1078897

Havin Bank Limited

Report and Financial Statements

31 December 2007

Registered No 1074897

Directors

G Roca (Managing Director)
T Lorenzo
I Bacallao
A Victoria
N Martinez
G Gil
S Shah

Secretary

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

Auditors

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

Registered Office

5th floor
30 Marsh Wall
London E14 9TP

Chairman's report

I am pleased to present Havin Bank Limited's Annual Report for 2007 It shows that we have moved on in recent years and created what I believe is a stable and sustainable operation

Once again in 2007, the Bank followed the framework laid out by the Shareholders where we act as an agent for those who invest in the Cuban market which is again the main aim moving forward into 2008

The difficulties in the international markets brought about by the credit crunch did not have a direct impact on the Bank's operations within the UK market, nevertheless it has reduced the Bank's opportunities to place new business in the capital markets, jointly with Banco de Inversiones S A It is important to point out however, that regardless of the negative impact the credit crunch has had on the international markets, and on our attempts to deal in the international capital market, our portfolio with Cuban Banks and companies has performed well throughout 2007

I am delighted to report that during 2007 great efforts have been made by management and staff to minimise costs, and to be able to maintain a reasonable level of profit A new business plan has been prepared and despite the general deterioration throughout global markets I feel that HIB can take advantage of the special relationships with Cuban and foreign banks to weather the storm

The Bank chose early adoption of the Capital Requirements Directive and its Internal Capital Adequacy Assessment Process (ICAAP) report, was submitted to, and has been accepted by the FSA Following on from this the Bank has now put in place all procedures and controls required of it by MIFID

I would finally like to thank the management and staff for all of their hard work and dedication in fulfilling the goals set by the Board and Shareholders

Nelson Martinez

Acting Chairman

Havin Bank Limited

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2007

Results

In 2007 the Bank achieved a profit on ordinary activities before tax of £522,425 (2006 - £591,856)

Dividend

A dividend of £250,000 has been paid during the year The directors recommend a dividend of £200,000 in respect of the profit for the year ended 31 December 2007 The dividend will be recognised and paid in 2008

Principal activities and review of the business

The bank is a UK registered, wholly Cuban owned bank Full details of the Bank's ownership are shown in note 24 of the financial statements

The bank's principal activity throughout the year was the provision of loans, 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 of the bank's business activity The Board requires that General Management maintains an appropriate system of internal controls including establishing key control processes and practices, such as limit structures, provisioning policy and reporting requirements and reviews its effectiveness

The bank makes use of interest ratios in order to check the effectiveness of its lending policies

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

The principal risks and uncertainties of the bank during the year are set out in note 19 to the financial statements

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

Future developments

Since 2006 the bank has taken important steps to develop new financial relationships and has become involved in the promotion of investment business in accordance with the shareholders' directive

In the coming years the bank aims to become more involved in the structuring of investment business, developing capital market structured transactions where the bank act as Agent and/or co-arranger, and in attracting new investors

In order to achieve this target it is necessary to develop business relationships with the banking community, institutional investors, rating agencies, financial investment funds and all those intermediaries who can support the Management of the bank in the fulfilment of the agreed strategy

Directors' report

Fixed assets

Details of the bank'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

G Roca	(appointed Managing Director 29 October 2007)
T Lorenzo	(resigned as Managing Director 30 June 2007)
I Bacallao	(appointed to Board 29 October 2007)
A Victoria	
N Martinez	(Acting Chairman)
G Gil	
S Shah	

The directors at 31 December 2007 had no interests in the share capital of the company

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant information and to establish that the auditor is aware of that information

Re-appointment of auditors

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

By order of the board

Secretary

Date 19 March 2008

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 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) The financial statements are required by law to give a true and fair view of the state of affairs of the bank and of the profit and 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 judgements and 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, 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 bank 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 bank 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

We have audited the financial statements of Havin Bank Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows 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 bank'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 bank'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 bank and the bank's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the bank 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 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the bank'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

Independent auditors' report

to the members of Havin Bank Limited (continued)

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 bank's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
Date 19 March 2008

Profit and loss account

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Interest receivable		2,273,128	2,823,957
Interest payable		(704,784)	(1,214,533)
Net interest income		1,568,344	1,609,424
Fees and commissions receivable		113,669	171,555
Fees and commissions payable		(1,412)	(1,822)
Dealing profits		62,812	191,612
Other operating income	3	8,049	13,026
		183,118	374,371
Total operating income		1,751,462	1,983,795
Administrative expenses	4	(1,215,653)	(1,388,870)
Depreciation of tangible fixed assets		(13,196)	(23,247)
Foreign exchange revaluation loss		–	(829)
		(1,228,849)	(1,412,946)
Operating profit	5	522,613	570,849
Profit on sale of tangible fixed assets		(188)	21,007
Profit on ordinary activities before tax		522,425	591,856
Tax on profit on ordinary activities	7	(163,381)	(270,927)
Profit for the financial year		359,044	320,929
Dividends	8	(250,000)	–
Profit retained for the financial year	21	109,044	320,929

Statement of total recognised gains and losses

for the year ended 31 December 2007

	Note	2007 £	2006 £
Profit retained for the financial year	21	109,044	320,929
Total recognised gains and losses		109,044	320,929

Balance sheet

at 31 December 2007

	Notes	2007 £	*2006* £
Assets			
Cash balances		18,880	23,169
Loans and advances to banks	9	42,407,653	39,935,985
Loans and advances to customers	10	5,874,157	5,653,645
Debt securities	11	–	671,800
Tangible fixed assets	12	300,258	311,400
Prepayments and accrued income		294,351	324,642
Other assets	13	34,442	32,595
Total assets		48,929,741	46,953,236
Liabilities			
Deposits by banks	15	24,530,984	16,804,296
Customer accounts	16	7,419,725	12,484,141
Due to parent undertaking		238,480	979,214
Current tax liabilities		77,873	73,475
Accruals and deferred income		104,843	159,562
Loans	18	188,993	192,749
		32,560,898	30,693,437
Called up share capital	20	16,000,000	16,000,000
Profit and loss account	21	368,843	259,799
		16,368,843	16,259,799
Total liabilities		48,929,741	46,953,236
Memorandum items			
Guarantees and assets pledged as collateral security	22	10,000	10,000
		10,000	10,000
Commitments			
Other commitments	22	100,000	–

Director

Date 17th March 2008

Statement of cash flows

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Cash outflow from operating activities	14(a)	(3,791,053)	(15,345,081)
Taxation			
UK corporation tax paid		(157,181)	(143,625)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(2,242)	(1,344)
Receipts from sale of tangible fixed assets		–	200,000
Receipts from sale of investments		–	22,250
Payment to acquire debt securities		–	(671,800)
Receipts from sale of debt securities		671,800	580,855
Net cash inflow from investing activities		669,558	129,961
Equity dividends paid		(250,000)	–
Decrease in cash and cash equivalents	14(b)	(3,528,676)	(15,358,745)

Notes to the financial statements

at 31 December 2007

1. Accounting policies

Accounting convention

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

Basis of preparation

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

Changes in accounting policies

As from 1 January 2007, the Bank adopted FRS 29 Financial Instruments Disclosures As a result additional disclosures are made on Risk Management The change has no impact on the results for the year ended 31 December 2007

Foreign currencies

The financial statements are presented in sterling, which is the bank's functional and presentational currency

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate ruling at the balance sheet date All differences are taken to profit and loss account

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 account

Debt securities

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

Notes to the financial statements

at 31 December 2007

1. Accounting policies (continued)

Financial Instruments – initial recognition and subsequent measurement

(i) 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

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics All financial instruments are measured initially at cost plus any directly attributable incremental costs of acquisition or issue

(iii) Derecognition of financial assets

A financial asset is derecognised where

- the rights to receive cash flows from the asset have expired, or
- Either (a) the bank has transferred substantially all the risks and rewards of the asset, or (b) the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset

(iv) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss

Loans and advances to banks and customers

Loans and advances from banks and customers are with fixed or determinable payments and fixed maturities that are not quoted in an active market They are not entered into with the intention of immediate or short-term resale and are not classified as 'held for trading', designated as 'available for sale' or 'designated at fair value through profit or loss' After initial measurement, loans and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate

Notes to the financial statements

at 31 December 2007

1. Accounting policies (continued)

Impairment of financial assets – loans and advances to banks and customers

The bank assesses at each balance sheet date whether there is any objective evidence that the assets are impaired The assets are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred 'loss event') and the loss event has an impact on the estimated future cash flows of the assets that can be reliably estimated

For loans and advances to banks and customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists individually for assets that are individually significant, or collectively for assets that are not individually significant If the bank determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristic and collectively assesses them for impairment Assets that are individually assessed for impairment and for which an impairment loss is, or continue to be, recognised are not included in a collective assessment of impairment

For the purpose of a collective evaluation of impairment, the assets are grouped on the basis that consider credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently

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 – 999 years
Leasehold improvements	-	over the term of tenancy agreement – 10 years
Furniture and office equipment	-	over 5 years
Computer equipment	-	over 3 years
Motor vehicles	-	over 4 years
Computer software	-	over 2 years

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

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax except that 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

Notes to the financial statements

at 31 December 2007

1. Accounting policies (continued)

Leasing

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

Interest income

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

Fees and commissions

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

Pensions

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

2. Segmental analysis

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

3. Other operating income

	2007	*2006*
	£	*£*
Trustee fees	6,248	7,714
Other	978	1,589
FX Profit	823	–
Gains on sale of equity investments	–	2,533
Dividend income	–	1,190
	8,049	13,026

Notes to the financial statements

at 31 December 2007

4. Administrative expenses

	2007	*2006*
	£	*£*
Staff costs		
Wages and salaries	483,299	636,631
Social security costs	63,805	65,559
Pension costs	44,068	53,771
	591,172	755,961
Other administrative expenses	624,481	632,909
	1,215,653	1,388,870

	2007	*2006*
	No	*No*
Average number of employees during the year	15	16

5. Operating profit

This is stated after charging

	2007	*2006*
	£	*£*
Auditors' remuneration - audit services	54,000	51,000
- taxation services	20,670	33,465
Depreciation of owned fixed assets	13,196	23,247
Operating lease rental – land and buildings	120,698	120,698

6. Directors' emoluments

	2007	*2006*
	£	*£*
Aggregate emoluments	145,834	173,818

	2007	*2006*
	£	*£*
The amount paid in respect of the highest paid director is as follows		
Emoluments	62,550	63,184

No pension benefits were paid to directors during the year

Notes to the financial statements
at 31 December 2007

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2007	2006
	£	£
UK corporation tax		
UK corporation tax on profits of the year	154,373	175,022
Adjustments in respect of previous periods	7,205	93,814
Current tax charge for the year (note 7(b))	161,578	268,836
Deferred tax		
Origination and reversal of timing differences	1,803	2,091
	163,381	270,927

(b) The tax charge for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 – 30%) The differences are reconciled below

	2007	2006
	£	£
Profit on ordinary activities before tax	522,425	591,856
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 – 30%)	156,728	177,557
Effect of		
Disallowed expenses and non-taxable income	1,984	(927)
Capital allowances in excess of depreciation	(2,794)	(1,608)
Relief for pension contributions	(1,545)	-
Adjustments in respect of previous periods	7,205	93,814
Current tax charge for the year	161,578	268,836

Notes to the financial statements

at 31 December 2007

7. Tax on profit on ordinary activities (continued)

(c) Deferred tax

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

	2007	2006
	£	£
Included in other assets (note 13)	14,892	16,694
Accelerated capital allowances	12,974	16,694
Losses	1,918	-
Deferred tax asset	14,892	16,694
Deferred tax asset at start of year	16,694	18,784
Deferred tax credit in profit and loss for year	(5,402)	(1,607)
Adjustments in respect of prior year	3,600	(483)
Deferred tax asset at end of year	14,892	16,694

8. Dividends

Equity dividends on ordinary shares		
Dividend payable	250,000	-

9. Loans and advances to banks

	2007	2006
	£	£
Repayable		
- within three months	32,407,653	26,821,355
- between three months and one year	10,000,000	13,114,630
	42,407,653	39,935,985
Amounts include		
- due from related parties	9,416,740	6,242,060

The aggregate amount of all loans and advances, which are repayable on demand, is £732,363 (2006 - £4,256,750)

Notes to the financial statements

at 31 December 2007

10. Loans and advances to customers

	2007	2006
	£	£
Repayable		
- within three months	2,899,255	1,806,994
- between three months and one year	2,974,902	3,846,651
	5,874,157	5,653,645

The aggregate amount of all loans and advances to customers which are repayable on demand is £ nil (2006 - £113,999)

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

11. Debt securities

	2007	2006
	£	£
Listed bond	–	671,800

The bond was issued by Banco Central de Cuba which is the parent entity The bond matured in 2007

12. Fixed assets

	Computer equipment	Computer software	Leasehold improvements	Long leasehold property	Furniture/ equipment and vehicles	Total
	£	£	£	£	£	£
Cost						
At 31 December 2006	75,821	37,028	37,666	279,909	112,228	542,652
Additions	1,422	420	–	–	400	2,242
Disposals	(4,104)	–	–	–	–	(4,104)
At 31 December 2007	73,139	37,448	37,666	279,909	112,628	540,790
Depreciation						
At 31 December 2006	71,770	33,284	16,459	1,124	108,615	231,252
Charge for the year	2,880	3,867	3,798	281	2,370	13,196
Disposals	(3,916)	–	–	–	–	(3,916)
At 31 December 2007	70,734	37,151	20,257	1,405	110,985	240,532
Net book value						
At 31 December 2006	4,051	3,744	21,207	278,785	3,613	311,400
At 31 December 2007	2,405	297	17,409	278,504	1,643	300,258

Notes to the financial statements

at 31 December 2007

13. Other assets

	2007	*2006*
	£	*£*
Deferred tax asset (see note 7 (c))	14,892	16,694
Loans and advances to employees	19,550	15,901
	34,442	32,595

Loans and advances to employees have been reclassified from "loans and advances to customers" to "other assets" for the year ended 31 December 2006

	2007	*2006*
	£	*£*
Repayable		
- within three months	5,595	1,022
- between three months and one year	9,594	10,307
- between one and five years	4,361	4,572
	19,550	15,901

The aggregate amount of all loans and advances to employees which are repayable on demand is £ nil (2006 - £ nil)

Notes to the financial statements

at 31 December 2007

14. Cash outflow from operating activities and movement in cash and cash equivalents

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

	2007	*2006*
	£	*£*
Operating profit	522,613	570,849
Depreciation	13,196	23,247
Decrease / (increase) in interest receivable and prepaid expenses	30,291	(38,933)
Decrease in interest payable and accrued expenses	(54,719)	(27,099)
Net cash inflow from trading activities	511,381	528,064
Net increase / (decrease) in deposits by banks and customers	1,917,782	(21,700,353)
Net (increase) / decrease in loans to banks, customers and employees	(6,220,216)	5,827,208
	(4,302,434)	(15,873,145)
Net cash outflow from continuing operating activities	(3,791,053)	(15,345,081)

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

	1 January 2007	*Change in year*	*31 December 2007*
	£	*£*	*£*
Cash balance	23,169	(4,289)	18,880
Loans and advances to other banks repayable on demand	4,256,750	(3,524,387)	732,363
	4,279,919	(3,528,676)	751,243

Notes to the financial statements

at 31 December 2007

15. Deposits by banks

	2007	2006
	£	£
Repayable		
- within three months	24,530,984	16,279,296
- between three months and one year	–	525,000
	24,530,984	16,804,296
Amounts include		
- due to related parties	2,329,538	528,690

The aggregate amount of customer accounts which is repayable on demand is £22,594,398 (2006 - £16,619,060)

16. Customer accounts

	2007	2006
	£	£
Repayable		
- within three months	4,546,342	3,451,883
- between three months and one year	2,873,383	–
- between one and five years	–	9,032,258
	7,419,725	12,484,141

The aggregate amount of customer accounts which is repayable on demand is £776,395 (2006 - £57,049)

17. Obligations under leases

Commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2007	2006
	£	£
Operating leases due		
- Within one year	–	–
- In two to five years	120,698	–
- In over five years	–	120,698
	120,698	120,698

Notes to the financial statements

at 31 December 2007

18. Loans

	2007 £	2006 £
Not wholly repayable within five years		
Bank loan of £210,000 at 5 25% per annum, repayable in monthly instalments of £1,412 (capital and interest) commencing 10 February 2003, wholly repayable on 10 February 2023	188,993	192,749

	2007 £	2006 £
Amounts repayable		
In one year or less, or on demand	7,874	7,472
In more than one year but not more than two years	8,297	7,874
In more than two years but not more than five years	27,667	26,255
	43,839	41,601
In more than five years	145,154	151,148
	188,993	192,749

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

19. 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

Risk management

The Bank is very conservative in its approach to risk taking and seeks to engage only in activities with limited risk exposure Risks are identified and documented through a risk register system and monitored on a regular basis, this is then updated to include and new risks as soon as they are identified This forms part of the Banks ICAAP report

The main risks arising from the bank's financial instruments are operational risk, liquidity risk, credit risk and market risk The General Management of the bank is charged, by the board, with the responsibility for reviewing and agreeing policies and procedures for managing each of these risks and these are summarised below

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud and external events When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit

Notes to the financial statements

at 31 December 2007

19. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that an entity encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations

It is the current practice of the bank to match client monies placed with asset instruments of a similar tenor The bank measures and manages its cash flow on a daily basis Additionally, the bank complies with liquidity guidelines laid down by the Financial Services Authority in its role as regulator

Credit risk

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

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

Market risk

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

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

Concentration risk

Due to our unique relationship, a large proportion of our exposure is to Cuba, however most of this is to the banking sector where the risk is judged to be low

The Bank's financial assets analysed by geographical region

	2007	*2006*
	£'000	*£'000*
United Kingdom	23,050	21,214
Europe	11	8
Cuba	25,892	25,728
Others	3	3
	48,956	46,953

An industry sector analysis of the Bank's financial assets

Bank	33,017	33,694
Related party banks	9,417	6,914
Corporate	5,874	5,654
Other	648	691
	48,956	46,953

Notes to the financial statements

at 31 December 2007

19. Financial instruments (continued)

Interest rate risk

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

All of the loan portfolio is matched 100% in terms of maturity, value and currency against the funding

Interest rate risk profile of financial instruments

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

2007	*Not more than three months* *£'000*	*More than three months but not more than six months* *£'000*	*More than six months but not more than one year* *£'000*	*More than one year but not more than five years* *£'000*	*More than five years* *£'000*	*Non-interest bearing* *£'000*	*Total* *£'000*
Cash and balances at central bank	–	–	–	–	–	19	19
Loans and advances to banks	31,650	4,000	6,000	–	–	758	42,408
Loans and advances - to customers	2,899	2,975	–	–	–	–	5,874
Debt securities	–	–	–	–	–	–	–
Other assets	–	–	2	4	–	623	629
Total financial assets	34,549	6,975	6,002	4	–	1,400	48,930
Deposits by banks	23,648	–	–	–	–	883	24,531
Customer accounts	4,180	–	2,873	–	–	366	7,419
Due to parent undertaking	238	–	–	–	–	–	238
Current tax liabilities	–	–	–	–	–	77	77
Accruals and deferred income	–	–	–	–	–	105	105
Loans	–	–	–	–	189	–	189
Shareholders' funds	–	–	–	–	–	16,371	16,371
Total financial liabilities	28,066	–	2,873	–	189	17,802	48,930
Interest rate sensitivity gap	6,483	6,975	3,129	4	(189)	(16,402)	–
Cumulative gap	6,483	13,458	16,587	16,591	16,402	–	–

Notes to the financial statements

at 31 December 2007

19. Financial instruments (continued)

2006	*Not more than three months* £'000	*More than three months but not more than six months* £'000	*More than six months but not more than one year* £'000	*More than one year but not more than five years* £'000	*More than five years* £'000	*Non-interest bearing* £'000	*Total* £'000
Cash and balances at central bank	–	–	–	–	–	23	23
Loans and advances to banks	22,564	7,115	6,000	–	–	4,257	39,936
Loans and advances - to customers	1,807	1,210	2,639	5	–	9	5,670
Debt securities	672	–	–	–	–	–	672
Other assets	–	–	–	–	–	652	652
Total financial assets	25,043	8,325	8,639	5	–	4,941	46,953
Deposits by banks	15,966	525	–	–	–	313	16,804
Customer accounts	3,605	–	–	6,995	–	1,884	12,484
Due to parent undertaking	979	–	–	–	–	–	979
Current tax liabilities	–	–	–	–	–	73	73
Accruals and deferred income	–	–	–	–	–	160	160
Loans	–	–	–	–	193	–	193
Shareholders' funds	–	–	–	–	–	16,260	16,260
Total financial liabilities	20,550	525	–	6,995	193	18,690	46,953
Interest rate sensitivity gap	4,493	7,800	8,639	(6,990)	(193)	(13,749)	–
Cumulative gap	4,493	12,293	20,932	13,942	13,749	–	–

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 2007, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows

	2007 £	*2006* £
Assets	19,831,212	24,937,778
Liabilities	19,823,273	24,984,834

Notes to the financial statements

at 31 December 2007

19. Financial instruments (continued)

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 fair value of financial instruments approximates the carrying value, due to the majority of the maturities being short term

20. Share capital

	2007 £	*2006* £
Authorised		
200,000 ordinary shares of £100 each	20,000,000	20,000,000
Allotted and fully paid		
160,000 ordinary shares of £100 each	16,000,000	16,000,000

21. Reconciliation of movements in shareholders' funds

	Equity share capital £	*Profit and loss account* £	*Total shareholders' funds* £
At 1 January 2006	16,000,000	(61,130)	15,938,870
Profit for the year	–	320,929	320,929
At 31 December 2006	16,000,000	259,799	16,259,799
Profit for the year	–	359,044	359,044
Dividends	–	(250,000)	(250,000)
At 31 December 2007	16,000,000	368,843	16,368,843

Notes to the financial statements

at 31 December 2007

22. Contingent liabilities and commitments

	2007	*2006*
	£'000	*£'000*
Contingent Liabilities		
Financial Guarantees	10	10
	10	10
Commitments		
Other Commitments	100	100
	100	100

23. Events after the balance sheet date

The directors recommend a dividend of £200,000 in respect of the profit for the year ended 31 December 2008 The dividend will be recognised and paid in 2008

24. Related parties

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

Name of Company	*Proportion of voting rights and shares held*
Banco Central de Cuba	85 8%
Banco de Inversiones S A	9 8%
Banco Popular de Ahorro	2 2%
Banco de Credito Comercio	2 2%

Any transactions with shareholders are based on commercial conditions