



**World Leasing**  
Yearbook  
2015

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✦ Edited by Lisa Paul

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**Editor:** Lisa Paul

**Advertising Sales Manager:** Nigel Johnson

**Distribution:** Rachel Johnson

**Managing Director:** Adrian Hornbrook

**Editorial office:** 59 North Hill, Colchester, Essex CO1 1PZ, UK.

**Tel.:** (01206) 579591.

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# Russia

## MARKET REVIEW

During 1998–2013, the National Research University – Higher School of Economics (Moscow) surveyed the results of the activities of all 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 to survey the activities of leasing companies in the Russian Federation indicate that in 2013 the market situation has barely changed. Growth was 0.7% in Russian roubles, while the euro declined 4.4%, and in US dollars there was a decline of 1.9%.

For 15 years the University has been surveying the results of activities of most leasing market operators in Russia, including the largest ones.

Its annual review of the Russian leasing industry shows that in 2013 new production volumes (the value of the leasing contracts concluded during the year under which leasing financing began to be provided) amounted to US\$41.40bn (€31.42bn) (including VAT) or US\$35.39bn (€26.86bn) (excluding VAT).

From 2000–13, the volume of leasing operations in Russia totalled US\$263.1bn (at current prices). This figure has not been adjusted for changes in the worth of money over time. The leasing business in Russia has been growing at a geometrical-average annual rate of 56.7% (before crisis) and 26.4% (for the whole period).

In 2013 the new business quarter volatility was low compared to previous years. In the first quarter it was 20.5%



Dr Victor Gazman, author of this article.

from the sum total of the year; in the second quarter 23.7%; and in the third quarter it was 28.0%. By tradition, we present data for the fourth quarter (27.8%), which is an indicator of the development of the market (see Table 2).

**Leasing market penetration.** In 2013, the gross domestic product (GDP) of the Russian Federation amounted to US\$2,092.3bn (R1/US\$31.906) (US\$2,014.5bn in 2012; US\$1,858.3bn in 2011; US\$1,482.5bn in 2010, US\$1,255.6bn in 2009) and, according to the official data of the Federal State Statistics Service, increased by 7.3%, while the deflator index was 5.9% (so the real growth of GDP was 1.3%). The investment into fixed capital assets amounted to US\$415.45bn – there has been a decline of 0.2% in Russian roubles.

According to our estimates, the share of leasing operations in GDP (real) in 2013 was 1.98% (2.10% in 2012;

2.31% in 2011; 1.58% in 2010); the share of leasing operations in investments in production assets was 10.5%. Taking into account 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 3.

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 18 years (1996–2013) the correlation coefficient between the volumes of new leasing business and investments in fixed assets (excluding leased assets) were the equivalent of 0.930.

In comparison, in Germany for 37 years (1976–2012) this rate was 0.959; in the UK for 35 years (1978–2012) it was 0.889; in Japan for 33 years (1980–2012) it was 0.843; in Italy for 32 years (1981–2012) the rate was 0.880; and in the US for 35 years (1978–2012) it was 0.809 (the calculation was carried out on the basis of data published in the *World Leasing Yearbook*).

Thus, it is safe to suggest that the changes in the dynamics of a new leasing business in these countries on 90%–95% depends on the same factors that are relevant for the dynamics of investments in fixed capital.

The total foreign investments to Russia allocated in the non-financial sector of the economy, excluding monetary and crediting institutions, commercial banks and saving banks, amounted to US\$154.64bn, (US\$190.64bn in 2011; US\$114.75bn in 2010). However, despite the decline in overall investment, foreign direct investment increased by

**Table 1: Leasing in Russia (2002–13)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Value of leasing contracts concluded (US\$m)	2,320	3,640	6,750	8,510	17,080	32,850	26,400	10,450	24,240	43,920	42,220	41,400
Changes compared to the preceding year:												
US\$m	360	1,320	3,110	1,760	8,570	15,770	–6,450	–15,950	13,790	19,680	–1,700	820
%	18.4	56.9	85.4	26.1	100.7	92.3	–19.6	–60.4	132.0	81.2	–3.9	1.9

1.4% and reached US\$18.67bn.

**Russian leasing in Europe.** According to Leaseurope for 2013,<sup>1</sup> and author's own data, Russia moved up from fifth to fourth place in Europe after Germany, the UK, and France. In 2013, Russia's share of new European leasing business was 7.34% (2012 – 7.72%; 2011 – 7.10%, 2010 – 6.44%) and the “outstandings” was 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 include 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 was 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 2013, 90% of new leasing business in the Russian Federation was conducted in Europe (54% within Moscow and Saint Petersburg).

**Changes in the law on taxes in Russia.** 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, movable property put into operation after January 1, 2013, is excluded from the property tax base.

This circumstance somewhat reduces the tax benefits of leasing compared to other forms of attraction of funds in

**Table 2: Fourth quarter new leasing business in Russia (2004–13)**

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

investment projects. However, the 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.

Interestingly, the average annual rise in leasing in 2013 decreased by two percentage points. We believe that this is due to the cancellation of property tax.

**The refinancing rate of Russia's Central Bank.** Lease pricing has for the most part tracked with the bank lending rates. The refinancing rate of the Central Bank has clearly traceable cyclical movement (Table 4). 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 of 7.75%.

From March 2010 to June 2013 (52 months) the rate ranges between 0.5 percentage points. From September 2012 to June 2014 (22 months) the rate did not change and remained at 8.25%.

It is possible to assume that over the

coming months the rate of refinancing in Russia will be reduced.

Banks always want cheap, long-term money. The Chairman of the Central Bank of Russia, Elvira Nabiullina, said that the refinancing rate should be reduced. Mrs Nabiullina has said that loans should be reduced to develop refinancing of banks, in particular to increase the access of banks to the different instruments. If the banks issue loans to the real sector of the economy, under them it is possible to issue securities, the Central Bank will take the pledge and thus provide liquidity to the entire system.

**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 countries with developed leasing industries.

In 2002, Russia had only three leasing companies, whose new business volumes were in excess of US\$100m. In 2012, from 91 leasing companies who participated in our survey of the market, 47 of the lessors' volume of new business had exceeded US\$100m (see Table 5).

Russian leasing companies began to occupy the highest places (top 30) in the European ranking table. According to Leaseurope for 2013,<sup>3</sup> OJSC “VEB-Leasing” took the 10th place (in 2012 – fourth place; in 2011 – eighth place) in Europe in terms of total new business; TransFin-M 16th place; Gazprombank Leasing 24th place; OJSC VTB Leasing 26th place; and Europlan 27th place.

A large amount of new leasing business in Russia (14.5% in 2013; 12.5% in

**Table 3: Share of the leasing of machinery, equipment and transport vehicles in the total volume of investments in 2001–13 (%)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Share of the leasing of machinery, equipment and transport vehicles in the total volume of investments (%)	8.94	9.13	11.40	13.98	13.67	20.13	25.49	16.32	8.75	17.23	25.41	24.09	23.92

**Table 4: The refinancing rate of Russia's Central Bank (2007–14)**

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2007	11.0	10.5	10.5	10.5	10.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0
2008	10.0	10.25	10.25	10.5	10.5	10.75	11.0	11.0	11.0	11.0	12.0	13.0
2009	13.0	13.0	13.0	12.5	12.0	11.5	11.0	10.75	10.5; 10.0	9.5	9.0	8.75
2010	8.75	8.5	8.25	8.0	8.0	7.75	7.75	7.75	7.75	7.75	7.75	7.75
2011	7.75	8.0	8.0	8.0	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.0
2012	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.25	8.25	8.25	8.25	8.25
2013	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
2014	8.25	8.25	8.25	8.25	8.25	8.25						

**Table 5: Russian leasing companies with a new business volume over US\$100m**

Range (US\$m)	Number of companies			
	2010	2011	2012	2013
From 100 to 500	24	30	31	24
From 500 to 1,000	1	5	6	6
From 1,000 to 3,000	2	3	8	4
More than 3,000	3	4	2	4
<b>Total</b>	<b>30</b>	<b>42</b>	<b>47</b>	<b>38</b>

2012; 10.6% in 2011) is represented by agreements executed between Russian lessees and leasing companies established in Russia, as residents with a 51%–100% interest owned by investors from various countries such as Germany, France, Italy, the UK, the US, Austria, the Netherlands, Sweden, etc.

For three years (2011–13), these companies have concluded new contracts totalling US\$15.94bn/€12.01bn (including VAT) or US\$13.58bn/€10.23bn (excluding VAT).

**Operating leasing.** We assume that the intention of the Ministry of Finance on the repeal of benefits may encourage leasing companies to promote operating leasing. 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 mar-

ket in some form of long-term leasing property.

In 2013, approximately 90.2% of leasing business was financial leasing and over 9.8% of contracts were operating leasing transactions. Previously, the proportion of operating leasing was 3% in 2012, 4% in 2011 and 10% in 2010.

**Leasing for small businesses.** 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\$1,323m (US\$808m in 2012); Europlan – US\$1,316m (US\$1,080m in 2012); Carcade Leasing – US\$613m; Group Companies “Baltlease” – US\$413m (US\$349m in 2012); Element Leasing – US\$314m; “Systema Leasing 24” – US\$224m; and UniCredit Leasing – US\$200m. The share of leasing for small-sized enterprises of the total volume of leasing operations in Russia is 24.7% (22% in 2012).

Currently, the rate of credit for small

businesses is 9.5%–12%, and the margin of the lessor is 3%–4%. Small businesses involved in leasing need State support and support of other leasing companies.

Russia is one of the most energy-intensive countries in the region, with energy intensity 2.5 times that of the EU. To help the country’s businesses reduce their energy consumption, the EBRD has established a special credit line programme – the Russian Sustainable Energy Financing Facility (RuSEFF). The facility also provides technical assistance to companies, supported by donor funding from Germany and the EBRD Shareholder Special Fund.

In 2013, the EBRD lent R1.7bn (more than US\$53m) to UniCredit Leasing Russia (UCLR), which is one of the country’s top leasing companies and part of the largest European banking group UniCredit. The company will use the loan to finance new leases to energy efficiency projects, particularly to UCLR’s small and medium-sized enterprise (SME) clients in industry and agriculture, including those located outside the Moscow region.

In 2011, the EBRD lent R1.2bn (about US\$41m) to the company to provide leasing finance to SMEs for equipment and heavy vehicles.

**Big-ticket leasing.** Leasing companies economically have little interest 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; and 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%.

At the 18th St. Petersburg International Economic Forum (May 23, 2014), the President of Russia, Vladimir Putin, stated that soon the State will participate in the financing of major infrastructure and investment projects.

We understand that even major projects will not lead to consistently high

**Table 6: Russian leasing companies that concluded new business volumes of over US\$300m (2013)**

No.	Leasing company	New leasing business volume (US\$m)
1	VEB-Leasing (Moscow)	6,497
2	Sberbank Leasing (Moscow)	3,896
3	TransFin-M (Moscow)	3,880
4	Group Companies “VTB-Leasing” (Moscow)	3,537
5	Group Companies “Gazprombank-Leasing” (Moscow)	1,962
6	Europlan (Moscow)	1,910
7	GTLC (Moscow)	1,858
8	Gaztechleasing (Moscow)	1,322
9	Group Companies “Baltlease” (St.Peterburg)	897
10	Group Companies “Alpha Leasing” (Moscow)	877
11	Carcade Leasing (Moscow)	866
12	Siemens Finance (Vladivostok)	751
13	ULC “RESO-Leasing (Moscow)	514
14	Group Companies “KAMAZ-Leasing” (Naberezhny Chelny)	513
15	Element Leasing (Moscow)	456
16	Caterpillar Financial (Moscow)	424
17	Group Companies “Interleasing” (St.Peterburg)	395
18	LC “Stone XXI” (Moscow)	330
19	RTC Leasing (Moscow)	322
20	Raiffeisen-Leasing (Moscow)	295
21	Systema Leasing 24 (Moscow)	286
22	Group Companies “ZEST” (St.Peterburg)	265
23	UGRA-Leasing (Hanty-Mansiysk)	230



growth rates. Russia needs a genuine technological revolution and serious technological modernisation.

What are we going to do to make this happen? First, we will expand access to cheap investment resources. To achieve this we will actively introduce the mechanism of project financing, firstly in industry. It will allow us to grant investors long-term loans on easy and flexible terms. The final cost of such loans should not be above the inflation rate plus 1%.

All legal acts required to launch project financing should be adopted before the end of 2014.

Second, it is essential to create convenient conditions for opening new businesses, those that start from scratch on new sites. These so-called greenfields will enjoy tax breaks based on their total capital investment.

Third, the capitalisation of systemically important Russian banking and financial institutions will be increased, partly by converting subordinated loans into preferred shares. This will allow banks to grant more loans and reduce interest.

Fourth, the procedures for selecting investment projects and granting state guarantees will be substantially simplified and the time for relevant decision-making reduced.

Fifth, I am confident that by upgrading industry, building new enterprises and localising competitive production in Russia we will be able to considerably reduce imports of many goods and return our market to our national producers. President Putin said: "I'd like to emphasise that we'll do this without violating standards of international trade or imposing any restrictions or barriers. I'm referring to software, radio-electronic equipment, etc."

Sixth, we will develop a strategy to support companies that use the best available, environmentally friendly and safe technology.

Seventh, we must make sure that the outdated equipment and so-called "dirty" technologies are retired. We have to make it economically imprudent and unprofitable to use them.

In 2015, we will re-evaluate all production facilities. The purpose is to identify facilities that use outdated equipment. We will impose additional taxes on outdated production facilities.

Eighth, all the measures aimed at providing a technological upgrade to the economy must be fully funded.

Next, infrastructure and, in particular, lifting infrastructure restrictions.

Reconstruction of the Baikal-Amur Mainline and the Trans-Siberian Railway will begin in summer 2014 as well as construction of the first leg of the Central Ring Road that will run through the Moscow Region and the newly incorporated areas of Moscow.

Both projects underwent a public technology and pricing audit that involved leading global experts. They will require massive investments and are potentially huge construction projects.

Currently, the railway carries around 58 million tonnes of mineral resources a year from the major fields of the eastern range. Experts estimate that this amount will double once the capacities of the Baikal-Amur Mainline and the Trans-Siberian Railway have been enlarged. This project will receive around US\$16.5bn.

The first section of the new ring road, the Central Ring Road around Moscow, will be around 50km long. The total length will be around 340km. This project will cost some US\$9bn.

We plan to significantly increase the scope of work in energy, railway, car and telecommunications infrastructure. Our immediate goal is to double the construction and upgrading of federal and regional motorways.

Our country has repeatedly demonstrated its ability to tackle large-scale projects. Successful initiatives have inspired the nation to work even harder.

I believe that the leasing product can actively be used in these new projects, e.g. leveraged leasing, securitisation of leasing assets, leasing in project financing.

Three weeks after the Economic Forum there was a presentation in Shanghai within the framework of the Transport Logistic China 2014 presentation of transport and logistics complex "South Ural". This project is of strategic

importance for the development and strengthening of trade and economic ties between China and Russia. It will provide a direct stock traffic flow in Central and North-Western China through Kazakhstan to Russia, which will reduce the transport route by more than three times. Investment in its construction, including supply of equipment is R6.8bn (US\$200m).

Financing for the leasing of a State Transport Leasing Company (GTLK) is actively supported by the Government of the Russian Federation.

**New leasing business by type of lessor.** At the St. Petersburg International Economic Forum (June 21, 2013), President Putin stated that the government "intends to strengthen the role of the State in individual companies, to introduce clear performance management indicators, including with respect to companies' capitalisation and financial return ratios. Of course, no regulation or performance indicators will replace the main thing, namely competition. Regardless of who owns a company, no preferential treatment in our economy, a normal market economy, will be allowed. We must create a competitive environment in both internal and external markets for goods and services, for both private and public companies."

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

Analysis showed that in 2013 there had been a decline (by more than three percentage points) in the volume of new business by leasing companies that are affiliated with the State. However, the volume of new business by leasing companies that are affiliated with foreign banks and companies rose by almost 12 percentage points.

In the construction equipment and machinery sector in the first case, the

**Table 7: New leasing business by type of lessor 2009–13**

Group lessor	New leasing business (%)				
	2009	2010	2011	2012	2013
For the lessors, affiliated state:					
All lessors	52.5	62.6	67.5	57.1	53.7
Lessors of construction equipment and machinery	15.1	42.8	45.8	31.0	29.8
For the lessors, established foreign banks and companies:					
All lessors	17.9	12.3	10.6	12.5	14.5
Lessors of construction equipment and machinery	37.5	25.1	21.0	23.7	25.0
Other lessors, established Russian businesses:					
All lessors	29.6	25.1	21.9	30.4	31.8
Lessors of construction equipment and machinery	52.6	32.1	33.2	45.3	45.2



ratio is almost the same within the market as a whole, and in the second case also increased, but to a lesser extent (see Table 7).

**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 2014, totalled US\$83.68bn (beginning of 2013 – US\$77.70bn; and 2012 – US\$60.6bn). Outstandings of the Russian leasing market has grown 7.7%.

However, these figures should not only be seen as quantitative growth; the quality of portfolios must also be taken into account. In 2013, the quality of leasing portfolios had risen compared to 2012.

Information about the number of lessors in the range-group can be found in Table 9, and information about Russian leasing companies with “outstandings” over US\$300m can be found in Table 10.

**Doubtful and problem receivables.** The analysis of activities of leasing companies allowed us to determine the following ratio. According to our estimates, a few months after the beginning of the crisis, 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 contract. 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 a value of 11.2%.

In the Russian market review in the *World Leasing Yearbook 2012*, I suggested that for the leasing industry of Russia to withdraw from the crisis, this figure would need to be reduced by at least half. A survey in 2012 could argue that by the end of 2011, total doubtful and problem receivables decreased by 4.0% and 3.3%. In 2013, the rate of doubtful and problem receivables was 3.92%.

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

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 un-obliging lessees; and bankruptcy of the lessees with the leasing companies claiming a settlement as the creditor in the lease deal.

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.

**Basel conditions.** The crisis has revealed an imperfection of applied methods of risk assessment in lease projects, including those based on scoring models. A real necessity has occurred for the leasing companies to modify the methods, improving all risk-management systems. Control mechanisms laying down the foundations of lease project management solutions will come together.

With Basel III to replace Basel II, the time has now come to generate a new system of bank standards that would regulate financial institutions including leasing companies, and suggest recommendations in accounting and credit risks control (default losses – 35% of credit risk exposure with reimbursement and 65% of credit amount).

The first component of Basel II in Russia was introduced in 2011, with the second and third components implemented in 2014. Now most Russian banks meet Basel III, and the average level of adequacy of capital in our banking system is 12%.

**Table 8: The ratio between the portfolio and new leasing business of the Russian leasing market 2006–13**

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

**Table 9: “Outstandings” of Russian leasing companies (January 1, 2008–14)**

Range (US\$m)	Number of companies						
	2008	2009	2010	2011	2012	2013	2014
From 200 to 300	12	11	9	6	8	11	7
From 300 to 500	12	15	7	7	8	8	10
From 500 to 1,000	7	9	6	2	3	6	7
More than 1,000	7	7	4	6	9	11	9
<b>Total</b>	<b>38</b>	<b>42</b>	<b>26</b>	<b>21</b>	<b>28</b>	<b>36</b>	<b>33</b>

From January 1, 2014 Russian banks expect three standards of capital adequacy according to Basel III – in addition to the standard aggregate capital adequacy (10%) there is a sufficient base of capital (5%) and the main rate (5.5%, and 6% in 2015).

However, the question remains how will the leasing companies be able to execute the new Basel requirements?

On January 1, 2014 some Russian leasing companies, such as Sberbank Leasing, will take into account the risks and build reserves in accordance with the advanced approach of Basel conditions.

As with any other financial deal, leasing is accompanied by a certain level of risk for each side in the leasing agreement. Nevertheless, in Russia, leasing allows suppliers to increase their sales, provides lessees with a mechanism to acquire much-needed assets and stimulates the economy through capital investment. It allows the parties to a leasing deal to allocate risk according to their own needs.

Basel II was adopted on the assumption that it should increase the sensitivity of capital to risk of credit loss as it requires banks to increase levels of capital for those borrowers who are assessed as having a high degree of credit risk. Naturally, the new requirements for banks had a direct impact on the activities of lessors.

However, Basel II overvalued the trust probability calculation of VaR (vector auto-regression) models within advanced approaches. For credit risk the interpretation of data by the Basel Committee experts shows that a deviation from the VaR threshold is likely once in 1,000 years.

Russia is not found in the forecast models, which reflects that for all banks, the systemic risk of exposure to a crisis is once every seven or eight years. I believe that from a managerial point of view, projections can be obtained in the calculation of VaR at the level of 85%–90%.

Of course, these measures will lead to tighter regulation of financial institutions, including leasing companies in part borrowings and formation of the proportions of the leasing portfolio. These circumstances will directly influence securitisation transactions of leasing assets and are likely to change requirements for Russian leasing companies in terms of the availability of their own capital.

According to Jeffrey Nicholson (partner of PwC in Russia) and Kaan Aksel

**Table 10: Russian leasing companies with “outstandings” over US\$300m (January 1, 2014)**

No.	Leasing company	Outstandings (US\$m)
1	VEB-Leasing (Moscow)	19,097
2	Group Companies “VTB-Leasing & TCL” (Moscow)	10,794
3	Sberbank-Leasing (Moscow)	7,603
4	TransFin-M (Moscow)	6,362
5	GTLK (Moscow)	4,170
6	Gaztechleasing (Moscow)	3,509
7	Group Companies “Gazprombank-Leasing” (Moscow)	3,450
8	Group Companies “Alpha-Leasing” (Moscow)	2,194
9	Eurolplan (Moscow)	1,543
10	Ilyushin Finance Co (Voronezh)	919
11	Group Companies “Baltlease” (St.Peterburg)	895
12	Business Alians (Moscow)	875
13	MTE-Finance (Moscow)	765
14	Carcade Leasing (Moscow)	734
15	RTK-Leasing (Moscow)	699
16	Siemens Finance (Vladivostok)	625
17	UniCreditLeasing and Locat Leasing Russia (Moscow)	484
18	Group Companies “Interleasing” (St.Peterburg)	483
19	Raiffeisen-Leasing (Moscow)	481
20	Deutsche Leasing Vostok (Moscow)	447
21	ULC “RESO-Leasing” (Moscow)	439
22	Caterpillar Financial (Moscow)	405
23	Sibirskaya Leasingovaya Compania (Moscow)	382
24	Element Leasing (Moscow)	370
25	Group Companies “ZEST” (St.Peterburg)	365
26	Severnay Veneziy (St.Peterburg)	330

(Director of PwC in Russia) in the journal of “Banking review” No. 6, June 2012, for large Russian banks the costs of transition to use of improved approaches (Basel III) can range from US\$20m to US\$30m for the period up to three to four years. This is due mainly to the new requirements to data collection, risk management and reporting for the IT systems and processes.

About 60%–65% of the cost of the introduction of improved approaches will fall on IT investments related to credit risk, means of transmittal and data entry and new processes, and about 15%–20% will be linked to the development of rating models.

**Insurance of financial risks.** Some leasing companies, when carrying out leasing operations, confine themselves to insur-

ance of financial risks, meaning, first of all, the risk of final insolvency (bankruptcy) of the lessee; the risk of non-compliance by the lessee with its contractual obligation to make lease payments; the risk of the loss of income (profit) by the lessee due to forced interruption of business or idle time caused by the loss (damage) of the insured property.

As required by legislation, in such insurance policies the beneficiary (i.e. the leasing company) is named as the insured. Tariffs for such type of insurance have considerably decreased and were at a level of 1.2% to 2.8% per annum of the value of leasing contracts. Although it is an expensive type of insurance, it provides an interesting scheme for the minimisation of risks.

**Table 11: Ratings of the largest leasing companies in Russia**

Lessor	Agency	
	Fitch Ratings, foreign currency	Standard & Poor's, foreign currency
VEB-Leasing	BBB (Confirmed March 24, 2014)	BBB- (Confirmed April 30, 2014)
Sberbank Leasing	BBB (Confirmed January 10, 2014)	
VTB-Leasing	BBB- (Confirmed January 10, 2014)	BBB- (Confirmed April 28, 2014)
Eurolplan	BB (Confirmed June 4, 2014)	
Carcade Leasing	BB- (Confirmed June 3, 2014)	

A characteristic of the Russian leasing services market is a relatively high level of preparation of leasing contracts. We believe that in this respect Russian leasing companies do not lag behind their foreign colleagues. It is more likely that they are even ahead of their foreign colleagues in this respect because risks on the Russian market are higher.

**Ratings.** It will be necessary to arrange for the gathering and disclosure of information and for the assessment of risks by rating agencies. It is necessary for the purpose of selecting assets and forming high-quality portfolios. Only then will it be possible to implement a flexible policy in respect of profitability levels.

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.

One thing that can help ease those concerns is credit ratings, a service that is

now beginning to appear. A rating reduces risk to a company's creditors and investors, which makes it easier for that company to attract fresh resources and expand its business. Ratings assigned by an independent rating agency are a compact, meaningful summary of the state of a company's business and of its creditworthiness.

We assume that rankings characterise the quantitative aspect of the lessors' business. Qualitative assessment is attained through ratings. A lessor's ratings have certain features predefined by their very lease nature. The logic of lease business speaks for the necessity of building a system of ranking and rating estimates for various practical purposes.

It is important to distinguish between the two types of lessors' ratings. The first type of ratings is based on coefficients, characterising the financial stability of the leasing company. These ratings are used by creditors as decision-makers in allocating funds to finance a specific project on certain terms. Some features are distinctive for lessors. A leasing com-

pany may not stick to just running a lease business. The balance sheet will then accumulate the financials of all the businesses it has.

Another crucial feature lies with the definition of a lessor's leverage. In contrast with a standard commercial company, a lessor's leverage may constantly rise, which is quite a common thing as every steadily growing leasing company tends to enhance borrowed capital in its financial structure.

Leasing companies are transparent and correct in sharing information with their creditors – this is not only a sign of a good lessor culture, but also inevitability, otherwise no loan will be granted.

The second type of rating is reasonably formed from the point of view of lessees. The current financial state of the leasing company is not a matter of interest for the lessee. It holds onto the leased asset as the source of income.

In this scenario, the rating should more likely reflect average annual lease appreciation as compared with the face value of the lease asset. However, very few leasing companies are accurate with this information. For instance, advance payments (funds from lessees to finance a project) are not always deducted in the calculation.

To build a lessor's rating targeted for lessees, it is crucial to assume that this coefficient is aggregated. Hence its value is based on at least four parameters: face value of lease property, advance payment, lease margin and term of lease contract.

At the same time, some requirements that a lessor puts forward in a lease contract are not seen, for example, requirements for collateral, extra security, cost of lease asset as ratio to the volume of total assets of lessee, and lessor's specialisation in the specific market sector.

Obviously this type of rating is highly important, although it is not always sufficient for the lessee to make its final decision as to which leasing company to select for further work.

In 2013–14, Fitch Ratings and Standard & Poor's confirmed the long-term issuer default ratings of some of the largest leasing companies in Russia (VEB-leasing, Sberbank Leasing, VTB-Leasing, Europlan and Carcade).

The successful development of leasing companies, which are detailed in Table 11, gives hope that after two to four years they will be able to achieve a rating of "A" or "AA" and this will help to reduce the cost of financial leasing.

**Table 12: Financing of leasing operations in Russia (2008–13)**

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

**Table 13: Ratio between Russian banks and foreign banks in credit to the Russian leasing business (2007–13)**

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

**Table 14: Capital leverage per Russian leasing company 2007–13**

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

**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.

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 2013, funding of all lessors grew by 2.2% in Russian roubles, while in US dollars there was a decline of 0.5% compared with 2012, and reached US\$27.96bn (2012 – US\$28.10bn; 2011 – US\$27.46bn; 2010 – US\$14.475bn). The 2013 level was higher than the pre-crisis 2007 at 24.2%.

VEB-Leasing was part of one of the notable deals to raise funds. In 2013, it drew 10-years credit in the amount of R30bn (approximately US\$940m). Another lessor – Europlan – was able to get credit of R8bn (approximately US\$250m) from VTB Bank for four years at around 9.5% per annum.

In 2014, VEB-Leasing and Export-Import Bank of China signed a framework credit agreement up to US\$300m. Funds will be spent on the financing of 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.

In 2013, the ratio between Russian and foreign banks in credit to the Russian leasing business was the highest for seven years (Table 13), which shows the relative growth of interest of foreign banks in crediting the Russian leasing market.

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

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 14.

**Emission worth.** For 13 years (from April 2001 to June 2014), more than 40 Russian leasing companies (or SPV leasing companies) issued emission worth a total of US\$10.7bn.

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.

In 2013 and the first half of 2014,

**Table 15: The number of new leasing contracts and average of the value of one leasing transaction (2007–13)**

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

**Table 16: Leasing companies that concluded more than 2,000 leasing contracts in 2013**

No.	Leasing company	Number of concluded leasing contracts
1	Europlan (Moscow)	29,996
2	VEB-Leasing (Moscow)	26,971
3	Carcade Leasing (Moscow)	14,010
4	Group Companies “VTB-Leasing” (Moscow)	10,531
5	Group Companies “Baltlease” (St. Petersburg)	7,505
6	ULC «RESO-Leasing» (Moscow)	6,693
7	Element Leasing (Moscow)	5,587
8	Volkswagen Group Finanz (Moscow)	3,450
9	Stone-XXI (Moscow)	3,228
10	Group Companies “Sberbank Leasing” (Moscow)	2,678
11	Sistema Leasing 24 (Moscow)	2,178



**Table 17: Regional structure of leasing operations in the Russian Federation (2008–13)**

Region of the Russian Federation	Share of the total Russian leasing business (%)					
	2008	2009	2010	2011	2012	2013
Far East	2.6	4.6	2.6	3.3	2.1	2.7
Siberia	8.5	13.6	8.1	5.6	9.2	7.5
The Urals	10.7	6.5	8.4	19.1	13.8	9.6
The Volga region	13.3	10.2	8.5	8.2	8.5	9.8
South (incl. South and North-Caucasian)	6.6	2.5	3.3	2.9	4.2	4.2
North-West (not including St. Petersburg and Leningradskaya oblast)	2.5	1.6	1.7	1.7	1.5	1.9
St. Petersburg and Leningradskaya oblast	12.9	14.6	13.6	6.7	7.2	12.8
Central region (not including the city of Moscow)	14.3	17.1	12.0	9.6	9.7	7.2
Moscow	28.0	28.3	40.6	41.0	42.2	41.9
Cross-border leasing (export)	0.6	1.0	1.2	1.9	1.6	2.4

companies who participated in our survey of the market, raised lease financing worth US\$3.5bn through a bond issue.

In December 2013, the Bank of Russia released the prospectus registered with VEB-Leasing (10 series) for a total of US\$1bn, for 10 years at the coupon rate of 4.939%. The amount of each series was US\$100m.

**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 2013, the companies under review concluded 140,500 new leasing contracts, on average, the value of one leasing transaction was US\$253,000 (see Table 15).

According to Leaseurope, in 2013 Europlan took 16th place in Europe in terms of the number of new contracts – 29,996 (2012 – 26,800), with VEB-Leasing in second place – 26,971 contracts (2012 – 18,137); and in third place was Carcade Leasing – 14,010 contracts (2012 – 13,038).

**Regional structure of leasing in Russia.** In 2013, the bulk of financial resources were still located in Moscow and in St. Petersburg (54.7%), 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 17).

In my opinion it is necessary to draw attention to one major change that occurred in the structure of regional leasing in Russia in 2013. The most noticeable changes (decline) have occurred in parts of Siberia, Ural and Central region (not including the city of Moscow). Rates increased slightly in the St. Petersburg, Leningradskaya oblast and the Volga region.

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 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 2013. Information about the structure of leasing contracts can be found in Table 18.

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 2012, was in three sectors: aircraft – US\$3,153m; motor vehicles for cargo transportation – US\$732m; and light passenger cars – US\$646m. The largest decrease occurred in railway rolling stock with a decrease of -US\$2,742m; and power-generating equipment with a drop of -US\$984m.

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 2012 occurred with leasing railroad rolling stock and locomotives, auto vehicles, aircraft and vessels. The combined weight of these four sectors of the domestic leasing market reached 75.0% in 2013.

In many European countries truck traffic volumes are high, while in Russia

many of the goods are transported by rail.

Despite the decline in 2013 of the railway rolling stock in new leasing business, this segment continues to dominate the leasing market of Russia. For 15 years our survey of the Russian leasing market is the second most important figure, when the leading sector had a share of more than 40%. This kind of structural change 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. With 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 of old property began. In 2013 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 – 19 in our survey for 2013 (in 2012 – 16; in 2011 – 16). But the volume of leasing aircraft rose more than 1.7 times in US dollars. The leader in this sector is VEB-Leasing.

In January 2014, VEB-Leasing has secured funding for another batch of new Boeing 777-300ER deliveries for Aeroflot. The term of the leasing transaction is 12 years and the catalogue price is US\$320.2m. Under the agreement, Eximbank has provided insurance coverage for transactions. Credit Agricole CIB and Goldman Sachs coordinated 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, and JSC's Sukhoi civil aircraft. Aircraft was delivered to the customer under operational leasing for 10 years for passenger air transporta-

tion. Financing is provided by Vnesheconombank and export insurance coverage is provided by the Russian Agency on insurance of export credits and investments.

In January 2014, Sberbank Leasing transferred a group of Volga-Dnepr Airlines Boeing B747-8F for freight transport. The aircraft is designed for the transport of goods and estimated to be worth about US\$350m at catalogue prices. Funding of the contract was provided by Sberbank of Russia. The lease contract is for a period of 12 years.

Operations with different types of auto vehicles in 2013 was 91.1% of respondent lessors (92.7% in 2012; 93.7% in 2011; 92.8% in 2010; 80.9% in 2009). More than half of all Russian market leasing vehicles are "held" by the top nine lessors who enter into contracts for the supply of their customers of the leasing of trucks, tractors, trailers, semi-trailers and dump trucks. Suppliers of this technology were automotive companies from Germany, 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 only about 1% 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 2013, the six largest companies of the survey accounted for half of the total new leasing business in the Russian leasing market (in 2012 – five; in 2011 – four; in 2010 – five; in 2009 – six; in 2008 – 18; and in 2007 – 12).

Various countries have experience of

**Table 18: Structure of leasing contracts concluded (2010–13)**

Asset type	Share in the total volume (%)			
	2010	2011	2012	2013
Motor vehicles for cargo transportation	7.8	9.5	11.1	12.8
Light passenger cars	6.8	6.7	8.5	10.0
Passenger minibuses	0.2	0.2	0.2	0.3
Buses	1.4	1.2	0.8	1.1
Equipment for repairing and servicing cars	0.1	0.1	0.1	0.1
Telecommunications equipment	0.3	0.3	0.4	0.2
Computers and other office equipment	1.0	0.5	0.5	0.5
Geological exploration equipment	0.2	0.1	0.1	0.1
Oil and gas production and processing equipment	4.1	2.0	2.4	2.2
Agricultural equipment	0.5	0.4	2.9	0.6
Railway rolling stock and locomotives	39.5	49.4	40.8	33.9
Building machinery, including specialised machinery on wheels	5.1	6.0	6.1	6.8
Road-building equipment	3.4	2.2	2.2	1.9
Equipment for production and processing of glass	0.01	0.1	0.3	0.04
Metalworking equipment	1.0	2.3	2.6	1.8
Metallurgical equipment	0.01	0.2	0.1	0.2
Mining equipment	0.8	1.9	2.0	1.0
Power-generating equipment	2.0	0.6	3.2	0.8
Printing equipment	0.8	0.3	0.3	0.3
Equipment for food industry, including refrigerating equipment	0.8	0.5	0.6	0.9
Selling/shopping equipment	0.2	0.1	0.1	0.1
Packing equipment	0.6	0.2	0.2	0.3
Loaders and warehouse equipment	0.8	0.6	0.7	0.6
Logging equipment and timber transportation vehicles	0.4	0.3	0.3	0.3
Woodworking equipment	0.6	0.2	0.2	0.2
Equipment for production of paper and cardboard	0.1	0.01	0.05	0.03
Chemical equipment	1.1	0.4	0.5	0.3
Entertainment industry equipment	0.1	0.02	0.03	0.1
Special equipment for provision of housing and communal services	0.4	0.2	0.3	1.0
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	2.0	1.8	1.0	1.1
Aircraft	13.0	6.6	9.0	15.8
Buildings and structures	3.3	2.8	1.4	1.0
Other property	1.4	2.14	0.91	3.4

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 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.

**Lease term.** The Russian leasing law was amended more than 10 years ago and such changes had a material impact on previously prevailing lease terms. Improvements in available financing and a shorter statutory depreciable life facilitated the lease of new types of property. Our statistics confirmed such a trend (see Table 21). However, there has been a decrease in the average time required for 2013 contracts for four months, mainly due to the decline in the share of railway rolling stock, the contracts for which are usually long term.

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 14,000 people are engaged in the leasing industry in Russia (13,200 in 2012; 10,750 in 2011; 9,500 in 2010; 9,160 in 2009; 9,780 in 2008; 10,550 in 2007).

The average number of personnel per Russian leasing company in 2013 was 130 people (128 in 2012; 101 in 2011; 86 in 2010; 64 in 2009; 67 in 2008; 53 in 2007). However, 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 employees per leasing company.

"Output per employee" (for companies who participated in our survey of the leasing market) was approximately US\$3.04m per year (US\$3.2m in 2012; US\$4.1m in 2011; US\$2.6m in 2010; US\$1.5m in 2009; US\$2.7m in 2008; US\$3.1m in 2007). "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 segment of the market in which it operates, and the scale of its clients' businesses.

#### Notes:

- 1 Annual Survey 2013 "The Voice of Leasing and Automotive Rental in Europe" ([www.leaseurope.org](http://www.leaseurope.org)).
- 2 White E., *Leasing industry bounces back with more than 20% growth/World Leasing Yearbook 2013*, Ed. Lisa Paul, Euromoney Yearbooks, 2013, p.2.
- 3 Survey "Ranking of Top European Leasing Companies 2013" – [www.leaseurope.org](http://www.leaseurope.org).
- 4 Yanping Shi, *China Market Review/World Leasing Yearbook 2011*, Ed. Lisa Paul, Euromoney Yearbooks, 2011, p. 168.

This article was written by Dr. Victor D. Gazman, Professor, National Research University – Higher School of Economics (Moscow), author of eight books about leasing. Email: [garantinv@bk.ru](mailto:garantinv@bk.ru).

**Table 19: Proportion of new transport leasing business of the total volume of the Russian leasing market (2008–13)**

Transport sectors	Share of total volume (%)					
	2008	2009	2010	2011	2012	2013
Sum of four transportation sectors: railroad rolling stock and locomotives, auto vehicles, aircraft and vessels	53.5	63.3	70.7	75.4	71.4	75.0

**Table 20: The concentration of the Russian leasing market 2008–13**

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

**Table 21: Finance lease terms in Russia (2004–13)**

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Lease term (month) on average	52	48	54	61	64	63	68	78	72	68