Research Update:
Germany-Based GRENKELEASING AG Outlook Revised To Negative; 'BBB+/A-2' Ratings Affirmed

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Overview

- We have observed that Germany-based GRENKELEASING AG (Grenke) has experienced sustained lending growth in markets with higher economic risks.
- In our view, this poses a risk to Grenke's issuer credit rating.
- We are revising our outlook on Grenke to negative from stable and affirming our 'BBB+/A-2' ratings on Grenke.
- The negative outlook reflects our view that we might lower the long-term rating on Grenke if we saw growth in noncore and higher-risk markets outpacing our expectations.

Rating Action

On Dec. 6, 2012--Standard & Poor's Ratings Services revised its outlook on Germany-based financial institution GRENKELEASING AG (Grenke) to negative from stable. At the same time, the 'BBB+' long-term and 'A-2' short-term counterparty credit ratings were affirmed.

Rationale

We have observed a strong double-digit growth of new leasing business for Grenke outside of Germany and Switzerland--markets we currently see as the strongest in terms of economic risk in Europe--since 2010. New leasing business outside these markets accounts for about 60% of Grenke's total new business, while we observed overall business growth rates of 14% in the first nine months of 2012 compared with Dec. 31, 2011.

Grenke was able to maintain its superior net interest margins and kept loss rates between 220 basis points (bps) and 250 bps, which is a level in line with our expectation during this growth phase. The outlook revision stems from our view that we could lower the long-term counterparty credit rating (issuer credit rating; ICR) on Grenke due to its growth in higher-risk markets. In addition to that, we use risk weights to determine our risk-adjusted capital (RAC) ratio for issuers. The higher risk weights corresponding to the higher-risk markets where Grenke's growth is most prevalent could push the projected RAC ratio to a level below 15%. However, we currently project that Grenke's RAC ratio will stay slightly above the 15% threshold until 2014 because we believe Grenke's management will maintain its current very strong capital and earnings position through ongoing retention of earnings and a potential extraordinary capital increase.
We regard Grenke as a bank under our criteria, because it owns a fully consolidated bank subsidiary, GrenkeBank (not rated), and is a member of the German deposit protection scheme, subject to full banking regulation, and--most importantly--because it has potential access to European Central Bank funding.

Our ICR on Grenke reflects its 'a-' anchor, as well as our view of the company's "weak" business position, "very strong" capital and earnings, "moderate" risk position, "below-average" funding, and "adequate" liquidity, as our criteria define these terms. The stand-alone credit profile (SACP) is 'bbb'.

The ICR on Grenke is one notch higher than the 'bbb' SACP, based on its sustained and projected outperformance in its peer group, as seen in its superior capital buffer of around 450 bps, which compares favorably with peers at the same rating level.

**Outlook**

The negative outlook reflects the likelihood of a downgrade if Grenke's further business expansion would continue to weaken the company's overall economic risk profile and could therefore lead us to lower its anchor to 'bbb+' from 'a-', potentially resulting in a one-notch cut to the ICR. At the same time, we could further lower the ICR if, due to the aforementioned business growth, we expected Standard & Poor's RAC ratio for Grenke to drop sustainably below a threshold of around 15%. Each trigger could result in a one-notch downgrade, which means a potential two-notch downgrade in an adverse scenario. In addition, we might also lower the ICR if the economic conditions in its major markets were to weaken further.

We would revise the outlook to stable if we perceived that the portion of Grenke's lending exposures to less favorable economic markets would reduce and that at the same time the RAC ratio would remain considerably above 15%.

**Ratings Score Snapshot**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer Credit Rating</strong></td>
<td>BBB+/Negative/A-2</td>
</tr>
<tr>
<td><strong>SACP</strong></td>
<td>bbb</td>
</tr>
<tr>
<td><strong>Anchor</strong></td>
<td>a-</td>
</tr>
<tr>
<td><strong>Business Position</strong></td>
<td>Weak (-2)</td>
</tr>
<tr>
<td><strong>Capital and Earnings</strong></td>
<td>Very strong (+2)</td>
</tr>
<tr>
<td><strong>Risk Position</strong></td>
<td>Moderate (-1)</td>
</tr>
<tr>
<td><strong>Funding and Liquidity</strong></td>
<td>Below average and Adequate (-1)</td>
</tr>
<tr>
<td><strong>Support</strong></td>
<td>0</td>
</tr>
</tbody>
</table>

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GRE Support 0
Group Support 0
Sovereign Support 0
Additional Factors 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

CreditWatch/Outlook Action; Ratings Affirmed

To From
GRENKELEASING AG Counterparty Credit Rating BBB+/Negative/A-2 BBB+/Stable/A-2

Ratings Affirmed

GRENKELEASING AG
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 on the Global Credit Portal at www.globalcreditportal.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.