



**Bank of St. Helena**

**Building for the Future**



# **Directors' Report & Audited Financial Statements for the Financial Year 2012-2013**

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Established and regulated in St. Helena under the Financial Services Ordinance, 2008 the Company Ordinance, 2004 and the Company Regulations, 2004



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**Bank of St. Helena**

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# **Directors' Report 2012-2013**



## Directors' Report, for the Financial Year 2012/2013

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## **Directors' Report, for the Financial Year 2012/2013**

### **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 2013**

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.

This report is the final one under the auspices of the Bank of St. Helena Ordinance 2003 as the Bank was registered as a company in March 2013 with the Bank of St. Helena Ordinance 2003 being repealed at 31 March 2013 and the assets and liabilities being transferred to Bank of St. Helena Limited on 1 April 2013. 100% of the issued and paid up Share Capital of Bank of St. Helena Limited is owned by the St. Helena Government.

#### **1 Principal Activities**

During the year April 2012 to March 2013, Bank of St. Helena continued to deliver its core retail banking products and services through its main branch on the Island of St. Helena and its sub-branch on Ascension Island. Both islands, situated in the South Atlantic, are part of the British Overseas Territory of St. Helena, Ascension and Tristan Da Cunha. During the year under review, the Bank continued to offer Current & Deposit Accounts, Personal Loans, Housing Loans and Commercial Loans. Online Banking was further developed and this product is now scheduled for piloting in July 2013. It will allow the Bank's customers to conduct business with other Bank of St Helena customers via the internet.

#### **2. Business Review**

The mission of the Bank of St. Helena remains the same - to develop and deliver banking products and services that are appropriate, affordable and accessible to all.

##### **2.1 Global Economic Environment**

The global economic environment remains unstable. During the financial crisis of the past four years, governments and central banks have injected significant amounts of cash into the financial systems to help prop up the markets and world leaders are hopeful that the global economy is finally heading towards a recovery phase. However an international monetary fund report in October 2012<sup>1</sup> forecasted "prospects are for sluggish and bumpy growth". At the World Economic Forum Annual Meeting in January 2013, it was reported that there was "cautious optimism" in relation to the potential recovery of the world's economy<sup>2</sup>. Investors are reported to have started switching from Money Market Funds to Bonds and Equities as the latter, more riskier assets, offer better returns. It is expected that rates offered on Money Market Funds will remain low for the foreseeable future. This latter situation has had, and will continue to have, a direct impact on the Bank's Net Interest Income as surplus funds are invested in Certificates of Deposits (CDs) with UK Banks.

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<sup>1</sup> IMF Chapter 1 World Economic Outlook 2012

<sup>2</sup> Report on World Economic Forum Annual Meeting 2013 'Resilient Dynamism

## Directors' Report, for the Financial Year 2012/2013

### 2.2. Local Economic Environment

The local economic environment remains buoyant due to the significant injections of financial aid received from the British Government, European Union and other donor agencies.

The British Government remains committed to a design, build and operate contract for an airport on St. Helena. Progress towards air access is reported to be on time and within budget<sup>3</sup>. It is envisaged that this improved access to the island will be a catalyst for stimulating 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 motivating economic development. Negotiations are currently taking place between the St. Helena Government and international tourist accommodation providers which, if successful, should be an important step towards the island being suitably ready for business when the airport becomes operational in less than three years time.

During the year to 31 March 2013, inflation on the Retail Price Index has shown a steady decline with the rate standing at 2.4 percent at the end of March 2013.<sup>4</sup> An increase in the number of economically active residents also bodes well for growth in outputs and the amount of disposable income available.

The increase in the Bank's Current and Deposit accounts could be an indicator of an increase in economic activity. However, the absence of other economic information such as the increase in the quantity or range of new products and services being produced and sold on the island, means that one cannot categorically say that there is an upturn in the local economy.

### 2.3 The impact on the Bank

The increase in economic activity filtered through to the Bank and it saw a 16% (£7,971,623) increase in the value of customer current and deposit accounts.

However, surprisingly, the demand for Commercial Loans was minimal and the net effect was a 15% decrease (£439,783) in this portfolio. It would appear that individuals and businesses do not, as yet, have the confidence to invest in anticipation of the forecast economic benefits that air access promises.

Throughout the year, the Directors have continued to focus on achieving a healthy balance between:

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<sup>3</sup> St Helena Airport; Issue 19 Published 23 October 2012 by Access Office, St Helena Government

<sup>4</sup> SHG Quarterly Statistical News Bulletin published May 2013

### **Directors' Report, for the Financial Year 2012/2013**

- Generating enough profit to ensure that the Bank's Statement of Assets and Liabilities remain strong; including increasing Retained Earnings to help ensure that it keeps pace with the increase in Weighted Risk Assets.
- Maintaining a stable rate of interest payable to depositors.
- Providing appropriate and affordable products and services that will help the Bank's customers to generate economic growth

Directors are always mindful of the need to generate profit but maximising profit is not the primary objective. During the last financial year, the Bank has been undertaking a review of its charges for services with a view to eliminating as far as possible any subsidisation of products or services. This has produced a 10% (£18,920) increase in fees and commissions.

Returns on placements with UK banks has decreased and this had to be filtered through the system, necessitating a reduction by 0.5%, effective 1 April 2013, on the interest rate payable on Current and Deposit Accounts.

In parallel with increasing income, the Management has been rigorous with containing expenses. The latter has increased by 24% (£170,821) with the most significant i.e. those with a percentage increase greater than the average percentage increase, being:

- ❖ Employee costs - the increase is due primarily to an increase in employee numbers from 28 to 33. Paragraph 4.1.3 provides the details.
- ❖ Premises costs - the increase is due to the rental of additional premises in order to meet the expanding needs of the Bank; and with this comes increases in utility costs as well as cleaning and maintenance costs.
- ❖ Depreciation – the Directors have reduced the estimated useful life of the current bank premises as the Bank plans to relocate its operations to a more suitably sized building that can better accommodate the existing services and those forecast for the medium term future.
- ❖ Fees paid to the Financial Services Regulatory Authority
- ❖ An impairment loss on one of the bank's buildings. This building, known as 'Percy's' in Napoleon Street, has been declared as available for sale and will be disposed of in the financial year 2013/2014.

However, whilst there has been an increase in expenses, the Bank has still managed a Profit before Tax of £373,035, 29% growth on last year's performance, and Net Profit after Tax of £290,196, 39% growth relative to last year's profit.

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

During the year April 2012 to March 2013, key highlights have included:

- 16% growth in customer deposits
- 39% growth in profit on ordinary activities after tax
- 11% growth in housing loans

## **Directors' Report, for the Financial Year 2012/2013**

During the year to 31 March 2013 the Bank's Weighted Risk Assets grew by £1,751,178 with the Housing Loans portfolio increasing by 7% (£248,364) demonstrating that building or purchasing homes is still a top priority for most St. Helenians. Commercial Lending contracted, with the remaining growth attributed to increases in Investments, Bank Accounts and Other Assets needed to absorb the growth in the Bank's Customer's Deposits.

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 of 12%

The Bank remains committed to delivering excellent customer service and has continued with the monthly Mobile Banking services which are well utilised by customers. Throughout the year, Management has introduced a number of initiatives to help reduce queues; however the increasing demand for service has highlighted the need for additional products/services to ensure the speed and ease with which customers may access their accounts.

The Bank reaffirms 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 2003 defined the Bank as a body corporate which meant it had 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.

The Bank is pleased to confirm that with effect from 1 April 2013, Bank of St. Helena became Bank of St Helena Limited. This formalises the relationship with SHG, whereby SHG owns the Bank, as Majority Shareholder. At the start of the 2013/14 financial year, the Bank's Capital Base comprised of Share Capital (SHG) £3.22 million and General Reserves of £1.3 million. The Articles of Incorporation provide for an Authorised Share Capital of £6 million which allows for future sales of shares, should the need arise for injections of capital.

## Directors' Report, for the Financial Year 2012/2013

### 4. Financial Performance

#### 4.1 Commentary on the Profit & Loss Account

The Bank's financial performance for the year to 31 March 2013 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 2013	Year to 31 March 2012
Total Income	£1,257,286	£1,002,870
Total Expenditure	£884,251	£713,430
Profit before Tax	£373,035	£289,440
Taxation	£82,839	£80,494
<b>Profit after Tax</b>	<b>£290,196</b>	<b>£208,946</b>

The Bank's Profit before Tax has increased by £83,595 (29%) 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. Retained earnings also finances capital requirements such as infrastructure improvements, 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 25% (£254,416). Returns on investments overseas have declined steadily over the past five years with the Bank feeling the impact when different portions of its three year rolling programme became due for reinvestment. The Bank has however managed to sustain an increase in income from investments due to having some older investments, with higher rates of return, still to mature. Additional investments were necessitated by increases in Customer Deposits. In the year under review, 63% of the total interest receivable came from CDs and Fixed Deposits; less than 1% 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 24% over last year. This includes an increase of 31% in employee costs; this large increase has come about due to the need for additional staff to service the growing needs of an expanding customer base, as well as the need for specific skills and expertise, which until then was serviced by current staff. Other significant increases in expenditure are highlighted in paragraph 2.3 above.

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,

## Directors' Report, for the Financial Year 2012/2013

especially where to do so could compromise the quality and effectiveness of the service delivery.

### 4.1.3 Employee Costs and Numbers

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

	As 31 March 2012		As 31 March 2013	
	Numbers	Cost	Numbers	Cost
Teller Services	13		12	
Operations (Accounts, Admin, Marketing, IT, Operation Assistants)	4		12	
Lending	4		4	
Management	3		3	
Directors	4		2	
<b>TOTAL</b>	<b>28</b>	<b>£319,739</b>	<b>33</b>	<b>£420,037</b>

Going forward, the Directors recognised that Senior Management's skills and time were being spread too thinly and this practice was no longer sustainable.

There has thus been an increase in head count in the Middle Management strata which has enhanced the overall level of service support to Senior Management and the Board. This included the recruitment of an Accountant, Assistant Commercial Lending Manager, an IT Manager and a Marketing & Customer Services Manager. There was also the need to employ two additional temporary workers to assist with general back office tasks. These numbers include staff on St Helena and Ascension.

By year end there were a total of 2 Directors plus the Managing Director who is recorded within the Management staffing numbers.

Staff costs include the cost of staff professional development to ensure competent service delivery. Incentives and employee rewards are aligned with individual and corporate performance.

## 4.2 Commentary on the Statement of Assets and Liabilities

The financial year 2012/13 has seen an overall growth of 7% (£290,196) in the Bank's Net Assets.

### 4.2.1 Fixed Assets

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, a revaluation of the Bank's two buildings took place within the 2012/13 financial year. As reported in 2.3 above, the Directors have reduced the estimated useful life of the current Bank premises as the Bank plans to relocate its operations to a

## **Directors' Report, for the Financial Year 2012/2013**

more suitable sized building, that can better able accommodate the existing services and those forecast for the medium term future.

Also noted in 2.3, is that the premises known as 'Percy's' has undergone an impairment review and is to be disposed of in the forthcoming financial year. The net effect of this has meant that the NBV of Lands & Buildings has been reduced this financial year by £26,424; with Land & Buildings representing 91% of the Bank's Fixed Assets.

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

### **4.2.2 Investments**

The Bank continues to invest in Certificates of Deposits (CDs) with UK Banks, due to the greater return that can be earned on the latter, relative to UK Gilts. 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 12.9% (£5,000,000) increase in the value of the Bank's overseas investments as a direct result of the 16% (£7,971,623) growth in balances on Customer Deposits.

### **4.2.3 Customer Deposits**

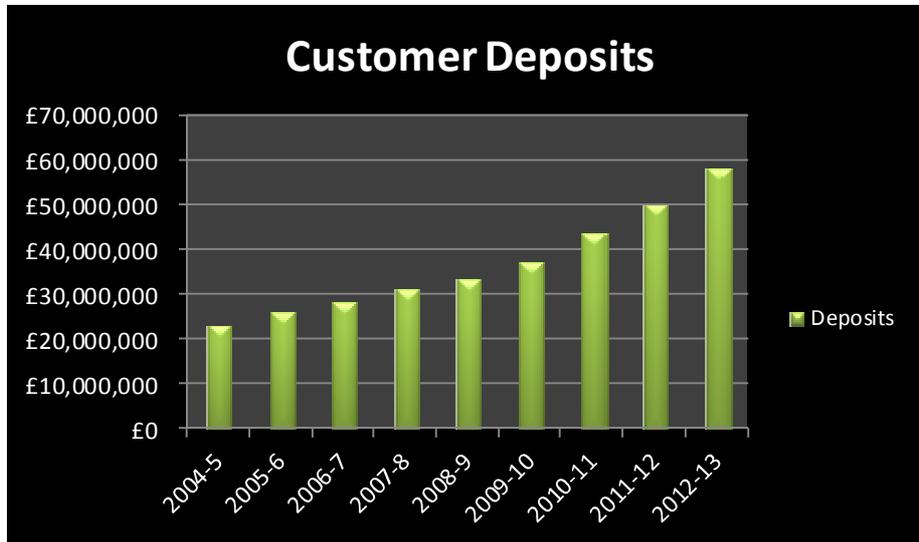
During the last year, Customer Deposits has seen an overall increase of 15.8%. Note 16 to the accounts shows that the most significant movements have been in:

- ❖ Other organisations 709% (£875,270). These include pension plans and registered charities, although a portion is attributable to reclassification of accounts.
- ❖ Overseas individuals 304% (£3,062,834) although a portion of this is attributable to reclassification of accounts relating to St. Helenians that have emigrated;
- ❖ St Helena Corporations 41% (£3,391,291)
- ❖ Government Accounts 22% (£1,665,213)

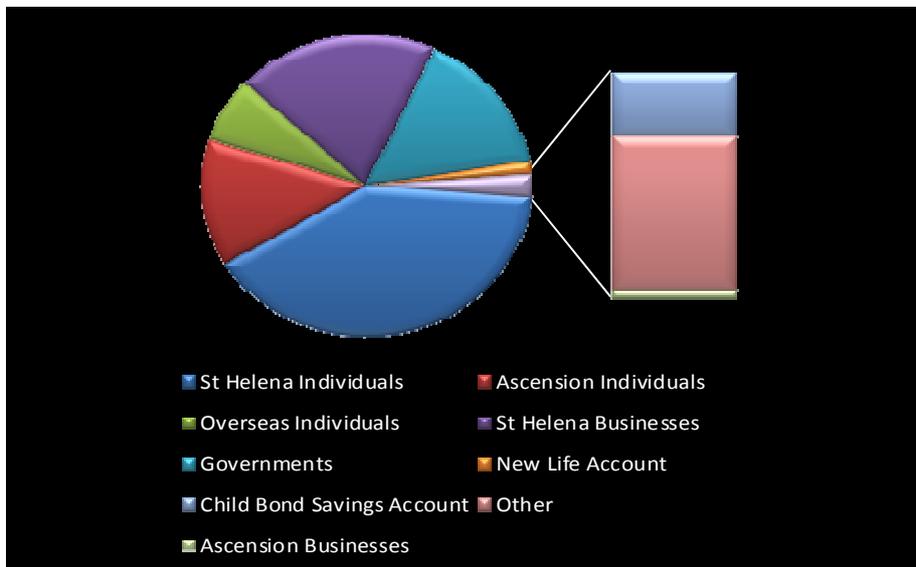
Figure 1 below shows the growth in the overall value of Deposits and Figure 2 shows the proportion of funds held by the different categories of Depositors.

**Directors' Report, for the Financial Year 2012/2013**

**Figure 1**



**Figure 2**



**Directors' Report, for the Financial Year 2012/2013**

**4.2.4 Lending**

The overall lending portfolio has grown by only 3% (£338,221) before the deduction of Loan Disbursements; after this deduction lending growth is only 0.03% (£1,696). Throughout the year the Bank did not receive the expected increase in both Commercial and Personal Loans; both these categories have contracted this financial year with the value of Personal Loans decreasing by 11% (£86,358) and Commercial Loans decreasing by 15% (£439,783). Housing Loans on the other hand has seen a continuation of its upward trend, with an increase of 11% (£838,915). Overdrafts, have increased by 21% (£25,447) indicating that there remains demand for short term working capital.

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 £127,632 which gives a non-performing loan ratio of 1.06%.

The Bank has revised its policy for doubtful debts moving 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 specific provision for doubtful debts has been further decreased this year by 39% (£48,678).

It has been estimated, 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. Banking directives limit the amount of exposure to any one customer or connected customers to 25% of the Bank's Net Assets.

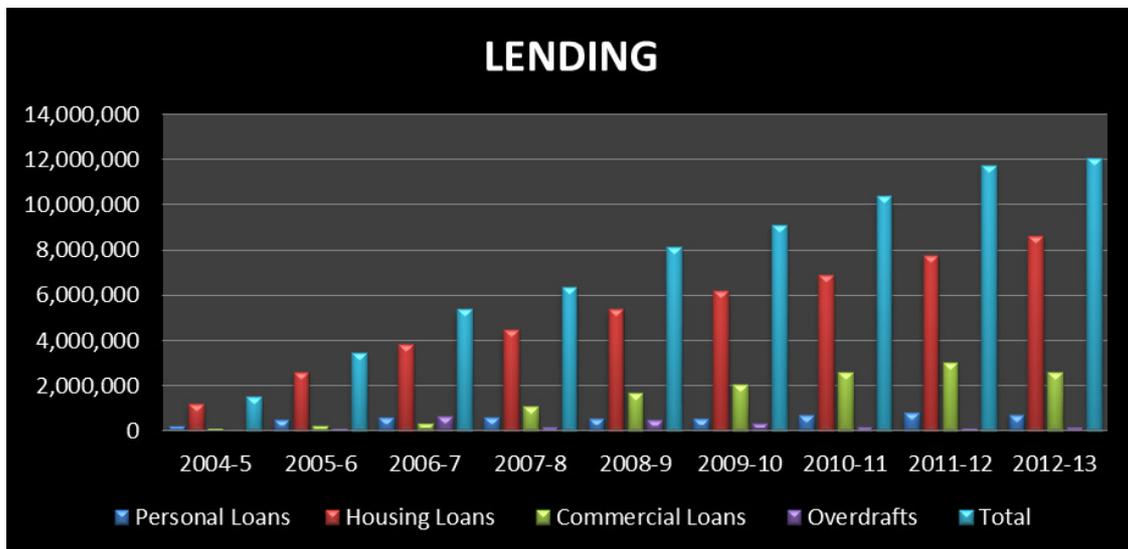


Figure 3

## Directors' Report, for the Financial Year 2012/2013

### 4.2.4 Other Liabilities

Details of the Bank's Liabilities, other than the Customer Deposits, can be seen in note 17 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	Capital and Regulatory	Average	Minimum	Maximum
	Limit	Achieved	Recorded	Recorded
Weighted Risk Assets	12%	23.84%	23.00%	24.40%
Total Liquid Assets in St. Helena:Total Liabilities	0.50%	1.95%	1.00%	3.20%
<b>Total Liquid Assets:Total Liabilities</b>	<b>25%</b>	<b>54.66%</b>	<b>47.40%</b>	<b>71.70%</b>

The table above shows the Bank's capital and liquidity positions throughout the Financial Year 2012/13. 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 February 2013.

## 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 aware 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. Internal Audit reports together with management responses are reviewed by the Directors on a monthly basis. 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.

## Directors' Report, for the Financial Year 2012/2013

### 6.1 *The Bank as a Going Concern*

An overview of the Global and Local environment has been presented in paragraphs 2.1 and 2.2 respectively. The Bank's ability to remain profitable, within such an environment, will be dependant on a number of factors as cited in its Strategic Plan 2013-2018, which include:

#### **Maximisation of the return on UK investments and returns on loans.**

The Bank is currently authorised, by the FSRA, to invest in the least risky financial instruments namely UK Government Gilts and Certificates of Deposit (CDs) with UK Banks. Although higher returns are available on more riskier instruments such as corporate bonds and equities, such is not currently in keeping with the risk appetite of the Board or the FSRA. Whilst interest rates on CDs with banks in the UK have dropped steadily over the last year, the Bank has been able to maintain its growth in interest income by making additional investments, made possible by the 15.8% growth in Customer Deposits.

Due to the expected lower incomes on Investments, the Bank had to effect a 0.5% decrease in interest payable on Customer Deposits with effect from 1 April 2013. The Board and Management continue to closely monitor the market although predictions are that rates in Money Market Funds are staying low<sup>5</sup>.

Whilst Lending has not grown significantly for the year, Customer Deposits have grown by almost £8 million, resulting in the funding and liquidity of the Bank remaining robust throughout the year.

The Directors remain optimistic that the forthcoming 2013/14 financial year will see an increase in commercial activity with new and existing businesses becoming more prepared to invest in readiness for air access. If the forecasts are realised, the resultant interest income, will help mitigate the low returns on the UK Bank placements.

Having considered the Bank's current position within the Financial Services Sector of St. Helena; its recent incorporation as a Government owned company and its on going plans for development of its infrastructure, personnel, products and services, 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*

For the required growth in the economy to be effected, individuals and businesses will need to start soon to invest in new products, services, facilities, technologies and the workforce. As the Bank is the primary source of financial resources on the island, the Management and Directors pay close attention to assessing the probability that individuals or businesses will be able to generate the cash income required to service their respective financial commitments. Any significant deviations from agreed loan service plans, would have an adverse impact on the Bank's profitability.

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<sup>5</sup> Financial Times ft.com Capital Markets 30 June 2013

## **Directors' Report, for the Financial Year 2012/2013**

The Bank spreads the risk of lending by ensuring that lending is not targeted to any one portfolio, and that within the Commercial Lending Portfolio, lending is spread across the various sectors. At present, the majority of Commercial Loans are within the Construction and Accommodation sectors, which if the benefits of improved access are not realised, could result in some customers facing difficulties in servicing their financial commitments.

To reduce the probability of this risk materialising, the Bank maintains responsible lending practices ensuring a healthy balance between risk and reward. 98.2% of the total Loan Portfolio has adequate security and 98.9% 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.

Throughout the year upgrades of the Bank's software took place, and this has been successful in helping to ensure the continued efficient operation of the systems and processes. The Bank is currently finalising the requirements of Online Banking. The risks associated with this new product have been identified and evaluated and such are being managed through various security measures and procedures. The mitigation of the risks has been one of the reasons this service could not be rolled out to customers during the year.

The Bank places high priority on keeping staff up to date with anti-money laundering precautions; this has been continued throughout the year. All staff receives formal refresher training every year. The Bank also places great emphasis on continual professional development with all staff members being actively encouraged to enhance their knowledge and skills through a combination of work place assessment (National Vocational Qualifications) and Internationally Accredited Study programmes including those offered by the International Financial Services (IFS), Association of Chartered Certified Accountants (ACCA), Management College of Southern Africa (MANCOSA), Banker's Academy and other reputable organisations.

The Bank has a Disaster Risk Management strategy in place which is due for review and testing during the next financial year. Infrastructural upgrades have begun taking place this year, with a view to completing this within the first half of the new financial year. The upgraded infrastructure will be reviewed and tested in accordance with the Bank's Disaster Risk Management strategy during the 2013/14 financial year.

## Directors' Report, for the Financial Year 2012/2013

The Bank values the contribution of colleagues and recognises that business objectives can only be achieved by attracting and developing high quality staff. The employment and retention of adequate numbers of experienced and qualified individuals has been cited in the Bank's Strategic Plan 2013-2018, as being a challenge in the short and long term. The Bank's Manager is competently supported by a Chief Operations Officer and Human Resources & 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.

### 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 corporate social responsibilities within the community. 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 2013.

Quarter	Date	Projects Approved	Amount Approved	Budget Balance
	01/04/2012	Budget Approval for 2012/13	£10,000.00	£10,000.00
1st Qtr	15/05/2012	Scouts Trip to Ascension	£500.00	£9,500.00
	18/06/2012	Printing of children's books (Marine Awareness)	£500.00	£9,000.00
2nd Qtr	20/07/2012	SHAPE – Computing equipment	£600.00	£8,400.00

The Board and Management acknowledge that the full potential of this fund was not realised in this financial year and plans are in hand to ensure that through effective marketing, the benefits of this fund can reach those potential areas of development within the island's community.

In addition £1,373 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.

## Directors' Report, for the Financial Year 2012/2013

### 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.

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 2013 were:

Miss Rosemary Bargo	Managing Director
Mrs Carolyn Thomas	Chairman
Mr Desmond Wade	Member (resigned 30 July 2012)
Miss Kerry Stevens	Member
Mr Simon Francis	Member (resigned 8 February 2013)

Subsequently on 23 May 2013, Mrs Joan Peters was appointed as a Member, with one remaining position still to be filled.

**Directors' Report, for the Financial Year 2012/2013**

**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 31<sup>st</sup> day of March in any year submit to the Governor

- (a) a report on its activities during the year preceding that 31<sup>st</sup> 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  
**Chairman**



Rosemary Bargo  
**Managing Director**

## **Independent Auditor's Report**



# SAINT HELENA AUDIT SERVICE

External Auditors

## Independent Auditor's Report

### Bank of Saint Helena Financial Statements for the year ended 31 March 2013

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 2013, the Profit and Loss Account and the Cash Flow Statement for the year ended 31 March 2013, 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 2013, and of the results of its operations for the year then ended in accordance with laws in force in St Helena.

30 July 2013

Andrew Neill

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

**Audited Financial Statements**  
**for the Financial Year 2012/13**

### Profit and Loss Account for the year ended 31 March 2013

	£ 2012/13	£ 2011/2012	Notes
<b>Income</b>			
Interest Receivable	2,079,740	1,790,224	2
Interest Payable	(1,068,945)	(1,005,769)	15
Net Interest Income	1,010,795	784,455	
Fees & Commissions	206,172	187,252	
Other Income	40,319	31,163	3
<b>Total Income</b>	<b>1,257,286</b>	<b>1,002,870</b>	
<b>Expenditure</b>			
Employee Costs	420,037	319,739	4
Premises Costs	40,298	19,731	
Investment Management Fees	32,104	28,293	
Depreciation	60,036	37,877	7
Provisions	6,852	50,162	
Audit Fees	14,324	11,000	
Financial Services Authority Fees	18,000	11,000	
Impairment Losses	7,800	0	
Other Expenses	284,800	235,628	5
<b>Total Expenses</b>	<b>884,251</b>	<b>713,430</b>	
Profit on ordinary activities, before tax	373,035	289,440	
Taxation	(82,839)	(80,494)	6
<b>Profit on ordinary activities, after tax</b>	<b>290,196</b>	<b>208,946</b>	

### Statement of Assets and Liabilities as at 31 March 2013

	£ 2012/13	£ 2011/12	Notes
<b>Assets</b>			
Fixed Assets	560,676	585,495	7
Lending	10,824,471	10,822,775	12
Investments	43,800,000	38,800,000	9
Other Assets	2,579,979	1,429,351	14
Bank Balances	5,103,355	2,882,025	10
Cash	446,899	588,545	11
<b>Total Assets</b>	<b>63,315,380</b>	<b>55,108,191</b>	
<b>Liabilities</b>			
Customer Current & Deposit Accounts	58,447,285	50,475,662	15
Other Liabilities	353,885	408,515	16
<b>Total Liabilities</b>	<b>58,801,170</b>	<b>50,884,177</b>	
<b>TOTAL NET ASSETS</b>	<b>4,514,210</b>	<b>4,224,014</b>	
REPRESENTED BY:			
<b>GENERAL RESERVE</b>	<b>4,514,210</b>	<b>4,224,014</b>	18

Signed:		
		
Name: Carolyn Thomas	Title: Chairman	Date: 30 July 2013

### Cash Flow Statement for the year ended 31 March 2013

	£ 2012/13	£ 2011/2012	Notes
Net cash inflow/(outflow) from operating activities	(744,504)	(1,067,756)	1 (below)
Net cash inflow from financing activities	7,971,623	6,508,109	2 (below)
Taxation	(104,417)	(83,657)	
Net cash outflow from investing activities	(5,043,018)	(5,023,419)	3 (below)
<b>Increase in Cash for the period</b>	<b><u>2,079,684</u></b>	<b><u>333,277</u></b>	4 (below)

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

Profit on ordinary activities, before tax	373,035	289,440	
Depreciation Charge	60,036	37,877	
Movement on Provisions	6,852	50,162	
Impairment Losses	7,800	0	
(Increase) in Lending	(1,696)	(1,174,826)	
(Increase) in Other Assets	(1,150,628)	(358,405)	
Increase in Other Liabilities	(39,903)	87,996	
<i>Net cash inflow/(outflow) from operating activities</i>	<b><u>(744,504)</u></b>	<b><u>(1,067,756)</u></b>	

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

Increase in Customer Current & Deposit Accounts	<u>7,971,623</u>	<u>6,508,109</u>	
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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)	(5,000,000)	
Purchase of fixed assets	(43,018)	(23,419)	
	<b><u>(5,043,018)</u></b>	<b><u>(5,023,419)</u></b>	

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

Cash in hand and Bank	<u>5,550,254</u>	3,470,570	
<i>Increase in Cash for the period</i>	<b><u>2,079,684</u></b>		

## Notes to the Accounts for the year ended March 2013

### 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 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. Prior to the Financial Year, all Fixed Assets with the exception of Buildings, were depreciated over 5 years using the straight line method. Buildings were depreciated over 50 years using the straight line method. During the Financial year a renewed policy has been implemented, applicable to all newly acquired assets; Buildings are depreciated over 50 years; Furniture & Fittings 10 years; Plant & Equipment 10 years; Vehicles 5 years; Computers/Software 3 years. 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.

During the current Financial Year, a change in accounting estimate has been applied to the useful life of the Bank's building. This building is now depreciated over 20 years using the straightline method.

During the financial year 2012/13 the Bank commissioned a revaluation of its buildings. It was found that at this time the island's markets are limited and immature, and due to a number of variables, there remains uncertainty about the value of the buildings. The Bank has applied an impairment to one building which results in it being reflected at its Fair Value. However, in respect of the main Bank building, the Bank has changed the accounting estimate applied to the useful life of the asset; reducing its useful life from 50 years to 20 years respectively. This ensures that the value of the building is disclosed at a prudent value and life span. To ensure that the Bank's highest valued assets; its buildings, are held at their most Fair Market Value, the Bank will continue to monitor market conditions and apply best accounting practice to arrive at a prudent and reliable valuation of its property in the future.

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 March 2013****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, including capital allowances and taking into account, any adjustments for taxation payable in previous years.

**Notes to the Accounts for the year ended March 2013**

<b>2 Interest Receivable</b>	<b>£</b>	<b>£</b>
	<b>2012/13</b>	<b>2011/12</b>
Interest on Overdrafts	15,319	16,512
Interest on UK Bank Accounts	19,202	21,811
Interest on Investments	1,301,393	1,092,978
Interest on Commercial Lending	163,429	152,904
Interest on Personal/Housing Loans	580,397	506,019
	<u>2,079,740</u>	<u>1,790,224</u>
<b>3 Other Income</b>		
Foreign Exchange	39,594	31,163
Other	725	0
	<u>40,319</u>	<u>31,163</u>
<b>4 Employee Costs</b>		
Staff Costs	409,308	306,420
Directors' Remuneration	10,729	13,319
	<u>420,037</u>	<u>319,739</u>
<b>5 Other Expenses</b>		
Licence Fees	54,321	49,105
Communication Expenses	53,174	39,544
Bank Charges	49,856	58,238
Computer & Equipment	54,126	24,756
Other Fees	26,738	18,431
Other	46,585	45,554
	<u>284,800</u>	<u>235,628</u>
<b>6 Tax Calculation</b>		
Profit on ordinary activities, before tax	373,035	289,440
Add: Non-allowable deduction - Provisions	6,852	50,162
Bad debts recovered less write-offs	(55,530)	(10,626)
Profit for tax purposes	<u>324,357</u>	<u>328,976</u>
Tax Calculated as Due at 1 April	40,993	44,147
Revision of tax computation	1,741	9
Total Tax Due for year	81,089	80,494
Less Tax Paid in year	(42,734)	(44,156)
Less Tax Prepaid in year	(61,683)	(39,501)
Tax Liability as at 31 March	<u>19,406</u>	<u>40,993</u>

**Notes to the Accounts for the year ended March 2013**
**7 Fixed Assets**

	TANGIBLE ASSETS		INTANGIBLE ASSETS		Total
	Land & Buildings	Furniture & Equipment	Total	Software	
	£	£	£	£	£
<b>COST</b>					
At 1 April 2012	526,580	142,972	669,552	234,692	904,244
Additions	0	19,453	19,453	23,565	43,018
At 31 March 2013	<u>526,580</u>	<u>162,425</u>	<u>689,005</u>	<u>258,257</u>	<u>947,262</u>
<b>DEPRECIATION</b>					
At 1 April 2012	25,448	94,168	119,616	199,134	318,750
Charge for year	21,852	22,064	43,916	16,120	60,036
Impairment	7,800	0	7,800	0	7,800
At 31 March 2013	<u>55,100</u>	<u>116,232</u>	<u>171,332</u>	<u>215,254</u>	<u>386,586</u>
<b>NET BOOK VALUE</b>					
At 31 March 2013	<u>471,480</u>	<u>46,193</u>	<u>517,673</u>	<u>43,003</u>	<u>560,676</u>
At 31 March 2012	<u>497,904</u>	<u>52,033</u>	<u>549,937</u>	<u>35,558</u>	<u>585,495</u>

	£ 2012/13	£ 2011/12
<b>8 Investments</b>		
Crown Agents Sterling CD's	43,800,000	25,500,000
Crown Agents Long Term Fixed Deposits	0	13,300,000
	<u>43,800,000</u>	<u>38,800,000</u>

	£	£
<b>9 Investments Maturity Analysis</b>		
Maturing in 1 year	3,500,000	24,300,000
Maturing in 2 years	10,000,000	3,500,000
Maturing in 3+ years	30,300,000	11,000,000
	<u>43,800,000</u>	<u>38,800,000</u>

	£ 2012/13	£ 2011/12
<b>10 Bank Balances</b>		
Crown Agents: Cash & Call	2,580,834	2,046,427
Lloyds TSB: Currency Accounts	28,315	44,474
Lloyds TSB: GBP Account	2,494,206	791,124
	<u>5,103,355</u>	<u>2,882,025</u>

	£ 2012/13	£ 2011/12
<b>11 Cash</b>		
St Helena Currency	305,507	428,586
Other Currencies	141,392	159,959
	<u>446,899</u>	<u>588,545</u>

**Notes to the Accounts for the year ended March 2013**
**12 Lending**

	£ 2012/13	£ 2011/12
Personal Loans	714,197	800,555
Housing Loans	8,613,867	7,774,952
Commercial Loans	2,602,441	3,042,224
Overdrafts	152,049	126,602
	<u>12,082,554</u>	<u>11,744,333</u>
Less: Loan Disbursement Accounts	(1,258,083)	(921,558)
Total Lending	<u><u>10,824,471</u></u>	<u><u>10,822,775</u></u>

**13 Lending Maturity Analysis**

	From 31st March 2013	From 31st March 2012
Maturing in less than 1 year	395,254 03%	771,243 07%
Maturing in 1 to 3 years	1,396,901 12%	1,281,370 11%
Maturing in 3 to 7 years	1,534,456 13%	1,396,814 12%
Maturing in 7 to 15 years	4,639,268 38%	4,267,290 36%
Maturing in 15 to 20 years	4,116,675 34%	4,027,616 34%
	<u>12,082,554</u>	<u>11,744,333</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**

	£ 2012/13	£ 2011/12
Accrued Interest Receivable	1,022,848	768,650
Debtors (Balance held with SHG)	1,489,529	629,984
Prepayments	51,449	18,919
Items in the course of collection from Lloyds TSB	16,153	11,798
	<u>2,579,979</u>	<u>1,429,351</u>

**15 Customer Current & Deposit Accounts**

Balance at 1 April	50,475,662	43,967,553
Interest On Depositors' Accounts	1,068,945	1,005,769
Less SHG Withholding Tax	(104,243)	(99,331)
Net Deposits received in year	7,006,921	5,601,671
Balance at 31 March	<u>58,447,285</u>	<u>50,475,662</u>
<b>Comprising:</b>		
St Helena Individuals	23,360,703	25,322,931
Ascension Individuals	7,980,820	7,240,383
St Helena Corporations	11,607,481	8,216,190
Ascension Corporations	52,953	18,460
Governments	9,223,070	7,557,857
Child Bond Savings Accounts	382,882	330,530
New Life Account	770,730	658,769
Overseas Individuals	4,069,972	1,007,138
Other	998,674	123,404
	<u>58,447,285</u>	<u>50,475,662</u>

**Notes to the Accounts for the year ended March 2013**

<b>16 Other Liabilities</b>	<b>£</b>	<b>£</b>
	<b>2012/13</b>	<b>2011/12</b>
Provisions for Doubtful Debts	74,912	123,590
Provisions for Operational losses	100,000	100,000
Credit Suspense	12,278	3,793
Tax Due	19,406	40,984
Community Project Funds	0	4,474
Accrued Bonus Payable	19,633	15,234
Accrued Investment Management Fees	8,460	7,301
Audit Fees	11,550	11,000
Accrued Interest Payable	3,403	2,808
SHG Withholding Tax	104,243	99,331
	<u>353,885</u>	<u>408,515</u>
<b>17 Movement in Provisions</b>		
Balance at 1 April	223,590	249,773
Add Specific Provision 2012-13	6,852	26,282
Less Write Offs	(55,530)	(10,626)
Add net provision for Operational Losses	0	13,459
Less Write Back of reduction in Provision for Operational Losses	0	(55,298)
	<u>174,912</u>	<u>223,590</u>
<b>18 Reserve Account</b>		
Balance at 1 April	4,224,014	3,959,770
Profit on ordinary activities after tax	290,196	208,946
Movement of reduction in general provision to retained earnings	0	55,298
Balance at 31 March	<u>4,514,210</u>	<u>4,224,014</u>
<b>19 Related Party Transactions</b>		

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.