

Global Credit Research - 13 Jul 2012

*Curitiba, Brazil*
**Ratings**

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Ba1
NSR Issuer Rating -Dom Curr	Aa1.br
<b>Ult Parent: Renault S.A.</b>	
Outlook	Stable
Corporate Family Rating	Ba1
Senior Unsecured	Ba1
Subordinate MTN -Dom Curr	(P)Ba2
Commercial Paper -Dom Curr	NP
Other Short Term -Dom Curr	(P)NP
<b>Parent: RCI Banque</b>	
Outlook	Stable
Bank Deposits	Baa2/P-2
Bank Financial Strength	C-
Baseline Credit Assessment	(baa2)
Adjusted Baseline Credit Assessment	(baa2)
Senior Unsecured	Baa2
Subordinate -Dom Curr	Baa3
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2

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**Key Indicators**
**Companhia de Cr., Financ. e Invest. RCI BR (Unconsolidated Financials)[1]**

	[2]3-12	[2]12-11	[2]12-10	[2]12-09	[2]12-08	Avg.
Total Assets (BRL billion)	4.6	4.5	2.6	2.0	1.4	[3]34.5
Total Assets (USD billion)	2.5	2.4	1.6	1.1	0.6	[3]43.0
Tangible Common Equity (BRL billion)	0.3	0.3	0.3	0.3	0.2	[3]10.8
Tangible Common Equity (USD billion)	0.2	0.2	0.2	0.1	0.1	[3]17.8
Net Interest Margin (%)	--	--	5.7	6.2	6.6	[4]6.2
PPI / Avg RWA (%)	--	--	5.1	5.6	4.9	[5]5.2
Net Income / Avg RWA (%)	--	--	3.2	3.2	2.5	[5]2.9
(Market Funds - Liquid Assets) / Total Assets (%)	74.6	73.3	68.5	76.7	79.7	[4]74.6
Core Deposits / Average Gross Loans (%)	--	--	3.9	4.3	0.0	[4]2.8
Tier 1 Ratio (%)	21.8	17.5	19.0	20.7	10.8	[5]17.9
Tangible Common Equity / RWA (%)	10.3	10.4	11.5	12.7	14.3	[5]11.8
Cost / Income Ratio (%)	33.1	36.3	30.9	29.0	30.4	[4]31.9
Problem Loans / Gross Loans (%)	0.5	0.5	0.5	0.6	0.3	[4]0.5
Problem Loans / (Equity + Loan Loss Reserves) (%)	5.2	5.2	3.7	3.9	1.6	[4]3.9

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [4] LOCAL GAAP

reporting periods have been used for average calculation [5] Basel II & LOCAL GAAP reporting periods have been used for average calculation

## Opinion

### SUMMARY RATING RATIONALE

Moody's assigns a global local currency issuer rating of Ba1 to Companhia de Crédito, Financiamento e Investimento RCI Brasil (RCI Brasil). The issuer rating incorporates the ba3 stand-alone baseline credit assessment (BCA) assigned to RCI Brasil and Moody's assessment of a high likelihood of support deriving from French-based parent RCI Banque. According to Moody's joint-default analysis (JDA), the high parental support results in two-notch uplift from RCI Brasil's unsupported BCA.

The unsupported BCA of ba3 reflects RCI Brasil's franchise as a captive finance company of automakers Renault and Nissan with monoline operations that are intrinsically connected to the performance of the auto industry. As a result, the profitability indicators of the finance company are closely tied to the sales volumes of Renault and Nissan. RCI Brasil's BCA is also supported by adequate financial metrics, particularly its profitability and asset quality, which reflect the inherently low risk profile of the finance company's loan book, management's conservative standards to underwriting new loans and the robust expansion of the vehicle financing segment in Brazil. Conversely, the ba3 BCA is constrained by RCI Brasil's reliance on wholesale funding, which is basically comprised of interbank deposits and bills of exchange.

### Rating Drivers

- Lack of diversification in funding sources, mostly derived from interbank deposits, banknotes (Letras Financeiras) and bills of exchange; reliance on deposits from minority shareholder Banco Santander.
- Adequate profitability ratios that reflect the robust expansion of the vehicle finance segment in Brazil during recent years.
- Monoline operation provides weak diversification in revenues, which constrains the issuer's franchise.
- Franchise limited by modest size of operation.
- Predominance of low risk loan product - new car financing - in company's loan book contributes to maintaining delinquency at low levels.
- Adequate capital ratios, reported on a consolidated basis with Banco Santander, a stakeholder with 39.58% of shares.

### Rating Outlook

The outlook is stable for all ratings.

### What Could Change the Rating - Up

Positive pressure on the bank's unsupported assessment (BCA) could derive from a strengthening of RCI Brasil's franchise via an increase in market share to finance the acquisition of Renault and Nissan vehicles. Also beneficial to the franchise would be the continuous reporting of good profitability and asset quality indicators.

### What Could Change the Rating - Down

RCI Brasil's issuer rating could be negatively affected by a downgrade of its parent's standalone strength rating. The company's franchise could weaken if asset quality indicators deteriorate or if margins become compressed in light of a more strenuous competitive scenario for vehicle financing. Moreover, profits and asset quality could suffer should RCI Brasil pursue aggressive loan growth in order to sustain market share. A weakened franchise could lead to lower a BCA for RCI Brasil.

### Recent Results

As of March 2012, RCI Brasil reported a bottom-line result of R\$21.3 million, an improvement of 76.5% compared to March 2011. The growth in net income was driven by higher volume of cars produced by Renault and Nissan and by increased participation of RCI Brazil in financing the car sales of the two automakers (to 41% of financed sales). During the same period, RCI Brasil reported annual growth of 50.3% in total assets to R\$4.6 billion, a performance in line with the increased production of the two automakers. The company's profitability have remained adequate because of consistent positive results during the past five years; however, ratios declined in December 2011 due to the robust growth in assets (74.7% y-o-y). Return on average assets (ROAA) was 1.9% in March 2012, showing slight improvement from

1.7% in December 2011, but still below 3% in December 2010. Core earnings, measured as pre-provision income to average total assets increased to 3.9% in 1Q12 from 2.9% in 2011, but also remained below 4.8% in 2010.

In March 2012, RCI Brasil reported strong expansion of loan operations R\$3.9 billion (or 50%). The company's asset quality indicators remained robust despite the climb in total loans and the increase of delinquency ratios for vehicle financing observed throughout the financial system. The company's conservative standards for underwriting loans and the intrinsically low risk of its loan book contributed to it maintaining the nonperforming loan ratio at a low 0.5% in March 2012, compared to a market average of 5.7%.

RCI Brasil reported total capital of R\$332.7 million in 1Q12, representing a 17.9% rise relative to 1Q11. It should be noted, however, that RCI Brasil reports its capital ratios on a consolidated basis with Banco Santander, given that the bank holds 39.89% of the finance company's capital. Because of that, RCI Brasil's total BIS ratio stood at 24% in March 2012, a ratio well above the minimum regulatory capital requirement of 11%.

## DETAILED RATING CONSIDERATIONS

### Franchise Value and Risk Positioning

RCI Brasil's franchise is intrinsically linked to the operation of automakers Renault and Nissan. Therefore, the company has a franchise that is constrained by a business line with low diversification. As a result of being a captive finance company of the two car producers, RCI Brasil has revenues that also present low diversification and are originated predominantly from lending operations with consumers to finance the acquisition of vehicles. The company's earnings mix is complemented by operations of working capital financing to car dealers - the so called, floor plan financing.

As of March 2012, RCI Brasil was responsible for financing roughly 41% of the cars produced by Renault and Nissan in the country, a rate of participation that reflects RCI Brasil's proximity to both automakers. One of the benefits from such a relationship is using the discounts and subsidizes offered by the car makers.

In 2000, RCI Brasil was formally constituted as a joint-venture of RCI Banque and Banco Comercial e Investimentos Sudameris. In 2003, Sudameris was acquired by Banco ABN Amro Real and then absorbed by Banco Santander (Brasil) five years later. Currently, RCI Banque owns 60.11% of RCI Brasil's shares and Banco Santander (Brasil) holds 39.89%. Despite of the unequal ownership, the company's board of directors is comprised of six members, half of them appointed equally by each shareholder.

RCI Banque also owns another four subsidiaries in Brazil in addition to its finance company: a leasing entity called Companhia de Arrendamento Mercantil RCI Brasil; an insurance brokerage company called Corretora de Seguros RCI Brasil; a participation company called Sociedade de Participações RCI Brasil Ltda.; and a company named Administradora de Consórcio Renault do Brasil Ltda, which structures consórcios - a lottery financing product in which participants pay monthly installments towards a car and have the chance to win the title to that car if selected through monthly draws.

In terms of risk management, RCI Brasil follows guidelines established by the French-based parent RCI Banque and by Banco Santander. The company's compliance practices also mirror those of RCI Banque, including the use of systems that are linked to the parent. In that sense, the operational departments of the Brazilian subsidiary are also directly subordinated to those in France.

RCI Brasil uses a credit score developed by Banco Santander; however, credit evaluation is realized by local management, which uses methods formulated by its French parent in order to approve loan operations. Local management also establishes guidance for loan growth; the guidance takes into consideration indigenous macro-economic and demographic information.

### Profitability

Over the past five years RCI Brasil has reported a track record of adequate profitability indicators. However, recent asset growth caused ratios to decline in year-end 2011 and 1Q12. The company's net interest margins (NIM) benefit from a business model based on the sale financing of brand new cars, an asset class that bears very low risk - in the first quarter of 2012, the company's NIM stood at 4.2%. The continued expansion of Renault's and Nissan's market share in the car manufacture segment has contributed to sustaining RCI Brasil's profits. As of March 2012, RCI Brasil reported a ratio of pre-provision profits to risk-weighted assets (RWA) at 5.74% and net income to RWA of 2.82%.

RCI Brasil's earnings are limited in terms of diversification, with revenues basically derived from loans to individuals to acquire cars and from working capital operations extended to car dealers. Despite the adequate level of profitability ratios, the lack of a diversified earnings base is negative for ratings. RCI Brasil's net income may be vulnerable to production downturns in the car industry, particularly by Renault and Nissan, as well as to increased competition in the vehicle financing segment.

### Liquidity

RCI Brasil has a funding structure that is solely composed of three instruments: time deposits, banknotes (Letras

Financeiras) and bills of exchange. Time deposits with financial institutions represent the majority of the company's funding (63.5% of total), since the Brazilian Central Bank does not allow financing companies to offer time deposits to individuals or companies.

As of March 2012, RCI Brasil reported R\$2.6 billion in time deposits with the largest banks in the system. Due to the absence of deposits with individuals, the company's funding structure has a very high concentration of deposits, with the ten largest representing all of the bank's deposits. The large reliance on a poorly diversified funding base is negative for ratings. The minority shareholder Santander was responsible for roughly 12% of RCI Brasil's total deposits in 1Q12.

RCI Brasil's funding base is complemented by local currency banknotes (Letras Financeiras) and bills of exchange. Banknotes are instruments issued to investors within the Brazilian debt capital market, which is regulated by Comissão de Valores Mobiliários (the local SEC). Bills of exchange are instruments issued upon a commercial transaction between the financing company and its clients - in this case, lending operations - that are used as funding instruments with car dealers.

#### Asset Quality

RCI Brasil reports strong asset quality indicators as a result of its niche operation of financing the acquisition of new cars. The secured portfolio is supported by legislation that has enabled the foreclosure process on this asset class to remain relatively quick and safe. In addition, the company's conservative credit standards for approving loans and management's close monitoring of operational risks have contributed to maintaining delinquency at low levels. The maintenance of average down payment of 45% to 50% of the total value financed by individuals helps to eliminate potentially weak credit holders.

As a result, during the past five years RCI Brasil has reported ratios of loans overdue more than 90 days to total loans below 1%, with a minimum of 0.27% in 2008 and a ratio of 0.5% in March 2012. The good quality of RCI Brasil's loan book is also explained by its granularity. The ten largest borrowers accounted for 8.7% of the company's total loan portfolio in 1Q12, whereas the 50 largest represented 19.8%.

#### Capital Adequacy

RCI Brasil reports its BIS total capital ratio on a consolidated basis with Conglomerado Financeiro Santander, given that Banco Santander (Brasil) owns 39.89% of the company's shares; for regulatory purposes, the Brazilian Central Bank allows RCI Brasil to be considered part of Santander's conglomerate. Therefore, as of March 2012, RCI Brasil's consolidated BIS ratio was 24%, well above the minimum regulatory requirement of 11%. The company's consolidated Tier 1 capital ratio was 21.8% in 1Q12.

#### National Scale Rating

Moody's assigns long-term Brazilian national scale rating of Aa1.br to RCI Brasil. The rating derives from the company's creditworthiness in its niche market and is derived from its global local-currency rating.



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