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Havin Bank Limited
(formerly Havana International Bank Limited)

Report and Financial Statements

31 December 2005



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COMPANIES HOUSE

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16/08/2006

Registered No: 1074897

Directors

M Abdo (Chairperson)
T Lorenzo (Managing Director)
A Victoria
G Roca
D Teacher (resigned 31 January 2006)
N Martinez
G Gil

Secretary

D Teacher
TSS Law
37-41 Bedford Row
London WC1R 4JH

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

5th floor
30 Marsh Wall
London E14 9TP

Chairperson's report

In 2005, we remarked that a principal objective of the Bank was to broaden its scope of activities, including the joint development of new business initiatives with Banco de Inversiones S.A. and other institutions. We were confident that the exceptional issues of the last few years had been left behind us.

Now, as we report on the results for 2005, it is possible to confirm those expectations.

The successful sale of the commercial loan portfolio during 2005, which has reduced the level of credit risk, and the considerable reduction of the deficit on reserves due to the achievement of planned profits have created a stable platform for the future success of the Bank.

In 2006 we have a new starting point. Our shareholders have changed the Bank's former name and since this year the Bank has been registered as Havin Bank Limited. This marks the start of a new relationship with the shareholders.

Havin Bank Limited shall open to other foreign banks and financial community the wide possibilities which its customers offers; principally those as: good performance and profits.

Havin Bank Ltd in 2006 must be able to grow not in size nor in capital but in dynamism and high quality advisory services to its customers. Nowadays, it is very important in the real finance world to meet well identified counterparties and to have transparency deals.

The Bank must place its customer's flows in more efficient and safe deals, maximizing profits and structuring innovative transactions. But to advance in such way Havin Bank needs to develop enhanced relationships with more expert financial institutions and to develop its own capabilities. The management of Havin Bank must continually improve its knowledge on the latest modern financial techniques as well as global Basel II principles for a prosperous banking activity.

Michelle Abdo

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2005.

Results

In 2005 the Bank achieved a profit on ordinary activities before tax of £247,416 (2004 - £262,730).

Dividend

No dividend has been paid or proposed for the 2005 financial year.

Principal activities and review of the business

The bank's principal activities throughout the year were the provision of loans, including trade financing, 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 identification and management of financial risk is a high priority and underpins all the bank's business activity. The Board requires that General Management maintains an appropriate system of internal controls including establishing key control processes and practices, such as limit structures, provisioning policy and reporting requirements and reviews its effectiveness.

The Internal Auditor is responsible for the independent review of risk management and the control environment.

The financial risk management of the bank during the year is set out in note 20 to the financial statements.

Post balance sheet event

On 1 January 2006, the bank changed its name from Havana International Bank Limited to Havin Bank Limited.

Future developments

During 2005 the bank took important steps to develop new financial relationships and it has become involved in the promotion of investment business in accordance with the shareholders' directive.

Throughout 2006 the bank will gradually become more involved in the London market specialising in investment business.

Early adoption of FRS 25 and FRS 26

In order to meet best accounting practice and provide the fullest disclosure possible the directors have adopted FRS 25: Financial Instruments Disclosure and Presentation and FRS 26: Financial instruments Recognition and Measurement in the preparation of these financial statements.

Fixed assets

Details of the company's fixed assets are shown in note 12 to the financial statements.

Directors and their interests

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

M Abdo	(Chairperson)
T Lorenzo	(Managing Director)
A Victoria	
G Roca	
D Teacher	
N Martinez	
G Gil	

The directors at 31 December 2005 had no interests in the share capital of the company.

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the members at the Annual General Meeting.

By order of the board



Secretary

Date:

28/3/06

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Havin Bank Limited (formerly Havana International Bank Limited)

We have audited the company's financial statements of for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Chairperson's Report and Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP

Registered Auditor

London

Date: 28 March 2006

Profit and loss account

for the year ended 31 December 2005

	Notes	2005 £	2004 £
Interest receivable:			
Interest income arising from debt securities		3,356	—
Other interest income	2	2,414,494	1,930,529
		<u>2,417,850</u>	<u>1,930,529</u>
Interest payable		(1,169,633)	(574,403)
Net interest income		<u>1,248,217</u>	<u>1,356,126</u>
Fees and commissions receivable		215,364	317,446
Fees and commissions payable		(35,130)	(74,207)
Dealing profits		123,027	142,171
Other operating income	3	6,661	17,111
		<u>309,922</u>	<u>402,521</u>
Total operating income		<u>1,558,139</u>	<u>1,758,647</u>
Administrative expenses	4	(1,275,673)	(1,691,627)
Depreciation of tangible fixed assets		(36,922)	(37,205)
		<u>(1,312,595)</u>	<u>(1,728,832)</u>
Operating profit	5	245,544	29,815
Profit on sale of tangible fixed assets		1,872	232,915
		<u>247,416</u>	<u>262,730</u>
Profit on ordinary activities before tax		<u>247,416</u>	<u>262,730</u>
Tax on profit on ordinary activities	7	(88,221)	(46,971)
		<u>159,195</u>	<u>215,759</u>
Profit retained for the financial year	22	<u>159,195</u>	<u>215,759</u>

Statement of total recognised gains and losses

for the year ended 31 December 2005


	Note	2005 £	2004 £
Profit retained for the financial year		159,195	215,759
Unrealised gain on equity investment		—	2,647
Release of general provision for bad debts	18	100,000	—
		<u>259,195</u>	<u>218,406</u>
Total recognised gains and losses		<u>259,195</u>	<u>218,406</u>

Balance sheet

at 31 December 2005

	Notes	2005 £	2004 £
Assets			
Cash and balances at central banks		6,660	9,284
Loans and advances to banks	8	61,794,935	33,513,440
Loans and advances to customers	9	5,013,058	6,706,031
Debt securities	10	580,855	—
Equity investments	11	22,250	49,577
Tangible fixed assets	12	512,295	525,756
Prepayments and accrued income		285,710	359,219
Other assets	13	70,521	158,742
Total assets		68,286,284	41,322,049
Liabilities			
Deposits by banks	15	37,641,320	16,083,378
Customer accounts	16	8,363,505	4,612,446
Due to parent undertaking		5,829,412	4,369,163
Accruals and deferred income		186,661	143,596
Provisions for liabilities and charges	18	—	100,000
Loans	19	326,516	333,791
		52,347,414	25,642,374
Called up share capital	21	16,000,000	16,000,000
Profit and loss account	22	(61,130)	(320,325)
		15,938,870	15,679,675
Total liabilities		68,286,284	41,322,049
Memorandum items			
Guarantees and assets pledged as collateral security		34,926	35,469
		34,926	35,469
Commitments			
Other commitments		53,255	—

Director

 TOMMASO LORENZINI

Date: 28/03/06

Statement of cash flows

for the year ended 31 December 2005

	Notes	2005 £	2004 £
Cash outflow from operating activities	14(a)	12,076,192	2,283,188
Taxation			
UK corporation tax paid		—	(152,768)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(23,461)	(14,942)
Receipts from sale of tangible fixed assets		1,872	353,500
Payments to acquire investments		—	(46,930)
Receipts from sale of investments		30,179	—
Payment to acquire debt securities		(580,855)	—
Net cash inflow from investing activities		572,265	291,628
Increase in cash	14(b)	11,503,927	2,422,048

Notes to the financial statements

at 31 December 2005

1. Accounting policies

Accounting convention

A summary of the principal accounting policies, which have been consistently applied by the company throughout the year and the preceding year are set out below.

Basis of preparation and change in accounting policy

The financial statements are prepared under the historical cost convention and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies, and applicable accounting standards.

Early adoption of FRS 25 and FRS 26

From 1 January 2005, the bank has implemented all the provisions of FRS 25 "Financial Instruments: Disclosure and Presentation" ("FRS 25") and FRS 26 "Financial Instruments: Measurement" ("FRS 26") in these financial statements.

The effect of the early adoption of FRS 26 has been the release of general provision for bad debts of £100,000, refer to Note 22. The bank has not restated to the comparative information as allowed under the transition arrangements of FRS 25 and FRS 26.

Depreciation and amortisation

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

Leasehold land and buildings	-	over the lease term
Furniture and office equipment	-	over 5 years
Computer equipment	-	over 3 years
Motor vehicles	-	over 4 years
Computer software	-	over 2 years

The carrying value of tangible fixed assets is reviewed for impairment, when events or changes in circumstances indicate the carrying value may not be recoverable. The leasehold land and buildings are not revalued at year end.

Equity investments

Equity investments are classified as held for trading and are acquired for the purpose of selling in the near term. The investments are stated in the balance sheet at fair value. Gains or losses on investments held for trading are recognised in the profit and loss.

Debt securities

Debt securities are classified as held to maturity and the bank has the intention and ability to hold to maturity. The investments are carried out at amortised cost, gains and losses are recognised in the profit and loss when the investments are derecognised or impaired, as well as through the amortisation process.

Notes to the financial statements

at 31 December 2005

1. Accounting policies

Foreign currencies

Foreign currency balances are translated to sterling at the approximate rates ruling at the balance sheet date.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Forward contracts which are outstanding at the balance sheet date are marked to market, except those transactions held for hedging purposes which are valued on an equivalent basis to the assets, liabilities or positions hedged.

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 exceptions:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing

Rentals paid under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Interest income

Interest income is recognised in the profit and loss account as it accrues.

Fees and commissions

Front end fees and commissions receivable for the continuing service of advances are recognised on the basis of work done. Other fees are recognised as received.

Provisions for bad and doubtful debts and contingencies

Specific provisions against bad and doubtful debts are made on the basis of regular reviews of exposures and deducted from the relevant asset.

Pensions

Contributions to the defined contribution pension scheme are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

2. Segmental analysis

In the opinion of the directors, the company has only one class of business being commercial banking and all transactions originate in the United Kingdom.

Notes to the financial statements

at 31 December 2005

3. Other operating income

	2005	2004
	£	£
Gains on sale of equity investments	2,714	—
Dividend income	1,040	—
FX Translation (losses)/gains	(2,586)	8,694
Increase in fair value of equity investments	2,784	—
Others	2,709	8,417
	<u>6,661</u>	<u>17,111</u>

4. Administrative expenses

	2005	2004
	£	£
Staff costs:		
Wages and salaries	580,525	702,076
Social security costs	66,511	61,419
Pension costs	56,016	73,773
	<u>703,052</u>	<u>837,268</u>
Other administrative expenses	572,621	854,359
	<u>1,275,673</u>	<u>1,691,627</u>

	2005	2004
	No.	No.
Average number of employees during the year	<u>17</u>	<u>19</u>

5. Operating profit

This is stated after charging:

	2005	2004
	£	£
Auditors' remuneration - audit services	48,500	48,500
- non-audit services	9,665	24,500
Depreciation of owned fixed assets	<u>36,922</u>	<u>37,206</u>

Notes to the financial statements

at 31 December 2005

6. Directors' emoluments

	2005	2004
	£	£
Aggregate emoluments	171,250	138,854

	2005	2004
	£	£
The amount paid in respect of the highest paid director is as follows: Emoluments	62,250	60,000

No pension benefits were paid to directors during the year.

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge/(credit) is made up as follows:

	2005	2004
	£	£
UK corporation tax		
UK corporation tax on profits of the year	—	(52,757)
Adjustments in respect of previous periods	10,913	20,114
Current tax charge for the year (note 7(b))	10,913	(32,643)
Deferred tax		
Origination and reversal of timing differences	77,308	79,614
	88,221	46,971

(b) Factors affecting the tax charge/(credit) for the year of corporation tax in the UK. The differences are explained below:

	2005	2004
	£	£
Profit on ordinary activities before tax	247,416	262,730
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 – 30%)	74,225	78,819
Effect of:		
Disallowed expenses and non-taxable income	5,743	(67,893)
Capital allowances in excess of depreciation	(2,451)	(1,746)
Relief for pension contributions	(78,000)	(78,000)
Losses arising in the year to be carried forward	483	—
Adjustments in respect of previous periods	10,913	20,114
Capital gains	—	16,063
Current tax charge for the year	10,913	(32,643)

Notes to the financial statements

at 31 December 2005

7. Tax on profit on ordinary activities (continued)

(c) Deferred tax

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

	2005 £	2004 £
Included in other assets (note 13)	18,784	96,092
Accelerated capital allowances	18,301	18,092
General provisions	—	78,000
Losses	483	—
Deferred tax asset	18,784	96,092
Deferred tax asset at start of year	96,092	175,706
Deferred tax credit in profit and loss for year	(79,968)	(79,746)
Adjustments in respect of prior year	2,660	132
Deferred tax asset at end of year	18,784	96,092

8. Loans and advances to banks

	2005 £	2004 £
Repayable:		
- within three months	50,191,035	21,011,797
- between three months and one year	11,603,900	12,501,643
	61,794,935	33,513,440
Amounts include:		
- due from related parties	6,712,500	3,683,250

The aggregate amount of all loans and advances, which are repayable on demand, is £19,632,004 (2004 - £8,128,305).

Notes to the financial statements

at 31 December 2005

9. Loans and advances to customers

	2005	2004
	£	£
Repayable:		
- within three months	1,651,139	1,455,784
- between three months and one year	3,361,919	5,246,341
- between one and five years	—	3,906
	<u>5,013,058</u>	<u>6,706,031</u>

The aggregate amount of all loans and advances to customers, which are repayable on demand, is £31,745 (2004 - £66,786).

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

10. Debt securities

	2005	2004
	£	£
Unlisted bonds	580,855	—
	<u>580,855</u>	<u>—</u>

The bond was issued by Banco Central de Cuba which is the parent entity. The bond will mature in 2006.

In the opinion of the directors, the book value of the bond is not materially different from the market value.

11. Equity investments

	2005	2004
	£	£
Listed investments at fair value	22,250	49,577
	<u>22,250</u>	<u>49,577</u>
	£	
At cost:		
At 1 January 2005	46,930	
Disposals	(27,465)	
	<u>19,465</u>	
At 31 December 2005	<u>19,465</u>	

Notes to the financial statements

at 31 December 2005

12. Fixed assets

	<i>Computer equipment</i>	<i>Computer software</i>	<i>Short leasehold property and improvements</i>	<i>Long leasehold property and improvements</i>	<i>Furniture/ equipment and vehicles</i>	<i>Total</i>
	£	£	£	£	£	£
Cost:						
At 31 December 2004	72,811	19,161	37,666	462,217	147,830	739,685
Additions	5,257	17,867	—	—	337	23,461
Disposals	(3,412)	—	—	—	(36,119)	(39,531)
At 31 December 2005	74,656	37,028	37,666	462,217	112,048	723,615
Depreciation:						
At 31 December 2004	56,588	10,337	8,863	2,385	135,756	213,929
Charge for the year	13,365	12,670	3,798	1,275	5,814	36,922
Disposals	(3,412)	—	—	—	(36,119)	(39,531)
At 31 December 2005	66,541	23,007	12,661	3,660	105,451	211,320
Net book value:						
At 31 December 2005	8,115	14,021	25,005	458,557	6,597	512,295
At 31 December 2004	16,223	8,824	28,803	459,832	12,074	525,756

13. Other assets

	<i>2005</i>	<i>2004</i>
	£	£
Corporation tax – payments on account	51,737	62,650
Deferred tax asset (see note 7 (c))	18,784	96,092
	70,521	158,742

Notes to the financial statements

at 31 December 2005

14. Movement in cash balances

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

	2005	2004
	£	£
Operating profit	245,544	29,815
Depreciation	36,922	37,205
Release of provision	–	(1,320,000)
Decrease in interest receivable and prepaid expenses	73,510	39,429
Increase in interest payable and accrued expenses	43,066	16,794
Net cash inflow/(outflow) from trading activities	399,042	(1,196,757)
Net increase in deposits by banks and customers	26,761,975	5,245,398
Net increase in loans to banks and customers	(15,084,825)	(1,765,453)
	11,677,150	3,479,945
Net cash inflow from continuing operating activities	12,076,192	2,283,188

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

	1 January 2005	Change in year	31 December 2005
	£	£	£
Cash and balances at central banks	9,284	(2,624)	6,660
Loans and advances to other banks repayable on demand	8,128,305	11,506,551	19,634,856
	8,137,589	11,503,927	19,641,516

15. Deposits by banks

	2005	2004
	£	£
Repayable:		
- within three months	37,066,320	14,012,984
- between three months and one year	575,000	2,070,394
	37,641,320	16,083,378
Amounts include:		
- due to related parties	3,146,630	937,140

The aggregate amount of customer accounts which is repayable on demand is £26,510,863 (2004 - £12,252,002).

Notes to the financial statements

at 31 December 2005

16. Customer accounts

	2005	2004
	£	£
Repayable:		
- within three months	1,001,997	3,192,437
- between three months and one year	4,244,919	1,420,009
- more than one year	3,116,589	-
	<u>8,363,505</u>	<u>4,612,446</u>

The aggregate amount of customer accounts which is repayable on demand is £712,239 (2004 - £1,811,570).

17. Obligations under leases

Commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings</i>	
	2005	2004
	£	£
Operating leases due:		
Within one year	120,698	120,698
In two to five years	482,792	482,792
In over five years	201,163	321,861
	<u>804,653</u>	<u>925,351</u>

18. Provisions for liabilities and charges

General provision for bad debts

	£
At 1 January 2005	100,000
Release for the year (note 22)	(100,000)
	<u>-</u>
At 31 December 2005	<u>-</u>

Notes to the financial statements

at 31 December 2005

19. Loans

	2005	2004
	£	£
Not wholly repayable within five years:		
Bank loans of £136,500 and £210,000 at 5.25% per annum, repayable in monthly instalments of £918 and £1,412 (capital and interest) commencing 10 February 2003, wholly repayable on 10 February 2023	326,516	333,791
	<hr/>	<hr/>
	2005	2004
	£	£
Amounts repayable:		
In one year or less, or on demand	11,328	10,750
In more than one year but not more than two years	11,938	11,328
In more than two years but not more than five years	39,805	37,773
	<hr/>	<hr/>
	63,071	59,851
In more than five years	263,445	273,940
	<hr/>	<hr/>
	326,516	333,791
	<hr/>	<hr/>

The loans are secured by fixed charges on the bank's long leasehold properties. The rate of interest payable on the loans is 1.5% above the bank's base rate.

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, debt securities, equity investments, deposit by banks and customer accounts.

The main risks arising from the bank's financial instruments are 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.

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 cashflow on a daily basis. Additionally, the bank is required to comply with liquidity guidelines laid down by the Financial Services Authority in its role as regulator.

Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract.

Credit risk principally arises from lending activities, but can also arise from other on and off balance sheet activities. The bank endeavours to minimise its credit risk exposure in a number of ways: careful consideration of the initial granting of credit; performing regular, ongoing appraisals of counterparty credit quality; netting of foreign exchange activities; and prompt review at senior level of bank account reconciliations, to ensure early identification of possible settlement risk. The bank additionally takes cash collateral from a number of its counterparties.

Notes to the financial statements

at 31 December 2005

20. Financial instruments (continued)

Market risk

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

The bank takes a very conservative stance in respect of market risk. It does not speculate in exchange rates, preferring to avoid the risk of exposure by matching its foreign exchange activities. The bank only trades in equities to a very limited degree.

Interest rate risk

The majority of the bank's lending is at fixed rates. The money market deposits are placed at the best rates available in the market. The bank earns a part of its return by controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the assets and liabilities mature.

Interest rate risk profile of financial instruments

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

	<i>Not more than three months</i>	<i>More than three months but not more than six months</i>	<i>More than six months but not more than one year</i>	<i>More than one year but not more than five years</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
2005					
Loans and advances to banks	50,191	8,653	2,950	--	61,794
Loans and advances - to customers	1,639	654	2,709	11	5,013
Debt securities	--	--	581	--	581
Equity investments	22	--	--	--	22
Deposits by banks	37,066	575	--	--	37,642
Customer accounts	1,002	--	4,245	3,117	8,364
	<i>Not more than three months</i>	<i>More than three months but not more than six months</i>	<i>More than six months but not more than one year</i>	<i>More than one year but not more than five years</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
2004					
Loans and advances to banks	21,362	6,751	5,400	--	33,513
Loans and advances - to customers	1,446	4,839	22	393	6,706
Equity investments	50	--	--	--	50
Deposits by banks	13,660	353	2,070	--	16,083
Customer accounts	3,969	644	--	--	4,613

The other financial instruments of the bank that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Notes to the financial statements

at 31 December 2005

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 2005, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2005	2004
	£	£
Assets	38,984,790	17,320,504
Liabilities	38,466,719	16,639,540

Fair values of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are used where available. The fair values presented would not necessarily be realised in an immediate sale; nor are there plans to settle liabilities prior to contractual maturity.

The only trading book assets are equity investments, please refer to note 12 for disclosures.

The following non-trading forward exchange rate contracts were outstanding at the year end:

	2005	2004
	£	£
Underlying principal amounts	574,713	760,870

The underlying principal amounts provide an indication of the volume of business outstanding at the balance sheet date but are not a realistic measure of amounts at risk. Due to the very short dated nature of the forward contracts the fair value is not considered to be materially different from the underlying principal amount.

21. Share capital

	Authorised		Allotted and fully paid	
	2005	2004	2005	2004
	£	£	£	£
Ordinary shares of £100 each	20,000,000	20,000,000	16,000,000	16,000,000

Notes to the financial statements

at 31 December 2005

22. Reconciliation of movements in shareholders' funds

	<i>Equity share capital £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' funds £</i>
At 1 January 2004	16,000,000	(538,731)	15,461,269
Profit for the year	—	215,759	215,759
Unrealised gain on equity investment	—	2,647	2,647
At 31 December 2004	16,000,000	(320,325)	15,679,675
At 1 January 2005	16,000,000	(320,325)	15,679,675
Effect on adoption of FRS 26	—	100,000	100,000
- Release of general provision for bad debts (note 18)	—	159,195	159,195
Profit for the year	—	159,195	159,195
At 31 December 2005	16,000,000	(61,130)	15,938,870

23. Contingent liability

The company is currently in negotiations with HM Revenue and Customs regarding the corporation tax deduction taken for payment of £900,000 made relating to its dilapidations obligation under the terms of the lease for its old premises. The bank took a deduction for the full payment, however HM Revenue and Customs are challenging that the amount should not be fully deductible. In the view of the directors, however, the bank has a strong case for claiming the deduction of these expenses for tax purposes. As the negotiations are still ongoing, it is not possible to determine the amount of any additional tax liability and the outcome of this matter at this point of time.

24. Related parties

The majority shareholder is the Banco Central de Cuba which is the central monetary institution of the Republic of Cuba. The bank's shares are held in the following proportions:

<i>Name of Company</i>	<i>Proportion of voting rights and shares held</i>
Banco Central de Cuba	85.8%
Banco de Inversiones S.A.	9.8%
Banco Popular de Ahorro	2.2%
Banco de Credito Comercio	2.2%

Any transactions with minor shareholders are based on commercial conditions.

Havin Bank Limited
(formerly Havana International Bank Limited)

Profit and loss account

for the year ended 31 December 2005

	2005 £	2004 £	2003 £
Interest receivable:			
Listed debt securities	3,356	—	78,759
Other	2,414,494	1,930,529	2,014,898
	2,417,850	1,930,529	2,093,657
Interest payable	(1,169,633)	(574,403)	(363,060)
Net interest income	1,248,217	1,356,126	1,730,597
Fees and commissions receivable	215,364	317,446	918,405
Fees and commissions payable	(35,130)	(74,207)	(5,536)
Dealing profits	123,027	150,865	185,265
Other operating income	6,661	8,417	15,382
	309,922	402,521	1,113,516
Total operating income	1,558,139	1,758,647	2,844,113
Administrative expenses	(1,275,673)	1,691,627	1,595,226
Depreciation and amortisation	(36,922)	37,205	66,523
Provisions for liabilities and charges	—	—	820,000
	(1,312,595)	1,728,832	2,481,749
Operating profit	245,544	29,815	362,364
Profit on sale of tangible fixed assets	1,872	232,915	81,217
Profit on ordinary activities before tax	247,416	262,730	443,581
Tax on profit on ordinary activities	(88,221)	(46,971)	(132,559)
Profit for the financial year	159,195	215,759	311,022
Effect on adoption of FRS 26			
Release of general provision for bad debts	100,000	—	—
Profit retained for the financial year	259,195	215,759	311,022

Havin Bank Limited
(formerly Havana International Bank Limited)

Balance sheet

as at 31 December 2005

	2005	2004	2003
	£	£	£
Assets			
Cash and balances at central banks	6,660	9,284	14,626
Loans and advances to banks	61,794,935	33,513,440	25,450,502
Loans and advances to customers	5,013,058	6,706,031	10,576,127
Debt securities	580,855	—	—
Equity investments	22,250	49,577	—
Tangible fixed assets	512,295	525,756	668,603
Prepayments and accrued income	285,710	359,219	398,648
Debtors	70,521	158,742	175,706
Total assets	68,286,284	41,322,049	37,284,212
Liabilities			
Deposits by banks	37,641,320	16,083,378	15,589,908
Customer accounts	8,363,505	4,612,446	2,848,166
Due to parent undertaking	5,829,412	4,369,163	1,368,806
Other liabilities - taxation	—	—	122,761
Accruals and deferred income	186,661	143,596	126,802
Provisions for liabilities and charges	—	100,000	1,420,000
Loans	326,516	333,791	346,500
	52,347,414	25,642,374	21,822,943
Called up share capital	16,000,000	16,000,000	16,000,000
Profit and loss account	(61,130)	(320,325)	(538,731)
	15,938,870	15,679,675	15,461,269
Total liabilities	68,286,284	41,322,049	37,284,212
Memorandum items			
Guarantees and assets pledged as collateral security	34,926	35,469	10,000
	34,926	35,469	10,000
Commitments			
Other commitments	53,255	—	100,000