

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

Leas LEASEUROPE
INDEX

Survey of European leasing and rental firms

Leaseurope Index
Q1 2019

The Leaseurope Index is a unique survey that tracks key performance indicators of a sample of 23 European lessors on a quarterly basis. This Q1 2019 is the thirty-third edition of the survey.

The first quarter of 2019 saw a mixed picture in the industry key performance indicators. While new business volumes and portfolio continued expanding, followed by some growth in operating income, other indicators remained stable or weakened. As a result, most weighted average ratios deteriorated compared to the same period a year ago, with median ratios also reflecting a less positive picture for the 'typical' leasing company in the sample.

New business volumes continued growing in Q1 2019 compared to the same period a year ago increasing by 4.4%. The portfolio of outstanding contracts also expanded by 5.0% in Q1 2019, as have risk weighted assets at a lower 4.3%.

Profit & profitability

Aggregate pre-tax profit remained stable in Q1 2019 compared to Q1 2018, growing by 0.2%. As a consequence, weighted average profitability decreased over this period from 43.3% in Q1 2018 to 40.6% in Q1 2019. The median profitability ratio exhibited a similar trend, although at the higher level of 42.0% in Q1 2019.

Income, expenses & cost/income

Operating income enjoyed the highest increase since 2016, rising by 3.8% in Q1 2019 compared to the same period a year ago. However, operating expenses rose by an even larger amount of 5.5%, outweighing the growth of operating income. This resulted in the median cost/income ratio rising to 48.3% at the beginning of 2019, which was slightly higher than the full year 2018 average. Weighted average cost income ratio remained stable at 49.1% in Q1 2019.

Loan loss provision & cost of risk

Loan loss provisions were on the increase in Q1 2019, rising by 12.6% compared to the same period a year ago. As a result, the weighted average cost of risk increased to 0.35% in Q1 2019 compared to 0.32% seen in Q1 2018. When excluding any outlier effects, the median cost of risk ratio stood stable at a lower level of 0.30% in the first quarter of this year.

RoA and RoE¹ indicators

The levels of both RoA and RoE were slightly lower in Q1 2019 compared to Q1 2018. Weighted average RoA stood at 1.6% in Q1 2019, with the median ratio at 1.3% for the 'typical' leasing company.

Mike Masterson, CEO of ALD Automotive stated, *“The first quarter of this year shows continuously growing new business volumes and expanding portfolios. We at ALD Automotive see that growth is being rapidly driven by technological advances but are more conscious than ever that it is important to keep our eyes on fundamentals such as productivity, operational efficiency and the quality of our customer service. This remains essential to ensure the success of the business model going forward. It is an exciting time for lessors and continuing to manage KPIs while driving forward in an era of rapid change will be a main challenge for the industry as a whole.”*

¹ In order to ensure a feasible and comparable data collection across our sample, 10.5% of total risk weighted assets has been used as a proxy for equity. Therefore, the results reported here for RoE may not be directly comparable to the way leasing firms measure RoE internally or to some other measures of RoE.

Table 1: Aggregate Data, Q1 2018 – Q1 2019²

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2019 Q1		2018 Q4		2018 Q3	
	Sum of values (€ millions)	% change versus Q1 2018	Sum of values (€ millions)	% change versus Q4 2017	Sum of values (€ millions)	% change versus Q3 2017
1. Operating income	2,660	3.8%	2,575	3.5%	2,534	1.3%
2. Operating expenses	1,307	5.5%	1,239	-6.1%	1,285	7.9%
3. Loan loss provision	239	12.6%	212	-2.0%	374	84.2%
4. Pre-Tax Profit	1,113	0.2%	1,110	16.3%	934	-16.8%
5. RWA at end of period	196,908	4.3%	193,913	5.3%	184,104	5.5%
6. Portfolio at end of period	278,753	5.0%	275,710	6.9%	272,041	6.4%
7. New business volumes	25,710	4.4%	24,616	-9.7%	26,324	7.7%

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2018 Q2		2018 Q1	
	Sum of values (€ millions)	% change versus Q2 2017	Sum of values (€ millions)	% change versus Q1 2017
1. Operating income	2,647	2.9%	2,563	1.9%
2. Operating expenses	1,198	1.0%	1,239	6.2%
3. Loan loss provision	161	-2.6%	212	18.4%
4. Pre-Tax Profit	1,276	4.7%	1,110	-5.7%
5. RWA at end of period	190,603	5.1%	188,752	4.4%
6. Portfolio at end of period	269,367	5.6%	265,428	3.8%
7. New business volumes	28,896	8.6%	24,616	2.0%

Table 2: Aggregate Data, 2015 – 2018 Annual³

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2018		2017		2016		2015	
	Sum of values (€ millions)	% change versus 2017	Sum of values (€ millions)	% change versus 2016	Sum of values (€ millions)	% change versus 2015	Sum of values (€ millions)	% change versus 2014
1. Operating income	10,290	1.9%	10,094	-0.4%	10,137	3.5%	9,795	8.3%
2. Operating expenses	5,021	3.5%	4,849	1.0%	4,802	6.6%	4,506	4.2%
3. Loan loss provision	1,017	34.7%	755	-57.5%	1,775	42.4%	1,247	-30.2%
4. Pre-Tax Profit	4,234	-6.0%	4,504	25.0%	3,605	-11.0%	4,050	37.2%
5. RWA at end of period	193,893	4.6%	185,362	3.1%	179,735	0.6%	178,706	3.4%
6. Portfolio at end of period	275,698	6.0%	260,034	2.3%	254,217	3.1%	244,355	2.1%
7. New business volumes	108,910	6.5%	102,247	4.5%	97,846	7.5%	91,023	10.1%

² Historical figures have been revised slightly since the results were last published due to re-statements by some reporting companies.

³ The aggregate annual data are shown here as reported in the Q4 2018 survey.

Table 3a: Weighted Average Ratios, 2018 – Q1 2019⁴

Weighted Average Ratios	2019	2018				
	Q1 2019	2018 Full Year	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Profitability (%) - pre-tax profit as a % of total operating income	40.6%	41.9%	36.4%	38.8%	48.8%	43.3%
Cost/Income (%) - operating expenses as a % of operating income	49.1%	48.5%	52.3%	49.6%	44.7%	49.0%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.35%	0.38%	0.43%	0.50%	0.24%	0.32%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	1.6%	1.6%	1.4%	1.4%	1.9%	1.7%
Return on Equity (index, 2011=100)* - net profit before tax (annualised) as a percentage of 10.5% of total risk weighted assets over the period	166	167	143	158	202	176

Table 3b: Median Ratios, 2018 – Q1 2019

Median Ratios	2019	2018				
	Q1 2019	2018 Full Year	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Profitability (%) - pre-tax profit as a % of total operating income	42.0%	39.5%	37.1%	39.1%	48.5%	47.6%
Cost/Income (%) - operating expenses as a % of operating income	48.3%	47.4%	51.3%	43.8%	43.4%	47.4%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.30%	0.3%	0.27%	0.34%	0.19%	0.29%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	1.3%	1.5%	1.1%	1.4%	2.1%	1.5%
Return on Equity (index, 2011=100)* - net profit before tax (annualised) as a percentage of 10.5% of total risk weighted assets over the period	112	119	119	120	180	123

⁴ The profitability and cost/income ratios are weighted by new business volumes, while the cost of risk, RoA and RoE ratio are weighted by the average portfolio over the relevant period. For example, each company's individual profitability ratio is weighted by its new business over the period Q1 2019 to arrive at the weighted average ratio of 40.6% shown in the table.

Fig 1: Growth Rates of Financial Indicators, 2017 – Q1 2019⁵

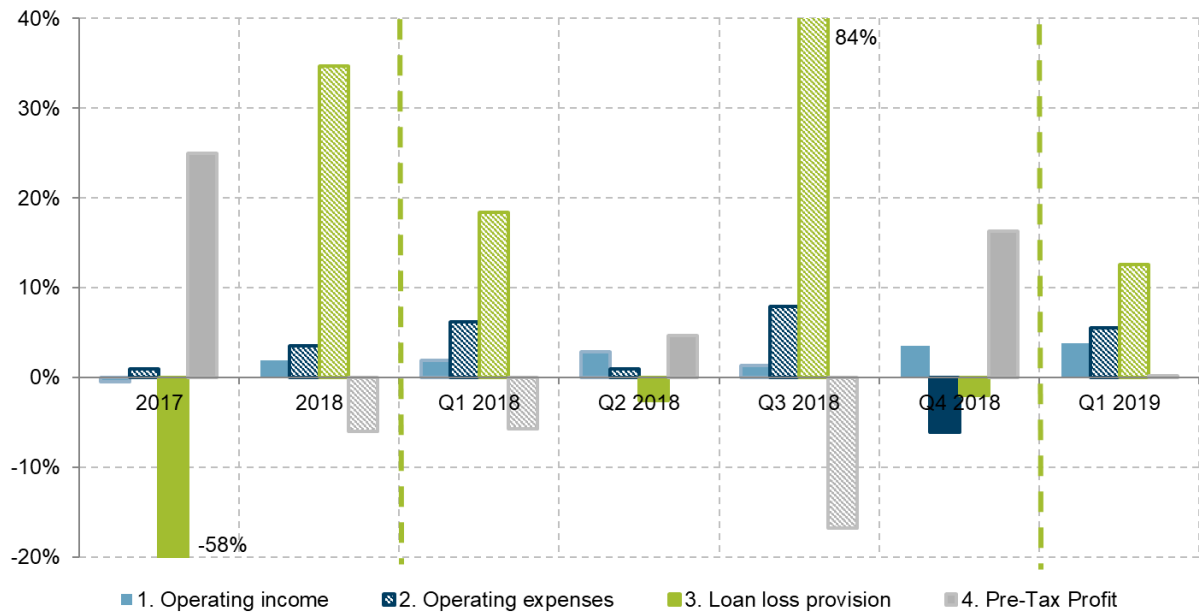
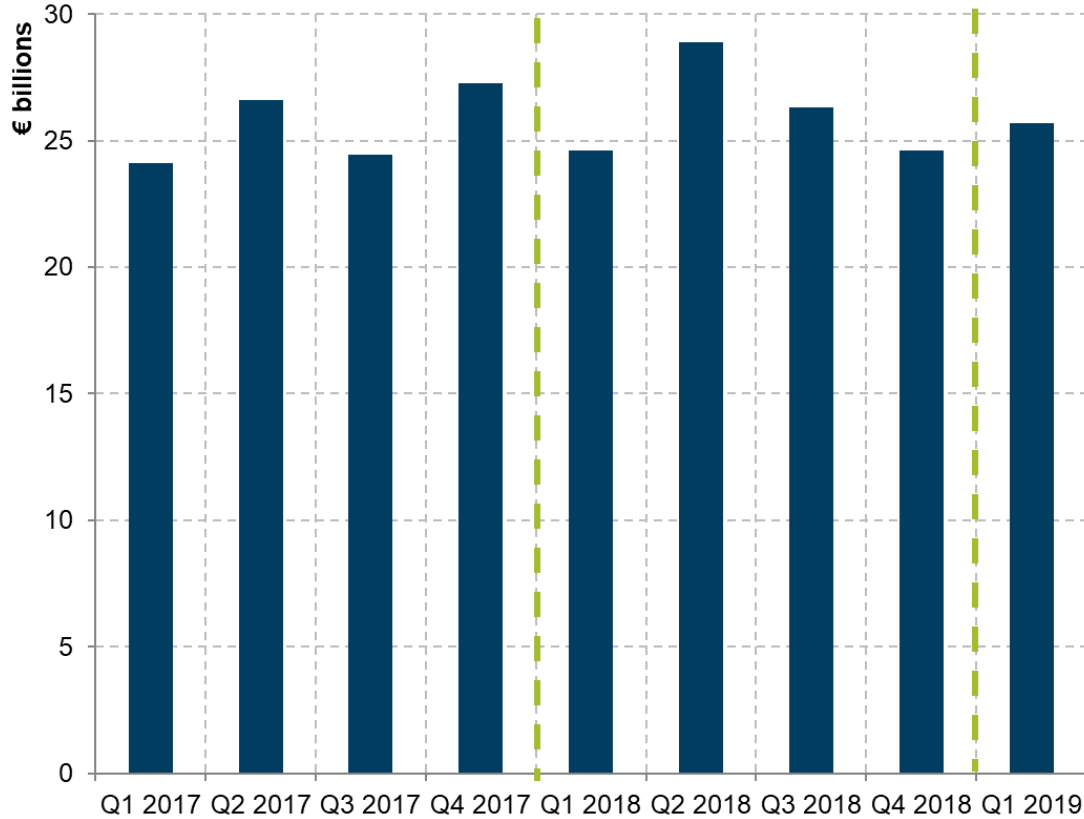


Fig. 2: New Business Volumes, Q1 2017 – Q1 2019



⁵ A thick border around an individual bar in the chart is illustrative of a negative development in the indicator.

Fig. 3: Profitability Ratio, 2017 – Q1 2019

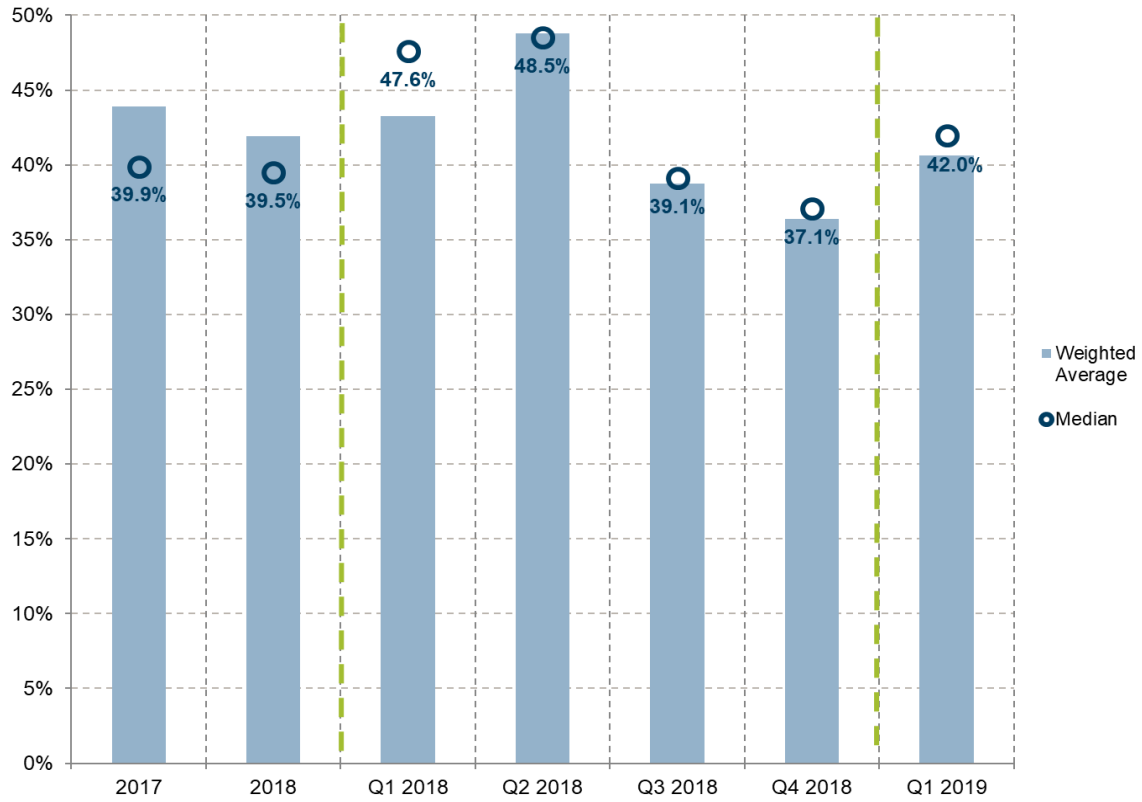


Fig. 4: Cost / Income Ratio, 2017 – Q1 2019

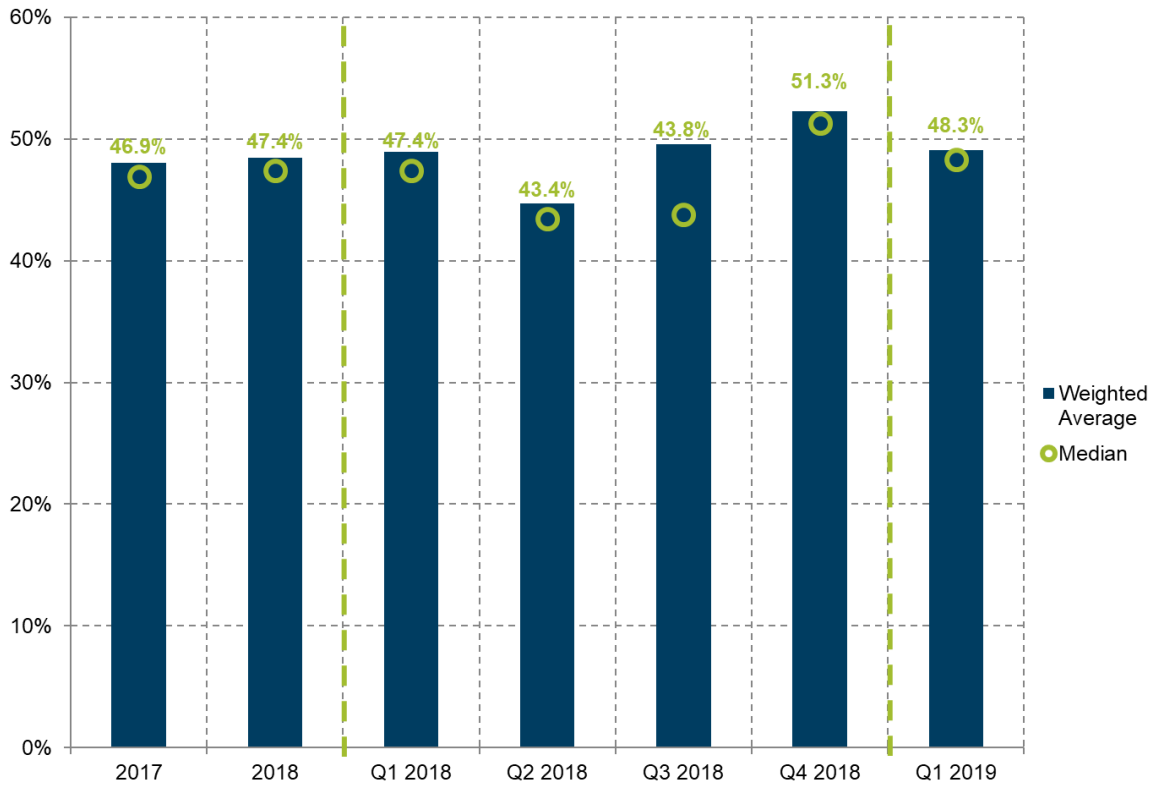


Fig. 5: Cost of Risk Ratio, 2017 – Q1 2019

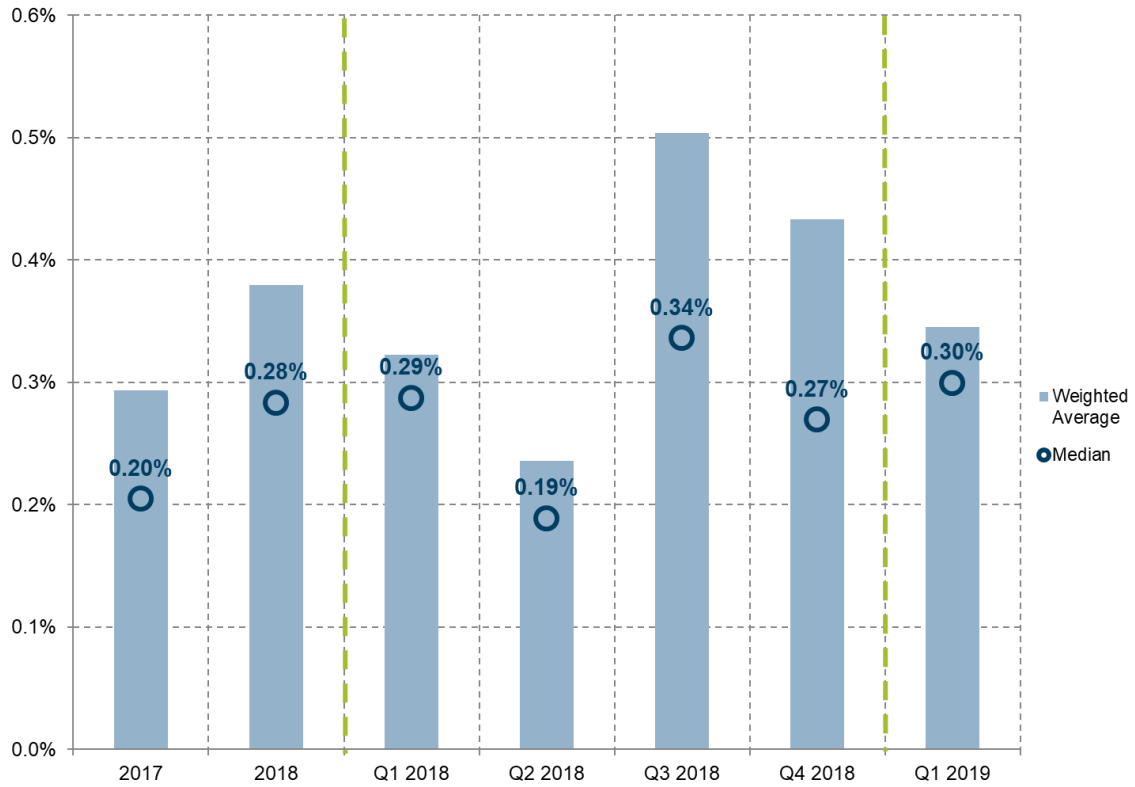


Figure 6: Return on Assets Ratio, 2017 – Q1 2019

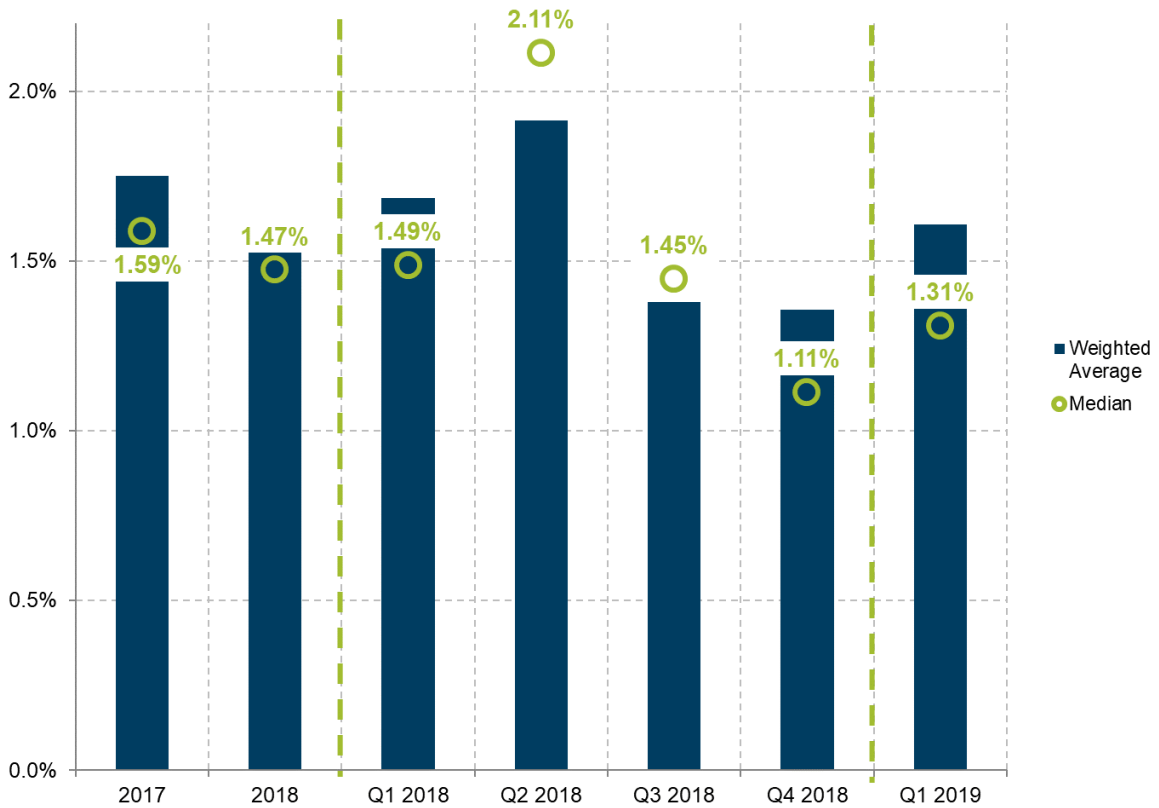


Figure 7: Weighted Average Return on Equity Index, 2017 – Q1 2019

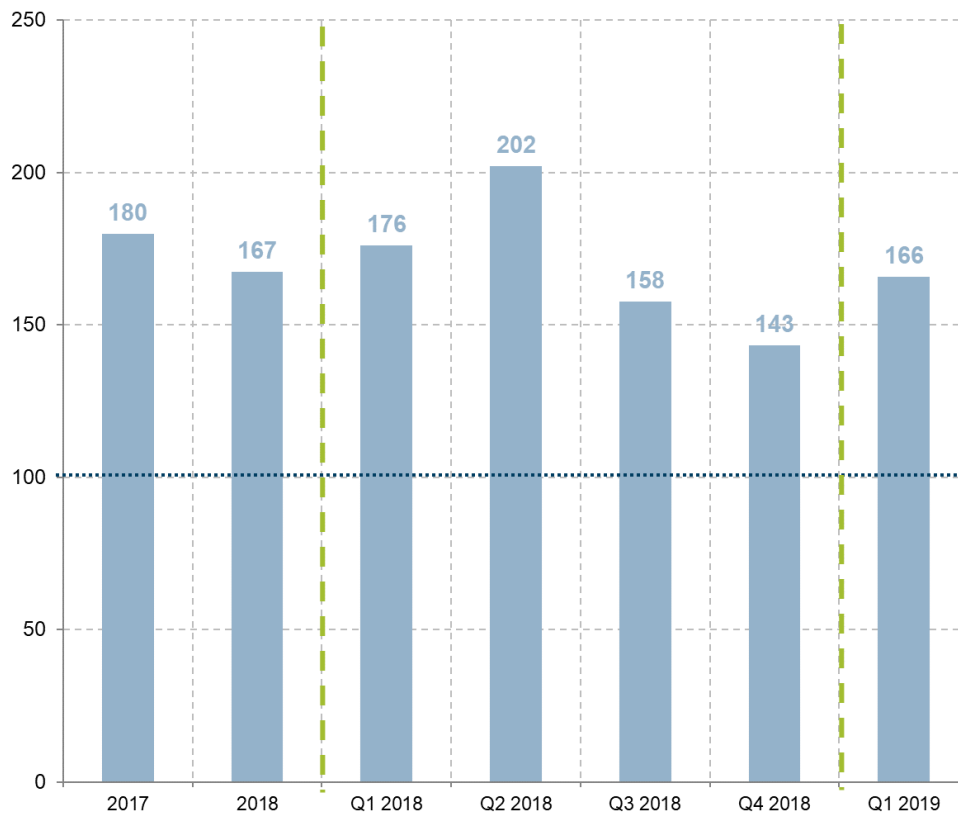


Table 5: Quartiles⁶ for Ratios in Q1 2019

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio
Minimum	-56.4%	15.1%	-0.16%	-1.4%
Quartile 1 (25%)	22.6%	38.4%	0.13%	0.6%
Quartile 2 (50%) i.e. median	37.1%	51.3%	0.3%	1.1%
Quartile 3 (75%)	49.5%	55.4%	0.74%	2.1%
Maximum	95.0%	79.1%	2.62%	7.2%
Weighted Average	36.4%	52.3%	0.43%	1.4%

⁶ Quartiles show the value of the boundary at the 25th, 50th, or 75th percentiles of a frequency distribution divided into four parts, each containing a quarter of the values in the dataset. In the table, Quartile 3 (75th percentile or upper quartile) identifies that 3/4 of the population members have a value below this quartile figure. The median value shows the middle value of the 23 observations in the data set. The median is not influenced by outliers at either end of the dataset and can therefore be a useful metric of the ratio of the “typical” company in the sample.

About the Leaseurope Index

Who conducts this survey?

Leaseurope conducts this survey. Individual companies report their figures for each indicator to Leaseurope, which aggregates the results on a confidential basis.

What is the purpose of this survey?

The purpose of the Leaseurope Index is to provide timely and regular information on the European leasing and automotive rental market. This is the only survey to report statistics on both volume of business and value creation metrics at European level.

What indicators are covered by the Leaseurope Index?

The survey tracks operating income, operating expenditure, loan loss provision, pre-tax profit, risk weighted assets, portfolio of leased assets and new business volumes for each quarter.

Definitions:

- 1) **Total operating income:** Net interest income + net fee and commission income + net insurance result + trading profit + other net income (including rental income net of depreciation on operating leases and profit on sales of assets linked to leasing activities)
- 2) **Total operating expenses:** includes inter alia staff costs, other administrative expenses, depreciation and amortisation
- 3) **Loan loss provision:** Net loan loss provision - write offs + recoveries over the period (including write-offs/recoveries of assets)
- 4) **Pre-tax profit:** Total operating income – costs – provisions
- 5) **Risk weighted assets at end of period:** Total risk weighted assets (RWA) as defined by currently applicable prudential requirements (under the approach used by each firm, be it standardised or IRB) at the end of each period
- 6) **Portfolio at end of period:** Total portfolio of leased assets including outstanding loans to customers and assets on operating lease at the end of each period (non-performing loans are included). The figures reflect the depreciated value of assets at the end of the period.
- 7) **New business volumes:** Total value of new contracts approved & signed by both sides (lessor and lessee) during the period during the reporting period, excluding VAT and finance charges

Based on the data provided in millions of euro by each company, Leaseurope calculates weighted average ratios, defined as follows:

Profitability ratio: weighted average of all companies' pre-tax profit as a % of total operating income. The weight used is the new business volume for the relevant period.

Cost / Income ratio: weighted average of all companies' operating expenses as a % of operating income. The weight used is the new business volume for the relevant period.

Cost of risk ratio: weighted average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period. The weight used is the average portfolio over the period. Average portfolio is calculated as the mean of the value of the portfolio of leased assets at the beginning and end of each period.

Return on assets ratio: weighted average of all companies' net profit (annualised) as a percentage of average portfolio over the period. The weight used is the average portfolio over the period. Average portfolio is calculated as the mean of the value of the portfolio of leased assets at the beginning and end of each period.

Return on equity index: Indexation of the weighted average of all companies' net profit (annualised) as a percentage of 10.5% of average risk weighted assets over the period. The weight used is the average portfolio over the period. Average portfolio is calculated as the mean of the value of the portfolio of leased assets at the beginning and end of each period.

Which companies take part in the survey?

23 companies participate on a voluntary basis: ABN AMRO Asset Based Finance N.V., ALD Automotive, Aldermore, Alphabet, Arval, BNP Paribas Leasing Solutions, Caterpillar S.A.R.L., Credit Agricole Leasing & Factoring, De Lage Landen, DnB Finans, Hitachi Capital UK, Iccrea Bancalmpresa, ING Lease, Investec, Lombard, Leaseplan, Mediocredito Italiano, Nordea Finance, Siemens Financial Services, Société Générale Equipment Finance, UBI Leasing, UniCredit Leasing, Xerox Financial Services Europe

This sample is broadly representative of the European market in terms of geographic coverage and asset coverage. The sample represents a significant share of the total European leasing market. Please see the Leaseurope **2017 Ranking survey** for more information about European leasing companies.

How should the survey results be interpreted?

The survey tracks trends in key performance indicators at European level. The results are only presented in aggregate and no inferences can be made about any individual company's performance based on this aggregate data.

Extreme care should be taken in comparing individual company performance with the Leaseurope Index, which spans a sample of lessors active in different market segments. For example, the sample includes general leasing companies, automotive lessors, captive equipment vendors etc. The companies in the sample are also active in different geographic markets.

For this survey, Leaseurope aggregates self-declared information. While the Leaseurope Secretariat monitors the plausibility of the data, this is not audited data. As such, the Leaseurope Index should only be used for indicative purposes and care should be taken in interpreting the results. Although the sample is broadly representative, care should be taken in making inferences about market trends for the industry as a whole.

What is the geographic scope of this survey?

Consolidated figures are reported for the entire European activities of the participating companies. Europe is defined in the widest sense as EU28 + EFTA + other countries e.g. Turkey, Ukraine, Russia, Serbia, Croatia etc. Each company reports figures in euro regardless of which countries they operate in or which currencies they report in.

What is meant by "leasing"?

The term "leasing" is used in its broadest sense, covering hire purchase, finance and operating leasing which includes long term rental. Leasing is defined according to International Financial Reporting Standards (IAS17).

When will the next Leaseurope Index results be released?

The survey is conducted on a quarterly basis. For future editions of this survey, Leaseurope aims to publish the results on the **Leaseurope Index website** within eight weeks of the close of quarter.

Disclaimer

Please note that the information contained in the Leaseurope Index is of a general nature. Nobody should act upon such information without first seeking appropriate professional advice and after a thorough examination of a particular situation. Neither Leaseurope nor participating companies can be held responsible or liable for any losses or damages of any kind arising out of or in connection with the use of the information contained in the Leaseurope Index.