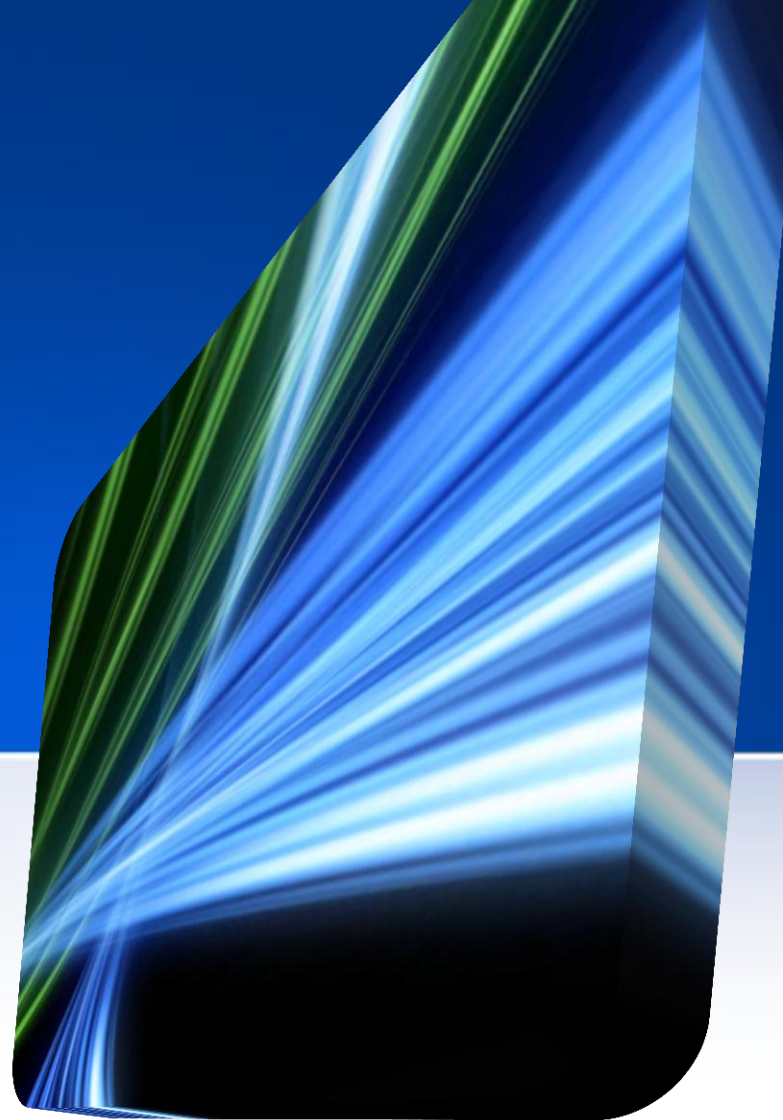


Analysis of liquidity risk in leasing activity

**Author: PhD Student
Mishina Maria
Kazan Federal University**

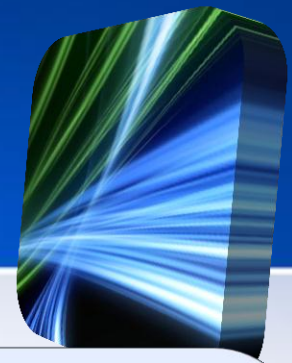


Economic categories



- Liquidity of leasing company is the necessary condition for the enjoyment of its activities, when it's guaranteeing the optimal balance of cash inflow and cash outflow with the internal and external factors of the economy for the certain period of time.
- Liquidity risk is a negative variance of financial flows, permeating the organization, related to impact of internal and external factors of the economic environment.

The most important factors of the internal environment



Internal environment

Actual characteristic of company :

- owner's structure;
- size of company;
- product line (various leasing products, items of leasing);
- funding sources (the availability of state help);
- orientation of the enterprise (for example, it's created under the funding of certain industries);
- position in market segment.

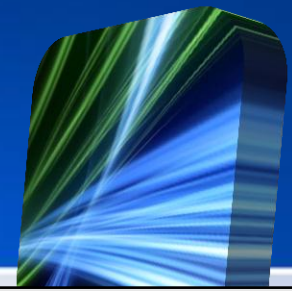
Aspects of business:

- methods used for calculation, accrual of lease payments;
- organizational charts of leasing;
- peculiarities of leasing portfolio (diversification of the portfolio by sector, the subject of leasing, by geography);
- use of different options for leasing transactions;
- policy of generation of profit enterprise (basic margin);
- management of current assets of companies (agreed time);
- cash management of the company.

The quality of the financial management :

- personal characteristics and professional managers ;
- the breadth and reliability of accounting, movement and reflection of information flows;
- internal regulations;
- progressive use of forms and methods of risk analysis, planning and control of the financial activities of leasing companies;
- high standard of technical equipment;
- effective of organizational structure .

Cash flow risk maps



Risk map of cash flow from operating activities			
	Inflow	Outflow	
Credit risk (for prepayment)	Prepayment of lessee	Purchase of leasing object	1. Risk of supply disruption.
1. Credit risk (for lease payment)	Lease payments	The costs associated with the preparation and transfer of the leased asset	2. Strategical risk
2. Portfolio risk (assets, profitability, structure and diversification, product, sector and regional operating of lessee)			3. Market risks
3. Market risks	Margin	Insurance of the leased asset, financial risk insurance	1. Strategical risk
4. Strategical risk			2. Legal risks
5. Currency risk	Redemption value	Payments to the budget	3. Loss of insurance benefits
			1. Tax risks
1. Credit risk	Repayment of impaired debt	Rent payments	2. Legal risks
2. Collateral risk			1. Reputation risk
1. Strategical risk	Other payments	Salary and payments to social insurance	2. Market risks
2. Market risks			1. Tax risks
		Other expenses	2. Legal risks
			1. Strategical risk
			2. Market risks

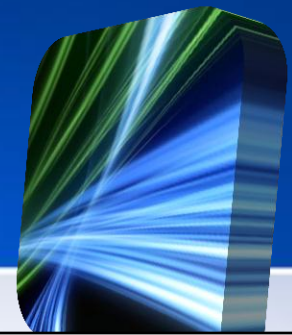
Cash flow risk maps



Risk map of cash flow from investment activities

	Inflow	Outflow	
<ol style="list-style-type: none"> 1. Stock-exchange risk 2. Market risks 	Dividends and interest on long-term investments	Purchase of fixed assets	<ol style="list-style-type: none"> 1. Risk of supply disruption (for fixed assets) 2. Strategical risk 3. Market risks
<ol style="list-style-type: none"> 1. Property risks 	Sales the fixed assets	Long-term and short-term investments	<ol style="list-style-type: none"> 1. Stock-exchange risk 2. Market risks 3. Strategical risk 4. Interest risk
<ol style="list-style-type: none"> 1. Credit risk 2. Interest risk 3. Currency risk 	Repayment of loans and credits Other income of investment activity	Loans issued to other organizations Other expenses of investment activity	<ol style="list-style-type: none"> 1. Interest risk 2. Currency risk 3. Legal risks 4. Tax risks

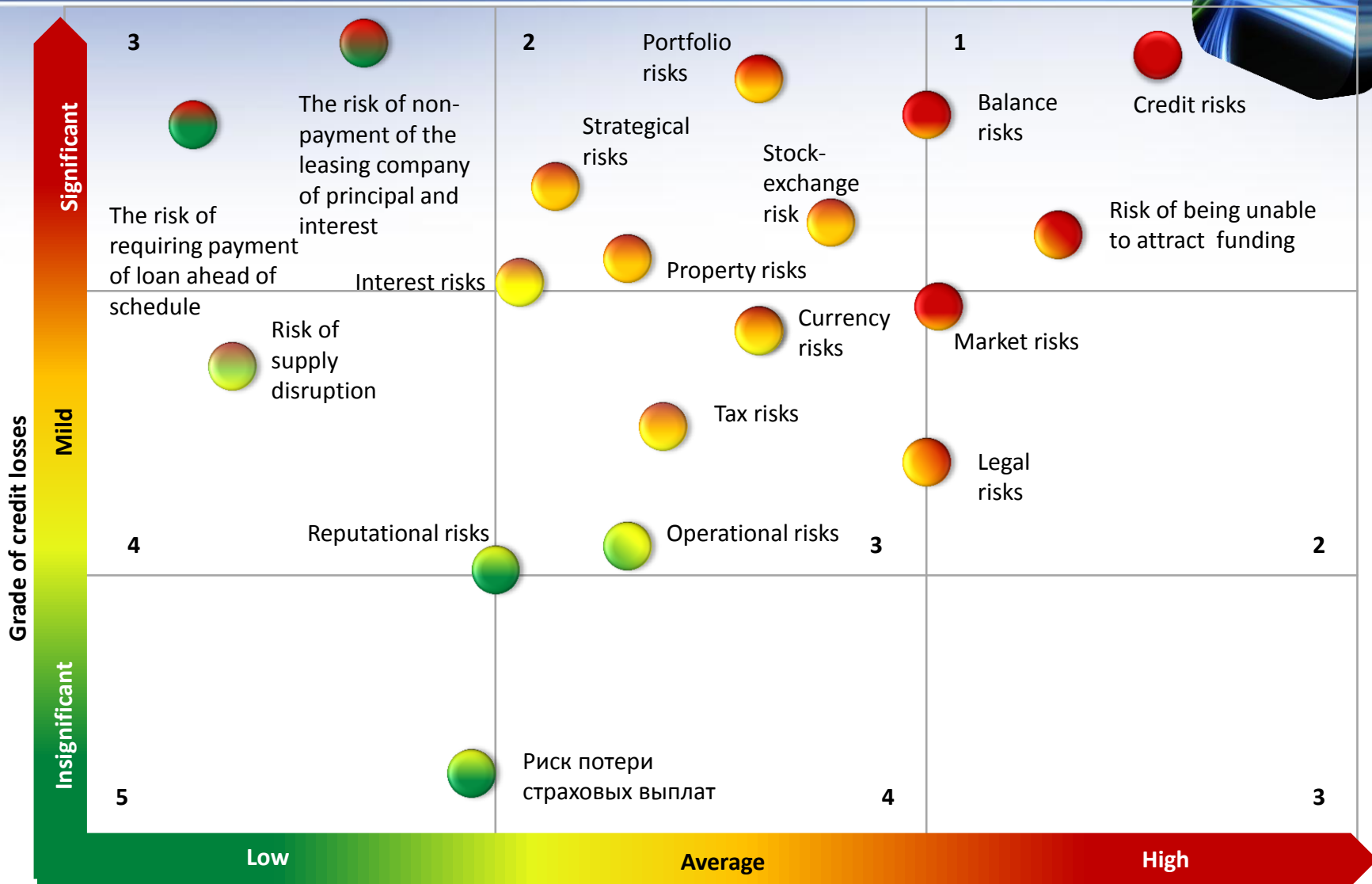
Cash flow risk maps



Risk map of cash flow from financial activities

	Inflow	Outflow	
1. Risk of being unable to attract funding: <ul style="list-style-type: none"> The refusal of the investor (bank) to issue funds to finance the already signed lease agreement; Closing sources for company of purchased liquidity, for example the closure of the credit limit, denial in overdraft. 2. Reputation risks	Received loans and credits	Return of loans and credits	1. The risk of non-payment of the leasing company of principal and interest in accordance with the terms and conditions of the credit agreement 2. The risk of requiring payment of loan ahead of schedule 3. Interest risk 4. Currency risk
1. Stock-exchange risk 2. Market risks 3. Strategical risk	Deposits of owners, issue of shares, bonds	Interest payments	
1. Credit risk 2. Interest risk 3. Currency risk	Other income of financial activities	Dividends and interest of bonds Other expenses of financial activities	1. The risk of non-payment of the leasing company of principal and interest in accordance with the terms and conditions of the credit agreement. 2. Stock-exchange risk 3. Market risks 4. Strategical risk 5. Interest risk 6. Reputation risk

Risk map



Probability of the event

Inference



In the result of own analysis, the author has identified 18 types of structural risks, when the implementation of even one leads to imbalance of financial flows of leasing company. It follows the mathematical-statistical model building, which includes a number of adjustable parameters is necessary for the effective management of liquidity.

$$RL = F(CrR, RBAF, MR, PoR, RS, SR, PrR, RAR, CuR, IR, SR, TR, LIB, LR, RR, OR, W_1, \dots, W_n)$$

Incl.:

- Credit risk (CrR);
- Risk of being unable to attract funding (RBAF);
- Market risk (MR);
- Portfolio risk (PoR);
- Risk of supplier (RS);
- Strategical risk (SR);
- Property risk (PrR);
- Risk of advanced repayment of debt (RAR);
- Currency risk (CuR);
- Interest risk (IR);
- Stock-exchange risk (SR);
- Tax risk (TR);
- Loss of insurance benefits (LIB);
- Legal risk (LR);
- Reputation risk (RR);
- Operational risk (OR);
- W_1, \dots, W_n - unaccounted factors



Thanks for attention