

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

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INDEX

Survey of European leasing and rental firms

Leaseurope Index
Q4 2020

LEASEUROPE INDEX RESULTS: Q4 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 Q4 2020 survey is the fortieth edition.

Due to the impact of Covid-19 on the entire global economy, the year 2020 was a challenging one for the leasing sector, with all annual financial ratios weakening significantly. All of the weighted average ratios worsened for Q4 2020 compared to the same period in 2019. Although the trend in the median ratios, which excludes some large outlier values, revealed a similar picture for the 'typical' company in the sample, median cost/ income performed better in the fourth quarter of 2020.

Total new leasing volumes reported in Q4 2020 by the sample of firms dropped by -4.2% in comparison to the same quarter of the previous year. The whole of 2020 experienced a decline of -12.1%, seeing almost €100 billion in new business conducted. The portfolio of outstanding contracts in the sample shrank by -1.8% in 2020, while risk-weighted assets decreasing by a similar level of -1.9%.

Profit & profitability

Aggregate pre-tax profit decreased in 2020 compared to 2019, falling by -28.4%. This was largely a result of poor performance in the first half of 2020, particularly Q2 which experienced a -50.3% loss. As a result, weighted average profitability declined from 37.7% to 25.9% between 2019 and 2020, with median values seeing similar drops. Despite some minor income decline, this trend was mostly driven by large loan loss provisions.

Income, expenses & cost/income

Aggregate operating income remained fairly stable in Q4 2020, growing by 0.6% compared to Q4 2019, but operating expenses elevated by a higher 7.6%. This resulted in the weighted average cost/income ratio rising to 52.0% in Q4 2020. When looking at the whole of 2020, operating expenses remained relatively unchanged at -0.7%, while operating income experienced a decrease of -2.9%. This led to a rise in the average cost/income ratio, reaching 50.1% for 2020.

Loan loss provision & cost of risk

Loan loss provisions in the fourth quarter escalated by 17.6%. This resulted in the average annualised cost of risk for Q4 2020 increasing to 0.9%. Over the full year 2020, both median and weighted average cost of risk roughly doubled compared to 2019, reaching the same level of 0.8% each.

RoA and RoE indicators

Weighted average RoA and RoE¹ in Q4 2020 contracted compared to Q4 2019. Similarly, both indicators experienced declines in the whole year of 2020, with RoA reaching 1.0%.

Tim Albertsen, Group CEO at ALD Automotive, commented that *“While 2020 presented significant challenges for businesses across Europe, the leasing industry showed remarkable resilience in funding assets essential to support the European economy. Particularly, European lessors have managed to stabilise operating expenses, with their income and portfolio experiencing only single-digit declines. Despite accommodative policies and recovery packages, the brighter economic outlook for 2021 remains highly uncertain, driven by the evolution of the pandemic and the success of mass vaccinations.² Although business investment is expected to recover at a slower pace, we will continue leveraging our strengths to provide European firms of all sizes with the support needed to speed up their recovery.”*

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.

² European Economic Forecast – Winter 2021.

Table 1: Aggregate Data, Q1 2020 – Q4 2020³

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2020 Q4		2020 Q3		2020 Q2		2020 Q1	
	Sum of values (€ millions)	% change versus 2019 Q4	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	2,681	0.6%	2,584	-1.4%	2,385	-9.3%	2,566	-2.7%
2. Operating expenses	1,414	7.6%	1,266	-5.0%	1,232	-11.2%	1,333	2.2%
3. Loan loss provision	643	17.6%	420	76.5%	685	134.2%	422	79.8%
4. Pre-Tax Profit	614	-23.3%	899	-13.5%	472	-50.3%	806	-26.4%
5. RWA at end of period	195,975	-1.9%	193,842	-1.9%	195,262	-0.5%	198,468	2.0%
6. Portfolio at end of period	281,478	-1.7%	279,480	0.5%	280,477	0.8%	282,662	2.9%
7. New business volumes	29,015	-4.2%	25,105	-10.4%	20,633	-29.7%	25,994	-0.6%

Table 2: Aggregate Data, 2017 – 2020 Annual⁴

Aggregated data provided by companies (all figures in millions of euro for the relevant period)	2020		2019		2018		2017	
	Sum of values (€ millions)	% change versus 2019	Sum of values (€ millions)	% change versus 2018	Sum of values (€ millions)	% change versus 2017	Sum of values (€ millions)	% change versus 2016
1. Operating income	10,248	-2.9%	10,551	2.4%	10,307	2.1%	10,094	-0.4%
2. Operating expenses	5,252	-0.7%	5,290	4.3%	5,074	4.6%	4,849	1.0%
3. Loan loss provision	2,181	66.1%	1,313	29.2%	1,016	34.6%	755	-57.5%
4. Pre-Tax Profit	2,799	-28.4%	3,909	-8.0%	4,247	-5.7%	4,504	25.0%
5. RWA at end of period	195,975	-1.9%	199,742	3.1%	193,804	4.0%	186,297	3.7%
6. Portfolio at end of period	281,382	-1.8%	286,414	3.9%	275,653	4.8%	263,060	3.5%
7. New business volumes	100,236	-12.1%	114,013	4.6%	108,961	6.6%	102,247	4.5%

³ 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 2020.

⁴ The aggregate annual data are shown here as reported in the Q4 2020 survey.

Table 3: Weighted Average Ratios, 2019 - 2020⁵

Weighted Average Ratios	2020					2019				
	Full year	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1
Profitability (%) - pre-tax profit as a % of total operating income	25.9%	22.2%	31.2%	13.1%	32.1%	37.7%	28.5%	40.7%	40.6%	40.7%
Cost/Income (%) - operating expenses as a % of operating income	50.1%	52.0%	48.7%	49.9%	50.8%	48.7%	49.2%	49.2%	49.7%	49.1%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.75%	0.92%	0.60%	0.97%	0.59%	0.46%	0.77%	0.34%	0.42%	0.34%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	1.0%	0.9%	1.3%	0.7%	1.1%	1.4%	1.1%	1.5%	1.4%	1.6%
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	108	103	141	63	120	154	126	158	149	165

Table 4: Median Ratios, 2019 - 2020

Median Ratios	2020					2019				
	Full year	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1
Profitability (%) - pre-tax profit as a % of total operating income	21.9%	27.0%	34.9%	20.3%	34.5%	34.4%	35.8%	40.0%	43.5%	40.6%
Cost/Income (%) - operating expenses as a % of operating income	48.7%	47.0%	45.4%	45.3%	48.1%	47.4%	48.6%	48.1%	46.6%	48.3%
Cost of Risk (%)* - loan loss provisions (annualised) as a percentage of average portfolio over the period	0.78%	0.56%	0.49%	0.70%	0.52%	0.38%	0.40%	0.39%	0.23%	0.30%
Return on Assets (%)* - net profit before tax (annualised) as a percentage of average portfolio over the period	0.8%	1.0%	1.0%	0.8%	1.0%	1.3%	1.1%	1.2%	1.3%	1.4%
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	71	83	99	54	93	120	124	114	107	112

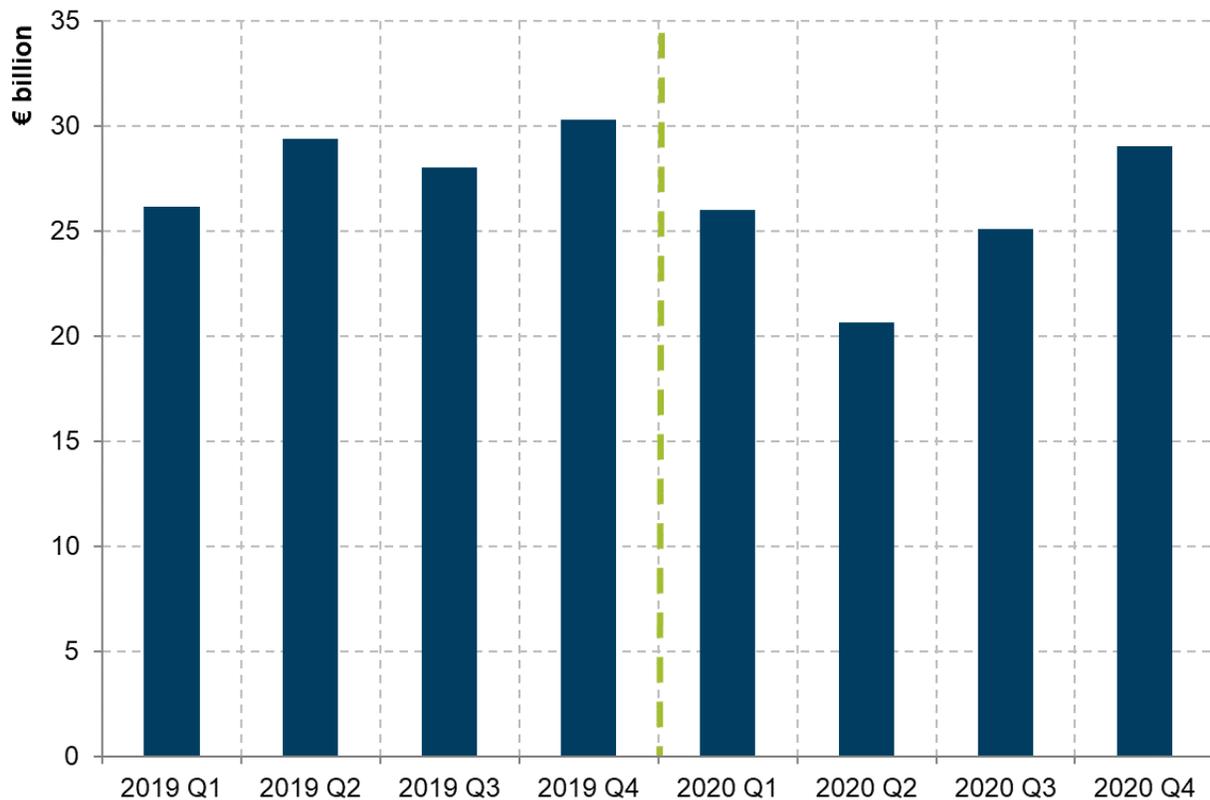
* denotes that the numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each time period.

⁵ 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, 2019 – Q4 2020⁶



Fig. 2: New Business Volumes, Q1 2019 – Q4 2020



⁶ 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, 2017 – Q4 2020⁷

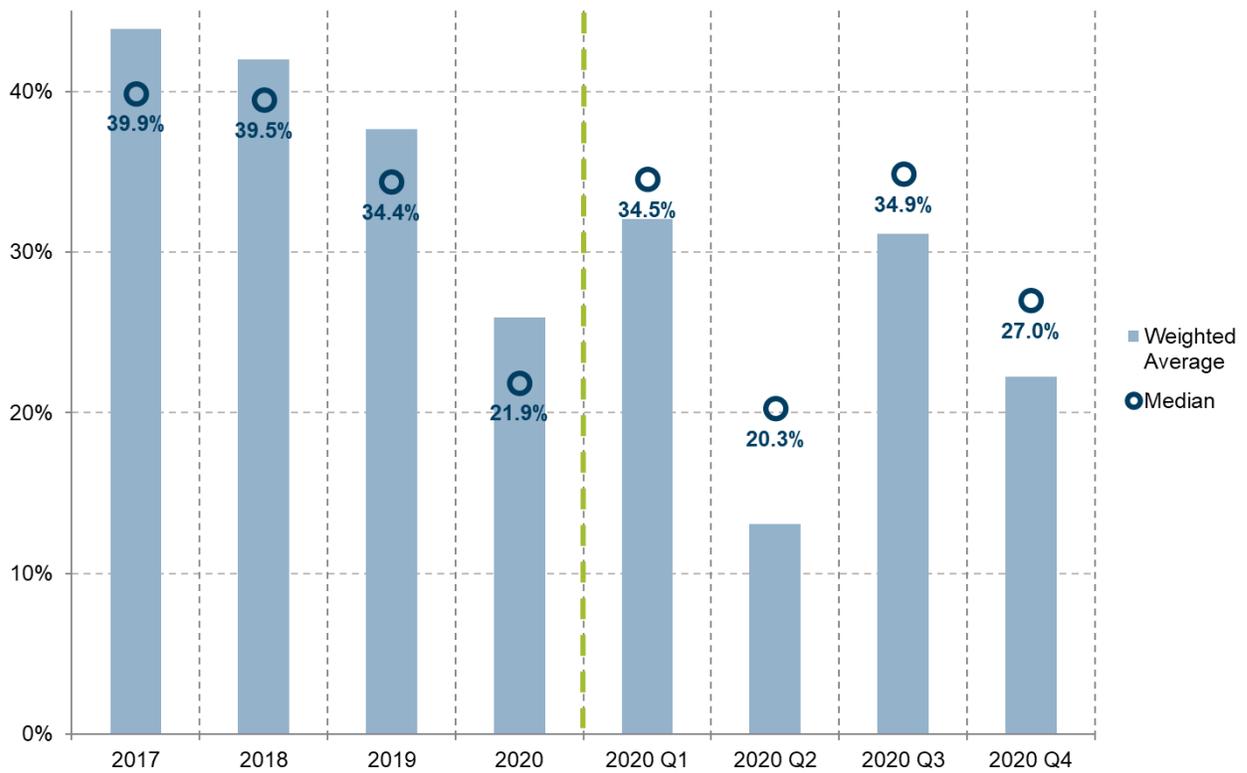
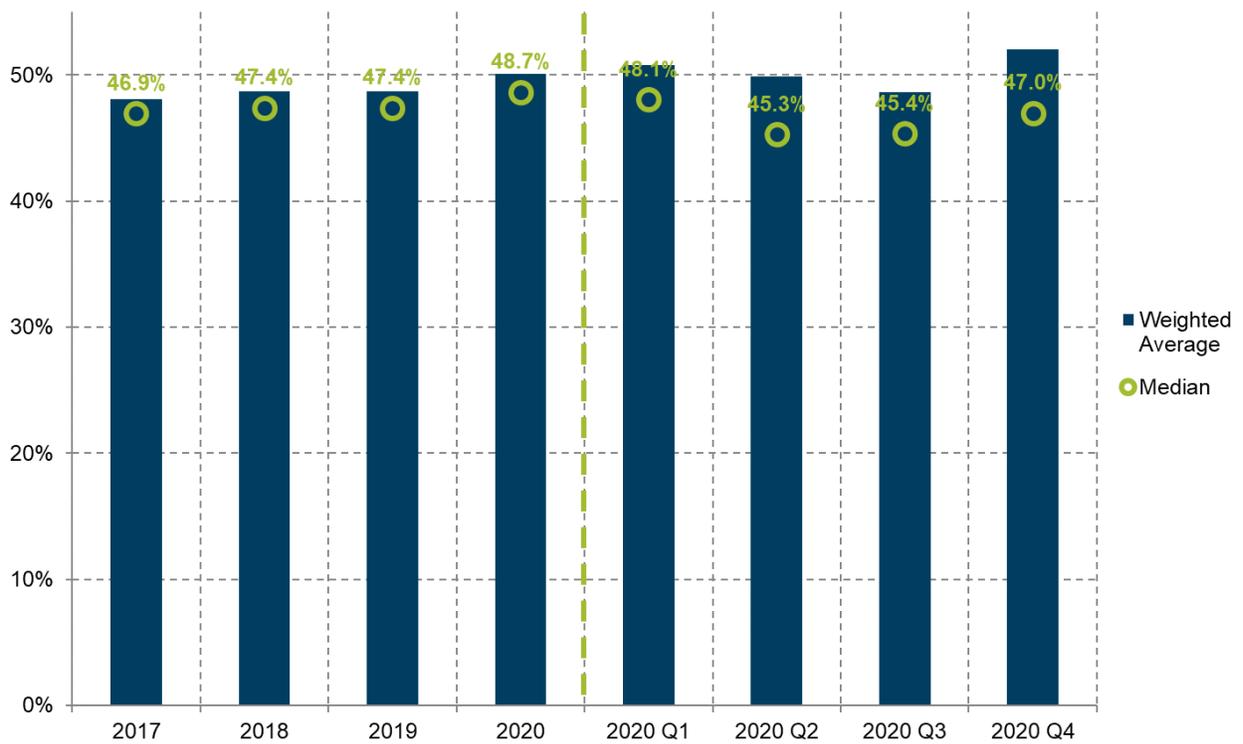


Fig. 4: Cost/Income Ratio, 2017 – Q4 2020



⁷ Please refer to the trend in the median value for a more accurate representation of annual figures. The weighted averages for Q2 and Q4 2020 were heavily influenced by extreme outlier values.

Fig. 5: Cost of Risk Ratio, 2017 – Q4 2020⁸

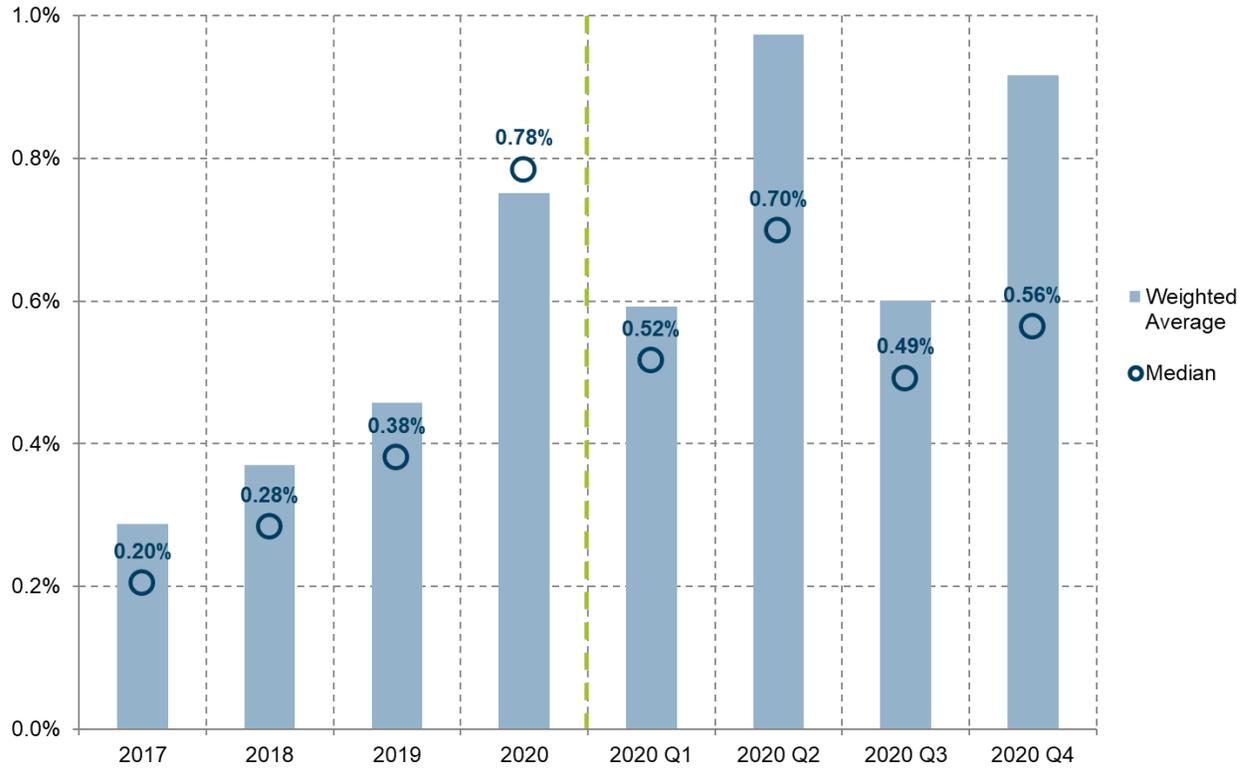
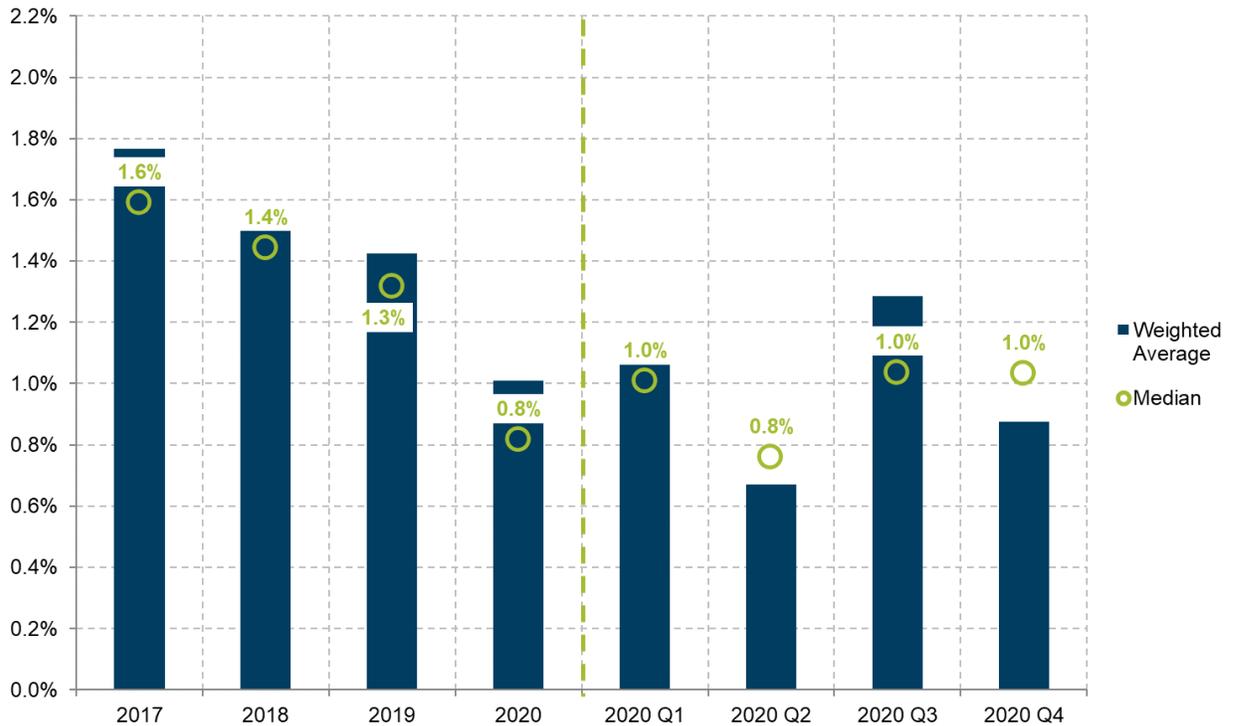


Fig. 6: Return on Assets Ratio, 2017– Q4 2020⁸



⁸ Please refer to the trend in the median value for a more accurate representation of annual figures. The weighted averages for Q2 and Q4 2020 were heavily influenced by extreme outlier values.

Fig. 7: Weighted Average Return on Equity Index, 2017 – Q4 2020

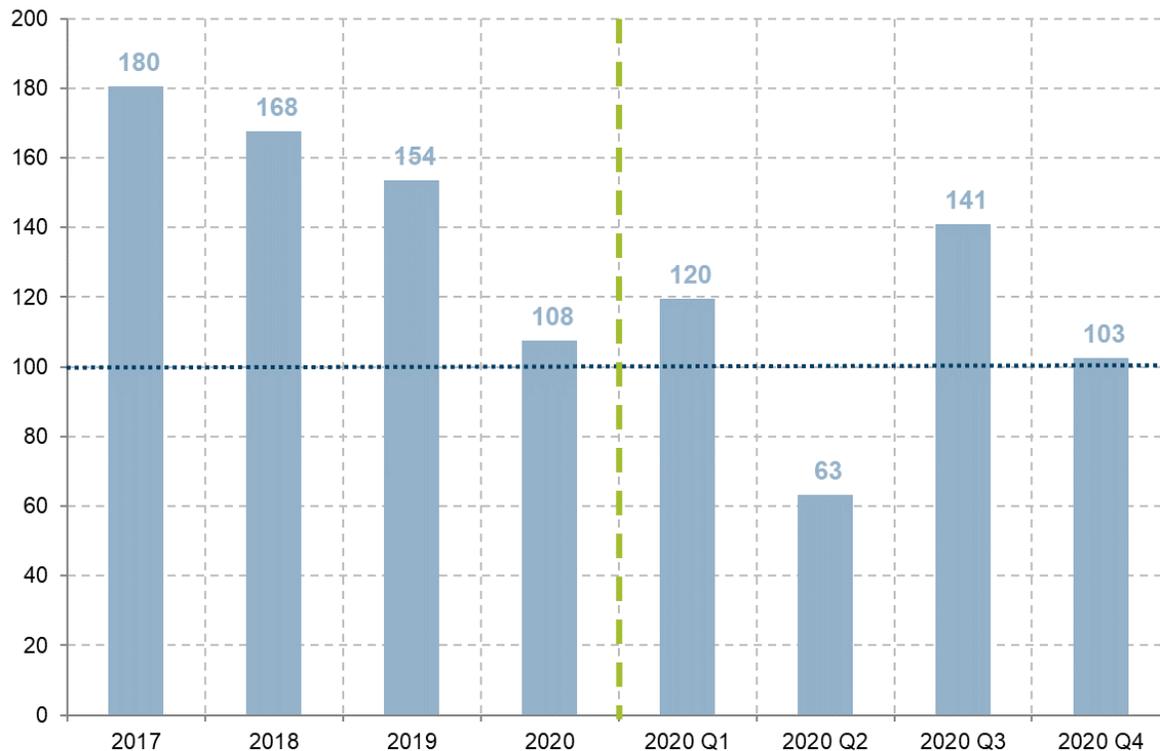


Table 5: Quartiles⁹ for Ratios in Q4 2020

	Profitability Ratio	Cost / Income Ratio	Cost of Risk Ratio	RoA Ratio
Minimum	-572.4%	16.6%	-1.27%	-7.2%
Quartile 1 (25%)	1.9%	42.8%	0.37%	0.0%
Quartile 2 (50%) i.e. median	27.0%	47.0%	0.56%	1.0%
Quartile 3 (75%)	48.5%	57.5%	1.22%	1.9%
Maximum	93.0%	174.2%	6.26%	4.9%
Weighted Average	22.2%	52.0%	0.92%	0.9%

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 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 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.

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

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.