

**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
For the First quarter ended September 30, 2013**

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

Despite continued global economic challenges and investor uncertainties, National Bank continues to remain a strong and resilient bank. During the quarter ended September 30, 2013, the Bank remains adequately capitalized and liquid.

Substantial growth was reported in total assets, which grew by \$203.5 million (or 7.2%) and customer deposits, which increased by \$167.7 million (or 7.6%) when compared to June 30, 2013. This was due mainly to increases in cash, investments, loans and advances.

Cash and investments constituted 51.8% of the total assets, while loans and advances amounted to 24% at September 30 2013.

On the other side, customers' deposits, which are the main source of funding, increased slightly to 78.3% of the total liabilities and shareholder's equity at September 2013, compared to 78.0% at June 2013, while Shareholders' funds decreased slightly to 13.9%.

Income Statement

Results of Operations

The Bank reported a net operating income of \$5.9 million at the end of its first quarter ended September 30, 2013 which represents a \$1.3 million increase when compared with the \$4.6 million reported at September 30, 2012. The year-over-year increase in profitability was due mainly to the increased realized gains on marketable securities.

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

	Sept 2013	Sept 2012	
	\$ mil	\$ mil	% Change
Income from Loans & Advances	11.5	22.1	-48.0%
Income from Investments	4.2	2.9	44.8%
Income from Deposits with financial Inst.	1.6	2.1	-23.8%
Income from Lands acquired	5.0	-	-
Non-interest income	12.6	7.5	68.0%
Total income	34.9	34.6	0.8%
Interest Expenses	22.1	23.4	-5.5%
Non-interest expenses	6.9	6.6	4.5%
Total expenses	29.0	30.0	-3.3%
Net Income before taxes	5.9	4.6	28.3%

Net Interest Income

Net interest income reported at September 30, 2013 decreased by 96.1% when compared with the \$3.7 million recorded at the end of the same period in 2012. The \$4.8 million decrease in interest income offset by a \$1.2 million reduction in interest expenses resulted in a \$3.6 million decrease in net interest income for the period.

The \$4.8 million net decrease in interest income resulted from:

- A decrease in interest on loans and advances by \$10.6 million
- A decrease in interest from Deposits by \$0.5 million
- An increase in interest on investments by \$1.3 million
- Interest on Lands newly acquired by \$5.0 million

Net Fees & Commission Income

Net fees and commission income increased slightly by \$0.2 million (or 11.2%) at the end of September 2013 when compared with the amount attained for the quarter ended September 30, 2012. 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 September 30, 2013, income from other sources increased significantly by \$4.7 million or 98.3% when compared to the \$4.8 million reported at September 30, 2012. The increase in other income was due mainly to an increase in realized gains on marketable securities.

Analysis of Revenue	Sep 2013	Sep 2012	
Interest Income	\$ 000	\$ 000	% Change
Interest from loans and advances	11,461	22,116	-48.0%
Interest from Investments	1,767	1,177	50.1%
Interest from Treasury Bills	2,422	1,725	40.4%
Interest from Deposits with Fin. Inst.	1,647	2,084	-21.0%
Interest on Lands acquired	4,985	-	-
Total interest	22,282	27,102	-17.8%
Non-interest income			
Income from fees and commissions	3,191	2,786	14.5%
Gains from foreign exchange	1,462	831	75.9%
Gains from investments, net	7,820	3,200	144.4%
Dividend income	129	706	-81.7%
Other income	36	28	28.6%
Total non-interest income	12,638	7,551	67.4%
Total Revenue	34,920	34,653	0.8%

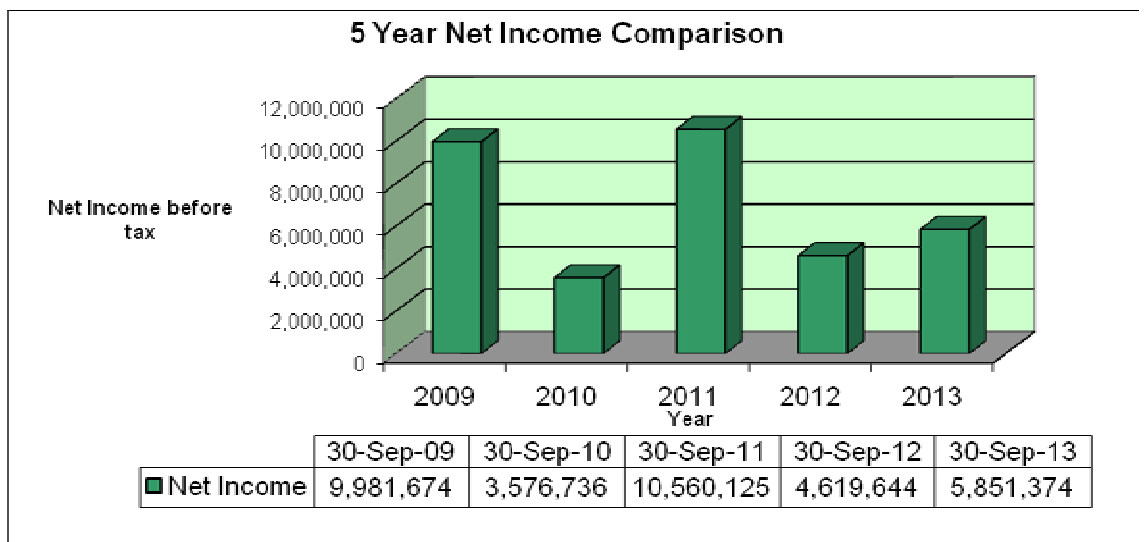
Operating Expenses

At the end of the review period, September 30 2013, operating expenses increased to \$6.134 million from \$6.023 million at September 30, 2012. 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 \$10.0 million in the first quarter of 2009 to \$5.9 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 at September 30th over a five year period.



Balance Sheet

Assets

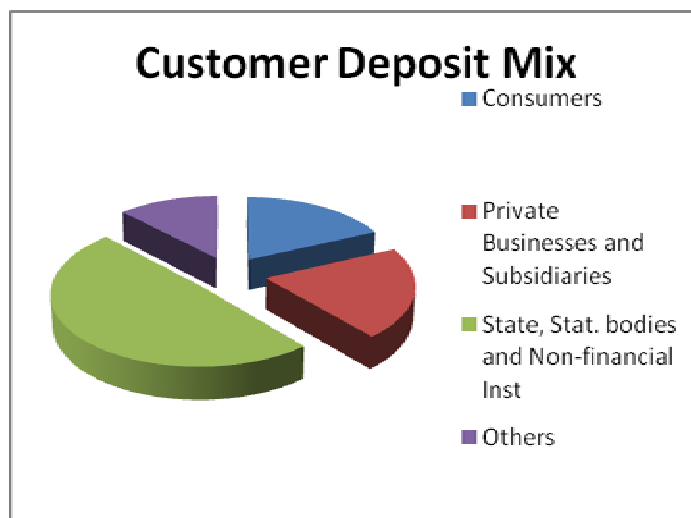
Over the past five years, the Bank has grown from an asset base of \$2.1 billion in 2009 to \$3.0 billion as at September 30, 2013. Total assets at the end of the review period increased by \$203.5 million (or 7.2%) when compared with total assets of \$2.834 billion at 30th June 2013. The increase in total assets at September 30, 2013 was due mainly to an increase in deposits with other financial institutions and cash and balances with Central Bank, offset by a decrease in investments.

Loans and advances contributed to 23.7% of total assets at September 30, 2013 (June 2013: 45.2%), while cash and investments contributed to 51.8% (June 2013: 50.9%). All other assets accounted for the remaining 24.5% (June 2013: 3.9%).

Liabilities

At the end of September 2013, total liabilities increased by \$193.0 million to \$2.615 billion, representing an 8% increase when compared with total liabilities of \$2.422 billion at the end of June 2013. This increase stemmed mainly from the growth in the Bank's customers deposits portfolio over the quarter.

Customer deposits increased by \$167.7 million (or 7.6%) and accumulated provisions increased by \$24.5 million (or 41.6%) during the quarter. Below is a diagram showing the customer deposit mix for the quarter ended September 30, 2013.



Shareholders' Equity

Shareholders' Equity recorded at September 30, 2013 was \$422.8 million compared with \$412.3 million recorded at June 30, 2013. This represents a 2.6% increase, resulting from net operating income for the period of \$5.9 million and an increase in revaluation reserves by \$4.6 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.