



NATIONAL BANK OF SERBIA
BANK SUPERVISION DEPARTMENT

FINANCIAL LEASING SECTOR IN SERBIA

Second Quarter Report 2019

November 2019

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1 Basic information about the Serbian financial leasing sector¹

At end-Q2 2019, 17 lessors operated in the Serbian financial leasing sector:

1	CA Leasing Srbija d.o.o. Beograd	10	Procredit Leasing d.o.o. Beograd undergoing liquidation
2	ERB Leasing a.d. Beograd undergoing liquidation	11	Raiffeisen Leasing d.o.o. Beograd
3	NDM Leasing d.o.o. Beograd	12	Scania Leasing RS d.o.o. Krnjšeševci
4	Intesa Leasing d.o.o. Beograd	13	S-Leasing d.o.o. Beograd
5	LIPAKS d.o.o. Beograd	14	OTP Leasing Srbija d.o.o. Beograd
6	OTP Lizing d.o.o. Beograd	15	UniCredit Leasing Srbija d.o.o. Beograd
7	NLB Leasing d.o.o. Beograd undergoing liquidation	16	Vantage Leasing d.o.o. Beograd
8	Piraeus Leasing d.o.o. Beograd undergoing liquidation	17	Zastava Istrabenz Lizing d.o.o. Beograd
9	Porsche Leasing SCG d.o.o. Beograd		

1.1 Overview of the basic parameters relevant to the financial leasing sector

(number of employees, total balance sheet assets, total capital – by residence of the lessor's founder and total amount)

Table 1 Overview of basic parameters
(in RSD thousand, in %, as at 30 June 2019)

Ownership structure by owner nationality (residence)	Number	Assets		Capital		Employment	
		Amount	Share	Amount	Share	Number	Share
Lessors in 100% or majority ownership of domestic entities	10	87,839,847	90.1%	6,829,701	69.9%	295	84.0%
Lessors in 100% or majority ownership of foreign legal entities	7	9,619,137	9.9%	2,937,771	31.1%	56	16.0%
Total	17	97,453,984	100.0%	9,767,472	100.0%	351	100.0%

Namely, seven lessors were in 100% or majority ownership of foreign legal entities, while ten other lessors were in 100% or majority ownership of domestic entities (of which eight were owned by domestic banks with foreign capital) (Table 1 – Overview of main parameters).

¹ All data presented in this report are based on the data which the NBS collected through off-site supervision of financial lessors in Q1 2019.

Specification of lessors with percentage of owners' share in the lessors' capital is shown in Table 2.

Table 2 Financial lessor ownership structure

No	Lessor	Owner	% of ownership
1	CA Leasing Srbija d.o.o. Beograd	Credit Agricole Banka Srbija a.d. Novi Sad	100
2	ERB Leasing a.d. Beograd undergoing liquidation	EFG New Europe Holding b.v, Amsterdam, the Netherlands	48.63
		EFG Eurobank Ergasias s.a. Athens, Greece	25.81
		Eurobank a.d. Beograd	25.56
3	NDM Leasing d.o.o. Beograd	KAPPA STAR LIMITED, Cyprus	100
4	Intesa Leasing d.o.o. Beograd	Banca Intesa a.d. Beograd	100
5	LIPAKS d.o.o. Beograd	Mirko Žeželj	48.19
		Zoran Tanasić	48.19
		Sandra Džodić	3.11
		Milorad Milić	0.51
6	OTP Lizing d.o.o. Beograd	Vojvođanska banka a.d. Novi Sad	100
7	NLB Leasing d.o.o. Beograd undergoing liquidation	Nova Ljubljanska Banka d.d. Ljubljana, Slovenia	100
8	Piraeus Leasing d.o.o. Beograd undergoing liquidation	Direktna Banka ad Kragujevac;	100
9	Porsche Leasing SCG d.o.o. Beograd	Porsche Bank AG, Salzburg, Austria	100
10	ProCredit Leasing d.o.o. Beograd undergoing liquidation	ProCredit Bank a.d. Beograd	100
11	Raiffeisen Leasing d.o.o. Beograd	Raiffeisen Bank a.d. Beograd	100
12	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria	25
		Erste Bank a.d. Novi Sad	75
13	OTP Leasing Srbija d.o.o. Beograd	OTP banka Srbija a.d. Beograd	100
14	UniCredit Leasing Srbija d.o.o. Beograd	UniCredit bank Srbija a.d. Beograd	100
15	Vantage Leasing d.o.o. Beograd	VB-Leasing International Holding GmbH, Vienna, Austria	100
16	Zastava Istrabenz Lizing d.o.o. Beograd	Istrabenz D.D. Portorož, Slovenia	95.2
		Grupa Zastava vozila a.d. Kragujevac – undergoing resolution	4.8
17	Scania Leasing RS d.o.o. Krnješevci	Scania CV ACTIEBOLAG, Södertälje, Sweden	100

The classification of lessors by sector of the founder (banking/non-banking sector) has not changed since the establishment of a regulated financial leasing market in Serbia. Thirteen lessors were founded by banks, banking group members or other financial institutions, while four lessors were in majority ownership of non-banking sector entities.

At the end of this quarter, **the number of employees** in the financial leasing sector was 351, down by four from the prior quarter.

Total balance sheet assets of the financial leasing sector equalled RSD 97.5 bn (up by 10.2% compared to the end of the previous quarter).

Total capital equalled RSD 9.8 bn (down by 2.3% q-o-q).

Five lessors made up as much as 73.4% of the financial leasing market in terms of their total balance sheet assets, while, on the other hand, three other lessors held individual shares of below 10.0%. The remaining nine lessors held individual market shares of less than 5.0%.

Financial leasing sector is profitable. Return on assets (ROA) of the financial leasing sector amounted to 1.22%, while return on equity (ROE) equalled 11.51% as at 30 June 2019.

Financial leasing sector has a relatively low share of non-performing assets in the total portfolio (financial leasing receivables).

As at 30 June 2019, receivables from financial leasing which are past due more than 90 days accounted for 2.4% of gross financial leasing receivables at the level of the entire financial leasing sector. The net carrying value of these receivables accounted for 0.1% of the total net portfolio.

Net profit at end-Q2 2019 reached RSD 443.1 bn. Of the total of 17 lessors, six had a negative net result.

At end-Q2 2019, seven lessors (*Intesa Leasing d.o.o. Beograd, OTP Lizing d.o.o. Beograd, CA Leasing Srbija d.o.o. Beograd, OTP Leasing Srbija d.o.o. Beograd, Vantage Leasing d.o.o. Beograd, S-Leasing d.o.o. Beograd and Porsche Leasing SCG d.o.o. Beograd*) had prior consent of the NBS for carrying out insurance agency services, though the share of income generated on this account does not represent a significant item in their total income.

Four lessors are undergoing voluntary liquidation, approved by the NBS.

2 Balance sheet structure

2.1 Balance sheet

As at 30 June 2019, balance sheet assets of all financial lessors totalled RSD 97.5 bn, up by 10.2% relative to the previous quarter.

The largest share (91.5%) of total balance sheet assets was that of financial lease receivables (portfolio). These receivables amounted to RSD 89.1 bn, which is an increase of 11.8% relative to the previous quarter.

Lessors' current assets declined by 4.8%. The decrease was mostly driven by a decline in item Other current assets and deferred tax assets.

At end-Q2 2019, the capital of all lessors amounted to RSD 9.8 bn, with a 10.0% share in total balance sheet liabilities. Total capital gained 2.3% relative to the end of the prior quarter.

As at 30 June 2019, long-term liabilities accounted for the largest share of lessors' total balance sheet liabilities. Long-term loans from foreign creditors made up the dominant share of long-term liabilities. In the majority of cases, foreign creditors of lessors were either their founders or legal entities operating within the same banking group.

As at 30 June 2019, total long-term liabilities increased by 11.0% relative to 31 March 2019.

Long-term foreign borrowing made up the dominant share of long-term liabilities (a 67.7% share of total liabilities). As at end-Q2 2019, long-term domestic loans held a 12.0% share in total balance sheet liabilities, up by 10.1% q-o-q.

As at 30 June 2019, the share of short-term liabilities in total balance sheet liabilities edged up from 9.3% to 9.5% compared to 31 March 2019. The bulk of short-term liabilities are made of domestic short-term loans (87.2%). The total short-term liabilities as at 30 June 2019 reached RSD 9.3 bn, which represents a 13.4% increase relative to the previous quarter (RSD 8.2 bn).

The bulk of lessors' balance sheet assets were foreign currency indexed receivables (90.7%), while the majority of balance sheet liabilities were foreign currency denominated (69.8%), which is in line with the structure of debt, given the creditors' residence.

The comparative balance sheet of lessors in RSD thousands as at 31 December 2018 and 30 June 2019 is presented in Table 3.

Table 3 The comparative balance sheet of financial lessors
(in RSD thousand)

Number	ITEM	31/12/2018		30/6/2019		% growth
		Amount	%	Amount	%	
	ASSETS	86,737,658	100.0	97,453,984	100.0	12.4
1	FIXED ASSETS	78,365,673	90.3	89,938,638	92.3	2.8
1.1	Property, plant and equipment	178,961	0.2	406,545	0.4	127.2
1.2	Financial leasing receivables	77,778,928	89.7	89,128,445	91.5	14.6
1.3	Long-term financial assets	314,329	0.4	308,614	0.3	-1.8
1.4	Other fixed assets	93,455	0.1	95,034	0.1	1.7
2	CURRENT ASSETS	8,371,985	9.7	7,515,346	7.7	-10.2
2.1	Cash and cash equivalents	3,946,774	4.6	2,419,331	2.5	-38.7
2.2	Short-term financial leasing receivables	94,839	0.1	104,927	0.1	10.6
2.3	Short-term financial assets	3,239,712	3.7	4,063,998	4.2	25.4
2.4	Other short-term receivables	255,895	0.3	232,744	0.2	-9.0
2.5	Other current assets and deferred tax assets	834,765	1.0	694,346	0.7	-16.8

LIABILITIES		86,737,658	100.0	97,453,984	100.0	12.4
1	CAPITAL	9,662,751	11.1	9,767,472	10.0	1.1
1.1	Core capital	7,416,790	8.6	7,416,790	7.6	0.0
1.2	Reserves	40,151	0.0	40,151	0.0	0.0
1.3	Revaluation reserves	177	0.0	177	0.0	0.0
1.4	Net unrealised gains/losses	3,982	0.0	22,918	0.0	475.5
1.5	Retained earnings	4,789,255	5.5	4,805,056	4.9	0.3
1.6	Loss	2,587,604	3.0	2,517,620	2.6	-2.7
1.7	Purchased own shares and stakes	0	0.0	0	0.0	-
2	LONG-TERM PROVISIONING AND LIABILITIES	69,102,261	79.7	78,404,678	80.5	13.5
2.1	Long-term provisions	376,841	0.4	511,679	0.5	35.8
2.2	Long-term liabilities	68,725,420	79.2	77,892,999	79.9	13.3
2.2.1	Long-term domestic loans	9,301,647	10.7	11,667,594	12.0	25.4
2.2.2	Long-term foreign loans	59,423,773	68.5	65,987,495	67.7	11.0
2.2.3	Other long-term liabilities	0	0.0	237,910	0.3	-
3	SHORT-TERM LIABILITIES	7,972,646	9.2	9,281,834	9.3	3.1
3.1	Short-term financial liabilities	6,891,087	7.9	8,217,108	8.4	19.2
3.1.1	Short-term domestic loans	6,793,593	7.8	8,092,024	8.3	19.1
3.1.2	Short-term foreign loans	0	0.0	0	0.0	0.0
3.1.3	Liabilities under interest and other costs of financing	97,494	0.1	125,084	0.1	28.3
3.2	Financial lease liabilities	339,615	0.4	425,213	0.4	25.2
3.3	Other liabilities and deferred tax liabilities	741,944	0.9	639,513	0.7	-13.8

Source: NBS.

2.2 Market share

For the purpose of monitoring the structure of the financial leasing market and the degree of competition among lessors, calculations were made of individual and cumulative market shares of lessors' balance sheet totals, as well as of the Herfindahl-Hirschman Index (HHI). Also, lessors were ranked based on the size of individual market share as determined by the level of receivables from financial leasing (portfolio).

Table 4 Market share of lessors by balance sheet assets

Ranking	Lessor	Balance sheet assets		Lessor	Balance sheet assets		
		(RSD thousand)	Share		(RSD thousand)	Share	
1	OTP Leasing Srbija d.o.o. Beograd	17,274,023	17.7%	10	Scania Leasing d.o.o. Krnjšeševci	1,820,368	1.9%
2	Intesa Leasing d.o.o. Beograd	16,871,322	17.3%	11	NDM Leasing d.o.o. Beograd	1,550,658	1.6%
3	Raiffeisen Leasing d.o.o. Beograd	13,358,876	13.7%	12	NLB Leasing d.o.o. Beograd undergoing liquidation	705,927	0.7%

Table 4 Market share of lessors by balance sheet assets

Ranking	Lessor	Balance sheet assets (RSD thousand)	Share	Lessor	Balance sheet assets (RSD thousand)	Share	
4	UniCredit Leasing d.o.o. Beograd	13,162,183	13.5%	13	Vantage Leasing d.o.o. Beograd	266,202	0.3%
5	S-Leasing d.o.o. Beograd	10,905,622	11.2%	14	Procredit Leasing d.o.o. Beograd undergoing liquidation	218,462	0.2%
6	OTP Lizing d.o.o. Beograd	7,846,248	8.1%	15	Zastava Istrabenz Lizing d.o.o. Beograd	217,835	0.2%
7	CA Leasing Srbija d.o.o. Beograd	6,263,911	6.4%	16	ERB Leasing a.d. Beograd undergoing liquidation	113,578	0.1%
8	Porsche Leasing SCG d.o.o. Beograd	4,944,569	5.1%	17	Pireus Leasing d.o.o. Beograd undergoing liquidation	41,677	0.0%
9	Lipaks Leasing d.o.o. Beograd	1,892,523	1.9%				
TOTAL		97,453,984	100.0%				

Source: NBS.

The four top-ranked lessors, whose assets make up over half of the market, retained their positions held at the end of the previous year.

Also, the market share of lessors by portfolio changed insignificantly relative to the previous quarter.

Judging by the Herfindahl–Hirschman Index, which equalled 1,251.8 on 30 June 2019, the financial leasing market falls into the category of moderately concentrated markets.

Table 5 Market share of lessors by financial lease receivables (portfolio)

Ranking	Lessor	Portfolio (in RSD thousand)	Share	Lessor	Portfolio (in RSD thousand)	Share	
1	OTP Leasing Srbija d.o.o. Beograd	17,043,814	19.1%	10	Lipaks Leasing d.o.o. Beograd	1,149,569	1.3%
2	Intesa Leasing d.o.o. Beograd	15,945,556	17.9%	11	Vantage Leasing d.o.o. Beograd	207,408	0.2%
3	Raiffeisen Leasing d.o.o. Beograd	12,825,643	14.4%	12	Zastava Istrabenz Lizing d.o.o. Beograd	143,780	0.2%
4	UniCredit Leasing d.o.o. Beograd	11,983,910	13.4%	13	NDM Leasing d.o.o. Beograd	20,667	0.0%
5	S-Leasing d.o.o. Beograd	10,372,377	11.6%	14	Pireus Leasing d.o.o. Beograd undergoing liquidation	4,387	0.0%
6	OTP Lizing d.o.o. Beograd	7,022,391	7.9%	15	Procredit Leasing d.o.o. Beograd undergoing liquidation	00	0.0%

Table 5 Market share of lessors by financial lease receivables (portfolio)

Ranking	Lessor	Portfolio (in RSD thousand)	Share	Lessor	Portfolio (in RSD thousand)	Share	
7	CA Leasing Srbija d.o.o. Beograd	5,945,612	6.7%	16	NLB Leasing d.o.o. Beograd undergoing liquidation	0.0	0.0%
8	Porsche Leasing SCG d.o.o. Beograd	4,773,382	5.4%	17	ERB Leasing a.d. Beograd undergoing liquidation	0.0	0.0%
9	Scania Leasing d.o.o. Krnješevci	1,689,949	1.9%				
	TOTAL	89,128,445	100.0%				

Source: NBS.

2.3 Income statement

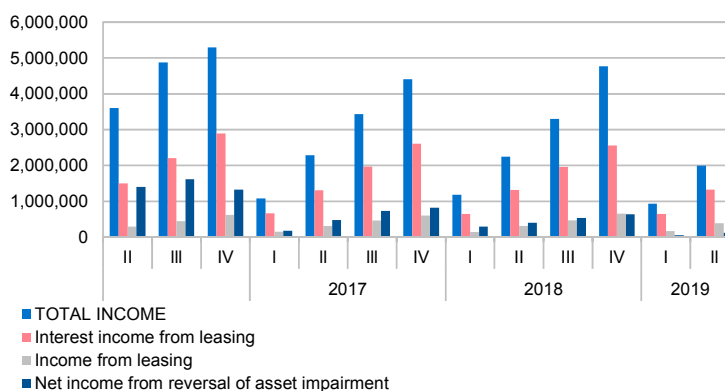
Total pre-tax profit of the financial leasing sector as at 30 June 2019 was positive and equalled RSD 532.1 bn. Of the total number of lessors, six recorded a negative pre-tax result (RSD 93.3 mn), while others had a positive pre-tax result.

As at 30 June 2019, total income and profit equalled RSD 2 bn (down by 11.1% relative to the same quarter in 2018) and total expenses and losses stood at RSD 1.5 bn (up by 4.4% from the same quarter in 2018).

The most significant category of income was interest income from leasing (as the primary income of lessors) with the share of 66.1% in total income as at 30 June 2019. Income from leasing (income from the performance of primary activities) had a 19.2% share in total income, followed by net income from the impairment of assets – 5.9%. Other gains and income (income from premiums, subsidies, grants, donations, income from the reversal of long-term provisions, etc.) had a 6.7% share in total income. The share of other categories of income in the structure of total income changed negligibly.

The structure of the most significant income is given in Chart 1 – Structure of income.

Chart 1 Structure of income

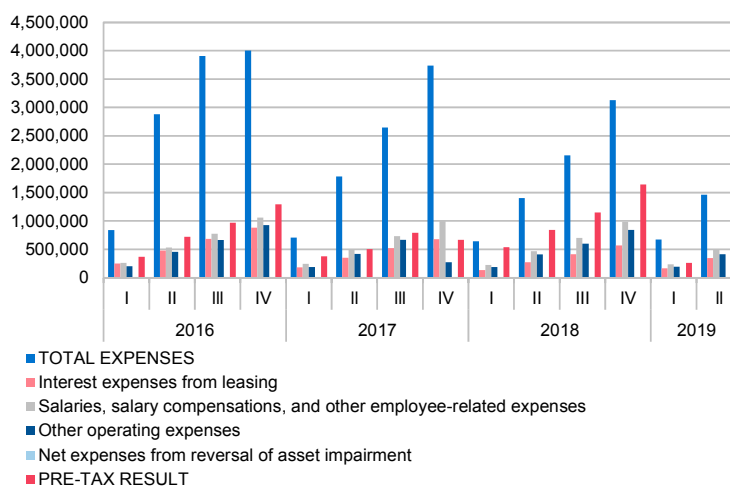


Source: National Bank of Serbia.

The largest share in the structure of total expenses was held by: salaries, salary compensations, and other employee-related expenses (33.7%), followed by other operating expenses (28.5%), lease interest expenses (23.7%), financial leasing expenses (7.5%), and depreciation and provisioning expenses (6.0%).

The structure of the most significant expenses is given in Chart 2 – Structure of expenses.

Chart 2 **Structure of expenses**



The comparative balance sheet of lessors in RSD thousands as at 31 March 2018 and 31 March 2019 is presented in Table 6.

Table 6 **Aggregate profit and loss account of all lessors**
(in RSD thousand)

No	ITEM	30.06 2018	% of tot. inc.	30.06 2019	% of tot. inc.	% growth 2018/2019
INCOME AND EXPENSES FROM REGULAR OPERATIONS						
OPERATING INCOME AND EXPENSES						
1	Interest income from leasing	1,317,323	58.6	1,319,476	66.1	0.2
	Interest expenses from leasing	271,521	12.1	346,346	17.3	27.6
3	Income from leasing	308,536	13.7	384,094	19.2	24.5
4	Expenses from leasing	97,614	4.3	109,977	5.5	12.7
1	BUSINESS RESULT	1,256,724	55.9	1,247,248	62.5	-0.8
OTHER INCOME AND EXPENSES						
5	Net income from other interest	48,131	2.1	39,265	2.0	-18.4
6	Net expenses from other interest	0	0.0	0	0.0	-
7	Net income from exchange rate differences and currency clause effects	707	0.0	0	0.0	-100
8	Net expenses from exchange rate differences and currency clause effects	0	0.0	5,532	0.3	-

Table 6 Aggregate profit and loss account of all lessors
(in RSD thousand)

No	ITEM	30.06 2018	% of tot. inc.	30.06 2019	% of tot. inc.	% growth 2018/2019
9	Net income from share in the profit of subsidiary legal entities and joint ventures	0	0.0	0	0.0	–
10	Net expenses from share in losses of subsidiary legal entities and joint ventures	0	0.0	0	0.0	–
11	Net income from sale and lease	4,654	0.2	0	0.0	-100
12	Net losses from sale and lease	0.0	0.0	71	0.0	–
13	Salaries, compensations and other expenses related to employees	467,289	20.8	493,018	25.2	5.5
14	Depreciation and provisioning	96,080	4.3	87,155	4.4	-9.3
15	Other operating expenses	411,902	18.3	416,769	20.9	1.2
16	Net income from the sale of intangible investment, property, plant, equipment and other assets	2,968	0.1	2,371	0.1	-20.1
17	Net loss from the sale of intangible investment, property, plant, equipment and other assets	0	0.0	0	0.0	–
18	Net income from the sale of the share in capital and securities	1,254	0.1	0	0.0	-100
19	Net loss from the sale of the share in capital and securities	0	0.0	0	0.0	–
20	Net income from impairment of assets	398,791	17.7	118,136	5.9	-70.4
21	Net expenses from impairment of assets	0	0.0	0	0.0	–
22	Other income and gains	164,431	7.3	132,934	6.7	-19.2
23	Other expenses and losses	58,370	2.6	5,343	0.3	-90.8
II	REGULAR OPERATING RESULT	844,019	37.6	532,066	26.7	-37.0
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	–
25	NET LOSS FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	–
III	PRE-TAX RESULT	844,019	37.6	532,066	26.7	37.0
26	PROFIT TAX					
26.1	1 Tax expense of the period	63,512	2.8	78,286	3.9	23.3
26.2	2 Deferred tax expenses of the period	6,854	0.3	14,394	0.7	110.0
26.3	3 Deferred tax income of the period	207	0.0	3,678	0.2	1676.8
27	Paid personal income to employer	0	0.0	0	0.0	–
IV	NET RESULT	773,860	34.4	443,064	22.2	-42.7
V	TOTAL INCOME AND PROFIT	2,246,795	100.0	1,996,276	100.0	-11.1
VI	TOTAL EXPENSES AND LOSSES	1,402,776	62.4	1,464,210	73.3	4.4

Source: NBS.

3 Structure of investment and asset quality

3.1 Structure of financial lease investment

In Q2 2019, as in the years before, the bulk of lease investment (84.0%) went to corporates outside the financial sector.

At end-Q3 2019, by lease asset, financing of freight vehicles, minibuses, and buses continued to account for the largest share (39.4%), followed by passenger vehicles (36.3%). Other lease assets had a share of less than 10.0%.

In this quarter, by sector structure of investment, the most significant share in total financial lease investment was that of transport, warehousing, information and communications – 28.6%. Trade also accounted for a significant share with 15.4%, followed by manufacturing, mining, and water, electricity, gas and steam supply with 14.5%, as did the construction sector with 10.8%. Other activities accounted for a 21.6% share.

3.2 Asset quality

The value of financial leasing receivables as at 30 June 2019 was RSD 89.1 bn, an increase of 11.8% q-o-q (RSD 79.7 bn).

At end-Q2 2019, gross receivables past due equalled RSD 3.4 bn, making up 3.7% of gross financial leasing receivables. Compared to June 2018, when these receivables were negligibly higher, and relative to the same quarter in 2017 when they stood at RSD 5.5 bn, the positive trend is evidently continuing as these receivables are on the decline.

The net carrying value of past due receivables was RSD 957.2 mn, with a share in portfolio of 1.0%. Relative to June 2018, as well as to the same quarter in 2017, the net carrying value of past due receivables edged down slightly.

Net receivables past due were relatively low (9.8%) compared to the capital of the financial leasing sector as at 30 June 2019.

At end-Q2 2019, receivables past due more than 90 days made up the largest share of total receivables past due. As at 30 June 2019, these receivables amounted to RSD 2.3 bn. Their share in total gross receivables from leasing accounted for 2.4%. The net carrying value of receivables past due more than 90 days made up 0.1% of the total net portfolio.

Allowances for impairment of receivables due and not due came at RSD 2.9 bn as at 30 June 2019 and their share in total gross financial leasing receivables was 3.1%, while at 30 June 2018 it equalled 4.4%. This is a significant decrease compared to Q1 2017 when allowances for impairment amounted to RSD 5.8 bn, with a share of 8.7% in total gross receivables.

In Q2 2019, lessors' returned lease assets were worth RSD 335 mn, which, combined with the assets carried over from previous years, amounted to RSD 556.7 mn or 0.6% of the portfolio. Of the total value of returned lease assets, lessors re-

leased 42.4%, sold 20.4%, while 17.3% remained idle. As at 30 June 2019, net carrying value of returned lease assets amounted to RSD 96.2 mn, or 0.1% of the portfolio.

4 Performance indicators

At end-Q2 2019, ROA declined from 2.17% to 1.22%, while ROE declined from 17.68% to 11.51%, relative to Q2 2018.

Net interest margin was 2.44% (at end-Q2 2018 it amounted to 3.22%). At end-Q2 2019, the average lending interest rate was 3.31%, which is a decrease from the same quarter in 2018 when it stood at 4.06%. At end-Q2 2019, the average deposit interest rate stood at 0.90% (0.86% at end-Q2 2018).

Financial lessors' main sources of funds are loans and borrowing. The share of borrowed assets in total lessors' sources of funds is 90%. The liabilities to banks and other credit institutions accounted for the bulk of total liabilities of the financial leasing sector.