Research Update:
German Financial Institution
GRENKELEASING AG Outlook
Revised To Stable From Negative; 'BBB+/A-2' Ratings Affirmed

Primary Credit Analyst:
Bernd Ackermann, Frankfurt (49) 69-33-999-153; bernd.ackermann@standardandpoors.com

Secondary Contact:
Markus W Schmaus, Frankfurt (49) 69-33-999-155; markus.schmaus@standardandpoors.com

Table Of Contents
Overview
Rating Action
Rationale
Outlook
Ratings Score Snapshot
Related Criteria And Research
Ratings List
Research Update:

German Financial Institution GRENKELEASING AG Outlook Revised To Stable From Negative; 'BBB+/A-2' Ratings Affirmed

Overview
• We expect GRENKELEASING AG (Grenke) to continue to outperform universal bank peers in terms of key earnings measures over the cycle.
• We also anticipate that Grenke will continue to proactively manage and preserve its very strong capital and earnings position.
• We are therefore revising our outlook on Grenke to stable from negative and are affirming the ratings at 'BBB+/A-2'.
• The stable outlook reflects our expectation that Grenke will continue to benefit from its superior risk-adjusted pricing and that its projected risk-adjusted capital ratio will remain above 15% over the next 18-24 months.

Rating Action
On Aug. 13, 2015--Standard & Poor's Ratings Services revised its outlook on Germany-based financial institution GRENKELEASING AG (Grenke) to stable from negative. The long- and short-term counterparty credit ratings were affirmed at 'BBB+/A-2'.

Rationale
Grenke continues to post strong risk-adjusted interest margins and declining credit loss provision ratios despite a low interest rate environment and fragile economies in several of its key markets outside Germany. These results have been underpinned by strong earnings ahead of the company's own projections for the first half of 2015. In addition, Grenke has further demonstrated its commitment and ability to secure its "very strong" capital position despite robust new business growth, including by the issuance of a €30 million Additional Tier 1 (AT1) instrument in July 2015. We also consider that Grenke's investment in operations in recent years and growing economies of scale from business expansion should support favorable earnings capacity. As such, we now think there is a reduced likelihood of erosion in Grenke's competitive edge in risk-adjusted pricing and risk management, or a drop of its risk-adjusted capital (RAC) ratio to below 15.0% from 15.1% at year-end 2014.

On the back of Grenke's stronger earnings level compared with universal banks domiciled in Germany, we currently forecast annual earnings to cover about 400
basis points of its Standard & Poor's risk-weighted assets, which could act as a first line of defense in case of severe credit stress at the group level. The strength of its earnings mainly stems from Grenke's attractive niche in its markets, which enables it to generate favorable net interest margins compared with the level of credit loss provisions. This leads us to continue applying a positive one-notch adjustment to Grenke's stand-alone credit profile (SACP) of 'bbb' to arrive at the 'BBB+' long-term rating. At the same time, we account for Grenke's relatively small size and the concentrated nature of its overall business operations in our "weak" assessment of the business position as well as the resulting lower SACP.

In our analysis of Grenke's capital management, we anticipate that Grenke will continue to build capital--mainly through earnings retention--such that our measure of core capital, total adjusted capital, keeps pace with its double-digit growth in exposures. We also assume that the quality of growth and its regional split will not materially increase the riskiness of its credit exposures. Furthermore, we would expect further inorganic capital increases, if Grenke would be endangered to breach our 15% RAC ratio threshold, a level that is consistent with our "very strong" capital and earnings assessment. We note that Grenke has constantly taken initiatives to preserve its capital strength, for example through the AT1 issuance in July 2015, the offering of stock dividends instead of cash payouts in 2014, or its share capital increase back in 2013. We project that Grenke's RAC ratio will stand between 16.5% and 17.0% over the next 18 months, which benefits mainly from its recent AT1 issuance compared with the ratio at year-end 2014.

As per our criteria, we regard Grenke as a bank because it owns a fully consolidated bank subsidiary, GRENKEBANK, which is a member of the German deposit protection scheme. GRENKEBANK is subject to full bank regulation and, most importantly, has potential access to European Central Bank funding. We do not include any external support in the ratings on Grenke, however.

Our rating on Grenke continues to reflect the 'bbb+' anchor, our baseline assessment, as well as our view of the company's "weak" business position, "very strong" capital and earnings, "adequate" risk position, "below-average" funding, and "adequate" liquidity, as our criteria define these terms.

Outlook

The stable outlook reflects our expectation that Grenke will continue to benefit from its superior risk-adjusted pricing. It also reflects our assessment that its projected RAC ratio will remain above 15% over the next 18–24 months.

Downside scenario

We would lower the ratings on Grenke if, in contrast to our expectations, we concluded that it would not be able to maintain its RAC ratio above our 15% threshold, as per our criteria. We could also lower the ratings if we...
perceived heightened credit losses due to a more difficult macroeconomic environment in the European countries where Grenke has major operations, or due to expansion in riskier regions.

Upside scenario
A positive rating action over the next 18-24 months is remote given Grenke's comparably small size and niche business model with material reliance on wholesale funding, which are unlikely to change in the foreseeable future.

Ratings Score Snapshot

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

Related Criteria And Research

Related Criteria
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- 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
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004
**Related Research**

- Banking Industry Country Risk Assessment: Germany, July 23, 2015

**Ratings List**

<table>
<thead>
<tr>
<th>Outlook Action; Ratings Affirmed</th>
<th>To</th>
<th>From</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRENKELEASING AG</td>
<td>BBB+/Stable/A-2</td>
<td>BBB+/Negative/A-2</td>
</tr>
</tbody>
</table>

**Ratings Affirmed**

<table>
<thead>
<tr>
<th>GRENKELEASING AG</th>
<th>Preferred Stock</th>
<th>BB-</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Grenke Finance PLC</th>
<th>Senior Unsecured[1]</th>
<th>BBB+</th>
</tr>
</thead>
</table>

[1]Guaranteed by GRENKELEASING AG.

**Additional Contact:**

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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.
Copyright © 2015 Standard & Poor’s Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P’s public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.