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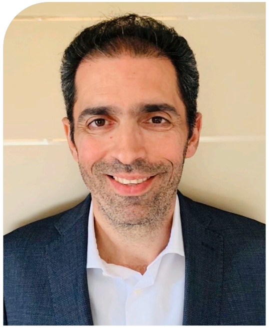


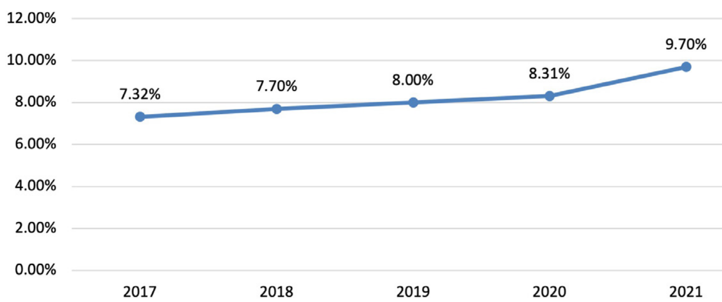
GREECE

Introduction

The Greek economy is showing remarkable resilience, flexibility and dynamism, despite uncertainty due to the recurring waves of the pandemic and the new challenges associated with the Russian invasion of Ukraine. In 2021, GDP at constant prices grew by 8.3 per cent, marking one of the best performances in the euro area and almost fully offsetting the 2020 contraction of nine per cent. The high GDP growth rate in 2021 and the expectation of continued growth in 2022, along with the positive long-term economic outlook, have contributed to the recent upgrading of Greece's credit rating to just one notch short of investment grade.

The pandemic continued in 2021, causing heavy human losses across the globe, including Greece. The EU responded with courage, unity, and economic realism to the effects of the health crisis and the deep recession. These efforts culminated in the agreement on the first ever common European recovery instrument, the NextGenerationEU, aimed to support the convergence of member countries and increase resilience, especially of the most vulnerable economies. The first visible result has been the strong recovery that started in 2021 and which is expected to continue in 2022, albeit at a much slower pace, thereby offsetting the economic losses recorded in 2020.

Factoring Penetration of GDP



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 had constant growth. Having had some slowdowns in growth during the financial crisis, factoring penetration in GDP has increased by 24.5 per cent in the last five years from 7.32 per cent in 2017 to 9.7 per cent in 2021. In 2021 factoring volumes grew by 22.4 per cent which is its highest ever growth.

The huge growth of the factoring sector (22.36 per cent) in 2021 reaching a volume of EUR 17.656bn 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 account receivables management tools in their product portfolio mix, especially in a period when NPLs were the main issue for all the Greek banks.

It is obvious that the strategy of all the major financial groups is to support and enhance the use of factoring as an important and secure financial tool for their clients. This trend has led the factoring penetration rate to grow and become a significant percentage of GDP, reaching 9.7 per cent in 2021. This is the highest penetration ever and taking into consideration that this ratio was only 5.2 per cent in 2009, the development of this product is more than obvious. Now, it seems that the factoring penetration rate is rapidly approaching the average EU rate of roughly 11 per cent. It also means there is potential for further development of the industry, in other words higher volumes for existing factoring entities. (Greece's GDP for 2021 was Euro 181.3bn)

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.

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

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

The market showed an important increase in 2021 of 22.36 per cent compared to 2020, due to the great performance and potential of the Greek market, and the market continued to increase in the first quarter of 2022.

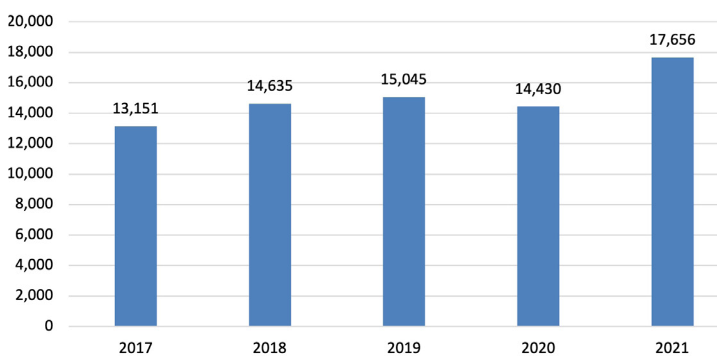
Domestic factoring volume (EUR 15.2bn) represents 86 per cent of the market, which is an increase of 21.28 per cent compared to 2020), and 14 per cent is international factoring.

International factoring turnover for 2021 increased by 29.33 per cent, reaching EUR 2.507bn, and was the best performance ever, with 95 per cent derived from export factoring and only five per cent from import factoring. About 30 per cent of international factoring was conducted via the two-factor system through the network of FCI. 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.

Factoring Products and Services

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

Total Factoring Volume (EURm)

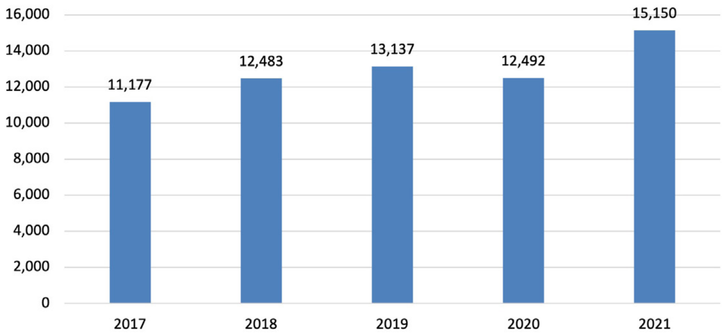


The Greek factoring market is characterised by a high concentration of companies that are subsidiaries of banks. Four bank subsidiaries in aggregate hold almost 96 per cent of the total factoring turnover. Even so, there has been a small increase in the participation by smaller banks, via the entry of new players. Statistics for the volume of operations conducted in Greece do not include factoring operations conducted remotely by foreign factoring companies, due to the inability to collect relevant data. These operations are mainly in reverse factoring (supply chain finance), with Greek subsidiaries of foreign companies participating. Likewise, the volume discounts made by the purchasers themselves to suppliers of theirs (dynamic invoice discounting), remain unknown.

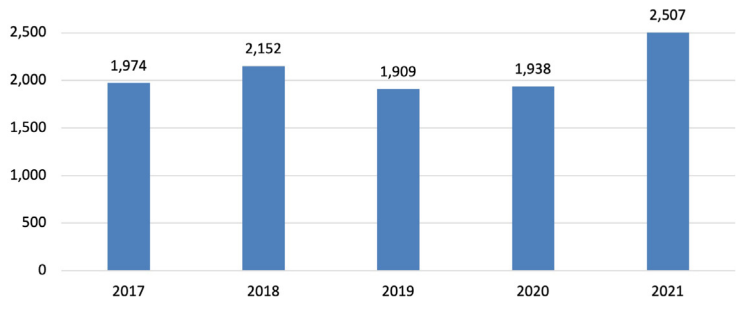
The financial performance of the members of the Hellenic Factors Association is characterized by:

1) high profitability, which nonetheless is under pressure due to the compression of market interest rates, given the strong competition, as well as the considerable increase in entrepreneurial activity,

Domestic Factoring Volume (EURm)



International Factoring Volume (EURm)



and in spite of the constant improvements at cost level (reduction of members' staff, increase in automation, etc.,

2) very good portfolio quality, as shown by the low percentages of bad debts, the improving past-due claims provision index (it is worth noting here that the amount of past-due exposures is considerably burdened from an 'infection' from the parent banks, while many of the relationships in question operate without issue in terms of collaboration),

3) deterioration of efficiency ratios due to a decrease in profitability as a result of the temporary contraction of operations on account of Covid-19, as well as the aforementioned pressure of interest rate margins.

Regarding efficiency ratios, the industry's return on equity ratio (ROE) was 8.9 per cent in 2020, compared with 11.2 per cent in 2019, the return on assets ratio (ROA) reached 1.8 per cent in 2020 compared with 2.1 per cent in 2019, and the cost/income (C/I) ratio stood at 24.3 per cent in 2020 compared with 20.7 per cent in 2019.

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 secure financing through their accounts receivables. 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 last two years, fintech service providers have 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 in need of single or intermittent financing. Some of those attempts were not that successful, 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 by including simplified financing services or not.

Future Trends

As mentioned earlier, the sector's turnover in 2021 was at an historic high; the positive momentum of that performance was maintained in the first quarter of this year. With regard to the rest of 2022, two opposing trends are expected: firstly, an increase in inflationary pressures, which may cease, pressing against total factoring volume, if prices are decompressed, and secondly, a total absorption of the current surplus liquidity while the economy is 'awakening', generating increased working capital needs (combined with the gradual repayment of state guaranteed loans during the pandemic). We consider the outcome of the above trends to be a further increase in factoring operations in 2022, albeit at a one digit rate.

The launch of major infrastructure works (the Hellinikon redevelopment, the Kastelli Crete airport, the works for the power connection between the islands and the mainland, the absorption of investment funds from the Resilience and Recovery Fund-RRF, etc.), will involve a number of contracts and sub-contracts and will generate working capital needs during such works' construction period. This is likely to have a positive impact on the factoring industry, though probably not in 2022.

The good performance of factoring in Greece over time, combined with the negative performance of deposits/fixed income securities, has lately triggered the interest of new Greek and foreign players, both from the financial community, as well as from private investors. The factoring sector is awaiting their potential business activity with interest. Greek businesses' increasing familiarity with factoring, the introduction of new players, together with the slow, but steady deceleration of post-dated cheques in circulation, are expected to provide the factoring sector with an enhanced perspective, bringing the factoring penetration in GDP to the European average.

Major challenges remain: the sector's expansion to the adjacent area of financing the entire supply chain; greater penetration of the SME sector, where factoring still has a small footprint due to the high management requirements; the need for mass risk assessment; the increase in automation; the adoption of 'smart' risk assessment systems and digitalisation.

Legal Framework

The provision of factoring services in Greece is regulated by the 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 of 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 of assignment 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 receivables, and in most of the cases in the coverage of the supplier’s credit risk. After notification to the debtor of the assignment of receivables, 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.