

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

Leas LEASEUROPE
INDEX

Survey of European leasing and rental firms

Leaseurope Index
Q2 2012

LEASEUROPE INDEX RESULTS: Q2 2012

The Leaseurope Index is a unique survey that tracks key performance indicators of a sample of 17 European lessors on a quarterly basis. This Q2 2012 is the sixth edition of the survey and introduces two new ratios, **return on assets** and **return on equity**.

The results of the Q2 2012 Index show a continued deterioration across all indicators compared to the same quarter of the previous year, with the exception of operating costs which improved for the first time since the start of this data collection exercise. However, these negative results are not widespread and can be attributed to the significantly weaker performance of a small group of firms in the sample. Total new leasing volumes reported by the sample of firms increased in comparison to the previous quarter to €19 billion, although still not reaching the levels seen in 2011.

Profit & profitability

With a few firms in the sample experiencing losses in the quarter, total pre-tax profit of all the companies decreased by 32.7% for Q2 2012 in comparison to Q2 2011 (see table 1). Although the average profitability ratio dropped from 36.7% in Q2 2011 to 26.1% in Q2 2012 (see table 3), when the handful of loss-making firms is excluded from the sample, the ratio actually held strong. This trend is also observable in the quartiles (see table 4), which show a median profitability ratio of 35.8% representing the 'typical' firm in the sample.

Income, expenses & cost/income

Compared to the same period a year ago, both operating income and operating expenses decreased slightly, by 2.1% and 1.8% respectively. This is the first time that operating expenses have decreased since the inauguration of the Index in 2011. The result is an improvement of the average cost/income ratio in Q2 2012, as it falls from 53.0% in the beginning of the year to 46.0%, reaching the lower levels of the first part of 2011.

Loan loss provision & cost of risk

Loan loss provision suffered its highest increase so far, rising by 52.6% in Q2 2012 compared to the same period a year ago. However, by excluding the previously mentioned loss-making firms, the increase falls to 25.8%, which is similar to the results for Q1 2012. The average annualised cost of risk increased in Q2 2012 to 0.8%, although still lower than the peak of 0.9% attained in Q4 2011. However, when the loss-making firms are excluded, cost of risk decreases to the lowest level seen so far in the survey of 0.5%.

New RoA and RoE indicators

Thanks to the co-operation of the Index's participating firms, we are now able to report return on assets (RoA) and return on equity (RoE) for the very first time. For more information on how these indicators have been calculated, please refer to the definitions given at the end of this report¹. RoA decreased from 1.2% in Q2 2011 to 0.8% in Q2 2012, although excluding the loss-making firms results in a substantially increased figure of 1.5%. This compares well with the total RoA for 2011 of 1.1%.

RoE has decreased from an average of 19.6% over 2011 to 14.6% in Q2 2012. Again, excluding the loss-making firms increases this figure substantially to 25.8%. McKinsey estimates that RoE for the retail banking sector in the major European economies of France,

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.

Germany, Italy and the UK reached 10% in 2010.² When contrasted with this measure, the leasing industry figures compare very favourably.

Ronald Slaats, CEO of De Lage Landen International, commented that, *“Although Q2 2012 presented a number of challenges for some peripheral European markets in particular, the fundamentals of many leasing businesses remain robust. For instance, the decrease in operating costs is a positive sign for the industry during a period when income statements are under a lot of pressure. In an environment where weak expectations dominate the European economic outlook, particularly in the Eurozone, leasing has managed to maintain its role as a financier for the real economy.”*

The inclusion of RoA and RoE figures in the Leaseurope Index is a welcome addition to the survey – it enables us to draw comparisons of our industry with other parts of the financial services sector at European level. The data show that our RoE has been consistently strong throughout a difficult economic period, and compares well to other financial services business.

I also eagerly anticipate the results of the new upcoming Leaseurope Index Segment Survey, which will include all the quarterly indicators broken down by asset type. I consider that this will move the Leaseurope Index closer towards a true benchmarking tool, providing real added value for leasing industry professionals. Leaseurope is on track to delivering more nuanced information that will be extremely useful for leasing companies who wish to compare the performance of specific asset segments – another first for the industry.”

² McKinsey, July 2012, Day of Reckoning for European Retail Banking. This report defines RoE slightly differently to the Leaseurope Index, as profit after tax divided by allocated tier 1 capital.

Table 1: Aggregate Data, Q4 2011 – Q2 2012³

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2012 Q2		2012 Q1		2011 Q4	
	Sum of values (€ millions)	% change versus Q2 2011	Sum of values (€ millions)	% change versus Q1 2011	Sum of values (€ millions)	% change versus Q4 2010
1. Operating income	1,901	-2.1%	1,850	-2.3%	1,892	-1.5%
2. Operating expenses	911	-1.8%	979	9.9%	1,009	6.7%
3. Loan loss provision	498	52.6%	374	21.8%	553	6.8%
4. Pre-Tax Profit	480	-32.7%	683	-1.2%	318	-28.8%
5. RWA at end of period	175,458	-0.9%	176,825	1.6%	n/a	n/a
6. Portfolio at end of period	237,311	1.1%	237,616	2.8%	236,512	2.3%
7. New business volumes	19,046	-10.9%	17,180	-6.2%	20,652	-7.5%

Table 2: Aggregate Data, 2009 – 2011 Annual⁴

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2011		2010		2009
	Sum of values (€ millions)	% change versus 2010	Sum of values (€ millions)	% change versus 2009	Sum of values (€ millions)
1. Operating income	8,182	4.4%	7,839	11.0%	7,063
2. Operating expenses	4,062	7.2%	3,787	5.5%	3,589
3. Loan loss provision	1,581	-16.3%	1,889	-14.6%	2,212
4. Pre-Tax Profit	2,550	21.2%	2,104	68.8%	1,247
5. Portfolio at end of period	226,844	2.4%	221,475	0.7%	220,010
6. New business volumes	75,244	4.6%	71,919	1.8%	70,659

³ The figures for Q1 2012 and Q4 2011 have been revised slightly since the results were last published due to some re-statements by reporting companies.

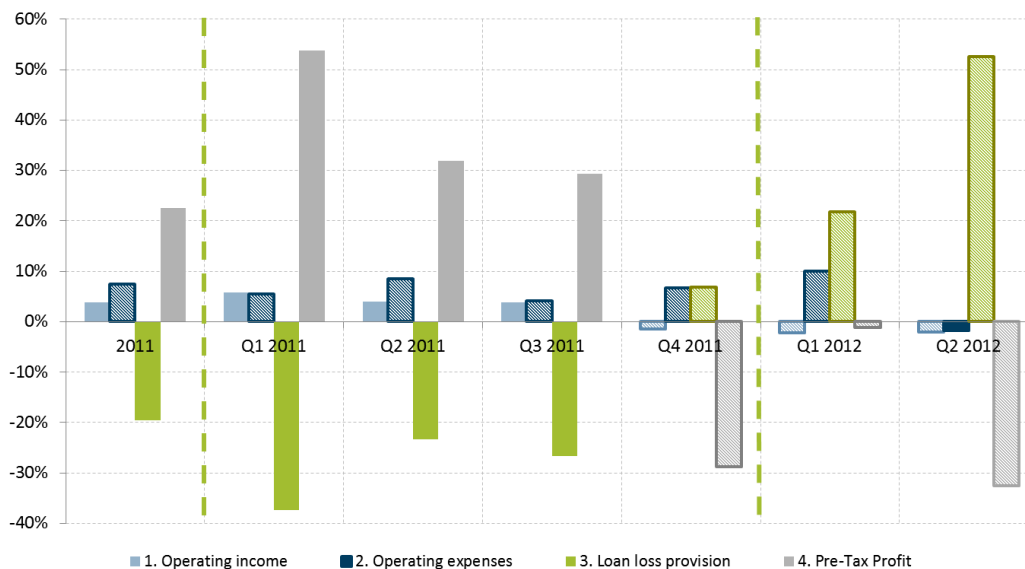
⁴ The aggregate annual data are shown here as reported in the Q4 2011 survey.

Table 3: Weighted Average Ratios⁵

Weighted Average Ratios	2012		2011				
	Average Q2 2012	Average Q1 2012	Average 2011 full year	Average Q4 2011	Average Q3 2011	Average Q2 2011	Average Q1 2011
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	26.1%	39.9%	32.6%	14.5%	33.7%	36.7%	37.0%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	46.0%	53.0%	52.5%	53.0%	45.5%	45.6%	45.3%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.8%	0.6%	0.7%	0.9%	0.6%	0.6%	0.6%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	0.8%	1.2%	1.1%	0.5%	1.1%	1.2%	0.6%
Return on Equity (%)* - average of all companies' net profit before tax (annualised) as a percentage of 8% of total risk weighted assets over the period	14.6%	21.4%	19.6%	n/a	n/a	20.7%	20.4%

* 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.

Fig 1: Growth Rates of Financial Indicators, 2011 – Q2 2012⁶



⁵ Leaseurope calculates weighted average ratios based on the data provided by participating companies. The profitability and cost/income ratios are weighted by new business volumes over the relevant period. For example, each company's individual profitability ratio is weighted by its new business over the period Q2 2012 to arrive at the weighted average ratio of 26.1% shown in the table. The cost of risk, RoA and RoE ratios are weighted by the average portfolio over the relevant period.

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

Fig. 2: New Business Volumes, Q1 2011 – Q2 2012

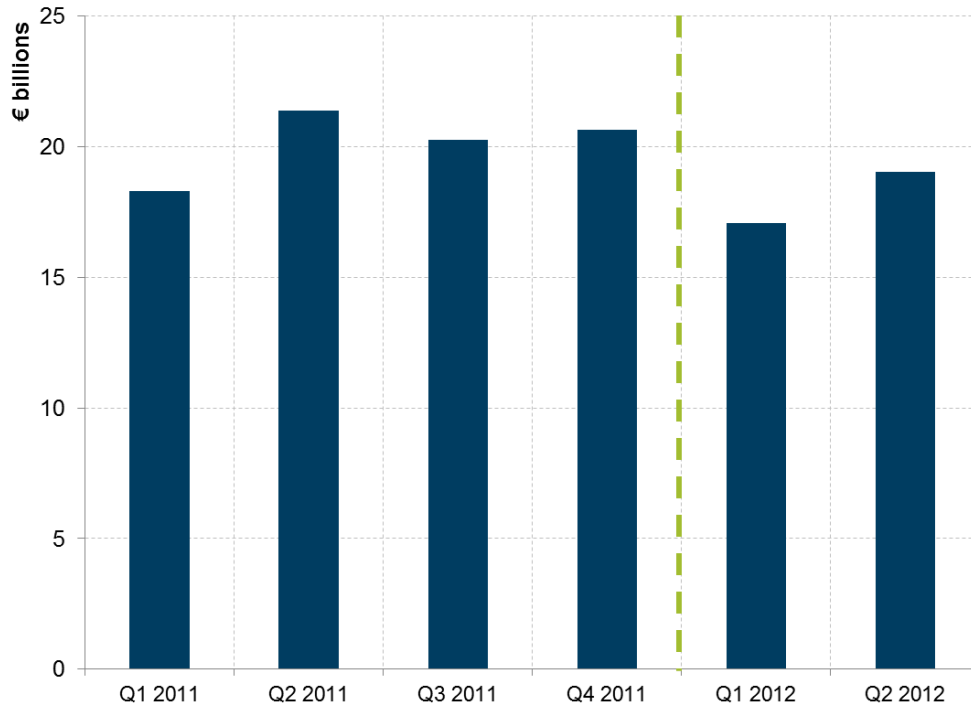


Fig. 3: Profitability Ratio, 2011 – Q2 2012

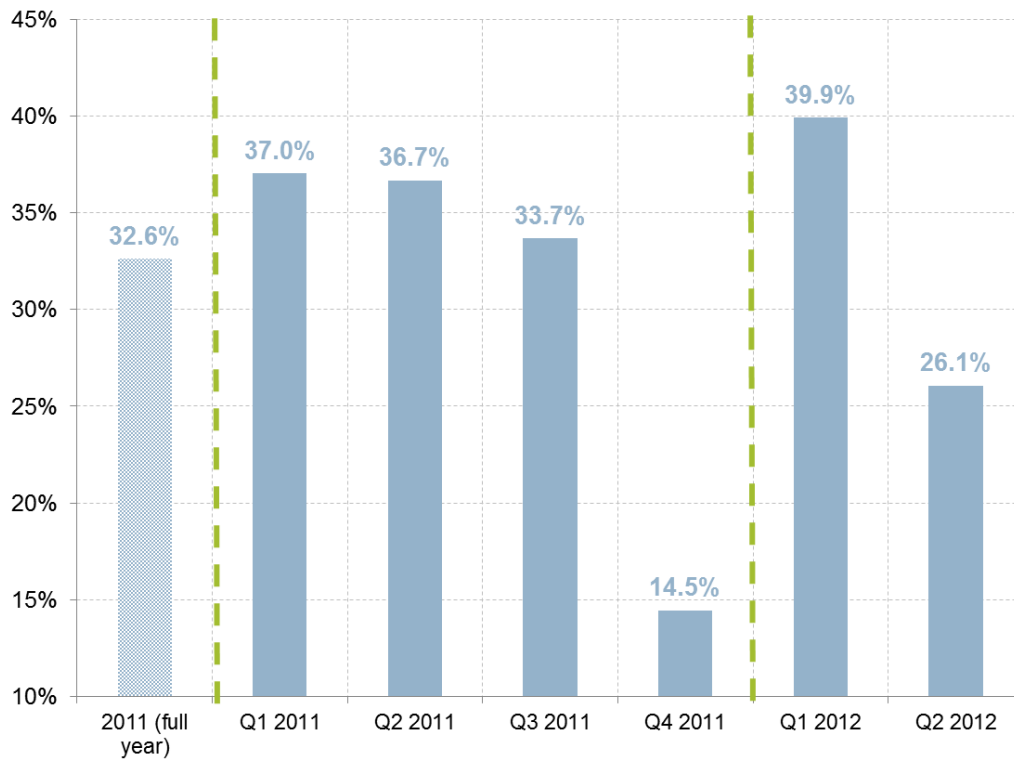


Fig. 4: Cost / Income Ratio, 2011 – Q2 2012

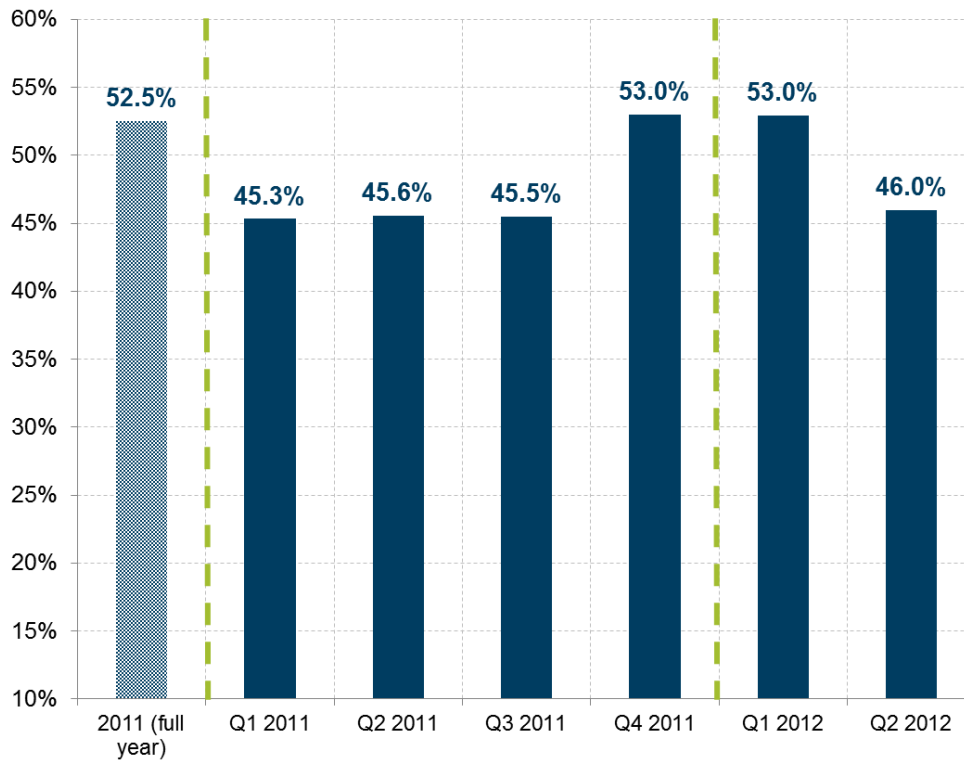


Fig. 5: Cost of Risk Ratio, 2011 – Q2 2012

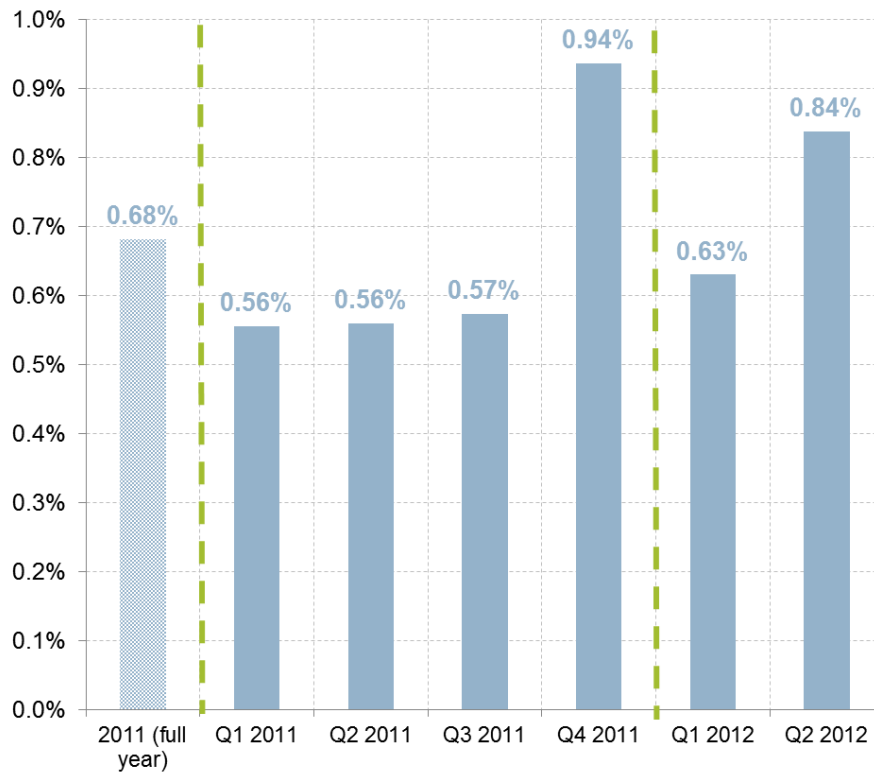


Figure 6: Return on Assets Ratio, 2011 – Q2 2012

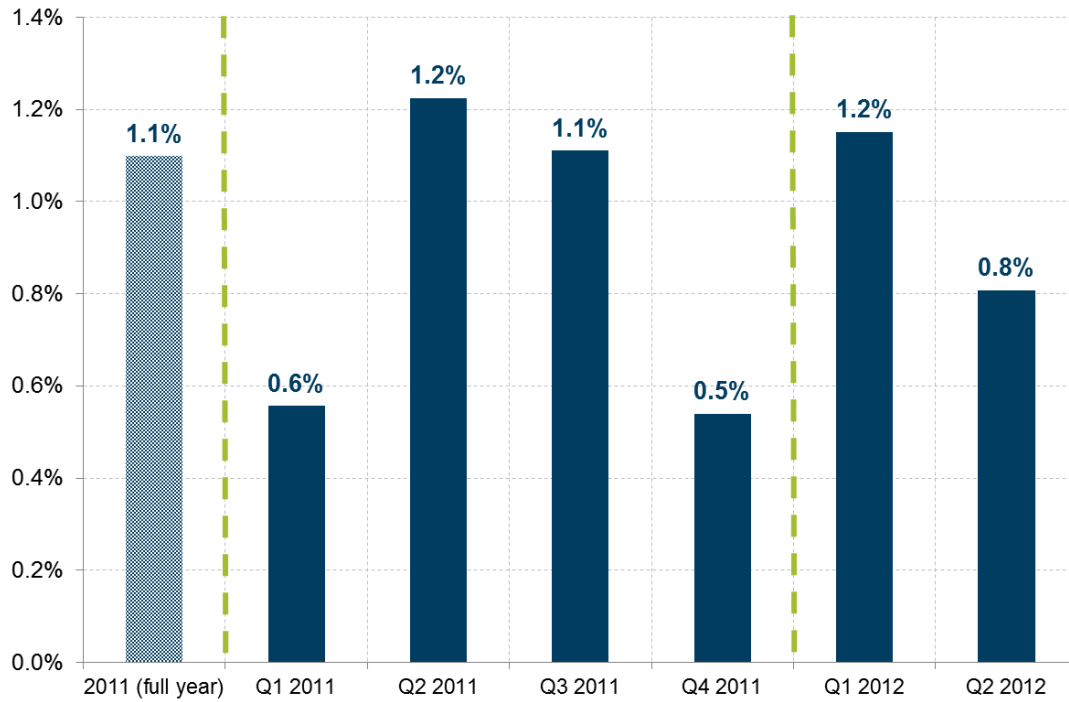


Figure 7: Return on Equity Ratio, 2011 – Q2 2012

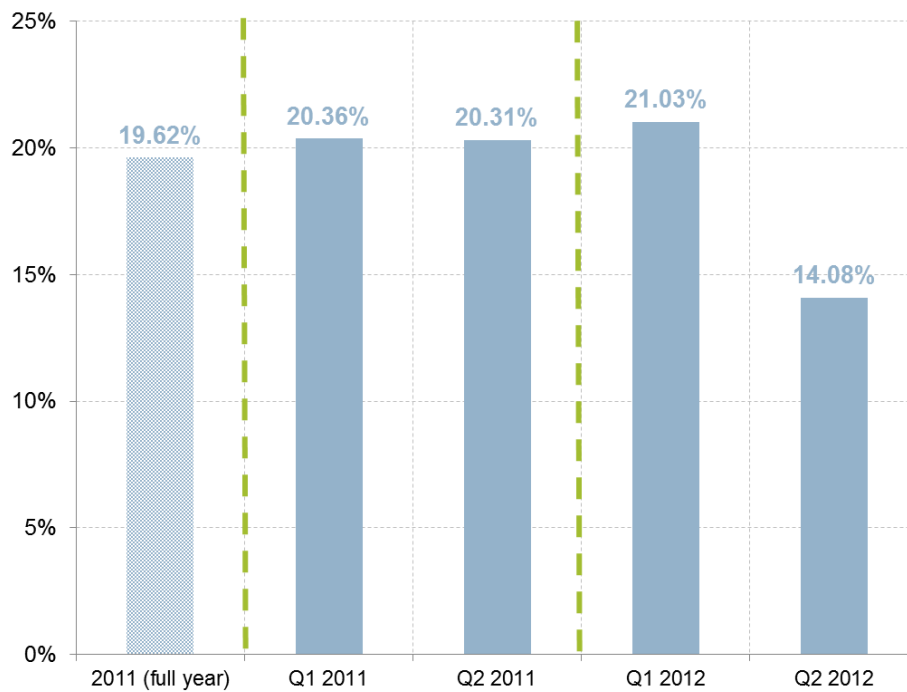


Table 4: Quartiles⁷ for Ratios in Q2 2012

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio	RoE Ratio
Minimum	-89.7%	22.5%	0.12%	-1.18%	-17.45%
Quartile 1 (25%)	15.6%	33.0%	0.34%	0.22%	4.49%
Quartile 2 (50%) i.e. median	35.8%	44.6%	0.54%	1.33%	23.29%
Quartile 3 (75%)	42.6%	52.6%	1.11%	2.05%	38.06%
Maximum	62.7%	66.2%	2.00%	4.02%	45.47%
Weighted Average	26.1%	46.0%	0.84%	0.81%	14.60%

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 **2011 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.