Stock Market Review

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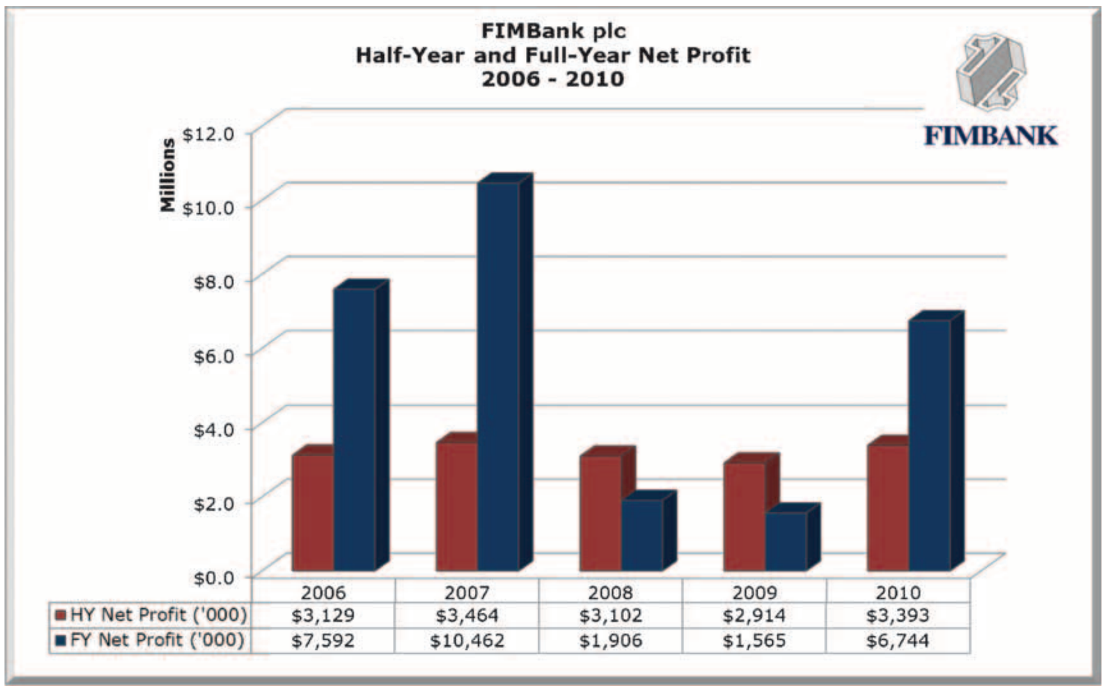
FimBank announces profits of $6.7 million

FimBank plc's financial statements published last week reveal that the trade finance specialist generated a profit after tax of $6.7 million during 2010. This represents a significant increase over the previous year as the group "cautiously renewed its appetite for business helped by the improvement in emerging market conditions and a steady pick-up in trade flows".



While net interest income increased by 15 per cent to $12.98 million, fee and commission income declined by seven per cent to $18.4 million. Also noteworthy is a marked improvement in the fair value adjustment of the group's portfolio of forfaiting assets. During 2010, gains from forfaiting assets amounted to $0.44 million in sharp contrast to the mark-downs totaling almost $7 million in 2009. The 2010 financial statements also show a welcome decline in net impairment allowances to $3.8 million (2009: $6.1 million) which is mostly composed of specific impairments related to the factoring book of the fully-owned subsidiary Menafactors due to the credit issues which persisted in the MENA region, particularly in Dubai.

The improved financial performance resulted in a substantial increase in the recommended dividend to shareholders. A final net dividend of $0.0248 per share is being recommended. This is more than double last year's dividend payment of $0.0156 per share. The 2010 dividend will be paid to shareholders as at close of trading on March 25. As in previous years, shareholders will be given the option to take up the dividend either in cash or in new shares at a price to be announced at a later date.

In last week's announcement, FimBank's directors stated that they had approved the setting up of a new Maltese group holding company. This new company, which is reportedly being named FIM Holdings plc, will become the new parent company of the FimBank Group. The directors explained the purpose behind this new company in the group's structure as a way of "optimising the tax burden of the FimBank Group".

It so happens that 2010 marks the first financial year for the bank since the expiry of its 15-year tax exemption order during which time the Bank benefitted reduced rates of tax. FimBank's directors explained that the new set-up would be beneficial to all shareholders and the business as it enables a higher level of profit retention supporting the continued growth of the FimBank Group. FimBank's shareholders will be offered an equal amount of shares in the new holding company to replace their existing holding in FimBank plc. This "share-for-share exchange" is still subject to the appropriate regulatory approvals.

It will also involve an application for FIM Holdings plc to obtain a listing on the Official List of the Malta Stock Exchange and a de-listing of the shares of FimBank plc. Another board meeting of FimBank plc will be held on April 6 2011 to approve the de-listing process. The bank indicated that it intends to complete this exercise by June 30 2011.

The announcement also made reference to FimBank's bondholders and confirmed that the seven per cent and 4.25 per cent bonds issued by FimBank plc will not be affected by this exercise as these will remain listed on the Official List of the Malta Stock Exchange as FimBank plc bonds.

FimBank plc's shareholders as at the close of trading on March 25, who will be entitled to the proposed dividend and will be receiving documentation for the upcoming annual general meeting scheduled for May 5, 2011, will also be receiving a prospectus issued by FIM Holdings plc together with an acceptance form and other appropriate documentation. Shareholders will then have a period of time to accept or decline the "share-for-share exchange" offer.

Last week it was also announced that the international credit rating agency Fitch Ratings maintained FimBank's rating unchanged at 'BB'. The press release issued by FimBank following the announcement of the 2010 financial statements also made reference to this. At a time when credit rating agencies are taking a more conservative view in their ratings as evidenced by the number of downgrades of Governments and corporate issuers in recent months, FimBank's president Margrith Lutschg-Emmenegger remarked that the retention of the rating "validates the solid risk management as well as the strong trade-finance business model".

In addition to the higher level of profits generated and the increase in the asset base to $861 million (+24 per cent), FimBank's press release also made reference to other group achievements in 2010. These were (i) the three-year bond issue which raised a total of €33 million in two tranches of euro and dollar denominated paper; (ii) the commencement of operations of the 49 per cent-owned factoring subsidiary in India; (iii) the acquisition of an increased equity participation in the factoring company in Lebanon and (iv) the conclusion of negotiations to set up a factoring joint venture in Brazil.

The main focus for 2011 will be the commencement of operations in Brazil which has recently become the fifth largest economy in the world following the announcement of a 7.5 per cent growth in GDP in 2010. In a media interview some months ago, FimBank's president had also mentioned other initiatives being embarked upon which are expected to gather momentum in 2011.

The continued growth in the factoring joint-venture network will remain among the key objectives for FimBank and the president had indicated similar operations are being looked into in Vietnam and also in Kenya. These would increase the factoring network to eight including the companies set up some years ago in Egypt and Dubai and last year's ventures in India, Brazil, Lebanon and Russia. Moreover Ms Lutschg-Emmenegger had also indicated that FimBank had set its sights on establishing a presence in Switzerland which represents a large market for trade commodity finance.

This year's sudden political unrest in many Arab states has negatively affected investor sentiment towards FIMBank's securities. The equity dropped to a multi-year low of USD0.90 while the 4.25 per cent and seven bonds retreated to their par value. FimBank's president made reference to the bank's exposure to Libya in an interview last week. Ms Lutschg-Emmenegger explained that "the transactions related to Libya are all very short-term and usually guaranteed by financial institutions which have an excellent track record of payment". While the current developments in Libya and the rest of the Arab world are of particular importance to FimBank, the president indicated that in time, this could also present the group with new business opportunities.

In recent years, FimBank has placed a lot of emphasis on growing its factoring network. However, since these ventures are generally of a start-up nature, their contribution to the bottom line so far is still not meaningful. Evidence of this is the currently low return on equity of 5.7 per cent.

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