International Factoring

Milan, 2014

UBI Factor

Agenda

- UBI FACTOR
- What is Factoring
- International Factoring
- Differences between Factoring and Banking
- Mutual Benefits

A Leader in the Italian and European Factoring Markets for over 30 years.

Profile and Mission

UBI Factor’s turnover mix is generated for 47% from foreign operations and for 53% from domestic ones.

The mission is to provide highly specialized services supporting the customers’ growth.

What we offer

We offer highly specialized factoring services in support of the growth of companies in synergy with Network Banks and other product companies of UBI Banca and in light of both national as well as international business development.

Our registered office is in Milan with a capillary structure across the national territory and more than 6,000 clients. UBI Factor is part of Assifact, the Italian Factoring Association.

As of 1984, UBI Factor is part of the Factors Chain International network which allows it to retain a presence in more than 75 countries and with more than 273 foreign partners.

What is Factoring

- Factoring is a **combination of short term financial and credit management services** allowing a company to improve its credit portfolio and ability to penetrate the market in both qualitative and financial terms.
- These services include:
  - Credit administration, management and collection
  - Legal assistance in credit recovery
  - Assessment of customers' dependability
  - Guarantee of successful conclusion of operations
  - Advance payment of credits before they fall due
- The international factoring market is now worth more than 1,100 billion Euro. The Italian market, worth more than 110 billion Euro, representing 10% of the work market and 15% of the European market, is the second largest in the world, after the United Kingdom and ahead of the United States. Factoring has existed in Italy for more than 45 years but is still a little-known tool: more than 60% of companies report that they have been using factoring for less than five years.

UBI Factor

Types

Factoring Without Recourse

- Factoring Without Recourse is the most common type of factoring operation in Italy and in the world's most advanced financial markets. It offers **high added value for the assignor** because it combines conventional credit management, collection and financing services together with the **Factor's complete coverage of default and insolvency risk** for assigned credits which are not disputed, up to a specified limit.
- The main advantages for the customer are:
  - **improvement of the risk profile** of the working capital
  - greater **protection from credit risk** when expanding clientele or entering new domestic or international markets.
  - possibility to have access to **another source of financing** in addition to those traditionally granted by the bank.

Types

Factoring With Recourse

- Factoring With Recourse is the most traditional form of factoring, closest to forms of **self-liquidating loans offered** by the banking system.
- **The risk of the debtor failing to pay is still borne by the transferor,** who is liable in the event of default or insolvency.
- The operation may be **managed with or without notifying the debtor of the assignment,** using different technical forms of collection (direct payment, collection order, documents of credit).
- As the operation's **overall risk profile is determined by the creditworthiness of the transferred debtors, as well as of the transferor**, and by the size of the debtor's debt to the Factor as a result of the transfer, the operation may allow the transferor to obtain a line of credit which is on the whole greater than that which could be obtained with the same guarantees with a self-liquidating loan.

Final Factoring Without Recourse

- **Final Factoring With Recourse** (IAS/IFRS) is intended for companies which, for window dressing purposes such as stock exchange listing or membership in industrial groups subject to periodic examination by financial analysts, have an interest in maintaining predetermined credit rotation standards, liquidity indexes or incidence of working capital on total assets.
- This operation allows **the transferor to obtain final payment of the amount of the credit** transferred at a price agreed on with the Factor and in the presence of certain, liquid, collectible transferred credits, **excluding all possibilities of claims made by the Factor**.
- This therefore allows the transferor **to improve working capital structure and related indicators in financial statements.**

What International Factoring is (1/2)

- It is a contract in which the receivables subject to assignment – the credit – originate from the sale of goods between parties operating in different countries:
  - The **Assignor**: the beneficiary of the credit which is then transferred (assigned) to the Export Factor.
  - The **Assigned Debtor**: the party required to pay the assigned credit to the Assignee (Import Factor).
- This operation is therefore characterized by the international nature of the receivables subject to assignment.
- The criterion used to define the nationality of the parties involved is that of the "place of business“
  - For the debtor, it is the operational headquarters that has the closest geographical connection with the original contract.
  - For the supplier it is the place of "central administration".
  - If these criteria do not occur, then they are replaced by the place of "habitual residence“.

What International Factoring is (2/2)

International Factoring can be of two different types:

- **Two Factor Operation**

  Requires the presence of four subjects in the transaction, the two trade counterparties, Assignor and Debtor, and two Factoring Companies, one dealing directly with the Supplier and the other dealing with the Buyer.

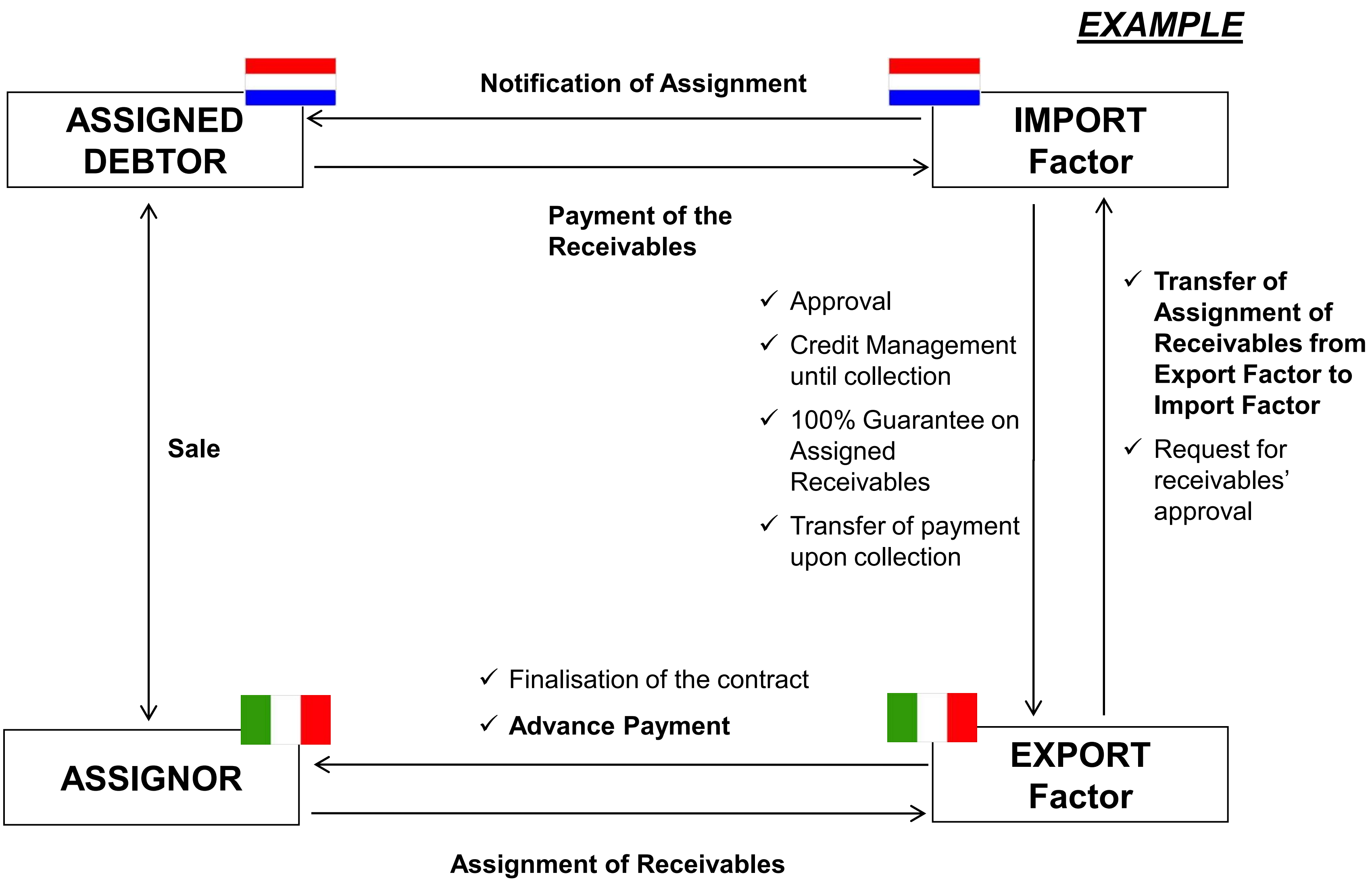
  - Import Factoring >> the foreign counterpart is the assignor;
  - Export Factoring >> the foreign counterpart is the transferred debtor.

- **Direct Factoring**

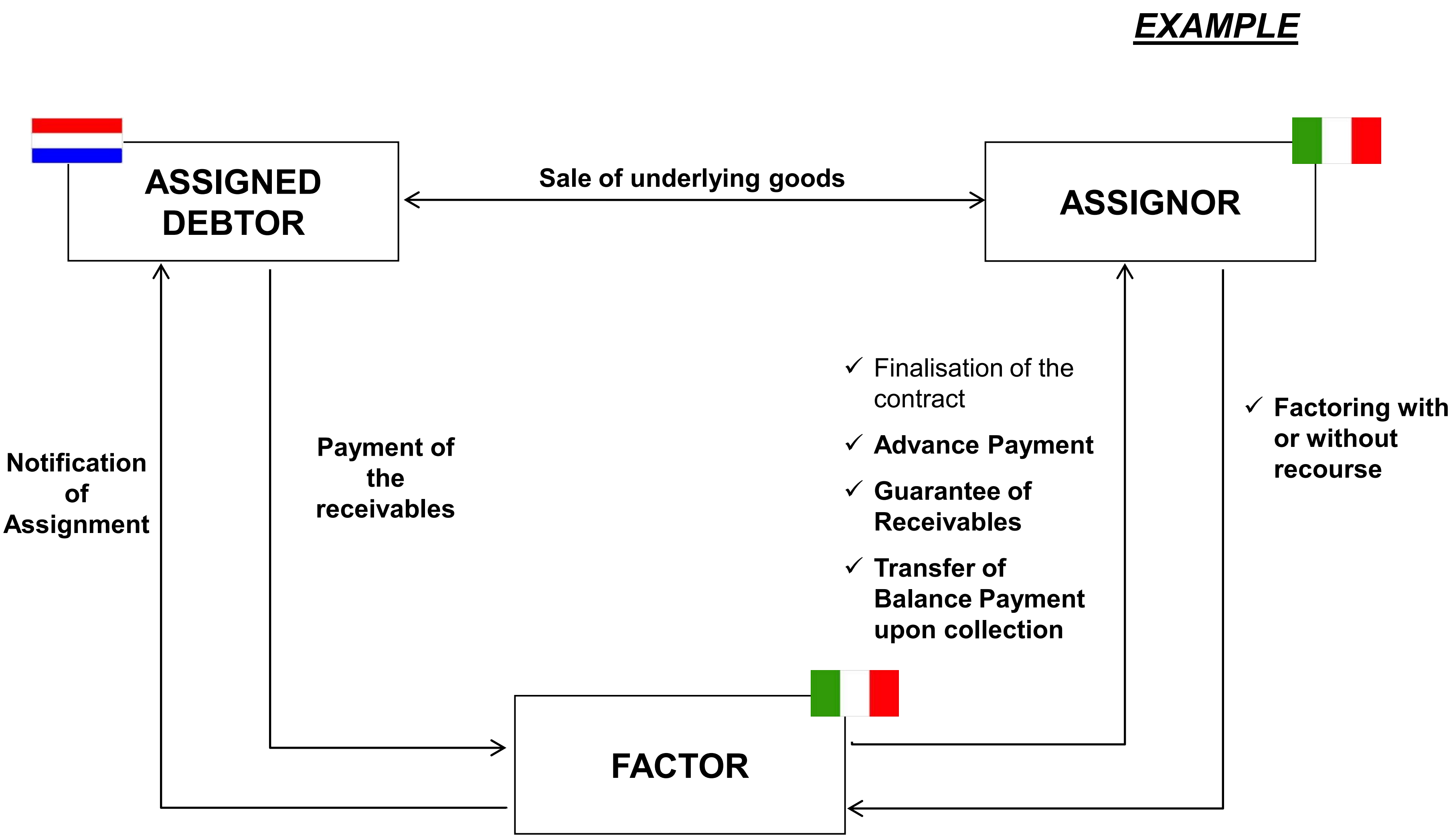
  Requires the presence of three subjects in the transaction: supplier/exporter, the debtor/importer - and the Factoring Company.

  - Import Direct Factoring >> the Factoring Company is based in the country of the assigned Debtor;
  - Export Direct Factoring >> the Factoring Company is based in the country of Assignor;
  - Foreign Direct Factoring >> Both Parties are Foreign in relation to the Factoring Company's Country.

Import – Export Factoring (2 factor operation)



Export Direct Factoring



Focus Points

The relationship between Companies situated in different countries is more complex due to the following variables/aspects:

- Higher risks associated with the difficulty of obtaining adequate information on the solvency of the debtor and possible constraints that affect the debtor's country (Country Risk);
- Cross-border legal aspect diversity regarding the transfer of credits;
- Fiscal and Accounting aspects.
- Foreign exchange risk when exporting companies bill in currencies other than the country in which they operate;
- Currency obligations may be imposed by National legislation;

Advantages

1. **Reduction of credit risk**

   The Assignor benefits from the elimination of the debtor's risk of insolvency up to the agreed credit limit granted.

2. **Better Financial Planning**

   The fact that the company can rely on receiving payment for a guaranteed determined amount of assigned receivables within a predetermined set date facilitates all future business activity planning.

3. **Reduction of asymmetries of information**

   The granting of a guarantee entails a careful selection of the pertaining credits and consequently a precise and in depth preliminary assessment of the client base. This, for the Assignor, means receiving a continuous service of evaluation of customer quality carried out in accordance to sophisticated and professional criteria.

Factors Chain International

- Factors Chain International is a global network of leading factoring companies, whose common aim is to facilitate international trade through factoring and related financial services.
- Currently the FCI network counts **273 factors** in **75 countries**, actively engaged in more than **80% of the world's cross-border factoring volume**.

- When export factoring is carried out by members of FCI, the service is designed to ensure risk-free export sales, having the guarantee that If after 90 days past due date an approved invoice remains unpaid, the import factor will pay 100% of the invoice value under guarantee.
  - This lets the exporter offer more attractive terms to overseas customers.
  - Both the exporter and the customer also benefit by spending less time and money on administration and documentation.

Difference between Factoring and Banking Activity: *Risk Assessment (1/3)*

Factoring differs from short term credit lines offered by banks because it entails close monitoring of the entire cycle of the business transaction.

Among the main characteristics are:

- The **assessment of risk** in factoring **is not limited to the financed party** but it is extended to the **debtor/client** and **type of operation** as well. The monitoring on the behavior of the debtors is methodical and continuous. Said factors allow a reduction of the RWA and an improvement of the adjusted revenue to risk.

Difference between Factoring and Banking Activity: *Risk Assessment (2/3)*

A trilateral relation

In self-liquidating bank operations risk assessment is made only on one counterpart (the financed subject) the monitoring of the debtors is limited only to their specific payment performance since ordinarily the bank does not operate with the assignment of credit, but only on a mandate for collection and does not have access to a “debtor database”.

The factor instead focuses on the underlying business transaction, making a triple assessment:

- On the financed subject (the Assignor)
- On the assigned debtor (generating a specific information database)
- On the type of operation (with or without recourse, with or without notification of assignment

Risk Management in Factoring		
Seller	**Debtor**	**Operation**
Assessment upon acquisition of the relation and constant monitoring during the relation.		**Prior verification (sales contract, absence of ban on assignment, payment terms, rotation) and continuous monitoring of the underlying business transaction.**

Difference between Factoring and Banking Activity: *Risk Assessment (3/3)*

Assessment of the assigned debtor

In a factoring relation the monitoring of the behavior of assigned debtors is fundamental because it is the debtor's payments which are the primary source of reimbursement of the financing/advance payment but also because it allows to verify the subject who disposes the payments (the debtor, the seller, a third party on behalf of either one) and to pinpoint the true motivations of payment delays (not always caused by financial difficulties).

The constant and methodic behavioral observation of the debtor in addition to giving an early warning sign which is extremely useful in the management of risk, allows to implement timely corrective actions (confirmation, reduction or cancellation of lines granted).

Debtor Assessment

Ordinary Analysis (Financial Info, Credit and Payment Score) + **Payment Behaviour**

Mutual Benefits

The use of factoring can be mutually beneficial both for the Factor and the Bank:

- It is a product in addition to the credit instruments made available by the bank which can increase the portfolio offered to the client thus building loyalty towards the Bank as a whole and making it less convenient to search for financial solutions elsewhere.
- It allows the client to have access to other lines of financing in addition to those offered by the bank without concurring to increase the global credit accumulation for the bank; in without recourse transactions the line of credit is granted to the debtor.
- Thanks to the presence and constant feeding of the debtor database there is a further pool of detailed information on counterparts (debtors) who may not be bank clients yet.
- Possibility to work in parallel with trade finance products allowing a greater advance financing percentage on the nominal value of the receivables and the split of the risk between two parties (seller and debtor).