VERDICT

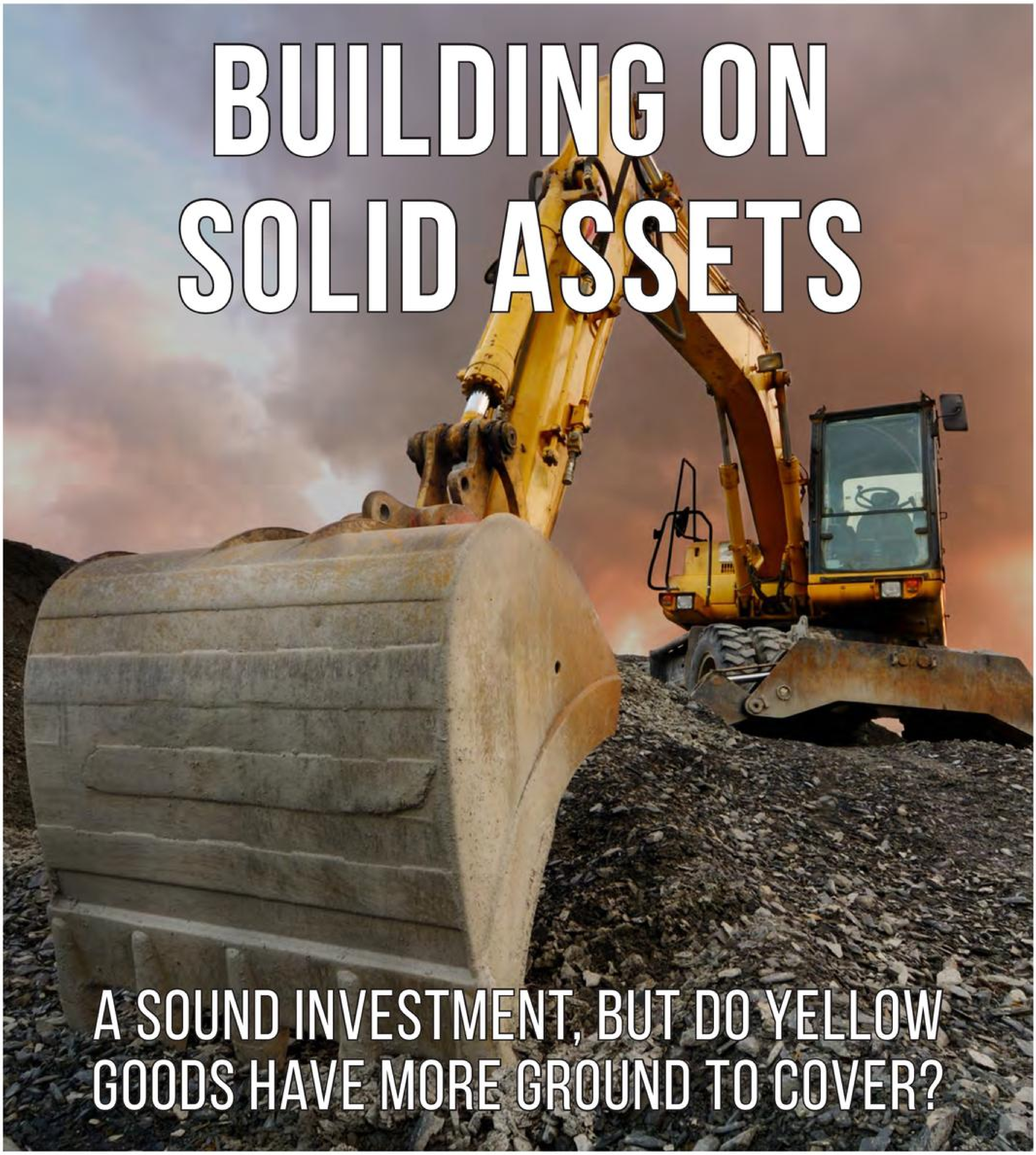
WWW.LEASINGLIFE.COM

ISSUE 301 / OCTOBER 2018

THE JOURNAL FOR ASSET FINANCE

LEASINGLIFE

BUILDING ON SOLID ASSETS



A SOUND INVESTMENT, BUT DO YELLOW GOODS HAVE MORE GROUND TO COVER?

ANALYSIS

How proposed new legislation on SME invoice finance would work

REGION FOCUS

Economic upturns boost already-buoyant markets in the Baltic states

INSIGHT

A decade after Lehman, bank lending to SMEs remains over-cautious

THIS MONTH

Group Editor:
Brian Cantwell
+44 (0)20 7406 6635
brian.cantwell@verdict.co.uk

Reporter:
Lorenzo Migliorato
+44 (0)20 7406 6538
lorenzo.migliorato@verdict.co.uk

Reporter:
Christopher Marchant
+44 (0)20 7406 6709
christopher.marchant@verdict.co.uk

Group Publisher:
Ana Gyorkos
+44 (0)20 7406 6707
ana.gyorkos@globaldata.com

Sub-editor:
Nick Midgley
+44 (0)161 359 5829
nick.midgley@uk.timetric.com

Sub-editor:
Sophia Bell

Publishing Assistant:
Mishelle Thurai
+44 (0)20 7406 8633
mishelle.thurai@verdict.co.uk

Head of Subscriptions:
Alex Aubrey
+44 (0)20 3096 2603
alex.aubrey@verdict.co.uk

Director of Events:
Ray Giddings
+44 (0)20 3096 2585
ray.giddings@compelo.com

Customer Services: +44 (0)20 3096 2603 or +44 (0)20 3096 2636, briefings@verdict.co.uk

Financial News Publishing, 2012. Registered in the UK No 6931627. ISSN 0956-5558

Unauthorised photocopying is illegal. The contents of this publication, either in whole or part, may not be reproduced, stored in a data retrieval system or transmitted by any form or means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publishers.

For more information on Verdict, visit our website at **www.verdict.co.uk**.
As a subscriber you are automatically entitled to online access to Leasing Life.
For more information, please telephone +44 (0)20 7406 6536 or email briefings@verdict.co.uk.

London Office: John Carpenter House, John Carpenter Street, London, EC4Y 0AN

Asia Office: 1 Finlayson Green, #09-01, Singapore 049246
Tel: +65 6383 4688, Fax: +65 6383 5433 Email: asiapacific@sg.timetric.com

THE JOURNAL FOR ASSET FINANCE
LEASINGLIFE

VERDICT

FOLLOW LL ON TWITTER
@LEASINGLIFE

OCTOBER 2018

PEOPLE MOVES

***Leasing Life's* monthly summary of the key career moves in the leasing and finance industry**

ULTIMATE FINANCE BOOSTS SENIOR SALES TEAM WITH IGF STAFF

Ultimate Finance has appointed three executives to its London and South-East sales team, all of whom have held positions at Independent Growth Finance (IGF).

Nick Haggitt, head of sales for the region, started his career in 1999 as sales manager at Bibby Financial Services. He covered a number of positions in invoice finance before becoming director of IGF from 2009 until last year. Before joining Ultimate, he was in charge of new business origination at Paragon Business Finance.

Matthew Taylor has been appointed as senior regional director. He entered the industry in 2004 as business development manager for London and the south at ABN Amro. He then held positions at Royal Bank of Scotland Commercial Services and Innovation Finance before spending almost five years as regional director and invoice finance specialist at IGF.

Chris Mitcham, regional sales director, started out as invoice finance manager in 2000 at Abbey National, now Santander UK. He moved on to Close Brothers Invoice Finance and Skipton Business Finance. Before joining Ultimate, he spent a year as regional sales director for the home counties at IGF.

UBER HIRES FORMER CIT GROUP CHIEF FINANCIAL OFFICER

A former president at the CIT Group has been made chief financial officer of ride-hailing service Uber.

Nelson Chai was president at CIT Group from 2010 until 2015. For the year to August he was president and chief executive officer at The Warranty Group. Prior to his time at CIT Group, Chai was a chief financial officer at Merrill Lynch.

Chai has also been chief financial officer at NYSE Euronext, parent company of the New York Stock Exchange, and at Archipelago Holdings, the first fully electronic stock exchange in the US.

HILTON-BAIRD DIRECTOR APPOINTED TO CICM'S EXECUTIVE BOARD

Hilton-Baird director Victoria Herd has been appointed to the executive board of trustees at the Chartered Institute of Credit Management.

As a trustee, Herd will work with other industry experts in the UK's credit industry and provide the institute's members with support, advice and career development.

Herd has been a director at Hilton-Baird since July 2017. Previous roles include value director at Beyond Funding, receivables management lead at Deloitte UK, and credit controller at Siemens.

ALPHABET APPOINTS UK CHIEF OPERATING OFFICER AND REMARKETING HEAD

Alphabet, BMW Group's car and van commercial leasing division, appointed a chief operating officer for its UK operations.

Uwe Hildinger will take over from Nigel Fletcher, who has acted as interim chief operating officer for the last 12 months.

Hildinger was previously based at Alphabet's headquarters in Munich, where he was chief sales officer. He has been with Alphabet since 2008, and has also covered positions including head of business unit sales and head of business unit operations.

Alphabet's new head of remarketing, Sacha Imamkhan, also joins from Alphabet's Munich headquarters, where she has been project manager for new markets since 2015.

Imamkhan has covered a number of positions within BMW Group's financial services division, as well as within ING Lease. She played a key role in the integration of the Dutch group's car leasing business into Alphabet following its €637m (£567m) acquisition in 2011.

Imamkhan will now oversee the de-fleeting and remarketing of all of Alphabet UK's vehicles, heading a 15-strong team in Farnborough.

WYELANDS BANK ADDS ASSET FINANCE MANAGING DIRECTOR

Wyelands Bank has appointed Jim Higginbotham as managing director, asset finance.

Higginbotham has spent 27 years in the finance industry, in a career covering areas such as commercial banking, investment banking, wealth management, asset and invoice finance.

Before joining Wyelands, Higginbotham held positions at Lombard, initially as head of risk and then as managing director of corporate specialist sales.

Before that, he was head of risk at GE Commercial Finance. Most recently he was managing director and co-owner at Specialist Asset Finance. ■

YELLOW GOODS: building on SOLID ASSETS

An area of asset finance that has seen continuing year-on-year growth is construction equipment. With 'yellow goods' inexorably tied to projects propelling the construction industry worldwide, *Christopher Marchant* looks into a strong asset segment to find out whether there is room to keep building the market

The range of what can be defined as 'yellow goods' is vast, including not only tracked equipment such as diggers, but material-handling machines and niche assets such as telescopic handlers.

Supply for yellow goods is growing, while the residual values stay high in a strong used goods market. So, is the market stable enough for further expansion?

ENTICING RESIDUAL VALUES

The consistency of residual values is one strong point of yellow goods finance.

"It is the predictability of the asset and its use," says Stewart Good, head of manufacturer and dealer services asset finance at Aldermore Bank. "It allows us to work with the manufacturers so we can construct a compelling and a competitive proposition for the clients. Assuming that the uses of those assets are known from the onset we can predict the value of those assets through the life of the contract.

"In effect, our lending policy takes into account the depreciation and the use of those assets. Obviously, the assets can be used in various different guises, but I think the way we operate as a business is to really understand as best we can what those assets will be used for, and effectively what conditions those assets will be in throughout the life of the contract. That is the big advantage of yellow goods: more often than not, it is the predictability of the value of the assets throughout the duration of the contract."

The reliability of this asset class means lessors look confidently at its development potential. "In yellow goods, the asset can conserve its value over the time of the lease. In the risk process, thanks to the quality of the asset, we get the opportunity to assess potentially more vulnerable customers," says Dario Ghislandi, managing director of international business line equipment and logistics for BNP Paribas Leasing Solutions.

> "THE OFFER IS STILL BASIC; SOMETHING MORE SOPHISTICATED COULD BE DEVELOPED

"Another advantage is that it is a market where, in the near future, we will have greater room for improvement. Right now the financial offer is still basic; in the ideal moment, something more sophisticated could be developed."

Paul Jennings, managing director of JCB Finance, a joint venture between RBS and JCB, emphasises the need to fully understand the user-customer's circumstances. He notes: "It is about knowing the customer, knowing the customer's business, knowing the application that the machine is going to go into and knowing the depreciation characteristics of the asset," adding that currency fluctuations as well as changes in the deployment of the machinery also need to be factored in.

Kevin Bovington, vendor relationship director at Société Générale Equipment Finance (SGEF), says earth-moving equipment is a particularly in-demand asset among yellow goods customers, which range from smaller business to major developers.

Echoing Ghislandi's point, he highlights a growing demand for more complex finance offerings: "For larger transactions, customers are looking for more creative structuring solutions compared to more traditional loans from their own banks.

"The need to provide asset finance is particularly strong in the £200,000-250,000-and-below range. This regular-flow business is very important, and it's where you get high


Stewart Good, Aldermore Bank

either just commenced, or there's one about to end, so when we go out to the secondary market – when we're looking to sell our assets at the end of term – you can find that there are multiple assets out there of the same configuration. It can change weekly, if not daily. That's the unpredictable nature of the market where we operate.

"There are also a lot of Tier 2 manufacturers that are pushing yellow assets through the UK. Some of those assets may come from China or Japan where the asset quality is not as good as some of the assets that we would traditionally work with. That can be a little confusing to the end user because he sees a cheaper asset, but the build quality and the resell value of those assets is very different to the traditional Tier 1 manufacturers that we operate with."


Dario Ghislandi, BNP Paribas

penetration numbers in terms of financing."

MOVEMENT OF THE ASSET

One challenge more specific to the yellow goods sector can simply be locating the asset.

"Historically there has been a challenge in locating and keeping control of that equipment," says Bovington. "By comparison, a vehicle would have a registration number: it is very visible and it is very easy to be found. Construction equipment is subject to a lot more movement and, therefore, more risk."

Technology may be a key step in resolving these specific issues. Bovington says: "One example of the changes that are happening is in telematics, which controls where those construction assets are now located. This gives finance companies a lot more comfort, knowing you can get a location on pieces of equipment should you need to try and trace something.

"With telematics embedded within the machines, you have actually got technology that is transmitting its location all the time."

And it is not just about tracking of position, but also of usage. Bovington adds: "This is further developing to provide data about its control of servicing and maintenance as well, so you can find out how that equipment has been used. That's quite an important factor for a leasing company or a bank that's financing hard assets like this."

Good identifies other unique tests facing asset finance for yellow goods, starting with the huge influx of second-hand assets. "Particularly with the large hire companies and some of the manufacturers, there is a tendency for assets to flood the market quite quickly," he says.

"It may be that there is a major project that's

BAUMA: THE CATALYST

A huge event for the construction industry, and by extension asset finance provision, is the Bauma construction show in Munich – the largest trade show in the world by surface area, uniting all elements of yellow goods and construction. Taking place every three years, it is next scheduled for April 2019.

Emphasising the significance of the "Bauma effect", Bovington says: "We traditionally see

technology is enabling lower emissions, and it's becoming more difficult to get higher-technology machinery to developing countries that don't have high-grade fuels."

Not all markets, then, are at the same stage of development. "Some markets are more dynamic, and so it is not a surprise that countries like Germany, the UK and France, for example, are increasing very well," explains Ghislandi.

> " YOU CAN FIND THAT THERE ARE MULTIPLE ASSETS OUT THERE OF THE SAME CONFIGURATION. IT CAN CHANGE WEEKLY, IF NOT DAILY

a growth in business and activity in the run-up to the show. From now until immediately afterwards we will see high levels of activity with construction companies.

"In a general overview, beyond Bauma the amount of infrastructure projects and large projects globally that are in discussion show that the global market is going to be strong for the next few years."

GLOBAL OPPORTUNITIES

Understanding different markets for yellow goods also comes with being close to the actual customers.

Jennings says: "JCB Finance has got a machinery sales centre, so we're active sellers as well. This puts us very close to the market, and helps us to understand both pricing and specification and the demand in the secondary market – for instance, whether our machines are exportable or whether they're not. Engine

"In terms of number of units, we observed that countries like Italy are also increasing to a point we haven't observed since the 2007 fall in the market. The growth is most important across Germany, the UK and France."

Still, there are quite a few markets where yellow goods finance can expand yet further. Bovington says: "From a global point of view, first of all there is significant growth in the market worldwide; we are seeing some significant growth in construction. Some of our major vendors that we work with are seeing growth of 15-25% year-on-year.

"What we're seeing is that decision-making needs to be as rapid as possible, and that presents different challenges in different markets because you haven't always got the latest accounts and financial information available online. You've got to access that information in the fastest way you can to make a credit decision."

Bovington continues: "We are getting more requests globally, and while we've always had a very strong business in Europe, we are receiving increasing requests from different regions. I will soon be flying to Russia for meetings, which is the first time from a Société Générale perspective that we've gone to Russia to meet our local bank and construction companies to talk about financing."

BREXIT'S IMPACT

As the UK's impending departure from the UK threatens productivity – to what degree is still being fiercely debated – there is a worry that the slowdown in production could translate into lower demand for heavy assets. For the time being, however, things have not yet gone over the cliff.

"At the moment I'm surprised about the resilience of the market and have been since the Brexit referendum," says Jennings. "The predictions from the Construction Products Association for the 2018 year expect the whole industry to fall by 0.6%, but given the factors that surround the UK economy, I don't think that's too bad a result."

Likewise, Ghislandi says Leasing Solutions is keeping an eye on developments, but is not feeling any heat just yet.

"In the UK there are still important question marks relating to the Brexit situation," he says. "Everyone in the company, and also our partners, are trying to understand if it will have some effect on the construction market. We could also see some impact due to the weight of the pound against other currencies. That said, at present the market is going as expected and we have not observed any kind of turbulence."

THE RIGHT MEASURE

Yellow goods are a key cog in the greater productivity machine, and asset finance companies need to provide consistency and professionalism in their consideration of collection and forbearance.

Explaining the BNP Paribas stance, Ghislandi says: "We assess the three elements of manufacturers: the kind of partnership that we have, the asset, and lastly the rating or financial situation of the customer. All these parameters are of key importance. With a better relationship, the right asset and a good financial plan, we are able to certify the majority of the requests we receive."

> "WHILE WE'VE ALWAYS HAD A VERY STRONG BUSINESS IN EUROPE, WE ARE RECEIVING INCREASING REQUESTS FROM DIFFERENT REGIONS

Jennings highlights JCB Finance's own option to provide potential breathing space to a customer that may be having difficulty making payments, saying: "We have a product called HP+. It has been designed to help with seasonality and cash-flow movements for customers. The plant hire industry is fairly seasonal; the agricultural community is seasonal, of course.

"Our HP+ product provides people with the opportunity to take pauses with a 15-day notice, and that's a two-month pause, three times in any five-year agreement. It's very warmly received by customers as an added amount of confidence and empathy that we provide them with."

FUTURE TRENDS

Looking to the future, Bovington sees an emerging trend of customers seeking more dynamic, savvier asset finance providers.

He says: "One of the increasing trends is that customers are requiring more flexibility

in the finance contract where possible. This means asset financiers need to look at both the residual value and the value of the asset throughout the term of the agreement.

"This also means the strength of the used equipment market is really important. For us to take a risk on a residual value, we need to know that the market is very liquid and there is a remarketing possibility within the used equipment market for those particular assets."

Jennings is also adamant that there needs to be greater awareness to attacks from scammers targeting the industry, saying: "I think that the whole industry needs to have more attention focused on fraud and fraud countermeasures.

"Many customers and resellers of equipment are being caused harm by fraudulent emails or purporting to change bank account details. That is at a higher level now, and has become commonplace rather than just a once-in-a-while event.

"There is plenty of material being put out by banks. I think that one of the messages that all of us stakeholders in the industry need to take up is to spread the word about malware on computers and the incidence and increasing frequency of fraudulent interference of people passing bank details by email."

Good sees continual assessment of the market as the only way Aldermore, and others, can adapt promptly to environment changes.

He explains: "What we do is monitor what cost or what value we are gaining on those assets, and we monitor that on a very regular basis. Every month we have a meeting internally within our business, going through the data and results. We are very clear on a daily basis how trends are moving up or down." ■

BALTIC STATES: europe's NORTHERN LIGHTS

An economic upturn across the Baltic states last year provided welcome additional impetus to a lease market that was already performing well across most parts of Estonia, Latvia and Lithuania. *Paul Golden* reports

The IMF recently reported that the Estonian economy is gathering steam after several years of subdued growth, with GDP more than doubling to 4.9% in 2017.

ESTONIA

The lease portfolio controlled by the members of the Estonian Leasing Association was worth just under €2.7bn (£2.4bn) at the end of June 2018, an increase of 9.8% on the same period in 2017. New sales rose by 5.6% to €663m, driven by a 14% increase in agricultural machinery leasing and even stronger demand for leasing of medical equipment, which was up 140% compared to the first six months of last year.

Heli Silluta, member of the board at Swedbank Leasing, observes that the quality of the association's members' credit portfolio remains good, with the volume of leasing payments overdue by more than 60 days in the portfolio only slightly increasing to 1.1%.

The car leasing market was significantly influenced by the new taxation system for business vehicles that came into force in early 2018, he explains, adding: "This tax change has also supported the growth of private car leasing, which is up by around one-third on the same period last year. Corporate car leasing increased by 13.5% in the first six months of the year."

Silluta notes that demand for financing industrial equipment has been affected by labour costs and shortages in Estonia. "Together with the need for increasing productivity, this should also raise the need for enterprises to invest more productive capital," he adds.

In the first half of 2018 the largest investors in machinery and equipment were manufacturing, agricultural and forestry enterprises.

> "THE TAX CHANGE HAS SUPPORTED THE GROWTH OF PRIVATE CAR LEASING

Taavi Tomson, head of sales at SEB Leasing – one of the dominant players in the Estonian leasing market, along with Swedbank and new banking group Luminor – notes that the agricultural sector has been influenced by a range of factors over the last few years.

"These factors include Russian sanctions – after which the domestic meat sector was hit with disease that led to a significant decrease in the number of pigs in farms – and poor weather, which has impacted crop yields," he says. "This is not to say that the agricultural sector is weak, just that the last few years have not been favourable."

Asked to outline the factors driving demand for leasing among consumers, Tomson refers to strong growth in both wages and deposits. "In the case of private individuals, we are seeing more new clients using leasing for the first time," he adds.

LATVIA

Latvia's economy rebounded in 2017, supported by rising wages, recovering private investment and accelerated absorption of EU funds. The portfolios of the members of the Latvian Lessor Association, which account for around 95% of the market, were worth almost €1.6bn last year, with new business to the value of €791m recorded during 2017.

"Our members are providing products concentrated on financial leases and operating leases for movable assets such as cars, trucks, equipment and machine tools," explains the association's chair, Jevgenijs Belezjaks. "Real estate leasing is not practiced due to legal and tax disadvantages compared with traditional bank mortgages."


Heli Silluta, Swedbank Leasing


Jevgenijs Belezjaks, Latvian Lessor Association


Peteris Plaudis, Citadele

The remainder of the Latvian leasing market – less than 10% – is represented by a number of relatively small leasing and financing companies, which are mainly active in used car and household goods leasing, and for which financial leasing is not their core activity.

Belezjaks notes that the leasing portfolio grew by 15.9% last year, of which just over three-quarters, or €1.2bn, was financial leasing and a further €321m was operating leasing. The remainder of new business, €43m, was loans issued by Latvian lessor association members for movable asset purchases.

“New business volumes were up by 13% compared to 2016,” he says. “The most significant increase was observed in the equipment sector, which expanded by almost one-third or 31%, followed by the commercial transport sector, which grew by 22%. However, there was also positive movement in the passenger car sector, which was up 5%.”

The market is undoubtedly showing signs of recovery, and this positive trend has accelerated over the last 12 months on the back of an increase in new passenger car sales, a revival in commercial transportation following the dramatic decrease of 2014 – when commercial transport leasing volumes fell by a third – and the recovery of the industrial leasing sector, which had suffered from projects being put on hold during 2015-2016, mainly due to a break in EU structural fund availability and geopolitical tensions.

The first three months of this year saw a 7% increase in new business volumes, although the commercial transport sector is down slightly, explains Belezjaks. At the same time, the passenger car and equipment sectors both showed positive contributions in the first quarter of 2018, growing by 11.5% and 15.7% respectively, he adds.

“Our expectation for the market over the remainder of this year is for growth of 5-10%, strongly influenced by the commercial and industrial equipment sectors.”

> “ LATVIA HAS REACHED ONE OF ITS LOWEST UNEMPLOYMENT LEVELS SINCE 2007, AND THE AVERAGE SALARY IS CONTINUING TO GROW

Peteris Plaudis, chair of the management board at Citadele Leasing and Factoring, identifies three main challenges facing lease firms in Latvia: competition, regulatory requirements and innovation.

“A decline in the population over the last few years has led to more risk-taking from leasing companies in a variety of ways, such as lower down-payment requirements and longer tenures, with increased pressure on margins,” he explains, adding that leasing companies – especially those providing finance to private customers – are becoming increasingly regulated and require more staff to cover these requirements.

“Clients are becoming more demanding and more IT-oriented,” adds Plaudis. “During the next few years, most leasing companies will invest in technical solutions to become more attractive and accessible to their customers, both private and business. We are paying particular attention to digitising our services and are working on several solutions for making our leasing services more convenient.”

He refers to the growing influence of full-service leasing companies and car rental firms on the passenger car leasing market, noting that the latter accounted for around 40% of the lease business in the passenger car segment last year.

“According to new sales data, the commercial transport [trucks and trailers] segment seems to be rather strong, although it is dominated by one large company, Kreiss, which in 2017 had approximately 1,700 truck or trailer units on its balance sheet,” says Paulis, who adds that demand from private customers is being driven by increased confidence and an improved macroeconomic picture.

“Latvia has reached one of its lowest unemployment levels since 2007, and the average salary is continuing to grow,” he says. “Demand from business customers is driven by market growth and the stability of the economic situation in the country, and there is organic growth in the market in addition to ‘one-off’, large transactions such as large state procurements.”

Paulis believes the lease market will record an increase in new sales of between 10% and 15% in 2018, mainly down to increased passenger car sales and an increase in the proportion of these vehicles that are leased rather than bought using personal funds.

“Over the last 12 months the proportion of leased cars has risen to approximately 60% of total sales, whereas a year ago it was around 50%,” he concludes.

LITHUANIA

The Lithuanian economy picked up steam in 2017 following two years of sluggish growth, with GDP expanding by 3.9%, mainly due to an acceleration of investment.

Laimonas Belickas, Association of Lithuanian Banks

Kaupo Luhaäär, Luminor

Matias Huhtala, OP Corporate Bank

The largest economy in the Baltic region, its lease market was worth €2.45bn last year – an increase of approximately 14% on the previous 12-month period – on the back of €1.76bn of new finance business.

Laimonas Belickas, chair of the Leasing Committee of the Association of Lithuanian Banks, is confident that the double-digit growth experienced over the last few years can be sustained – at least in the short term.

The main drivers of this growth are commercial transport and passenger car leasing. Lithuania has a relatively large commercial transport fleet compared to its neighbours, and some of the largest pan-European transport companies are headquartered in Lithuania.

The agriculture sector is significant and active – Lithuania is the fifth-largest wheat exporter in Europe – and other sectors exerting a positive influence on leasing include chemicals, furniture production and wood processing.

"The main challenges facing lease firms in Lithuania relate to global competition, the ability to innovate and invest and their ambition to became regional or pan-European leaders," says Belickas. "The availability of labour is a hot topic, especially for transportation companies."

Looking at the market players, he says it is clear that the major part of the market is still dominated by Scandinavian banks. However, this is a decreasing trend as a result of structural changes in the Lithuanian banking market, such as the merger of DNB and Nordea in the Baltics, the growth of EBRD-owned Siauliu bank and the rapid expansion of other non-Scandinavian leasing companies.

Asked whether the Lithuanian government actively supports the growth of the lease finance industry, Belickas observes that the market is highly competitive and effective, and that government bodies are focused on increasing finance accessibility for SMEs and developing tools such as portfolio guarantees for leasing companies and guarantees for innovative companies.

Kaupo Luhaäär, head of Luminor leasing for the Baltic countries, says the market is dominated by a small number of local bank-owned leasing companies, and that there are no brokers and few captives on the heavy vehicle side of the market.

"All three markets are quite similar in terms of dynamics, with strong growth in the SME segment and private sector car leasing," he explains. "In all three countries there is no single asset or industry segment driving growth – growth is evident across all segments."

According to Luhaäär, the popularity of leasing for financing investment is very high in the Baltic states. "Leasing gained popularity in the 1990s as a collateral-driven way of financing, and it is still the easiest and fastest way for SMEs to acquire financing for their investments. Baltic leasing markets are at the top of the global leasing-GDP penetration ratio."

Vendors are a growing channel for leasing distribution, as is the captive model offered by local leasing companies as a white-label solution for manufacturers, he continues. "Vendor distribution accounts for approximately half of all new business."

The leasing market in the Baltics is growing because of the positive economic situation in Europe, and companies are not only making renewals but increasing capacity; that is the view of Matias Huhtala, head of Baltic banking at OP Corporate Bank.

The positive economic outlook and strong GDP growth is driving demand, supported by EU subsidies, he says. "In Latvia, the agricultural and car leasing sectors have shown a pattern of growth over the last two to three years. Construction is rebounding this year, and there is also evidence of steady growth in other sectors."

In Lithuania, truck companies are expanding their fleets, although Luhaäär agrees that the agricultural sector is suffering a second year of difficult weather conditions, which has led to payment difficulties. "However, passenger car sales have been strong and we are seeing real investments in more or less all industry sectors," he adds.

> **"IN ALL THREE COUNTRIES THERE IS NO SINGLE ASSET OR INDUSTRY SEGMENT DRIVING GROWTH – GROWTH IS EVIDENT ACROSS ALL SEGMENTS**

In Estonia, the passenger car segment is growing in line with an increase in disposable income and the performance of the wider economy.

"The construction sector is also very active, although it poses higher risk over the coming years as a result of the current boom," concludes Luhaäär.

"The forestry sector is performing well in 2018, as the price of wood is much higher than it was last year. We are expecting some challenges for the agricultural sector over the next 12 months though, with a poor grain harvest forecast." ■

THE JOURNAL FOR ASSET FINANCE

LEASINGLIFE

Leasing Life is dedicated to tracking and understanding European asset finance.

As the only editorially independent and European-focused briefing service, we are the go-to source for banks, independents, captives and other key stakeholders in the industry. They access *Leasing Life* to gather reliable insight and opinion on how the industry is developing, along with updates on the performance of specific markets and asset classes.

Through login credentials, readers access features on trends, lessor strategy, asset classes and markets. Alongside these are weekly editor-curated newswires, expert opinion, legal comment and monthly publications.

To check if your organisation has access, request a full edition or walkthrough, email briefings@verdict.co.uk.

Thanks for your time,

The *Leasing Life* team