Overview of the consumer credit market in Europe in 2015

For the ninth consecutive year, Crédit Agricole Consumer Finance has published its annual study on the state of the consumer credit market in Europe.

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Summary

- ✓ **After a period of decline, though its scope has diminished since 2012, 2015 marks a visible recovery in the European consumer credit market**
  - ✓ Consumer loans outstanding in the European Union stood at €1.124 trillion, up 3% over 2014.
  - ✓ New loan production is very robust, although a significant portion is simple loan repurchases
  - ✓ The market is driven by automotive financing, which is profiting from fair weather on the auto market and the success of leasing packages

- ✓ **Despite increasing regulatory constraints, the market is shored up by two major growth factors**
  - ✓ In 2015, the overall better economy is conducive to jobs and the rise in domestic consumption
  - ✓ Banking groups' interest in consumer credit is confirmed: they are effectively repositioning on this market through aggressive trade and tariff policies

- ✓ **Yet this overall trend masks highly divergent regional and national situations**
  - ✓ The good health of the market's "heavyweights" (UK, Germany, France, Spain) is enough to increase European outstandings
  - ✓ The Mediterranean countries, most of which are recovering, are still convalescent
  - ✓ Nine EU countries still saw their outstandings decline in 2015

- ✓ **Once again, 2015 shows us that the consumer credit market closely correlates to the health of the real economy**

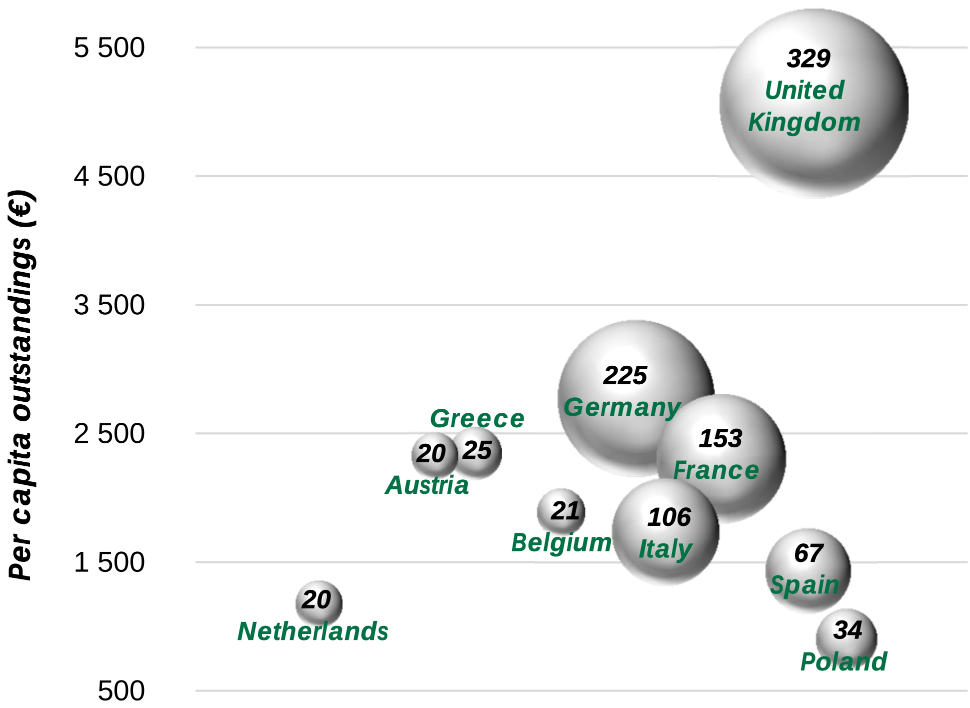
European consumer credit is a mixed market dominated by the UK

- The top three consumer credit markets in Europe are **the UK**, **Germany and France**

- The national markets are **diverse in size**
  - For example, the British market is twice as large as the French market for a comparable population

- **Appetite for credit turns out to be highly variable** from one region or one country to the next
  - Per capita outstandings are about €5,000 in the UK, compared to €900 in Poland (#6 market in the EU in size of loans outstanding)

Top 10 European Union markets outstandings
billions of €
Currencies converted to average exchange rate for 2015

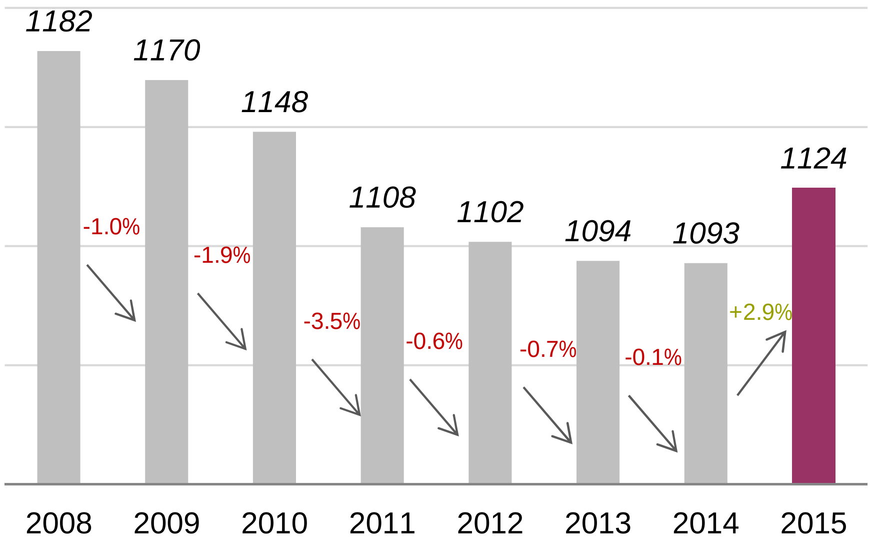


Sources: Central banks, Asterès

2015 marked a visible recovery in the European consumer credit market

- ✓ Consumer loans outstanding in the European Union were **1.124 trillion euros** at end 2015.
- ✓ **After a period of stabilisation begun in 2012, 2015 marks a return to growth,** with outstandings up nearly 3% over 2014.
- ✓ **This trend is largely dependent on good momentum in the main consumer credit markets,** with the UK in the lead, which saw its outstandings grow by €19 bn this year.
- ✓ Along with personal finance experts, **banks are resolutely reinvesting in this market** and encouraging this recovery with aggressive trade and tariff policies.

Consumer loans outstanding in the European Union
billions of €
Currencies converted to average exchange rate for 2015



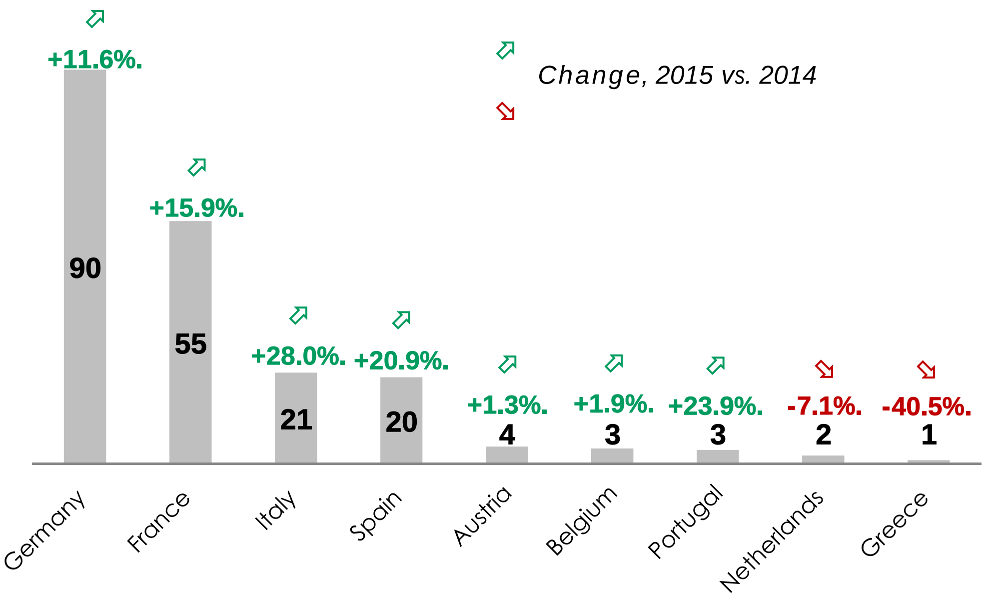
These data may vary from one year to the next due to adjustments by the central banks and fluctuations in exchange rates

Sources: Central banks, Asterès

New loan production was remarkably brisk in 2015

- ✓ Growth in outstandings was supported by **very brisk production of new personal loans in 2015**
  - ✓ According to the ECB, new loan production was up by more than 20% in Germany, France, Italy and Spain
  - ✓ Across the Eurofinas* scope, this production was up 12.7% in 2015 compared to 2014
- ✓ **The market's different segments are undergoing contrasting developments**. Specifically across the Eurofinas* scope, we find:
  - ✓ The pronounced downturn in revolving credit (-147 bp from 2014)
  - ✓ A boom in auto financing (+12.6% vs. 2014), driven by captives' performance and the success of leasing packages

New loan production
billions of €
Source: ECB



**Eurofinas is the European federation of consumer credit institutions and makes up about 47% of the market across 16 European countries*

Sources: Eurofinas, European Central Bank

Despite the widespread recovery, national situations remained mixed

The recovery is widespread and not limited to the major markets

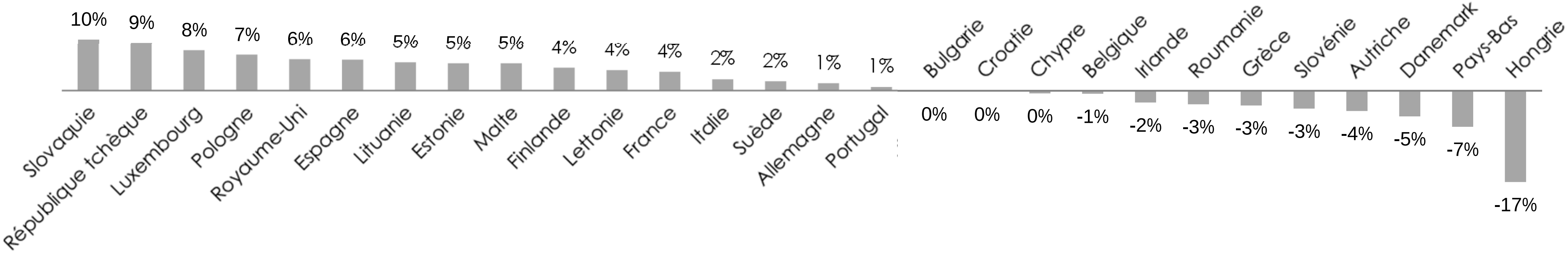
- ✓ There are twice as many countries whose outstandings grew by more than 3% as in 2014 (12 vs. 6)
- ✓ We have nine countries with outstandings on the wane (vs. 11 in 2014), and the scale of this downturn is appreciably more moderate than last year

Yet this overall movement does mask significant disparities between regions and countries

- ✓ Countries that had strong structural adjustments after the sovereign debt crisis are still convalescing
    - ✓ Recent recovery in Spain, Italy, and Portugal, with levels of outstandings that are sometimes worse (Spain)
    - ✓ Continued erosion in Ireland and Greece
- ✓ Certain mature markets are still in a downward trend (Netherlands, Austria) or flat (Germany, Belgium)
- ✓ The sharp downturn in Hungary's outstandings in 2015 is largely due to the foreign currency loan conversion programme

2015 consumer credit, by EU country

% change in outstandings, 2014-2015



Sources: Central banks, Astères

In France, the market's recovery was confirmed

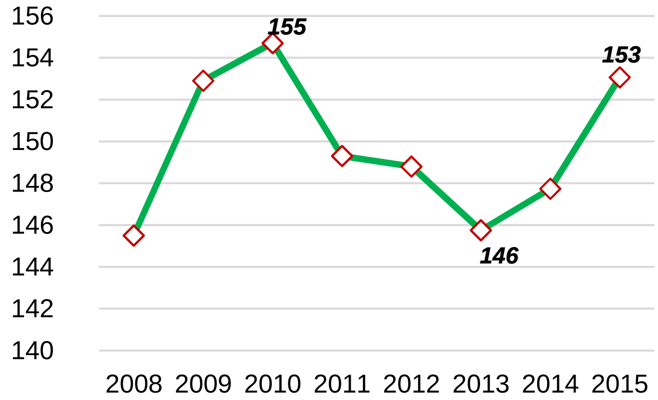
In a regulatory environment still unfavourable to consumer credit, 2015 confirmed the recovery begun in 2014 in France. All the indicators looked good:

- ✓ **outstandings up 4% to €153 bn**
- ✓ **per capital outstandings up 3% to €2,305**, placing France within the EU average
- ✓ **the holding rate** by consumers was up for the first time since 2008, **standing at 26.0%***
- ✓ **new loan production was brisk**: across the ASF** scope, growth was 6.3% in 2015

However, the different products and market segments are in divergent trends:

- ✓ **revolving credit** was down, as in previous years: in 2015, it made up 27% of production, compared to 31% in 2014
- ✓ **lease-to-own options, mainly for autos, were a breakthrough**: they made up 12% of production in 2015 vs. 9% in 2014

Consumer loans outstanding
France
in € bn



**Source: Observatoire des crédits aux ménages, March 2016*

*** ASF: Association Française des Sociétés Financières, which makes up about 50% of the total consumer credit market*

Sources: Asterès, ASF, Observatoire des crédits aux ménages

In Southern Europe, a rebound emerged after a long downturn

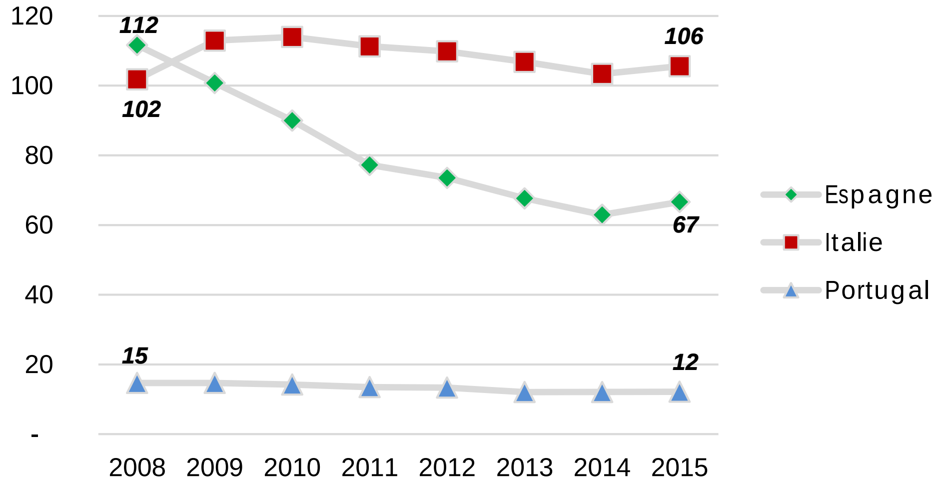
Spain, Italy and Portugal made up 16% of total outstandings in the European Union. Per capita outstandings were lower than average for the EU (set at €2,200): €1,700 in Italy, €1,400 in Spain, and €1,200 in Portugal

✓ **In Spain, loans outstanding rebounded by 6% in 2015**, along with a significant drop in unemployment (-8%). Nonetheless, the Spanish market was still the most sharply downsized European market (-40% outstandings compared to 2008)

✓ **In Italy, outstandings went up 2% in 2015**, driven by household spending and a return to economic growth (+0.8% of GDP)

✓ **In Portugal, the stabilisation begun in 2013 was confirmed in 2015**, with no clear recovery on the market. This situation reflects Portugal's difficulties in stimulating its economy, which has been penalised by high debt and unemployment

Consumer loans outstanding
Southern Europe
in € bn



Source: Asterès

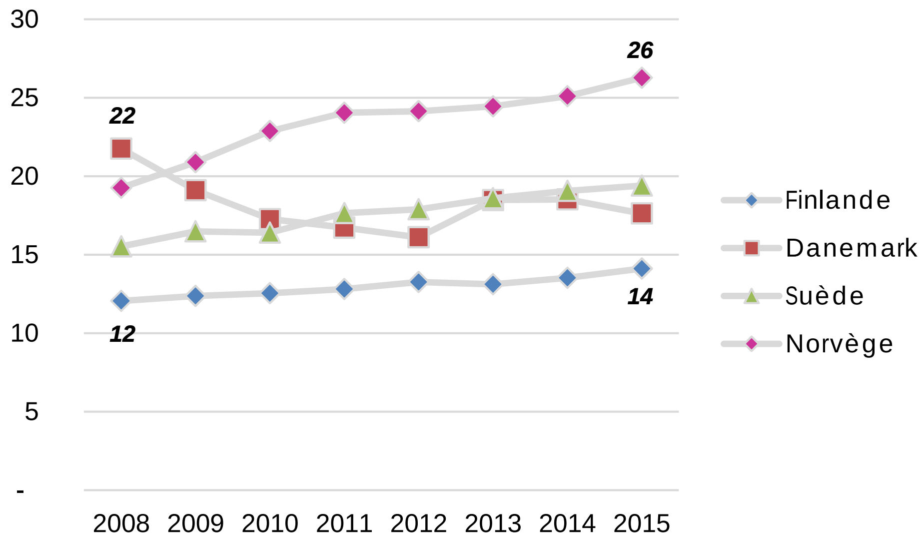
In Scandinavia, activity stayed strong, except in Denmark

With the exception of Sweden, where the savings rate is historically high, the Scandinavian countries had much higher per capita outstandings than average for Europe:

- ✓ €5,000 per capita in Norway (Europe's #1 in per capita outstandings), €3,100 per capita in Denmark (#5), and €2,600 per capita in Finland (#8)
- ✓ the outstandings/consumption ratio also reflects contrasting realities: while outstandings made up nearly 20% of end consumption in Norwegian households, this ratio fell to 10% for Sweden

Overall, activity stayed strong in 2015, except for Denmark, where activity was down, due to a debt-reduction strategy begun in 2009

Consumer loans outstanding
Scandinavia
in € bn



Source: Asterès

In Germany, the market was stable, but distribution models had structural changes

In Germany, the vigour of domestic consumption, supported by the introduction of a minimum hourly wage in 2015, also benefited the consumer credit market:

- ✓ **outstandings were up 1% in 2015 to €225 bn**, with an increasing share of amortisable loans (+3%), in line with the previous years' trend
- ✓ **new loan production was especially dynamic** (going from €81 bn in 2014 to €90 bn in 2015*), but the lion's share of loan repurchases did relatively little for growth in outstandings
- ✓ credit penetration was structurally limited by the overdraft facilities offered by German banks.

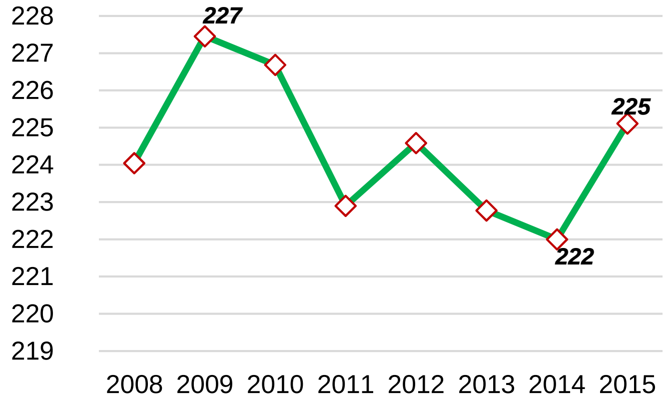
Despite the German market's maturity and stability, **its distribution models were undergoing structural change:**

- ✓ across the Bankenfachverband** scope, the **volume of loans distributed on line rose 20%** in 2015
- ✓ **on-line brokers** are gaining power, with double-digit growth in market shares every year

Consumer loans outstanding

Germany

in € bn



**Source: Bundesbank*

*** Bankenfachverband: association of financial companies in Germany, which represents about 55% of the total consumer credit market*

Source: Asterès

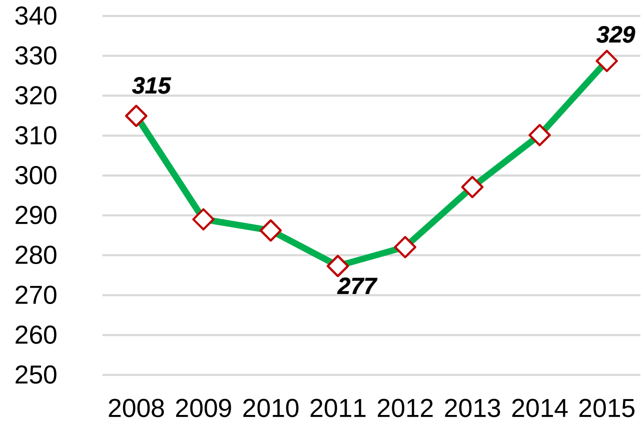
In the UK, the market enjoyed sustained growth

As the #1 European consumer credit market, making up nearly 30% of the European Union market by itself, **the UK confirmed it was still on the path to recovery it had started in 2012.**

Despite increased regulatory constraints, **2015 was an exceptionally dynamic year**, driven by consumer confidence and unemployment levels that were back to pre-crisis levels:

- ✓ **outstandings were up 6% to €329 bn**, beyond the level of outstandings in 2008
- ✓ **new loan production was driven by automotive finance,** which grew 10% compared to 2014 across the FLA* scope
- ✓ **per capita loans outstanding were up 5% to stand at €5,067** in 2015, positioning the UK in second place after Norway

Consumer loans outstanding
UK
in € bn



**FLA: Finance & Leasing Association, an association of financial companies in the UK, which represents about 25% of the British consumer credit market*

Source: Asterès

Methods and sources for the study

The data on consumer loans outstanding presented in this study come from the central banks or national statistics institutes.

They were collected for CA Consumer Finance by the research and consulting firm Asterès, which strove to adhere to a uniform product and market field:

- The data include banking and non-banking actors (i.e. all credit institutions).
- They include (to the extent allowed by the source data) bank overdrafts, but exclude mortgages, even for consumer loans.
- To allow a market comparison, the data were converted into euros at the average current exchange rate for 2014. This may be why there are significant variations in outstandings from one year to the next. As the entire outstandings history was converted at the same rate, growth rates are representative of the market and not impacted by exchange rate fluctuations.

The data presented in this study should be considered estimates; complete accuracy cannot be guaranteed.

The quality of statistics issued by the primary source (often central banks) is variable. The field of non-banking operators is unevenly covered. Finally, these statistics are frequently revised.