

**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
For the first quarter ended September 30, 2012**

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

The Bank reported a net operating income of \$4.6 million at the end of its first quarter, September 30, 2012. This represents a \$6.0 million decrease when compared with the \$10.6 million reported at 30th September 2011, and a \$4.4 million (or 49.0%) reduction when compared with the \$9.0 million budgeted for this period. A reduction in realized gain on marketable securities was the main contributing factor to the year-over-year decrease in net operating income.

Nonetheless, other key areas have reported substantial growth such as total assets, which grew by \$138.6 million (or 5.6%) and customer deposits, which increased by \$215.5 million (or 13.0%) when compared with the preceding year.

Income Statement

Results of Operations

The Bank's pre-tax profits for the quarter ended 30th September 2012 decreased by 56.6% when compared with the preceding year's result. This must, however, be assessed in the context of the global economic downturn which continues to impact the local economy resulting in reduced economic activity and declining profitability. National Bank, in these continued challenging economic times, remains a strong, well capitalized bank and continues to grow in asset size.

Outlined below is a summary of the results of operations at the end of September 2012 and 2011.

	Sept 2012	Sept 2011	
	\$ mil	\$ mil	% Change
Income from Loans & Advances	22.1	19.9	11.0%
Income from Investments	2.9	5.3	-45.3%
Income from Deposits with financial Inst.	2.1	2.1	0.0%
Non-interest income	7.5	11.7	-35.9%
Total income	34.6	39.0	-11.3%
Interest Expenses	23.4	21.9	6.8%
Non-interest expenses	6.6	6.5	1.5%
Total expenses	30.0	28.4	5.6%
Net Income before taxes	4.6	10.6	-56.6%

Net Interest Income

Net interest income reported at 30th September 2012 decreased by 30.1% when compared with the \$5.3 million recorded at the end of the same period in 2011. The \$0.2 million decrease in interest income coupled with a \$1.4 million rise in interest expenses resulted in a \$1.6 million decrease in net interest income for the period.

The \$0.2 million net decrease in interest income resulted from:

- An increase in interest on loans and advances by \$2.2 million
- A decrease in interest on investments by \$2.4 million

Net Fees & Commission Income

Net fees and commission income increased by \$1.2 million (or 134.2%) at the end of September 2012 when compared with the amount attained for the quarter ended 30th September 2011. This year-over-year increase in fees and commission income was due mainly to an increase in income from E-commerce transactions.

Other Income

At 30th September 2012, income from other sources decreased by \$5.5 million or 53.7% when compared to the \$10.3 million reported at 30th September 2011. The decrease in other income was due mainly to a decrease in realized gains on marketable securities.

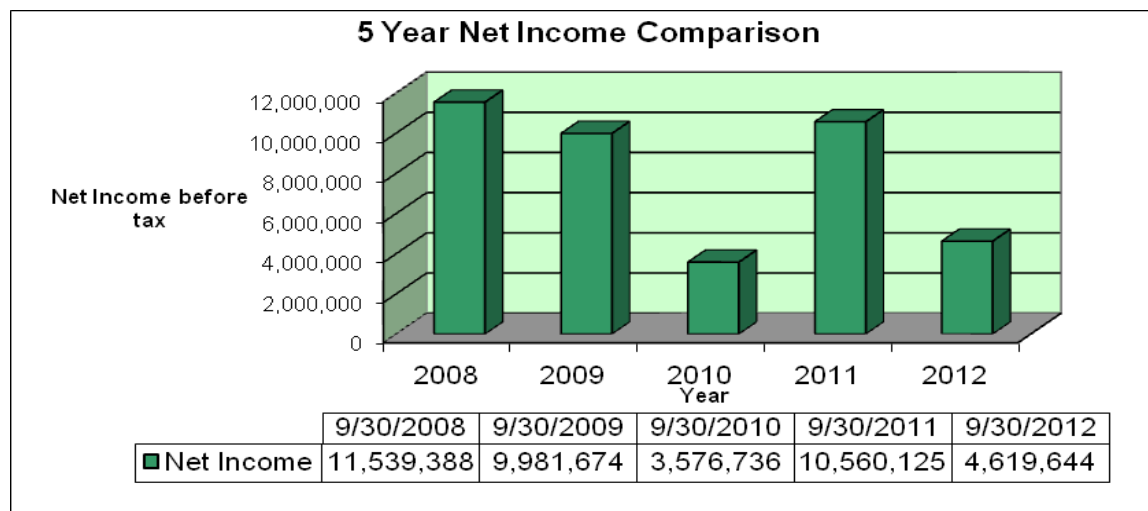
Operating Expenses

At the end of the review period, September 30 2012, operating expenses increased slightly to \$6.023 million from \$5.992 million at 30th September 2011. Operating cost management and curtailment remains a critical area of focus for the bank.

Net Income

Over the past 5 years net income before tax has decreased from \$11.5 million in the first quarter of 2008 to \$4.6 million for the same period in 2012. The Company believes that net income will 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

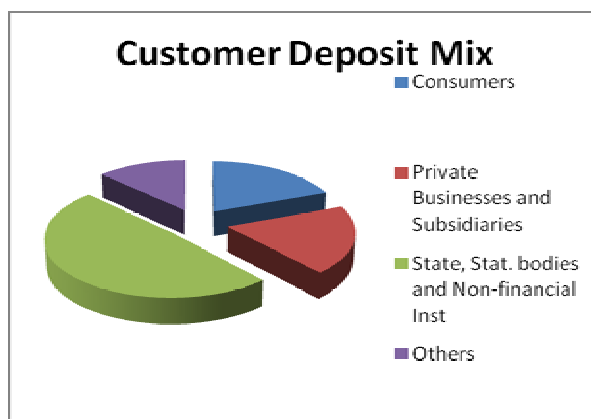
Over the past five years, the Bank has grown from an asset base of \$2.1 billion in 2008 to \$2.6 billion as at September 30, 2012. Total assets at the end of the review period increased by \$47.0 million (or 1.8%) when compared with total assets of \$2.563 billion at 30th June 2012. The increase in total assets at 30th September 2012 was due mainly to an increase in deposits with other financial institutions, treasury bills, originated debts and cash reserves offset by a decrease in loans and advances and investments.

Loans and advances contributed to 50.9% of total assets at 30th September 2012 (June 2012: 51.9%), while deposits with other financial institutions contributed to 20.0% (June 2012: 16.3%). All other assets accounted for the remaining 29.1% (June 2012: 31.8%).

Liabilities

At the end of September 2012, total liabilities increased by \$40.7 million to \$2.154 billion, representing a 1.9% increase when compared with total liabilities of \$2.113 billion at the end of June 2012. An increase in customer's deposits and other financial institutions deposits were the main contributing factors to the increase in total liabilities.

Customer's deposits increased by \$32.4 million (or 1.7%) and other financial institutions deposits increased by \$9.2 million (or 216.3%) during the quarter. Below is a diagram showing the customers deposit mix for the quarter ended September 30, 2012.



Shareholders' Equity

Shareholders' Equity recorded at September 30, 2012 was \$457.4 million compared with \$451.1 million recorded at June 30, 2012. This represents a 1.4% increase, resulting from net operating income for the period of \$4.6 million and an increase in revaluation reserves by \$1.7 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.