

**Directors' Report and Audited Financial Statements for the Financial Year
2008/2009**

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for the Financial Year 2008/2009**

CONTENTS

Directors' Report

Independent Auditor's Report

Audited Financial Statements

Directors' Report, for the Financial Year 2008/2009

CONTENTS

1	Principal Activities.....	3
2	Business Review	3
3	Corporate Structure	3
4	Financial Performance.....	4
5	Key Management Ratios	8
6	Risk Management	8
7	The Bank as a responsible citizen of the community	9
8	Directors	9
9	Statement of the Directors' responsibility in respect of the Accounts and Audit and Annual Report	10

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009

The Directors are pleased to present their report and the audited financial statements for the year ended 31 March 2009.

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

1. Principal Activities

The object of the bank is "to engage in the business of banking within St. Helena and its dependencies". The bank provides retail banking services which includes current accounts, savings, investments and secured and unsecured lending.

2. Business Review

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

2008/09 has been a year when the financial services industry worldwide has suffered damages tantamount to being hit by an earthquake. Fortunately, the Bank of St. Helena has been affected by only the tremors. The bank is well capitalised with policies and practices that helped to ensure that it is "conservatively run and not susceptible to sudden and unexpected shocks"¹. This has enabled it to perform relatively well when compared with other banks in the recent economic worldwide crisis. The directors are pleased to report that the Bank of St Helena remains unaffected by the issues that have caused many Banks, and their customers, to experience very difficult and worrying times.

The Bank's strategic planning thus far has proceeded within the context of St. Helena securing air access. Thus investments in new premises, new banking software, new products and services were made with the belief that a return would be forthcoming in the near future. The directors will need to reassess long term plans as and when a final decision on access is known.

3. Corporate Structure

During 2008, the Board of Directors of the Bank of St. Helena agreed that converting the Bank into a mutual organisation would not necessarily provide the most appropriate long term structure for the bank itself or its stakeholders.

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

¹ Comment of Supervisor FSRA 2008

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009

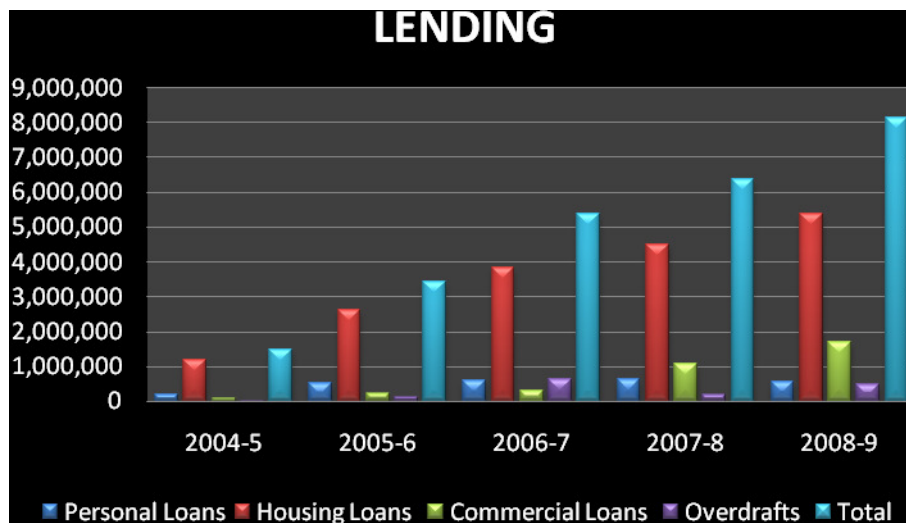
After consultations with the relevant authorities, it was deemed more prudent to retain the present relationship between the Government and the Bank. During 2009, we intend to define that relationship clearly and to leave open options for change when we judge that to be appropriate.

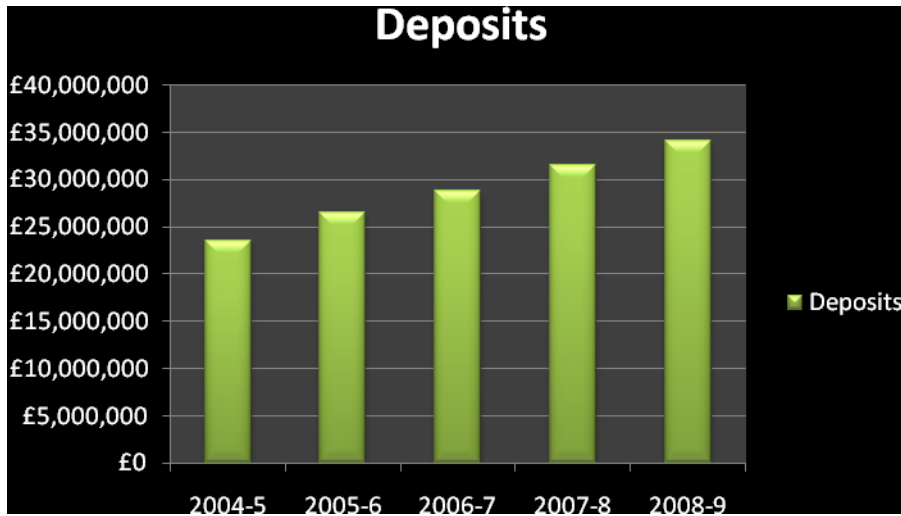
If and when a decision is made on the airport the potential changes to economic activity in St Helena will be considerable and these will have a direct impact on the demands made on the bank. Although the nature and scale of the changes are difficult to predict, the Bank is undertaking a strategic review of its business to try to ensure that it is well placed to meet these challenges. This process has helped inform our view that it is sensible not to make any irrevocable changes to the bank's constitution at this time.

4. Financial Performance

Although Bank of St. Helena is the only financial institution on the island that has the capacity to provide banking services and products, the directors apply good corporate governance principles and ensure that this advantageous position is not adversely exploited.

The financial year 2008/09 has seen growth in all areas of lending as well as growth in the value of deposits.





4.1 Commentary on the Profit & Loss Account

4.1.1 *Net Interest Income*

There has been a 14.8% decrease in net interest income. The increase in interest payable on the higher volume of deposits exceeded the increase in interest receivable. There was an increase in all categories of interest receivable apart from the net interest on investments. Lower yields were earned on overseas investments and part of the profit on sale of gilts would otherwise have been reflected as interest. The increase in interest on Money Market Placements reflects a large movement of funds in the final quarter.

4.1.2 *Income from fees and commissions*

There has been a 19.5% increase over last year's figures due to a combination of an increase in the volume of remittance transactions and the re-instatement of charges for foreign currency remittances.

4.1.3 *Profit on sale of securities*

This was a one-off sale of a portion of the UK gilt portfolio that would have matured at the end of 2009. The majority of the UK gilt portfolio was invested at a fixed rate of interest prior to the economic crisis, and won't reach maturity until 2011, hence the reason why interest rates payable by Bank of St. Helena have remained relatively high thus far.

4.1.4 *Operating Expenditure*

There has been an overall reduction in expenditure of 7% over last year. This includes a 4.5% reduction in employee costs and 44% reduction in the movement on provisions against doubtful debts, compared to the high figures generated by the review in 2007-08. The operating costs of the bank's branch on Ascension Island continue to be subsidised

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009

from income generated on St. Helena. The management of the bank are considering options for improving this whilst continuing to provide a banking service for the residents of Ascension.

A summary of the Income Statement is shown below:

	Year to 31 March 2009	Year to 31 March 2008
Total Income	£860,981	£631,961
Total Expenditure	£514,287	£553,290
Profit before Tax	£346,694	£78,671
Taxation	£104,769	£47,717
Profit after Tax	£241,925	£30,954

The profit before tax in the year under review, is inflated by the £290,638 profit on the sale of a portion of the UK investments. As mentioned above, this is just a one-off transaction. The Board has re-affirmed its policy of investing for periods of up to three years at fixed interest rates.

4.1.5 *Employee Costs and numbers*

As at 31 March 2009, the bank had the following staff:

	To 31 March 2009		To 31 March 2008	
	Numbers	Costs	Numbers	Costs
Teller Services	10	£110,124	11	£110,432
Lending	3	£29,799	3	£22,340
Accounts	2	£19,132	2	£18,027
Management	3	£57,144	2	£74,162
TOTAL	18	£216,199	18	£224,961

The above numbers include two full-time staff on Ascension Island. Tellers from St. Helena act as relief tellers whilst the Ascension staff are on leave.

4.2 Commentary on the Balance Sheet

4.2.1 *Fixed Assets*

The significant increase in fixed assets is the purchase and renovation of the new bank premises. These new premises will accommodate current and medium term requirements. The planned move during the third quarter of the financial year 2009/2010 will greatly enhance the efficient delivery of products and services.

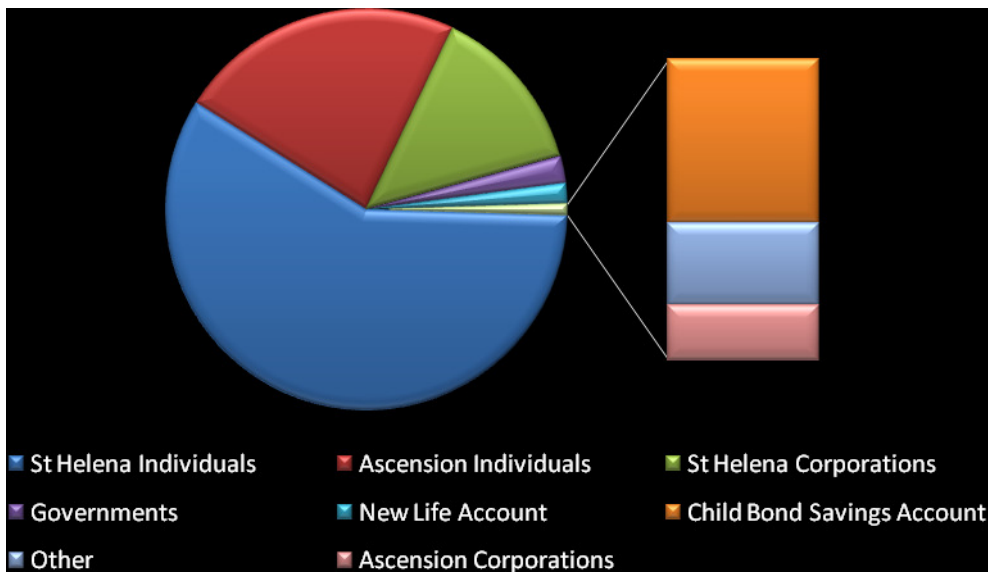
4.2.2 *Investments versus Placements with Other Banks*

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009

There has been a 31% reduction (£8,078,078) in the net book value of the bank's investments in UK Gilts and an increase of £9,300,000 in placements with other banks. This was a simple matter of bank placements yielding higher returns than UK Gilts. The management envisage this as being short-term and are carefully monitoring movements in interest rates on the overseas markets.

4.2.3 Savings Accounts

When comparing last year with the year under review, there has been an overall increase of 7.9% in the balance on current and savings accounts. The bank was pleased to note the significant increases in two of its newer products – Child Bond Savings Account and New Life Account. The graphs below show the proportion of savings held by the different categories of depositors.



5. Key Management Ratios

Ratio	Limit	Average	Minimum	Maximum
Risk Assets	8%	40.85%	37.20%	44.00%
Total Liquid Assets in St. Helena:Total Liabilities	0.5%	1.79%	0.48%	2.30%
Total Liquid Assets:Total Liabilities	25%	75.44%	43.40%	80.40%

The operations of the Bank are overseen by the Financial Services Regulatory Authority (FSRA). An annual review of the bank is undertaken on-island and the report from this year's review states:

"The Bank's supervisory body, the Financial Services Regulatory Authority, received regular financial information from the bank and reviewed the banks operations in November 2008. The Regulatory Authority confirmed that the bank had met all the requirements of the Financial Services Ordinance. "

6. Risk Management

The Bank has identified the following factors as being those that could significantly affect future actual results. This does not mean that these are the only risks but rather that they are the primary ones.

6.1 *The economy in general*

The bank's ability to remain profitable will be dependant on a number of factors which includes the recovery of the financial services industry and the returns that can be achieved on UK investments. If, within the next year, UK Gilt interest rates have not returned to the pre-crisis level of 4 – 5%, then the interest rate payable on current and savings accounts may need to be revised.

The more beneficial alternative to investing in UK gilts, is investing in the development of local businesses through the provision of commercial loans. However the growth of the commercial loan portfolio, and the growth of interest income, is highly dependent on the decision on access and how the business community reacts to whatever option is decided upon.

6.2 *Credit risk*

If there is a downturn in the local economy, business and personal customers could face difficulties with servicing their financial commitments. This would have an adverse impact on the bank's profitability.

In addition, if there is a downturn in the economy and property prices fall, the value of collateral offered for loans may be insufficient to cover the value of the capital plus interest amounts due.

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009

6.3 Operational risk

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

The bank has recently engaged the services of an Internal Auditor to review internal control procedures and review and revise the bank's risk management strategy. New banking software has been commissioned and should be operational by the end of November 2009.

A Human Resources Manager has joined the bank's management team. The management of the bank endorses and actively encourages employees to participate in continual professional development that will support the achievement of both personal and corporate goals. Incentives and employee rewards are being aligned with staff performance.

7. The Bank as a Responsible Citizen of the Community

The bank is ever mindful of its responsibility to contribute to community development projects. During the year a total of £6,000.00 was approved from the Bank's Community Projects Fund which is designed to encourage the development of St. Helena's Young People, the Environment and Arts and Culture. In addition a total of £280.00 was made in donations to charitable causes.

8. Directors

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

The directors of the bank during the year to 31 March 2009 were:

Miss Rosemary Bargo	Managing Director
Mrs Carolyn Thomas	Chairman
Mr Peter Francis	Member
Mr Terence Richards	Member
Mr Colin Yon	Member

At 31 March 2009, Mr Colin Yon retired as a member of the Board. The directors thank him for his valuable contributions leading up to the bank's inauguration in April 2004 and the time he has served as a director since then. All other directors have been re-appointed. The Board extends a warm welcome to its new director Mrs Emma Bennett.

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009**9. Statement of the Directors' Responsibility in Respect of the Accounts and Audit and Annual Report**

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

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

In addition:

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

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

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

By order of the Board

Carolyn Thomas
Chairman

Rosemary Bargo
Managing Director

Profit and Loss Account for the year ended 31 March 2009

	£ 2008/2009	£ 2007/2008
Income		
Interest Receivable	1,684,247	1,645,490
Interest Payable	(1,276,782)	(1,167,380)
Net Interest Income	407,465	478,110
Fees & Commissions	122,408	102,473
Profits on Sale of Securities	290,638	0
Other Income	40,470	51,378
Total Income	860,981	631,961
Expenditure		
Employee Costs	222,087	232,609
Premises Costs	8,881	6,954
Investment Management Fees	20,486	19,038
Depreciation	9,365	9,728
Provisions	53,396	95,292
Audit Fees	8,819	11,800
Bank Supervisory Authority Fees	8,500	8,270
Other Expenses	182,753	169,599
Total Expenses	514,287	553,290
Profit on ordinary activities, before tax	346,694	78,671
Taxation	(104,769)	(47,717)
Profit on ordinary activities, after tax	241,925	30,954

Balance Sheet as at 31 March 2009

	£ 2008/2009	£ 2007/2008
Assets		
Fixed Assets	260,689	15,480
Investments	17,825,131	25,903,209
Other Assets	220,830	835,115
Bank Balances	12,485,714	2,693,935
Cash	96,987	129,696
Lending	8,125,066	6,366,465
Total Assets	39,014,417	35,943,900
Liabilities		
Savings Accounts	34,057,800	31,551,851
Other Liabilities	1,254,032	931,389
Total Liabilities	35,311,832	32,483,240
TOTAL NET ASSETS	3,702,585	3,460,660
REPRESENTED BY:		
GENERAL RESERVE	3,702,585	3,460,660

Cash Flow Statement for the year ended 31 March 2009

	£ 2008/2009	£ 2007/2008
Net cash inflow/(outflow) from operating activities	7,554,415	(2,233,477)
Net cash inflow from financing activities	2,505,949	2,754,882
Taxation	(46,720)	(68,859)
Capital Expenditure	(254,574)	(8,629)
Increase in Cash for the period	9,759,070	443,917

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

Profit on ordinary activities, before tax	346,694	78,671
Depreciation Charge	9,365	9,728
Movement on Provisions	46,248	64,140
Investment Premium Amortisation	54,778	229,008
(Increase)/Decrease in Investments	8,023,300	(1,587,441)
(Increase) in Lending	(1,758,601)	(983,212)
(Increase)/Decrease in Other Assets	614,285	(167,163)
Increase in Other Liabilities	218,346	122,792
<i>Net cash inflow/(outflow) from operating activities</i>	<u>7,554,415</u>	<u>(2,233,477)</u>

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

Net Cash inflow due to increase in Savings Accounts	<u>2,505,949</u>	<u>2,754,882</u>
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Note 3 to the Cash Flow Statement: Net cash outflow from investing activities

Net cash outflow from investing activities		
Purchase of fixed assets	<u>(254,574)</u>	<u>(8,629)</u>

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

Cash in hand and Bank	<u>12,582,701</u>	2,823,631
<i>Increase in Cash for the period</i>	<u>9,759,070</u>	

Notes to the Accounts for the year ended 31 March 2009

1 Accounting Policies

The Financial statements are prepared under the historical cost convention.

Receipts and payments are accounted for on an accruals basis.

The Investment Premium Amortisation is netted off interest receivable. (In previous years it has been disclosed as an item of expenditure).

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

Investments are stated in the balance sheet at the 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 £1,000 and over are capitalised, and are then depreciated. Assets acquired before August 2006 are depreciated over 3 years; Assets acquired on and after August 2006 are depreciated over 5 years.

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

2 Interest Receivable

	£ 2008/2009	£ 2007/2008
Interest on Overdrafts	22,994	17,385
Interest on Money Market Placements	116,405	99,774
Interest on Investments	1,138,261	1,381,897
Investment Premium Amortisation	(54,778)	(229,008)
Interest on Commercial Lending	79,031	39,724
Interest on Personal/Housing Loans	382,334	335,718
	1,684,247	1,645,490

3 Other Income

Foreign Exchange	40,470	51,378
	40,470	51,378

4 Employee Costs

Staff Costs	216,199	224,961
Directors' Remuneration	5,888	7,648
	222,087	232,609

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009
5 Other Expenses

Licence Fees	38,176	39,638
Communication Expenses	30,331	29,117
Bank Charges	47,763	39,420
Computer & Equipment	13,488	22,412
Other Fees	13,194	7,654
Other	39,801	31,358
	<u>182,753</u>	<u>169,599</u>

6 Tax Calculation

	£ 2008/2009	£ 2007/2008
Profit on ordinary activities, before tax	346,694	78,671
Add: Non-allowable deduction - Provisions	45,959	98,986
Profit for tax purposes	<u>392,653</u>	<u>177,657</u>
Tax Calculated as Due at 1 April 2008	47,717	68,859
Revision of Tax Computation for 2007/08	(997)	0
Total Tax Due for year	105,766	47,717
Less Tax Paid in year	(46,720)	(68,859)
Tax Liability as at 31 March 2009	<u>105,766</u>	<u>47,717</u>

7 Fixed Assets

	TANGIBLE ASSETS			INTANGIBLE ASSETS
	Land & Buildings	Furniture & Equipment	Total	Software
	£	£	£	£
COST				
At 1 April 2008	2,895	59,926	62,821	176,862
Additions	244,921	9,653	254,574	0
At 31 March 2009	<u>247,816</u>	<u>69,579</u>	<u>317,395</u>	<u>176,862</u>
DEPRECIATION				
At 1 April 2008	1,158	46,183	47,341	176,862
Charge for year	579	8,786	9,365	0
At 31 March 2009	<u>1,737</u>	<u>54,969</u>	<u>56,706</u>	<u>176,862</u>
NET BOOK VALUE				
At 31 March 2009	<u>246,079</u>	<u>14,610</u>	<u>260,689</u>	<u>0</u>
At 31 March 2008	<u>1,737</u>	<u>13,743</u>	<u>15,480</u>	<u>0</u>

£

£

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009

8 Bank Balances	2008/2009	2007/2008		
Crown Agents: Cash & Call	2,497,193	2,049,932		
Crown Agents: Placement with other Banks	9,300,000	0		
Lloyds TSB: Currency Accounts	39,513	30,548		
Lloyds TSB: GBP Account	649,008	613,455		
	<u>12,485,714</u>	<u>2,693,935</u>		
9 Cash	£	£		
	2008/2009	2007/2008		
St Helena Currency	82,997	108,671		
Other Currencies	13,990	21,025		
	<u>96,987</u>	<u>129,696</u>		
10 Lending				
Personal Loans	563,724	618,836		
Housing Loans	5,389,347	4,491,501		
Commercial Loans	1,694,828	1,080,412		
Overdrafts	477,167	175,716		
	<u>8,125,066</u>	<u>6,366,465</u>		
11 Lending Maturity Analysis				
Maturing in less than 1 year	723,509	09%	310,690	05%
Maturing in 1 to 3 years	899,944	11%	902,560	14%
Maturing in 3 to 7 years	630,680	08%	514,200	08%
Maturing in 7 to 15 years	1,863,113	23%	1,190,655	19%
Maturing in 15 to 20 years	4,007,820	49%	3,448,360	54%
	<u>8,125,066</u>		<u>6,366,465</u>	

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

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009
12 Other Assets

Accrued Interest Receivable	114,032	214,415
Debtors (Balance with SHG / AIG)	70,616	593,081
Prepayment – Software Licence	14,168	12,396
Items in the course of collection from Lloyds	21,189	15,223
TSB		
Other	825	0
	<u>220,830</u>	<u>835,115</u>

13 Savings Accounts

Balance at 1 April 2008	31,551,851	28,796,969
Interest On Depositors' Accounts	1,276,782	1,167,380
Net Deposits received in year	1,229,167	1,587,502
Balance at 31 March 2009	<u>34,057,800</u>	<u>31,551,851</u>

Comprising:

St Helena Individuals	19,918,528	18,629,820
Ascension Individuals	7,878,951	7,210,131
St Helena Corporations	4,637,188	4,201,622
Ascension Corporations	55,817	35,595
Governments	757,015	963,052
Child Bond Savings Accounts	166,515	102,461
New Life Account	559,900	324,160
Other	83,886	85,010

14 Other Liabilities

	£	£
	2008/2009	2007/2008
Loan Disbursement Accounts	935,635	727,756
Provisions	184,988	138,740
Credit Suspense	3,644	947
Tax Due	105,766	47,717
Community Project Funds	2,704	4,478
Accrued Bonus Payable	11,877	4,141
Audit Fees	8,500	7,000
Accrued Interest Payable	918	610
	<u>1,254,032</u>	<u>931,389</u>

15 Reserve Account

Balance at 1 April 2008	3,460,660	3,429,706
Profit on ordinary activities after tax	241,925	30,954
Balance at 31 March 2009	<u>3,702,585</u>	<u>3,460,660</u>

Directors' Report and Audited Financial Statements for the Financial Year 2008/2009

UK GOVERNMENT SECURITY INVESTMENT HOLDINGS (GBP)	Nominal Held		Market Value		Net Book Value	Purchases		Amortisation	Maturities	Sale		Net Book Value		Analysis of Net book Value 31/03/09	
	£ 31/03/08	£ 31/03/09	£ 31/03/08	£ 31/03/09	£ 31/03/08	£ Nominal	£ Premium/ (Discount)	£	£	£ Nominal	£ Profit on sale less unamort premium	£ 31/03/09	£ Nominal	£ Un/am premium/ (Discount)	
UK Govt 5.75% 07/12/09	7,975,000	0	8,223,854	0	8,073,530			(50,230)		(7,975,000)	338,938	0	0		0
UK Govt 4.75% 07/06/10	513,000	513,000	522,063	537,126	503,252			4,458			(48,300)	507,710	513,000		(5,290)
UK Govt 4.25% 07/03/11	17,300,000	17,300,000	17,475,374	18,311,410	17,326,427			(9,006)				17,317,421	17,300,000		17,421
TOTALS:	25,788,000	17,813,000	26,221,291	18,848,536	25,903,209	0	0	(54,778)	0	(7,975,000)	290,638	17,825,131	17,813,000		12,131