Deutsche Leasing

Balance sheet press conference, 2020

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The spoken word is the authoritative version.
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Deutsche Leasing: the financial year 2018/19

Ladies and gentlemen,

Welcome to the balance sheet press conference for our financial year 2018/19, which ended on 30 September 2019.

In the time of COVID-19, there is much that is different, unusual and uncertain in our lives. It is time to shift our priorities. But let us start off with the past financial year 2018/19 before I talk about current developments.

All in all, we can look back on a successful financial year for the Deutsche Leasing Group in which we continued to resolutely pursue our strategic projects and registered a positive business trend, while benefiting from major business deals in several target markets.

Overall, we

- increased our volume of new business by more than 12 per cent to EUR 10.3 billion and thus exceeded the “EUR 10 billion mark” for the first time,
- achieved a further increase in our economic result, to in excess of

EUR 170 million,

- significantly strengthened our net asset value, which amounts to more than EUR 2 billion.

Our achievement in maintaining the same performance trend as in the past few years should not be taken for granted. In the financial year 2018/19, we were faced with an economic slowdown, both in Germany and internationally. A series of world political events which had already held centre stage in the previous year left their impact on the global economy, and the German economy was unable to escape from this. Following almost a decade of uninterrupted growth, Germany's export-oriented sectors and its key industries in particular – such as mechanical engineering and the automotive sector – experienced a significant headwind.

Many of these factors are already known to us, and we discussed them here last year: the trade conflict triggered by the USA with China in particular; the continuing uncertainty over Brexit which has still not quite been resolved; and the emphatic continuation of the ECB's low interest-rate policy. Besides these factors ("megatrends"), German companies were also preoccupied with issues such as digitalisation, transition and alternative technologies in the automotive industry, the sustainability debate as well as the process of demographic change, including the shortage of skilled workers.

Other issues were also increasingly significant: the right level of "connectivity" in terms of a company's networking and collaborative capability, the German business sector's capacity for innovation and, in general, future-proof infrastructures in Germany. The past year very clearly demonstrated to many companies the need for strategic adaptability and resilience as well as targeted investments in particular. More than ever before, opportunities and challenges went hand in hand – for small and medium-sized enterprises as well.

The ability to exploit these opportunities, even in uncertain times, and to resolutely confront challenges and unavoidable changes has certainly always been a strength of the German SME sector, and we too benefited from this once again in the past financial year. Together with the savings banks, our partners in trade and industry and our customers in Germany and other countries, we kept sight of these changes and were able to leverage the continuing growth potential.

Financial year 2018/19 – economic environment

Looking back on the overall economic and sector-specific outline conditions in the financial year 2018/19, it is clear that we found ourselves in an environment characterised by an economic slowdown, with a subdued growth outlook and recession fears in Germany and elsewhere.

The world economy suffered a loss of momentum during the past financial year. Trade in goods had already begun to decline in the autumn of 2018. Output in the manufacturing sector stagnated globally from the start of the year, and in some advanced economies it even fell. The downturn in manufacturing and the fall in the volume of global trade were mainly attributable to the trade conflicts triggered by the USA. In particular, the conflict between the USA and China drastically reduced trade in goods between these two countries. The US Fed cut its key interest rate twice in response to the growing signals pointing to a slowdown in economic activity. The Chinese economy also remained subdued, but stabilised over the course of the year due to the impetus provided by economic policy. This trade conflict also affected third countries. The current challenges associated with the automotive sector and the related public debate on new drive technologies likewise had an impact on international trade.

In the Eurozone, the somewhat subdued growth trend of the previous year continued. Overall economic output in the Eurozone picked up only moderately. Export growth was subdued and the weak growth figure for imports once again declined in the first six months of the year. The trade dispute between China and the USA and the continuing lack of clarity over how Brexit would play out depressed trade-intensive industry in particular.

In Germany, the economic slowdown – in the context of an economic cycle which had already reached a fairly advanced stage in the previous year, 2018 – affected industrial output in particular, even though the rate of utilisation still exceeded the long-term average. By comparison, the German construction sector especially continued to benefit from stable domestic demand. According to the German council of economic experts, gross domestic product growth for the calendar year 2019 is expected to amount to 0.5 per cent. Plant and equipment expenditures likewise increased less strongly, with an anticipated growth rate of 1.6 per cent.

On the other hand, according to the Federal Association of German Leasing Companies (BDL) cross-sector demand for leasing financing was significantly higher in 2019 than in the previous year and thus outperformed the overall economic trend. More than 50 per cent of externally financed plant and equipment expenditures was realised by means of leasing in 2019.

In addition, digitalisation remained a key issue for small and medium-sized enterprises in multiple sectors, but in the industrial and manufacturing segments in particular, with a need to catch up in relation to international competitors. Here, it is not just a question of investing in IT modernisation in order to achieve efficiency gains and to cut costs; concrete strategic areas of application and new business solutions are also increasingly relevant. We also continue to see important and growing development potential and volumes of investment in terms of our personal relationships with our customers and partners. This relates to future issues such as the appropriate use of data, automation of machinery and equipment, networked and more dynamic value chains as well as optimised customer interfaces.

Performance in the financial year 2018/19

With a new business volume of EUR 10.3 billion, in the financial year 2018/19 the Deutsche Leasing Group surpassed its figure for the previous year by more than 12 per cent and thus exceeded the “EUR 10 billion mark” for the first time. With this really positive overall performance, we clearly outperformed the market. We also continued our stable and continuous growth trajectory from a long-term perspective. The development of new business over a period of five years points to an average annual increase of around 6 per cent.

In the financial year 2018/19, the Deutsche Leasing Group's positive new business trend reflected consistently satisfactory results in general as well as major deals in several segments. In our business with SME and savings banks customers, we registered a stable trend with slight growth. Our strategically important business and commercial customers segment provided a disproportionately strong contribution here.

Our international business developed quite positively and achieved a double-digit growth rate for the third consecutive financial year. The key factors here are our longstanding partnerships with prestigious industrial partners – our vendors (manufacturers of machinery and equipment) – in the field of sales financing. The support we provide for our savings bank and federal state bank customers in their foreign investment projects is another element. With a broad-based presence outside Germany that spans 22 countries (in Europe, America and Asia), we continue to avoid a pronounced risk of concentration in specific areas; even major markets account for no more than 3 per cent of our new business.

In terms of market potential outside Germany, in addition to our customers' important export and sales markets such as the USA and China, we are looking to Europe in particular. This is due to the need for future-proof infrastructures for industry and sustainable mobility, among other promising areas. The transnational Brenner base tunnel infrastructure project is one example of this. Our vendor, Herrenknecht, and other players are not only connecting Austria and Italy by means of the world's longest underground railway service. They are also establishing infrastructure which will ease the pressure on the Brenner motorway and reduce the impact on the environment, while better connecting Europe's economy along its central north-south axis.

DAL Deutsche Anlagen-Leasing (DAL) also regularly handles major transactions. In our Group, it is responsible for the arrangement and structuring of real estate as well as specialist transactions and project business.

In the financial year 2018/19, DAL achieved a record result with a new business volume of around EUR 2.5 billion. The implementation of several large-scale transactions in its transport & logistics target market in particular played an especially important role in this. Large tenders were won in the regional rail passenger transport sector, which contributed a business volume of around EUR 750 million to the volume of new business.

This includes the Elbe-Spree network project, for example. From 2022, this project will provide modernised and better connected regional railway services between four German federal states (Brandenburg, Berlin, Saxony-Anhalt and Mecklenburg-Western Pomerania) that are powered by electrical multiple units, with the goal of reducing the level of car use in this region. With our asset finance concepts, we are thus supporting a megatrend –

solutions for future-proof mobility. Over the next few years, these are expected to increasingly involve regional rail passenger transport and local public transport, but less so private transport (on its own).

DAL Bautec is a DAL subgroup company which specialises in consulting and construction management services for commercial real estate as well as real estate owned by the savings banks. In the financial year 2018/19, it supported new construction and revitalisation projects with a construction volume of around EUR 450 million.

The distribution of new business in our various business segments – sorted by asset class – changed slightly in the past financial year. This is mainly due to the energy and transport segment, which registered significant growth while the other segments remained relatively stable.

In a few relevant segments (energy and transport or real estate), a small number of projects can have a relatively strong influence on the overall volume of new business. We know from past experience that these fluctuations tend to even themselves out over time.

In the machinery and equipment segment, we increased our volume of new business by five per cent on the previous year. Our domestic business with SME customers and our foreign activities both contributed to this.

In a highly competitive environment, we achieved a growth rate of 2 per cent in the road vehicles segment, which comprises commercial vehicles in particular as well as passenger car fleet business. On the basis of our (unchanged) conservative residual value calculation in the financial year 2018/19, despite the continuing diesel issue positive resale results were once again achieved for our returned assets. With our services, we are actively supporting the development of new drive technologies and mobility concepts. Since the autumn of 2019, Deutsche Leasing has offered its customers an all-round e-mobility package, including the necessary charging infrastructure.

Overall, the new business trend varied in our segments which are characterised by specialist transactions and project business in particular – real estate, energy and transport as well as information and communication technology:

While the real estate segment registered a slight decline, the energy and transport segment achieved a growth rate of 126 per cent and, with 13 per cent, more than doubled its share of new business. As I have already mentioned: several major projects were completed in the regional rail passenger transport sector, which contributed to the positive trend in this sector by comparison with the previous year. In the energy segment, the changes to the German Renewable Energy Act continue to make themselves felt, but had less of a dampening impact than in the previous year. Here too we achieved growth.

New business in the information and communication technology segment was 16 per cent higher than in the previous year. Project business is our area of specialisation and our strategic focus here. Our partnerships with major software manufacturers and IT service providers likewise reflect this orientation.

We continued to expand our insurance business in the past year. Our insurance activities pooled within a Group-wide unit for the savings banks and their customers realised additional revenue potential in Germany and other countries. The Group's insurance income was once again significantly higher than in the previous year, with a volume of EUR 20.8 million. The volume of growth was particularly strong for savings banks and SMEs business. We also registered growing acceptance of our insurance products on the part of the savings banks and their customers, which is reflected in high closure rates. That is also true of our joint offering with SV SparkassenVersicherung, which is designed for business and commercial customers in particular. Overall, for many of our customers our insurance services have become an established and sought-after service component in our product portfolio which we are continuously optimising and expanding.

Our investments maintained their stable trend:

Deutsche Factoring Bank achieved factoring turnover of EUR 18.2 billion in 2019 and thus largely matched the previous year's successful performance level. 260 new factoring agreements were concluded within the space of a single year for the first time – this represents an increase of 22 per cent on the previous year, which is contributing to a significantly broader customer base.

Deutsche Factoring Bank continued to focus on its business with the savings banks in 2019. As a centre of excellence for factoring and debt management within Sparkassen-Finanzgruppe, Deutsche Factoring Bank offers solutions for small and medium-sized enterprises. Cooperation with the savings banks throughout Germany is the strongest pillar of our factoring business. 90 per cent of these institutions have now entered into a partnership agreement with Deutsche Factoring Bank. Savings banks broker around 90 per cent of new business, measured in terms of the number of transactions. In volume terms, that represents almost 70 per cent of all new contracts concluded. S-Compact, a factoring product specially developed for the savings banks' target group of smaller business and commercial customers, remains a particularly successful component of Deutsche Factoring Bank's product range.

Import and export factoring is continuing to gain ground and has provided a substantial share (roughly 27 per cent) of overall revenue. Moreover, Deutsche Factoring Bank's many years of successful membership in the global Factors Chain International (FCI) network plays a key role in its foreign business.

Bad Homburger Inkasso (BHI) – an associated company of the Deutsche Leasing Group – offers bad loan collection solutions as well as the market-oriented resale of movable and real estate collateral on behalf of its shareholders, the savings banks and other companies and institutions. Incoming payments in the past financial year amounted to approx. EUR 162 million. BHI gained a large number of new customers and now has over

1,100 clients. This includes many municipal companies such as utilities and housing associations, as well as more than 350 savings banks and other Sparkassen-Finanzgruppe companies.

S-Kreditpartner (SKP), a joint venture of Deutsche Leasing and Landesbank Berlin/Berliner Sparkasse, once again successfully expanded its strategic partnership with the savings banks in the car and consumer loan business segments in 2019. 27 new fully fledged partnerships were signed with savings banks. This means that more than half of the savings banks are now using SKP's range of products and services through all of their distribution channels: that represents a strong signal and an important milestone. In fact, over 85 per cent of the savings banks are using SKP's online product range. The volume of loans has increased by 18 per cent to EUR 8.3 billion due to the expansion of instalment credit business with the company's existing partners as well as the gain of new savings bank customers. SKP is thus continuing to achieve a growth rate which is stronger than the market in both relative and absolute terms, and is gaining market shares through its partners.

In particular, its sustained success reflects the continual improvement of its loan application processes for savings banks' customers via the full range of distribution channels, the nationwide expansion of its team of specialists who provide advice and sales support for the savings banks, as well as large investments in new product offerings and the development of the company's IT infrastructure.

Annual financial statements

As of 30 September 2019, Deutsche Leasing's consolidated balance-sheet total increased by approx. EUR 1.4 billion (around 7 per cent) to EUR 22.1 billion. This increase is mainly due to an expansion of the overall volume of customer new business and reflects, in particular, leasing assets (EUR +266 million), and, even more strongly, receivables from customers (approx. EUR +1.1 billion).

As well as Deutsche Leasing Finance's book and the factoring receivables of Deutsche Factoring Bank, our receivables from customers also include hire-purchase business in Germany and, to a significant extent, our foreign subsidiaries' leasing business (since this is generally treated as hire-purchase business in accordance with the German Commercial Code).

If we look back a little further, it is clear that over the past six years we have continuously maintained an organic growth trend. A one-off factor only applied in the financial year 2015/16 due to the first-time consolidation of Deutsche Factoring Bank.

The positive new business trend for our foreign business over the past two financial years is also reflected in the share of assets attributable to our foreign subsidiaries, which has increased slightly to 27 per cent.

At EUR 18 billion, leasing assets at initial values were higher than in the previous year (EUR 17.8 billion) and thus reflect the volume of new business growth.

Leasing assets measured at residual book values – which remains a central component of the consolidated balance-sheet total – were at approx. EUR 10.9 billion likewise higher than in the previous year (EUR 10.6 billion).

Leasing income from leasing and hire-purchase business and from the sale of second-hand leasing assets increased in the Deutsche Leasing Group by a significant 13 per cent on the previous year and amounted to approx. EUR 8.1 billion. Income growth was achieved thanks to an expansion of our leasing and hire-purchase portfolio.

On the basis of a significant increase in the volume of new business, the Deutsche Leasing Group was able to considerably boost the earnings potential of its portfolio. Nonetheless, our net profit and net income for the year are slightly lower than in the previous year. First of all, a key factor here is of course the erosion of margins in our industry. The full impact of this has now made itself felt in Deutsche Leasing's portfolio and thus in our profit and loss account. Secondly, upstream costs must be taken into consideration. These arise due to strategic investments as well as regulatory requirements which directly affect profit and loss. However, compensatory income is only generated in subsequent periods. Thirdly, structural effects for new business also apply: long-term major projects which produce start-up costs up-front but only generate earnings contributions over a longer period of time. Fourthly, there were no one-off factors to ease this situation in the previous year; instead, additional expenses resulted due to higher pension provisions on account of interest-rate levels.

Following a further equity increase, the net profit for the past financial year of EUR 74.7 million was thus at roughly at the same level as in the previous year (EUR 77.2 million), which had benefited from factors such as a more favourable valuation result. The Group's net income for the year amounted to EUR 86.5 million in the past financial year.

The parent company, Deutsche Sparkassen Leasing AG & Co. KG, reported a net income for the year of EUR 50.3 million. This provides the basis for the proposed distribution to our shareholders of EUR 40.0 million, in line with the adopted equity strategy.

Equity shown in the balance sheet has increased by EUR 70 million (8 per cent), from EUR 857 million to EUR 927 million. Deutsche Leasing thus continues to follow its strategic objective of strengthening its equity on a long-term basis by means of its own resources.

Over the past few financial years, we have nearly doubled the equity shown in our balance sheet including provisions within a relatively short period of time. Compared with the previous year, our total equity including provisions has increased overall by EUR 74 million (approx. 6 per cent) to EUR 1,352 million. Our Tier 1 capital benefited from almost all of this improvement in our position. Our provisions in accordance with §§340f and 340g of the German Commercial Code have increased slightly by EUR 4 million and remain well endowed with an overall amount of EUR 425 million.

Economic result and net asset value

These two important leasing-specific indicators have both improved within the scope of the trend outlined above. Net asset value and the economic result are essential tools for the assessment of leasing companies and their performance and are recognised as summary ratios for leasing companies. In our calculation of these two indicators, we continue to follow the industry standard developed by the Federal Association of German Leasing Companies (BDL) and supported by the Institute of Public Auditors in Germany (IDW) as well as rating agencies, analysts, academia and the supervisory authority.

The income and expense trends typical of the leasing sector do not permit an appropriate assessment of a leasing company's earnings and net asset situation solely on the basis of its consolidated financial statements (prepared in accordance with the German Commercial Code). The net asset value calculation closes this gap. It takes into account future income and expenses for the investment assets belonging to Deutsche Leasing's contract portfolio. The net asset value indicates the earnings potential in terms of future profit and loss accounts and thus provides information on existing equity. The net asset value calculation also serves as the basis for a calculation of our risk-bearing capacity, within the scope of the German Federal Financial Supervisory Authority's minimum requirements for risk management (MaRisk).

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

In the past financial year, the net asset value increased by 5 per cent to EUR 2,070 million. With this significant growth by comparison with previous years, the net asset value exceeded the EUR 2 billion mark for the first time and benefited from our successful business trend.

In the past financial year, we once again increased our economic result, which rose by 7 per cent, from EUR 159 million to EUR 170 million. Deutsche Leasing has thus achieved its target earnings level and will be able to distribute a dividend at the same level as in the previous year, while further strengthening its equity.

Net assets and financial position

Borrowed funds of the Group's domestic and foreign companies (without DAL's non-recourse business, but including Deutsche Factoring Bank) increased by around 9 per cent on the previous year, in line with the growth trend for new business. On 30 September 2019, they amounted to EUR 21.3 billion (previous year: EUR 19.5 billion).

In order to be even more broadly positioned to finance our future growth, in the past financial year we launched an ABS bond with a transaction volume of EUR 750 million and successfully placed this on the market as a new issuer. In the context of the unchanged, stable financial position of the

Deutsche Leasing Group, we have thus further expanded our secured and diversified financing base and our group of investors.

The Deutsche Leasing Group continues to receive almost all of its funding from institutions within Sparkassen-Finanzgruppe. As of 30 September 2019, savings banks and federal state banks provided more than three-quarters of all borrowed funds. Public business development banks accounted for around two-thirds of the remaining borrowing. The proportion of finance provided via development banks has increased slightly.

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, Deutsche Leasing has a broad financing base.

Risk assessment

Risk management supports the management of the Deutsche Leasing Group in the implementation of its business and risk strategy and considers all relevant risk types and all of the Group's German and foreign companies. The goal is to establish a balanced relationship between risk and opportunity/income at the level of the overall Group: adequate risk-bearing capacity is thus established between available capital for risk coverage and overall risks. The risk-bearing capacity calculation provides the basis for the Deutsche Leasing Group's risk control strategy.

The Deutsche Leasing Group endeavours to continuously develop its risk measurement methods so as to comply with the requirements for modern risk management as well as current regulatory trends. In the financial year 2018/19, development activities comprised preparations for gradual compliance with the new regulatory requirements for risk-bearing capacity concepts and their incorporation in the overall management process.

The Deutsche Leasing Group's risk-bearing capacity once again remained clearly intact in the past financial year.

Further key areas of focus in the financial year 2018/19

In parallel with this business trend, we continued to firmly pursue the path adopted through our "Deutsche Leasing 2025" corporate strategy by means of various measures. I have already provided a few examples of this. Allow me to add two further core strategic areas of focus:

On our path to becoming a “Digital Deutsche Leasing”, we have taken further steps in the areas of digitalisation and automation. Among other developments, in the past financial year we laid the foundations for the use of robot-controlled process automation systems (RPA). From the financial year 2019/20 onwards, the company will utilise its first RPA applications with the goal of achieving greater process efficiency in a targeted fashion while bridging some current IT systems’ lack of integration capacity. In addition, through a joint project with ibi research at the University of Regensburg we have closely examined possible scenarios for the use of AI in the financial services sector.

As I announced last year, in the financial year 2018/19 we further expanded our role in the business and commercial customers segment in particular, in view of the increased integration of our range of services within Sparkassen-Finanzgruppe. Convinced of the growth potential in this target market and drawing upon our experience to date – including in the digital field (with our first transaction concluded online in the previous year) – we envisage strategic, customer-focused and technical/functional improvements in this segment. For this purpose, in the past financial year we once again closely cooperated with Deutscher Sparkassen- und Giroverband (DSGV), the savings banks and other group partners. The goal here is continuous optimisation of interfaces and points of contact with savings banks and customers as well as the ongoing development of simple, rapid and digital offerings including services. Since the end of the financial year 2018/19, alongside our well-known leasing and hire-purchase products we have offered the savings banks' business and commercial customers a simple and flexible business loan ("S-Gewerbekredit") for financing of plant and equipment expenditures up to an amount of EUR 70,000. It is already clear that we have hit a nerve with this in relation to the savings banks as well as customers. An S-Gewerbekredit application can now be directly completed online. This type of offering for business and commercial customers, which can be used both online and offline via a broad range of different channels, will be an interesting growth area over the next few years and is also a good example of how cooperation within Sparkassen-Finanzgruppe can be approached jointly in a forward-looking manner.

Action and investment programme

In order to realise precisely these goals and others – as a component of "Deutsche Leasing 2025" – even more rapidly and with even more focus than ever, at the start of the financial year 2019/20 we initiated a so-called action and investment programme. With this comprehensive programme, we are laying the foundations for the Deutsche Leasing Group's transformation into a Digital Deutsche Leasing.

With the establishment of our digital innovation unit in 2017, we were already a pioneer in the identification and development of innovative business and customer models for the asset finance sector. With this action and investment programme, we will now approach issues such as the modernisation of our IT, streamlining of our product range as well as the digitalisation of products and business solutions. In this respect, we will also strengthen and expand our intragroup business with the savings banks.

In the area of the digitalisation of products, processes and services, we were able to draw upon the experience gained to date through pilot projects and to resolutely push ahead with our solutions in view of the market's and our customers' needs. We intend to open up online sales channels and focus even more strongly on the development of web-based platforms in line with customers' specific requirements, as well as on new business solutions.

As I have already mentioned, together with the savings banks we intend to further consolidate and expand our leading role as a partner to the German SME sector, even in the new digital world. In order to leverage the market potential of Sparkassen-Finanzgruppe for business and commercial customers in particular with even greater precision, we will pursue the development of processes, systems and products by means of a holistic and digital approach. S-Gewerbekredit is an example of this which has already been put into practice and has met with a positive response. Since March, customers can also arrange insurance cover for their investments. With these and other aspects of our SME business, we intend to leverage synergies with the savings banks and other group partners even more strongly and to constructively integrate our fields of experience and areas of competence.

Positive market and growth opportunities also remain available in our international business, and we will strategically expand these. This includes two current developments:

First of all, we will continue to strengthen and expand our business in Germany, Austria and Switzerland (the “DACH” region) over the next few years. We are planning to establish an office in Switzerland for this purpose, in the city of Zurich. Thanks to this office’s regional proximity and the common language, we expect to be able to take our first steps on the ground straight away with a small team. We expect our entry into this market to provide future potential through our collaboration with manufacturers in trade and industry, and we envisage opportunities for our intragroup business with the savings banks. We also intend to serve as a partner for Swiss manufacturers and small and medium-sized enterprises.

Secondly, we also see decent opportunities in the area of export financing: in order to expand our product portfolio, we will continue to develop our ECA (export credit agency)-backed business worldwide in a targeted manner, while closely cooperating with AKA Ausfuhrkredit-Gesellschaft. In mid-March, Deutsche Leasing reached an agreement with Berliner Sparkasse on the purchase of the latter’s interests in AKA Ausfuhrkredit-Gesellschaft mbH (AKA). The Deutsche Leasing Group is thus pursuing the goal of expanding its ECA (export credit agency)-backed business, focussing on a volume of investment of between EUR 1 and 10 million, and offering this worldwide. This ECA offering is particularly suitable for smaller SME businesses as well as the savings banks’ business and commercial customers. Deutsche

Leasing officially joined the AKA consortium at the shareholder banks' regular meeting in late April.

Outlook: financial year 2019/20

Looking ahead to the Deutsche Leasing Group's financial year 2019/20 – in terms of the economic environment as well as the Group's business performance – a dividing line is already apparent: a financial year 2019/20 before the corona crisis (roughly the first six months of the year) and the period afterwards, the second half of the year. COVID-19 means that we are all faced with an unusual situation, the like of which none of us has experienced before. We will have to be flexible in terms of the timing of our implementation of the measures envisaged for our action and investment programme. The clear priority is getting to grips with this crisis, at least in the near future.

At the start of the current financial year, we were concerned with continuing economic risks on the world markets as well as political uncertainty. Most leading economic research institutes predicted a slow but slight improvement in the growth level for the world economy in 2020. A subdued growth trend was forecast for the Eurozone at the start of our current financial year.

For Germany, last autumn these research institutes' joint economic forecast envisaged slight gross domestic product growth of 0.9 per cent in 2020, and the Kiel Institute for the World Economy (IfW) presented a similar picture. These assessments were based, in particular, on the significant decline in industrial output as well as subdued corporate investments due to the weaker sales outlook. Rising rates of insolvency – in industry in particular – were already not ruled out even then.

Low interest rates and regulatory requirements continued to place a strain on the financial sector, as they had done for some time.

In this economic environment, which was still largely unaffected by COVID-19, we can be satisfied with the first half of the financial year 2019/20 for the Deutsche Leasing Group – here, everything was more or less on track.

The Deutsche Leasing Group's new business got off to a decent start in the first few months of the new financial year. The entire Group contributed to this. Savings banks and SMEs business – which encompasses individual business for corporate customers and small-ticket business for business and commercial customers – is developing at the same level as in the previous year and benefitting from the success to date with S-Gewerbekredit in the small-ticket business segment. In the vehicle leasing and fleet management segment, we increased our volume of new business on the previous year in a market environment which remained challenging. Vendor business in Germany and other countries also registered a satisfactory new business trend. For DAL, the trend once again looks highly promising, buoyed by several major projects in the transport and logistics segment. Our investments are developing positively in overall terms.

Following the first five months of the financial year 2019/20, i.e. as of late February, the volume of new business is 5 per cent higher than in the previous year. Deutsche Leasing's risk situation should (still) be characterised as favourable in Germany and other countries for the first few months of the new financial year.

Looking ahead to the second half of the current financial year which lies ahead of us, it is clear that with COVID-19 the next six months will not unfold as planned.

The coronavirus represents an unforeseen national and international economic burden which is difficult to calculate, with a situation that is evolving every day. It will now no longer be possible to avoid a recession in Germany and Europe. It is no longer a question of whether there will be a recession, but merely what it will look like and how strong it will be. An economic downturn of 5 per cent or more is probably not overly pessimistic since the coronavirus has not hit the German economy during a pronounced boom phase.

In many sectors, it will no longer be possible to make up for the collapses in turnover in the current year. The production outages and supply bottlenecks throughout the value chain which are apparent even now are already real consequences of this. This represents a genuine stress test for the SME sector. The German government has promised a rescue package for the SME sector. Besides extensive liquidity assistance (through programmes of the KfW development bank in particular), this includes moratoriums under an exceptional arrangement, by way of an act which is expected to be passed this week. At the present time, it is not yet clear whether the leasing sector and leasing companies will be included in KfW's assistance programmes. In order to ensure that these measures have a broad-based and fast impact, it is important here to quickly chart the course which lies ahead.

As financial services providers, leasing companies are important partners to the SME sector. More than 50 per cent of externally financed plant and equipment expenditures is realised through leasing. The leasing sector is itself made up of SMEs. Here, I can only urgently appeal to politicians and decision-makers to include leasing in all of their programmes and measures. As a provider of financing for the SME sector, we too want to assume responsibility and to help stabilise the situation in order to bridge liquidity bottlenecks and, where necessary, to provide customers with breathing space during this crisis. However, we require suitable outline conditions for this – ideally a model for deferrals of leasing and hire-purchase instalments supported by a guarantee.

The development of our company in the second half of the year will also crucially depend on the scope and the duration of the pandemic, as well as the nature of the overall rescue package for us and for our customers. However, it is already clear that the corona pandemic will have a significant impact on our figures.

The challenge for us is multi-layered and it concerns both our business and our day-to-day operations. Moreover, with our presence in 23 countries we are faced with a range of very different situations, and it is currently not possible to make any reliable predictions regarding the potential business implications for our German and foreign business. Our diversified foreign portfolio may help us cope with local pressures – but that too is currently difficult to assess in the midst of a pandemic. There is also the confluence of various issues, such as the economic trend, coronavirus as well as further factors such as Brexit.

However, I would like to note that since time immemorial, panic and fear have never been a good source of counsel – and that also holds true in an economic context. Our company must approach this situation in a level-headed manner, while pursuing a forward-looking and well-thought-out risk and emergency management strategy. The Deutsche Leasing Group is taking the COVID-19 issue very seriously. Our situation centre is keeping a very close eye on daily developments; we are in dialogue with our foreign subsidiaries and in discussion with our partners, the savings banks, where necessary and are also available to assist our customers with any questions they might have. The potential danger and appropriate measures are thus regularly identified for our company and for all of our employees, customers and partners.

Above all, however, coronavirus is a health risk. According to Germany’s Robert Koch Institute, the situation is highly dynamic and serious, in Germany and worldwide – and no one can currently foresee the end of it. The main priority now has to be to protect people, to contain the spread of the virus and to gain time. We are also facing up to our wider social responsibility as an employer: as well as the preventive measures and rules of behaviour to protect against infectious diseases officially recommended by the German government and the Robert Koch Institute, we have currently banned all travel, are using Skype and telephone conferences and have implemented additional measures for enhanced hygiene standards. Our employees are also working more from home. We can only hope that the situation stabilises over the next few weeks.

I would like to have provided you with a more optimistic outlook. But we too – leasing companies and the financial industry – cannot escape this development. It is a balancing act: for the time being, we must focus on immediate priorities – at the same time, however, we should not entirely abandon long-term, strategic projects. For there will also be a time after the corona pandemic.