Leaseurope
The Voice of Leasing and Automotive Rental in Europe

LEASEUROPE INDEX

Survey of European leasing and rental firms

**Leaseurope Index
Q4 2018**

LEASEUROPE INDEX RESULTS: Q4 2018

The Leaseurope Index is a unique survey that tracks key performance indicators of a sample of 23 European lessors on a quarterly basis. This Q4 2018 survey is the thirty-second edition.

The weighted average ratios for Q4 2018 show mixed performance compared to the same period in 2017, with profitability and cost/income improving while cost of risk, RoA and RoE all weakened. The trend in median ratios was similar. On an annual basis, all ratios deteriorated in 2018 with the exception of cost/income, which remained stable.

Total new leasing volumes reported in Q4 2018 by the sample of firms decreased by -8.6% in comparison to the same quarter in the previous year, the first decline since 2013, reaching almost €25 billion. The whole of 2018 saw growth of 6.5%, seeing almost €109 billion in new business conducted. The portfolio of outstanding contracts in the sample grew by 6.0% in 2018 while risk-weighted assets increased by the lower level of 4.6%.

Profit & profitability
Aggregate pre-tax profit decreased in 2018 compared to 2017, dropping by -6.0%. This was largely a result of poor performance in Q1 and particularly Q3, growth in Q4 2018 was quite strong compared to 2017 at 18.8%. As a result, profitability for 2018 declined from 43.9% in 2017 to 41.9% in 2018. Despite being the lowest level of the year, Q4 2018 is still an increase on the previous year's figure at 36.4%.

Income, expenses & cost/income
Average operating income saw relatively strong growth in Q4 2018 of 3.5%. Combined with declining operating cost of -6.0% during this period, the weighted average cost/income ratio also dropped to 52.3% year-on-year. The trend for the whole of 2018 was not as positive, with cost escalation of 3.5% outpacing income growth of 1.9%. This led to a slight rise in the average cost/income ratio to 48.5% for 2018.

Loan loss provision & cost of risk
Loan loss provisions declined by -12.8% in Q4 2018 compared to the previous year, however weighted average cost of risk still rose quite significantly to 0.43%. Large outliers have a big impact on the average for this indicator, therefore the median values can be more useful as an indicator of the 'typical' firm in the sample. Median cost of risk for 2018 increased from a record low of 0.20% in 2017 to 0.28% in 2018.

RoA and RoE indicators
Weighted average RoA and RoE[1] decreased in Q4 2018 compared to Q4 2017, reaching 1.1% and 143, respectively. Over the full year 2018, both ratios experienced declines compared to 2017, with RoA of 1.6% and RoE of 167.

Charlotte Dennery, CEO at BNP Paribas Leasing Solutions, commented that *"Despite relatively strong performance in the second quarter, 2018 has been a challenging year. Uncertainty surrounding global trade and Brexit have resulted in more conservative domestic demand than expected and subdued business investment. Regardless of these hurdles, European lessors have continued to grow their portfolio. The European Commission predicts lingering uncertainty and suppressed demand going into 2019, therefore it will be important for our industry to leverage on our strengths in order to continue outperforming the market."*

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[1] In order to ensure a feasible and comparable data collection across our sample, 10.5% of total risk weighted assets (RWA) 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. Please note that the estimate of equity has been updated in Q4 2018, in the past it was 8% of total RWA. This change has been applied to the entire time series.

Table 1: Aggregate Data, Q1 2018 – Q4 2018[2]

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2018 Q4		2018 Q3		2018 Q2		2018 Q1	
	Sum of values (€ millions)	% change versus Q4 2017	Sum of values (€ millions)	% change versus Q3 2017	Sum of values (€ millions)	% change versus Q2 2017	Sum of values (€ millions)	% change versus Q1 2017
1. Operating income	2,575	3.5%	2,534	1.3%	2,647	2.9%	2,564	1.9%
2. Operating expenses	1,239	-6.0%	1,285	7.9%	1,198	1.0%	1,239	6.3%
3. Loan loss provision	189	-12.8%	374	84.2%	161	-2.6%	189	5.3%
4. Pre-Tax Profit	1,134	18.8%	934	-16.8%	1,276	4.7%	1,134	-3.7%
5. RWA at end of period	193,893	5.3%	184,104	5.5%	190,603	5.1%	188,197	4.1%
6. Portfolio at end of period	275,698	6.9%	272,041	6.4%	269,367	5.6%	264,447	3.7%
7. New business volumes	24,924	-8.6%	26,324	7.7%	28,896	8.6%	24,924	3.7%

Table 2: Aggregate Data, 2014 – 2018 Annual[3]

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2018		2017		2016		2015		2014	
	Sum of values (€ millions)	% change versus 2017	Sum of values (€ millions)	% change versus 2016	Sum of values (€ millions)	% change versus 2015	Sum of values (€ millions)	% change versus 2014	Sum of values (€ millions)	% change versus 2013
1. Operating income	10,290	1.9%	10,094	-0.4%	10,137	3.5%	9,795	8.3%	9,043	7.4%
2. Operating expenses	5,021	3.5%	4,849	1.0%	4,802	6.6%	4,506	4.2%	4,324	3.7%
3. Loan loss provision	1,017	34.7%	755	-57.5%	1,775	42.4%	1,247	-30.2%	1,788	-37.8%
4. Pre-Tax Profit	4,234	-6.0%	4,504	25.0%	3,605	-11.0%	4,050	37.2%	2,951	114.4%
5. RWA at end of period	193,893	4.6%	185,362	3.1%	179,735	0.6%	178,706	3.4%	172,808	-3.4%
6. Portfolio at end of period	275,698	6.0%	260,034	2.3%	254,217	3.1%	244,355	2.1%	239,337	2.3%
7. New business volumes	108,910	6.5%	102,247	4.5%	97,846	7.5%	91,023	10.1%	82,707	9.0%

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[2] Historical figures have been revised slightly since the results were last published due to re-statements by some reporting companies. Due to outlier values in a small pocket of the sample affecting the overall average, please refer to trends in median values for a more accurate representation of Q4 2018.
[3] The aggregate annual data are shown here as reported in the Q4 2018 survey.

Table 3: Weighted Average Ratios, 2017 - 2018[4]

Weighted Average Ratios	2018					2017				
	2018 Full Year	Q4 2018	Q3 2018	Q2 2018	Q1 2018	2017 Full Year	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Profitability (%) - pre-tax profit as a % of total operating income	41.9%	36.4%	38.8%	48.8%	44.2%	43.9%	35.5%	45.0%	47.2%	46.6%
Cost/Income (%) - operating expenses as a % of operating income	48.5%	52.3%	49.6%	44.7%	48.8%	48.1%	55.0%	47.4%	45.9%	46.5%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.38%	0.43%	0.50%	0.24%	0.29%	0.29%	0.33%	0.31%	0.26%	0.28%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	1.6%	1.4%	1.4%	1.9%	1.7%	1.8%	1.5%	1.7%	1.9%	1.8%
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	167	143	158	202	181	180	151	190	199	188

* denotes that the numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each time period.

Table 4: Median Ratios, 2017 - 2018[4]

Median Ratios	2018					2017				
	2018 Full Year	Q4 2018	Q3 2018	Q2 2018	Q1 2018	2017 Full Year	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Profitability (%) - pre-tax profit as a % of total operating income	39.5%	37.1%	39.1%	48.5%	47.7%	39.9%	40.5%	42.9%	42.6%	47.5%
Cost/Income (%) - operating expenses as a % of operating income	47.4%	51.3%	43.8%	43.4%	47.4%	46.9%	49.9%	45.7%	44.5%	44.3%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.3%	0.27%	0.34%	0.19%	0.26%	0.2%	0.21%	0.23%	0.20%	0.17%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	1.5%	1.1%	1.4%	2.1%	1.5%	1.6%	1.2%	1.5%	1.7%	1.9%
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	119	119	120	180	123	139	102	144	132	162

* denotes that the numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each time period.

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[4] Please note that the estimate of equity has been updated in Q4 2018. As capital requirements in Europe have increased, we have increased the estimate of equity from 8% of RWA to 10.5% of RWA. This new treatment has been applied to the entire time series.

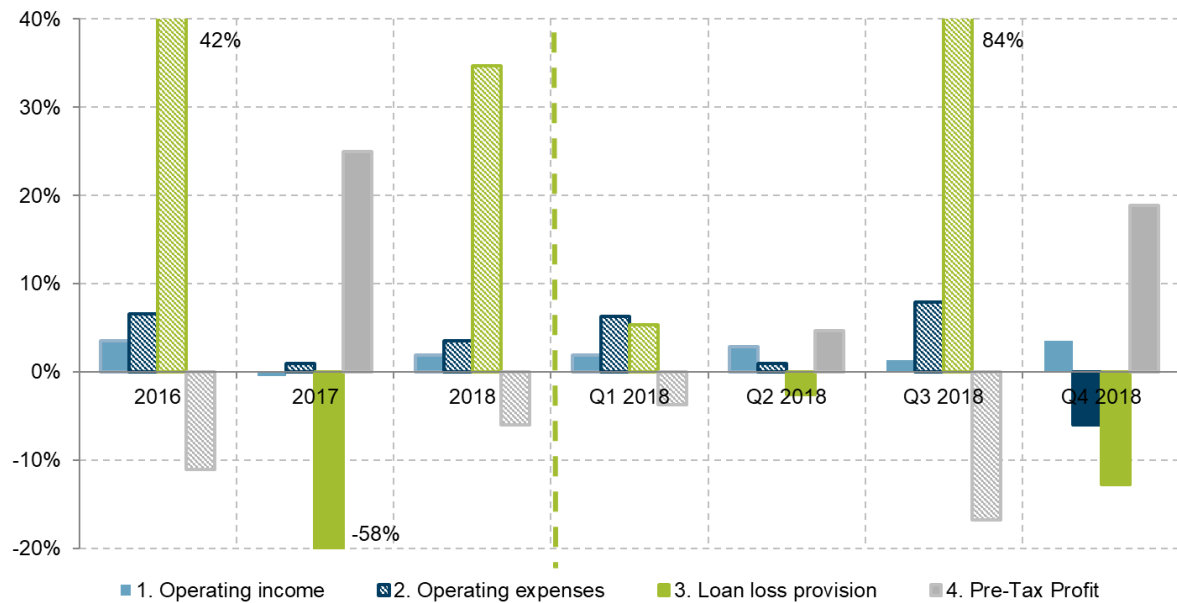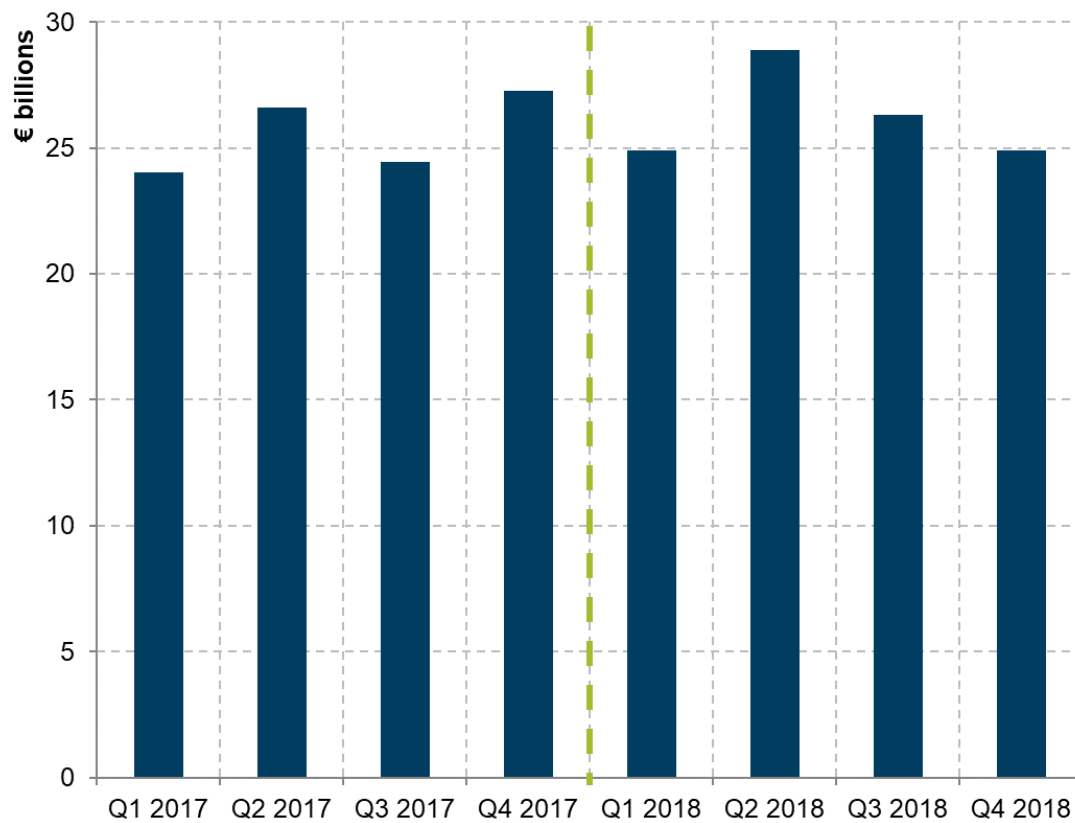**Fig 1: Growth Rates of Financial Indicators, 2016 – Q4 2018[5]**

Legend:
- 1. Operating income
- 2. Operating expenses
- 3. Loan loss provision
- 4. Pre-Tax Profit

Fig. 2: New Business Volumes, Q1 2017 – Q4 2018

[5] A thick border around an individual bar in the chart is illustrative of a negative development in the indicator. Extraordinarily large positive or negative developments in a few individual company figures for loan loss provisions (and hence pre-tax profit) can have a disproportionately big impact on the averages shown here. These figures, while showing averages, are therefore not a good representation of the general condition of the whole sample.

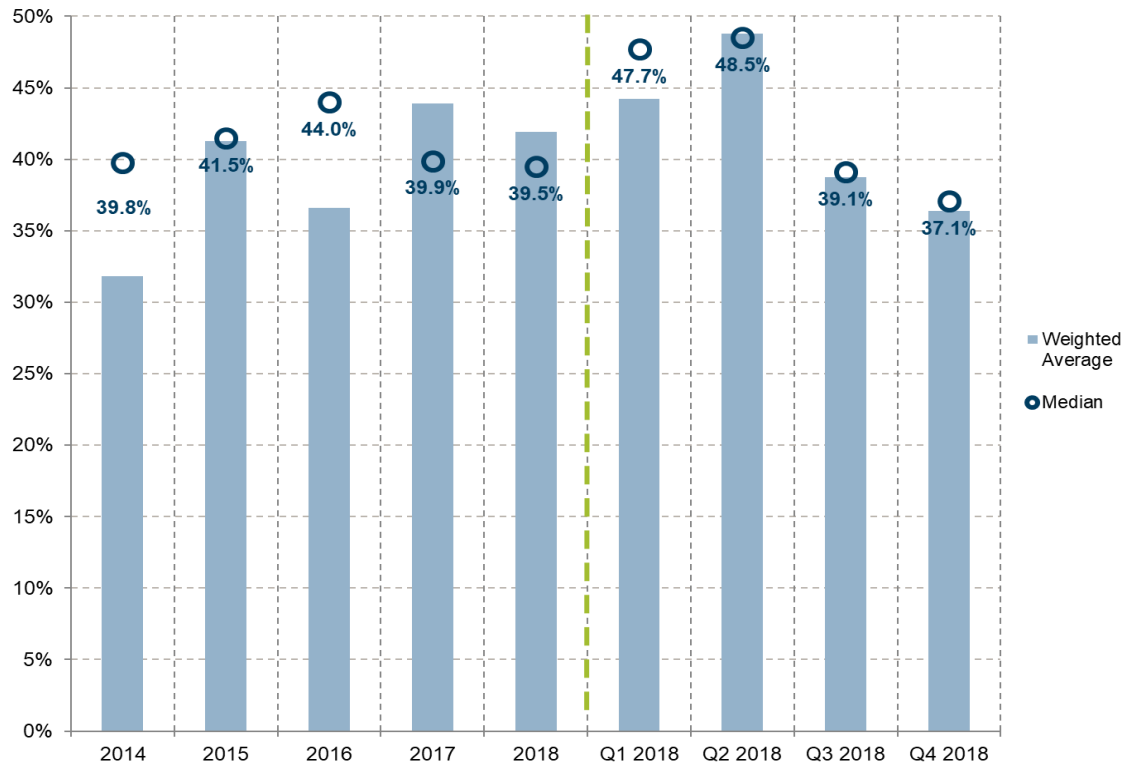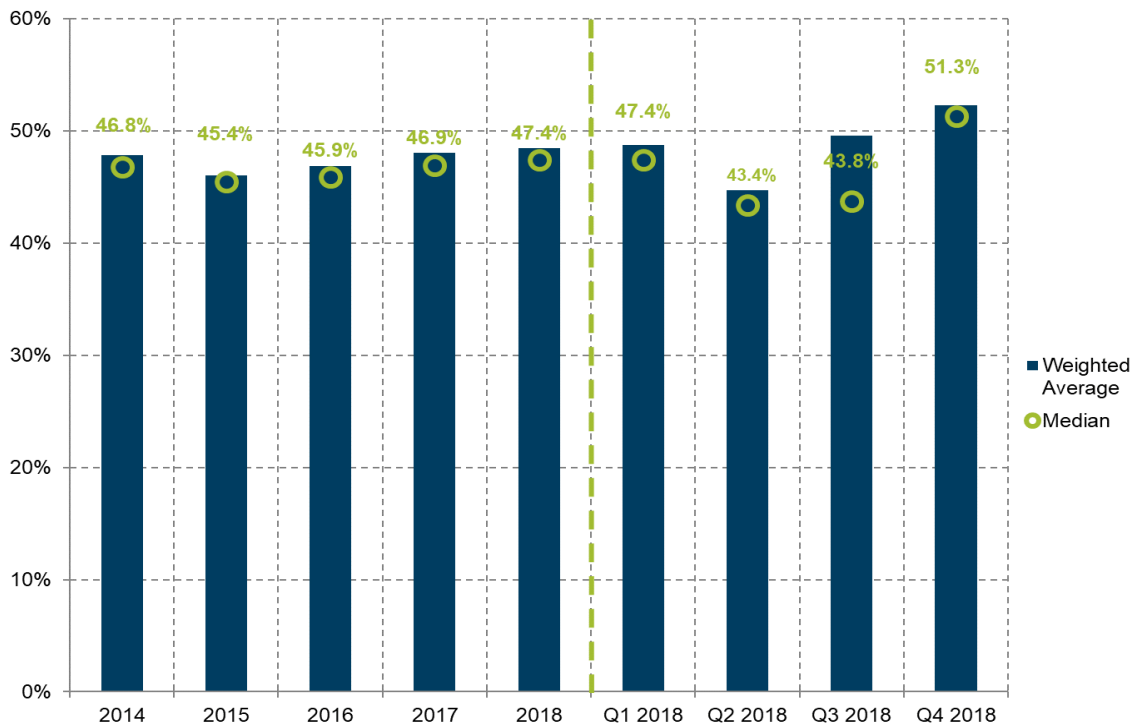## Fig. 3: Profitability Ratio, 2014 – Q4 2018[6]

Fig. 4: Cost / Income Ratio, 2014 – Q4 2018

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[6] Please refer to the trend in the median value for a more accurate representation of annual figures. The weighted averages for 2014-2016 were heavily influenced by extreme outlier values.
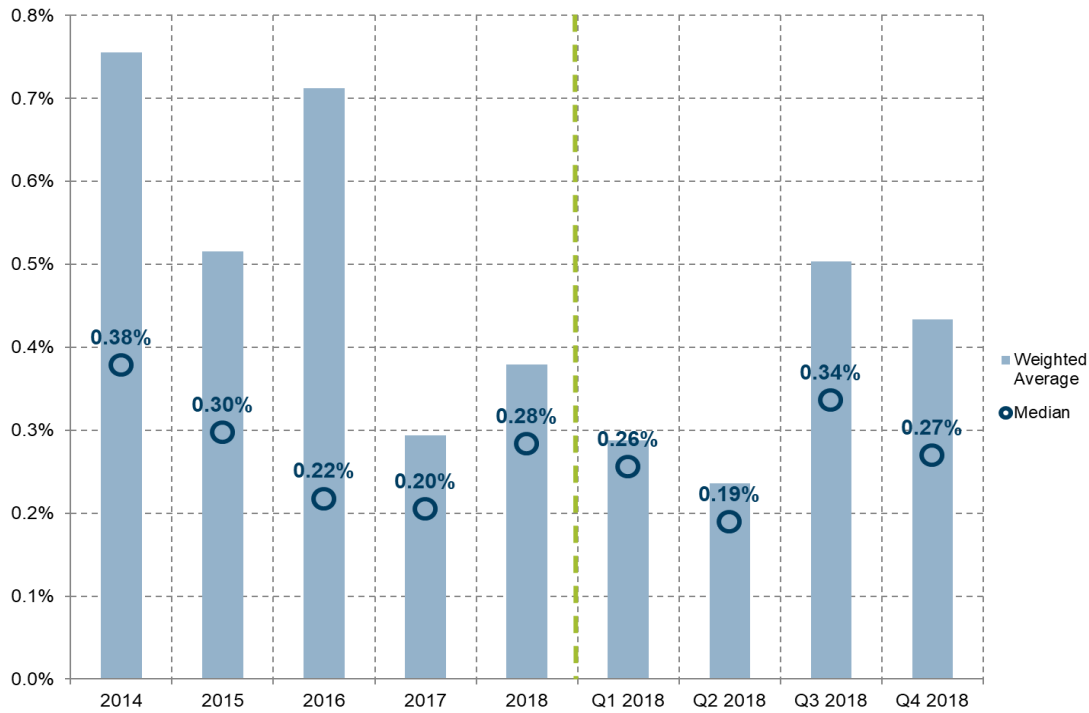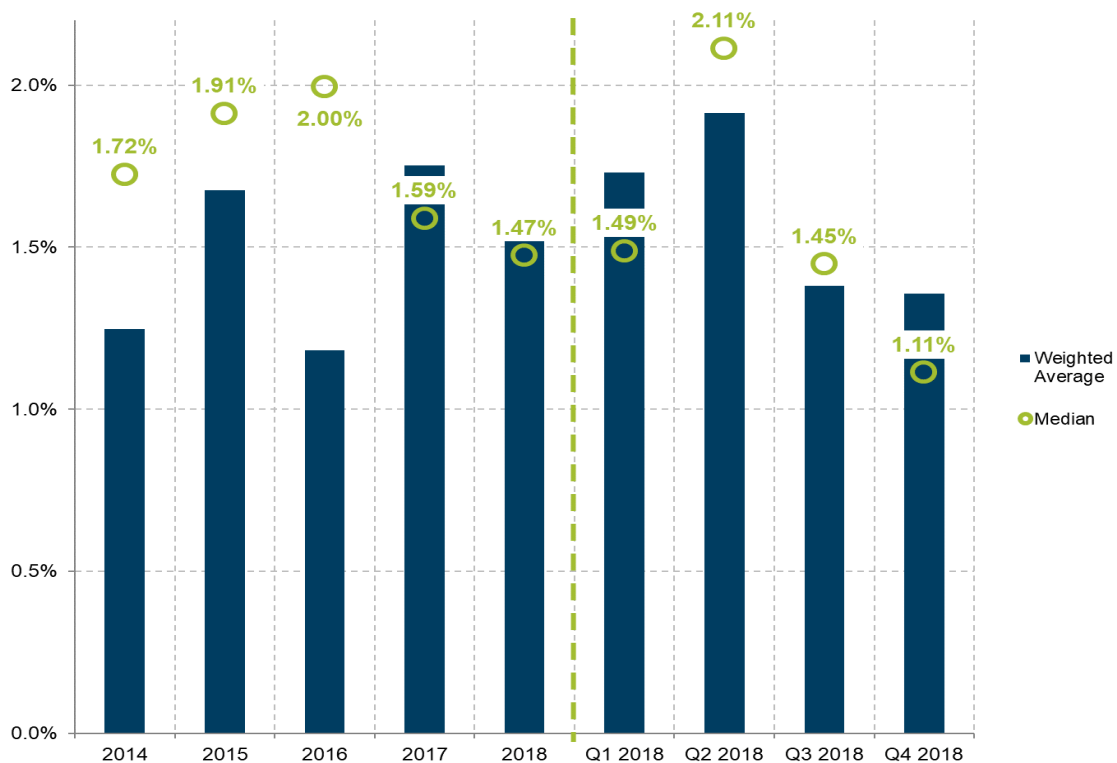
Fig. 5: Cost of Risk Ratio, 2014 – Q4 2018[7]

Figure 6: Return on Assets Ratio, 2014 – Q4 2018[6]

[7] Please refer to the trend in the median value for a more accurate representation of annual figures. The weighted averages for 2014-2016 were heavily influenced by extreme outlier values.
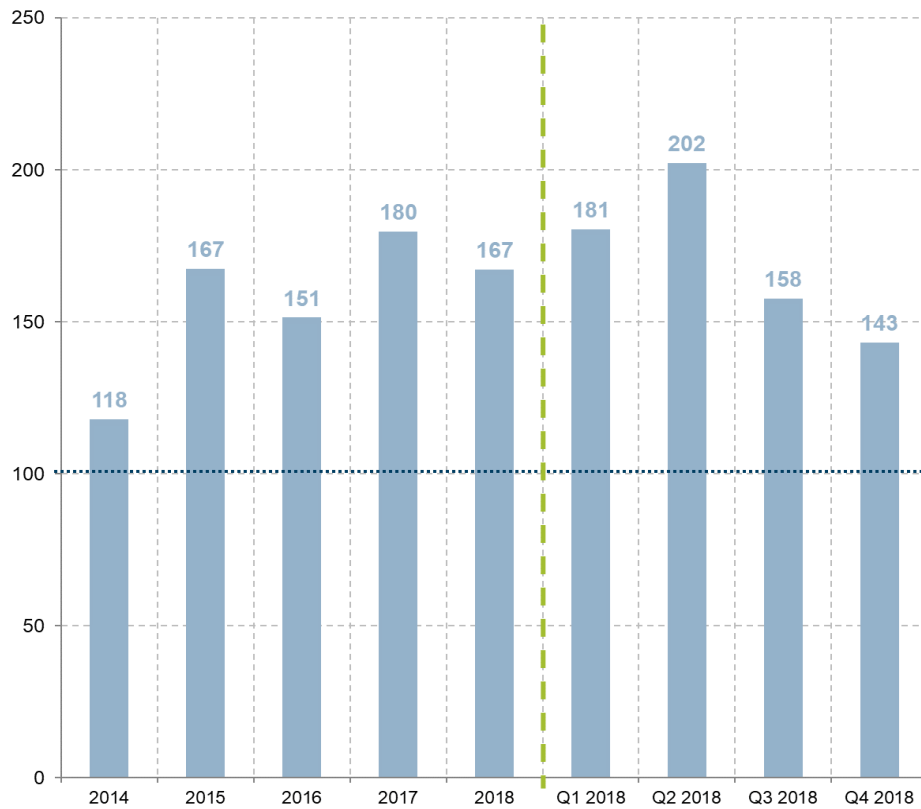
Figure 7: Return on Equity Ratio, 2014 – Q4 2018[8]

Table 4: Quartiles[9] for Ratios in Q4 2018

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio
Minimum	-56.4%	15.1%	-0.16%	-1.4%
Quartile 1 (25%)	22.6%	38.4%	0.13%	0.6%
Quartile 2 (50%) i.e. median	37.1%	51.3%	0.3%	1.1%
Quartile 3 (75%)	49.5%	55.4%	0.74%	2.1%
Maximum	95.0%	79.1%	2.62%	7.2%
Weighted Average	36.4%	52.3%	0.43%	1.4%

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[8] Please refer to the trend in the median value for a more accurate representation of annual figures. The weighted averages for 2014-2016 were 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 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 Index: 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 and all numbers are indexed to 2011 (2011=100).

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 median value 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 Lease, ALD Automotive, Aldermore, Alphabet, Arval, BNP Paribas Leasing Solutions, Caterpillar S.A.R.L., Credit Agricole Leasing & Factoring, DLL, 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. Please see the Leaseurope **2017 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 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 (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.