Bermuda National Limited

Financial Results
For the six months ended March 31, 2013

Letter to Shareholders
June 5, 2013

Introduction

We are pleased to provide you with Bermuda National Limited's ("BNL", the "Company" or the "Group") unaudited financial results for the six months ended March 31, 2013, BNL's first interim results as a public company, and to update on the progress at BNL's investments over the last six months.

For the six months ended March 31, 2013, the Company recorded net income of approximately $3.1 million on total assets of approximately $637.5 million and shareholders' equity of approximately $131.7 million. Year to date earnings per share totaled $0.36.

The Company's performance in first half of the year has been driven by its 100% owned subsidiary, Bermuda Commercial Bank Limited ("BCB" or the "Bank"), which recorded net income in the first half of $5.1 million before accounting for unrealized gains from its investment portfolio which amounted to $5.2 million.

BNL's share of the losses incurred by Westhouse Holdings plc ("Westhouse"), in which the Company has a 46% shareholding, for the six months ended March 31, 2013 was $1.6 million. The scale of the losses has reduced from $1.2 million in the first quarter to $0.4 million in the second quarter. Westhouse made a number of one-off cost reductions in the last calendar quarter of 2012, which therefore contributed to BNL's share of the losses in the quarter ended December 31, 2013. The Company's other investments continue to perform in line with expectations and an analysis of each of the Company's investments is set out below.

Consistent with our stated strategy to make investments and acquisitions in the financial services sector, BNL was pleased to announce on March 28, 2013, the proposed acquisition of J O Hambro Investment Management Limited ("J O Hambro") for a total cash consideration of GBP50 million. The acquisition still remains subject to UK regulatory approval and post completion, BNL will own 62.5% of J O Hambro's issued share capital with the balance owned by J O Hambro's management and staff. This proposed acquisition is a significant strategic step for BNL as it is acquiring a well known UK private wealth asset manager with a strong track record. It is anticipated that the proposed acquisition will provide a number of synergies across the Group. The Company will update shareholders once regulatory approval has been received which we hope to receive in the next couple of months.

Dividend Reinvestment Plan ("DRP")

The Company's Board approved on February 8, 2013 the adoption of a DRP for BNL. Shareholders will now be able to elect to receive shares in lieu of cash dividends. This will enable shareholders to benefit from increased ownership in the Company and the Company will be able to use the cash to make further investments thereby increasing the Company's value for all shareholders.

The detailed DRP is available on the Company's website at www.bermunanational.bm.

Interim Dividend

The Company's Board is recommending an interim dividend payment of $0.125 a share. The record date for the dividend will be June 11, 2013 and the payment date will be June 27, 2013.

Review of Investments

BERMUDA COMMERCIAL BANK LIMITED ("BCB" or the "Bank")

The Bank recorded a profit of $5.1 million (2012: $3.2 million) and total income of $14.0 million (2012: $10.2 million) for the six months ended March 31, 2013. Net interest income for the first half of the year was $7.9 million (2012: $7.7 million) and non interest income totaled $6.2 million for the six months ended March 31, 2013 (2012: $2.5 million). This was following strong gains from the Bank's investment portfolio.

Interest Income

Interest income for the first half of the year increased slightly to $9.6 million (2012: $9.5 million) resulting from increased interest on the Bank's financial investments portfolio. Interest expense for the six months ended March 31, 2013 was broadly flat at $1.7 million (2012: $1.7 million). Net interest income for the first half of the year was therefore up marginally to $7.9 million (2012: $7.7 million)

Non Interest Income

Total non interest income was $6.2 million (2012: $2.5 million) for the six months ended March 31, 2013.

Fees and commissions decreased slightly to $2.0 million (2012: $2.1 million). Gains from the sale of financial investments were $7.4 million for the six months ended March 31, 2013 (2012: $2.8 million). As part of BCB's risk and liquidity management process, portfolio securities are sold from time to time resulting in gains and losses for the Bank. With the Bank's investment portfolio currently performing strongly, most sales during the first half of the year resulted in solid gains for the Bank. While welcome, these gains have inflated both the Bank's current and prior year quarterly revenues over normal expected levels.

The Bank incurred net exchange rate and derivative hedging costs of $2.6 million (2012: $2.8 million) primarily in relation to the hedging of its investment portfolio. These costs, primarily foreign exchange and equity index derivatives, reduce the risk associated with foreign currency and market price fluctuations. The costs should be measured in the context of the Bank's increased investment interest income, the gains on sale of investments, and the improvement in its unrealised investment position. These costs offset the strong realised gains recorded on the Bank's investment portfolio.

Expenses

Payroll costs for the first half of the year were $5.2 million (2012: $4.0 million). This increase resulted from an increased employee headcount following the broadening and strengthening of the Bank's employee base in response to an increase in customers and expanding business requirements.

General and administrative expenses increased to $3.3 million (2012: $2.7 million) due to increased costs associated with the operation of a larger and more diversified organisation. Investment advisory fees accounted for half this increase following the growth and strong performance of the Bank's investment portfolio, along with increased management and reporting requirements. Custody expenses, IT, and bank licence fees also increased over the prior year period.

Financial Position

All changes in financial position are made in reference to BCB's last audited financial statements as at September 30, 2012.

Assets

Total assets increased to $631.3 million at March 31, 2013 from $572.0 million at September 30, 2012.

Cash, money market funds and term deposits increased to $261.5 million from $226.9 million at September 30, 2012 following an increase in customer deposit balances.

Financial investments increased to $272.0 million from $256.8 million at September 30, 2012. This increase mainly resulted from improvements in the market valuations of the Bank’s investment portfolio. The Bank’s financial investment portfolio consists primarily of corporate debt securities and debt securities issued by banks, along with a smaller number of asset-backed securities. The Bank’s portfolio includes a small number of investments in government debt, equities and investment funds. Within each category, securities are heavily diversified across industry, currency and jurisdiction. The Bank’s strategy continues to encompass a low risk balance sheet with any future changes in the level of financial investments driven by the Bank’s deposit base.

Loans and advances were $43.2 million at March 31, 2013 up from $34.2 million at September 30, 2012. The Bank is not active in the credit market, but has provided a small number of loan and overdraft facilities. The increase resulted from new overdraft facilities and increased drawdown of existing loan and overdraft facilities.

Other balance sheet assets remained at similar levels to September 2012.

Liabilities

Total customer deposit balances increased to $510.3 million from $457.5 million at September 30, 2012. This increase was driven by the operational activities of a small number of large customers and it is anticipated that balances will shortly revert to the previous year-end levels. Excluding these large transactional items, BCB’s customer position as measured by its key customer performance metrics, customer numbers and customer concentration, remained at similar levels to the year end. Other balance sheet liabilities remained at similar levels to September 2012.

Capital

The Bank's capital position increased to $112.1 million at March 31, 2013 from $104.8 million at September 30, 2012. This improvement resulted primarily from unrealised mark to market gains on the Bank's financial investments portfolio as a result of yield compression in the fixed income market.

The Bank's regulatory capital ratio was 20.4% at March 31, 2013 and its tier one ratio was 22.0%. The Bank’s total risk weighted assets were $407.0 million. BCB maintained its extremely conservative ‘risk asset’ leverage ratio of less than 4:1 comparing very favourably to industry averages of more than 12:1. Risk assets include loans, mortgages and other investments and banks with a higher ratio of these risk assets to capital are more vulnerable to movements in valuation.

A detailed set of financial statements for BCB for the six months ended March 31, 2013 are available on the Bank’s website at www.bcb.bm.

PRIVATE & COMMERCIAL FINANCE GROUP PLC ("PCFG")

PCFG is a UK asset financing company, whose shares are quoted on the London Stock Exchange. PCFG was founded in 1993 and has grown by a combination of acquisitions and organic growth, providing car and asset finance to over 16,000 customers across the UK. Post the quarter end BNL increased its stake in PCFG and it is now interested in 29.9% of the PCFG's issued share capital. As a result the Group has a diluted economic interest in PCFG of approximately 74%, comprising an equity interest of 29.9% and PCFG convertible loan notes.

Post the quarter end, PCFG announced that its results for the year ended March 31, 2013 were in line with expectations. It is anticipated that PCFG's full year results will be released shortly.

Following PCFG's convertible loan note fund raising in November 2012 and the negotiation of a new three year loan facility with Barclays Bank, the company is well positioned to take advantage of the increasing business opportunities that are available. As at March 31, 2013 PCFG's market capitalisation was approximately $5.2 million and BNL's investment in PCFG was valued at approximately $1.0 million.

WESTHOUSE HOLDINGS PLC ("Westhouse")

Westhouse is a private corporate and institutional stockbroking group located in London in which BNL has an equity interest of approximately 46%.

Trading conditions continue to be difficult for Westhouse. The number of IPOs and secondary capital raisings in the small and mid cap sector continue to be limited. In addition Westhouse has a strong mining franchise and with the recent price fall in commodities, including gold, several corporate transactions have been postponed. However, BNL is pleased to report that Westhouse's corporate transaction pipeline is stronger than it has been for some time and completion of some of these transactions should move the company closer to break even.

During the first half of the year, BNL's share of Westhouse's losses was $1.6 million. During the second quarter BNL advanced to Westhouse approximately $1.8 million for working capital purposes and an expansion of the Westhouse trading book.

ASCOT LLOYD HOLDINGS LIMITED ("Ascot Lloyd")

Ascot Lloyd is a regulated independent financial adviser ("IFA") located in the UK. BNL's interest in Ascot Lloyd is through a £2 million convertible loan note facility. As at March 31, 2013, of the £2 million to be drawn down under the terms of the convertible loan note facility, £1.75 million was drawn down.

The UK IFA industry continues to be in the midst of considerable regulatory change which is creating a number of consolidation opportunities for Ascot Lloyd. Ascot Lloyd is looking to make further acquisitions in 2013 in order to grow its business.

For the year ended December 31, 2012, Ascot Lloyd reported unaudited gross income of £4.4 million (2011: £2.9 million) and EBITDA of £0.6 million.

SING INVESTMENTS & FINANCE LTD ("Sing Investments")

Sing Investments is a finance company listed on the Singapore Stock Exchange with 40 years experience. Its products include fixed and saving deposits and the provision of loans and credit facilities to individuals and corporations. Against the global economic backdrop, low interest rate environment and the cooling of the Singapore economy, the company is continuing to adopt a cautious approach in relation to its loan portfolio.

In the quarter ended March 31, 2013, Sing Investments reported revenue of S$11.7 million (2012: S$10.9 million) and profit of S$2.4 million (2012: S$3.0 million). The weaker profit performance was due to continued compression of the interest margin. It reported total assets of S$2.0 billion (December 31, 2012: S$2.0 billion). Loans and advances grew by 3.7% in the quarter to S$1.5 billion and deposits increased by 3.7% to S$1.7 billion.

As at March 31, 2013, BNL held a 4.9% interest in Sing Investments which was valued at approximately US$9.0 million.

Summary

The Company's principal subsidiary, BCB, continues to grow and it is pleasing to see an increased deposit base and the continued strong performance of its investment portfolio resulting in a significant increase in comprehensive income. The highlight in the second quarter was the announcement of the proposed acquisition of J O Hambro. We anticipate that this will be a significant acquisition for the Company and we hope will improve the returns to all shareholders

The last six months have been a positive start for BNL following the restructuring of BCB effective October 1, 2012. We believe that there will continue to be investment and acquisition opportunities available to BNL and therefore we look forward to the rest of the year with confidence.

Yours sincerely,

Warren McLeland
Chairman

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(expressed in United States dollars - unaudited)

Assets		**MAR 31, 2013**
Cash and term deposits		
Due on demand	$	9,113,364
Term deposits		252,356,463
Total cash and term deposits		261,469,827
Derivative financial instruments		4,039,949
Interest receivable		3,502,343
Other assets		600,832
Investment securities		287,225,671
Loans and advances to customers		43,033,791
Investment in associates		24,390,703
Property and equipment		3,373,792
Goodwill and other intangible assets		9,895,600
Total assets	$	637,532,508

Liabilities		
Deposits		
Demand deposits	$	233,562,876
Term deposits		263,248,294
Total deposits		496,811,170
Interest payable		3,010,982
Customer drafts payable		2,803,180
Other liabilities		3,197,018
Total liabilities	$	505,822,350

Equity		
Capital stock	$	872
Share premium		58,950,502
Reserves		13,891,015
Retained Earnings		58,867,768
Total equity		131,710,157
Total liabilities and equity	$	637,532,507

CONSOLIDATED STATEMENT OF INCOME

(expressed in United States dollars - unaudited)

Income	For the three months ended MAR 31, 2013	For the six months ended MAR 31, 2013
Interest income:		
Cash and term deposits	$ 80,825	$ 168,334
Money market funds	7,176	59,042
Loans and advances to customers	1,523,811	1,633,857
Financial investments	3,746,293	7,836,758
Total interest income	5,358,105	9,697,991
Interest expense	(882,470)	(1,788,437)
Net interest income	4,475,635	7,909,554
Fees and commissions	905,162	1,951,014
Net exchange gains (losses)	(930,348)	(717,143)
Hedging of investment securities	(2,266,648)	(2,055,410)
Dividend income	227,149	380,150
Gain from sale of financial investments	2,315,105	7,417,889
Impairment losses on financial investments	-	(1,160,184)
Share of losses of associates	(325,873)	(1,443,831)
Other operating income	20,758	41,477
Total income	4,420,940	12,323,516
Expenses		
Salaries and employee benefits	2,362,027	5,224,802
Depreciation	84,685	164,542
Amortisation	120,983	253,058
General and administrative expenses	1,747,483	3,550,631
Total expenses	4,315,178	9,193,033
Net income	$ 105,762	$ 3,130,483

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(expressed in United States dollars - unaudited)

Income	For the three months ended MAR 31, 2013	For the six months ended MAR 31, 2013
Net income for the period	$ 105,762	$ 3,130,483
Other comprehensive income (loss):		
Net gain (loss) on financial investments	(619,940)	5,553,254
Total comprehensive income	$ (514,178)	$ 8,683,737

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended March 31, 2013 (expressed in United States dollars - unaudited)

	CAPITAL STOCK	SHARE PREMIUM	RESERVES	RETAINED EARNINGS	TOTAL
October 1, 2012	$ -	$ -	$ -	$ -	$ -
Total comprehensive income			5,553,254	3,130,483	8,683,737
Issue of shares	822	56,101,952	8,337,761	57,478,699	121,919,234
Exercise of options	50	2,848,550			2,848,600
Dividends				(1,741,414)	(1,741,414)
March 31, 2013	$ 872	$ 58,950,502	$ 13,891,015	$ 58,867,768	$ 131,710,157

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended March 31, 2013 (expressed in United States dollars - unaudited)

Operating activities		**MAR 31, 2013**
Net income	$	3,130,483
Adjustments to reconcile net income to cash flows used in operating activities:		
Depreciation		164,542
Amortisation		253,058
Increase in investment in associates		(24,390,703)
Share of losses in associates		1,443,831
Gain on sale of investment securities		(7,417,889)
Increase in derivative financial instruments		(4,039,949)
Impairment losses on financial investments		1,160,184
Increase in interest receivable		(3,502,343)
Increase in other assets		(600,832)
Increase in interest payable		3,010,982
Increase in customer drafts payable		2,803,180
Increase in other liabilities		3,197,018
Net cash provided by (used in) operating activities		(24,788,438)
Investing activities		
Net increase in loans and advances to customers		(43,033,791)
Proceeds from sale of investment securities		110,082,010
Purchases of investment securities		(386,940,552)
Purchases of property and equipment		(3,538,334)
Purchases of goodwill and other intangible assets		(10,148,658)
Net cash used in investing activities		(333,579,325)
Financing activities		
Net increase in deposits		496,811,170
Proceeds from issue of shares		121,919,234
Proceeds from exercise of options		2,848,600
Dividends paid		(1,741,414)
Net cash provided by (used in) financing activities		619,837,590
Net increase (decrease) in cash and cash equivalents		261,469,827
Cash and cash equivalents, beginning of period		-
Cash and cash equivalents, end of period	$	261,469,827

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