



Bank of St. Helena

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Directors' Report and Audited Financial Statements for the Financial Year 2011-2012

Bank of St Helena – Building for the Future

Head Office: Market Street, Jamestown, Island of St. Helena, South Atlantic, STHL 1ZZ
Tel: +290 2390, Fax: +290 2553, e-mail: info@sainthelenabank.com
Established and regulated in St. Helena under the *Financial Service Ordinance 2008* and the
Bank of St. Helena Ordinance 2003.



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Independent Auditor's Report

Audited Financial Statement

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Directors' Report, for the Financial Year 2011/2012

The Directors are pleased to present their report and the audited financial statements of Bank of St. Helena ("the Bank") for the year ended 31 March 2012

This report on the business of the Bank and its performance during the year, will allow readers to assess how the Directors have carried out their duty of managing the affairs of the Bank as set out in the Bank of St. Helena Ordinance 2003.

1. Principal Activities

One of the objects of the Bank, as defined by the Bank of St. Helena Ordinance 2003, is "to engage in the business of banking within St. Helena and its dependencies". The Bank provides retail banking services wholly within the South Atlantic islands of St. Helena and Ascension Island. During the year the Bank continued to develop what it has to offer to its customers through sales of its core products: savings accounts, personal loans, housing loans and commercial loans as well as undertaking feasibility studies that should lead to the introduction of new services that will increase the ease and frequency with which customers can access their accounts.

2. Business Review

The mission of the Bank of St. Helena is to develop and deliver banking products and services that are appropriate, affordable and accessible to all. Throughout the year, the Directors have been ever mindful of the need to achieve a good balance between:

- ❖ Generating a sufficiently healthy level of profit to ensure that the Bank's Statement of Assets and Liabilities remains strong
- ❖ Maintaining a stable rate of interest payable to depositors and
- ❖ Providing appropriate and affordable products and services that will help the Bank's customers to generate economic growth

Maximising profit is therefore not the primary objective. Profit is viewed as an essential tool with which the Bank can strive towards the achievement of its mission, and its overall vision of being known "as the financial cornerstone from which commercial and retail customers can safely build a prosperous economy for the Island of St. Helena"

Economically, St. Helena is currently in an advantageous position. During the next four years, the significant British Government, European Union and foreign investments in air access, infrastructure, tourism accommodation and related services will bring about an increase in the number of economically active people and levels of disposable incomes. This in turn will undoubtedly result in an increase in demand for additional products and services and kick-start the growth of existing and new domestic businesses.

One of the challenges for Bank of St. Helena will be to grow its capital base and be able to service the expected increase in demand for loan finance for business and housing developments.

During the last financial year, the Bank has been focusing on maintaining growth in net interest income and ultimately the profit on ordinary activities before tax. Expected

Directors' Report, for the Financial Year 2011/2012

increases in operating expenditure, coupled with relatively limited scope for increasing income, necessitated the need for a 1% decrease in the interest payable to the depositors. The Directors acknowledge that this was not received well by depositors and thank them for remaining loyal with their deposits. The year end results show that although the increase in Total Income was 17.6% and the Total Expenses increased by 11%¹ if the reduction in the interest rate payable had not been done then the Bank would have been showing a Loss on ordinary activities before tax of £213,445.

The Bank remains well capitalised and highly liquid with policies and practices that foster stability and sustainable development.

During the year April 2011 to March 2012, key highlights have included:

- 14.8% growth in customer savings deposits
- 13% growth in lending
- 45% growth in profit on ordinary activities after tax

This latter achievement could be viewed by some as being excessive but needs to be judged in the context of the growth in the Bank's Weighted Risk Assets. The Financial Services Regulatory Authority, which supervises and regulates the Bank in accordance with the Financial Services Ordinance 2008, requires the Bank of St. Helena to maintain its capital at a level of at least 12% of the Bank's Weighted Risk Assets, that is to say, the Bank's assets weighted in accordance with their perceived riskiness.

This requirement is broadly in line with similar rules established by regulatory authorities throughout the world, and is designed to ensure the safety of the deposits placed with the Bank by its customers.

In the year ended 31 March 2012 the Bank's Weighted Risk Assets grew by £2,397,638, £916,674 of this increase resulted from the net increase in commercial, personal and housing loans, and the remaining £1,480,964 from the increase in the Bank's investments and other assets needed to absorb the growth in the Bank's deposits. The Bank's retained earnings after paying tax (the Bank does not, at present, pay dividends) at £208,946, were less than 12% of the growth in Weighted Risk Assets, a result that was not ideal. The Directors have taken action to help ensure that the current year's profit meets its target level.

At present, the Bank has a capital base (described in the accounts as a General Reserve) at 23% of Weighted Risk Assets, well in excess of the required minimum. This results from the Bank's capitalisation when it was established in 2003. However, the ratio of the Bank's capital base to its Weighted Risk Assets has fallen steadily over the past several years as the growth in its business outpaced the growth in its capital base.

It will be seen therefore that the Bank's function as a provider of finance for house building/purchase, commercial development and personal lending, as well as its function as a safe depository for its customers' savings, requires a healthy level of profit if the

¹ Annual Inflation on the Retail Price Index in March 2012 was 7.6%. *Source: SHG Quarterly Statistical News Bulletin April 2012*

Directors' Report, for the Financial Year 2011/2012

Bank is to be able to absorb the growth in its customers' requirements as the economy of St. Helena benefits from air access.

The Bank remains committed to delivering excellent customer service and has continued throughout the year with a mobile banking service at the Offices of the Agricultural & Natural Resources in St. Pauls; Half Tree Hollow Supermarket and Longwood Supermarket. These continue to be well utilised by customers. Reducing time-to-queue at the Bank remains a challenge that does not go unnoticed by Directors and the Senior Management Team. Although the introduction of internet banking was scheduled for development and piloting during the year to 31 March 2012, challenges with technical aspects, including internet security, were not overcome until recently and this service is now scheduled for implementation during the third quarter of the current financial year. A major review of staffing and work scheduling has also been undertaken, with the overall objective of increasing customers' accessibility to banking services and the ease with which business can be done.

During the financial year, April 2012 to March 2013, the Bank will be publishing its revised strategic plan for the five years April 2013 to March 2018. Thanks are extended to the Bank's customers and other stakeholders who have made invaluable contributions to the shaping of the plan.

The Bank confirms its commitment to confidentiality, professionalism and honesty in all dealings with customers, suppliers and other stakeholders.

3. Corporate Structure

The Bank of St Helena Ordinance defines the Bank as a body corporate which means it has its own legal identity. The Bank is owned by the Government of St. Helena; managed by a Chairman and Directors who are appointed by the Governor and, as an additional safeguard, regulated by the Financial Services Regulatory Authority.

As at 31 March 2012, a commitment, to formalising the relationship between SHG and the Bank, has been agreed between the relevant parties. The Bank is scheduled to become a company limited by shareholding with SHG retaining 100% ownership. It is planned that this formalisation of the relationship will become effective from 1 April 2013.

Directors' Report, for the Financial Year 2011/2012

4. Financial Performance

4.1 Commentary on the Profit & Loss Account

The Bank's financial performance for the year to 31 March 2012 is presented in the Profit & Loss Statement with the accompanying notes providing greater detail. A summary of the Income statement is reproduced below:

	Year to 31 March 2012	Year to 31 March 2011
Total Income	£1,002,870	£852,808
Total Expenditure	£713,430	£642,603
Profit before Tax	£289,440	£210,205
Taxation	£80,494	£66,268
Profit after Tax	£208,946	£143,937

The Bank's profit before tax has increased by £79,235 (37.7%) when compared with the previous financial year. Increasing retained earnings is of paramount importance as an increase in capital enables an increase in funds available for lending, without destabilising the Statement of Assets & Liabilities. However, any profit target will always be pursued within the overall context of "banking products and services [being] appropriate, affordable and accessible to all".

4.1.1 *Income*

Total income has increased by 17.6% (£150,062). Although Note 2 on Interest Receivable shows an apparent additional £324,590 was earned on investments, this is because the profit² from the Bank's last gilt, when sold during 2010/11, was presented in the accounts as a separate line. In actual fact, between 2010/11 and 2011/12 the total amount of income earned on investments (interest earned plus profit on sale of gilts) has decreased by £105,251 (8.8%), a factor that influenced the reduction in the interest payable on savings accounts. Returns on investments overseas have declined steadily over the past four years with the Bank feeling the impact when different portions of its three year rolling programme became due for reinvestment. In the year under review, 61% of the total interest receivable came from investments; 1.2% from interest on UK Bank Accounts and the balance from lending services. The Directors continue to monitor closely the Bank's investments in, what is still, a rather uncertain market.

4.1.2 *Expenditure*

There has been an overall increase in expenditure of 11% over last year. This includes an increase of 4.4% in employee costs. Although operational costs are closely monitored to ensure that services are delivered as cost effectively as possible, reducing operational expenditure is not a primary focus, especially where to do so could compromise the quality and effectiveness of the service delivery.

² The Bank realised a profit of £429,841 in 2010/11 on the sale of its last gilt.

Directors' Report, for the Financial Year 2011/2012

4.1.3 Employee Costs and Numbers

As at 31 March, the Bank had the following staff:

	At 31 March 2012		At 31 March 2011	
	Numbers	Costs for the year	Numbers	Costs for the year
Teller Services	13	£139,397	11	£132,863
Accounts & Admin	4	£40,810	4	£38,274
Lending	4	£49,082	4	£48,067
Management	3	£77,038	3	£79,388
Directors	4	£13,412	4	£7,802
TOTAL	28	£319,739	26	£306,394

The increase in headcount represents two part-time staff within the St. Helena Teller Services on a full time equivalent basis, staff numbers have remained the same. Staff costs also include the cost of staff professional development which will support the achievement of both personal and corporate goals and help to ensure competent service delivery. Incentives and employee rewards are aligned with individual and corporate performance and the average staff salary increase during the year was 7.9%. This is only marginally more than the Annual Inflation on the Retail Price Index in March 2012 of 7.6%.

4.2 Commentary on the Statement of Assets and Liabilities

The financial year 2011/12 has seen an overall growth of 6.7% (£264,244) in the Bank's Net Assets.

4.2.1 Fixed Assets

The movement on the Bank's Fixed Assets can be viewed in Note 7 of the Notes to the Accounts. 90.5% of the Tangible Fixed Assets is within Land and Buildings as the Bank owns the premises in Market Street, Jamestown from which it operates, as well as the building known as 'Percy's' in Napoleon Street. This latter building is being held as a potential alternative bank premises subject to planning permission being sought and approved.

Although the Fixed Assets are stated at cost less accumulated depreciation, the Bank's fixed asset policy commits it to undertaking impairment reviews of its Fixed Assets at least once every five years. In light of the rising local market values of Land and Buildings, an impairment review of the Bank's two buildings is scheduled to take place within the 2012/13 financial year.

Verification of the physical presence of the moveable capital and inventory assets are undertaken on an annual basis.

Directors' Report, for the Financial Year 2011/2012

4.2.2 Investments

The Bank has switched from investments in Gilts (UK Government Securities) to investments in Fixed Deposits and Certificates of Deposits with major UK Banks, due to the greater return that can be earned on the latter. The Bank's investment intentions remain the same which is to hold the investments to maturity. As such the portfolio has been staggered to enable a rolling programme with placements maturing at regular intervals thus providing greater flexibility for reinvestment as market conditions change. There has been a 14.8% (£5,000,000) increase in the value of the Bank's overseas investments as a direct result of the 14.8% (£6,508,109) growth in balances on Savings Accounts.

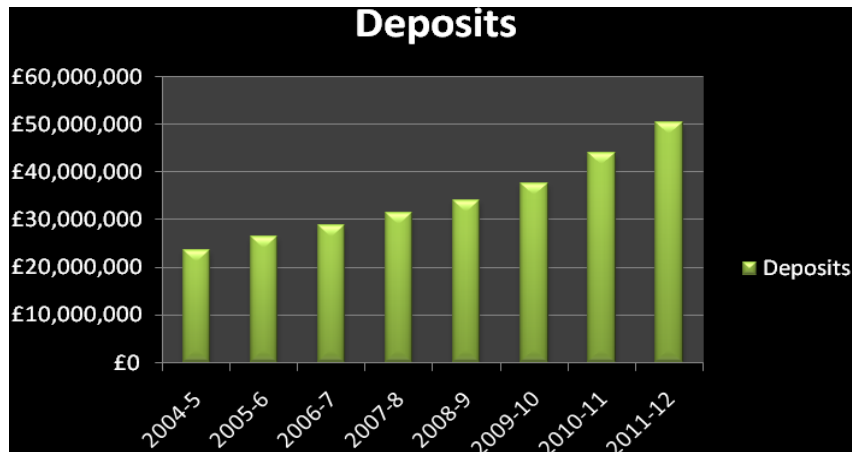
4.2.3 Savings Accounts

During the last year, despite the lowering by 1% of the interest rate payable on Savings Accounts³ and the introduction of withholding tax, there has been an overall increase of 14.8% in the balance on Savings Accounts. The most significant growth has been in Government Accounts 69% and St Helena Corporate Savings Accounts 25%.

The graphs below show:

- The growth in the overall value of deposits [*Figure 1*] and
- The proportion of savings held by the different categories of depositors [*Figure 2*]

Figure 1



³ Interest rate of 2% per annum payable on Savings account balances from 1 May 2011

Directors' Report, for the Financial Year 2011/2012

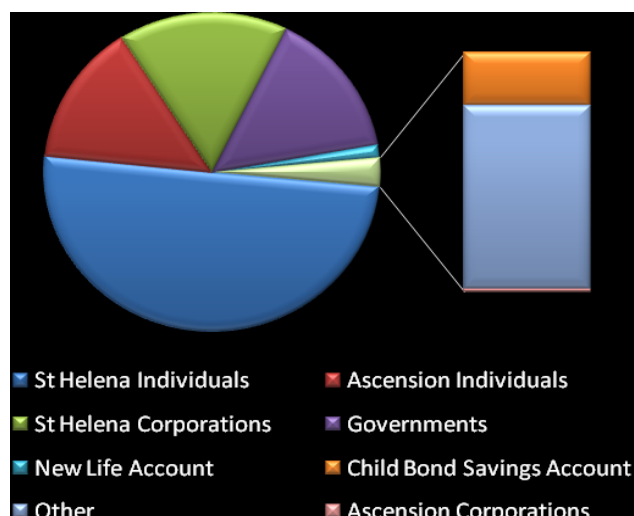


Figure 2

4.2.4 Lending

The overall lending portfolio has grown by 13% (£1,345,890) with the value of personal loans increasing by 16% (£110,780); housing loans increasing by 12% (£858,433) and commercial loans by 8.1% (£210,336). Overdrafts have increased by 85% (£166,341) indicating an increase in demand for short term working capital. During the last four months of the year under review, the Bank saw a significant increase in enquiries for commercial loans, which could indicate local investors' renewed confidence in the economy following the signing, in November 2011, of the contract to build an airport on the island.

The Bank has a number of non-performing loans - those that are more than 3 months in arrears and not meeting their repayment requirements on a regular basis. These total £364,835 which gives a non-performing loan ratio of 3.1%.

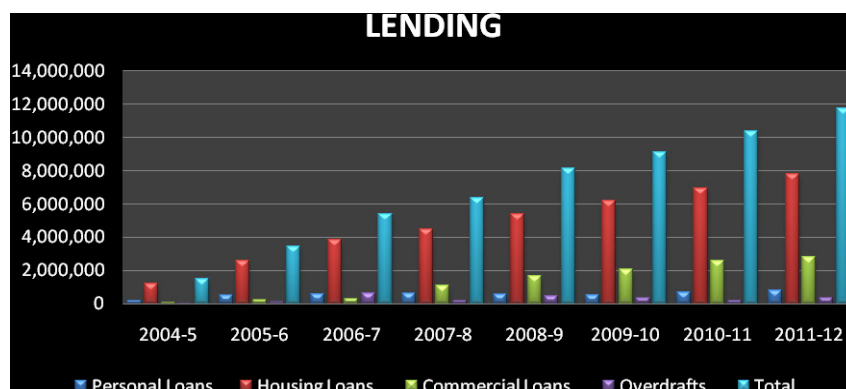
The Bank has revised its policy for doubtful debts from a basis of general provisions to specific provisions which gives a more realistic view of and greater focus on individual cases that are having difficulties servicing their monthly commitments. The provision for doubtful debts has however decreased by 10.5%.

Close monitoring and rigorous follow-up procedures, help to ensure that the value of debts being written off (£10,626) is only 0.09% of the total value of the overall loan portfolio.

It has been estimated⁴, taking into account the potential growth in capital, that the Bank could support an additional £10 million of lending and stay within the capital constraints of its risk assets ratio.

⁴ Patrick Perry, Financial Adviser to Bank of St. Helena April 2012

Directors' Report, for the Financial Year 2011/2012



4.2.4 Other Liabilities

Details of the Bank's Liabilities, other than the Savings Accounts, can be seen in note 14 of the Notes to the Accounts. Creditors for the supply of sundry products and services are paid as and when invoices become due for payment.

5. Key Management Ratios

Ratio	Limit	Average	Minimum	Maximum
Weighted Risk Assets	12%	23.7%	23.4%	24.3%
Total Liquid Assets in St. Helena:Total Liabilities	0.5%	1.55%	0.70%	2.6%
Total Liquid Assets:Total Liabilities	25%	62.8%	44.8%	69%

The table above shows the Bank's capital and liquidity positions throughout the Financial Year 2011/12. The Financial Services Regulatory Authority (FSRA) sets and monitors the capital requirements for the Bank which is required to maintain a prescribed level of capital with reference to Weighted Risk Assets and the perceived risk management framework. The Financial Services Regulatory Authority has confirmed that the Bank remains within overall compliance requirements. The annual review of the Bank was undertaken on-island in January 2012.

The report of the Financial Services Supervisor⁵ made recommendations for the positioning of the Bank "to respond to changes in the economy that the airport development will bring". Recommendations included taking cognisance of the risks and opportunities that commercial banking activities imply; increasing profitability and placing greater emphasis on equipping all Directors, Managers and Staff with the relevant knowledge and skills.

The Directors have incorporated the recommendations within the Bank's strategic plan.

⁵ Report for the Governor of St Helena on a visit to the Island made by Chris Duncan, Financial Services Supervisor 11th – 18th January 2012

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6 Risk Management

The Bank aims to manage all risks that arise from the activities that it undertakes. The primary risks that are likely to arise in the normal course of business are credit risk, interest rate risk and operational risk. Liquidity risk is not an issue at this time [see *section 5 above*].

The Board is responsible for the overall strategy, performance and risk management of the Bank. There are a number of policies in place to manage key risks which reflect the risk appetite of the Board.

The execution of the Bank's strategy, business performance, day to day operations, implementation of policy and internal controls are delegated to the Managing Director and her Senior Management Team. An Internal Auditor regularly reviews the Bank's financial results and systems as well as adherence to approved policies and procedures. Independent and objective assurance on the effectiveness of the Bank's financial records, systems and risk management is provided by the St. Helena Audit Service.

6.1 The Bank as a Going Concern

The British Government has entered into a design, build and operate contract for an airport on St. Helena. It is forecast that this will significantly improve access to the island; increase opportunities for income generation and increase both the resident population and the number of tourists visiting the island. The forecast additional investment and spending will ultimately boost economic activity and the wealth of the resident population. St Helena's geographical remoteness and limited natural resources will however continue to present challenges for stimulating economic development with the key 'test' being the island's degree of readiness-for-business when the airport becomes operational in less than four years time.

The Bank's ability to remain profitable, within such an environment, will be dependant on a number of factors which include:

The take-up of loans and the spread of the demand. The Economic Development Plan cites the lack of tourist accommodation, both in terms of quantity and quality, as the limiting factor to realising the island's tourism potential. The Bank will however ensure that its overall commercial portfolio is not skewed in favour of any one product or service within a sector as to do so would increase the Bank's credit risk.

The returns that can be achieved on investments and loans. There is highly likely to be a shift in sources of revenue, resulting from an expected higher investment in loans as opposed to investments with UK Banks. The change in income derived from interest received on investments and loans, will influence the interest rates payable on savings accounts held at the Bank. During the current financial year, the Bank has forecast that the rate payable of 2% on savings accounts is sustainable. During the course of the year this will be closely monitored with revision being undertaken depending on the

Directors' Report, for the Financial Year 2011/2012

results. Reviews are undertaken every quarter with the overall aim of maintaining a stable interest rate payable as well as a stable rate of interest charged on loans.

The funding and liquidity of the Bank remained robust throughout the year. Net customer deposits have been four times more than the increase in lending.

Having considered the Bank's current position within the financial services sector of St. Helena, made enquiries as to the St. Helena Government's plans for the Bank and the recent commitment of the British Government to air access, the Directors consider that Bank of St. Helena will continue for the foreseeable future and has adequate resources to remain operational and profitable.

6.2 Credit Risk

It is expected that there will be an upturn in the local economy during this air access advent period. However, the uncertainty and challenge will come during the airport operational phase as St. Helena's ability to realise a return on the investments made during the advent period will depend on how 'right and ready' the products and services are for the tourist market being targeted. The Bank is ever mindful, as businesses and individuals gear up for air access opportunities, that the business and personal customers could face difficulties with servicing their financial commitments in the future, if the uptake by the international community is not as enthusiastic as hoped. This would have an adverse impact on the Bank's profitability.

In addition, there appears to be an increase in demand for property with rising costs of housing "At 6.1 per cent in December 2011 annual housing cost inflation eased to 5.8 per cent in March 2012"⁶. Although the market is currently firm, the Bank takes cognisance of the possibility that if property prices should fall, the value of collateral offered for loans may be insufficient to cover the value of the capital plus interest amounts due.

To reduce the probability of this risk materialising, the Bank maintains responsible lending practices ensuring a healthy balance between risk and reward. 98% of the total loans portfolio has adequate security and 96.9% of the total loan portfolio has loans that are serviced regularly and in accordance with agreed repayment terms and conditions.

6.3 Operational Risk

These risks include losses due to human error, IT systems security failure, reliability of internal processes and procedures, training and retention of staff, fraud, and other social and environmental impacts.

The Bank's Internal Auditor regularly reviews, and recommends revisions where required, to internal control procedures and the Bank's risk management strategy. The Bank is 'risk aware' and its approach to risk generally is cautious.

⁶ SHG Quarterly Statistical Bulletin April 2012

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New banking software has been installed and is operating successfully.

The Bank places high priority on keeping staff up to date with anti-money laundering precautions. In January 2012, the visiting Financial Services Supervisor delivered an anti-money laundering refresher to Bank staff and directors.

The Bank has a Disaster Risk Management strategy in place which is due for review and testing during the current financial year.

The Bank values the contribution of colleagues and recognises that business objectives can only be achieved by attracting and developing high quality staff. The Bank's Manager is competently supported by a Chief Operations Officer and Human Resource & Executive Support Officer who collectively strive to ensure that staff are engaged in the development of the Bank and have access to a wide range of training resources. They continue to aim for the delivery of banking products and services that meet operational excellence standards of timeliness, accuracy and reliability.

Directors' Report, for the Financial Year 2011/2012

7. The Bank as a Responsible Citizen of the Community

Being the only bank on St. Helena, the Directors place great importance on the Bank's social responsibilities within the community. In addition to helping the island to sail out of the economic doldrums, the Bank remains committed to contributing to projects that will encourage and enable young citizens and other community groups to undertake initiatives linked to environmental, sports, arts and other cultural developments. The table below lists the projects that were funded from the Community Projects Fund for the year to 31 March 2012.

Quarter	Date	Projects Approved	Amount Approved	Budget Balance
	01/04/2011	Budget Approval for 2011/12	£10,000.00	£10,000.00
1st Qtr	14/06/2011	New Horizons Trip to Ascension - Sponsorship of Sports Shirts	£300.00	£9,700.00
	27/06/2011	Saints Moto-Cross Club - Start Gate	£700.00	£9,000.00
2nd Qtr	27/07/2011	STH Football Assoc - Assist purchase of official kits, trophies, etc	£1,000.00	£8,000.00
3rd Qtr	07/10/2011	STH Food Festival - Setup costs, Labour & decorating	£500.00	£7,500.00
	02/11/2011	Kingshurst Community Centre - Skittle Alley	£208.20	£7,291.80
	15/12/2011	Arts & Crafts - Sewing Machines	£1,000.00	£6,291.80
4th Qtr			£0.00	£6,291.80

In addition £940 was paid in donations. This includes the finance provided for the 'Bank of St Helena Youth Games', organised annually by New Horizons, with the Bank as the lead sponsor.

8. Directors

In accordance with the Bank of St. Helena Ordinance, the Managing Director and the Non-Executive Directors are appointed by the Governor in consultation with the Supervisor of the Financial Services Regulatory Authority.

In accordance with section 14 of the Bank of St. Helena Ordinance 2003, the Directors are required to declare any interests which are considered to be directly or indirectly connected to the topic being considered.

The Bank considers all of the Non-Executive Directors to be independent. The level of remuneration for the Directors is set by the Board and reported to the Financial Services Regulatory Authority.

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If any of the Directors, or persons deemed to be connected parties of the Directors, have loans with the Bank, the balances outstanding are reported on a monthly basis to the Board and the Financial Services Regulatory Authority. This report is also audited by the External Auditors.

The Directors of the Bank during the year to 31 March 2012 were:

Miss Rosemary Bargo	Managing Director
Mrs Carolyn Thomas	Chairman
Mr Peter Francis	Member (<i>deceased, 11 April 2012</i>)
Mr Desmond Wade	Member
Miss Kerry Stevens	Member

The Directors would like to pay tribute to the late Mr Peter Francis who made an invaluable contribution to the work of the Bank. Mr Francis was one of the founding Directors of the Bank, helping first with the setting up procedures in 2003 and subsequently being officially appointed from April 2004 until his untimely passing in April 2012. As at the time of reporting, a replacement director has yet to be appointed.

9. Statement of the Directors' responsibility in respect of the Accounts and Audit and Annual Report

In accordance with the Bank of St. Helena Ordinance 2003, the Directors have a responsibility to:

1. keep accounts of its transactions;
2. have its accounts audited annually and
3. not later than four months from the closing of its financial year or at any other time as may be exceptionally authorised by the Regulatory Authority, publish a copy of its audited financial statements in accordance with section 30 of the Banking Ordinance.

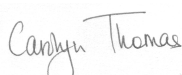
In addition:

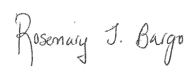
Within 12 months after the 31st day of March in any year submit to the Governor

- (a) a report on its activities during the year preceding that 31st March; and
- (b) a statement of the accounts of the Bank audited in accordance with section 11(2).

The Directors, as at the date when this report is approved, each confirm that as far as is possible, each director has satisfied his/herself that the financial information is accurate and that there is no relevant audit information of which the auditors have not been made aware and that financial controls and systems of risk management are robust.

By order of the Board


Carolyn Thomas
Carolyn Thomas
Chairman


Rosemary Bargo
Managing Director



SAINT HELENA AUDIT SERVICE

External Auditors

Independent Auditor's Report

Bank of Saint Helena Financial Statements for the year ended 31 March 2012

The Chairman and Directors
Bank of Saint Helena
Market Street
Jamestown

Audit Scope

In accordance with the Public Finance Ordinance 2010 and the Banking Ordinance 2003, I have audited the Bank of Saint Helena Financial Statements which incorporate the Balance Sheet as at 31 March 2012, the Profit and Loss Account and the Cash Flow Statement for the year ended 31 March 2012, together with the related Accounting Policies and Notes to the accounts.

Responsibilities of Management and the Chief Auditor

The Financial Statements are the responsibility of the Management of the Bank of Saint Helena. My responsibility is to express an Opinion on these Financial Statements based upon the audit work undertaken.

Basis of Audit Opinion

The audit was conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes addressing the accounting principles used and significant estimates made by Management, as well as evaluating the overall Financial Statement presentation.

I have obtained all the information and explanations I considered necessary for the purposes of the audit.

I believe that the audit has provided a reasonable basis for my Opinion.

Audit Opinion

In my Opinion, the Financial Statements give the information required by law and are in all material respects in agreement with the books of account which have been properly kept as far as appears from my examination of them.

In my Opinion the Financial Statements give a true and fair view of the financial position of the Bank of Saint Helena as of 31 March 2012, and of the results of its operations for the year then ended in accordance with laws in force in St Helena.

21 July 2012

Colin Owen

Chief Auditor, St. Helena Audit Service, Jamestown, St Helena

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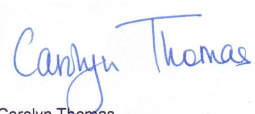
Established and regulated in St. Helena under the *Financial Service Ordinance 2008* and the *Bank of St. Helena Ordinance 2003*.

Profit and Loss Account for the year ended 31 March 2012

	£ 2011/2012	£ 2010/2011	Notes
Income			
Interest Receivable	1,790,224	1,400,910	2
Interest Payable	(1,005,769)	(1,208,577)	15
Net Interest Income	784,455	192,333	
Fees & Commissions	187,252	185,598	
Profits on Sale of Securities	0	429,841	
Other Income	31,163	45,036	3
Total Income	1,002,870	852,808	
Expenditure			
Employee Costs	319,739	306,394	4
Premises Costs	19,731	17,043	
Investment Management Fees	28,293	23,780	
Depreciation	37,877	30,238	7
Provisions	50,162	36,467	
Audit Fees	11,000	9,500	
Financial Services Authority Fees	11,000	10,500	
Other Expenses	235,628	208,681	5
Total Expenses	713,430	642,603	
Profit on ordinary activities, before tax	289,440	210,205	
Taxation	(80,494)	(66,268)	6
Profit on ordinary activities, after tax	208,946	143,937	

Statement of Assets and Liabilities as at 31 March 2012

	£ 2011/2012	£ 2010/2011	Notes
Assets			
Fixed Assets	585,495	599,953	7
Lending	10,822,775	9,647,949	12
Investments	38,800,000	33,800,000	8
Other Assets	1,429,351	1,070,946	14
Bank Balances	2,882,025	2,669,314	10
Cash	588,545	467,979	11
Total Assets	55,108,191	48,256,141	
Liabilities			
Savings Accounts	50,475,662	43,967,553	15
Other Liabilities	408,515	328,818	16
Total Liabilities	50,884,177	44,296,371	
TOTAL NET ASSETS	4,224,014	3,959,770	
REPRESENTED BY:			
GENERAL RESERVE	4,224,014	3,959,770	18

Signed:		
 Carolyn Thomas		
Name: Carolyn Thomas	Title: Chairman	Date: 25 July 2012

Cash Flow Statement for the year ended 31 March 2012

	£ 2011/2012	£ 2010/2011	Notes
Net cash inflow/(outflow) from operating activities	(1,067,756)	16,034,386	1 (below)
Net cash inflow from financing activities	6,508,109	6,415,085	2 (below)
Taxation	(83,657)	(44,242)	
Net cash outflow from investing activities	(5,023,419)	(22,567,251)	3 (below)
Increase in Cash for the period	333,277	(162,022)	4 (below)

Note 1 Reconciliation of Operating Profit to net Cash Flow from Operating Activities

Profit on ordinary activities, before tax	289,440	210,205
Depreciation Charge	37,877	30,238
Movement on Provisions	50,162	36,467
Decrease in UK Government Securities	0	17,820,584
(Increase) in Lending	(1,174,826)	(1,229,213)
(Increase) in Other Assets	(358,405)	(828,864)
Increase in Other Liabilities	87,996	(5,031)
<i>Net cash inflow/(outflow) from operating activities</i>	<i>(1,067,756)</i>	16,034,386

Note 2 to the Cash Flow Statement: Net Cash inflow from Financing Activities

Increase in Savings Accounts	6,508,109	6,415,085
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Note 3 to the Cash Flow Statement: Net cash outflow from investing activities

Purchase of CD's & Fixed Deposits	(5,000,000)	(22,500,000)
Purchase of fixed assets	(23,419)	(67,251)
	(5,023,419)	(22,567,251)

Note 4 to the Cash Flow Statement: Analysis of change in cash and cash equivalents

Cash in hand and Bank	3,470,570	3,137,293
<i>Increase in Cash for the period</i>	333,277	

Notes to the Accounts for the year ended 31 March 2012

1 Accounting Policies

The Financial statements are prepared under the historical cost convention. Accounting conventions are in accordance with the Bank of St Helena Ordinance 2003 and Banking Financial Services Directive issued under the provisions of the Financial Services Ordinance 2008.

Receipts and payments are accounted for on an accruals basis.

The Financial Statements have been presented, with Bank of St Helena being considered a going concern in light of the Bank's current position within the financial services sector of St Helena, its adequate resources required to remain operational and profitable, as well as the recent commitment by the British Government to air access for St Helena.

The Financial Statements have been prepared using the International Financial Reporting Standards Framework as guidance.

Income

Net Interest Income comprises of Interest Received netted against Interest Payable. Interest Received is credited to the Profit and Loss Account as it is accrued throughout the year

Interest Payable is charged to the Profit and Loss Account as it is accrued throughout the year.

Fees and Commissions are accrued as and when the rendering of a service has been provided by Bank of St Helena.

Other Income is comprised of gains and losses on foreign currency exchange transactions, as detailed in the 'Foreign Currency' section.

Foreign Currency

All Cash and Bank Balances held in foreign currencies are converted and presented in St Helena Pounds, using the adopted mid rates derived from current market mid rates at the reporting date.

Profit/Loss on foreign currency exchange transactions are the cumulative gains/losses margin on buying/selling of foreign currency by Bank of St Helena. Foreign exchange rates are based on the prevailing global market mid rates plus Bank of St Helena margins. All cumulative gains are credited to Income and all cumulative losses are charged to Expenditure at year end.

Expenditure

Expenditure is accrued costs of operations, including the purchase of small equipment, with charges made to the Profit and Loss Account and transferred to the Statement of Assets & Liabilities, as expected payments.

Fixed Assets

All Tangible Assets and Intangible Assets with a value of £1000.00 and over, upon acquisition, are capitalised. All Fixed Assets with the exception of Buildings, are depreciated over 5 years using the straight line method. Buildings are depreciated over 50 years using the straight line method. Depreciation for the period is charged to the Profit & Loss Account. The Accumulated Depreciation is offset against the cost of the existing Fixed Assets to arrive at the Net Book Value of the said assets.

The existence and condition of all assets are verified on an annual basis.

Gains and losses on disposal of assets are determined by the difference recognised between the proceeds of sale of assets and their respective Net Book Value.

Lending

Lending pertains to all loans made to customers and held at Bank of St Helena with fixed or determinable payments and it is expected that substantially all of the initial investment will be recovered, other than those specifically provided for under Liabilities within the Statement of Assets & Liabilities.

All large exposures are reviewed on a regular basis by the Board of Directors and the Financial Services Regulatory Authority.

Investments

Investments are stated in the Statement of Assets & Liabilities at the cost value at the time of investment.

Bank Balances

Bank Balances are stated in the Statement of Assets & Liabilities at cost value, with foreign currency balances converted and presented in St Helena Pounds, using the adopted mid rates derived from the current market mid rates at the reporting date.

Notes to the Accounts for the year ended 31 March 2012

Cash and Cash Equivalents

Cash and Cash Equivalents are stated in the Statement of Assets & Liabilities at cost value, with foreign currency balances converted and presented in St Helena Pounds, using the adopted mid rates derived from current market mid rates at the reporting date.

Provisions

Provisions represent the recognition of a potential decline in the value of an asset. Movements on provisions are effected through the Profit & Loss Account. An increase in a provision will be charged to expenditure, and a decrease taken as income. Provisions are made when specific debts are not being serviced in accordance with pre-agreed terms and the likelihood of full recovery is doubtful. An example when such could occur is a decline in business trading which could lead to a business becoming bankrupt. Provisions reduce the carrying amounts of the asset of Debtors in the Statement of Assets & Liabilities.

Provisions for Operational Losses are set at limits in accordance with Financial Services Regulatory Authority recommendations. Movements in provisions are charged to the Profit & Loss and transferred to the Statement of Assets & Liabilities.

Statement of Liabilities

All Liabilities are stated at the expected cost to Bank of St Helena based on historical data and previous experience. Liabilities represent the expected outflows of economic resources to settle financial obligations from past events, including customer cash deposits (Savings Accounts).

Taxation

Taxation is the calculated tax payable on the taxable income for the year, using the applicable taxation rates and taking into account, any adjustments for taxation payable in previous years.

Notes to the Accounts for the year ended 31 March 2012
2 Interest Receivable

	£ 2011/2012	£ 2010/2011
Interest on Overdrafts	16,512	20,902
Interest on UK Bank Accounts	21,811	24,502
Interest on Investments	1,092,978	578,026
Interest on UK Government Securities	0	190,362
Investment Premium Amortisation	0	(1,464)
Interest on Commercial Lending	152,904	134,799
Interest on Personal/Housing Loans	506,019	453,783
	<u>1,790,224</u>	<u>1,400,910</u>

3 Other Income

Foreign Exchange	31,163	45,036
	<u>31,163</u>	<u>45,036</u>

4 Employee Costs

Staff Costs	306,420	299,592
Directors' Remuneration	13,319	6,802
	<u>319,739</u>	<u>306,394</u>

5 Other Expenses

Licence Fees	49,105	46,555
Communication Expenses	39,544	41,111
Bank Charges	58,238	52,160
Computer & Equipment	24,756	12,511
Other Fees	18,431	13,851
Other	45,554	42,493
	<u>235,628</u>	<u>208,681</u>

6 Tax Calculation

	£ 2011/2012	£ 2010/2011
Profit on ordinary activities, before tax	289,440	210,205
Add: Non-allowable deduction - Provisions	50,162	36,467
Bad debts recovered less write-offs	(10,626)	60
Profit for tax purposes	<u>328,976</u>	<u>246,732</u>
Tax Calculated as Due at 1 April	44,147	44,242
Revision of tax computation for 2010/11	9	0
Total Tax Due for year	80,494	66,268
Less Tax Paid in year	(44,156)	(44,242)
Less Tax Prepaid in year	(39,501)	(22,121)
Tax Liability as at 31 March	<u>40,993</u>	<u>44,147</u>

Notes to the Accounts for the year ended 31 March 2012
7 Fixed Assets

	TANGIBLE ASSETS			INTANGIBLE ASSETS	
	Land & Buildings	Furniture & Equipment	Total	Software	Total
	£	£	£	£	£
COST					
At 1 April 2011	526,580	127,860	654,440	226,385	880,825
Additions	0	15,112	15,112	8,307	23,419
At 31 March 2012	526,580	142,972	669,552	234,692	904,244
DEPRECIATION					
At 1 April 2011	18,202	74,371	92,573	188,299	280,872
Charge for year	10,474	16,568	27,042	10,835	37,877
At 31 March 2012	28,676	90,939	119,615	199,134	318,749
NET BOOK VALUE					
At 31 March 2012	497,904	52,033	549,937	35,558	585,495
At 31 March 2011	508,378	53,489	561,867	38,086	599,953

8 Investments

	£ 2011/2012	£ 2010/2011
Crown Agents Sterling CD's	25,500,000	0
Crown Agents Long Term Fixed Deposits	13,300,000	33,800,000
	<u>38,800,000</u>	<u>33,800,000</u>

9 Investments Maturity Analysis

Maturing in 1 year	24,300,000	18,500,000
Maturing in 2 years	3,500,000	15,300,000
Maturing in 3+ years	11,000,000	0
	<u>38,800,000</u>	<u>33,800,000</u>

10 Bank Balances

	£ 2011/2012	£ 2010/2011
Crown Agents: Cash & Call	2,046,427	2,110,741
Lloyds TSB: Currency Accounts	44,474	38,968
Lloyds TSB: GBP Account	791,124	519,605
	<u>2,882,025</u>	<u>2,669,314</u>

11 Cash

	£ 2011/2012	£ 2010/2011
St Helena Currency	428,586	343,889
Other Currencies	159,959	124,090
	<u>588,545</u>	<u>467,979</u>

Notes to the Accounts for the year ended 31 March 2012
12 Lending

Personal Loans	800,555	689,775
Housing Loans	7,774,952	6,916,519
Commercial Loans	2,807,632	2,597,296
Overdrafts	361,194	194,853
	<u>11,744,333</u>	<u>10,398,443</u>
Less: Loan Disbursement Accounts	(921,558)	(750,494)
Total Lending	<u>10,822,775</u>	<u>9,647,949</u>

13 Lending Maturity Analysis

	From 31st March 2012	From 31st March 2011
Maturing in less than 1 year	771,243 07%	405,587 04%
Maturing in 1 to 3 years	1,281,370 11%	1,034,213 10%
Maturing in 3 to 7 years	1,396,814 12%	1,232,850 12%
Maturing in 7 to 15 years	4,267,290 36%	3,329,539 32%
Maturing in 15 to 20 years	4,027,616 34%	4,396,254 42%
	<u>11,744,333</u>	<u>10,398,443</u>

Note: 'Maturity' for repayment loans is the date on which the final repayment is made. For overdrafts it is the next renewal date. The Savings Bank Loan portfolio adopted from SHG from the 1 April 2004 is calculated using a single time period 1-3 years.

14 Other Assets

Accrued Interest Receivable	768,650	318,184
Debtors (Balance held with SHG)	629,984	724,499
Prepayments	18,919	17,755
Items in the course of collection from Lloyds TSB	11,798	10,508
	<u>1,429,351</u>	<u>1,070,946</u>

15 Savings Accounts

Balance at 1 April	43,967,553	37,552,468
Interest On Depositors' Accounts	1,005,769	1,208,577
Less SHG Withholding Tax	(99,331)	0
Net Deposits received in year	5,601,671	5,206,508
Balance at 31 March	<u>50,475,662</u>	<u>43,967,553</u>
Comprising:		
St Helena Individuals	25,322,931	24,052,451
Ascension Individuals	7,240,383	8,004,465
St Helena Corporations	8,216,190	6,578,027
Ascension Corporations	18,460	26,897
Governments	7,557,857	4,464,035
Child Bond Savings Accounts	330,530	278,771
New Life Account	658,769	527,788
Other	1,130,542	35,119
	<u>50,475,662</u>	<u>43,967,553</u>

Notes to the Accounts for the year ended 31 March 2012
16 Other Liabilities

	£ 2011/2012	£ 2010/2011
Provisions for Doubtful Debts	123,590	249,773
Provisions for Operational losses	100,000	0
Credit Suspense	3,793	1,145
Tax Due	40,984	44,147
Community Project Funds	4,474	3,214
Accrued Bonus Payable	15,234	11,063
Accrued Investment Management Fees	7,301	6,335
Audit Fees	11,000	9,500
Accrued Interest Payable	2,808	3,641
SHG Withholding Tax	99,331	0
	<u>408,515</u>	<u>328,818</u>

17 Movement in Provisions

Balance at 1 April	249,773	213,306
Add Specific Provision 2011-12	26,282	36,467
Less Write Offs	(10,626)	0
Add net provision for Operational Losses	13,459	0
Less Write Back of reduction in Provision for Operational Losses	(55,298)	0
	<u>223,590</u>	<u>249,773</u>

18 Reserve Account

Balance at 1 April	3,959,770	3,815,833
Profit on ordinary activities after tax	208,946	143,937
Movement of reduction in general provision to retained earnings	55,298	0
Balance at 31 March	<u>4,224,014</u>	<u>3,959,770</u>

Notes to the Accounts for the year ended 31 March 2012**19 Related Party Transactions**

Bank of St Helena is owned by the Government of St Helena. At present no Share Capital has been established.

All amounts owing to Bank of St Helena by the Government of St Helena have been disclosed as Debtors under Note 14 Other Assets. This amount is reflective of cash deposits held by SHG on behalf of Bank of St Helena netted against amounts owing to the Government of St Helena in respect of balances held with Bank of St Helena.

20 Contingent Liability

Bank of St Helena has a contingent liability in the form of a guarantee of £2150.00 pledged as collateral security. Guarantees and Letters of Credit are given as security to support the performance of a customer to third parties. As Bank of St Helena will only be required to meet these obligations in the event of the customer's default, the cash requirements of the instruments are expected to be considerably below their nominal values.