

Balance sheet press conference, 2023

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Deutsche Leasing AG, Bad Homburg v. d. Höhe

The spoken word is the authoritative version.

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Deutsche Leasing Group: the financial year 2021/22

Ladies and gentlemen,

Welcome to the balance sheet press conference for our financial year 2021/22, which ended on 30 September 2022. We would like to thank you for taking part in this press conference and for your interest.

I will be taking you through things this morning together with Markus Strehle, Deutsche Leasing AG's Management Board member with responsibility for Finance and IT.

In summary, it should be said right at the outset that in the financial year 2021/22 the Deutsche Leasing Group was unable to remain immune in the face of the significant changes in framework conditions, which had both positive and negative effects. However, thanks to our broad diversification on the market we were well placed overall and were thus able to hold our own in this environment, and we continued to develop successfully:

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- with a **new business volume** of EUR 10.4 billion – a 4.8 per cent increase year-on-year,
- with an **economic result** of EUR 177 million,
- with an increase in our **net asset value** of approx. EUR 2.3 billion.

In addition, the past financial year for Deutsche Leasing was strongly influenced by forward-looking changes: we redefined our strategy, deepened our focus on areas of transformation and realised market opportunities.

In doing so, we thus responded to an environment which has become even more complex and even more uncertain: we are currently undergoing a huge economic transformation. The geopolitical changes and the war in Ukraine are putting significant pressure on supply chains, sales markets and the supply of energy. This means that companies must not only adopt strategies which are more energy-efficient and climate-friendly – and also digital. They must also identify responses to the geopolitical and macroeconomic changes which we are faced with.

As always in times of upheaval, challenges and market opportunities go hand in hand. Forward-looking investments will play a critical role in the successful transformation of the economy. A strong SME sector will remain a prerequisite for this, but so too will the right financing concepts and partners. As the Deutsche Leasing Group, with our asset and sector expertise and our many years of trusting relationships with the savings banks, partners and customers, we are ideally placed in order to play a role

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in tackling these changes.

Financial year 2021/22 – economic environment

The macroeconomic and industry-specific conditions in the financial year 2021/22 were multi-layered and subject to a large number of uncertainties.

While hopes of economic recovery dominated in Germany and worldwide in the first few months of the financial year 2021/22, the situation abruptly changed following the outbreak of war in Ukraine. The war and its knock-on effects – in particular, those relating to the supply of energy and energy generation – became the defining factor for the economic environment. However, the economic upswing was also curbed by the inflation trend, rising interest rates and China's zero-Covid policy – particularly since the supply bottlenecks were only gradually eliminated.

In the spring of 2022, the **global economy** almost ground to a standstill due to the ongoing logistics bottlenecks, the high rate of inflation and the outbreak of war in Ukraine. In addition, world trade was repeatedly adversely impacted by China's strict anti-Covid policy. In the second quarter of 2022, global gross domestic product (GDP) stagnated and the volume of output in the G20 countries declined. In the **Eurozone**, consumption activity continuously dropped over the course of 2022, due to high energy, food and electricity prices as well as lower real disposable incomes. The central banks (including the ECB) responded to the high level of inflation with increasingly restrictive monetary policy.

The **German economy** in 2022 was shaped by the effects of the war in Ukraine, the huge energy price rises as well as high inflation and continuing

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material and supply bottlenecks. The uncertainty over the supply of energy and the rising energy costs in particular had a negative impact on industries which are large consumers of gas and electricity, their exports and investment activity. According to the German Federal Statistical Office, gross domestic product (GDP) rose by 1.9 per cent in 2022 and was thus 0.7 per cent higher than before the start of the coronavirus pandemic in 2019.

Plant and equipment expenditures rose over the course of the year, despite the weak economic situation. Large backlogs of orders built up due to the supply problems. These were then gradually worked off as these bottlenecks were eliminated. Movable leasing is particularly significant for the investments made by the leasing industry. Its volume increased by almost 1 per cent in 2022. In the past year, the leasing ratio for movables (23.8 per cent) declined – this was primarily due to the passenger car business, but also reflected the positive hire-purchase trend – while the ratio for real estate improved slightly according to the leasing market report prepared by the German Economic Institute (IW) on behalf of the Federal Association of German Leasing Companies.

Course of business in the financial year 2021/22

With a 4.8 per cent increase in our new business volume to EUR 10.4 billion, we have exceeded the 10 billion mark for the second time in Deutsche Leasing's history and thus maintained our leading market position.

Business with direct and savings bank customers picked up considerably by comparison with the previous year. Every segment in this area of business contributed to this positive trend: business with corporate and company customers developed positively in all of Deutsche Leasing's target markets. S-Gewerbekredit was the main factor in the business and commercial customers segment; we have only just got started here, but almost doubled the volume realised in this segment thanks to close cooperation with the savings banks.

Domestic vendor business in cooperation with machinery and equipment manufacturers once again increased year-on-year. All of Deutsche Leasing's segments contributed to this. The commercial vehicles segment once more registered the strongest growth. The development of our **subsidiaries outside Germany** varied. All in all, business was unable to match the previous year's level. The freezing of active new business in Russia following the outbreak of the war and the adverse economic impact of China's zero-Covid policy were the key factors here. Leaving aside the new business volume in Russia and China, the volume of new business for Deutsche Leasing's other country units is at the same level as in the previous year.

In the **vehicle leasing and fleet management segment**, we once again

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exceeded the previous year's level and thus once more surpassed our target figures. Customer orders which were brought forward – partly due to the supply bottlenecks and the expected long delivery times – and the continuously growing proportion of electric vehicles had a positive impact on the new business trend. Increasing numbers of customers are switching to e-mobility for their vehicle fleets. Deutsche Leasing also picked up new framework agreement customers.

DAL Deutsche Anlagen-Leasing (DAL) is our Group's centre of excellence for real estate business as well as specialist transactions and project business, focusing on the areas of transport & logistics, infrastructure & utilities as well as IT & healthcare. With a new business volume of EUR 2.4 billion, DAL once again slightly surpassed the previous year's high level. Our core real estate leasing business and a significant increase in the volume of transactions in the future market of renewable energy (mainly solar and wind farms in Germany and selected foreign markets) both contributed to the positive new business trend.

A glance at the distribution of new business by asset class in the Deutsche Leasing Group's various business segments shows that our individual business segments generally exceeded or matched the level achieved in the previous year.

The new business volume in the **machinery and equipment** segment – which remains the core focus of Deutsche Leasing's asset finance business –

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amounted to EUR 5.1 billion and was thus in line with the previous year's figure.

In the **road vehicles** segment – which includes the passenger car fleet business as well as commercial vehicles – our new business volume rose by 14 per cent to EUR 2.8 billion.

In the **energy and transport** segment, which encompasses investments in infrastructure and utilities as well as transport and logistics, the volume of new business increased significantly by more than 30 per cent to EUR 1.1 billion. Above all, this was driven by the further rise in the number of renewable energy projects which we supported.

The **real estate** segment was also stable and remained at the same high level as in the previous year with a new business volume of EUR 1 billion.

The volume of new business in the **information and communication technology** segment amounted to EUR 0.4 billion and was thus lower than in the previous year. This was partly due to the uncertainties associated with the market environment as well as the ongoing supply chain problem. In times of transformation, companies' technological development (modernisation of IT, digitalisation of processes and jobs) remains essential and creates market opportunities.

That now brings us to our **investments**:

Deutsche Factoring Bank achieved factoring turnover of EUR 23 billion in the calendar year 2022 and thus an increase of 12.4 per cent on the previous

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year. It had already surpassed the EUR 20 billion mark for the first time in 2021. It achieved another record result thanks to the dynamic trend for business with new and existing customers in Germany as well as import and export factoring. Its business success also reflected its continuous and efficient market exploitation together with Deutsche Leasing and Sparkassen-Finanzgruppe. In the new customers segment, the volume of business brokered by savings banks was more than 90 per cent. With its receivables financing and debt management products, Deutsche Factoring Bank focuses on small and medium-sized enterprises and is Sparkassen-Finanzgruppe's factoring centre of excellence.

As an associated company of the Deutsche Leasing Group, **Bad Homburger Inkasso** (BHI) offers bad loan solutions as well as the market-oriented resale of movable and real estate collateral. BHI was able to gain new customers – in particular, in the housing and energy sectors as well as transport operators – and now has 1,388 clients in total, including 363 savings banks and other Sparkassen-Finanzgruppe companies. Despite a challenging environment and internal change and modernisation processes – including an extensive changeover of its core IT systems – BHI picked up a large number of new customers and acquired new cases.

S-Kreditpartner (SKP), a joint venture of Deutsche Leasing and Landesbank Berlin/Berliner Sparkasse, fared well in the calendar year 2022 despite the tougher conditions. In the past year, this product specialist for vehicle and consumer loans within Sparkassen-Finanzgruppe achieved its highest new business volume since its founding – EUR 4.9 billion – thanks to a successful

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first six months of the year. This corresponds to a 15 per cent increase year-on-year and demonstrates that it has successfully implemented its strategy together with the savings banks. A more subdued new business trend should be expected in 2023, on account of the slowdown in economic activity. The volume of existing retail and corporate customer business amounted to EUR 10.5 billion and increased by 16 per cent year-on-year. Currently, around 60 per cent of the savings banks are cooperating with S-Kreditpartner through fully fledged partnerships. Ten such partnerships were added in 2022.

The Deutsche Leasing Group's **Group insurance income** was significantly higher than in the previous year, with a volume of EUR 27 million (previous year: EUR 21.1 million). Significantly improved insurance income was an important component (independent of interest rates) in the past financial year. Our insurance solutions, which we realise together with our main partner SV SparkassenVersicherung, are now a natural and integral feature of the range of services which we provide through our own sales activities as well as our savings banks business. We expect to achieve further expansion of our insurance business over the next few years.

Annual financial statements

The Deutsche Leasing Group's **consolidated balance sheet total** is continuously growing (with the exception of the financial year 2019/20). In the financial year 2021/22, it increased by 3 per cent to EUR 23.3 billion. This growth reflects the expansion of the overall volume of business with new customers.

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The Deutsche Leasing Group's consolidated balance-sheet total almost entirely consists of leasing assets and receivables from customers. As already explained in the previous year, its makeup has changed over the past few years, since

- hire-purchase business has grown strongly in Germany,
- factoring and project business (with the use of development funds) have gained ground and
- foreign business also constitutes hire-purchase business, according to German accounting standards.

Overall, receivables from customers represent 54 per cent of the consolidated balance-sheet total and leasing assets 41 per cent.

That brings us to the **Group's net income for the year**, which has been influenced by two particular effects in the financial year 2021/22:

First of all, in the past financial year we made provisions for discernible risks in connection with DL Vostok and Deutsche Leasing's Russia business. We have implemented these provisions via the various items of the profit and loss account, as required by the valuation rules under German commercial law. We are currently examining various scenarios and options for our Russia business – including a sale of this foreign subsidiary.

Secondly, we have responded to a new external accounting requirement – the so-called BFA 7 standard – by significantly increasing our general valuation adjustments. This standard will not apply until 2024, but we

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decided to capitalise on the strong past year by making provisions. Due to the IFRS-aligned methodology, the provisioning requirement remains more difficult to calculate than in the past.

Risk provisions under commercial law, in the form of depreciation and valuation adjustments on receivables (incl. the allocation made to the provisions pursuant to §§340f and 340g of the German Commercial Code (HGB)), accordingly amounted to EUR 89 million and were thus significantly higher than in the previous year (previous year: EUR 21 million).

The good news is that, thanks to its operational strength, the Deutsche Leasing Group was able to absorb the burden associated with these two effects via its current income, without drawing on reserves. It should also be noted that without these two effects – provisions made to cover Deutsche Leasing's Russia risks and the significant amount allocated to general risk adjustments in line with BFA 7 – the Group's net income for the year would be considerably higher than in the previous year.

In view of the above-mentioned effects, the **Group's net income for the year** in the financial year 2021/22 amounted to EUR 43.3 million (previous year: EUR 110.9 million).

Let's now talk about our two key leasing-specific indicators – **our net asset value and our economic result** – both of which have increased.

As well as profit and loss account transparency, the change in the net asset value is important in order to be able to assess a leasing company's

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earnings. The economic result documents both of these effects, as a summary ratio indicating period net income. It thus covers all of the earnings factors in a given period.

We have increased our **net asset value** by more than 4 per cent to EUR 2.3 billion.

We have thus once again considerably strengthened the economic fundamentals of the Deutsche Leasing Group. A higher volume of equity and stronger future revenue potential had a positive impact here.

Our solid business performance in the past financial year also strengthened our **economic result**, which increased slightly year-on-year to EUR 177 million (EUR 175 million). With this increase, our economic result has once again exceeded its pre-coronavirus level – so this represents a positive trend overall.

If we now turn to the Group's parent company, **Deutsche Sparkassen Leasing AG & Co. KG**, this too had a strong financial year 2021/22 in overall terms. Deutsche Sparkassen Leasing AG & Co. KG has reported **net income for the year** of EUR 52 million (previous year: EUR 38 million). This positive trend means that we are able to increase our dividend distribution to our shareholders, the savings banks, to EUR 40 million (previous year: EUR 28 million).

Following the above-mentioned risk provisioning for our Russia business and the dividend distributed to our shareholders, we have also slightly

increased our **equity**. Let's now look at the **development of equity including contingency reserves under §§ 340f and g HGB:**

Equity shown in the Group's balance sheet has increased by EUR 16 million, from EUR 989 million to EUR 1,005 million. Contingency reserves in accordance with §§340f and g HGB remained stable overall at EUR 440 million in total. Expanded Group equity – including provisions under §§340 f and g HGB – thus rose slightly year-on-year to EUR 1,444 million.

With this equity trend, Deutsche Leasing is continuing to pursue its strategic path of strengthening its equity on a long-term basis. We have thus continuously expanded our equity base over the past few years. These stable foundations enable us to continue to grow, while at the same time protecting ourselves against potential risks – which is a not entirely insignificant consideration in times such as these.

Net assets and financial position

The Deutsche Leasing Group continued to receive almost all of its funding from institutions within Sparkassen-Finanzgruppe. As of 30 September 2022, savings banks and federal state banks provided considerably more than two-thirds of all borrowed funds. Public business development banks accounted for around two-thirds of the remaining borrowing.

Overall, on the basis of its anchoring in Sparkassen-Finanzgruppe, its stable, long-term business relationships with credit institutions and a diversified range of financing instruments, the Deutsche Leasing Group thus has a broad financing base which will enable future business growth.

Risk assessment

The risk management system assists the Management Board of the Deutsche Leasing Group with the implementation of its business and risk strategy, taking all relevant risk types and all of the Group's German and foreign companies into consideration. The goal of opportunities and risk management is to establish a balanced relationship between risk and opportunity/income at the level of the overall Group; adequate risk-bearing capacity is ensured in terms of the relationship between the level of capital available for risk coverage and overall risks. The risk-bearing capacity calculation provides the basis for the Deutsche Leasing Group's risk control strategy.

It should be noted here that, in the past financial year, the Deutsche Leasing Group had a very good, stable risk position despite an uncertain economic

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environment: we proved ourselves in various market phases thanks to our broadly diversified portfolio – this is a key strength of our business group. In addition, the inflation trend increased the value of our assets and thus of our overall portfolio. We also achieved growth in areas of the future such as renewable energy; particularly since fields such as renewable energy tend to be less vulnerable to economic fluctuations and an energy gap is currently being closed in the context of the heightened level of demand on the market. Moreover, overall fewer market risks (e.g. increased frequency of insolvency) have been realised than initially envisaged.

Further key areas of focus in the financial year 2021/22

Looking back at the past financial year overall, we have not only made further progress in our business but have also implemented forward-looking changes which will facilitate the company's development in times shaped by huge transformations and upheavals. We adjusted our corporate strategy and actively exploited market opportunities, we stepped up our sustainability efforts even further and we made significant progress in the area of digitalisation.

Our revised **corporate strategy "Strategy 2030"** is our response to the complex and uncertain environment. We have thus established a framework for our areas of strategic focus over the next few years. This includes sustainability and digitalisation, our market ambitions in Germany and other countries, our attractiveness as an employer as well as a team- and performance-oriented culture.

We have successfully established a new central market unit in order to further deepen our **centre of excellence function within Sparkassen-Finanzgruppe**. We are thus bringing together in one central unit our strategic functions of market exploitation and support for the savings banks. This will enable us to continue to work with the savings banks in a coordinated manner in relation to Deutsche Leasing's growing range of products and services, while leveraging joint growth potential in an even more targeted manner.

Sustainability and decarbonisation is a central strategic area of focus and a transformation driver for us and for our customers and partners. Our Strategy 2030 and our role as an active transformation service provider in the area of sustainability should be understood in this context. In this respect, in the past financial year we have systematically deepened our strategic efforts and market activities in our customer-facing business and within Sparkassen-Finanzgruppe.

- In the past financial year, we have made changes to our evaluation and steering activities in regard to sustainability criteria (ESG criteria/risks) for our portfolios in Germany and other countries.
- Together with the savings banks, as a strong partner we intend to provide support for the SME sector via transformation financing – I will say a bit more about that in a moment.
- For our own business operations, we have intensified the regular ESG assessment of our sustainability efforts and defined further measures in order to realise the goals defined within the scope of Sparkassen-

Finanzgruppe's commitment to climate-friendly and sustainable business activities. Our employees are undergoing targeted ESG training with this goal in mind.

In the financial year 2021/22, we continued to make important investments in **IT modernisation, process and product optimisation as well as forward-looking digital solutions**. This delivered significant performance improvements for our customers and partners and for our own business operations. We have realised a key step in the modernisation of our IT with our successful relocation to a new data centre. Within the scope of our ongoing action and investment programme, together with our digital and innovation subsidiary vent.io we have made improvements to our customer business which include machine data-based digital business models. vent.io has also expanded its activities in the areas of digital customer and partner interfaces, MVP development and data science models as well as investments in and partnerships with B2B start-ups.

Outlook for the financial year 2022/23

We have got off to a decent start overall in the **financial year 2022/23**.

Following the **first quarter** of the year, our volume of new business is higher than in the previous year.

Business with our SME customers and the savings banks increased on the previous year. Larger tickets in business with corporate and company customers and our S-Gewerbekredit product in our business and commercial customers segment both contributed to this. Our domestic vendor business also performed strongly. In other countries, growth rates continue to vary. The fleet business/mobility segment developed less strongly than in the previous year. It should be noted here that its very strong performance in the previous year mainly reflected customer orders brought forward due to the supply bottlenecks and the shortage of materials in industry.

On the risk side, to date the trend has been stable in both Germany and other countries. The increased energy and commodity prices, the high level of inflation and rising interest rates have not yet resulted in any major or noticeable losses. Resale income from returned leasing assets (in particular, passenger cars and information and communication technology (ITK)) also remains at a good level. The level of demand is stable, while the inflation-linked price rises for new investment goods are also strengthening the secondary market.

For the **first half of the year** (from October to March), we assume that the volume of new business will once again exceed the previous year's level. The

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result after the first six months of the year is likely to be in line with the previous year's level.

Looking ahead, the next few months will continue to pose challenges. Our environment remains uncertain and economic developments are difficult to predict. The current forecasts published this spring accordingly vary: from stagnation to a stabilisation of the German economy.

Nonetheless, we are focusing on what will help us and our customers and partners to move forward in these times of upheaval and transformation and on what we are able to influence ourselves – i.e. exploiting joint opportunities on the market and continuing to develop as a business. That will not be possible without a fundamental cornerstone: successful transformations depend on investments in the future. At the same time, they will enable us to make an active contribution to a modern and climate-friendly economy, while developing profitable growth areas.

To conclude, I would therefore like to emphasise a few key areas and activities which we will continue to work on in great depth even beyond the current financial year.

Transformation financing and sustainability in the SME sector is a particular area of focus. Over the next few years, the German SME sector will need to make huge investments in order to place itself on a more sustainable footing. This represents significant market potential. As an active transformation service provider in the field of sustainability, we are an important partner for the savings banks when it comes to providing targeted

assistance and advice for the SME sector in relation to these extensive transformation projects. This is especially true of the fields of renewable energy/energy generation, energy efficiency and e-mobility.

Even now, as the Deutsche Leasing Group we are present on the market, together with the savings banks, in these and other areas of transformation financing.

- The renewable energy projects which our subsidiary DAL Deutsche Anlagen-Leasing is implementing with savings banks are one example of this. A financing arrangement for what is currently one of the largest solar farms in Germany is being put together on the basis of a long-term power purchase agreement (PPA).
- Our range of solutions also includes investment solutions for climate-friendly mobility in the area of vehicle fleets and local public transport, from electric buses to hydrogen-powered trains.
- In addition, conventional investments in more energy-efficient machinery and equipment enable businesses to expand their supply of sustainable energy and make changes to their energy mix. This is an urgent priority for many small and medium-sized enterprises due to the current rapid rises in energy and electricity prices.

We will step up all of these activities as a transformation service provider for our customers and in close cooperation with the savings banks, while continuously developing our range of advisory and other services and solutions. We are set to launch a new joint sales and marketing campaign

this summer, to mark this strong partnership. We will thus make our membership of Sparkassen-Finanzgruppe even more visible and strengthen the functions which we jointly provide on the market – particularly in the area of sustainable transformation.

In addition, we will examine the potential for further improvements to the Deutsche Leasing Group's business model in the area of sustainability. The “green electricity generation” segment in particular continues to offer potential for our Group, and we will adopt a broader strategic positioning here too.

We will continue to pursue our internal **digitalisation and modernisation projects**. The renewal of our IT landscape is of key significance – as the basis for digital customer applications, portal solutions and flexible execution processes. We will implement important system changeovers in the current financial year to this end. Our digital subsidiary vent.io will make further investments in start-ups and focus on the development of digital customer and partner interfaces as well as the implementation of data science use cases.

In terms of our **international business**, the German economy remains characterised by an international focus, with globally diversified markets in most cases. We therefore see further solid business potential for the Deutsche Leasing Group, such as in the area of structured financing for specialist transactions and project business. Reliable relationships and

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stable structures with our partners and customers in all of our target markets remain of paramount importance.

We thus consider that we are well placed in order to address the current urgent priorities and opportunities. What is certain is that structural upheavals and major transformations such as the changeover to renewable energy and decarbonisation require staying power. They will place great demands on all of us – the business sector, society at large and policymakers. Particularly in times like these, competence and cooperation based on trust and partnership are key, especially when it comes to long-term financing arrangements.

And this is precisely one of our strengths. As the Deutsche Leasing Group, we rely on broad asset and sector expertise as well as our many years of experience and our relationships with the savings banks, our partners and customers. It is their needs which will continue to shape and motivate our activities.

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