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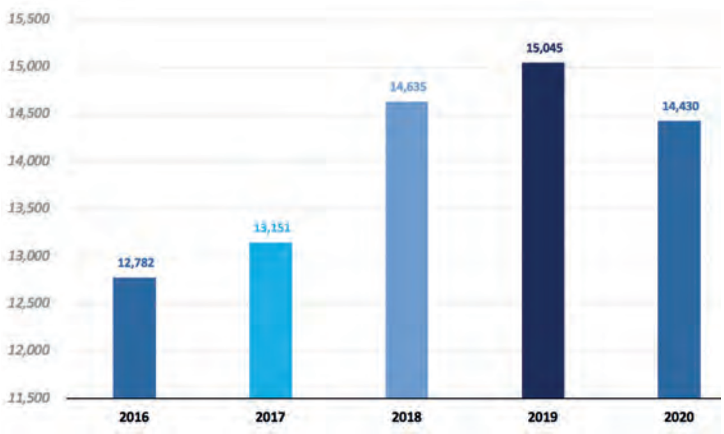
GREECE

Introduction

The COVID-19 pandemic constituted the major key determinant in 2020, as it disrupted financial stability at a global level and weighed heavily on economic activity. In Greece, many businesses temporarily closed, and tourist arrivals dropped sharply, resulting in a sizeable contraction in economic output as shown by the 8.5 per cent decline in GDP in the first nine months of 2020. This is expected to be even larger (at an estimated 10 per cent) for the whole year on the back of the second wave of the pandemic. The Greek banking sector has been facing heightened short and medium-term risks mainly in four areas: asset quality, profitability, capital adequacy and liquidity, which have negatively affected the financial system. Nonetheless, fiscal, monetary and supervisory measures taken by the competent national and euro-area authorities have largely mitigated the impact of the pandemic. The Greek economy is set to recover gradually in 2021, while constant virus outbreaks and restrictions will still weigh on services, exports, employment, and investment. In 2022, the recovery is projected to accelerate as the virus becomes better controlled with vaccination having become more generally deployed, restrictions eased globally and the government implementing new investment projects. Efficient and faster controlling of the pandemic would hasten the recovery, and reduce the risks of rising insolvencies, non-performing loans and declining well-being.

Total Factoring Volume (EURm)



Factoring Industry Environment

The factoring industry in Greece, in contrast to the economy and the banking sector, has been able to withstand the difficult time and has shown constant growth. After some slowdown in growth during the financial crisis, the factoring GDP penetration ratio subsequently increased by 14 per cent between 2016 and 2020, from 7.27 per cent to 8.31 per cent.

Due to the pandemic, factoring turnover in 2020 (EUR 14.4bn) was lower than in 2019 (EUR 15bn), which is a drop of only four per cent, in a year when the Greek economy contracted by 8.5 per cent in the first nine months and when the decrease for the whole year is expected to be around 10 per cent.

The growth of the factoring sector is mainly the result of a better understanding and acceptance of factoring by clients and banks. In the last few tough years, the SME sector has become a fundamental generator of growth with an increasing number of clients. In addition, the banks have recognised the importance of accounts receivable management tools in their product portfolio mix, especially in a period when NPLs were the main issue for all Greek banks.

It is obvious that the strategy of all the major financial groups in recent years has been to support and enhance the use of factoring as an important and secure financial tool for their clients. This trend has led the factoring GDP penetration rate to grow reaching 8.31 per cent in 2020. This is the highest it has ever been, and quite impressive given that the rate was only 5.2 per cent in 2009. On the other hand, Greece's factoring GDP penetration is still lower than the average EU penetration rate of roughly 12 per cent, which means that there is potential for further development in the industry: in other words, much higher volumes for existing factoring entities (Greece's GDP for 2019 was EUR 165.8bn).

Market Performance and Supply

Factoring, as mentioned earlier, has proved to be a much-used financial solution since its launch in the Greek market in the early 1990s. After its first decade, in which local factors had to educate the market and show the successful outcome of their services, the number of companies using factoring increased strongly. This trend has continued with an accelerating number of companies now using factoring.

The factoring industry has been helped by a beneficial legal and tax regime which has enabled factors to offer:

- Low factoring costs for SMEs for the majority of their factoring portfolio
- Specialised financial analysis and transaction monitoring
- Long experience and a high level of know-how

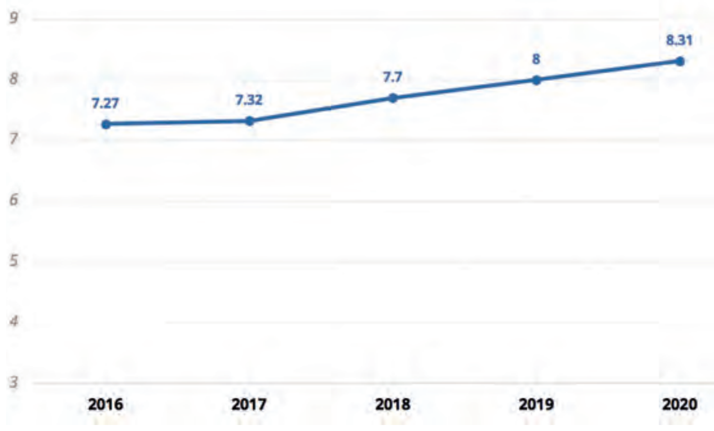
Market volume in 2020 decreased slightly by just four per cent as a result of COVID-19. There is a degree of optimism that this market will begin to grow again in 2021.

Domestic factoring volume at EUR 12.5bn represents the vast majority of the market, accounting for 86.5 per cent of total factoring volume, and international factoring holds a 13.5 per cent share. These market shares are almost the same as they were in 2019.

Factoring Products and Services

- Domestic Factoring with/without Recourse
- Export Factoring with/without Recourse
- Import Factoring
- Reverse Factoring
- Invoice Discounting
- Collection Only Services

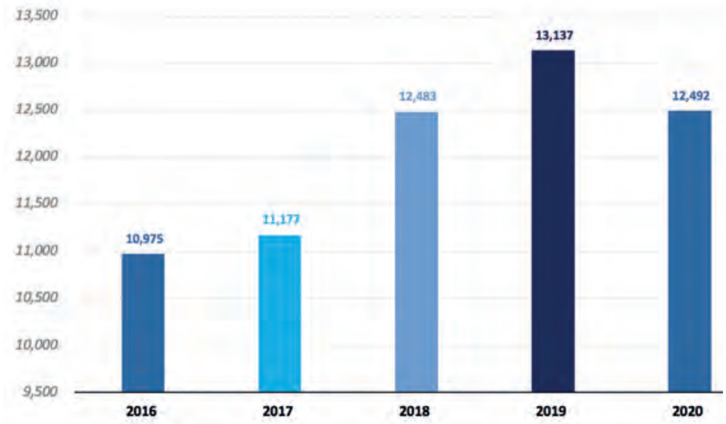
Factoring Penetration of GDP (%)



Total international factoring turnover for 2020 was fractionally higher (1.6 per cent) than in 2019, of which 95.5 per cent was export factoring and only 4.5 per cent was import factoring. About 30 per cent of international factoring volume was conducted via the two-factor system through the network of FCI. In contrast, in 2010, 80 per cent of international factoring volume was carried out using the two-factor system, which shows that Greek factors are now much more familiar with international markets.

Greek banks, as well as foreign ones (either with a permanent base in our country, or without one), are active in factoring, either through sole purpose subsidiaries (operating under Law 1905/1990), or through specialised units. The factoring market is characterised by a high concentration of companies that are subsidiaries of the major banks. This feature was evident in 2019, when 98 per cent of factoring operations were conducted by these bank-based companies.

Domestic Factoring Volume (EURm)



International Factoring Volume (EURm)

Data sources: Bank of Greece, Hellenic Factors Association, EU Federation

According to the latest statistics from the Hellenic Factors Association (HFA), covering the years 2017-2019, the total amount of funds put up by the bank-based companies on 31 December 2019 amounted to EUR 1.94bn, essentially marking a halt in the growth of funds that had been noted in 2018 when they rose by 14 per cent compared to 2017, mainly due to the application of Law 128. HFA members' financial results show constant profitability from 2012 up to and including 2019, as well as high portfolio quality. In 2019, the total pre-tax earnings amounted to EUR 53.9m, which is approximately a seven per cent decrease compared to 2018.

Following the application of the International Financial Reporting Standard 9 (IFRS 9), exposures in arrears were reduced from EUR 129m in 2018 to EUR 109m in 2019. Thus, the ratio of exposures in arrears to the total risks amounted to 5.36 per cent, which is a significant improvement compared to 6.6 per cent in 2018. This is an extremely low percentage considering the scale of the crisis and the mark this has left on banks' balance sheets (figures for 2020 will be available later in 2021).

The HFA has stated in previous years' annual reports that there are four key factors that contribute to achieving the quality of financial performance outlined above, namely:

i. the short-term horizon of the receivables financed;

ii. the factors' familiarisation with each financing branch's particular circumstances, which allows for know-how to be developed in financing commercial transactions;

iii. the diversity of the receivables assigned and

iv. the fact that the receivables assigned constitute, at the same time, both the financing's security and the means of repayment.

Regarding the efficiency ratios, the industry's return on equity (ROE) was 11.2 per cent in 2019 compared with 12.1 per cent in 2018, the return on assets (ROA) reached 2.1 per cent in 2019 compared with 2.2 per cent in 2018, and the cost/income (C/I) ratio in 2019 stood at 20.7 compared with 20.5 in 2018.

Factors in Greece offer traditional factoring services: domestic and export factoring, recourse and non-recourse, import factoring and collection services. As commercial and trade finance solutions evolve, there is a growing demand for supply chain finance (reverse factoring) by large corporations with high credit ratings in order to optimise their cash flow cycles as much as possible, and at the same time enable their suppliers (SMEs mainly) to have access to a secure source of financing through their accounts receivable. This means that factoring is penetrating large companies as well as SMEs, and the factor becomes an important part of the supply chain finance solution, where the company can establish closer cooperation with its customers, and at the same time its suppliers can have access to a non-recourse source of finance. The pricing structure is quite traditional and consists of a commission fee for administration and collection of assigned invoices and buyer credit risk assessment, and an interest fee charged for the respective financing.

In the middle of 2019 and during 2020, fintech service providers tried to take market share from the 'traditional' bank-based factoring sector. Compared to the banks and their factoring services and clients, the new providers are targeting smaller companies needing single or intermittent financing. Some of those attempts turned out to be unsuccessful, but we need to recognise that it is still important for banks and factors to be aware of such developments and decide whether to extend their product lines to include simplified financing services or not.

Future Trends

The penetration rate of factoring both among SMEs and large corporates is expected to be higher in the future, as the last three years have shown the importance it can play in a country's effort to pursue export-led growth. The key factors that will determine the industry's course in the years to come are:

a) international competition;

b) the entry of more players into the industry;

c) technological transformation;

d) expansion into financing the entire supply chain and the potential reduction, and/or the gradual institutional abolition, of the post-dated cheque as a credit instrument.

The attractive returns on capital employed and equity of factoring companies, and the reducing percentage of NPL exposures are expected to attract further investment in the industry. Moreover, as the country's financial solvency improves, the potential for international partnerships, whether they are domiciled in the country or not, will increase. Considering that the participation of alternative providers continues to grow, it becomes apparent that the number of active players in the industry will increase in the mid-term.

Legal Framework

The provision of factoring services in Greece is regulated by Law No. 1905/1990 and Law No. 4261/2014. The Bank of Greece is the supervising authority, which issues licenses to factoring companies upon incorporation or to other kinds of companies that become factoring companies. Licenses are granted only to banking institutions and designated factoring companies that must have at least a quarter of the minimum share capital that is required for banking institutions (currently EUR 18m), that is, they must have a share capital EUR 4.5m in order to obtain the necessary authorisation by the Bank of Greece. The legal form of these special purpose factoring companies is that of a société anonyme.

The Factoring Law No. 1905/1990 (and the subsequent Law No. 4261/2014) refers to the factoring of claims arising from contracts for the sale of goods, provision of services or performance of works. Since the law does not expressly limit the origin of receivables that can be factored, it is considered that any type of receivables may be factored. The law does not provide for any restriction on the maturity of receivables that can be factored and there is no maximum time exposure of factoring companies to the factored receivables. In addition, the law does not provide for any restriction on the quantity of receivables assigned, meaning that an assignor may assign all his receivables against all his debtors, present and future.

The law on factoring, as well as the local law, also expressly allows the assignment of future receivables as long as they are either defined or definable. To this end, the type, scope and debtor (not necessarily named in the agreement as long as his identity is ascertainable or will be ascertainable in the future) of the future receivable must be specified in the notification of assignment.

In order for a legal assignment to be valid against the debtor, the supplier's insolvency practitioner or any third-party creditors, the factor shall have a written factoring agreement, a written notification of the assignment to the debtor served by any means to the debtor (for verification reasons it is advisable to be served by a court bailiff). With regard to the notification of assignment to debtors as legal entities according to public law, there are provisions which may differ from one legal entity to the other.

The transfer of ownership of receivables is completed immediately after written notification is served to the debtor.

As to the factoring activities, the factor may engage in the prepayment, accounting, collection, legal supervision and in the general management of the receivables, and in most cases in the coverage of the supplier's credit risk. After notification to the debtor of the assignment, the factor becomes the owner of the receivables and substitutes the assignor in all his rights relating to these receivables, thus the factor may also negotiate the extension or restructuring of the debt.