MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the third quarter ended March 31, 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

SKNA National Bank Ltd reported a net profit before tax of $31.8 million at the end of the third quarter ended March 31, 2012. This represents a significant increase of $24.7 million (or 348.2%) when compared with the $7.1 million reported at March 31 2011, and a $3.8 million (or 13.5%) increase when compared with the amount budgeted for the period.

Considerable growth in most of the business areas has also been reported at the end of March 2012. Total assets grew by $181.6 million (or 7.6%) and customer deposits by $197.9 million (or 12.6%), while the loans and advances portfolio recorded growth of $12.1 million (or 1.1%) from the previous year.

Income Statement

Results of Operations

The Bank's pre-tax profits for the quarter ended March 31, 2012 increased by 348.2% 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.

	Mar 2012 $ mil	Mar 2011 $ mil	% Change
Income from Loans & Advances	62.3	56.1	11.1%
Income from Investments	13.7	13.8	-0.72%
Income from Deposits with financial Inst.	6.8	5.9	15.2%
Total Interest Income	82.8	75.8	9.2%
Non-interest income	36.4	12.8	184.4%
Total income	119.2	88.6	34.5%
Interest Expenses	66.4	61.1	8.7%
Non-interest expenses	21.0	20.4	2.9%
Total expenses	87.4	81.5	7.2%
Net Income before taxes	31.8	7.1	347.9%

Net Interest Income

At March 31, 2012 net interest income increased by 11.1% to $16.4 million when compared with the $14.7 million recorded at March 31, 2011. This increase was the net result of:

- an increase in income from loans and advances by $6.2 million,
- an increase in income from deposits with banks by $0.9 million and
- a decrease in income from investments by $0.1 million.

Net Fees & Commission Income

Net fees and commission income for the quarter ended March 2012 decreased by $1.3 million (or 24.8%) to $4.0 million when compared with the $5.3 million attained for the quarter ended March 2011. A fall in electronic business transactions was the main contributing factor to the decline in net fees and commission income over the review period.

Other Income

At March 31 2012, income from other sources increased by $24.9 million or 468.2% when compared to the $5.3 million reported at March 31, 2011. The increase in other income was due mainly from an increase in the gains on marketable securities, dividend income and gains on foreign exchange.

Operating Expenses

Operating expenses incurred by the Bank increased slightly by $0.5 million or 2.5% from $18.2 million at March 2011 to $18.7 million at March 2012. Management anticipates a reduction in operating expenses over the next quarter through continued emphasis on cost containment, effective risk management and operational efficiencies.

Net Profit before tax

The effect of the change in net interest income, non-interest income and operating expenses was a $24.7 million or 348.2% increase in net profit before tax. The Company believes that net profit before tax will continue its upward trend over the next quarter and beyond, through continued focus on exploring new avenues to diversify and enhance our non-interest income base.

Balance Sheet

Assets

The Bank's total assets grew by $88.8 million (or 3.5%) when compared with total assets at June 30, 2011. The increase in total assets at March 31, 2012 was the net result of:

- an increase in deposits with other financial institutions,
- an increase in loans and advances,
- an increase in cash reserves and
- a decrease in investments.

Loans and advances contributed to 52.2% of total assets at March 31, 2012 (June 2011: 54.0%), while deposits with other financial institutions contributed to 18.7% (June 2011: 14.4%). All other assets accounted for the remaining 29.1% (June 2011: 31.6%).

Deposits

Total deposits are subdivided into deposits due to customers and those due to other financial institutions. Deposits by customers increased by $118.6 million or 7.1% to $1.8 billion at the end of March 2012 when compared with the results attained at the end of the financial year 2011, which is yet another notable achievement by the Bank.

Initiatives such as the provision of consistently high quality service, dependable customer satisfaction, competitive pricing and improved delivery systems contributed to the growth in our customer deposit balances.

Going forward, the Bank anticipates that there will be steady growth in our deposit base as the regional and international economies register sustained improvements.

Capital

Shareholders' equity recorded at March 31, 2012 stood at $443.2 million compared with $503.6 million recorded at June 30, 2011. This represents a 12.0% decrease, resulting from net operating income for the period of $31.8 million, an interim and final dividend payment totaling $31.0 million and a decrease in revaluation reserves by $61.2 million.

The bank regulators recommend minimum requirements for capital adequacy of their member banks as a protection to depositors as well as to promote stability and efficiency in the financial sector.

- **Tier 1 Capital ratio:** The Accord recommends a minimum ratio of 4%. The Bank's Tier 1 Capital ratio as at March 31, 2012 was 46% (June 2011 – 46%).

- **Total Capital ratio:** Total Capital ratio decreased 7% from 54% at June 2011 to 47% in March 2012. Again, this position is well above the 8% minimum required by the Basel Capital Accord.

These results show that the Bank is "well-capitalized" to strengthen its position in the sub-regional banking industry.

Corporate Governance

The Board of Directors continues 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.

Going Forward

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.