

Regulatory Story

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North American Banks Fund Limited

Unaudited Interim Results for the six months ended 30 June 2009

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.

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 2009 US\$
Bank of Atlanta	4,000,003	2,000,000
First American Financial 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	-
Midwest Financial Holdings	1,510,500	-
Mountain Commerce Bank (1)	2,300,000	2,300,000
NHB Holdings Inc.	4,000,000	3,000,000
Metropolitan Bank (2)	3,500,000	4,000,000
DirecTex	150,000	-
TrustAtlantic Financial Corporation (3)	4,000,000	4,000,000
Investments	34,211,003	24,350,000
Cash	956,000	956,000
Total	35,167,003	25,306,000

(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

As at 30 June 2009 the portfolio was comprised of eight unquoted start-up banks in the US, with an aggregate value of \$24,350,000. At the period end \$953,564 was invested in high interest cash deposits. The Company is fully invested and, in accordance with the business plan, \$956,000 of cash is available for the administration of the Company.

The Annual Report and Accounts for the year ended 31 December 2008 were posted to shareholders on 30 June 2009 and included a comprehensive Investment Manager's Report as at 12 June 2009. Since that date, there have been no material developments in respect of the Company's portfolio.

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.

As at 30 June non-performing assets were \$14.53m, which is 8.57% of total loans, as the bank continued to be affected by the continued decline in the Atlanta residential real estate market. Two of the bank's four Acquisition and Development loans have now migrated to non-accruing status.

In addition to this, loans classified by the bank's internal grading system as being substandard have also increased by \$6.5m and will therefore be added to the non-accruals in the next quarter. The bank is however confident that where a unit is built and available for sale, that it can indeed be sold in order to mitigate the majority of their losses.

On the more positive side the bank was profitable in both quarters of 2009 and expects to remain so on an ongoing basis provided it does not suffer too much from further deterioration in asset quality. In addition, the bank continues to attract significant deposits from the commercial market which it is then able to use to buy very secure investments, all of which is improving the net interest margin.

First American Financial 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.

Non performing assets increased by \$3.57m in the second quarter of 2009 to \$5.47m, which is 1.87% of total loans, as a result of a single default on a residential construction loan. In the first quarter there were however no loans 30 days past due and it is hoped therefore that this is a one-off incident.

Total residential construction loans are currently \$49.75m which is 17% of total loans. It is this area of the loan portfolio that remains the bank's number one priority given the continued deterioration in the Nashville real estate market. There are however some signs that the market in middle Tennessee may not be getting any worse and the main problem is that the majority of builders and developers who have exhausted their liquidity are now unable to service their debt given the slowdown in asset disposals.

On the plus side, the net interest margin improved to 220bps from 178bps in the first quarter of 2009 given improved loan pricing, the introduction of rate floors and a significant reduction in funding costs. It is anticipated that as assets and liabilities mature during the course of the next two quarters, there will be further opportunity to increase the margin. Aside from the residential construction portfolio, the bank's commercial real estate and C&I portfolios continue to perform well with no past due loans and the bank remains on target to break even by year-end.

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.

The bank ran extremely close to break even in the second quarter of 2009 and indeed August was the first pre-provision profitable month. It is anticipated that with current total assets at \$180m the third quarter will be profitable. Loan quality also continues to remain high.

The Office for the Supervision of Thrifts ("OTS") has approved the bank for a bid for a failed institution of up to \$150m on the basis of its current capital in the event that it is able to find one. Similarly, the bank is also discussing with the Federal Deposit Insurance Corporation ("FDIC") the possibility of it acquiring a failed bank.

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 bank's Preferred Stock offering resulted in it raising \$1.63m in new equity by the end of the second quarter of 2009. As a consequence, the bank now has \$12.3m in excess equity above "well capitalised" levels and its Tier 1 Capital Ratio has improved from 9.06% to 10.3%.

Whilst the bank continues to have credit problems - with performing loans continuing to migrate to non-performing - it does however believe that it is at least beginning to see signs of stabilisation. In addition, the bank was also profitable for the second quarter for the first time in the bank's history given recent successes in the bank's mortgage origination business.

The bank is in negotiations to sell its Boca Raton and Fort Lauderdale branches to another Florida bank and expects to sign agreements shortly. This will reduce total loans by \$45m to \$663.6m.

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 overall quality of the loan portfolio continues to be sound with total past due loans being virtually nil. The current outstanding non-performing assets of \$800,000 (all of which originate from their charter operation) account for only 0.49% of the

bank's total loan portfolio and are all now finally moving towards being resolved by way of disposal.

The bank has also seen strong growth in their retail deposits of some \$30m as again they are able to secure business from their historical banking relationships. The bank anticipates being profitable by the year end.

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.

The bank was profitable in the first two quarters of 2009 with profits in the year to date of \$375,000. It is anticipated by year-end that profits will be some \$550,000 although this looks light given recent out performance.

The bank has only 1% of delinquencies in its loan portfolio and only \$3m in non-accruals, all of which originate from its charter operation. These non-accruals are expected to decrease in the next quarter as the bank has agreed to sell certain properties for around \$300,000.

The current net interest margin has increased to 390bps and is expected to be 400bps by year-end. The bank will only consider raising new capital if it is able to identify a unique opportunity in its local marketplace. In the event that the bank did consider a fundraising, it is expected that it would only be at a premium to current book value.

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.

Whilst the bank was loss-making in the first and second quarters of 2009, this position has been substantially reversed in June, July and August. Both the bank's mortgage and relocation businesses are now profitable. It is anticipated that the bank will therefore be profitable by the year-end.

The turnaround of the bank's mortgage business has been driven by two key factors: margin improvement and increased volumes. The relocation side of the business remains stable despite negative impact on the industry as a whole.

Non-performing assets are now beginning to reduce as the bank continues to work through previous real estate lending relationships and this downward trend is expected to continue through the third and fourth quarters.

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.

The second quarter of 2009 saw the bank achieve its first pre-tax profit following a \$900,000 improvement in earnings when compared to the first quarter. This improvement was caused by growth in the loan portfolio and by improvement in the net interest margin.

Credit quality has remained largely consistent and whilst non-performing assets almost doubled in the quarter to \$3.87m, being 1.43% of total loans, this had been anticipated following the failure of two house builders at the beginning of the year. To date, there have been 22-23 basis points in charge-offs against a budget of 40 basis points and the bank is beginning to see improvement in the sale of built homes at the sub-\$300,000 level. Furthermore, the amount of residential construction lending continues to decline as does the bank's exposure to speculative development.

TrustAtlantic Financial (continued)

Of the loan portfolio 33% (\$90m) is in commercial real estate of which 40% is owner-occupied with the remainder being investment property (i.e. 21% of total loans). To date there are no non-performing loans in this category and the bank remain focused on growing and developing this part of its business.

North Atlantic Value LLP

Investment Manager

Date : 14 September 2009

Unaudited Condensed Income Statement

	Six months ended	Six months ended	Year ended
	30 June 2009	30 June 2008	31 December 2008
	US\$	US\$	US\$
Income			
Interest income	-	44,901	57,522
Net loss on investments designated at fair value through profit or loss	-	(5,256,200)	(8,848,003)

Total investment income	- (5,211,299)		(8,790,481)
Expenses			
Administration fees	45,701	59,429	108,670
Audit fees	14,953	24,800	39,329
Bank charges	973	1,846	3,532
Insurance	10,363	10,583	20,621
Custody fees	4,268	5,331	9,927
Listing fees	4,535	5,793	13,049
FT prices fees	2,289	2,393	4,715
Directors' fees	59,723	77,387	139,993
Disbursements	771	662	701
Investment manager fees	168,240	218,913	405,312
Printing costs	2,975	(3,007)	-
Regulatory fees	2,399	3,228	6,472
Registrar fees	8,703	10,332	19,685
Travel costs	11,901	11,751	21,305
Broker fees	11,838	14,798	28,991
Legal fees	3,553	997	1,606
Total expenses	353,185	445,236	823,908
Loss for the period / year attributable to equity shareholders	(353,185)	(5,656,535)	(9,614,389)
Basic and diluted earnings per share	(US\$0.093)	(US\$1.489)	(US\$2.530)

All items in the above statement are derived from continuing operations. The loss attributable to equity shareholders is also the total comprehensive income.

Unaudited Condensed Balance Sheet

	30 June 2009	30 June 2008	31 December 2008
	US\$	US\$	US\$
Non-current assets			
Investments at fair value through profit or loss	24,350,000	27,941,803	24,350,000
Current assets			

Prepayments	7,365	13,198	11,006
Accrued interest receivable	-	2,065	-
Cash and cash equivalents	956,000	1,532,346	1,140,084
	<u>963,365</u>	<u>1,547,609</u>	<u>1,151,090</u>
Total assets	<u>25,313,365</u>	<u>29,489,412</u>	<u>25,501,090</u>
Current liabilities			
Creditors	306,547	171,555	141,087
	<u>306,547</u>	<u>171,555</u>	<u>141,087</u>
Net assets	<u>25,006,818</u>	<u>29,317,857</u>	<u>25,360,003</u>
Shareholders equity			
Share capital	38,000	38,000	38,000
Distributable reserve	36,893,502	36,893,502	36,893,502
Accumulated deficit	(11,924,684)	(7,613,645)	(11,571,499)
Total equity	<u>25,006,818</u>	<u>29,317,857</u>	<u>25,360,003</u>
Net Asset Value per Share	<u>US\$6.58</u>	<u>US\$7.72</u>	<u>US\$6.67</u>

Unaudited Condensed Statement of Changes in Equity

for the six months ended 30 June 2009

	Share capital	Distributable reserve	Accumulated deficit	Total
	US\$	US\$	US\$	US\$
Equity at 1 January 2009	38,000	36,893,502	(11,571,499)	25,360,003
Loss for the period attributable to equity shareholders	-	-	(353,185)	(353,185)
Total recognized income and expenses	-	-	(353,185)	(353,185)

Equity at 30 June 2009	38,000	36,893,502	(11,924,684)	25,006,818
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Unaudited Condensed Statement of Changes in Equity

for the six months ended 30 June 2008

	Share capital	Distributable reserve	Accumulated deficit	Total
	US\$	US\$	US\$	US\$
Equity at 1 January 2008	38,000	36,893,502	(1,957,110)	34,974,392
Loss for the period attributable to equity shareholders	-	-	(5,656,535)	(5,656,535)
Total recognized income and expenses	-	-	(5,656,535)	(5,656,535)
Equity at 30 June 2008	38,000	36,893,502	(7,613,645)	29,317,857

Condensed Statement of Changes in Equity

for the year ended 31 December 2008

	Share capital	Distributable reserve	Accumulated deficit	Total
	US\$	US\$	US\$	US\$
Equity at 1 January 2008	38,000	36,893,502	(1,957,110)	34,974,392
Loss for the year attributable to equity shareholders	-	-	(9,614,389)	(9,614,389)
Total recognized income and expenses	-	-	(9,614,389)	(9,614,389)
Equity at 31 December 2008	38,000	36,893,502	(11,571,499)	25,360,003

Unaudited Condensed Cash Flow Statement

	Six months ended	Six months ended	Year ended
	30 June 2009	30 June 2008	31 December 2008
	US\$	US\$	US\$
Operating Activities			
Loss for the period / year attributable to equity shareholders	(353,185)	(5,656,535)	(9,614,389)
Unrealised losses on investments	-	5,256,200	8,848,003
Decrease in receivables	3,641	15,321	19,578
Increase in payables	165,460	40,156	9,688
Cash flow from operating activities	(184,084)	(344,858)	(737,120)
Investing Activities			
Purchases of investments	-	(3,000,000)	(3,000,000)
Cash flow from investing activities	-	(3,000,000)	(3,000,000)
Net decrease in cash and cash equivalents	(184,084)	(3,344,858)	(3,737,120)
Cash and cash equivalents at 1 January	1,140,084	4,877,204	4,877,204
Cash and cash equivalents at 30 June / 31 December	956,000	1,532,346	1,140,084

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\$353,185 (six months ended 30 June 2008 - loss of US\$5,656,535, year ended 31 December 2008 - loss of US\$9,614,389) and a weighted average number of Ordinary Shares in issue during the period of 3,800,000 (six months ended 30 June 2008 & year ended 31 December 2008 - 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 in accordance with AIM Rule 26: www.northamericanbanksfund.co.uk.

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