



**World Leasing**  
Yearbook  
2016

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✦ Edited by Lisa Paul

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# Russia

## MARKET REVIEW

During 1998–2014, 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 2014 was worse for the leasing business than 2013.

Our regular analytical review of the Russian leasing industry shows that in 2014 new production (the value of the leasing contracts concluded during the year under which lease financing began to be provided) amounted to R1,092bn or US\$28.24bn (including VAT), or US\$23.98bn (excluding VAT). The cost of new lease agreements dropped in roubles by 17.3% and in US dollars there was decline of 31.8%.

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

From 2004–14, the volumes of leasing operations in Russia totalled US\$238.14bn (at current prices). This figure has not been adjusted for changes in the worth of money over time.

In 2014, the new business quarter volatility was low compared to previous years. In the first quarter it was 22.1% from the sum total of the year; in the second quarter 29.9%, and in the third quarter it was 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).

**Leasing market penetration.** According to our estimates, the share of leasing operations in GDP (real) in 2014 was 1.53% (1.98% in 2013; 2.10% in 2012; 2.31% in 2011; 1.58% in 2010); the share of leasing operations in investments in production assets was 8.1% (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.

In accordance with the laws of Russia, leasing is a type of investment activity. This is indeed the case in Russia, and in many countries.

According to our calculations, for 20 years (1995–2014) the correlation coefficient between the volumes of new leasing business and investments in fixed assets (excluding leased assets) were the equivalent of 0.9496.

In comparison, in Germany for 39 years (1976–2014) this rate was 0.9593; in Italy for 33 years (1981–2013) it was 0.9315 (the calculation was carried out on the basis of data published in the *World Leasing Yearbook* and from Leaseurope).

Thus, it is safe to suggest that the changes in the dynamics of a new leasing business in these countries on 93%–96% depends on the same factors that are relevant for the dynamics of investments in fixed capital.

**The key rate of Russia's Central Bank.** The key rate is the interest rate at which the Central Bank of Russia provides loans to commercial banks in debt for one week, and at the same time the rate at which the Central Bank is prepared to accept from banks to deposit money.

It plays a role in setting interest rates on bank loans and has

**Table 1: Leasing in Russia (2004–14)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Value of leasing contracts concluded (US\$m)	6,750	8,510	17,080	32,850	26,400	10,450	24,240	43,920	42,220	41,400	28,240
Changes compared to the preceding year: US\$m	3,110	1,760	8,570	15,770	-6,450	15,950	13,790	19,680	-1,700	-820	13,160
%	85.4	26.1	100.7	92.3	-19.6	-60.4	132.0	81.2	-3.9	-1.9	-31.8

**Table 2: Market share of leasing of machinery, equipment and transport vehicles in the total volume of investments 2004–14**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Share of the leasing of machinery, equipment and transport vehicles in the total volume of investments (%)	13.98	13.67	20.13	25.49	16.32	8.75	17.23	25.41	24.09	23.92	18.60

**Table 3: Fourth quarter new leasing business in Russia (2004-14)**

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

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

Date	Key rate
September 14, 2013	5.5%
March 4, 2014	7.0%
April 28, 2014	7.5%
July 25, 2014	8.0%
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%

an impact on inflation and the cost of funding for banks.

Lease pricing has, for the most part, tracked with the bank lending rates. In 2013–15, the key rate of the Russia's Central Bank was adjusted to 10 times, and has a clearly traceable cyclical movement (see Table 4). As the political crisis escalated, rates increased. Then the Central Bank began the gradual process of reduction.

On June 15, 2015, the Bank of Russia's Board of Directors decided to reduce the key rate from 12.50% to 11.50% per annum, taking account of lower inflation risks. Amid significant contraction in consumer demand and ruble appreciation in February–May 2015, consumer price growth continued to slow down.

Lending and deposit rates are adjusted downwards under the influence of previous Bank of Russia decisions to reduce the key rate. In 2015, GDP is expected to contract by 3.2%. Further economic situations will depend on the dynamics of energy prices and the economy's ability to adapt to external shocks.

According to the Bank of Russia's forecasts, in 2016, GDP growth will stand at 0.7%, if oil prices recover to US\$70 per barrel by late 2016. However, in case oil prices remain at about US\$60 per barrel during 2016, output will contract by 1.2%. According to the Bank of Russia forecast, annual inflation in 2016 will fall to less than 7% (June 2016 on June 2015) to reach the target of 4% in 2017.

**Russian leasing in Europe.** According to Leaseurope for 2014,<sup>1</sup> and the author's own data, Russia moved up from fifth to fourth place in Europe after Germany, the UK and France. In 2014, Russia's share of new European leasing business was 6.55% (2013 – 7.34%; 2012 – 7.72%; 2011 – 7.10%, 2010 – 6.44%) and the “outstandings” were 5.64% (2013 – 9.47%; 2012 – 8.47%). It is the continent's fifth largest after countries such as Germany, the UK, Italy, and France.

Earlier Russian leasing volumes included the figures of Asia, not Europe. In the *World Leasing Yearbook 2013*, Ed White, Chairman of White Clarke Group wrote that it was a mistake, because 91% of new leasing business in the Russian Federation is conducted in Europe (48% within Moscow and Saint Petersburg).<sup>2</sup> So two years ago, the Global Leasing Report had repatriated Russia into Europe.

In 2014, 89.8% of new leasing business in the Russian Federation was conducted in Europe (same as in 2013), including 52.3% within Moscow and Saint Petersburg (54.7% in 2013).

**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 the countries with developed leasing industries.

Today, VEB-Leasing (Vnesheconombank Group) continues to dominate the Russian leasing market in terms of new business volume and lease portfolio size.

In 2014, according to our data, from 76 leasing companies who participated in our survey of the market, 30 of the lessors' volume of new business had exceeded US\$100m (see Table 6).

Russian leasing companies were included in the Top 30 European ranking table, but their places were modest. According to Leaseurope, for 2014<sup>3</sup> OJSC “VEB-Leasing” took 19th place in Europe in terms of total new business; OJSC “VTB-Leasing” followed in 20th place, and TransFin-M in 27th place.

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 (19.2% in 2014; 14.5% in 2013; 12.5% in 2012; 10.6% in 2011) as residents with a 51%–100% interest owned by investors from various countries such as Germany, Italy, France, Japan, the US, Austria, Poland, the Netherlands, Sweden, etc. In 2014, these companies concluded new contracts totalling US\$5.43bn (including VAT) or US\$4.61bn (excepting VAT).

**Operating leasing.** In 2014, the share of operating leasing in the total volume of leasing for leasing companies participating in the project was quite small at only 1.6% compared to 9.8% the previous year. 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, air, trucks and computer technology sectors.

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 businesses.** 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\$1,198m; Carcade Leasing – US\$515m; Group Companies “Baltlease” – US\$392m; Element Leasing – US\$267m; “Systema Leasing 24” – US\$134m; Reso Leasing – US\$126m; Stone XXI – US\$124; Sberbank Leasing – US\$116m.

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

**Big-ticket leasing.** Leasing companies economically have little interested in contracting with small businesses. This is due to the fact that the total costs are the same amount as that which can

be obtained by big- ticket leasing transactions, and with higher risks.

Objects of big-ticket leasing projects include railway rolling stock; drilling rigs; equipment; power equipment; real estate; construction equipment; aircraft; auto transport. 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\$100m–US\$150m. The share of such transactions in the leasing market of Russia has reached 70%.

In the course of the econometric analysis we tested the contractual cost of leasing agreements of three major factors: the

advance payment to the lessee; term of leasing agreements; and the real leasing percentage (the rate of lending and the real margin of the lessor). “The real leasing percent” and “the real margin” differ from their nominal values, because they are calculated after adjusting for the presence of advances to lessees.

From a large data set, we have selected 52 big-ticket leasing agreements, which were concluded between 2007–14 by five leasing companies from Moscow and St. Petersburg. The total cost of these leasing agreements (selected for analytical study) is R63.5bn or US\$2.1bn. Terms of execution of contracts under consideration range from three to 10 years.

To determine the sensitivity of the contract value of leases a logarithmic regression model was formed. The overall multiple regression equation is as follows:

$$\text{LN } Y = 12,613 + 0,323 \times \text{LN}$$

$$X_1 + 1,808 \times \text{LN}$$

$$X_2 - 4,023 \times \text{LN } X_3,$$

where: Y is the contract price of the leasing agreements;  $X_1$  is the advances to the lessee;  $X_2$  is the term of the contract;  $X_3$  is the leasing percentage rate.

The relationship of these three factors was determined through the coefficient of determination ( $R^2$ ) whose value totalled 0.5915. 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

**Table 5: Russian leasing companies that concluded new business volumes of over US\$100m (2014)**

No	Leasing company	New leasing business volumes (US\$m)
1	VEB-leasing (Moscow)	3,888.5
2	Group Companies “VTB-Leasing” (Moscow)	3,850.9
3	Group Companies “Sberbank Leasing” (Moscow)	2,854.6
4	TransFin-M (Moscow)	1,692.5
5	Group Companies “Baltlease” (St. Petersburg)	764.8
6	Carcade Leasing (Moscow)	722.0
7	Siemens Finance (Vladivostok)	672.0
8	GTLC (Moscow)	650.1
9	ULC “RESO-Leasing (Moscow)	504.6
10	Gaztechleasing (Moscow)	440.1
11	Element Leasing (Moscow)	396.5
12	Group Companies “Alpha Leasing” (Moscow)	386.1
13	Group Companies “Interleasing” (St. Petersburg)	300.7
14	Caterpillar Financial (Moscow)	297.6
15	Systema Leasing 24 (Moscow)	296.0
16	UniCredit Leasing and Locat Leasing Russia (Moscow)	295.5
17	LC “Stone – XXI” (Moscow)	283.7
18	Group Companies “KAMAZ-Leasing” (Naberezhny Chelny)	221.1
19	MetallinvestLeasing (Moscow)	218.4
20	Group Companies “Severnaya Veneziya” (St. Petersburg)	183.7
21	Hewlett-Packard (Moscow)	182.7
22	Raiffeisen Leasing (Moscow)	175.9
23	RB Leasing (Group Societe Generale) (Moscow)	145.8
24	Uralleasing (Ekatherinburg)	124.4
25	Group Companies “ZEST” (St. Petersburg)	121.1
26	Major Leasing (Moscow)	118.2
27	Volkswagen Group Finanz (Moscow)	116.6
28	Universalnaya Leasing Company (Khabarovsk)	113.4
29	UGRA-Leasing (Hanty-Mansiysk)	112.3
30	LC “Svoye delo – Leasing” (Moscow)	101.4

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

Range (US\$m)	Number of companies				
	2010	2011	2012	2013	2014
From 100 to 500	24	30	31	24	21
From 500 to 1,000	1	5	6	6	5
From 1,000 to 3,000	2	3	8	4	2
More than 3,000	3	4	2	4	2
<b>Total</b>	<b>30</b>	<b>43</b>	<b>47</b>	<b>38</b>	<b>30</b>

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.

Thus, it turns out that the following statement is true for regression: with increasing prepayment on 1% cost increase by 0.323%; when you increase the urgency of leasing agreements on the 1% rate increase by 1.808%.

With regards to the third factor in the model, there has emerged some interesting results from the analysis recorded here. It turned out that the lower rates of leasing interest with a one percentage point increase in cost to match the 4.023%.

In terms of risk management is not exactly a typical situation, since the leasing rate change percentage largely characterises fluctuation levels of riskiness of the deal. Apparently, other factors were more important, for example, the structure of leasing percentage, customer relationship, longevity, quality of the collateral, affiliation of the participants with State structure, and these circumstances ultimately influenced on the proportion.

**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 2015, totalled US\$54.52bn (beginning of 2014 – US\$83.68bn; 2013 – US\$77.70bn; and 2012 – US\$60.6bn). Outstandings of the Russian leasing market has grown 14.9% in roubles and decreased 33.2% in US dollars.

However, these figures should not only be seen as quantitative growth; the quality of portfolios must also be taken into account. In 2014, the quality of leasing portfolios had risen compared to 2013.

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\$100m (January 1, 2015) can be found in Table 9.

**Doubtful and problem receivables.** According to our estimates, a few months after the beginning of the finance crisis 2008, dubious and problem receivables accounted for over 2% of the total lease market portfolio.

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 con-

tract. Problem receivables are those with more than two sequentially missed lease payments as specified in the lease contract.

By the end of 2009, total doubtful and problem receivables rose to 11.7%. Apparently, this was the culminating peak of poor leasing portfolios. In 2010, the total slightly decreased, but remained very high with value of 11.2%. At the end of 2011, this figure stood at 4%, in 2012 – 3.3%, in 2013 – 4.1%, and in 2014, the rate of doubtful and problem receivables was 6.2%.

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.

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

**Table 7: The ratio between the portfolio and new leasing business of the Russian leasing market 2006–14**

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Outstandings, US\$bn	21.92	38.87	41.25	32.03	33.75	60.60	77.70	83.68	54.52
New leasing business, US\$bn	17.08	32.85	26.40	10.45	24.24	43.92	42.22	41.40	28.24
Ratio (outstandings/new leasing business)	1.283	1.183	1.563	3.065	1.392	1.380	1.840	2.021	2.809

**Table 8: “Outstandings” of Russian leasing companies (January, 1 2010–15)**

Range (US\$m)	Number of companies					
	2010	2011	2012	2013	2014	2015
From 100 to 300	31	24	26	25	24	18
From 300 to 500	7	7	8	8	10	5
From 500 to 1000	6	2	3	6	7	1
More than 1000	4	6	9	11	9	7
<b>Total</b>	<b>47</b>	<b>39</b>	<b>46</b>	<b>50</b>	<b>50</b>	<b>31</b>



markets in 2010 and 2011 went up, in the years 2012 and 2013 growth stalled, and in 2014 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.

In 2014, funding of leasing deals on the market decreased by 11.2% in terms of roubles and 26.8% in US dollars compared with the previous year.

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

Speaking after the meeting of the Supervisory Board of Vnesheconombank, Chairman Vladimir Dmitriev said: “We have agreed to issue two loans totalling R18bn to our subsidiary – VEB-Leasing – to finance the supply of 16 Sukhoi Superjets to Russian airlines, including Aeroflot, which will receive 10 aircraft.”

Also, Vladimir Dmitriev pointed out that the deal to finance the delivery of SSJ-100 aircraft took full advantage of the com-

prehensive support scheme designed to aid Russian non-oil exports, to which VEB-Leasing is a valued contributor. “This scheme provides not only for the subsidising of interest rates by the government to help our products and financial terms for their delivery compete successfully with similar offerings from other countries and suppliers, but also for the involvement in the marketing of Russian aircraft in international markets, besides Vnesheconombank, of Export Credit and Investment Insurance Agency (EXIAR) and VEB-Leasing, our subsidiary,” said Dmitriev.

Support for domestic aircraft manufacturing is key to the successful development of the Russian economy. Prime Minister Dmitry Medvedev said: “Given the importance of reliance on our own resources and technologies in developing the domestic high-tech industry, we believe that by financing the purchase of 16 aircraft, we contribute to the development of the Russian industry as a whole”.

In 2014, VEB-Leasing and

**Table 9: Russian leasing companies with “outstandings” over US\$100m (January 1, 2015)**

No	Leasing company	Outstandings (US\$m)
1	VEB-leasing (Moscow)	14,019.5
2	Group Companies “VTB-Leasing & TCL” (Moscow)	7,456.4
3	Group Companies “Sberbank-Leasing” (Moscow)	5,959.4
4	TransFin-M (Moscow)	4,401.5
5	GTLK (Moscow)	2,593.0
6	Gaztechleasing (Moscow)	1,734.9
7	Group Companies “Alpha-Leasing” (Moscow)	1,410.7
8	Group Companies “Baitlease” (St. Petersburg)	538.7
9	Carcade Leasing (Moscow)	482.2
10	Siemens Finance (Vladivostok)	428.2
11	Business Alians (Moscow)	362.4
12	Ilyushin Finance Co (Voronezh)	362.0
13	UniCreditLeasing and Locat Leasing Russia (Moscow)	313.3
14	ULC “RESO-Leasing” (Moscow)	299.7
15	Raiffeisen-Leasing (Moscow)	297.3
16	Caterpillar Financial (Moscow)	271.2
17	Group Companies “Interleasing” (St. Petersburg)	253.4
18	Element Leasing (Moscow)	241.0
19	Group Companies “ZEST” (St. Petersburg)	220.1
20	Group Companies “Severnaya Veneziya” (St. Petersburg)	217.3
21	Systema Leasing 24 (Moscow)	206.4
22	Hewlett-Packard (Moscow)	200.9
23	UGRA-Leasing (Hanty-Mansiysk)	200.0
24	LC “Stone – XXI” (Moscow)	180.7
25	MetallinvestLeasing (Moscow)	160.1
26	RB Leasing (Group Societe Generale) (Moscow)	158.3
27	Basis Leasing (Moscow)	152.1
28	Sibirskaya Leasingovaya Compania (Moscow)	120.2
29	Petroleasing-Menegement (Moscow)	115.4
30	Universalnaya Leasing Company (Khabarovsk)	114.3
31	Group Companies “KAMAZ-Leasing” (Naberezhny Chelny)	112.0

Export-Import Bank of China signed a framework credit agreement up to US\$300m. Funds will be spent on financing the leasing projects associated with leasing assets in China in the field of industrial equipment, transportation, infrastructure, high-tech and innovative products, machinery and electronic products, and original equipment. Implementation of this agreement will further strengthen economic and trade cooperation between China and Russia and contribute to the development of the leasing market in the two countries.

State Transport Leasing Company (GTLC) and China ICBC Financial Leasing Co., Ltd. (established the largest bank in China – Industrial and Commercial Bank of China) intends to initiate a joint project for the delivery of five new aircraft Airbus A321 for Aeroflot. Under the terms of this project, about US\$800m will be invested in GTLC.

Deficit financing leasing in 2014 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 2014, 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 profits of lessors.

In 2014, the ratio between Russian and foreign banks in credit to the Russian leasing market 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.

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 issue by leasing companies of securities, securitisation of leased assets. Soon we are likely to see the elimination of intermediaries (the banks) from 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 we can name VEB-Leasing, VTB-Leasing, Europlan, as well as some leasing companies, such as Caterpillar Finance, MAN Financial Services, Carcade Leasing, Hewlett Packard, Siemens Finance (Vladivostok), Volkswagen Grup Finanz, VR Leasing, Deutsche Leasing Vostok, while others obtained credits from western creditors for terms from three to 10 years.

In 2011, Professor Yanping Shi wrote: “a key point of prudential norms for China’s leasing sector is the financial leverage ratio. The financial leverage ratio for bank lessors should be no higher than 1:12.5, and that for non-bank lessors should be no higher than 1:10”.<sup>4</sup>

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:  $(TF-A-OF):(OF+A)$

**Table 10: Financing of leasing operations in Russia (2007–14)**

Source of financing of lessor	Share in the total financing of leasing operations (%)							
	2007	2008	2009	2010	2011	2012	2013	2014
Bank credits, total	59.5	57.7	52.2	67.1	61.0	64.6	64.6	49.1
Incl. Russian banks	48.1	46.5	39.7	56.4	52.6	58.1	56.9	40.6
Foreign banks	11.4	11.2	12.5	10.7	8.4	6.5	7.7	8.5
Loans from founders and other organisations	8.6	10.6	10.6	3.4	2.7	2.5	4.3	4.3
Trade credits provided by suppliers	1.1	2.3	0.6	0.2	0.1	0.4	0	0.1
Advance payments	17.3	15.1	19.8	13.7	15.0	17.8	14.4	16.9
Own funds of leasing companies, total	6.2	9.5	9.1	9.1	7.1	8.2	10.3	11.8
Incl. authorised capital	1.5	5.0	0.4	4.8	3.8	1.4	0.9	0.5
Profit	4.7	4.5	8.7	4.3	3.3	6.8	9.4	11.3
Promissory notes/exchange bills	2.0	1.1	0.2	1.6	5.6	0.5	0.8	2.5
Bonds	5.2	3.6	7.1	4.7	6.3	6.0	5.5	15.3
Other lending	0	0.0	0.0	0.1	2.2	0	0.1	0

**Table 11: Ratio between Russian banks and foreign banks in credit to the Russian leasing business (2007–14)**

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

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.

**Emission worth and securitisation.** For 14 years (from April 2001 to June 2015), more than 40 Russian leasing companies (or SPV leasing companies) issued emissions worth a total US\$15.4bn.

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 2014 to July 2015, companies who participated in our survey of the market, raised lease financing worth US\$5.54bn through a bond issue.

In December 2014, VTB Leasing Finance (5 series) was registered for a total of US\$758m for seven to 10 years, and in March 2015 for US\$2,810m. They were also registered with VEB-

Leasing (7 series) for a total of US\$602m for 10 years; with TransFin-M (10 series) for a total of US\$768m for three to 10 years; with GTLC (2 series) for a total of US\$188m for 10 years; with Baltlease (4 series) for a total of US\$316m for six years. Rates for the first emissions for these coupons for these securities were 10–17%. It was anticipated that rates on subsequent coupons for these securities will be the key rate of Russia's Central Bank plus 1.5–2.5 percentage points (pp).

Help in attracting additional funding can provide securitisation of the leasing assets. In Russia from 2006–14 only three transactions of leasing securitisation assets were held for a total of US\$967m. Of course, it is not much compared, for example, with Italy, where I have data from 1990 to the first half of 2015 reporting 88 deals worth €75.5bn.

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.

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.<sup>5</sup> We are aware of several major leasing companies in Russia, which are currently developing projects of securitisation assets.

**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 2014, the companies under review concluded 125,000 new leasing contracts and, on average, the value of one leasing transaction was US\$174,000 (see Table 13).

**Regional structure of leasing in Russia.** In 2014, the bulk of financial resources were still located in Moscow and in St. Petersburg (52.3% in 2014 and 54.7% in 2013), but leasing transactions are often carried out in other regions. This explains why many Moscow-based

**Table 12: Capital leveraged per Russian leasing companies 2007–14**

	2007	2008	2009	2010	2011	2012	2013	2014
Leveraged I	15.13	9.53	9.98	9.98	13.08	11.20	8.71	7.47
Leveraged II	12.34	7.94	7.81	8.48	10.97	9.02	7.31	6.04
Leveraged III	3.25	3.07	2.46	3.39	3.52	2.85	3.05	2.48

**Table 13: The number of new leasing contracts and average value of one leasing transaction (2007–14)**

	2007	2008	2009	2010	2011	2012	2013	2014
The number of new leasing contracts	90,000	78,000	41,000	71,000	111,000	131,000	140,500	125,000
Average value of one leasing transaction, US\$	323,000	288,000	200,000	341,000	396,000	299,000	253,000	174,000

**Table 14: Leasing companies that concluded more than 2,000 leasing contracts in 2014**

No	Leasing company	Number of concluded leasing
1	VEB-Leasing (Moscow)	28,519
2	Group Companies "VTB-Leasing" (Moscow)	23,571
3	Carcade Leasing (Moscow)	12,920
4	Group Companies "Baltlease" (St. Petersburg)	7,547
5	ULC «RESO-Leasing» (Moscow)	6,054
6	Element Leasing (Moscow)	5,955
7	Siemens Finance (Vladivostok)	3,728
8	Volkswagen Group Finanz (Moscow)	3,298
9	Stone-XXI (Moscow)	3,058
10	Group Companies "Sberbank Leasing" (Moscow)	2,989
11	Major Leasing (Moscow)	2,969
12	UniCreditLeasing and Locat Leasing Russia (Moscow)	2,332

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).

In my opinion it is necessary to draw attention to one major change that occurred in the structure of regional leasing in Russia in 2014. The most noticeable changes (decline) have occurred in parts of the Far East, St. Petersburg and Leningradskaya oblast. Rates increased slightly in Siberia, the Central region and Moscow.

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 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



*In January 2014, VEB-Leasing transferred the financial leasing of the first of Aeroflot's six Boeing B777-300 ER.*

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 2014. Information about the structure of leasing contracts can be found in Table 16.

**Table 15: Regional structure of leasing operations in the Russian Federation (2012–14)**

Region of the Russian Federation	Share of the total Russian leasing business (%)		
	2012	2013	2014
Far East	2.1	2.7	1.9
Siberia	9.2	7.5	8.3
The Urals	13.8	9.6	9.0
The Volga region	8.5	9.8	9.5
South	3.0	3.5	3.8
North-Caucasian	1.2	0.7	0.6
Republic of Crimea and Sevastopol	–	–	0.1
North-West (not including St. Petersburg and Leningradskaya oblast)	1.5	1.9	2.5
St. Petersburg and Leningradskaya oblast	7.2	12.8	7.8
Central region (not including the city of Moscow)	9.7	7.2	9.9
Moscow	42.2	41.9	44.5
Cross-border leasing (export)	1.6	2.4	2.1



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 2013, was in three sectors: light passenger cars (4.8 pp); road-building equipment (2.5 pp); buildings and structures (1.7 pp). The largest decrease occurred in railway rolling stock (6.2 pp) and aircraft (2.5 pp).

In 2014, for the first time in the history of the Russian leasing industry, vehicles came first among the main sectors.

In 2015, many leasing companies had preferences at the State programme preferences for the concessional lease. For example, UniCredit Leasing (Moscow) became an active participant of the state support programme of the automobile industry at the specific area of providing subsidy for leasing down-payment.

The maximum subsidy amount equals to 10% of the vehicle's price which could be a maximum R0.5m for one vehicle and R10m for one client that in the current market conditions grants additional value for transport purchase in leasing.

Fabrizio Rollo, CEO of UniCredit Leasing (Moscow) comments: "This initiative is a unique opportunity to boost the car industry sector and more in general the Russian economy in this

difficult macro-economic situation. UniCredit Leasing together with his Partners [dealers, manufactures] will participate in the programme with a target of providing a high level of services to his clients and to support them in the process of creating values in their corporate business."

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

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 71.8% in 2014 (75.0% in 2013; 71.4% in 2012).

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

Despite the decline in 2014 of new leasing business in the railway rolling stock sector, this segment continues to dominate the leasing market of Russia. For 17 years our surveys of the Russian leasing market highlights this sector as the second most

important figure, 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 old property of the railway rolling stock fleet began. In 2013–14 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

**Table 16: Structure of leasing contracts concluded (2011–14)**

Asset type	Share in the total volume (%)			
	2011	2012	2013	2014
Motor vehicles for cargo transportation	9.5	11.1	12.8	13.5
Light passenger cars	6.7	8.5	10.0	14.8
Passenger minibuses	0.2	0.2	0.3	0.3
Buses	1.2	0.8	1.1	0.7
Equipment for repairing and servicing cars	0.1	0.1	0.1	0.1
Telecommunications equipment	0.3	0.4	0.2	0.1
Computers and other office equipment	0.5	0.5	0.5	1.6
Geological exploration equipment	0.1	0.1	0.1	0.4
Oil and gas production and processing equipment	2.0	2.4	2.2	1.6
Agricultural equipment	0.4	2.9	0.6	0.7
Railway rolling stock and locomotives	49.4	40.8	33.9	27.7
Building machinery, including specialised machinery on wheels	6.0	6.1	6.8	6.0
Road-building equipment	2.2	2.2	1.9	4.4
Equipment for production and processing of glass	0.1	0.3	0.04	0.03
Metalworking equipment	2.3	2.6	1.8	2.0
Metallurgical equipment	0.2	0.1	0.2	0.2
Mining equipment	1.9	2.0	1.0	1.8
Power-generating equipment	0.6	3.2	0.8	0.4
Printing equipment	0.3	0.3	0.3	0.3
Equipment for food industry, including refrigerating equipment	0.5	0.6	0.9	0.4
Selling/shopping equipment	0.1	0.1	0.1	0.1
Packing equipment	0.2	0.2	0.3	0.2
Loaders and warehouse equipment	0.6	0.7	0.6	0.6
Logging equipment and timber transportation vehicles	0.3	0.3	0.3	0.4
Woodworking equipment	0.2	0.2	0.2	0.2
Equipment for production of paper and cardboard	0.01	0.05	0.03	0.1
Chemical equipment	0.4	0.5	0.3	0.5
Entertainment industry equipment	0.02	0.03	0.1	0.03
Special equipment for provision of housing and communal services	0.2	0.3	1.0	0.9
Banking equipment	0.01	0.01	0.01	0.01
Medical and pharmaceutical equipment	0.1	0.1	0.1	0.1
Sea and river vessels	1.8	1.0	1.1	1.5
Aircraft	6.6	9.0	15.8	13.3
Buildings and structures	2.8	1.4	1.0	2.7
Other property	2.14	0.91	3.4	2.31

companies – 14 in our survey for 2014 (in 2013 – 19, in 2012 – 16; in 2011 – 16). The volume of leasing aircraft totalled US\$2,805m. The leader in this sector is “VEB-Leasing”.

In January 2014, “VEB-Leasing” transferred the financial leasing of the first of Aeroflot’s six Boeing 777-300 ER. Terms of the leasing transaction are 12 years. Catalogue price is US\$320.2m. Under the agreement, the Eximbank has provided insurance coverage for transactions. Credit Agricole CIB and Goldman Sachs co-ordinated the deal, and the creditor banks became the Apple Bank for Savings and VEB-Leasing.

Also “VEB-Leasing” organised and coordinated a deal to lease three Sukhoi Superjet 100 aircraft to Indonesian airline “PT Sky Aviation”, produced by JSC “Sukhoi civil aircraft”. Aircraft delivered to the customer under operational leasing for 10 years for passenger air transportation. Financing was provided by Vnesheconombank and export insurance coverage by the Russian Agency on insurance of export credits and investments.

In January 2014, Sberbank Leasing transferred the leasing of a Boeing 747-8F for freight transport to the Group of “Volga-Dnepr Airlines”. The published price was approximately US\$350m. Funding of the contract was provided by Sberbank of Russia. The lease contract is concluded for 12 years.

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, etc.

The volume of leasing of industrial buildings and construction was 2.7% 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 accelerated depreciation permitted by law (coefficient 3), substantially exceeded the terms of loans used in practice.

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

Various countries have experience of measuring the level of 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 mech-

**Table 17: Largest leasing companies in Russia in 2014 (by asset type)**

No	Lessor	New leasing business volumes (US\$m)
<b>Light passenger cars</b>		
1	VEB-leasing (Moscow)	926.0
2	Carcade Leasing (Moscow)	614.8
3	Group Companies “VTB-Leasing” (Moscow)	377.8
4	ULC “RESO-Leasing (Moscow)	273.8
5	Group Companies “Baltlease” (St. Petersburg)	172.0
6	Major Leasing (Moscow)	111.5
7	Volkswagen Group Finanz (Moscow)	100.3
8	Group Companies “Sberbank Leasing” (Moscow)	95.5
9	LC “Stone – XXI” (Moscow)	83.2
10	Uralleasing (Ekaterinburg)	43.4
11	UniCredit Leasing and Locat Leasing Russia (Moscow)	40.9
12	Group Companies “Interleasing” (St. Petersburg)	32.2
<b>Building and road-building equipment</b>		
1	Group Companies “VTB-Leasing” (Moscow)	529.8
2	Caterpillar Financial (Moscow)	250.2
3	Element Leasing (Moscow)	141.9
4	Group Companies “Baltlease” (St. Petersburg)	132.4
5	Group Companies “Interleasing” (St. Petersburg)	95.5
6	Gaztechleasing (Moscow)	86.2
7	Group Companies “Sberbank Leasing” (Moscow)	77.7
8	LC “Stone – XXI” (Moscow)	77.4
9	ULC “RESO-Leasing (Moscow)	66.1
10	LC “Svoye delo – Leasing” (Moscow)	61.2
11	Raiffeisen Leasing (Moscow)	54.8
12	RB Leasing (Group Societe Generale) (Moscow)	53.1
<b>Aircraft</b>		
1	VEB-leasing (Moscow)	1,475.9
2	Group Companies “Sberbank Leasing” (Moscow)	532.6
3	Group Companies “VTB-Leasing” (Moscow)	421.2
4	GTLC (Moscow)	255.2

**Table 18: Proportion of new transport leasing business of the total volume of the Russian leasing market (2007–14)**

Segments of the transport vehicles	Share in the total volume (%)							
	2007	2008	2009	2010	2011	2012	2013	2014
Sum of four transportation sectors: railroad rolling stock and locomotives, auto vehicles, aircraft and vessels	51.2	53.5	63.3	70.7	75.4	71.4	75.0	71.8

**Table 19: The concentration of the Russian leasing market in 2007–14**

	2007	2008	2009	2010	2011	2012	2013	2014
Share of the top four companies of the total volume of new leasing business (%)	30.9	22.2	34.6	45.9	51.6	42.9	43.0	43.5
Level of HHI	426	206	367	639	783	741	595	555

**Table 20: Finance lease terms in Russia (2005–14)**

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Lease term (month) on average	48	54	61	64	63	68	78	72	68	79

anisms. 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 19 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.

**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 research of the Russian market of leasing services (see Table 20).

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.** The expansion of the activities of leasing companies before the crisis resulted in the increase of staff employees which entails certain cost increases. Currently some of the larger Russian leasing companies employ more than 1,000 people. In total, nearly 13,200 people are engaged in the leasing industry in Russia (14,000 in 2013; 13,200 in 2012; 10,750 in 2011; 9,500 in 2010).

However, the average number of personnel per Russian leasing company in 2014 increased and amounted to 142 people (130 in 2013; 128 in 2012; 101 in 2011; 86 in 2010). 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 160–170 employees per leasing company.

“Output per employee” (for companies who participated in our survey of the leasing market) was approximately US\$2.01m per year (US\$3.04m in 2013; US\$3.2m in 2012; US\$4.1m in 2011; US\$2.6m in 2010). “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.

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