

Rating Action: Moody's changes outlook on RCI's long-term debt and deposit ratings to positive from stable

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London, 26 January 2018 -- Moody's Investors Service ("Moody's") today affirmed RCI Banque's (RCI) long-term senior unsecured debt and deposit ratings of Baa1 and changed the outlooks on these ratings to positive from stable. The rating agency also affirmed RCI's standalone baseline credit assessments (BCA) and adjusted BCA of baa3, its subordinated programme rating of (P)Ba1, its short-term ratings and long- and short-term Counterparty Risk (CR) assessments of Prime-2 and A3(cr)/P-2(cr), respectively.

The change in the outlook on RCI's long-term ratings to positive was prompted by the announcement on 15 January 2018 of the change in the outlook on Renault S.A.'s (Renault; Baa3, positive) rating to positive. For more details, please see Moody's press release on Renault dated 15 January 2018 (Moody's changes Renault's outlook to positive and affirms Baa3; https://www.moody.com/research/--PR_378045).

Moody's upgraded the long-term local currency issuer rating of RCI Banque Sucursal Argentina, a branch of RCI located in Argentina, to Ba2 from Ba3. The outlook on this rating remains stable. While RCI's long-term debt and deposit ratings are Baa1, the local currency issuer rating of RCI Banque Sucursal Argentina is constrained by the local currency debt ceiling assigned to the country, which has been positioned at Ba2 from Ba3. For more details, please see Moody's press release on Argentina dated 29 November 2017 (Moody's Upgrades Argentina's Rating to B2; Outlook Stable; https://www.moody.com/research/--PR_376034).

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RCI's 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 the Advanced Loss Given Failure (LGF) analysis, stemming from the large volume of senior long-term debt and resultant very low expected loss rate on these instruments.

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. Earning streams are high and stable, credit losses on its retail and corporate exposures are low, and capitalization is commensurate with the bank's risk profile.

At the same time, the BCA is constrained by the bank's lack of business diversification, exposures to car dealers, which account for 25% of the bank's loan portfolio. Moreover, Moody's factors in RCI's high reliance on confidence-sensitive wholesale funding, albeit somewhat mitigated by the absence of maturity transformation and the collection of online deposits, currently representing one third of the bank's funding.

Moody's believes that RCI benefits from a high probability of support from its parent Renault. This is underpinned by the bank's strategic importance for the car manufacturer. RCI is a wholly owned subsidiary of Renault and is fully integrated into its strategy. The proportion of new vehicles registered by Renault group's brands that are financed by RCI currently exceeds 38%, which highlights the critical importance of a financial captive as a means to facilitating car sales. RCI also plays a capital role for Renault through the financing of its dealers' 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 RCI's BCA. If the rating of Renault were to be upgraded by one notch as a follow up to the positive outlook assigned on 15 January 2018, a continued assumption of a high probability of support would result in one notch of affiliate support uplift. This prompted Moody's decision to revise the outlook on RCI's ratings to positive.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Given the high support assumption, RCI's adjusted BCA could be upgraded due to an upgrade of its parent Renault. RCI's BCA could be upgraded following (1) a material reduction in its reliance on wholesale funding;

or (2) any material improvement in asset quality or solvency. Moody's considers that the BCA of a financial captive (i.e. RCI's BCA) is unlikely to exceed the carmaker's rating (i.e. Renault's rating) by more than one notch.

An upgrade of the BCA or the adjusted BCA would likely prompt an upgrade of the bank's deposit and senior unsecured ratings. Under Moody's advanced LGF analysis, the long-term and short-term deposit and senior unsecured debt ratings could be positively affected by significant issuance of subordinated instruments, which Moody's does not expect in the short-term.

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

LIST OF AFFECTED RATINGS

Issuer: RCI Banque

..Affirmations:

-Adjusted Baseline Credit Assessment, affirmed baa3
-Baseline Credit Assessment, affirmed baa3
-Long-term Counterparty Risk Assessment, affirmed A3(cr)
-Short-term Counterparty Risk Assessment, affirmed P-2(cr)
-Long-term Bank Deposits, affirmed Baa1, outlook changed to Positive from Stable
-Short-term Bank Deposits, affirmed P-2
-Long-term Deposit Note/CD Program, affirmed (P)Baa1
-Short-term Deposit Note/CD Program, affirmed P-2
-Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook changed to Positive from Stable
-Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1
-Subordinate Medium-Term Note Program, affirmed (P)Ba1
-Other Short Term, affirmed (P)P-2
-Commercial Paper, affirmed P-2

..Outlook Action:

-Outlook changed to Positive from Stable

Issuer: RCI Banque Sucursal Argentina

..Upgrade:

-Long-term Issuer Rating, upgraded to Ba2 Stable from Ba3 Stable

..Outlook Action:

-Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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