Havin Bank Limited

Annual Report and Financial Statements

31 December 2019

Directors

G Roca
R Recio
M Rico
G Gil Resigned 13 March 2020
S Shah
D Triesman

Secretary

S Shah

Auditors

Ernst & Young LLP
25 Churchill Place
London E14 5EY

Registered Office

4th floor
189 Marsh Wall
London
E14 9SH

Chairman's report

On behalf of the Board of Directors I am pleased to bring you the results for Havin Bank Ltd for the year ended 31 December 2019.

Year 2019 has been another profitable year for the Bank and I would like to take this opportunity to thank all of the staff and Management for their continued hard work. I would also like to thank the members of the Audit Committee, the Board and the Shareholders for their continued support.

As in previous years, the Bank's focus remains on its Money Market operations and commercial lending business financing foreign trade, primarily for companies in the UK and Europe but also worldwide, who are looking to develop new and existing relationships with Cuban companies. The Board intends to continue with this policy where it is prudent to do so. However, with Brexit having taken place on 31 January 2020, the Bank is reviewing its relationships with European entities.

An area of focus throughout 2019 was the sourcing of a new banking system. I can confirm that the Bank has signed a contract to purchase and implement this software with the project beginning in February 2020, and expected to go live in Q4 2020. This is an exciting development for the Bank, which will enable it to ensure that we will be able to continue to offer high level of services to our customers for many years to come.

De-risking remains an area of business focus, limiting the number of financial institution counterparties that we are able to do business with.

The Bank endeavours to maintain an impeccable approach to the supervisory requirements whilst keeping up to date with the many changes that are currently being brought in. Where necessary the Bank uses outside consultants to ensure that this it is able to meet its requirements.

The delays in the process around the incorporation of the Joint Venture bank in Cuba have continued throughout 2019. Despite the delays the Bank's Directors and Shareholders believe that the new opportunities that this will afford the Bank are worth waiting for and are eagerly anticipating this new venture.

The Board, along with the management team and all staff, are taking all the necessary actions to protect the health and wellbeing of our employees and customers, in order to ensure that the Bank is able to deal with the crisis in the best possible manner. The Board is focused on communicating with all concerned to ensure that the Bank emerges from the pandemic in a position of strength and able to look forward to a positive future.

The Bank continues to grow its capital by following its existing policies while maintaining a conservative approach towards risk. I remain confident that the hard work and effort made by everyone at the Bank and with the emergence of the Joint Venture over the coming years will provide a positive future for Havin Bank Ltd.

G Roca.

Gustavo Roca

Chairman

Havin Bank Limited

Date: 19 June 2020

Directors' report

The Directors present their report and the Financial Statements for the year ended 31 December 2019.

Principal activities

The Bank's principal activities remain Money Market with the provision of short term placements to banks and other financial institutions. The Bank also provided to its customers Corporate Lending, Trade Finance and Foreign Exchange operations. Commercial banking services related to documentary credits, collections and payments were also available for the Bank's customers during the year.

Results

In 2019 the Bank achieved a profit on ordinary activities before tax of £945,319 (2018: £1,261,322). In spite of tough conditions caused primarily by de-risking the Bank's strategy is to continue following its principal activities in order to yield positive results.

All of the income relates to business instigated by the UK office. The Bank has not received any public subsidies during the year.

Dividend

A dividend of £500,000 was declared and paid out of the Banks realised and retained profit for 2018 during the year of 2019 (2018: Nil).

Capital

During 2019, the Bank capitalised £500,000 of reserve reflecting the confidence in the Bank held by both the Board of Directors and Shareholders.

Financial instruments

Details of the financial instruments are provided in note 20.

Directors

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

G Roca	Chairman
R Recio	CEO
M Rico	Executive Director
G Gil	Executive Director (Resigned 13 March 2020)
S Shah	Non-Executive Director
D Triesman	Non-Executive Director

Pillar 3 disclosures

Full disclosures are available on the Bank's website www.hib.uk.com.

Going concern assessment

The Directors have reviewed the Bank's forecasts, projections and stress tests, taking into account reasonable possible changes in trading performance, which show that the Company has sufficient financial resources. On the basis of this review, and after making due enquiries, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months from the date of approval of the financial statements.

Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Refer to "Post balance sheet events" in the Directors' report and to the Strategic report for further going concern considerations relating to Covid-19.

Directors' report

A statement of responsibilities of the Directors in relation to the Financial Statements is shown on page 10.

Qualifying indemnity provisions

The Bank has a Directors' and Officers' insurance policy in place covering all Directors and Senior Managers.

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.

Post balance sheet events

Subsequent to the end of 2019 the Bank has declared a dividend of £500,000 in respect of the realised and retained profit for the year ended 31 December 2018. The Directors have assessed this decision and have concluded that the dividend meets the criteria for payment under section 830 of the Companies Act 2006. The dividend was paid on 28 April 2020.

Since the emergence of Novel Coronavirus (COVID-19) in China at the end of 2019 the virus has spread rapidly across the rest of the world, triggering a set of interventions across major global economies with respect to travel restrictions, border controls and quarantine protocols. Measures increasingly involve social restrictions in public domains, education centres, recreational venues and changes to professional working arrangements. These measures are putting pressure on industrial productivity, suppressing demand for commodities, impacting global supply chains and consumption of goods and services. This has the potential to significantly impact global financial markets with severe shocks to asset prices and corporate earnings, further central bank intervention and accommodative monetary measures, and an extended period of low or negative interest rates.

Management have considered the potential impact on the company and consider this to be a non-adjusting event after the reporting period. In addition to the going concern considerations noted in the Going Concern section of note 1 to these financial statements, management have concluded that the going concern assessment remains appropriate.

The Board considered the impact on going concern when reviewing and approving the financial statements. The following matters were concluded:

- The business activities of the company have continued to be operational since the outbreak and provide continuity of services to customers.
- Financial performance of the company has not been impacted to a material extent.
- Looking forward, whilst the unpredictable nature of the impact of COVID-19 means that there is uncertainty surrounding future trading activity, the Bank does not expect demand for its services to be materially impacted to the extent it ceases to be a going concern because stress tests have indicated that while there may be some impact on profitability in the short term, the Bank's niche market and core product base will allow it to recover.

The full extent to which the COVID-19 pandemic may impact the Bank's results, operations or liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Bank, the industry and the economies in which the Bank operates.

On this basis, the Board continues to support that the Bank will continue to operate as a going concern for a period of at least 12 months from the date of approving these financial statements.

Directors' report

With the exception of the above the Directors confirm that there were no significant events occurring after the balance sheet date, up to the date of this report that would meet the criteria to be disclosed or adjusted in the financial statements for the year ended 31 December 2019.

Future developments

The Bank has continued working in conjunction with another UK entity to incorporate a new bank in Cuba as a Joint Venture in which the Bank will have 50% of the shares. It is envisaged that this will have a positive impact for the Bank.

The Brexit Withdrawal agreement now passed means that the UK left the EU on 31 January 2020 and enters an implementation period until 31 December 2020.

During the implementation period, there will be continuity because EU law will still apply in the UK, and passporting (the ability of UK authorised firms to conduct particular activities in the EEA without local authorisation) will be maintained. New EU legislation that takes effect before the end of the implementation period will also apply to the UK.

The EU Commission has said that "UK entities providing banking and payment services will no longer benefit from the authorisation to provide those services and activities in the Union (they will lose the so-called "EU passport") and will be treated as third country entities with regard to their possibility to establish branches or agents in the Member States. This means that those entities will no longer be allowed to provide services in the EU on the basis of their current authorisations".

As a result of the above, the Bank's ability to continue to service its European customers is in doubt as the passporting arrangements it currently enjoys may not be available post 31 December 2020.

Loans outstanding as at 31 December 2020 will not be affected but potentially no new loans may be granted after that date.

At January 2020 the Bank's corporate lending totals approximately GBP 9.5 million of which 83% is to the EU and 17% to South America.

The options for the Bank would be to diversify its lending away from European corporates. This could take some time and if successful could increase risk as they would be new and possibly unknown customers to the Bank.

However, the details of a post 31 December 2020 relationship are not certain. There are proposals for the UK and EU to adopt a system of assessing regulatory "equivalence" post Brexit which could prevent either side withdrawing access to the others financial markets with negligible notice but would ensure their durability.

There may yet be opportunities to keep some or all of the Bank's current business. The Bank would need to approach the Central banks/regulators in those European countries it does business in, in order to obtain their approval to continue financially supporting its European customers.

If equivalence is not agreed, the Bank will not be able to issue new lending to EU counterparties post 31 December 2020. In this case the options are:

- Current EU Customers open subsidiaries in UK and lending continues with the subsidiary guaranteed by their EU head office.
- The Bank obtains a License from each individual EU country where it has a customer to enable the Bank to continue offering lending and payments. Obtaining licenses is not guaranteed, however the Bank is currently looking into what is required to obtain these.
- The Bank reduces its portfolio of EU resident companies and diversifies to other countries.

Directors' report

The Bank has previously assessed its EU staff and their ability to continue working in the UK in the event of a no deal Brexit and does not currently believe this to be an issue, although this is something that the Bank continues to monitor.

The Bank continues to monitor this evolving situation and will take the appropriate actions when the potential outcome is clearer.

As the yields from Money Market transactions continue to be low, it is the intention of the Bank to slowly increase its levels of commercial lending whilst at the same time looking for a diversification of products e.g. loans backed by Government export insurance agencies. These will allow the Bank to increase profitability without a considerable increment in its risk appetite. The continued levels of profit along with a stable customer base, which has continued growing during 2019, lead the Board to believe that this continues to be the policy that the Bank should follow.

Consequently, the Bank intends to follow its existing policies and improve levels of diversification of business, as follows:

- To raise/maintain the Bank's profit without utilising its balance sheet (e.g. FX transactions, Letters of Credit, Collections and Payments), ensuring a quality service and low fixed costs.
- To maintain the existing customer base and to continue on-boarding new customers, especially those based in the UK or other countries outside the EEA, with a particular emphasis on those looking to invest in Cuba.
- To look for new medium term funding for the Bank.
- To increase Trade Finance operations and where possible to decrease the tenor of these operations in order to reduce credit risk and increase related income.
- To preserve Money Market operations.

The Bank is always looking to develop new business relationships within the banking community and with any intermediaries who can support the management of the Bank in the fulfilment of this strategy.

Compliance with all regulations issued by the regulatory authorities both in the UK and Cuba (for the Bank's Representative Office) is essential. By being aware of the steps taken by international market participants, as well as new rules issued, the Bank will be prepared to implement any new measures required.

One of the key objectives of the Bank is to increase its operational resilience, ensuring the continuity of its business and improving its level of security. The Bank's endeavours are led by a number of measures such as reviewing all of its existing software systems which will allow for the introduction of a high degree of automation, helping to reinforce operational resilience which is aligned with the Bank's business strategy.

The Bank continues preparing itself for operating within the new foreign investment environment that is evolving in Cuba and it is confident that its unique long standing business presence in the UK and Cuba will allow the Bank to have an active role in this new process.

The Bank has had one Representative Office in Havana since 1991, this enables the Bank to provide a point of contact in Cuba for several customers. The Bank does not have any branches.

Directors' report

Re-appointment of auditors

Since the Banks inception in 1972 the Bank has had Ernst & Young LLP or its predecessors as its auditor. Ernst & Young's audit rotation is due to end with the 2020 audit, however the Bank has made the decision to appoint new auditors for the 2020 audit to try to ensure a smooth transition.

Although this is an ongoing process a resolution to appoint new auditors will be put to the Shareholders at the Annual General Meeting.

On behalf of the Board

Roy Recio
Director
Date: 19 June 2020

Strategic report

The Directors present their strategic report for the year ended 31 December 2019.

Business review

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 main business objective of the Bank has continued to be facilitating commerce with Cuba. It is the Directors' opinion that the Bank has positively contribute in the development of new business opportunities between both Cuban and British companies and also with commercial entities based worldwide.

The Bank's principal activity throughout the year was in the Money Market with the provision of short term placements to banks and other financial institutions. The Bank also provided to its customers Trade Finance and Foreign Exchange operations. Commercial banking services related to documentary credits, collections and payments were also available for the Bank's customers during the year.

The Bank conducts its business in an economically, environmentally and socially responsible way wherever possible. The Bank regularly assesses the performance of the business including monitoring key performance indicators such as return on investment, return on assets, cost/income ratio and interest coverage ratio.

Key performance indicators	2019	2018
Return on investment	4.06%	5.46%
Return on assets	0.58%	0.75%
Interest coverage ratio	1.61	2.91

The Bank achieved a profit on ordinary activities before tax of £945,319 (2018: £1,261,322). The results for 2018 included loan loss recovery of £222,187 which gives a slight reduction in 2019. This indicates that in spite of tough conditions caused primarily by de-risking the Bank's strategy to continue following its principal activities continues to yield positive results. The identification, management and mitigation of financial risk are high a priority and underpin all of the Bank's business activity. The Board requires that Management maintains an appropriate system of internal measures and controls, including establishing key control processes and practices, such as limits, credit risk appraisals, hedge strategies, 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 20 to the Financial Statements.

The Board is committed to ensuring that the Bank is not used for the purposes of furthering any bribery, corruption or money laundering, either intentionally or unintentionally. The Bank follows regulation, legislation and industry guidance in relation to the prevention of bribery and corruption and anti-money laundering.

The Board takes full responsibility for corporate governance and controls. Internal Audit performs an independent review of risk management and the control environment and reports its findings directly to the Audit Committee. This is relayed to the General Management for remediation actions should they be required.

Strategic report

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

COVID-19

Subsequent to the end of 2019 the world has been hit with the COVID-19 pandemic, in light of this the Bank has reviewed its Business Continuity Plan (BCP) to ensure that it can continue to provide its services to its customers.

Should any member of staff or their families become ill the Bank already has in place contingency cover which will be implemented should it be necessary.

The Banks Directors' have been in regular contact with its customers to see what impact this crisis is having on them and thus far the responses have been positive and to keep them updated with any changes within the Bank that may impact them. While not necessarily expecting the business to grow throughout 2020, the Bank does not expect to see major loses as a consequence of this pandemic. This is as a result of the stringent criteria the Bank uses when on-boarding customers and issuing loans.

The Bank is fully aware of the increased risk of cybercrime during these times of uncertainty and has implemented additional controls.

The Bank is sure that everyone would agree that these are unprecedented times but the Bank believes that the BCP it has put in place will enable it to continue to provide its services to its customers.

On behalf of the board

Roy Recio
Director
Date: 19 June 2020

Directors' responsibilities statement

The Directors are responsible for preparing the Directors' Report and the Strategic 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 including FRS 102 - 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'). 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 auditor's report

to the members of Havin Bank Limited

Opinion

We have audited the financial statements of Havin Bank Limited (the "Bank") for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Financial Position, Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 24 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 1 and Note 24 of the financial statements, which describes the economic and social disruption the company is facing as a result of COVID-19 which is impacting customer demand, financial markets and personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report

to the members of Havin Bank Limited (continued)

Overview of our audit approach

Key audit matters	• Valuation of loans and advances (measured at amortised cost) • Revenue recognition on interest receivable and fees and commission receivable
Materiality	• Overall materiality of £47 thousand which represents 5% of the Bank's profit on ordinary activities before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of loans and advances (measured at amortised cost) Loans and advances to banks and other financial institutions at 31 December 2019 total £114,062 thousand (2018: £141,699 thousand), net of impairment loss provision of nil (2018: nil). Loans and advances to customers at 31 December 2019 total £9,801 thousand (2018: £12,928 thousand), net of impairment loss provision of £239 thousand (2018: £239 thousand). Refer to the Accounting policies (Note 1); and Notes 8 and 9 of the Financial Statements. Credit loss events may have occurred but may not have	Our approach focussed on: ► Assessing the design effectiveness and testing operating effectiveness of key controls over the loans and advances and the credit related processes; ► Reviewing credit risk files for a sample of loans and advances in order to identify indicators of impairments in the portfolio. We consider the latest financial information available from the borrowers, market data, repayment history including current repayment status, as well as any available external credit risk ratings; ► Verifying, for a sample of loans and advances, that the repayment information contained in the Bank's loan system agrees to the respective loan agreements; ► Considering arrears at the year end and assessing the implications of these on recoverability of outstanding balances;	We concluded that the assumptions used by management in the impairment assessment are reasonable and that the carrying value of loans and advances and related impairment loss provisions as at 31 December 2019 are materially correct and in compliance with United Kingdom Generally Accepted Accounting Practice.

been recognised by the Bank. There is an inherent risk that the Bank's counterparties default, resulting in impairment of the loans. In addition, impairment provision estimates require management to make judgements about the timing and extent of future cash flows which are inherently uncertain. Given the relative size of the loans and advances portfolio, a failure to recognise required impairment loss provisions could have a material impact on the financial statements. Given the judgement involved in determining impairment loss provisions, there is a heightened risk of management override. There has been no significant change in this risk from the prior year.	► Identifying concentrations to individual debtors and considering the implications based on the Bank's previous experiences with these debtors; ► Discussing and assessing the assumptions used by management in determining the specific impairment loan provision when indications of impairment were identified; and ► Reading minutes of board and of management meetings as well as performing inquiries of management regarding the potential existence of borrowers with overdue payments or regarding the existence of any impairment indicators in the loans and advances portfolio to banks and to customers.	
Revenue recognition on interest receivable and fees and commissions receivable Interest receivable for the year ended 31 December 2019 was £2,791 thousand (2018: £2,882 thousand). Fees and commissions receivable for the year was £692 thousand (2018: £504 thousand). Refer to the Accounting policies (Note 1) of the Financial Statements. There is a risk of material misstatement if interest receivable and fees and	Our approach focussed on: ► Assessing the design effectiveness and testing operating effectiveness of key controls over the Bank's processes related to interest receivable and fees and commissions receivable; ► Recalculating interest receivable, agreeing the inputs to the calculation to the underlying supporting documents, on a sample basis; ► Recalculating fees and commissions receivable, agreeing the inputs to the calculation to the underlying supporting documents and determining whether the income has been recognised or deferred appropriately, on a sample basis; ► Performing year end cut-off testing to	We concluded that the revenue recognised for the year ended 31 December 2019 in connection with interest receivable and with fees and commissions receivable is materially correct and in compliance with United Kingdom Generally Accepted Accounting Practice.

commissions receivable are not recorded correctly in the appropriate accounting period. There is a risk of management override due to the manual elements of the recording process. Incorrect recording of terms of agreements could result in revenue being misstated or recorded in the incorrect accounting period. There has been no significant change in this risk from the prior year.	ensure revenue is recognised in the appropriate accounting period; and ► Performing journal entry testing, on a sample basis, to ensure these have been authorised and to assess whether they have been appropriately recorded in accordance with their respective description and supporting documentation.	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank to be £47 thousand (2018: £63 thousand), which is 5% (2018: 5%) of profit on ordinary activities before tax. We believe that profit on ordinary activities before tax provides us with an appropriate materiality basis considering that the Bank is a profit orientated entity.

During the course of our audit, we reassessed initial materiality and increased it from our initial estimate of 5% of forecasted profit on ordinary activities before tax, of £44 thousand, in light of the actual profit on ordinary activities before tax for the year.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £35 thousand (2018: £47 thousand). We have set performance materiality at this percentage due to the fact that there have been no significant changes to the operating environment and no material recorded or unrecorded audit differences identified in the prior period.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2 thousand (2018: £3 thousand), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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 to be audited 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are:
  - Companies Act 2006
  - Tax Legislation (governed by HM Revenue and Customs)
  - Prudential Regulation Authority ('PRA') regulations

  - Financial Conduct Authority ('FCA') regulations

- We understood how the Bank is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies; reviewed minutes of the Board and of the Audit Committee; and gained an understanding of the Bank's approach to governance, demonstrated by the Board's approval of the Bank's governance framework and the Board's review of the Bank's risk management framework and internal control processes.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Bank's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with the FCA and PRA.

- The Bank operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Bank to audit the financial statements for the period ended 31 March 1974 and subsequent financial periods. The Bank decided to change its financial year end to 31 December, with the period ended 31 December 1995 being a 9 month period of account.

  The period of total uninterrupted engagement including previous renewals and reappointments is 46 years and 9 months, covering the periods ended 31 March 1974 to 31 December 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Independent auditor's report

to the members of Havin Bank Limited (continued)

Use of our report

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.

Ernst & Young LLP

Poppy Proborespati (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 June 2020

Income statement

for the year ended 31 December 2019

	Notes	2019	2018
		£	£
Interest receivable		2,790,716	2,881,527
Interest payable		(586,581)	(434,173)
Net interest income		2,204,135	2,447,354
Fees and commissions receivable		692,034	503,758
Fees and commissions payable		(30,568)	(49,153)
Dealing profits		493,465	343,118
Other operating income	3	8,957	8,957
		1,163,888	806,680
Total operating income		3,368,023	3,254,034
Administrative expenses	4	(2,294,694)	(2,089,154)
Impairment recovery on loans and advances	9	–	222,187
Depreciation of intangible fixed assets	6 & 10	(58,648)	(44,354)
Depreciation of tangible fixed assets	6 & 11	(83,438)	(84,900)
Foreign exchange revaluation gains		14,076	3,509
		(2,422,704)	(1,992,712)
Operating profit		945,319	1,261,322
Profit on ordinary activities before tax		945,319	1,261,322
Tax on profit on ordinary activities	7	(186,425)	(246,108)
Profit for the financial year		758,894	1,015,214

The income and profit made this year are from continuing operations.

There are no items of other comprehensive income in any of the periods for which Financial Statements are presented.

Statement of financial position

at 31 December 2019

	Notes	2019	2018
Assets		£	£
Cash and balances at central banks		35,238,079	11,510,016
Loans and advances to banks and other financial institutions	8	114,061,914	141,699,074
Loans and advances to customers	9	9,800,622	12,928,006
Intangible fixed assets	10	655,964	141,155
Tangible fixed assets	11	1,780,795	1,860,633
Prepayments and accrued income	12	934,731	627,064
Other assets	13	4,032	3,940
Total Assets		162,476,137	168,769,888
Liabilities			
Deposits by banks	14	122,625,342	127,907,254
Customer accounts	15	14,875,362	16,918,429
Due to parent undertaking		210,720	212,413
Accruals and deferred income	16	1,271,159	525,132
Deferred tax liability	7	24,314	40,986
Corporation tax liability	7	93,777	49,105
Total Liabilities		139,100,674	145,653,319
Called up share capital	17	22,000,000	21,500,000
Profit and loss account		1,375,463	1,616,569
Equity shareholders' funds		23,375,463	23,116,569
Total liabilities and equity		162,476,137	168,769,888

The notes on pages 23 to 45 are an integral part of these Financial Statements.

The Financial Statements on pages 19 to 45 were authorised for issue by the Board of Directors on 18 June 2020 and were signed on its behalf.

Signed on behalf of the Board
Roy Recio
Director
Date: 19 June 2020

Statement of changes in equity

For the year ended 31 December 2019

	Called-up capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2018	20,500,000	1,601,355	22,101,355
Profit for the year	–	1,015,214	1,015,214
Capitalisation of reserve	1,000,000	(1,000,000)	–
At 31 December 2018	21,500,000	1,616,569	23,116,569
Profit for the year	–	758,894	758,894
Dividend	–	(500,000)	(500,000)
Capitalisation of reserve	500,000	(500,000)	–
At 31 December 2019	22,000,000	1,375,463	23,375,463

Statement of cash flows

for the year ended 31 December 2019

	Notes	2019 £	2018 £
Cash inflows from operating activities	19(a)	11,113,579	8,187,189
Investing activities			
Interest received		2,596,565	3,053,968
Payments to acquire intangible fixed assets		(573,457)	(61,544)
Payments to acquire tangible fixed assets		(3,600)	(5,140)
Net cash inflows from investing activities		2,019,508	2,987,284
Financing activities			
Interest paid		(588,799)	(461,551)
Dividend paid		(500,000)	–
Net cash (outflows) from financing activities		(1,088,799)	(461,551)
Increase in cash and cash equivalents		12,044,288	10,712,921
Cash and cash equivalents at 1 January		51,772,983	41,060,062
Cash and cash equivalents at 31 December	19(b)	63,817,271	51,772,983

Notes to the financial statements

at 31 December 2019

1. Accounting policies

Statement of compliance

Havin Bank Limited is a limited liability company incorporated in England and is limited by shares. The Registered Office is 4th Floor, 189 Marsh Wall, London E14 9SH.

The Financial Statements have been prepared in compliance with FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' ("FRS 102") as it applies to the Financial Statements of the Bank for the year ended 31 December 2019.

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 of the Bank were authorised for issue by the Board of Directors.

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 have reviewed the Company's forecasts and projections, taking into account reasonably possible changes in trading performance, which show that the Company has sufficient financial resources. On the basis of this review, and after making due enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months from the date of approval of the financial statements.

The Board has considered five key issues and other relevant issues when carrying out its assessment of the Bank's status as a going concern:

- Capital adequacy – the Bank had and continues to have sufficient capital to meet its regulatory requirements.
- Liquidity – the Bank had and continues to have sufficient liquidity to meet its regulatory requirements.
- Impairment – all loans and customers are regularly reviewed to ensure that the Bank receives an early indication of any issues and to try to ensure that the Bank's loan portfolio remains strong.
- Business risk – while continuing to offer its services to existing customers within its core market, the Bank is looking to offer its services to a wider customer base within this market to ensure that the wealth of expertise gained in this area is fully utilised.
- Risk appetite and controls – the Bank is fairly risk averse, preferring to do business in the markets it knows in order to minimise risk. The Management review various controls on a daily basis to ensure that the Bank remains compliant with internal and regulatory limits and that the Bank's business remains compliant with the Risk Management Principals.
- BREXIT – the Bank has looked at the potential impact of the UK's withdrawal from the EU including impact on staff and performing stress tests looking at a worst case scenario.

Notes to the financial statements

at 31 December 2019

- COVID-19 – the Bank has looked at the impact on staff and customers and the Bank's ability to provide a high level of service during the pandemic.
    - The Bank has reviewed its Business Continuity Plan (BCP) to ensure that it can continue to provide its services to its customers.
    - Should any member of staff or their families become ill the Bank already has in place contingency cover which will be implemented should it be necessary.
    - The Banks Directors' have been in regular contact with its customers to see what impact this crisis is having on them and thus far the responses have been positive and to keep them updated with any changes within the Bank that may impact them. While not necessarily expecting the business to grow throughout 2020, the Bank does not expect to see major loses as a consequence of this pandemic. This is as a result of the stringent criteria the Bank uses when on-boarding customers and issuing loans.
    - The Bank is fully aware of the increased risk of cybercrime during these times of uncertainty and has implemented additional controls.
    - The Bank is sure that everyone would agree that these are unprecedented times but the Bank believes that the BCP it has put in place will enable it to continue to provide its services to its customers.

The Board considered the impact on going concern when reviewing and approving the financial statements. The following matters were concluded:

- The business activities of the company have continued to be operational since the outbreak and provide continuity of services to customers.
- Financial performance of the company has not been impacted to a material extent.
- Looking forward, whilst the unpredictable nature of the impact of COVID-19 means that there is uncertainty surrounding future trading activity, the Bank does not expect demand for its services to be materially impacted to the extent it ceases to be a going concern because stress tests have indicated that while there may be some impact on profitability in the short term, the Bank's niche market and core product base will allow it to recover.

The full extent to which the COVID-19 pandemic may impact the Bank's results, operations or liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Bank, the industry and the economies in which the Bank operates.

Having performed this analysis, the directors believe the preparation of the Bank's financial statements on a going concern basis remains appropriate, as the Bank expects to be able to meet its obligations as and when they fall due for a period of at least 12 months from the date of approval of the financial statements.

Foreign currencies

The Financial Statements are presented in Pounds 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 the income statement.

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 2019

1. Accounting policies (continued)

Financial Instruments

Under Section 11 of FRS 102, entities have an accounting policy choice to either follow the provisions of sections 11 and 12 of the standard or apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement (as adopted for use in the EU)* and the disclosure requirements of Sections 11 and 12 of FRS 102. the Bank has chosen to apply the recognition and measurement provisions of IAS 39 and the disclosure and presentation requirements of Sections 11 and 12 of FRS 102.

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 initially recognised at fair value. The accounting policies relating to transaction costs are detailed under fees and commissions on page 27.

Subsequent measurement of financial instruments

All financial instruments are subsequently measured at amortised cost using, as applicable, the effective interest rate method.

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 income statement.

Loans and advances to banks (including other non-banking financial institutions) 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 (including other non-banking financial institutions) and customers

The Bank formally assesses on a semi-annual basis whether there is any objective evidence that the assets are impaired using forecasts of future cashflows and whether the customer has sufficient funds on account. 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. This requires management to make assumptions and apply judgement in estimating the impairment loss provisions, as deemed necessary.

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

For loans and advances to banks and customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists for assets that are individually significant. The Bank considers all loans and advances to be significant so therefore assesses all assets individually or in the case of counterparties with more than one transaction for that counterparty. Collective provisions are not required due to the nature of the portfolio.

Deposits by banks and customer accounts

Deposits by banks and customers are 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' or 'designated at fair value through profit or loss'. After initial measurement, deposits by banks and customers are subsequently measured at amortised cost using the effective interest rate method. 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.

Contingent liabilities

To meet the financial needs of its customers, the Bank enters into various irrevocable contingent liabilities and commitments. These consist of financial guarantees, letters of credit, acceptances 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.

Depreciation and amortisation

Depreciation is provided on all tangible and intangible 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
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
Regulatory Reporting Software	-	over 5 years
Core Banking System	-	over 10 years

The carrying value of tangible and intangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The values of tangible and intangible fixed assets are recorded at cost less depreciation and impairment (where applicable).

Taxation

The tax expense represents the amount of tax currently payable and deferred tax.

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit will differ from the "profit on ordinary activities before tax" as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Notes to the financial statements
at 31 December 2019

1. Accounting policies (continued)

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 to the income statement account on a straight line basis over the lease term. A rent free period on the lease for office premises is amortised over the term of the lease.

Revenue Recognition

Interest income and expense

Interest income from loans and advances and bills discounted is recognised to the income statement account as it accrues, using the effective interest rate method.

Fees and commissions

Front end fees and commissions receivable for the continuing service of advances and bills discounted are amortised over the life of the transaction, using the effective interest rate method. Other fees relating to one-off services including payment orders, collections and letters of credit are recognised when the right to receive them is established and the outcome of the transaction can be estimated reliably.

Dealing profits

The Bank does not deal as principal in its forex transactions but covers currency positions for its customers. Dealing profits are the result of the net difference between the currency sold/bought on behalf of the Bank's customers. These are recognised to the income statement on a trade date basis.

Pensions

Contributions to the defined contribution pension scheme are charged to the income statement 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. The transactions relating to this business originate from the Bank's offices in the UK

3. Other operating income

	2019	2018
	£	£
Trustee fees	8,957	8,957
	8,957	8,957

Notes to the financial statements

at 31 December 2019

4. Administrative expenses

	2019 £	2018 £
Staff costs		
Wages and salaries	821,081	773,230
Social security costs	77,873	73,999
Pension costs	46,858	47,845
	945,812	895,074
Premises costs	293,700	265,060
Legal and professional fees	359,432	268,332
Computer, systems and communications costs	444,624	351,913
Other costs	251,126	308,775
	1,348,882	1,194,080
	2,294,694	2,089,154

	2019 No.	2018 No.
Average monthly number of employees during the year	17	19

5. Directors' emoluments

	2019 £	2018 £
Aggregate emoluments	264,337	186,852

	2019 £	2018 £
The amount paid in respect of the highest paid Director is as follows:		
Emoluments	74,000	55,500

One director is employed by Banco Central de Cuba, the majority shareholder. No remuneration and no pension benefits were paid to the Director during the year by Havin Bank Limited. £924 (approximately 2% of his remuneration from Banco Central de Cuba) relates to his work as a board member of Havin Bank Limited.

6. Operating profit

This is stated after charging the following excluding VAT:

		2019 £	2018 £
Auditors' remunerations	– audit services	106,000	94,000
	– non-audit services (Client Assets Assurance engagement)	9,000	8,000
	– non-audit services (ad-hoc regulatory support)	–	5,200
Taxation services	– compliance	15,000	15,000
Depreciation of owned intangible fixed assets		58,648	44,354
Depreciation of owned tangible fixed assets		83,438	84,900
Operating lease rental – land and buildings		105,766	105,766

Notes to the financial statements

at 31 December 2019

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2019	2018
	£	£
UK corporation tax		
UK corporation tax on profits of the year	202,995	249,188
Adjustments in respect of previous periods	102	–
Current tax charge for the period	203,097	249,188
Deferred tax		
Origination and reversal of timing differences	(18,633)	(3,442)
Effect of changes in tax rates	1,961	362
	(16,672)	246,108

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

As of 31 December 2019, there is a corporation tax liability of £93,777 which has been disclosed in the statement of financial position.

(b) The tax charge for the year is higher than the standard rate of corporation tax in the UK. The current tax rate being 19% (2018: 19%). The differences are reconciled below:

	2019	2018
	£	£
Profit on ordinary activities before taxation	945,319	1,261,322
Profit on ordinary activities before taxation multiplied by UK Hybrid rate of 19.00% (2018: 19.25%). The differences are reconciled below:	179,737	239,549
Effect of:		
Expenses not deductible	375	1,947
Adjustments in respect of prior periods	102	–
Deferred tax rate change	1,961	362
Non-qualifying depreciation	4,250	4,250
	186,425	246,108

The effective tax rate for the year 2019 is 19.5% (2018: 19.4%).

Notes to the financial statements

at 31 December 2019

7. Tax on profit on ordinary activities (continued)

(c) Deferred tax

The deferred tax asset relates to capital allowances in respect of fixed assets and is included in the balance sheet is as follows:

	2019 £	2018 £
Included in other liabilities	(24,314)	(40,986)
Accelerated capital allowances	(24,314)	(40,986)
Deferred tax liability	(24,314)	(40,986)
Deferred tax liability at start of year	(40,986)	(44,066)
Deferred tax (charge)/credit in respect of the current year	18,633	3,442
Effect of rate change	(1,961)	(362)
Deferred tax liability at end of year	(24,314)	(40,986)

8. Loans and advances to banks and other financial institutions

	2019 £	2018 £
Repayable:		
– within three months	111,485,496	141,337,350
– between three months and one year	2,576,418	361,724
	114,061,914	141,699,074

The aggregate amount of all loans and advances to banks and other financial institutions repayable on demand is £40,262,968 (2018: £41,051,118). The amount of impaired or past due loans and advances to banks and other financial institutions is £nil (2018: £nil). There is no specific or collective provision for loan losses.

9. Loans and advances to customers

	2019 £	2018 £
Repayable:		
– within three months	1,097,470	4,824,165
– between three months and one year	8,941,951	8,342,640
Total before impairment provision	10,039,421	13,166,805
Impairment losses on loans and advances	(238,799)	(238,799)
	9,800,622	12,928,006

Impairment losses on loans and advances

	2019 £	2018 £
As at 1 January	238,799	460,986
(Recovered) through the income statement	–	(222,187)
As at 31 December	238,799	238,799

The aggregate amount of all loans and advances to customers that are repayable on demand is £nil (2018: £5,169). The amount of impaired or past due loans to customers is £323,484 (2018: £238,799). The fully

Notes to the financial statements

at 31 December 2019

impaired amount is £238,799 (2018: £238,799) and has been fully provided for as a specific loan impairment loss provision. The past due amount is £84,685 (2018: £nil) for which no provision was made as repayment has been received prior to the signing of the Financial Statements. There is no collective provision for loan losses in either 2019 or 2018.

10. Intangible fixed assets

	Computer Software	Core Banking System	Regulatory Reporting Software	Total
	£	£	£	£
Cost:				
As at 31 December 2018	189,881	–	166,500	356,381
Additions	915	572,542	–	573,457
As at 31 December 2019	190,796	572,542	166,500	929,838
Depreciation:				
As at 31 December 2018	171,126	–	44,100	215,226
Charge for the year	11,848	–	46,800	58,648
As at 31 December 2019	182,974	–	90,900	273,874
Net book value				
As at 31 December 2018	18,755	–	122,400	141,155
As at 31 December 2019	7,822	572,542	75,600	655,964

Notes to the financial statements

at 31 December 2019

11. Tangible fixed assets

	Computer equipment	Leasehold improvements	Long leasehold property	Furniture/ equipment and vehicles	Total
	£	£	£	£	£
Cost:					
As at 31 December 2018	88,934	211,656	1,667,959	186,329	2,154,878
Additions	2,721	–	–	879	3,600
As at 31 December 2019	91,655	211,656	1,667,959	187,208	2,158,478
Depreciation:					
As at 31 December 2018	75,054	48,022	67,404	103,765	294,245
Charge for the year	9,425	21,344	16,660	36,009	83,438
As at 31 December 2019	84,479	69,366	84,064	139,774	377,683
Net book value					
As at 31 December 2018	13,880	163,634	1,600,555	82,564	1,860,633
As at 31 December 2019	7,176	142,290	1,583,895	47,434	1,780,795

12. Prepayments and accrued income

	2019	2018
	£	£
Accrued interest receivable	422,266	228,111
Debtors	512,465	398,953
	934,731	627,064

13. Other assets

	2019	2018
	£	£
Loans and advances to employees	4,032	3,940
	4,032	3,940

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

	2019	2018
	£	£
Repayable:		
– within three months	3,656	2,391
– between three months and one year	376	1,549
	4,032	3,940

The aggregate amount of all loans and advances to employees that are repayable on demand is £nil (2018: £nil). The amount of impaired or past due loans and advances to employees is £nil (2018: £nil).

Notes to the financial statements

at 31 December 2019

14. Deposits by banks

	2019	2018
	£	£
Repayable:		
– within three months	73,625,342	78,907,254
– between three months and one year	49,000,000	49,000,000
	122,625,342	127,907,254
Amounts include		
– due to related parties	264,745	326,187

The aggregate amount of deposits by banks that are repayable on demand is £17,462,195 (2018: £21,907,797).

15. Customer accounts

	2019	2018
	£	£
Repayable:		
– within three months	14,375,362	16,618,429
– between three months and one year	500,000	300,000
	14,875,362	16,918,429

The aggregate amount of customer accounts which is repayable on demand is £11,960,607 (2018: £11,768,429).

16. Accruals and deferred income

	2019	2018
	£	£
Accrued interest payable	75,525	77,744
Creditors	1,195,634	447,388
	1,271,159	525,132

17. Share capital

	2019	2018
	£	£
Authorised		
250,000 ordinary shares of £100 each	25,000,000	25,000,000
Allotted called up and fully paid		
220,000 ordinary shares of £100 each (2018: 215,000)	22,000,000	21,500,000

In 2019, 5,000 ordinary shares with a nominal value of £100 were issued to the Shareholders' in respect of capitalisation of reserves. Dividends are payable if a dividend is declared.

	Ordinary shares issued and fully paid

Notes to the financial statements
at 31 December 2019

1 January 2019	215,000
Capitalisation of reserve	5,000
31 December 2019	220,000

18. Obligations under leases

	2019	2018
	£	£
Operating leases due		
– within one year	124,686	124,686
– between one year and five years	477,960	477,960
– over five years	19,915	139,405
	622,561	742,051

Notes to the financial statements

at 31 December 2019

19. Cash inflow from operating activities and movement in cash and cash equivalents

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

	2019 £	2018 £
Profit on ordinary activities before tax	945,319	1,261,322
Adjustments to reconcile profit for the year to net cash flow from operating activities		
Interest receivable	(2,790,716)	(2,881,527)
Interest payable	586,581	434,173
(Recoveries) on loans and advances	–	(222,187)
Depreciation of intangible fixed assets	58,648	44,354
Depreciation of tangible fixed assets	83,438	84,900
Net decrease in deposit by banks, customers and parent undertaking	(7,326,671)	(5,005,976)
Net decrease in loans to banks, customers and employees and in deposits with central banks	19,080,677	14,899,230
Working capital movements		
Increase in prepayments	(113,513)	(187,587)
Increase / (Decrease) in accruals and deferred income	748,241	(59,350)
Taxation		
Corporation tax paid - including tax paid in advance	(158,425)	(180,163)
Net Cash inflow from operating activities	11,113,579	8,187,189

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

	2019 £	2018 £
Cash and balances at central banks	35,238,079	11,510,016
Loans and advances to other banks repayable on demand	28,579,192	40,262,967
	63,817,271	51,772,983

Notes to the financial statements

at 31 December 2019

20. 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, customer accounts and the balances due to parent undertaking.

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 any new risks as soon as they are identified. This forms part of the Banks Risk Appetite Statement.

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. As of 31 December 2019, the Bank complies with requirements in respect of Liquidity Coverage Ratio and Net Stable Funding Ratio laid down by the Prudential Regulation Authority.

Credit risk and credit quality

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 where possible; and prompt review at senior level of bank account reconciliations, to ensure early identification of possible settlement risk.

The Bank derives its credit quality for Banks and other financial institutions from Standard & Poor's. There are no facilities with Financial Institutions in default or impaired in 2019 (2018: nil).

The Bank derives its credit quality for loans and advances to customers from its internal ratings, using its risk criteria to guide its assessment of credit risk and of potential impairment. Other than for one impaired counterparty in default for its total balance due of £238,799 as of 31 December 2019 (2018: £238,799), which is fully provided for as of 31 December 2019 and 2018, there are no other facilities in default or impaired in 2019 (2018: nil).

The Bank's maximum exposure is £162,476,137. Where possible the Bank mitigates its exposure by taking cash collateral.

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

2019	Maximum Exposure	Collateral	Net Exposure to Credit
Cash and balances at central banks	35,238,079	–	35,238,079
Loans and advances to banks and other financial institutions	114,061,914	15,538,530	98,523,384
Loans and advances to customers	9,800,622	–	9,800,622
Intangible fixed assets	655,964	–	83,422
Tangible fixed assets	1,780,795	–	1,780,795
Prepayments and accrued income	934,731	–	934,731
Other assets	4,032	–	4,032
Total Exposure	162,476,137	15,538,530	146,937,607

2018	Maximum Exposure	Collateral	Net Exposure to Credit
Cash and balances at central banks	11,510,016	–	11,510,016
Loans and advances to banks and other financial institutions	141,699,074	16,221,120	125,477,954
Loans and advances to customers	12,928,006	–	12,928,006
Intangible fixed assets	141,155	–	141,155
Tangible fixed assets	1,860,633	–	1,860,633
Prepayments and accrued income	627,064	–	627,064
Other assets	3,940	–	3,940
Total Exposure	168,769,888	16,221,120	152,548,768

The Bank assesses the quality of its loan book by analysis of their financial accounts, past performance and current status.

The Bank currently has one loan which it has deemed impaired, this was determined by factors such as non-payment of interest, principal and a recent lack of information from the customer regarding their current status and financial statements. This became past due in July 2017. A provision has been fully provided by the Bank for this item.

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, concentration 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.

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

Concentration risk

Concentration risk occurs when a number of counterparties engage in similar activities or operate in the same geographical region or industry sector. The majority of the Bank's exposure is to the UK however due to its unique relationship, the Bank has an exposure to Cuba, however this is to the banking sector where the risk is considered to be low and is mainly offset by cash held as credit risk mitigation.

The Bank's financial assets analysed by geographical region:

	Financial Assets	
	2019	2018
	£'000	£'000
UK	114,031	111,164
Cuba	19,121	16,742
Europe	15,113	26,269
Canada	9,190	8,687
South America	1,635	3,269
	159,090	166,131

An industry sector analysis of the Bank's financial assets:

Central Bank	35,227	11,500
Banks	79,199	107,106
Other financial institutions	34,863	34,593
Others	9,801	12,932
	159,090	166,131

The Bank's unique relationship with Cuba also means that a large proportion of its liabilities come from Cuba, specifically one counterparty in 2019 that represents 68.5% (2018: 73.7%). The relationship with this counterparty is strong and these funds have been placed with the Bank in a stable manner since 2012.

Interest rate risk

All of the Bank's lending is at fixed rates. In terms of maturity, value and currency, where possible the loan portfolio is matched 100%. Where this is not possible the Bank has sufficient capital to cover this. Money market deposits are placed at the best rates available, however with market wide low yields available on money market funds, the Bank will sometimes need to place funds with a zero yield. The Bank mitigates this by ensuring that there is sufficient margin in other transactions while endeavouring to provide competitive rates for its customers.

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

Interest rate risk sensitivity analysis

All assets and liabilities (including financial instruments) 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, this is with the exception of a marginal number of deposits which have been matched against non-interest bearing funds and on which the Bank pays a nominal rate of interest. The majority of the Bank's loans and deposits are fixed term with a fixed rate. As most of the maturities fall within the "not more than three months" band, should interest rates alter, the impact on the Bank will be minimal.

The majority of the non-interest bearing amounts are undated and are therefore immediately available.

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

2019 Interest Bearing

	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	Non-interest bearing	Non-financial assets / liabilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	35,227	–	–	–	11	–	35,238
Loans and advances to banks	82,907	–	2,576	–	28,579	–	114,062
Loans and advances to customers	1,797	2,648	3,712	1,471	172	–	9,800
Intangible fixed assets	–	–	–	–	–	656	656
Tangible fixed assets	–	–	–	–	–	1,781	1,781
Prepayments and accrued income	–	–	–	–	–	935	935
Other assets	–	1	–	–	3	–	4
Total assets	119,931	2,649	6,288	1,471	28,765	3,372	162,476
Deposits by banks	56,138	–	49,000	–	17,487	–	122,625
Customer accounts	1,800	500	–	–	12,575	–	14,875
Due to parent undertaking	–	–	–	–	211	–	211
Accruals and deferred income	–	–	–	–	–	1,271	1,271
Deferred tax liability	–	–	–	–	–	24	24
Corporation tax liability	–	–	–	–	–	94	94
Total liabilities	57,938	500	49,000	–	30,273	1,389	139,100
Interest rate sensitivity gap	61,993	2,149	(42,712)	1,471	(1,508)	1,983	23,376
Cumulative gap	61,993	64,142	21,430	22,901	21,393	23,376	

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

Interest rate sensitivity analysis (continued)

2018 Interest Bearing

	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	Non-interest bearing	Non-financial assets / liabilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	11,500	–	–	–	10	–	11,510
Loans and advances to banks	101,074	–	362	–	40,263	–	141,699
Loans and advances to customers	4,576	2,856	5,488	–	8	–	12,928
Intangible fixed assets	–	–	–	–	–	141	141
Tangible fixed assets	–	–	–	–	–	1,861	1,861
Prepayments and accrued income	–	–	–	–	627	–	627
Other assets	–	1	–	–	3	–	4
Total assets	117,150	2,857	5,850	–	40,911	2,002	168,770
Deposits by banks	56,975	–	49,000	–	21,932	–	127,907
Customer accounts	4,963	300	–	–	11,655	–	16,918
Due to parent undertaking	–	–	–	–	213	–	213
Accruals and deferred income	–	–	–	–	525	–	525
Deferred tax liability	–	–	–	–	40	–	40
Corporation tax liability	–	–	–	–	49	–	49
Total liabilities	61,938	300	49,000	–	34,414	–	145,652
Interest rate sensitivity gap	55,212	2,557	(43,150)	–	6,497	2,002	23,118
Cumulative gap	55,212	57,769	14,619	14,619	21,116	23,118	

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

Maturity Analysis

The Bank endeavours to match maturities to ensure that there is no liquidity mismatch.

2019

	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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	35,238	–	–	–	–	35,238
Loans and advances to banks	111,486	–	2,576	–	–	114,062
Loans and advances to customers	1,969	2,648	3,712	1,471	–	9,800
Intangible fixed assets	656	–	–	–	–	656
Tangible fixed assets	1,781	–	–	–	–	1,781
Prepayments and accrued income	935	–		–	–	935
Other assets	3	1	–	–	–	4
Total assets	152,068	2,649	6,288	1,471	–	162,476
Deposits by banks	73,625	–	49,000	–	–	122,625
Customer accounts	14,375	500	–	–	–	14,875
Due to parent undertaking	211	–	–	–	–	211
Accruals and deferred income	1,271	–	–	–	–	1,271
Deferred tax liability	24					24
Corporation tax liability	94	–	–	–	–	94
Total liabilities	89,600	500	49,000	–	–	139,100
Maturity gap	62,468	2,149	(42,711)	1,471	–	23,376
Cumulative gap	62,468	64,617	21,905	23,376	23,376	

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

Maturity Analysis (continued)

2018

	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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	11,510	–	–	–	–	11,510
Loans and advances to banks	141,337	–	362	–	–	141,699
Loans and advances to customers	4,584	2,856	5,488	–	–	12,928
Intangible fixed assets	141	–	–	–	–	141
Tangible fixed assets	1,861	–	–	–	–	1,861
Prepayments and accrued income	507	–	120	–	–	627
Other assets	3	1			–	4
Total assets	159,943	2,857	5,970	–	–	168,770
Deposits by banks	78,907	–	49,000	–	–	127,907
Customer accounts	16,618	300	–	–	–	16,918
Due to parent undertaking	213	–	–	–	–	213
Accruals and deferred income	525	–	–	–	–	525
Deferred tax liability	40					40
Corporation tax liability	49	–	–	–	–	49
Total liabilities	96,352	300	49,000	–	–	145,652
Maturity gap	63,591	2,557	(43,030)	–	–	23,118
Cumulative gap	63,591	66,148	23,118	23,118	23,118	

Notes to the financial statements

at 31 December 2019

20. Financial instruments (continued)

Currency risk disclosures

The Bank's foreign currency loans and advances to banks and customers are funded in matched currencies. Additionally, the Bank's major currency exposure is to GBP and to a lesser extent EUR, consequently no significant currency exposure arises.

The tables below indicate a sensitivity analysis of exchange rate changes in the EUR rate, this calculates the effect of a reasonably possible movement in the currency rate against GBP with all other variables remaining constant. A negative amount reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions. The tables show the effect of the EUR rate strengthening, weakening would show the inverse effect.

	Effect on profit before tax		
2019	5%	10%	15%
	£	£	£
EUR	(1,288)	(2,577)	(3,865)

	Effect on profit before tax		
2018	5%	10%	15%
	£	£	£
EUR	(7,916)	(15,833)	(23,749)

21. Capital

The Capital Requirements Regulation and Capital Requirements Directive implemented Basel III (collectively known as CRD IV) within the EU on 1 January 2016. All capital and RWA calculations reflect the Bank's interpretation of the current rules.

The Bank maintains an actively managed capital base to cover risks inherent in the business.

In accordance with the Regulators Capital Adequacy Standards, the Bank produces an Internal Capital Adequacy Assessment Process ("ICAAP") document.

During the year the Bank has complied in full with its regulatory capital requirements and has maintained a surplus above the requirements.

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.

Notes to the financial statements

at 31 December 2019

21. Capital (continued)

In order to meet its objectives the Bank regularly performs capital projections that include scenario analysis. These analyses are reviewed by senior management and are consistent with requirements under Pillar II.

The Bank follows the standardised approach requirements for credit and market risk and the basic indicator approach for operational risk.

	2019	2018
Core tier one capital	£	£
Share Capital	22,000,000	21,500,000
Reserves	1,375,463	1,616,569
Total Tier One Capital	23,375,463	23,116,569

The Bank has complied with all regulatory capital requirements throughout the year.

22. Related parties

The majority and ultimate controlling shareholder is 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 (Cuba)	95.6%
Banco Popular de Ahorro (Cuba)	2.2%
Banco de Crédito y Comercio (Cuba)	2.2%

Any transactions with shareholders are based on commercial conditions. The only transactions current accounts/vostros: £264,745 (2018: current accounts/vostros £538,681).

23. Country by country reporting (CBCR)

Full disclosures are available on the Bank's website www.hib.uk.com.

24. Post balance sheet events

Subsequent to the end of 2019 the Bank has declared a dividend of £500,000 in respect of the realised and retained profit for the year ended 31 December 2018.

COVID-19

COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019. For further discussion concerning the management assessment of COVID 19 impact refer to note 1.