Havin Bank Limited

Report and Financial Statements

31 December 2009

Registered No 1074897

Directors

G Roca (Resigned as Managing Director - 31 March 2009)
O Lopez (Appointed Managing Director - 1 April 2009)
I Bacallao
A Victoria
N Martinez
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

On behalf of Board of Directors I am pleased to bring you the results achieved by HAVIN BANK, for the year ended 31 December 2009 These are in line with our expectations for the year

The profitability shown by the Bank for another year is a real achievement if we take into account the complex financial scenery, where uncertainty was a major consequence of the international crisis

In the light of these results, the Board of Directors has proposed not to take a cash dividend, but to increase the paid up share capital to £16,500,000 and to use the remainder of the profits to increase the reserves

At the close of the year, I am pleased to report that there were no bad or doubtful debts A strict liquidity control regime, as an essential requisite, has been maintained as good practice and in 2009 the Board of Directors approved policies required by our supervisory authorities in liquidity matters We are a good way towards implementing the new rules being introduced to strengthen liquidity standards and will complete this during 2010

During the coming year the Bank's principal objective is to broaden its scope of activities to include new business initiatives, in an efficient manner We are confident that we will obtain a positive performance in 2010

On behalf of the Board of Directors I wish to express my sincere thanks to the management team and all employees in London and Havana, who have contributed to the bank's good performance as a result of their dedication, constancy and loyalty I would also like to thank the shareholders and clients for the trust they have shown, and the Audit Committee for its independent control over the Bank's work

Nelson Martínez
Chairman
Havin Bank Ltd

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2009

Results

In 2009 the Bank achieved a profit on ordinary activities before tax of £521,191 (2008 - £613,080)

Dividend

A dividend of £250,000 has been paid during the year The directors have decided not to recommend a dividend to be paid in 2010

Capital

The directors have decided to strengthen the banks capital and capitalise £500,000 of reserve in 2010

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

Due to the instability caused by the ongoing international financial crisis, the General Management – approved by the Board – decided that it would maintain the measures taken in the second half of 2008 in order to reduce the financial risk in our money market operations

In the last quarter of 2009 the bank decided to reduce the interest rate on its financing, in line with market conditions

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 1%

Directors' report

Future developments

Taking into account the significant deterioration of the financial environment during the last two 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

In order to achieve this target it is necessary

- To raise the bank's profit attributable to businesses without direct risk for the bank (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

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	
I Bacallao	
A Victoria	
N Martinez	Chairman
G Gil	
S Shah	

The directors at 31 December 2009 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 made himself/herself aware of any relevant information and to establish that the auditor is aware of that information

Directors' report

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 22 March 2010

Statement of directors' responsibilities in respect of the financial statements

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 Ltd for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 23 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 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

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 2009 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 matter prescribed by the Companies Act 2006
In our opinion the information given in the 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
25 March 2010

Profit and loss account

for the year ended 31 December 2009

	Notes	2009 £	2008 £
Interest receivable		1,789,598	2,772,349
Interest payable		(174,944)	(1,111,070)
Net interest income		1,614,654	1,661,279
Fees and commissions receivable		124,833	140,751
Fees and commissions payable		(3,172)	(1,241)
Dealing profits		105,668	73,461
Other operating income	3	7,004	10,147
		234,333	223,118
Total operating income		1,848,987	1,884,397
Administrative expenses	4	(1,309,980)	(1,263,196)
Depreciation of tangible fixed assets		(17,359)	(8,121)
Foreign exchange revaluation loss		(485)	–
		(1,327,824)	(1,271,317)
Operating profit	5	521,163	613,080
Loss on sale of tangible fixed assets		–	–
Profit on ordinary activities before tax		521,163	613,080
Tax on profit on ordinary activities	7	(147,858)	(175,085)
Profit for the financial year		373,305	437,995
Dividends	8	(250,000)	(200,000)
Profit retained for the financial year	23	123,305	237,995

These income and profit made this year are from continuing operations

Balance sheet

at 31 December 2009

		2009	*2008*
		£	*£*
		2009	*2008*
	Notes	*£*	*£*
Assets			
Cash balances		4,317	14,611
Loans and advances to banks	9	69,779,023	62,058,812
Loans and advances to customers	10	6,140,629	6,823,764
Tangible fixed assets	11	316,281	304,819
Prepayments and accrued income		217,111	275,497
Other assets	12	27,401	29,992
Total assets		76,484,762	69,507,495
Liabilities			
Deposits by banks	14	41,076,687	16,851,647
Customer accounts	15	18,240,027	35,581,978
Due to parent undertaking		93,374	74,522
Current tax liabilities		57,166	75,232
Accruals and deferred income		115,124	133,423
Loans	17	172,241	183,855
		59,754,627	52,900,657
Called up share capital	19	16,000,000	16,000,000
Profit and loss account	21	730,143	606,838
		16,730,143	16,606,838
Total liabilities		76,484,762	69,507,495
Memorandum items			
Guarantees and assets pledged as collateral security	22	10,000	10,000
		10,000	10,000
Commitments			
Other commitments	22	–	48,131

Director

Date 22 March 2010

Statement of cash flows

for the year ended 31 December 2009

	Notes	*2009* £	*2009* £
Cash inflow from operating activities	13(a)	40,372	306,922
Taxation			
UK corporation tax paid		(160,232)	(174,873)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(28,821)	(12,682)
Net cash inflow from investing activities		(28,821)	(12,682)
Equity dividends paid		(250,000)	(200,000)
(Decrease) in cash and cash equivalents	13(b)	(398,655)	(80,633)

Notes to the financial statements

at 31 December 2009

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

Changes in accounting policies

As from 1 January 2007, the Bank adopted FRS 29 Financial Instruments Disclosures As a result additional disclosures are made on Risk Management The change has no impact on the results for the year ended 31 December 2009

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 2009

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 2009

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 – 999 years (100 years from 2010)
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 2009

3. Other operating income

	2009	2008
	£	£
Trustee fees	7,004	6,248
Other	–	978
Foreign exchange revaluation profit	–	2,921
	7,004	10,147

4. Administrative expenses

	2009	2008
	£	£
Staff costs		
Wages and salaries	543,306	520,346
Social security costs	52,384	50,328
Pension costs	48,674	47,256
	644,364	617,930
Other administrative expenses	665,616	645,266
	1,309,980	1,263,196

	2009	2008
	No	No
Average number of employees during the year	15	15

5. Operating profit

This is stated after charging

	2009	2008
	£	£
Auditors' remuneration - audit services	57,000	57,000
- taxation services	10,500	7,400
Depreciation of owned fixed assets	17,359	8,121
Operating lease rental – land and buildings	120,698	120,698

Notes to the financial statements

at 31 December 2009

6. Directors' emoluments

	2009	*2008*
	£	*£*
Aggregate emoluments	186,407	173,366

	2009	*2008*
	£	*£*
The amount paid in respect of the highest paid director is as follows		
Emoluments	64,890	66,872

	2009	*2008*
	No	*No*
Number of directors not paid	3	4

Mr Victoria , Mr Gil and Mr Shah are employed by Banco Central de Cuba, the majority shareholder There is no practical way to allocate part of their remuneration to their services as directors of this bank

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

	2009	*2008*
	£	*£*
UK corporation tax		
UK corporation tax on profits of the year	142,166	172,232
Adjustments in respect of previous periods	(27)	–
Current tax charge for the year (note 7(b))	142,139	172,232
Deferred tax		
Origination and reversal of timing differences	5,719	2,853
	147,858	175,085

Notes to the financial statements

at 31 December 2009

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 of 28% (2008 – 28 5%) The differences are reconciled below

	2009	*2008*
	£	*£*
Profit on ordinary activities before tax	521,163	613,080
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 – 28 5%)	145,925	174,728
Effect of		
Disallowed expenses and non-taxable income	817	1,882
Capital allowances in excess of depreciation	(3,061)	(5,846)
Relief for pension contributions	–	1,468
Adjustments in respect of previous periods	(27)	–
Other timing differences	(1,515)	–
Current tax charge for the year	142,139	172,232

(c) Deferred tax

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

	2009	*2008*
	£	*£*
Included in other assets (note 12)	6,320	12,039
Accelerated capital allowances	(4,475)	8,679
Other timing differences	(1,845)	3,360
Deferred tax asset	6,320	12,039
Deferred tax asset at start of year	12,039	14,892
Deferred tax credit in profit and loss for year	(5,719)	(4,301)
Adjustments in respect of prior year	–	1,448
Deferred tax asset at end of year	6,320	12,039

8. Dividends

Equity dividends on ordinary shares		
Dividend payable	250,000	200,000

Notes to the financial statements

at 31 December 2009

9. Loans and advances to banks

	2009	*2008*
	£	*£*
Repayable		
- within three months	59,779,023	52,058,812
- between three months and one year	10,000,000	10,000,000
	69,779,023	62,058,812
Amounts include		
- due from related parties	10,229,100	9,167,000

The aggregate amount of all loans and advances, which are repayable on demand, is £267,638 (2008 - £655,999)

10 Loans and advances to customers

	2009	*2008*
	£	*£*
Repayable		
- within three months	6,140,629	6,823,764
	6,140,629	6,823,764

The aggregate amount of all loans and advances to customers which are repayable on demand is £nil (2008 - £61,869)

The credit risk of the loan portfolio is concentrated primarily in Cuba

11. Fixed assets

	Computer equipment	*Computer software*	*Leasehold improvements*	*Long leasehold property*	*Furniture/ equipment and vehicles*	*Total*
	£	*£*	*£*	*£*	*£*	*£*
Cost						
At 31 December 2008	74 411	37,448	37,666	279,909	121,938	551,372
Additions	2 164	15 000	–	–	11 657	28 821
At 31 December 2009	76 575	52 448	37 666	279 909	133,595	580,193
Depreciation						
At 31 December 2008	70 470	37 361	24 055	1 686	112 981	246 553
Charge for the year	1 947	7,587	3,798	281	3 746	17,359
At 31 December 2009	72 417	44,948	27,853	1,967	116,727	263 912
Net book value						
At 31 December 2008	3 941	87	13 611	278 223	8 957	304 819
At 31 December 2009	4 158	7 500	9 813	277 942	16 868	316 281

Notes to the financial statements

at 31 December 2009

12. Other assets

	2009	*2008*
	£	*£*
Deferred tax asset (see note 7 (c))	6,320	12,039
Loans and advances to employees	21,081	17,953
	27,401	29,992

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

	2009	*2008*
	£	*£*
Repayable		
- within three months	6,098	5,512
- between three months and one year	12,279	11,658
- between one and five years	2,704	783
	21,081	17,953

The aggregate amount of all loans and advances to employees which are repayable on demand is £nil (2008 - £nil)

Notes to the financial statements

at 31 December 2009

13. 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

	2009	2008
	£	£
Operating profit	521,163	613,080
Depreciation	17,359	8,121
Decrease in interest receivable and prepaid expenses	58,386	18,854
(Decrease)/increase in interest payable and accrued expenses	(18,299)	28,580
Net cash inflow from trading activities	578,609	668,635
Net increase in deposits by banks and customers	6,890,327	20,313,820
Net (increase) in loans to banks and customers	(7,428,565)	(20,675,533)
	(538,238)	(361,713)
Net cash inflow/ from continuing operating activities	40,371	306,922

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

	1 January 2009	Change in year	31 December 2009
	£	£	£
Cash balance	14,611	(10,294)	4,317
Loans and advances to other banks repayable on demand	655,999	(388,361)	267,638
	751,243	(398,655)	271,955

Notes to the financial statements

at 31 December 2009

14. Deposits by banks

	2009	2008
	£	£
Repayable		
- within three months	41,076,687	16,851,647
	41,076,687	16,851,647
Amounts include		
- due to related parties	2,346,511	1,291,113

The aggregate amount of customer accounts which is repayable on demand is £7,407,121 (2008 - £9,891,303)

15. Customer accounts

	2009	2008
	£	£
Repayable		
- within three months	18,240,027	34,496,078
- between three months and one year	–	1,085,900
	18,240,027	35,581,978

The aggregate amount of customer accounts which is repayable on demand is £9,876,312 (2008 - £5,934,635)

16. Obligations under leases

Commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2009	2008
	£	£
Operating leases due		
- In two to five years	120,698	120,698
	120,698	120,698

Notes to the financial statements

at 31 December 2009

17. Loans

	2009	2008
	£	£
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	172,241	183,855

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

18. 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 is 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 2009

18. 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 judged to be low

The Bank's financial assets analysed by geographical region

	2009	*2008*
	£'000	*£'000*
United Kingdom	34,444	21,336
Cuba	28,851	25,398
Europe	7,968	18,289
Switzerland	4,450	–
British Virgin Islands	3,204	3,858
Others	3	2
	75,920	68,883

An industry sector analysis of the Bank's financial assets

Bank	59,550	52,892
Related Party Banks	10,229	9,167
Corporate	6,141	6,824
	75,920	68,883

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 2009

18 Financial instruments (continued)

Interest rate risk profile of financial instruments

The interest rate profile of the financial instruments as at 31 December is as follows

2009

	Not more than three months	*More than three months but not more than six months*	*More than six months but not more than one year*	*More than one year but not more than five years*	*More than five years*	*Non-interest bearing*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Cash balances	–	–	–	–	–	4	4
Loans and advances to banks	59,511	4,000	6000	–	–	268	69,779
Loans and advances - to customers	6 141	–	–	–	–	–	6 141
Debt securities	–	–	–	–	–	–	–
Other assets	–	1	–	8	–	551	560
Total financial assets	65,652	4 001	6 000	8	–	823	76,484
Deposits by banks	37 390	–	–	–	–	3 687	41 077
Customer accounts	4,912	–	–	–	–	13 328	18 240
Due to parent undertaking	84	–	–	–	–	9	93
Current tax liabilities	–	–	–	–	–	57	57
Accruals and deferred income	–	–	–	–	–	115	115
Loans	172	–	–	–	–	–	172
Shareholders' funds	–	–	–	–	–	16,730	16 730
Total financial liabilities	42 558	–	–	–	–	33 926	76 484
Interest rate sensitivity gap	23,094	4,001	6 000	8	–	(33 103)	–
Cumulative gap	23 094	27 095	33 095	33 103	33,103		

Notes to the financial statements

at 31 December 2009

18 Financial instruments (continued)

Interest rate risk (continued)

Interest rate risk profile of financial instruments (continued)

2008

	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	–	–	–	–	–	15	15
Loans and advances to banks	51,402	4,000	6,000	–	–	656	62,058
Loans and advances - to customers	6,824	–	–	–	–	–	6,824
Debt securities	–	–	–	–	–	–	–
Other assets	–	–	2	3	–	606	611
Total financial assets	58 226	4 000	6 002	3	–	1,277	69,508
Deposits by banks	12,688	–	–	–	–	4,164	16,852
Customer accounts	34 164	1 086	–	–	–	332	35,582
Due to parent undertaking	74	–	–	–	–	–	74
Current tax liabilities	–	–	–	–	–	75	75
Accruals and deferred income	–	–	–	–	–	134	134
Loans	–	–	–	–	184	–	184
Shareholders' funds	–	–	–	–	–	16 607	16,607
Total financial liabilities	46,926	1,086	–	–	184	21 312	69,508
Interest rate sensitivity gap	11,300	2,914	6,002	3	(184)	(20 035)	–
Cumulative gap	11,300	14,214	20,216	20,219	20,035	–	–

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 2009, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows

	2009 £	*2008* £
Assets	53,412,288	47,982,298
Liabilities	53,428,335	47,762,264

Notes to the financial statements

at 31 December 2009

19. Share capital

	2009	*2008*
	£	*£*
Authorised		
200,000 ordinary shares of £100 each	20,000,000	20,000,000
Allotted and fully paid		
160,000 ordinary shares of £100 each	16,000,000	16,000,000

20. Regulatory capital

Capital

The bank maintains an actively managed capital base to cover risks inherent in the business The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision

Capital management

The primary objectives of the bank's capital management policies are to ensure that the bank complies with externally imposed capital requirements and that the bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value

The bank manages its capital structure and to date has had to make no adjustments to it as the value of the capital is far in excess of the risk characteristics of its activities

	Actual 2009	*Required 2009*	*Actual 2008*	*Required 2008*
Tier 1 and total capital	16,730,143	8,231,980	16,356,840	8,052,375
Total capital	16,730,143	8,231,980	16,356,840	8,052,375

Additional information required by the Capital Requirements Directive (CRD)

The following disclosures are in accordance with the requirements of the Capital Requirements Directive

Scope

These requirements are in respect of the bank Havin Bank Ltd reports on an unconsolidated basis for regulatory purposes

Notes to the financial statements

at 31 December 2009

20. Regulatory capital (continued)

Capital Structure and Adequacy

The requirement for Havin Bank Ltd to monitor and control the adequacy of its capital to support its current and future activities is part of the remit of the Board and Senior Management, assisted by the Audit Committee The Board regularly discusses the current capital adequacy position, future projections of capital adequacy including the impact of proposed new business

The regulatory capital of the bank was	*2009*	*2008*
	£	*£*
Tier 1	16,730,143	16,356,840

The bank has no tier 2 or tier 3 capital

The pillar 1 capital requirements are	*2009*	*2008*
	£	*£*
Credit risk	4,360,948	4,275,954
Operational risk	282,281	265,968
Total pillar 1 risk	4,643,229	4,541,922

The main components of the bank's credit risk are its loans to customers, inter-bank money market placements and trade finance activities The bank adopts the standardised approach for measuring credit risk

21. Reconciliation of movements in shareholders' funds

	Equity share capital	*Profit and loss account*	*Total shareholders' funds*
	£	*£*	*£*
At 1 January 2008	16,000,000	368,843	16,368,843
Profit for the year	–	437,995	437,995
Dividends	–	(200,000)	(200,000)
At 31 December 2008	16,000,000	606,838	16,606,838
Profit for the year	–	373,305	373,305
Dividends	–	(250,000)	(250,000)
At 31 December 2009	16,000,000	730,143	16,730,143

Notes to the financial statements

at 31 December 2009

22. Contingent liabilities and commitments

	2009	*2008*
	£'000	*£'000*
Contingent Liabilities		
Financial Guarantees	10	10
	10	10
Commitments		
Other Commitments	–	48
	–	48

23. Events after the balance sheet date

The directors have decided to strengthen the banks capital and capitalise £500,000 of reserve in 2010

24. 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