Stock Market Review

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FimBank's 7% euro and US$ bond issue

Discounted price for shareholders, directors and employees

FimBank plc, the Malta-headquartered licensed credit institution, announced a €15 million seven per cent bond issue on March 17. The bonds are being offered in either of two currencies (euro and US dollars). This is the first time the bank is issuing a bond and the announcement was made shortly after the publication of the 2008 full-year results. During the last financial year, the FimBank Group registered further progress in its profitability growth and generated a record pre-tax profit of US$34.4 million, largely as a result of the gain from the sale of the shareholding in its Indian factoring company but also on double -digit growth in income from its core business activities.

Both the euro and US$ bonds carry a coupon of seven per cent per annum and the bank reserves the right to increase the amount up to the equivalent of €30 million in aggregate. The bonds have a final maturity date of April 30, 2019 but FimBank may opt to redeem the bonds between May 1, 2012 and April 29, 2019 by giving 30 calendar days' notice to bondholders.

Interest is payable semi-annually on April 30 and October 30, with the first payment on October 30, 2009. At the discretion of the bank, every six months bondholders will be given the option of receiving the interest either in cash or in new ordinary shares. The attribution price of the new ordinary shares will be determined by FimBank and announced 30 calendar days before the interest payment date.

The bonds are unsecured and subordinated and will rank *pari passu* without any priority or preference with all other present and future unsecured and subordinated debt obligations of the bank.

A pre-placement exercise will take place on April 17, 2009. Minimum subscriptions at pre-placement stage are for €10,000 or US$10,000 (nominal) and in multiples of €100 or US$100 thereafter.

Subscriptions for the general public offer open on April 23 and close on April 30 or earlier in the event of over-subscription. Applications during the general public offer are for a minimum of €2,000 or US$2,000 (nominal) and also in multiples of €100 or US$100 thereafter. FimBank plc has submitted an application for both bonds to be admitted to the official list of the Malta Stock Exchange.

The company firmly believes in shareholder and employee loyalty, hence they have been classified as "preferred applicants" in the prospectus. In recognition of their contribution and commitment to the bank over the years, preferred applicants are entitled to apply for the bonds at a price of 97 per cent, a three per cent discount to nominal value. Since the bonds allotted to preferred applicants will also be redeemed at 100 per cent on maturity, the yield rises to 8.15 per cent per annum if the bonds are redeemed on the earliest date of May 1, 2012 or 7.43 per cent if the bonds are redeemed at the end of their term on April 30, 2019.

The bond issue, which forms part of a wider funding exercise, will be used to part-finance a number of ambitious strategic projects and plans. The net proceeds from the bond issue will be used by FimBank to part-support its immediate project pipeline. In fact, the bank, led by its president Margrith Lutschg Emmenegger (an internationally acknowledged authority in trade finance), intends to expand its network of factoring joint ventures apart from pursuing the potential acquisition of a private bank to diversify its revenue streams further during 2009 and beyond.

The bank's factoring expansion pattern mirrors the one adopted with Global Trade Finance in India, EgyptFactors and MenaFactors in Dubai, that is, finding suitable strong partners among financial institutions and corporates in the respective country with good access to clients in fast-growing but stable emerging markets and then setting up joint ventures with these entities together with reputable international or supranational institutions such as the International Finance Corporation, a member of the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank among others. The formula has proved its worth in the Indian GTF case and the bank is out to replicate this model in every market it penetrates. The Indian joint venture which FimBank sold in March 2008 generated a profit of US$33.6 million for shareholders.

During last week's annual results review and launch of the bond issue, the company explained that during the course of 2009, FimBank aims to penetrate into Brazil, and Russia and re-establish a new company in India because the potential growth in this market is still sizeable. FimBank is optimistic that some of these new joint ventures have similar potential to the growth experienced with GTF in India, because factoring is the fastest growing product in trade finance and volumes of transactions in some markets are increasing exponentially. The company's enthusiasm is further justified by the fact that it chooses world-class partners increasing the likelihood of success.

FimBank and the IFC have agreed to partner each other in several factoring ventures including the new ones in Brazil and Russia planned for 2009. The IFC is a member of the World Bank Group and one of the highest-rated global institutions.

Moreover, the IFC is the second largest shareholder in FimBank. This is another indication of IFC's strong confidence in the bank and its strategy. Furthermore, the IFC recently extended its trading facility to FimBank in another confirmation of trust and recognition. Apart from the IFC, FimBank's shareholder base includes a number of prominent Kuwaiti investors who originally established the bank and have since offered continuous support and commitment. The presence of the IFC and the Kuwaiti investors is an important consideration when analysing the creditworthiness of the FimBank Group.

FimBank is also a global player in forfaiting, having successfully acquired London Forfaiting Company in 2003 to diversify away from traditional trade finance income. This forfaiting company, headquartered in London, has since been successfully restructured and is contributing positively to the overall financial performance of the group. Moreover, LFC has the added benefit of a substantial tax credit of US$36 million which can be offset against future profits. Here again, the growth potential according to FimBank's president is substantial and the bank plans to divest itself of a majority stake in this subsidiary through an IPO when market conditions permit. FimBank intends to continue to share in the success of this venture through a minority shareholding.

The bank ended 2008 in a strong position. Capital adequacy and liquidity ratios are robust and way above minimum regulatory requirements, placing the bank in an optimum position to face the challenges that 2009 will undoubtedly present. Despite having such a healthy balance sheet, this bond issue aims to assist FimBank in reaching its immediate acquisition and growth plans without compromising its healthy capital adequacy and liquidity ratios.

The bank believes that the current climate has accelerated the opportunity for it to enter new markets and the president estimates that the required funding for the three new factoring joint ventures amounts to between US$20 and US$30 million.

Prospective investors should read the prospectus made available by FimBank before contemplating an investment. This is available from our website as well as from all other authorised distributors.

Rizzo, Farrugia & Co. (Stockbrokers) Ltd is corporate stockbroker to FimBank plc and is acting as Sponsoring stockbroker to this bond issue.

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