

Leasing Growth Stalls in Latin America

Overall Volume Is Down, But Boom Continues in Some Countries

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After six years of outstanding growth in Latin America's equipment leasing and finance industry, the most recent data from the region come as a bit of a surprise. The annual Alta LAR 100 report by The Alta Group Latin American Region reveals a 6% decrease in Latin American leasing portfolios in 2010, as measured in U.S. dollars. The industry was expected to hold its own despite some negative trends affecting leasing, as the overall economy grew an estimated 5% in 2010 and the first half of 2011, according to the International Monetary Fund's World Economic Outlook.

There are several reasons for declining leasing growth. First and foremost, the Latin American leasing industry is maturing. Business models are transitioning from pure finance and credit leases, to a greater focus on operating leases, which affects the way companies allocate capital, go to market, and originate business. Credit policies become more cautious and regulatory risks become a great concern. There is no doubt that the influence of the global regulatory wave is impacting the speed of development of such new growth. This goes hand in hand with the fact that finance leases have become more commoditized and compete with banking products.

Economic and political forces also hampered leasing expansion. The relative depreciation of the U.S. dollar compared with local currencies in Latin America was one factor reducing the size of leasing portfolios. Another factor was the 2008 financial crisis, which decreased equipment imports, bank lending, and overall credit availability. Tax

reform and political leadership also had a negative impact in certain Latin American countries.

The Alta LAR 100 report tracked the growth or decline of leasing portfolios in individual countries; identified the region's fastest growing leasing companies; ranked the 100 largest leasing operations in Latin America; and estimated that the industry in 2010 achieved a portfolio value of US\$87.8 billion in leased equipment and commercial property, based on reported assets.

Each year the report compiles and analyzes data available from regulatory agencies, central banks, and voluntarily disclosed information by several individual leasing companies and national leasing associations. Growth noted in the report reflects a combination of actual growth and corporate transparency. Countries and company groups that failed to share data were negatively affected in the rankings due to their lack of transparency. Though there were some limitations in obtaining data, the report represents the most comprehensive information available on the state of the Latin American equipment leasing and finance industry.

Country-By-Country Comparisons

Countries with contracting leasing portfolios in 2010 included the region's leader Brazil (-9%), Guatemala (-95%), Dominican Republic (-55%), Venezuela (-41%), Ecuador (-35%), and Puerto Rico (-30%). Countries experiencing growth in challenging times included Colombia (7%), Peru (12%), Mexico (19%), Chile (22%), Bolivia (25%), Argentina (68%) and Costa Rica (147%).

The following factors influenced leasing volumes in specific countries.

Brazil (-9%) — The contraction of Brazil's leasing industry was a huge drain on Latin America's overall leasing growth, since Brazilian companies represent 63% of the region's portfolio. Leasing volume declined among large-bank-affiliated leasing companies, including

BancoSafra, in part due to their discomfort over the confusion surrounding Municipal Service Taxes ("ISS"). On the other hand, captive leasing companies including Banco Volvo S/A, HP Financial Services, Mercedes-Benz Leasing, Renault do Brasil, and ArrendamentoMercantil grew considerably. Vendor-oriented leasing companies also expanded, including De LageLanden and SocieteGenerale Equipment Financing. A medium-sized bank, BIC Banco, registered impressive growth of 99.4%. Two trends are shaping the future of the Brazilian leasing industry: diversification of portfolios, with less concentration on motor vehicles and greater concentration on information technology, construction and industrial equipment; and changes in business models from the bank-affiliated lessors.

Ecuador (-35%) and Venezuela (-41%) — Ecuador's leasing industry has witnessed a dramatic decline since tax reform was adopted in 2008. A similar pattern can be observed in Venezuela, though for different reasons, specifically a political leadership that discourages capital investment in the country.

Dominican Republic (-55%) and Guatemala (-95%) — Leasing industries in both countries were devastated by the 2008 economic crisis. On a more positive note, leasing leaders in these countries are committed to expansion by opening the door to new companies and, in the case of Guatemala, advocating for new leasing laws.

Costa Rica (147%) — One reason for Costa Rica's phenomenal numbers in 2010 was the greater transparency of its industry compared with previous reports. However, leasing volume also grew in 2010. Industry players were able to originate new business in part because the country has become less dependent on the U.S. economy, diversifying its trade links to include greater ties to Asia Pacific.

Argentina (68%) and Bolivia (25%) — Both countries' economic recoveries and expanding leasing systems propelled growth.

Chile (22%) — In addition to industry-wide growth, Chile’s Spanish-controlled banks in particular experienced greater volumes. Standouts included BBVA and Santander, which grew, respectively, 42% and 26% between 2009 and 2010.

Peru (12%) — The country’s primary sector, especially mining, generated demand for capital equipment that fueled Peru’s leasing growth.

Mexico (19%) — Mexico is catching up after the economic downturn. While the quantity of lessors (SOFOMs) would appear to fragment the leasing industry, some leading companies such as Banorte (which currently heads the list of Mexican lessors), Banregio, John Deere Credit, CHG El Camino, and Docuformas all grew more than 30%.

Colombia (7%) — Colombia’s leasing growth barely kept pace with its overall economic growth. The year-end marked the termination of tax incentives for investment in capital goods (a 30% bonus depreciation that phased out in December 2010, though some companies were allowed to keep incentives for operating leases on the grounds of legal stability agreements with the Colombian government), and the consolidation of the multiple bank structure allowing banks to book leasing transactions and absorb their leasing subsidiaries.

Tables 1 and 2 provide country-by-country comparisons of leasing volumes in Latin American countries.

		2010	
RANKING	REPORTING COUNTRY	US\$ (000)	MARKET SHARE
1	BRAZIL	\$55,475,514.23	63.2%
2	CHILE	\$8,454,066.34	9.6%
3	MEXICO	\$7,198,669.85	8.2%
4	COLOMBIA	\$7,025,575.43	8.0%
5	PERU	\$6,283,472.89	7.2%

6	PUERTO RICO	\$1,330,072.00	1.5%
7	ARGENTINA	\$1,240,655.16	1.4%
8	COSTA RICA	\$294,397.66	0.3%
9	VENEZUELA	\$261,005.09	0.3%
10	ECUADOR	\$176,512.14	0.2%
11	BOLIVIA	\$27,593.33	0.03%
12	DOMINICAN REPUBLIC	\$22,447.09	0.03%
13	GUATEMALA	\$9,047.22	0.01%

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Brazil is still the dominant country in terms of participation in the total leasing portfolio. This is consistent with the size of the Brazilian economy vis-à-vis the rest of the countries surveyed in Latin America. Brazil's GDP, in U.S. dollars, represents more than 56% of Latin America's entire GDP.

It is important to mention that the data about Mexico are incomplete. This is due to the fact that most of the lessors in Mexico are non-regulated companies, and they do not report their financials.

COUNTRY	2010 PORTFOLIO IN US\$ (000)	2009 PORTFOLIO IN US\$ (000)	Growth/Decrease
COSTA RICA	\$294,397.66	\$118,997.67	147%
ARGENTINA	\$1,240,655.16	\$738,340.44	68%
BOLIVIA	\$27,593.33	\$22,020.08	25%
CHILE	\$8,454,066.34	\$6,907,678.03	22%
MEXICO	\$7,198,669.85	\$6,027,356.50	19%
PERU	\$6,283,472.89	\$5,632,556.59	12%
COLOMBIA	\$7,025,575.43	\$6,541,474.40	7%
BRAZIL	\$55,475,514.23	\$61,118,319.36	-9%
PUERTO RICO	\$1,330,072.00	\$1,910,530.00	-30%

ECUADOR	\$176,512.14	\$272,262.55	-35%
VENEZUELA	\$261,005.09	\$440,359.59	-41%
DOMINICAN REPUBLIC	\$22,447.09	\$49,869.69	-55%
GUATEMALA	\$9,047.22	\$182,139.65	-95%

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In terms of growth, Costa Rica's 147% increase is largely due to the fact that the country reported more accurate data in 2010 than in 2009. However, the numbers also indicate that the economy recovered in 2010, and leasing companies went back to business.

Argentina, Mexico, and Peru experienced real growth in their leasing industries. This is a combination of stronger demand for capital goods, and more liquidity for lessors. Other countries experienced normal growth that followed the pace of economic growth for their economies.

On the downside, Venezuela and Ecuador are two countries whose economic policies are poorly managed. Guatemala's decline has more to do with its failure to report numbers, than a real fall in volumes.

Latin America's Leasing Leaders

To identify the leading companies in Latin America's leasing industry for 2010, the report ranked both the fastest growing companies in the region and the 100 largest leasing businesses. Growth was fueled in large part by captive lessors, vendor programs, and the merger of leasing units into their banks.

Tables 3, 4 and 5 highlight the region's fastest growing leasing firms, the country distribution of the largest companies, and the Top 10 of the 100 largest companies in 2010. Note that the largest leasing business, Bancoltauleasing, which has moved up from the No. 3 spot in 2009, recorded a portfolio valued at US\$7.65 billion, representing more than

8% of Latin America's total portfolio.

Fastest Growing Leasing Companies in Latin America

	2010	2009	COUNTRY	CHANG E
Company	US\$ (000)	US\$ (000)		%
Bancolombia S.A. (Leasing Portfolio booked in the bank)	\$197,086.25	\$0.00	COLOMBIA	19708525%
Leasing Colpatría CFC merged into Red MultibancaColpatría	\$110,992.19	\$13,101.49	COLOMBIA	747%
BancoSupervielle	\$103,572.04	\$27,659.83	ARGENTINA	274%
BAC San José Leasing, S.A.	\$85,561.89	\$37,789.90	COSTA RICA	126%
Cia. de ArrendamentoMercantil RCI, f.k.a. Renault do BRAZIL	\$375,921.62	\$166,491.21	BRAZIL	126%
BBVA Leasing CFC merged into BBVA Bank Colombia	\$272,388.69	\$130,653.71	COLOMBIA	108%
BancoInternacional	\$182,255.48	\$88,793.38	CHILE	105%
BIC ArrendamentoMercantil S/A	\$261,863.97	\$131,323.93	BRAZIL	99%
IngArrendadora	\$133,390.00	\$68,382.97	MEXICO	95%

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The data in Table 3 concerning Bancolombia's growth must be taken with a grain of salt. Bancolombia did not book deals in 2009, because it was not legally entitled to do so. Its growth corresponds to the fact that it started booking deals originated by Leasing Bancolombia, its affiliate, in 2010.

Other champions of growth that need to be highlighted include MultibancaColpatría in Colombia, BAC San Jose in Central America and Renault do Brasil in Brazil. Their growth is related to specific new originations. BancoSupervielle numbers, however, correspond to an accounting reclassification, but not real growth.

The Alta LAR 100 by Country

Country	Number of companies reaching the Top 100
Brazil	35
Mexico	20
Colombia	13
Chile	12
Peru	8
Argentina	7
Costa Rica	2
Ecuador	1
Puerto Rico	1
Venezuela	1

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With respect to Table 4, Brazil is home to the majority of Latin America's 100 largest leasing companies, but the ratio is not as large as in the case of portfolio value.

THE ALTA LAR 10						
			2010	2009	COUNTRY PAIS	CHANGE %
Pos.2010	Pos.2009	Company	US\$ (000)	US\$ (000)		
1	3	Banco Itauleasing	\$7,665,272.13	\$7,095,152.68	BRAZIL	8%
2	2	Santander Brasil Arrendamento Mercantil, merging Santander Leasing	\$5,844,015.54	\$7,465,591.07	BRAZIL	-22%
3	1	BFB Leasing S.A. Arrendamento Mercantil	\$4,962,476.69	\$7,602,990.38	BRAZIL	-35%
4	4	Banco Itaucard S/A Arrendamento Mercantil	\$4,872,309.44	\$5,045,779.57	BRAZIL	-3%
5	7	Bradesco Leasing S/A Arrendamento Mercantil	\$4,219,907.48	\$3,474,889.40	BRAZIL	21%
6	8	Leasing Bancolombia CF	\$2,701,674.15	\$2,680,907.59	COLOMBIA	1%
7	5	Dibens Leasing S/A Arrendamento Mercantil	\$2,612,388.57	\$4,258,367.28	BRAZIL	-39%
8	6	Banco Bradesco Financiamentos (f.k.a. Finasa S/A) - Carteira Arrendamento Mer.	\$2,563,834.50	\$3,948,230.52	BRAZIL	-35%
9	13	Banco Santander Chile	\$2,405,472.17	\$1,902,014.66	CHILE	26%
10	11	BV Leasing Arrendamento Mercantil S/A	\$2,389,116.13	\$2,092,204.37	BRAZIL	14%

While most of the fastest growing companies in Latin America were captives, the region's 10 largest portfolios belong to bank affiliated leasing companies. The Alta LAR 10 (Table 5) that represents the 10 largest leasing companies shows that all are bank affiliated leasing companies based in Brazil (eight), Colombia (one), or Chile (one).

However, when growth is analyzed the combination of players tells a rather different story, as set forth in Table 6.

New Volumes in 2010

Company	Country	Estimated Volume US\$ (000)
Banco Itauleasing	BRAZIL	\$ 2,982,471.36
Banco Bradesco S/A Arrendamento Mercantil	BRAZIL	\$ 1,969,922.02
Bradesco Leasing S/A Arrendamento Mercantil	BRAZIL	\$ 1,926,480.48
Banco Itaucard S/A Arrendamento Mercantil	BRAZIL	\$ 1,542,094.92
Banco Santander Chile	CHILE	\$ 1,150,142.49
Banco Credito del Peru	PERU	\$ 1,040,265.09
BV Leasing Arrendamento Mercantil S/A	BRAZIL	\$ 1,008,261.24
Leasing Bancolombia CF	COLOMBIA	\$ 932,275.14
Santander Brasil Arrendamento Mercantil, merging Santander Leasing	BRAZIL	\$ 916,725.43
Banco de Chile	CHILE	\$ 753,842.28
Banorte	MEXICO	\$ 718,575.71
BBVA -Banco Continental	PERU	\$ 545,563.42
Scotiabank Peru	PERU	\$ 480,762.62
Caterpillar	MEXICO	\$ 454,148.36
BCI- Credito e Inversiones	CHILE	\$ 450,112.45
ITAUBBA Leasing S/A	BRAZIL	\$ 437,968.25
HSBC Bank BRAZIL S/A Arrendamento Mercantil	BRAZIL	\$ 436,566.80
Leasing de Occidente S.A. merged into Banco Occidente	COLOMBIA	\$ 414,774.12
Popular Auto	PUERTO RICO	\$ 316,480.64
Hewlett Packard	MEXICO	\$ 312,973.81
Banco IBM S/A Arrendamento Mercantil	BRAZIL	\$ 306,070.71
Helm Leasing S.A. merged into Helm Bank	COLOMBIA	\$ 281,042.42
Cia. de Arrendamento Mercantil RCI, f.k.a. Renault do BRAZIL	BRAZIL	\$ 266,037.42
BBVA Chile	CHILE	\$ 254,711.06
HP Financial Services Arrendamento Merc. S/A	BRAZIL	\$ 216,003.17
Corpbanca	CHILE	\$ 214,907.39
Banco Estado	CHILE	\$ 212,319.97
Panamericano Arrendamento Mercantil S/A	BRAZIL	\$ 211,426.51
Financiera Bajio	MEXICO	\$ 211,068.43
Interbank	PERU	\$ 200,245.90

Though the largest growth came from banks dedicated to providing motor vehicle financing, Caterpillar Financial and Hewlett-Packard Financial Services are growth leaders in the corresponding countries where they operate (mostly Brazil and Mexico), and most of the fastest-growing banks, such as Leasing Bancolombia, are well-known for being leaders in vendor programs.

This means that equipment vendors and other capital goods vendors are a very strong force fueling the growth of equipment leasing and

financing. Vendor finance is the main driver that will impact the development of the leasing industry in Latin America, and the primary force raising expectations for sustainable growth in the future.

This driving force cannot be taken lightly. For that reason, The Alta Group focused on the central theme of innovation during the IX Latin American Leasing Conference, which took place in Miami on Nov. 17 and 18, 2011. Vendors, both multinational and domestic, are pushing the demand for capital goods (this is the J.B. Say law whereby every supply generates its own demand) and such demand requires financing. But financing is also demanding sophisticated solutions, which require that lessors in Latin America adopt innovative strategies. Leasing companies must adapt their business models to meet new challenges in such fields as information technology (which is moving away from the conventional desktop approach toward cloud computing, and away from hardware financing toward software and services financing), transportation (where motor vehicle financing is moving toward fleet financing and management, and mass transportation solutions), energy (where renewable energy is leading growth), aviation, and rail financing.

For 2012, Alta also expects there will be some important regulatory challenges that may deter the growth of the industry or require it to adjust. The new IFRS standard of accounting for leases will certainly affect the value proposition of selling operating expenses solutions unless changes are made. In addition, bank affiliates and companies funded by banks are going to feel the effects of Basel III, either in higher funding costs or less availability of funding. The global crisis led by the European countries may also have an impact on liquidity and credit performance of the portfolios.

Profitability

How profitable are leasing companies in Latin America? This is a major issue that represents the basic metric determining whether leasing

companies are sustainable in Latin America. Interestingly, a sample of selected leasing companies from the Alta LAR 100 shows competitively high returns on equity, such as set forth in Table 7.

Return on equity of selected leasing companies

COMPANY	COUNTRY	EQUITY	PROFITS	ROE
TOYOTA LEASING BRASIL S.A. ARRENDAMENTO MERCANTIL	BRAZIL	\$ 39,146.00	\$ 23,747.00	60.66%
MERCEDES-BENZ LEASING DO BRASIL ARRENDAMENTO MERCANTIL S.A.	BRAZIL	\$ 78,781.05	\$ 21,071.42	26.75%
CATERPILLAR FINANCIAL S.A. ARRENDAMENTO MERCANTIL	BRAZIL	\$ 69,062.00	\$ 17,198.00	24.90%
Leasing Bancolombia CF	COLOMBIA	\$ 816,428.60	\$ 200,003.30	24.50%
BANCO HONDA S.A.	BRAZIL	\$ 200,409.23	\$ 47,985.25	23.94%
Confianciera S.A.	COLOMBIA	\$ 70,832.00	\$ 15,824.00	22.34%
Finandina S.A. converted into Banco Finandina	COLOMBIA	\$ 134,318.20	\$ 26,535.90	19.76%
SAFRA LEASING S/A ARRENDAMENTO MERCANTIL	BRAZIL	\$ 786,136.00	\$ 150,265.84	19.11%
BANCO VOLVO BRASIL S.A.	BRAZIL	\$ 403,773.00	\$ 75,563.00	18.71%
BANCO SAFRA S.A.	BRAZIL	\$ 5,613,740.64	\$ 1,048,082.92	18.67%
BBVA Leasing CFC merged into BBVA Bank Colombia	COLOMBIA	\$ 2,253,723.90	\$ 420,393.80	18.65%
Leasing Colpatría CFC merged into Red Multibanca Colpatría	COLOMBIA	\$ 999,501.40	\$ 186,178.10	18.63%
Bancolombia S.A. (Leasing Portfolio booked in the bank)	COLOMBIA	\$ 7,816,994.90	\$ 1,177,998.90	15.07%
HSBC BANK BRASIL S.A. - BANCO MULTIPLO	BRAZIL	\$ 7,750,506.00	\$ 1,108,843.00	14.31%
Ab&C Leasing	MEXICO	27,269	3,882	14.24%
Serfinansa S.A.	COLOMBIA	\$ 71,934.00	\$ 10,167.60	14.13%
BMW LEASING DO BRASIL S.A. - ARRENDAMENTO MERCANTIL	BRAZIL	\$ 36,071.00	\$ 4,839.00	13.42%
BIC ARRENDAMENTO MERCANTIL S.A.	BRAZIL	\$ 148,286.94	\$ 19,626.92	13.24%
Unirenta	MEXICO	97,462	12,878	13.21%
BANCO GMAC S.A.	BRAZIL	\$ 1,167,100.00	\$ 135,849.00	11.64%
Inversora Pichincha S.A.	COLOMBIA	\$ 184,028.70	\$ 21,241.90	11.54%
Bmw Leasing	MEXICO	47,181	5,309	11.25%
Giros y Finanzas S.A.	COLOMBIA	\$ 35,007.20	\$ 3,771.70	10.77%
BANCO FIAT S.A.	BRAZIL	\$ 978,862.00	\$ 103,648.00	10.59%
Leasing Corficolombiana	COLOMBIA	\$ 71,470.50	\$ 7,406.00	10.36%
BANCO DE LAGE LANDEN BRASIL S.A.	BRAZIL	\$ 497,261.11	\$ 51,504.52	10.36%
BFB LEASING S.A. ARRENDAMENTO MERCANTIL	BRAZIL	\$ 29,063,590.00	\$ 2,977,982.00	10.25%

Out of the 27 companies, 14 are from Brazil (most of them are captives), 10 are from Colombia and three are from Mexico. Returns on equity are around 400%, the domestic level of risk-free investments (government securities, if nowadays the latter can be considered risk-free investments). Therefore, it is clear that the profitability of leasing companies in Latin America is very high.

The question that remains to be answered is whether these returns to shareholders will be repeated in 2012. Alta has information indicating that profits for 2012 can be similarly impressive.

Conclusion

The size of Latin American leasing portfolios did not grow in 2010, and

in fact experienced a slight reduction, primarily due to the 2008-2009 economic crisis that impacted the liquidity of economies and drove very conservative risk management approaches. This resulted in a lower number of credit approvals, hence lower volumes.

However, other important drivers point toward greater growth in the future. The new drivers are the large demand for capital goods other than motor vehicles, and the readiness of existing leasing companies to provide financing. In addition, liquidity in Latin America is currently in good shape after the Latin American countries and their banking systems proved to weather the global crisis in good standing.

Certainly, the prospects for 2012 are much more optimistic, and Alta hopes to report next year on important, positive growth in the Latin American leasing industry.

Additional information on the Latin American leasing industry, including the full ranking of The Alta LAR 100, is available in The Alta LAR 100 — 2010 report, including the impact of multinationals, liquidity, bank-owned lessors, the vendor financing boom, and delinquency rates. Complimentary English and Spanish versions of the report will be posted soon at www.thealtagroup.com/lar100 and <http://www.thealtaconferencias.com/>.

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