Research Update:

Ratings On Germany-Based Financial Institution GRENKELEASING AG Affirmed At 'BBB+/A-2'; Outlook Negative

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Overview

- Germany-based financial institution GRENKELEASING AG (Grenke) is growing strongly in regions with weaker economic environments than Germany.
- This prompted us to revise Grenke's anchor to 'bbb+' from 'a-', although this is offset by our upward assessment of the institution's risk position to adequate from moderate.
- We are therefore affirming our ratings on Grenke at 'BBB+/A-2'.
- The negative outlook reflects that we might lower the ratings if Grenke were to markedly increase its business risk or lose its superior earnings and asset quality resilience.

Rating Action

On Sept. 12, 2013, Standard & Poor's Ratings Services affirmed its long- and short-term counterparty credit ratings on Germany-based financial institution GRENKELEASING AG (Grenke) at 'BBB+/A-2'. The outlook is negative.

Rationale

Grenke has expanded its leasing business in European countries outside Germany and Switzerland by double-digit figures since 2010. We believe economic risks are comparatively higher in these European regions. In the first six months of 2013 Grenke's leasing business grew by 16.7%, and about 60% of total new business was outside economically robust German and Swiss markets.

We believe that Grenke will maintain its business dominance in less economically robust European markets. This prompted us to revise downward our anchor, or baseline assessment, for Grenke to 'bbb+' from 'a-'.

At the same time, we revised upward our assessment of Grenke's risk position to adequate from moderate, offsetting our downward revision of the anchor. We take increasing comfort from Grenke's ongoing superior risk management and risk pricing in its diversified leasing business. In particular, we acknowledge its demonstrated favorable track record since the start of recessions in European markets in 2007-2008.

We expect Grenke's capital position to remain strong over the next two years. We anticipate that Grenke will bolster ongoing strong business growth in
weaker regions with sustainably high earnings and based on a €54 million capital increase in February 2013.

Consequently, we continue to assess Grenke's stand-alone credit profile (SACP) at 'bbb'. Moreover, we continue to factor into the ratings one notch of uplift above the SACP, because we believe that Grenke will continue to outperform similar financial institutions at the same rating level. For example, we estimate Grenke's current capital buffer at around 460 basis points, which compares very favorably with its peers. We believe the strong buffer comes from Grenke's efficient risk pricing in difficult European markets.

### Outlook

The negative outlook indicates a one-in-three possibility that we would downgrade Grenke if it markedly increased its business risk or lost its superior earnings and asset quality resilience. We expect Grenke's strong loss experience to remain difficult in the context of sluggish and fragile European economies over the next two years.

Grenke's creditworthiness could deteriorate if it were to dilute its competitive edge in superior risk-adjusted pricing and management. This could prompt us to remove the one notch of uplift we currently include in the ratings for Grenke's outperformance of similar peers.

We might consider a negative rating action if an unexpected worsening in European economic conditions or an increase in Grenke's lending growth to less economically robust European markets diluted its sustainable risk-adjusted capital (RAC) ratio below 15%.

We might revise the outlook to stable if we were to see a longer period of evidence of Grenke's discipline in favorable pricing and risk management, and if high earnings and capital buffers remained untarnished through the cycle.

### Ratings Score Snapshot

<table>
<thead>
<tr>
<th>Issuer Credit Rating</th>
<th>To: BBB+/Negative/A-2</th>
<th>From: BBB+/Negative/A-2</th>
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<tbody>
<tr>
<td>SACP</td>
<td></td>
<td></td>
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<tr>
<td>Anchor</td>
<td>bbb</td>
<td>bbb</td>
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<tr>
<td>Business Position</td>
<td>bbb+</td>
<td>a-</td>
</tr>
<tr>
<td>Capital and Earnings</td>
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<td>Very Strong (+2)</td>
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<tr>
<td>Risk Position</td>
<td>Adequate (0)</td>
<td>Moderate (-1)</td>
</tr>
<tr>
<td>Funding and Liquidity</td>
<td>Below Average and Adequate (-1)</td>
<td>Below Average and Adequate (-1)</td>
</tr>
<tr>
<td>Support</td>
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<td>0</td>
</tr>
</tbody>
</table>
GRE Support 0 0
Group Support 0 0
Sovereign Support 0 0
Additional Factors +1 +1

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

Ratings Affirmed

GRENKELEASING AG
  Counterparty Credit Rating BBB+/Negative/A-2
  Commercial Paper A-2

Grenke Finance PLC
  Senior Unsecured* BBB+
  Commercial Paper* A-2
*Guaranteed by GRENKELEASING AG

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Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.