

## Regulatory Story

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<b>Company</b>	North American Banks Fund Ltd
<b>TIDM</b>	NAM
<b>Headline</b>	Annual Financial Report
<b>Released</b>	12:19 15-Jun-2009
<b>Number</b>	9002T12

RNS Number : 9002T  
North American Banks Fund Ltd  
15 June 2009

### North American Banks Fund Limited Results for the year ended 31 December 2008

#### Chairman's Statement

The period under review witnessed some of the most dramatic financial developments in modern times. I had alluded in my previous report to the prospect of further deterioration in the financial and real estate markets but it is safe to say that the scale and the speed of the subsequent dislocation of these markets has shocked us all. The much publicised withdrawal of liquidity from financial markets has severely impacted asset values in almost every asset class and the subsequent deterioration in the US housing market, compounded by the downturn in the US economy, has impacted heavily on its banks and its financial service providers.

This is particularly true of US community banks, where the loan portfolio is usually heavily dependent on residential lending.

Against this background, at the end of the period under review, the net asset value ("NAV") of the Company was \$6.67 per share, compared with \$9.24 per share at the end of 2007. The fall in year end NAV reflects write downs on a number of our investments as noted below.

In the period under review, an initial provision of \$3,356,200 was made in respect of Magnet Bank, following a rights issue at \$1.5 per share compared to the Company's investment price of \$10 per share. This provision was made as a consequence of Magnet Bank being compelled by its regulator to consolidate its risk based capital following a steep increase in non-performing loans. Unfortunately, post year end, it became evident that Magnet Bank's capital remained deficient, and it was closed by the Utah Department of Financial Institutions on 30 January 2009 and the Federal Deposit Insurance Company (the "FDIC") was named receiver. This therefore required a further write down of \$591,800 to reduce the year end valuation to zero.

Also during the period under review, Florida Capital Group undertook a rights issue at \$3.50 per share. This compared to the Company's investment price of \$11.40 per share and therefore required a provision to be made in respect of some \$2,400,000. The rights issue closed on 31 December 2008, raising a total of \$6,250,000 in fresh equity.

Unfortunately the anticipated write-up in the carrying value of Mountain Commerce Bank referred to by your Investment Manager in the interim report for the period ended 30 June 2008 failed to materialise. This was due to the cancellation of the proposed rights issue following a decline in investor appetite. Mountain Commerce Bank has however achieved profitability and its balance sheet remains strong.

A provision of \$2,000,003 was also made in respect of Bank of Atlanta. This provision was considered necessary following a sharp decline in the Atlanta housing market. As a result of this decline, the bank elected to dispose of its problem loans, largely in one batch, at a discount to their book value which has impacted on its capital reserves. This disposal will however leave the bank free to concentrate on consolidating its existing loan portfolio.

A further provision of \$1,000,000 was also made in respect of NHB Holdings, Inc. This provision was considered necessary as a consequence of the losses suffered by NHB Holdings, Inc. in respect of its commercial real estate loan portfolio.

Despite the current economic climate the Company's remaining investee banks continue, on the whole, to perform well. Indeed, we are seeing, particularly in relation to the banks that have only been operational for the last 12-18 months, that there exist opportunities to prudently and conservatively accelerate the rate of both their loan and deposit growth, without exposing themselves to undue risk. This is largely due to the leakage being caused by the faltering of the super regional banks - those banks that operate multistate banking networks - which are long established and therefore have greater exposure to the current economic downturn; and also to the other more established community banks which are either being forced to dispose of their better assets, given a desperate need for capital, or where these banks have simply ceased trading and the FDIC is liquidating their assets.

### **Chairman's Statement** *(continued)*

Indeed, it is against such a backdrop and a desire to facilitate such growth that we have seen certain of our investee banks seeking to benefit from the US Government's Troubled Asset Relief Programme ("TARP") which broadly seeks to purchase assets and equity from financial institutions in order to strengthen the US financial sector. The problem that our investee banks are facing is that the criteria for participation in TARP are extremely unclear and, to date, only one of our investee banks, Avenue Bank, has received official confirmation that its application for further capital has been successful. A further five investee banks currently have applications pending. Of these five, Florida Capital Group, is not intending to utilise the funds to facilitate new loan growth, preferring instead to concentrate on consolidating its already substantial loans and preserving its capital base.

The remaining two of your Company's investee banks have elected not to proceed

with such an application at this time, on the basis that they believe they are currently sufficiently well-capitalised to exploit specific opportunities without having to expose themselves to the possibility of government intervention in the running of their respective businesses. This position may well change as it becomes clearer what the government are intending such funds to be utilised for.

Throughout the period, in conjunction with your Investment Manager, we have been encouraging the management teams of your investee banks to reduce their exposure to residential construction loans and to concentrate on growing their commercial and industrial loans where possible. I am pleased to report that at the end of the period under review, this objective was achieved by all but one of your investee banks. We are also seeing our investee banks setting far more stringent criteria for approving new loans. Such measures include setting minimum base levels in the rate of interest on the loans to protect against the prospect of rates falling further still and also in insisting on a far higher degree of equity in any given loan.

Whilst these are indeed uncertain times, your Board nevertheless remains hopeful that its original strategy of backing experienced management teams and investing in banks with substantial capital will ultimately ensure that your Company's investments are well placed to weather the continuing storm.

Robin Dominic Monro-Davies  
Chairman

12 June 2009

## **Investment Manager's Report**

### **Investing policy**

The investing policy of the Company is to invest in such a way as to achieve a superior capital appreciation over the long term to that available in markets as a whole. The Company intends to achieve this through investment in unquoted start-up banks, which intend to offer banking services to small and medium sized enterprises. The banks will be based in certain regions of the United States, for example Georgia, Florida, Texas, California and the South Carolina coast, where favourable economic, demographic and market factors are expected to contribute to the growth of the banks. The Investment Manager may also use its discretion to hold cash or cash equivalent investments from time to time.

Up to 100 per cent. of the Net Asset Value of the Company may be invested in securities which are not quoted on a recognised stock exchange. These investments are expected to include the provision of start-up capital and secondary financing.

The Company may, from time to time, use borrowings for short-term liquidity purposes and, if the Directors deem prudent, for longer term purposes. The

Directors intend to restrict borrowing on a longer term basis to an amount equal to 20 per cent. of the issued share capital of the Company from time to time.

There will be one investment cycle and the Directors intend to return realised capital from investments to Shareholders, with returns denominated in US\$, shortly after the Company has exited its investments. The Company is likely to return this capital through share buy-backs, special dividends or liquidation.

### 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

	Cost US\$	Va 31 De
<b>Investment portfolio</b>		
Bank of Atlanta	4,000,003	2,0
DirecTex	150,000	
First American Financial Holdings, Inc. - Avenue Bank	3,882,500	4,0
FirstAtlantic Bank of Florida	3,500,000	4,0
Florida Capital Group	3,420,000	1,0
MagnetBank	3,948,000	
Metropolitan Bank (1)	3,500,000	4,0
Midwest Financial Holdings	1,510,500	
Mountain Commerce Bank (2)	2,300,000	2,3
NHB Holdings Inc.	4,000,000	3,0
TrustAtlantic Financial Corporation (3)	4,000,000	4,0
<b>Investments</b>	<b>34,211,003</b>	<b>24,3</b>
<b>Cash</b>	<b>1,140,084</b>	<b>1,1</b>
<b>Total</b>	<b>35,351,087</b>	<b>25,4</b>

### Investment Manager's Report *(continued)*

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

As at 31 December 2008 the portfolio was comprised of nine unquoted start-up banks in the US, with an aggregate value of \$24,350,000. At the year-end \$1,000,000 was invested in high interest cash deposits. The Company is now fully invested and, in accordance with the business plan, \$1,140,084 of cash is available for the administration of the Company.

As referred to by your Chairman, during the period under review, write downs were

made in respect of the Company's investments in both Magnet Bank and Florida Capital Group. Both of these write downs were necessary largely as a consequence of the exposure that both banks had to real estate construction lending in a rapidly declining real estate market- with the Atlanta and Florida markets arguably being the hardest hit.

Post year end, the extent of these exposures has of course impacted hardest on Magnet Bank, with the bank being closed on 30 January 2009, and has resulted in our investment now being written off. By contrast, Florida Capital Group, whilst still being far from immune to any further declines in the Florida market, has however benefited from approaching the market at an early stage in respect of raising further capital. At the end of the period under review the bank had \$70,600,000 of equity capital and total assets of \$960,500,000 which should see it well placed to continue to battle the storm.

It was also decided post year end that provisions should be made in respect of both Bank of Atlanta, given the permanent diminution in its equity capital caused by the disposal of its problem residential loans at levels well below its book costs, and NHB Holdings, Inc. whereby losses suffered in respect of its commercial real estate loan portfolio were also deemed as permanent diminutions to equity capital.

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

##### **Bank of Atlanta**

Bank of Atlanta 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 downturn in the residential market in Atlanta resulted in the bank disposing of its problem loan portfolio at a substantial discount to its book value. Whilst this has impacted on its capital base in the immediate term, it will enable the bank to concentrate on managing its existing loan portfolio and on growing core deposits.

Total loans are not expected to exceed \$200,000,000 this year although deposits will continue to grow- the intention being to preserve equity to ride out the year. The bank's has equity of \$34,000,000 which will be invested in short term agency bonds and also in fully insured certificates of deposits (CODs) offering premium returns.

The bank became profitable in the final quarter of 2008 and this trend is expected to continue throughout the current year.

#### **Investment Manager's Report** *(continued)*

##### **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 of 2008 saw the largest loan growth in a period to date with an increase in total loans of some \$25,000,000. This increase was almost exclusively in Commercial and Industrial lending.

The bank continued to reduce its exposure to residential construction lending during the last 2 quarters of the period under review. Whilst the actual volume of residential construction loans has remained flat, the bank's exposure to speculative building continues to decrease and no new commitments are being made in this area.

Overall, this was the bank's best quarter since inception and break even is now anticipated during the course of the next year.

### **FirstAtlantic Bank of Florida**

FirstAtlantic Bank of Florida is a traditional community bank, headquartered in Jacksonville, Florida. The bank, which opened for business in September 2007, had planned to specialise in single family construction lending and SBA lending but will now concentrate on achieving growth by way of a merger or by way of an acquisition of a troubled bank or its assets.

At the end of the period under review, total loans had grown to \$74,500,000. The bank purchased \$4,500,000m of loans from a local bank with insufficient capital which were selected from a total portfolio of \$31,000,000 of loans and this is a strategy that they aim to continue evolve.

The bank is anticipating being profitable in the early part of next year and expects to continue to grow its deposits given the faltering of several of the other community banks in their region. Loan growth will however remain the greatest challenge in an increasingly tough economic climate.

### **Florida Capital Group**

Florida Capital Group is a nationally chartered, state-wide bank serving the business community of Florida. The bank opened for business in March 2005.

The rights issue referred to in the Interim Management Report concluded in December 2008 with the bank managing to raise a further \$6,250,000 of new equity. The bank continues to actively deleverage its balance sheet in order to preserve its equity base. In the final quarter of the period under review, total loans fell by \$7,000,000 to \$770,000,000. Around 25% of these loans are maturing in the first quarter of next year and these will only be renewed by the bank on far more beneficial terms.

There has been one further branch closure which is in line with the bank's strategy of reducing its cost base further. The total savings from these initiatives now

total some \$5,000,000 per annum. As a result of these savings the bank now anticipates being profitable during the course of next year.

## **Investment Manager's Report** *(continued)*

### **Magnet Bank**

The bank was closed on 30 January 2009 by the Utah Department of Financial Institutions and the FDIC was named receiver. The Federal Deposit Insurance Corporation (FDIC) has now approved the payout of the insured deposits.

As at 2 December 2008, the bank had total assets of \$292,900,000 and total deposits of \$282,800,000. It is estimated that the bank did not have any uninsured funds. The FDIC estimates the cost of the failure to its Deposit Insurance Fund to be approximately \$119,400,000 million. As such we do not anticipate any return to shareholders.

### **Metropolitan Bank**

Metropolitan Bank successfully commenced operations on 28 February 2008 and operates under 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.

The bank is performing extremely well and is arguably the best community brand in the Tennessee region. Given the relative infancy of the bank, it has benefited from the fact that it has been able to avoid making any toxic loans. With the present opportunities being offered to it, the bank is confident that on its current capital of \$43.4m it can grow total assets to between \$450,000,000 and \$600,000,000.

The rate of deposit growth is currently in excess of loan growth and this is largely being driven by the fallout from the uncertainty surrounding the super-regional banks. This means that the bank can afford to be highly selective about the credits that it takes on.

The bank anticipates being profitable during the next year, which is sooner than envisaged by its original business plan.

### **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.

During the period under review residential construction loans were reduced by over \$15,000,000 to \$8,450,000 as the bank concentrated on growing its Commercial and Industrial loan portfolio and in enhancing its core deposits.

The bank is currently exploring further capital raising solutions in order to take advantage of the opportunities that are beginning to be offered by the faltering of the 3 super-regional banks in the area- Sun Trust, Regions and First Tennessee. The bank estimates that with further capital of \$10,000,000-\$15,000,000 it could dramatically grow deposits at a zero cost base.

Without such further capital the bank nevertheless remains well positioned to achieve its objective of becoming a \$400,000,000 bank. During the period under review, the bank achieved profitability with further profits budgeted for in the forthcoming financial year.

### **Investment Manager's Report** *(continued)*

#### **NHB Holdings Inc.**

Proficio Bank, a wholly owned subsidiary of NHB Holdings, Inc. 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.

In order to address the challenges facing the commercial relocation market, the bank is having to develop further and better relationships on the mortgage origination side of its business as well as broadening its product offerings. One such product that it is concentrating on in particular is Federal Housing Administrations (FHA) loans. These are government insured mortgage loans which are guaranteed by the US government.

The bank has however been impacted by permanent diminutions in its equity capital as a consequence of losses made on its commercial loan portfolio. The bank has however ceased undertaking any new residential construction loans in order to concentrate on relocation and secured mortgage lending.

The bank estimates that it will now be profitable during the early part of 2010 as it seeks to rationalise the inefficiencies identified in both parts of its business.

#### **TrustAtlantic Financial**

TrustAtlantic Financial Corporation is a North Carolina bank, established in June 2007, offering full service banking facilities to middle market companies in Raleigh-Durham, North Carolina.

At the end of the period under review, the bank had total assets of over \$300,000,000. This followed record loan growth in the fourth quarter of \$48,000,000 which is 50% higher than growth in the previous quarter. Less than half of the new loans are in residential construction and development and

\$13,000,000 were income producing Commercial and Industrial loans. These loans have largely been taken over from super-regional banks that are rapidly losing customer confidence. All new lending is being done on a fixed rate basis to protect the bank from any further rate cuts.

Whilst there has been evidence of a slow down in the North Carolina residential market, the bank is confident that its residential construction loan portfolio of circa \$42,300,000 remains sound. The bank will however need to slow its rate of new loan growth in order to preserve its equity capital ratios.

The bank anticipates being profitable in the early part of 2010, in accordance with its business plan.

North Atlantic Value LLP  
*Investment Manager*

12 June 2009

## **Directors' Report**

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2008.

### **Principal Activity**

The principal activity of the Company is to carry on business as an investment company. The Company is listed on AIM.

### **Investing policy**

The investing policy of the Company is to invest in such a way as to achieve a superior capital appreciation over the long term to that available in markets as a whole. The Company intends to achieve this through investment in unquoted start-up banks, which intend to offer banking services to small and medium sized enterprises. The banks will be based in certain regions of the United States, for example Georgia, Florida, Texas, California and the South Carolina coast, where favourable economic, demographic and market factors are expected to contribute to the growth of the banks. The Investment Manager may also use its discretion to hold cash or cash equivalent investments from time to time.

Up to 100 per cent. of the Net Asset Value of the Company may be invested in securities which are not quoted on a recognised stock exchange. These investments are expected to include the provision of start-up capital and secondary financing.

The Company may, from time to time, use borrowings for short-term liquidity purposes and, if the Directors deem prudent, for longer term purposes. The Directors intend to restrict borrowing on a longer term basis to an amount equal to 20 per cent. of the issued share capital of the Company from time to time.

There will be one investment cycle and the Directors intend to return realised capital from investments to Shareholders, with returns denominated in US\$, shortly after the Company has exited its investments. The Company is likely to return this capital through share buy-backs, special dividends or liquidation.

### **Review of Business**

The results for the year are set out on page 15. No Dividend has been declared for the year ended 31 December 2008.

### **Authorised Share Capital**

At 31 December 2008 there were 3,800,000 Ordinary Shares in issue.

### **Authority to Buy Back Shares**

At the Annual General Meeting on 23 June 2008, Shareholders authorised the Company to repurchase its Ordinary Shares. The Directors wish to renew the authority given by Shareholders at the previous Annual General Meeting.

The maximum price that may be paid on the exercise of this authority must not exceed 105% of the average of the middle market quotations for an Ordinary Share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Ordinary Share is purchased. The minimum price which may be paid is US\$0.01 per share.

The resolution will renew the authority to purchase through the market the maximum aggregate of 14.99 per cent of the allotted Ordinary Share Capital of the Company on the date of the notice convening the meeting at which the resolution is proposed, amounting to 569,620 Ordinary Shares. The authority will expire on the date of the next Annual General Meeting or after a period of 18 months from the date of passing the resolution.

No shares have been repurchased by the Company in the year.

## **Directors' Report** *(continued)*

### **Directors' Interests**

The Directors of the Company are as stated on page 2.

The following Directors, including persons connected with them, held the following number of shares at 31 December 2008:

Director	Number of Ordinary Shares	Percentage (%)
Robin Monro-Davies	50,000	1.32%
James Baxter	20,000	0.53%

There have been no changes in the above interests between 31 December 2008 and the date of this report.

Each of the Directors has signed a letter of appointment with the Company setting out the terms of their appointment. The basic fee payable to each independent Non-Executive Director is payable at a rate of £15,000 per annum, except for the Chairman who receives £18,000 per annum.

None of the Directors had a service contract with the Company during the year.

### **Going concern**

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

### **Directors' Responsibilities**

The Directors are responsible for preparing the Annual Report and Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year and are in accordance with International Financial Reporting Standards and applicable laws.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have also taken all steps they ought to have taken as Directors in order to make themselves aware of any relevant information and to establish that the Company's auditors are aware of that information.

## **Directors' Report** *(continued)*

### **Auditors**

A resolution to reappoint Grant Thornton Limited, as auditors will be proposed at the next annual general meeting.

By order of the Board

Sidney Cabessa  
Director

Robin Dominic Monro-Davies  
Director

12 June 2009

## **Independent Auditors' Report to the Shareholders of North American Banks Fund Limited**

We have audited the financial statements of North American Banks Fund Limited for the year ended 31 December 2008 which comprise of the income statement, the statement of changes in equity, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes 2 to 13. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by Law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with International Financial Reporting Standards (IFRSs) and applicable Guernsey Law are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant Guernsey legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 2008.

In addition we report to you if, in our opinion, the Directors' Report is inconsistent with the financial statements, if the Company has not kept proper accounting

records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's Statement, the Investment Manager's Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of Audit Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Independent Auditors' Report to the Members of North American Banks Fund Limited** *(continued)*

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 2008.

**Grant Thornton Limited**  
Chartered Accountants  
Guernsey, CI

12 June 2009

## Income Statement

		2008	2007
	Notes	US\$	US\$
<b>Income</b>			
Interest income	2	57,522	451,700
Net (loss) / gain on investments designated at fair value through profit or loss		(8,848,003)	497,500
<b>Total investment (loss) / income</b>		<b>(8,790,481)</b>	<b>949,200</b>
<b>Expenses</b>			
Administration fees	3	108,670	121,214
Audit fees		39,329	20,451
Bank charges		3,532	3,691
Insurance		20,621	19,203
Custody fees	3	9,927	10,637
Listing fees		13,049	13,579
FT Prices fees		4,715	4,269
Directors' fees		139,993	157,899
Disbursements		701	2,096
Investment manager fees	3	405,312	438,615
Printing costs		-	8,620
Regulatory fees		6,472	6,167
Registrar fees		19,685	19,820
Travel costs		21,305	25,351
Broker fees		28,991	30,547
Legal fees		1,606	3,611
<b>Total expenses</b>		<b>823,908</b>	<b>885,770</b>
<b>(Loss) / profit for the year attributable to equity shareholders</b>		<b>(9,614,389)</b>	<b>63,430</b>
<b>Basic and diluted (loss) / earnings per share</b>	4	<b>(US\$2.530)</b>	<b>US\$0.017</b>

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

The accompanying notes on pages 19 to 26 form an integral part of the financial statements.

### Statement of Changes in Equity For year ended 31 December 2008

	Share Capital	Distributable Reserve	Accumulated Deficit
	US\$	US\$	US\$
<b>Equity at 1 January 2008</b>	38,000	36,893,502	(1,957,110)
Loss for the year attributable to equity shareholders	-	-	(9,614,389)
Total recognised income and expenses	-	-	(9,614,389)
<b>Equity at 31 December 2008</b>	<b>38,000</b>	<b>36,893,502</b>	<b>(11,571,499)</b>

### Statement of Changes in Equity For year ended 31 December 2007

	Share Capital	Distributable Reserve	Accumulated Deficit
	US\$	US\$	US\$
<b>Equity at 1 January 2007</b>	38,000	36,893,502	(2,020,540)
Profit for the year attributable to equity shareholders	-	-	63,430
Total recognised income and expenses	-	-	63,430
<b>Equity at 31 December 2007</b>	<b>38,000</b>	<b>36,893,502</b>	<b>(1,957,110)</b>

## Balance Sheet

	Notes	2008	
		US\$	
<b>Non-current assets</b>			
Investments designated at fair value through profit or loss	5	24,350,000	30
<b>Current assets</b>			
Prepayments		11,006	
Accrued interest receivable		-	
Cash and cash equivalents	6	1,140,084	4
		1,151,090	4
<b>Total assets</b>		<b>25,501,090</b>	<b>35</b>
<b>Current liabilities</b>			
Creditors	7	141,087	
		141,087	
<b>Net assets</b>		<b>25,360,003</b>	<b>34</b>
<b>Shareholders equity</b>			
Share capital	8	38,000	
Distributable reserve		36,893,502	36
Accumulated deficit		(11,571,499)	(1,
<b>Total equity</b>		<b>25,360,003</b>	<b>34</b>
<b>Net Asset Value per Share</b>	9	<b>US\$6.67</b>	

The financial statements on pages 15 to 26 were approved by the Board of Directors on 12 June 2009 and are signed on its behalf by:

Sidney Cabessa  
Director

Robin Dominic Monro-Davies  
Director

The accompanying notes on pages 19 to 26 form an integral part of the financial statements.

## Cash Flow Statement

		2008	2007
	Notes	US\$	US\$
<b>Operating Activities</b>			
(Loss) / profit for the year attributable to equity shareholders		(9,614,389)	63,430
Unrealised losses (gains) on investments		8,848,003	(497,500)
Decrease / (increase) in receivables		19,578	(358)
Increase / (decrease) in payables		9,688	(4,020)
<b>Net cash flow from operating activities</b>		<b>(737,120)</b>	<b>(438,448)</b>
<b>Investing Activities</b>			
Purchases of investments	5	(3,000,000)	(9,530,000)
<b>Cash flow from investing activities</b>		<b>(3,000,000)</b>	<b>(9,530,000)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,737,120)</b>	<b>(9,968,448)</b>
Cash and cash equivalents, at beginning of the year		4,877,204	14,845,652
<b>Cash and cash equivalents, at end of the year</b>	6	<b>1,140,084</b>	<b>4,877,204</b>

The accompanying notes on pages 19 to 26 form an integral part of the financial statements.

## Notes to the Financial Statements

### 1. Significant Accounting Policies

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.

### **Basis of Accounting**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law.

The financial statements have been prepared on the historical cost basis except for the inclusion at fair value 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 year.

### **Adoption of new standards**

The following new standards will come into force for periods commencing 1 January 2009.

*IFRS 8 Operating Segments*

*IAS 1 Presentation of Financial Instruments (revised 2007 and 2008)*

*IAS 32 Financial Instruments: Presentation (revised 2008)*

*IAS 36 Impairment of Assets (revised May 2008)*

*IAS 39 Financial Instruments: Recognition and measurement (revised May 2008)*

The Directors anticipate that the adoption of these standards in future years will not have a material impact on the financial statements of the Company.

The Directors believe that other pronouncements which are in issue but not yet operative or adopted by the Company will not have a material impact on the financial statements of the Company.

### **Fair Values of Financial Instruments**

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition, investments are designated by the company as 'at a fair value through profit or loss'. They are included initially at fair value, which is taken to be their cost (excluding expenses incidental to the acquisition which are written off in the Income Statement). Subsequently, the investments are valued at 'fair value', which for the unlisted investments where there is not an active market, is established by using recognised valuation methodologies:

- Price of recent investment - This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party, but is only considered relevant for a limited period

following the date of the relevant transaction. A period of twelve months is used in practice. During this period, the value of the investment is assessed for changes or events that would imply decline in fair value. In addition, the valuation technique also represents certain situations where although the twelve month period has expired, an alternative valuation technique is not followed because an additional investment has been made by the Company at the same price as the previous investment and an alternative valuation technique would not result in a better estimate of fair value.

## **Notes to the Financial Statements** *(continued)*

### **1. Significant Accounting Policies** *(continued)*

#### **Fair Values of Financial Instruments** *(continued)*

- Net Assets - The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- Earnings Multiple - A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company.

Applying the above valuation methodologies as at 31 December 2008 produced a valuation for the portfolio of £24.350 million (2007: £30.198 million) and net loss on investments designated at fair value through profit or loss recognised in the income statement of £8.848 million (2007: £0.498 million).

Given the uncertainties inherent in estimating fair value, a degree of caution is applied in exercising judgement and making the necessary estimates.

Gains and losses arising from the changes in the fair value of investments are included in the income statement in the year in which they arise.

For certain of the Company's financial instruments, including cash and cash equivalents, interest and other receivables and accrued expenses, the carrying amounts approximate fair value due to their immediate or short-term maturity.

#### **Security Transactions and Investment Income**

Security transactions are recorded on the trade date. Realised gains on the sale of investments are included in the income statement in the year they arise.

#### **Other Accruals and Payables**

Other accruals and payables are not interest-bearing and are stated at their nominal value.

#### **Cash and Cash Equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Income**

Interest income derived from cash monies is held in current and deposit accounts throughout the year and is accounted for on an effective interest method.

### **Expenses**

All expenses are accounted for on an accruals basis. The Company's investment management fee, administration fees and all other expenses are charged through the Income Statement. The Company has no employees.

### **Segmental Reporting**

The Directors are of the opinion that the Company is engaged in a single segment of business of investing in equity investments, issued by companies operating and generating revenue in the United States, and therefore no segmental reporting is provided.

## **Notes to the Financial Statements** *(continued)*

### **1. Significant Accounting Policies** *(continued)*

#### **Taxation**

The Company has obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 so that it is exempt from Guernsey taxation on income arising outside Guernsey and on bank interest receivable in Guernsey. The Company is, therefore, only liable to a fixed fee of £600 per annum. The Directors intend to conduct the Company's affairs such that it continues to remain eligible for exemption.

### **2. Interest Income**

	2008	2007
	US\$	US\$
Interest income on fixed deposits	54,476	438,46
Interest on bank deposits	3,046	13,231
	<u>57,522</u>	<u>451,70</u>

### **3. Investment Management, Accounting and Administration, and Custodian Fee**

North Atlantic Value LLP serves as the Investment Manager to the Company. Pursuant to the terms of the Investment Management Agreement, the Investment Manager is paid periodic fees, monthly in arrears, at a rate equivalent to 1.25% per annum of the Net Asset Value of the Company.

BNP Paribas Fund Services (Guernsey) Limited serves as the Company's custodian and is paid an annual custodian fee of 0.03% of the Net Assets of the Company payable monthly in arrears (plus transaction charges).

BNP Paribas Fund Services (Guernsey) Limited also serves as the Company's administrator. The Administrator is entitled to a fee calculated on the basis of 0.125% of the Net Assets of the Company payable monthly in arrears, subject to an overall minimum fee of £60,000 per annum

#### 4. Basic and Diluted Earnings per Share

The basic and diluted earnings per share is based on the net loss for the year of US\$ 9,614,389 (2007 - profit of US\$63,430) and a weighted average number of Ordinary Shares in issue during the year of 3,800,000 (2007 - 3,800,000).

#### 5. Investments designated at fair value through profit or loss

	2008 US\$
Fair values at 1 January	30,198,003
Additions during the year	3,000,000
Unrealised gains on investments	500,000
Unrealised losses on investments	(9,348,003)
Fair values at 31 December	24,350,000

### Notes to the Financial Statements *(continued)*

#### 6. Cash and Cash Equivalents

	2008 US\$	2007 US\$
Cash at bank	1,140,084	168,928
Fixed deposits	-	4,708,276
	1,140,084	4,877,204

#### 7. Creditors

	2008 US\$	2007 US\$
Administration fee accrual	7,306	10,144

Audit accrual	28,756	29,859
Custody fee accrual	737	896
Directors' fee accrual	28,190	39,136
Investment manager fee accrual	60,484	37,347
Other payables	15,614	14,017
	141,087	131,399

## 8. Share Capital

2008	2007	No. of Shares	US\$	No. of Shares	US\$
<b>Authorised:</b>					
Ordinary shares of US\$0.01 each		100,000,000	1,000,000	100,000,000	1,000,000
<b>Issued and fully paid:</b>					
Ordinary shares of US\$0.01 each		3,800,000	38,000	3,800,000	38,000

The share capital of the Company comprises one class of Ordinary shares which carry the right to vote at a general meeting. The ordinary shares carry no rights to fixed income.

## 9. Net Asset Value per Share

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

## Notes to the Financial Statements *(continued)*

### 10. Financial Instruments and Risk Profile

The Company's financial instruments comprise its investment portfolio (see page 5), cash balances, trade receivables and trade payables that arise directly from its operations. Note 1 sets out the accounting policies, including criteria for recognition and the basis for measurement, applied to significant financial instruments excluding cash and cash equivalents which are carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised.

The main risks arising from the Company's financial instruments are:

- i. market risk, including currency risk, interest rate risk and other price risk;
- ii. liquidity risk; and
- iii. credit risk

The Company Secretary, in close cooperation with the Board of Directors and the Investment Manager, coordinates the Company's risk management. The policies for managing each of these risks are summarised below and have been applied throughout the year.

**(i) Market risk**

The Company invests in unquoted equity securities. However, the fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises currency risk, interest rate risk and other price risk. The Board of Directors reviews and agrees policies for managing these risks, which policies have remained substantially unchanged from those applying in the year ended 31 December 2007. The Investment Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

**Currency risk**

The functional and presentational currency of the Company is US Dollars ("US\$"). Foreign currency risk is the risk that a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign currency risk in 2008 and 2007 is minimal as all of the Company's material assets and liabilities are denominated in US\$.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate sensitive assets comprise cash at bank which is subject to floating rates. As such the Board does not believe the Company suffers any material interest rate risk.

**Other price risk**

Other price risks (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of the unquoted investments.

The Company's exposure to price risk comprises mainly movements in the value of the Company's investments. As at the year-end, the spread of the Company's investment portfolio is analysed on page 5.

The Board of Directors manages the market price risks inherent in the investment portfolios by ensuring full and timely access to relevant investment information from the Investment Manager. The Board meets regularly to review investment performance. The Board monitors the Investment Manager's compliance with the Company's objectives and is directly responsible for investment strategy and asset allocation.

## Notes to the Financial Statements *(continued)*

### 10. Financial Instruments and Risk Profile *(continued)*

The Company's exposure to other changes in market prices at 31 December 2008 on its investments was as follows:

	2008	2007
	US\$	US\$
Financial assets at fair value through profit or loss		
- Non current investments at fair value through profit or loss	24,350,000	30,198,003

The following table illustrates the sensitivity of the profit and net assets to an increase or decrease of 10% in the fair values of the Company's equities. 10% is the sensitivity rate used when reporting risk internally to key investment management personnel. The sensitivity analysis is based on the Company's equities at each balance sheet date, with all other variables held constant. A positive number indicates an increase in net assets attributable to holders of equity shares where the market price of the relevant financial instrument increases and a negative number indicates a decrease where the market price of the relevant financial instrument decreases.

	2008		2007	
	Increase in fair value US\$	Decrease in fair value US\$	Increase in fair value US\$	I
Income statement				
(Loss) / profit for the year	2,404,500	(2,503,000)	3,019,800	(
Net assets	2,404,500	(2,503,000)	3,019,800	(

#### (ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company invests in unquoted equities and other investments that may not be readily realisable, however there were no material liabilities during the 2008 and 2007 financial years.

#### (iii) Credit risk

Credit risk is the risk that an issuer or counterparty may be unable or unwilling to meet a commitment that it has entered into with the Company.

The Company's principal financial assets are cash and cash equivalents, other receivables and investments as set out in the Balance Sheet which, excluding

investments, represents the Company's maximum exposure to credit risk in relation to the financial assets.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings of A-1+ assigned by international credit-rating agencies.

## Notes to the Financial Statements *(continued)*

### 10. Financial Instruments and Risk Profile *(continued)*

#### Fair value of financial assets and financial liabilities

The fair value for each class of financial assets and liabilities, compared with the corresponding amount in the balance sheet were as follows (trade receivables and trade payables, are excluded from the comparison, as their carrying amounts are a reasonable approximation of their fair value).

	2008	2008	2007
	Fair value	Balance	Fair value
	US\$	sheet value	US\$
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
- Non current assets	24,350,000	24,350,000	30,198,003
- Cash and cash equivalents	1,140,084	1,140,084	4,877,204

*fair values are derived as follows:*

- Financial assets - as set out in the accounting policies on pages 19 and 20.
- Cash and cash equivalents- at face value of the account.

#### Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern, and
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The Company's capital at 31 December comprises:

	2008	2007
	US\$	US\$
<b>Equity</b>		
Equity share capital	38,000	38,000
Accumulated deficit and other reserves	25,322,003	34,936,392
	<u>25,360,003</u>	<u>34,974,392</u>

## **Notes to the Financial Statements** *(continued)*

### **10. Financial Instruments and Risk Profile** *(continued)*

The Board, with the assistance of the Investment Manager monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes account of the Investment Manager's views on the market;
- the need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);
- the need for new issues of equity shares; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is not subject to externally imposed capital requirement.

### **11. Related Party Transactions**

In the Directors' opinion there are no related party transactions to disclose in accordance with the requirements of IAS 24. The Directors' interests in the shares of the Company are disclosed on page 11.

### **12. Ultimate Controlling Party**

The Directors are not aware of any ultimate controlling party.

### **13. Approval of the Financial Statements**

The financial statements were approved by the Board of Directors on 12 June 2009.

The above results comprise an abridged version of the Company's full accounts for the year ended 31 December 2008. Copies of the accounts will be sent to shareholders by 30 June 2009 and will be available on the Company's website [www.northamericanbanksfund.co.uk](http://www.northamericanbanksfund.co.uk) and from the Company's registered office at BNP Paribas House, 1 St Julian's Avenue, St Peter Port, Guernsey GY1 1WA.

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