Research Update:

Germany-Based GRENKELEASING Debt Ratings Raised To 'BBB+/A-2'; 'BBB+/A-2' Ratings Affirmed; Outlook Stable

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Overview

- Under our current bank criteria, we published comments on the influence of asset encumbrance on our bank ratings, and how senior unsecured debt would be equalized with the ratings on the bank that issued the debt.
- We regard GRENKELEASING as a bank under our criteria, as it fully owns and consolidates its subsidiary GrenkeBank, which is fully regulated and has potential access to central bank funding.
- Based on our commentary stated above, we are raising our senior unsecured and short-term debt rating on Grenke to 'BBB+/A-2' from 'BBB/A-3' and affirming the 'BBB+' long-term and 'A-2' short-term ratings.
- The stable outlook reflects our expectation that Grenke's well-managed business model will remain relatively resilient to the continually challenging operating environment, despite increasing credit risks and ongoing uncertainty in the funding markets.

Rating Action

On Sept. 12, 2012—Standard & Poor's Ratings Services affirmed its 'BBB+' long-term and 'A-2' short-term counterparty credit ratings on GRENKELEASING AG (Grenke). The outlook is stable. At the same time, we raised our senior unsecured debt rating on Grenke to 'BBB+' from 'BBB' and our short-term debt ratings to 'A-2' from 'A-3'.

Rationale

The affirmation and upgrade follow the publication of our commentary, "The Influence Of Asset Encumbrance On Our Bank Ratings", on Sept. 6, 2012. This commentary outlines that we do not rate a bank's senior unsecured debt lower than the issuer credit rating (ICR) because of asset encumbrance. Our ICR and debt ratings reflect the probability of default, rather than recovery after a default, and in the case of Grenke we believe that the significant use of secured funding does not increase the risk of default for senior unsecured creditors. Therefore, we do not assign a rating to senior unsecured debt at a different level than the ICR, even if the bank has pledged a high proportion of its assets as collateral for funding, as is the case with Grenke. The rating on Grenke's senior unsecured debt is now at par with the long-term ICR on Grenke.
We believe that specific, point-in-time thresholds for measuring the degree of overall encumbrance are less useful. Instead, we focus on the impact of asset encumbrance on Grenke's overall funding and liquidity position, which is already reflected in our "below-average" funding assessment, and "adequate" liquidity assessment on Grenke.

We regard Grenke as a bank under our criteria, because it owns a fully consolidated bank subsidiary, GrenkeBank, and is a member of the German deposit protection scheme, subject to full bank regulation, and most importantly 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 basis points, which is indicative of a higher rating level.

Outlook

The stable outlook reflects our expectation that Grenke's well-managed business model will remain relatively resilient to the continually challenging operating environment. This is despite increasing credit risks and ongoing uncertainty in the funding markets. Furthermore, we expect Grenke to continue to safeguard its sound financial profile and funding access with its strong risk-management systems, which should reduce higher concentrations in cyclical risks and somewhat compensate its limited experience in some European markets that it has recently entered.

A negative rating action could result if we perceived a weakening of Grenke's blended economic risk score due to Grenke's international expansion into markets with a comparably higher economic risk or due to further deterioration of our economic risk assessments under our Banking Industry Country Risk Assessment framework, which might negatively affect our anchor for Grenke. Furthermore, we might perceive a negative rating action, if Grenke's risk-adjusted capital ratio fell to less than 15%, which might lower our capital and earnings assessment. Moreover, if Grenke failed to demonstrate resilience of its funding sources, it might put a strain on our liquidity assessment, which could lead us to lower the ICR.

Positive rating actions are unlikely, given Grenke's concentrated business model and reliance on wholesale funding.
Ratings Score Snapshot

Issuer Credit Rating  BBB+/Stable/A-2
SACP  bbb
Anchor  a-
Business Position  Weak (-2)
Capital and Earnings  Very strong (+2)
Risk Position  Moderate (-1)
Funding and Liquidity  Below average and Adequate (-1)
Support  0
GRE Support  0
Group Support  0
Sovereign Support  0
Additional Factors  1

Related Criteria And Research

• The Influence Of Asset Encumbrance On Our Bank Ratings, Sept. 6, 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

Ratings List

Upgraded  
Grenke Finance PLC  
Senior Unsecured*  BBB+  BBB
Commercial Paper*  A-2  A-3

Ratings Affirmed

GRENKELEASING AG  
Counterparty Credit Rating  BBB+/Stable/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
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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.