed facilities	
Combined Liquidity Score		b2		b1		
Financial Profile				baa2		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint:				Aa2		
Scorecard Calculated BCA range				baa2-ba1		
Assigned BCA				baa3		
Affiliate Support notching				--		
Adjusted BCA				baa3		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	12,462	26.0%	13,649	28.4%
Deposits	16,957	35.3%	15,770	32.9%
Preferred deposits	15,261	31.8%	14,498	30.2%
Junior Deposits	1,696	3.5%	1,272	2.7%
Senior unsecured bank debt	17,115	35.7%	17,115	35.7%
Preference shares (bank)	13		13	
Equity	1,440	3.0%	1,440	3.0%
Total Tangible Banking Assets	47,987	100%	47,987	100%

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	41.3%	41.3%	41.3%	41.3%	3	3	3	3	0	a3
Counterparty Risk Assessment	41.3%	41.3%	41.3%	41.3%	3	3	3	3	0	a3 (cr)
Deposits	41.3%	3.0%	41.3%	38.7%	2	3	2	2	0	baa1
Senior unsecured bank debt	41.3%	3.0%	38.7%	3.0%	2	2	2	2	0	baa1
Dated subordinated bank debt	3.0%	3.0%	3.0%	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	(P)Ba1	--

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
RCI BANQUE	
Outlook	Positive
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 MTN -Dom Curr	(P)Ba1
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2
PARENT: RENAULT S.A.	
Outlook	Positive
Issuer Rating	Baa3
Senior Unsecured -Dom Curr	Baa3
Commercial Paper -Dom Curr	P-3
Other Short Term -Dom Curr	(P)P-3
BANCO RCI BRASIL S.A.	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	Baa3/P-3
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba1/NP
NSR Bank Deposits	Aaa.br/BR-1
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
RCI BANQUE SUCURSAL ARGENTINA	
Outlook	Stable
Issuer Rating -Dom Curr	Ba2
ROMBO COMPANIA FINANCIERA S.A.	
Outlook	Stable
Bank Deposits -Fgn Curr	B3/NP

Bank Deposits -Dom Curr	Ba3/NP
NSR Bank Deposits	Aa1.ar/--
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba3(cr)/NP(cr)
Senior Unsecured -Dom Curr	Ba3
NSR Senior Unsecured	Aa1.ar

Source: Moody's Investors Service

Endnotes

1 The penetration rate represents the percentage of cars sold by Renault S.A. for which RCI Banque provided financing to the client.

2 Available liquidity includes HQLA assets, ECB-eligible assets, other financial assets and committed credit lines.

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