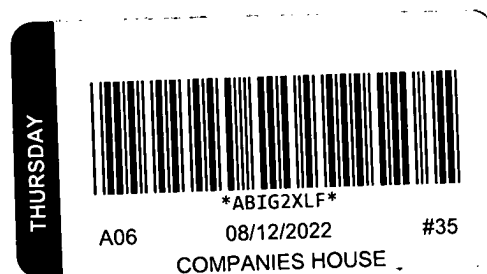


Havin Bank Limited

Annual Report and Financial Statements

31 December 2021



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Board of Directors

Directors

G Roca

R Recio

M Rico

S Shah

Resigned 29 November 2022

D Triesman

Resigned 1 November 2021

Y Corona

G Leal

Secretary

S Shah

Auditors

MHA Macintyre Hudson

2 London Wall Place

London EC2Y 5AU

Registered Office

4th floor

77 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 2021.

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 & Risk Committee, the Board and the Shareholders for their continued support.

Following on from the challenges of Covid during 2020 and as previously reported, the staff and management worked extremely hard with assistance from the software supplier and our implementation partners and were able complete the implementation of the Banks new core banking system in Q1 2021. As a result of this we have seen an increase in operational resilience which we expect to continue as our staff become more familiar with the system and as new modules are added.

The Bank's main business focus remains on its Money Market operations and commercial lending business financing foreign trade, previously this had been primarily for companies in the UK and Europe, however as a result of Brexit the Bank is looking to develop relationships with customers outside of Europe, 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.

As with a lot of smaller organisations, de-risking remains an area of business focus as this limits 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 it is able to meet its requirements.

The previously reported Joint Venture bank in Cuba has currently been put on hold with the agreement of both parties. This is due to issues outside of the control of either party. It is planned that this will be revisited at a future date.

While the Bank has made a loss before tax in 2021, this was due to the costs involved in implementing the core banking system and to lower levels of commercial lending and low interest rate environment which has impacted on the Banks income. The Bank has already started to see its business increasing, so with this in mind I am confident that by continuing to follow existing policies and maintaining its conservative approach towards risk that the future for Havin Bank is a positive one.

Gustavo Roca

Chairman

Havin Bank Limited

Date: 2 December 2022

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Directors' report

The Directors present their report and the Financial Statements for the year ended 31 December 2021.

Principal activities

The Bank's principal activities remain Money Market transactions 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 payments were also available for the Bank's customers during the year.

Results

In 2021 the Bank achieved a loss on ordinary activities before tax of £284,518 (2020: loss £117,512). This loss includes continuing expenses incurred as a result of setting up the new core banking system which totalled £165,407 in 2021 (2020: £906,424), also a reduction interest income due to lower Bank of England Base Rate and to lower lending to corporate customers which was due to a slow down in production and shipping, a by-product of the Covid pandemic. The Bank has noticed during the last months of 2021 and early into 2022 that its customers are seeing these pressures ease which in turn is leading to an up-turn in business for the Bank, with an increase in its lending to corporate customers. Recent increases announced by Bank of England regarding its Base Rate have also positively impacted the Bank's income associated with its Money Market transactions.

De-risking continues to be an issue, however despite this challenge the Bank has managed to secure correspondent banking in order to support funds transfer and payments.

The Bank's strategy is to continue to follow its principal activities to once again 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

No dividend has been declared in respect of the retained profit for 2021 (2020: £nil).

Capital

There was no change to the Bank's capital during 2021.

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
S Shah	Non-Executive Director
D Triesman	Non-Executive Director (resigned 1 November 2021)
Y Corona	Non-Executive Director
G Leal	Non-Executive Director

Pillar 3 disclosures

The Directors have 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.

A statement of responsibilities of the Directors in relation to the Financial Statements is shown on page 9.

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 make himself/herself aware of any relevant information and to establish that the auditor is aware of that information.

Post balance sheet events

The emergence of COVID-19 in China at the end of 2019 with the virus spreading across the rest of the world in early 2020 triggered a set of interventions across major global economies with respect to travel restrictions, border controls and quarantine protocols. Measures to tackle this issue included social restrictions in public domains, education centres, recreational venues and changes to professional working arrangements. These measures placed pressure on industrial productivity, suppressing demand for commodities, impacting global supply chains and consumption of goods and services. As a result, there was 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.

This is an ongoing global issue so Management have continued to consider the potential impact on the company at this time and review and re-assess this regularly and consider that this remains 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, although this has lessened further over 2021, the Bank does not expect demand for its services to be materially impacted to the extent it ceases to be a going concern. The Bank has assessed that business that has been impacted by Covid is starting to slowly increase so while there may continue to be some minor impact on profitability in the short term, the Bank's niche market and core product base will allow it to recover.

While the Covid-19 pandemic is not yet over the Bank has seen that the impact on its results, operations and liquidity had been minimal. Management will continue to monitor any impact that the 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.

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 2021.

Future developments

As a result of the Brexit, the Bank has been diversifying its lending portfolio away from EU corporates and will continue to do so.

While the yields from Money Market transactions are increasing as a result of the increase in the Bank of England Base Rate, it is the intention of the Bank to continue 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, 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, where possible under Brexit rules, 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.

To increase its levels of commercial lending.

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 the successful transition from its old core banking system to the new system and 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 has assessed the potential impact of climate risk on its business performing stress tests to quantify the potential impact. Given the nature of the Banks business and that the majority of this is short term, the impact has been assessed as low.

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.

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.

Re-appointment of auditors

A resolution to reappoint MHA Macintyre Hudson as the Bank's external auditors will be put to the Shareholders at the Annual General Meeting.

On behalf of the Board



Roy Recio

Director

Date: 2 December 2022

Strategic report

The Directors present their strategic report for the year ended 31 December 2021.

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

The Bank's principal activities throughout the year was in the Money Market with the provision of short term placements to banks and other financial institutions and commercial lending granted to its corporate customers to support their foreign trade transactions (export of goods to Cuba). The Bank also provided to its customers Trade Finance and Foreign Exchange operations. Commercial banking services related to cross-border 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	2021	2020
Return on investment	(1.26%)	(0.33%)
Return on assets	(0.24%)	(0.05%)
Interest coverage ratio	(2.73)	(0.235)

The Bank achieved a loss on ordinary activities before tax of £284,518 (2020: profit £117,512), however this includes the expenses associated with setting up the new core banking system which totalled £906,424 in 2020. Once these "one-off" expenses have been taken into account the figures indicate 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 activities. 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 21 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 & Risk Committee. This is relayed to the General Management for remediation actions should they be required.

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

COVID-19

Subsequent to the end of 2019 the world was hit with the COVID-19 pandemic, as a result of this the Bank reviewed its Business Continuity Plan (BCP) to ensure that it can continue to provide its services to its customers. The BCP was operational throughout the entire pandemic.

As a small Bank it is imperative that the bank has contingency cover in place should any member of staff or their families become deal.

The banks directors are pleased to be able to report that most of its customers appear to be coming through the pandemic with minimal impact on their businesses, however the Bank continues with its policy of using stringent criteria when on-boarding customers and issuing loans.

The bank implemented additional IT controls during the pandemic to combat the risk of cybercrime, these controls are regularly reviewed and where necessary updated.

The bank believes that's the pandemic has proven that its BCP enables it to continue providing its services to its customers however this will be regularly reviewed.

On behalf of the Board



Roy Recio
Director

Date: 2 December 2022

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

Independent auditors' report to the members of Havin Bank Limited

For the purpose of this report, the terms "we" and "our" denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Havin Bank Limited. For the purposes of the table on pages 11 to 13 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA MacIntyre Hudson. The "Company" is defined as Havin Bank Limited. The relevant legislation governing the Company is the United Kingdom Companies Act 2006 ("Companies Act 2006").

Opinion

We have audited the financial statements of Havin Bank Limited for the year ended 31 December 2021.

The financial statements that we have audited comprise:

- the Income Statement
- the Statement of Financial Position
- the Statement of Changes in Equity
- the Statement of Cash Flows, and
- Notes 1 to 25 of the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 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 state of the Company's affairs as at 31 December 2021 and the Company's loss 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.

Our opinion is consistent with our reporting to the Audit Committee.

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. 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 (PIEs) and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- Liquidity of the Bank and its ability to settle its outstanding liabilities as they fall due.

Independent auditor's report

to the members of Havin Bank Limited (continued)

- Financial forecasts for the Bank covering a minimum of 12 months from the date of signing the financial statements and consideration of the period beyond.
- The availability of support from the parent and the parent's ability to provide such support, in particular the financial guarantee provided by the parent.
- The impact of past and future actions by the regulatory authorities in the form of restrictions to the Bank's operations in the UK.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Banks ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Materiality	2021	2020	
Materiality	£225k	£229k	1% of the Net Assets (2020: 1% of the Bank's Net Assets).
	£11k	£11k	Threshold for reporting to those charged with governance
Key audit matters			
Recurring	<ul style="list-style-type: none"> • Valuation of loans and advances (measured at amortised cost) • Revenue recognition on interest receivable and fees commission receivable 		

The scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement. We have also considered the potential impact of climate change on the bank's operations and financial statements and the appropriateness of disclosures included in the financial statements.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, 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 matters 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report

to the members of Havin Bank Limited (continued)

Valuation of loans and advances (measured at amortised cost)

Key audit matter description	Loans and advances to banks and other financial institutions at 31 December 2021 total £83,320k (2020: £97,788k), net of impairment loss provision of nil (2020: nil).
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Loans and advances to customers at 31 December 2021 total £8,634k (2020: £7,925k), net of impairment loss provision of £239k (2020: £239k).

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. There has been no significant change in this risk from the prior year.

How the scope of our audit responded to the key audit matter	<p>Our work in this area included the following procedures to challenge the valuation of the loans and advances measured at amortised cost including:</p> <ul style="list-style-type: none"> ➤ Assessing the design and implementation of key controls over the valuation of the loans and advance 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; ➤ 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.
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Independent auditor's report

to the members of Havin Bank Limited (continued)

Key Observations	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 2021 are not materially misstated and in compliance with United Kingdom Generally Accepted Accounting Practice.
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Revenue recognition on interest receivable and fees and commission receivable

Key audit matter description	Interest receivable for the year ended 31 December 2021 was £1,613k (2020: £2,380k).
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Fees and commissions receivable for the year was £269k (2020: £433k).

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. There has been no significant change in this risk from the prior year.

How the scope of our audit responded to the key audit matter	The auditing standard presumes that this risk will usually be significant. We have not rebutted this presumption.
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Our approach focussed on:

- Assessing the design and implementation of key controls over the Bank's processes related to interest receivable and fees and commissions receivable;
- Recalculating interest receivable and 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.

Key Observations	We concluded that the revenue recognised for the year ended 31 December 2021 in connection with interest receivable and with fees and commissions receivable is not materially misstated and in compliance with United Kingdom Generally Accepted Accounting Practice.
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Independent auditor's report

to the members of Havin Bank Limited (continued)

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Materiality in respect of the bank was set at £225k (2020: £229k) which was determined on the basis of 1% (2020: 1%) of Net Assets. This was deemed to be the appropriate benchmark for the calculation of materiality as this is a key area of the financial statements with which the users of the financial statements are principally concerned.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality for the Bank was set at £135k (2020: £137k) which represents 60% (2020: 60%) of the above materiality levels.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls, and the level of misstatements arising in previous audits.

We agreed to report any uncorrected adjustments exceeding £11k to the audit committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

Reporting on other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion of the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report

to the members of Havin Bank Limited (continued)

Strategic report and directors report

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 the directors' report have been prepared in accordance with applicable legal requirements.

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 the directors' report.

Matters on which we are required to report by exception

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 by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities

Independent auditor's report

to the members of Havin Bank Limited (continued)

occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the Bank operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included provisions of the Companies Act 2006, UK tax legislation or those that had a fundamental effect on the operations of the Company including the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- Reviewing key correspondence with regulatory authorities such as the Financial Conduct Authority, Prudential Regulation Authority, and Financial Reporting Council.
- Enquiry of management to identify any instances of non-compliance with laws and regulations.
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
- Enquiry of management around actual and potential litigation and claims.
- Enquiry of management to identify any instances of known or suspected instances of fraud.
- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Reviewing minutes of meetings of those charged with governance.
- Reviewing internal audit reports.
- Reviewing the control systems in place and testing the design and implementation of the key controls.
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, and reviewing accounting estimates for bias.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular with respect to provisions for impairment of loans and amounts advanced to customers.
- Holding discussions with management to understand the process of identifying and assessing climate-related risks, the process for managing the identified risks and the determination of mitigating actions as well as the impact on the bank's financial statements.
- Our procedures also included evaluating the appropriateness of disclosures included in the financial statements and reading disclosures included in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

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

Other requirements

We were appointed by the Directors on 11 March 2022. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 years.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the company and we remain independent of the company in conducting our audit.

Independent auditor's report

to the members of Havin Bank Limited (continued)

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.

MHA MacIntyre Hudson

Rakesh Shaunak FCA

(Senior Statutory Auditor)

for and on behalf of MHA MacIntyre Hudson

Statutory Auditor

London

DATE 05 December 2022

Income statement

for the year ended 31 December 2021

Income statement

	Notes	2021 £	2020 £
Interest receivable		1,612,507	2,379,562
Interest payable		(104,074)	(294,918)
Net interest income		1,508,433	2,084,644
Fees and commissions receivable		269,558	432,560
Fees and commissions payable		(27,007)	(27,018)
Foreign exchange profits		318,954	712,995
Other operating income	3	9,512	8,957
		571,017	1,127,494
Total operating income		2,079,450	3,212,138
Administrative expenses	4	(2,227,306)	(3,144,096)
Amortisation of intangible assets	6 & 10	(83,521)	(106,215)
Depreciation of tangible fixed assets	6 & 11	(53,141)	(79,339)
		(2,363,968)	(3,329,650)
Operating profit		(284,518)	(117,512)
(Loss) on ordinary activities before tax		(284,518)	(117,512)
Tax on profit on ordinary activities	7	20,154	15,089
Total comprehensive income for the year		(264,364)	(102,423)

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 2021

Statement of financial position

	Notes	2021	2020
		£	£
Assets			
Cash and balances at central banks		25,347,880	30,319,434
Loans and advances to banks and other financial institutions	8	83,320,302	97,788,965
Loans and advances to customers	9	8,634,018	7,924,955
Intangible assets	10	484,067	567,589
Tangible fixed assets	11	1,656,490	1,707,478
Prepayments and accrued income	12	1,004,699	756,115
Other assets	13	591,406	417,860
Total Assets		121,038,862	139,482,396
Liabilities			
Deposits by banks	14	90,838,505	108,117,958
Customer accounts	15	6,927,373	7,645,058
Due to parent undertaking		200,058	202,328
Accruals and other liabilities	16	441,394	633,870
Deferred tax liability	7	122,854	110,141
Corporation tax liability	7	—	—
Total Liabilities		98,530,184	116,709,355
Called up share capital	22	22,000,000	22,000,000
Profit and loss account		508,678	773,041
Shareholders' funds		22,508,678	22,773,041
Total liabilities and equity		121,038,862	139,482,396
Memorandum items			
Irrevocable letters of credit	18	754,735	7,437

The notes on pages 22 to 43 are an integral part of these Financial Statements.

The Financial Statements on pages 18 to 43 were approved and authorised for issue by the Board of Directors on and were signed on its behalf.



Signed on behalf of the Board
Roy Recio
Director
Date: 2 December 2022

Statement of changes in equity

For the year ended 31 December 2021

Statement of changes in equity

	Called-up capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2020	22,000,000	1,375,463	23,375,463
Total comprehensive loss for the year	—	(102,423)	(102,423)
Dividend	—	(500,000)	(500,000)
At 31 December 2020	22,000,000	773,040	22,773,040
Total comprehensive loss for the year	—	(264,364)	(264,364)
At 31 December 2021	22,000,000	508,676	22,508,676

Statement of cash flows

for the year ended 31 December 2021

Statement of cash flows

	Notes	2021 £	2020 £
Cash outflows from operating activities	20(a)	(13,679,377)	(9,664,135)
Investing activities			
Interest received		1,590,087	2,562,060
Payments to acquire intangible assets		–	(17,840)
Payments to acquire tangible fixed assets		(2,152)	(6,022)
Net cash inflows from investing activities		<u>1,587,935</u>	<u>2,538,198</u>
Financing activities			
Interest paid		(106,956)	(358,410)
Dividend paid		–	(500,000)
Net cash (outflows) from financing activities		<u>(106,956)</u>	<u>(858,410)</u>
 Increase in cash and cash equivalents		 (12,198,398)	 (7,984,347)
Cash and cash equivalents at 1 January		<u>55,832,925</u>	<u>63,817,272</u>
Cash and cash equivalents at 31 December	20(b)	<u>43,634,527</u>	<u>55,832,925</u>

Notes to the financial statements

at 31 December 2021

Notes to the financial statements

1. Accounting policies

Company information

Havin Bank Limited is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom and is limited by shares. The Registered Office is 4th Floor, 77 Marsh Wall, London E14 9SH.

Basis of preparation

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 2021.

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.

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.

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 seven 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.

Notes to the financial statements

at 31 December 2021

1. Accounting policies (continued)

- 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. Customers are been kept updated with any changes within the Bank that may impact them. While not necessarily expecting the business to grow throughout 2021, the Bank does not expect to see major loses as a consequence of this pandemic. As most countries start to ease their restrictions the Bank expects profits to be made throughout 2021. 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.
 - During the continuation of these unprecedented times the Bank believes that the BCP it has put in place will enable it to continue to provide its services to its customers but will continue to review this and where necessary make amendments.

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, although this has lessened over the past year, the Bank does not expect demand for its services to be materially impacted to the extent it ceases to be a going concern because in fact areas of business that had slowed during 2020 have started to pick up. The Bank has assessed that while there may continue to be some minor impact on profitability in the short term, the Bank's niche market and core product base will allow it to recover.
- While the COVID-19 pandemic is not yet over the Bank has seen that the impact on its results, operations and liquidity had been minimal. Management will continue to monitor any impact that the 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.

Notes to the financial statements

at 31 December 2021

1. Accounting policies (continued)

Monetary assets and liabilities denominated in foreign currencies are converted at the functional currency rate ruling at the reporting 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 converted using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are converted 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. 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 26.

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. These instruments have been classified as "loans and receivables" for measurement purposes under IAS 39. 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.

Notes to the financial statements

at 31 December 2021

1. Accounting policies (continued)

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.

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. These instruments have been classified as "financial liabilities at amortised cost" under IAS 39. 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.

Fixed assets depreciation

Depreciation is provided on all tangible and intangible assets, at rates calculated to write-off the cost of each asset evenly over its expected useful life, as follows:

Long term leasehold	-	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

s are recorded at cost less depreciation and impairment (where applicable).

Notes to the financial statements

at 31 December 2021

1. Accounting policies (continued)

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 reporting 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 and laws enacted or substantively enacted at the reporting date or that are expected to apply in the periods in which timing differences are adjusted.

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 in 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.

Notes to the financial statements

at 31 December 2021

3. Other operating income

	2021 £	2020 £
Trustee fees	9,512	8,957
	<u>9,512</u>	<u>8,957</u>

4. Administrative expenses

	2021 £	2020 £
Staff costs		
Wages and salaries	844,631	818,655
Social security costs	83,677	74,841
Pension costs	44,036	44,089
	<u>972,344</u>	<u>937,635</u>
Premises costs	228,281	247,053
Legal and professional fees	215,547	219,643
Computer, systems and communications costs	323,737	518,358
Core Banking System costs	165,407	906,424
Other costs	321,991	314,983
	<u>1,254,962</u>	<u>2,206,461</u>
	<u>2,227,306</u>	<u>3,144,096</u>
	2021 No.	2020 No.
Average monthly number of employees during the year	<u>17</u>	<u>17</u>

5. Directors' emoluments

	2021 £	2020 £
Aggregate emoluments	<u>252,996</u>	<u>267,580</u>
	2021 £	2020 £
The amount paid in respect of the highest paid Director is as follows:		
Emoluments	<u>74,000</u>	<u>74,000</u>

Notes to the financial statements

at 31 December 2021

6. Operating profit

This is stated after charging the following excluding VAT:

	2021 £	2020 £
Auditors' remunerations		
– audit services	75,000	65,500
– non-audit services (Client Assets Assurance engagement)	3,500	3,500
Taxation services		
– compliance	15,000	15,000
Amortisation of owned intangible assets	83,521	79,339
Depreciation of owned tangible fixed assets	53,141	106,215
Operating lease rental – land and buildings	105,766	105,766

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2021 £	2020 £
UK corporation tax		
UK corporation tax on profits of the year	(31,471)	8,167
Adjustments in respect of previous periods	(1,397)	(109,083)
Current tax charge for the period	(32,868)	(100,916)
Deferred tax		
Origination and reversal of timing differences	(18,283)	(25,991)
Adjustments in respect of prior periods	1,512	97,488
Effect of changes in tax rates	29,485	14,330
	12,714	85,827

As of 31 December 2021, there is a corporation tax asset of £93,014 which has been disclosed in the statement of financial position.

(b) The tax charge for the year is lower than the standard rate of corporation tax in the UK. The current tax rate being 19% (2020: 19%). The differences are reconciled below:

	2021 £	2020 £
Profit on ordinary activities before taxation	(284,518)	(117,512)
Profit on ordinary activities before taxation multiplied by UK rate of 19.00% (2020: 19.00%). The differences are reconciled below:	(54,058)	(22,327)
Effect of:		
Expenses not deductible	4,305	4,503
Adjustments in respect of prior periods	115	(11,595)
Tax rate change	29,485	14,330
Non-qualifying depreciation	–	–
Roundings	(1)	–
	(20,154)	(15,089)

The effective tax rate for the year 2021 is 7.08% (2020: 12.84%).

Notes to the financial statements

at 31 December 2021

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:

	2021 £	2020 £
Included in other liabilities	<u>(122,854)</u>	<u>(110,141)</u>
Accelerated capital allowances	<u>(122,854)</u>	<u>(110,141)</u>
Deferred tax liability	<u>(122,854)</u>	<u>(110,141)</u>
Deferred tax liability at start of year	(110,141)	(24,314)
Deferred tax (charge)/credit in respect of the current year	18,283	25,991
Adjustments in respect of prior periods	(1,511)	(97,488)
Effect of rate change	<u>(29,485)</u>	<u>(14,330)</u>
Deferred tax liability at end of year	<u>(122,854)</u>	<u>(110,141)</u>

8. Loans and advances to banks and other financial institutions

	2021 £	2020 £
Repayable:		
– within three months	73,320,302	87,788,965
– between three months and one year	<u>10,000,000</u>	<u>10,000,000</u>
	<u>83,320,302</u>	<u>97,788,965</u>

The aggregate amount of all loans and advances to banks and other financial institutions repayable on demand is £18,286,647 (2020: £25,513,491). The amount of impaired or past due loans and advances to banks and other financial institutions is £nil (2020: £nil). There is no specific or collective provision for loan losses.

9. Loans and advances to customers

	2021 £	2020 £
Repayable:		
– impaired	238,799	238,799
– past due	369,139	84,685
– within three months	1,707,498	1,702,837
– between three months and one year	2,441,092	5,410,884
– between one and 5 years	4,116,289	726,549
Total before impairment provision	8,872,817	8,163,754
Impairment losses on loans and advances	(238,799)	(238,799)
Total after impairment provision	8,634,018	7,924,955

Impairment losses on loans and advances

	2021 £	2020 £
As at 1 January	<u>238,799</u>	<u>238,799</u>
As at 31 December	<u>238,799</u>	<u>238,799</u>

Notes to the financial statements

at 31 December 2021

9. Loans and advances to customers (continued)

The aggregate amount of all loans and advances to customers that are repayable on demand is £nil (2020: £nil). The amount of impaired or past due loans to customers is £607,938 (2020: £323,484). The fully impaired amount is £238,799 (2020: £238,799) and has been fully provided for as a specific loan impairment loss provision. The past due amount is £369,139 (2020: £84,685) for which no provision was made as these loans were rescheduled for repayment during May 2022 to February 2024. There is no collective provision for loan losses in either 2021 or 2020.

10. Intangible assets

	Computer Software	Core Banking System	Regulatory Reporting Software	Total
	£	£	£	£
Cost:				
As at 31 December 2020	<u>208,636</u>	<u>572,542</u>	<u>166,500</u>	<u>947,678</u>
As at 31 December 2021	<u>208,636</u>	<u>572,542</u>	<u>166,500</u>	<u>947,678</u>
Depreciation:				
As at 31 December 2020	190,760	57,254	132,075	380,089
Charge for the year	<u>1,967</u>	<u>57,254</u>	<u>24,300</u>	<u>83,521</u>
As at 31 December 2021	<u>192,727</u>	<u>114,508</u>	<u>156,375</u>	<u>463,610</u>
Net book value				
As at 31 December 2020	<u>17,876</u>	<u>515,288</u>	<u>34,425</u>	<u>567,589</u>
As at 31 December 2021	<u>15,909</u>	<u>458,034</u>	<u>10,125</u>	<u>484,067</u>

Notes to the financial statements

at 31 December 2021

11. Tangible fixed assets

	Computer equipment £	Leasehold improvements £	Long leasehold property £	Furniture/ equipment and vehicles £	Total £
Cost:					
As at 31 December 2020	97,458	211,656	1,667,959	187,427	2,164,500
Additions	2,152	–	–	–	2,152
As at 31 December 2021	<u>99,610</u>	<u>211,656</u>	<u>1,667,959</u>	<u>187,427</u>	<u>2,166,652</u>
Depreciation:					
As at 31 December 2020	89,974	90,710	100,724	175,614	457,022
Charge for the year	4,877	21,343	15,814	11,107	53,141
As at 31 December 2021	<u>94,850</u>	<u>112,053</u>	<u>116,538</u>	<u>86,721</u>	<u>510,162</u>
Net book value					
As at 31 December 2020	7,484	120,946	1,567,235	11,812	1,707,478
As at 31 December 2021	<u>4,760</u>	<u>99,603</u>	<u>1,551,421</u>	<u>706</u>	<u>1,656,490</u>

12. Prepayments and accrued income

	2021 £	2020 £
Accrued interest receivable	262,187	239,767
Prepayments	<u>742,512</u>	<u>516,348</u>
	<u>1,004,699</u>	<u>756,115</u>

13. Other assets

	2021 £	2020 £
Current tax assets	93,014	60,146
Debtors	498,392	356,473
Loans and advances to employees	<u>–</u>	<u>1,241</u>
	<u>591,406</u>	<u>417,860</u>

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

	2021 £	2020 £
Repayable:		
– within three months	<u>–</u>	<u>1,241</u>
	<u>–</u>	<u>1,241</u>

The aggregate amount of all loans and advances to employees that are repayable on demand is £nil (2020: £nil). The amount of impaired or past due loans and advances to employees is £nil (2020: £nil).

Notes to the financial statements

at 31 December 2021

14. Deposits by banks

	2021 £	2020 £
Repayable:		
– within three months	21,838,505	49,117,958
– between three months and one year	69,000,000	59,000,000
	<u>90,838,505</u>	<u>108,117,958</u>
Amounts include		
– due to related parties	<u>111,268</u>	<u>64,972</u>

The aggregate amount of deposits by banks that are repayable on demand is £6,464,229 (2020: £12,637,982).

15. Customer accounts

	2021 £	2020 £
Repayable:		
– within three months	6,927,373	7,645,058
	<u>6,927,373</u>	<u>7,645,058</u>

The aggregate amount of customer accounts which is repayable on demand is £6,927,373 (2020: £7,444,986).

16. Accruals and other income

	2021 £	2020 £
Accrued interest payable	9,151	12,033
Others	432,243	621,837
	<u>441,394</u>	<u>633,870</u>

17. Share capital

	2021 £	2020 £
Authorised		
250,000 ordinary shares of £100 each	<u>25,000,000</u>	<u>25,000,000</u>
Allotted called up and fully paid		
220,000 ordinary shares of £100 each (2020: 220,000)	<u>22,000,000</u>	<u>22,000,000</u>
	Ordinary shares issued and fully paid	
	2021	2020
1 January	<u>220,000</u>	<u>220,000</u>
31 December	<u>220,000</u>	<u>220,000</u>

Notes to the financial statements

at 31 December 2021

18. Contingent liabilities and commitments

	2021 £'000	2020 £'000
Contingent liabilities		
Irrevocable letters of credit	754,735	7,437

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 21.

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 £754,735 (2020: £7,437) for irrevocable letters of credit.

19. Obligations under leases

	2021 £	2020 £
Operating leases due		
– within one year	125,490	119,940
– between one year and five years	378,385	477,960
	<u>503,875</u>	<u>742,051</u>

The banks only obligations under leases are in respect of its leased office premises.

20. 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:

	2021 £	2020 £
Loss on ordinary activities before tax	(284,518)	(117,512)
Adjustments to reconcile profit for the year to net cash flow from operating activities		
Interest receivable	(1,612,507)	(2,379,562)
Interest payable	104,074	294,918
Depreciation of intangible assets	83,522	106,215
Depreciation of tangible fixed assets	53,140	79,339
Net decrease in deposit by banks, customers and parent undertaking	(17,999,408)	(21,746,080)
Net decrease in loans to banks, customers and employees and in deposits with central banks	6,533,997	15,085,706
Working capital movements		
Increase in prepayments	(368,083)	(360,555)
Decrease in accruals and deferred income	(189,594)	(573,797)
Taxation		
Corporation tax paid - including tax paid in advance	–	(53,007)
Net Cash outflow from operating activities	<u>(13,679,377)</u>	<u>(9,664,135)</u>

Notes to the financial statements

at 31 December 2021

20. Cash inflow from operating activities and movement in cash and cash equivalents (continued)

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

	2021 £	2020 £
Cash and balances at central banks	25,347,880	30,319,434
Loans and advances to other banks repayable on demand	18,286,647	25,513,491
	<u>43,634,527</u>	<u>55,832,925</u>

21. 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, market risk and concentration 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 2021, 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.

Notes to the financial statements

at 31 December 2021

21. Financial instruments (continued)

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 2021 (2020: 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 2021 (2020: £238,799), which is fully provided for as of 31 December 2021 and 2020, there are no other facilities in default or impaired in 2021 (2020: nil).

The Bank's maximum exposure is £117,564,387 (2020: £136,274,362). Where possible the Bank mitigates its exposure by taking cash collateral.

2021	Maximum Exposure	Collateral	Net Exposure to
Cash and balances at central banks	25,347,880	–	25,347,880
Loans and advances to banks and other financial institutions	83,320,302	15,374,275	67,946,027
Loans and advances to customers	8,634,018	138,621	8,495,397
Accrued income	262,187	–	262,187
Other assets	591,406	–	591,406
Total Exposure	118,155,793	15,512,896	102,642,898

2020	Maximum Exposure	Collateral	Net Exposure to Credit
Cash and balances at central banks	30,319,434	–	30,319,434
Loans and advances to banks and other financial institutions	97,788,965	16,455,360	81,333,605
Loans and advances to customers	7,924,955	200,072	7,724,883
Accrued	239,767	–	239,767
Other assets	1,241	–	1,241
Total Exposure	136,274,362	16,455,360	119,618,930

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 full provision against this item has been made.

Notes to the financial statements

at 31 December 2021

21. Financial instruments (continued)

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate because of changes in market rates. Market risk comprises foreign exchange risk, 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

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	
	2021 £'000	2020 £'000
UK	87,510	97,359
Cuba	17,534	16,635
Spain	5,524	15,107
Portugal	1,382	2,150
Italy	–	753
Other Europe	381	46
Canada	2,075	2,151
Panama	2,815	1,347
Brazil	–	300
Others	82	176
	<u>117,303</u>	<u>136,024</u>

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

Central Bank	25,340	30,310
Banks	61,532	67,870
Building Societies	21,788	29,919
Corporates	8,643	7,925
	<u>117,303</u>	<u>136,024</u>

The Bank's unique relationship with Cuba also means that a large proportion of its liabilities originate from Cuba, specifically one counterparty in 2021 that represents 88.01% (2020: 85.6%) of total deposits. The relationship with this counterparty is strong and these funds have been placed with the Bank in a stable manner since 2012.

Notes to the financial statements

at 31 December 2021

21. Financial instruments (continued)

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.

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 2021

21. Financial instruments (continued)

2021	Interest Bearing					Non-financial assets / liabilities	Total
	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		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	25,340	–	–	–	8	–	25,348
Loans and advances to banks	54,964	10,000	–	–	18,356	–	83,320
Loans and advances to customers	1,708	941	1,499	4,116	369	–	8,633
Accrued income	–	–	–	–	–	262	262
Total financial assets	82,012	10,941	1,499	4,116	18,733	262	117,563
Deposits by banks	15,374	10,000	49,000	–	16,465	–	90,839
Customer accounts	–	–	–	–	6,927	–	6,927
Due to parent undertaking	–	–	–	–	202	–	202
Accruals	–	–	–	–	–	9	9
Total financial liabilities	15,374	10,000	49,000	–	23,594	9	97,977
Interest rate sensitivity gap	66,638	,941	(47,501)	4,116	(4,861)	253	19,586
Cumulative gap	66,638	67,579	20,078	24,194	19,333	19,586	

Notes to the financial statements

at 31 December 2021

21. Financial instruments (continued)

Interest rate sensitivity analysis (continued)

2020	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	30,310	—	—	—	9	—	30,319
Loans and advances to banks	62,276	—	10,000	—	25,513	—	97,789
Loans and advances to customers	1,787	602	4,809	727	—	—	7,925
Accrued income	—	—	—	—	—	240	240
Other assets	1	—	—	—	—	—	1
Total assets	94,374	602	14,809	727	25,522	240	136,274
Deposits by banks	36,483	—	59,000	—	12,635	—	108,118
Customer accounts	200	—	—	—	7,445	—	7,645
Due to parent undertaking	—	—	—	—	202	—	202
Accruals	—	—	—	—	—	12	12
Total liabilities	36,683	—	59,000	—	20,282	12	115,977
Interest rate sensitivity gap	57,691	602	(44,191)	727	5,240	228	20,297
Cumulative gap	57,691	58,293	14,102	14,829	20,069	20,297	

Notes to the financial statements

at 31 December 2021

21. Financial instruments (continued)

Maturity Analysis

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

2021

	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	25,348	–	–	–	–	25,348
Loans and advances to banks	73,320	10,000	–	–	–	83,320
Loans and advances to customers	2,077	941	1,499	4,116	–	8,633
Accrued income	262	–	–	–	–	262
Other assets	–	–	–	–	–	–
Total financial assets	101,007	10,941	1,499	4,116	–	117,563
Deposits by banks	31,839	10,000	49,000	–	–	90,839
Customer accounts	6,927	–	–	–	–	6,927
Due to parent undertaking	202	–	–	–	–	202
Accruals	9	–	–	–	–	9
Total financial liabilities	38,977	10,000	49,000	–	–	97,977
Maturity gap	62,030	941	(47,501)	4,116	–	19,586
Cumulative gap	62,030	62,971	15,470	19,586	19,586	

Notes to the financial statements

at 31 December 2021

21. Financial instruments (continued)

Maturity Analysis (continued)

2020

	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	30,319	–	–	–	–	30,319
Loans and advances to banks	87,789	–	10,000	–	–	97,789
Loans and advances to customers	1,887	602	4,809	727	–	7,925
Accrued income	240	–	–	–	–	240
Other assets	1	–	–	–	–	1
Total assets	120,136	602	14,809	727	–	136,274
Deposits by banks	49,118	–	59,000	–	–	108,118
Customer accounts	7,645	–	–	–	–	7,645
Due to parent undertaking	202	–	–	–	–	202
Accruals and deferred income	12	–	–	–	–	12
Total liabilities	56,977	–	59,000	–	–	115,977
Maturity gap	63,159	602	(44,191)	727	–	20,297
Cumulative gap	63,159	63,761	19,570	20,297	20,297	

Notes to the financial statements

at 31 December 2021

21. 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		
	5%	10%	15%
2021	£	£	£
EUR	(7,861)	(15,723)	(23,584)

	Effect on profit before tax		
	5%	10%	15%
2020	£	£	£
EUR	(5,063)	(10,132)	(15,197)

22. 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 2021

22. 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.

	2021	2020
Core tier one capital	£	£
Share Capital	22,000,000	22,000,000
Reserves	508,676	870,529
Total Tier One Capital	22,508,676	22,870,529

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

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:

<i>Name of Company</i>	<i>Proportion of voting rights and shares held</i>
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: £311,326 (2020: current accounts/vostros £267,300).

24. Country by country reporting (CBCR)

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

25. Post balance sheet events

There are post balance sheet events.