CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

THI CHAM ANH VU

Business Administration

Thesis title

Basic microeconomic aspects of credit and leasing financing

Objectives of thesis

The purpose of this study is on the issue of credit and finance leasing as well as the impact of microeconomic variables on the leasing industry's default risk.

Methodology

Explain the issue of credit and leasing financing with an emphasis on operational leasing. Base your view on legal, tax, and accounting regulations that influence the decision-making of entities on the method of financing long-term assets.

The proposed extent of the thesis
30-40 pages

Keywords
Financial Lease, Operational Lease, Debt, Credit, Credit risk, IFRS 16

Recommended information sources

- Beattie, V., Edwards, K., & Goodacre, A. (1998). The impact of constructive operating lease capitalizationon key accounting ratios. Accounting and Business Research.
- Dr Barbara Drexler, Gerbrand van Bork, Silke Mueffelmann, Constanze Hashemian, Holger Siek and MarenSturm, Nicola Benaglio, Justyna Pytkowska (2020). Microfinance in the European Union:Market analysis and recommendations for delivery options in 2021-2027.
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ABSTRACT

Title	**Basic microeconomic aspects of credit and leasing financing**
Date of Submission	2022
Authors	Vu Thi Cham Anh
Supervisor	doc. Ing. Mgr. Petr Wawrosz, Ph.D.
Course	Bachelor’s Thesis
Seven key words	Financial Lease, Operatinal Lease, Debt, Credit, NAL, Credit risk, IFRS 16.
Purpose	The purpose of this study is on the issue of credit and finance leasing as well as the impact of microeconomic variables on the leasing industry's default risk.
Methodology	Explain the issue of credit and leasing financing with emphasis on operational leasing. Base your view on legal, tax and accounting regulations that influence the decision-making of entities on the method of financing long-term assets.
Theoretical perspectives	The field of IFRS 16 implication on capital structure and cost of capital is still limited.
Conclusions	This article addresses the issue of lease credit and financing, focusing on operating leases. Defaults are predictable, as they have a negative effect on the default probability of rental companies, variables such as contract length and duration, and interest rates. Analyze to decide whether to rent or buy properties and give personal views on growth and sustainable development solutions for credit and leasing companies.

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1. Introduction

Economic growth has been a driving force for businesses to invest in expanding production and modernizing production lines and technology. For a long time, businesses have benefited from competition among commercial banks, leading to the loosening of credit approval mechanisms and a decrease in the profit margin of some banks in order to attract customers and increase loan balance. The demand for financial leasing is increasing, and at the same time, mechanisms and policies are increasingly perfected, creating a legal framework for financial leasing companies to develop safely and sustainably. Moreover, businesses should consider using financial leasing as one of the ways to survive and develop because whether they like it or not, they must overcome this difficult period. Although the use of financial leasing is expensive, the business will solve the problem of mobility, not to mention in the long run the leased assets will be the assets of the business.

1.1 Background

The origin of financial leasing has been around for a long time, according to Aristole from 384-322 BC, the concept of renting an asset to the lessee is an objective necessity of social production. The meaning of the word "property" is generally a matter of using it, not of owning it, and it is the use of the property that creates wealth.

Financial leasing is a form that is being applied popularly in many countries around the world such as the US, Japan, Germany, Sweden, Australia... This type of financial leasing has been introduced by a number of financial companies, financial market in the late 50s and early 60s of the 20th century with the name of finance lease (Kristopher Bennett, 2017).The financial leasing market first appeared in the US in 1952 and then flourished in European countries. This market is increasingly spreading to Asian countries.

In the US, the financial leasing industry accounts for about 25-30% of the total funding for businesses' annual equipment purchases. The average annual revenue from finance leasing in Korea is 16 billion USD, in Thailand is 4 billion USD... And the total annual revenue of this industry is estimated at over 500 billion USD with growth momentum an average of 6% annually (Jeffrey Taylor, 2012).

Financial leasing is a form of financing up to 90% of the rental value that the leasing company will provide to customers with capital needs. At that time, businesses will not need to spend too much capital and still ensure their operation process.

1.2 Purpose of study

My bachelor thesis on the topic "Basic microeconomic aspects of credit and leasing financing" because it is a very frequently discussed topic and also very important to life.

The purpose of this paper is to address the issue of credit granting and finance leasing with a focus on operating leases. Small businesses are almost not in the habit of using the services of finance leasing companies while financial leasing businesses have the ability to separate ownership and use rights of assets, giving lending without collateral, the most important collateral for financial leasing businesses is the reputation of the business, the reputation of the business owner. Customer marketing, business promotion of finance leasing companies, in general, need to be promoted more so that businesses in need will be able to better understand finance leasing and credit extension. Refers to the legal, tax, and accounting regulations that affect an entity's decision-making about how to finance long-term assets. Provides an outline of the definition and scope of IFRS 16 as well as details on leasing and credit. The analysis gives solutions and potentials for credit market development, and hire purchase.

2. Objectives & Methodology

2.1 Objectives

The purpose of the bachelor's thesis is to clarify the problems of the most widely distributed forms of lease and credit. First, the theoretical part will be characterized by finance and operating leasing, in which we will talk about the characteristics of credit such as consumer credit, bank credit, mortgage loan, etc. The last part of the theory I have mentioned about IRFS16, the impact of IFRS16, and alternatives to corporative financing. Then, other forms of credit will also be analyzed, which, are bank loans and are now increasingly popular forms of consumer loans. Analyze economic efficiency criteria between buying or renting to make the best decision.

On this basis, the practical section will analyze forms of credit, calculations for rental and installment loans, prepayment, and of course, annual expense ratios, as part of most rental and credit service providers try to trick customers by pointing to low-interest rates, and equally important is the credit rating.

2.2 Methodology

Financial leasing is one of the most widely used financial options and is well-known by any company, although it may focus on different types of markets. An individual or a company must always make a serious decision about whether to finance assets with cash or buy debt through leasing or lending.

The issue of credit and leasing financing with an emphasis on operational leasing has become more critical with the continued financial crisis. Looming concerns over funding sources, capital restrictions, and margin pressures are forcing companies to address their entire balance sheet management. In response, many companies have turned to non-debt financing options such as leasing and factoring. However, in light of new regulations, tax laws, and other factors associated with non-debt financing methods, a complete understanding of how such decisions impact the company's long-term growth potential is essential for success. This paper will examine how a company can develop and implement optimal policies regarding financing long-term assets.

3. Literature Review

3.1 Leasing

3.1.1 General Feature Of Leasing

Lease is a contractual transaction between two entities including the owner of the property and the user of the property. In which the property owner is the lessor transfers the property to the lessee for use for a certain period of time and the user must pay rent to the property owner (Andrey S.Nechaev, 2020).

Leasing has two main types: operating leases and financial leases. Operating lease is a type of short-term lease and the content of the lease does not represent the transfer of substantially all the risks and rewards associated with ownership of the asset (CARLA, 2021). Financial leasing is a type of long-term lease and the content of the lease agreement represents the transfer of most of the risks and rewards of ownership of the asset (Foudation, 2021).

In a finance lease transaction, the lessor transfers the actual asset to the lessee for use within a certain period of time as agreed. During the use of the property, the lessee must make periodic rental payments until the contract expires, this rent consists of two parts: principal and interest. Especially, for finance lease contracts with partial payment after the termination of the lease, the interest is paid in full during the capital use period, the principal portion has not been fully repaid (Duong, 2013).

Parties to the rental operation:
The main parties in leasing are manufacturers(producers), lessors, and lessees. The leasing company only buys what the lessee needs and meets his requirements (Holeček, 2014). When purchasing an item, a contract for the purchase of the item must be signed between the manufacturer and the lessor, who will own the item for the duration of the lease. After handing over to the leasing company, another purchase contract is signed with details on the expiry of the lease, as well as details after the contract ends (Holeček, 2014).

Figure 1: Parties to the rental operation according to (Holeček, 2014)

3.1.2 Operation Leasing

In the case of an operating lease, which can be a term or indefinite contract, such a lease for a shorter term but at least one year is called a "lease". At the end of the lease, the property is returned to the landlord, although in practice an entirely new contract is usually signed for new things (Holeček, 2014). One advantage of this type of leasing is related services, which are beneficial for entrepreneurs.

Arguably, the volume of operating leases has increased recently due to current accounting standards, while finance leases continue to decline (Pardo, 2017). Currently, leasing companies in the Czech Republic are gradually growing and expanding in size, able to provide a level of services related to rentals. The number of tenants is gradually increasing, due to supply and demand.

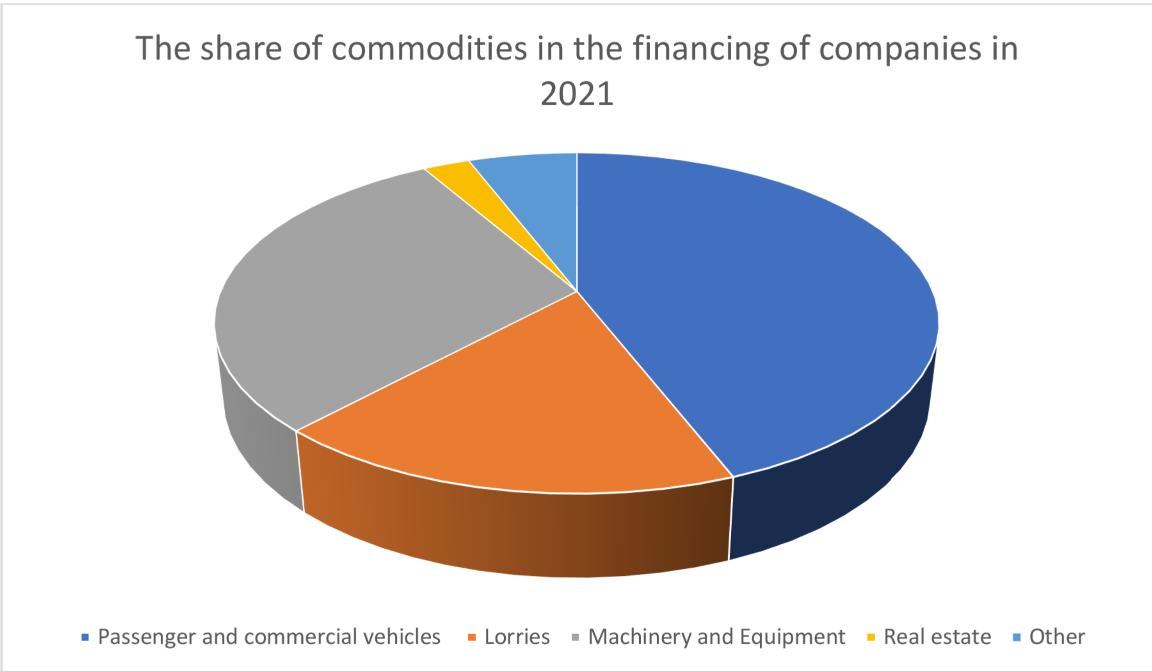

Figure 2: The share of commodities in the financing of companies in 2021 (ČLFA, 2021)

The overview of financed items is traditionally dominated by means of transport in the corporate sphere. Last year, passenger and commercial vehicles also reached the largest volumes, followed by machinery and equipment and trucks (ČLFA, 2021). In the group of machinery and equipment, the greatest interest was in the financing of agricultural or forestry machinery, in the financing of machinery for mining, quarrying or construction, and then in the financing of metalworking and other machine tools.

3.1.3 The Process Of Financial Leasing

Step 1: Reach customers and profiles

- The leasing officer receives the customer's financial leasing application file, including the legal file, economic file, financial lease file, checks the list of documents, the reasonableness and legality of the lease dossier sent (Thao, 2013).
- Leasing officers directly discuss, negotiate and agree on the contents and conditions of financial leasing with customers.

Step 2: Appraisal

- The leasing officer appraises to clarify the legality and situation of the customer's property before the financial lease, calculates the economic efficiency of using the leased asset. Then make an appraisal report and clearly state whether you agree or disagree with the rental and submit it to the manager (Thao, 2013).
- The head of the department is responsible for checking the dossier and the appraisal results, directly re-appraisal if necessary, clearly stating the agreement or disagreement with the lease, then the director or the leasing council.

Step 3: Approve, notify and sign the contract

- Within the prescribed time limit from the date of receipt of complete documents, the lessor must notify the lessee that the document and decide to lease or not to lease. If not leased, the lessor must clearly indicate the reason for the refusal and notify the lesses (Thao, 2013).
- The lessor and the customer calculate, agree, and agree on the contents of the lease contract such as rental interest rate, term, rent payment, deposit, deposit, property delivery, and rental property insurance. Then sign the financial leasing contract. Pursuant to the financial leasing contract and the written agreement on asset selection between the lessee and the supplier, the lessor and the supplier shall sign an asset purchase and sale contract (Thao, 2013).

Step 4: Execute the contract

- The lessee is responsible for directly inspecting and receiving the property from the supplier as agreed in the financial leasing contract and the asset purchase and sale contract.
- The lessor cooperates with the lessee and the supplier to carry out the procedures for registration of property ownership in accordance with regulations and registration of the leased property at the Secured Transaction Registration Center in accordance with the law (Thao, 2013).
- The lessor shall periodically inspect or burn the property after the lease, including inspecting the use of the leased property, checking the lessee's business and production activities, paying the rent (original, interest). Each inspection must make a record, propose legal measures (if any).

3.2 Credit

3.2.1 Consumer Credit

Consumer credit provides short-term financing of the requirements on credit subjects, in connection with which this type of loan is probably offered to consumers (Vandone, 2009). This applies especially to so-called consumer loans, i.e. loans tied to movements and therefore unlimited and fairly low amounts of credit (mostly 1 base rate plus interest), which are often referred to as one-off or limited consumption loans (Vandone, 2009). Consumer loans cost about 17% per annum and are usually without a limit on installment payments.

The European Union has been constantly increasing its efforts to provide European citizens with a higher level of protection in various areas, including protection of personal data and consumer credit. Consumer credit includes all types of loans that are granted to consumers by legal entities such as banks, leasing companies, etc. It is provided in a number of ways, comprising regularly disbursed loans, installment and installment loans, etc (Robert B. Avery, 1996).

The statistics in Europe show that at the end of 2013, 2/3 of the total amount of business loans and over 70 % of all credits were used to finance consumer goods. Money was granted to individuals by 79.6 million thousand people, which increased by 9.5% during the year (Jacob, 2016).

According to the report for 2021, "among the largest euro area countries, banks report increased net lending demand for businesses in Germany, France and Italy, while lending demand does not. change by banks in Spain in the fourth quarter of 2021. Net lending to households increased in Germany, Spain and Italy. In France, net demand for home loans was flat, while demand for consumer credit fell" (ECB, 2021).

(net percentages of banks reporting a tightening of credit standards or an increase in loan demand)

	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
Country	Q3 21	Q4 21	Avg.	Q3 21	Q4 21	Avg.	Q3 21	Q4 21	Avg.	Q3 21	Q4 21	Avg.	Q3 21	Q4 21	Avg.	Q3 21	Q4 21	Avg.
Euro area	1	2	8	8	18	0	2	0	6	11	8	4	-3	-4	4	5	2	0
Germany	3	0	4	9	16	6	4	4	2	18	11	9	-3	0	0	13	10	8
Spain	0	20	9	10	0	-5	11	11	14	33	33	-9	10	10	9	10	10	-8
France	0	0	5	8	25	-5	8	0	3	8	0	7	-7	-7	-1	-7	-13	-1
Italy	-9	-9	11	0	18	7	0	-9	1	9	18	13	-8	-23	5	15	15	11

Table 1:Latest BLS results for the largest euro area countries (ECB, 2021)

Notes: The "Avg." columns contain historical averages, which are calculated over the period since the beginning of the survey, excluding the most recent round. Owing to the different sample sizes across countries, which broadly reflect the differences in the national shares in lending to the euro area non-financial private sector, the size and volatility of the net percentages cannot be directly compared across countries (ECB, 2021).

3.2.2 Bank Credit

Bank credit is a credit relationship between banks, credit institutions and businesses or individuals (borrowers). In which, the bank or credit institution will transfer the property to the borrower for use within a certain period of time, when due, the borrower must return both principal and interest to the credit institution or bank.

Basically, currently, bank credit is divided into two main types (SKC, 2018), including:

- Personal credit: Serving the needs of using personal capital such as buying a house, buying a car, doing business, covering personal life,...
- Corporate credit: Serving the capital needs of businesses such as purchasing assets, paying debts, supplementing working capital,...

In addition, there are other classifications as follows. Based on credit period:

- Short-term credit: Term no more than 12 months.
- Medium-term credit: Term from 12 months to 60 months.
- Long-term credit: Term greater than 60 months. (SKC, 2018)

One of the most important methods a bank can employ to ensure that its loans meet the standards set by banking regulators is to establish a policy written loan. Each commercial bank has its own credit policy. A credit policy will provide credit officers and bank managers with specific guidance in making loan decisions and building loan portfolios (Robert B. Avery, 1996). The actual structure of the loan portfolio will reflect what the bank's lending policy sets out. If this does not happen then it is an ineffective lending policy and should be reconsidered.

Usually, a good loan policy includes some important elements as follows:

- A standard statement for the bank's loan portfolio (for example outlining characteristics of a high-quality loan portfolio such as type, maturity, size, and quality of loans).
- An appropriate quality standard applies to the entire loan portfolio. Announce the maximum limit for the total outstanding balance.
- Clearly define powers and responsibilities for credit officers and credit appraisal committees. Limitation of responsibility in performing assigned tasks and in disclosing information within the credit bureau.
- Procedures and activities required for soliciting, reviewing, evaluating, and making decisions on a customer's loan application.
- The required documents must accompany the loan application and must be kept in the bank's credit file (financial statements, commitment agreements, etc.).

Guidelines for obtaining, evaluating, and maintaining collateral for loans:

- A statement of policies and procedures for determining loan interest rates, fees, and repayment terms.
- Clearly describe the main credit market of the bank.
- Describe the steps to be taken to detect and analyze problem loans.
- A clear lending policy will bring many advantages to the bank. It guides the credit staff through the procedures and steps to follow and specifies their scope of responsibility (Tu, 2007). It helps the bank move towards an efficient loan portfolio that can achieve multiple goals such as enhancing profitability, limiting risk, and meeting regulatory requirements.

3.2.3 Mortgage Loan

A mortgage loan is a type of credit against real estate, which can be a flat, house, building, or land. The loan itself is not secured, however, in case of default of payment by the borrower, the guarantor undertakes to pay the debt instead of him. In addition, a pledge agreement is developed in which it is indicated that upon payment of the mortgage loan, ownership of these properties will be passed to the bank. The form of collateral is directly the property for which it is provided and with the help of this security the bank can gain access to the property if the client is unable to repay the loan. Mortgage loans are mainly used to buy property, as a form of security for the bank. This is why the collateral must be located in the Czech Republic or on the territory of another Member State of the European Union (the creditor imposes this condition) if your loan is in Europe or the Czech republic (Holeček, 2014). There is no provision for a mortgage of property directly with the debtor. When it does, it can be the property of someone else, who is also its owner (Petr, 2014).

3.2.4 The role of microcredit in the economy

Microcredit is considered an activity of microfinance, the subjects of microcredit are the poor and low-income people, because they do not have enough conditions to access other capital sources (Du, 2021). Microcredit is a financial instrument used to provide loans to people with low incomes or who have no access to banking institutions. This type of credit is aimed at the poorest people and it has been a great success in recent years.

The purpose of microcredit activities is to help borrowers have a capital to have production, business, employment opportunities and escape poverty. Microcredit contributes to the realization of the poverty reduction goals of the countries. Towards eliminating gender inequality, helping women in poor and disadvantaged families have financial opportunities, get a job, increase their income, be more active and confident in life, thereby the issue of gender equality in society is increasingly improved.

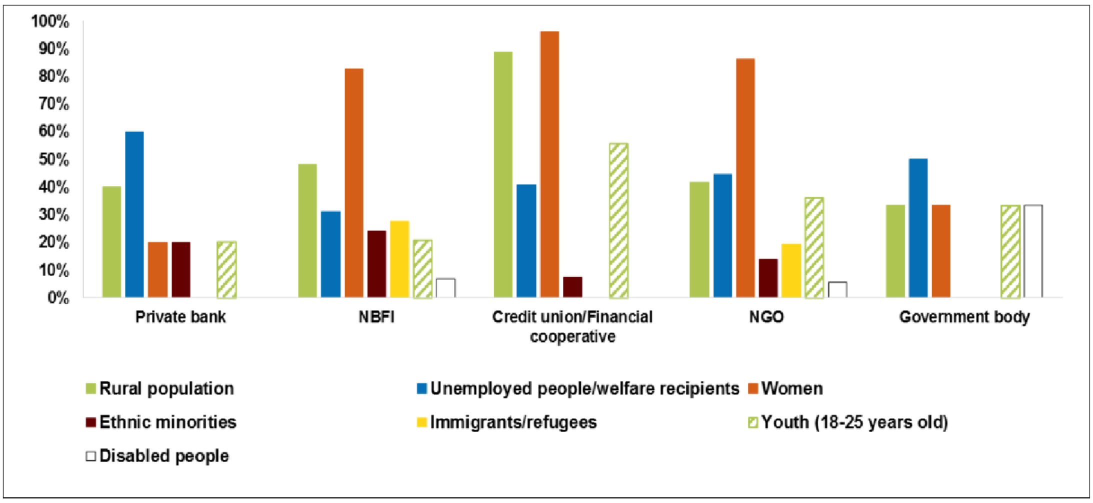

Figure 3: Target group, by institutional type, 2017 (%)

Note: 103 responding microfinance providers (of which, 95 belong to EU Member States). (Dr Barbara Drexler, 2020)

As the grap 1, we can see, Microfinance providers serve many different target groups with their personal and corporate microloans, financial unions/cooperatives The main category, with the second category, also shows a similar clear focus on the rural population. Statistically, female borrowers account for the highest percentage and young borrowers have the lowest percentage.

Here, I would like to point out the basic roles of microcredit in the economy (Development, 2020)

- Support microfinance institutions to ensure loans for low-income people.
- Empowering women by funding micro, small and medium enterprises.
- Provide access to education as well as finance for rural women.
- Help rebuild post-conflict communities and restore women's livelihoods.
- Leverage microfinance to help businesses and livelihoods outside the capital cities.
- Nurturing small businesses to help diversify the economy.

On the other hand, micro credit also contributes to increasing the diversity and characteristics of the economy, helping traditional industries in the locality, making these industries grow stronger (Dr Barbara Drexler, 2020). The credit industry is one of the most profitable industries in the world. It makes up about 2 trillion dollars of GDP, and that number is only growing. Microcredit has been used as a tool to help people in poverty get out of it by providing them with access to credit and an opportunity to build their own businesses.

3.2.5 Situation and issue facing the credit financing

The credit market has long been evolving. The basic components of the market are relatively complete. Market participants are increasingly diverse. Credit relationships, including capital mobilization and lending in the formal credit market and the informal market, have been expanded, creating favorable conditions for increasing demand and supply (Steven Ongena, 2020). Credit instruments participating in the market are increasingly diversified with many new forms of credit in both investment fields: production and business as well as consumption. Credit relationships are formed based on market laws. The volume of goods and credit prices are initially regulated by the laws of market supply and demand, the law of competition, and price control.

However, it is the rapid development of the credit market in the context of the government's limited ability to control the market, combined with the inherent endogenous defects of the market and the backlog of the economic mechanism. The credit market has revealed many inadequacies, instability, and not really healthy development (Hien, 2016). The economy's large development investment capital needs, coupled with the weakness and slow development of capital markets, are creating pressures and boosting bank credit to a rather hot, remarkable level of fear.

For the system of credit institutions, the capacity of loan supervision and risk management has not yet met international standards. The process of restructuring the banking system is slow and faces many difficulties. Overdue debts are likely to continue to rise due to the rapid expansion of credit, some credit institutions tend to loosen regulations conditions for loans, lowering interest rates to win customers, providing loans by appointment for many large projects, economic efficiency has not been fully assessed and appraisal is not rigorous (Segal, 2019). Along with other objective and subjective reasons, the credit quality of many credit institutions is not high, potential, and contains many risks for both the state and regional credit foreign economy.

The relationship between the weak credit conditions of banks and insolvency risk is found to be significant. The problem of the imbalance in the term structure of credit, combined with excessive use of short-term capital for long-term loans by some banks, should be carefully reviewed to avoid becoming harmful effects on the stability of the banking system (Yesim Helhe, 2018). The ability of credit institutions to mobilize medium and long-term capital is still low compared with the economy's demand for long-term investment capital.

If credit institutions do not maintain stable capital mobilization as planned, as well as paying debts in accordance with their obligations due to differences in term dates and amounts, it will lead to a risk of insolvency that is easy for any credit institution with small size, low capital adequacy ratio, heavy allocation towards short-term liabilities and high reliance on short-term financing for long-term lending operation (David S. Kidwell, 2016). The imbalance in the credit term structure, as well as the excessive use of short-term capital for long-term loans by some credit institutions, should be carefully reviewed to avoid becoming harmful effects.

An equally important issue here is the interest rate.Credit interest rates also fluctuate and the price of credit is not really determined by capital supply and demand in the market. The reason is partly due to the lack of objective regulation of the market due to the impact of subjective factors of mechanisms and policies, partly due to the capital pressure of the economy on credit institutions.

3.3 Leasing & Credit

In a finance lease transaction, the principle of repayment of credit is always guaranteed, the rent and residual value of the property are usually greater than the original value of the property. In principle, the determination of rent is similar to the determination of repayment in a loans that is, it must be based on the total amount of financing, the loan term, and the interest rate (Duong, 2013). This is precisely the unequal exchange of assets – the essence of a credit relationship.

When comparing finance leasing and credit to buy assets, the basic difference between the two activities is that the ownership of the property is formed from the financing source. With a financial leasing operation, the lessor retains ownership of the leased asset and collects amortization of the leased asset. At the end of the lease term, the lessee has the right to choose between continuing to lease or repurchasing the asset at the residual value of the asset (Duong, 2013). As for credit extension activities to purchase assets, the borrower not only has the right to use but also owns the property formed from the loan capital and has the right to retain the depreciation of that asset; and the lender has the right.

Finance leasing activities have certain advantages over credit extension. Firstly, for a finance lease, the leased asset is usually also the security asset for the finance lease transaction, while for a credit grant to purchase the asset, the borrower usually has to have other assets to finance the leasing transaction guarantee for the loan (Hien, 2016).

Second, in a financial lease, at the end of the lease, the lessee, if desired, can transfer the leased asset back to the lessor with all risks due to the obsolescence of the leased asset. In contrast, in lending activities to buy machinery and equipment, the borrower is the owner of the assets formed from the loan, must bear all risks due to the devaluation of the machinery, that device (Duong, 2013). Different from credit extension operations such as lending, guarantee, discounting, and factoring, financial leasing is always a medium and long-term form of credit extension, that is, the lease term must be from 1 year or more.

3.3.1 Leasing and credit development statistics

In this statistics section, I would like to give you detailed leasing and credit development statistics about the Czech Republic through Statistics and data available at www.clfa.cz. The data is available in press release on the leasing in Czech Republic increased in 2021.

	Total volume in billions of CZK (2021)	Total volume in billions of CZK (2020)	Change in%
Financing of business investments (financial leasing, including business loans, operating leasing, real estate leasing)	96,84	79,60	+21,7 %
Corporate financing (Factoring)	30,44	23,45	+29,8 %
Household financing (consumer credits,consumer leasing)	24,96	23,11	+8,0 %
Total	152,24	126,16	+20,7 %

Figure 4: Distribution of funds provided in 2021 (comparison with 2020)

Thus, according to the above statistics, we see of the total 152.24 billion crowns provided by CLFA members in 2021, 127.28 billion was earmarked for financing corporate investments and operations and 24.96 billion for financing goods and services for households. The aggregate receivables of CLFA members from current leasing and credit contracts CZK 248.24 billion at the end of last year, an increase of 0.3% compared to the end of 2020.

The area of business investment financing showed a year-on-year improvement of 21.7% with a volume of 96.84 billion crowns. 16.5% of these investments were made through operating leasing. The value of receivables assigned under factoring last year reached 234.41 billion crowns, compared to 2020 it increased by 27.8%. The amount of funds provided to clients within factoring increased by 29.8% year-on-year to CZK 30.44 billion.

These positive figures show that leasing and credit in recent years at Czech Republic are showing positive signs and growth is outstanding.

3.3.2. Development status of finance and leasing companies finance in the Czech Republic.

The development of finance companies and finance leasing has made an important contribution to the development of the consumer finance lending market in particular and the financial market in general financial inclusion in the Czech Republic. However, the rapid increase in the number of companies, the source of capital, and the variety of products, together with the lack of a legal framework for the operation of these companies, has the potential to cause financial instability.

According to the data of The Ministry of Finance of the Czech Republic, "In terms of the possibility of obtaining debt financing, non-bank providers of asset financing represent an alternative to credit institutions. At the same time, the share of the total assets of these providers in relation to the balance sheet amount of the banking sector has continuously decreased since 2018 from approx 6% to 4.9% at the end of 2021, which was historically the lowest value in history. At the same time, the balance sheet total of the sector reached approximately the same absolute value as at the end of 2020, when it increased by only 0.2% year-on-year to CZK 420.2 billion" (Ministerstvo financí, 2021).

As at 31 Dec		2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
Assets (CZK bn)	Financial leasing companies	301.4	322.7	335.1	345.3	327.9	323.3	-4.6	-1.4
	Other lending companies	59.5	63.9	66.2	66.7	66.7	66.1	-0.6	-0.9
	Factoring and forfaiting companies	22.5	25.3	27.2	25.9	24.7	30.8	6.1	24.8
Share of the sector's assets (%)	Financial leasing companies	78.6	78.3	78.2	78.8	78.2	76.9	-1.3	-1.6
	Other lending companies	15.5	15.5	15.5	15.2	15.9	15.7	-0.2	-1.1
	Factoring and forfaiting companies	5.9	6.1	6.4	5.9	5.9	7.3	1.4	24.5
Total assets (CZK bn)		383.4	411.9	428.6	437.9	419.3	420.2	0.9	0.2

Source: CNB – ARAD, MoF calculations

Figure 5: Structure of assets by segments in the non-bank financing provider sector

In 2021, although the share of finance-leasing companies in the sector's total assets fell by 1.3 pp year on year in favor of factoring and forfeiting companies, they remained the strongest representative of non-bank finance providers with a share of almost 77%. Finance-leasing companies recorded a year-on-year decrease in their assets by CZK 4.6 billion (1.4%) and other lending companies by CZK 0.6 billion (0.9%), whereas factoring and forfeiting companies increased their total assets by CZK 6.1 billion (24.8%) (Ministry of Finance of the Czech Republice, 2021).

3.4 IFRS16

The new accounting standard, IFRS 16, has a significant impact on the way accountants determine and report the credit rating of a company. This new accounting standard is mandatory for all publicly traded companies and will be applied to all private companies in 2021.This new accounting standard is much more stringent than its predecessor and requires that financial assets be classified as either held-to-maturity or available-for-sale. The classification of an asset will determine whether it is measured at amortized cost or fair value with changes in fair value being recognized in profit or loss.

This section will discuss the implications of IFRS16 on credit rating and the cost of debt. The key implication is that the changes to the accounting standard will change how banks, creditors, and borrowers view their transactions.

IFRS 16 is a new financial reporting standard that was implemented by all major accounting firms in 2017. The goal of this new standard is to provide more transparency into how companies report their financial statements. This new standard will have many implications on credit ratings and the cost of debt. It may also have an effect on what types of financing companies can get in the future.

Credit rating is a measure of the risk of default by a borrower. It is an assessment of the likelihood that a borrower will not pay back his or her loan. The cost of debt is the total cost to borrow money from lenders, which includes interest and any other fees paid to lenders over the life of the loan.

The new standard on lease accounting, IFRS 16, will have a significant impact on the credit rating of organizations. The new standard requires that the lease payments be recognized as an operating expense. This will result in the debtors' balance sheets being depleted in most cases.This is because in many cases, the debtor will have to pay more than they would if they were paying off their own purchase of the asset. This is because they are paying off interest and depreciation over a longer period of time than they would if they were financing it themselves. The cost of debt is the total cost to borrow money from lenders, which includes interest and any other fees paid to lenders over the life of the loan.

Credit rating is an assessment of the creditworthiness of a borrower, which affects the interest rate on loans. A company with a good credit rating will pay lower interest rates than one with a bad credit rating. IFRS 16 establishes new requirements for measuring and disclosing financial assets and liabilities at fair value, in order to improve transparency and comparability among reporting entities. Credit rating has two major implications on the cost of debt and implications on leasing. It affects the cost of debt by determining what interest rate a company pays on its loans based on their risk level (low risk = low-interest rate).

3.4.1 IFRS16 impact on banks and credit institutions

- IFRS16 will affect all economic sectors and affect the entire organization of businesses.The new standard will also have a strong impact on balance sheets, profits and introduce more disclosure requirements.
- IFRS 16 changes the definition of financial metrics and EBITDA, and affects performance metrics, and also affects the lessor's business models and when it comes to negotiating leases. (Deloitte, 2019)
- Changes to the accounting guidelines for leases are just the tip of the iceberg. Changes to lease accounting standards have far-reaching effects on the lessee's processes, systems and business controls. (Pwc, 2016)
- Businesses will need a cross-functional approach to implement this new standard, not just focusing on accounting for leases (Pwc, 2016). The new standard will have an impact on financing ratios, loan agreements, credit ratings, borrowing costs and business identification.

3.5 On legal,tax and accounting regulations that influence the decision-making of entities on the method of financing long-term assets

The decision of how to finance long-term investments is a complex one. The decision will be greatly influenced by the economic and financial environment, as well as the tax and accounting regulations that are in place. There are two methods of financing long-term investments: Credit and Leasing (Kusano, 2018).The main difference between these methods is that leasing does not require repayment of principal at the end of the lease term, while credit does require repayment.

The effect on financial leverage from using credit or leasing is different for each entity. For an entity with high debt ratios, using a lease might not be an optimal choice because it could increase the company's risk profile and have a negative impact on its credit rating if it fails to make timely rental payments (Kusano, 2018).Most of the time, credit and leasing is used as a method of financing for the long term for entities. The decision about the method of financing is influenced by many factors such as the economic conditions, tax regulations, accounting regulations, and availability of funds.

In the Czech Republic, the legal, tax, and accounting regulations that influence the decision-making of entities on the method of financing long-term assets are:

- Sales tax: The seller is required to issue a VAT invoice. The seller is also required to issue a VAT invoice when goods are sold on credit but no payment has been made yet.
- Income tax (corporation): In accordance with the Tax Code of the Czech Republic, companies are required to pay income tax on their annual profit (i.e., net profit after taxes).
- Value-added tax (VAT): All goods or services that are subject to VAT must be invoiced at their full price inclusive of VAT.
- Accounting standards: Companies are generally required to keep detailed records of financial transactions and income statements.

Since the Czech Republic has a very low rate of corporate tax, entities are often tempted to finance long-term assets by borrowing money. However, this may lead to problems when it comes to accounting and taxation.

Czech Republic's corporate tax rate is 19%, its personal income tax rate is 15%, and capital gains generally are taxed with other income at the progressive rates of 15% and 23% (Deloitte, International Tax Czech Republic Highlights, 2022), but may be exempt or taxed in a special tax base at a rate of 15% in some cases. The country's VAT (value-added tax) rate is 21%.

As a result of the government's efforts to reduce the deficit and increase tax revenues, there have been changes in both accounting and tax regulations. This has led to an increase in debt financing while decreasing equity financing. The aim of these changes is to increase transparency between companies and their financiers, as well as between companies themselves.

4. Sustainable growth and development solutions for credit and leasing companies

- *Diversify and improve the quality of financial leasing products and services:*
    - Focus on conducting market research to understand and capture customer needs. Based on that, it is possible to develop a strategy to develop new services (Mgr.Le Thi Thi, 2019).
    - Improve business processes, at the same time strengthen measures to check, monitor and manage risks, improve the quality of customer care services.

- Strengthen the effectiveness of the state management role in the financial leasing service market, and at the same time promote the self-governing role of financial companies with the following solutions:

    - Create an equal, stable and transparent business environment for financial companies.
    - Strengthening the effectiveness and efficiency of inspection and supervision activities of state management agencies in respect of law compliance, as well as implementing serious handling of law violations against law enforcement agencies with offending organizations (Mgr.Le Thi Thi, 2019).
    - Strengthen the role of self-management, supervision and coordination of activities of management associations in the field of financial leasing services.

- Sustainable capital expansion and growth: Building a reasonable capital structure between own capital and capital mobilization, between capital mobilization term and investment term in order to enhance capital use efficiency, and at the same time reduce risks in operations, increase the ownership of companies in deciding their capital sources.

5. Analysis of 2 selected leasing companies

Currently, many credit institutions have been established for the purpose of mobilizing capital and bringing economic as well as socio-political profits to businesses. And non-bank credit institutions were also born and developed more and more widely with the same purpose.

Financial leasing company is a type of financial company whose main activity is financial leasing in accordance with the provisions of the Law on Non-Banking Credit Institutions. In the case of ČLFA(Česká leasingová a finanční asociace), it is an association of non-bank leasing companies. In the non-banking system, mainly operating leasing companies, credit companies, and some factoring companies. Without exception, some banks are also active in this service area. In this system, data and information are only transferred between the customer and the company. The purpose of this action is to reduce risk and improve the quality of services provided.

In this context, the term "banking " refers to a single public system that other banks can access and provide information about the relationship between the bank and its customers. Banks are the main protagonists of this group, but not their leasing or lending-focused subsidiaries.

I will choose the two most prestigious, oldest, and most famous companies in the Czech Republic. Point out the size, and background of these two companies and their differences. Specifically, the two companies analyzed are:

- Unileasing a.s
- Volkswagen Financial Services

5.1 Unileasing a.s

UNILEASING was established in 1991 and has been focusing on financial leasing and related financial products and services since its establishment. In addition to traditional finance leases and purchase leases, it also offers other forms of financing; this means operating leases, instalment transactions, credit financing for the purchase of movable property, and finally vendor accounting which also includes claims from solvency customers.

Its product portfolio includes various transport and shipping technologies, as well as a wide range of engineering, energy, medical, sports, office and other equipment, technologies and technical units.

Economic Overview of UNILEASING a.s.

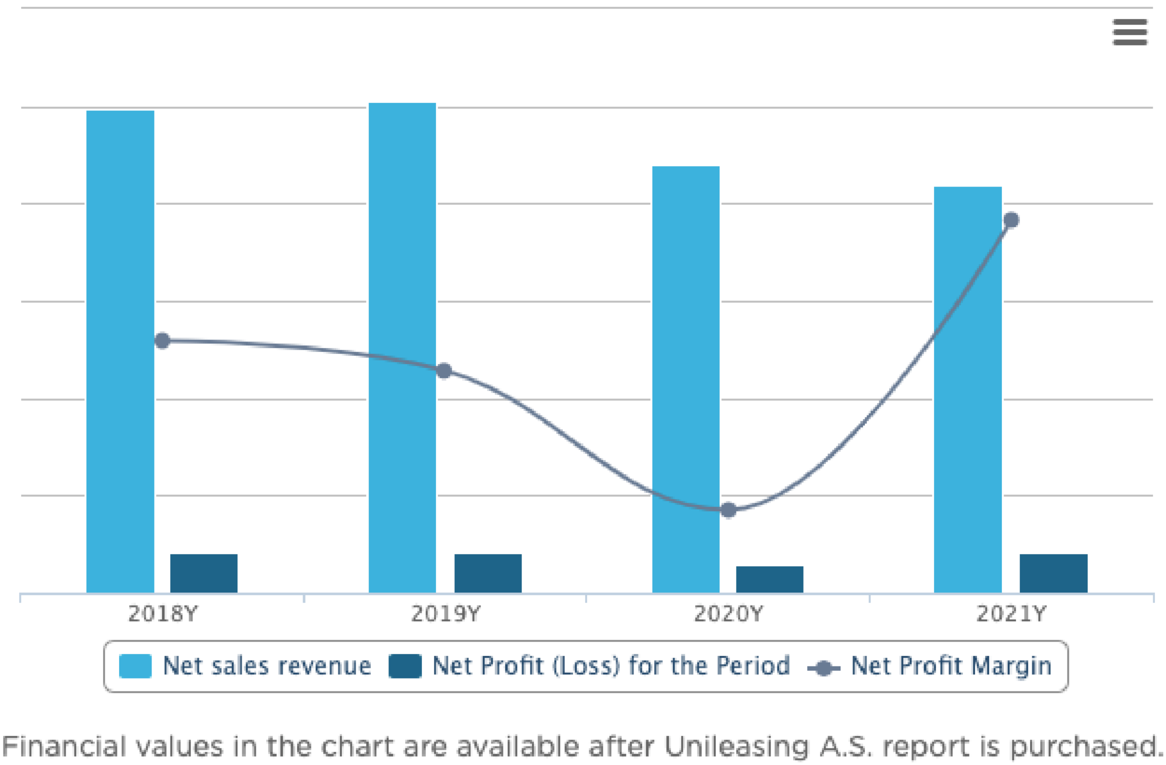

Figure 6: Performance of Unileasing A.S in the period of 2018-2021. Resource (Emis, 2021)

Look at the chart we have the following comment: Net sales increased steadily in 2018 and decreased slightly from 2019 to 2020, 2021 due to the impact of covid . While net profit margin will increase significantly in 2021. Despite the impact of the global COVID-19 pandemic.The company achieved gross profit of 127 million kc, net profit after tax, 103 million Kc (UNILEASING a.s report, 2021). Equity increase year on year due to the growth of retained earnings of previous years and current year's income.

	2018	%	2019	%	2020	%	2021	%
Financial leasing	1 031 688	48 %	902 668	44 %	534 427	38 %	753 349	43 %
Operative leasing	273 489	13 %	191 418	9 %	56 386	4 %	147 181	8 %
Entrepreneurs´ loan	835 702	39 %	981 823	47 %	828 247	58 %	869 900	49 %
Consumers´ loan	5 707	0 %	5 907	0 %	2 860	0 %	2 930	0 %
Total	**2 146 586**	**100 %**	**2 081 816**	**100 %**	**1 421 920**	**100 %**	**1 773 360**	**100 %**

Figure 7: Finance Value of Unileasing A.S (thousands of values) (Unileasing VZ, 2021)

According to this table, the share of new transactions financed by leasing increased from 38% to 43%. The reason for this is, among other things, the change in the statistical reporting of the sponsorship value, the change in VAT from 1. 1. 2020, which allows customers to deduct VAT when starting finance leasing head,. In contrast, the share of newly signed deals financed by debt has fallen from 58% to 49% (UNILEASING a.s report, 2021). However, in the future there may be an additional move on loan financing for Unileasing A.S company.

Unileasing Offer:

The offered table of Unileasing A.S compared car leasing and loan to buy a Volkswagen Passat 2.0 TDI 140KW 2018 model with a term of 3 years.

Subject of lease: **VOLKSWAGEN PASSAT 2.0 TDI 140 kw 2018**

Year of commissioning:

Purchase price without VAT: **CZK 639,110** **Contract conclusion fee including VAT:** 0, - CZK

VAT 21%: **134,213 CZK** **Purchase price after lease termination:** **CZK 1,000**

Purchase price incl. VAT: **CZK 773,323**

Number of installments: 36 **Repayment period:** **Monthly**

Advance payment amount	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%
extraordinary installment CZK	154,665	193 331	231,997	270,663	309 329	347,995
installment without insurance premium	20,317	19,048	17,778	16,509	15,240	13,970
CZK insurance	2,079	2,079	2,079	2,079	2,079	2,079
premium CZK installment with	22,396	21 127	19,857	18,588	17,319	16,049
insurance premium CZK amount at signature CZK	77,061	214,458	251,854	289,251	326,648	364,044
Amount of VAT refund to the client on the date of handover CZK	153,957	152,736	151,516	150,296	149,075	147,855

Accident insurance

Insurer (Rate Type): **ýeská podnikatská pojišýovna as 5%,**

Participation: **but at least CZK 5,000 CZK 639,110**

Sum insured:

Annual insurance: **CZK 20,119**

Windshield insurance: **for a vehicle up to 3500 kg - payment limit CZK 20,000, includes insurance for all glasses**

Insurance

Insurer (Rate Type): **ýeská podnikatská pojišýovna a.s**

Category: **Personal over 1850cc to 2000cc**

Fulfillment limit: **100 million CZK / 100 million**

Annual insurance: **CZK 4,824 CZK**

Figure 8: Offer of financial leasing with obligation to purchase - 36 month

Funding subject: **VOLKSWAGEN PASSAT 2.0 TDI 140 kw 2018**

Year of commissioning:

Purchase price without VAT: **CZK 639,110** **The offer is calculated from the purchase price incl.** **YES**

VAT 21%: **134,213 CZK** **VAT: Contract conclusion fee: Last installment** 0, - CZK

Purchase price incl. VAT: **CZK 773,323** **increased by:** 0, - CZK

Number of installments: 36 **Repayment period:** **Monthly**

Advance payment amount	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%
part of the price paid by the client CZK	154,665	193 331	231,997	270,663	309 329	347,995
total loan amount CZK	618,658	579,992	541 326	502,660	463,994	425,328
loan repayment without insurance premium CZK	19,846	18,606	17,366	16,125	14,885	13,644
insurance premium in CZK	2,079	2,079	2,079	2,079	2,079	2,079
Installment in total CZK	21,925	20,685	19,445	18,204	16,964	15,723

Accident insurance

Insurer (Rate Type): **ýeská podniketaská pojišýovna as 5%,**

Participation: **but at least CZK 5,000**

Sum insured: **CZK 639,110**

Annual insurance: **CZK 20,119**

Windshield insurance: **for a vehicle up to 3500 kg - payment limit CZK 20,000, includes insurance for all glasses**

Insurance

Insurer (Rate Type): **ýeská podnikatská pojišýovna a.s**

Category: **Personal over 1850cc to 2000cc**

Fulfillment limit: **CZK 100 million / CZK 100 million**

Annual insurance: **4,824 CZK**

Figure 9: Offer for financing - Loan 36 month (Unileasing A.S)

Main differences between these two products:

- In the case of a loan, you claim a deduction of VAT from the price of the item at the beginning of the financing, in the case of a finance lease, VAT is deducted from the price of the item as well as from the margin rental (i.e., why the VAT refund is included in the last line of the calculation).
- In the case of a loan you pay only upfront, in the case of a finance lease you pay upfront plus the first interest payment.
- In the case of a loan in which the customer is the owner of the object for the entire duration of the contract, the security shall be settled by the form of secured ownership transfer and loan agreement. In financial leasing, the owner is the leasing company. Therefore, leasing companies now prefer financial leasing.

5.2 Volkswagen Financial Services

Since 1992, ŠkoFIN s.r.o. has been the top financial corporation on the Czech market, as well as the most prominent participant in the sector of passenger and commercial vehicle finance. Volkswagen Financial Services has been the company's name since September 2015 (VWFS, 2021).The company's legal position remains unaltered. Volkswagen Financial Services, a business branch of Volkswagen Group AG, has a portfolio of more than 20.3 million contracts in 48 countries and employs 16,267 employees. The company's total assets are around 207.6 billion euros, and its operational results are 2.6 billion euros.

It specializes in assisting the dealer network of Volkswagen, Audi, SEAT, KODA, Porsche, Ducati, group used automobiles of all manufacturers, and premium brands Bentley and Lamborghini in their sales (VWFS, 2021).

It offers private persons, entrepreneurs, and businesses new-generation loans, operational leasing, as well as branded insurance, service packages, and other mobility services (VWFS, 2021).

Economic Overview of Volkswagen Financial Services

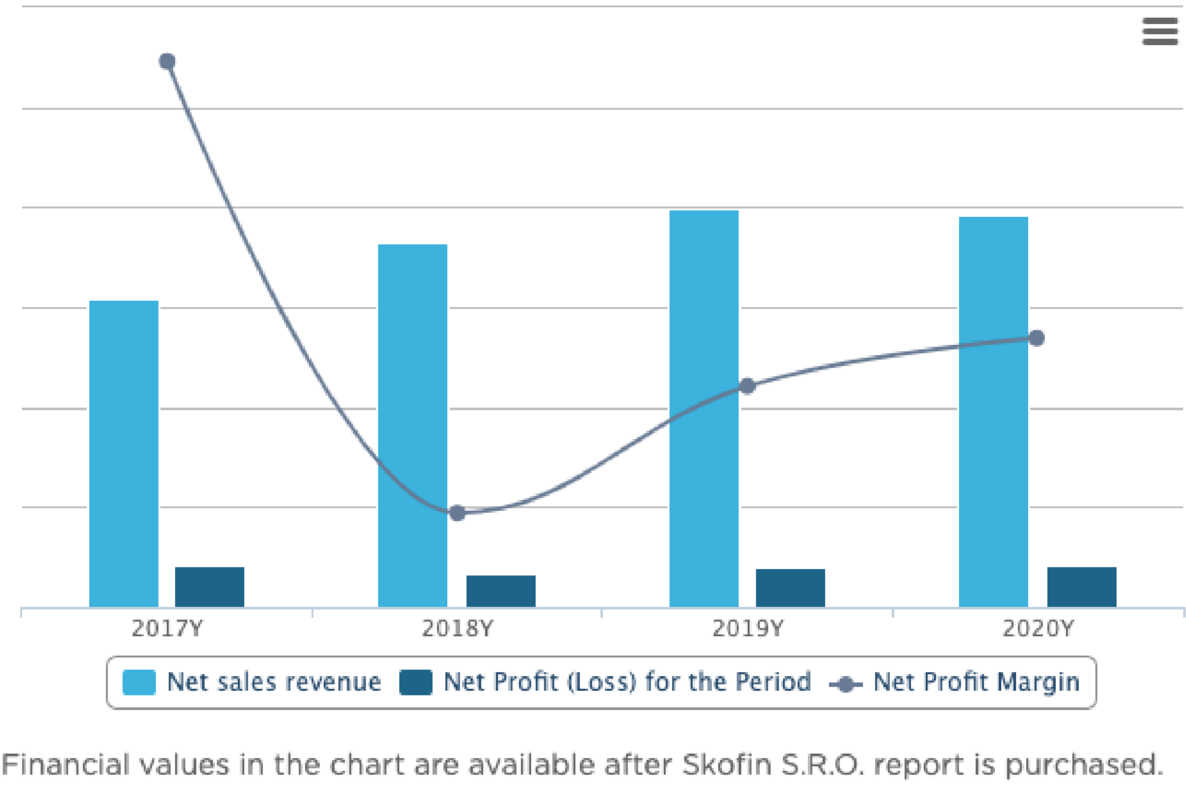

Figure 10: Performance of Volkswagen Financial Services A.S in the period of 2017-2020. Resource (Emis, 2020)

Look at the chart above including net sales revenue, net profit (loss) for the period, and net profit margin. From 2017 to 2020, the Net profit margin has a strong downward trend 2017 to 2018 and a recovery between 2019 and 2020. Net sales revenue and net profit(loss) for the period grew steadily and did not have a strong decrease.

5.3 Compare companies and their highlights

For a company or business, when deciding to produce and trade in a certain item, the preparation of capital is indispensable, they must have an initial capital source. For business, when there is good progress, investment in expansion is always inevitable. If the original capital is used to expand investment, the risk will be very large. Therefore, the choice of most companies and businesses is to borrow capital.

To meet this demand, a series of loan services were born, including financial leasing. There are not only banks or credit institutions but also their own financial leasing companies. This has contributed significantly to promoting the diversified development of the financial market.

To fully compare companies and their differences, it is necessary to analyze and compare their main products, in this case, financial services. It is in these services that the biggest competitive battles occur, as rental companies all try to win customers and compete with each other.

Evaluation of service and client care

If we look at Unileasing a.s. a very comprehensive client service is evident on their website. Here we will find not only FAQs (Frequently Asked Questions) of the most frequent questions and answers to them, but also information on who to contact, by phone and email, in various situations such as general questions, sales department, finance department, insurance claims, and others. The client service also offers downloadable documents, the option of a non-binding offer of financing, or a request for de-linking. They also have the option for the client to send an inquiry online and thus chat with an employee of the company in real-time.

If we focus on the client service of the other company, it is not as sophisticated as one would expect for such a large company as in the case of Unileasing. Volkswagen Financial Services offers a contact form, a general email, and a landline that is open from 9:00 a.m. to 12:00 p.m. and from 1:00 p.m. to 4:00 p.m. After that, you can contact the regional manager. It just feels a bit chaotic and as a potential client, it can be discouraging to find the right phone number to resolve a problem or query.

For both companies, very extensive client service and activity on social networks is a matter of course. From the point of view of client service and care, Unileasing a.s. is better off.

Unlike Volkswagen Financial Services, Unileasing offers its clients leaseback.

Leasing back is mainly used in business practice and its essence is formed by the fact that the company first purchases movable tangible property from its own resources, which the leasing company subsequently buys back from this entity and offers this item back to the original owner for financial leasing.

The purpose of such a transaction is usually to quickly obtain the necessary working capital or to optimize the capital structure.

Unileasing offers reverse leasing of movable property, including individually imported vehicles, machines and newly built technological units.

Leasing back can also be used to free up funds to spread the client's financial burden over a longer period.

6. Analyze economic efficiency indicators between buying or lease to make the best decision.

Finding capital to invest in long-term assets is very important for businesses. By investing in long-term assets, enterprises will modernize production and consumption technologies, apply new technologies, reduce costs, increase product quality, and improve competitiveness in the market. In addition, we can also study the method of renting or buying long-term assets, in order to improve the efficiency of investment and capital.

6.1 Lease classification:

a) Operating lease

- Short rental period usually less than one year.
- The lessor is responsible for paying insurance; taxes, maintenance, etc.
- Can be cancelled.

b) Financial lease

Financial leasing is a medium and long-term credit activity through the leasing of machinery, equipment, means of transport and other movables on the basis of a lease contract between the lessor and the lessee (PhD. Nguyen Trung Truc, 2017).

- Long rental period, usually over a year.
- The lessee is responsible for paying insurance; taxes, maintenance, etc.
- Lessee cannot cancel.

Conventional finance lease: With this form, the business needs to use the property to contact the property supplier to agree in detail on the specifications and prices, then contact the leasing enterprise finance, to finance the lease with specific terms: interest on finance lease; repayment period, periodical debt payment amount; the value of the property acquired at the end of the year… (PhD. Nguyen Trung Truc, 2017).

The periodic lease (PMT) will be calculated as follows:

$$\text{PV} = \text{PMT}\,\frac{1-(1+r)^{-n}}{r} \Rightarrow \text{PMT} = \text{PV}\,\frac{r}{1-(1+r)^{-n}}$$

PV: Present Value

PMT: Payment

R : Rate of Interest

N : Year

For example:

Company A enters into a finance lease with Company B to purchase a piece of equipment from Company C worth 100 million Kc. This equipment has an economic life of 15 years. The interest rate agreed upon by both parties is 13%/year. Finance lease payments at the end of each year.

The amount Company A must pay Company B at the end of each year is:

$$PMT = 100\,\frac{13\%}{1-(1+13\%)^{-15}}$$

PMT= -15.47 million Kc

(That minus sign represents the amount to be paid)

6.2 Solution to analyze the decision to lease or buy

a) Determine the cash flow of the lease:

When determining cash flow to decide to rent or buy, we stand at the level of the lessee to compare with the cash flow of the property buyer, specifically:

- T: The tax rate.
- D: Depreciation (Depreciation).
- Lease after-tax = Rent*(1-T) (Cash Outflow).
- Loss of tax shield of depreciation = D*T (Cash Outflow).
- Cost of purchasing machinery and equipment (Cash inflow).
- In addition, if we lease finance, we have to bear the cost of maintenance, insurance, tax, ... (Cash outflow).

b) Decide whether to lease or buy

- To decide whether to rent or lease, we follow the following process:

- First, businesses need to determine whether to borrow money to buy assets or rent.
- Then calculate the NPV (NAL) of the incremental cash flow. The net present value of NAL (Net advantage to leasing) lease is the same as the NPV of the incremental cash flow (ACHE).
- The discount rate is the after-tax interest rate, because a lease is the same as a debt of the enterprise, with the same level of risk.

- The net present value of NAL (Net advantage to leasing) lease is the same as the NPV of the incremental cash flow.

+ If NAL > = 0: Should Leases

⇨ Because the future rental payments to the present value are less than the current asset purchase price.

+ If NAL <=0: Should buy

⇨ Because the future rental payments to the present value are greater than the current purchase of the asset.

Example case:

VCA company needs to buy a device that includes the following information:

	UNIT	Price
A. IF BUY		
1. EQUIPMENT PURCHASE PRICE	Million	180
2. DEPRECIATION BY OUTPUT	Year	
3. SCRAP RECOVERED UPON LIQUIDATION	Million	-
4. DESIGN CAPACITY OF THE DEVICE-	Product/ Hour	3
5. OUTPUT ACCORDING TO DESIGN CAPACITY	Product	5000
B. IF LEASE		
1. RENT PAID AT END OF YEAR	Million	40
2. CORPORATE INCOME TAX		19%
3. 1 YEAR LOAN INTEREST		8%

Annual production output (product) :

YEAR	QUANTITY
1	1500
2	1300
3	1100
4	1100
TOTAL	**5000**

Analyze:

- Lease after-tax = Rent*(1-T)

  = 40*81% = 32.4 (cash outflow)

- After-tax loan interest= 8%*(1-19%)= 6,48%

		1	2	3	4
After-tax rent		32.4	32.4	32.4	32.4
Loss of tax shield of depreciation		15	13	11	11
Cost of buying property	150				
Total cost	150	47.4	45.4	43.4	43.4
NAL	25.73				

⇨ **NAL = 180 -** $\frac{47.4}{(1+6,48\%)} + \frac{45.4}{(1+6,48\%)^2} + \frac{43.4}{(1+6,48\%)^3} + \frac{43.4}{(1+6,48\%)^4}$ **= 25.73**

⇨ *Because NAL > 0; So we leasing equipment*

Through the above example survey, we see that the study of renting or buying assets helps business managers have the best investment plan for fixed assets, in order to increase the efficiency of capital use, and increase profits.

By making the right decision to lease or buy assets, businesses will have more effective medium and long-term investment capital. To make this decision well, enterprises need to analyze and determine operating cash flow, appropriate discount rate, when borrowing foreign currency, as a basis for accurate NAL calculation (ACHE). With the innovation of the method of calculating the decision to buy or rent assets, enterprises will have conditions to invest in new medium and long-term assets, thus increasing profits and improving competitiveness in the market. and abroad, successfully implemented international economic integration.

7. Conclusion

Through theory and practice, it is shown that the completion of financial leasing is an indispensable requirement, in this essay will help us have a better view of how financial leasing companies operate, survive and develop in the harshness and fierceness of the world market economy. The growth of financial companies and financial leasing companies has promoted competition in the financial sector, challenged the capacity and services of the commercial banking system, and promoted product improvement service.

As (Jeffrey Carmichael, 2002) asserted, non-bank financial institutions (including financial companies and finance leasing companies) will be encouraged to develop more widely because countries will be benefit from improved access to financial services in a more competitive financial market. These companies are able to provide individuals and small and medium-sized businesses with a wide range of financial instruments and services because they are not subject to the same stringent regulatory controls as conventional commercial banks). However, there is no denying that the development of finance companies and finance leasing has risks of causing financial instability.Therefore, it is necessary to urgently complete the legal framework, improve the quality and effectiveness of risk management.

Through the application and combination of research methods between theory and practice, this thesis has made the following basic contributions:

- Clarifying the theoretical and practical basis of accounting standard IFRS16 as well as IFRS 16 impact on banks and credit institutions.
- Analyze and evaluate The role of financial credit and leasing financing activities in the economy, summarize the current status of financial leasing activities of financial leasing companies, thereby stating that the issue of credit and leasing financing needs to be renewed and completed in order to increase quality.
- Specify the credit and finance leasing issues as well as the impact of micro-economic variables on the default risk of the leasing industry.

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