

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

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INDEX

Survey of European leasing and rental firms

Leaseurope Index
Q4 2013

LEASEUROPE INDEX RESULTS: Q4 2013

The Leaseurope Index is a unique survey that tracks key performance indicators of a sample of 17 European lessors on a quarterly basis. This Q4 2013 is the twelfth edition of the survey.

The weighted average ratios for Q4 2013 show a substantial improvement compared to the same quarter of the previous year. On an annual basis, all ratios improved in 2013 compared to 2012 (with the exception of cost of risk), largely as a result of strong performance in the last quarter of 2013.

Total new leasing volumes reported by the sample of firms increased by 13.7% in comparison to the same quarter a year ago, reaching just under €20 billion, while the whole of 2013 saw a marginal 0.8% increase in comparison to 2012. The portfolio of outstanding contracts declined by -5% while risk-weighted assets decreased by a smaller amount (-3%).

Profit & profitability

Despite a few firms in the sample experiencing losses in the quarter, total pre-tax profit of all the companies increased by 10% for Q4 2013 in comparison to Q4 2012 (see table 1). The average profitability ratio increased substantially, from 16.3% in Q4 2012 to 25.8% in Q4 2013 (see tables 3 & 4), although it was slightly lower than the rest of 2013. It is important to note that the quartile values of the profitability ratio are widely dispersed within the firm sample for the reporting period (see table 5).

Income, expenses & cost/income

Operating income recovered well compared to the same period a year ago, growing by 9.6%, while operating expenses increased to a lesser degree (3.9%). This difference caused the cost/income ratio to fall from 53.5% in Q4 2012 to 49.0% in Q4 2013. In fact, all quarters in 2013 saw a decline in the cost/income ratio, resulting in a lower total figure for 2013 of 47%.

Loan loss provision & cost of risk

Loan loss provisions decreased in Q4 2013 compared to Q4 2012 (-7.1%), the first decline seen in 2013. The average annualised cost of risk remained at the same level as Q4 2012 at 0.9%. The total cost of risk for 2013 was slightly lower at 0.8%.

RoA and RoE indicators

RoA and RoE¹ increased significantly in Q4 2013 compared to Q4 2012, reaching 0.9% and 115, respectively. These figures are less heavily influenced by outliers than in previous quarters. Overall, 2013 saw increases in these indicators, with an RoA of 1.0% and an RoE of 121.

Philippe Bismut, CEO of Arval, commented that, “2013 saw a slow recovery beginning in the EU, with European GDP rising by 0.4% in Q4 2013 in comparison to Q4 2012². It’s even better news for the European leasing industry, which is experiencing an even greater recovery as evidenced by the strong KPI performance in Q4 2013. Revenues and profitability have been particularly impressive last quarter, on the back of the highest new business volumes seen since Q4 2011. The leasing industry proved itself able to weather one of the most difficult downturn periods of recent history and is now positioned to capitalise on market recoveries. Consolidated recovery will bring some long-awaited breathing room and future opportunities for industry development.”

¹ In order to ensure a feasible and comparable data collection across our sample, 8% 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.

² Eurostat flash estimate for the fourth quarter of 2013.

Table 1: Aggregate Data, Q1 2013 – Q4 2013³

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2013 Q4		2013 Q3		2013 Q2		2013 Q1	
	Sum of values (€ millions)	% change versus Q4 2012	Sum of values (€ millions)	% change versus Q3 2012	Sum of values (€ millions)	% change versus Q2 2012	Sum of values (€ millions)	% change versus Q1 2012
1. Operating income	1,984	9.6%	1,848	4.8%	1,959	7.8%	1,881	5.7%
2. Operating expenses	999	3.9%	887	-0.3%	920	3.5%	884	1.3%
3. Loan loss provision	472	-7.1%	395	6.8%	491	9.8%	411	33.0%
4. Pre-Tax Profit	508	54.3%	565	13.4%	564	20.0%	586	-2.0%
5. RWA at end of period	163,661	-2.8%	165,855	-1.0%	168,623	0.0%	170,408	-0.2%
6. Portfolio at end of period	214,278	-4.8%	218,366	-2.5%	223,508	-0.7%	224,065	-0.6%
7. New business volumes	19,614	13.7%	15,989	1.8%	17,630	0.0%	14,550	-9.5%

Table 2: Aggregate Data, 2010 – 2013 Annual⁴

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2013		2012		2011		2010	
	Sum of values (€ millions)	% change versus 2012	Sum of values (€ millions)	% change versus 2011	Sum of values (€ millions)	% change versus 2010	Sum of values (€ millions)	% change versus 2009
1. Operating income	7,572	5.2%	7,199	-4.8%	7,564	2.1%	7,405	3.1%
2. Operating expenses	3,644	0.5%	3,627	-2.5%	3,721	5.6%	3,523	6.7%
3. Loan loss provision	1,745	7.9%	1,617	7.0%	1,511	-19.7%	1,882	-9.2%
4. Pre-Tax Profit	2,182	13.9%	1,915	-18.3%	2,345	19.0%	1,970	64.6%
5. RWA at end of period	163,661	-2.7%	168,234	-6.5%	179,925	3.9%	173,191	n/a
6. Portfolio at end of period	214,278	-4.8%	225,054	-4.1%	234,563	1.6%	230,978	0.4%
7. New business volumes	67,285	0.8%	66,771	-14.5%	78,073	3.0%	75,793	7.3%

³ Historical figures have been revised slightly since the results were last published due to re-statements by some reporting companies. Some of the company figures for Q4 2013 are estimates.

⁴ The aggregate annual data are shown here as reported in the Q4 2013 survey.

Table 3: Weighted Average Ratios, 2013⁵

Weighted Average Ratios	2013				
	Average 2013 full year	Average Q4 2013	Average Q3 2013	Average Q2 2013	Average Q1 2013
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	28.4%	25.7%	29.8%	28.1%	32.1%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	46.9%	49.0%	47.0%	45.9%	46.1%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.8%	0.9%	0.7%	0.9%	0.7%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.0%	0.9%	1.0%	1.0%	1.0%
Return on Equity (2010=100)* - index of all companies' net profit before tax (annualised) as a percentage of 8% of total risk weighted assets over the period	121	115	124	118	125

Table 4: Weighted Average Ratios, 2012

Weighted Average Ratios	2012				
	Average 2012 full year	Average Q4 2012	Average Q3 2012	Average Q2 2012	Average Q1 2012
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	26.5%	16.3%	29.9%	25.7%	35.1%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	48.3%	53.5%	49.3%	46.8%	48.2%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.7%	0.9%	0.7%	0.8%	0.5%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	0.9%	0.6%	0.9%	0.8%	1.1%
Return on Equity (2010=100)* - index of all companies' net profit before tax (annualised) as a percentage of 8% of total risk weighted assets over the period	102	59	108	103	124

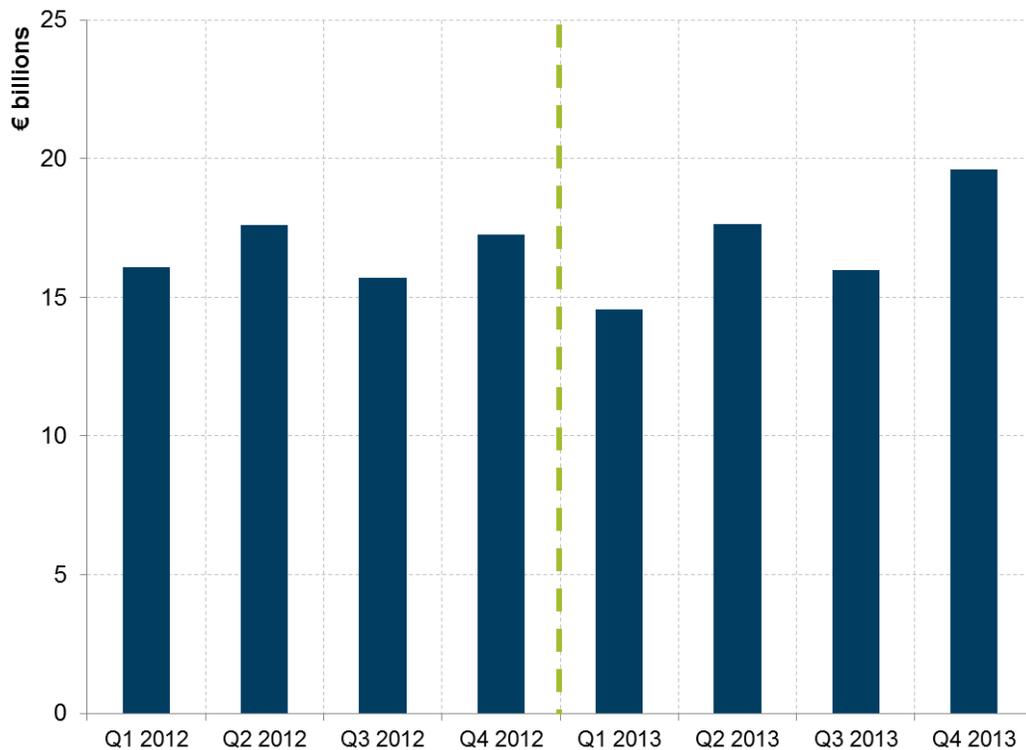
* denotes that the quarterly numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each individual quarter.

⁵ 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 Q4 2013 to arrive at the weighted average ratio of 25.8% shown in the table.

Fig 1: Growth Rates of Financial Indicators, 2012 – Q4 2013⁶



Fig. 2: New Business Volumes, Q1 2012 – Q4 2013



⁶ A thick border around an individual bar in the chart is illustrative of a negative development in the indicator

Fig. 3: Profitability Ratio, 2012 – Q4 2013

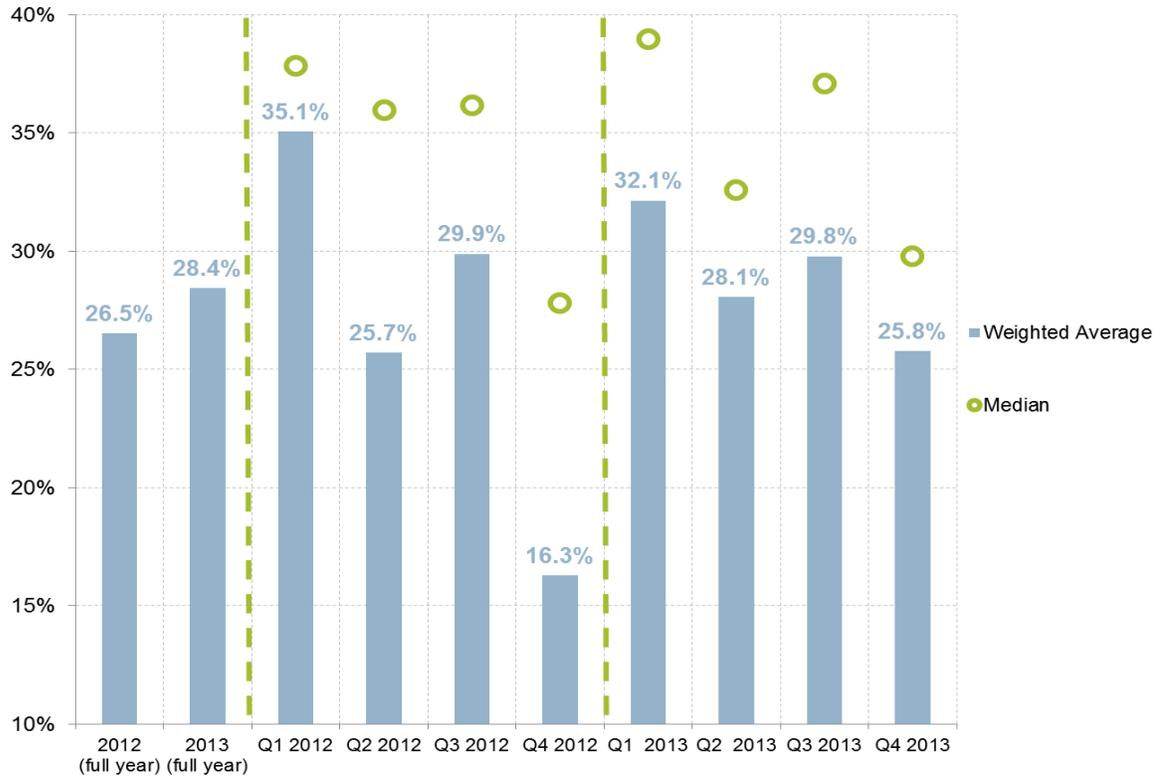


Fig. 4: Cost / Income Ratio, 2012 – Q4 2013

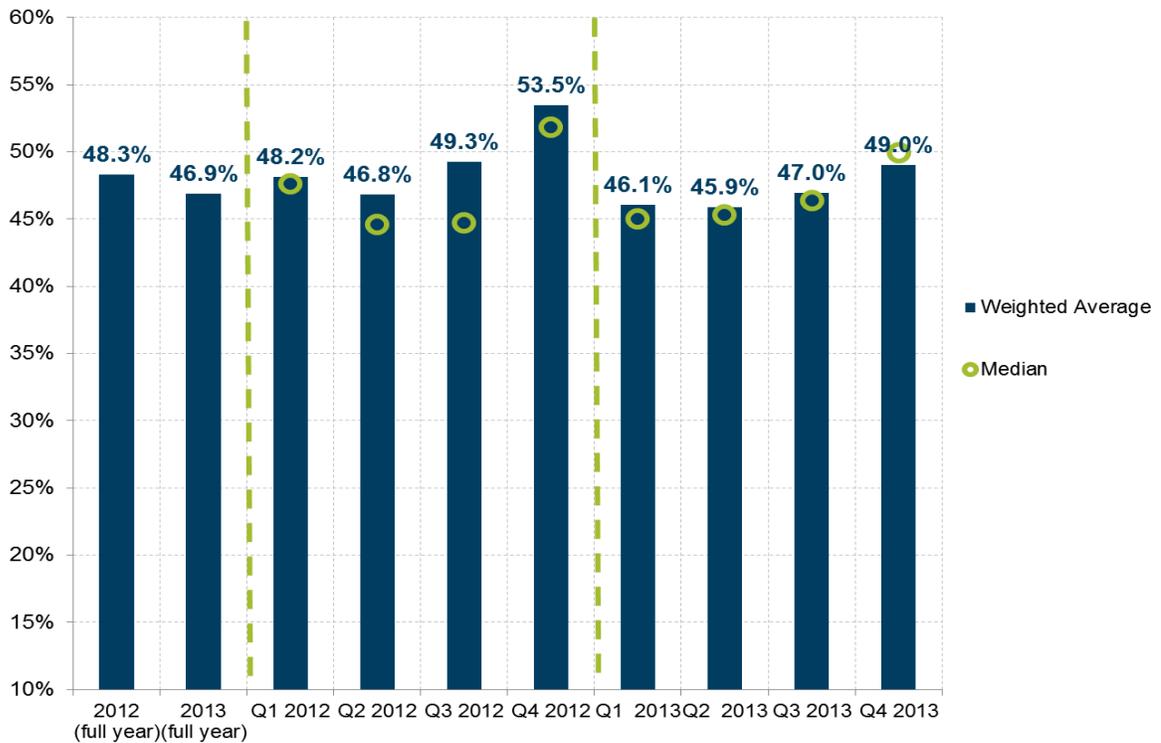


Fig. 5: Cost of Risk Ratio, 2012 – Q4 2013

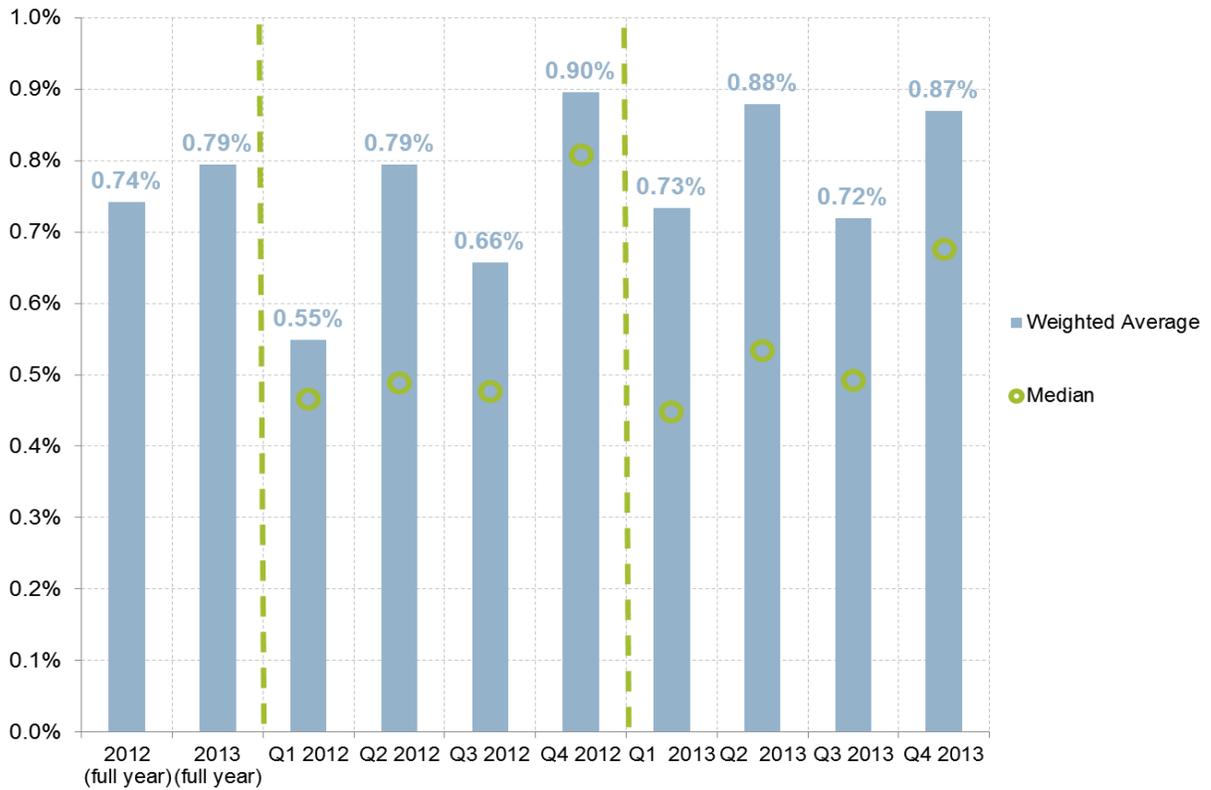


Figure 6: Return on Assets Ratio, 2012 – Q4 2013



Figure 7: Return on Equity Index, 2012 – Q4 2013

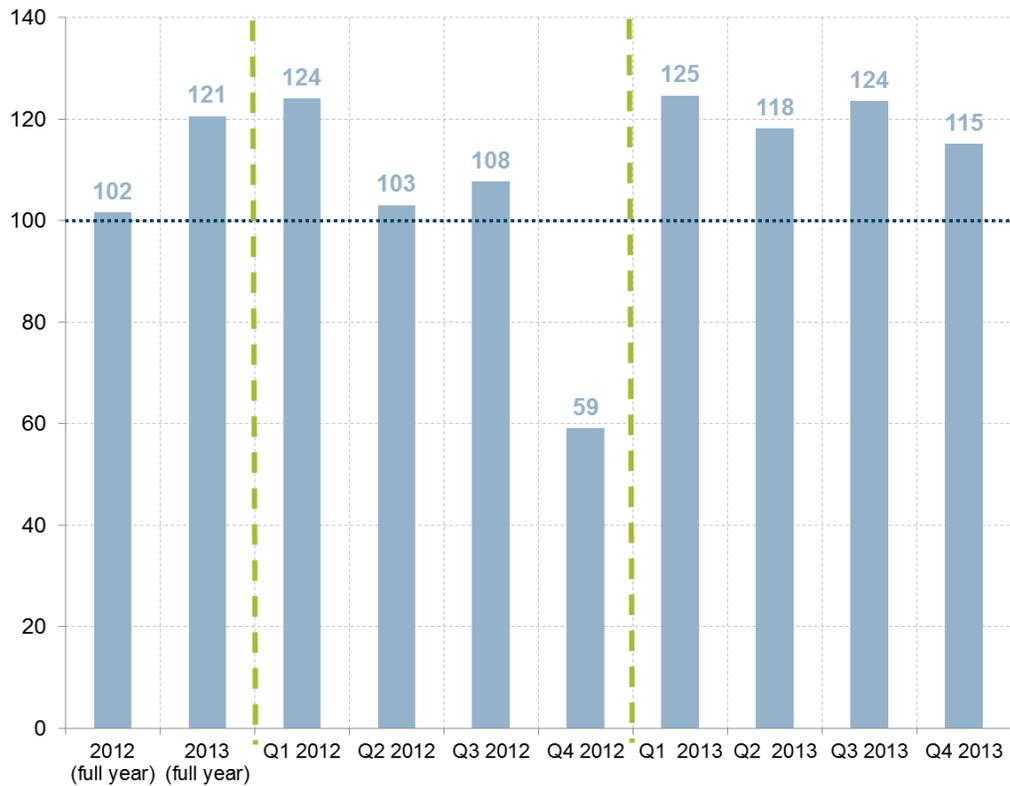


Table 5: Quartiles⁷ for Ratios in Q4 2012

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio
Minimum	-152.9%	19.3%	-0.8%	-3.0%
Quartile 1 (25%)	7.7%	38.3%	0.2%	0.2%
Quartile 2 (50%) i.e. median	29.8%	49.9%	0.7%	1.0%
Quartile 3 (75%)	39.8%	52.1%	1.1%	2.0%
Maximum	75.2%	88.2%	3.8%	4.8%
Weighted Average	25.7%	49.0%	0.87%	0.94%

⁷ 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 17 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 ratio: weighted average of all companies' net profit (annualised) as a percentage of 8% 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?

17 companies participate on a voluntary basis: ABN AMRO Lease, ALD Automotive, Arval, Banca Agrileasing, BNP Paribas Leasing Solutions, Caterpillar S.A.R.L., Credit Agricole Leasing & Factoring, De Lage Landen, DnB NOR Finans, ING Lease, Leaseplan, Leasint, Nordea Finance, UniCredit Leasing, Société Générale Equipment Finance, UBI 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 **2012 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 EU27 + 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 six 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.