

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

Leas LEASEUROPE
INDEX

Survey of European leasing and rental firms

Leaseurope Index
Q2 2017

LEASEUROPE INDEX RESULTS: Q2 2017

The Leaseurope Index is a unique survey that tracks key performance indicators of a sample of 23 European lessors on a quarterly basis. This Q2 2017 is the twenty-sixth edition of the survey.

All of the weighted average ratios improved in the second quarter of 2017 compared to the same quarter of 2016, with the exception of the cost/income ratio which rose slightly. The trend in median ratios (ie for the 'typical' company in the sample) was less positive, with return on assets (RoA) and return on equity (RoE) ratios declining in Q2 2017.

Total new leasing volumes reported by the sample of firms grew by 2% compared to the figure of Q2 2016, reaching €26.6 billion. The portfolio of outstanding contracts also grew in Q2 2017, increasing by 3.7%, whereas risk-weighted assets rose by a smaller percentage of 1.4%.

Profit & profitability

There was a strong increase in pre-tax profits, which expanded by 14.6% in Q2 2017 compared to the same quarter of one year ago (see table 1). As a consequence, the average profitability ratio also increased from 42.7% in Q2 2016 to 47.1% in Q2 2017 (see table 3). Within these aggregate results there is a degree of variation in performance by company, although all companies recorded positive profit figures (see table 4).

Income, expenses & cost/income

Compared to the same period in 2016, operating income grew by 2.5% in Q2 2017, while operating expenses increased by a larger amount of 6.1%. Due to this discrepancy, the average cost/income ratio increased to 46.6% in Q2 2017, rising by over one percentage point on the figure recorded in the second quarter of 2016.

Loan loss provision & cost of risk

Loan loss provisions in Q2 2017 dropped to almost half the amount recorded in Q2 2016 and in so doing hit their lowest level on record of the Leaseurope Index survey. As a result, the average annualised cost of risk dropped to 0.26%, significantly lower than levels seen one year ago. Loan loss provision figures can often be quite volatile over time and heavily influenced by outlier values (see table 1).

RoA and RoE indicators

There were improvements in outcomes for both RoA and RoE in Q2 2017. RoA improved upon its comparable figure of one year ago, reaching 1.9% in the second quarter of 2017. RoE¹ increased from an index value of 170 in Q2 2016 to 190 in the most recent quarter, which is the highest level seen in the time series of the Leaseurope Index so far.

Morten Guldhaug, Executive Vice-President DnB Finans, commented that, *“The KPIs tracked by the Leaseurope Index show that the European leasing industry was able to build upon its solid start to 2017 in the second quarter. Profitability, RoA and RoE increased well and the cost of risk fell to record-low levels, testament to the industry’s strong track-record in risk management since the crisis. Another encouraging sign is the continued growth of the portfolio in this quarter, which is also outpacing RWA growth. The European Commission’s outlook for economic growth is stable and moderate over the rest of 2017 and into 2018, however the “growing obsolescence” of the capital stock could position the leasing industry to benefit from replacement investment in the second half of the year.”*

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.

Table 1: Aggregate Data, Q1 2016 – Q2 2017²

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2017 Q2		2017 Q1		2016 Q4	
	Sum of values (€ millions)	% change versus Q2 2016	Sum of values (€ millions)	% change versus Q1 2016	Sum of values (€ millions)	% change versus Q4 2015
1. Operating income	2,584	2.5%	2,519	1.8%	2,569	3.5%
2. Operating expenses	1,206	6.1%	1,164	1.3%	1,352	8.7%
3. Loan loss provision	168	-49.1%	180	-1.3%	923	118.4%
4. Pre-Tax Profit	1,221	14.6%	1,182	2.5%	303	-63.7%
5. RWA at end of period	180,383	1.4%	179,681	2.0%	179,594	1.1%
6. Portfolio at end of period	255,845	3.7%	254,646	3.9%	254,570	3.4%
7. New business volumes	26,575	2.0%	23,916	10.5%	26,817	5.2%

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2016 Q3		2016 Q2		2016 Q1	
	Sum of values (€ millions)	% change versus Q3 2015	Sum of values (€ millions)	% change versus Q2 2015	Sum of values (€ millions)	% change versus Q1 2015
1. Operating income	2,529	2.6%	2,522	1.5%	2,473	2.5%
2. Operating expenses	1,143	1.3%	1,136	4.1%	1,149	6.7%
3. Loan loss provision	348	39.2%	330	24.0%	183	-42.1%
4. Pre-Tax Profit	1,060	-4.0%	1,066	-6.2%	1,153	15.6%
5. RWA at end of period	179,416	4.1%	179,061	1.5%	175,989	2.5%
6. Portfolio at end of period	250,414	3.8%	248,373	2.6%	244,861	2.4%
7. New business volumes	24,107	9.8%	26,063	10.8%	21,639	8.8%

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

Table 2: Aggregate Data, 2012 – 2016 Annual³

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2016		2015		2014		2013		2012	
	Sum of values (€ millions)	% change versus 2015	Sum of values (€ millions)	% change versus 2014	Sum of values (€ millions)	% change versus 2013	Sum of values (€ millions)	% change versus 2012	Sum of values (€ millions)	% change versus 2011
1. Operating income	10,415	2.5%	10,165	8.4%	9,377	6.8%	8,779	2.7%	8,549	-1.6%
2. Operating expenses	4,906	4.9%	4,676	4.5%	4,476	3.2%	4,335	-2.2%	4,432	2.6%
3. Loan loss provision	1,784	42.9%	1,249	-30.7%	1,803	-38.0%	2,906	70.5%	1,704	6.6%
4. Pre-Tax Profit	3,640	-13.7%	4,220	36.4%	3,093	102.4%	1,528	-35.6%	2,374	-14.6%
5. RWA at end of period	179,594	-0.2%	179,956	3.3%	174,278	-3.1%	179,774	-4.8%	188,863	-2.8%
6. Portfolio at end of period	254,570	1.9%	250,866	2.3%	245,251	2.3%	239,662	-3.1%	247,324	-2.6%
7. New business volumes	103,106	10.3%	93,463	10.4%	84,679	9.0%	77,679	-8.3%	79,437	-10.5%

Table 3: Weighted Average Ratios, 2016 – Q2 2017⁴

Weighted Average Ratios	2017		2016				
	Average Q2 2017	Average Q1 2017	Average 2016 Full Year	Average Q4 2016	Average Q3 2016	Average Q2 2016	Average Q1 2016
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	47.1%	46.7%	34.9%	1.6%	42.0%	42.7%	46.2%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	46.6%	46.2%	46.4%	50.6%	45.0%	45.4%	47.0%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.26%	0.28%	1.48%	1.46%	0.56%	0.54%	0.30%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.9%	1.9%	1.2%	0.5%	1.7%	1.7%	1.9%
Return on Equity (2011=100)* - index of all companies' net profit before tax (annualised) as a percentage of 8% of total risk weighted assets over the period	190	180	152	82	164	170	181

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

³ The aggregate annual data are shown here as reported in the Q4 2016 survey.

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 Q2 2017 to arrive at the weighted average ratio of 47.1% shown in the table.

Fig 1: Growth Rates of Financial Indicators, 2016 – Q2 2017⁵

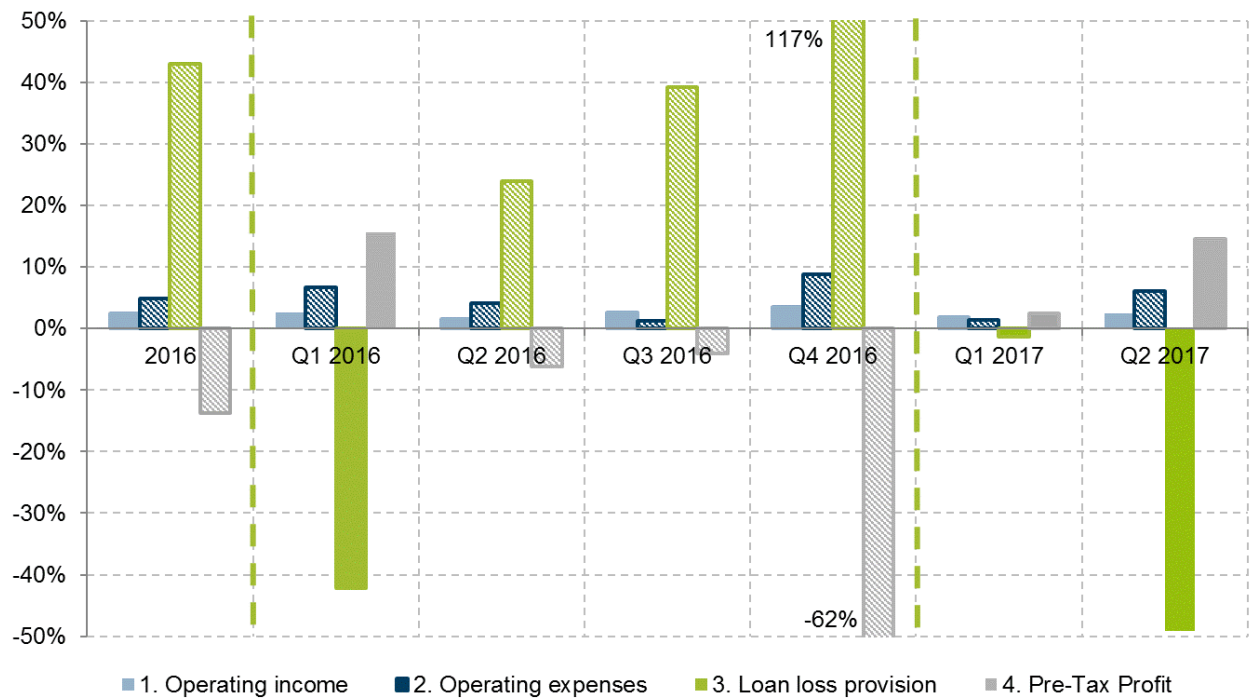
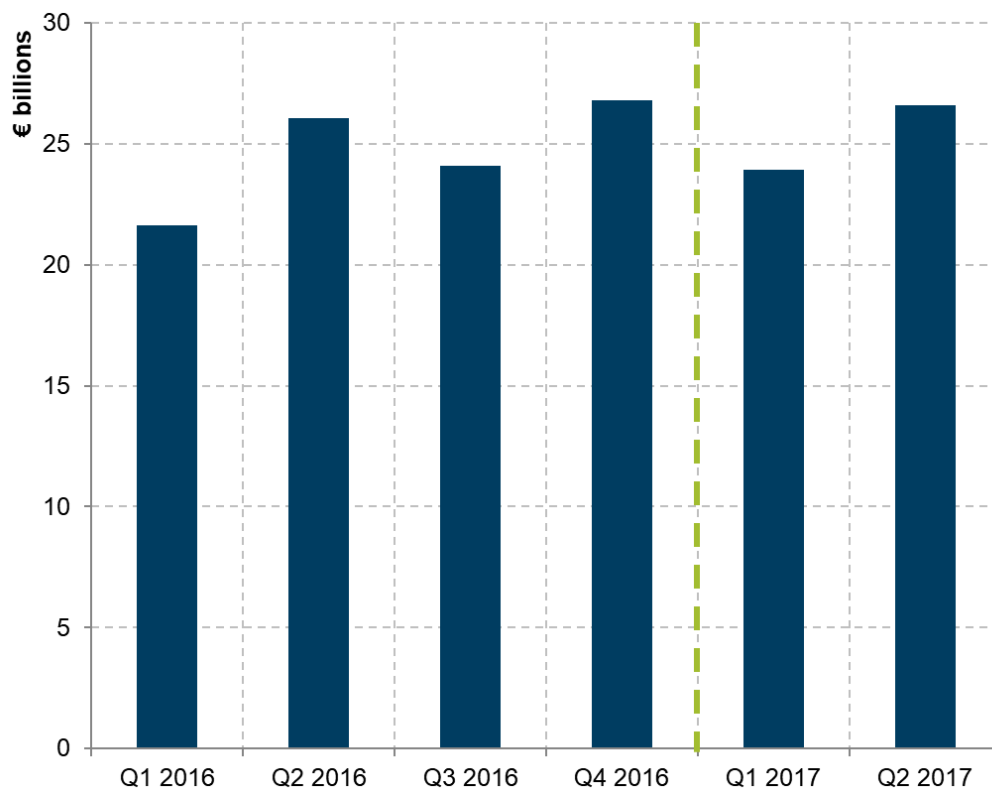


Fig. 2: New Business Volumes, Q1 2016 – Q2 2017



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

Fig. 3: Profitability Ratio⁶, 2016 – Q2 2017

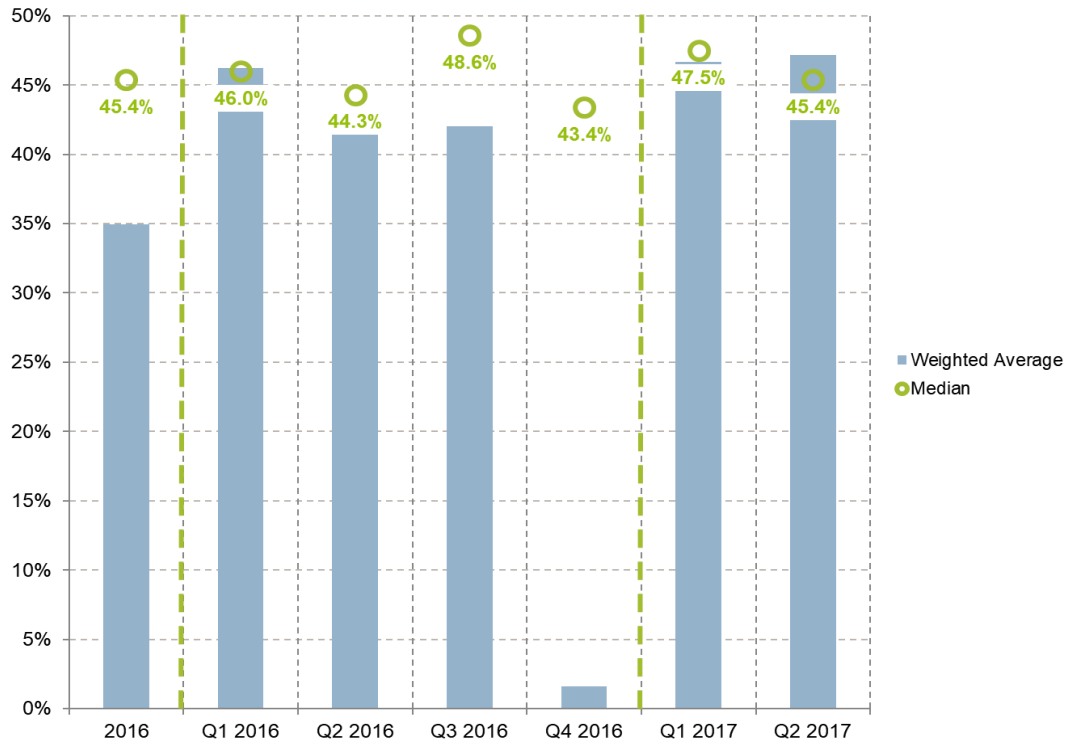
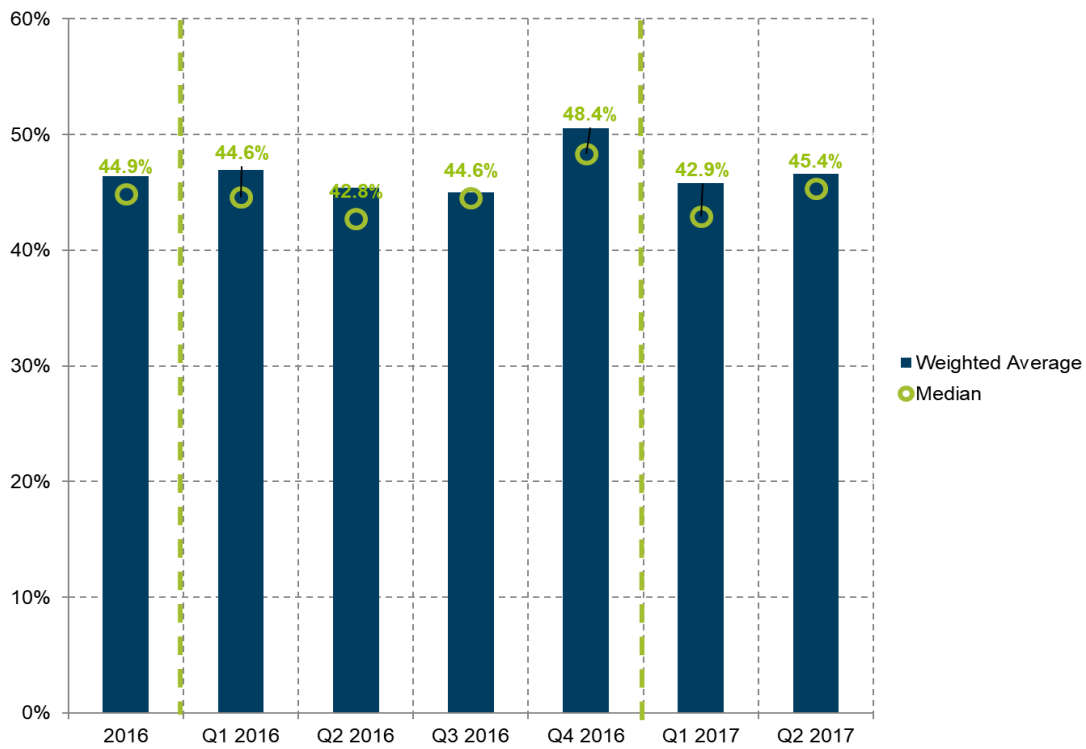


Fig. 4: Cost / Income Ratio, 2016 – Q2 2017



⁶ The weighted average ratio for Q4 2016, and thus 2016 overall, was heavily affected by outlier values in a minority of the sample.

Fig. 5: Cost of Risk Ratio⁷, 2016 – Q2 2017

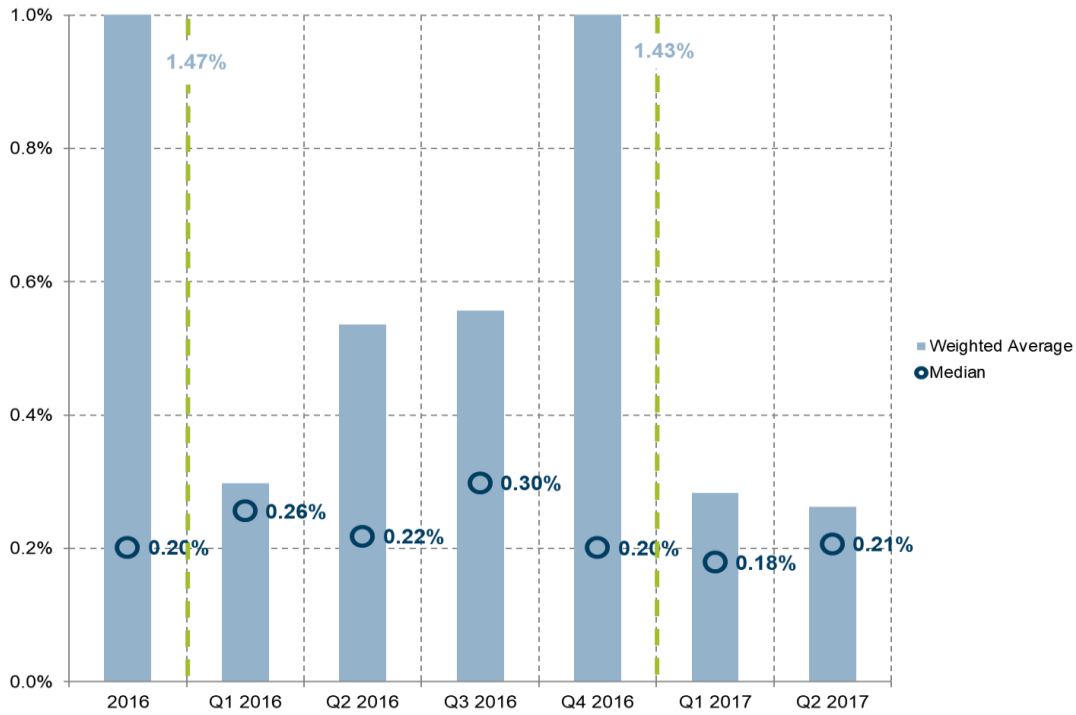
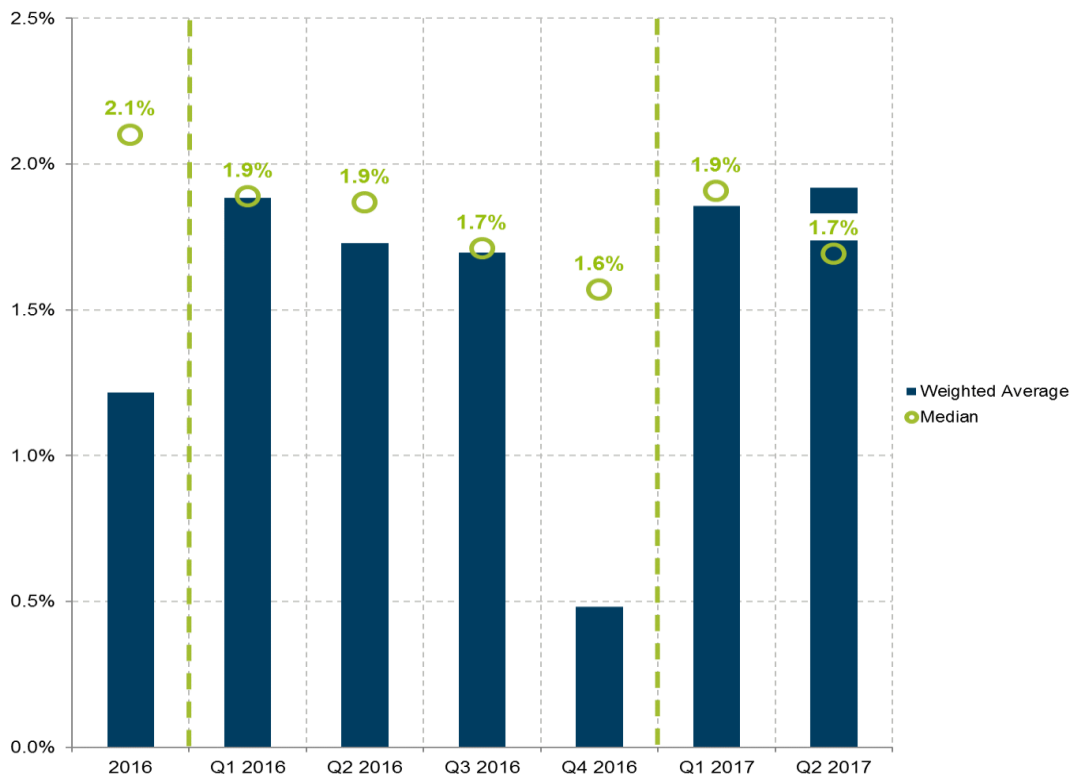


Figure 6: Return on Assets Ratio⁷, 2016 – Q2 2017



⁷ The weighted average ratios for Q4 2016, and thus 2016 overall, were heavily affected by outlier values in a minority of the sample.

Figure 7: Return on Equity Index⁸, 2016 – Q2 2017

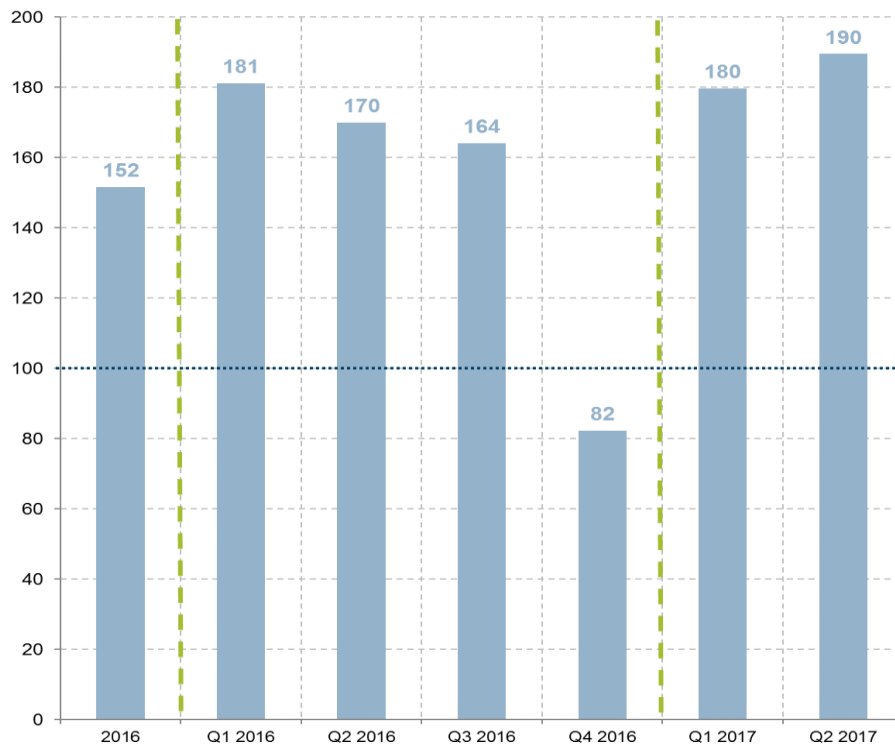


Table 5: Quartiles⁹ for Ratios in Q2 2017

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio
Minimum	14.3%	19.3%	-0.14%	0.3%
Quartile 1 (25%)	36.0%	37.5%	0.11%	1.1%
Quartile 2 (50%) i.e. median	45.4%	45.4%	0.21%	1.7%
Quartile 3 (75%)	53.2%	51.5%	0.50%	2.6%
Maximum	72.1%	66.7%	0.96%	5.4%
Weighted Average	47.1%	46.6%	0.26%	1.9%

⁸ The weighted average ratio for Q4 2016, and thus 2016 overall, was heavily affected by outlier values in a minority of the sample.

⁹ 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 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?

23 companies participate on a voluntary basis: ABN AMRO Lease, 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 **2016 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 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.