



mLeasing is one of top 3 leasing companies in Poland (it also ranked 38 in the recent 2012 Leaseurope ranking of European leasing companies). The company was established 22 years ago as one of the first leasing operators in Poland and is a 100 % owned subsidiary of mBank – third largest Polish Bank being a subsidiary of Commerzbank. While servicing the largest, extremely demanding customers, mLeasing gained unique experience carrying out projects matching the needs of the public sector, and thus contributing to their development.

For almost 22 years the company had been operating under BRE Leasing brand, however, on November 29, 2013 it was rebranded into mLeasing following rebranding of the entire BRE Bank Group in Poland into mBank.

mLeasing is taking an active part in public sector financing for already more than 10 years. Among other projects, the company successfully financed special-purpose municipal vehicles, waste recycling, machines, city buses, rolling stock and medical equipment for hospitals. The value of assets financed by mLeasing in transactions with public sector, has already exceeded PLN 500 million (ca EUR 120 million).

## **Top standards of local railway operators modernization**

A significant part of the rolling stock in Poland is quite obsolete compared to that in many countries of the European Union. Therefore, public authorities have initiated a number of projects which, within a limited budget and within the shortest possible time, aimed to:

- increase the number of railway transport passengers,
- increase the reliability of railway transport,
- improve travelling comfort and accessibility of trains to the disabled persons,
- improve passenger safety,
- reduce the negative environmental impact of the vehicles used,
- improve the accessibility of peripheral regions.

In 2006 – 2011, mLeasing concluded leasing agreements with Marshals' offices in relation to 14 modern rail vehicles delivered by Polish manufacturer. The total value of the leased objects was nearly PLN 90 million (ca. EUR 21,5 million). The investment financing form selected by public authorities proved to be an efficient method for developing the infrastructure of cities and regions. Let's look at some arguments behind the above mentioned transactions.

### **Fundamental advantages for the public sector:**

➤ **Budget predictability:**

All public entities are obliged to forecast their budgets for consecutive years. Leasing, as an investment financing form, made it easier for Marshals' offices to fix and subsequently control expenditures related to the purchase of rail vehicles since many costs are preset for the consecutive four, five or even nine years. Long term financial forecasting was possible as main costs and additional expenses related to the investment were taken into account, including:

- lease payments including both capital and interest portion – variable only with reference to floating interest rate fluctuations,
  - monthly insurance premium of the leased object – long-term insurance policy, accompanying the lease agreement, provides for invariability over time, which in consequence means that it cannot be affected either by increasing market prices of insurance risks or damage, if any, caused to the leased object within the term of the agreement. This is an excellent method of avoiding unforeseen costs in the future.
  - vehicle maintenance costs – leasing agreements concluded with Marshals' offices included additional costs of multi-year warranty, warranty and out-of-warranty service, costs of daily and unscheduled inspections, replacement of quick-wearing elements and selected maintenance materials (e.g. liquids). The average annual cost of maintenance for rail vehicles is estimated at 8% of its purchase price, which means that if included in long-term leasing agreements, the predictability of a significant part of expenditures can be ensured. It is observed that public authorities tend to increase the scope of vehicles maintenance service since their experience in using the rolling stock shows that the purchase price accounts for less than half of the total expenditure related to the operation of the vehicle over its economic life time.
- Optimisation, that is, increasing the scale of investment:
- Limited expenditure budgets prevented Marshals' offices from fast replacement of local railway fleets. The decision of a public sector entity concerning financing of the purchase of rolling stock via leasing scheme made it possible to spread the costs of investment over a longer period of time, thus increasing the number of rail vehicles purchased. The annual budget available to Marshals' offices provided for expenditure related to new rolling stock purchase in the amount of ca. PLN 5.0 million to PLN 8.0 million, which would be sufficient to acquire one rail vehicle only. Leasing agreements enabled Marshals' offices to significantly increase the scale of their investments, i.e.:
- the Marshal's Office of the Małopolskie Voivodeship – purchased 6 vehicles with value totalling PLN 34,6 million, spread over 9 years according to the leasing agreement,
  - the Marshal's Office of the Warmińsko-Mazurskie Voivodeship – purchased 3 vehicles with value totalling PLN 23,94 million, spread over 5 years according to the leasing agreement,
  - the Marshal's Office of the Lubelskie Voivodeship – purchased 5 vehicles with value totalling PLN 30,95 million, spread over 4 years according to the leasing agreement.
- Flexibility:
- Spreading of the investment over time, accordingly to leasing agreement, gives higher flexibility depending on the current needs of the public sector entity – the terms of the concluded agreements can be extended or shortened, the amount of leasing instalments can be modified, or the agreement can be assigned to another Lessee, etc. This advantage enables public authorities to properly respond to changing conditions that could not be foreseen at the beginning of the investment.
- Achieving positive economic and social effects in a short time:
- As a result of the adopted solution an essential part of the rolling stock operating in the Małopolskie, Lubelskie and Warmińsko-Mazurskie voivodeships was soon replaced with vehicles that are more modern, less prone to failure, more environment-friendly and energy-efficient, safer, and more geared towards social needs and what needs to be emphasized the rail vehicles provided under the financing scheme are adapted to the needs of the disabled persons. This allows to draw a conclusion that the concluded leasing agreements not only had a positive influence on optimisation of the public entity's investment, but also contributed to achieving

significant benefits in terms of social comfort, public transport safety and environmental protection.

➤ The comfort of a full package:

Investment via a leasing scheme is a synonym for a comprehensive package investment. The modern leasing service provided by mLeasing to Marshals' offices allows for allocation of responsibilities between different specialists, i.e. it comprises a customised insurance policy prepared and concluded by insurance specialists, vehicle maintenance provided by technicians and engineers, and a suitable and flexible schedule of debt servicing and repayment prepared by financial experts.

Good management of a public sector entity more and more often resembles large scale private business management. Public authorities are searching for the most optimum financial solution to purchase essential assets. The number of public procurement tenders announced in Poland and related to leasing shows that this financial instrument proves effective not only in the private sector but also addresses the needs of the local governments and state government sector.