

# Havana International Bank Limited

107 4897

## Report and Accounts

31 December 2003

ERNST & YOUNG



# Havana International Bank Limited

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Registered No: 1074897

## **Directors**

R Rangel (Chairman)  
T Lorenzo (Managing Director)  
A Victoria  
G Roca  
J M Sanchez Cruz  
A Mulet  
D Teacher  
M Alba  
C Rangel

## **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**

5<sup>th</sup> floor  
30 Marsh Wall  
London  
E14 9TP

## Directors' report

The directors present their report and the accounts for the year ended 31 December 2003.

### Results

In 2003 the Bank achieved a profit on ordinary activities before tax of £443,581 (2002 – loss £1,141,187). This is the result of the improvement in performance of general banking activities combined with a reduction in administrative expenses. Additionally, in 2002, the closure of the pension scheme resulted in the exceptional write off of the pre-paid pension asset against distributable reserves, thus producing a loss after taxation and provisions for the financial year.

### Dividend

No dividend has been paid or proposed for the 2003 financial year.

### Principal activities and review of the business

The bank's main activities throughout the year remained the provision of wholesale banking services, which principally covered trade-related finance, together with foreign exchange and money markets, customer payment orders and cash remittances/transfers to Cuban nationals. Our trade finance activities were still mainly in the Cuban market where our expertise enabled us to further develop this activity.

### Future developments

Our opinion is that economic development within Cuba will continue to expand, but our profitability will be affected owing to competition from the increased participation of other financial institutions that are gradually being incorporated into the Cuban market. A business plan for the period 2003-2004 has been approved and its implementation will enable us to remain competitive and continue to provide a good service.

### Fixed assets

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

### Directors and their interests

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

R Rangel (Chairman)  
A Victoria  
A Mulet  
C Lopez (resigned 4 April 2003)  
G Roca  
J M Sanchez Cruz  
L Torres (resigned 4 April 2003)  
D Teacher  
M Alba  
C Rangel  
T Lorenzo (Managing Director from 1 January 2004) (appointed a director on 1 September 2003)

The directors at 31 December 2003 had no interest in the share capital of the company.

### 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

12/03/04

## **Statement of directors' responsibilities in respect of the accounts**

Company law requires the directors to prepare accounts 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 accounts, 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 accounts; and
- prepare the accounts 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 accounts 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 Havana International Bank Limited**

We have audited the company's accounts for the year ended 31 December 2003 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and the related notes 1 to 23. These accounts have been prepared on the basis of 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 auditor**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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 transactions with the company 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.

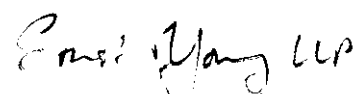
### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2003 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

12 March 2004

**Profit and loss account**

for the year ended 31 December 2003

|  | Notes | 2003<br>£        | 2002<br>£          |
|--|-------|------------------|--------------------|
| Interest receivable:                                   |       |                  |                    |
| Listed debt securities                                 |       | 78,759           | 177,657            |
| Other  |       | 2,014,898        | 2,108,480          |
|  |       | <u>2,093,657</u> | <u>2,286,137</u>   |
| Interest payable                                       |       | (363,060)        | (563,198)          |
| <b>Net interest income</b>                             |       | <u>1,730,597</u> | <u>1,722,939</u>   |
| Fees and commissions receivable                        |       | 918,405          | 772,498            |
| Fees and commissions payable                           |       | (5,536)          | (22,307)           |
| Dealing profits  |       | 185,265          | 135,895            |
| Other operating income                                 |       | 15,382           | 8,541              |
|  |       | <u>1,113,516</u> | <u>894,627</u>     |
| <b>Total operating income</b>                          |       | <u>2,844,113</u> | <u>2,617,566</u>   |
| Administrative expenses                                | 3     | 1,595,226        | 3,398,769          |
| Depreciation and amortisation                          |       | 66,523           | 112,543            |
| Provisions for liabilities and charges                 | 17    | 820,000          | 250,000            |
|  |       | <u>2,481,749</u> | <u>3,761,312</u>   |
| <b>Operating profit/(loss)</b>                         | 4     | 362,364          | (1,143,746)        |
| Profit on sale of tangible fixed assets                |       | 81,217           | 2,559              |
|  |       | <u>443,581</u>   | <u>(1,141,187)</u> |
| <b>Profit/(loss) on ordinary activities before tax</b> |       | <u>443,581</u>   | <u>(1,141,187)</u> |
| Tax on profit/(loss) on ordinary activities            | 6     | (132,559)        | 339,401            |
|  |       | <u>311,022</u>   | <u>(801,786)</u>   |
| <b>Profit/(loss) for the financial year</b>            | 21    | 311,022          | (801,786)          |
| Dividends  | 7     | -                | (190,000)          |
|  |       | <u>311,022</u>   | <u>(991,786)</u>   |
| <b>Profit/(loss) retained for the financial year</b>   |       | <u>311,022</u>   | <u>(991,786)</u>   |

**Statement of total recognised gains and losses**

There are no recognised gains or losses other than those stated in the profit and loss account.

**Balance sheet**

at 31 December 2003

|  | Notes | 2003<br>£         | 2002<br>£         |
|--|-------|-------------------|-------------------|
| <b>Assets</b>  |       |                   |                   |
| Cash and balances at central banks                   |       | 14,626            | 24,394            |
| Loans and advances to banks                          | 9     | 25,450,502        | 30,944,659        |
| Loans and advances to customers                      | 10    | 10,576,127        | 12,380,959        |
| Debt securities                                      | 11    | –                 | 2,256,614         |
| Tangible fixed assets                                | 12    | 668,603           | 279,582           |
| Prepayments and accrued income                       |       | 398,648           | 511,691           |
| Debtors  | 8     | 175,706           | 24,143            |
| <b>Total assets</b>                                  |       | <b>37,284,212</b> | <b>46,422,042</b> |
| <b>Liabilities</b>                                   |       |                   |                   |
| Deposits by banks                                    | 14    | 15,589,908        | 26,772,780        |
| Customer accounts                                    | 15    | 2,848,166         | 3,413,519         |
| Due to parent undertaking                            |       | 1,368,806         | 74,823            |
| Other liabilities - taxation                         |       | 122,761           | 88,095            |
| Accruals and deferred income                         |       | 126,802           | 132,578           |
| Dividends payable                                    |       | –                 | 190,000           |
| Provisions for liabilities and charges               | 17    | 1,420,000         | 600,000           |
| Loans  | 18    | 346,500           | –                 |
|  |       | <b>21,822,943</b> | <b>31,271,795</b> |
| Called up share capital                              | 20    | 16,000,000        | 16,000,000        |
| Profit and loss account                              | 21    | (538,731)         | (849,753)         |
|  |       | <b>15,461,269</b> | <b>15,150,247</b> |
| <b>Total liabilities</b>                             |       | <b>37,284,212</b> | <b>46,422,042</b> |
| <b>Memorandum items</b>                              |       |                   |                   |
| Contingent liabilities                               |       |                   |                   |
| Acceptances and endorsements                         |       | –                 | 124,417           |
| Guarantees and assets pledged as collateral security |       | 10,000            | 385,925           |
|  |       | <b>10,000</b>     | <b>510,342</b>    |
| Commitments  |       |                   |                   |
| Other commitments                                    |       | 100,000           | 299,152           |

Director

Date

12/3/2004

**Statement of cash flows**

for the year ended 31 December 2003

|  | Notes | 2003<br>£ | 2002<br>£   |
|--|-------|-----------|-------------|
| <b>Cash (outflow)/inflow from operating activities</b> | 13(a) | (482,737) | 2,756,367   |
| <b>Taxation</b>  |       |           |             |
| UK corporation tax paid                                |       | (254,429) | (33,791)    |
| <b>Capital expenditure and financial investment</b>    |       |           |             |
| Payments to acquire tangible fixed assets              |       | (482,276) | (93,570)    |
| Receipts from sale of tangible fixed assets            |       | 144,421   | 3,207       |
| Payments to acquire investments                        |       | –         | (2,300,873) |
| Receipts from sale/maturity of debt securities         |       | 2,225,000 | 3,233,650   |
| <b>Net cash inflow from investing activities</b>       |       | 1,887,145 | 842,414     |
| <b>Equity dividends paid</b>                           |       | (190,000) | (111,075)   |
| <b>Increase in cash</b>                                | 13(b) | 959,979   | 3,453,915   |



## Notes to the accounts

at 31 December 2003

### 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 accounts 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.

#### 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.

#### Debt securities and investments

Debt securities and investments are stated in the balance sheet at nominal value, adjusted for unamortised premiums or discounts, since it is the directors' intention to hold the securities to maturity. Premiums or discounts on purchase are amortised over the period to maturity.

#### 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.

## Notes to the accounts

at 31 December 2003

### 1. Accounting policies (continued)

#### 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.

#### Forward contracts

All differences arising are taken to the profit and loss account.

#### 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. General provisions are made in relation to losses which, although not specifically identified, may exist in the banking portfolio, or which may arise through litigation or other operating contingencies.

#### Pensions

Until 31 October 2002 Havana International Bank Limited operated a defined benefit pension scheme covering the majority of employees. Contributions to the fund were charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. The scheme was funded by contributions from the company at rates determined by the actuary. These contributions were invested separately from the company's assets.

Differences between the amounts funded and the amounts charged in the profit and loss account were treated as either provisions or prepayments in the balance sheet.

From 31 October 2002 contributions to this scheme were discontinued. From that date, current members were invited to join the Bank's Group Personal Pension Plan, which is a defined contribution pension scheme. The trustees are in the process of winding up the defined benefit scheme, and provision has been made for the expected final costs of terminating the scheme based on a negotiation between the bank and the trustees of the scheme. Refer to notes 17 and 22 for further details.

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 group has only one class of business being commercial banking and all transactions originate in the United Kingdom.

### 3. Administrative expenses

|                               | 2003<br>£ | 2002<br>£ |
|-------------------------------|-----------|-----------|
| Staff costs:                  |           |           |
| Wages and salaries            | 717,538   | 719,764   |
| Social security costs         | 75,598    | 59,420    |
| Pension costs                 | 77,107    | 1,740,131 |
|                               | <hr/>     | <hr/>     |
|                               | 870,243   | 2,519,315 |
| Other administrative expenses | 724,983   | 879,454   |
|                               | <hr/>     | <hr/>     |
|                               | 1,595,226 | 3,398,769 |
|                               | <hr/>     | <hr/>     |

## Notes to the accounts

at 31 December 2003

### 3. Administrative expenses (continued)

|  | 2003<br>No. | 2002<br>No. |
|--|-------------|-------------|
| Average weekly number of employees during the year | 20          | 21          |

### 4. Operating profit/(loss)

This is stated after charging:

|   | 2003<br>£ | 2002<br>£ |
|---|-----------|-----------|
| Auditors' remuneration - audit services | 46,000    | 42,000    |
| - non-audit services                    | 12,721    | 15,000    |
| Depreciation of owned fixed assets      | 35,024    | 40,862    |

### 5. Directors' emoluments

|                      | 2003<br>£ | 2002<br>£ |
|----------------------|-----------|-----------|
| Aggregate emoluments | 152,133   | 156,600   |

|  | 2003<br>£ | 2002<br>£ |
|--|-----------|-----------|
| The amount paid in respect of the highest paid director is as follows:<br>Emoluments | 55,000    | 55,000    |

No pension benefits were paid to directors during the year.

### 6. Tax on profit/(loss) on ordinary activities

(a) Tax on profit/(loss) on ordinary activities

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

|  | 2003<br>£ | 2002<br>£ |
|--|-----------|-----------|
| <b>UK corporation tax</b>                          |           |           |
| UK corporation tax on profits/(losses) of the year | 264,511   | 116,318   |
| Adjustments in respect of previous periods         | 19,611    | (4,974)   |
|  | 284,122   | 111,344   |
| <b>Deferred tax</b>                                |           |           |
| Origination and reversal of timing differences     | (151,563) | (450,745) |
|  | 132,559   | (339,401) |

## Notes to the accounts

at 31 December 2003

### 6. Tax on profit/(loss) on ordinary activities (continued)

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

|   | 2003<br>£ | 2002<br>£   |
|---|-----------|-------------|
| Profit/(loss) on ordinary activities before tax   | 443,581   | (1,141,187) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 – 30%) | 133,074   | (342,356)   |
| Effect of:  |           |             |
| Disallowed expenses and non-taxable income  | (20,126)  | 5,745       |
| Capital allowances in excess of depreciation  | (4,437)   | (6,477)     |
| Other timing differences  | 156,000   | –           |
| Adjustments in respect of previous periods  | 19,611    | (4,974)     |
| Write off of pre-paid pension asset   | –         | 459,406     |
| Current tax charge for the year   | 284,122   | 111,344     |

#### (c) Deferred tax

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

|   | 2003<br>£ | 2002<br>£ |
|---|-----------|-----------|
| Included in debtors (note 8)                    | 175,706   | 24,143    |
| Accelerated capital allowances                  | 19,706    | 24,143    |
| General provisions                              | 156,000   | –         |
| Deferred tax asset                              | 175,706   | 24,143    |
| Deferred tax asset at start of year             | 24,143    | (426,602) |
| Deferred tax credit in profit and loss for year | 151,563   | 452,929   |
| Adjustments in respect of prior year            | –         | (2,184)   |
| Deferred tax asset at end of year               | 175,706   | 24,143    |

### 7. Dividends

|                                      | 2003<br>£ | 2002<br>£ |
|--------------------------------------|-----------|-----------|
| Equity dividends on ordinary shares: |           |           |
| Final dividend payable               | –         | 190,000   |

## Notes to the accounts

at 31 December 2003

### 8. Debtors

|                                 | 2003    | 2002   |
|---------------------------------|---------|--------|
|                                 | £       | £      |
| Deferred tax asset (see note 6) | 175,706 | 24,143 |

### 9. Loans and advances to banks

|   | 2003       | 2002       |
|---|------------|------------|
|   | £          | £          |
| Repayable:                                  |            |            |
| - within three months                       | 19,600,009 | 28,704,580 |
| - between three months and one year         | 5,850,493  | 2,240,079  |
|   | 25,450,502 | 30,944,659 |
| Amounts include:                            |            |            |
| - due from related parties (unsubordinated) | 4,408,087  | 2,362,755  |

### 10. Loans and advances to customers

|                                     | 2003       | 2002       |
|-------------------------------------|------------|------------|
|                                     | £          | £          |
| Repayable:                          |            |            |
| - within three months               | 4,206,963  | 7,688,120  |
| - between three months and one year | 6,329,358  | 4,685,551  |
| - between one and five years        | 39,806     | 7,288      |
|                                     | 10,576,127 | 12,380,959 |

The aggregate amount of all loans and advances to customers, which are repayable on demand, is £91,909 (2002 - £788).

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

### 11. Debt securities

Total debt securities as at 31 December 2003 were £nil (2002 - £2,256,614). The prior year total comprised debt securities held for investment:

Held for investment

|                                     | Book value |           | Market value |           |
|-------------------------------------|------------|-----------|--------------|-----------|
|                                     | 2003       | 2002      | 2003         | 2002      |
|                                     | £          | £         | £            | £         |
| Issued by public bodies:            |            |           |              |           |
| Government securities               | —          | 2,256,614 | —            | 2,314,383 |
| Analysed by maturity:               |            |           |              |           |
| Due within one year                 | —          | 2,256,614 | —            | 2,314,383 |
| Analysed by listing status:         |            |           |              |           |
| Listed on the London Stock Exchange | —          | 2,256,614 | —            | 2,314,383 |
| Unamortised premiums                | —          | 31,614    |              |           |

## Notes to the accounts

at 31 December 2003

### 11. Debt securities (continued)

The movement on debt securities held for investment purposes was as follows:

|                          | £           |
|--------------------------|-------------|
| At 31 December 2002      | 2,256,614   |
| Acquisitions             | —           |
| Sale                     | —           |
| Maturities               | (2,225,000) |
| Amortisation of premiums | (31,614)    |
| At 31 December 2003      | —           |

### 12. Fixed assets

|                     | Computer<br>equipment<br>£ | Computer<br>software<br>£ | Short<br>leasehold<br>property and<br>improvements<br>£ | Long<br>leasehold<br>property and<br>improvements<br>£ | Furniture/<br>equipment<br>and vehicles<br>£ | Total<br>£ |
|---------------------|----------------------------|---------------------------|---|--|--|------------|
| Cost:               |                            |                           |   |  |  |            |
| At 31 December 2002 | 274,013                    | —                         | 39,959  | 225,047  | 646,805                                      | 1,185,824  |
| Additions           | 4,695                      | 10,297                    | —   | 462,218  | 7,816  | 485,026    |
| Disposals           | (204,673)                  | —                         | —   | (67,920)   | (505,374)                                    | (777,967)  |
| At 31 December 2003 | 74,035                     | 10,297                    | 39,959  | 619,345  | 149,247                                      | 892,883    |
| Depreciation:       |                            |                           |   |  |  |            |
| At 31 December 2002 | 236,771                    | —                         | 3,560   | 38,887   | 627,024                                      | 906,242    |
| Charge for the year | 16,550                     | 2,099                     | 3,798   | 3,617  | 8,960  | 35,024     |
| Disposals           | (204,673)                  | —                         | —   | (6,793)  | (505,520)                                    | (716,986)  |
| At 31 December 2003 | 48,648                     | 2,099                     | 7,358   | 35,711   | 130,464                                      | 224,280    |
| Net book value:     |                            |                           |   |  |  |            |
| At 31 December 2003 | 25,387                     | 8,198                     | 32,601  | 583,634  | 18,783                                       | 668,603    |
| At 31 December 2002 | 37,242                     | —                         | 36,399  | 186,160  | 19,781                                       | 279,582    |

## Notes to the accounts

at 31 December 2003

### 13. Movement in cash balances

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

|  | 2003<br>£    | 2002<br>£   |
|--|--------------|-------------|
| Operating profit/(loss)  | 362,364      | (1,143,746) |
| Depreciation   | 35,024       | 40,862      |
| Provisions   | 820,000      | 250,000     |
| Amortisation of premium on investments                         | 31,614       | 71,681      |
| Decrease in interest receivable and prepaid expenses           | 113,043      | 1,411,227   |
| (Decrease)/increase in interest payable and accrued expenses   | (5,776)      | 17,145      |
| Net cash inflow from trading activities                        | 1,356,269    | 647,169     |
| Net (decrease)/increase in deposits                            | (10,107,742) | 9,244,097   |
| Net decrease/(increase) in loans to banks and customers        | 8,268,736    | (7,418,989) |
| Decrease in short term trade bills discounted                  | —            | 284,090     |
|  | (1,839,006)  | 2,109,198   |
| Net cash (outflow)/inflow from continuing operating activities | (482,737)    | 2,756,367   |

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

|   | 31 December<br>2003<br>£ | Change in<br>year<br>£ | 1 January<br>2003<br>£ |
|---|--------------------------|------------------------|------------------------|
| Cash and balances at central banks                    | 14,626                   | 9,768                  | 24,394                 |
| Loans and advances to other banks repayable on demand | 5,700,915                | (969,747)              | 4,731,168              |
|   | 5,715,541                | (959,979)              | 4,755,562              |

### 14. Deposits by banks

|   | 2003<br>£  | 2002<br>£  |
|---|------------|------------|
| Repayable:                                |            |            |
| - within three months                     | 13,909,612 | 24,912,661 |
| - between three months and one year       | 1,680,296  | 1,860,119  |
|   | 15,589,908 | 26,772,780 |
| Amounts include:                          |            |            |
| - due to related parties (unsubordinated) | 2,976,416  | 18,040,388 |

# Notes to the accounts

at 31 December 2003

## 15. Customer accounts

|   | 2003<br>£        | 2002<br>£        |
|---|------------------|------------------|
| Repayable:                                |                  |                  |
| - within three months                     | 2,197,294        | 3,413,519        |
| - between three months and one year       | 650,872          | —                |
|   | <u>2,848,166</u> | <u>3,413,519</u> |
| Amounts include:                          |                  |                  |
| - due to related parties (unsubordinated) | —                | 85,278           |
|   | <u>—</u>         | <u>85,278</u>    |

The aggregate amount of customer accounts which is repayable on demand is £648,258 (2002 - £1,283,761).

## 16. Obligations under leases

Commitments under non-cancellable operating leases are as follows:

|                       | <i>Land and buildings</i> |                |
|-----------------------|---------------------------|----------------|
|                       | 2003<br>£                 | 2002<br>£      |
| Operating leases due: |                           |                |
| Within one year       | 120,698                   | 80,465         |
| In two to five years  | 482,792                   | 603,688        |
| In over five years    | 442,559                   | —              |
|                       | <u>1,046,049</u>          | <u>684,153</u> |

## 17. Provisions for liabilities and charges

### Other provisions

|                     | <i>General provision<br/>for bad debts Dilapidations</i> |                | <i>Retirement<br/>benefits</i> | <i>Total</i>     |
|---------------------|--|----------------|--------------------------------|------------------|
|                     | £  | £              | £                              | £                |
| At 1 January 2003   | 100,000  | 500,000        | —                              | 600,000          |
| Charge for the year | —  | 300,000        | 520,000                        | 820,000          |
| At 31 December 2003 | <u>100,000</u>   | <u>800,000</u> | <u>520,000</u>                 | <u>1,420,000</u> |

### Dilapidations

This provision has been recognised for the refurbishment of the Bank's former premises on Ironmonger Lane. Under the lease agreement the Bank has a contractual obligation to return the premises to its original state. It is expected that these costs will be incurred in the next financial year once the Bank and the landlord have agreed upon the total costs.

### Retirement benefits

This provision is for the final settlement agreed with the Trustees as part of the wind-up procedures of the defined benefit pension scheme, as detailed in note 22. It is expected that settlement will be made in the next financial year.



## Notes to the accounts

at 31 December 2003

### 18. Loans

|   | 2003<br>£      | 2002<br>£ |
|---|----------------|-----------|
| Not wholly repayable within five years:   |                |           |
| Bank loans of £136,500 and £210,000 at 5% per annum, repayable in annual instalments of £14,000 commencing 10 February 2004, wholly repayable on 10 February 2024 | 346,500        | —         |
|   | <u>346,500</u> | <u>—</u>  |
| Amounts repayable:  |                |           |
| In one year or less, or on demand   | 10,675         | —         |
| In more than one year but not more than two years   | 11,209         | —         |
| In more than two years but not more than five years   | 37,102         | —         |
|   | <u>58,986</u>  | <u>—</u>  |
| In more than five years   | 287,514        | —         |
|   | <u>346,500</u> | <u>—</u>  |

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 borrowings from other banks, customer accounts, debt securities, loans to customers and cash held at other banks.

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. Maturity mismatches between lending and funding by use of client funds are not entered into. 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 accounts

at 31 December 2003

### 19. 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 does not trade in financial instruments.

#### 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. In common with other banks, Havana International 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.

The table below summarises the interest rate mismatching as at 31 December 2003. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

#### Interest rate sensitivity gap table

|  | Not more than<br>three months | More than<br>three months<br>but not more<br>six months | More than<br>six months<br>but not more<br>one year | More than<br>one year<br>but not<br>more than<br>five years | Non-interest<br>bearing | Interest<br>bearing | Total         |
|--|-------------------------------|---|---|---|-------------------------|---------------------|---------------|
| 2003                                     | £'000                         | £'000   | £'000   | £'000   | £'000                   | £'000               | £'000         |
| <b>Assets:</b>                           |                               |   |   |   |                         |                     |               |
| Loans and advances                       |                               |   |   |   |                         |                     |               |
| to banks                                 | 19,615                        | 5,850   | —   | —   | —                       | 25,465              | 25,465        |
| Loans and advances -                     |                               |   |   |   |                         |                     |               |
| to customers                             | 4,198                         | 6,329   | —   | 40  | 9                       | 10,567              | 10,576        |
| Debt securities                          | —                             | —   | —   | —   | —                       | —                   | —             |
| Other assets                             | —                             | —   | —   | —   | 1,243                   | —                   | 1,243         |
| <b>Total assets</b>                      | <b>23,813</b>                 | <b>12,179</b>   | <b>—</b>  | <b>40</b>   | <b>1,252</b>            | <b>36,032</b>       | <b>37,284</b> |
| <b>Liabilities:</b>                      |                               |   |   |   |                         |                     |               |
| Deposits by banks                        | 13,909                        | 1,680   | —   | —   | —                       | 15,589              | 15,589        |
| Customer accounts                        | 2,197                         | 651   | —   | —   | —                       | 2,848               | 2,848         |
| Other liabilities                        | —                             | —   | —   | —   | 1,670                   | —                   | 1,670         |
| Holding company                          | 1,369                         | —   | —   | —   | —                       | 1,369               | 1,369         |
| Loans                                    | —                             | —   | —   | 347   | —                       | 347                 | 347           |
| Shareholders' funds                      | —                             | —   | —   | —   | 15,461                  | —                   | 15,461        |
| <b>Total liabilities</b>                 | <b>17,475</b>                 | <b>2,331</b>  | <b>—</b>  | <b>347</b>  | <b>17,131</b>           | <b>20,153</b>       | <b>37,284</b> |
| <b>Interest rate<br/>sensitivity gap</b> | <b>6,338</b>                  | <b>9,848</b>  | <b>—</b>  | <b>(307)</b>  | <b>(15,879)</b>         | <b>15,879</b>       |               |
| <b>Cumulative gap</b>                    | <b>6,338</b>                  | <b>16,186</b>   | <b>16,186</b>                                       | <b>15,879</b>   |                         |                     |               |

## Notes to the accounts

at 31 December 2003

## 19. Financial instruments (continued)

|                                  | Not more than<br>three months | More than<br>three months<br>but not more<br>six months | More than<br>six months<br>but not more<br>one year | More than<br>one year<br>but not<br>more than<br>five years | Non-interest<br>bearing | Interest<br>bearing | Total         |
|----------------------------------|-------------------------------|---|---|---|-------------------------|---------------------|---------------|
|                                  | £'000                         | £'000   | £'000   | £'000   | £'000                   | £'000               | £'000         |
| <b>Assets:</b>                   |                               |   |   |   |                         |                     |               |
| Loans and advances               |                               |   |   |   |                         |                     |               |
| to banks                         | 30,945                        | —   | —   | —   | 4,731                   | 26,214              | 30,945        |
| Loans and advances -             |                               |   |   |   |                         |                     |               |
| to customers                     | 11,752                        | —   | 621   | 7   | 8                       | 12,372              | 12,380        |
| Debt securities                  | 2,257                         | —   | —   | —   | 32                      | 2,225               | 2,257         |
| Other assets                     | —                             | —   | —   | —   | 840                     | —                   | 840           |
| <b>Total assets</b>              | <b>44,954</b>                 | <b>—</b>  | <b>621</b>  | <b>7</b>  | <b>5,611</b>            | <b>40,811</b>       | <b>46,422</b> |
| <b>Liabilities:</b>              |                               |   |   |   |                         |                     |               |
| Deposits by banks                | 26,773                        | —   | —   | —   | 46                      | 26,727              | 26,773        |
| Customer accounts                | 3,373                         | —   | 41  | —   | 455                     | 2,959               | 3,414         |
| Other liabilities                | —                             | —   | —   | —   | 1,010                   | —                   | 1,010         |
| Holding company                  | 75                            | —   | —   | —   | —                       | 75                  | 75            |
| Shareholders' funds              | —                             | —   | —   | —   | 15,150                  | —                   | 15,150        |
| <b>Total liabilities</b>         | <b>30,221</b>                 | <b>—</b>  | <b>41</b>   | <b>—</b>  | <b>16,661</b>           | <b>29,761</b>       | <b>46,422</b> |
| Interest rate<br>sensitivity gap | 14,733                        | —   | 580   | 7   | (11,050)                | 11,050              |               |
| Cumulative gap                   | 14,733                        | 14,733  | 15,313  | 15,320  |                         |                     |               |

## Currency risk disclosures

The bank 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 2003, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

|             | 2003<br>£  | 2002<br>£  |
|-------------|------------|------------|
| Assets      | 17,196,743 | 25,734,235 |
| Liabilities | 17,199,123 | 25,738,682 |

## Fair values of financial instruments

The term financial instruments includes both financial assets and financial liabilities, and also derivatives. 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.

An analysis between trading and non-trading assets and liabilities has not been provided as the Bank does not have any trading financial instruments.

## Notes to the accounts

at 31 December 2003

### 19. Financial instruments (continued)

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

|                              | 2003      | 2002    |
|------------------------------|-----------|---------|
|                              | £         | £       |
| Underlying principal amounts | 1,122,003 | 682,154 |

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.

### 20. Share capital

|                              | Authorised |            | Allotted and fully paid |            |
|------------------------------|------------|------------|-------------------------|------------|
|                              | 2003       | 2002       | 2003                    | 2002       |
|                              | £          | £          | £                       | £          |
| Ordinary shares of £100 each | 20,000,000 | 20,000,000 | 16,000,000              | 16,000,000 |

### 21. Reconciliation of movements in shareholders' funds

|                     | Share capital | Profit and loss account | Total shareholders' funds |
|---------------------|---------------|-------------------------|---------------------------|
|                     | £             | £                       | £                         |
| At 31 December 2002 | 16,000,000    | (849,753)               | 15,150,247                |
| Profit for the year | –             | 311,022                 | 311,022                   |
| At 31 December 2003 | 16,000,000    | (538,731)               | 15,461,269                |

### 22. Pension commitments

Until 31 October 2002, the company operated a defined benefit scheme. From 31 October 2002 contributions to this scheme were discontinued. From that date, current members were invited to join the company's Group Personal Pension Plan. The trustees are in the process of winding up the scheme.

The fair value of scheme's assets 31 December 2003 as modified by the scheme's investment advisors is £3,608,982. Subsequent to the year end the Bank reached agreement to enter a Deed of Discharge with the trustees whereby it will pay £480,000 in full and final settlement of the bank's obligations under the scheme, together with further payment of approximately £40,000 to fund the purchase of indemnity insurance for the trustees. Accordingly, provision has been made in the accounts for further payments of £520,000 in connection with the scheme.

## Notes to the accounts

at 31 December 2003

## 22. Pension commitments (continued)

Although the Bank has reached agreement in principle with the trustees regarding a full and final settlement of its obligations under the scheme, the Deed of Discharge has not yet been signed and, therefore, the Bank is required to give the disclosures shown below in accordance with Financial Reporting Standard 17 as if the scheme were to continue in operation. Thus the net pension liability shown below is not expected to be incurred.

|                                | <i>Long term<br/>rate of return<br/>expected at<br/>31 December<br/>2003<br/>%</i> | <i>Long term<br/>rate of return<br/>expected at<br/>31 December<br/>2002<br/>%</i> | <i>Value at<br/>31 December<br/>2003<br/>£000</i> | <i>Value at<br/>31 December<br/>2002<br/>£000</i> |
|--------------------------------|--|--|---|---|
| Equities                       | 8.11   | 8.42   | 1,848   | 1,535   |
| Bonds                          | 4.80   | 4.80   | 1,758   | 1,734   |
| Property                       | —  | —  | —   | —   |
| Cash                           | 3.75   | 4.00   | 1   | 1   |
| Total assets                   |  |  | 3,607   | 3,270   |
| Actuarial value of liabilities |  |  | (4,942)   | (4,596)   |
| Net liabilities                |  |  | (1,335)   | (1,326)   |
| Related deferred tax asset     |  |  | 401   | 398   |
| Net pension liability          |  |  | (934)   | (928)   |

The company introduced a defined contribution scheme (the Group Personal Pension Plan) for new employees which commenced in February 1999.

|   | <i>2003<br/>£000</i> | <i>2002<br/>£000</i> |
|---|----------------------|----------------------|
| <b>Movement in deficit during the year:</b>                 |                      |                      |
| Deficit in scheme at beginning of year                      | (1,326)              | (623)                |
| Current service costs                                       | —                    | (131)                |
| Contributions   | —                    | 302                  |
| Past service costs  | —                    | —                    |
| Other financial income                                      | (31)                 | (18)                 |
| Actuarial gain  | 22                   | (856)                |
| Deficit in scheme at end of year                            | (1,335)              | (1,326)              |
| <b>Analysis of amount charged to operating profit:</b>      |                      |                      |
| Current service cost  | —                    | 131                  |
| Past service cost   | —                    | —                    |
| Settlements and curtailments                                | —                    | (219)                |
|   | —                    | (88)                 |
| <b>Analysis of amount credited to other finance income:</b> |                      |                      |
| Expected return on pension scheme assets                    | 213                  | 217                  |
| Interest on pension scheme liabilities                      | (244)                | (235)                |
|   | (31)                 | (18)                 |

## Notes to the accounts

at 31 December 2003

### 22. Pension commitments (continued)

|   | 2003<br>£000 | 2002<br>£000 |
|---|--------------|--------------|
| <b>Analysis of amount recognised in statement of total recognised gains and losses:</b> |              |              |
| Actual less expected return on assets   | 124          | (707)        |
| Experience gains and losses on liabilities  | 76           | 262          |
| Changes in assumptions underlying present value of liabilities                          | (178)        | (411)        |
| Actuarial gain/(loss) recognised in statement of total<br>Recognised gains and losses   | 22           | (856)        |
|   | %            | £'000        |
| <b>Percentage of asset value at balance sheet date represented by:</b>                  |              |              |
| Actual less expected return on assets   | 3.4%         | 124          |
| <b>Percentage of liability value at balance sheet date represented by:</b>              |              |              |
| Experience gains and losses on liabilities  | 1.5%         | 76           |
| Changes in assumptions underlying present value of liabilities                          | (3.6)%       | (178)        |
| Actuarial gain/(loss) recognised in statement of total recognised<br>gains and losses   | 0.4%         | 22           |
| <b>Reconciliation net assets under FRS 17</b>   |              |              |
| Net assets excluding defined benefit asset or liabilities                               | 15,781       | 15,150       |
| FRS 17 defined benefit net liabilities  | (934)        | (928)        |
| Net assets including defined benefit liability  | 14,847       | 14,222       |
| <b>Reconciliation of reserves under FRS 17</b>  |              |              |
| Profit and loss reserves excluding defined benefit asset/(liability)                    | (219)        | (850)        |
| FRS 17 defined benefit liability  | (1,335)      | (1,326)      |
| Profit and loss reserves including amounts relating to defined<br>benefit liability     | (1,554)      | (2,176)      |

### 23. 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<br/>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 transaction with minor shareholders are based on commercial conditions. There is no lending to the majority shareholder.