Havin Bank Limited

Annual Report and Financial Statements

31 December 2017

Directors

G Roca	
A Victoria	(resigned 1 April 2018)
R Recio	(appointed 1 April 2018)
G Gil	
S Shah	
D Triesman	

Secretary

S Shah	(appointed 1 August 2017)
B Ractliffe	(resigned 1 August 2017)

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 2017.

I would like to take this opportunity to thank all of the staff and management for their continued efforts and the teamwork which has made 2017 another profitable year for the Bank. I would also like to thank the members of the Audit Committee, the Board and the Shareholders for their contribution to this successful year and their continued support.

The Bank has continued to focus on its 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 Cuba. The Board intends to continue with this policy where it is prudent to do so.

De-risking continues to be an issue with the Bank limiting the number of credit institution counterparties that we are able to do business with.

The burden of regulatory compliance is high and ever increasing, however 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 is the case.

The Bank is currently in the process of setting up a Joint Venture bank in Cuba, this is in final stages of setting up. I expect this to be an exciting new venture for Havin Bank and its partner.

The Bank, by following its existing policies has been able to continue to grow its capital and while the Bank maintains a conservative approach towards risk, I am confident that with the hard work and effort made by everyone at Havin Bank and with the emergence of the Joint Venture over the coming years, the future is looking very positive for Havin Bank Ltd.

p.p.

Gustavo Roca

Chairman

Havin Bank Limited

Date: 13 April 2018

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2017.

Results

In 2017 the Bank achieved a profit on ordinary activities before tax of £1,161,535 (2016: £1,456,198). All of the income relates to business instigated by the UK office. The Bank has not received any public subsidies during the year.

Dividend

No dividend was paid during the year (2016: Nil). The directors have decided not to recommend a dividend to be paid in 2017.

Capital

During 2017 the Bank capitalised £1,000,000 of reserve reflecting the confidence in the Bank held by both the Board and Shareholders.

Financial instruments

Details of the financial instruments are provided in note 20.

Post balance sheet events

Subsequent to the end of 2017 the Shareholders voted to capitalise £1,000,000 of reserve.

Future developments

The Joint Venture bank that the Bank is currently looking to enter into with another UK entity, has been approved by the Cuban authorities in December 2017. The Bank expects to place its participation in the coming months and for the Joint Venture to be operational by the end of 2018.

The Bank has looked at the possible impact that Brexit may have on its operations and does not currently see that this will have a major impact, due in part that the majority of its operations are with UK banks and building societies, this is not expected to change. However until formal terms are agreed there is a high degree of uncertainty and as a result of this the situation is being closely monitored.

The returns from money market transactions continue to be low, consequently it is the intention of the Bank to slowly increase its levels of commercial lending, this will allow the Bank to increase profitability whilst only marginally increasing its risk. The continued levels of profit along with a stable customer base lead the Board to believe that this continues to be the policy that the Bank should follow.

The Bank also intends to follow its existing policies, these are:

- To raise/maintain the Bank's profit without utilising our balance sheet (e.g. Forex transactions, Collections and Letters of Credit), ensuring a quality service and low fixed costs.
- To maintain the existing customer base and where possible find new customers especially those looking to invest in Cuba.
- To look for new medium term funding for the Bank.

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 all international market participants, as well as new rules issued, the Bank will be prepared to implement any new measures required.

Directors' report

The Bank continues preparing itself for operating within the new foreign investment environment that is evolving in Cuba and we are confident that its unique long standing business presence in the United Kingdom 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

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

G Roca	Chairman
A Victoria	CEO (resigned 1 April 2018)
R Recio	CEO (appointed 1 April 2018)
G Gil	
S Shah	
D Triesman	

Pillar 3 disclosures

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

Going concern assessment

The Directors believe that the Bank has adequate resources to continue in operational existence for the foreseeable future and at least 12 months. For this reason, we continue to adopt the going concern basis in preparing the financial statements. A statement of responsibilities of the directors in relation to the financial statements is shown on page 6.

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.

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

Roy Recio
Director
Date: 13 April 2018

Strategic report

The Directors present their strategic report for the year ended 31 December 2017.

Business review

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 has continued to issue and discounting letters of credit and to make commercial loans to non-Cuban entities.

The Bank regularly assesses the performance of the business including monitoring key performance indicators such as return on investment and interest coverage ratio in order to check the effectiveness of its lending policies 2017: 4.32 (2016: 4.60).

The Bank achieved a profit on ordinary activities before tax of £1,161,535 (2016: £1,456,198) a return on investment of 5.2% (2016: 6.9%).

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

The principal risks and uncertainties of the Bank during the year are set out in note 20 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.

On behalf of the board

Roy Recio
Director
Date: 13 April 2018

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 2017 which comprise the Income statement, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 25 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 company's affairs as at 31 December 2017 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 company 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.

Use of our report

This report is made solely to the company'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 company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 company'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 • *Revenue recognition on interest receivable and fees and commissions* receivable
Materiality	• Overall materiality of £58 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 Loans and advances to banks and other financial institutions at 31 December 2017 total £158,878 thousands (2016: £158,681 thousands), net of impairment loss provisions of nil (2016: nil). Loans and advances to customers at 31 December 2017 total £11,205 thousands (2016: £13,635 thousands), net of impairment loss provision of £461 thousands (2016: nil). *Refer to the Accounting policies (Note 1); and Note 8 and 9 of the Financial*	Our approach focused 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 considered the latest financial information available from the borrowers, market data, repayment history including current repayment status, as well as any available external	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 2017 are materially correct and in compliance with United Kingdom Generally Accepted Accounting Practice.

Independent auditor's report

to the members of Havin Bank Limited (continued)

Statements. Credit loss events may have occurred but may not have 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.	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; • 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 2017 was £2,956 thousands (2016: £2,972 thousands). Fees and commissions receivable for the year was £511 thousands (2016: £456 thousands). *Refer to the Accounting policies (Note 1) of the Financial Statements.* There is a risk of material misstatement if interest receivable and fees and 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.	Our approach focused 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 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.	We concluded that the revenue recognised for the year ended 31 December 2017 in connection with interest receivable and with fees and commissions receivable is materially correct and in compliance with United Kingdom Generally Accepted Accounting Practice.

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, effectiveness of controls, including 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 £58 thousand, which is 5% of profit on ordinary activities before tax. We believe that profit on ordinary activity before tax provides us with an appropriate materiality basis considering that the Bank is a profit oriented entity.

During the course of our audit, we reassessed initial materiality and decreased it from our initial estimate of 5% of forecasted profit on ordinary activities before tax, or £75 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% of our planning materiality, namely £44 thousand. We have set performance materiality at this percentage due to the fact that there have been no significant changes to the operating environment, no significant deficiencies in internal control procedures 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 £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.

Independent auditor's report

to the members of Havin Bank Limited (continued)

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 company 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 6, 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 company 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; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the company and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA'). We determined 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 obtained a general understanding of how the Bank complies with these legal and regulatory 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 ('RMF') and internal control processes.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other 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.

Independent auditor's report

to the members of Havin Bank Limited (continued)

Other matters we are required to address

- We were appointed by the Bank to audit the financial statements for the period ending 31 March 1974 and subsequent financial periods. The Bank decided to change its financial year end to 31 December, with the period ending 31 December 1995 being a 9 month period of account. The period of total uninterrupted engagement including previous renewals and reappointments is 44 years and 9 months, covering the periods ending 31 March 1974 to 31 December 2017.

- 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.

Ernst & Young LLP

Maximiliano Bark (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 April 2018

Income statement

for the year ended 31 December 2017

	Notes	2017	2016
		£	£
Interest receivable		2,956,152	2,971,887
Interest payable		(350,251)	(404,766)
Net interest income		2,605,901	2,567,121
Fees and commissions receivable		510,653	456,116
Fees and commissions payable		(76,813)	(60,959)
Dealing profits		369,693	361,865
Other operating income	3	423,445	8,225
		1,226,978	765,247
Total operating income		3,832,879	3,332,368
Administrative expenses	4	(2,099,302)	(1,820,043)
Impairment losses on loans and advances		(460,986)	–
Depreciation of intangible fixed assets	6 & 10	(29,565)	(15,543)
Depreciation of tangible fixed assets	6 & 11	(84,395)	(39,733)
Foreign exchange revaluation gains		2,914	1,832
		(2,671,334)	(1,873,487)
Operating profit		1,161,545	1,458,881
Loss on sale of fixed assets		(10)	(2,683)
Profit on ordinary activities before tax		1,161,535	1,456,198
Tax on profit on ordinary activities	7	(225,964)	(309,015)
Profit for the financial year		935,571	1,147,183

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 2017

	Notes	2017	2016
Assets		£	£
Cash balances		8,944	10,179
Loans and advances to banks and other financial institutions	8	158,877,690	158,681,289
Loans and advances to customers	9	11,205,214	13,634,743
Intangible fixed assets	10	123,965	5,842
Tangible fixed assets	11	1,940,393	1,952,592
Prepayments and accrued income		611,921	556,141
Other assets	12	33,229	16,102
Total Assets		172,801,357	174,856,888
Liabilities			
Deposits by banks	13	133,805,190	130,067,495
Customer accounts	14	15,851,381	21,755,637
Due to parent undertaking		387,500	263,798
Mortgage payable	15	–	1,085,840
Accruals and deferred income		611,865	395,373
Deferred tax liability	7	44,066	27,190
Corporation tax liability	7	–	95,771
Total Liabilities		150,700,002	153,691,104
Called up share capital	16	20,500,000	19,500,000
Profit and loss account		1,601,355	1,665,784
Equity shareholders' funds		22,101,355	21,165,784
Total liabilities and equity		172,801,357	174,856,888
Memorandum items			
Irrevocable letters of credit	17	46,147	–
Acceptances	17	–	–

The notes on pages 20 to 39 are an integral part of these financial statements.

The financial statements on pages 16 to 39 were authorised for issue by the board of directors on 13 April 2018 and were signed on its behalf.

Signed on behalf of the Board
Roy Recio
Director
Date: 13 April 2018

Statement of changes in equity

For the year ended 31 December 2017

	Called-up capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2016	18,500,000	1,518,601	20,018,601
Profit for the year	–	1,147,183	1,147,183
Capitalisation of reserve	1,000,000	(1,000,000)	–
At 31 December 2016	19,500,000	1,665,784	21,165,784
Profit for the year	–	935,571	935,571
Capitalisation of reserve	1,000,000	(1,000,000)	–
At 31 December 2017	20,500,000	1,601,355	22,101,355

Statement of cash flows

for the year ended 31 December 2017

	Notes	2017 £	2016 £
Cash (outflows) / inflows from operating activities	19(a)	(14,935,716)	8,309,378
Investing activities			
Interest Received		2,937,461	3,018,206
Payments to acquire intangible fixed assets		(147,688)	–
Payments to acquire tangible fixed assets		(72,205)	(1,721,166)
Receipts from sales of tangible fixed assets		–	414
Net cash inflows from investing activities		2,717,568	1,297,454
Financing activities			
Interest Paid		(343,640)	(395,675)
Mortgage loan (paid) / received		(1,085,840)	1,085,840
Net cash inflows / (outflows) from financing activities		(1,429,480)	690,165
(Decrease) / increase in cash and cash equivalents		(13,647,628)	10,296,997
Cash and cash equivalents at 1 January		54,707,690	44,410,693
Cash and cash equivalents at 31 December	19(b)	41,060,062	54,707,690

Notes to the financial statements

at 31 December 2017

1. Accounting policies

Statement of compliance

Havin Bank Limited is a limited liability company incorporated in England. 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 2017.

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.

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 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.

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. Havin Bank Limited 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 23.

Subsequent measurement of financial instruments

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

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

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 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 financial institutions) 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. This requires management to make assumptions and apply judgement in estimating the impairment loss provisions, as deemed necessary.

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 to Banks and Customers

Deposits to 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 to 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.

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

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

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.

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. The lease for office premises was offered with a rent free period which is being amortised over the term of the lease.

Revenue Recognition

Interest income and expense

Interest income is recognised to the income statement account as it accrues.

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, it is calculated using the Effective Interest Rate method. Other fees are recognised as received.

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

Dealing profits

FX Dealing profits are recognised to the income statement at the time of completion of the transaction.

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 and all transactions originate in the United Kingdom.

3. Other operating income

	2017	2016
	£	£
Trustee fees	8,225	8,225
Compensation for early termination of lease	415,220	–
	423,445	8,225

The landlord of the Bank's previous premises requested early termination of the lease, under the terms of the lease agreement the Bank were entitled to compensation.

4. Administrative expenses

	2017	2016
	£	£
Staff costs		
Wages and salaries	686,418	648,443
Social security costs	72,391	73,881
Pension costs	46,665	47,423
	805,474	769,747
Other administrative expenses	1,293,828	1,050,296
	2,099,302	1,820,043

	2017	2016
	No.	No.
Average monthly number of employees during the year	18	16

5. Directors' emoluments

	2017	2016
	£	£
Aggregate emoluments	162,871	146,433

	2017	2016
	£	£
The amount paid in respect of the highest paid director is as follows:		
Emoluments	56,012	54,913

Notes to the financial statements

at 31 December 2017

5. Directors' emoluments (continued)

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. £919 (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:

		2017	2016
		£	£
Auditors' remunerations	– audit services	100,400	98,500
	– non-audit services (Client Assets Assurance engagement)	10,000	10,000
Taxation services	– compliance	27,000	10,550
Depreciation of owned intangible fixed assets		29,565	15,543
Depreciation of owned tangible fixed assets		84,395	39,733
Operating lease rental – land and buildings		105,624	110,847

In 2018 the Bank has contracted Ernst & Young LLP ("EY") to perform "ongoing ad-hoc regulatory support". This is separate from the audit services for which EY has been remunerated £5,200 (excluding VAT). We do not expect EY to be remunerated by more than £20,000 (excluding VAT) per year for this service.

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017	2016
	£	£
UK corporation tax		
UK corporation tax on profits of the year	209,455	273,896
Adjustments in respect of previous periods	(367)	4,509
Current tax charge for the period	209,088	278,405
Deferred tax		
Origination and reversal of timing differences	19,106	40,043
Adjustments in respect of prior periods	–	(3,830)
Effect of changes in tax rates	(2,230)	(5,603)
	225,964	309,015

The Finance Act 2015 reduced the main rate of corporate taxation to 19% with effect from 1 April 2017. On 16 March 2016, the Chancellor of the Exchequer announced a further reduction of the corporation tax rate to 17% effective from 1 April 2020. This change was substantively enacted on 6 September 2016 and as such the deferred tax liability has been calculated with reference to these rates.

As of 31 December 2017 there is a corporation tax asset of £19,920 which has been disclosed in other assets (note 12). As of 31 December 2016 there was a corporation tax liability of £95,771 which has been disclosed in the statement of financial position.

Notes to the financial statements

at 31 December 2017

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 the current tax rate being 19% (2016: tax rate of 20%). The differences are reconciled below:

	2017 £	2016 £
Profit on ordinary activities before taxation	1,161,535	1,456,198
Profit on ordinary activities before taxation multiplied by UK Hybrid rate of 19.25% (2016: 20%). The differences are reconciled below:	223,556	291,239
Effect of:		
Expenses not deductible	1,758	19,326
Income not taxable	(79,916)	–
Capital receipts	79,916	–
Adjustments in respect of prior periods	(367)	679
Deferred tax rate change	(2,230)	(5,603)
Non-qualifying depreciation	3,247	3,374
	225,964	309,015

The effective tax rate for the year 2017 is 19.4% (2016: 21.2%).

(c) Deferred tax

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

	2017 £	2016 £
Included in other liabilities	(44,066)	(27,190)
Accelerated capital allowances	(44,066)	(27,190)
Other timing differences	–	–
Deferred tax liability	(44,066)	(27,190)
Deferred tax (liability)/asset at start of year	(27,190)	3,420
Deferred tax charge in respect of the current year	(19,106)	(40,043)
Effect of rate change	2,230	5,603
Adjustments in respect of prior periods	–	3,830
Deferred tax liability at end of year	(44,066)	(27,190)

Notes to the financial statements

at 31 December 2017

8. Loans and advances to banks and other financial institutions

	2017	2016
	£	£
Repayable:		
– within three months	137,556,184	157,831,327
– between three months and one year	21,321,506	849,962
	158,877,690	158,681,289
Amounts include		
– due from related parties	–	–

The aggregate amount of all loans and advances to banks and other financial institutions repayable on demand is £41,051,118 (2016: £54,697,511). The amount of impaired or past due loans and advances to banks and other financial institutions is £nil (2016: £nil). There is no specific or collective provision for loan losses.

9. Loans and advances to customers

	2017	2016
	£	£
Repayable:		
– within three months	1,325,267	4,623,173
– between three months and one year	10,340,933	9,011,570
Total before impairment provision	11,666,200	13,634,743
Impairment losses on loans and advances	460,986	–
	11,205,214	13,634,743

Impairment losses on loans and advances

	2017	2016
	£	£
As at 1 January	–	–
Charged through the income statement	460,986	–
As at 31 December	460,986	–

The aggregate amount of all loans and advances to customers that are repayable on demand is £nil (2016: £nil). The amount of impaired or past due loans to customers is £460,986 (2016: £nil), this amount is fully impaired and has been fully provided for as a specific loan impairment loss provision. There is no collective provision for loan losses.

Notes to the financial statements

at 31 December 2017

10. Intangible fixed assets

	Computer Software	Regulatory Reporting Software	Total
	£		£
Cost:			
As at 31 December 2016	147,149	–	147,149
Additions	26,188	121,500	147,688
Disposals	–	–	–
As at 31 December 2017	173,337	121,500	294,837
Depreciation:			
As at 31 December 2016	141,307	–	141,307
Charge for the year	15,390	14,175	29,565
Disposals	–	–	–
As at 31 December 2017	156,697	14,175	170,872
Net book value			
As at 31 December 2016	5,842	–	5,842
As at 31 December 2017	16,640	107,325	123,965

11. Tangible fixed assets

	Computer equipment	Leasehold improvements	Long leasehold property	Furniture/ equipment and vehicles	Total
	£	£	£	£	£
Cost:					
As at 31 December 2016	90,070	211,656	1,667,959	151,156	2,120,841
Additions	16,012	–	–	56,193	72,205
Disposals	(21,062)	–	–	(19,765)	(40,827)
As at 31 December 2017	85,020	211,656	1,667,959	187,587	2,152,219
Depreciation:					
As at 31 December 2016	76,279	5,336	34,084	52,550	168,249
Charge for the year	9,767	21,343	16,660	36,625	84,395
Disposals	(21,062)	–	–	(19,756)	(40,818)
As at 31 December 2017	64,984	26,679	50,744	69,419	211,826
Net book value					
As at 31 December 2016	13,791	206,320	1,633,875	98,606	1,952,592
As at 31 December 2017	20,036	184,977	1,617,215	118,165	1,940,393

Notes to the financial statements

at 31 December 2017

12. Other assets

	2017	2016
	£	£
Corporation tax asset	19,920	–
Loans and advances to employees	13,309	16,102
	33,229	16,102

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

	2017	2016
	£	£
Repayable:		
– within three months	5,328	5,954
– between three months and one year	6,979	8,411
– between one and five years	1,002	1,737
	13,309	16,102

The aggregate amount of all loans and advances to employees that are repayable on demand is £nil (2016: £nil). The amount of impaired or past due loans and advances to employees is £nil (2016: £nil).

13. Deposits by banks

	2017	2016
	£	£
Repayable:		
– within three months	113,805,190	130,067,495
– between three months and one year	20,000,000	–
	133,805,190	130,067,495
Amounts include		
– due to related parties	436,673	754,289

The aggregate amount of deposits by banks that are repayable on demand is £27,913,306 (2016: £24,459,712).

14. Customer accounts

	2017	2016
	£	£
Repayable:		
– within three months	15,351,381	21,755,637
– between three months and one year	500,000	–
	15,851,381	21,755,637

The aggregate amount of customer accounts which is repayable on demand is £9,301,475 (2016: £13,395,080).

Notes to the financial statements

at 31 December 2017

15. Mortgage payable

	2017	2016
	£	£
Not wholly repayable within five years:		
Bank loan of £1,115,900 at 4.29% per annum repayable in monthly instalments of £6,953.80 (capital and interest) commencing 20 January 2017, wholly repayable on 20 January 2036	–	1,085,840
	–	1,085,840

The mortgage was paid off on 8 September 2017 with no penalty.

16. Share capital

	2017	2016
	£	£
Authorised		
250,000 ordinary shares of £100 each	25,000,000	25,000,000
Allotted called up and fully paid		
205,000 ordinary shares of £100 each (2016: 195,000)	20,500,000	19,500,000

In January 2017, 10,000 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
1 January 2017	195,000
29 December 2017 Capitalisation of Reserve	10,000
31 December 2017	205,000

17. Contingent liabilities and commitments

	2017	2016
	£	£
Contingent liabilities		
Financial guarantees	–	–
Irrevocable letters of credit	46,147	–
Acceptances	–	–
Undrawn facilities	–	–

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, and have been included in the analysis in Note 20.

Letters of credit ("LC"), acceptances (where all documentation for a LC is correct and all terms have been met but the date of payment as per the LC has not been reached) and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Notes to the financial statements

at 31 December 2017

17. Contingent liabilities and commitments (continued)

To mitigate the credit risk posed by the letters of credit and acceptances the Bank has entered into a credit risk mitigation agreement with the main counterparty which provides collateral for these transactions. The total amount of £46,147 (2016: £0) for letters of credit and £0 (2016: £0) for acceptances were fully collateralised.

18. Obligations under leases

	2017	2016
	£	£
Operating leases due		
– within one year	124,686	127,030
– between one year and five years	477,960	487,960
– over five years	258,895	508,292
	861,541	1,123,282

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

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

	2017	2016
	£	£
Profit on ordinary activities before tax	1,161,535	1,456,198
Adjustments to reconcile profit for the year to net cash flow from operating activities		
Interest receivable	(2,956,152)	(2,971,887)
Interest payable	350,251	404,766
Impairment losses on loans and advances	460,986	–
Depreciation of intangible fixed assets	29,565	15,543
Depreciation of tangible fixed assets	84,395	39,733
Loss on disposal of tangible fixed assets	10	2,683
Net decrease in deposit by banks, customers and parent undertaking	(2,042,859)	(4,603,200)
Net (increase)/decrease in loans to banks, customers and employees	(11,871,459)	14,112,876
Working capital movements		
(Increase)/decrease in prepayments	(37,089)	119,592
Increase/(decrease) in accruals and deferred income	209,881	(351)
Taxation		
Corporation tax paid (including tax paid in advance)	(324,780)	(266,575)
Net Cash inflow from operating activities	(14,935,716)	8,309,378

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

	2017	2016
	£	£
Cash balance	8,944	10,179
Loans and advances to other banks repayable on demand	41,051,118	54,697,511
	41,060,062	54,707,690

Notes to the financial statements

at 31 December 2017

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.

Credit quality

The Bank assesses and rates its counterparties which it then uses to determine the quality of its lending book. Where possible the bank holds collateral to mitigate any losses, this is held in the form of cash.

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. Due to being unable to purchase High Quality Liquid Assets (despite the financial resources to do so) the Bank is unable to meet its Liquidity Coverage Ratio set out by the Prudential Regulation Authority in its role as regulator, however as noted above the Bank matches its loans and deposits so is able to meet its obligations. Additionally, the Bank complies with requirements in respect of Net Stable Funding Ratio laid down by the Prudential Regulation Authority.

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.

The Bank's maximum exposure is £172,189,803. Where possible the Bank mitigates its exposure by taking cash collateral, which covers the full value of the exposure as at 2017 by £16,267,268 (2016: £15,602,580).

Notes to the financial statements

at 31 December 2017

20. Financial instruments (continued)

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.

Concentration risk

Due to our unique relationship, a large proportion of our exposure is to Cuba, however most of this is to the banking sector where the risk is considered to be low and £16,221,120 (2016: £15,602,580) is offset by cash held as credit risk mitigation.

The Bank's financial assets analysed by geographical region:

	Off Balance Sheet Letters of Credit and Acceptances		Financial Assets	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
UK	–	–	134,223	125,067
Cuba	46	–	21,815	21,627
Europe	–	–	8,786	13,714
Guernsey	–	–	–	2,898
South America	–	–	3,486	1,884
Canada	–	–	1,276	6,084
Others	–	–	496	1,042
	46	–	170,082	172,316

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

Banks	46	–	114,467	130,607
Other financial institutions	–	–	44,410	28,074
Related party banks	–	–	–	–
Others	–	–	11,205	13,635
	46	–	170,082	172,316

Our unique relationship with Cuba also means that a large proportion of our liabilities come from Cuba, specifically one counterparty in 2017 that represents 73.5% (2016: 71.9%). The relationship with this counterparty is strong and these funds have been placed with the Bank since 2012.

Notes to the financial statements

at 31 December 2017

20. Financial instruments (continued)

Interest rate risk

All of the Bank's lending is at fixed rates. In terms of maturity, value and currency the loan portfolio where possible 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.

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, this shows (with the exception of a marginal number of deposits which have been matched against non-interest bearing funds and on which we pay 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 2017

20. *Financial instruments (continued)*

2017 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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash balances	–	–	–	–	9	9
Loans and advances to banks	96,506	20,562	759	–	41,051	158,878
Loans and advances to customers	855	3,445	6,899	–	6	11,205
Intangible fixed assets	–	–	–	–	124	124
Tangible fixed assets	–	–	–	–	1,940	1,940
Prepayments and accrued income	–	–	–	–	612	612
Other assets	5	3	4	1	20	33
Total assets	97,366	24,010	7,662	1	43,762	172,801
Deposits by banks	86,848	20,000	–	–	26,957	133,805
Customer accounts	5,434	500	–	–	9,917	15,851
Due to parent undertaking	307	–	–	–	81	388
Accruals and deferred income	–	–	–	–	612	612
Deferred tax liability	–	–	–	–	44	44
Total liabilities	92,589	20,500	–	–	37,611	150,700
Interest rate sensitivity gap	4,777	3,510	7,662	1	6,151	22,101
Cumulative gap	4,777	8,287	15,949	15,950	22,101	

Notes to the financial statements

at 31 December 2017

20. Financial instruments (continued)

Interest rate sensitivity analysis (continued)

2016

	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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash balances	–	–	–	–	10	10
Loans and advances to banks	103,134	776	73	–	54,698	158,681
Loans and advances to customers	4,623	3,349	5,662	–	–	13,634
Intangible fixed assets	–	–	–	–	6	6
Tangible fixed assets	–	–	–	–	1,953	1,953
Prepayments and accrued income	–	–	–	–	556	556
Other assets	0	1	2	5	8	16
Total assets	107,757	4,126	5,737	5	57,231	174,856
Deposits by banks	109,879	–	–	–	20,188	130,067
Customer accounts	5,583	–	–	–	16,173	21,756
Due to parent undertaking	181	–	–	–	83	264
Loans	–	–	–	1,086	–	1,086
Accruals and deferred income	–	–	–	–	395	395
Deferred tax liability	–	–	–	–	27	27
Other liabilities	–	–	–	–	96	96
Total liabilities	115,643	–	–	1,086	36,962	153,691
Interest rate sensitivity gap	(7,886)	4,126	5,737	(1,081)	20,269	21,165
Cumulative gap	(7,886)	(3,760)	1,977	896	21,165	

Notes to the financial statements

at 31 December 2017

20. Financial instruments (continued)

Maturity Analysis

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

2017

	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 balances	9	–	–	–	–	9
Loans and advances to banks	137,557	20,562	759	–	–	158,878
Loans and advances to customers	861	3,445	6,899	–	–	11,205
Intangible fixed assets	124	–	–	–	–	124
Tangible fixed assets	1,940	–	–	–	–	1,940
Prepayments and accrued income	612	–	–	–	–	612
Other assets	25	3	4	1	–	33
Total assets	141,128	24,010	7,662	1	–	172,801
Deposits by banks	113,805	20,000	–	–	–	133,805
Customer accounts	15,351	500	–	–	–	15,851
Due to parent undertaking	388	–	–	–	–	388
Accruals and deferred income	612	–	–	–	–	612
Deferred tax liability	44	–	–	–	–	44
Total liabilities	130,200	20,500	–	–	–	150,700
Maturity gap	10,928	3,510	7,662	1	–	22,101
Cumulative gap	10,928	14,438	22,100	22,101	22,101	

Notes to the financial statements

at 31 December 2017

20. Financial instruments (continued)

Maturity Analysis (continued)

2016

	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 balances	10	–	–	–	–	10
Loans and advances to banks	157,832	776	73	–	–	158,681
Loans and advances to customers	4,623	3,349	5,662	–	–	13,634
Intangible fixed assets	6	–	–	–	–	6
Tangible fixed assets	1,953	–	–	–	–	1,953
Prepayments and accrued income	556	–	–	–	–	556
Other assets	5	4	5	2	–	16
Total assets	164,985	4,129	5,740	2	–	174,856
Deposits by banks	130,067	–	–	–	–	130,067
Customer accounts	21,756	–	–	–	–	21,756
Due to parent undertaking	264	–	–	–	–	264
Loans	9	9	19	80	969	1,086
Accruals and deferred income	395	–	–	–	–	395
Deferred tax	27	–	–	–	–	27
Other liabilities	96	–	–	–	–	96
Total liabilities	152,614	9	19	80	969	153,691
Maturity gap	12,371	4,120	5,721	(78)	(969)	21,165
Cumulative gap	12,371	16,491	22,212	22,134	21,165	

Notes to the financial statements

at 31 December 2017

20. Financial instruments (continued)

Currency risk disclosures

The Bank generally manages currency risk by matching on-balance sheet financial assets in the same currencies as its on-balance sheet financial liabilities. As at 31 December 2017, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2017	2016
	£	£
Assets	45,008,721	47,253,751
Liabilities	44,896,850	47,139,869

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.

	2017	2016
Core tier one capital	£	£
Share Capital	20,500,000	19,500,000
Reserves	1,601,355	1,665,784
Total Tier One Capital	22,101,355	21,165,784
Risk weighted assets	63,017,907	53,311,392
Pillar 1 risks		
Credit risk	4,543,185	4,264,911
Operational risk	498,247	440,189
Pillar 1 capital resources requirement	5,041,432	4,705,100

Notes to the financial statements

at 31 December 2017

23. 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 Credito y Comercio (Cuba)	2.2%

Any transactions with shareholders are based on commercial conditions 2017. The only transactions were call and current accounts/vostros: £824,173 (2016: current accounts/vostros £1,018,088).

24. Country by country reporting (CBCR)

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

25. Post balance sheet events

Subsequent to the end of 2017 the Shareholders voted to capitalise £1,000,000 of reserve.