

**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
For the 3rd quarter ended March 31, 2013**

Introduction

The Management Discussion and Analysis gives an overview of the Company's financial condition and results of operations for the third quarter ended March 31, 2013. The report includes forward-looking statements about objectives, strategies and expected financial results. These statements 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 in St. Kitts and Nevis and elsewhere. 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

At the end of the third quarter, March 31st 2013, St. Kitts-Nevis-Anguilla National Bank reported a net operating income of \$7.4 million, which represents a decrease of \$24.4 million when compared with the \$31.8 million reported at 31st March 2012. Realized gains from the sale of securities during this period were much lower than the preceding year, resulting in a year-over-year reduction in net operating income.

Nonetheless, the balance sheet strengthened with significant growth in total assets, which grew by \$251.3 million (or 9.8%) and customer deposits, which increased by \$333.5 million (or 18.6%) when compared with one year ago.

Income Statement

Outlined below is a summary of the results of operations at the end of March 2013 and 2012.

	Mar 2013	Mar 2012	
	\$ mil	\$ mil	% Change
Income from Loans & Advances	60.1	60.3	-0.3%
Income from Investments	11.4	15.7	-27.3%
Income from Deposits with financial Inst.	6.7	6.8	-1.1%
Non-interest income	22.0	36.5	-39.8%
Total income	100.2	119.3	-16.0%
Interest Expenses	70.4	66.4	6.0%
Non-interest expenses	22.4	21.1	6.2%
Total expenses	92.8	87.5	6.1%
Net Income before taxes	7.4	31.8	-76.7%

Net Interest Income

At March 31, 2013, net interest income declined by \$8.6 million or 52.3% when compared with the results attained for the same period in 2012. A decrease in interest expense by \$4.0 million and a reduction in interest income by \$4.6 million were the two main drivers of this decrease in net interest income.

The year-over-year increase in interest costs was due to the growth in interest bearing deposit accounts. The growth in deposits has also produced substantial liquidity; however the decline in economic activity has posed a challenge in growing the loan portfolio in an effort to generate additional interest income.

Net Fees & Commission Income

Net fees and commission income increased by \$0.8 million (or 19.4%) for the quarter ended March 31, 2013 when compared with one year ago. The year-over-year increase in fees and commission income was due mainly from international and foreign exchange transactions.

Other Income

At March 31, 2013, income from other sources decreased by \$15.6 million or 51.6% in comparison to the amount recorded for the quarter ended March 31, 2012. The decrease in other income was due mainly to a decrease in realized gains on marketable securities.

Operating Expenses

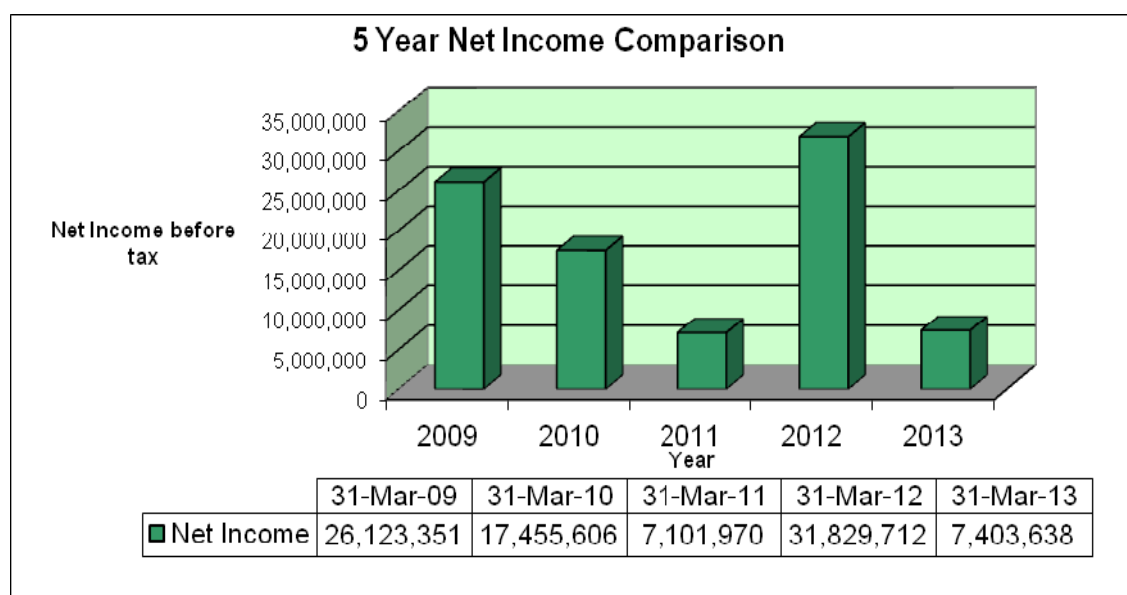
Operating expenses, which were \$18.7 million at March 31, 2012 increased to \$19.7 million at March 31, 2013, representing an increase of 5.5%. The increase in operating expenses resulted mainly from an increase in staff costs. Operating cost management and curtailment will remain a critical area of focus for the bank.

Analysis of Revenue	Mar 2013	Mar 2012	
Interest Income	\$ 000	\$ 000	% Change
Interest from loans and advances	60,064	60,297	-0.3%
Interest from investments	11,435	15,700	-27.3%
Interest from deposits with Fin. Inst.	6,706	6,783	-1.1%
Total interest	78,205	82,780	-5.5%
Non-interest income			
Income from fees and commissions	7,355	6,314	16.4%
Gains from foreign exchange	3,154	2,700	16.8%
Gains from investments, net	9,644	26,404	-63.4%
Dividend income	1,726	897	92.4%
Other income	80	170	-52.9%
Total non-interest income	21,959	36,485	-39.8%
Total Revenue	100,164	119,265	-8.3%

Net Income

Over the past 5 years net income before tax has decreased from \$26.1 million at the end of March 2009 to \$4.4 million for the same period in 2013. The Company is optimistic that net income will improve over the next quarter and beyond. Increased focus will be placed on exploring new avenues to augment our non-interest income base and curtail interest costs.

Outlined below is the movement of net operating income for the period ending March 31st over a five year period.



Balance Sheet

Assets

Total assets grew from \$2.5 billion at June 30, 2012 to \$2.8 billion at March 31, 2013, representing an 11.7% increase. Growth in total assets was due mainly to an increase in cash and deposits with other financial institutions over the review period.

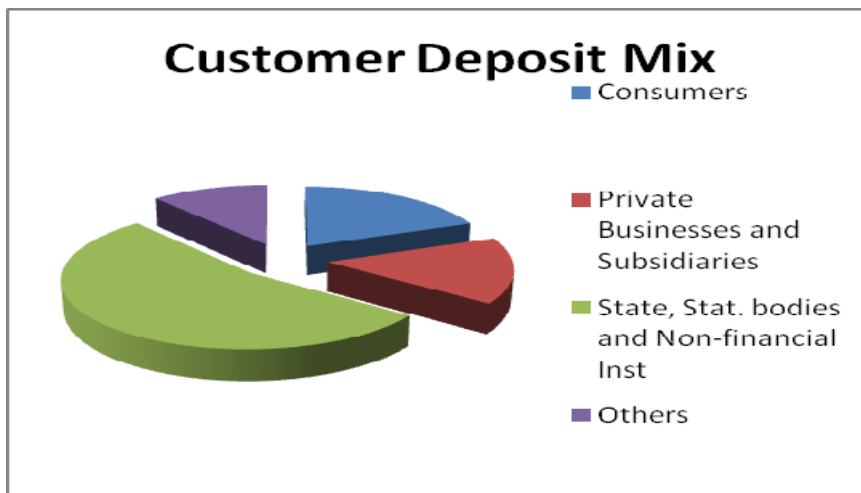
The loans portfolio, on the other hand, decreased by \$16.7 million, representing a 1.4% fall from \$1.2 billion recorded at June 30, 2012. The decrease in loans and advances to customers resulted mainly from decreased borrowings by both the public and private sectors.

Consequently, at March 31 2013, Loans and advances contributed to 45.7% of total assets at March 31, 2013 (June 2012: 50.4%), while deposits with other financial institutions contributed to 20.7% (June 2012: 16.3%). All other assets accounted for the remaining 33.6% (June 2012: 33.3%).

Liabilities

At the end of March 2013, total liabilities increased by \$288.1 million to \$2.402 billion, representing a 13.6% increase when compared with total liabilities of \$2.113 billion at the end of June 2012. An increase in customer's deposits and other liabilities were the main factors that contributed to the increase in total liabilities.

Additionally, the Bank achieved growth in customer deposits of 14.4% over the amount recorded at the end of fiscal year 2012. The diagram below shows the customers deposit mix for the quarter ended March 31, 2013.



Shareholders' Equity

The company continues to realize its goal of providing a satisfactory return to shareholders and increasing the value of investments. Shareholders' Equity was \$420.2 million at March 31, 2013 compared with \$412.1 million at June 30, 2012. This represents a 2.0% increase, resulting from fair value gains on available-for-sale investments for the period.

Corporate Governance

The Board of Directors continues to search for innovative ways to improve corporate governance, risk management, ethical conduct, best practices and maintenance of international standards. 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.

These measures should boost total revenue. At the end of the final quarter ending June 30, 2013, we anticipate an increase in shareholders equity, deposits and assets when compared to the end of the same period in 2013.