

LEASING MARKET IN MONTENEGRO - Briefing 2014 -

Introduction

The declining trend in leasing market activity in Montenegro, in terms of decrease in placements and the value of contracted leasing operations, continued in 2014.

As regards the regulatory framework in 2014, the Ordinance on the content and manner of keeping records of financial leasing companies (Official Gazette of Montenegro, no. 50/14 of 11/28/2014) has been adopted, in accordance with the obligation arising from the Law on Consumer Loans (Official Gazette of Montenegro, No. 35/13). Pursuant to the said Law, the Ministry of Finance is required to keep records of the creditor financial leasing companies and their financial intermediaries. To this end, the list of financial leasing companies is published on the website: <http://www.mif.gov.me/biblioteka/registers>.

The leasing market kept prudence in granting new loans, in the light of liquidity problems faced by economic entities in the market, so leasing providers supported only clients with proven creditworthiness, resulting in a reduction in the number of new loans.

Market Participants

Leasing services in Montenegro in the previous year have been provided by four leasing companies having legal entity status, and by two banks: S-Leasing, Porsche Leasing, NLB Leasing and Hypo Alpe Adria Bank. Also, Hypo Alpe Adria Leasing, as a company registered to perform leasing activities did not approve any new loans during the previous year, but only collected claims based on previous contracts, same as Prva banka Crne Gore osnovana 1901. godine.¹

Services of financial and operational leasing have been provided by the Hypo Alpe Adria Bank, S- leasing, NLB Leasing and Porsche Leasing. All leasing companies are either directly or indirectly foreign-owned, except for Prva banka Crne Gore, which is predominantly locally owned.

Table 1: State of leasing activity in the period 31/12/2012 – 31/12/2014

Date	Number of leasing providers	Total assets ² (mil. €)	Number of employees	Number of concluded contracts	The value of concluded contracts (mil €)
31/12/2012	4	143.9	47	1,338	19.8
31/12/2013	4	116.9	48	1,218	17.8
31/12/2014	4	88.2	47	1,084	15.0

Investment structure

During 2014, the leasing market saw a conclusion of a total of 1,084 new contracts worth 15,044,692.5 euros, with an average value of a contract of 13,878.87 euros.

¹ Prva banka Crne Gore osnovana 1901. godine in period 2010/2013 was not active in the leasing market in terms of approving new loans, except for collection of claims based on earlier concluded contracts

² Data on total assets relate to four leasing companies

On the other hand, on 31 December 2014, the total number of *active contracts* was 5,096, the value of 116,327,355.03 euros, with an average value per active contract amounting to 22,827.19 euros.

- **Lessees**

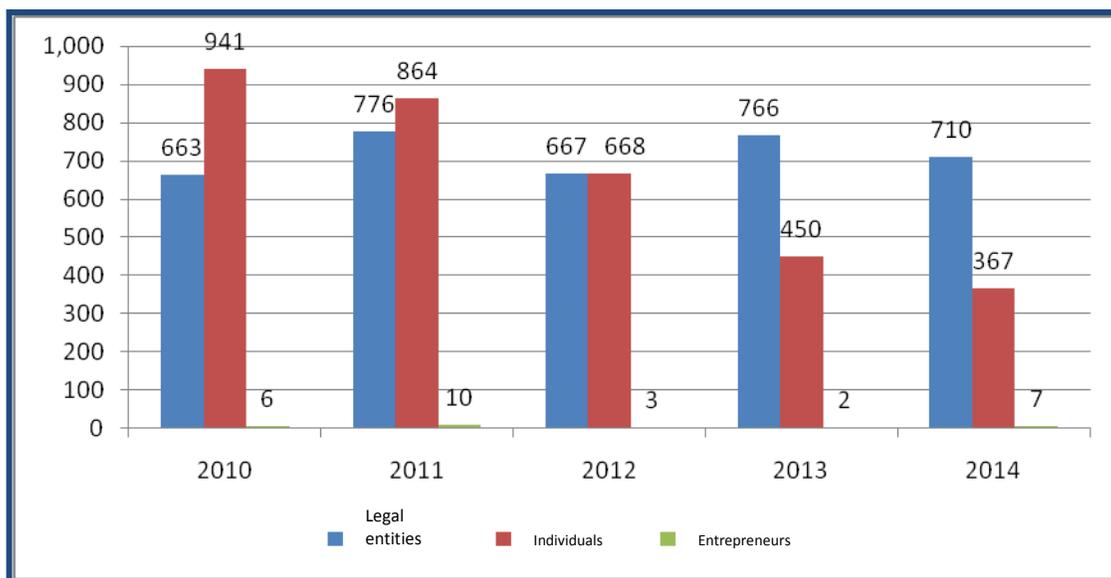
In the period from 2011 to the end of 2014 there is an evident decline in the number of newly concluded contracts. On 31 December 2014, compared to 31 December 2011, the number reduced by 34.3%, while a decrease of 11% has been recorded compared to the last two years (2013-2014).

The value of signed contracts at the end of 2014 of 15 million euros represents a decrease of about 16% compared to the same period previous year.

In the structure of lessees, the largest share have legal entities (65.5%), which significantly altered the structure in relation to 2010 and 2011, when most of the contracts were concluded with individuals. In terms of the value of those contracts, about 71.9% of the total value of new contracts in 2014 are contracts concluded with legal entities.

Thus, it is evident that the policy of leasing companies focused on risk diversification and on ensuring the optimum client structure, which is a continuation of operations from earlier years.

Graph 1: Number of contracts by lessees



- **Value and number of leasing transactions by type of lease**

As was the case in previous years, the *financial leasing* operations had a significant share in the total number and value of concluded contracts in 2014. Financial leasing contracts accounted for slightly more than 90% of the total number of newly concluded contracts.

The average cost per financial leasing contract amounted to 13,937.93 euros, while the average cost of newly concluded operational leasing contracts amounted to 13,310.29 euros.

Table 2: Number and value of concluded contracts by lease type 2010-2014

NUMBER						
	2010	2011	2012	2013	2014	2014/2013
Operating lease	39	69	41	121	102	-15.7%
Financial lease	1,571	1,581	1,297	1,097	982	-10.5%
Total	1,610	1,650	1,338	1,218	1,084	-11.0%
VALUE						
	2010	2011	2012	2013	2014	2014/2013
Operating lease	3,605,214.5	1,265,293.9	550,336.4	1,645,080.3	1,357,649.6	-17.5%
Financial lease	23,916,840.9	30,079,253.1	19,244,306.6	16,240,587.1	13,687,042.9	-15.7%
Total	27,522,055.4	31,344,547.0	19,794,643.0	17,885,667.4	15,044,692.5	-15.9%

Of the total number of concluded contracts about 91%, or EUR13.7 million, related to the *financial* and the remaining to the *operating lease*. It is important to note that these values of newly concluded contracts are expressed as the net value of loans, which represents the total value of the contract less the value of the participation by the client.

- **Leasing subject**

Looking at the structure of the total number of concluded contracts based on the lease, *passenger cars* have the biggest share of 87.7% in the total amount of leasing investments, as in previous years.

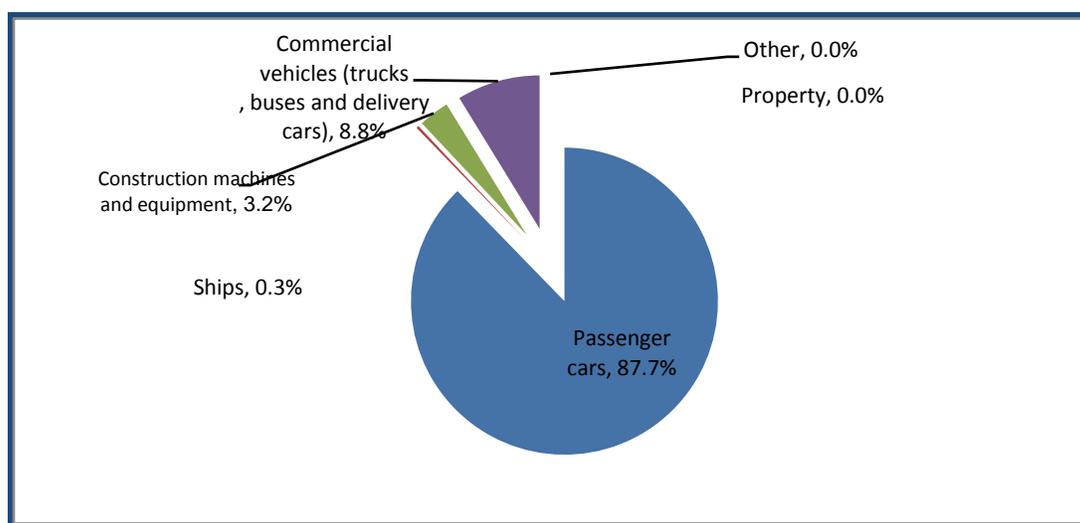
Table 3: Comparative overview of the number of concluded contracts based on the lease

Number of contracts					
Leasing subject	2013 (1)	%	2014 (2)	%	Growth rate (2)/(1)
Passenger cars					
Commercial vehicles (trucks, buses, and delivery cars)	129	10.59	95	8.8%	-26.4%
Construction machines and equipment					
Ships	3	0.25	3	0.3%	0.0%
Property					
Other	4	0.33	-	-	-100.0%
Total	1,218		1,084		-11.0%

The share of commercial vehicles in the total number of concluded contracts amounts to approximately 9%, and compared to the nominal value, the number of signed contracts was reduced by approximately 27%, whereas the number of contracts concluded in connection with construction machinery and equipment increased slightly (an increase of about 3%) so in 2014 these contracts accounted for about 3.2% of total number of newly concluded contracts.

Neither in 2013 nor in 2014, the property was the subject of leasing contracts. In addition, during 2014, there was no conclusion of leasing contracts in the category "Others".

Chart 2: Structure of concluded contracts by type of lease



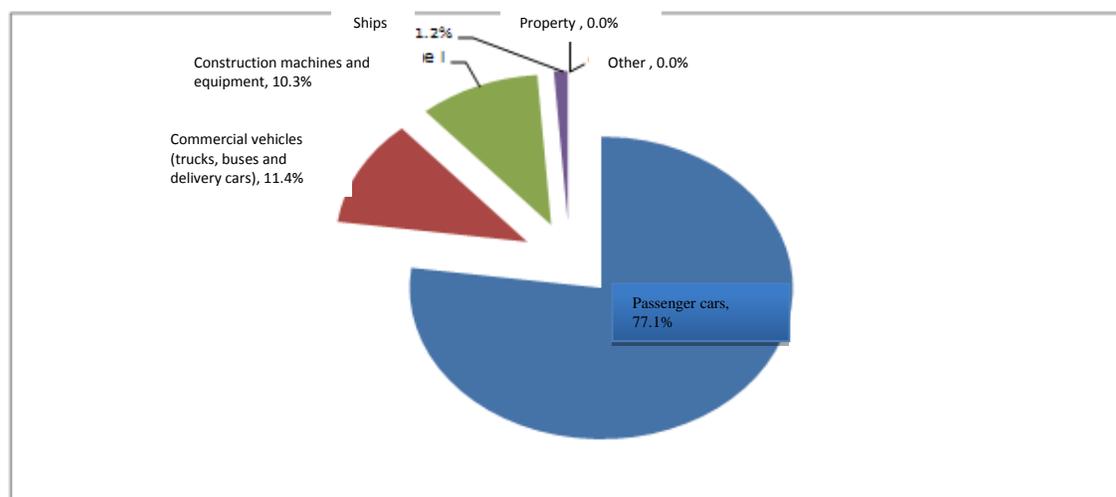
If we observe the structure of values of concluded contracts per lease subject, structural participation is similar as in previous example, again in favor of passenger cars. The value of leasing contracts in the area of passenger cars, in the total value of newly concluded contracts makes up about 77%, while commercial vehicles make up about 11%, and the share of construction machines amounts to approximately 10%.

Table 4: Comparative overview of the value of concluded contracts by type of lease

Lease subject	Contract value				Growth rate (2)/(1)
	2013 (1)	%	2014 (2)	%	
Passengers cars	12,252,191.10	68.50	11,601,796.80	77.1%	-5.3%
Commercial vehicles (trucks, buses, and delivery cars)	2,177,215.15	12.17	1,722,515.06	11.4%	-20.9%
Construction machines and equipment	3,038,637.14	16.99	1,544,784.93	10.3%	-49.2%
Ships	198,970.00	1.11	175,595.70	1.2%	-11.7%
Property	-	-	-	-	-
Other	218,651.00	1.22	-	-	-100.0%
Total	17,885,664.39		15,044,692.49		-15.9%

Although the number of concluded contracts for construction machines and equipment increased by about 3%, the total value of these contracts reduced by approximately 50%. At the same time, the average interest rate for the same category increased from 7.3 to 8.7%.

Chart 3: The structure of the value of concluded contracts by type of leasing



- **Sectoral structure**

As regards the sectoral structure of placements of newly concluded contracts in 2014, it was dominated by contracts under *other services, trade and transport*.

Compared with the previous year, there is a reduction of contracts concluded in the sector of accommodation and catering services, as well as agriculture, forestry and fisheries.

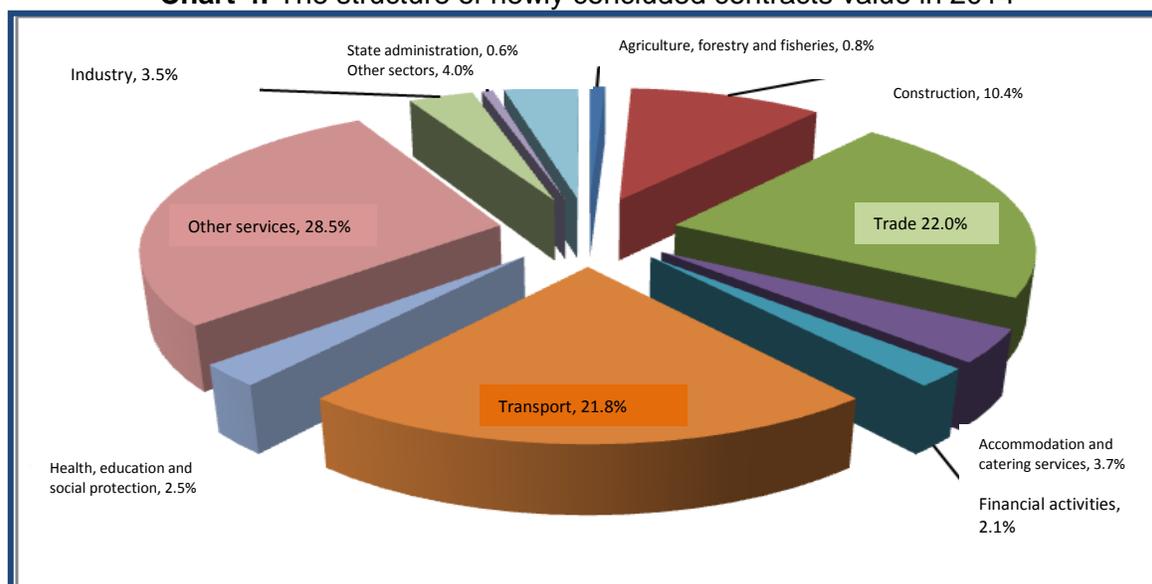
Table 5: Sectoral structure of newly concluded contracts

The number of newly concluded contracts					
Sector	31/12/2013		31/12/2014		Growth/drop rate (2)/(1)
	(1)	%	(2)	%	
Agriculture, forestry and fisheries	8	2.42	7	1.0	-12.5%
Construction	35	10.57	40	5.6	14.3%
Trade	126	38.07	167	23.5	32.5%
Accommodation and catering services	28	8.46	17	2.4	-39.3%
Other services	61	18.43	278	39.2	355.7%
Transport	16	4.83	113	15.9	606.3%
Financial activities	4	1.21	5	0.7	25.0%
Industry	13	3.93	23	3.2	76.9%
Health, education and social welfare	2	0.60	6	0.8	200.0%
State administration	1	0.30	8	1.1	700.0%
Other sectors	37	11.18	46	6.5	24.3%
Total	331		710		114.5%

In terms of value of newly concluded contracts based on the sectoral structure, the largest share in total placements have other services (28.5%), trade (22%), transport (21.8%), construction (10.4%).

Chart 4 shows the overall structure of the sector, in terms of the value of newly concluded contracts in 2014:

Chart 4: The structure of newly concluded contracts value in 2014



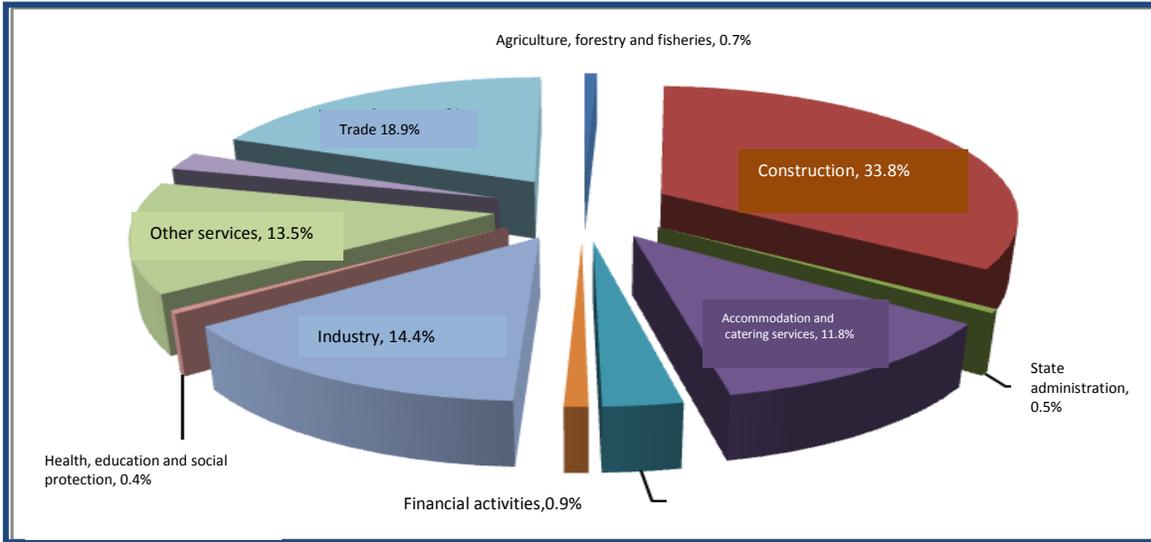
The breakdown of *active* loans as at December 31, 2014, shows a domination of contracts within the trade sector (30%), other services (18%), and industry (16%).

Table 6: Sectoral structure of *active* placements

Active placements					
Sector	31/12/2013 (1)	%	31/12/2014. (2)	%	Growth/drop rate (2)/(1)
Agriculture, forestry and fisheries	38	2.42	44	1.7%	15.8%
Construction	376	10.57	318	12.4%	-15.4%
Trade	972	38.07	771	30.0%	-20.7%
Accommodation and catering services	160	8.46	98	3.8%	-38.8%
Other services	498	18.43	463	18.0%	-7.0%
Transport	233	4.83	212	8.2%	-9.0%
Financial activities	25	1.21	33	1.3%	32.0%
Industry	244	3.93	409	15.9%	67.6%
Health, education and social welfare	40	0.60	21	0.8%	-47.5%
State administration	36	0.30	46	1.8%	27.8%
Other sectors	321	11.18	155	6.0%	-51.7%
Total	2,943		2,570		-12.7%

Chart 5 shows the overall structure of the sector in terms of the value of active contracts as at December 31, 2014, with the biggest share of the construction sector, trade, industry, services, food and accommodation and other services.

Chart 5: Structure of active contracts as at December 31, 2014



Balance Sheet

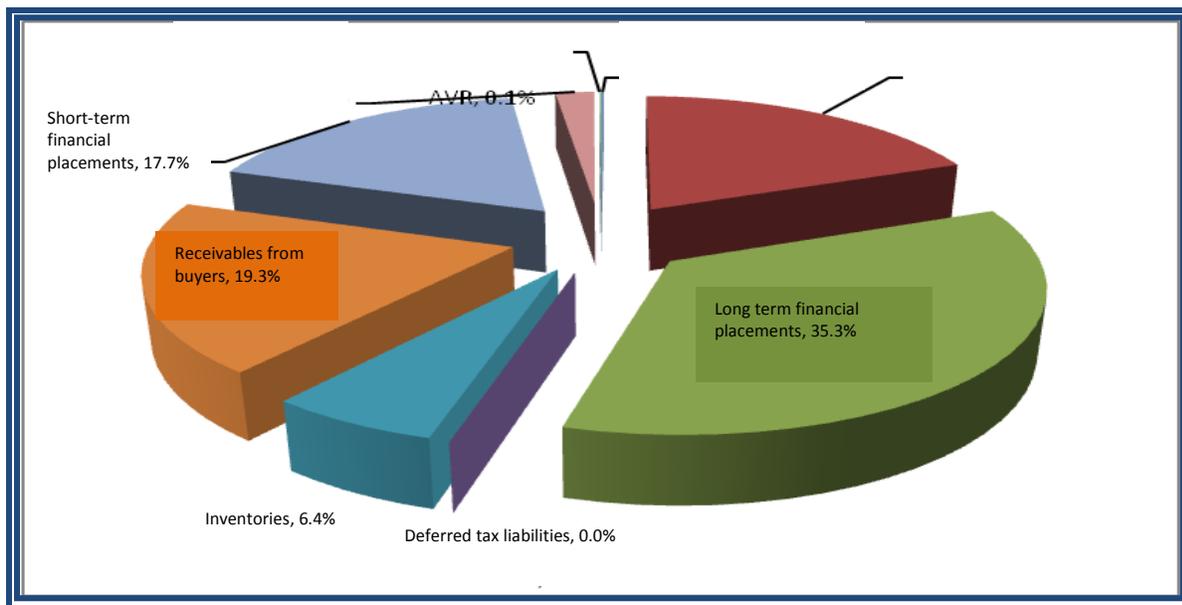
Total assets of four leasing companies as at December 31, 2014 amounted to 88,210,466 euros, 24.6% down compared to 31 December 2013. However, comparative data of assets from the leasing market are not relevant, given that a significant portion of the balance sheet sum of aggregate balance of the market is recorded within the financial statements of leasing service provider with the largest market share, Hypo Alpe Adria Bank, which in front of the Hypo Alpe Adria Group concludes new lease placements.

In total assets structure, a larger share related to fixed assets (54.4%), whereas current assets accounted for around 45.6%.

It is evident that the long-term investments with EUR 31,159,602.34 (65%) are the most important item of *fixed assets*, followed by property, plant and equipment with 16,725,109.09 euros (% 35).

Within *current assets*, short-term receivables, investments and cash dominate with around 86%, while the rest are inventories.

Chart 6: Structure of total assets of leasing companies as at December 31, 2014



In the structure of liabilities of four leasing companies as at 31 December 2013, the largest share made *short-term provisions and short-term liabilities*, 63,292,311.79 euros, while *long-term provisions and long-term liabilities* amounted to 54,145,849.72 euros. Compared to the data as of 30 September 2014, equity declined by 35.7%, long-term provisions and long-term liabilities by 13.8%, and short-term provisions and short-term liabilities by 0.6%.

Income statement

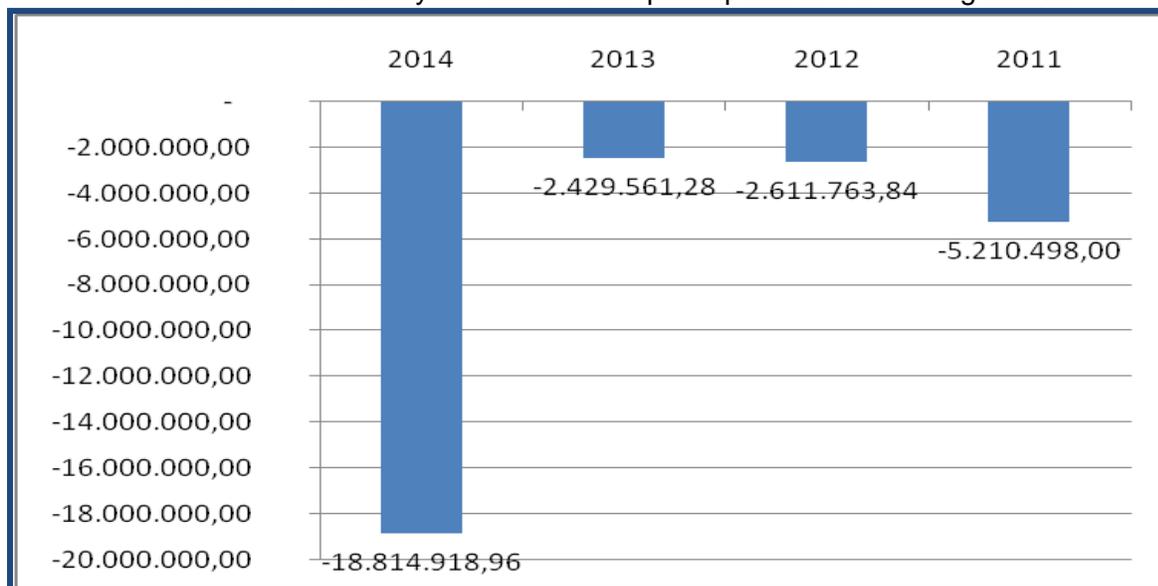
On 31 December 2014, four leasing companies have achieved *operating income* of 10,946,609.20 euros, of which sales revenue accounted for 88.6%, and the rest is other operating income. On the other hand, in the same period, *operating expenses* amounted to 26,787,570.16 euros, of which 70.8% were other operating expenses, and 21% are booked under the item "cost of goods sold." Therefore, the operating result was negative, and at level of 4 leasing companies a loss of 15,840,960.96 euros has been disclosed. However, two leasing companies have operated successfully and at the end of fourth quarter 2014, had positive operating results.

In the same period, summed, four leasing market participants have reported negative financial result in the amount of 639,353.21 euros, as well as a negative result from other activities (-2,271,413.82).

Leasing companies as at 31 December 2014, reported -18,814,918.96 euros net results or loss in the market. Within the total loss in the market, over 90% (17,104,733.00) is a participation of one leasing company. Positive net result at the end of the observation period 2014, was reported by two of the four leasing companies. By comparison, on the same day in 2013, the leasing market has shown overall net result - loss of 2,429,561.28 euros.

At the same time, it is necessary to point out that, in the overall result of the income statement, which presents the revenues and expenditures of the leasing companies, there is a missing piece of data that is calculated through the balance of a bank dealing with the leasing business, bearing in mind that Hypo Alpe Adria Bank provides leasing service within its portfolio.

Chart 7: Summary net result of the participants in the leasing market



Balance sum of banks, and lessors

Leasing companies in Montenegro as at 31 December 2014 achieved a balance sum in amount of EUR 88.2 million, which represents 2.81% of the balance sum in the banking sector.³

³ Central bank of Montenegro data

Chart 8: The ratio of balance sum of banks and leasing companies (mil. €)

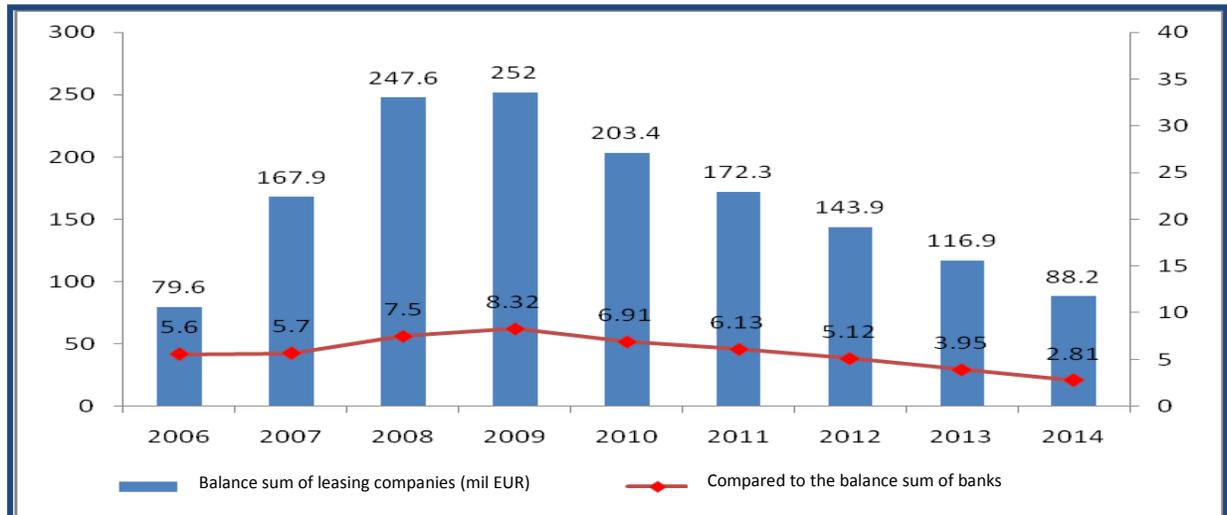


Chart 8 shows that the balance sum of leasing companies, in relation to the balance sum of banks in 2013 recorded a decrease as a result of reduction of the balance sum of leasing companies. Such comparison is not relevant to the overall leasing market, as some assets in the leasing activities of Hypo Alpe Adria Bank are not covered by the aggregate balance of the leasing companies.

If the balance sum of leasing companies is put in proportion with the gross domestic product, the relevant ratio was 3.5% in 2013, while the ratio in 2014 was 2.6%.

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The same business policy of leasing companies from 2012 and 2013, continued in 2014 and was, to a large extent, based on contracts with clients of high level creditworthiness, which resulted in the reduction of market risk exposure. From the aspect of leasing companies, the market during 2014 recorded the same trend as in previous two years, as the number of clients that are servicing obligations to a lesser extent increased, as well as the number of insolvent clients. At the same time, the restrictive credit approval policies retained, as the number of customers who meet the creditworthiness conditions for funding decreased.

Growth in the number of credible clients, as well as the efficient collection of receivables, are the priorities of leasing companies in the future, while the recovery in economic activity in Montenegro will be a direct cause for the growth of leasing operations.