



NATIONAL BANK OF SERBIA

BANK SUPERVISION DEPARTMENT

FINANCIAL LEASING SECTOR IN SERBIA

Fourth Quarter Report 2019

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1 Basic information about the Serbian financial leasing sector¹

At end-Q4 2019, 17 lessors operated in the Serbian financial leasing sector:

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

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 31 December 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	92,730,351	90.1%	6,866,460	72.8%	295	84.5%
Lessors in 100% or majority ownership of foreign legal entities	7	10,184,712	9.9%	2,562,471	27.2%	54	15.5%
Total	17	102,915,063	100.0%	9,428,931	100.0%	349	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).

Table 2 shows the percentage of owners' share in the lessors' capital.

Table 2 Financial lessor ownership structure

¹ All data presented in the report are based on the data which the National Bank of Serbia collected in off-site supervision of lessors in Q4 2019.

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 Leasing Srbija d.o.o. Beograd	OTP banka Srbija a.d. Beograd	100
7	OTP Lizing d.o.o. Beograd	Vojvođanska banka a.d. Novi Sad	60
		MERKANTIL BANK ZRT, Budapest, Hungary	40
8	NLB Leasing d.o.o. Beograd undergoing liquidation	Nova Ljubljanska Banka d.d. Ljubljana, Slovenia	100
9	Piraeus Leasing d.o.o. Beograd undergoing liquidation	Direktna Banka ad Kragujevac	100
10	Porsche Leasing SCG d.o.o. Beograd	Porsche Bank AG, Salzburg, Austria	100
11	ProCredit Leasing d.o.o. Beograd undergoing liquidation	ProCredit Bank a.d. Beograd	100
12	Raiffeisen Leasing d.o.o. Beograd	Raiffeisen Bank a.d. Beograd	100
13	Scania Leasing RS d.o.o. Krnješevci	Scania CV ACTIEBOLAG, Södertälje, Sweden 100	100
14	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria	25
		Erste Bank a.d. Novi Sad	75
15	UniCredit Leasing Srbija d.o.o. Beograd	UniCredit bank Srbija a.d Beograd	100
16	Vantage Leasing d.o.o. Beograd	VB-Leasing International Holding GmbH, Vienna, Austria	100
17	Zastava Istrabenz Lizing d.o.o. Beograd	Istrabenz D.D. Portorož, Slovenia	95.2
		Grupa Zastava vozila a.d. Kragujevac – undergoing resolution	4.8

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.

The number of employees in the financial leasing sector was 349 at the end of this quarter.

Total balance sheet assets of the sector stood at RSD 102.9 bn.

Total capital equalled RSD 9.4 bn.

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 1.15%, while return on equity (ROE) equalled 11.27% as at 31 December 2019.

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

As at 31 December 2019, financial lease receivables past due more than 90 days accounted for 2.0% of gross financial lease receivables at the level of the financial sector. The net carrying value of these receivables accounted for 0.1% of the total net portfolio.

Net profit at end-Q4 2019 reached RSD 805.0 bn. Of the 17 lessors, six had a negative net result.

At end-Q4 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 31 December 2019, balance sheet assets of all financial lessors totalled RSD 102.9 bn, up by 3.6% relative to the previous quarter or 18.7% relative to 31 December 2018 (RSD 86.7 bn).

The largest share (91.2%) of total balance sheet assets was that of financial lease receivables (portfolio). These receivables amounted to RSD 93.8 bn, which is an increase of 3% relative to the previous quarter or 20.6% relative to end-2018.

Lessors' current assets increased by 10.4% relative to the previous quarter. The increase was mostly driven by a rise in cash and cash equivalents. Lessors' current assets declined by 1.9% relative to end-2018.

At end-Q4 2019, the capital of all lessors amounted to RSD 9.4 bn, with a 9.2% share in total balance sheet liabilities. Total capital decreased by 1.1% relative to the previous quarter or 2.4% relative to end-2018.

As at 31 December 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 31 December 2019, total long-term liabilities increased by 5.5% relative to 30 September 2019 or by 22.1% relative to end-2018.

Long-term foreign borrowing made up the dominant share of long-term liabilities (a 70.3% share of total liabilities). At end-Q4 2019, long-term domestic loans held an 11% share in total balance sheet liabilities.

As at 31 December 2019, total short-term liabilities equalled RSD 9.2 bn, down by 6.3% relative to the previous quarter (RSD 9.8 bn), and up by 15.0% relative to end-2018. The bulk of short-term liabilities related to domestic short-term loans (87.4%).

The bulk of lessors' balance sheet assets were foreign currency indexed receivables (90.3%), while the majority of balance sheet liabilities were foreign currency denominated (73.3%), which is in line with the structure of debt, given the creditors' residence.

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

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

Number	ITEM	31 December 2018		31 December 2019		% growth
		Amount	%	Amount	%	
	ASSETS	86,737,658	100.0	102,915,063	100.0	18.7
1	FIXED ASSETS	78,365,673	90.3	94,699,256	92.0	20.8
1.1	Property, plant and equipment	178,961	0.2	434,087	0.4	142.6
1.2	Financial leasing receivables	77,778,928	89.7	93,807,266	91.2	20.6
1.3	Long-term financial assets	314,329	0.4	360,757	0.4	14.8
1.4	Other fixed assets	93,455	0.1	97,146	0.1	3.9
2	CURRENT ASSETS	8,371,985	9.7	8,215,807	8.0	-1.9
2.1	Cash and cash equivalents	3,946,774	4.6	3,210,173	3.1	-18.7
2.2	Short-term financial leasing receivables	94,839	0.1	161,350	0.2	70.1
2.3	Short-term financial assets	3,239,712	3.7	4,026,249	3.9	24.3
2.4	Other short-term receivables	255,895	0.3	239,005	0.2	-6.6
2.5	Other current assets and deferred tax assets	834,765	1.0	579,030	0.6	-30.6
	LIABILITIES	86,737,658	100.0	102,915,063	100.0	18.7
1	CAPITAL	9,662,751	11.1	9,428,931	9.2	-2.4
1.1	Core capital	7,416,790	8.6	7,502,198	7.3	1.2
1.2	Reserves	40,151	0.0	143,519	0.1	257.4
1.3	Revaluation reserves	177	0.0	76	0.0	-57.1
1.4	Net unrealised gains/losses	3,982	0.0	29,476	0.0	640.2
1.5	Retained earnings	4,789,255	5.5	4,294,100	4.2	-10.3
1.6	Loss	2,587,604	3.0	2,540,438	2.5	-1.8
1.7	Purchased own shares and stakes	0	0.0	0	0.0	-
2	LONG-TERM PROVISIONING AND LIABILITIES	69,102,261	79.7	84,321,050	81.9	22.0

2.1	Long-term provisions	376,841	0.4	433,345	0.4	15.0
2.2	Long-term liabilities	68,725,420	79.2	83,887,705	81.5	22.1
2.2.1	Long-term domestic loans	9,301,647	10.7	11,278,117	11.0	21.2
2.2.2	Long-term foreign loans	59,423,773	68.5	72,333,515	70.3	21.7
2.2.3	Other long-term liabilities	0	0.0	276,073	0.3	-
3	SHORT-TERM LIABILITIES	7,972,646	9.2	9,165,082	8.9	15.0
3.1	Short-term financial liabilities	6,891,087	7.9	8,154,900	7.9	18.3
3.1.1	Short-term domestic loans	6,793,593	7.8	8,005,751	7.8	17.8
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	149,149	0.1	53.0
3.2	Financial lease liabilities	339,615	0.4	412,712	0.4	21.5
3.3	Other liabilities and deferred tax liabilities	741,944	0.9	597,470	0.6	-19.5

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	18,786,950	18.3%	10	Lipaks Leasing d.o.o. Beograd	2,044,196	2.0%
2	Intesa Leasing d.o.o. Beograd	15,954,285	15.5%	11	NDM Leasing d.o.o. Beograd	1,147,686	1.1%
3	UniCredit Leasing d.o.o. Beograd	15,506,645	15.1%	12	NLB Leasing d.o.o. Beograd undergoing liquidation	701,699	0.7%
4	Raiffeisen Leasing d.o.o. Beograd	13,735,230	13.3%	13	Zastava Istrabenz Lizing d.o.o. Beograd	217,039	0.2%
5	S-Leasing d.o.o. Beograd	11,550,406	11.2%	14	Procredit Leasing d.o.o. Beograd undergoing liquidation	214,434	0.2%
6	OTP Lizing d.o.o. Beograd	8,404,524	8.2%	15	Vantage Leasing d.o.o. Beograd	197,653	0.2%
7	CA Leasing Srbija d.o.o. Beograd	6,495,458	6.3%	16	ERB Leasing a.d. Beograd undergoing liquidation	109,694	0.1%
8	Porsche Leasing SCG d.o.o. Beograd	5,356,478	5.2%	17	Pireus Leasing d.o.o. Beograd undergoing liquidation	39,223	0.0%

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
9	Scania Leasing d.o.o. Krnješevci	2,454,643	2.4%			
TOTAL		102,915,063	100.0%			

Source: NBS.

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

Judging by the Herfindahl–Hirschman Index, which equalled 1,249.8 points on 31 December 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	17,558,718	18.7%	10	Lipaks Leasing d.o.o. Beograd	1,448,880	1.5%
2	Intesa Leasing d.o.o. Beograd	14,857,339	15.8%	11	NDM Leasing d.o.o. Beograd	722,492	0.8%
3	UniCredit Leasing d.o.o. Beograd	13,335,092	14.2%	12	Zastava Istrabenz Lizing d.o.o. Beograd	131,328	0.1%
4	Raiffeisen Leasing d.o.o. Beograd	13,197,687	14.1%	13	Vantage Leasing d.o.o. Beograd	69,072	0.1%
5	S-Leasing d.o.o. Beograd	10,845,374	11.6%	14	Pireus Leasing d.o.o. Beograd undergoing liquidation	142	0.0%
6	OTP Lizing d.o.o. Beograd	7,986,002	8.5%	15	Procredit Leasing d.o.o. Beograd undergoing liquidation	0.0	0.0%
7	CA Leasing Srbija d.o.o. Beograd	6,115,089	6.5%	16	NLB Leasing d.o.o. Beograd undergoing liquidation	0.0	0.0%
8	Porsche Leasing SCG d.o.o. Beograd	5,225,528	5.6%	17	ERB Leasing a.d. Beograd undergoing liquidation	0.0	0.0%
9	Scania Leasing d.o.o. Krnješevci	2,314,523	2.5%				
TOTAL		93,807,266	100.0%				

Source: NBS.

2.3 Income statement

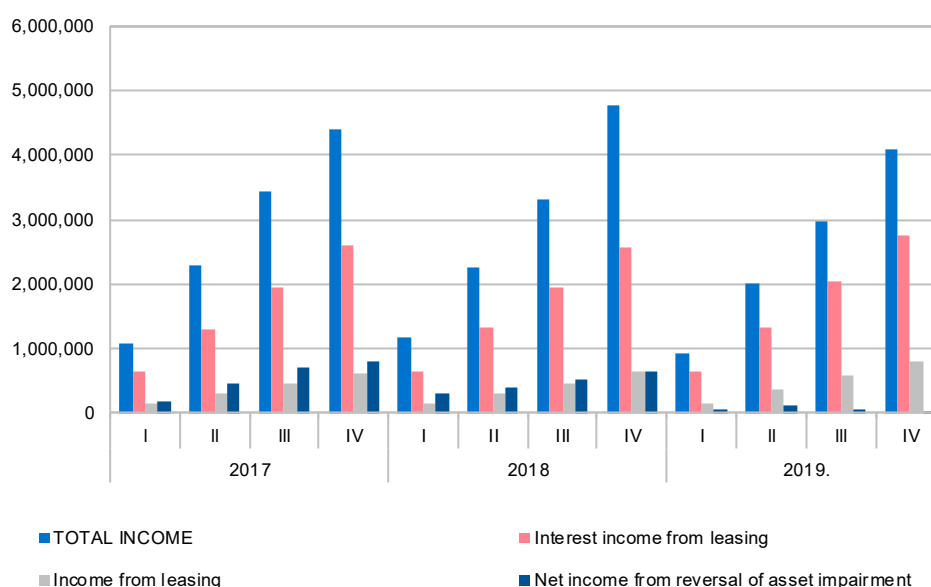
Total pre-tax profit of the financial leasing sector as at 31 December 2019 was positive and equalled RSD 1.0 bn (net result of RSD 805 mn). This is a 37.2% drop relative to end-2018, when pre-tax result equalled RSD 1.6 bn (net result of RSD 1.4 bn). Of the total number of lessors, six recorded a negative pre-tax result.

As at 31 December 2019, total income and profit equalled RSD 4.1 bn (down by 14.5% relative to end-2018) and total expenses and losses stood at RSD 3 bn (down by 2.5% from the same quarter of 2018).

The most significant category of income was interest income from leasing (as the primary income of lessors) with a share of 67.7% in total income as at 31 December 2019. Income from leasing (income from the performance of primary activities) had a 19.8% share in total income, followed by net income from other interest (1.6%), and net income from the impairment of assets (1.1%). Other gains and income (income from premiums, subsidies, grants, donations, income from the reversal of long-term provisions, etc.) had a 9.5% 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**

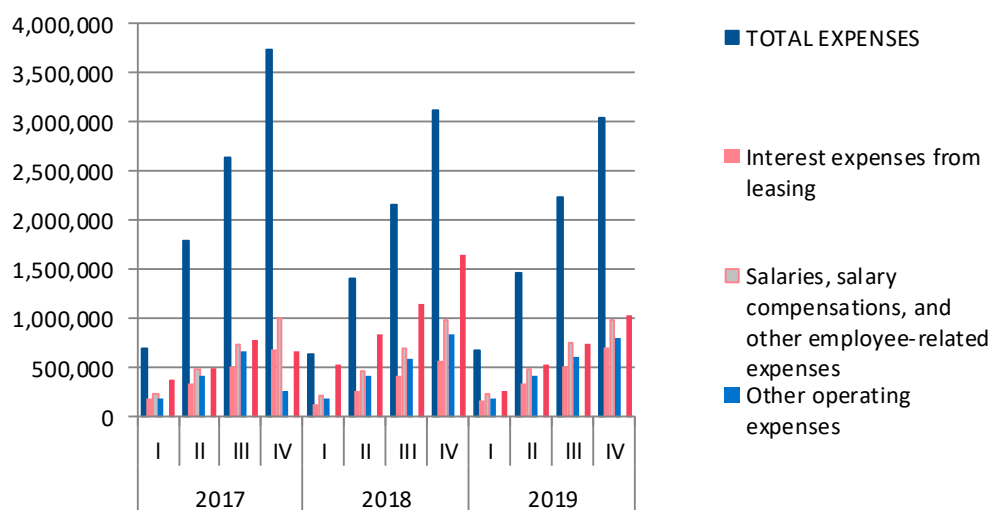


Source: National Bank of Serbia

The largest share in the structure of total expenses was held by: salaries, salary compensations, and other employee-related expenses (32.3%), followed by other operating expenses (26.3%), lease interest expenses (23.0%), financial leasing expenses (7.7%), and depreciation and provisioning expenses (6.4%).

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

Chart 2 Structure of expenses



Source: National Bank of Serbia

The comparative aggregate profit and loss account of lessors in RSD thousand as at 31 December 2018 and 31 December 2019 is presented in Table 6.

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

No	ITEM	31.12 2018	% of tot. inc.	31.12 2019	% of tot. inc.	% growth 2018/2019
INCOME AND EXPENSES FROM REGULAR OPERATIONS						
OPERATING INCOME AND EXPENSES						
1	Interest income from leasing	2,558,840	53.6	2,763,968	67.7	8.0
2	Interest expenses from leasing	570,911	12.0	701,968	17.2	23.0
3	Income from leasing	648,893	13.6	808,434	19.8	24.6
4	Expenses from leasing	208,969	4.4	233,703	5.7	11.8
1	BUSINESS RESULT	2,427,853	50.9	2,636,731	64.6	8.6
OTHER INCOME AND EXPENSES						
5	Net income from other interest	105,052	2.2	66,141	1.6	-37.0
6	Net expenses from other interest	0	0.0	0	0.0	–
7	Net income from exchange rate differences and currency clause effects	0	0.3	0	0.0	--
8	Net expenses from exchange rate differences and currency clause effects	463	0.0	33,244	0.8	7080.1
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	5,085	0.1	5,310	0.1	4.4
12	Net losses from sale and lease	0.0	0.0	0	0.0	–

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

No	ITEM	31.12 2018	% of tot. inc.	31.12 2019	% of tot. inc.	% growth 2018/2019
13	Salaries, compensations and other expenses related to employees	985,498	20.7	985,219	24.1	0.0
14	Depreciation and provisioning	212,518	4.5	149,780	4.8	-8.3
15	Other operating expenses	844,661	17.7	802,075	19.7	-5.0
16	Net income from the sale of intangible investment, property, plant, equipment and other assets	3,195	0.1	2,762	0.1	-13.6
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	0	0.0	8	0.0	--
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	638,815	13.4	43,898	1.1	-93.1
21	Net expenses from impairment of assets	0	0.0	0	0.0	–
22	Other income and gains	810,527	17.0	389,465	9.5	-51.9
23	Other expenses and losses	305,395	6.4	97,709	2.4	-68.0
II	REGULAR OPERATING RESULT	1,641,992	34.4	1,031,288	25.3	-37.2
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	1,641,992	34.4	1,031,288	25.3	-37.2
26	PROFIT TAX					
26.1	1 Tax expense of the period	198,812	4.2	211,798	5.2	6.5
26.2	2 Deferred tax expenses of the period	16,389	0.3	19,891	0.5	21.4
26.3	3 Deferred tax income of the period	10,140	0.2	5,398	0.1	-46.8
27	Paid personal income to employer	0	0.0	0	0.0	–
IV	NET RESULT	1,436,931	30.1	804,997	19.7	-44.0
V	TOTAL INCOME AND PROFIT	4,770,407	100.0	4,079,986	100.0	-14.5
VI	TOTAL EXPENSES AND LOSSES	3,128,415	65.6	3,048,698	74.7	-2.5

Source: NBS.

3 Structure of investment and asset quality

3.1 Structure of financial lease investment

In Q4 2019, as in the years before, the largest share in the lease investment structure by lessee (83.5%) referred to corporate financial leasing outside the financial sector.

Looking at the lease investment structure by the lease asset at end-Q4 2019, we can see that the financing of freight vehicles, minibuses and buses continued to account

for the largest share (39.9%), followed by passenger vehicles (36.5%). Other lease assets had a share of less than 10.0%.

Looking at sectors, the most significant share in total financial lease investment was that of transport, warehousing, information and communications – 27.7%. Trade also accounted for a significant share with 15.9%, followed by manufacturing, mining and water, electricity, gas and steam supply with 14.1%, and the construction sector with 11.7%. Other activities accounted for a 22.0% share.

3.2 Asset quality

The value of financial leasing receivables as at 31 December 2019 was RSD 93.8 bn, an increase of 20.6% relative to end-2018 (RSD 77.8 bn). Compared to 30 September 2019 (RSD 91.1 bn), these receivables recorded a 3.0% rise at end-2019. At end-Q4 2019, gross receivables past due equalled RSD 2.7 bn, making up 2.8% of gross financial lease receivables. Compared to 31 December 2018 (RSD 3.0 bn) and 31 December 2017 (RSD 4.5 mn), the positive trend is evidently continuing as these receivables are on the decline.

At end-Q4 2019, the net carrying value of past due receivables was RSD 614.3 mn, with a share in portfolio of 0.7%. Relative to end-2018, as well as to end-2017, the net carrying value of past due receivables edged down.

Net past due receivables were relatively low (6.5%) relative to the capital of the financial leasing sector as at 31 December 2019.

At end-Q4 2019, receivables past due more than 90 days made up the largest share of total receivables past due. As at 31 December 2019, these receivables amounted to RSD 2.0 bn, accounting for a 2.0% share in total gross receivables from leasing. 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 past due and outstanding receivables came at RSD 2.8 bn as at 31 December 2019, and their share in total gross financial leasing receivables was 2.9% (3.7% as at 31 December 2018). This is a significant decrease compared to Q4 2017 when allowances for impairment amounted to RSD 4.7 bn, with a share of 6.7% in total gross receivables.

In 2019, lessors' returned lease assets were worth RSD 882.5 mn, which, combined with the assets carried over from previous years, amounted to RSD 1.1 bn or 1.2% of the portfolio. Of the total value of returned lease assets, lessors re-leased 39.0%, sold 42.3%, while 8.2% remained idle. As at 31 December 2019, net carrying value of returned lease assets amounted to RSD 91 mn, or 0.1% of the portfolio.

4 Performance indicators

ROA declined from 2.05% in Q4 2018 to 1.15% at end-Q4 2019 and ROE from 17.53% to 11.27%.

Net interest margin was 2.51% (2.94% at end-Q4 2018). At end-Q4 2019, the average lending interest rate was 3.36%, which is a decrease from the same quarter of 2018 when it stood at 3.77%. At end-Q4 2019, the average deposit interest rate stood at 0.88% (0.85% at end-Q4 2018).

Financial lessors' main sources of funds are loans and borrowing. The share of borrowed assets in total lessors' sources of funds is 90.1%. Liabilities to banks and other credit institutions accounted for the bulk of total liabilities of the financial leasing sector.