1074897

Havin Bank Limited

Report and Financial Statements

31 December 2012

Registered No 1074897

Directors

O Lopez (Resigned from Board 29 March 2012)
G Roca
A Victoria
G Gil
S Shah
D Triesman (Appointed 20 March 2013)

Secretary

B Ractliffe

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

5th floor
30 Marsh Wall
London E14 9TP

Chairman's report

On behalf of the Board of Directors I am pleased to bring you the results achieved by Havin Bank for the year ended 31 December 2012

Once again in 2012, the adverse conditions within the worldwide financial markets continued to have an impact on the way that banks manage their business, particularly impacting on our bank are the tightly squeezed interbank lending rates which, despite an increase in our balance sheet has seen our interest income decrease

Counterparty risk is also still a major challenge for our bank, however we strive to ensure the safety of our funds by frequently developing and diversifying our list of counterparties

Being a small bank, regulatory compliance is still a burden on the bank, we have however been able to submit all regulatory returns in an accurate and timely manner Annual reviews of our ICAAP and ILAA have also been prepared along with a new Recovery and Resolution Plan (RRP) report which has recently been submitted as per the FSA's request

Regulatory compliance has also had an impact on our profitability as we have had to significantly reduce our lending to our home market

We recognise the need to find new sources of income To that end we are looking to widen the trade finance services that we are able to offer

I would like to take this opportunity on behalf of the Board to express my thanks to the staff and management of the bank for their continued dedication and hard work

Gustavo Roca
Chairman
Havin Bank Ltd

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2012

Results

In 2012 the Bank achieved a profit on ordinary activities before tax of £253,806 (2011 - £524,271)

Dividend

No dividend was paid during the year (2011-Nil) The directors have decided not to recommend a dividend to be paid in 2012

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 22 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 17 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 1 4%

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 increase and diversify our customer base from our traditional markets, enabling us to provide trade finance services to a wider market
- To look for new medium term funding for the bank

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 10 to the financial statements

Directors

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

O Lopez	Managing Director (Resigned from Board 29 March 2012)
G Roca	Chairman/ Managing Director
A Victoria	
G Gil	
S Shah	
D Triesman	(Appointed 20 March 2013)

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 made 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

Gustavo Roca
Director
Date 11 April 2013

Statement of directors' responsibilities

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 company 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 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 22 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 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 2012 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
11 April 2013

Profit and loss account

for the year ended 31 December 2012

	Notes	2012 £	2011 £
Interest receivable		1,843,664	2,392,383
Interest payable		(695,766)	(914,926)
Net interest income		1,147,898	1,477,457
Fees and commissions receivable		206,992	214,892
Fees and commissions payable		(27,537)	(19,107)
Dealing profits		259,009	261,347
Other operating income	3	7,666	7,029
		446,130	464,161
Total operating income		1,594,028	1,941,618
Administrative expenses	4	(1,317,865)	(1,391,370)
Depreciation of tangible fixed assets		(25,365)	(19,943)
Foreign exchange revaluation gains/(losses)		3,992	(6,889)
		(1,339,238)	(1,418,202)
Operating profit	5	254,790	523,416
(Loss)/profit on sale of fixed assets		(984)	855
Profit on ordinary activities before tax		253,806	524,271
Tax on profit on ordinary activities	7	(66,967)	(144,407)
Profit for the financial year	19	186,839	379,864

The income and profit made this year are from continuing operations

Balance sheet

at 31 December 2012

	Notes	2012 £	2011 £
Assets			
Cash balances		12,334	9,777
Loans and advances to banks and other financial institutions	8	307,742,434	233,621,248
Loans and advances to customers	9	211,465	3,007,800
Tangible fixed assets	10	307,947	297,829
Prepayments and accrued income		344,700	224,981
Other assets	11	19,685	22,586
Total assets		308,638,565	237,184,221
Liabilities			
Deposits by banks	13	234,421,249	177,635,695
Customer accounts	14	56,007,259	41,483,306
Due to parent undertaking		347,801	212,573
Current tax liabilities		21,294	28 079
Accruals and deferred income		243,390	270,625
Loans	16	–	143,210
		291,040,993	219,773,488
Called up share capital	18	16,500,000	16,500,000
Profit and loss account	19	1,097,572	910,733
Equity shareholders' funds		17,597 572	17 410,733
Total liabilities		308,638,565	237,184,221
Memorandum items			
Guarantees and assets pledged as collateral security	20	10,000	10,000
Irrevocable letters of credit	20	9,011,366	–
Undrawn facilities	20	289,411	–

Gustavo Roca
Director
Date 11 April 2013

Statement of cash flows

for the year ended 31 December 2012

	Notes	2012 £	2011 £
Cash (outflow)/inflow from operating activities	12(a)	(7,580,163)	15,913,926
Taxation			
UK corporation tax paid		(72,600)	(172,791)
Capital expenditure			
Payments to acquire tangible fixed assets		(36,467)	(13,660)
Receipts from sale of tangible fixed assets		–	855
Net cash outflow from capital expenditure		(36,467)	(12,805)
Equity dividends paid		–	–
(Decrease)/increase in cash and cash equivalents	12(b)	(7,689,230)	15,728,330

Notes to the financial statements

at 31 December 2012

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 5

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 2012

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 to 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 2012

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 2012
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 2012

3. Other operating income

	2012 £	2011 £
Trustee fees	7,666	7,029

4. Administrative expenses

	2012 £	2011 £
Staff costs		
Wages and salaries	528,228	537,211
Social security costs	53,187	57,570
Pension costs	39,909	45,058
	621,324	639,839
Other administrative expenses	696,541	751,531
	1,317,865	1,391,370

	2012 No	2011 No
Average monthly number of employees during the year	15	14

5. Operating profit

This is stated after charging

	2012 £	2011 £
Auditors' remuneration - audit services	61,300	60,000
- taxation services	14,220	12,000
Depreciation of owned fixed assets	25,365	19,943
Operating lease rental – land and buildings	102,863	120,698

Notes to the financial statements

at 31 December 2012

6. Directors' emoluments

	2012	*2011*
	£	*£*
Aggregate emoluments	111,559	149,426

	2012	*2011*
	£	*£*
The amount paid in respect of the highest paid director is as follows		
Emoluments	66,753	68,373

	2012	*2011*
	No	*No*
Number of directors not paid	1	2

Mr Gil is employed by Banco Central de Cuba, the majority shareholder No remuneration and no pension benefits were paid to Mr Gil during the year by Havin Bank Ltd A proportion of Mr Gil's remuneration from Banco Central de Cuba relates to his work as a board member of Havin Bank Ltd

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2012	*2011*
	£	*£*
UK corporation tax		
UK corporation tax on profits of the year	60,203	140,579
Adjustments in respect of previous periods	5,612	6,135
Current tax charge for the period (note 7(b))	65,815	146,714
Deferred tax		
Origination and reversal of timing differences	6,414	3,138
Adjustments in respect of prior periods	(5,262)	(5,445)
	66,967	144,407

The Finance Bill 2012 was substantively enacted on 3rd July 2012 The reduction to the standard rate of corporation tax from 24% to 23% will be effective from 1 April 2013 Accordingly the deferred tax balances at 31 December 2012 have been stated at 23% Further rate reductions have been announced which will reduce the tax rate to 21% in 2014 and to 20% in 2015 These additional changes will be enacted separately The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 20% is expected to be £898 (equivalent to 3% of the closing gross deferred tax balance)

Notes to the financial statements

at 31 December 2012

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 24 5% (2011 – 26 5%) The differences are reconciled below

	2012 £	*2011* £
Profit on ordinary activities before taxation	253,806	524,271
Profit on ordinary activities before taxation multiplied by UK Hybrid rate of 24 5% (2011 – 26 5%)	62,182	138,896
Effect of		
Disallowed expenses and non-taxable income	3,961	3,762
Capital allowances in excess of depreciation	(5,911)	(2,995)
Adjustments in respect of prior periods	5,612	6,135
Other timing differences	(29)	916
Current tax charge for the period	65,815	146,714

(c) Deferred tax

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

	2012 £	*2011* £
Included in other assets (note 11)	6,885	8,037
Accelerated capital allowances	4,153	5,037
Other timing differences	2,732	3,000
Deferred tax asset	6,885	8,037
Deferred tax asset at start of year	8,037	5,730
Deferred tax charge in respect of the current year	(5,699)	(2,449)
Effect of rate change	(715)	(689)
Adjustments in respect of prior periods	5,262	5,445
Deferred tax asset at end of year	6,885	8,037

Notes to the financial statements

at 31 December 2012

8. Loans and advances to banks and other financial institutions

	2012	*2011*
	£	£
Repayable		
- within three months	306,324,496	221,219,185
- between three months and one year	1,214,063	10,939 938
- between one and five years	203,875	1,462,125
	307,742,434	233,621,248
Amounts include		
- due from related parties	–	4,701,300

The aggregate amount of all loans and advances repayable on demand, is £8,617.076 (2011 - £16,308,863)

9. Loans and advances to customers

	2012	*2011*
	£	£
Repayable		
- within three months	876	3 007,800
- between three months and one year	210,589	–
	211 465	3,007,800

The aggregate amount of all loans and advances to customers that are repayable on demand is £nil (2011 - £nil) The credit risk of the loan portfolio is concentrated primarily in Cuba

10. Tangible fixed assets

	Computer equipment	*Computer software*	*Leasehold improvements*	*Long leasehold property*	*Furniture/ equipment and vehicles*	*Total*
	£	£	£	£	£	£
Cost						
At 31 December 2011	75 020	70 486	37 666	279 909	93 248	556 329
Additions	843	30 506	–	–	5,118	36,467
Disposals	–	–	–	–	(4,541)	(4 541)
At 31 December 2012	75 863	100 992	37 666	279 909	93,825	588 255
Depreciation						
At 31 December 2011	68 632	61 584	35 449	7,525	85,310	258 500
Charge for the year	2,905	12 441	2 217	2 779	5 023	25 365
Disposals	–	–	–	–	(3,557)	(3,557)
At 31 December 2012	71 537	74 025	37 666	10 304	86 776	280 308
Net book value						
At 31 December 2011	6 388	8 902	2 217	272 384	7 938	297 829
At 31 December 2012	4 326	26 967	–	269 605	7 049	307 947

Notes to the financial statements
at 31 December 2012

11. Other assets

	2012	*2011*
	£	£
Deferred tax asset (see note 7 (c))	6,885	8,037
Loans and advances to employees	12,800	14,549
	19,685	22,586

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

	2012	*2011*
	£	£
Repayable		
- within three months	6,604	4,568
- between three months and one year	6,196	8,262
- between one and five years	–	1,719
	12,800	14,549

The aggregate amount of all loans and advances to employees that are repayable on demand is £nil (2011 - £nil)

Notes to the financial statements

at 31 December 2012

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

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

	2012 £	*2011* £
Operating profit	254,790	523,416
Depreciation	25,365	19,943
Increase in interest receivable and prepaid expenses	(119,719)	(36,760)
(Decrease)/increase in interest payable and accrued expenses	(27,235)	132,424
Net cash inflow from trading activities	133,201	639,023
Net increase in deposits by banks and customers	71,301 525	84,806,645
Net increase in loans to banks and customers	(79,014,889)	(69,531,742)
	(7,713,364)	15,274,903
Net cash (outflow)/inflow from continuing operating activities	(7,580,163)	15,913.926

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

	1 January 2012 £	*Change in year* £	*31 December 2012* £
Cash balance	9,777	2,557	12,334
Loans and advances to other banks repayable on demand	16,308,863	(7,691,787)	8,617,076
	16,318,640	(7,689,230)	8,629,410

Notes to the financial statements

at 31 December 2012

13. Deposits by banks

	2012 £	2011 £
Repayable		
- within three months	230,038,541	177,635,695
- between three months and one year	4,382,708	–
	234,421,249	177,635,695
Amounts include		
- due to related parties	1,266,686	1,674,294

The aggregate amount of deposits by banks that are repayable on demand is £26,250,281 (2011 - £81,987,531)

14. Customer accounts

	2012 £	2011 £
Repayable		
- within three months	54,448,924	41,483,306
- between three months and one year	1,558,335	–
	56,007,259	41,483,306

The aggregate amount of customer accounts which is repayable on demand is £26,869,754 (2011 - £15,948,294)

15 Obligations under leases

Commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2012 £	2011 £
Operating leases due		
- In one to two years	–	80,465
- Over five years	67,195	–
	67,195	80,465

Notes to the financial statements

at 31 December 2012

16. Loans

	2012	2011
	£	£
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

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

This loan was repaid on 27 December 2012

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 Banks 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

Notes to the financial statements

at 31 December 2012

17. Financial instruments (continued)

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

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

	Off Balance Sheet Letters of Credit		Financial Assets	
	2012	*2011*	*2012*	*2011*
	'000	*£'000*	*£'000*	*£'000*
United Kingdom	–	–	234,078	146,931
Cuba	9,011	–	16,653	14,594
Europe	–	–	44,409	35,804
Switzerland	–	–	13	19,892
British Virgin Islands	–	–	–	3,008
Canada	–	–	12,560	16,359
Others	–	–	240	41
	9,011	–	307,953	236,629

An industry sector analysis of the Bank's financial assets

Banks	9,011	–	285,742	228,920
Other Financial Institutions	–	–	22,000	–
Related Party Banks	–	–	–	4,701
Corporate	–	–	211	3,008
	9,011	–	307,953	236,629

Notes to the financial statements

at 31 December 2012

17. Financial instruments (continued)

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

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

2012

	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	–	–	–	–	–	12	12
Loans and advances to banks	264 945	–	297	1 427	–	41 074	307 743
Loans and advances - to customers	1	210	–	–	–	–	211
Debt securities	–	–	–	–	–	–	–
Other assets	1	1	4	–	–	666	672
Total financial assets	264,947	211	301	1 427	–	41 752	308 638
Deposits by banks	213,612	–	–	–	–	20 809	234 421
Customer accounts	26 396	–	–	–	–	29 611	56 007
Due to parent undertaking	245	–	–	–	–	103	348
Current tax liabilities	–	–	–	–	–	21	21
Accruals and deferred income	–	–	–	–	–	243	243
Loans	–	–	–	–	–	–	–
Shareholders funds	–	–	–	–	–	17 598	17 598
Total financial liabilities	240 253	–	–	–	–	68 385	308 638
Interest rate sensitivity gap	24 694	211	301	1 427	–	(26 633)	–
Cumulative gap	24,694	24 905	25 206	26 633	26,633		

Notes to the financial statements

at 31 December 2012

17 Financial instruments (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis (continued)

2011

	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	–	–	–	–	–	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 2012

17. Financial instruments (continued)

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 2012 the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows

	2012	*2011*
	£	*£*
Assets	122,825,835	177,366 725
Liabilities	122,839,290	177,405,566

18. Share capital

	2012	*2011*
	£	*£*
Authorised		
200,000 ordinary shares of £100 each	20,000,000	20,000,000
Allotted called up 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 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
Profit for the year	–	186 839	186,839
Dividends	–	–	–
At 31 December 2012	16,500,000	1,097,572	17,597,572

Notes to the financial statements

at 31 December 2012

20. Contingent liabilities and commitments

	2012 £'000	2011 £'000
Contingent Liabilities		
Financial Guarantees	10	10
Irrevocable letters of credit	9,011	–
Undrawn facilities	289	–

To meet the financial needs of customers, the bank enters into various irrevocable contingent liabilities and commitments These consist of financial guarantees, letters of credit and other undrawn commitments to lend These obligations are not recognised on the balance sheet but do form part of the credit risk of the bank, and have been included in the analysis in Note 17

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods Guarantees and standby letters of credit carry a similar credit risk to loans

To mitigate the credit risk posed by the letters of credit the bank has entered into a credit risk mitigation agreement with the main counterparty which provides collateral for these transactions The total amount of £9,011,366 was fully collateralised as at 31 December 2012

21. Pillar 3 Disclosures

Full disclosures are available on our website www hib uk com

22. 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

Name of Company	*Proportion of voting rights and shares held*
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