

Havin Bank Limited

Report and Financial Statements

31 December 2011

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COMPANIES HOUSE

Havin Bank Limited

Registered No 1074897

Directors

O Lopez

G Roca

A Victoria

I Bacallao (Resigned from Board 16 September 2011)

G Gil

S Shah

Secretary

D Teacher

TSS Law

37-41 Bedford Row

London WC1R 4JH

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Registered Office

5th floor

30 Marsh Wall

London E14 9TP

Chairman's report

The adverse combination of a weakening economic outlook and the euro area sovereign debt crisis continued to undermine the banking sector's financial position during 2011. The continuing financial crisis, especially in the euro zone has had a severe effect on many banks. Although the UK is not part of the euro zone it has considerable exposure to many countries in that zone and so is not immune to the negative effects. The crisis in the banking system also points to reduced financial sector profitability in the years ahead, and the UK is likely to be hard hit by this given that financial services represent a relatively large share of GDP.

A recent European Central Bank survey has revealed that the euro zone debt crisis has brought about a severe credit squeeze across the region with banks imposing significantly harsher loan terms and a drop in demand for credit. There is also an increasing reluctance among the banks to lend to each other, with many banks preferring to lend instead to the European Central Bank at very low rates. This is mainly due to a combination of two factors, nervousness about the financial strength of counterparties and banks' instincts to hoard liquidity in anticipation of future shortages. In recent months we have seen the credit ratings for several euro zone countries downgraded. This has also happened to many banks, including some of the largest banks in Europe. This increase in counterparty risk has been a challenge for the bank over the past year and the bank has had to keep its list of market counterparties under frequent review.

The squeeze on credit has strengthened the case for further cuts in the European Central Bank's main interest rate and further cuts can be anticipated in the coming months. It is difficult to make an adequate return on interbank lending in the present climate and further reductions are going to make the task even more difficult. However over the past year we were able to increase the volume of funds placed in the money market and I am pleased to say that we have been successful in increasing our balance sheet total from £151.9 million in 2010 to £237.2 million in 2011.

Profit for the year before tax was £524,271 (2010-£420,814)

Another challenge for the bank over the past year was keeping up with the burdens of regulatory compliance which have a disproportionate effect on small banks with limited resources. Nevertheless we achieved our objectives, submitting all our regulatory returns on time with a high degree of accuracy and conducting a review and update of our ICCAP and ILAA.

I am pleased to tell you that on 3rd October 2012 the bank celebrates the 40th anniversary of its incorporation. Since the early seventies the bank has had a presence in the world's foremost financial centre, London. Despite many challenges over the years, some of which were unique to the bank, the bank has not only managed to survive but has strengthened its position. I have no doubt that the bank will continue to face many challenges in the years ahead, but I am also confident that it will meet those challenges as it has been doing for almost 40 years.

Chairman's report

I want to take this opportunity to thank the management and all the staff down the years whose dedication, loyalty and hard work has contributed to the success of the bank.

Gustavo Roca
Chairman
Havin Bank Ltd

Statement of directors' report

The directors present their report and the financial statements for the year ended 31 December 2011

Results

In 2011 the Bank achieved a profit on ordinary activities before tax of £524,271 (2010 - £420,814)

Dividend

No dividend was paid during the year (2010-Nil) The directors have decided not to recommend a dividend to be paid in 2011

Principal activities and review of the business

The bank is a UK registered, wholly Cuban owned bank Full details of the Bank's ownership are shown in note 24 of the financial statements

The bank's principal activity throughout the year was the provision of loans and deposits, mainly to banks and other financial institutions The bank also participated in the wholesale markets with money market operations, mainly short term, and also foreign exchange operations

The bank makes use of interest ratios in order to check the effectiveness of its lending policies

The identification and management of financial risk is a high priority and underpins all of the bank's business activity The Board requires that General Management maintains an appropriate system of internal controls including establishing key control processes and practices, such as limit structures, provisioning policy and reporting requirements and reviews its effectiveness

The principal risks and uncertainties of the bank during the year are set out in note 18 to the financial statements

The Internal Auditor is responsible for the independent review of risk management and the control environment

The majority of assets and liabilities are denominated in Sterling and Euros

The bank produced a return on investment of 3.0%

Future developments

Taking into account the significant deterioration of the financial environment in recent years and the reduction of interest rates on the financing given by the bank, the main target for the bank is to achieve positive results in the coming years

The Board is confident that the direction stated in last years report is the right one for the Bank that we are achieving the targets set that we are re-stating these aims

In order to achieve this target it is necessary

- To raise the bank's profit attributable to businesses without utilising our balance sheet (e.g. Forex transactions, Collections and Letters of Credit), ensuring a quality service and low fixed costs
- To find new customers in order to widen the customer base, increasing payment orders and Money Market transactions
- To look for new medium term funding for the bank

Statement of directors' report

The bank aims to develop new business relationships within the banking community and with all those intermediaries who can support the management of the bank in the fulfilment of this strategy.

It's essential for the bank to comply with all regulations issued by the regulatory authorities and to pay special attention to the development of the financial crisis. By being aware of the steps taken by all international market participants, as well as new rules issued, the bank will be prepared to implement any new measures required.

Fixed assets

Details of the bank's fixed assets are shown in note 11 to the financial statements.

Directors and their interests

The directors during the year and at the date of this report were

O Lopez	Managing Director
G Roca	Chairman
I Bacallao	(Resigned from Board 16 September 2011)
A Victoria	
G Gil	
S Shah	

The directors at 31 December 2011 had no interests in the share capital of the company.

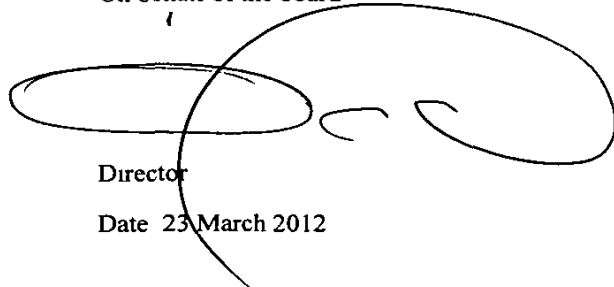
Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant information and to establish that the auditor is aware of that information.

Re-appointment of auditors

A resolution to reappoint Ernst & Young LLP as the bank's auditor will be put to the members at the Annual General Meeting.

On behalf of the board



Director

Date 23 March 2012

Statement of directors' report

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under bank law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the bank and of the profit or loss of the bank for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the bank's transactions and disclose with reasonable accuracy at any time the financial position of the bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Havin Bank Limited

We have audited the financial statements of Havin Bank Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the bank'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 bank and the bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the bank's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the bank's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Chairman's Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Havin Bank Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 March 2012

Profit and loss account

for the year ended 31 December 2011

	Notes	2011 £	2010 £
Interest receivable		2,392,383	1,584,622
Interest payable		(914,926)	(194,657)
Net interest income		1,477,457	1,389,965
Fees and commissions receivable		214,892	186,185
Fees and commissions payable		(19,107)	(6,884)
Dealing profits		261,347	183,367
Other operating income	3	7,029	7,004
		464,161	369,672
Total operating income		1,941,618	1,759,637
Administrative expenses	4	(1,391,370)	(1,318,748)
Depreciation of tangible fixed assets		(19,943)	(24,313)
Foreign exchange revaluation (losses)/gains		(6,889)	4,238
		(1,418,202)	(1,338,823)
Operating profit	5	523,416	420,814
Profit on sale of fixed assets		855	—
Profit on ordinary activities before tax		524,271	420,814
Tax on profit on ordinary activities	7	(144,407)	(120,088)
Profit for the financial year		379,864	300,726
Dividends		—	—
Profit retained for the financial year	19	379,864	300,726

The income and profit made this year are from continuing operations

Balance sheet

at 31 December 2011

	Notes	2011 £	2010 £
Assets			
Cash balances		9,777	8,196
Loans and advances to banks	8	233,621,248	145,355,616
Loans and advances to customers	9	3,007,800	6,014,223
Tangible fixed assets	10	297,829	304,112
Prepayments and accrued income		224,981	188,221
Other assets	11	22,586	20,997
Total assets		237,184,221	151,891,365
Liabilities			
Deposits by banks	13	177,635,695	112,857,828
Customer accounts	14	41,483,306	21,339,273
Due to parent undertaking		212,573	313,870
Current tax liabilities		28,079	54,156
Accruals and deferred income		270,625	138,201
Loans	16	143,210	157,168
		219,773,488	134,860,496
Called up share capital	18	16,500,000	16,500,000
Profit and loss account	19	910,733	530,869
Equity shareholders' funds		17,410,733	17,030,869
Total liabilities		237,184,221	151,891,365
Memorandum items			
Guarantees and assets pledged as collateral security	20	10,000	10,000
		10,000	10,000

Director

Date 23 March 2012

Statement of cash flows

for the year ended 31 December 2011

	<i>Notes</i>	<i>2011</i> £	<i>2010</i> £
Cash inflow from operating activities	12(a)	15,913,926	453,007
Taxation			
UK corporation tax paid		(172,791)	(122,508)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(13,660)	(12,144)
Receipts from sale of tangible fixed assets		855	—
Net cash inflow from investing activities		(12,805)	(12,144)
Equity dividends paid		—	—
(Decrease) in cash and cash equivalents	12(b)	15,728,330	318,355

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Accounting convention

A summary of the principal accounting policies, which have been consistently applied by the bank throughout the year and the preceding year are set out below

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with the provisions of the Companies Act 2006 relating to banking companies, and in accordance with applicable accounting standards

Going concern

The directors believe that the bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. A statement of responsibilities of the directors in relation to the financial statements is shown on page 6

Foreign currencies

The financial statements are presented in sterling, which is the bank's functional and presentational currency

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate ruling at the balance sheet date. All differences are taken to profit and loss account with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity which are taken directly to reserves until disposal of the net investment, at which time they are recognised in the profit and loss account. Tax charges and credit attributable to exchange differences on those borrowings are also recorded in equity

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Financial Instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset

Initial recognition of financial instruments

All financial instruments are booked at cost

Derecognition of financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss

Loans and advances to banks and customers

Loans and advances from banks and customers are with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'held for trading', designated as 'available for sale' or 'designated at fair value through profit or loss'. After initial measurement, loans and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate

Impairment of financial assets – loans and advances to banks and customers

The bank assesses at each balance sheet date whether there is any objective evidence that the assets are impaired. The assets are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred 'loss event') and the loss event has an impact on the estimated future cash flows of the assets that can be reliably estimated

For loans and advances to banks and customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists individually for assets that are individually significant, or collectively for assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristic and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continue to be, recognised are not included in a collective assessment of impairment

For the purpose of a collective evaluation of impairment, the assets are grouped on the basis that consider credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Depreciation and amortisation

Depreciation is provided on all tangible fixed assets, at rates calculated to write-off the cost of each asset evenly over its expected useful life, as follows

Leasehold land and buildings	-	over the lease term – 100 years from 2011
Leasehold improvements	-	over the term of tenancy agreement – 10 years
Furniture and office equipment	-	over 5 years
Computer equipment	-	over 3 years
Motor vehicles	-	over 4 years
Computer software	-	over 2 years

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The leasehold land and buildings are not revalued at year end.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, with the following exception

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Leasing

Rentals paid under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Interest income

Interest income is recognised in the profit and loss account as it accrues

Fees and commissions

Front end fees and commissions receivable for the continuing service of advances are recognised on the basis of work done. Other fees are recognised as received

Pensions

Contributions to the defined contribution pension scheme are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

2. Segmental analysis

In the opinion of the directors, the company has only one class of business being commercial banking and all transactions originate in the United Kingdom

Notes to the financial statements

at 31 December 2011

3. Other operating income

	2011 £	2010 £
Trustee fees	7,029	7,004
	<u>7,029</u>	<u>7,004</u>

4. Administrative expenses

	2011 £	2010 £
Staff costs		
Wages and salaries	537,211	554,606
Social security costs	57,570	57,072
Pension costs	45,058	47,429
	<u>639,839</u>	<u>659,107</u>
Other administrative expenses	751,531	659,641
	<u>1,391,370</u>	<u>1,318,748</u>

	2011 No	2010 No
Average number of employees during the year	14	15

5. Operating profit

This is stated after charging

	2011 £	2010 £
Auditors' remuneration - audit services	60,000	57,000
- taxation services	12,000	10,400
Depreciation of owned fixed assets	19,943	24,313
Operating lease rental – land and buildings	120,698	120,698

Notes to the financial statements

at 31 December 2011

6. Directors' emoluments

	2011 £	2010 £
Aggregate emoluments	149,426	186,058
	2011 £	2010 £
The amount paid in respect of the highest paid director is as follows		
Emoluments	68,373	67,362
	2011 No	2010 No
Number of directors not paid	2	1

Mr Gil is employed by Banco Central de Cuba, the majority shareholder Ms Bacallao is employed by Banco de Inversiones, a shareholder No remuneration is paid by Havin Bank Ltd to either of these directors No pension benefits were paid to directors during the year

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2011 £	2010 £
UK corporation tax		
UK corporation tax on profits of the year	140,579	119,406
Adjustments in respect of previous periods	6,135	92
Current tax charge for the year (note 7(b))	146,714	119,498
Deferred tax		
Origination and reversal of timing differences	3,138	590
Adjustments in respect of prior periods	(5,445)	–
	144,407	120,088

On 23 March 2011, the Chancellor announced a further reduction in the main rate of corporation tax from the already announced 27% to 26% from 1 April 2011 The UK government also confirmed its intention to reduce the rate further by 1% per annum falling to 23% with effect from 1 April 2014 The 25% rate was substantively enacted in July 2011 As such the closing deferred tax balances at 31 December 2011 have been stated at a rate of 25%

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 23% is expected to be £643 (equivalent to 2% of the closing gross deferred tax balance) This adjustment will go through the income statement

Notes to the financial statements

at 31 December 2011

7. Tax on profit on ordinary activities (continued)

(b) The tax charge for the year is higher than the standard rate of corporation tax in the UK hybrid tax rate of 26.5% (2010 – 28%). The differences are reconciled below

	2011 £	2010 £
Profit on ordinary activities before tax	524,271	420,814
Profit on ordinary activities multiplied by UK Hybrid rate of corporation tax in the UK of 26.5% (2010 – 28%)	138,896	117,339
Effect of		
Disallowed expenses and non-taxable income	3,762	2,445
Capital allowances in excess of depreciation	(2,995)	(926)
Adjustments in respect of previous periods	6,135	92
Other timing differences	916	548
Current tax charge for the year	146,714	119,498

(c) Deferred tax

The deferred tax asset included in the balance sheet is as follows

	2011 £	2010 £
Included in other assets (note 12)	8,037	5,730
Accelerated capital allowances	5,037	3,423
Other timing differences	3,000	2,307
Deferred tax asset	8,037	5,730
Deferred tax asset at start of year	5,730	6,320
Deferred tax credit in profit and loss for year	(2,449)	(590)
Effect of rate change	(689)	–
Adjustments in respect of prior year	5,445	–
Deferred tax asset at end of year	8,037	5,730

Notes to the financial statements

at 31 December 2011

8. Loans and advances to banks

	2011 £	2010 £
Repayable		
- within three months	221,219,185	135,355,616
- between three months and one year	10,939,938	10,000,000
- between one and five years	1,462,125	–
	<u>233,621,248</u>	<u>145,355,616</u>
Amounts include		
- due from related parties	4,701,300	7,282,443
	<u>4,701,300</u>	<u>7,282,443</u>

The aggregate amount of all loans and advances, which are repayable on demand, is £16,308,863 (2010 - £582,114)

9. Loans and advances to customers

	2011 £	2010 £
Repayable		
- within three months	3,007,800	6,014,223
	<u>3,007,800</u>	<u>6,014,223</u>

The aggregate amount of all loans and advances to customers which are repayable on demand is £nil (2010 - £nil) The credit risk of the loan portfolio is concentrated primarily in Cuba

10. Fixed assets

	Computer equipment £	Computer software £	Leasehold improvements £	Long leasehold property £	Furniture/ equipment and vehicles £	Total £
Cost						
At 31 December 2010	76,949	63,161	37,666	279,909	134,652	592,337
Additions	6,307	7,325	–	–	150	13,782
Disposals	(8,236)	–	–	–	(41,554)	(49,790)
At 31 December 2011	<u>75,020</u>	<u>70,486</u>	<u>37,666</u>	<u>279,909</u>	<u>93,248</u>	<u>556,329</u>
Depreciation						
At 31 December 2010	74,472	55,632	31,651	4,746	121,724	288,225
Charge for the year	2,274	5,952	3,798	2,779	5,140	19,943
Disposals	(8,114)	–	–	–	(41,554)	(49,668)
At 31 December 2011	<u>68,632</u>	<u>61,584</u>	<u>35,449</u>	<u>7,525</u>	<u>85,310</u>	<u>258,500</u>
Net book value						
At 31 December 2010	<u>2,477</u>	<u>7,529</u>	<u>6,015</u>	<u>275,163</u>	<u>12,928</u>	<u>304,112</u>
At 31 December 2011	<u>6,388</u>	<u>8,902</u>	<u>2,217</u>	<u>272,384</u>	<u>7,938</u>	<u>297,829</u>

Notes to the financial statements

at 31 December 2011

11. Other assets

	2011 £	2010 £
Deferred tax asset (see note 7 (c))	8,037	5,730
Loans and advances to employees	14,549	15,267
	<u>22,586</u>	<u>20,997</u>

The maturity profile of loans and advances to employees is as follows

	2011 £	2010 £
Repayable		
- within three months	4,568	4,957
- between three months and one year	8,262	8,835
- between one and five years	1,719	1,475
	<u>14,549</u>	<u>15,267</u>

The aggregate amount of all loans and advances to employees which are repayable on demand is £nil
(2010 - £nil)

Notes to the financial statements

at 31 December 2011

12. Cash outflow from operating activities and movement in cash and cash equivalents

(a) Reconciliation of operating profit to net cash inflow from continuing operating activities

	2011 £	2010 £
Operating profit	523,416	420,014
Depreciation	19,943	24,313
(Increase)/decrease in interest receivable and prepaid expenses	(36,760)	28,890
Increase in interest payable and accrued expenses	132,424	23,077
Net cash inflow from trading activities	639,023	497,094
Net increase in deposits by banks and customers	84,806,645	75,085,810
Net (increase) in loans to banks and customers	(69,531,742)	(75,129,897)
	15,274,903	(44,087)
Net cash inflow from continuing operating activities	15,913,926	453,007

(b) Analysis of balances as shown in the balance sheet and changes during the year

	1 January 2011 £	Change in year £	31 December 2011 £
Cash balance	8,196	1,581	9,777
Loans and advances to other banks repayable on demand	582,114	15,726,749	16,308,863
	590,310	15,728,330	16,318,640

Notes to the financial statements

at 31 December 2011

13. Deposits by banks

	2011 £	2010 £
Repayable		
- within three months	177,635,695	112,857,828
	<u>177,635,695</u>	<u>112,857,828</u>
Amounts include		
- due to related parties	1,674,294	4,871,634
	<u>1,674,294</u>	<u>4,871,634</u>

The aggregate amount of deposits by banks that are repayable on demand is £81,987,531 (2010 - £50,517,902)

14. Customer accounts

	2011 £	2010 £
Repayable		
- within three months	41,483,306	21,339,273
	<u>41,483,306</u>	<u>21,339,273</u>

The aggregate amount of customer accounts which is repayable on demand is £15,948,294 (2010 - £7,852,044)

15. Obligations under leases

Commitments under non-cancellable operating leases are as follows

	<i>Land and buildings</i>	
	2011 £	2010 £
Operating leases due		
- In one to two years	80,465	120,698
	<u>80,465</u>	<u>120,698</u>

Notes to the financial statements

at 31 December 2011

16. Loans

	2011 £	2010 £
Not wholly repayable within five years		
Bank loan of £210,000 at 1.5% above the bank's base rate repayable in monthly instalments of £1,412 (capital and interest) commencing 10 February 2003, wholly repayable on 10 February 2023	143,210	157,168

The loans are secured by fixed charges on the bank's long leasehold properties. The rate of interest payable on the loans is 1.5% above the bank's base rate.

17. Financial instruments

The company's financial instruments comprise cash and balances at central banks, loans and advances to banks, loans and advances to customers, deposit by banks and customer accounts.

Risk management

The Bank is very conservative in its approach to risk taking and seeks to engage only in activities with limited risk exposure. Risks are identified and documented through a risk register system and monitored on a regular basis; this is then updated to include and new risks as soon as they are identified. This forms part of the Bank's ICAAP report.

The main risks arising from the bank's financial instruments are operational risk, liquidity risk, credit risk and market risk. The General Management of the bank is charged, by the board, with the responsibility for reviewing and agreeing policies and procedures for managing each of these risks and these are summarised below.

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud and external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Liquidity risk

Liquidity risk is the risk that an entity encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations.

It is the current practice of the bank to match client monies placed with asset instruments of a similar tenor. The bank measures and manages its cash flow on a daily basis. Additionally, the bank complies with liquidity guidelines laid down by the Financial Services Authority in its role as regulator.

Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract.

Credit risk principally arises from lending activities, but can also arise from other on and off balance sheet activities. The bank endeavours to minimise its credit risk exposure in a number of ways: careful consideration of the initial granting of credit, performing regular, ongoing appraisals of counterparty credit quality, netting of foreign exchange activities, and prompt review at senior level of bank account reconciliations, to ensure early identification of possible settlement risk.

Notes to the financial statements

at 31 December 2011

17. Financial instruments (continued)

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate because of changes in market rates. Market risk comprises foreign exchange risk and interest rate risk.

The bank takes a very conservative stance in respect of market risk. It does not speculate in exchange rates, preferring to avoid the risk of exposure by matching its foreign exchange activities.

Concentration risk

Due to our unique relationship, a large proportion of our exposure is to Cuba, however most of this is to the banking sector where the risk is considered to be low.

The Bank's financial assets analysed by geographical region

	2011 £'000	2010 £'000
United Kingdom	146,931	113,056
Cuba	14,594	22,722
Europe	35,804	9,678
Switzerland	19,892	23
British Virgin Islands	3,008	3,099
Canada	16,359	2,594
Others	41	199
	<u>236,629</u>	<u>151,371</u>
An industry sector analysis of the Bank's financial assets		
Banks	228,920	138,074
Related Party Banks	4,701	7,282
Corporate	3,008	6,015
	<u>236,629</u>	<u>151,371</u>

Interest rate risk

All of the bank's lending is at fixed rates. The money market deposits are placed at the best rates available in the market. The bank earns a part of its return by controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the assets and liabilities mature.

All of the loan portfolio is matched 100% in terms of maturity, value and currency against the funding.

Notes to the financial statements

at 31 December 2011

17. Financial instruments (continued)

Interest rate risk sensitivity analysis

Assets and liabilities are allocated to time bands in the table below on the basis of the earlier of the next contractual interest rate re pricing date and maturity date

2011

	<i>Not more than three months £'000</i>	<i>More than three months but not more than six months £'000</i>	<i>More than six months but not more than one year £'000</i>	<i>More than one year but not more than five years £'000</i>	<i>More than five years £'000</i>	<i>Non- interest bearing £'000</i>	<i>Total £'000</i>
Cash balances	—	—	—	—	—	10	10
Loans and advances to banks	190,712	4,000	0	2,715	—	36,194	233,621
Loans and advances - to customers	3,008	—	—	—	—	—	3,008
Debt securities	—	—	—	—	—	—	—
Other assets	0	1	2	8	—	534	545
Total financial assets	193,720	4,001	2	2,723	—	36,738	237,184
Deposits by banks	173,605	—	—	—	—	4,031	177,636
Customer accounts	21,500	—	—	—	—	19,983	41,483
Due to parent undertaking	121	—	—	—	—	92	213
Current tax liabilities	—	—	—	—	—	28	28
Accruals and deferred income	—	—	—	—	—	270	270
Loans	143	—	—	—	—	—	143
Shareholders' funds	—	—	—	—	—	17,411	17,411
Total financial liabilities	195,369	—	—	—	—	41,815	237,184
Interest rate sensitivity gap	(1,649)	4,001	2	2,723	—	(5,077)	—
Cumulative gap	(1,649)	2,352	2,354	5,077	5,077		

Insufficient counterparties were prepared to bid for funds at the year end therefore we were left with a large overnight balance on which no interest was receivable

Notes to the financial statements

at 31 December 2011

17. Financial instruments (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis (continued)

2010

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non- interest bearing £'000	Total £'000
Cash balances	—	—	—	—	—	8	8
Loans and advances to banks	134,775	4,000	6,000	—	—	581	145,356
Loans and advances - to customers	6,015	—	—	—	—	—	6,015
Debt securities	—	—	—	—	—	—	—
Other assets	—	—	2	5	—	505	512
Total financial assets	140,790	4,000	6,002	5	—	1,094	151,891
Deposits by banks	109,868	—	—	—	—	2,990	112,858
Customer accounts	11,368	—	—	—	—	9,971	21,339
Due to parent undertaking	311	—	—	—	—	3	314
Current tax liabilities	—	—	—	—	—	54	54
Accruals and deferred income	—	—	—	—	—	138	138
Loans	157	—	—	—	—	—	157
Shareholders' funds	—	—	—	—	—	17,031	17,031
Total financial liabilities	121,704	—	—	—	—	30,187	151,891
Interest rate sensitivity gap	19,086	4,000	6,002	5	—	(29,093)	—
Cumulative gap	19,086	23,086	29,088	29,093	29,093		

Currency risk disclosures

The bank generally manages currency risk by matching on-balance sheet financial assets in the same currencies as its on-balance sheet financial liabilities. As at 31 December 2011, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows

	2011 £	2010 £
Assets	177,366,725	119,244,571
Liabilities	177,405,566	119,324,264

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at 31 December 2011

18. Share capital

	2011 £	2010 £
Authorised 200,000 ordinary shares of £100 each	20,000,000	20,000,000
Allotted and fully paid 165,000 ordinary shares of £100 each	16,500,000	16,500,000

19. Reconciliation of movements in shareholders' funds

	Equity share capital £	Profit and loss account £	Total shareholders' funds £
At 1 January 2010	16,000,000	730,143	16,730,143
Reserves Capitalised	500,000	(500,000)	–
Profit for the year	–	300,726	300,726
Dividends	–	–	–
At 31 December 2011	16,500,000	530,869	17,030,869
Profit for the year	–	379,864	379,864
Dividends	–	–	–
At 31 December 2011	16,500,000	910,733	17,410,733

20. Contingent liabilities and commitments

	2011 £'000	2010 £'000
Contingent Liabilities		
Financial Guarantees	10	10
	10	10

21. Pillar 3 Disclosures

Full disclosures are available on our website www.hib.uk.com

Notes to the financial statements

at 31 December 2011

22. Events after the balance sheet date

The directors recommend that no dividend be paid in respect of the profit for the year ended 31 December 2011

23. Related parties

The majority shareholder is the Banco Central de Cuba which is the central monetary institution of the Republic of Cuba. The bank's shares are held in the following proportions

<i>Name of Company</i>	<i>Proportion of voting rights and shares held</i>
Banco Central de Cuba	85.8%
Banco de Inversiones S A	9.8%
Banco Popular de Ahorro	2.2%
Banco de Credito y Comercio	2.2%

Any transactions with shareholders are based on commercial conditions