



Bank of St. Helena

www.sainthelenabank.com

Directors' Report
and
Audited Financial Statements
for the Financial Year 2004-05

Head Office: Post Office Building, Main Street, Jamestown, St. Helena, South Atlantic, STHL 1ZZ

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Established and regulated in St. Helena under the *Banking Ordinance 2003* and the *Bank of St. Helena Ordinance 2003*.



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1: Performance

The Bank of St. Helena was established on 1st April 2004 according to the provisions of the *Banking Ordinance 2003* and the *Bank of St. Helena Ordinance 2003*.

The directors are happy that the bank has achieved sustained growth during its first year of operation. Deposits and loans have shown a solid month-on-month increase throughout the year.

Although the Bank made a small overall loss for the year, the profitability of the bank improved steadily during the year. On a month by month basis the Bank has been profitable since September.

As can be seen from the table below, the lending book has expanded throughout the year. So far there are no significant problems with bad debts.

Lending, particularly commercial lending, remains a key engine of economic growth, and will be an important aspect of the economic uplift that the 2005 Air Access decision is expected to provide. The directors wish the bank to be seen as the natural source of funds for commercial development by businesses in St. Helena.

£	Year End	Start	Change	Change %
Savings Accounts	23,533,223	20,837,091	2,696,132	13%
Personal Loans	199,358	0	199,358	
Housing Loans	1,201,256	0	1,201,256	
Commercial Loans	91,437	0	91,437	
Total Assets	26,742,000	23,469,549	3,272,451	14%
Fees and other non-interest income	52,792	560	52,232	9327%

Despite the growth in savings account balances, it is the directors' belief that there remains a quantity of unbanked funds in St. Helena. The bank will continue to offer an attractive rate of interest and flexible, largely charge-free banking, with the aim of attracting into the bank more of these funds.

The Bank has also introduced a more efficient and cost effective system of remitting funds to and from the Island. This, together with improved foreign exchange facilities, has provided a significant growth in fee income.

2: Management and Controls

The bank has operated throughout the year under sound management, as evidenced by the close adherence to the key management ratios, as shown below:

Risk Assets Ratio	
Average	68.3%
Max	76.7%
Min	57.4%

The Bank has maintained adequate liquidity throughout the year:

Liquidity Ratios	Average	Max	Min
Liquid assets in St Helena:	2.17%	3.48%	1.32%
Total liquid assets	83.69%	85.54%	82.59%

The bank's supervisory body, the *Banking Supervisory Authority of St Helena*, reported in May 2005 that the Bank of St Helena has met all the requirements of the Ordinance and that it was "very pleased with the progress made by the bank in its first year of operation".

3: Services

The bank continues to offer new and improved services. In 2004/5 the bank introduced a number of useful tools to assist its business and personal customers, including:

- Personal and business loans, both secured and unsecured, to support social and economic development on St. Helena and Ascension
- Cash advances on Credit and Debit Cards, to help visitors obtain cash to spend with local businesses
- Faster and more efficient international payment facilities, at greatly reduced charges, through the bank's developing relationship with Lloyds TSB in London.
- A fully functioning website, to help customers, potential customers, and particularly visitors to the island, to learn about the bank and the services it offers.

In 2005/6 the bank plans to continue with the development of new services, including:

- Sale of Travellers' Cheques
- An On-Island Cheque Scheme, for use on St. Helena and Ascension Island
- Extension of the Cash advances on Credit and Debit Cards to the Ascension Island branch

4: Staffing

There have been no major changes in staff numbers during the year.

The bank has now recruited a new Managing Director, to take over from Mr Richard Winch before he leaves the bank in April 2005. The board offers their thanks to Mr Winch for all he has done for the bank.

His replacement, John Turner, started work at the bank in January, the period of handover being designed to ensure that the momentum of the Bank is sustained in this crucial development period. John has 25 years experience within the Financial Services industry, is a Fellow of the Chartered Management Institute and has significant expertise in line, project and programme management. His experience in particular within Operations and IT will be invaluable during the next development phase of the Bank.

5: Security

The board is pleased to report progress on the development of a 'disaster recovery' strategy for the bank. Initial agreement has been reached with Cable & Wireless on the sighting of backup equipment at their premises in The Briars. This would enable the bank to continue providing customer service in the event of an incident which rendered the Post Office Building unusable or inaccessible.

The bank is also arranging for an alternative power supply for the post office building, to cater for the risk of a failure in the wide-area national power system.

6: Financial Results

As can be seen from the accompanying accounts, the bank continues to show a strong balance sheet, with total assets having grown by 14% during the past year. Although the Bank made a small overall loss for the year, the profitability of the bank improved steadily during the year. On a month by month basis the Bank has been profitable since September.

The expansion of lending, a key engine of economic growth, is a particularly satisfying outcome.

7: Conclusion

The bank has shown strong growth in 2004-5, and is poised for a continuation of this in 2005-6. The Directors were pleased by the many positive comments that have been received after the bank's first year.

In planning for the future, the Directors have taken cognisance of forthcoming developments and have concluded that the bank is well positioned to address the opportunities and challenges that the 2005 Air Access decision is expected to offer.

For and on behalf of the Board of the Bank of St. Helena

Carolyn Thomas
Chairman

BANK OF ST. HELENA
Financial Accounts for the year ended 31st March 2005

Report from the Independent Auditor

**Managing Director,
The Bank of St. Helena,
Post Office Building,
Main Street,
Jamestown.**

Audit Scope

In accordance with the St. Helena Audit Ordinance (Chapter 143) and the Banking Ordinance, I have audited the Bank of St. Helena Financial Accounts which incorporate the Balance Sheet as at 31st March 2005, the Income Statement and the Cash Flow Statement for the year ended 31st March 2005, together with the related accounting policies and notes to the accounts. I have also reviewed the content of the associated Directors' Annual Report.

Responsibilities of Management and the Chief Auditor

The financial statements are the responsibility of the management of the Bank of St. Helena. My responsibility is to express an opinion on these financial statements based upon the audit work undertaken.

Basis of Audit Opinion

The audit was conducted in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes addressing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Audit Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Bank of St. Helena as at March 31st 2005, and of the results of its operations and cash flows for the year then ended in accordance with accepted accounting standards.

19th September 2005

*Andy Bonner
Chief Auditor*



Balance Sheet as at 31st March 2005

	£	£	
	2004-2005	2003-2004 (GSB)	Notes
Assets			
Fixed Assets	36,130	0	
Intangible Assets	65,597	0	
Investments	22,234,542	19,105,730	4
Bank Balances	1,936,311	3,326,142	5
Cash	77,468	1,033,414	6
Lending	1,492,883	0	7
Debtors & Prepayments	899,069	4,263	8
Total Assets	26,742,000	23,469,549	
Liabilities			
Accrued Expenses	17,619	0	
Customer Accounts	23,533,223	20,837,091	9
Total Liabilities	23,550,842	20,837,091	
TOTAL NET ASSETS	3,191,158	2,632,458	
REPRESENTED BY:			
GENERAL RESERVE	3,191,158	2,632,458	10

Signed:		
Name	Title	Date



Income Statement for the year ended 31st March 2005

	£ 2004/5	£ 2003/4	Notes
Income			
Interest Received	1,716,374	1,022,982	2
Fees & Commissions	41,823	0	
Other Income	10,969	560	
Total Income	1,769,166	1,023,542	
Expenditure			
Interest on Deposits	856,096	912,138	
Employee Costs	122,159	79,034	
Premises Costs	5,590	0	
Investment Management Fees	22,232	61,196	
Depreciation	73,465	0	
Provisions	19,000	0	
Audit Fees	2,200	2,200	
Bank Supervisory Authority Fees	12,056	0	
Investment Premium Amortisation	612,169	0	12
Other Expenses	72,326	317,896	3
Total Expenses	1,797,293	1,372,464	
Profit / (Loss) on ordinary activities	(28,127)	(348,922)	

Signed:		
Name	Title	Date



Cash Flow Statement for the year ended 31st March 2005

	£	Notes
	2004/5	
Net cash inflow / (outflow) from operating activities	(850,849)	1 (below)
Net cash inflow / (outflow) from returns on investments and servicing of finance	(4,191,665)	2 (below)
Net cash inflow / (outflow) from financing	2,696,737	3 (below)
Increase in cash	<u>(2,345,777)</u>	

Note 1 to the Cash Flow Statement:

Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

Operating Profit / (Deficit)	(28,127)
Depreciation Charges	73,465
Movement on Provisions	(19,000)
(Increase)/Decrease in Debtors	(894,806)
Increase/(Decrease) in Creditors	17,619
NET CASH IN/(OUT)FLOW FROM OPERATING ACTIVITIES	<u>(850,849)</u>

Note 2 to the Cash Flow Statement:

Reconciliation of Net cash inflow / (outflow) from returns on investments and servicing of finance

Net cash inflow / (outflow) due to Lending	(1,492,883)
Net cash inflow / (outflow) due to Investments	(3,128,812)
Interest Receivable Gilts taken back into Reserve due to change from Cash to Accrual Accounting	430,030
NET CASH INFLOW / (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	<u>(4,191,665)</u>

Note 3 to the Cash Flow Statement:

Reconciliation of Net cash inflow / (outflow) from financing

Net cash inflow / (outflow) due to Customer Accounts	2,696,132
Other	605
NET CASH INFLOW / (OUTFLOW) FROM FINANCING	<u>2,696,737</u>

Signed:		
Name	Title	Date



Note to the Accounts for the year ended 31st March 2005

1 Accounting Policies

The Financial statements are prepared under the historical cost convention.

Receipts and payments are accounted for on an accruals basis. (Previous Government Savings Bank Accounts were produced on a cash basis).

The accounting conventions are in accordance with the Bank of St. Helena Ordinance and CAP 111.

Investments are stated in the balance sheet at original cost price, less the amortised acquisition premium from nominal value which is spread over the holding period of the investment. Market value is not used as the intention is to hold the investments until maturity, at which point their nominal value will be recovered.

Assets with a value of £500 and over are capitalised, and are then depreciated over three years.

Foreign Currency Values are converted to St. Helenian Pounds at the market rate prevailing on the reporting date.

2 Breakdown of Interest Received

	£ 2004/5	£ 2003/4
Interest on Overdrafts	455	0
Interest on Money Market Placements	84,463	154,183
Interest on Government Placements	1,540,134	780,074
Interest on Commercial Lending	2,676	0
Interest on Personal Lending	88,646	85,617
Interest on Funds held by SHG	0	3,108
	<hr/> 1,716,374	<hr/> 1,022,982



Note to the Accounts for the year ended 31st March 2005

3 Breakdown of Other Expenses

	£ 2004/5	£ 2003/4
Treasury Service Charge	0	62,487
New Bank Project	0	154,603
Banking Consultant	0	32,904
Licence Fees	23,101	34,748
Communication Expenses	21,023	0
Bank Charges	9,200	0
Write Offs	3,063	0
Other	15,939	33,154
	72,326	317,896

4 Breakdown of Investments

	£ 2004/5	£ 2003/4	
UK Gov Securities	21,234,542	18,264,810	(see Note 12)
Money Market Placement	1,000,000	0	
Loans to SHG	0	840,920	
Total	22,234,542	19,105,730	

5 Breakdown of Bank Balances

	£ 2004/5	
Crown Agents: Cash & Call	1,692,949	
Crown Agents: Cash in transit	100,000	
Lloyds TSB: Currency Accounts	8,187	
Lloyds TSB: SHP Account	279,273	
Total	2,080,409	(see note 11)



Note to the Accounts for the year ended 31st March 2005

6 Breakdown of Cash

	£ 2004/5	£ 2003/4
St Helena £	69,677	1,033,087
Sterling	5,032	327
Other Currencies	2,759	0
Total	<u>77,468</u>	<u>1,033,414</u>

7 Breakdown of Lending

	£ 2004/5
Personal Loans	199,358
Housing Loans	1,201,256
Commercial Loans	91,437
Overdrafts	832
Total	<u>1,492,883</u>

8 Breakdown of Debtors & Prepayments

	£ 2004/5	£ 2003/4
Accrued Interest Receivable	497,270	0
Debtors (Balance with SHG / AIG)	388,773	0
Prepayment – Software Licence	11,255	0
Balances Held On Suspense	1,771	4,263
Total	<u>899,069</u>	<u>4,263</u>



Note to the Accounts for the year ended 31st March 2005

9 Breakdown of Customer Accounts

	£ 2004/5	£ 2003/4
Balance at 1 April 2004	20,837,091	17,735,761
Interest On Depositors' Accounts	780,279	
Net Deposits received in year	1,915,853	2,189,192
Balance as at End of Year	<u>23,533,223</u>	<u>20,837,091</u>
	Comprising:	
St Helena Individuals	13,740,247	
Ascension Individuals	5,804,785	
St Helena Corporations	3,996,284	
Ascension Corporations	62,906	
Other	(70,999)	

10 Reconciliation of Reserve Account Movements

	£ 2004/5
GSB General Reserve as at 31 March 2004	<u>2,632,458</u>
Impact of Change from Cash to Accrual Accounting	
Interest Receivable Gilts taken back into Reserve due to change from Cash to Accrual Accounting	430,030
Recognition of Fixed and Intangible Assets	175,192
Recognition of amounts owing	(17,619)
Amortization of Investments	(776)
Ledger Balance for 1 April 2004	<u>3,219,285</u>
Net Income, 2004-5	(28,127)
General Reserve as at 31 March 2005	<u><u>3,191,158</u></u>



Note to the Accounts for the year ended 31st March 2005

11 Reconcile Lloyds TSB: SHP Account

	£
	2004/5
Net balance	350,969
Less uncleared	(72,943)
Credits	
Plus uncleared	1,247
Debits	
Effective balance	279,273

12 UK Government Security Investment Holdings

UK GILTS	Nominal Held		Net Book Value 31/03/2004	2004/05 Purchases				Net Book Value 31/03/2005	Analysis of Net Book Value 31/3/05	
	31/03/2004	31/03/2005		Nominal	Premium	Amortisation	Gilt matured		Nominal	Un/am premium
UK Govt 6.75% 2004	5,800,000	0	5,901,949			(101,949)	(5,800,000)	0	0	0
UK Govt 8.50% 2005	5,796,000	5,796,000	6,237,796			(261,778)		5,976,018	5,796,000	180,018
UK Govt 8.50% 2005		800,000	0	800,000	50,320	(29,615)		820,705	800,000	20,705
UK Govt 7.50%2006	5,815,000	5,815,000	6,125,066			(115,366)		6,009,700	5,815,000	194,700
UK Govt 7.50%2006		800,000	0	800,000	56,160	(20,678)		835,482	800,000	35,482
UK Govt 8.50% 2007		400,000	0	400,000	44,800	(12,995)		431,805	400,000	31,805
UK Govt 8.50% 2007		700,000	0	700,000	66,220	(17,300)		748,920	700,000	48,920
UK Govt 7.25%2007		6,000,000	0	6,000,000	464,400	(52,486)		6,411,914	6,000,000	411,914
TOTALS:	17,411,000	20,311,000	18,264,811	8,700,000	681,900	(612,169)	(5,800,000)	21,234,542	20,311,000	923,542