

Balance sheet press conference, 2016

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**Deutsche Leasing:
the financial year 2014/2015**

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[Welcome]

Ladies and gentlemen,

Welcome to the balance sheet press conference for our financial year 2014/2015 which, as you know, ended on 30 September.

Today we are holding our press conference in Frankfurt's Städel Museum for the first time. There is a particular reason for this: Together with Deutscher Sparkassen- und Giroverband (DSGV) and Frankfurter Sparkasse, Deutsche Leasing is the sponsor of this museum's current Maniera exhibition.

All in all, we can look back on a successful financial year 2014/2015:

- increase in the volume of new business
- significant income growth
- equity once again strengthened
- risk situation remains stable

Besides numbers, data and facts, I will naturally also comment on market trends and outline economic conditions. Moreover, Mr Strehle will provide you with information on the development of our subsidiary DAL Deutsche Anlagen-Leasing as well as some related figures. I will also provide you with a forecast for the current financial year 2015/2016 and inform you of Deutsche Leasing's market and development opportunities.

Let's start by looking back at the past year.

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Review

2015 was a challenging year for the **SME sector** and thus for us too: **Digitalisation** and its effects on manufacturing and the work environment for medium-sized companies – and likewise financial services providers – is an increasingly important issue.

The debate over the **investment activities of medium-sized companies** reached an unprecedented level of intensity. On the one hand, one-off factors such as low interest rates, the collapse in the price of oil and the euro's low exchange rate buoyed the economic trend. On the other hand, the SME sector very closely examined long-term investment decisions – particularly in view of the large number of uncertainties such as the refugees issue, the Russia/Ukraine conflict and the crises in the Middle East.

What does this mean for us as a financial services provider?

In 2015, pressure on margins once again increased, both in Germany and in other countries. The high level of liquidity on the market, combined with low or even negative interest rates, is naturally playing a key role in this trend.

The fact that the economy has now become accustomed to the low interest rate levels – and governments even more so – was (and remains) problematic. The world is therefore following developments in the USA very closely. After the US central bank, the Fed, raised interest rates slightly for the first time since 2006, the US economy was expected to become the new driving force of the world economy. However, it is not all that keen to assume this role. Significant momentum for the global markets is therefore not yet in sight.

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This brings us to another important aspect for our SME customers: **internationalisation and its many facets**. According to the IMF, the global economy grew overall by 3.1 per cent in 2015. For the current year, the IMF's researchers predict world economic growth of 3.4 per cent. In the past year, the **global economic situation** was also shaped by the above-mentioned clear slowdown in China as well as the strong decline in economic output in emerging markets such as Brazil and Russia. **China and Russia** especially will continue to preoccupy us.

On the other hand, the **USA** delivered strong growth momentum. Germany has a higher volume of trade in goods with the USA than with any other country. The USA has thus overtaken France as Germany's key trade partner. According to the German Federal Statistical Office, exports and imports totalled EUR 173.2 billion in 2015.

In the **Eurozone**, the low oil prices worldwide and the continuing low interest rates had a positive impact on the real economy. The **German market** likewise benefited from these trends: Germany consolidated its leading role as an exporting nation and also generated growth thanks to solid domestic demand.

Let us now look at the figures, data and facts for our financial year 2014/2015.

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Performance in the financial year 2014/2015

In the financial year 2014/2015, the economic environment of the Deutsche Leasing Group was once again shaped by strong competitive and margin pressure. This trend remained underpinned by the expansionary monetary policy of the ECB, which is resulting in ever lower interest rates. Moreover, in March 2015 the ECB embarked upon an extensive bond-purchasing programme.

Deutsche Leasing was able to exploit the opportunities which were nonetheless available in connection with economic momentum in Germany and other countries and realised a volume of new business in excess of EUR 8.2 billion in the financial year 2014/2015 (+5 per cent on the previous year). Despite the overall difficult situation on account of the interest rate levels, the Deutsche Leasing Group thus registered a successful financial year.

In the past financial year, DAL and the Group's foreign companies delivered significant growth momentum. With a volume of approx. EUR 1.9 billion, the Group's **foreign companies** accounted for around 24 per cent of its total new business, an increase of 10 per cent on the previous year. As of the reporting date 30 September, **DAL's** result was 24 per cent higher than in the previous year, with a good EUR 1.3 billion.

In **Germany** (including DAL), Deutsche Leasing exceeded the previous year's high level which had been buoyed by major business transactions and realised a new business volume of EUR 6.3 billion (+3 per cent on the previous year).

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Our **investments** also developed quite positively:

Universal Factoring (UFG) has concluded cooperation agreements with almost 200 savings banks and generated factoring turnover of EUR 2.4 billion in the **calendar year 2015**. Earnings before taxes amounted to EUR 1.9 million (previous year: EUR 1.25 million).

Bad Homburger Inkasso (BHI) likewise achieved significant business growth in the **financial year 2014/2015**. Here, I will merely mention 14 per cent growth in its number of customers and 19.8 per cent growth in its volume of incoming cases by comparison with the previous year.

S-Kreditpartner: Our joint venture with Berliner Sparkasse maintained its growth strategy in the car and consumer finance business sectors in the **calendar year 2015** and achieved a volume of new business of EUR 2.1 billion, which represents a growth volume of a good 10 per cent on the previous year.

Annual financial statements

The Deutsche Leasing Group thus maintained its positive development in the financial year 2014/2015 and matched the previous year's high income level.

Deutsche Leasing's **consolidated balance sheet total** increased by two per cent, from EUR 16.2 billion as of 30 September 2014 to EUR 16.6 billion as of 30 September 2015.

Leasing assets, measured at initial values, amounted to EUR 16.6 billion and were thus close to the same level as in the previous year (EUR 16.7 billion).

The Deutsche Leasing Group's **equity** shown in the balance

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sheet increased from EUR 629 million to EUR 673 million.

We also made further allocations to our contingency reserves in the financial year 2014/2015 and strengthened our net asset value. In the past financial year, we allocated EUR 41 million to our provisions in accordance with § 340 g of the German Commercial Code (*Handelsgesetzbuch*, HGB). Overall, our provisions pursuant to §§ 340g and 340f HGB have reached a level of EUR 268 million, i.e. the (operating) profit for a period of roughly two years.

Over the next few years, we intend to continue to strengthen our equity, so as to be prepared for the rising level of volatility and not least for the increasingly stringent regulatory requirements.

Deutsche Sparkassen Leasing AG & Co. KG reported **net income for the year** of EUR 45.4 million. This provides the basis for the company's distribution to its shareholders in the amount of EUR 35.0 million (previous year: EUR 35.0 million), in line with its adopted equity strategy. Deutsche Leasing thus continues to adhere to its sustainable dividend policy, at the same level as in previous years.

Leasing income resulting from leasing and hire-purchase business and from the sale of second-hand leasing assets increased by EUR 233 million to EUR 4,483 million and was thus almost 6 per cent higher than in the previous year.

In the past financial year, the **net profit for the year** increased by 3 per cent, from EUR 65.4 million to EUR 67.4 million.

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In this respect, it should be noted that **general administrative expenses** rose by 6 per cent, from EUR 309 million to EUR 328 million. **This growth is attributable**, in particular, to **regulatory requirements** as well as the **low interest-rate situation** which necessitated a significant increase in pension provisions. Scheduled cost increases were a further factor, but these were kept within narrow limits.

Thanks to this active cost management, we were able to prevent these inevitable burdens from having an excessive impact on the company's result.

Economic result

In the past financial year, at EUR 137 million the company's **economic result** significantly increased on the previous year's figure of EUR 128 million, a growth rate of 7 per cent. We have thus achieved our long-term target income level and guaranteed appropriate distributions as well as the implementation of necessary future investments and the equity trend which is required for our growth from an economic point of view.

The company's **net asset value** accordingly increased to EUR 1,793 million. The net asset value indicates the value of the equity of the Deutsche Leasing Group, after disclosure of hidden reserves. It is a key element for calculation of the economic result, as a recognised, summary ratio indicating period net income for leasing companies.

Net assets and financial position

In the financial year 2014/2015, **debt capital borrowed** served to finance leasing assets as well as other customer business of the Deutsche Leasing Group. Borrowed funds of the Group's

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domestic and foreign companies (excluding DAL's non-recourse business) increased on the previous year, in line with the growth trend for new business. On 30 September 2015 they amounted to EUR 16.0 billion (previous year: EUR 15.5 billion).

In almost all cases, **funds were borrowed** on terms matching financed customer business in terms of the capital commitment and fixed interest-rate periods as well as the respective currency. Accordingly, maturity transformations are not implemented to any significant extent. Here too, we remain conservative. **Medium- and long-term borrowing** and **forfaiting** which, as in previous years, jointly accounted for more than 4/5 of the total debt capital borrowed were the key elements of Deutsche Leasing's financing structure. Borrowing from business development banks in the area of **loan financing** was increasingly significant. This growth was disproportionately strong, and this area of borrowing has now established itself as an additional element of the Deutsche Leasing Group's mix of financing services.

The **savings banks' share** of total borrowed funds was stable at approx. 2/3. On the other hand, the federal state banks' share declined by three percentage points, while other institutions' share increased by roughly the same extent. In particular, this was attributable to increased financing volumes for development loan business.

Risk assessment

Our **risk management** provides the basis for the implementation of our business and risk strategy and considers all significant risks and all of the Group's domestic and foreign companies. Risk-bearing capacity – i.e. the ratio of total risks to

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conservatively measured risk coverage capital – is central to our risk management approach.

The Deutsche Leasing Group's **risk bearing capacity** was comfortably intact throughout the past financial year. We are robustly positioned here.

That's all I have to say regarding the earnings position and the financing basis of the Deutsche Leasing Group. Before I comment on our social commitment and venture to offer an outlook, Mr Strehle will provide you with more detailed information on the development of DAL Deutsche Anlagen-Leasing.

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[Markus Strehle]

Dear members of the press,

May I likewise welcome you to today's press conference?

Within the Deutsche Leasing Group, DAL is responsible for project and large-scale business in the areas of real estate, energy, transport & logistics and structured financing.

In 2015, DAL's **volume of new business** amounted to EUR 1.2 billion and was thus approx. 8 per cent lower than in the previous year. On the other hand, **income** from new business was 10 per cent higher than in the previous year, so that we can look back on a satisfactory financial year.

The **real estate sector** provided a major contribution to the positive trend for new business. With an unchanged volume of business, the income provided by this sector was approx. 15 per cent higher than in the previous year. A particularly favourable trend in 2015 was that besides the strong credit quality for new business we realised two of the largest real estate transactions in our company's history, with a combined investment volume of EUR 270 million. The services of **DAL Bautec** once again played an important role in the successful development of our business in the real estate sector.

In 2015, the **energy segment** was characterised by a significant decline in the volume of investment in the wind energy sector. 20 per cent fewer plants went online in Germany by comparison with the previous year. We made up for the decline in the volume of new business by means of financing

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transactions in the areas of networks, photovoltaics and other energy projects. However, on the income side we suffered a clear decline on the previous year due to the highly competitive financing environment and the changed business structures.

As well as the real estate business segment, the **transport & logistics segment** – which is difficult to plan for on account of its volatility – provided a significant contribution to the growth in the volume of income generated by new business in the past calendar year.

At this point, I would first of all like to report on the expansion of our activities in the **structured financing solutions** segment. Particularly in the area of financing of current assets and trademark rights, through individual solutions we have further expanded our market position as a finance provider and have established an additional source of income which accounts for 5 per cent of our volume of new business.

Our business is unthinkable without our outstanding **relationship with the savings banks**. At in excess of EUR 535 million, the volume of business arranged by the savings banks for DAL is at a record level. It is nice to be able to report that the savings banks are now offering our entire range of services.

Due to our constant income from our long-term contract portfolio and a cost level which has been virtually unchanged for some years now, in our **profit and loss account** for the financial year 2015 we have reported a profit of EUR 10.75 million, which is exactly in line with our planning. In the year under review, our workforce increased by three employees to 248 employees.

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Our **expectations for the year 2016** are tied up with the overall economic situation.

In view of our focused business model and our strong ties with the Sparkassen-Finanzgruppe, for the current year we envisage an unchanged trend or even a slight improvement in the business performance of DAL. We are mainly focusing on:

- a) broadening our customer base in the real estate sector with institutional and long-term investors,
- b) stronger cooperation with municipal utilities in the field of infrastructure & utilities,
- c) further establishing our position as a finance specialist in the logistics segment and
- d) continuing to expand our activities in the field of structured financing solutions.

Thank you for your attention!

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Social commitment

Deutsche Leasing supports a broad range of **cultural initiatives**.

We also support a **large number of organisations and associations**.

I would like to emphasise **our own activities**: Through our **“Socially Active Employees” (SAM)** project, since 2011 Deutsche Leasing employees have demonstrated commitment to social projects on their own initiative.

Another important area of commitment is the **business game “Business meets school”**. Since 2014, participating pupils have visited our Bad Homburg headquarters every year in order to gain practical experience of the world of business.

Outlook for 2015/2016

We have got off to a positive start in the new financial year: New business is developing positively. Our costs are lower than planned, and our risk situation remains stable. However, margin pressure has further intensified. We currently assume that Deutsche Leasing (excluding DAL) will achieve new business growth of 6-7 per cent in the first half of the year and slight income growth on the previous year.

Above all, we are highly satisfied with intragroup and foreign business, our strategic growth areas. Our Savings Banks and SMEs business segment will post above-average growth in the first six months, while our Commercial and Business Customers segment will once again register clear double-digit growth.

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DAL's business performance is naturally highly dependent on large-scale transactions and does not follow an even trend over the course of the year. In the first half of the year, we will fail to match the very strong level achieved here in the first half of the previous year. However, many business transactions are currently in the offing, and we thus envisage a decent performance in the remainder of the year.

What are our overall predictions for the rest of the financial year 2015/2016?

The German council of economic experts envisages a **somewhat subdued global economic trend in 2016.**

The ECB's loose monetary policy will continue to buoy **growth in the Eurozone.** The economic recovery is expected to continue, with a growth rate of 1.5 per cent.

According to the council of economic experts' forecast, the **German economy** will maintain its current performance level, supported by the private consumer spending trend. In 2015, Germany's economic development was buoyed by one-off factors (incl. the devaluation of the euro, the fall in energy prices etc.). The council of economic experts predicts growth of 1.6 per cent.

Deutsche Leasing thus continues to operate in a market environment which is characterised by a continuing low interest-rate phase in Europe, with related adverse impacts on new business, income and costs. Moreover, the already tough competition with banks and other leasing companies for SME customers' attractive business will continue to intensify.

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Nonetheless, for the financial year 2015/2016 Deutsche Leasing expects that the overall economic environment will remain stable or even pick up slightly, while heightened setback risks will continue to apply and the low interest-rate level will remain a negative factor. We therefore predict a volume of new business growth slightly in excess of the overall economic trend and another satisfactory result.

Unlike the low interest rates, we have no concerns at all regarding another issue: the **reform of the international balance sheet rules (IFRS) for leasing**.

As you know, the IASB and FASB organisations which set the relevant international financial reporting standard have resolved to discontinue balance sheet-neutral presentation of leasing from the point of view of the lessee. Since almost all of the German SMEs which Deutsche Leasing supports and advises or which use the savings banks as their main bank prepare their balance sheets in accordance with German law (the German Commercial Code), they will not be affected by this change. This reform will therefore have absolutely no impact on 90 to 95 per cent of German companies. Deutsche Leasing does not therefore expect these balance sheet changes to have any serious effect on its business and even sees some positive opportunities for its range of products. We therefore have no concerns regarding this reform.

Moreover, companies now no longer mainly choose leasing on grounds of balance-sheet neutrality. The economic advantages which leasing offers – above all, flexibility, service components such as maintenance and servicing of the leased asset and preserving the company's liquidity – are increasingly decision-making criteria which favour leasing as an asset finance

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instrument, regardless of whether a company prepares its balance sheet in line with the IFRS or the German Commercial Code.

We face all of these challenges from a position of strength – as the market leader and as part of a stable Sparkassen group. We are convinced that with our strategic orientation we will continue to consolidate our market position in future.

We see attractive potential in all of our business segments. However, as already outlined at our annual press conference, we are focusing in particular on our intragroup business with the savings banks.

We aim to achieve growth above all in:

- **our Commercial and Business Customers segment,**
- **international business with savings banks customers,**
- **and factoring business.**

It is already clear that the **Commercial and Business Customers segment** offers major potential. The investments which we made in IT, processes and support in the past financial year have already begun to take effect. In the past financial year, the Commercial and Business Customers segment realised dynamic growth of 40 per cent. Support for savings banks customers' activities outside Germany is another strategic growth area.

Factoring business likewise remains highly significant for us from a strategic point of view, also as a growth area. In the past financial year our investment Universal Factoring GmbH significantly increased its volume of intragroup business with the savings banks in particular. This business segment is

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important for the Deutsche Leasing Group. We envisage continuous market exploitation, especially for the savings banks' corporate customers but also in the (smaller) commercial customers segment which is significant for the savings banks. We intend to further sharpen and consolidate the savings banks' positioning in the factoring business segment.

With these growth areas, with our leading market position and as part of a strong Sparkassen-Finanzgruppe, we have an optimistic view of the future. We will utilise our market opportunities and exploit available development potential. Together with our customers and partners in the German SME sector, we aim to continue our joint success story in the financial year 2015/2016.