1074897

Havin Bank Limited

Report and Financial Statements

31 December 2010

THURSDAY

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A45 14/04/2011 148
COMPANIES HOUSE

A39 01/04/2011 250
COMPANIES HOUSE

Registered No 1074897

Directors

O Lopez
G Roca (Appointed Chairman - 11 May 2010)
I Bacallao
A Victoria
N Martinez (Resigned as Chairman and from Board - 11 May 2010)
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 2010

2010 was undoubtedly a testing year for our Bank

Despite the long lasting international crisis and uncertainty in the financial markets HAVIN BANK Ltd was able to increase its total assets from GBPMM 76 4 in 2009 to GBPMM 151 8 in 2010, to develop a more diversified business portfolio and to have profitability within current possibilities

Those achievements are the results of the business strategy adopted by our Shareholders and announced in our Chairman's Report of the previous year, which is mainly addressed to broadening the scope of activities of our Bank in order to improve its performance in a very competitive international scenario

HAVIN BANK Ltd continues to maintain a strict liquidity control environment as also an impeccable approach towards supervisory requirements

The Board of Directors has proposed not to take cash dividends in order to increase the Bank's reserves

In 2011 HAVIN BANK Ltd will continue working in strengthening its liquidity control and also diversifying its financial services to the business community interested in doing business with Cuba in accordance with the business strategy adopted

I am confident that in achieving those goals HAVIN BANK Ltd will continue having the support and dedication of its management and employees

Gustavo Roca
Chairman
Havin Bank Ltd

Statement of directors' responsibilities in respect of the financial statements

The directors present their report and the financial statements for the year ended 31 December 2010

Results

In 2010 the Bank achieved a profit on ordinary activities before tax of £420,814 (2009 - £521,163)

Dividend

No dividend was paid during the year The directors have decided not to recommend a dividend to be paid in 2010

Capital

During 2010 the Bank capitalised £500,000 of reserve

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 23 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

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 2 5%

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

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' responsibilities in respect of the financial statements

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 – Appointed 11 May 2010
I Bacallao	
A Victoria	
N Martinez	Chairman – Resigned 11 May 2010
G Gil	
S Shah	

The directors at 31 December 2010 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

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 ORLANDO LOPEZ GARCES

Date 18 March 2011

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

Statement of directors' responsibilities in respect of the financial statements

- 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

ERNST & YOUNG

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 2010 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 and 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

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 2010 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

ERNST & YOUNG

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

24 March 2011

Profit and loss account

for the year ended 31 December 2010

	Notes	2010 £	2009 £
Interest receivable		1,584,622	1,789,598
Interest payable		(194,657)	(174,944)
Net interest income		1,389,965	1,614,654
Fees and commissions receivable		186,185	124,833
Fees and commissions payable		(6,884)	(3,172)
Dealing profits		183,367	105,668
Other operating income	3	7,004	7,004
		369,672	234,333
Total operating income		1,759,637	1,848,987
Administrative expenses	4	(1,318,748)	(1,309,980)
Depreciation of tangible fixed assets		(24,313)	(17,359)
Foreign exchange revaluation gains/(losses)		4,238	(485)
		(1,338,823)	(1,327,824)
Operating profit	5	420,814	521,163
Profit on ordinary activities before tax		420,814	521,163
Tax on profit on ordinary activities	7	(120,088)	(147,858)
Profit for the financial year		300,726	373,305
Dividends	8	–	(250,000)
Profit retained for the financial year	20	300,726	123,305

The income and profit made this year are from continuing operations

Balance sheet

at 31 December 2010

	Notes	2010 £	2009 £
Assets			
Cash balances		8,196	4,317
Loans and advances to banks	9	145,355,616	69,779,023
Loans and advances to customers	10	6,014,223	6,140,629
Tangible fixed assets	11	304,112	316,281
Prepayments and accrued income		188,221	217,111
Other assets	12	20,997	27,401
Total assets		151,891,365	76,484,762
Liabilities			
Deposits by banks	14	112,857,828	41,076,687
Customer accounts	15	21,339,273	18,240,027
Due to parent undertaking		313,870	93,374
Current tax liabilities		54,156	57,166
Accruals and deferred income		138,201	115,124
Loans	17	157,168	172,241
		134,860,496	59,754,619
Called up share capital	19	16,500,000	16,000,000
Profit and loss account	20	530,869	730,143
Equity shareholders' funds		17,030,869	16,730,143
Total liabilities		151,891,365	76,484,762
Memorandum items			
Guarantees and assets pledged as collateral security	21	10,000	10,000
		10,000	10,000

Director ORLANDO LOPEZ CARLES

Date 18 March 2011

Statement of cash flows

for the year ended 31 December 2010

	Notes	2010 £	2009 £
Cash inflow from operating activities	13(a)	453,007	40,372
Taxation			
UK corporation tax paid		(122,508)	(160,232)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(12,144)	(28,821)
Net cash inflow from investing activities		(12,144)	(28,821)
Equity dividends paid		–	(250,000)
(Decrease) in cash and cash equivalents	13(b)	318,355	(398,655)

Notes to the financial statements

at 31 December 2010

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

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 2010

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 2010

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 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 2010

3. Other operating income

	2010 £	2009 £
Trustee fees	7,004	7,004
	7,004	7,004

This section includes and accrual in 2010 of £1,745

4. Administrative expenses

	2010 £	2009 £
Staff costs		
Wages and salaries	554,606	543,306
Social security costs	57,072	52,384
Pension costs	23,589	48,674
	635,267	644,364
Other administrative expenses	683,481	665,616
	1,318,748	1,309,980

	2010 No	2009 No
Average number of employees during the year	15	15

5. Operating profit

This is stated after charging

	2010 £	2009 £
Auditors' remuneration - audit services	57,000	57,000
- taxation services	10,400	10,500
Depreciation of owned fixed assets	24,313	17,359
Operating lease rental – land and buildings	120,698	120,698

Notes to the financial statements

at 31 December 2010

6. Directors' emoluments

	2010 £	2009 £
Aggregate emoluments	186,058	186,407

	2010 £	2009 £
The amount paid in respect of the highest paid director is as follows		
Emoluments	67,362	64,890

	2010 No	2009 No
Number of directors not paid	1	3

Mr Gil is employed by Banco Central de Cuba, the majority shareholder No remuneration is paid by Havin Bank Ltd to this director

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

	2010 £	2009 £
UK corporation tax		
UK corporation tax on profits of the year	119,406	142,166
Adjustments in respect of previous periods	92	(27)
Current tax charge for the year (note 7(b))	119,498	142,139
Deferred tax		
Origination and reversal of timing differences	590	5,719
	120,088	147,858

Notes to the financial statements

at 31 December 2010

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% (2009 – 28%) The differences are reconciled below

	2010	*2009*
	£	£
Profit on ordinary activities before tax	420,814	521,163
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 – 28%)	117,339	145,925
Effect of		
Disallowed expenses and non-taxable income	2,445	817
Capital allowances in excess of depreciation	(926)	(3,061)
Adjustments in respect of previous periods	92	(27)
Other timing differences	548	(1,515)
Current tax charge for the year	119,498	142,139

(c) Deferred tax

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

	2010	*2009*
	£	£
Included in other assets (note 12)	5,730	6,320
Accelerated capital allowances	3,423	(4,475)
Other timing differences	2,307	(1,845)
Deferred tax asset	5,730	6,320
Deferred tax asset at start of year	6,320	12,039
Deferred tax credit in profit and loss for year	(590)	(5,719)
Adjustments in respect of prior year	–	–
Deferred tax asset at end of year	5,730	6,320

8. Dividends

Equity dividends on ordinary shares		
Dividend payable	–	250,000

Notes to the financial statements

at 31 December 2010

9. Loans and advances to banks

	2010 £	2009 £
Repayable		
- within three months	135,355,616	59,779,023
- between three months and one year	10,000,000	10,000,000
	145,355,616	69,779,023
Amounts include		
- due from related parties	7,282,443	10,229,100

The aggregate amount of all loans and advances, which are repayable on demand, is £582,114 (2009 - £267,638)

10. Loans and advances to customers

	2010 £	2009 £
Repayable		
- within three months	6,014,223	6,140,629
	6,014,223	6,140,629

The aggregate amount of all loans and advances to customers which are repayable on demand is £nil (2009 - £nil)

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 2009	76,575	52,448	37,666	279,909	133,595	580,193
Additions	374	10,713	–	–	1,057	12,144
At 31 December 2010	76,949	63,161	37,666	279,909	134,652	592,337
Depreciation						
At 31 December 2009	72,417	44,948	27,853	1,967	116,727	263,912
Charge for the year	2,055	10,684	3,798	2,779	4,997	24,313
At 31 December 2010	74,472	55,632	31,651	4,746	121,724	288,225
Net book value						
At 31 December 2009	4,158	7,500	9,813	277,942	16,868	316,281
At 31 December 2010	2,477	7,529	6,015	275,163	12,928	304,112

12. Other assets

	2010	2009

Notes to the financial statements

at 31 December 2010

	£	£
Deferred tax asset (see note 7 (c))	5,730	6,320
Loans and advances to employees	15,267	21,081
	20,997	27,401

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

	2010	*2009*
	£	*£*
Repayable		
- within three months	4,972	6,098
- between three months and one year	8,850	12,279
- between one and five years	1,485	2,704
	15,267	21,081

The aggregate amount of all loans and advances to employees which are repayable on demand is £nil (2009 - £nil)

Notes to the financial statements

at 31 December 2010

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

	2010	*2009*
	£	*£*
Operating profit	420,014	521,163
Depreciation	24,313	17,359
Decrease in interest receivable and prepaid expenses	28,890	58,386
Increase/(decrease) in interest payable and accrued expenses	23,077	(18,299)
Net cash inflow from trading activities	497,094	578,609
Net increase in deposits by banks and customers	75,085,810	6,890,327
Net (increase) in loans to banks and customers	(75,129,897)	(7,428,565)
	(44,087)	(538,238)
Net cash inflow from continuing operating activities	453,007	40,371

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

	1 January 2010	*Change in year*	*31 December 2010*
	£	*£*	*£*
Cash balance	4,317	3,879	8,196
Loans and advances to other banks repayable on demand	267,638	314,476	582,114
	271,955	318,355	590,310

Notes to the financial statements

at 31 December 2010

14. Deposits by banks

	2010	*2009*
	£	*£*
Repayable		
- within three months	112,857,828	41,076,687
	112,857,828	41,076,687
Amounts include		
- due to related parties	4,871,634	2,346,511

The aggregate amount of customer accounts which is repayable on demand is £50,517,902 (2009 - £7,407,121)

15. Customer accounts

	2010	*2009*
	£	*£*
Repayable		
- within three months	21,339,273	18,240,027
- between three months and one year	–	–
	21,339,273	18,240,027

The aggregate amount of customer accounts which is repayable on demand is £7,852,044 (2009 - £9,876,312)

16. Obligations under leases

Commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2010	*2009*
	£	*£*
Operating leases due		
- In one to two years	120,698	–
- In two to five years	–	120,698
	120,698	120,698

Notes to the financial statements

at 31 December 2010

17. Loans

	2010 £	2009 £
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	157,168	172,241

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 2010

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

	2010	*2009*
	£'000	*£'000*
United Kingdom	113,056	34,444
Cuba	22,722	28,851
Europe	9,678	7,968
Switzerland	23	4,450
British Virgin Islands	3,099	3,204
Canada	2,594	2
Others	199	1
	151,371	75,920

An industry sector analysis of the Bank's financial assets

Bank	138,074	59,550
Related Party Banks	7,282	10,229
Corporate	6,015	6,141
	151,371	75,920

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 2010

18. 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

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		

Notes to the financial statements

at 31 December 2010

18. Financial instruments (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis (continued)

2009

	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	–	–	–	–	–	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		

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 2010, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows

	2010 £	*2009 £*
Assets	119,244,571	53,412,288
Liabilities	119,324,264	53,428,335

Notes to the financial statements

at 31 December 2010

19. Share capital

	2010	*2009*
	£	*£*
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	–
160,000 ordinary shares of £100 each	–	*16,000,000*

20. Reconciliation of movements in shareholders' funds

	Equity share capital	*Profit and loss account*	*Total shareholders' funds*
	£	*£*	*£*
At 1 January 2009	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
Reserves Capitalised	500,000	(500,000)	–
Profit for the year	–	300,726	300,726
Dividends	–	–	–
At 31 December 2010	16,500,000	530,869	17,030,869

21. Contingent liabilities and commitments

	2010	*2009*
	£'000	*£'000*
Contingent Liabilities		
Financial Guarantees	10	10
	10	10

22. Pillar 3 Disclosures

Full disclosures are available on our website www hib uk com

Notes to the financial statements

at 31 December 2010

23. 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 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