



World Leasing
Yearbook
2017

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✦ Edited by Lisa Paul



Contents

Introduction

| | |
|---|----|
| Continuous growth and bright prospects for the global leasing industry | 1 |
| A look at the European leasing market in 2015 and beyond | 10 |
| A new year, a new set of challenges: Why I am convinced we will prevail yet again | 16 |
| The times they are a changin’ | 19 |
| Brexit and equipment leasing | 23 |
| New lease accounting standards | 26 |
| Leasing in Latin America: Changing and building sustainability | 29 |
| The Juncker plan and other support for leasing in Europe | 34 |
| Unidroit’s legislative work designed to promote leasing internationally | 36 |

Information technology review

| | |
|--|----|
| Digital business transformations, new technology in pipeline | 48 |
| Finance and leasing: The disruption caused by the changes in consumer buying journey | 53 |
| Auto finance in the new digital ecosystem | 57 |
| Make cyber security part of your focus, before it becomes your only focus | 60 |
| Greater agility – faster, better project delivery | 64 |

Leasing software reviews

| | |
|------------------------------------|----|
| Leasing software in Europe | 70 |
| Leasing software in the US | 79 |
| Leasing software in Asia-Pacific | 86 |
| International leasing associations | 92 |

Country reviews

| | |
|------------------------|-----|
| Australia | 94 |
| Austria | 107 |
| Belgium | 111 |
| Bolivia | 115 |
| Bosnia and Herzegovina | 117 |
| Brazil | 119 |
| Canada | 122 |
| Chile | 126 |
| China | 128 |
| Colombia | 132 |
| Czech Republic | 140 |
| Denmark | 142 |
| Ecuador | 144 |
| Egypt | 146 |
| Estonia | 150 |

Contents

| | |
|--------------------------|------------|
| Finland | 160 |
| France | 162 |
| Georgia | 167 |
| Germany | 169 |
| Greece | 175 |
| Hong Kong | 177 |
| Hungary | 179 |
| India | 182 |
| Indonesia | 186 |
| Iran | 189 |
| Ireland | 191 |
| Italy | 193 |
| Japan | 198 |
| Korea | 209 |
| Latvia | 211 |
| Malaysia | 213 |
| Morocco | 214 |
| Netherlands | 219 |
| New Zealand | 221 |
| Nigeria | 223 |
| Norway | 228 |
| Pakistan | 233 |
| Peru | 237 |
| Poland | 239 |
| Romania | 244 |
| Russia | 248 |
| Serbia | 259 |
| Slovakia | 261 |
| Spain | 265 |
| Sweden | 267 |
| Switzerland | 272 |
| Taiwan | 275 |
| Turkey | 277 |
| United Kingdom | 287 |
| United States | 311 |
| Uzbekistan | 337 |
| Our Partners | 342 |
| Advertisers index | 344 |

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Russia

MARKET REVIEW

During 1998–2015, the National Research University – Higher School of Economics (Moscow) surveyed the results of the activities of the largest and most of the remaining leasing market operators in Russia.

Changes in the leasing market depending on currency exchange rates. The results of the scheduled annual analysis undertaken by us to survey the activities of leasing companies in Russia indicate that the year 2015 was worse for the leasing business than 2014.

Our regular analytical review of the Russian leasing industry shows that in 2015 new production (the value of the leasing contracts concluded during the year under which lease financing began to be provided) amounted to R911bn or US\$14.99bn (including VAT), or US\$12.91bn (excluding VAT). The cost of new lease agreements dropped in US dollars with a decline of 31.8%.

The data given in Table 1 highlights the decline over the years in the value of new leasing contracts.

From 2004–15, the volumes of leasing operations in Russia totalled US\$253.13bn (at current prices). This figure has not been adjusted for changes in the worth of money over time.

In 2015, the new business quarter volatility was low. In the first quarter it was 25.6% from the sum total of the year. In the second quarter 20.6%, and in the third quarter it was 24.2% (in 2014 Q1 – 22.1%; Q2 – 29.9%; Q3 – 20.7%). Traditionally, we present data for the fourth quarter (27.3%), which is an indicator of the development of the market (see Table 3).

According to some leasing companies the fall in the value of new leasing business stopped in the first quarter of 2016 and there was significant growth. For example, Group Companies “Baltlease” (St. Peterburg) increased by 25%, Carcade by 20%, Europlan by 38% and GTLC by 32%, compared to the first quarter of 2015.

Leasing market penetration. According to our estimates, the share of leasing operations in GDP (real) in 2015 was 1.13% (1.53% in 2014; 1.98% in 2013; 2.10% in 2012; 2.31% in 2011); the share of leasing operations in investments in production assets was 5.4% (8.1% in 2014; 10.5% in 2013). Taking into account the updated information on data Rosstat, the share of the leasing of machinery, equipment and transport vehicles of the total volume of investments in such assets are presented in Table 2.

The economic benefits of Russian leasing. Economic circumstances somewhat reduced the tax benefits of leasing compared to other benefits of funds in investment projects. However, these advantages are still high due to income tax benefits as a result of the application of the accelerated depreciation rate, which is no higher than three. Accelerated depreciation allows the lessee to take over the asset at a minimum balance cost after leasing contract completion. Leasing payments are totally included in the running cost. While the asset is accounted in the lessor balance-sheet-leasing does not worsen the lessee’s balance structure, which gives the opportunity to attract loans for running a business.

Property tax is a regional tax, thus its application is governed by regional regulation, as well as the Tax Code (Chapter 30). The maximum rate of tax according to the Tax Code is 2.2%. Property tax is levied on both movable and immovable property. However,

Table 1: Leasing in Russia (2005–15)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Value of leasing contracts concluded (US\$m) | 8,510 | 17,080 | 32,850 | 26,400 | 10,450 | 24,240 | 43,920 | 42,220 | 41,400 | 28,240 | 14,990 |
| Changes compared to the preceding year: | | | | | | | | | | | |
| US\$m | 1,760 | 8,570 | 15,770 | -6,450 | 15,950 | 13,790 | 19,680 | -1,700 | -820 | 13,160 | 13,250 |
| % | 26.1 | 100.7 | 92.3 | -19.6 | -60.4 | 132.0 | 81.2 | -3.9 | -1.9 | -31.79 | -46.88 |

Table 2: Market share of leasing of machinery, equipment and transport vehicles in the total volume of investments 2005–15

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| Share of the leasing of machinery, equipment and transport vehicles in the total volume of investments (%) | 13.67 | 20.13 | 25.49 | 16.32 | 8.75 | 17.23 | 25.41 | 24.09 | 23.92 | 18.60 | 15.22 |

Table 3: Fourth quarter new leasing business in Russia (2004–15)

| Year | Share of Q4 (%) |
|------|-----------------|
| 2004 | 37.6 |
| 2005 | 36.3 |
| 2006 | 38.8 |
| 2007 | 33.8 |
| 2008 | 16.0 |
| 2009 | 40.0 |
| 2010 | 41.2 |
| 2011 | 23.6 |
| 2012 | 26.9 |
| 2013 | 27.8 |
| 2014 | 27.3 |
| 2015 | 29.6 |

movable property put into operation after January 1, 2013, is excluded from the property tax base.

The rate of Russia's Central Bank. Lease pricing has for the most part tracked with bank lending rates. The refinancing rate of the Central Bank has clearly traceable cyclicality. As the crisis escalated, rates increased. Then the Central Bank began the gradual process of reduction. As a result, the rate has reached historic levels in the Russian Federation – 7.75% (June 2010–January 2011). In February 2011 the refinancing rate was 8.0%, followed by 8.25%. In October 2014, the key rate of the Bank of Russia increased, and in December reached a maximum level of 17%. To overcome the crisis, the Bank of Russia lowered the key rate to 10.5% for 18 months.

Activities of leasing market operators. In practice, many Russian leasing companies have managed not only to copy, but also to successfully adapt, the experience of those countries with developed leasing industries.

Today, VEB–Leasing continues to dominate the Russian leasing market in terms of new business volume and lease portfolio size.

In 2015, according to our data, from 73 leasing companies who participated in our survey of the market, 19 of the lessors' volume of new business had exceeded US\$100m (see Table 6).

A large amount of new leasing business in Russia is represented by agreements executed between Russian lessees and leasing companies with famous brands, established in Russia (16.9% in 2015; 19.2% in 2014; 14.5% in 2013; 12.5% in 2012) as residents with a 51%–100% interest owned by investors from various countries such as Austria, Germany, Italy, France, Japan, the Netherlands, Poland, the US, etc. In 2015, these companies concluded new contracts totalling US\$2.6bn (including VAT) or US\$2.2bn (excluding VAT).

Operating leasing. In 2015, the share of operating leasing in the total volume of the leasing for leasing companies participating in the project was 8.4% (excluding commercial real estate deals). Operational leasing contracts were conducted by 14 project participants in the various market segments. The largest transaction value of operating leasing was from the rolling stock, aircraft, trucks, and computer technology sectors.

Table 4: The key rate of Russia's Central Bank

| Date | Key rate |
|-------------------|----------|
| October 5, 2014 | 9.5 |
| December 12, 2014 | 10.5 |
| December 16, 2014 | 17.0 |
| February 2, 2015 | 15.0 |
| March 16, 2015 | 14.0 |
| May 5, 2015 | 12.5 |
| June 16, 2015 | 11.5 |
| August 3, 2015 | 11.0 |
| June 14, 2016 | 10.5 |

However, it should be noted that operating leasing is substantially a product which will require the restructuring of leasing companies, shifting efforts towards forming material and repair base, expanding service lessees, to assume the risks associated with the correct assessment of the needs of the market in some form of long-term leasing property.

Leasing for small business. Small businesses involved in leasing need State support. According to our survey, leasing companies are indeed providing substantial funding to small-sized enterprises (cost of property for lease); for example, VEB–Leasing – US\$662m; Group Companies “Baltlease” – US\$293m; GTLC – US\$247m; Carcade Leasing – US\$231m; Reso Leasing – US\$125m; Element Leasing – US\$67m; Stone XXI – US\$66m; Group Companies “Sberbank Leasing” – US\$60m; “Systema Leasing 24” – US\$56m; Uralleasing – US\$49m; Group Companies “KAMAZ–Leasing” – US\$48m.

The share of leasing for small-sized enterprises in the total volume of leasing operations (for cost of property for lease) in Russia is 21.0% (24.1% in 2014; 24.7% in 2013; 22% in 2012).

Leasing in the auto sector. In Russia more than 90% of leasing companies are engaged in the leasing of light passenger cars. The renewal rate of light passenger cars is higher than that of most other leasing assets. The car fleet is renewed on average less than every three years. Light passenger cars are always in high demand among buyers. They are highly liquid and, consequently, can serve as security in many leasing and other related credit deals.

The development of the leasing of motor passenger vehicles was due to a number of causes. However, we believe that the following factors have been the most important ones for the development of the motor car leasing business in Russia in the last few years.

For the most part the terms of light car leasing contracts range from 12 to 48 months. The amount of down-payment differs depending on the client and on the leasing product. As a rule, down payment constitutes 5%–20% of the full value of the leased property.

As a rule, users of leasing services compare the price of leasing with the basic price of the car. The final increase of the price of a leased product depends on the cost of borrowing to the leasing company, its profit margin, the term of the contract and on

the terms of the repayment of the debt by the client (equal instalments or irregular lease payments), the periodicity of payments by the client (e.g. once a month, once a quarter, once every six months) and the costs of the provision of additional services.

In such products in the car leasing market as the “interest free leasing” and the “low interest leasing”, the amount of all lease payments is equal to the price at which the car is sold by the dealer or the leasing interest is just 1%–3% per annum.

Leasing companies offer more than 20 different cars that can be acquired on such terms. Such leasing products are offered by such companies as “Carcade”, “Europlan”, “Element Leasing” and others. Such leasing schemes are based on the discounts which the

dealers are prepared to offer to leasing companies. The potential client chooses a leasing product taking into account its final cost.

In 2015–16, many leasing companies had preferences at the State programme preferences for the concessional lease. UniCredit Leasing, Europlan, Baltlease, Carcade and other lessors will take an active part in the prolonged state support programme of the automobile industry at the specific area of providing a subsidy for leasing down-payment in 2016. The initiative of the Ministry of Industry and Trade of the Russian Federation is aimed at providing a subsidy of an advance leasing payment equal to 10% of the commercial vehicle’s price: buses, commercial cars and trucks. In the current market conditions, the programme grants additional value for purchasing transport by leasing.

A subsidy programme is available for the leasing of cars and trucks. Programme terms are fixed at the government decision of the Russian Federation.

Alexander Klyuev, CEO of UniCredit Leasing in Russia comments: “We had a very positive experience of participating in the state subsidy programme of Minpromtorg last year – the majority of our clients were able to find relevant solutions for their business among subsidised commercial vehicles. State support from the Ministry is a timely financial tool focused on domestic automobile industry development. Thus UniCredit Leasing will gladly join this initiative in 2016”.

Beside a flexible schedule of payments and tax preferences of leasing as a financial tool, lessors’ clients can also benefit from different special auto leasing products, which make renovation or updating the vehicle fleet fast and easy.

Leasing programmes are available to various enterprises that have profitable and promising business, and allow the clients to fully exploit advantages of leasing for purchasing trucks and passenger cars from official dealers.

Car leasing is equivalent to rent but with a transfer of ownership to your enterprise by the end of the leasing period. Leasing is the most simple, fast and cost-efficient way to buy vehicles. The state subsidy in the amount of 10% of the car price is available for wheel transport at the moment.

Table 5: Russian leasing companies (2015)

| No. | Leasing company | New leasing business volumes (US\$m) |
|-----|--|--------------------------------------|
| 1 | VEB-leasing (Moscow) | 1,940.8 |
| 2 | Group Companies “Sberbank Leasing” (Moscow) | 1,661.0 |
| 3 | Group Companies “VTB-Leasing” (Moscow) | 1,505.4 |
| 4 | GTLC (Moscow) | 1,289.7 |
| 5 | Siemens Finance (Vladivostok) | 532.2 |
| 6 | Group Companies “Baltlease” (St. Peterburg) | 479.8 |
| 7 | Carcade Leasing (Moscow) | 329.9 |
| 8 | RB Leasing (Group Societe Generale) (Moscow) | 269.1 |
| 9 | ULC “RESO-Leasing” (Moscow) | 265.2 |
| 10 | Group Companies “KAMAZ-Leasing” (Naberezhny Chelny) | 250.5 |
| 11 | UniCredit Leasing and Locat Leasing Russia (Moscow) | 179.5 |
| 12 | LC “Stone – XXI” (Moscow) | 162.5 |
| 13 | Systema Leasing 24 (Moscow) | 137.3 |
| 14 | Major Leasing (Moscow) | 111.9 |
| 15 | Hewlett-Packard (Moscow) | 111.3 |
| 16 | Volkswagen Group Finanz (Moscow) | 110.2 |
| 17 | Element Leasing (Moscow) | 108.3 |
| 18 | Caterpillar Financial (Moscow) | 106.2 |
| 19 | Group Companies “Severnaya Veneziya” (St. Peterburg) | 103.1 |
| 20 | Uralleasing (Ekatherinburg) | 90.2 |
| 21 | BOT Leasing (Moscow) | 89.5 |
| 22 | Group Companies “Interleasing” (St. Peterburg) | 86.1 |
| 23 | Raiffeisen Leasing (Moscow) | 76.5 |
| 24 | Universalnaya Leasing Company (Khabarovsk) | 75.0 |
| 25 | MetallinvestLeasing (Moscow) | 64.7 |
| 26 | Leasing Company (Krasnojarsk) | 55.2 |
| 27 | ChellndLeasing (Chelyabisk) | 46.2 |
| 28 | Sibirskaya Leasing Company (Moscow) | 45.4 |
| 29 | Group Companies “ZEST” (St. Peterburg) | 45.1 |
| 30 | Deutsche Leasing Vostok (Moscow) | 43.4 |
| 31 | Sollers Finance (Moscow) | 42.5 |
| 32 | Petroleasing Management (Moscow) | 41.5 |
| 33 | Alians Leasing (St. Peterburg) | 39.2 |
| 34 | Leasing Trade (Kazan) | 39.0 |

Table 6: Russian leasing companies with new business volume over US\$100m

| Range (US\$m) | Number of companies | | | | | |
|---------------------|---------------------|-----------|-----------|-----------|-----------|-----------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| From 100 to 500 | 24 | 30 | 31 | 24 | 21 | 14 |
| From 500 to 1,000 | 1 | 5 | 6 | 6 | 5 | 1 |
| From 1,000 to 3,000 | 2 | 3 | 8 | 4 | 2 | 4 |
| More than 3,000 | 3 | 4 | 2 | 4 | 2 | 0 |
| Total | 30 | 43 | 47 | 38 | 30 | 19 |

Big-ticket leasing. Objects of big-ticket leasing projects include different property (railway rolling stock; real estate; equipment; power equipment; drilling rigs; construction equipment; aircraft, and other). This list could be expanded to major new infrastructure projects.

The important direction of the development of leasing in Russia may soon become a leverage for leasing transactions as well as transactions with leasing in project financing. Typically, big-ticket deals have an average cost which exceeds US\$50m-US\$100m and more. The share of such transactions in the leasing market of Russia has reached 70%.

We pay special attention to real estate leasing. Interest in real estate leasing demand was attributed to investment in new projects and the opportunity to increase financial leverage borrowing on future projects.

Activating the real estate leasing transactions expands the range of financial products that can be used to meet the investment demand and supply. Real estate leasing is used as an effective financial instrument as an asset to preserve capital.

Real estate leasing transactions allows you to apply various types and models of leasing.

One of the largest real estate leasing transactions was conducted in 2015. This was the first stage of TLC Yuzhnouralsky – the largest transport infrastructure facility in the Eurasian transport corridor. This is a strategic site for the development of the new Silk Road. The track from the western part of China through Kazakhstan to Russia and Western Europe is shortened more than twofold. There is simultaneous development of rail and motor transportation in accordance with international standards. TLC Yuzhnouralsky is located 76km south of Chelyabinsk. Cargo deliveries from this container terminal will be made directly by rail and auto roads. The centre's total area is 180 ha, 82 thousand square metres of A class warehouses. The centre also includes a customs point with a temporary storage warehouse and a railway container terminal. The centre is designed for a 2.5 million tons per year freight traffic flow or simultaneous storage of up to 4,000 containers per day. The cost of the lease contract for TLC Yuzhnouralsky is US\$256.304m., and the contract term is 144 months.

We reviewed 118 real estate leases (54 lessors) over 20 years. The value of these contracts is equal to US\$2,289m. In the course of the econometric analysis we tested the contractual cost of real estate leasing agreements of four major factors: term of leasing estate – X_1 ; the real leasing percentage (the rate of lending and the real margin of the lessor) – X_2 ; percentage of the advance payment to the lessee – X_3 ; the number

of insurable staff to determine the productivity of leasing company (develop on 1-th employee) on real estate leasing transactions – X_4 . The listed factors are independent variables. The dependent variable Y is the value of real estate leasing contracts.

To determine the sensitivity of contract value leases a regression model has been developed. The overall multiple regression equation is as follows:

$$Y = 19,363 + 0,289X_1 - 1,352X_2 - 1,676X_3 + 4,226X_4$$

The relationship of these four factors was determined through the coefficient of determination (R^2) whose value totalled 0.6323. This figure is in line with the values of the conditional scale of Robert E. Chaddock, used for the estimation of the correlation that characterises a significant link between crowded selected factors. There is no multicollinearity in the model. The resulting coefficient of determination, as one of the criteria, is indicative of a good quality model and confirms the selected hypothesis.

F-statistics (Fisher criterion) regression proved to be significant. Durbin-Watson test showed an absence of autocorrelation. White's test did not reveal the presence of heteroscedasticity. The coefficients on the Student's t-criterion in logarithmic regressions were statically significant.

Multiple regression coefficient indicates on which measure average changes Y if each of the variables X_1, X_2, X_3, X_4 increase per unit respectively.

The results for our regression equation can be found below:

- with increasing the term of leasing real estate on 1% of the contract price will increase to US\$0.109m or 0.289%;
- with the increase of one percentage point in real average annual rises in the cost of real estate leasing contracts is reduced by US\$0.509m or 1.352%;

Table 7: The ratio between the portfolio and new leasing business of the Russian leasing market 2007–15

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Outstandings, US\$bn | 38.87 | 41.25 | 32.03 | 33.75 | 60.60 | 77.70 | 83.68 | 54.52 | 41.31 |
| New leasing business, US\$bn | 32.85 | 26.40 | 10.45 | 24.24 | 43.92 | 42.22 | 41.40 | 28.24 | 14.99 |
| Ratio (outstandings/new leasing business) | 1.183 | 1.563 | 3.065 | 1.392 | 1.380 | 1.840 | 2.021 | 1.931 | 2.756 |

Table 8: “Outstandings” of Russian leasing companies (January 1, 2011–16)

| Range (US\$m) | Number of companies | | | | | |
|-------------------|---------------------|-----------|-----------|-----------|-----------|-----------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| From 100 to 300 | 24 | 26 | 25 | 24 | 18 | 18 |
| From 300 to 500 | 7 | 8 | 8 | 10 | 5 | 3 |
| From 500 to 1,000 | 2 | 3 | 6 | 7 | 1 | 1 |
| More than 1,000 | 6 | 9 | 11 | 9 | 7 | 4 |
| Total | 39 | 46 | 50 | 50 | 31 | 26 |

- with increasing prepayment on 1% cost reduced by US\$0.631m or 1.676%;
- with an increase of the number of employees of the leasing company, which were occupied by the real estate transactions, at 1% of the cost of real estate leasing contracts increases by US\$1.591m or to 4.226%.

Outstandings. According to our assessments, the “outstandings” figure, i.e. the total amount payable to leasing companies by lessees under current leasing contracts (the leasing companies’ portfolio) as at the beginning of 2016, totalled US\$41.31bn (beginning of 2015 – US\$54.52bn; 2014 – US\$83.68bn; and 2013 – US\$77.70bn). Outstandings of the Russian leasing market has decreased by 1.8% in roubles and by 24.2% in US dollars.

The quality of portfolios must also be taken into account. In 2015, the quality of leasing portfolios had decreased compared to 2014.

Information about the number of lessors in the range-group can be found in Table 8, and information about Russian leasing companies with “outstandings” over US\$50m (January 1, 2015) can be found in Table 9.

Doubtful and problem receivables. Doubtful receivables are defined as payment overdue by the lessee for more than 30 days starting from the date of lease payment, but less than 60 days, as defined by the lease contract. Problem receivable are those with more than two sequentially missed lease payments as specified in the lease contract.

By the end of 2010, total doubtful and problem receivables totalled 11.2%. At the end of 2011, this figure stood at 4%, in 2012 – 3.3%, in 2013 – 4.1%, in 2014 – 6.2%, and in 2015 the rate of doubtful and problem receivables rose to 12.8%.

An analysis of information on the non-fulfilment of obligations by the lessee and the actions of lessors in response to this allows us to make the following conclusion. Leasing companies, as a rule, try to avoid the last resort of conflict resolution – the courts. The majority of conflicts are resolved by negotiations with the lessee, which usually end with a review of the payment schedule or by the provision of staggered payments.

A leasing agreement may be dissolved in the courts (Point 2 of Article 450 and Article 619 of the Civil Code) in a case where the violation of the agreement is significant in nature, and also in other cases foreseen by the leasing agreement. These circumstances may include a two-time non-payment of the leasing payment.

Table 9: Russian leasing companies with “outstandings” over US\$50m (January 1, 2016)

| No. | Leasing company | Outstandings (US\$m) |
|-----|--|----------------------|
| 1 | VEB-leasing (Moscow) | 9,744.7 |
| 2 | Group Companies “VTB-Leasing & TCL” (Moscow) | 5,730.0 |
| 3 | Group Companies “Sberbank-Leasing” (Moscow) | 5,092.7 |
| 4 | GTLK (Moscow) | 2,774.4 |
| 5 | Group Companies “Alpha-Leasing” (Moscow) | 965.6 |
| 6 | Group Companies “Baltlease” (St. Peterburg) | 406.2 |
| 7 | Siemens Finance (Vladivostok) | 394.2 |
| 8 | Carcade Leasing (Moscow) | 309.9 |
| 9 | RB Leasing (Group Societe Generale) (Moscow) | 292.5 |
| 10 | UniCreditLeasing and Locat Leasing Russia (Moscow) | 269.0 |
| 11 | Ilyushin Finance Co (Voronezh) | 252.0 |
| 12 | Hewlett-Packard (Moscow) | 234.4 |
| 13 | Raiffeisen-Leasing (Moscow) | 217.9 |
| 14 | Business Alians (Moscow) | 202.9 |
| 15 | ULC “RESO-Leasing” (Moscow) | 199.2 |
| 16 | Deutsche Leasing Vostok (Moscow) | 188.5 |
| 17 | Caterpillar Financial (Moscow) | 180.6 |
| 18 | Group Companies “Severnaya Veneziya” (St. Peterburg) | 172.3 |
| 19 | Systema Leasing 24 (Moscow) | 160.7 |
| 20 | Group Companies “ZEST” (St. Peterburg) | 146.7 |
| 21 | Group Companies “Interleasing” (St. Peterburg) | 141.3 |
| 22 | Group Companies “KAMAZ-Leasing” (Naberezhny Chelny) | 141.1 |
| 23 | LC “Stone – XXI” (Moscow) | 125.9 |
| 24 | MetallinvestLeasing (Moscow) | 123.2 |
| 25 | Element Leasing (Moscow) | 114.6 |
| 26 | Major Leasing (Moscow) | 101.2 |
| 27 | Volkswagen Group Finanz (Moscow) | 94.3 |
| 28 | Petroleasing-Menegement (Moscow) | 90.5 |
| 29 | Sibirskaya Leasingovaya Compania (Moscow) | 87.2 |
| 31 | BOT Leasing (Moscow) | 74.5 |
| 32 | Transleasing Service (Moscow) | 64.9 |
| 33 | Uralleasing (Ekatherinburg) | 63.4 |
| 34 | IKB Leasing (Moscow) | 62.0 |
| 35 | UGRA-Leasing (Harty-Mansiysk) | 59.4 |
| 36 | Tumen agricultural leasing company (Tumen) | 58.6 |
| 37 | MSP Leasing (Moscow) | 57.4 |

The crisis has revealed an unsystematic way to operate the accounts receivable: there are no methods to manage the receivables, no instruments of property confiscation from unreliable lessees; poor preventive measures against overdue receivables (minimisation of amounts due; encouragement for on-time lease payment); and imperfection of organisational mechanisms in management solutions, legal protection, etc.

The crisis in the leasing industry became apparent in a combination of two negative, systematically interconnected factors: a credit pressing and an insolvency of lessees. Liquidity in the global markets in 2010–11 went up, in the years 2012–13 growth stalled, and in 2014–15 the liquidity in the market declined.

Three strategies of interaction with problem lessees are now being used by Russian lessors: debt restructuring; termination of lease contract and lease asset confiscation from unobliging lessees; and bankruptcy of the lessees with the leasing companies claiming a settlement as the creditors in the lease deals.

In some cases, portfolio toxicity was partially lowered thanks to prematurely terminated lease contracts. However, sometimes early contract termination and asset confiscation from insolvent lessees took place with no adequate assessment of the property

liquidity price given. It is easier to cancel the deal rather than put the property up for sale in order to pay off the principal and the interest of the debt. In this case, leasing companies may end up with withdrawn property, a depreciated and non-liquid asset.

Funding of lessors. In order for leasing transactions to go ahead, leasing companies must have access to the capital markets or possess their own funds for financing such transactions. Whichever method of pricing is used, the cost of financing a leasing operation directly affects the price of the leasing service.

The cost of loans taken for financing leasing operations (including bank, commercial and budgetary loans), as well as the cost of the funds of a leasing company, the funds of the lessee, the use of factoring, promissory notes/exchange bills, securities and other instruments, depends on a variety of factors.

Financing costs often are higher in Russia than in Western Europe, the US and Japan and many Russian leasing companies are interested in attracting funds. Inexpensive long-term resources mean lower-cost services, and lower-cost services are another competitive advantage.

These factors include: financial independence of leasing companies; the risks associated with the sale of a leasing product; the security for the transaction (lease ABS); the terms of depreciation of leased property, the terms of credit contract and of leasing contracts; the currency of the leasing transaction; whether the funds are borrowed on the domestic or on the international capital market; the schemes for carrying out a leasing operation; and deviations from Libor and from the refinancing interest rate established by the Central Bank of Russia, etc.

Some leasing companies attract funding from parent banks and from other countries.

On May 27, 2016 OJSC “VEB-leasing” performed a Eurobond debt with a face value of US\$400m.

On May 27, 2011 a leading Russian leasing company OJSC “VEB-leasing” had successfully placed its debut Eurobond issue. Dollar-denominated notes were listed on the Irish Stock Exchange. Loan Participation Notes were issued for US\$400m for a period of five years. The coupon rate was 5.125% per annum, paid on a semi-annual basis. Credit Suisse, Goldman Sachs International and VEB Capital acted as joint leads and bookrunners for the issue.

A wide range of prime investors participated in the issue including investors from the UK (their allocation share was 37%), Russia (their allocation share was 29%), Switzerland (their allocation share was 14%), other European countries (their allocation share was 13%), and Asian countries (their allocation

share was 7%). This transaction marked the first Eurobond offering by a leasing company outside of Russia, setting a precedent for fast-growing Russian leasing companies.

In addition, in May 2016 the company “VEB-leasing” performed obligations on the loan from J.P. Morgan Securities PLC, J.P. Morgan Europe Limited for US\$186m.

Deficit financing leasing in 2015 are predestined to use different sources of funding of leasing companies. Banks have to reduce loan volumes and significantly limit the lessors’ terms of crediting.

For the first time after the previous finance crisis, the share of bank lending was less than half. The truth is that for companies that were engaged in big-ticket leasing in different market segments mentioned in Table 10, and close to the State, the figure was slightly higher than 51%.

In 2015, advances increased lessees, i.e. load-in funding transactions rose in part due to the lessees. Use of own funds of leasing companies increased at the expense of the profits of lessors.

In 2014, the ratio between Russian and foreign banks in credit to the leasing market in Russia dropped by more than a third (see Table 11). This is due to the fact that against the background of the decline in loans in Russia, the proportion of loans from foreign banks has increased. In 2015 the proportion was restored at the level of 2013.

The experience of a number of economically developed countries shows that the development of the leasing industry is likely to result in a certain reduction of the share of the banking sector in the redistribution of financial resources. This is due, for example, to more active use of stock market institutions e.g. the

Table 10: Financing of leasing operations in Russia (2011–15)

| Source of financing of lessor | Share in the total financing of leasing operations (%) | | | | |
|---|--|------|------|------|------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Bank credits, total | 61.0 | 64.6 | 64.6 | 49.1 | 50.7 |
| Incl. Russian banks | 52.6 | 58.1 | 56.9 | 40.6 | 44.6 |
| Foreign banks | 8.4 | 6.5 | 7.7 | 8.5 | 6.1 |
| Loans from founders and other organisations | 2.7 | 2.5 | 4.3 | 4.3 | 4.0 |
| Trade credits provided by suppliers | 0.1 | 0.4 | 0 | 0.1 | 0.1 |
| Advance payments | 15.0 | 17.8 | 14.4 | 16.9 | 15.8 |
| Own funds of leasing companies, total | 7.1 | 8.2 | 10.3 | 11.8 | 12.0 |
| Incl. authorised capital | 3.8 | 1.4 | 0.9 | 0.5 | 2.8 |
| Profit | 3.3 | 6.8 | 9.4 | 11.3 | 9.2 |
| Promissory notes / exchange bills | 5.6 | 0.5 | 0.8 | 2.5 | 2.7 |
| Bonds | 6.3 | 6.0 | 5.5 | 15.3 | 14.6 |
| Other lending | 2.2 | 0 | 0.1 | 0 | 0 |

Table 11: Ratio between Russian banks and foreign banks in credit to the Russian leasing business (2007–15)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------|------|------|------|------|------|------|------|------|------|
| Ratio | 4.22 | 4.15 | 3.18 | 5.27 | 6.26 | 8.94 | 7.39 | 4.78 | 7.31 |

issue by leasing companies of securities, securitisation of leased assets. Soon we are likely to see the elimination of intermediaries (the banks) from the leasing operations.

With each year, the number of Russian leasing companies that can obtain financing directly from foreign banks grows. There is growth in the volume of credit operations with the involvement of the national agencies for insurance of export-import operations, e.g. from Germany, Austria, Italy, the Netherlands, the US and other countries.

In general, such institutions provide credits for a term of three to five years and, in some cases, for seven years.

Among the leasing companies who used this form of financing in their leasing operations are VEB-Leasing, VTB-Leasing, Europlan, as well as leasing companies such as Caterpillar Finance, MAN Financial Services, Carcade Leasing, Hewlett Packard, Siemens Finance (Vladivostok), Volkswagen Grup Finanz, VR Leasing, Deutsche Leasing Vostok, who obtained credits from western creditors for terms from three to 10 years.

In Russia, such regulations for leasing companies are not yet installed. However, for analytical purposes, in our research we are considering three options for calculating leverage:

- Leveraged I (or capital leveraged) is calculated as: $(TF-OF):OF$;
- Leveraged II (or lessor's leveraged) is calculated as: $(TF-A-OF):OF$;
- Leveraged III (or leasing project's leveraged) is calculated as: $(TF-A-OF):(OF+A)$;

where: TF is total financing of lessors; A is advance of lessees; and OF is own funds of leasing companies. The results are presented in Table 12.

For comparison, the prudential norms for China's leasing for bank lessors should be no higher than 12.5, and that for non-bank lessors should be no higher than 10.

Emission worth. For 15 years (from April 2001 to June 2016), more than 40 Russian leasing companies (or SPV leasing companies) issued emissions worth a total US\$16.5bn.

The first issues were short-term, for half a year or a full year. Then the maturity terms lengthened and finally reached 10 years, i.e. such terms became compatible with the terms of leasing contracts.

From July 2015 to June 2016, companies who participated in our survey of the market, raised leasing financing worth US\$1.1bn through a bond issue.

Bonds are actively involved in such companies as VEB-leasing, TransFin-M, GTLK, Baltlease Europlan, Sberbank-Leasing, VTB-Leasing, RESO-Leasing and Element Leasing.

Reform of the Russian leasing market. Prospects for reforms in the leasing market and its future development were discussed in June 2016 at the meeting of the RF Ministry of Finance Interdepartmental Working Group representatives and major Russian leasing companies, involving the Bank of Russia.

The need for reforms in the leasing sector stems from its importance for the real sector of the economy, with industrial, agricultural, transport enterprises and logistics, energy and construction businesses operating as clients of leasing companies. In terms of credit exposure, the Russian leasing market is second only to the banking sector.

The Bank of Russia decided, that once built up, a transparent and com-

Table 12: Capital leveraged per Russian leasing companies 2010–15

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------|------|-------|-------|------|------|------|
| Leveraged I | 9.98 | 13.08 | 11.20 | 8.71 | 7.47 | 7.33 |
| Leveraged II | 8.48 | 10.97 | 9.02 | 7.31 | 6.08 | 6.01 |
| Leveraged III | 3.39 | 3.52 | 2.85 | 3.05 | 2.48 | 2.60 |

Table 13: The number of new leasing contracts and average value of one leasing transaction (2010–15)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|---------|---------|---------|---------|---------|---------|
| The number of new leasing contracts | 71,000 | 111,000 | 131,000 | 140,500 | 125,000 | 101,000 |
| Average value of one leasing transaction, US\$ | 341,000 | 396,000 | 299,000 | 253,000 | 174,000 | 106,700 |

Table 14: Leasing companies that concluded more than 1,000 leasing contracts in 2015

| No. | Leasing company | Number of concluded leasing contracts |
|-----|--|---------------------------------------|
| 1 | VEB-Leasing (Moscow) | 23,587 |
| 2 | Group Companies "VTB-Leasing" (Moscow) | 21,079 |
| 3 | Carcade Leasing (Moscow) | 7,871 |
| 4 | Group Companies "Baltlease" (St. Petersburg) | 7,693 |
| 5 | ULC "RESO-Leasing" (Moscow) | 6,037 |
| 6 | Volkswagen Group Finanz (Moscow) | 4,579 |
| 7 | Siemens Finans (Vladivostok) | 3,741 |
| 8 | Element Leasing (Moscow) | 3,429 |
| 9 | Stone-XXI (Moscow) | 2,689 |
| 10 | Group Companies "Sberbank Leasing" (Moscow) | 2,541 |
| 11 | Major Leasing (Moscow) | 2,161 |
| 12 | UniCreditLeasing and Locat Leasing Russia (Moscow) | 1,883 |
| 13 | Uralleasing (Ekatherinburg) | 1,476 |
| 14 | CONTROL Leasing (St. Petersburg) | 1,032 |

prehensive regulatory framework for leasing operations, consistent with best international practices, would help create a favourable operating environment, sustaining truly reliable and high-performance leasing operations.

The meeting participants noted that an improved operational environment, along with increased transparency of the market as it migrates to international financial reporting standards will lead to reduced costs of leasing products for their consumers. Inadequate transparency of leasing companies and potential risks result in their borrowing costs being higher than those of other borrowers with similar credit ratings.

Increased transparency in the leasing market serves to reduce investment risks, cut down the costs of funding for leasing companies and, as a result, to lessen the cost of leasing services for final consumers. The other benefit from better transparency would be disclosure of information for lessees, including the total cost of leasing.

According to specialists of the Bank of Russia, securitisation should become the main source of financing of leasing in the country. Securitisation of leased assets are held at the junction of four financial tools – lending, leasing, factoring, securities issues. This innovative mechanism that requires subtle scientific and practical configuration achieves remarkable economic performance update, modernisation and re-equipment of enterprises. The transformation process in the form of leasing payments in securities allows one to develop a convergence between the leasing market and stock market, and thus improve liquidity in circulation assets.

Help in attracting additional funding can provide securitisation of the leasing assets. In Russia from 2006–15 only four transactions of leasing securitisation assets were recorded for a total of US\$1.1bn. Of course, this cannot be compared, for example, with Italy, where I have reported data from 1990 to the first half of 2016 of 90 deals worth €77.62bn.

After studying this subject at the National Research University – Higher School of Economics (Moscow) for a few years, we have reviewed three theses. Securitisation of leasing assets in Italy was examined in detail in two books – “Leasing: Finance and Securitisation” (2011) and “Innovative Leasing” (2014). We are aware of several major leasing companies in Russia, which are currently developing projects of securitisation assets.

Leasing market representatives expressed interest in the set-up of an electronic leasing register. Similar to bureaus of credit reports in banking and insurance, it would capture information on lessees and leasing agreements. In this way, the register would substantially reduce the risk of making transactions with an unscrupulous client, which would have a positive impact on the costs of

leasing products. The agenda also featured the issue of electronic interaction between leasing companies and authorities/governmental customers.

The RF Ministry of Finance Interdepartmental Working Group involving the Bank of Russia was set up in April 2016 in compliance with the National Council for Financial Stability. Preparations for reforms in the leasing market are expected to be complete by autumn 2016.

It is important that the reform of the Russian leasing market does not deteriorate the current tax legislation (accelerated depreciation).

Leasing contracts. The number of leasing contracts concluded shows, to a certain extent (but not definitively), an increase in the development of the country’s leasing industry. In 2015, the companies under review concluded 101,000 new leasing contracts and, on average, the value of one leasing transaction was US\$106,700 (see Table 13).

Regional structure of leasing in Russia. In 2015, the bulk of financial resources (54.6%) were still located in Moscow and in St. Petersburg (52.3% in 2014; 54.7% in 2013), but leasing transactions are often carried out in other regions. This explains why many Moscow-based companies have opened branches and representative offices in other Russian cities. It allows them to be closer to their clients, to increase mobility and to pay more attention to strengthening their ties with prospective users of their services.

In order to obtain an objective picture of the structure of the Russian leasing industry, we believe it is necessary to determine the value of the leasing services provided by leasing companies in each individual region (see Table 15).

The Federal Law “On financial lease (leasing)” provides for the possibility of obtaining State support for leasing operations. Parties to leasing contracts are granted various exemptions and benefits. Regional legislative and executive authorities are interested in the intensive development of leasing business which allows them to attract considerable investments to their regions.

The State support at the regional level is currently provided

Table 15: Regional structure of leasing operations in the Russian Federation (2013–15)

| Region of the Russian Federation | Share of the total Russian leasing business (%) | | |
|---|---|------|------|
| | 2013 | 2014 | 2015 |
| Far East | 2.7 | 1.9 | 3.0 |
| Siberia | 7.5 | 8.3 | 7.2 |
| The Urals | 9.6 | 9.0 | 10.1 |
| The Volga region | 9.8 | 9.5 | 8.7 |
| South | 3.5 | 3.8 | 4.0 |
| North-Caucasian | 0.7 | 0.6 | 0.7 |
| Republic of Crimea and Sevastopol | – | 0.1 | 0.8 |
| North-West (not including St. Petersburg and Leningradskaya oblast) | 1.9 | 2.5 | 2.2 |
| St. Petersburg and Leningradskaya oblast | 12.8 | 7.8 | 7.4 |
| Central region (not including the city of Moscow) | 7.2 | 9.9 | 7.2 |
| Moscow | 41.9 | 44.5 | 47.2 |
| Cross-border leasing (export) | 2.4 | 2.1 | 1.5 |

in the following forms:

- granting regional tax exemptions to leasing companies, lessees and banks;
- provision of guarantees to parties to leasing contracts against changes in the regional tax regime;
- granting investors involved in leasing operations with regional tax credits on the terms provided for by the Tax Code, the Budgetary Code and other legislative acts;
- provision of parties to leasing contracts with the right to defer tax payments;
- allocation of funds, on a competitive basis, from the regional budget to investors for financing investment leasing projects;
- provision of guarantees to parties to leasing contracts for investment leasing projects at the expense of the regional budget;
- provision of funds to investors from the regional budget in the form of subsidies, compensations, subventions, on the basis of repayment or gratuitously, in accordance with the terms of their investment contracts;
- establishment of pledge funds using the State property

owned by the region for securing bank investments in leasing operations;

- granting investors with the right to use land, forests, water and other natural resources at minimum permitted rates in accordance with the current legislation; and
- provision of information and methodological support to parties to leasing contracts.

The exemptions and benefits provided by regional authorities have had a positive impact on the development of the leasing business in many republics, krais, oblasts, okrugs and cities of the Russian Federation. However, such exemptions and benefits are not the only stimulus. The investor appeal of a particular region is of primary importance to many leasing companies.

Structure of the leasing industry. Based on the results of our review we have prepared a structural market analysis with a breakdown by type of leased asset (equipment, transport vehicles, immovable property) and calculated the share of each asset's sector in the total volume of new leasing contracts concluded in 2015. Information about the structure of leasing contracts can be found in Table 16.

It has been possible to identify the types of leasing assets that were in demand with lessees (total 35 positions).

The greatest increase in the value of new leasing contracts, as compared with 2014, can be seen in four sectors: aircraft (8.9 pp); light passenger cars (5.1 pp); special equipment for provision of housing and communal services (1.8 pp); buildings and structures (1.24 pp). The largest decrease occurred in railway rolling stock (11.0 pp).

In 2015, vehicles were the largest sector in the Russian leasing industry with a 36.3% market share.

Transport vehicles have always been the most popular leasing assets. The present-day Russian leasing industry is no exception. The most significant changes compared with the previous year occurred with leasing auto vehicles, railroad rolling stock and locomotives, aircraft and vessels. The combined weight of these four sectors of the domestic leasing market reached 77% in 2015.

In many European countries truck traffic volumes are high, while in Russia many of the goods are transported by rail.

Despite the decline in 2015 of new leasing business, the railway rolling stock sector continues to dominate the leasing market of Russia. For 18

Table 16: Structure of leasing contracts concluded (2012–15)

| Asset type | Share in the total volume (%) | | | |
|--|-------------------------------|------|------|------|
| | 2012 | 2013 | 2014 | 2015 |
| Motor vehicles for cargo transportation | 11.1 | 12.8 | 13.5 | 14.4 |
| Light passenger cars | 8.5 | 10.0 | 14.8 | 19.9 |
| Passenger minibuses | 0.2 | 0.3 | 0.3 | 0.2 |
| Buses | 0.8 | 1.1 | 0.7 | 1.8 |
| Equipment for repairing and servicing cars | 0.1 | 0.1 | 0.1 | 0.1 |
| Telecommunications equipment | 0.4 | 0.2 | 0.1 | 0.2 |
| Computers and other office equipment | 0.5 | 0.5 | 1.6 | 1.2 |
| Geological exploration equipment | 0.1 | 0.1 | 0.4 | 0.03 |
| Oil and gas production and processing equipment | 2.4 | 2.2 | 1.6 | 0.5 |
| Agricultural equipment | 2.9 | 0.6 | 0.7 | 1.1 |
| Railway rolling stock and locomotives | 40.8 | 33.9 | 27.7 | 16.7 |
| Building machinery, including specialised machinery on wheels | 6.1 | 6.8 | 6.0 | 4.7 |
| Road-building equipment | 2.2 | 1.9 | 4.4 | 1.3 |
| Equipment for production and processing of glass | 0.3 | 0.04 | 0.03 | 0.01 |
| Metalworking equipment | 2.6 | 1.8 | 2.0 | 2.0 |
| Metallurgical equipment | 0.1 | 0.2 | 0.2 | 0.2 |
| Mining equipment | 2.0 | 1.0 | 1.8 | 0.5 |
| Power-generating equipment | 3.2 | 0.8 | 0.4 | 0.4 |
| Printing equipment | 0.3 | 0.3 | 0.3 | 0.2 |
| Equipment for food industry, including refrigerating equipment | 0.6 | 0.9 | 0.4 | 0.5 |
| Selling/shopping equipment | 0.1 | 0.1 | 0.1 | 0.1 |
| Packing equipment | 0.2 | 0.3 | 0.2 | 0.2 |
| Loaders and warehouse equipment | 0.7 | 0.6 | 0.6 | 0.6 |
| Logging equipment and timber transportation vehicles | 0.3 | 0.3 | 0.4 | 0.5 |
| Woodworking equipment | 0.2 | 0.2 | 0.2 | 0.2 |
| Equipment for production of paper and cardboard | 0.05 | 0.03 | 0.1 | 0.1 |
| Chemical equipment | 0.5 | 0.3 | 0.5 | 0.2 |
| Entertainment industry equipment | 0.03 | 0.1 | 0.03 | 0.03 |
| Special equipment for provision of housing and communal services | 0.3 | 1.0 | 0.9 | 2.7 |
| Banking equipment | 0.01 | 0.01 | 0.01 | 0.01 |
| Medical and pharmaceutical equipment | 0.1 | 0.1 | 0.1 | 0.1 |
| Trams, trolleybuses | – | 0.04 | – | 0.4 |
| Textile, sewing equipment | – | 0.12 | 0.3 | 0.2 |
| Sea and river vessels | 1.0 | 1.1 | 1.5 | 1.5 |
| Aircraft | 9.0 | 15.8 | 13.3 | 22.2 |
| Buildings and structures | 1.4 | 1.0 | 2.7 | 3.94 |
| Other property | 0.91 | 3.24 | 2.01 | 1.08 |

years our surveys of the Russian leasing market highlight this sector as the second most important sector, when the leading sector had a share of more than 40%. This kind of structural changes does not necessarily indicate a favourable trend in the leasing market of Russia. A monopoly structure has the same problem for the market as the monopoly of any business entity.

The dominance of one of the branches should always be treated cautiously, since the situation could change significantly from one side or the other, under the influence of both objective and subjective reasons, and affect the performance of the entire market.

Thus, before the crisis, prices of rolling stock grew very quickly. During the crisis, however, assets decreased by almost half; before growing again during 2011. Around the same number again grew in price. For all these variations comes the uncertainty of the situation in the market and the fickleness of the quality of the leasing portfolio.

In 2012 the process of withdrawal of the railway rolling stock fleet began. In 2013–15 the process continued. The volume of cargo transportation fell, and the cost of railway property decreased.

The leasing of aircraft was formed with the participation of a small number of Russian leasing companies – nine in our survey for 2015. The volume of leasing aircraft totalled US\$2,298m. The leader in this sector is GTLC.

More than half of all Russian market leasing vehicles are “held” by the top nine lessors who enter into contracts for the supply of trucks, tractors, trailers, semi-trailers and dump trucks for their customers. Suppliers of this technology were automotive companies from Germany, French, Sweden, Japan, the US, as well as Russian companies such as KAMAZ and GAZ.

The volume of leasing of industrial buildings and construction was near 4% (2.7% in 2014) of the total new leasing business. This was due to a number of reasons: legislative problems related to the implementation of leasing operations with real estate; and a long depreciation period which, even in the event of acceler-

ated depreciation permitted by law (coefficient 3), substantially exceeded the terms of loans used in practice.

Lease term. Leasing development level is largely determined by the leasing terms. Longer periods of leasing contracts indicate higher competitive capabilities of the lessor. In 2014, the average term of a leasing agreement increased by 11 months, and reached a level of 79 months. This is the highest in the history of our

Table 17: Largest leasing companies in Russia in 2015 (by asset type)

| No. | Lessor | New leasing business volumes (US\$m) |
|---|--|--------------------------------------|
| Aircraft | | |
| 1 | GTLC (Moscow) | 784.5 |
| 2 | Group Companies “VTB-Leasing” (Moscow) | 742.5 |
| 3 | Group Companies “Sberbank Leasing” (Moscow) | 512.1 |
| 4 | VEB-leasing (Moscow) | 240.3 |
| Auto vehicles, total | | |
| 1 | VEB-leasing (Moscow) | 901.0 |
| 2 | Group Companies “VTB-Leasing” (Moscow) | 573.0 |
| 3 | Carcade Leasing (Moscow) | 323.8 |
| 4 | Group Companies “Baltlease” (St. Peterburg) | 279.6 |
| 5 | ULC “RESO-Leasing (Moscow) | 259.7 |
| 6 | Group Companies “KAMAZ-Leasing” (Naberezhny Chelny) | 250.5 |
| 7 | Group Companies “Sberbank Leasing” (Moscow) | 198.7 |
| 8 | LC “Stone – XXI” (Moscow) | 114.9 |
| 9 | Major Leasing (Moscow) | 111.7 |
| 10 | Volkswagen Group Finanz (Moscow) | 110.1 |
| 11 | Element Leasing (Moscow) | 85.3 |
| 12 | Uralleasing (Ekatherinburg) | 56.2 |
| 13 | RB Leasing (Moscow) | 48.2 |
| 14 | UniCreditLeasing and Locat Leasing Russia (Moscow) | 46.9 |
| 15 | Sollers Leasing (Moscow) | 37.2 |
| 16 | Group Companies “Severnaya Veneziya” (St. Peterburg) | 27.1 |
| 17 | CONTROL Leasing (St. Peterburg) | 26.7 |
| 18 | Leasing Trade (Kazan) | 25.6 |
| Buildings and structures | | |
| 1 | GTLC (Moscow) | 256.4 |
| 2 | Systema Leasing 24 (Moscow) | 71.4 |
| 3 | Group Companies “Severnaya Veneziya” (St. Peterburg) | 43.8 |
| 4 | Group Companies “Sberbank Leasing” (Moscow) | 25.3 |
| Building machinery and road-building equipment | | |
| 1 | Caterpillar Financial (Moscow) | 82.7 |
| 2 | Group Companies “VTB-Leasing” (Moscow) | 80.1 |
| 3 | Group Companies “Baltlease” (St. Peterburg) | 58.2 |
| 4 | BOT Leasing (Moscow) | 55.0 |
| 5 | Group Companies “Sberbank Leasing” (Moscow) | 45.9 |
| 6 | LC “Stone – XXI” (Moscow) | 36.6 |
| 7 | Universalnaya Leasing Company (Khabarovsk) | 34.6 |
| 8 | Raiffeisen-Leasing (Moscow) | 31.2 |
| 9 | UniCredit Leasing and Locat Leasing Russia (Moscow) | 27.2 |
| 10 | Group Companies “Interleasing” (St. Peterburg) | 19.9 |

Table 18: Proportion of new transport leasing business of the total volume of the Russian leasing market (2010–15)

| Segments of the transport vehicles | Share in the total volume (%) | | | | | |
|---|-------------------------------|------|------|------|------|------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Sum of four transportation sectors: (railroad rolling stock and locomotives, auto vehicles, aircraft and vessels) | 70.7 | 75.4 | 71.4 | 75.0 | 71.8 | 77.0 |

research of the Russian market of leasing services (see Table 19).

Note that when structuring a leasing transaction, one assumes that the lessee has no interest, from an economic perspective, to agree to too short a term of the lease, as the shorter the lease term, the larger the final depreciated cost will be, which is not desirable as the leased assets purchased at the end of the lease term will be valued at net book value when put on the lessee's books, and will accrue normal, and not accelerated, depreciation based on such a cost.

In the majority of cases the period of the leasing agreement corresponds with or is slightly shorter (less than 20%) than the period of depreciation of the leased asset.

Personnel of the Russian leasing industry. Analysing comparable information presented to us, leasing-respondents revealed that in 2015 the number of employees of leasing companies decreased to 5.6%.

In total, nearly 12,500 people are engaged in the leasing industry in Russia (13,200 in 2014; 14,000 in 2013; 13,200 in 2012; 10,750 in 2011). Currently some of the larger Russian leasing companies employ more than 1,000 people.

However, the average number of personnel per Russian leasing company in 2015 amounted to 131 peoples (142 in 2014; 130 in 2013; 128 in 2012; 101 in 2011). It should be noted that in a number of leasing companies, mainly those established by banks, some of the functions (e.g. legal, procurement, security) are performed by the bank's employees. Consequently, the real figure would be closer to about 150-160 employees per leasing company.

“Output per employee” (for companies who participated in our survey of the leasing market) was approximately US\$3.32m per year (US\$4.30m in 2014; US\$3.04m in 2013; US\$3.20m in 2012; US\$4.10m in 2011). “Output per employee” may serve as an indicator of the performance of a leasing company. However, when using this indicator for analytical purposes one has to take into account the specialisation of the leasing company, i.e. the sector of the market in which it operates, and the scale of its clients' businesses.

Competition and concentration. Competition is one of the most important criteria of the degree of development of a market. Competition is characterised by business concentration, the operation in a sector of a certain number of companies, e.g. at a national or regional level or in one or another sector of the leasing market with specialisation in different types of equipment.

In 2015, the four largest companies of the survey accounted for half of the total new leasing business of the Russian leasing market (in 2014 – four; in 2013 – six; in 2012 – five; in 2011 – four; in 2010 – five).

Various countries have experience of measuring the level of

Table 19: Finance lease terms in Russia (2010–15)

| Indicator | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------|------|------|------|------|------|------|
| Lease term (month) on average | 68 | 78 | 72 | 68 | 79 | 66 |

Table 20: The concentration of the Russian leasing market in 2010–15

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------|------|------|------|------|------|
| Share of top four companies of the total volume of new leasing business, % | 45.9 | 51.6 | 42.9 | 43.0 | 43.5 | 42.7 |
| Level of HHI | 639 | 783 | 751 | 595 | 555 | 510 |

competition by using the market concentration and monopolisation indices. Such indices are necessary to inform the State authorities of the need to interfere in the existing market mechanisms. The need for such interference may arise due to various reasons, e.g. the degree of market power of one or several enterprises, or their ability to influence prices and production volumes.

Various methodologies are used to gauge the market concentration level, including the determination of the significance of the selling companies operating on such markets. This methodology makes use of the Herfindahl-Hirschman (HHI) index. The HHI index is calculated as the sum total of the squared shares of all companies represented on the market. The maximum possible value of HHI is 10,000.

Therefore, the data on the HHI value in Table 20 indicates that there is no reason to draw a conclusion on some monopolisation or excessive concentration of the market. This means that the leasing business in Russia is distributed among a large number of market operators and, consequently, lessees can choose a company to cooperate with under a leasing agreement.

The development of competition manifests itself in the offers by leasing companies of more favourable terms to their clients in regards to the price, the duration of contracts, the schedule for the repayment of the debt and the amount of down payment; the development of new leasing products, services and various options; special measures taken to promote leasing products in the market; and the advertisement of leasing services.



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