

Global Credit Research - 31 Mar 2016

New York, March 31, 2016 -- Today, Moody's Investors Service assigned long and short-term global local currency deposit ratings of Ba1 and Not-Prime, respectively, to Banco RCI Brasil S.A. (Banco RCI), with a stable outlook. At the same time, Moody's assigned to Banco RCI long and short-term foreign currency deposit ratings of Ba3 and Not-Prime, with a negative outlook, as well as long- and short-term Brazilian national scale deposit ratings of Aa1.br and BR-1. Moody's also assigned to Banco RCI a standalone baseline credit assessment (BCA) of ba3, an adjusted BCA of ba1, and counterparty risk assessments of Baa3(cr) and Prime-3(cr), long and short-term respectively.

This is the first time Moody's has assigned ratings to Banco RCI.

At the same time, Moody's withdrew its long-term issuer and corporate family ratings of Ba1 assigned to Companhia de Crédito, Financiamento e Investimento RCI Brasil (RCI Brasil). Moody's also withdrew RCI Brasil's long-term Brazilian national scale issuer rating of Aa1.br.

The following ratings and assessments were assigned to Banco RCI Brasil S.A.:

- Long-term global local currency deposit rating of Ba1, stable outlook
- Short-term global local currency deposit rating of Not-Prime
- Long-term foreign currency deposit rating of Ba3, negative outlook
- Short-term foreign currency deposit rating of Not-Prime
- Long-term Brazilian national scale deposit rating of Aa1.br
- Short-term Brazilian national scale deposit rating of BR-1
- Baseline credit assessment of ba3
- Adjusted baseline credit assessment of ba1
- Long-term counterparty risk assessment of Baa3(cr)
- Short-term counterparty risk assessment of Prime 3(cr)

Moody's withdrew the following ratings of Companhia de Crédito, Financiamento e Investimento RCI Brasil:

- Long-term global local currency corporate family rating of Ba1
- Long term global local currency issuer rating of Ba1
- Long term Brazilian national scale local currency issuer rating of Aa1.br

RATINGS RATIONALE

The withdrawal of the ratings assigned to RCI Brasil and the assignment of ratings to Banco RCI follow the incorporation of the finance company by Banco RCI in 29 January 2016, whereupon RCI Brasil ceased to exist as a standalone entity. In 14 October 2015, the Brazilian bank regulator authorized the conversion of Companhia de Arrendamento Mercantil RCI Brasil S.A., a leasing company whole-owned by RCI Brasil, into Banco RCI Brasil S.A., a universal bank. Approximately 80% of the bank's assets were transferred from RCI Brasil, while the remainder belonged to the former leasing company. Shareholders' participation in the bank's equity position remains the same as it was previously in the finance company, with RCI Banque maintaining control and Banco Santander (Brasil) S.A. holding a minority share. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moody.com.

The bank's ratings reflect its franchise as a captive finance operation of automakers Renault and Nissan. With the consolidation of both finance and leasing companies' operations, the bank will provide credit lines and financial leases to individuals for the acquisition of cars and will also finance dealers' inventories. The rating also reflects the strong credit risk profile of Banco RCI's loan book, which is explained by the low-risk nature of new car financing. In past years, RCI Brasil's loan delinquency metrics remained well below the banking system's average non-performing ratios for auto loans. We anticipate a similar performance for the bank given its close relationship with the two automakers and authorized dealers. The rating is also supported by comfortable capitalization and reserves, which provide important buffers to absorb potential loan losses.

These credit strengths are offset by risks associated with Banco RCI's mono-line operation, which results in low earnings diversification as well as profitability metrics closely tied to the sales volumes of Renault and Nissan. In addition, as was also the case with RCI Brasil, Banco RCI is expected to continue to depend heavily on undiversified sources of wholesale market funding, comprised mostly of debt issued domestically and time deposits with financial institutions, notwithstanding the bank's ability to take deposits.

Banco RCI's long-term global local currency deposit rating of Ba1 is two notches above the bank's standalone BCA, which incorporates Moody's assessment of a high willingness by the bank's France-based affiliate RCI Banque (Baa1/Baa1 stable, baa3) to provide support in the event that Banco RCI faces financial stress. The assessment of high willingness to provide support stems from the bank's and its parent's shared business focus. The long-term foreign currency deposit rating is constrained by the country's ceiling for foreign currency deposit and has a negative outlook in line with the negative outlook on Brazil's debt sovereign rating.

WHAT COULD MAKE THE RATING GO DOWN

A weakening of Banco RCI's asset quality indicators resulting from continued deterioration in the economic scenario would have negative effect on the BCA. A decline in profitability owing to an industry-wide slump in auto sales could also result in a lower BCA for Banco RCI, which would result in a downgrade of the bank's global local currency deposit rating. A downgrade of its parent's standalone BCA would lead to a downgrade of the bank's global local currency deposit rating, while a downgrade of the bank's global foreign currency deposit rating would follow a downgrade of the Brazilian government's rating. Upward pressure on the ratings is unlikely at this time given Brazil's challenging operating environment.

LAST RATING ACTION

The last rating action on RCI Brasil occurred on 3 November 2014, when Moody's affirmed RCI Brasil's long-term global local currency issuer rating at Ba1, long-term local currency corporate family rating (CFR) of Ba1, local currency issuer rating on the Brazilian national scale at Aa1.br and the company's BCA at ba3. All ratings had a stable outlook.

METHODOLOGY USED

The principal methodology used in rating Banco RCI Brasil S.A. was Banks published in January 2016. The principal methodology used in rating Companhia de Cr., Financ. e Invest. RCI BR was Finance Companies published in October 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

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Banco RCI is headquartered in Curitiba, Brazil. As of 31 December 2015, the bank had pro forma, consolidated total assets of approximately BRL11 billion (\$2.8 billion) and equity of BRL1.3 billion (\$342 million).

RCI Brasil was headquartered in Curitiba, Brazil. As of 31 December 2015, the finance company had total assets of approximately BRL8.9 billion (\$2.6 billion) and equity of BRL1.3 billion (\$342 million).

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