

Stock Market Review

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FIMBank's bond issue proceeds earmarked for new factoring JVs

FIMBank's President Margrith Lutschg-Emmenegger hosted stockbrokers to a breakfast meeting on Tuesday to provide further insight into the Group's 2009 interim results which were released on August 13. Ms Lutschg-Emmenegger also provided a detailed update on the strategic direction being taken by the trade finance banking group.

Although at first glance shareholders may be shocked to see FIMBank's profit shrink by 88 per cent to \$2.9 million during the first half of the year, FIMBank's president explained that the main factor behind the decline was that in the first six months of 2008, FIMBank had realised a one-time substantial profit on the sale of its shareholding in the Indian factoring company, Global Trade Finance.

In fact, Ms Lutschg-Emmenegger presented the financial statements excluding the GTF transaction since these provided a more meaningful comparison on a "like-for-like" basis.

The comparison reveals that FIMBank's profit decreased by six per cent over the first half of 2008, which was a creditable performance given the extreme market conditions resulting from the international financial market crises during the first half of 2009. While net interest income and fee and commission income declined by 15.4 per cent, FIMBank conducted a stringent cost control exercise which helped reduce overheads by \$3.2 million. Another factor which helped the interim performance was the contribution from its fully-owned subsidiary Menafactors which posted a positive contribution of \$465,000 during the first half of the year.

Ms Lutschg-Emmenegger commented that the profitability of Menafactors after only 18 months since its launch is an important message for shareholders as FIMBank seeks to establish a network of similar joint ventures aiming to provide strong contributions over the medium-term as the Indian GTF investment provided prior to its sale. The other joint venture factoring company based in Egypt is also expected to contribute positively in 2010.

With regards to developments in the first half of 2009, FIMBank's President revealed that they experienced a partial recovery in the performance of their trading portfolio which is valued on a "mark-to-market" basis. Ms Lutschg-Emmenegger compared the extreme conditions during the final quarter of 2008 with the perfor-



FIMBank's President Margrith Lutschg-Emmenegger speaking to stockbrokers on Tuesday where she provided further insight into the Group's 2009 interim results which were released on August 13.

mance in the first half of the year. While FIMBank recognised an unrealised "loss" of \$8.4 million in 2008, there was a small positive performance in the first half of the year reflecting "the good quality of the underlying securities". This trend is expected to continue and should enable FIMBank to recover most of the unrealised losses in time.

On the funding side, FIMBank reported that liquidity and solvency ratios remained well above regulatory limits and were boosted in the first half of the year by the hugely successful subordinated bond issue in April 2009 when FIMBank raised just over \$40 million. These funds are earmarked for investment in a number of new factoring joint ventures commencing in Russia, India and Brazil shortly.

Ms Lutschg-Emmenegger once again explained the opportunity of the factoring joint ventures which FIMBank has placed at the core of its future strategy. Since factoring is the fastest growing product in trade finance, she firmly believes that by attracting a strong partner in each of the targeted jurisdictions and having the International Finance Corporation as a minority shareholder, this should enable FIMBank to benefit from the huge business potential in certain countries.

The first new factoring joint venture will be established in Russia shortly. This had been announced by FIMBank in its Interim Directors' Statement on May 19 when it revealed that it had signed a mandate letter with the International Finance Corporation and Transcapitalbank. The formal shareholders' agreement is expected to be signed by end of next month

with FIMBank and TCB subscribing to 40 per cent each in the new company and the balance of 20 per cent held by the IFC. FIMBank's initial capital injection will amount to \$4 million and FIMBank's President views this to be an excellent time to enter the Russian market.

Ms Lutschg-Emmenegger also commented on the strength of TCB as a strategic partner and highlighted TCB's strong client base and trade finance operations as important factors for the success of the joint venture. Shareholders in TCB include the European Bank for Reconstruction and Development and DEG, one of Germany's largest government-sponsored development institutions. The new joint venture company is expected to commence operations before the end of the year.

FIMBank's conviction of the potential within the Indian market is once again evident by the bank's decision to re-enter this market shortly after disposing its stake in GTF. During the meeting FIMBank's president announced that they attracted India's third largest bank, Punjab National Bank, as their new strategic partner in this market. FIMBank will be injecting \$5 million for a 49 per cent shareholding in the new company with Punjab National Bank holding a 30 per cent stake, followed by a leading Italian specialist Banca IFIS with 10 per cent and other smaller investors holding 11 per cent of the share capital.

FIMBank's president commented that although the factoring market is well-developed, there remains substantial business potential in India and the experi-

ence gained through the GTF investment and the majority ownership of the Indian state in Punjab National Bank are important attributes for this new operation. While Punjab National Bank has already announced their partnership with FIMBank, the official announcement by FIMBank is expected once the shareholders' agreement is finalised ahead of the anticipated launch of the company in the first quarter of 2010.

Also during 2010, FIMBank intends to establish another joint venture in Brazil. Ms Lutschg-Emmenegger indicated that a privately-owned Brazilian Bank has agreed to partner FIMBank and the IFC in this company. FIMBank's President fell short of disclosing the name of this new partner but assured all stockbrokers of the high quality of this institution and the opportunities available in Brazil given that this is still an untapped market with regards to the provision of factoring services.

The extensive factoring network being built by FIMBank will also encompass the African continent. While no timeframes have as yet been announced on the commencement of these new ventures in Africa, FIMBank's President did say that they had identified a top Pan-African bank with whom to establish a joint venture company and the IFC was also keen to join in. Ms Lutschg-Emmenegger confirmed that discussions were at an advanced stage on the possibility of acquiring a small company in Kenya to kick-start the factoring business in this continent. This is expected to be the first in a number of African countries given the foothold of the Pan-African bank within the region.

Despite this impressive list of factoring start-ups, FIMBank continued its efforts to move into private banking to complement its future development. FIMBank's president explained that after the failure of the due-diligence exercise on the initially targeted Swiss Bank, they were actively currently pursuing the setting up a joint venture with a top Swiss bank. This bank has an asset base of over \$20 billion and has shown a keen interest in FIMBank's worldwide network.

Clearly, FIMBank has remained very active in its efforts to spread its worldwide presence through joint ventures to grow its business, and the bond issuer earlier this year has provided the bank with sufficient long-term funding for this purpose. The president did however hint throughout the presentation that additional short-term funding was key to continue to expand and grow its ongoing trade finance business.

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