

Accounts press conference 2018

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Deutsche Leasing: 2016/17 financial year

Ladies and gentlemen,

Welcome to the accounts press conference for our 2016/17 financial year, which ended – as you know – on 30 September 2017.

Overall, Deutsche Leasing can look back on a successful financial year. We managed to

- achieve above-average increases in terms of new business and the overall result,
- enjoy significant growth in international business and at DAL,
- watch our investments grow, and
- continue to consolidate our equity base.

And we did all this in a year of contrasting developments within our market.

For one thing, competition increased and the European Central Bank kept interest rates low. At the same time, we benefited from the good performance of both the German and the global economy – particularly in the sectors important to us, such as machinery and plant manufacture, the

automotive industry, and logistics. And thirdly, we are also witnessing and helping to shape one of the biggest economic and technological revolutions in economic history in the form of digitisation.

The dynamics of the economic environment and the market affect both us and our customers, who have to adapt accordingly. The various opportunities and challenges have encouraged us, during the past financial year, to ensure we are even better placed to serve both our customers and the market: thanks to improved efficiency, faster processes, more flexibility, and even greater customer focus. Because we want to remain the preferred asset finance partner for our customers in future too – as well as the asset finance competence centre for Sparkassen-Finanzgruppe.

2016/17 financial year

I will start by outlining a few key indicators for our economic environment for the 2016/17 financial year.

During the 2016/17 financial year, the global economy experienced increasing growth. From autumn 2016, the main driver of the global upturn was private consumption. Investment levels remained low at first, but picked up better than expected from winter 2016 – particularly as a result of political risks subsiding. The US economy received a further boost too following the Presidential elections. In June 2017, the key interest rate was

increased by 0.25 percentage points without any slowdown in the economic recovery.

The eurozone enjoyed an upturn in the year under review too, with almost all national economies expanding. Strong domestic demand, particularly in terms of private consumption, had a positive effect on growth. Investment levels remained relatively low, although they did pick up to a moderate extent during the second half of 2017.

The recovery enjoyed by the German economy on the back of private consumption, which had begun in the previous year, continued during the 2016/17 financial year too. For 2017 as a whole, the real rate of growth is 2.2 per cent. Considerable impetus came from abroad, and this provided a further boost to the domestic upturn as well. For example, investment in equipment increased by 4.3 per cent.

The German machine building industry also did well and continued to grow during 2017. Deutsche Leasing counts numerous well-known manufacturers among its customers and partners. Order levels within the sector increased by 8 per cent during the past year, while production was up 3 per cent and companies were working at above-average capacity.

The main reason for the increase in production was higher demand within export markets. The increase in orders from abroad during 2017 was twice as high as the domestic increase – with China and the USA leading the way and highlighting how important markets beyond Europe can be.

Trends during the 2016/17 financial year

With new business increasing to 8.9 billion euros in the 2016/17 financial year, we managed – despite growing pressure from the competition – to further consolidate our leading market position in Germany and among providers of leasing services in Europe.

In a year characterised by projects and organisational changes, particularly domestically, we achieved 6.7 billion euros of new business in Germany, which is about the same as the previous year. DAL Deutsche Anlagen-Leasing (DAL) achieved further growth with its solutions, which are mainly used for high-volume, complex investments. With 1.6 billion euros, DAL accounted for 18 per cent of new business at the Deutsche Leasing Group.

In the 2016/17 financial year, our foreign subsidiaries achieved a 12 per cent increase on the previous year with their 2.2 billion euros of new business. This growth was driven by a number of European markets, but also by important markets such as Russia, China, and Brazil.

Our own investments have done well too.

Having taken a majority share in Deutsche Factoring Bank (DFB) in the 2015/16 financial year, we started, in the last financial year, to adopt a broad and systematic approach to developing the market on the factoring side – with the focus on the association of savings banks. The positive impact of this can be seen already: Over the course of the last financial year, which corresponds to the calendar year, DFB was able to generate a

factoring volume of 17.1 billion euros and thereby exceed the previous year's total by 10 per cent. There was also an above-average increase in net income for the year thanks to favourable developments in terms of risk.

Bad Homburger Inkasso (BHI) – an associated company of the Deutsche Leasing Group – offers solutions for doubtful debts and for achieving market values for movable and immovable securities. Incoming payments during the past financial year came to around 200 million euros. The client base grew by around 15 per cent over the course of the past financial year, largely thanks to new customers from the residential property sector. With the founding of AKG ImmoPlus, a joint venture with a subsidiary of Deutsche Kreditbank AG, we are now also able to offer our customers the purchase of doubtful debt secured by property.

S-Kreditpartner (SKP), a joint venture between Deutsche Leasing and Landesbank Berlin, continued to enjoy growth within the car and consumer finance sector and increased its lending volume by 23 per cent to 5.8 billion euros by the end of the financial year (31.12.2017). It achieved this significant improvement by increasing business with savings banks with which it already collaborates, and also by successfully integrating and developing new full-scale collaborations with other savings banks. At the end of the financial year, some 153 savings banks were involved in full-scale collaborations, while 283 savings banks are using the 'S-Kredit-per-Klick' online product range via a collaborative arrangement with SKP.

We are making good progress in terms of expanding our property insurance business. As already revealed during the past year, the idea is for each of our asset finance solutions to feature an insurance component for the investment property. This applies regardless of whether the party involved is a direct customer, a savings bank customer, or a customer of one of our partners. Overall, the insurance business is enjoying significant growth, particularly in the low-volume systems business. Property insurance is now integrated into the systems for individual business too, and our foreign subsidiaries have also started on integration.

Financial statements

Group total assets for Deutsche Leasing increased by 672 million euros (around 4 per cent) to 19.4 billion euros as of 30 September 2017. The increase is mainly due to an expansion of new business. In the previous year, Group total assets enjoyed a better-than-average increase due to the initial consolidation of DFB.

At 17.1 billion euros, the inventory of leasing assets, based on initial values, was slightly higher than the previous year (16.9 billion euros) and therefore reflects the growth in new business.

We also managed to achieve an increase of 3 per cent, compared with the previous year, in terms of machinery and equipment. Our foreign subsidiaries played a large part in this.

The road vehicles segment was some 6 per cent down overall on the previous year, which had been particularly successful. This development was considerably influenced by the diesel crisis and the fact that some customers were putting off ordering vehicles. Despite strong pressure from the competition, Deutsche Leasing continues to pursue a conservative approach to goodwill and residual values.

The information and communication technology business was on a par with the previous year. The hardware business did better than the previous year, while the software business did slightly worse.

As far as property is concerned, we managed a 45 per cent increase in business on the previous year thanks to several high-volume projects. Here, it is becoming clear that DAL Deutsche Anlagen-Leasing is well positioned within the market as a specialist in the arrangement and structuring of long-term property projects. DAL Bautec successfully took care of construction management for a large number of projects.

The energy and transport segments enjoyed contrasting fortunes. The transport segment again increased new business during the year under review. We were particularly successful in rail-based local public transport, where we secured several large projects. The energy segment was hampered by changes in the market resulting from the revision of Germany's law relating to renewable energies (EEG 2017).

Leasing income from the leasing and hire-purchase business and from the sale of used leasing properties increased by 3 per cent to around 6.9 billion euros during the 2016/17 financial year. The increase was due to the expansion of the portfolio, which had a subsequent effect on income.

During the past financial year, net profit grew by 5 per cent to 72 million euros, while net income for the year rose by 16 per cent to 84 million euros. This includes DFB and any setting off of elements relating to external third parties.

The parent company, Deutsche Sparkassen Leasing AG & Co. KG, earned net income for the year worth 45.3 million euros. This means the amount made available for distribution to shareholders of Deutsche Sparkassen Leasing AG & Co. KG is the same as the previous year at 35 million euros.

Equity

Since the 2012/13 financial year, Deutsche Leasing has consistently pursued an objective of significant, organic increases in the equity base. The 2016/17 financial year saw us make further notable strides in this direction.

The equity disclosed on the balance sheet increased by 34 million from 765 million euros to 799 million euros. This is in keeping with Deutsche Leasing's strategic drive to bolster equity.

We also made further significant increases of 54 million euros to contingency reserves as per sections 340f and 340g of the German Commercial Code. In total, our contingency reserves as per sections 340f and 340g of the German Commercial Code now stand at 389 million euros.

This means we have now increased equity, including contingency reserves, to around 1.2 billion euros, compared with around 1.1 billion euros in the previous year. We will also be significantly increasing our equity in the coming years, by organic means, with a view to facilitating further growth and making Deutsche Leasing even more stable.

Economic result and net asset value

In the wake of the developments described, the two main leasing-specific key indicators (net asset value and economic results) also increased. In determining these two values, we adopt the valuation standards jointly defined by the Bundesverband Deutscher Leasing-Unternehmen (German Leasing Association – BDL) and the Institut der Wirtschaftsprüfer in Deutschland (Institute of Public Auditors in Germany – IDW).

The income and expenditure patterns typical of leasing arrangements mean that income and assets cannot be assessed on the basis of financial statements alone. The net asset value statement closes this gap by including future income and expenses from contracts too. The net asset value reflects profit therefore, with reference to future profit and loss statements, and also provides information on equity levels within the

business. The net asset value statement also provides the basis for determining our risk capacity – in the context of minimum requirements for risk management purposes.

For the purposes of assessing the results of a leasing company, however, what counts is not the net asset value on a given reporting date, but how it changes between the start and the end of the period under consideration. The change reveals, as the economic result, the additional contribution towards the net asset and therefore the results in future income statements.

Net asset value

In the past financial year, the net asset value increased by 4 per cent to 1,923 million euros, although the persistently low interest rate continued to have a negative impact.

Economic result

In the past financial year, we increased the economic result by around 3 per cent from 148 million euros to 153 million euros. This kind of result allows us to set aside a reasonable amount for distribution, to achieve an adequate increase in equity, and to make the investments we need for the future.

Financial and asset situation

The level of external funding associated with companies in Germany and abroad (excluding non-recourse business of DAL, but including DFB) increased to 18.3 billion euros in the period to 30 September 2017. This represents a 3 per cent increase on the previous year's figure of 17.7 billion euros. The external funds borrowed during the 2016/17 financial year were to finance leasing assets and other customer business of the Deutsche Leasing Group.

External funds were borrowed on largely the same terms, as regards capital commitment, fixed interest rate periods, and the currency involved, as financed customer business. However, any maturity transformation was negligible. Most finance continued to be based on medium- and long-term loans (including promissory note loans) and forfaiting, which together accounted for some four-fifths of all external funding. There was a disproportionately high increase in the level of loan-based finance as a result of the ongoing policy of increasing borrowing from public institutions providing development loans.

The finance structure is stable overall and largely unchanged from the previous year. At almost two-thirds, most of this relates to savings banks. The proportion relating to other institutions increased slightly, which is consistent with the increase in finance from public institutions providing development loans.

Risk assessment

Risk management helps the management at the Deutsche Leasing Group implement the business and risk strategy and covers all relevant types of risks as well as all companies belonging to the Group both in Germany and abroad. The aim is to strike a sensible balance between risk and opportunity/income at the level of the Group as a whole. It is a case of comparing the available risk coverage equity against overall risk to ensure sufficient risk capacity is in place. This calculation of risk capacity provides the basis for risk management at the Deutsche Leasing Group.

Overall, the past financial year saw a further improvement in the risk situation and risk infrastructure. The risk situation at the Deutsche Leasing Group profited from largely positive economic trends. Further developments were made to the risk infrastructure in the form of changes to methods and processes as well as improvements in data coverage and data quality, particularly in terms of abroad.

At the end of the 2016/17 financial year, the risk capacity ratio (RC ratio) for the Deutsche Leasing Group was lower than the previous year. This is largely due to the decline in the credit risk and the increase in potential risk cover. The risk capacity (RC) of the DL Group was still clearly in evidence,

and it would be reasonable to conclude – based on the same conservative assessment criteria – that Deutsche Leasing has made suitable provision in the consolidated financial statements for all identifiable risks.

Extraordinary depreciation, provisions, and write-downs remain adequate

based on conservative benchmarks. In addition to the aforementioned risk provisions as per sections 340f and 340g of the German Commercial Code, there are also appreciable hidden reserves as a result of the upfront expenses typically associated with leasing.

Now we come to the income situation and the funding base for the Deutsche Leasing Group. As already mentioned, the foreign subsidiaries provided an important income stream during the 2016/17 financial year. Over recent years, German medium-sized companies have gained an even firmer foothold in international markets and will continue to step up their activities abroad in future too. Mr Laukin will now provide you with details on how we have fared in terms of international business and tell you about a selection of Deutsche Leasing national subsidiaries.

International business segment

(Matthias Laukin)

Ladies and gentlemen,

We at the International business segment of Deutsche Leasing can also look back on a successful financial year. Our activities in 22 countries outside Germany helped significantly boost growth across the business as a whole.

The focus of our international business activities is to act as a partner for German industrial outfits and help them with sales financing and foreign investments. Via our international network, we offer holistic asset finance

solutions to vendors and their customers as well as to direct customers on a local basis. Thanks to this presence and expertise in foreign markets, we are able to adapt our finance solutions to local requirements.

In terms of foreign business, Deutsche Leasing is also an important partner for savings banks as their customers expect their principal bank to help them access international markets too.

The combined range of services offered by Deutsche Leasing and the savings banks has long been well received by customers. And since the business model adopted by savings banks tends to have a local focus, we are closing an important flank of the Sparkassen-Finanzgruppe with our international presence. By combining proximity to the customer, in the region concerned, with an international network, we offer customers simple but effective help with foreign investments – including for smaller projects.

During the past financial year, the foreign subsidiaries managed a significant growth in new business – partly with the help of the economic climate. In the eurozone, where the economic climate was generally favourable, our national subsidiaries achieved positive results across the board.

Beyond Europe, Brazil, Russia, and China did rather well – again with the help of an improved economic climate. Brazil's economy grew slightly during 2017, although the country is still waiting for a sustained change in

its fortunes. On the back of a number of major projects, sometimes covered by export credit insurers, we managed to increase new business significantly there.

In 2017, German exports to Russia increased for the first time in five years, which indicates that Russia has adjusted to the new conditions. We are experiencing this easing of the situation through our customers, particularly in terms of the growth in sales financing, with our new business in Russia increasing by 80 per cent during the past financial year – partly due to base effects as well.

2017 also saw the Chinese economy grow faster once more, with the country enjoying growth of 6.9 per cent. This favourable economic climate had a positive effect on our new business too, with our national subsidiary in China improving its results by 36 per cent.

The vendor business remains the most important element of our foreign business. We have close strategic partnerships with many well-known manufacturers of capital goods, most of which are German.

Overall, the trend within the industry is still to offer customers greater convenience via asset-based financing and complementary services and for players to position themselves as service providers. In this context, Deutsche Leasing is valued as an experienced partner with an international presence who is able to offer suitable solutions. In Germany, Deutsche Leasing is the only provider with this kind of 'virtual captive' offer.

With a view to becoming even more market-friendly and reflecting the increasingly international outlook adopted by medium-sized companies, the international subsidiaries of Deutsche Leasing are also getting fit for the future. The measures being adopted are consistent with those initiated by Deutsche Leasing in Germany and include further product developments, optimisation of processes, and a drive to do things faster across all areas.

In particular, we have further expanded our technical platform for managing and representing business processes. A standardised business software is also being rolled out across all national subsidiaries with a view to collating data along the value chain and harmonising processes and applications. This measure is mainly about optimising our business processes and ensuring manufacturers enjoy the best possible sales support.

These various measures will help secure and enhance the good market position and the general position Deutsche Leasing has achieved for itself in terms of international business. The figures revealed earlier suggest these measures are already having an impact. But we have also, of course, enjoyed a boost here from the favourable economic indicators across almost all markets.

We have made a good start to the 2017/18 financial year too and are predicting a further increase in new business for the International business segment over the course of the year.

Outlook

(Kai Ostermann)

Many thanks, Mr Laukin, for those insights into the international business. We also give our customers considerable help with their foreign activities through our subsidiary Deutsche Factoring Bank (DFB). More and more medium-sized German companies are using export factoring. Overall, the foreign component now accounts for around a quarter of DFB's total revenue. And this is also partly due to the strong international links forged by DFB through its membership of the global network known as Factors Chain International (FCI).

All things considered, we can be satisfied with how business has gone and with the key figures for the past financial year. The broad market coverage enjoyed by Deutsche Leasing across various business segments, sales channels, and regions – in association with the savings banks – continued to pay dividends. We continued to pursue our sustainable business policy and, taking into account the risk involved, maintained the steady progress of previous years. For one thing, this has helped succeed in implementing our corporate vision: we are the solutions-oriented asset finance partner for Germany's medium-sized businesses, and our success has vindicated this approach.

We also saw the financial year as an opportunity to initiate the next 'push' in the successful development of Deutsche Leasing with various targeted measures and set about implementing these too.

- By stabilising costs and focusing more closely, as an organisation, on the market, we have become leaner and more agile and pack more of a punch.
- In terms of factoring, we adopted a broad and systematic approach to market development, with the focus on the association of savings banks, in order to strengthen our position as a competence centre for factoring within Sparkassen-Finanzgruppe.
- We have adapted our range of services to ensure they are better tailored to our customers' needs. This means taking a process-oriented approach to small-volume business – compared with a solution-oriented approach to individual projects – while DAL prefers manufacturing-based and individual solutions for large and complex projects.
- We set up our Digital Innovation Unit on 1 October 2017 to tap into the potential offered by digitisation. I will go into this in more detail when I talk about the outlook for the current financial year.

With these measures during the past financial year, we have set a course that should allow Deutsche Leasing as a business to enjoy continued success.

We are rather ambivalent about the economic conditions for the 2017/18 financial year.

On the one hand, the committee of experts believes the global economy will expand considerably during the 2018 calendar year, with 3.2 per cent

growth forecast. Growth of 2.1 per cent is predicted for the eurozone for 2018, and this is expected to continue into 2019. Investment levels will continue to rise on the back of high capacity utilisation. Similarly, the ECB's monetary policy is not expected to dampen economic development in the eurozone, or only to a limited extent. In Germany, the expected 2.2 per cent rise in GDP will further consolidate the upturn.

On the other hand, the current economic cycle is already quite advanced. There is also some uncertainty given the numerous potential flashpoints worldwide, such as the unpredictable political situation in the USA in particular and the recent threat of a trade war.

And finally – almost half a year after Germany's parliamentary elections – a new government is taking shape in the form of a grand coalition, although the coalition agreement largely ignores the needs of the economy. It does not look as if the long-announced improvement in digital infrastructure will really kick on, and medium-sized companies have little prospect of benefiting from favourable investment or tax policies.

As regards the diesel issue, the previous government, if not the current one, has to share some responsibility – at least indirectly – for the current situation. And with the Federal Administrative Court in Leipzig now allowing driving bans in principle, this has only served to make customers even more unsure. We are monitoring developments closely, but are convinced that diesel vehicles will continue to have a future role in the fleet business of relevance to us. The decisive factors here are the ongoing

development of diesel technology and the climate target based on CO2 emissions, which can only be achieved with diesel engines.

Given this rather mixed picture, with good indicators but some question marks too, it is all the more important that we stick to the path we have chosen and which has served us well before. We also, however, need to keep developing and focusing harder on meeting the requirements of our customers and partners. We managed to do this during the last financial year. In the current financial year, we want to exploit the opportunities within the market which are arising thanks to the work we have done previously.

Some initial signs of success have already emerged during the first few months of this year. New business for the Deutsche Leasing Group is significantly up on the previous year, although we did make a modest start to that period. In terms of foreign business, the positive developments of the previous year have been sustained. The Savings Banks and SMEs business segment is enjoying significant growth too on the back of direct business. The risk situation across the business is pleasantly healthy both in Germany and abroad. Our investments are doing well too.

Providing there is no change in the broader economic indicators, we are expecting moderate growth in new business – driven by the Savings Banks and SMEs business segment – and an increase in both international business and the domestic vendor business.

For Deutsche Leasing, the joint business with the savings banks will play an even bigger role than previously in the coming years. The main aim here is to further expand the business in the segment associated with smaller corporate, business, and commercial customers.

We feel the factoring business has significant potential for growth and hope to capitalise on this more broadly in future via the sales channels associated with the savings banks, via intermediaries, and also through direct sales. This approach is going down well, particularly among medium-sized companies, for which the sale of receivables represents an increasingly important part of the finance mix – including in terms of export factoring.

Over the long term, our future will be influenced by digitisation – which is the big issue facing the economy at the moment. We too are keen to exploit its potential, by helping our customers with investments, by modernising our IT systems, and by developing new approaches to business. We want to help businesses live up to what is expected of them – in terms of people's typical digital needs – as well as making our processes and day-to-day business more efficient, faster, and more customer-focused. The Digital Innovation Unit, which we announced this time last year, is now up and running. It conducts research into digital ideas and innovations and will therefore help us tap into important future markets as well as giving us targeted new ideas for the range of services we offer and helping us to implement these.

Our plans for the 2017/2018 financial year are ambitious. By ensuring Deutsche Leasing focuses on its strengths, we want to grow both at home and abroad – together with our customers and partners and as part of Sparkassen-Finanzgruppe. This is why the theme for this year's annual report is also about 'making the business fit for the future'.

Thank you very much.

I now look forward to your questions and discussing these various matters with you.