

## LEASEUROPE INDEX LATEST RESULTS: Q3 2020

**Brussels, 09 December 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 Q3 2020 is the thirty-ninth edition of the survey.

The results of Q3 2020 show that, with the exception of cost/income, KPIs worsened compared to Q3 2019. However, they show significant recovery compared to the lows seen in Q2 2020 due to the effect of national Covid-19 lockdowns. Compared to Q3 2019, total new business volumes reported by the sample of firms declined by -10.7%, reaching €25.4 billion. The portfolio of outstanding contracts remained relatively stable with a marginal decrease of -0.5% in Q3 2020, while risk-weighted assets shrank by -2.8%.

### **Profit & profitability**

Aggregate pre-tax profit fell by -14.0% in Q3 2020 compared to the same quarter of last year, driven by loan loss provision escalation. Consequently, weighted average profitability in Q3 2020 declined by 9.7 percentage points compared to the Q3 2019 level, from 40.9% to 31.2%. The median profitability for the 'typical' company in the sample also exhibited a similar trend, although at a higher level of 34.9% in this year's third quarter. Looking at developments over 2020, profitability has recovered from the drop in Q2 and is more similar to the levels seen in Q1.

### **Income, expenses & cost/income**

Both operating income and expenses experienced declines of -1.2% and -5.0% respectively in Q3 2020 compared to the same period last year. As a result of the larger cost reduction, both weighted average and median cost/income ratios improved by 0.6 and 2.7 percentage points to reach 48.5% and 45.4% respectively in the third quarter of 2020.

### **Loan loss provision & cost of risk**

Loan loss provisions escalated by 82.3% in Q3 2020 compared to the same period a year ago. This resulted in the deterioration of weighted average cost of risk, rising to 0.62% in Q3 2020 from 0.34% in Q3 2019. When excluding outlier effects, the median ratio stood at 0.49% in Q3 2020 after the unprecedented high level of 0.70% in Q2 2020. This quarter was however, a marked improvement on Q2 2020, with provisions returning to the levels seen at the beginning of the year.

### **RoA and RoE<sup>1</sup> indicators**

In the third quarter of 2020, both RoA and RoE improved considerably compared to their lowest levels in Q2 2020. Weighted average RoA was 1.3%, with a median ratio at 1.0% for the 'typical' leasing company.

Robert Gordon, CEO of Hitachi Capital UK commented, *"Despite the negative impacts of the Covid-19 pandemic on the KPIs tracked by the Leaseurope Index in the second quarter, the third quarter results indicate the European leasing industry had started to recover, albeit at a lower level compared to the same period last year. European lessors have managed to stabilize their portfolios and continuously lower operating costs. However, the highly uncertain economic environment has continued to be reflected in the recognition of higher provisioning for credit losses by European lessors. In 2020 overall, the European Commission predicts that business investment will have fallen, but marginal growth is expected in 2021.<sup>2</sup> The impact of second and possibly third waves of Covid-19 across Europe and the potential rollout of vaccines in 2021 make the future difficult to predict or navigate. However, the need for leasing as a funder of business investment remains clear and we stand ready to assist European firms, large and small, through their recovery."*

<sup>1</sup> 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.

<sup>2</sup> European Economic Forecast, Autumn 2020.

**Table 1: Aggregate Data, Q1 2019 – Q3 2020<sup>3</sup>**

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2020 Q3		2020 Q2		2020 Q1	
	Sum of values (€ millions)	% change versus 2019 Q3	Sum of values (€ millions)	% change versus 2019 Q2	Sum of values (€ millions)	% change versus 2019 Q1
1. Operating income	2,619	-1.2%	2,385	-9.3%	2,566	-2.7%
2. Operating expenses	1,277	-5.0%	1,232	-11.2%	1,333	2.2%
3. Loan loss provision	433	82.3%	685	134.2%	422	79.8%
4. Pre-Tax Profit	910	-14.0%	472	-50.3%	806	-26.4%
5. RWA at end of period	194,520	-2.8%	195,620	-0.4%	198,947	2.9%
6. Portfolio at end of period	279,481	-0.5%	280,495	1.1%	282,693	2.6%
7. New business volumes	25,382	-10.7%	20,633	-29.7%	25,994	-0.6%

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2019 Q4		2019 Q3		2019 Q2		2019 Q1	
	Sum of values (€ millions)	% change versus 2018 Q4	Sum of values (€ millions)	% change versus 2018 Q3	Sum of values (€ millions)	% change versus 2018 Q2	Sum of values (€ millions)	% change versus 2018 Q1
1. Operating income	2,695	3.8%	2,650	5.1%	2,628	-0.7%	2,636	2.9%
2. Operating expenses	1,322	-2.2%	1,344	9.3%	1,388	15.1%	1,304	5.3%
3. Loan loss provision	554	88.5%	238	-32.6%	293	81.1%	235	10.6%
4. Pre-Tax Profit	817	-13.1%	1,058	12.8%	951	-24.9%	1,096	-1.2%
5. RWA at end of period	200,719	4.0%	200,091	2.3%	196,372	2.9%	193,359	2.5%
6. Portfolio at end of period	288,379	4.9%	280,925	3.4%	277,431	3.0%	275,563	3.8%
7. New business volumes	30,445	5.2%	28,413	8.4%	29,368	1.1%	26,158	6.3%

**Table 2: Aggregate Data, 2016 – 2019 Annual<sup>4</sup>**

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	288,379	4.9%	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%

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

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

**Table 3a: Weighted Average Ratios, 2019 – Q3 2020<sup>5</sup>**

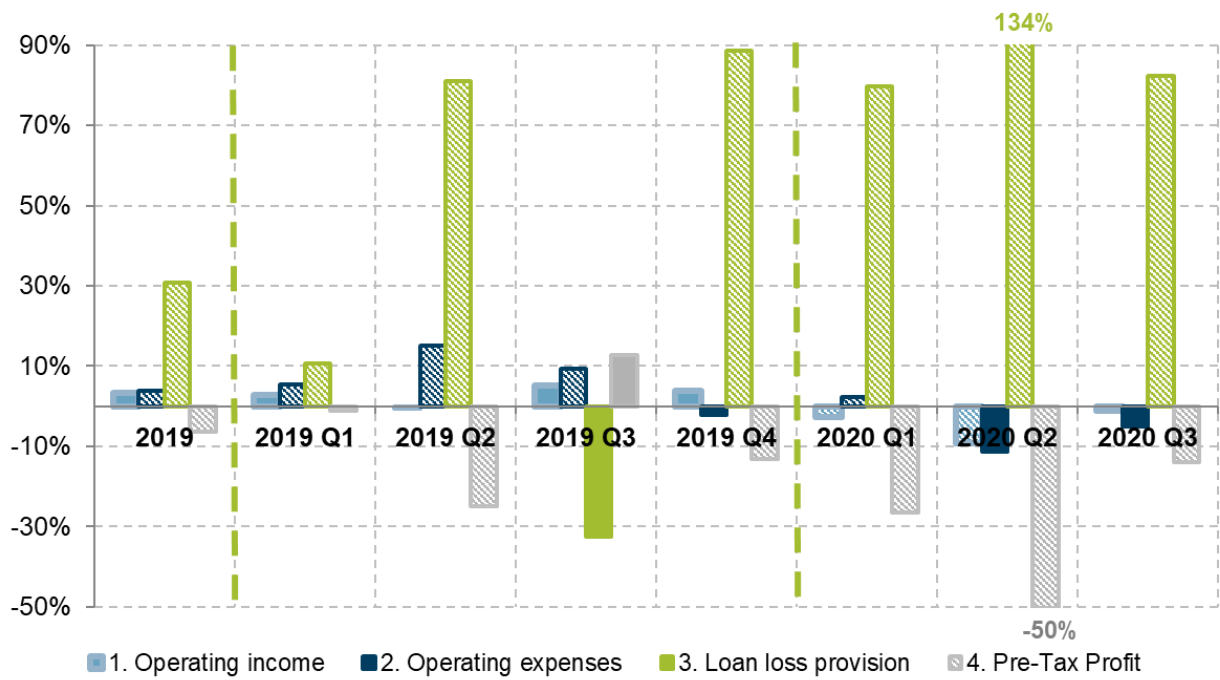
Weighted Average Ratios	2020			2019				
	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1
<b>Profitability (%)</b> - pre-tax profit as a % of total operating income	31.2%	13.1%	32.1%	<b>38.0%</b>	29.7%	40.9%	40.6%	40.7%
<b>Cost/Income (%)</b> - operating expenses as a % of operating income	48.5%	49.9%	50.8%	<b>48.4%</b>	49.1%	49.1%	49.7%	49.1%
<b>Cost of Risk (%)*</b> - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.62%	0.97%	0.59%	<b>0.47%</b>	0.78%	0.34%	0.42%	0.34%
<b>Return on Assets (%)*</b> - net profit before tax (annualised) as a percentage of average portfolio over the period	1.3%	0.7%	1.1%	<b>1.4%</b>	1.1%	1.5%	1.4%	1.6%
<b>Return on Equity (index, 2011=100)*</b> - net profit before tax (annualised) as a percentage of 10.5% of total risk weighted assets over the period	142	63	119	<b>152</b>	128	160	150	165

**Table 3b: Median Ratios, 2019 – Q3 2020**

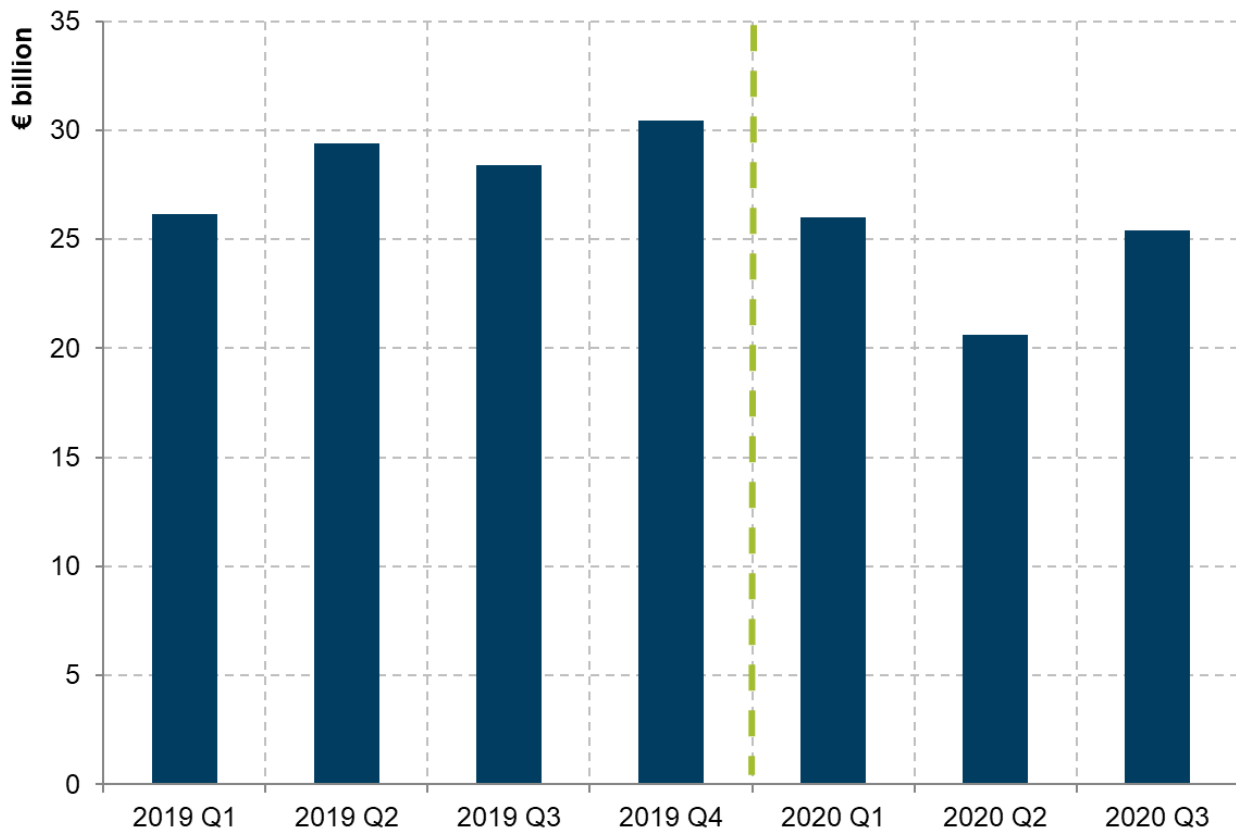
Median Ratios	2020			2019				
	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1
<b>Profitability (%)</b> - pre-tax profit as a % of total operating income	34.9%	20.3%	34.5%	<b>34.4%</b>	35.8%	40.0%	43.5%	40.6%
<b>Cost/Income (%)</b> - operating expenses as a % of operating income	45.4%	45.3%	48.1%	<b>48.5%</b>	48.6%	48.1%	46.6%	48.3%
<b>Cost of Risk (%)*</b> - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.49%	0.70%	0.52%	<b>0.38%</b>	0.39%	0.38%	0.23%	0.30%
<b>Return on Assets (%)*</b> - net profit before tax (annualised) as a percentage of average portfolio over the period	1.0%	0.8%	1.0%	<b>1.3%</b>	1.1%	1.2%	1.3%	1.4%
<b>Return on Equity (index, 2011=100)*</b> - net profit before tax (annualised) as a percentage of 10.5% of total risk weighted assets over the period	99	54	93	<b>117</b>	124	114	107	112

<sup>5</sup> 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 Q3 2020 to arrive at the weighted average ratio of 31.2% shown in the table.

**Fig. 1: Growth Rates of Financial Indicators, 2019 – Q3 2020<sup>6</sup>**

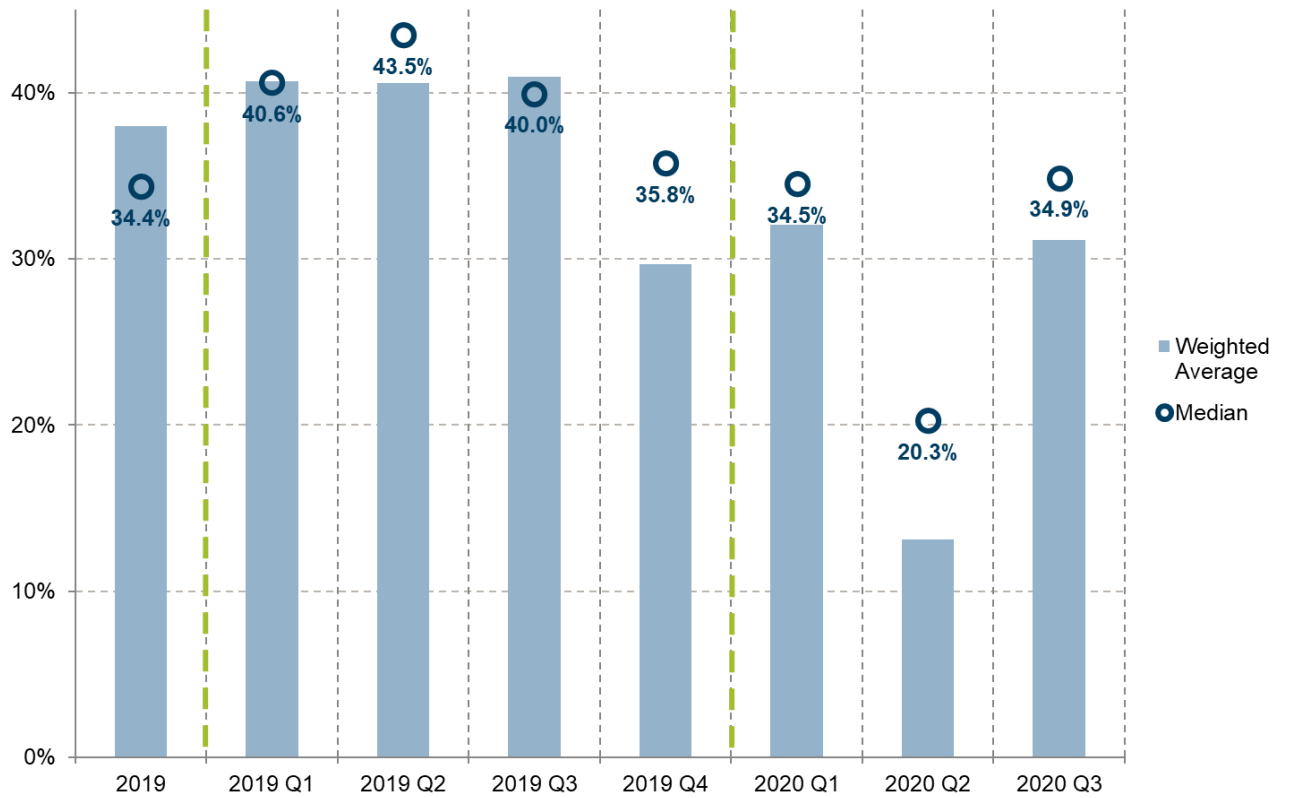


**Fig. 2: New Business Volumes, Q1 2019 – Q3 2020**

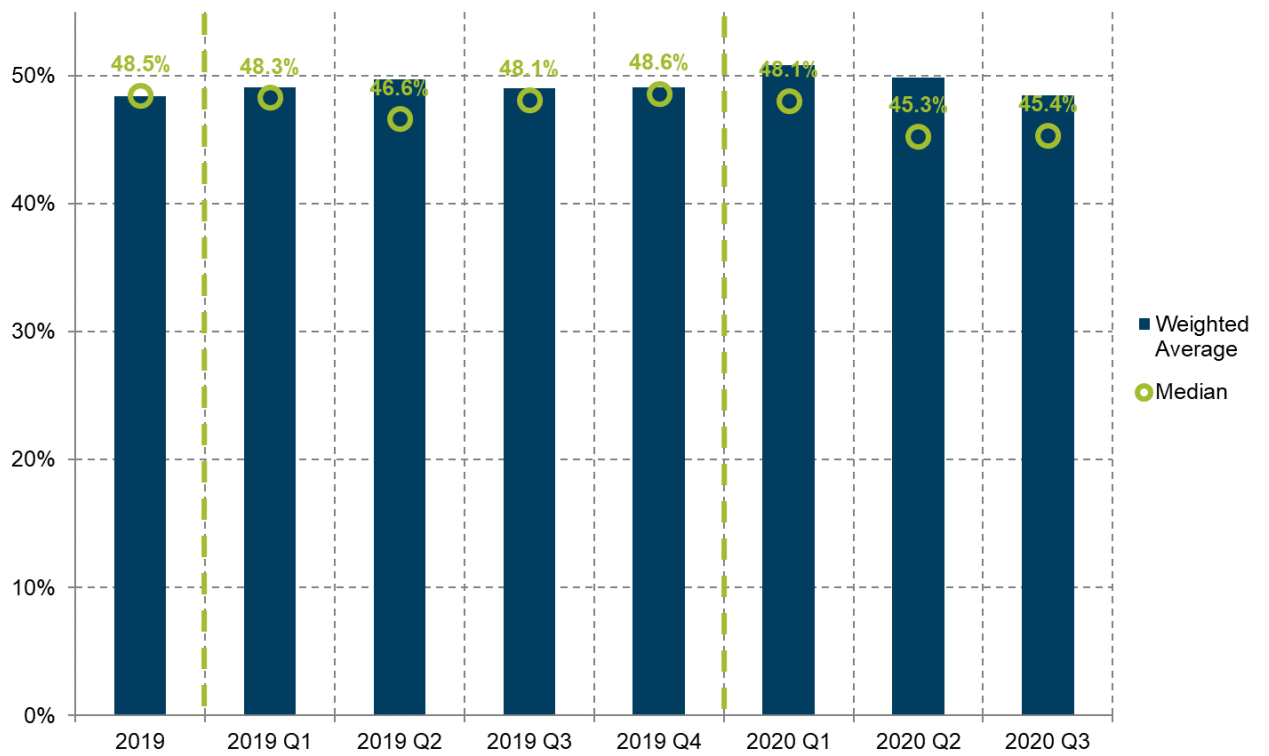


<sup>6</sup> A thick border around an individual bar in the chart is illustrative of a negative development in the indicator.

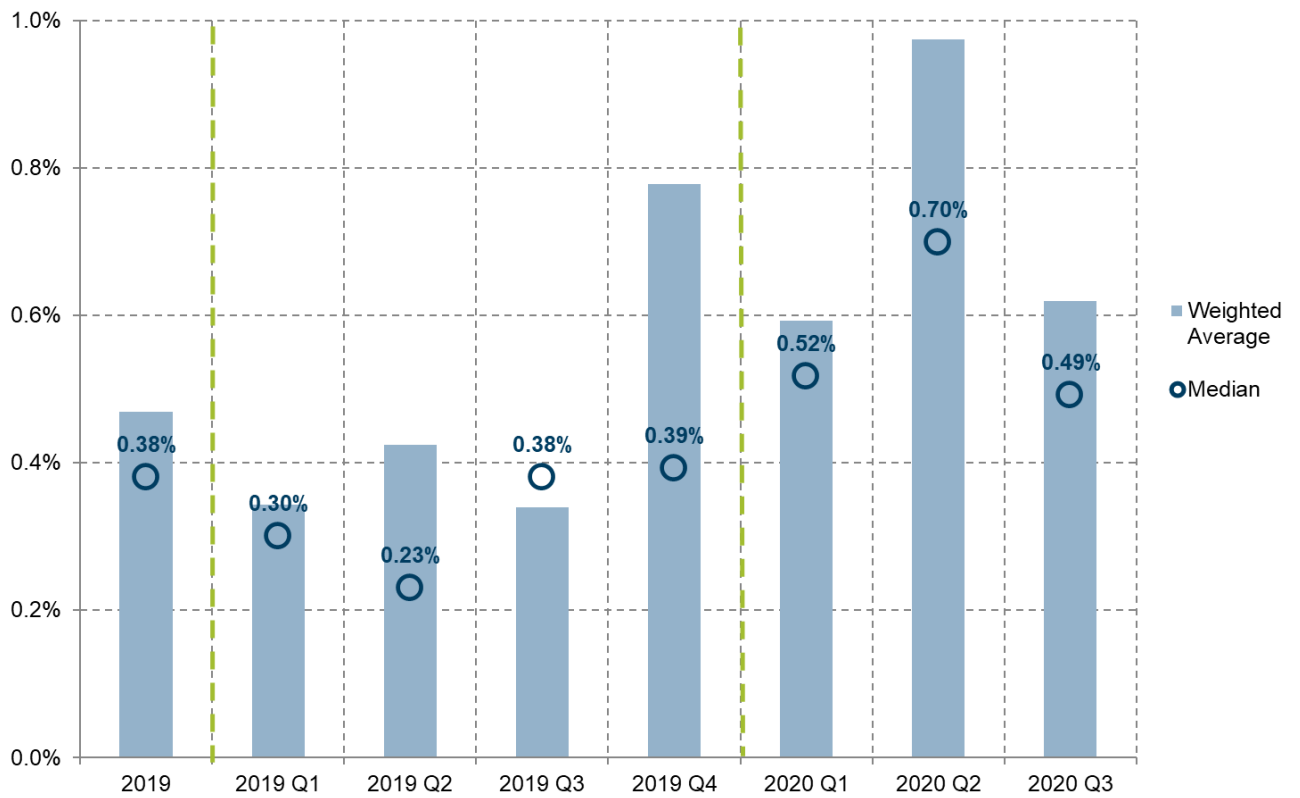
**Fig. 3: Profitability Ratio, 2019 – Q3 2020**



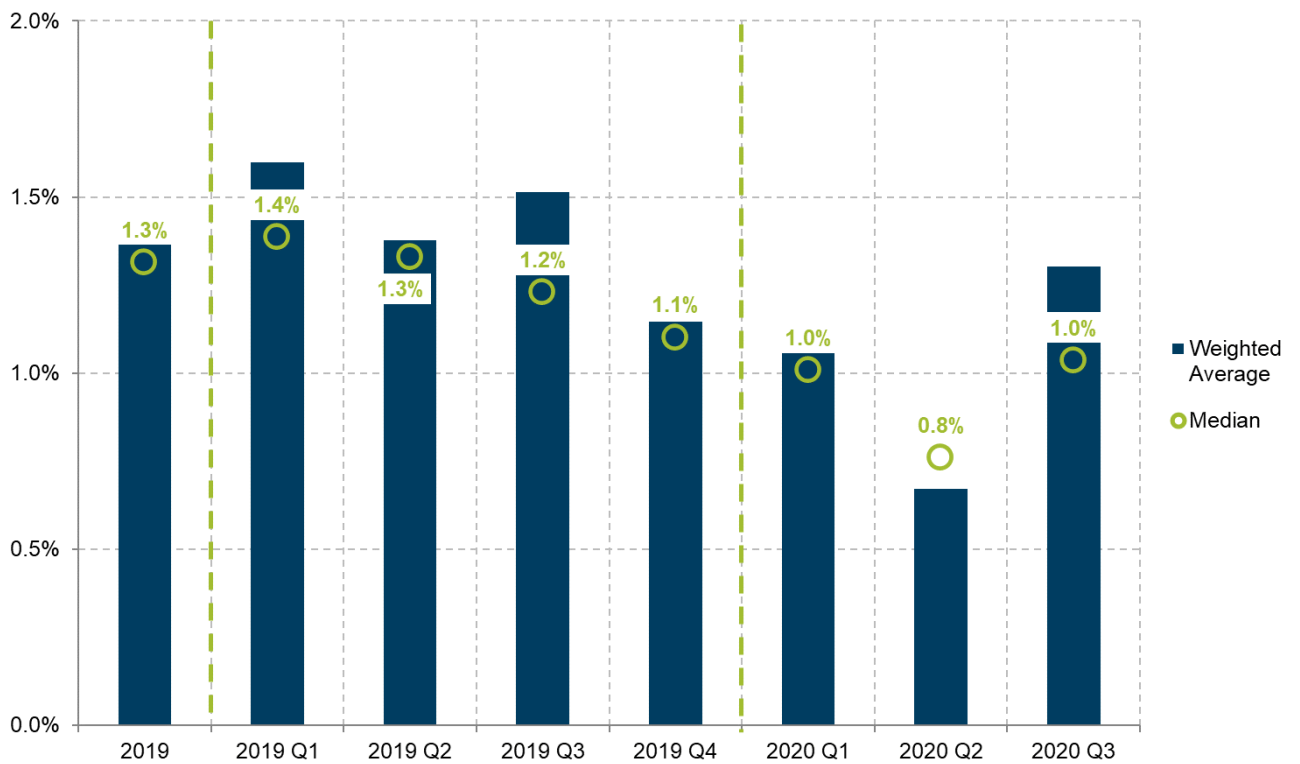
**Fig. 4: Cost / Income Ratio, 2019 – Q3 2020**



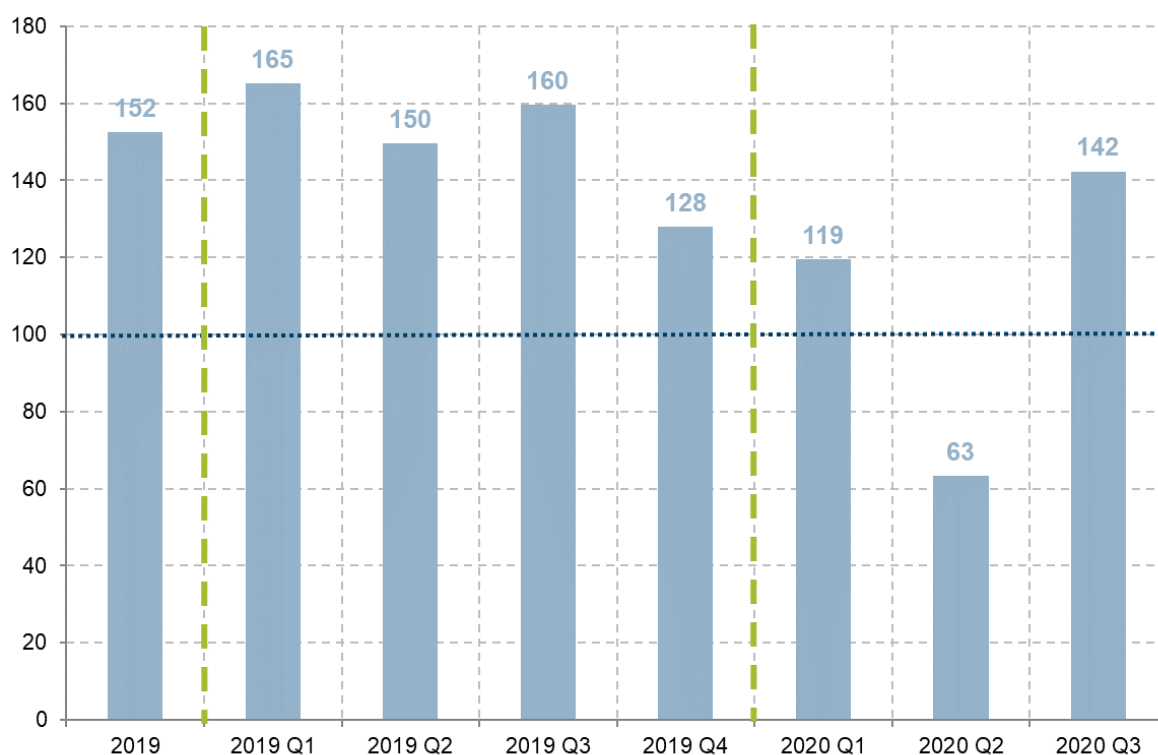
**Fig. 5: Cost of Risk Ratio, 2019 – Q3 2020**



**Fig. 6: Return on Assets Ratio, 2019 – Q3 2020**



**Fig. 7: Weighted Average Return on Equity Index, 2019 – Q3 2020**



**Table 4: Quartiles<sup>7</sup> for Ratios in Q3 2020**

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio
<b>Minimum</b>	-82.4%	15.7%	0.15%	-1.2%
<b>Quartile 1 (25%)</b>	25.3%	34.4%	0.32%	0.7%
<b>Quartile 2 (50%) i.e. median</b>	34.9%	45.4%	0.49%	1.0%
<b>Quartile 3 (75%)</b>	47.6%	51.0%	0.99%	1.8%
<b>Maximum</b>	76.5%	71.3%	2.58%	5.1%
<b>Weighted Average</b>	31.2%	48.5%	0.62%	1.3%

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<sup>7</sup> 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 (75<sup>th</sup> 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.

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## About Leaseurope

As a Federation, Leaseurope brings together 46 associations throughout Europe representing either the leasing, long term and/or short term automotive rental industries. The scope of products covered by Leaseurope's members ranges from hire purchase and finance leases to operating leases of all asset types (automotive, equipment and real estate) and also includes the rental of cars, vans and trucks. It is estimated that Leaseurope represents approximately 90% of the European leasing market. More information on Leaseurope at [www.leaseurope.org](http://www.leaseurope.org).



## 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.

#### 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. The United Kingdom, 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

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