MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Second quarter ended December 31, 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 December 31, 2013, the Bank remained adequately capitalized and liquid.

Substantial growth was reported in total assets, which grew by $213.0 million (or 7.5%) and customer deposits, which increased by $260.2 million (or 11.8%) when compared to June 30, 2013. This was due mainly to increases in deposits with financial institutions, treasury bills and available-for-sale securities.

Cash and investments constituted 53.6% of the total assets, while loans and advances amounted to 24.2% at December 31 2013.

On the other side, customers' deposits, which are the main source of funding, increased slightly to 81.1% of the total liabilities and shareholder's equity at December 2013, when compared with 78.0% at June 2013, while Shareholders' funds decreased slightly to 14.0% from 14.5% at year end.

Income Statement

Results of Operations

The Bank reported a net operating income of $11.2 million at the end of its second quarter ended December 31, 2013 which represents a $6.8 million increase when compared with the $4.4 million reported at December 31, 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 December 2013 and 2012.

	Dec 2013 $ mil	Dec 2012 $ mil	% Change
Income from Loans & Advances	23.1	41.7	-44.6%
Income from Investments	10.7	4.3	148.8%
Income from Deposits with financial Inst.	3.6	6.3	-42.9%
Income from Lands Acquired	9.8	-	-
Non-interest income	24.2	13.8	75.3%
Total income	71.4	66.1	8.0%
Interest Expenses	44.5	47.0	5.3%
Non-interest expenses	15.7	14.7	-6.8%
Total expenses	60.2	61.7	2.4%
Net Income before taxes	11.2	4.4	154.5%

Net Interest Income

Net interest income reported at December 31, 2013 decreased by 47.6% when compared with the $5.2 million recorded at the end of the same period in 2012. This $2.5 million decrease in net interest income was the result of a $5.0 million decrease in interest income coupled with a $2.5 million reduction in interest expenses.

The $5.0 million net decrease in interest income resulted from:

- A decrease in interest on loans and advances by $18.5 million
- A decrease in interest from deposits by $0.7 million
- An increase in interest from treasury Bills and other investments by $4.4 million
- Interest on Lands newly acquired by $9.8 million

Net Fees & Commission Income

Net fees and commission income decreased by $0.4 million (or 9.2%) at the end of December 2013 when compared with the amount attained for the quarter ended December 31 2012. The timing of the collection of E-business commissions resulted in a year-over-year decrease in fees and commission income.

Other Income

At December 31 2013, income from other sources increased significantly by $10.0 million or 117.7% when compared to the $8.5 million reported at December 31 2012. The increase in other income was due mainly to an increase in realized gains on marketable securities. The table below gives an analysis of revenue earned.

Analysis of Revenue	**Dec 2013**	**Dec 2012**	
Interest Income	**$ 000**	**$ 000**	**% Change**
Interest from loans and advances	23,105	41,661	-44.5%
Interest from Investments	5,690	2,600	118.8%
Interest from Treasury Bills	4,968	3,637	36.6%
Interest from Deposits with Fin. Inst**.**	3,574	4,318	-17.2%
Interest on Lands acquired	9,862	-	-
Total interest	**47,199**	**52,216**	**-9.6%**
Non-interest income			
Income from fees and commissions	5,730	5,343	7.2%
Gains from foreign exchange	2,973	2,091	42.2%
Gains from investments, net	14,273	5,018	184.4%
Dividend income	1,166	1,337	-12.8%
Other income	68	43	58.1%
Total non-interest income	**24,210**	**13,832**	**75.0%**
Total Revenue	**71,409**	**66,048**	**8.1%**

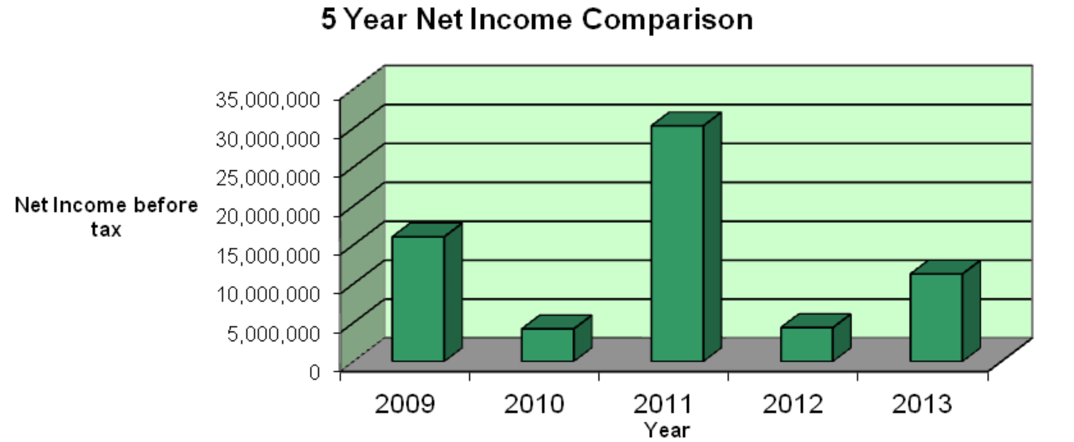
Operating Expenses

At the end of the review period, December 31 2013, operating expenses increased slightly to $13.5 million from $13.3 million at December 31 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 $16.0 million in the second quarter of 2009 to $11.2 million for the same period in 2013. The Company is optimistic that net income will improve over the next quarter and beyond, as it continues to explore new avenues to augment non-interest income base and curtail interest costs.

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



	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13
Net Income	16,018,694	4,191,035	30,274,533	4,356,053	11,248,181

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 December 31, 2013. Total assets at the end of the review period increased by $0.2 billion (or 7.5%) when compared with total assets of $2.834 billion at June 30, 2013. The increase in total assets at December 31, 2013 was due mainly to an increase in deposits with other financial institutions, treasury bills and available-for-sale investments, the total of which contributed to 43.3% of total assets (June 2013: 38.4%).

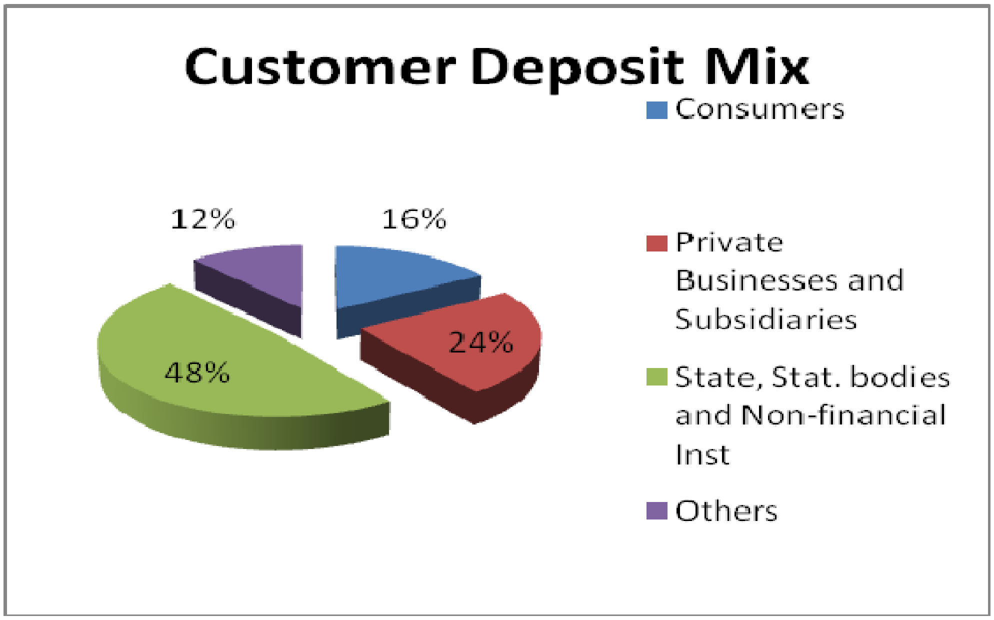
Loans and advances contributed to 24.2% of total assets at December 31, 2013 (June 2013: 45.2%), while cash and balances with Central Bank contributed to 10.3% (June 2013: 12.5%). All other assets accounted for the remaining 22.2% (June 2013: 3.9%).

Liabilities

At the end of December 2013, total liabilities increased by $198.3 million to $2.620 billion, representing an 8.2% increase when compared with total liabilities of $2.422 billion at the end of June 2013. An increase in customer's deposits was the main contributor to the increase in this category.

Customer's deposits increased by $260.2 million (or 11.8%), while other borrowed funds decreased by $61.9 million (or 29.3%) during the quarter following the retirement of UTC Bonds Payable and reduction in a Line of Credit held.

Below is a diagram showing the customers deposit mix for the quarter ended December 31, 2013.



Shareholders' Equity

Shareholders' Equity recorded at December 31, 2013 was $426.4 million compared with $411.7 million recorded at June 30, 2013, an increase of $14.7 million. This represents a slight increase of 3.4%, resulting from net operating income for the period of $11.2 million and an increase in revaluation reserves of $14.3 million, offset by a dividend payment of $10.8 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.