

**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**
For the first quarter ended September 30, 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

At the end of the first quarter ended 30th September 2011, the Bank reported a net operating income of \$10.6 million. This represents a \$7.0 million increase when compared with the \$3.6 million reported at 30th September 2010, and a \$1.0 million (or 10.4%) increase when compared with the amount budgeted for the period. A \$9.1 million rise in non-interest income was the main contributing factor to the year-over-year increase in net operating income.

Income Statement

Results of Operations

The Bank's pre-tax profits for the quarter ended 30th September 2011 increased by 194.4% 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.

	Sept 2011	Sept 2010	
	\$ mil	\$ mil	% Change
Income from Loans & Advances	20.5	19.0	7.9%
Income from Investments	4.7	3.6	30.6%
Income from Deposits with financial Inst.	2.1	1.8	16.7%
Non-interest income	11.7	5.3	120.7%
Total income	39.0	29.7	31.3%
Interest Expenses	21.9	19.9	10.1%
Non-interest expenses	6.5	6.2	4.8%
Total expenses	28.4	26.1	8.8%
Net Income before taxes	10.6	3.6	194.4%

Net Interest Income

Net interest income reported at 30th September 2011 increased by 18.3% when compared with the \$4.5 million recorded at the end of the same period in 2010. The \$2.9 million increase in interest income coupled with a \$2.1 million rise in interest expenses resulted in a \$0.8 million increase in net interest income for the period.

The \$2.9 million increase in interest income resulted from an increase in:

- loans and advances by \$0.9 million
- deposits with banks by \$0.3 million
- investments by \$1.0 million and
- Epassport receivables by \$0.7 million

Net Fees & Commission Income

At the end of the first quarter ended 30th September 2011, net fees and commission income declined by \$2.3 million (or 71.4%) when compared with the amount attained for the quarter ended 30th September 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 30th September 2011, income from other sources increased by \$9.1 million or 747.2% when compared to the \$1.2 million reported at 30th September 2010. The increase in other income was due mainly to an increase in gains on marketable securities.

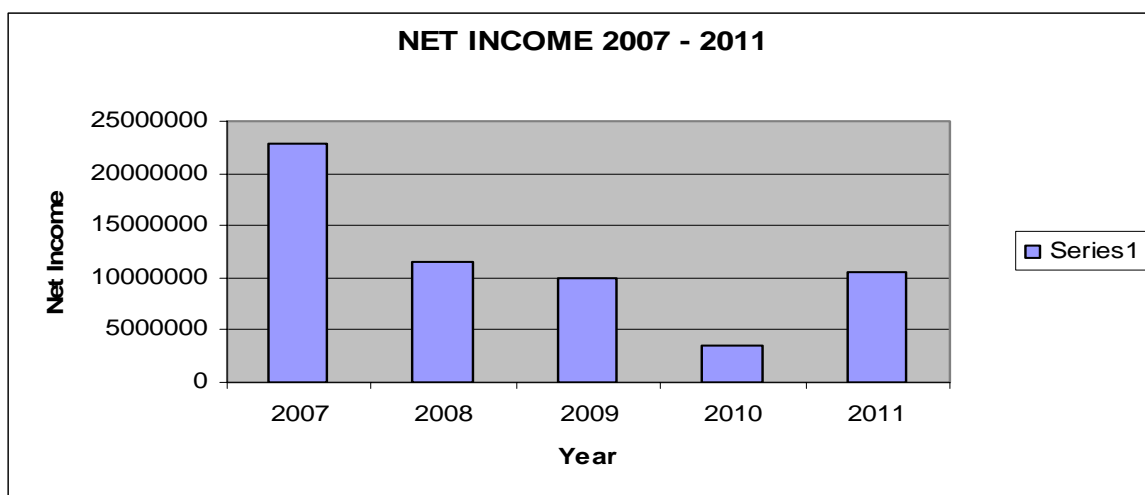
Operating Expenses

At 30th September 2011, operating expenses increased to \$6.0 million from \$5.4 million at 30th September 2010. The year-over-year change in operating expenses was due mainly to an increase in staff costs (\$0.1 million), computer repairs and maintenance (\$0.2 million), shareholders expenses (\$0.2 million) and the cost of utilities (\$0.1 million).

Net Income

Over the past 5 years net income before tax has decreased from \$14.8 million in the first quarter of 2007 to \$10.6 million for the same period in 2011. Nonetheless, this downward trend in net income before tax peaked at \$3.6 million in September 2010. Thereafter, net income before tax increased to \$10.6 million at the end of September 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 below is the movement of net operating income at September 30th over a five year period.



Balance Sheet

Assets

The Bank's asset base decreased by \$7.9 million (or 0.3%) when compared with total assets at 30th June 2011. The reduction in total assets at 30th September 2011 was due mainly to a decrease in deposits with other financial institutions, cash reserves and suspense resources offset by an increase in deferred tax, loans and advances and investments.

Loans and advances contributed to 54.5% of total assets at 30th September 2011 (June 2011: 54.0%), while deposits with other financial institutions contributed to 13.6% (June 2011: 14.4%). All other assets accounted for the remaining 31.9% (June 2011: 31.6%).

Liabilities

At the end of September 2011, total liabilities increased by \$62.8 million to \$2.041 billion, representing a 3.2% increase when compared with total liabilities of \$1.978 billion at the end of June 2011. An increase in other financial institutions deposits and deferred tax liability were the main contributing factors to the increase in total liabilities.

Other financial institutions deposits increased by \$12.3 million (or 178.6%) and an amount of \$83.9 million was deferred during the quarter. In addition, deferred tax decreased by \$35.4 million as a result of a transfer of deferred tax on cumulative fair value gains for available-for-sale securities sold during the quarter.

Shareholders' Equity

Shareholders' Equity was recorded at \$432.8 million at 30th September 2011 compared with \$503.6 million recorded for 30th June 2011. This represents a 14.1% decrease, resulting from net operating income for the period of \$10.6 million, a final dividend payment of \$15.5 million and a decrease in revaluation reserves by \$65.9 million.

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.