Stock Market Review

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# FimBank announces new short-term bond issue in EUR and USD

FimBank plc issued a company announcement last week informing the market that it had applied to the Malta Financial Services Authority to issue a new bond amounting to an equivalent €25 million subject to an over-allotment option of up to a further €10 million equivalent. Yesterday FimBank confirmed that the Malta Financial Services Authority approved the bond issue and a prospectus was filed with the Registrar of Companies.

This is the second bond issue by FimBank since its equity listing on the Malta Stock Exchange in May 2001. Similar to last year's bond issue, applications may be lodged in EUR and USD since the bank's reporting currency is US dollars and the bank's equity is also quoted in USD.

The bank is giving preferential treatment to its shareholders, bondholders, directors and employees. Not only is it reserving a total equivalent of €20 million for such preferred applicants and other investors at the pre-placement stage but preferred applicants are also entitled to a one per cent discount on the par value of the bonds. At the discounted price of 99 per cent, the yield to maturity is of 4.60 per cent per annum. Moreover, preferred applicants applying by October 22 will also be guaranteed a minimum allotment of €6,000 or $6,000 per application.

FimBank plc has been in operation for 16 years and is a specialised trade finance bank. It has been based in Malta since its inception but it conducts its activities globally with offices in many parts of the world including London, New York, Moscow, Dubai, Singapore, India and Brazil. FimBank is committed to maintaining its presence in Malta and is investing in a new head office; in fact, by 2012 the bank is expected to be moving to a new purpose built office block within The Exchange - the business and financial centre currently under construction forming part of the Pender Gardens development.

FimBank's product offering includes (i) structured trade finance; (ii) forfaiting and (iii) factoring. Factoring, which mainly involves the encashment of invoices on behalf of suppliers, has also been introduced locally by the larger commercial banks. FimBank's core product was always that of providing trade finance and the bank is reportedly a leading player in this field having won many international awards over the years. It has only added factoring and forfaiting in recent years.

Shortly after the arrival of Margrith Lutschg-Emmenegger to the senior management team in 2003, FimBank acquired London Forfaiting Company Ltd. This acquisition was partly financed through a $15 million rights issue in November 2003. A few months later FimBank entered the factoring market through the purchase of a 38 per cent shareholding in Global Trade Finance in India. Although this 38 per cent equity stake in GTF was sold in 2008 at a very handsome profit, FimBank sought to expand its presence in the factoring market through the setting up of a number of joint ventures.

FimBank aims to be a pioneer in the introduction of factoring in emerging markets and for this purpose, in April 2009 it successfully launched a $30 million bond issue to finance this investment strategy. Since these joint-ventures are longer-term investments (normally conducted in partnership with supra-national organisations like the International Finance Corporation), FimBank issued bonds with a final maturity term of 10 years. With the 2009 bond issue proceeds, FimBank has so far set-up new factoring joint-ventures in India and Russia and discussions are underway with potential partners in other countries.

On the other hand, the latest bond issue has been launched to enable the bank to expand its structured trade finance business and there is therefore a clear distinction in the use of funds of this new bond issue over the previous bond issue. The trade finance business mainly involves the financing of exports of commodities (cotton, steel, etc) across various geographical regions. Since transactions in this area are of a shorter-term nature (normally between one and three years), FimBank opted to issue a three-year bond this time round.

This is a first for the local market since no bond issuer has ever opted for such a short duration. It also comes at an opportune time given the interest rate cycle. With interest rates at historically low levels and amid widespread discussion on the timing of a gradual increase in rates, investors may be unwilling to commit themselves to longer-term securities.

These three-year bonds will therefore fill a void in the marketplace for private investors and institutions who wish to 'park' their funds for a few years ahead of better investment opportunities in the local and international bond markets when the new interest rate cycle would have been developing for some time.

Moreover, with very few investment options denominated in US dollars on the local market, it provides an opportunity for investors wishing to retain an exposure to the US dollar. Although the greenback has declined by 15.4 per cent since touching a level of $1.1942 against the euro on June 8, 2010, many international economists expect the US dollar to recover somewhat in the next couple of years with expectations of a rate of $1.20 per €1 by 2012 from the current rate of $1.35.

FimBank has a focused management team and a good number of years of experience in this specialised area of activity. The strategic direction being pursued is clear and the contribution from the global network of factoring companies is key to higher levels of profitability of the group in the future. The interim results for the first half of 2010 reveal a 16.4 per cent rise in profits to $3.4 million as signs of an improved economic environment triggered an increased flow of capital in emerging markets. However, the directors stated that some emerging markets where FimBank is predominantly active remain challenging. FimBank's business model has proved resilient during the very challenging conditions over the past two years and its balance sheet has remained strong.

With the appetite for fixed interest securities within the local investing community remaining high, retail investors as well as institutional investors should view this short-term bond offer in the light of their overall maturity profile of their bond portfolio which is normally skewed towards the medium to longer-term.

Rizzo, Farrugia & Co acted as sponsors to the FimBank plc bond issue.

| 4.25% FIMBank plc 2013 | |
|---|---|
| Investment Currency | EUR and/or USD |
| Coupon | 4.25% |
| Interest Payment Dates | Semi-annually on 31 May & 30 November |
| Maturity Date | 30 November 2013 |
| Offer price for non-Preferred Applicants | 100% |
| Offer price for non-Preferred Applicants | 99% |
| Offer period | 25 – 29 October 2010 |
| Status | Unsecured |
| Listing | Official List, Malta Stock Exchange |

**FimBank's business model has proved resilient during the very challenging conditions over the past two years.**