

## Regulatory Announcement

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**Company** North American Banks  
**TIDM** NAM  
**Headline** Interim Results  
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 North American Banks Fund Ltd  
 17 September 2008

## North American Banks Fund Limited

### Unaudited Interim Results for the six months ended 30 June 2008

#### Objective

The objective of the Company is to achieve long-term capital growth through investment in unquoted start-up banks in the United States, which intend to offer banking services to small and medium sized enterprises.

#### Interim Management Report

North Atlantic Value LLP acts as the Investment Manager to the Company and has overall responsibility for the Company's day to day activities and investment decisions.

#### Portfolio Overview

Investment Portfolio	Cost US\$	Valuation as at 30 June 2008 US\$
Bank of Atlanta	4,000,003	4,000,003
FirstAmerican Holdings Inc. – Avenue Bank	3,882,500	4,000,000
FirstAtlantic Bank of Florida	3,500,000	4,000,000
Florida Capital Group	3,420,000	1,050,000
Magnet Bank	3,948,000	591,800
MidwestFinancial Holdings	1,510,500	-
Mountain Commerce Bank (1)	2,300,000	2,300,000
NHB Holdings Inc.	4,000,000	4,000,000
Metropolitan Bank (2)	3,500,000	4,000,000
DirecTex	150,000	-
TrustAtlantic Financial Corporation (3)	4,000,000	4,000,000

<b>Investments</b>	<b>34,211,003</b>	<b>27,941,803</b>
<b>Cash</b>		<b>1,532,346</b>
<b>Total</b>	<b>34,211,003</b>	<b>29,474,149</b>

- (1) NABF holds 68,833 \$10 Warrants
- (2) 300,000 shares purchased on 26 February 2008 at \$10 per share. Initial purchase of 100,000 at \$5 per share in August 2007
- (3) NABF holds 150,000 \$10 warrants

In the six months under review the Company completed one follow-on investment in Metropolitan Banc Group Inc. by purchasing a further 300,000 shares at \$3 per share. As a consequence of this investment, the Company is now fully invested and in accordance with the business plan, \$1.55 million of cash is available for the administration of the Company.

On 16 June 2008, the Company received a Private Placement Memorandum from Mountain Commerce Bank relating to the issue of \$12 million of common stock at an issue price of \$12 per share. The offering is expected to close by 30 September. The book cost is \$10 per share and we therefore anticipate that we will be able to write-up the value of this investment in the next quarter.

As reported to shareholders on 23 June 2008, a provision of \$2.764 million was made in respect of the Company's investment in Magnet Bank ("Magnet"). This provision was made as a consequence of the bank being compelled by its regulator to consolidate its risk based capital following a steep increase in non performing loans. After consultation with Magnet, it was anticipated that this would be achieved in part via the issue of \$1 million of new capital at \$3 per share against a book cost of \$10 per share. However, as further reported to the shareholders on 23 July 2008, the final issue price was reduced to \$1.5 per share and has required a total provision of \$3,356,200 to be made.

### **Interim Management Report (continued)**

It was also reported to shareholders on 23 July 2008 that Florida Capital Group had notified the Company that it was proposing to raise further capital of \$15 million by the issue of 4.3 million shares at \$3.5 a share. This is designed to strengthen capital ratios and to assist in future expansion. However this rights issue will be below our book cost of \$10 per share and has required a provision of \$2,370,000 to be made.

### **Portfolio (listed alphabetically):**

#### **Bank of Atlanta**

Bank of Atlanta, a wholly owned subsidiary of Atlanta Bancorporation, is an Atlanta-based bank offering a broad range of lending, deposit and other traditional banking services to individuals and businesses within the Atlanta metropolitan area. The bank opened for business in April 2007.

The sharp downturn in the residential market in Atlanta has impacted significantly

on the bank in the six months under review. The reserve for loan losses rose to \$14.4 million at 30 June 2008 which is 8.45% of total loans of \$171 million. Residential construction loans are \$46.6 million which is 27% of total loans. Total assets are \$225 million with equity of \$35 million.

It is expected that the bank will be profitable in 2009.

### **First American Holdings Inc. - Avenue Bank**

First American Financial Holdings, Inc is a community bank headquartered in Nashville, Tennessee, focusing on real estate lending, middle market lending and providing retail banking services to the entertainment industry. The bank completed its follow-on financing and opened for business in February 2007.

The last quarter has seen strong growth at Avenue: total assets are at now at \$292 million with loans growing by \$63 million to \$209 million and deposits increasing by \$91 million to \$215 million.

The reserve for loan losses was \$6 million at 30 June 2008 and there has not yet been one default or walk away. As a matter of policy the bank is not undertaking any new real estate construction loans.

A fourth branch will open in November which will assist in increasing core deposits. It is expected that the bank will be profitable in 2009.

### **FirstAtlantic Bank of Florida**

FirstAtlantic Bank of Florida is a traditional community bank, headquartered in Jacksonville, Florida and operating along the Northeast Florida coastline.

Total assets stand at \$78.4 million with loans of \$29 million. Total deposits are \$45 million. Given the weakness of the Florida market, the bank is far behind plan on fee income. As such it is seeking approval for revisions to its original business plan to allow for a slow down in its rate of loan and deposit growth. The bank is also seeking to accelerate its branch openings in order to assist in the growth of core deposits.

Profitability is currently anticipated in 2009.

## **Interim Management Report** (continued)

### **Florida Capital Group**

Florida Capital Group is a nationally chartered, state-wide bank committed to serving the business community of Florida. The bank opened for business in March 2005. The total office count has now reduced to fourteen from seventeen as a consequence of the challenges faced by the Florida market.

Total assets are \$879 million with total loans at \$806 million. Total deposits are at \$768 million and total equity is \$73 million. Despite overall loan growth of \$64 million, core portfolio loans actually shrunk for the first time since the bank's

inception by some \$10m in the period ending 30 June 2008.

The reserve for loan losses is \$6.35 million. It is anticipated that a further reserve of \$1million will be required by the year end.

The rights offering referred to above was presented to shareholders on 4 August 2008.

### **Magnet Bank**

Magnet Bank has a Utah industrial charter and engages in traditional lending to small and medium sized businesses in Atlanta, Florida and North Carolina. In August 2007, the bank successfully converted its charter from a Utah Industrial Bank to a Utah Commercial Bank.

Total assets are \$342 million and loans are \$290 million. Non performing loans are \$100 million which is 29% of total assets. The reserve for loan losses was \$14.59 million at 30 June 2008.

Total deposits are \$322 million - \$319 million of which are in brokered deposits. Of these deposits, \$36 million mature at the end of September 2008 and the bank has the cash on deposit to cover this repayment. A further \$15 million in brokered deposits mature on 31 December 2008 and \$32 million on 30 June 2009. After this time there are no further repayments due until 2010. The management team is working to ensure that the bank can cover these liquidity calls as they fall due.

### **Metropolitan Bank**

Metropolitan Bank successfully completed its merger with Bank of the South on 28 February 2008 and the following day acquired a Tennessee banking charter. The strategy is to build a bank offering full service banking facilities, to address the fragmented and underserved markets of Memphis, Tennessee and Mississippi. To date, the bank is fully operational in both Tennessee and Mississippi.

Total assets are currently at \$171 million and total loans are \$129 million. Total deposits are now at \$109 million. This is well ahead of the bank's projected forecasts. The loan book is comprised of 40% in commercial and industrial loans and 30% in owner-occupied real estate. There is currently no intention to make real estate construction loans.

Profitability is anticipated for 2010.

### **Mountain Commerce Bank**

Mountain Commerce is a community bank serving individuals, professionals and small to mid sized businesses in East Tennessee, Western North Carolina and Virginia (Knoxville, Ashville and Bristol). The bank opened for business in September 2006 and is performing well despite encountering an increasingly tough regulatory climate.

## **Interim Management Report** (continued)

Total assets are \$330 million. Total loans are \$261 million with total deposits of \$275 million. Of these deposits \$92 million (30%) are in brokered deposits. Whilst these deposits were necessary to fund the initial rate of loan growth, management are actively seeking to reduce their reliance on them and it is anticipated that these will be substantially reduced by 2009. Critical to achieving this deposit growth will be the completion of the 2 new branches by the year end which will give a total of 9.

There are no non performing loans and the reserve for loan losses of \$601,000 relate to their charter bank operations and not to any "new" business.

The fundraising period has now been extended to 30 September. The pricing remains at \$12 per share which is 1.2 times tangible book value. The new capital will be utilised exclusively in enhancing the bank's capital base to allow for future growth.

### **NHB Holdings Inc.**

Proficio Bank, a wholly owned subsidiary of NHB Holdings, is a nationally focused specialty bank, offering commercial lending, specialised consumer lending and specialised residential lending services to the corporate relocation industry throughout the United States. The bank opened for business in January 2007 and now has three loan production offices in operation.

Total Assets are \$178 million and total loans are \$128 million of which \$25 million are mortgages held for sale. These are sold down via Fannie Mae and Freddie Mac in the normal course. The total reserve for loan losses is \$2.2 million.

It is anticipated that the bank will be profitable in 2009.

### **TrustAtlantic Financial**

TrustAtlantic Financial Corporation is the holding company which successfully acquired Millennia Community Bank with the proceeds of its second round financing, and has set about executing its business plan to build a North Carolina bank offering full service banking facilities to middle market companies in Raleigh-Durham, North Carolina.

Total assets are \$225 million with total deposits of \$185 million. The bank continues to monitor its exposure in real estate construction lending. During the period under review, real estate construction loans were down to 42% of total loans of \$173 million while commercial and industrial loans increased from 7% to 11% of total loans.

The bank remains well placed to benefit from opportunities created from both larger banks retrenching from their marketplace and other local de novo banks struggling

with low capital.

It is anticipated that the bank will be profitable in 2009.

### North Atlantic Value LLP

Investment Manager

Date : 17 September 2008

## Unaudited Condensed Income Statement

	Six months ended 30 June 2008 US\$	Six months ended 30 June 2007 US\$	Year ended 31 December 2007 US\$
<b>Income</b>			
Interest income	44,901	306,709	451,700
Net (loss) / gain on investments at fair value through profit or loss	(5,256,200)	147,500	497,500
<b>Total investment income</b>	<b>(5,211,299)</b>	<b>454,209</b>	<b>949,200</b>
<b>Expenses</b>			
Administration fees	59,429	59,546	121,214
Audit fees	24,800	3,982	20,451
Bank charges	1,846	1,721	3,691
Insurance	10,583	9,248	19,203
Custody fees	5,331	5,199	10,637
Listing fees	5,793	6,113	13,579
FT prices fees	2,393	2,085	4,269
Directors' fees	77,387	77,754	157,899
Disbursements	662	494	2,096
Investment manager fees	218,913	216,631	438,615
Printing costs	(3,007)	6,000	8,620
Regulatory fees	3,228	3,099	6,167
Registrar fees	10,332	8,798	19,820
Travel costs	11,751	8,098	25,351
Broker fees	14,798	15,091	30,547
Legal fees	997	3,612	3,611
<b>Total expenses</b>	<b>445,236</b>	<b>427,471</b>	<b>885,770</b>

<b>(Loss) / profit for the period / year attributable to equity shareholders</b>	<b>(5,656,535)</b>	<b>26,738</b>	<b>63,430</b>
<b>Basic and diluted earnings per share</b>	<b>(US\$1.489)</b>	<b>US\$0.007</b>	<b>US\$0.017</b>

All items in the above statement are derived from continuing operations.

### Unaudited Condensed Balance Sheet

	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>31 December 2007</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Non-current assets</b>			
Investments at fair value through profit or loss	27,941,803	26,848,003	30,198,003
<b>Current assets</b>			
Prepayments	13,198	12,633	11,692
Accrued interest receivable	2,065	5,048	18,892
Cash and cash equivalents	1,532,346	8,244,285	4,877,204
	<u>1,547,609</u>	<u>8,261,966</u>	<u>4,907,788</u>
<b>Total assets</b>	<u>29,489,412</u>	<u>35,109,969</u>	<u>35,105,791</u>
<b>Current liabilities</b>			
Creditors	171,555	172,269	131,399
	<u>171,555</u>	<u>172,269</u>	<u>131,399</u>
<b>Net assets</b>	<u><b>29,317,857</b></u>	<u><b>34,937,700</b></u>	<u><b>34,974,392</b></u>
<b>Shareholders equity</b>			
Share capital	38,000	38,000	38,000
Distributable reserve	36,893,502	36,893,502	36,893,502
Accumulated deficit	(7,613,645)	(1,993,802)	(1,957,110)
<b>Total equity</b>	<u><b>29,317,857</b></u>	<u><b>34,937,700</b></u>	<u><b>34,974,392</b></u>
<b>Net Asset Value per Share</b>	<u><b>US\$7.72</b></u>	<u><b>US\$9.19</b></u>	<u><b>US\$9.20</b></u>

### Unaudited Condensed Statement of Changes in Equity

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	months ended 30 June 2008 US\$	months ended 30 June 2007 US\$	Year ended 31 December 2007 US\$
<b>Equity at 1 January</b>	34,974,392	34,910,962	34,910,962
(Loss) / profit for the period / year attributable to equity shareholders	(5,656,535)	26,738	63,430
Total recognized income and expenses	(5,656,535)	26,738	63,430
<b>Equity at 30 June / 31 December</b>	<b>29,317,857</b>	<b>34,937,700</b>	<b>34,974,392</b>

### Unaudited Condensed Cash Flow Statement

	Six months ended 30 June 2008 US\$	Six months ended 30 June 2007 US\$	Year ended 31 December 2007 US\$
<b>Operating Activities</b>			
(Loss) / profit for the period / year attributable to equity shareholders	(5,656,535)	26,738	63,430
Unrealised losses / (gains) on investments	5,256,200	(147,500)	(497,500)
Decrease / (increase) in receivables	15,321	12,545	(358)
Increase/(decrease) in payables	40,156	36,850	(4,020)
<b>Cash flow from operating activities</b>	<b>(344,858)</b>	<b>(71,367)</b>	<b>(438,448)</b>
<b>Investing Activities</b>			
Purchases of investments	(3,000,000)	(6,530,000)	(9,530,000)
<b>Cash flow from investing activities</b>	<b>(3,000,000)</b>	<b>(6,530,000)</b>	<b>(9,530,000)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,344,858)</b>	<b>(6,601,367)</b>	<b>(9,968,448)</b>

Cash and cash equivalents at 1 January	4,877,204	14,845,652	14,845,652
<b>Cash and cash equivalents at 30 June / 31 December</b>	<b>1,532,346</b>	<b>8,244,285</b>	<b>4,877,204</b>

## Notes

North American Banks Fund Limited is a closed-ended investment company registered and incorporated in Guernsey. The Company has been established to invest predominantly in start-up banks based in the US.

The functional currency of the Company is US dollars because that is the currency of the primary economic environment in which the Company operates. These financial statements are presented in US Dollars.

The annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Company's latest annual audited financial statements.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies are set out below. The preparation of financial statements in conformity with International Financial Reporting Standards requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The basic and diluted earnings per share is based on the net loss for the period of US\$5,656,535 (six months ended 30 June 2007 - profit of US\$26,738, year ended 31 December 2007 - profit of US\$63,430) and a weighted average number of Ordinary Shares in issue during the period of 3,800,000 (six months ended 30 June 2007 & year ended 31 December 2007 - 3,800,000).

The net asset value per ordinary share is based on net assets at the period end and on 3,800,000 ordinary shares, being the number of ordinary shares in issue at the period end.

The Directors do not propose the payment of a dividend for the period.

The unaudited interim report and condensed financial statements are being posted to shareholders shortly and will be available on the Company's website: [www.northamericanbanksfund.co.uk](http://www.northamericanbanksfund.co.uk).

