

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

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INDEX

Survey of European leasing and rental firms

Leaseurope Index
Q2 2014

LEASEUROPE INDEX RESULTS: Q2 2014

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 2014 is the fourteenth edition of the survey.

The weighted average ratios for Q2 2014 have improved further on the strong levels seen in Q1 2014. They all show a significant improvement compared to the results of Q2 2013.

Total new leasing volumes reported by the sample of firms increased by 8.8% in comparison to the same quarter a year ago, reaching just over €18 billion. The portfolio of outstanding contracts remained stable, declining by -0.7%, while risk-weighted assets continued to decrease by a much larger amount (-6.1%).

Profit & profitability

Total pre-tax profit of all the companies increased substantially by 15.1% for Q2 2014 in comparison to Q2 2013 (see table 1). The average profitability ratio increased from 29.2% in Q2 2013 to 33.3% in Q2 2014 (see table 3), the highest level seen in over two years. Within these aggregate results there lies a large degree of variation in performance by company, with a few companies suffering continued losses but most enjoying strong results (see table 4).

Income, expenses & cost/income

Compared to the same period a year ago, operating income increased (2.7%), while operating expenses decreased by -1.2%. This resulted in a further improvement of the average cost/income ratio in Q2 2014 to 44.6%, which is the lowest level of this indicator seen since Q2 2010.

Loan loss provision & cost of risk

Loan loss provisions decreased substantially in Q2 2014 compared to the same period of the previous year (-13.1%), following on from the improvement seen in Q1 2014. The average annualised cost of risk declined in Q2 2014 compared to Q2 2013, to the relatively low level of 0.7%.

RoA and RoE indicators

RoA and RoE¹ both increased significantly in Q2 2014 compared to Q2 2013, reaching 1.2% and 22.3%, respectively. An RoA figure of this level hasn't been seen in three years, while RoE has shown even more impressive gains, reaching the highest level ever recorded in the survey and improving further on the high level seen in Q1 2014.

Bernard Muselet, Directeur Général Adjoint of Credit Agricole Leasing & Factoring, commented that, *"I am pleased to see that financial ratios in Q2 2014 have continued to build on the significant recovery experienced in the first quarter of the year. The strength seen in profitability and cost/income ratios, particularly in light of the pressure on portfolios, is a real testament to the resourcefulness of the European leasing industry. New business volumes are also beginning to pick up again, amidst an increasingly stable recovery in most European countries. As domestic demand solidifies and investment by firms continues to recover, lessors can expect to continue benefitting from these improved market conditions."*

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 2013 – Q2 2014²

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2014 Q2		2014 Q1		2013 Q4	
	Sum of values (€ millions)	% change versus Q2 2013	Sum of values (€ millions)	% change versus Q1 2013	Sum of values (€ millions)	% change versus Q4 2012
1. Operating income	1,971	2.7%	1,905	3.2%	1,883	4.0%
2. Operating expenses	888	-1.2%	870	-0.8%	957	-0.4%
3. Loan loss provision	392	-13.1%	381	-7.3%	1,581	210.7%
4. Pre-Tax Profit	648	15.1%	648	16.0%	-683	-307.7%
5. RWA at end of period	152,942	-6.1%	151,941	-10.5%	161,833	-3.8%
6. Portfolio at end of period	216,301	-0.7%	217,190	-1.7%	216,538	-3.8%
7. New business volumes	18,031	8.8%	16,039	9.5%	18,408	6.8%

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2013 Q3		2013 Q2		2013 Q1	
	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	1,841	4.5%	1,920	5.7%	1,847	3.8%
2. Operating expenses	881	-0.9%	898	1.1%	877	0.5%
3. Loan loss provision	395	6.9%	451	0.8%	412	33.2%
4. Pre-Tax Profit	564	13.2%	563	19.8%	558	-6.6%
5. RWA at end of period	164,006	-2.1%	162,953	-3.4%	169,779	-0.6%
6. Portfolio at end of period	218,015	-2.7%	217,867	-3.2%	221,055	-2.0%
7. New business volumes	15,820	0.7%	16,578	-5.9%	14,646	-8.9%

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, 2010 – 2013 Annual³

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	7,457	3.6%	7,199	-4.8%	7,564	2.1%	7,405	12.3%
2. Operating expenses	3,617	-0.3%	3,627	-2.5%	3,721	5.6%	3,523	6.7%
3. Loan loss provision	1,524	-5.8%	1,617	7.0%	1,511	-19.7%	1,882	-9.2%
4. Pre-Tax Profit	972	-49.3%	1,915	-18.3%	2,345	19.0%	1,970	64.6%
5. RWA at end of period	161,405	-3.9%	168,000	-6.6%	179,925	3.9%	173,191	n/a
6. Portfolio at end of period	216,018	-4.0%	225,082	-4.0%	234,563	1.6%	230,978	0.4%
7. New business volumes	66,079	-1.0%	66,764	-14.5%	78,073	3.0%	75,793	7.3%

Table 3: Weighted Average Ratios, 2013 – Q2 2014⁴

Weighted Average Ratios	2014		2013				
	Average Q2 2014	Average Q1 2014	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	33.3%	32.7%	11.8%	-48.3%	29.5%	29.2%	31.6%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	44.6%	45.3%	47.0%	49.8%	47.0%	46.0%	46.7%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.7%	0.7%	0.7%	2.9%	0.7%	0.8%	0.7%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.2%	1.2%	0.4%	-1.3%	1.0%	1.0%	1.0%
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	22.3%	21.8%	8.5%	-19.7%	18.0%	17.5%	17.4%

* 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.

³ The aggregate annual data are shown here as reported in the Q4 2013 survey.

⁴ 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 2014 to arrive at the weighted average ratio of 33.3% shown in the table. The cost of risk, RoA and RoE ratios are weighted by the average portfolio over the relevant period.

Fig 1: Growth Rates of Financial Indicators, 2013 – Q2 2014⁵

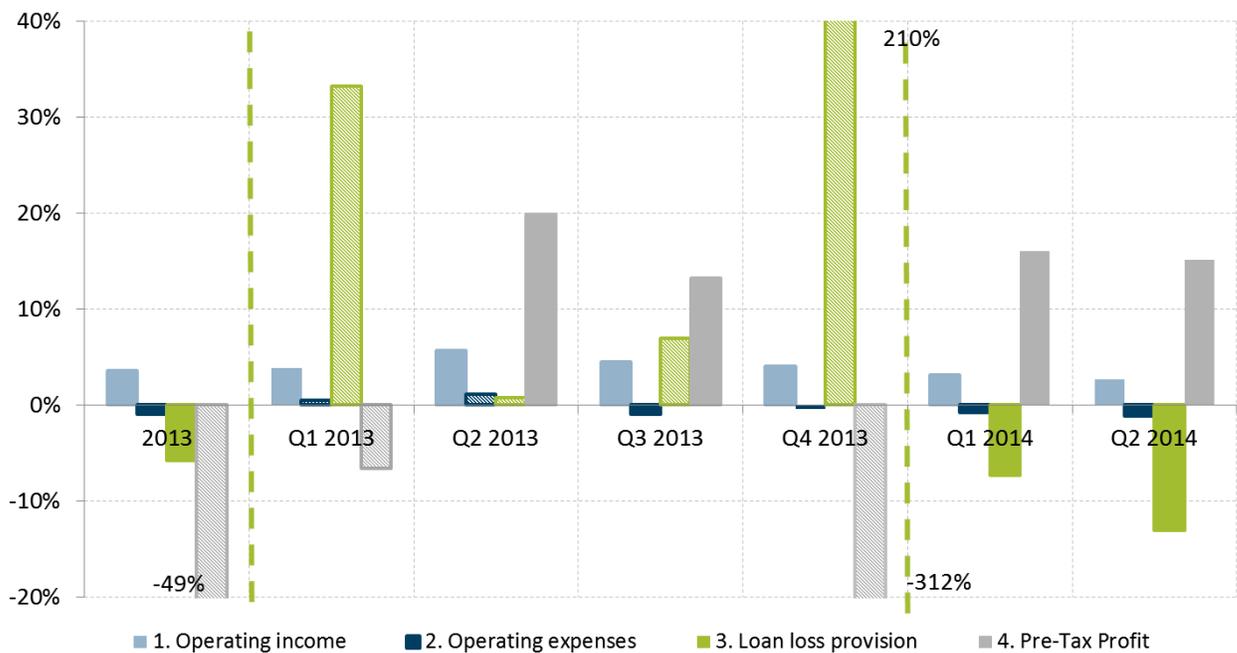


Fig. 2: New Business Volumes, Q1 2013 – Q2 2014



⁵ A thick border around an individual bar in the chart is illustrative of a negative development in the indicator. The large negative developments seen in loan loss provision (and hence pre-tax profit) in Q4 2013 (and hence to a lesser extent in 2013) are not an error, but are the result of extraordinarily high figures in a very isolated part of the sample. These figures, while showing averages, are not a good representation of the general condition of the whole sample.

Fig. 3: Profitability Ratio, 2013 – Q2 2014⁶

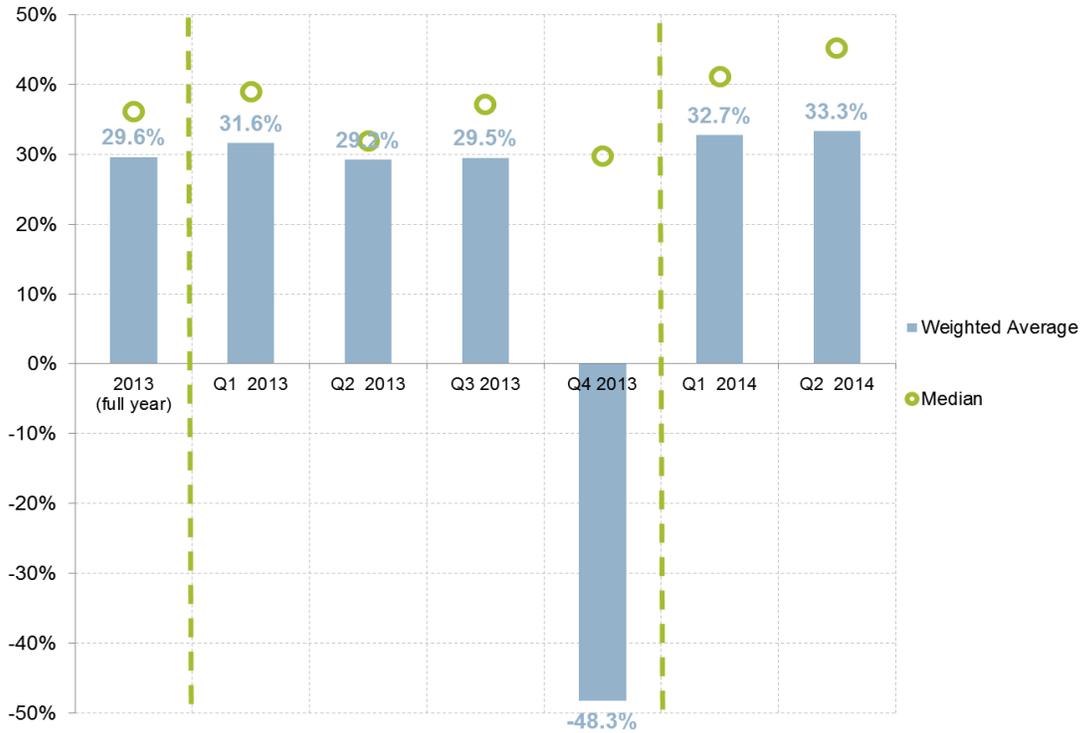
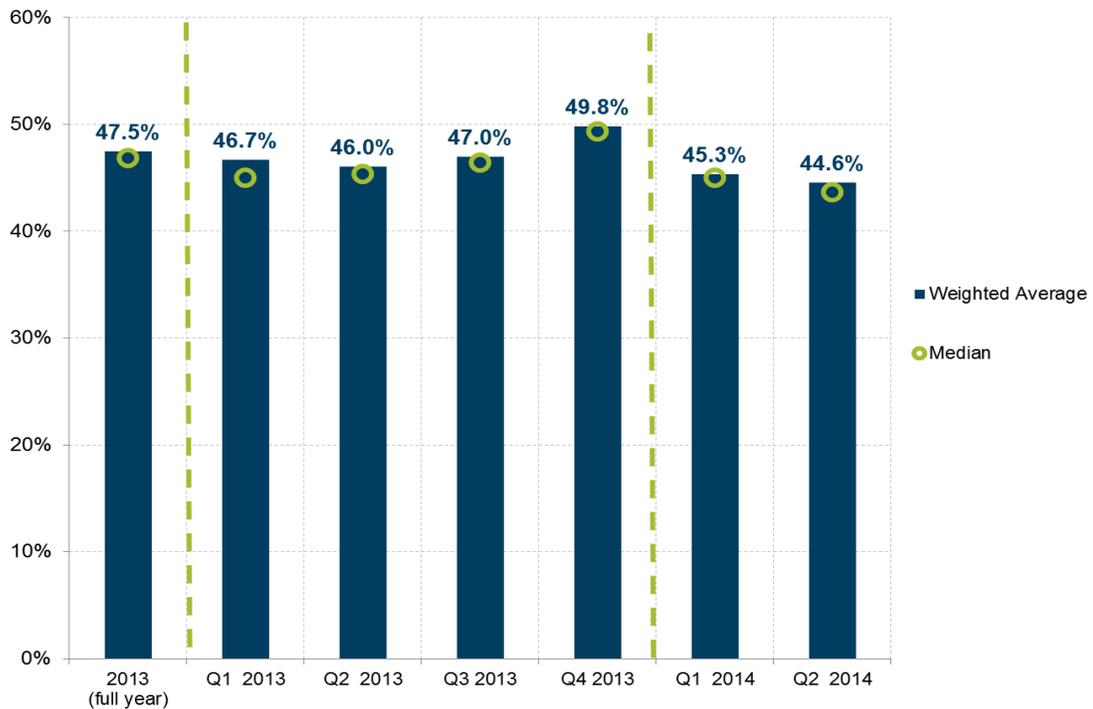


Fig. 4: Cost / Income Ratio, 2013 – Q2 2014



⁶ Please refer to the trend in the median value for a more accurate representation of Q4 2013 figures. The weighted average for Q4 2013 is heavily influenced by extreme outlier values.

Fig. 5: Cost of Risk Ratio, 2013 – Q2 2014⁷

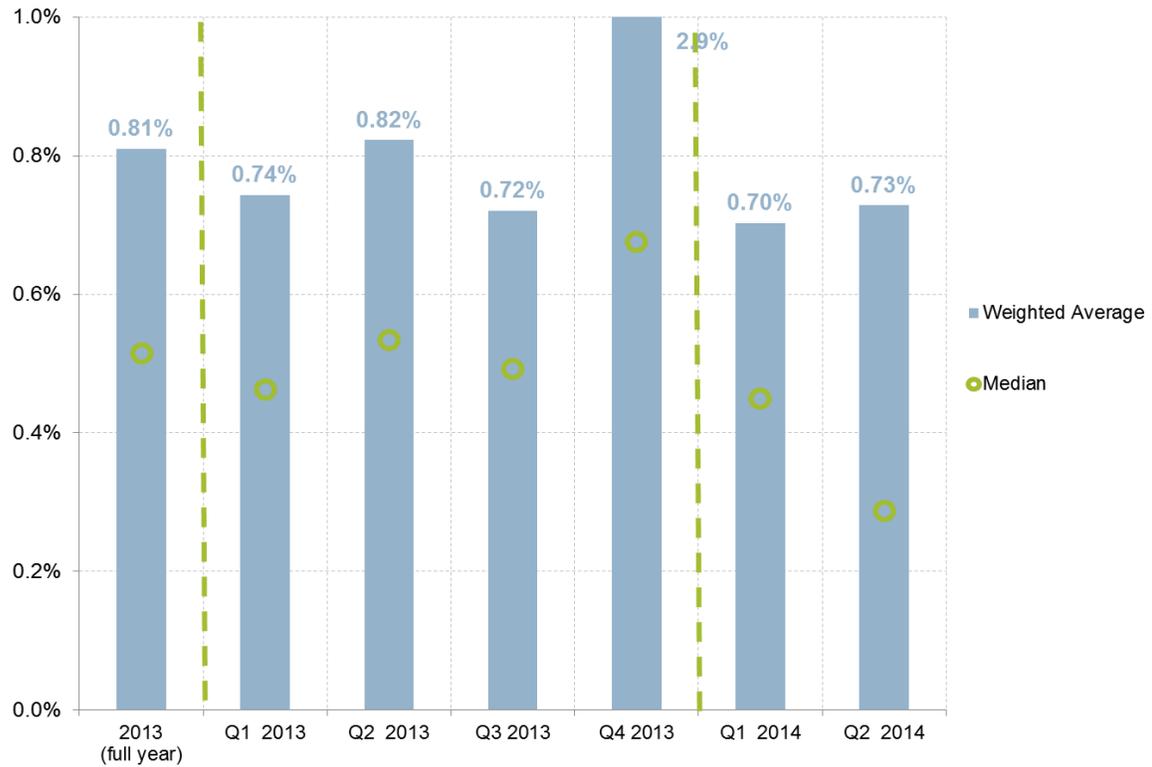
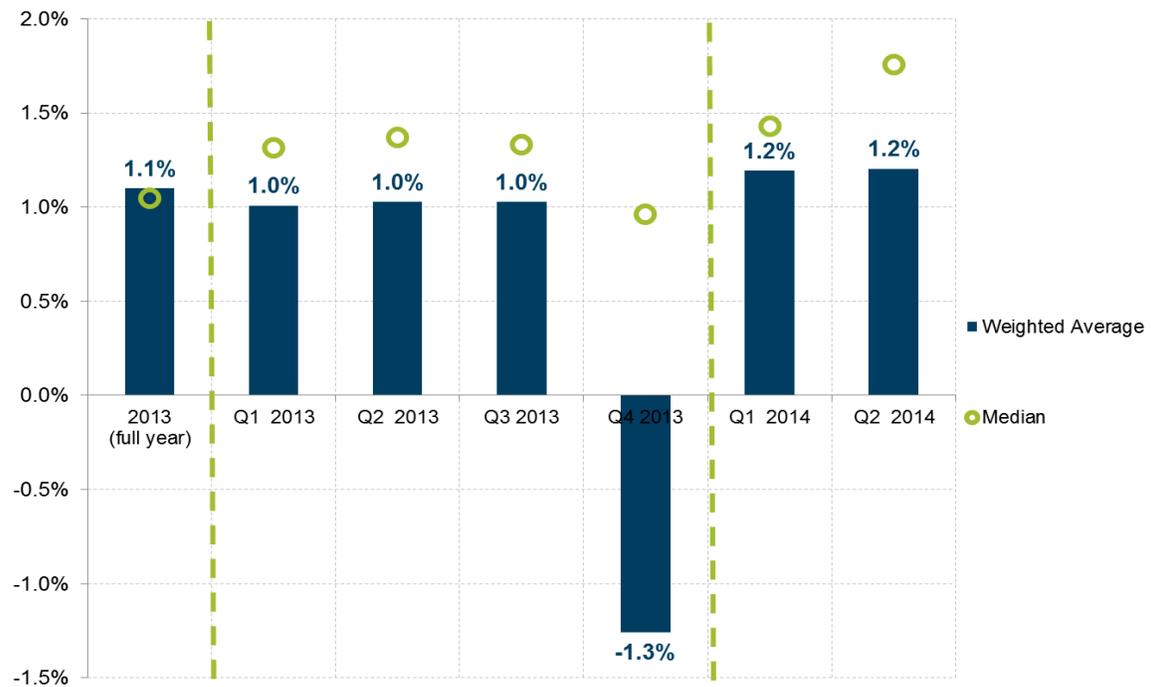


Figure 6: Return on Assets Ratio, 2013 – Q2 2014⁷



⁷ Please refer to the trend in the median value for a more accurate representation of Q4 2013 figures. The weighted average for Q4 2013 is heavily influenced by extreme outlier values.

Figure 7: Return on Equity Ratio, 2013 – Q2 2014⁸

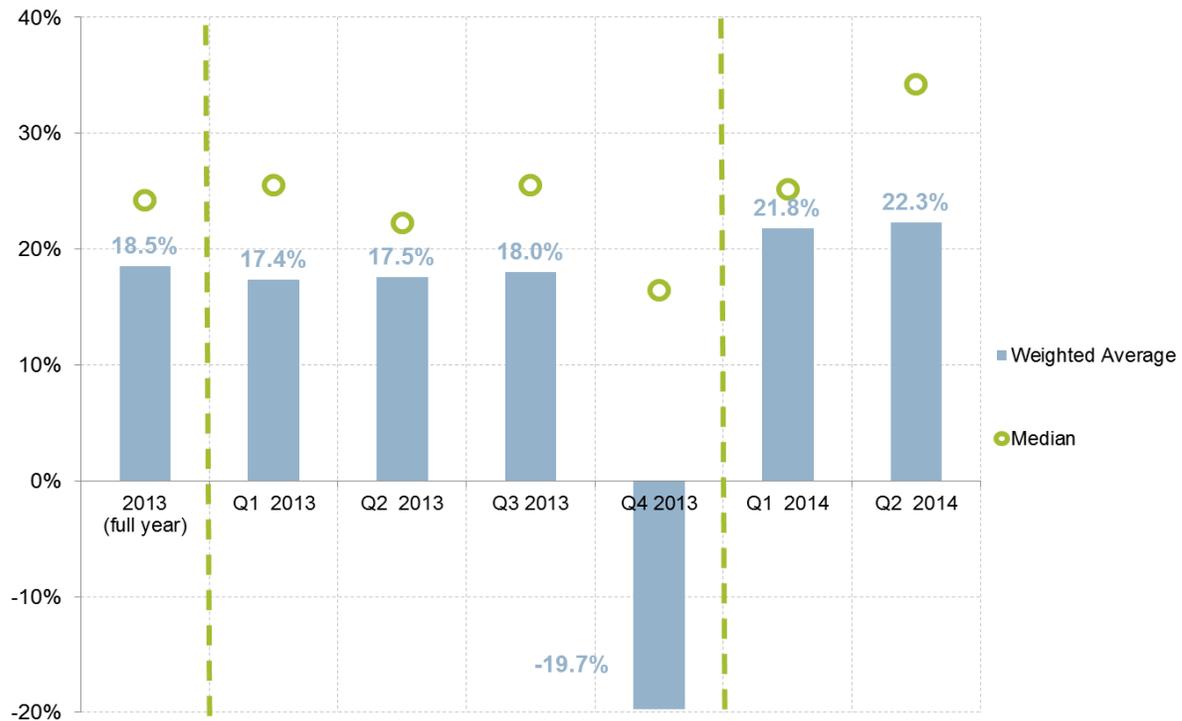


Table 4: Quartiles⁹ for Ratios in Q2 2014

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio	RoE Ratio
Minimum	-121.1%	20.5%	0.0%	-1.8%	-37.6%
Quartile 1 (25%)	26.0%	35.0%	0.1%	0.6%	15.2%
Quartile 2 (50%) i.e. median	45.2%	43.7%	0.3%	1.8%	34.2%
Quartile 3 (75%)	52.4%	49.8%	0.9%	3.2%	44.3%
Maximum	66.8%	55.6%	2.9%	5.7%	82.6%
Weighted Average	33.3%	44.6%	0.73%	1.20%	22.30%

⁸ Please refer to the trend in the median value for a more accurate representation of Q4 2013 figures. The weighted average for Q4 2013 is heavily influenced by extreme outlier values.

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 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, Iccrea Bancalmpresa, BNP Paribas Leasing Solutions, Caterpillar S.A.R.L., Credit Agricole Leasing & Factoring, De Lage Landen, DnB Finans, ING Lease, Leaseplan, Mediocredito Italiano, 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 **2013 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.