

Rating Action: Moody's downgrades Banco RCI's ratings, outlook changed to stable

10 Jun 2020

New York, June 10, 2020 -- Moody's Investors Service, ("Moody's") has today downgraded Banco RCI Brasil S.A.'s (Banco RCI) long term global local currency deposit rating to Ba2, from Ba1, as well its respectively long- and short-term Counterparty Risk Assessments (CRA) to Ba1(cr)/NP(cr), from Baa3(cr)/Prime-3(cr) and its long- and short-term local currency Counterparty Risk Ratings (CRR) to Ba1/NP, from Baa3/Prime-3, respectively. The bank's adjusted baseline credit assessment was also downgraded to ba2, from ba1. On the Brazilian national scale, Moody's downgraded Banco RCI's long-term deposit ratings to Aa2.br, from Aaa.br. All other ratings and assessment assigned to Banco RCI remain unchanged.

The rating action concludes the review for downgrade that was initiated on April 8, 2020, and that was prompted by similar actions taken on the ratings of its immediate parent, RCI Banque (long-term deposit and senior unsecured debt ratings to Baa2). Please see "Moody's downgrades RCI Banque's deposit and senior unsecured ratings to Baa2; outlook is negative".

The ratings downgrade also reflects Moody's view that the Brazilian economy will contract in 2020 as a result of the coronavirus outbreak, which will likely have a direct negative impact on Banco RCI's and other Brazilian banks' asset quality and profitability. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Banco RCI's Ba2 local currency deposit rating and ba2 adjusted BCA incorporates one-notch of uplift from its BCA of ba3 to reflect our assessment of a high likelihood of support from its parent, RCI Banque, based on the strategic focus shared between the parent and the bank.

The following ratings and assessments of Banco RCI were downgraded:

- Long-term global local-currency deposit rating to Ba2, from Ba1, outlook changed to stable from Ratings Under Review
- Long-term counterparty risk assessment to Ba1(cr), from Baa3(cr)
- Short-term counterparty risk assessment to NP(cr), from P-3(cr)
- Long-term global local-currency counterparty risk rating to Ba1, from Baa3
- Short-term global local-currency counterparty risk rating to NP, from P-3
- Long-term Brazilian national scale deposit rating to Aa2.br, from Aaa.br
- Adjusted baseline credit assessment of ba2, from ba1

Outlook Actions for Banco RCI Brasil S.A:

- Outlook changed to stable, from Rating Under Review

RATINGS RATIONALE

Moody's noted that RCI Brasil's deposit ratings reflect its role as a captive financing arm, being solely engaged in financing sales of vehicles produced by both Renault do Brasil S.A. and Nissan do Brasil Automóveis Ltda. As such, the bank's business strategy and performance are closely tied to those of its auto manufacturing companies.

The bank's unchanged baseline credit assessment (BCA) at ba3 reflects the bank's historically better-than-market' asset quality, supported by adequate credit risk management procedures. Loan loss reserve remains high, providing ample coverage to problem loans. Nevertheless, we expect that the coronavirus outbreak will have a negative impact on Banco RCI's asset quality as business closure and pullback in local consumption

results in economic deceleration, car sales decline and higher unemployment. Loan payment deferrals may also mask asset quality metrics over the medium-term.

In the meantime, lower business volumes, combined with higher credit and funding costs will weigh on RCI Brasil's profitability, with revenues already limited by its monoline business model. In March 2020, the bank's net income to tangible asset remained stable at around 1.9%, primarily supported by higher income from loans and lower operating and credit costs, which offset lower results with leasing. The bank's results in Q1 reflected the recovering activity early in the year and that has been cut short by the sudden stop in the economy.

Similar to peers, the bank's wholesale and highly confidence sensitive funding base remains a key rating constraint, together with the low stock of liquid assets. About 44% of the bank's funds are sourced from related parties, mostly in the form of interbank deposits, resulting in a fairly concentrated funding profile, although management is working to expand its investor base.

We note that the bank's capital base remains adequate to provide additional protection against loan losses. Banco Santander (Brasil) S.A. (SANB, Ba1 stable ba2) owns 39.9% of RCI Brasil's shares. Therefore, RCI Brasil's capital ratios are consolidated into SANB's prudential conglomerate for regulatory purposes, although the bank's capital position is individually overseen by both regulators and its controlling shareholders. We expect that a slowdown in loan origination over the next months and temporary regulatory measures, including the capping of dividends to a maximum statutory 25% and lowering of capital conservation buffer requirements, will help preserve the bank's capital in the face of coronavirus outbreak' effects on asset quality and profitability.

Moody's regards the coronavirus pandemic as a social risk under its ESG framework, given the substantial implications for public health and safety. Please see Moody's Environmental risks and Social risks heatmaps for further information. Today's rating actions reflect the impact on Banco RCI of the severity of the shock, and Moody's view of its ability to withstand it under its current assumptions.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade in Banco RCI's supported ratings would occur following an upgrade in RCI Banque ratings. Combined to this, a scenario of stronger asset-quality indicators and profitability could also result in upward rating pressure on Banco RCI's standalone BCA.

The bank's ratings could also face negative pressures as a result of material deterioration of asset quality and profitability, arising from higher provisions and increase in funding costs. A consistent decline in profitability could hurt the bank's ability to replenish capital through earnings, which could be negative in the long run. A downgrade of the parent's ratings by multiple notches could be negative for Banco RCI's ratings

METHODOLOGY USED

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Banco RCI is 60.1% owned by RCI Banque in France and 39.9% by Banco Santander (Brasil) S.A.. It is a credit-oriented monoline bank created in 2000 to finance the sales of vehicles produced by Renault and Nissan in Brasil. Headquartered in Curitiba, it presented equity of BRL 1.4 billion and loans of BRL 12.2 billion in March 2020.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1216309.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Theresangela Araes
Vice President - Senior Analyst
Financial Institutions Group
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

M. Celina Vansetti-Hutchins
MD - Banking
Financial Institutions Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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