Rationale

On May 15, 2003, Standard & Poor's Ratings Services assigned its 'BBB+' long-term and 'A-2' short-term counterparty credit ratings to Germany-based small-ticket IT and office equipment leasing company Grenke Leasing AG (Grenke). The outlook is stable.

Due to structural subordination, Grenke's proposed senior unsecured debt will be assigned 'BBB' debt ratings and short-term debt will be assigned a 'A-3' debt rating.

The ratings on Grenke reflect the company's sound management and domestic market position in small-ticket IT leasing to small and midsize enterprises (SMEs), high profitability, and sound capitalization. The ratings also reflect: the lack of business and revenue diversification, due to its exclusive focus on the niche market of IT and office equipment; weakening asset quality and high provisioning needs as a result of the economic downturn in Germany; and its less-diversified, wholesale-oriented funding base, combined with an ambitious organic growth strategy focused on spreading its business model Europewide.

With total assets of €652 million and adjusted common equity (ACE) of €113 million at March 31, 2003, Grenke is one of the larger of about 1,200 German leasing companies, particularly among the largest nonbank, noncaptive leasing companies, and is the market leader in its niche business.

Standard & Poor's regards Grenke's asset quality as acceptable, which is helped by the high diversification by lessees and high granularity of its portfolio. The typical full amortization over the lifetime of the lease contract and the fact that Grenke has no residual value risk in these contracts mitigate concerns. In addition, the large number of contracts allows Grenke to predict provisions on a statistical basis and these are usually factored into its lease calculations.

The high concentration on SME customers and its 89% concentration on IT products, however, makes the quality of the portfolio susceptible to a deteriorating economic environment and changes in underlying IT demand and asset values. Asset quality is also currently somewhat impaired by an increasing level of nonperforming assets in France, its second most important market, due to the inappropriate adaptation of its underwriting standards to local peculiarities.

Operating profitability is higher than that of its (typical banking) peers, and is boosted mainly by high interest margins. Even in times of aggressive growth, Grenke has been able to maintain strict cost control and to continuously reduce its cost-to-income ratio; at March 31, 2003, it was a favorable 39%. Profitability (as measured by ROE of 14.1% at March 31, 2003) is favorable, taking into account its sound capitalization of 17.3% (ACE-to-adjusted assets). This is also corroborated by an ROA of about 245 basis points (bps; five-year average 272 bps).
Outlook

The stable outlook on Grenke reflects Standard & Poor's expectations that the company will continue to grow organically while at the same time continuing to improve its overall sound underwriting criteria; and to maintain access to creditors and capital markets funding, with growth remaining sufficiently supported by an adequate capitalization. The preservation of the company's lean set up and cost leadership are expected to help to maintain its sound profitability levels and enable sufficient earnings retention to accompany growth.

Although Standard & Poor's expects a modest weakening of capital ratios, it expects the company to maintain a capital ratio of about 15% in the medium term. The ratings might also come under pressure if the company is unable to successfully expand into other European countries and charge-off rates significantly grow in excess of risk premiums factored in.

Ratings List

- Counterparty credit ratings: BBB+/Stable/A-2

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Fixed Income in the left navigation bar, select Credit Ratings Actions. Alternatively, call one of Standard & Poor's Ratings Desks: London (44) 20-7847-7400; Paris (33) 1-4420-6705; Frankfurt (49) 69-33-999-223; or Stockholm (46) 8-440-5916. Members of the media may contact the Press Office Hotline on (44) 20-7826-3605 or via media_europe@standardandpoors.com.

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