Bank of St. Helena Ltd.

www.sainthelenabank.com

Directors' Report & Financial Statements:

Financial Year 2015 - 16

Bank of St Helena Ltd Registration No. 95

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Directors' Report

For the Year Ended 31 March 2016

To Our Shareholders, Customers and Stakeholders,

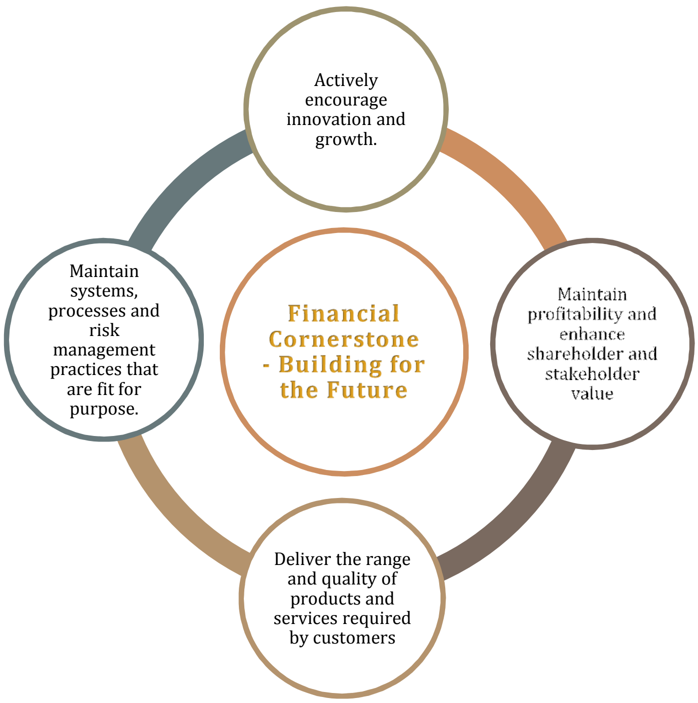
The Directors are pleased to submit their report and the audited financial statements of Bank of St Helena Limited ("the Bank") for the year ended 31 March 2016.

The Bank is a Limited Company incorporated in St Helena and the St Helena Government (SHG) owns the Bank, as sole Shareholder. At the time of reporting the Bank's Capital Base comprises of Share Capital (SHG) £3.2 million and General Reserves of £2.3 million. The Bank's Articles of Incorporation provide for 6 million shares; allowing for future sales of the remaining 2.8 million shares, should the Bank wish to raise further capital.

The Bank's current governance structure, 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, updated March 2016.

The Board currently comprises a Chairman, Managing Director and four Non-Executive Directors. The Articles of Incorporation permit a maximum of seven Board members in total. The Board sets the strategic aims and values and provides the right leadership and control to enable the Bank to achieve its aims; uphold its core values and ensure the successful generation of value for the company, the shareholders and other key stakeholders. The authority to implement, monitor and evaluate the policies and strategies, for the day-to-day operations, is delegated to the Managing Director and the Bank's Senior Management Team.

A Balanced Scorecard approach is used to measure progress and performance against strategic goals.



1. Principal Activities

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

The Bank offers a variety of services which includes Teller Services, as well as an international remittance service, that allows its Customers to conduct business on an international level. To compliment these services, the Bank offers On-Line Banking services to local and overseas customers. The Bank does not offer offshore banking services; customers must have right of residence in St. Helena or Ascension Island.

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 in ensuring that the development and delivery of banking products and services are appropriate, affordable and accessible to all.

The Bank views its purpose as helping its customers, as well as other stakeholders, to realise their respective personal and business aspirations in a way that minimises risk and maximises success. The Bank's planning and decision making process takes cognisance of both the global environment and the local environment in a bid to ensure that The Bank remains focused on its vision of being known as the financial cornerstone from which commercial and retail customers can safely build a prosperous economy for the Island of St Helena.

2.1 Global Economic Environment

"Following the United Kingdom's vote to leave the European Union, the exchange rate has fallen and the outlook for growth in the short to medium term has weakened markedly. The fall in sterling is likely to push up on CPI inflation in the near term, hastening its return to the 2% target and probably causing it to rise above the target in the latter part of the MPC's forecast period, before the exchange rate effect dissipates thereafter...recent surveys of business activity, confidence and optimism suggest that the United Kingdom is likely to see little growth in GDP in the second half of this year"[2]

The outcome of the Brexit vote has had an immediate impact on the Bank in terms of declining interest rates and fluctuating foreign exchange rates. Bank of England's Monetary Policy Committee voted unanimously on 3rd August 2016 to reduce the Bank Rate to 0.25% which highlights and continues this declining trend.

"There was little evidence, so far, in timely economic and financial indicators of any sizeable adverse economic impact of the referendum result on the global economy. In the euro area, consumer confidence indicators had fallen a little in July, while the composite PMI output indicator had been little changed. The forward-looking element of the PMI survey had shown a sharper deterioration in expectations, but was nevertheless consistent with modest growth in Q3... The ECB Bank Lending Survey indicated that credit conditions had continued to improve across the euro area and were expected to ease further. Elsewhere, portfolio flows to emerging market economies had strengthened further following the referendum result, suggesting little contagion. In the United States, the first estimate of GDP growth in 2016 Q2 had been weaker than the consensus expectation, although a significant proportion reflected weaker stock building. Consumption growth had picked up and continued labour market normalisation was expected to support strengthening domestic demand. As a consequence, the global growth outlook incorporated in

[1] Bank of St. Helena Ltd – Articles of Incorporation March 2016

[2] http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2016/aug.pdf

the August Inflation Report projection was only a little weaker than in May, driven by slighter weaker euro area activity"[3].

"Nevertheless, there was considerable uncertainty about the global outlook and a number of areas of fragility remained. Sharp falls in the equity prices of some European banks since the referendum had highlighted vulnerabilities in the system. The results of the European Banking Association stress tests had reinforced perceptions of the location of vulnerabilities, with a particular focus on Italian banks, reflecting their high level of non-performing loans and lower capital ratios than the European average. Outside Europe, financial risk remained significant in China, where economic expansion had been associated with an increase in the growth of credit from already rapid rates, and in EMEs where a material proportion of debt was denominated in foreign currency. These and other factors had the potential to weaken the economic outlook, raise political risks and reignite concerns about debt sustainability"[3].

At 31 March 2016, Bank of St Helena had £59.8m of its £73m Depositors portfolio invested in Cash Deposits with major UK Banks; currently receiving minimal interest. The Bank of England states "*The cut in Bank Rate will lower borrowing costs for households and businesses. However, as interest rates are close to zero, it is likely to be difficult for some banks and building societies to reduce deposit rates much further, which in turn might limit their ability to cut their lending rates"*[3]. Even before the latest cut in the Base Rate this effect could be seen at the Bank. The interest rates payable on the Bank's Customer Deposits was reviewed in March 2016 and resulted in an approved reduction of interest rates payable on Customer Current Accounts to 0.1%, effective July 2016. The Directors appreciate that the continued reduction in interest rates may not be well received by its customers but such was an unavoidable decision to ensure that the Bank is able to remain profitable in the face of reduced income from one of its main sources of return. To reduce any negative goodwill from Customers, Directors have however agreed to a new product, Term Savings Accounts, which will attract a higher interest rate of 0.6%, provided customers make no more than one withdrawal a year.

2.2 Local Economic Environment

Financial aid from the UK Government, European Union and other agencies continue to support the economy of St Helena. However, air access is ultimately deemed as St Helena's route to self-sufficiency. "*By continually striving to-wards the National Goals, Government, businesses and the community are doing their best to prepare for the future and the biggest transformation in the island's history….Many aspects of the St Helena economy are performing at or above expectations. The population is growing, bringing skills to the island, employment levels are high, the number of businesses is increasing and incomes have grown significantly*"[4].

Enterprise St. Helena (ESH) is leading the drive to attract investment in infrastructure, products and services for the island. "*The arrival of an airport in 2016 will open St Helena to a wealth of opportunity. Currently only accessible by ship, taking between two and six days from port, a direct link to the rest of the world gives residents, returning 'Saints' and visitors the ease of migration. The movement of people brings the movement of money and this provides a unique opportunity for new investment and growth in St Helena. With tourism seen as the driver for growth, all industries will benefit from expansion, creating a vibrant and attractive economy.*"[5]

Whilst the airport is completed and certified, concerns over safety has meant that the commercial operation of flights has been delayed. This has resulted in the forecasted increase in business development not materialising as expected and the continued uncertainty impacts on investor confidence. To this end the Government has had to intervene in the hotel accommodation market due to the absence of private sector development projects.

During 2015/16 the Bank started to see an increase in requests for larger commercial loans to aid the expansion of existing businesses and new business start-ups, however this was not as significant as hoped or expected. This

[3] http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2016/aug.pdf

[4] http://www.sainthelena.gov.sh/statistics/ SHG Report 'State of the Island 2015'

[5] http://www.investinsthelena.com/about-st-helena/why-st-helena/opportunity/

rather unresponsive period of economic growth makes income generation for the Bank even more challenging. ESH has increased their marketing efforts in both South Africa and the UK in a bid to attract investment in the development of tourism accommodation and services.

The Bank and ESH continue to work closely to ensure that businesses intending to invest on St Helena are guided towards appropriate financing packages, along with advisory support that is geared towards promoting and supporting business development.

The St Helena Government Statistics Office reports that "*The St Helena RPI grew by 0.7 percent in the year leading up to the first calendar quarter of 2016, essentially unchanged from the annual growth in the year leading to the previous quarter. The resident population decreases slightly from the peak population in Q1 2015 but the St Helenian population continues to grow". "Net migration continues to be the largest driver of population change for the resident population. The effect of outward migration of overseas workers at the end of the airport construction project is becoming apparent in the decreasing total resident population*[6]*.* This reiterates the changing dynamic of the island and its impact on the economy.

The Bank is well aware of rising expectations from its customers, particularly in relation to technology that can enhance the ease with which customers can affect business through the Bank. With both local and global economies being impacting on the Bank's operations and the challenge for the Board will be balancing the high capital investment of new products and services required in the short-term to be able to generate long term rewards.

2.3 Performance review over the year

During the year, the Bank has continued to make progress towards the achievement of its critical success factors: secure, safe and user-friendly systems and processes; right complement of numbers and skills within the staffing team; robust risk management to safeguard the assets of the Bank and its customers; enhancement of shareholder and stakeholder value.

2.3.1 Secure, safe and user-friendly systems

During the year cost/ benefit analysis was undertaken and proposals written and approved to explore both Local Debit Cards and International Pre-Paid Cards. Research and development of these products is still on-going but it is hoped that these services will provide a safe and efficient way for customers to make payments both on-island and off-shore.

2.3.2 Right complement of numbers and skills within the staffing team

The Directors believe that there is an undisputed correlation between the quality of the product and service delivery of the Bank and the quality of the skills, depth of knowledge and breadth of experience of its Senior Management and operational teams. All employees are encouraged to undertake further studies relevant to their roles, and Bank Management and Staff continue to also engage in ongoing refresher courses in subjects directly related to ensuring effective day-to-day operations such as health & safety, Anti-Money Laundering, Anti-Fraud and Ethics. The implementation of fair and appropriate financial rewards is linked to the achievement of personal and corporate targets.

2.3.3 Robust risk management to safeguard the assets of the Bank and its customers

Risk assessment and control is embedded in all of the Bank's decision making processes. High priority is accorded to 'Know Your Customer' (KYC) which contributes to the detection and prevention of money laundering. Directors, Management and Staff annually undertake refresher training in anti-money laundering and anti-fraud.

[6] http://www.sainthelena.gov.sh/wp-content/uploads/2013/01/Stat-News-Bulletin-Q1-2016.pdf

During 2014/15 the Bank has moved to a new SWIFT (Society for Worldwide Interbank Financial Telecommunication) platform for inward and outward remittances; this allows a safe automated way for the Bank to communicate and transfer funds between itself and other banks.

An Audit and Risk Management Committee is in place to oversee the Bank's risk management strategy and practices including the internal and external audit services.

During the year the Bank tested its revised Disaster Recovery Plan. This is a comprehensive, but clear, plan of action in the event that the Bank's normal place of business is unavailable for day-to-day operations. The major incident exercise was deemed a success with staff showing flexibility and dealing efficiently with any issues which arose.

2.3.4 Enhancement of shareholder and stakeholder value

"Value" can be defined as the measurement of the wealth or worth of a business to the shareholders. As the Bank is owned by the St Helena Government, the ultimate shareholders are the people of St Helena. Shareholder value is said to be created or "added" when the net return on assets held by the business exceeds the returns required by those who have contributed capital to the business (the Government on behalf of the people of St. Helena).

This year, the Bank continued to maintain a healthy level of profit of £286,828 after tax, resulting in an increase of 5% in Capital and Reserves (Total Shareholders' Funds). Profit ensures the stability of the Bank's Assets and Liabilities and that retained earnings are conducive with the growth in the Bank's Risk Weighted Assets.

The increase in economic activity due to the works associated with Air Access appears to have levelled off, and the Bank's Customers Deposits saw a decrease for the first time reducing by 3% (£1,991,526) to £73,126,044.

The demand for Commercial Lending increased this year, with an 18% (£424,951) increase in this portfolio compared to a decrease of 1% (£35,696) in 2014/15. An increase was also seen in the Bank's Personal Lending portfolio which grew by 16% (£162,839). The demand for personal loans is primarily for Vehicle Purchases, Travel Expenses and Household Improvements. Overall, the growth in the lending portfolio has been helped by increasing the unsecured loan limit from £1,000 to £5,000. To ensure that it maintains responsible lending practices, the Bank does however have a cap on the level of unsecured lending – this cannot be more than 20% of the Bank's capital which means 92% of loans will be secured. Housing Loans did not follow the Commercial and Personal Lending trend and the value of the Housing Lending portfolio fell slightly by 0.6% (£57,735).

The Bank continues to offer a reduced interest rate for Commercial Lending, and introduced a further reduced interest rate of 5% in 2014/15 for funding required for tourism-related accommodation. Within commercial lending the Bank utilises a variable rate of interest, linked to the 12 month GBP London Interbank Overnight Rate (LIBOR), for longer term (5 years or more) repayment periods and larger exposures (£150,000 and above).

The Directors remain committed to ensuring that a stable affordable interest rate can be paid to Depositors Accounts. However, as the Bank's overseas investments mature and come due for re-investment, the returns are significantly lower. A decrease of 19% (£191,376) in interest earned on investments has necessitated a further 0.4% reduction in the general interest rate payable to Current Account holders. From July 2016 a new Term Savings account is being offered which will attract a 0.6% interest rate. As reported in section 2.1 above, there appears to be no indication of if or when the Bank of England base rate is likely to increase, especially with a further cut to 0.25% being seen in August 2016. For the last six years, interest earned on the Bank's UK investments has steadily declined, along with the Bank's interest rate payable on Depositors' balances, and the Directors would like to thank the Depositors for their continued loyalty throughout.

Further detail on the Bank's performance is provided in section 4.

The Bank's Capital position remains strong at 24%, well within the capital ratio limit of 12% set by the Financial Services Regulatory Authority (FSRA), reflecting a small increase in Weighted Risk Assets of 1% (£21,836). The

Bank's Board however is ever mindful of the impact on the weighted risk assets and the Bank's future ability to lend if significant investments are made in intangible assets.

The Bank's Liquidity position in relation to Assets in St Helena and Total Assets also remain robust at 2.4% and 72.3% respectively; well within the required liquidity ratios of 0.50% liquid assets within St Helena and 25% total liquid assets overall set by the FSRA. Adequate liquidity is required to assure the Bank Board that the Bank is able to meet its financial commitments as they fall due.

The key highlights of the Bank for 2015/16 were:

- 8% increase in Profit after Tax
- 7% growth in Total Lending
- 14% growth in Retained Earnings

Management, Directors and Staff of the Bank remain committed to providing secure, appropriate and user-friendly products, services and processes with the overall aim of enhancing customer experience.

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

3. Looking Ahead

The Board restates its key priorities as being robust and user-friendly systems; that enable secure and efficient ways of doing business; whilst safeguarding and enriching the interests of its shareholders, customers and staff.

The remainder of 2016/17 and into 2017/18 is set to be an exciting time for the Bank with the exploration and development of new products and services namely Local Debit Cards and International Pre-Paid Cards. With an ever increasing cashless society around the world, the Bank has taken steps to follow this trend. Local Debit Cards will reduce the requirement for cash and considerably reduce the number of transfers manually input by tellers. This in turn will reduce operational risk of errors occurring and ultimately reduce Employee Costs in the longer term.

Currently for many Saints travelling abroad the only way to access money whilst away is to take it with them. International Pre-Paid Cards will eliminate to need to carry large quantities of cash, giving customers a safe and secure way to spend whilst away. Research is still on-going for these cards as the Bank aims to ensure a secure and reputable service for customers.

The on-going delay to the commercial operation of the airport and the uncertainty surrounding the full impact of Britain exiting the EU will continue to impact the Bank for the foreseeable future. Increased profitability will continue to be a challenge as Management appraises options for increasing net interest income against a background of diminishing returns on investments and minimal growth in the lending portfolios. The Bank is aware this is a time of change and strives to undertake continuous review of its products and services to ensure that these are met, whilst considering affordability, appropriateness and added value.

Effecting new business development has proven to be a slow process for a number of private sector businesses. "*Both domestic and inward investment are below the levels needed to ensure that significant economic growth can be realised when tourist numbers increase*"[7]. The Bank will continue to work closely with ESH to support private sector growth whilst deploying, at all times, responsible lending and risk management practices.

[7]http://www.sainthelena.gov.sh/statistics/ SHG Report 'State of t he Island 2015'

The banking sector will continue to face economic uncertainty as well as increasing political and regulatory challenges. The Bank is confident that it will deliver against these in terms of its commitment to doing business the right way, the first time.

The prevention of money laundering remains a high priority, with Anti-Money Laundering (AML) policies and processes being systematically reviewed and revised to ensure that the Bank's lines of defence are fit and able to combat this crime. This includes the regular updating of the skills and knowledge of Directors, Management and Staff.

The Board has recently reviewed the Bank's salary structure and reiterated the importance of linking skills, experience and performance with remuneration and rewards. Having the right complement of staff in terms of numbers, skills and experience, and ensuring that they are adequately incentivised, is crucial to the achievement of the Bank's key priorities.

The Directors aim to foster the right environment for sustainable business growth. This includes nurturing a culture of accountability and co-operation as all endeavour to uphold the Bank's guiding principles and achieve the strategic aims. The Board strives to provide the right level of leadership; challenge, monitor and control performance and ensure that the risks are managed in line with the Banks risk appetite and strategy.

The Directors, Management and Staff remain committed to adding value for the Bank's shareholders, customers and other stakeholders.

4. Financial Performance

4.1 Commentary on the Statement of Comprehensive Income

The Bank's 2015/16 financial performance is presented in the Statement of Comprehensive Income on page 24 with the accompanying notes and comments below providing greater detail.

A summary of the Statement of Comprehensive Income account is reproduced below:

	Year to 31 March 2016	Year to 31 March 2015
Total Income	**£1,583,030**	**£1,565,029**
Total Expenditure	**£1,198,258**	**£1,207,956**
Profit before Tax	**£384,772**	**£357,073**
Taxation	**£104,356**	**£98,334**
Deferred Taxation	**£6,412**	**£7,569**
Profit after Tax	**£286,828**	**£266,308**

4.1.1 Income

Although Total Income for 2015/16 was above that of 2014/15 this was not significant at all with a 1% (£18,001) increase. Due to the low return on overseas investments, Interest Receivable was down 8% (£144,640). However the Bank was able to sustain a small increase of 7% (£82,701) in Net Interest Income due to a reduction in interest payable on Customer accounts.

Other Income fell by £47,707 (27%) from the previous year but this was predominantly due to a one-off gain on sale of an investment in 2014/15. Excluding this Other Income remained stable. Fees & Commissions fell slightly as the commissions charged by SHG for importing Sterling were matched to the related income.

The Bank continues to review its fees and commissions to eliminate as far as possible any cross subsidisation of its services. The bank continues to monitor foreign exchange rates to ensure that the rate offered is favourable and in line with what other overseas financial institutions offer.

4.1.2 Expenditure

The fall in Income for the year has been offset by a corresponding decrease of 1% (£9,698) in Expenditure, resulting in an increase in Profit after Tax of 8% (£20,520).

Expense lines that changed the most, relative to the previous year, included:

- Employee Costs have increased by 9% (£49,306) due to additional staff being employed. See detail of staff costs in 4.1.3 below.

- Premises Costs have increased by 15% (£6,690) due to the bank requiring additional space to accommodate increasing staff numbers. The Arc Flat above Thorpe's was rented from July 2015.
- Other Expenses have decreased by 14% (£56,068). This is a levelling off of Other Costs as these increased last year due to the increase in expenditure on computer equipment, fees and other expenses to support the move to the SWIFT platform and the Bank's computer & equipment replacement program.

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.

Directors and Management are committed to reducing the cost-to- income ratio.

4.1.3 Employee Costs and Numbers

As at 31 March 2016, the Bank had the following staff:

	As 31 March 2016		**As 31 March 2015**	
	Numbers	**Cost**	Numbers	Cost
Teller Services	12	£170,618	12	£134,183
Operations (Accounts, Admin, Marketing, IT, Operation Assistants)	18	£198,389	14	£166,870
Lending	5	£65,493	5	£50,790
Management	6	£168,345	6	£202,271
Directors	4	£16,774	4	£16,199
TOTAL	**45**	**£619,619**	41	£570,313

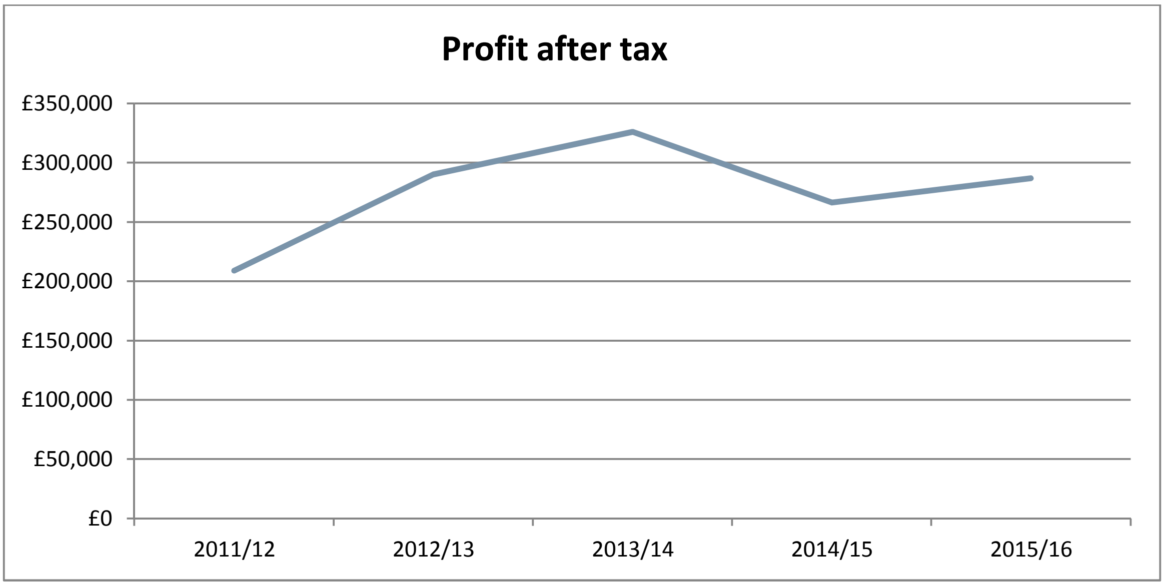
Employee Costs for this financial year includes costs for the following:

- Recruitment of 4 additional employees; 1 Finance Assistant, 1 Compliance Officer and 2 Assistants in the Operations section.

Staff personal and professional development continues to be accorded high priority and incentives and employee rewards are aligned with individual and corporate performances.

4.2 Commentary on the Statement of Financial Position

This financial year has seen an overall growth of 5% (£286,828) in the Bank's Net Assets. Below is a chart outlining the Bank's Net Profits achieved each financial year for the last five years.



4.2.1 Fixed Assets

Fixed Assets are stated at Cost less Accumulated Depreciation. The Bank undertakes impairment reviews of its Fixed Assets; no impairments of Fixed Assets were identified for the year 2015/16. Verification of the physical presence of the moveable Fixed Assets and Inventory Assets are undertaken on an annual basis.

4.2.2 Investments

The Bank continues to invest in CDs with UK Banks, due to the greater return that can be earned, relative to UK Gilts. The Bank's investment intentions remain the same; which is to hold the investments to maturity. The investment 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. This financial year saw decrease of 2.5% in the value of investments held; a direct result of the similar decrease in Customer Deposits and Cash balances.

The investment maturity analysis can be seen in Note 5 to the Accounts. During the financial year 2015/16 56% (£33,300,000) of the investment portfolio came due for reinvestment. As outlined in section 2.1 above, there is no evidence to suggest that interest rates are likely to rise within the next year so the Bank's returns on its overseas investments will continue to be low. This necessitated a reduction of 0.5% in interest payable on the Bank's Depositors accounts for the financial year 2015/16, and a further reduction took effect from July 2016.

4.2.3 Customer Deposits

During the last year, Customer Deposits have fallen by 2.5%. Note 9 to the accounts shows that the most significant movements have been in:

- St Helena Corporations - decrease £5,148,271 (26%)
- Ascension Corporations - increase £883,394 (770%)
- Other - increase £1,302,367 (79%)

It should however be noted with the above that part of the decrease in the St Helena Corporations balance is due to Organisations being recoded from Businesses to Organisations (which are included in Other).

The Bank's Child Bond Savings Accounts have attracted growth in deposits of 17% (£92,705). Although this account and the New Life Account are long-term savings accounts and the interest rates are slightly more favourable than those paid on the standard Deposit accounts, the balance on the New Life Accounts decreased by 12% (£156,315) in the year.

The Bank regularly reviews its interest rates policies to help ensure that the Bank maintains a healthy balance between its own profitability and the return that its Depositors receive. The Directors are ever mindful of the Bank's privileged position on the island and therefore the added responsibility to make decisions that will aid the wider development agenda of wealth creation for the island and its people.

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.

Figure 1

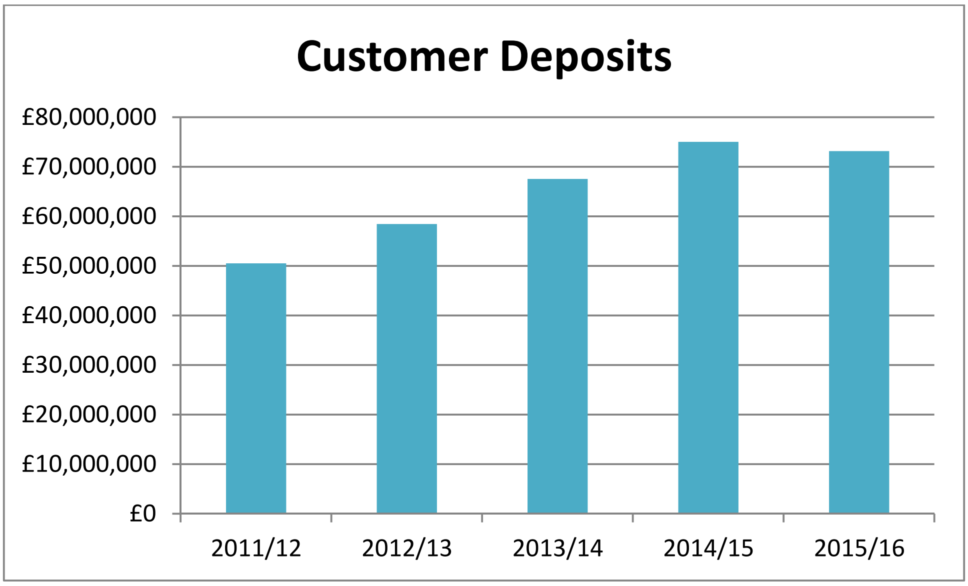
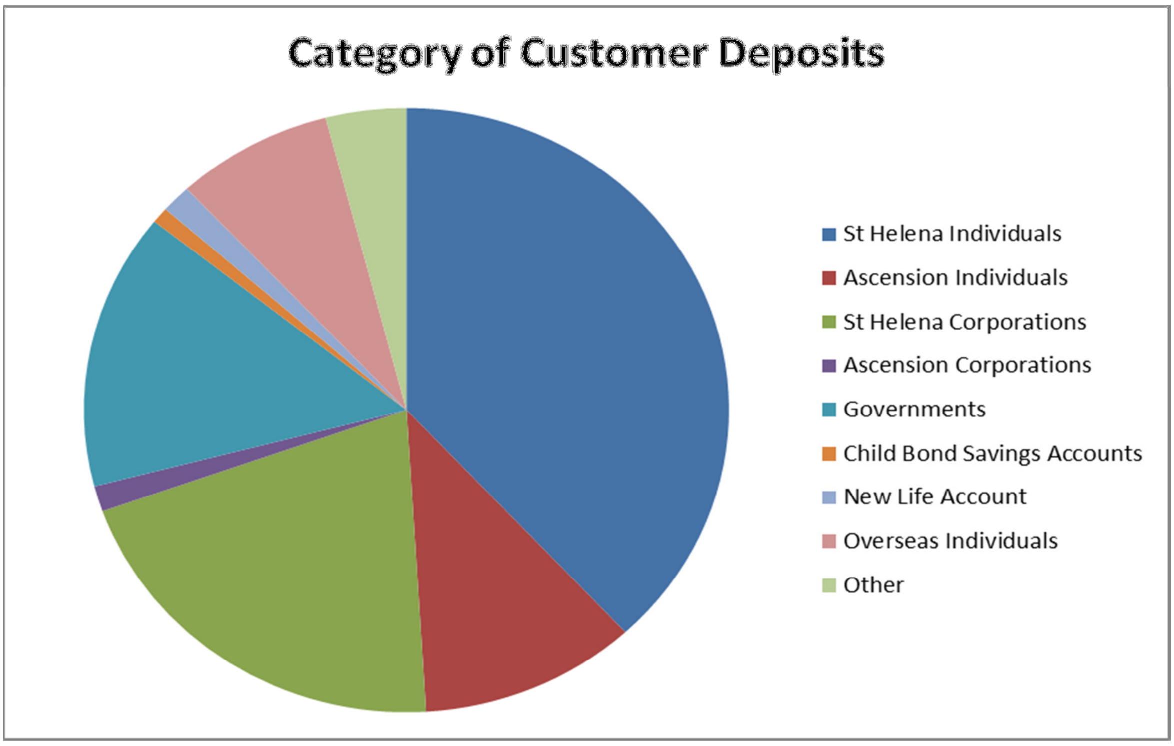


Figure 2



4.2.4 Lending

The overall lending portfolio continued to grow with an increase of 4% (£475,241) from 2014/15. The majority of this increase was seen under the Commercial lending portfolio which grew by 18% (£424,951). Personal loans also made a contribution with a 16% (£162,839) increase; however both Housing loans and Overdrafts fell by 1% (£57,735) and 39% (£54,814) respectively.

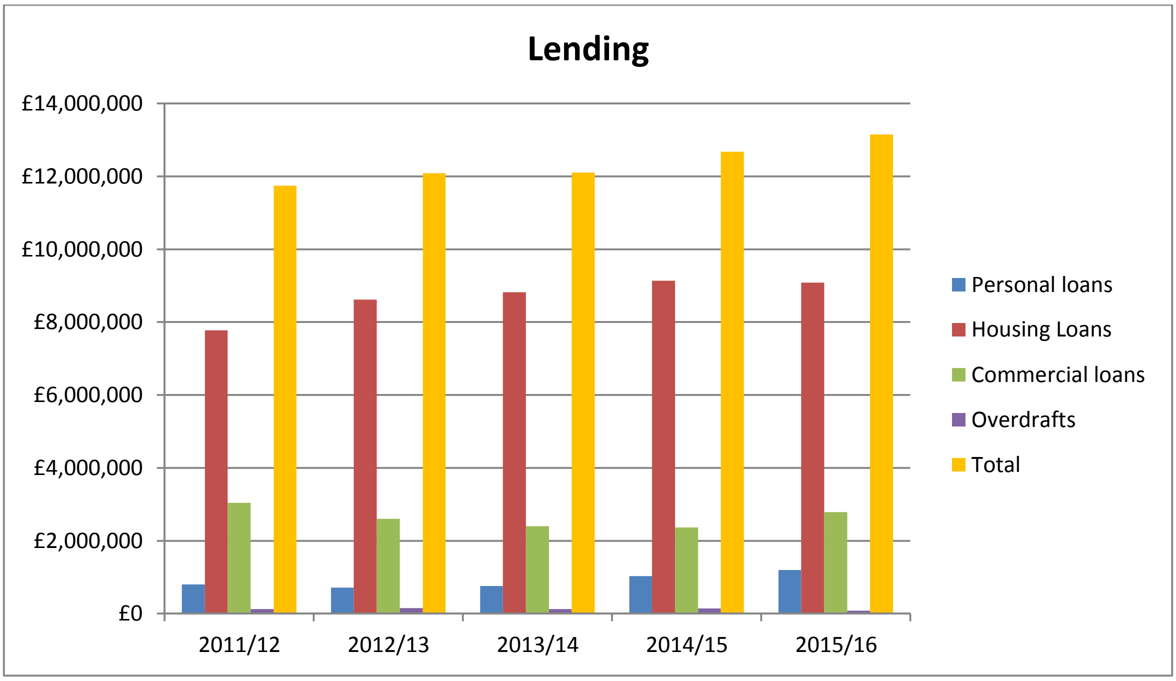
With two significant loans approved in principal and another sizeable loan application being considered, the Directors are optimistic that the year 2016/17 will see growth in the Bank's Commercial Lending portfolio.

Specific provisions are provided for loans that are non-performing or doubtful in line with the Bank's policies and procedures. This Financial Year has seen specific provisions increased by 23% (£26,423). The total value of the specific provisions at 31 March 2016, expressed as a percentage of the total lending at that date was 1%.

Therefore whilst lending activities have not reached the 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 last five years is outlined in figure 3 below:

Figure 3



4.2.5 Other Liabilities

Details of the Bank's Liabilities, other than the Customer Deposits, can be seen in Note 10 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 & Liquidity Regulatory Limit	Average Achieved	Minimum Recorded	Maximum Recorded
Weighted Risk Assets	12%	23.82%	23.10%	24.30%
Total Liquid Assets in St Helena: Total Liabilities	0.50%	2.05%	1.30%	3.20%
Total Liquid Assets: Total Liabilities	25.00%	72.17%	71.50%	72.80%

The table above shows the Bank's capital and liquidity positions throughout the Financial Year 2015/16. 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 Risk Weighted Assets and the perceived risk management framework. The Bank is pleased to report that it has stayed well within the compliant ratios for this Financial Year.

The Regulation of Financial Services provided on St Helena, Ascension, and Tristan da Cunha Islands is provided by the Financial Services Regulatory Authority (FSRA). Bank of St Helena Ltd continues to be regulated in accordance with the Financial Services Ordinance and Directives 2008, and during the 2015/16 financial year it continued to be compliant with the requirements of this legislation.

During his visit to St Helena and Ascension Islands in March 2016 Chris Duncan (Chairman FSRA) was able to re-confirm that the Board and Management of the Bank maintain the high standards of capital, liquidity, and balance sheet management that are expected. "The Board is fully aware of the challenges posed by air access for St Helena, and measures continue to be taken to ensure that the Bank operates in the best interests of all of its Stakeholders. Profitability is modest, but acceptable, and the Bank has the ability to make the investments in the technology required to provide the high standards of service that customers deserve. Bank of St Helena Limited follows conservative policies and its customers' deposits are safe".

6 Risk Management

The Board sets the strategic direction of the Bank, monitors the performance of the business and oversees the management of risk. The Bank is 'risk aware' and its 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, market risk, business risk, reputational risk and operational risk. There are a number of policies and internal procedures in place to manage these primary risks.

An Internal Auditor regularly reviews the Bank's financial results and systems as well as compliance with 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 Bank's financial statements is provided by an external audit service.

Last year the external audit assurance was contracted for three financial years to a UK based firm of accountants, Moore Stephens.

During 2015/16 the Board established an Audit & Risk Committee (A&RC) comprising the Non-Executive Directors. The role of the A&RC is to assist the Board with its oversight responsibilities by reviewing: the financial information provided to external stakeholders; the systems of internal control; all audit processes and compliance with laws, regulations, directives and policies that may apply.

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 are conducive with customer demands, including specific lending products that are geared toward stimulating economic activity.

Credit Risk is the potential loss that the Bank could face if customers are unable or unwilling to fulfil their contractual obligations to the Bank, particularly in terms of loan repayments.

The Bank spreads the risk of its lending portfolio by ensuring that lending is not targeted to anyone portfolio. The overall lending portfolio, at 31 March 2016 comprised: Housing Loans 69% (£9,081,987); Commercial Loans & Overdrafts 22% (£2,873,069) and Personal Loans 9% (£1,197,480). Within the Commercial Lending Portfolio, lending is spread across the various sectors with Accommodation and Construction representing the largest segments of the commercial portfolio. Accommodation and Retail sectors have large loans approved in principle at the year end and it is hoped these loans will signed and reflected in the 2016/17 portfolio.

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 has been maintained; which includes the assessment of the customers' ability to repay, adequate collateral and insurances are being secured where appropriate. 95% of the total Loan Portfolio has adequate security and 99% 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 in ensuring that the risk impact on the Bank is mitigated.

The Bank's total credit exposure is defined as Balance Sheet items as the Bank does not have any off-Balance-Sheet items that carry credit risk.

By volume and value, the main form of collateral is real property with the remainder being a combination of non-current assets such as machinery, boats and vehicles.

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 the Financial Year and constant monitoring of this risk is performed by the Directors via monthly performance reports; also provided to the FSRA. Liquidity ratios are detailed in section 5 above.

6.3 Market Risk

Market Risk is defined as the risk of losses because the fair value of financial assets and liabilities vary with market conditions.

The Bank's level of market risk is minimal. In accordance with Banking Directives, the Bank places investments with banks whose headquarters are in Zone 'A' countries. Zone 'A' countries comprise members of the European Union, the USA and Switzerland.[8]Although higher returns are available on more risky instruments such as corporate bonds and equities, such is not currently in keeping with the risk appetite of the Board or the FSRA.

Interest Rate Risk is a form of Market Risk. The Bank is currently facing the effects of low interest rates received on its investments with UK Banks and the 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 was able to mitigate the decrease in net interest income by lowering the interest rate payable to Depositors Accounts to 0.5%. Management remains aware that as economic activity increases so will the expectations of depositors for tiered interest rate accounts. The Directors regularly review interest rates along with affordability, and as such a decision was made at the year-end to reduce the main interest payable rate to 0.1% but introduce a new Term Deposit account which will attract a 0.6% interest rate.

Foreign Exchange Risk is another form of Market Risk. The St. Helena pound is currently pegged to the UK Pound Sterling. The Bank does however trade in a variety of currencies with the South African Rand being the greatest of the foreign currencies in volume and value. The Bank measures and manages foreign exchange risk on the basis of the net exposure to each currency.

[8] Financial Services Regulatory Authority Directives February 2014

6.4 Operational Risk

The Bank is exposed to operational risk in the form of losses due to human error, inadequate IT systems and IT systems security failure, unreliability of internal processes and procedures and other external events including legal risk.

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. Each business unit and support function is responsible for the day-to-day monitoring of its operational risks and for reducing and preventing losses caused by operational risks.

The Bank manages risk through internal controls and standard operating procedures. Risk identification, assessment and mitigation is regularly monitored and reviewed in accordance with the Bank's risk appetite.

The role of the Internal Auditor is segregated from the role of the units that enter into business transactions with customers or otherwise expose the Bank to risk. Compliance reports, with management action plans, are reviewed regularly by the Board and specifically the Audit & Risk Committee.

The Bank has a triple tiered level of checking which is necessitated by the high volume of manual data capture and processing. A Checker section 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. It is anticipated that this risk will be further mitigated by the introduction of Local Debit Cards in 2016/17 which will reduce the quantity of manually input transactions.

In addition to internal controls, the Bank places emphasis on the updating and training of staff with regards to Anti-Money laundering and Fraud Detection and Prevention. Such training and practices include Due Diligence and Know your Customer (KYC) procedures which have been extensively managed in the year due to historical data also being updated.

The introduction of SWIFT provides the Bank with safe and secure communication channels when doing business with other financial institutions.

A robust and comprehensive Disaster Recovery Plan is now in place and was successfully tested during the 2015/16 financial year.

Regular reviews are undertaken of the Bank's hardware, software and levels of protection of such. This includes ensuring that the Bank has adequate systems that can cope with the increased activity experienced and planned by the Bank.

The Bank secured additional premises in the year to accommodate additional staff required with the rising demands of the Bank.

Internal controls and standard operating procedures are updated regularly to reflect the changing challenges and demands of the business environment.

6.5 *Business Risk*

Business risk is defined as strategic risk and other risks related to external factors. The Bank reviews its business areas to minimise the risk of financial losses arising from sanctions and claims resulting from non-compliance with legislation, rules and standards.

The Directors consider that the Bank is in a stable financial position as demonstrated by its 2015/16 financial performance and previous years' performances.

The Bank's strategic priorities during the next three years, as stated in section 3 'Looking Ahead' are robust and user-friendly systems; that enable secure and efficient ways of doing business; whilst safeguarding and enriching the interests of its shareholders, staff and other stakeholders.

The level of business risk and the threat to the future profitability of the Bank is dependent upon the decisions that the Directors and Management make in relation to its products and services.

The Board and management are fully aware of rising expectations of customers in relation to technological developments that will enable new and improved ways of doing business with the Bank. Directors have recently approved current proposals to introduce new products and services that will provide an enhanced offering to customers.

Regular dialogue with and reporting to the FSRA, helps to ensure that awareness of and compliance with legislation, directives and standards are accorded high priority by Directors, Management and Staff.

The Board and Management are ever mindful of the detriment that could be caused to customers, the Bank, its employees and other stakeholders through inappropriate judgement in the execution of their respective roles and responsibilities.

6.6 *Reputational Risk*

Reputational risk can be seen as one of the consequences of operational risk but it could also arise from any association, action or inaction perceived by shareholders, employees, customers or other stakeholders as inappropriate or unethical.

All Directors, Management and Staff undertake training in ethical behaviour to help ensure that due regard is given to doing the right thing, in the right way at all times.

Customer satisfaction surveys are undertaken on a regular basis with concerns and suggestions from customers being properly evaluated and appropriately actioned. Employee feedback is encouraged and used to inform improved ways of conducting business.

The Bank embraces its wider role as a responsible citizen of the community and aims always to ensure that it upholds its mission statement – To develop and deliver banking products and services which are appropriate, affordable and accessible to all.

Living and operating within a small community provides even greater incentive for the Directors, Management and Staff to uphold ethical standards and the core values of the Bank as the reputation of the Bank will directly impact on the reputation and standing of the individuals.

7. The Bank as a Responsible Citizen of the Community

The Directors continue to 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 money for sponsorships of events/activities on the Island. For the year to 31 March 2016, £2,550 had been contributed to community development projects, with an additional £1,845 given in one-off donations to community organisations. The Bank continues to be the lead sponsor of the annual Youth Games that is organised by New Horizons.

8. Directors

In accordance with the Companies Ordinance 2004 and the Financial Services Ordinance 2008, the Chairman, Managing Director and 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 the Directors is set by the Board of the Bank; 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.

The Directors of the Bank during the year to 31 March 2016 and as at the date of this report were:

Mrs Carolyn Thomas	Chairman – resigned May 2016
Miss Rosemary Bargo	Managing Director
Miss Cherie Dillon	Non-executive Director – resigned September 2016
Mrs Joan Peters	Non-executive Director – resigned April 2016
Mr David Colin Owen	Non-executive Director (Shareholder representative) – resigned July 2016
Kerry Yon	Non-executive Director – resigned November 2015

After the year end the following Directors were appointed:

Mr Thomas Holvey	Non-executive Director (Shareholder representative) – appointed May 2016
Mr Gary Rowe	Non-executive Director – appointed May 2016, resigned September 2016
Miss Tracey Williams	Non-executive Director – appointed July 2016, resigned September 2016
Mrs Helena Bennett	Non-executive Director – appointed July 2016
Mrs Leeanne Henry	Chairman – appointed November 2016
Mr Paul Hickling	Non-executive Director – appointed October 2016
Miss Connie Stevens	Non-executive Director – appointed October 2016

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

In accordance with the Financial Services Ordinance 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 Regulatory Authority, publish a copy of its audited financial statements in accordance with section 31 of the Financial Services Ordinance.
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

Chairman

Managing Director

Independent Auditor's Report to the Shareholders of Bank of St Helena Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of St Helena Limited, which comprise the statement of financial position as 31 March 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's members, as a body, in accordance with our terms of engagement. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with FRS102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of St Helena Limited as 31 March 2016 and of its financial performance and its cash flows for the year then ended in accordance with FRS102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

Nick Bennett

Nicholas Brian Bennett
Senior Statutory Auditor

For and on behalf of Moore Stephens LLP

Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

15 December 2016

Bank of St.Helena Ltd.
www.sainthelenabank.com

Statement of Comprehensive Income for the year ended 31 March 2016

	£ 2015/16	£ 2014/15	Notes
Income			
Interest Receivable	1,678,291	1,822,931	16
Interest Payable	(459,837)	(687,178)	17
Net Interest Income	1,218,454	1,135,753	
Fees & Commissions	235,757	252,750	
Other Income	128,819	176,526	18
Total Income	**1,583,030**	**1,565,029**	
Expenditure			
Employee Costs	619,619	570,313	19
Premises Costs	50,927	44,237	
Investment Management Fees	44,221	41,647	
Depreciation of Tangible Fixed Assets	40,247	39,152	2
Depreciation of Intangible Fixed Assets	24,014	27,687	3
Provisions	28,416	20,754	13
Audit Fees	20,000	37,867	
Financial Services Authority Fees	18,583	18,000	
Other Expenditure	352,231	408,299	20
Total Expenditure	**1,198,258**	**1,207,956**	
Profit on ordinary activities, before taxation	384,772	357,073	
Taxation	(104,356)	(98,334)	12
Deferred Taxation	6,412	7,569	12
Profit on ordinary activities, after taxation	**286,828**	**266,308**	

Statement of Financial Position at 31 March 2016

	£ 2015/16	£ 2014/15	Notes
Assets			
Cash	781,279	638,921	8
Bank Balances	3,935,946	4,169,614	7
Investments	59,800,000	61,300,000	5
Other Assets	1,712,065	2,584,843	6
Lending	12,238,744	11,439,935	4
Tangible Fixed Assets	367,316	361,588	2
Intangible Fixed Assets	30,829	37,557	3
Total Assets	**78,866,179**	**80,532,458**	
Liabilities			
Customer Current & Deposit Accounts	73,126,044	75,037,570	9
Other Liabilities	228,114	269,695	10
Total Liabilities	**73,354,158**	**75,307,265**	
TOTAL NET ASSETS	**5,512,021**	**5,225,193**	
REPRESENTED BY:			
Capital & Reserves			
Share Capital	3,219,285	3,219,285	
Retained Earnings	2,292,736	2,005,908	
Total Shareholders' Equity	**5,512,021**	**5,225,193**	15

The financial statements on pages 24 to 40 were approved and authorised for issued by the Board on 30 November 2016 and were signed on its behalf by:

LS Henry

Name: Leeanne Henry	Title: Chairman	Date: 30 November 2016

Bank of St.Helena Ltd.
www.sainthelenabank.com

Cash Flow Statement for the year ended 31 March 2016

	£ 2015/16	£ 2014/15
Cash flows from operating activities		
Profit on ordinary activities before taxation	384,772	357,073
Adjustments to reconcile the profit for the year to net cash flow from operating activities		
Depreciation Charge	64,261	66,839
Gain on disposal of tangible fixed assets	(10)	0
Movement on Provisions	25,648	30,276
(Increase) in Lending	(825,232)	(462,577)
Decrease / (Increase) in Other Assets	879,190	(603,438)
(Decrease) / Increase in Other Liabilities	(1,949,779)	7,572,238
Net cash flows from operating activities	(1,421,150)	6,960,411
Taxation paid	(106,909)	(129,334)
Cashflows from investing activities		
Sale / (Purchase) of CD's & Fixed Deposits	1,500,000	(6,000,000)
Purchase of fixed assets	(63,261)	(59,361)
Disposal of fixed assets	10	28,625
Net Cashflows from investing activities	1,436,749	(6,030,736)
Net (decrease) / increase in cash and cash equivalents	(91,310)	800,341
Cash and cash equivalents at beginning of year	4,808,535	4,008,194
Cash and cash equivalents at end of year	**4,717,225**	**4,808,535**

Statement of Changes in Equity for the year ended 31 March 2016

	Called Up Share Capital £	Retained Earnings £	Total Equity £
At 1 April 2015	3,219,285	2,005,908	5,225,193
Transfer in respect of owners share capital			0
Total Comprehensive income/(loss) for the year 2015/16	0	286,828	286,828
At 31 March 2016	**3,219,285**	**2,292,736**	**5,512,021**

Notes to the Accounts for the year ended 31 March 2016

1. Accounting Policies and Regulatory Framework

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.

The Financial Statements have been prepared in accordance with the Banking Financial Services Directive and conforms to the FRS 102 financial reporting framework for the Financial Year 2015-16.

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 and its adequate resources required to remain operational and profitable.

The financial statements are prepared in Saint Helena Pounds which equate to GBP and are rounded to the nearest pound.

The ultimate controlling party is the St Helena Government (SHG) due to its 100% shareholding.

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.

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 Financial Position, 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 over these useful lives:

Buildings	20 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. This ensures that the value of the building is disclosed at a prudent value and life span.

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 is verified on an annual basis.

Recognition/de-recognition of financial assets

The Bank classifies its financial assets in the following categories: at fair value through profit or loss and at amortised cost. Management determines the classification of its investments at initial recognition. Financial assets at fair value through profit or loss

After initial recognition assets at fair value through profit or loss are measured at fair value with gains or losses being recognised as a component of income for the year.

Financial assets carried at amortised cost

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor and are carried at amortised cost using the effective interest rate method.

This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Investment securities at amortised cost

This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has acquired for the purposes of their cash flows rather than actively trading to create trading income. Management determines the classification of such securities at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

Recognition and de-recognition of financial instruments

Financial assets
Financial assets and liabilities are initially recognised at cost, which normally is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Loans and receivables are recognised on the day they are transferred to or originated by the Bank.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. If there is doubt over repayment of loans granted, they are revalued to their recoverable amount with further recognition of interest income based on the interest rate used for the discount of future cash flows in order to determine the recoverable amount. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Bank uses contractual cash flows over the full contractual term of the financial instrument.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets; and
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise.

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 Financial Position.

Lending balances are carried at amortised cost.

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

The Bank assesses, at each balance sheet date, if there is objective evidence that any of its loans are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics. Individually significant loans are assessed on a loan by loan basis. In addition, if, during the course of the year, there is objective evidence that any individual loan is impaired, a specific loss will be recognised.

Any bad debts/impairment losses are recognised in the Income and expenditure account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

Investments

Investments are recognised initially at fair value and subsequently at amortised cost with interest recognised on the effective interest rate basis.

Bank Balances

Bank Balances are stated in the Statement of Financial Position 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 Financial Position 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 Financial Position.

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

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 Financial Position.

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).

Customer Accounts

Customer account balances are carried at amortised cost with interest income being recognised on the effective interest rate basis.

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. Fixed Assets

	TANGIBLE ASSETS		
	Land & Buildings	Plant, Equipment, Fixtures & Fittings and Computers	Total
	£	£	£
COST			
At 1 April 2015	416,580	172,912	589,492
Additions	0	45,975	45,975
Disposals & Adjustments		(5,673)	(5,673)
At 31 March 2016	416,580	213,214	629,794
DEPRECIATION AND IMPAIRMENT			
At 1 April 2015	89,094	138,810	227,904
Charge for year	20,684	19,563	40,247
Disposals & Adjustments		(5,673)	(5,673)
At 31 March 2016	109,778	152,700	262,478
NET BOOK VALUE			
At 31 March 2016	306,802	60,514	367,316
At 31 March 2015	327,486	34,102	361,588

3 INTANGIBLE ASSETS

	Software	Total
	£	£
COST		
At 1 April 2015	283,360	283,360
Additions	17,286	17,286
Disposals & Adjustments		0
At 31 March 2016	300,646	300,646
DEPRECIATION AND IMPAIRMENT		
At 1 April 2015	245,803	245,803
Charge for year	24,014	24,014
Disposals & Adjustments	0	0
At 31 March 2016	269,817	269,817
NET BOOK VALUE		
At 31 March 2016	30,829	30,829
At 31 March 2015	37,557	37,557

4. Lending

	£ 2015/16	£ 2014/15
Personal Loans	1,197,480	1,034,641
Housing Loans	9,081,987	9,139,722
Commercial Loans	2,786,630	2,361,679
Overdrafts	86,439	141,253
	13,152,536	12,677,295
Less: Undrawn Loan Balance	(771,998)	(1,121,989)
Total Lending	12,380,538	11,555,306
Less Provisions	(141,794)	(115,371)
Total Net Realisable Lending	12,238,744	11,439,935

Lending Maturity Analysis

	From 31st March 2016		From 31st March 2015	
Maturing in less than 1 year	1,286,342	10%	363,305	03%
Maturing between 1 to 3 years	2,355,091	18%	1,257,863	10%
Maturing between 3 to 7 years	1,888,037	14%	1,584,679	13%
Maturing between 7 to 15 years	4,809,617	37%	5,471,062	43%
Maturing between 15 to 20 years	2,813,449	21%	4,000,386	31%
	13,152,536		12,677,295	

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.

5.Investments

	£ 2015/16	£ 2014/15
Crown Agents Sterling CD's	59,800,000	61,300,000
	59,800,000	61,300,000

Investments Maturity Analysis

Maturing within 1 year	16,000,000	33,300,000
Maturing within 2 years	21,000,000	16,000,000
Maturing within 3+ years	22,800,000	12,000,000
	59,800,000	61,300,000

All investments may be cashed on demand

6. Other Assets

	£ 2015/16	£ 2014/15
Accrued Interest Receivable	532,129	765,729
Debtors (Balance held with SHG)	1,028,865	1,710,934
Prepayments	43,015	40,351
Items in the course of collection from Lloyds TSB	13,686	17,456
Stock	49,859	12,274
Deferred Tax	44,511	38,099
	1,712,065	2,584,843

7. Bank Balances

	2015/16	2014/15
Crown Agents: Cash & Call	2,163,776	3,132,048
Lloyds TSB: Currency Accounts	27,868	56,802
Lloyds TSB: GBP Account	1,744,302	980,764
	3,935,946	4,169,614

8. Cash

	£ 2015/16	£ 2014/15
St Helena Currency	577,284	516,073
Other Currencies	203,995	122,848
	781,279	638,921

9. Customer Current & Deposit Accounts

	£ 2015/16	£ 2014/15
Balance at 1 April	75,037,570	67,520,367
Interest On Depositors' Accounts	459,837	687,178
Less SHG Witholding Tax	(42,645)	(57,814)
Net Deposits received in year	(2,328,718)	6,887,839
Balance at 31 March	73,126,044	75,037,570
Comprising:		
St Helena Individuals	27,883,798	26,564,703
Ascension Individuals	7,968,162	8,509,279
St Helena Corporations	15,020,294	20,168,565
Ascension Corporations	998,152	114,758
Governments	10,812,882	10,659,357
Child Bond Savings Accounts	627,040	534,335
New Life Account	1,096,392	1,252,707
Overseas Individuals	5,770,151	5,587,061
Other	2,949,173	1,646,805
	73,126,044	75,037,570

10. Other Liabilities and Provisions

	£ 2015/16	£ 2014/15
Leave Pay Provision	36,250	37,025
General Accruals	8,747	40,235
Tax Due	13,338	15,891
Accrued Bonus Payable	20,251	18,793
Accrued Investment Management Fees	10,968	11,093
Audit Fees	20,000	27,467
Accrued Interest Payable	6,077	6,867
SHG Withholding Tax	42,645	57,814
Short Term Commitments	69,838	54,510
	228,114	269,695

11. 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 represents financial commitment of the Bank in the amount of:

	£	£
	2015/16	**2014/15**
Undrawn Loan Balance	771,998	1,121,989
Deferred Loan	30,184	300,000
Undrawn Overdrafts	67,688	43,898
	869,870	**1,465,887**

12. Tax Calculation

Profit on ordinary activities, before taxation	384,772	357,073
Add: Non-allowable deduction - Provisions	27,641	48,257
Bad debts recovered less write-offs	(1,993)	0
Profit for tax purposes	410,420	405,330
Tax Calculated as Due at 1 April	15,891	46,891
Tax Underprovided for in the prior year	1,750	1,750
Total Tax Due for year	102,606	96,584
Less Tax Paid in year	(106,909)	(129,334)
Tax Liability as at 31 March	13,338	15,891

Deferred Tax Calculation

	2015/16	Move in Year	2014/15	Move in Year	2013/14
Loan Specific Provision	141,794	26,423	115,371	20,754	94,617
Leave Pay Provision	36,250	(775)	37,025	9,522	27,503
Total	178,044	25,648	152,396	30,276	122,120
Deferred Tax at 25%	44,511	6,412	38,099	7,569	30,530

13. Movement in Provisions

	£	£
	2015/16	**2014/15**
Balance at 1 April	152,396	122,120
Add Specific Provision	28,416	20,754
Less Write Offs	(1,993)	0
Provision for Leave Pay	(775)	9,522
	178,044	152,396

Specific Provision includes provisions for bad/doubtful debts

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14. Share Capital

6,000,000 Authorised Shares
3,219,285 Issued and fully paid Ordinary shares with no par value
Bank of St Helena Ltd is a company incorporated in St Helena. St Helena Government holds all of the issued share capital.

15. Capital & Reserves

	Retained Earnings	Called Up Share Capital	2015/16 Total Equity	2014/15
	£	£	£	£
At 1 April	2,005,908	3,219,285	5,225,193	1,739,600
Transfer in respect of owners share capital	0	0	0	3,219,285
Profit in year after taxation	286,828	0	286,828	266,308
At 31 March	**2,292,736**	**3,219,285**	**5,512,021**	**5,225,193**

16. Interest Receivable

	£ 2015/16	£ 2014/15
Interest on Overdrafts	8,816	13,396
Interest on UK Bank Accounts	1,962	3,965
Interest on Investments	839,160	1,030,536
Interest on Commercial Lending	153,554	130,366
Interest on Personal/Housing Loans	674,799	644,668
	1,678,291	1,822,931

17. Interest Payable

Interest on Current Accounts	446,860	13,744
Interest on Deposit Accounts	12,977	673,434
	459,837	687,178

18. Other Income

Foreign Exchange	126,290	127,585
Gain on Disposal of Fixed Assets	10	0
Gain on Sale of Investment	0	46,745
Other	2,519	2,196
	128,819	176,526

19. Employee Costs

Staff Costs	605,036	557,368
Directors' Remuneration	14,583	12,945
	619,619	570,313

The Bank currently contributes to a Cash Roll Up scheme for employees in lieu of an approved pension scheme. In 2015/16 the Bank contributed £35,838 to the scheme on behalf of employees, and in 2014/15 the Bank contributed £34,790 on behalf of employees.

Directors' remuneration includes only non-executive directors.

The average number of staff in the year was 45

20. Other Expenditure

	£	£
	2015/16	**2014/15**
Licence Fees	81,991	78,626
Communication Expenses	84,833	67,076
Bank Charges	27,588	57,042
Computer & Equipment	50,489	65,075
Other Fees	48,860	54,507
Other Operating Expenses	58,470	85,973
	352,231	408,299

21. 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 14 is owned by the St Helena Government, whose accounts are available from the Government at The Castle, Jamestown, St Helena, STHL 1ZZ.

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 is disclosed under Note 6 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 2015/16 was £185,119 and for 2014/15 is £171,498.

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 £158,898 at 31 March 2016 (2015: £182,680)

The Bank does not currently hold indemnity insurance for Directors.

22. Risk & Risk Management

The main financial risks arising from Bank of St Helena's activities are credit risk, liquidity risk, market risk and interest rate risk. The Board approves and reviews policies for the management of each of these risks

Credit Risk - Credit Risk is the risk that a borrower will default on their contractual obligations relating to repayments, resulting in losses to Bank of St Helena. To manage this risk the Board approves and periodically reviews the Bank's Lending Policy. All loan applications are assessed and approved or otherwise based on the approved lending policy. Loans are regularly reviewed and their performance assessed to ensure that any likelihood of default in repayment is identified promptly and addressed with the client; or that appropriate provisions are made in accordance with the Bank's policies. The Bank does not have a system of ratings for individual loans and hence Management have not presented additional information on the credit quality of loans not overdue at the reporting date. The Bank's maximum exposure to credit risk is represented by the carrying value of all assets except in the case of lending where undrawn loan commitments also represent exposure to credit risk. It is the Bank's policy to take collateral wherever possible in support of its loan and over 90% of the loan book is collateralised. This collateral is comprised mostly of real estate in support of housing loans but also includes vehicles and plant and machinery where appropriate. It is a condition of lending that borrowers maintain up to date adequate insurance for pledged assets. The Bank has not repossessed any collateral in the two reporting periods but its policy when this becomes necessary, is to sell it on open market for the highest possible consideration.

Liquidity Risk - The Bank must adhere to the Financial Services Ordinance and Financial Services Directives to ensure that it maintains sufficient funds in liquid form at all times to ensure that it can meet its liabilities as they fall due. The Bank's main objective is to ensure that its assets (cash balances and investments) are able to service its Customer Deposits and other liabilities as and when required. FSRA requires Bank of St Helena to maintain Liquidity rates as follows: Liquid assets within St Helena of no less than 0.5% against Liabilities, liquid assets overall of no less than 25% against Liabilities. The Bank was in compliance with all liquidity requirements of the FSRA during the presented reporting period. All the Bank's financial liabilities are repayable on demand hence Management have not presented a table of outflows, as it would not add any additional information to the users of the financial statements.

Market Risk - Market Risk is generally comprised of interest rate risk, currency risk and other price risk. The Bank deals in foreign currency for its overseas remittance service and cash exchange transactions. However foreign exchange rates are reviewed regularly to ensure the Bank is not at risk. CDs are sensitive to prevailing market interest rate conditions which appear more likely to be heading upwards rather than downwards thereby reducing the market value of our CD portfolio, however as the Bank's CDs are held at amortised cost this will not impact the carrying value of them unless they are sold before maturity, which is not the Bank's policy. There is therefore no impact on profit or loss or equity.

Interest Rate Risk - Interest rate risk pertains primarily to Bank funds held in investments i.e. Cash Deposits. At present Bank of St Helena may only invest in those financial instruments as approved by the Financial Services Authority. All of the Banks investments are currently held in CDs, which have a fixed interest rate for a fixed period and which may be cashed on demand. This reduces the interest rate risk to Bank of St Helena. Subsequently, the Bank is able to consider Interest Receivable when deciding on Interest Payable on Customer Deposits.

The following depicts the range of interest rates applied to Lending products and Customer Deposits:

	2015-16	2014-15
Current Accounts	0.5% - 1%	1%
Deposit Accounts	0.5% - 3.5%	1% - 3.5%
Housing Loans	3.5% - 8%	3.5% - 8%
Commercial Loans	2.5% - 7%	2.5% - 7%
Personal Loans	6% - 8%	6% - 8%
Unauthorised Overdrafts	10%	10%

Capital Management - The Bank's policy on capital management is to maintain the level of capital sufficient to keep the trust of its shareholder and the population in general as well as complying with all regulatory requirements. FSRA requires the Bank to maintain a risk assets ratio of not less than 12% i.e. weighted risk assets against Own Capital. This is monitored on a monthly basis by both the Board and the FSRA. The Bank was in compliance with the FSRA requirements in respect of capital management during the two presented reporting periods.

23. Estimates & Judgements

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Directors to exercise judgement in applying FRS 102 accounting policies.

Provisions for doubtful debts are estimates made by Management of the amount expected to be irrecoverable for debts which have defaulted at the time of reporting and based on subsequent events after the reporting period.

Management bases its estimates on its knowledge and experience of past loans of similar types and quality, and its experience of the amount and timing of loan recoveries including where relevant the realisation of collateral.

24. Fair values of assets and liabilities

The Bank's assets and liabilities are not carried at fair value due to being carried at amortised cost. At the end of the reporting period 31 March 2016, the Market Value of Investments was £206,236 (2014/15: £171,039) above that of the carrying book value of Investments.

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