

North American Banks Fund Limited
Unaudited Interim Report and Condensed Financial Statements
for the six months ended 30 June 2010

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Directors and Administration

Directors

Robin Monro-Davies
James Baxter
Sidney Cabessa
Rupert Evans
George Hacker

Administrator, Company Secretary, Custodian and Registered Office

BNP Paribas Fund Services (Guernsey) Limited
BNP Paribas House
St Julians Avenue
St Peter Port
Guernsey GY1 1WA

Investment Manager

North Atlantic Value LLP
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Ryder Court
14 Ryder Street
London SW1Y 6QB
*(authorised and regulated by the UK's
Financial Services Authority)*

Nominated Adviser and Broker

Arbuthnot Securities Limited
Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR

Auditors

Grant Thornton Limited
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
Guernsey GY1 3TF

Advocates to the Company

Ozannes
PO Box 186
1 Le Marchant Street
St Peter Port
Guernsey GY1 4HP

Registrar

Capita Registrars (Guernsey) Limited
PO Box 627
St Sampson
Guernsey GY1 4PP

Interim 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.

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 2010 US\$
Bank of Atlanta	4,000,003	1,000,000
DirecTex	150,000	-
First American Financial Holdings Inc. – Avenue Bank	3,882,500	4,000,000
FirstAtlantic Bank of Florida	3,500,000	3,100,000
Florida Capital Group	3,420,000	300,000
Magnet Bank	3,948,000	-
Metropolitan Bank	3,500,000	4,000,000
Midwest Financial Holdings	1,510,500	-
Mountain Commerce Bank (1)	2,300,000	2,300,000
NHB Holdings Inc.	4,000,000	1,000,000
TrustAtlantic Financial Corporation (2)	4,000,000	2,800,000
Investments	34,211,003	18,500,000
Cash	503,008	503,008
Total	34,714,011	19,003,008

- (1) The Company holds 68,833 US\$10 warrants in this investment which are valued at nil.
- (2) The Company holds 150,000 US\$10 warrants in this investment which are valued at nil.

Interim Investment Manager's Report (continued)

As at 30 June 2010 the portfolio comprised eight unquoted start-up banks in the US, with an aggregate value of \$18,500,000. At the period end \$443,144 was invested in high interest cash deposits. The Company is fully invested and, in accordance with the business plan, \$503,008 of cash is available for the administration of the Company.

The Annual Report and Accounts for the year ended 31 December 2009 were posted to shareholders on 30 June 2010 and included a comprehensive Investment Manager's Report as at 16 June 2010. Further to that report, we are increasingly confident that five of your Company's investments will survive the downturn. Unfortunately however, our three troubled banks continue to experience major problems. NHB Holdings Inc., which we have already written down to \$1 million, from its original cost of \$4 million, is facing an expected Cease and Desist Order from the Federal Deposit Insurance Corporation ("FDIC"). Whilst it is possible they will be able to raise further capital or execute a spin off of its profitable relocation business, we have decided to write down this investment to zero. Florida Capital Group has already been written down to \$300,000 and it is currently trying to raise substantial amounts of capital. Taking account of current market conditions for raising capital, we have decided to write off the remaining \$300,000. Bank of Atlanta which we have written down from \$4 million to \$1 million, has recently had an independent appraisal of its loan book which management believes will require it to raise \$5 million of further capital at a price of \$1.5 per share. If it is successful in raising capital at this price we will be forced to make a further provision of \$142,856.50 and we have decided to reflect this and the above provisions for NHB Holdings Inc and Florida Capital Group in the month of August 2010.

Whilst it is regrettable to record further write offs, the Company is now in a position where it has five bank investments which are profitable and only one where further provisions seem likely. These further provisions against the above three investments will result in a 7.8% decline in the net asset value as at 31 July 2010.

North Atlantic Value LLP
Investment Manager
Date : 2 September 2010

Unaudited Condensed Statement of Comprehensive Income

		Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
	Notes	US\$	US\$	US\$
Income				
Net loss on investments designated at fair value through profit or loss		(2,100,000)	-	(3,750,000)
Total investment loss		(2,100,000)	-	(3,750,000)
Expenses				
Administration fees	2	45,199	45,701	95,216
Audit fees		12,666	14,953	33,634
Bank charges		1,293	973	2,295
Insurance		10,421	10,363	21,713
Custody fees	2	3,363	4,268	8,026
Listing fees		4,873	4,535	9,339
Telegraph prices fees		1,112	2,289	5,157
Directors' fees		58,764	59,723	124,022
Disbursements		-	771	772
Investment manager fees	2	140,118	168,240	324,809
Printing costs		2,975	2,975	3,513
Regulatory fees		3,210	2,399	5,662
Registrar fees		9,267	8,703	19,903
Travel costs		27,854	11,901	48,382
Broker fees		11,882	11,838	23,478
Legal fees		-	3,553	3,554
Total expenses		332,997	353,185	729,475
Loss for the period / year attributable to equity shareholders		(2,432,997)	(353,185)	(4,479,475)
Basic and diluted loss per share	3	(US\$0.640)	(US\$0.093)	(US\$1.179)

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

The accompanying notes on pages 9 to 13 form an integral part of the unaudited condensed set of financial statements.

Unaudited Condensed Statement of Changes in Equity

for the six months ended 30 June 2010

	Share capital US\$	Distributable reserve US\$	Accumulated deficit US\$	Total US\$
Equity at 1 January 2010	38,000	36,893,502	(16,050,974)	20,880,528
Loss for the period attributable to equity shareholders and total comprehensive loss for the period	-	-	(2,432,997)	(2,432,997)
Equity at 30 June 2010	38,000	36,893,502	(18,483,971)	(18,447,531)

Unaudited Condensed Statement of Changes in Equity

for the six months ended 30 June 2009

	Share capital US\$	Distributable reserve US\$	Accumulated deficit US\$	Total 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 and total comprehensive loss for the period	-	-	(353,185)	(353,185)
Equity at 30 June 2009	38,000	36,893,502	(11,924,684)	25,006,818

Condensed Statement of Changes in Equity

for the year ended 31 December 2009

	Share capital US\$	Distributable reserve US\$	Accumulated deficit US\$	Total US\$
Equity at 1 January 2009	38,000	36,893,502	(11,571,499)	25,360,003
Loss for the year attributable to equity shareholders and total comprehensive loss for the year	-	-	(4,479,475)	(4,479,475)
Equity at 31 December 2009	38,000	36,893,502	(16,050,974)	20,880,528

The accompanying notes on pages 9 to 13 form an integral part of the unaudited condensed set of financial statements.

Unaudited Condensed Statement of Financial Position

	Notes	30 June 2010 US\$	30 June 2009 US\$	31 December 2009 US\$
Non-current assets				
Investments designated at fair value through profit or loss	4	18,500,000	24,350,000	20,600,000
Current assets				
Prepayments		34,546	7,365	13,453
Cash and cash equivalents	5	503,008	956,000	736,733
		537,554	963,365	750,186
Total assets		19,037,554	25,313,365	21,350,186
Current liabilities				
Creditors	6	590,023	306,547	469,658
		590,023	306,547	469,658
Net assets		18,447,531	25,006,818	20,880,528
Shareholders equity				
Share capital	7	38,000	38,000	38,000
Distributable reserve	8	36,893,502	36,893,502	36,893,502
Accumulated deficit		(18,483,971)	(11,924,684)	(16,050,974)
Total equity		18,447,531	25,006,818	20,880,528
Net Asset Value per Share	9	US\$4.85	US\$6.58	US\$5.49

This interim report was approved by the Board of Directors on 2 September 2010 and signed on its behalf by:

Rupert Evans
 Director

Sidney Cabessa
 Director

The accompanying notes on pages 9 to 13 form an integral part of the unaudited condensed set of financial statements.

Unaudited Condensed Statement of Cash Flows

	Six months ended 30 June 2010 US\$	Six months ended 30 June 2009 US\$	Year ended 31 December 2009 US\$
Operating Activities			
Loss for the period / year attributable to equity shareholders	(2,432,997)	(353,185)	(4,479,475)
Unrealised losses on investments	2,100,000	-	3,750,000
(Increase) / decrease in receivables	(21,093)	3,641	(2,447)
Increase in payables	120,365	165,460	328,571
Cash flow from operating activities	(233,725)	(184,084)	(403,351)
Net decrease in cash and cash equivalents	(233,725)	(184,084)	(403,351)
Cash and cash equivalents at 1 January	736,733	1,140,084	1,140,084
Cash and cash equivalents at 30 June / 31 December	503,008	956,000	736,733

The accompanying notes on pages 9 to 13 form an integral part of the unaudited condensed set of financial statements.

Notes to the Unaudited Condensed Set of 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 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union 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 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 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 period. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies.

Adoption of new standards

The following new standards came into force for periods commencing 1 January 2010.

- IFRS 8 Operating Segments (revised April 2009)
- IAS 1 Presentation of Financial Instruments (revised April 2009)
- IAS 7 Statements of Cash Flows (revised April 2009)
- IAS 32 Financial Instruments: Presentation (revised 2009)
- IAS 36 Impairment of Assets (revised April 2009)
- IAS 39 Financial Instruments: Recognition and measurement (revised April 2009)

The adoption of these standards did 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'.

Notes to the Unaudited Condensed Set of Financial Statements (continued)

1. Significant accounting policies (continued)

Fair Values of Financial Instruments (continued)

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 Statement of Comprehensive Income). 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. During this limited period, the value of the investment is assessed for changes or events that would imply decline or appreciation in fair value. In addition, the valuation technique also represents certain situations where although the limited 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.
- 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 30 June 2010 produced a valuation for the portfolio of £18.50 million (30 June 2009: £24.350 million, 31 December 2009: £20.60 million) and net loss on investments designated at fair value through profit or loss recognised in the income statement of £2.10 million (30 June 2009: £Nil, 31 December 2009: £3.750 million).

Gains and losses arising from the changes in the fair value of investments are included in the Statement of Comprehensive Income in the year 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 condensed income statement in the period 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 period and is accounted for on an effective interest method.

Notes to the Unaudited Condensed Set of Financial Statements (continued)

1. Significant accounting policies (continued)

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 Condensed Statement of Comprehensive Income. The Company has no employees.

Operating Segments

A segment is a distinguishable component of the Company using the measures reported to the chief operating decision maker.

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. As such the chief operating decision maker feels that no segmental analysis is required.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies (described within note 1 above), the Company has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the financial statements:

Fair values of financial instruments

The fair value of financial instruments not traded in active markets is determined using generally accepted valuation techniques. The Company uses a variety of methods and assumptions that are based on market conditions existing at the Statement of Financial Position date. Valuation techniques used are outlined in *Fair Values of Financial Instruments* above.

Notwithstanding the above, the variety of valuation bases adopted and quality of management information provided by the underlying investee companies means there are inherent difficulties in determining the value of those investments. Amounts realised on the sale of those investments will inevitably differ from the values reflected in these financial statements and the difference may be significant.

Fair value and impairment estimates are made at a specific point in time based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement.

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. 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.

Notes to the Unaudited Condensed Set of Financial Statements (continued)

3. Basic and Diluted Earnings per Share

The basic and diluted earnings per share is based on the net loss for the period of US\$2,432,997 (six months ended 30 June 2009 – loss of US\$353,185, year ended 31 December 2009 – loss of US\$4,479,475) and a weighted average number of Ordinary Shares in issue during the period of 3,800,000 (six months ended 30 June 2009 & year ended 31 December 2009 – 3,800,000).

4. Investments Designated at Fair Value Through Profit or Loss

	Six months ended 30 June 2010 US\$	Six months ended 30 June 2009 US\$	Year ended 31 December 2009 US\$
Fair values at 1 January	20,600,000	24,350,000	24,350,000
Unrealised loss on investments	(2,100,000)	-	(3,750,000)
Fair values at 30 June / 31 December	18,500,000	24,350,000	20,600,000

5. Cash and Cash Equivalents

	30 June 2010 US\$	30 June 2009 US\$	31 December 2009 US\$
Cash at bank	503,008	956,000	736,733
	503,008	956,000	736,733

6. Creditors

	30 June 2010 US\$	30 June 2009 US\$	31 December 2009 US\$
Administration fee accrual	7,378	8,122	8,229
Audit fee accrual	14,838	23,476	32,298
Custody fee accrual	508	618	629
Directors' fee accrual	29,094	30,742	31,749
Investment manager fee accrual	525,410	228,724	385,292
Other payables	12,795	14,865	11,461
	590,023	306,547	469,658

Notes to the Unaudited Condensed Set of Financial Statements (continued)

7. Share Capital

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

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.

8. Distributable Reserve

The balance of the distributable reserve at the year end is US\$ 36,893,502

The purpose of the distributable reserve is to provide the Company with the ability to repurchase its shares if and when it is considered beneficial to do so by the Directors.

9. Net Asset Value per Share

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.

10. Related Party Transactions

In the Directors' opinion there are no related party transactions to disclose in accordance with the requirements of IFRS 24.

11. Ultimate Controlling Party

The Directors are not aware of any ultimate controlling party.

12. Approval of the Unaudited Interim Report and Condensed Set of Financial Statements

The unaudited interim report and condensed set of financial statements were approved by the Board of Directors on 2 September 2010.