MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Second quarter ended December 31, 2011

Introduction

The Management Discussion and Analysis of Financial Condition and Results of Operations include forward-looking statements about objectives, strategies and expected financial results and positions. These statements are based on the Bank's current plans, expectations and beliefs about future events. They are inherently subject to risks and uncertainties beyond the Bank's control including, but not limited to, economic and financial conditions globally, technological development, competition, and regulatory developments both at home and abroad. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. The reader is therefore cautioned not to place undue reliance on these statements.

Overview

SKNA National Bank Ltd reported a net profit before tax of $30.3 million at the end of the second quarter, December 31, 2011. This represents a significant increase of $26.1 million when compared with the $4.2 million reported at December 31 2010, and an $11.1 million (or 57.8%) increase when compared with the amount budgeted for the period. Total revenue increased $29.5 million, or 50.5 percent, to $87.9 million at the end of the review period, December 2011. Driving this increase were gains on the sale of investments.

Income Statement

Results of Operations

The Bank's pre-tax profits for the quarter ended December 31, 2011 increased by 621.4% when compared with the preceding year's result. This is a notable achievement that the Bank was able to significantly improve its results in a challenging global economic environment.

	Dec 2011	Dec 2010	
	$ mil	$ mil	% Change
Income from Loans & Advances	40.2	37.6	6.9%
Income from Investments	10.6	7.7	37.7%
Income from Deposits with financial Inst.	4.1	3.2	28.1%
Total Interest Income	54.9	48.5	13.2%
Non-interest income	33.0	9.9	233.3%
Total income	87.9	58.4	50.5%
Interest Expenses	44.1	40.3	9.4%
Non-interest expenses	13.5	13.9	-2.9%
Total expenses	57.6	54.2	6.3%
Net Income before taxes	30.3	4.2	621.4%

Net Interest Income

Net interest income reported at December 31, 2011 increased by 32.0% to $10.8 million when compared with the $8.2 million recorded at the end of the same period in 2010. The Bank experienced a $6.4 million increase in total interest income from December 2010. Adjusting for the increase in interest expenses of $3.8 million, net interest income increased by $2.6 million compared to the previous year.

The $6.4 million increase in interest income resulted from an increase in income from:

- loans and advances by $2.6 million
- deposits with banks by $0.9 million
- investments by $2.9 million and

Net Fees & Commission Income

Net fees and commission income for the quarter ended December 2011 stood at $3.7 million, a decline of $0.7 million (or 16.9%) when compared with the amount attained for the quarter ended December 2010. This year-over-year decrease in fees and commission income was due mainly to a fall in income from electronic business transactions.

Other Income

At December 31 2011, income from other sources increased by $24.2 million or 616.7% when compared to the $3.9 million reported at December 31, 2010. The increase in other income was due mainly from an increase in gains on marketable securities.

Operating Expenses

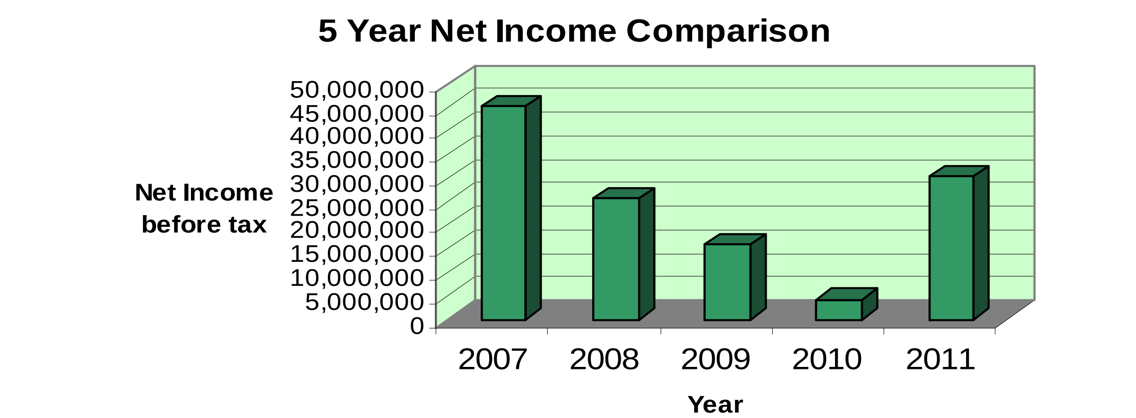
Operating expenses for the review period remained stable at $12.4 million. Continued active management of operating costs has resulted in this relatively stable level of operating expenses.

Net Profit before tax

Over the past 5 years net profit before tax has decreased from $45.2 million in the second quarter of 2007 to $30.3 million for the same period in 2011. Nonetheless, this downward trend in net profit before tax peaked at $4.2 million in December 2010. Thereafter, net profit before tax increased to $30.3 million at the end of December 2011. The Company believes that net income will continue to improve over the next quarter and beyond, through continued focus on exploring new avenues to diversify and enhance our non-interest income base and curtailment of interest costs.

Outlined in figure 1 below is the movement of net operating income at 31 December over a five-year period.

Figure 1: Net Income over a 5-year period



	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Net Income	45,244,266	25,781,791	16,018,694	4,191,035	30,274,533

Balance Sheet

Assets

The Bank's total assets declined $2.4 million (or 0.1%) when compared with total assets at June 30, 2011. The reduction in total assets at December 31, 2011 was due mainly to a decrease in deposits with other financial institutions, cash reserves and other assets offset by an increase in deferred tax, loans and advances and investments.

Loans and advances contributed to 49.1% of total assets at December 31, 2011 (June 2011: 54.0%), while deposits with other financial institutions contributed to 13.7% (June 2011: 14.4%). All other assets accounted for the remaining 37.2% (June 2011: 31.6%).

Liabilities

At the end of December 2011, total liabilities increased by $64.8 million to $2.043 billion, representing a 3.3% increase when compared with total liabilities of $1.978 billion at the end of June 2011. Driving this increase was the growth in customers' deposits with an increase over June 2011 of $28.8 million and $83.9 million deferred during the first quarter. These increases were offset by a reduction in other borrowed funds by $12.4 million resulting from payments to reduce our Line of Credit and a decrease of $9.4 million in suspense liabilities. In addition, deferred tax decreased by $26.8 million resulting from the transfers of deferred tax on cumulative fair value gains for available-for-sale securities sold during the first and second quarters.

Shareholders' Equity

Total shareholders' equity recorded at December 31, 2011 stood at $436.4 million compared with $503.6 million recorded at June 30, 2011. This represents a 13.3% decrease, resulting from net operating income for the period of $30.3 million, an interim and final dividend payment totaling $24.3 million and a decrease in revaluation reserves by $73.2million.

Capital

Total regulatory capital decreased $67.0 million, or 13.0 %, to $449.0 million in December 2011. Total risk weighted assets decreased as well by $3.1 million, or 0.3% in December 2011. Due to the large percentage of zero risk assets on the balance sheet, the Bank's capital adequacy ratio at December 30, 2011 was well above the minimum level required by the Basel Capital Accord.

- **Tier 1 Capital ratio:** The Accord recommends a minimum ratio of 4%. The Bank's Tier 1 Capital ratio as at December 31, 2011 was 47% (June 2011 – 46%).

- **Total Capital ratio:** Total Capital ratio decreased 7% from June 2011 to 47% in December 2011. Again, this position is well above the 8% minimum required by the Basel Capital Accord.

Corporate Governance

The Board of Directors continue to monitor the business affairs of the Bank to ensure compliance with relevant statutes, regulations, rules, established policies and procedures. They are charged with the oversight responsibility of increasing operational efficiency, strengthening shareholder and customer confidence, and the investment attractiveness of the Bank. In this regard the Board is focused on:

• Adoption and implementation of corporate governance guidelines and codes of ethics and business conduct.

• Continued emphasis on the Corporate Strategic Plan, which includes management's philosophy, economic outlook and conditions, performance targets and plans for implementation of strategies over the next 5 years.

Additionally, the Board will continue to take vital steps towards culturing a strong corporate governance environment, improving transparency and fostering high levels of integrity, thereby strengthening shareholder confidence in the Company.

Risk Management

The management of risks has emerged as one of the greatest challenges that banks now face. This challenge must be tackled by developing new approaches and by adjusting current processes.

The Bank has taken up this challenge and has placed increased emphasis on the management of risks through the systematic development of tools and strategies to mitigate these risks. Risks are continuously being evaluated in terms of the level of impact they can have on income and asset values.

While the bank places strong emphasis on the management of risks, it does so with the objective of balancing risk taking with expected returns to our shareholders.

Outlook

Over the next quarter, the Company will continue to focus on cost containment, risk management and operational efficiency. We will continue to build on our existing infrastructure and technology to enhance our products and services and focus on initiatives to augment our interest income and non-interest income base.

The Bank will improve business standards by implementing strategies geared towards the strengthening of the Bank. These measures should boost total revenue. We anticipate an improvement in the performance of the Bank resulting in positive returns on its investments in the near future. Careful investment for the future, in line with a well thought-out strategy, will be beneficial in the long-run.