

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

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INDEX

Survey of European leasing and rental firms

Leaseurope Index
Q1 2020

LEASEUROPE INDEX RESULTS: Q1 2020

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 2020 is the thirty-seventh edition of the survey.

The results of the Q1 2020 Index do reflect the impact of the developing Covid-19 crisis across Europe, with many countries entering lockdown during March. The impact is mostly limited to the end of the quarter, therefore deteriorating KPIs are modest, with the exception of loan loss provisions rising significantly. All weighted average ratios and median ratios have deteriorated in Q1 2020 compared to Q1 2019, with the exception of median cost/income remaining stable.

New business volumes remained relatively stable in Q1 2020 compared to the same period a year ago, with a marginal decrease of -0.4%. The portfolio of outstanding contracts expanded by 5.2% in Q1 2020 on the back of strong new business in previous quarters, while risk weighted assets grew by a lower amount of 2.6%.

Profit & profitability

Aggregate pre-tax profit contracted by over a quarter (-26%) in relation to Q1 2019 as a result of escalating provisions. Therefore, weighted average profitability also decreasing, reaching 32.4% compared to the level of 40.9% in Q1 2019. The median profitability ratio (less susceptible to outlier values and more indicative of the 'typical' company) also exhibited a downward trend in Q1 2020, although the level is slightly higher at 34.5%.

Income, expenses & cost/income

Operating income decreased by -2.7% in the first quarter of 2020 compared to the same period a year ago. Due to the simultaneous increase of 2.2% in operating expenses, this resulted in the weighted average cost/income ratio rising to 50.6% at the beginning of 2020, which was 2.2 percentage points higher than the full year 2019 average. When excluding outlier effects, the median cost/income ratio is more positive with a slight improvement of 0.4 percentage points to reach 48.1% in Q1 this year.

Loan loss provision & cost of risk

Loan loss provisions increased substantially in Q1 2020, rising by 78.9% compared to the same period a year ago. As a result, the weighted average cost of risk deteriorated, almost doubling to 0.6% in Q1 2020 from 0.35% in Q1 2019. In terms of median ratio, cost of risk reached 0.52% in Q1 2020, which was the highest level observed since 2014.

RoA and RoE¹ indicators

The levels of both RoA and RoE were lower in Q1 2020 compared to Q1 2019. Weighted average RoA stood at 1.1% in Q1 2020, with the median ratio at 1.0% for the 'typical' leasing company.

Andy Hart, CEO Investec Asset Finance commented, *"The first quarter of this year shows a subdued KPI performance due to the disruption of the Covid-19 pandemic, in spite of new business volumes remaining healthy and portfolios expanding. Despite a relatively modest impact on financials like income and good cost/income control, the highly uncertain economic environment has been reflected in escalating loan loss provisions. Going forward, the European Commission has forecasted that business investment this year will experience a fall but is predicting a bounce back once the situation stabilises with the help of accommodative monetary policy². In these turbulent times, it is more important than ever to continue supporting businesses, particularly SMEs, to adapt and recover from the crisis. While lessors are also adapting themselves, the unique situation presents business opportunities for lessors to provide their services in new and beneficial ways."*

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.

² European Economic Forecast, Spring 2020.

Table 1: Aggregate Data, Q1 2019 – Q1 2020³

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2020 Q1		2019 Q4		2019 Q3	
	Sum of values (€ millions)	% change versus Q1 2019	Sum of values (€ millions)	% change versus Q4 2019	Sum of values (€ millions)	% change versus Q3 2018
1. Operating income	2,587	-2.7%	2,695	3.8%	2,638	4.6%
2. Operating expenses	1,336	2.2%	1,322	6.7%	1,334	8.5%
3. Loan loss provision	427	78.9%	554	160.9%	240	-32.0%
4. Pre-Tax Profit	820	-26.2%	818	-26.3%	1,054	12.4%
5. RWA at end of period	200,440	2.6%	200,719	4.0%	200,102	2.6%
6. Portfolio at end of period	284,094	5.2%	289,144	5.2%	283,233	4.8%
7. New business volumes	26,103	-0.4%	30,488	5.4%	28,051	7.0%

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2019 Q2		2019 Q1	
	Sum of values (€ millions)	% change versus Q2 2018	Sum of values (€ millions)	% change versus Q1 2018
1. Operating income	2,644	-0.2%	2,658	3.8%
2. Operating expenses	1,387	15.0%	1,306	5.5%
3. Loan loss provision	295	82.6%	239	12.5%
4. Pre-Tax Profit	971	-23.4%	1,112	0.2%
5. RWA at end of period	197,885	3.7%	195,324	3.5%
6. Portfolio at end of period	279,092	3.6%	277,472	4.5%
7. New business volumes	28,934	-0.4%	26,209	6.5%

Table 2: Aggregate Data, 2016 – 2019 Annual⁴

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2019		2018		2017		2016	
	Sum of values (€ millions)	% change versus 2018	Sum of values (€ millions)	% change versus 2017	Sum of values (€ millions)	% change versus 2016	Sum of values (€ millions)	% change versus 2015
1. Operating income	10,657	3.4%	10,307	2.1%	10,094	-0.4%	10,137	3.5%
2. Operating expenses	5,268	3.8%	5,074	4.6%	4,849	1.0%	4,802	6.6%
3. Loan loss provision	1,328	30.7%	1,016	34.6%	755	-57.5%	1,775	42.4%
4. Pre-Tax Profit	3,973	-6.5%	4,247	-5.7%	4,504	25.0%	3,605	-11.0%
5. RWA at end of period	200,473	3.4%	193,804	4.0%	186,297	3.7%	179,735	0.6%
6. Portfolio at end of period	289,144	5.2%	275,653	4.8%	263,060	3.5%	254,217	3.1%
7. New business volumes	113,337	4.0%	108,961	6.6%	102,247	4.5%	97,846	7.5%

³ Historical figures have been revised slightly since the results were last published due to re-statements by some reporting companies.

⁴ The aggregate annual data are shown here as reported in the Q4 2019 survey.

Table 3a: Weighted Average Ratios, 2019 – Q1 2020⁵

Weighted Average Ratios	2020	2019				
	Q1 2020	2019 Full Year	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Profitability (%) - pre-tax profit as a % of total operating income	32.4%	38.0%	29.7%	41.0%	40.9%	40.9%
Cost/Income (%) - operating expenses as a % of operating income	50.6%	48.4%	49.1%	49.0%	49.3%	48.9%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.60%	0.47%	0.77%	0.34%	0.42%	0.35%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	1.1%	1.4%	1.1%	1.5%	1.4%	1.6%
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	121	152	128	159	152	166

Table 3b: Median Ratios, 2019 – Q1 2020

Median Ratios	2020	2019				
	Q1 2020	2019 Full Year	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Profitability (%) - pre-tax profit as a % of total operating income	34.5%	34.4%	35.8%	40.0%	43.5%	41.8%
Cost/Income (%) - operating expenses as a % of operating income	48.1%	48.5%	48.6%	48.2%	45.8%	48.3%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.52%	0.38%	0.39%	0.38%	0.23%	0.30%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	1.0%	1.3%	1.1%	1.2%	1.3%	1.4%
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	93	117	124	116	114	112

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 Q1 2020 to arrive at the weighted average ratio of 32.4% shown in the table.

Fig. 1: Growth Rates of Financial Indicators, 2018 – Q1 2020⁶

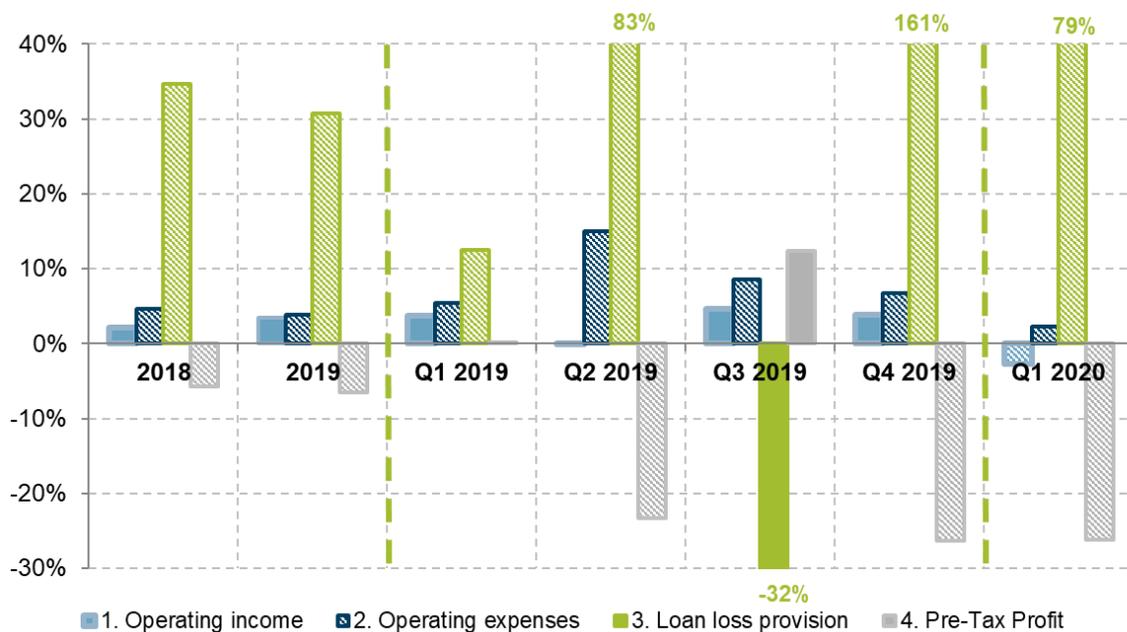
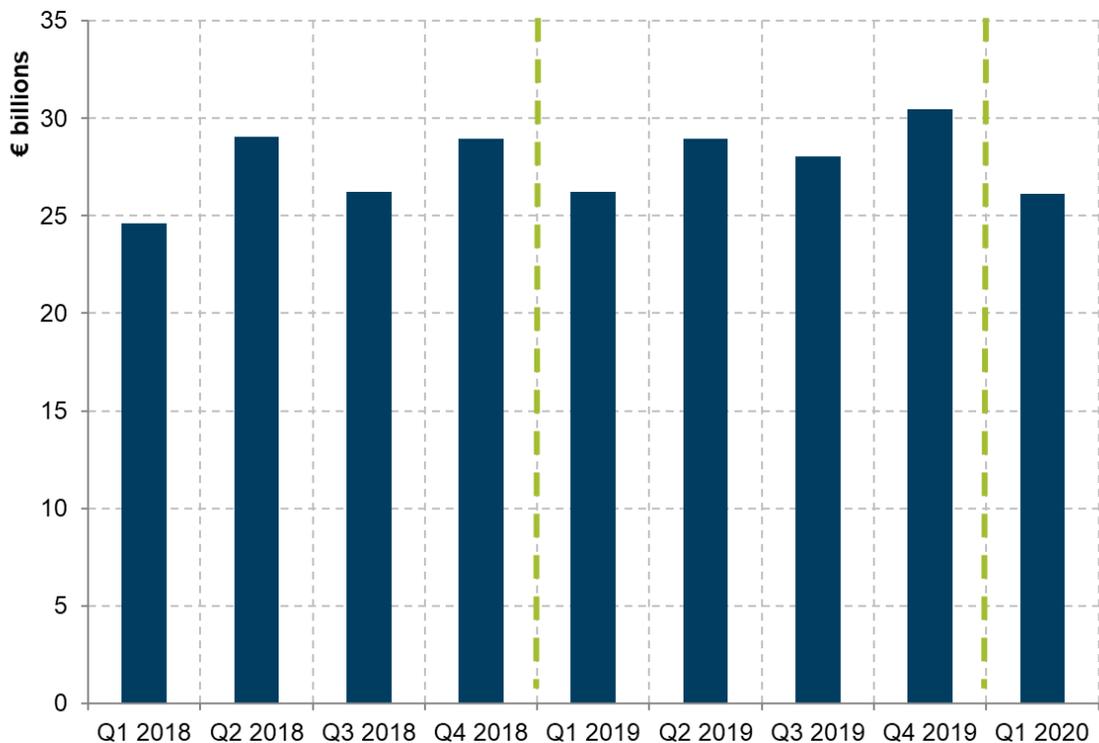


Fig. 2: New Business Volumes, Q1 2018 – Q1 2020



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

Fig. 3: Profitability Ratio, 2018 – Q1 2020

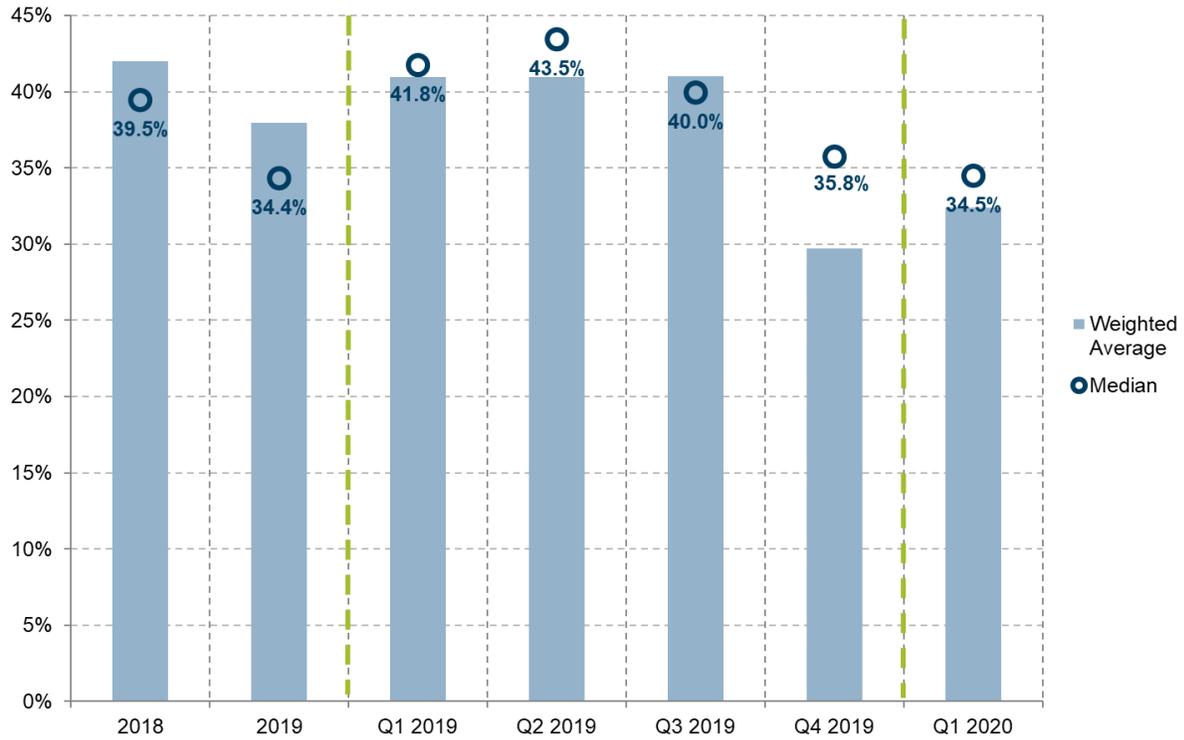


Fig. 4: Cost / Income Ratio, 2018 – Q1 2020

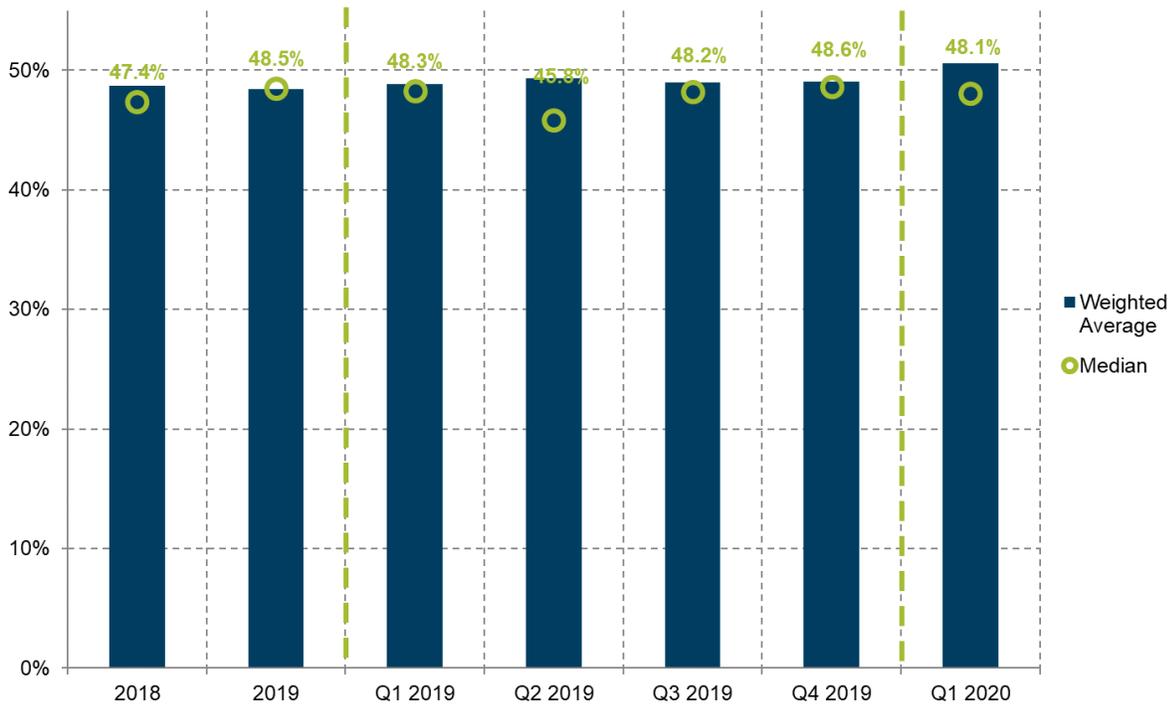


Fig. 5: Cost of Risk Ratio, 2018 – Q1 2020

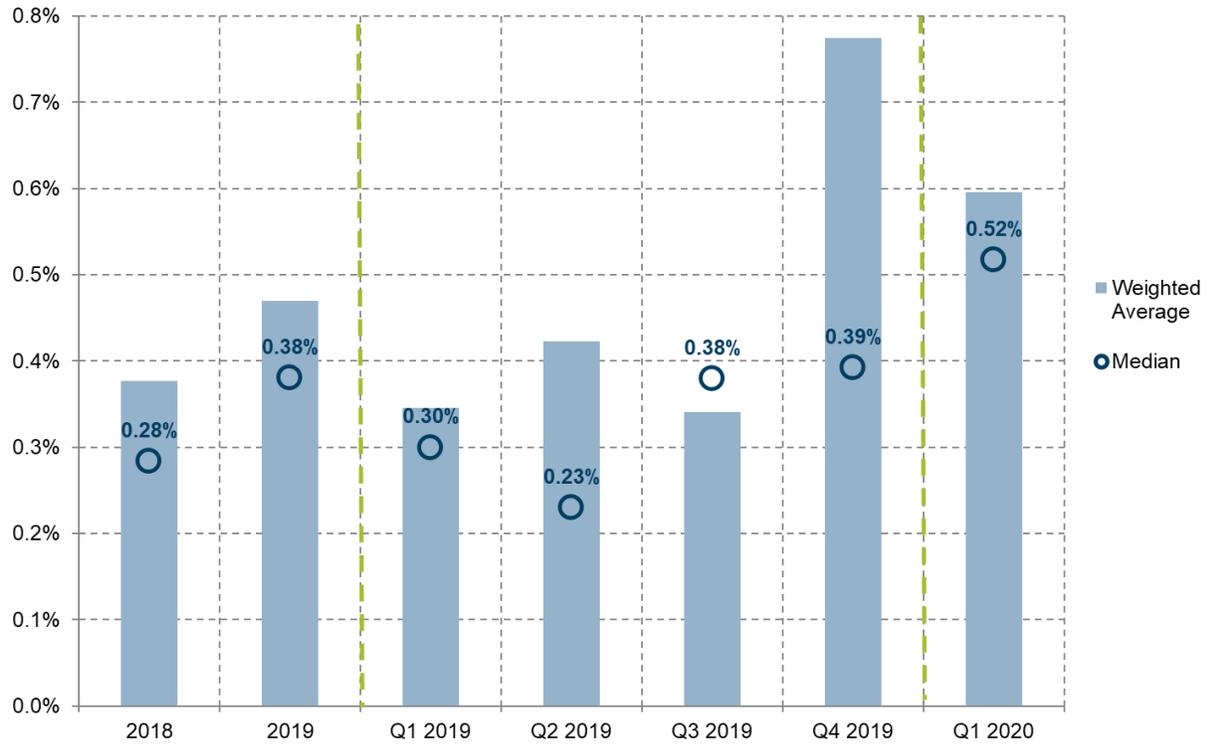


Fig. 6: Return on Assets Ratio, 2018 – Q1 2020

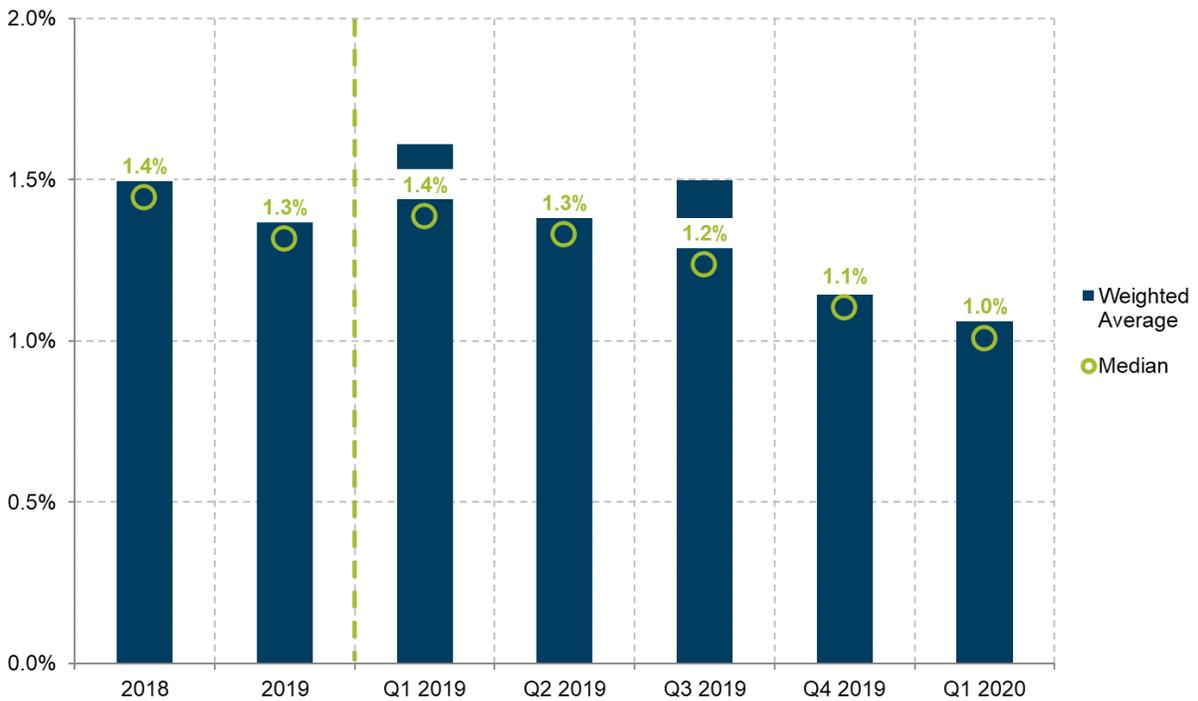


Fig. 7: Weighted Average Return on Equity Index, 2018 – Q1 2020

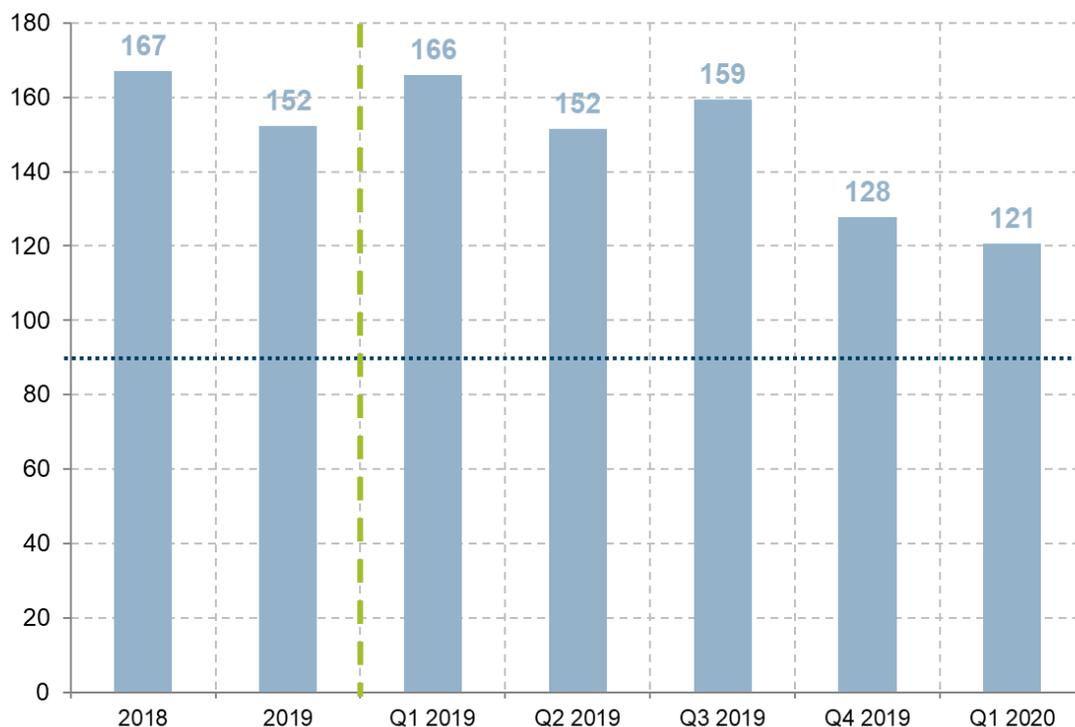


Table 4: Quartiles⁷ for Ratios in Q1 2020

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio
Minimum	-34.5%	15.7%	-0.02%	-2.4%
Quartile 1 (25%)	23.9%	34.9%	0.29%	0.9%
Quartile 2 (50%) i.e. median	34.5%	48.1%	0.52%	1.0%
Quartile 3 (75%)	43.6%	53.2%	1.06%	1.7%
Maximum	73.0%	71.5%	8.14%	2.6%
Weighted Average	32.4%	50.6%	0.60%	1.1%

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 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 BancaImpresa, 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.

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 (IFRS16).

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.