

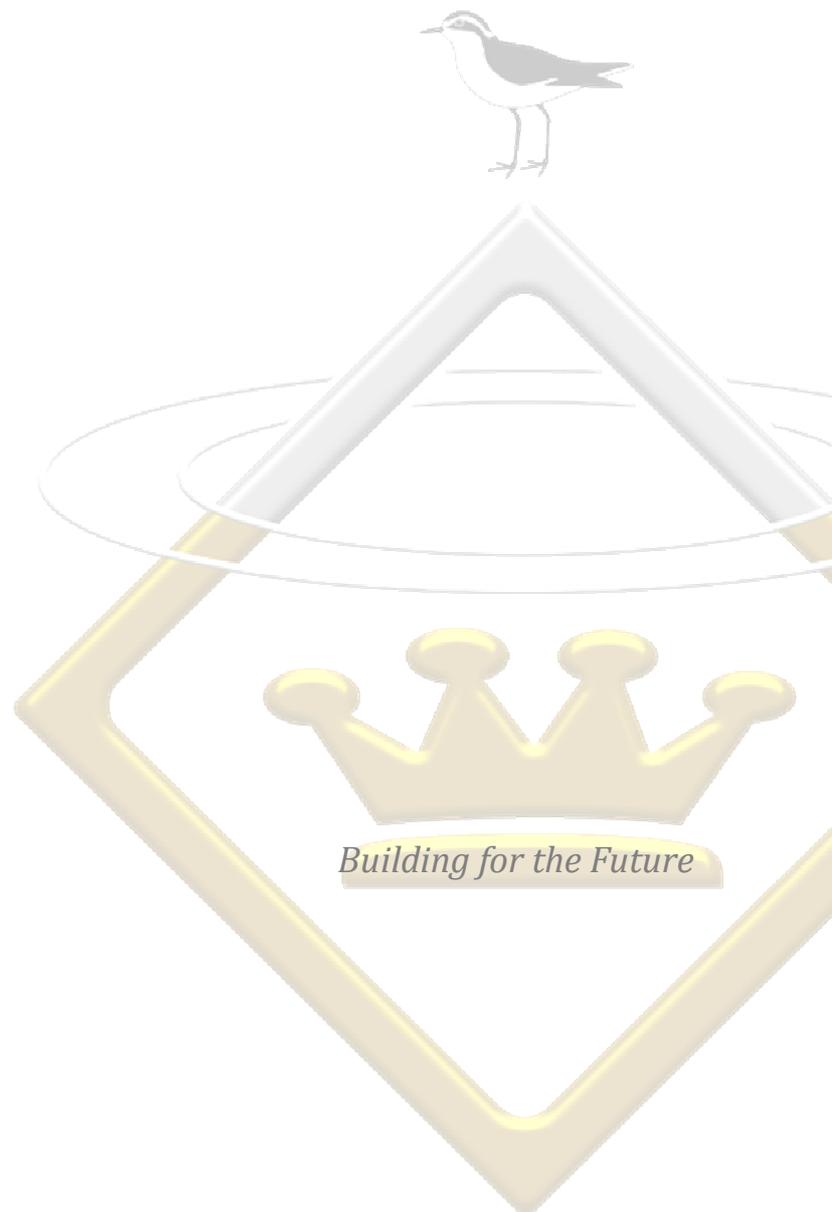


Bank of St. Helena Ltd.

www.sainthelenabank.com

Registration No 95

**Directors' Report & Audited Financial
Statements for the Financial Year
2013-2014**



Building for the Future

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Directors' Report

For the year ended 31 March 2014

To Our Shareholders, Customers and Stakeholders,

The Directors have pleasure in submitting their report and the audited financial statements of Bank of St. Helena Limited ("the Bank") for the year ended 31 March 2014.

This report is the first one issued under the new status of the Bank as a Limited Company, established on 21 March 2013; this formalises the relationship between the Bank and the St Helena Government ("SHG") whereby SHG owns the Bank, as Majority Shareholder. The Bank's Articles of Incorporation provide for 6 Million Shares, 3.2 Million have been issued to and paid up by the Bank's majority shareholder SHG. This allows for future sales of the remaining 2.7 Million shares, should the Bank wish to raise further capital.

The Bank's current governance structure under its new status as a company limited by shares includes a Board appointed by the Shareholders, regulated by the Financial Services Regulatory Authority and governed by the Companies Ordinance 2004, the Companies Regulations 2004, the Financial Services Ordinance 2008 and issued Directives, and its Articles of Incorporation issued March 2013. The Board consists of a Chairman, and both an Executive and three Non-Executive Directors who oversee the Bank's strategic activities; these are implemented on a day-to-day operations basis via the Managing Director and the Bank's Senior Management Team.

At the time of reporting the Bank's Capital Base consists of Share Capital owned by SHG of £3.2 Million, General Reserves of £1.4 Million and a Capital Expenditure Reserve of £250,000. The Capital Expenditure Reserve provision is made in anticipation of the expected capital expenditure in relation to development of the Bank's infrastructure outlined in *Section 3 'Looking Ahead'* on page 6.

1. Principal Activities

The Bank provides banking services and related financial services within St Helena and its sub-branch on Ascension Island through its core products: Current, Deposit and Savings Accounts and Personal, Housing and Commercial Loans.

The Bank offers a variety of services which include teller service, lending services and an international remittance service. To complement these services, the Bank is pleased to report that since the end of this financial year it has implemented its On-Line Banking service that is offered to St Helena customers. On-Line Banking, allows the Bank's customers on St Helena Island to conduct business with other Bank of St Helena Limited customers in the comfort of their own homes/offices via the internet. The Bank has plans to roll out this service to its customers overseas in the latter part of Financial Year 2014/2015.

2. Business Review

The Bank's main objective is to engage in "banking in St Helena and Ascension, and such other things as are incidental or conducive to meeting its objective."¹ Whilst providing banking products and services to its customers, the Directors are ever mindful of the Bank's mission to ensure that the development and delivery of these products and services are appropriate, affordable and accessible to all.

2.1 Global Economic Environment

The Financial Policy Committee of the Bank of England reported in March 2014, that stimulatory monetary policies have seen improved financial stability within the UK and other advanced economies². Supporting stimulatory monetary policies; the Bank of England's Monetary Policy Committee has maintained the Official Bank Rate at 0.5% along with the injection of cash by purchasing assets worth £375 Billion in order to encourage economic growth.³

However, the Bank of England's low Official Bank Rate means that credit interest rates on investment products continue to remain extremely low, or in some cases nil for current/call accounts. Bank of St Helena has approximately £55.3 Million invested of its £67.5M Customer Deposits in Certificate of Deposits (CDs) with major UK Banks; currently receiving low rates of interest which has a direct impact on the interest rates payable on the Bank's Customer Deposits. This required a reduction in interest rates payable in 2013/14 on Customer Deposits by 0.5%; to ensure that the Bank was able to remain profitable in the face of a reduced rate of income from one of its main sources of return.

2.2 Local Economic Environment

Financial aid from the UK Government, European Union and other agencies continues to keep the economy of St Helena resilient, whilst the Air Access office reports that the construction of the Airport project is on time and within budget⁴. Air Access is deemed as St Helena's route to self-sufficiency.

¹ Bank of St Helena Limited's Articles of Incorporation March 2013

² <http://www.bankofengland.co.uk/publications/Pages/news/2014/025.aspx>

³ <http://www.bankofengland.co.uk/monetarypolicy/Pages/qe/default.aspx>

⁴ Press Release: History made on St Helena-Commemorative; Stone Placed and Time Capsule Buried issued 30 June 2014 by the St Helena Government Press Office

SHG has pinpointed tourism as the “*key driver of economic development*”⁵. Increased economic activity from Air Access along with the works to improve the islands infrastructure has shown that the construction sectors and retail sectors are especially benefiting from this activity thus far, whilst other sectors such as tourism, fishing and agriculture remain the weaker areas of development for St Helena.

Tourism accommodation has been identified as a sector that requires immediate growth and whilst negotiations with SHG and international tourist accommodation providers continue, no firm developments have taken place in 2013/14. The fishing industry also saw a positive move towards economic improvements with the purchase of an off-shore fishing vessel made in the latter part of 2013/14. However, this sector remains weak, with limited access not allowing for the immediate export of fresh fish offshore; thereby limiting the potential of improved financial incomes via this sector.

The Bank’s Commercial Loan Portfolio has seen very few requests for funding of expansion of existing or new business start-ups during 2013/14, indicating that St Helena might not yet have the appetite to invest, despite impending Air Access and improved Sea Access.

The Bank and Enterprise St Helena (ESH) have a common interest in supporting sustainable economic development growth for St Helena through its private sector. Both parties are working closely together to ensure that businesses intending to invest on St Helena Island are guided towards appropriate financing packages, along with advisory support that is geared toward promoting and supporting business development. This relationship is further enhanced by allowing for working in partnership, or for providing support and assistance without both parties having to invest financially in any one project/customer.

SHG Statistics Office reports that annual inflation of the St Helena Retail Price Index stood at 0.9% at the end of March 2014, which was relatively unchanged from the previous quarter and is reported that “*this quarter sees the end of the trend of a falling rate of annual inflation which has been seen for the preceding two years*”. It also reported that “*at the end of March 2014 it is estimated that a little over 4, 500 people were staying on island. This figure includes permanent residents, temporary residents on fixed term employment contracts and long-term visitors*.”⁶ The increase in economically active residents can be seen as a contributor to the low annual rate of inflation as outputs are increased along with increased disposable income.

2.3 Performance review over the year

For the Financial Year 2013/14, the Bank continued to maintain a healthy level of profit of £314,145 after tax, resulting in an increase of 8% compared to Financial Year 2012/13. This level of profit ensures the stability of the Bank’s Assets and that the growth in the Bank’s Capital is consistent with the growth in the Bank’s Risk Weighted Assets. This growth allows for the appropriation of profit to specifically assist the procurement of improved banking software, which will be key to ensuring improved operational efficiency and customer service.

The increase in economic activity due to the initial works associated with Air Access has the Bank presenting a substantial increase in the value of its Customers Deposits for yet another year in a row; resulting in a 16% (£9,073,082) growth.

⁵Sustainable Economic Development Plan 2012/13 – 2021/22, published on SHG Website at <http://www.sainthelena.gov.sh/publications/>

⁶SHG Quarterly Statistical News Bulletin published May 2014

Whilst the Bank saw the value of Customer Deposits increase substantially, it continued to see minimal demand for Commercial Lending, reflected in an 8% (£205,066) decrease in this portfolio overall, which includes overdraft facilities.

It can be deduced from this reduction that individuals and businesses continue to lack the confidence to invest in the prospective economic opportunities that Air Access could bring. This lack of confidence and appetite for investment has been recognised by ESH and the Bank, resulting in combined efforts being taken to raise awareness, along with implementation of affordable financial products, services, support and advice to help stimulate existing and potential investors' interest in increasing economic activity. The Bank's Personal and Housing Loan Portfolios reflect growth of 6% (£42,521) and 2% (£205,882) respectively.

The Bank currently offers a reduced interest rate for Commercial Lending, and in supporting the weaker sectors as previously identified in section 2.2 *Local Economic Environment*. The Bank has plans in Financial Year 2014/15 to introduce a further reduced interest rate of 5% for funding required for tourism-related accommodation. Since the end of this financial year, the Bank has increased its unsecured loan limit from £1,000 to £5,000, in a bid to encourage small to medium business investment and development within the other weaker sectors whilst supporting the growth of its overall Loan Portfolio.

The Directors remain committed to ensuring that a stable, affordable interest rate can be paid to Depositors Accounts. However, with the returns of the Bank's overseas investments declining due to low sterling money market interest rates, it has necessitated the reduction in the interest rate payable to Depositors Accounts with the Bank. Therefore, for the Financial Year 2013/14, the interest rate payable on Depositors Accounts was reduced by 0.5%. The Bank would like to thank its Depositors for their continued loyalty throughout, as it continues to bear the effects of the World Financial Crisis of 2008; reported to be slowly showing signs of recovery due to *improved stimulatory monetary policies and injection of cash into the economy*.⁷

The Directors are ever mindful that the Bank needs to generate sufficient profit to meet its demands; this includes being able to facilitate future lending, providing its customers with new/improved products and services, as well as in the near future, allowing for capital expenditure for the purchase of new premises and procuring new/improved banking software. Therefore, the Bank's income derived from Fees and Commissions and Other Income for its other core services are continuously reviewed to eliminate, as far as possible, any cross-subsidisation of its services. Such review for this financial year has produced a 52% (£127,099) increase in Fees and Commissions and Other Income, with the most significant increase derived from 'Other Income.' This is related to the Bank's retraction of its privileged foreign exchange rates on remittances offshore on specified amounts, as well as a Gain on Sale of the Bank's Property known as 'Percy's'.

Management remains committed to ensuring that expenses are being managed effectively. This Financial Year 2013/14, the Bank experienced an increase of 11% (£98,805) in its expenses overall, with modest or very little increase in most areas. A substantial increase is reflected in Provisions; this includes Specific Provisions for non-performing/doubtful loans. However, overall expenses did not increase at as high a rate as the prior year.

The Bank's Capital position remains strong with the ratio of its Capital to Risk Weighted Assets at 22.9%, well within the Limit of 12% set by the Financial Services Regulatory Authority (FSRA), reflecting a growth in Risk Weighted Assets of £1,731,149 with the majority of growth in investments and a modest growth in Housing Loans. This strong position assures the Bank's Board of its future ability to lend as well as invest in its own infrastructure.

⁷<http://www.bankofengland.co.uk/monetarypolicy/Pages/qe/default.aspx>

The Bank's Liquidity position also remains robust with liquid assets within St Helena at 2.1% and overall liquid assets at 71.5%, well within the required liquidity ratios of 0.50% and 25% respectively, set by the FSRA. Adequate liquidity is required to assure the Bank that it is able to meet its financial commitments as they fall due.

The key highlights of the Bank for 2013/14 were:

- 26% growth in its Investment Portfolio
- 16% growth in value of Depositors Accounts
- 13% growth in Total Income
- 8% growth in Profit on Ordinary Activities after Tax

Management, Directors and Staff of the Bank remain committed in providing excellent customer service, aiming to extend and improve our customer experience. Examples of this include: Increased Mobile Banking hours within the Longwood District, and, since the end of this Financial Year, the Bank rolled out its On-Line Banking service; bringing banking services to customers and supporting the reduction of queues at the main banking hall in Jamestown.

The Bank reaffirms its commitment to confidentiality, professionalism and honesty in all dealings with Customers, Shareholders, Suppliers and other Stakeholders.

3. Looking Ahead

The Bank's aim is to deliver more efficient processes that provide better value for money, supported by the challenge to always keeping banking simple for customers and staff. The Directors have highlighted the development of its infrastructure – location, systems and personnel as their key strategic focus within its Strategic Plan for 2014-2017.

The Bank is currently pursuing suitable premises within Lower Jamestown to house its staff and equipment; the current premises are proving inadequate for the Bank's current and future needs.

In 2014/15 the Bank will be commencing a procurement process with a view to engaging new/improved software provision to enhance its current services; allowing capabilities for improved electronic data capture and accessibility of required financial information, along with the ability to bring online new services such as Automated Teller Machines (ATMs), Debit/Credit Card facilities and Point of Sale facilities that can be installed at businesses across the Island.

The Bank is committed to the prevention of Money Laundering (ML), and has policies and processes in place to combat this. This includes the anticipated utilisation of SWIFT (Society for Worldwide Interbank Financial Telecommunications) to process international remittances. Banks worldwide are subject to more stringent rules and regulations and must have systems in place to combat Money Laundering and other fraud and financial crime related activities. In order to comply with International Regulations regarding the prevention of financial crime, the Bank is having to adopt the SWIFT system. SWIFT allows for the automatic AML screening of remittances sent to and from the Island.

The Bank continues to invest in its staff and values their contribution, recognising that the Bank's strategic objectives cannot be realised without attracting, retaining and developing high quality staff. The Bank is committed to being an equal opportunities employer by having in place a number of processes to ensure that staff are engaged in the business and are able to develop over time. Such processes include regular staff meetings and Intranet updates on the business' performance and strategic objectives, individual development plans and access to training resources. All Bank staff are engaged in further development, including international courses consisting of Customer Service, Anti-Money Laundering,

Code of Ethics, Fraud Prevention, NVQ Customer Service, Degree in Business & Administration, Stonebridge Courses in Accounts & Finance, Foundations in Accountancy with ACCA and Lending Courses with Bankers Academy, as well as local courses in Health and Safety and Manual Handling, to help meet their personal and professional goals.

4. Financial Performance

4.1 Commentary on the Profit & Loss Account

The Bank's 2013/14 financial performance is presented in the Profit & Loss Account within the Financial Statements, with the accompanying notes providing greater detail. The Bank's Profit Before Tax increased by £59,101 compared to the previous period. The Directors are pleased with this position, delivered through steady income growth and appropriate cost management. The Bank's main income streams generated through interest received on its Investment Portfolio in CDs and Lending being limited as discussed above. Increased retained earnings are vitally important to enable the Bank to finance capital requirements as identified within the strategic objectives in section 3. However, profits will be pursued bearing in mind that any new banking services and products are deemed appropriate, affordable and accessible to all.

A summary of the Profit and Loss Account is reproduced below:

Table 1: Summary of the Profit and Loss Account as at 31 March for the financial years ending 31 March 2013 and 2014

| | Year to 31 March 2013 | Year to 31 March 2014 |
|-------------------------|--------------------------|--------------------------|
| Total Income | £1,257,286 | £1,415,192 |
| Total Expenditure | £884,251 | £983,056 |
| Profit before Tax | £373,035 | £432,136 |
| Taxation | £82,839 | £117,991 |
| Profit after Tax | £290,196 | £314,145 |

4.1.1 Income

Total Income increased by 13% (£157,906) and Net Interest Income increased by 3% (£30,807) compared to the prior year. Although returns on Investments remain relatively low, some recovery in rates has become evident. The Bank was able to sustain a relatively small increase in its Net Interest Income due to the reduction of 0.5% on the interest rate payable to Depositors, and the additional amount

of £11.5 Million invested in CDs with UK Banks; along with a 2% (£11,622) increase in interest received on the total Loan Portfolio.

In 'Other Income', Foreign Currency saw an increase of £77,711; this was due to the retraction of the privileged rate of exchange for remittance of foreign currency overseas. The Bank continues to monitor foreign exchange rates to ensure that rates offered are favorable and in line with what other overseas financial institutes offer. In addition the Bank realised a gain of £20,000 from the sale of the Bank's property known as 'Percy's'.

4.1.2 Expenditure

There was an overall increase in expenditure of 11% (£98,805) over the previous year. This includes an increase in Employee Cost of 21% (£86,337) related to staff performance pay through the staff appraisal system and the hiring of two additional staff; one within the Lending Section and one within the IT Section of the Bank; as well as a Leave Pay Provision to account for the liability represented to the Bank of leave accrued and not yet taken by staff. The next most significant increase in expenditure was in Provisions of £12,853; the Bank has non-performing and doubtful loans on its books and specific provisions are made in respect of the liability of these loans. Specific Provisions are not construed as an Operational Expense. Operational costs are closely monitored to ensure that services are delivered as cost effectively as possible; although reducing operational expenditure is not a primary focus, 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 2013 and 2014, the Bank had the following staff:

Table 2: Bank Staff numbers and cost as at 31 March for Financial Years 2013 and 2014

| | 31 March 2013 | | 31 March 2014 | |
|--|---------------|-----------------|---------------|-----------------|
| | Numbers | Cost | Numbers | Cost |
| Teller Services | 12 | £152,091 | 12 | £164,328 |
| Operations(Accounts, Admin, Marketing, IT, Operation Assistants) | 12 | £101,196 | 13 | £141,337 |
| Lending | 4 | £61,477 | 5 | £64,867 |
| Management | 3 | £92,608 | 3 | £94,634 |
| Directors | 2 | £12,665 | 4 | £13,705 |
| TOTAL | 33 | £420,037 | 37 | £478,871 |

Leave Pay Provision is not included in the above table.

Employee Costs for this Financial Year 2013/14 includes cost for the following:

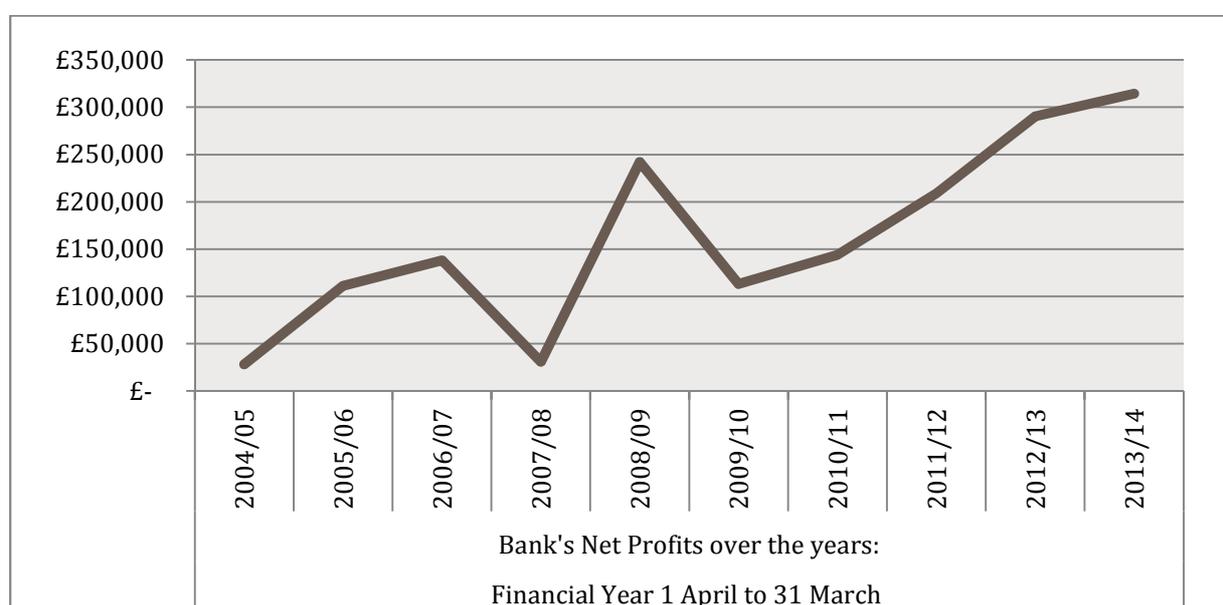
Recruitment of two additional employees; one for the Lending Section and one for the IT Section, two new Directors to complement the full quota of Directors required (five). In addition on-going training geared towards staff personal and professional development continues and incentives and employee rewards are aligned with individual and corporate performance.

During the Financial Year 2013/14, the Directors carried out a review of the Bank's Employee Terms and Conditions, including the Remuneration Policy, with proposed changes implemented with effect from 1 April 2014.

4.2 Commentary on the Statement of Assets and Liabilities

Below is a chart outlining the Bank's Net Profits achieved each financial year since its creation:

Figure 1: Bank's Net Profits over the years



For the financial Year 2013/14 the Board has not declared a dividend. The Board has transferred £250,000.00 to a non-distributable Capital Expenditure Reserve which will be used for the Bank's planned investment in new/improved software.

4.2.1 Fixed Assets

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. This Financial Year an impairment review was taken on the Bank's Fixed Assets and it was deemed that there were no material impairments. In addition, verification of the physical presence of the Bank's moveable Fixed Assets and Inventory Assets was undertaken as is done on an annual basis.

Within this financial year the Bank sold the property known as 'Percy's' via a tender process.

4.2.2 Investments

The Bank continues to invest in Certificates of Deposits (CDs) with leading UK Banks, due to the greater return that can be earned on CDs relative to UK Government Securities. The Bank's investment intention remains the same; which is to hold the investments to maturity. The Investment Portfolio is staggered to enable a rolling programme, with placements maturing at regular intervals thus providing greater flexibility for reinvestment as market conditions change. This Financial Year 2013/14 saw a 26% (£11,500,000) growth in the value of the Bank's Overseas Investments as compared to the previous year; a direct result of the growth in balances on Customer Deposits and cash balances surplus to the operational on-island requirements of the Bank.

In early April 2014, one of the Bank's higher interest rate earning CDs; a CD of value £8.3 Million earning an interest rate at 3.8875% reaching final maturity. Upon reinvestment, a further £1.7 Million was added to this amount; with £5 Million invested at a rate of 1.23% over a period of 2 years and £5 Million invested at a rate of 1.8% over a 3 year period. Consequently, the lower interest received on this reinvestment has necessitated the reduction in the interest rate payable on the Bank's Depositors Accounts for Financial Year 2014/15 by 0.5%.

4.2.3 Customer Deposits

During the financial year 2013/14, Customer Deposits saw an overall increase of 16%. Note 15 to the Financial Statements shows that the most significant movements have been in:

- ❖ Overseas individuals 28% (£1,122,043) although a portion of this is attributable to reclassification of accounts relating to St. Helenians that have emigrated;
- ❖ St Helena Corporations 50% (£5,771,451)
- ❖ New Life Account 37% (£288,040)

Figure 2 below shows the growth in the overall value of Deposits and Figure 3 shows the proportion of funds held by the different categories of Depositors.

Figure 2: Total value of Depositors Funds over the years

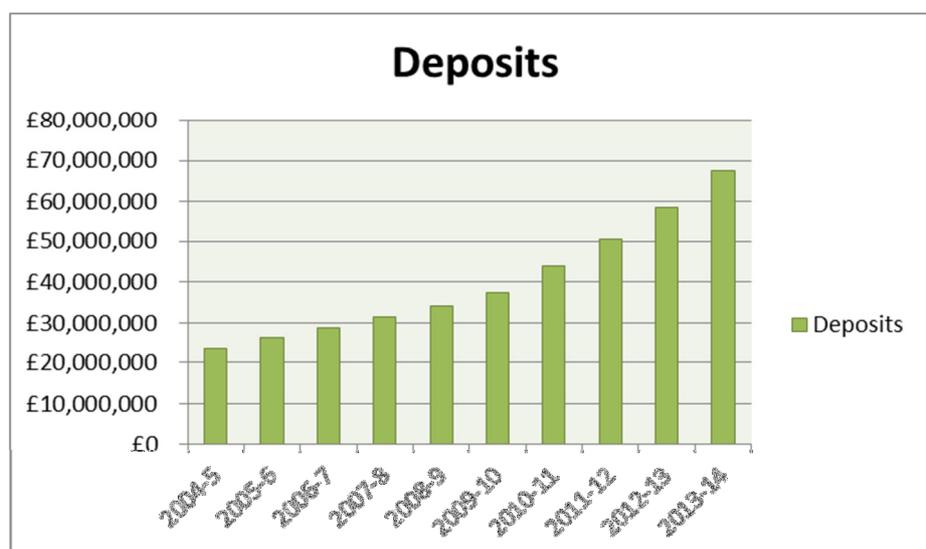
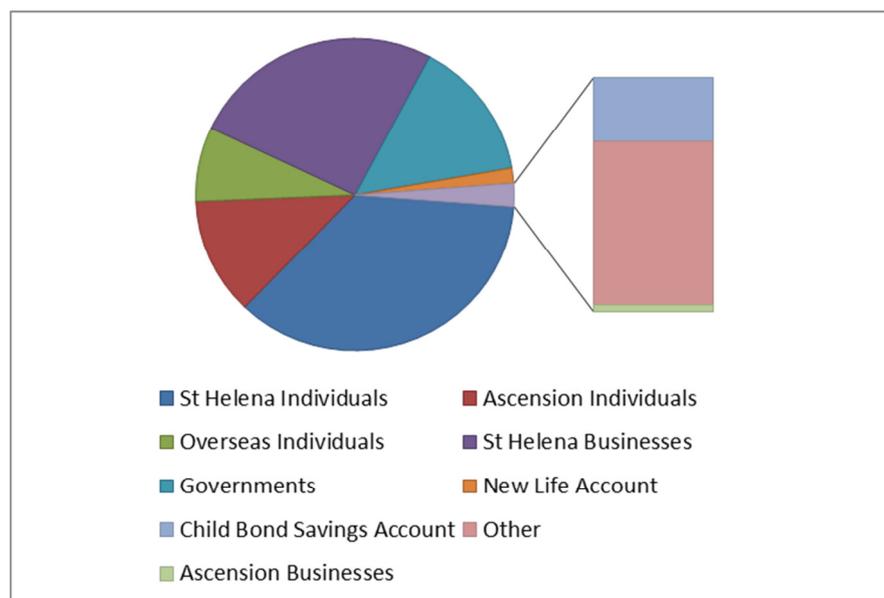


Figure 3: Classification of Depositors by value of fund holdings



4.2.4 Lending

The overall Lending Portfolio continued to show very little growth, growing by 0.15% (£17,590). Throughout the year the Bank's growth in Lending was contributed by Personal Loans of 6% (£42,521) and Housing Loans of 2% (£205,882). Commercial Lending once again, did not reflect the expected increase, instead it decreased by 8% (£205,066) and Overdrafts decreased by 17% (£25,747). Both the Commercial and Overdraft Portfolios indicate little demand for funding for increased economic activity within St Helena. As mentioned in section 2.2 'Local Economic Environment' both ESH and the Bank are concerned of this lack in economic activity, and as outlined, both parties are working jointly, taking several initiatives to help stimulate economic activity on the Island.

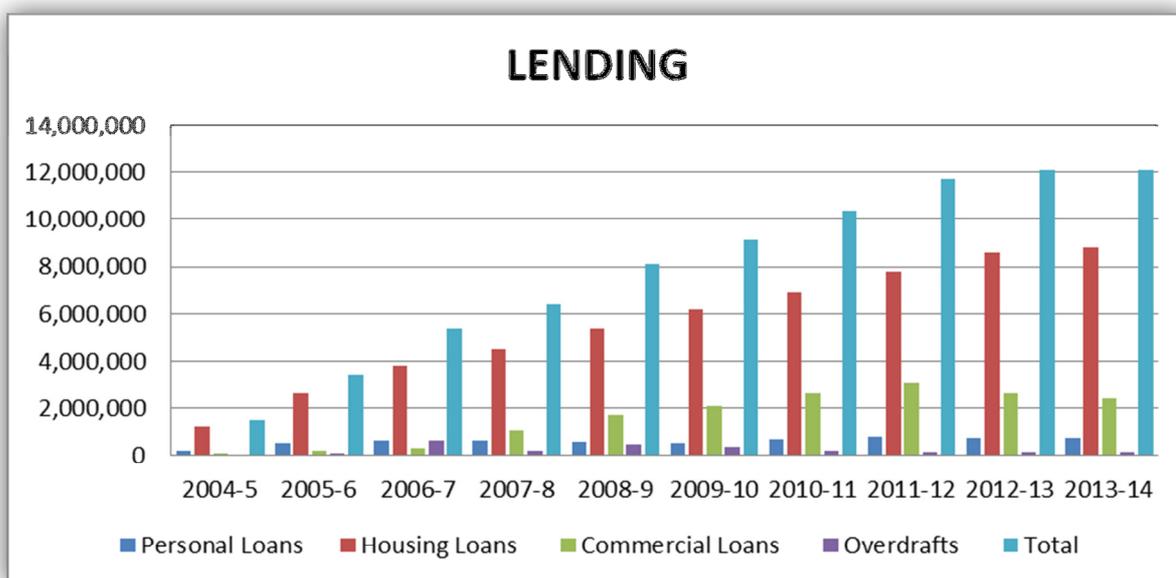
The Bank has a number of non-performing loans - those that are more than 3 months in arrears and not meeting their repayment requirements on a regular basis. These total £144,006 which gives a non-performing loan ratio of 1.2%. Specific Provisions are made for loans that are non-performing or doubtful in line with the Bank's policies and procedures. This Financial Year 2013/14 has seen specific provisions increase by 26% (£19,705).

It has been estimated in the Bank's Strategic Plan 2014-2017 that the Bank should be able to support an additional £15 Million of lending and remain within the capital constraints of its Risk Assets Ratio. The Financial Services Directives limit the amount of exposure to any one customer or connected customers to 25% of the Bank's Capital, however, exposures to the Saint Helena and United Kingdom Governments are exempt from these restrictions.

Therefore whilst lending activities have not reached those levels expected; the Bank remains in a strong position to facilitate such growth in the next 3 years.

A copy of the Bank's Lending Portfolios over the years is outlined in figure 4:

Figure 4: Lending Portfolio analysed by type and year



4.2.5 Other Liabilities

Details of the Bank's Liabilities, other than the Customer Deposits, can be seen in Note 17 of the Notes to the Financial Statements. 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 & Liquidity Regulatory Limit | Average Achieved | Minimum Recorded | Maximum Recorded |
|---|--------------------------------------|------------------|------------------|------------------|
| Risk Weighted Assets | 12% | 23.22% | 22.60% | 23.90% |
| Total Liquid Assets in St Helena: Total Liabilities | 0.50% | 1.86% | 1.60% | 2.20% |
| Total Liquid Assets: Total Liabilities | 25.00% | 71.30% | 70.30% | 73.70% |

The table above shows the Bank's Capital and Liquidity positions throughout the Financial Year 2013/14. The Financial Services Regulatory Authority (FSRA) sets and monitors the capital requirements for the Bank which is required to maintain a prescribed minimum level of capital with reference to Risk Weighted Assets and the perceived risk management framework. The Bank is pleased to report that it has stayed well within the regulatory limits for Financial Year 2013/14.

The Financial Services Supervisor and Chairman of the FSRA reported that Bank of St Helena Limited continues to be regulated by the Financial Services Regulatory Authority, and during his visit to the Island in February 2014, was pleased to confirm that appropriate governance was in place for the Bank, and that its policies and procedures to control risk in all forms were being actively progressed by the Directors. The FSRA will continue to monitor the progress of the Bank as it faces the challenges of replacing and enhancing its computer systems.

6 Risk Management

The Board is the key governance body and is responsible for the overall strategy and performance of the business and management of risk. It has delegated responsibility for the execution of the Bank's strategy, business performance, day to day running of the business, implementation of policy and internal controls to the Managing Director and the Senior Management Team. The Bank's approach to risk generally is cautious.

The Bank aims to appropriately manage all risks that arise from its activities, through its normal operations. The primary risks to the Bank are credit risk, liquidity risk, interest rate risk and operational risk; there are a number of policies/internal procedures in place to manage these primary risks.

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 adequacy of the Bank's financial records, and published financial statements is provided by the St. Helena Audit Service.

6.1 Credit Risk

The Bank is the primary source for financing on St Helena and with the expected increase in economic activity brought on by improved access to the Island; the Bank will be expected to bring online products and services that meet customer demands, including specific lending products that are geared toward stimulating economic activity.

The Bank currently spreads the risk of its Lending Portfolio by ensuring that lending is not targeted to any one portfolio. Therefore, within its Commercial Lending Portfolio, lending is spread across the various sectors.

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. Therefore the Bank practices responsible lending, to ensure that a healthy balance between risk and reward is maintained; which includes the assessment of customers' ability to repay, adequate collateral and that insurance are being secured where appropriate. In addition, responsible lending protects the customer to being over exposed to debt. 98% of the total Loan Portfolio has adequate security and 98.8% of the total Loan Portfolio has loans that are serviced regularly and in accordance with agreed repayment terms and conditions. In addition, the Bank has internal processes to identify problematic loans; once identified, these loans are dealt with promptly to ensure that the risk impact on the Bank is mitigated.

6.2 Liquidity Risk

Adequate liquidity is required so that the Bank is assured that it is able to meet its financial commitments as they fall due. The Liquidity Position of the Bank remained robust throughout Financial Year 2013/14 and constant monitoring of this risk is performed by the Directors via monthly performance reports; also provided to the FSRA.

6.3 Interest Rate Risk

The Bank is currently facing the effects of low interest rates received on its investments with UK Banks and the very low demand for loans. The overview of the Global and Local environment presented in paragraphs 2.1 and 2.2 respectively outlines the current economic climate that the Bank is facing to date.

The Bank is currently authorised, by the FSRA, to invest in the least risky financial instruments; namely UK Government Securities and Certificates of Deposit (CDs) with leading UK Banks. Although higher returns are currently available on more risky instruments such as Corporate Bonds and Equities, such is not currently in keeping with the risk appetite of the Bank's Board or the FSRA.

With interest rates on CDs with UK Banks dropping steadily over the last few financial years, the Bank was able to mitigate the loss in net interest income by the interest received from the additional amount of £11,500,000 invested in CDs, and by lowering the interest rate payable to Depositors Accounts by 0.5%. The Board and Management continue to closely monitor the market; current predictions are stating that rates in the Sterling Money Market Funds are expected to rise in early 2015. Management remains wary that as economic activity increases so will the demand for special interest rate accounts; review of interest rates along with affordability are being taken periodically.

Lending once again did not see the expected growth in its portfolios; therefore interest received within Lending did not materialise as foreseen. However, the Bank remains optimistic that the current Financial Year 2014/15 will see the increase in lending activity. As outlined in the Local Environment presented in section 2.2, joint initiatives have been taken with ESH to help stimulate the economic activity of St Helena and the Bank will be introducing products in 2014/15 aimed at this stimulation. Whilst Lending did not significantly grow during this Financial Year 2013/14, Customer Deposits grew by £9 Million, resulting in the funding and liquidity of the Bank remaining robust throughout the year.

6.4 Operational Risk

Operational Risk includes losses due to human error, inadequate IT systems, IT systems security failure, reliability of internal processes and procedures, training and retention of staff, fraud, and other social and environmental impacts.

The Bank is constantly faced with risks associated with its day to day operations and has implemented appropriate policies and procedures to mitigate this risk along with internal controls such as:

- Internal Auditor who regularly reviews, and recommends revisions where required, to internal control procedures and the Bank's Risk Management Strategy.

- Checker Department which verifies the daily work entered onto the Bank's core banking system, for the immediate detection of human error; allowing for the immediate correction of errors, therefore mitigating possible monetary losses to the Bank.
- Continuously updating and training of staff with regard to Anti-Money Laundering and Fraud Detection and Prevention, which includes; 'Due Diligence' and 'Knowing your Customer' (KYC) procedures.
- Statement Exercises which consist of mailing each customer of the Bank, a statement to verify address, contact details, account number and balance.
- Continuous personal and professional development of staff within their roles and for those aspiring to further their career within the Bank.
- Introduction of new services; namely SWIFT to aid the detection of Money Laundering through the Bank's remittance service.
- Disaster Recovery Plan.
- Retention and Succession planning.
- Procurement procedures initiated for a new/improved software provider, to ensure that the Bank has adequate systems that can cope with the increased activity experienced and planned by the Bank.
- The Bank is actively pursuing new premises to meet its increased demands.

6.5 The Bank as a going concern

The Directors consider that the Bank is in a stable financial position and believes it has adequate resources to remain operational and profitable; the Bank is well placed to generate profits for the foreseeable future as has been demonstrated by its 2013/14 financial performance and previous years' performances.

The Bank's strategic priorities during the next three years is the development of its infrastructure, with the immediate focus being on systems, location and personnel; as outlined in section 3 'Looking Ahead':

The Bank will be facing a lot of challenges in the forthcoming years; with Air Access coming on line in early 2016, it is envisaged that demands from Customers, Shareholders and Stakeholders with regards to new products and services, regulatory requirements and internal practices will increase. Hence the procurement of a new/improved software provider is crucial to this change.

Another requirement crucial to the Bank's going concern status will be its ability to secure adequate premises to house staff and the resources required to support the new products and services that are expected to come on line.

The Bank values the contribution of colleagues and recognises that business objectives can only be achieved by attracting, retaining and developing high quality staff. The Bank has been fortunate thus far in attracting and retaining adequate numbers of experienced and qualified individuals.

The Bank's IT function has been further strengthened in May 2014 by the recruitment of two Senior IT Assistants; both of whom bring a wealth of experience, knowledge and qualifications to the team. The Bank acknowledges the necessity to keep this function abreast of current best practice and knowledge which is facilitated through on-going professional training and development. In addition, the Bank has strengthened its Senior Management Team by an additional three members which now consists of: Managing Director, Chief Operations Officer, Customer Support & Human Resources Officer, Finance Officer, Lending Services Officer and the IT Officer. The team collectively strives 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

The Directors place great importance on the Bank's corporate social responsibilities within the community. Through its Community Projects Funding Programme, 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. In addition, the Bank provides funding for the sponsorship of events/activities on the Island.

8. Directors

In accordance with the Companies Ordinance 2004 and the Financial Services Ordinance 2008, the Managing Director, Executive and the Non-Executive Directors are appointed by the Shareholders in consultation with the Chairman of the Financial Services Regulatory Authority.

In accordance with Section 12 of the Bank of St. Helena Limited's Articles of Incorporation, 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 Non-Executive Directors is set by the Bank's Board and confirmed by resolution at the AGM of the Company 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 periodically audited by the Bank's External Auditors to give independent assurance to the Regulator.

The Directors of the Bank during the year to 31 March 2014 were:

| | |
|---------------------|-------------------|
| Mrs Carolyn Thomas | Chairman |
| Miss Rosemary Bargo | Managing Director |
| Mrs Kerry Yon | Member |
| Mrs Joan Peters | Member |
| Mr David Colin Owen | Member |

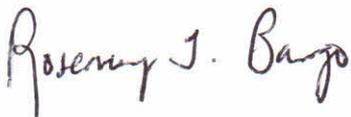
9. Statement of the Directors' responsibility in respect of the Accounts and Audit and Annual Report

In accordance with the Financial Services Ordinance 2008 and Companies Ordinance 2004, the Directors have a responsibility to:

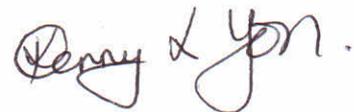
1. keep accounts of its transactions;
2. have its accounts audited annually and
3. not later than four months from the closing of its financial year or at any other time as may be exceptionally authorised by the Financial Services Regulatory Authority, publish a copy of its audited financial statements in accordance with section 31 of the Financial Services Ordinance 2008.
4. Submit a copy of the published accounts to the Companies Registrar, not less than 21 days before the annual meeting of the Shareholders

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



Managing Director



Director



SAINT HELENA AUDIT SERVICE External Auditors

Independent Auditor's report to the Shareholder of the Bank of St Helena Ltd

I have audited the financial statements of Bank of St Helena Ltd for the year ended 31 March 2014 under the Financial Services Ordinance 2008 and Companies Ordinance 2004. The Bank of St Helena Ltd financial statements comprise the Profit and Loss Account, the Statement of Assets and Liabilities, the Statement of Cash Flows, and the related notes.

Respective responsibilities of the Board and the Chief Auditor

The Board of Directors are responsible for preparing the financial statements in accordance with the St Helena Banking and Financial Services Directive 2009 and being satisfied that they show a true and fair view of the financial position, financial performance, and cash flows of the Bank of St Helena Ltd. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the APB's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion on financial statements

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; and
- show a true and fair view of the financial position of Bank of St Helena Ltd as at 31 March 2014 and of its financial performance and cash flows for the year then ended in accordance with applicable law and regulation.

Emphasis of Matter – Financial Reporting Framework

Without qualifying my opinion I wish to emphasise the disclosure in Note 1 to the financial statement that the financial reporting framework applied by the Bank in conformance with the 2009 Banking Directive is not a recognised reporting framework in terms of Generally Accepted Accounting Practice.

Emphasis of Matter – Financial Reporting Framework

Without qualifying my opinion I wish to emphasise the disclosure in Note 1 to the financial statement that the financial reporting framework applied by the Bank in conformance with the 2009 Banking Directive is not a recognised reporting framework in terms of Generally Accepted Accounting Practice.

The Bank is now operating as a company established under the Companies Ordinance 2004 and has resolved to adopt the FRS 102 financial reporting framework when reporting its results for the year ended 31 March 2015. This will include the reporting of comparative results for the year ended 31 March 2014 restated in accordance with the new reporting framework.



Phil Sharman CPFA, CAANZ
Chief Auditor
St Helena Audit Service
Jamestown, St Helena

Date 20 August 2014



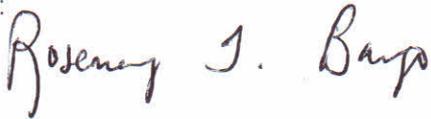
Profit and Loss for the year ended 31 March 2014

| | £ 2013/14 | £ 2012/13 | Notes |
|---|------------------|------------------|-------|
| Income | | | |
| Interest Receivable | 1,963,032 | 2,079,740 | 2 |
| Interest Payable | (921,430) | (1,068,945) | 15 |
| Net Interest Income | 1,041,602 | 1,010,795 | |
| Fees & Commissions | 233,061 | 206,172 | |
| Other Income | 140,529 | 40,319 | 3 |
| Total Income | 1,415,192 | 1,257,286 | |
| Expenditure | | | |
| Employee Costs | 506,374 | 420,037 | 4 |
| Premises Costs | 43,147 | 40,298 | |
| Investment Management Fees | 38,067 | 32,104 | |
| Depreciation | 65,553 | 60,036 | 7 |
| Provisions | 19,705 | 6,852 | |
| Audit Fees | 16,073 | 14,324 | |
| Financial Services Authority Fees | 10,500 | 18,000 | |
| Impairment Losses | 0 | 7,800 | |
| Other Expenses | 283,637 | 284,800 | 5 |
| Total Expenses | 983,056 | 884,251 | |
| Profit on ordinary activities, before tax | 432,136 | 373,035 | |
| Taxation | (117,991) | (82,839) | 6 |
| Profit on ordinary activities, after tax | 314,145 | 290,196 | |



Statements of Assets and Liabilities as at 31 March 2014

| | £ 2013/14 | £ 2012/13 | Notes |
|-------------------------------------|-------------------|-------------------|-------|
| Assets | | | |
| Fixed Assets | 435,248 | 560,676 | 7 |
| Lending | 10,998,112 | 10,749,559 | 12 |
| Investments | 55,300,000 | 43,800,000 | 8 |
| Other Assets | 1,943,306 | 2,579,979 | 14 |
| Bank Balances | 3,441,091 | 5,103,355 | 10 |
| Cash | 567,103 | 446,899 | 11 |
| Total Assets | 72,684,860 | 63,240,468 | |
| Liabilities | | | |
| Customer Current & Deposit Accounts | 67,520,367 | 58,447,285 | 15 |
| Other Liabilities | 236,138 | 178,973 | 16 |
| Total Liabilities | 67,756,505 | 58,626,258 | |
| TOTAL NET ASSETS | 4,928,355 | 4,614,210 | |
| REPRESENTED BY: | | | |
| Capital & Reserves | 4,928,355 | 4,614,210 | 19 |

| | | |
|---|--------------------------|----------------------|
| Signed:  | | |
| Name: Rosemary J Bargo | Title: Managing Director | Date: 20 August 2014 |



Cash Flow Statement for the year ended 31 March 2014

| | £ 2013/14 | £ 2012/13 | Notes |
|---|--------------------|------------------|-----------|
| Net cash inflow/(outflow) from operating activities | 9,968,571 | 7,227,119 | 1 (below) |
| Taxation | (90,506) | (104,417) | |
| Net cash outflow from investing activities | (11,420,125) | (5,043,018) | 2 (below) |
| Increase/(Decrease) in Cash for the period | (1,542,060) | 2,079,684 | 3 (below) |

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

| | | |
|--|------------------|------------------|
| Profit on ordinary activities, before tax | 432,136 | 373,035 |
| Gain on Disposal of Fixed Asset | (20,000) | 0 |
| Depreciation Charge | 65,553 | 60,036 |
| Movement on Provisions | 47,208 | 6,852 |
| Impairment Losses | 0 | 7,800 |
| (Increase) in Lending | (268,258) | (1,696) |
| (Increase) in Other Assets | 636,673 | (1,150,628) |
| Increase in Other Liabilities | 9,075,259 | 7,931,720 |
| Net cash inflow/(outflow) from operating activities | 9,968,571 | 7,227,119 |

Note 2 to the Cash Flow Statement: Net cash outflow from investing activities

| | | |
|-----------------------------------|---------------------|--------------------|
| Purchase of CD's & Fixed Deposits | (11,500,000) | (5,000,000) |
| Purchase of fixed assets | (40,125) | (43,018) |
| Disposal of fixed assets | 120,000 | 0 |
| | (11,420,125) | (5,043,018) |

Note 3 to the Cash Flow Statement: Analysis of change in cash and cash equivalents

| | | |
|---|--------------------|-----------|
| Cash in hand and Bank | 4,008,194 | 5,550,254 |
| Increase/(Decrease) in Cash for the period | (1,542,060) | |

Notes to the Accounts year ended 31 March 2014

1 Accounting Policies

The Financial Statements are prepared under the historical cost convention. Accounting conventions are in accordance with the Company Ordinance 2004 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 Ltd 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 in accordance with the Banking Financial Services Directive and do not conform with International Financial Reporting Standards. Bank of St Helena Ltd commits to adopting FRS 102 financial reporting framework for the Financial Year 2014-15.

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 £1,000.00 and over, upon acquisition, are capitalised and depreciated using the straight line method.

The accounting estimates applicable to assets acquired during 2013-14 are as follows:

| | |
|--|----------|
| Buildings | 50 years |
| Plant, Equipment, Furniture & Fittings | 10 years |
| Computers & Software | 3 years |

Prior to 2013/14, all Fixed Assets with the exception of Buildings were depreciated over 2-5 years using the straight line method. Buildings were depreciated over 50 years using the straight line 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 were limited and immature, and due to a number of variables, there remains uncertainty about the value of the buildings. 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.

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. 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.

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

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.

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 Lending in the Statement of Assets & Liabilities.

Movements in provisions are charged to the Profit & Loss Account and transferred to the Statement of Assets & Liabilities.

Provisions for Leave Pay are amounts owing to employees at the end of the financial year, and are charged to the Profit and Loss Account and the liability in 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 (Customer Current & Deposit 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.

| 2 Interest Receivable | £ | £ |
|---|------------------|------------------|
| | 2013/14 | 2012/13 |
| Interest on Overdrafts | 11,466 | 15,319 |
| Interest on UK Bank Accounts | 11,809 | 19,202 |
| Interest on Investments | 1,180,456 | 1,301,393 |
| Interest on Commercial Lending | 143,502 | 163,429 |
| Interest on Personal/Housing Loans | 615,799 | 580,397 |
| | <u>1,963,032</u> | <u>2,079,740</u> |
| 3 Other Income | | |
| Foreign Exchange | 117,305 | 39,594 |
| Gain on Disposal of Fixed Assets | 20,000 | 0 |
| Other | 3,224 | 725 |
| | <u>140,529</u> | <u>40,319</u> |
| 4 Employee Costs | | |
| Staff Costs | 492,652 | 409,308 |
| Directors' Remuneration | 13,722 | 10,729 |
| | <u>506,374</u> | <u>420,037</u> |
| 5 Other Expenses | | |
| Licence Fees | 73,722 | 54,321 |
| Communication Expenses | 62,072 | 53,174 |
| Bank Charges | 52,631 | 49,856 |
| Computer & Equipment | 20,980 | 54,126 |
| Other Fees | 38,314 | 26,738 |
| Other Operating Expenses | 35,918 | 46,585 |
| | <u>283,637</u> | <u>284,800</u> |
| 6 Tax Calculation | | |
| Profit on ordinary activities, before tax | 432,136 | 373,035 |
| Add: Non-allowable deduction - Provisions | 47,208 | 6,852 |
| Bad debts recovered less write-offs | 0 | (55,530) |
| Profit for tax purposes | <u>479,344</u> | <u>324,357</u> |
| Tax Calculated as Due at 1 April | 19,406 | 40,993 |
| Tax Underprovided for in the prior year | 1,155 | 1,741 |
| Total Tax Due for year | 116,836 | 81,089 |
| Less Tax Paid in year | (90,506) | (104,417) |
| Tax Liability as at 31 March | <u>46,891</u> | <u>19,406</u> |

7 Fixed Assets

| | TANGIBLE ASSETS | | | INTANGIBLE ASSETS | TOTAL |
|------------------------------------|------------------|---|-----------|-------------------|-----------|
| | Land & Buildings | Plant, Equipment, Fixtures & Fittings and Computers | Total | Software | |
| | £ | £ | £ | £ | |
| COST | | | | | |
| At 1 April 2013 | 526,580 | 162,425 | 689,005 | 258,257 | 947,262 |
| Additions | 0 | 11,972 | 11,972 | 28,153 | 40,125 |
| Disposals | (110,000) | (12,358) | (122,358) | (17,486) | (139,844) |
| At 31 March 2014 | 416,580 | 162,039 | 578,619 | 268,924 | 847,543 |
| DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 April 2013 | 55,100 | 116,232 | 171,332 | 215,254 | 386,586 |
| Charge for year | 23,019 | 22,186 | 45,205 | 20,348 | 65,553 |
| Disposals | (10,000) | (12,358) | (22,358) | (17,486) | (39,844) |
| At 31 March 2014 | 68,119 | 126,060 | 194,179 | 218,116 | 412,295 |
| NET BOOK VALUE | | | | | |
| At 31 March 2014 | 348,461 | 35,979 | 384,440 | 50,808 | 435,248 |
| At 31 March 2013 | 471,480 | 46,193 | 517,673 | 43,003 | 560,676 |

| | £ 2013/14 | £ 2012/13 |
|----------------------------|-------------------|-------------------|
| 8 Investments | | |
| Crown Agents Sterling CD's | 55,300,000 | 43,800,000 |
| | <u>55,300,000</u> | <u>43,800,000</u> |

9 Investments Maturity Analysis

| | | |
|--------------------------|-------------------|-------------------|
| Maturing within 1 year | 10,000,000 | 3,500,000 |
| Maturing within 2 years | 33,300,000 | 10,000,000 |
| Maturing within 3+ years | 12,000,000 | 30,300,000 |
| | <u>55,300,000</u> | <u>43,800,000</u> |

| | £ 2013/14 | £ 2012/13 |
|-------------------------------|------------------|------------------|
| 10 Bank Balances | | |
| Crown Agents: Cash & Call | 2,031,284 | 2,580,834 |
| Lloyds TSB: Currency Accounts | 85,274 | 28,315 |
| Lloyds TSB: GBP Account | 1,324,533 | 2,494,206 |
| | <u>3,441,091</u> | <u>5,103,355</u> |

| | | |
|--------------------|----------------|----------------|
| 11 Cash | £ | £ |
| | 2013/14 | 2012/13 |
| St Helena Currency | 494,830 | 305,507 |
| Other Currencies | 72,273 | 141,392 |
| | <u>567,103</u> | <u>446,899</u> |

| | | |
|------------------------------|--------------------|--------------------|
| 12 Lending | £ | £ |
| | 2013/14 | 2012/13 |
| Personal Loans | 756,718 | 714,197 |
| Housing Loans | 8,819,749 | 8,613,867 |
| Commercial Loans | 2,397,375 | 2,602,441 |
| Overdrafts | 126,302 | 152,049 |
| | <u>12,100,144</u> | <u>12,082,554</u> |
| Less: Undrawn Loan Balance | <u>(1,007,415)</u> | <u>(1,258,083)</u> |
| Total Lending | 11,092,729 | 10,824,471 |
| Less Provisions | <u>(94,617)</u> | <u>(74,912)</u> |
| Total Net Realisable Lending | <u>10,998,112</u> | <u>10,749,559</u> |

| | | | | |
|-------------------------------------|------------------------|-----|-----------------------------|-----|
| 13 Lending Maturity Analysis | From 31st March | | From 31st March 2013 | |
| | 2014 | | | |
| Maturing in less than 1 year | 374,590 | 03% | 395,254 | 03% |
| Maturing between 1 to 3 years | 1,218,144 | 10% | 1,396,901 | 12% |
| Maturing between 3 to 7 years | 1,199,628 | 10% | 1,534,456 | 13% |
| Maturing between 7 to 15 years | 5,209,750 | 43% | 4,639,268 | 38% |
| Maturing between 15 to 20 years | 4,098,032 | 34% | 4,116,675 | 34% |
| | <u>12,100,144</u> | | <u>12,082,554</u> | |

Note: 'Maturity' for repayment loans is the date on which the final repayment is due. 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 | £ | £ |
| | 2013/14 | 2012/13 |
| Accrued Interest Receivable | 1,026,521 | 1,022,848 |
| Debtors (Balance held with SHG) | 856,223 | 1,489,529 |
| Prepayments | 46,245 | 51,449 |
| Items in the course of collection from Lloyds TSB | 14,317 | 16,153 |
| | <u>1,943,306</u> | <u>2,579,979</u> |

15 Customer Current & Deposit Accounts

| | | |
|----------------------------------|-------------------|-------------------|
| Balance at 1 April | 58,447,285 | 50,475,662 |
| Interest On Depositors' Accounts | 921,430 | 1,068,945 |
| Less SHG Withholding Tax | (88,021) | (104,243) |
| Net Deposits received in year | 8,239,673 | 7,006,921 |
| Balance at 31 March | <u>67,520,367</u> | <u>58,447,285</u> |
| Comprising: | | |
| St Helena Individuals | 24,309,667 | 23,360,703 |
| Ascension Individuals | 8,203,604 | 7,980,820 |
| St Helena Corporations | 17,378,932 | 11,607,481 |
| Ascension Corporations | 47,249 | 52,953 |
| Governments | 9,774,594 | 9,223,070 |
| Child Bond Savings Accounts | 440,664 | 382,882 |
| New Life Account | 1,058,770 | 770,730 |
| Overseas Individuals | 5,192,015 | 4,069,972 |
| Other | 1,114,872 | 998,674 |
| | <u>67,520,367</u> | <u>58,447,285</u> |

16 Other Liabilities and Provisions

| | £ 2013/14 | £ 2012/13 |
|------------------------------------|----------------|----------------|
| Leave Pay Provision | 27,503 | 0 |
| General Accruals | 18,394 | 12,278 |
| Tax Due | 46,891 | 19,406 |
| Accrued Bonus Payable | 22,744 | 19,633 |
| Accrued Investment Management Fees | 10,270 | 8,460 |
| Audit Fees | 14,500 | 11,550 |
| Accrued Interest Payable | 7,815 | 3,403 |
| SHG Withholding Tax | 88,021 | 104,243 |
| | <u>236,138</u> | <u>178,973</u> |

17 Movement in Provisions

| | | |
|-------------------------|----------------|---------------|
| Balance at 1 April | 74,912 | 123,590 |
| Add Specific Provision | 19,705 | 6,852 |
| Less Write Offs | 0 | (55,530) |
| Provision for Leave Pay | 27,503 | 0 |
| | <u>122,120</u> | <u>74,912</u> |

Specific Provision includes provisions for bad/doubtful debts

18 Share Capital

6,000,000 Authorised Shares
3,219,285 Issued and fully paid Ordinary shares with no par value

19 Capital & Reserves

| | Retained Earnings | Called Up Share Capital | Capital Expenditure Reserve | Operational Reserve | 2013/14 Total Equity | 2012/13 |
|---|-------------------|-------------------------|-----------------------------|---------------------|----------------------|------------------|
| | £ | £ | £ | £ | £ | £ |
| At 1 April | 4,614,210 | 0 | 0 | 0 | 4,614,210 | 4,324,014 |
| Transfer in respect of owners share capital | (3,219,285) | 3,219,285 | 0 | 0 | 0 | 0 |
| Profit in year after taxation | 314,145 | 0 | 0 | 0 | 314,145 | 290,196 |
| Transfer to Operational Reserve | (100,000) | 0 | 0 | 100,000 | 0 | 0 |
| Transfer to Capital Expenditure Reserve | (250,000) | 0 | 250,000 | 0 | 0 | 0 |
| At 31 March | 1,359,070 | 3,219,285 | 250,000 | 100,000 | 4,928,355 | 4,614,210 |

For the year 2013/14 3,219,285 ordinary shares of no par value were issued to the Bank's shareholder, St Helena Government (SHG). These shares were fully paid up using the Reserves that the Bank carried over from the Government Savings Bank in April 2004; which was owned by SHG.

For the year 2013/14 £250,000 of Reserves was transferred to a Capital Expenditure Reserve.

20 Correction of prior period error

Directors have determined that an operational provision in the amount of £100,000 raised in 2011/12 is in substance an earmarked reserve. To correct for this material error the prior year comparators in the statement of assets and liabilities and associated note 16 Other Liabilities, note 17 Movement in Provisions, and note 19 Capital & Reserves have been restated accordingly.

21 Other Financial Commitments

The Bank has agreed in principal, loans and overdrafts of which only the portion drawn by the customer is disclosed in the Financial Statements. The undrawn balance at 31 March 2014 represents financial commitment of the Bank in the amount of:

| | £ |
|----------------------|------------------|
| Undrawn Loan Balance | 1,007,415 |
| Deferred Loan | 300,000 |
| Undrawn Overdrafts | 135,713 |
| | 1,443,128 |

22 Related Party Transactions

Terms and conditions of Related Party Transactions

Bank of St Helena Ltd was incorporated in April 2014. The total issued and paid up share capital in Note 18 is owned by the St Helena Government.

SHG hold current accounts with the Bank to make payments to local suppliers and customers as well as to receive payments from customers. No Interest is payable or receivable on these accounts. The value of these accounts are netted against each other at the period end, and the value is reflective of the Cash Deposits held by SHG on behalf of the Bank. No Interest is payable or receivable on the Bank's Cash Deposits held with SHG. All amounts owing to the Bank by SHG in respect of Cash Deposits are disclosed under Note 14 Other Assets.

Key Management Personnel

All Directors and the Senior Management Team who have authority and responsibility for planning, directing and controlling the activities of the Bank are considered to be Key Management Personnel. Total remuneration in respect of these individuals for 2012/13 was £105,273 and for 2013/14 is £108,339.

Loans may be granted to the Senior Management Team for personal expenses including house purchases and construction at an interest rate 0.5% above the base rate (4%). Should the persons cease to work for Bank of St Helena, the interest rate will revert to the normal lending rate. The total value of loans outstanding to these individuals is £107,717 at 31 March 2014.



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