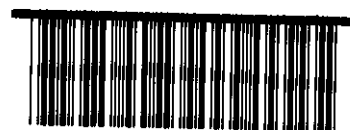


Havana International Bank Limited

Report and Accounts

31 December 2004

 ERNST & YOUNG



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COMPANIES HOUSE		03/09/05
COMPANIES HOUSE		27/07/05

Havana International Bank Limited

Registered No: 1074897

Directors

R Rangel	(Chairman – resigned 30 August 2004)
T Lorenzo	(Managing Director)
A Victoria	
G Roca	
J M Sanchez Cruz	(Resigned 6 April 2004)
A Mulet	(Resigned 6 April 2004)
D Teacher	
M Alba	(Resigned 6 April 2004)
C Rangel	(Resigned 6 April 2004)
M Abdo	(Chairwoman – appointed 18 May 2004)
N Martinez	(Appointed 18 May 2004)
G Gil	(Appointed 18 May 2004)

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

Chairwoman's report

During 2004, Havana International Bank changed its business strategy in the Cuban market in order to deal primarily with Cuban banks rather than companies. This strategy has lowered the risk profile of the business but has also resulted in lower lending margins. However, business with Cuban banks began to show growth in the fourth quarter of 2004, and it is hoped that this growth will continue in 2005 and beyond. It is also hoped that we have put the exceptional issues of the last few years behind us, i.e. pension and dilapidation costs. The table below summarises our results before and after exceptional costs for the period 2001-2004.

<i>Year ended 31 December</i>	<i>Profit before tax per accounts £</i>	<i>Add back exceptional costs* £</i>	<i>Profit before tax and exceptional costs £</i>	<i>Operating expenses# before exceptional costs £</i>
2001	173,177	135,000	308,177	2,124,970
2002	(1,141,187)	1,668,565	527,378	2,092,747
2003	443,581	820,000	1,263,581	1,661,749
2004	262,730	104,000	366,730	1,728,832

* All exceptional costs listed above relate to dilapidation costs in respect of asbestos contamination at the bank's former premises, apart from costs of £1,418,615 in 2002, and £520,000 in 2003, which relate to the closure of the defined benefit pension scheme.

Operating expenses comprise administration costs, depreciation and amortisation.

As always Havana International Bank enjoys the unequivocal support of the shareholders who are delighted that the bank now appears to be entering an era of growth.

After reviewing the positive changes to the loan portfolio I am pleased that the credit risks have reduced considerably which should lead to a reduction in the loan loss provision. Furthermore, the Bank is looking to develop its treasury management to make use of its liquidity in short term transactions more profitable and to oversee the prudent development of its relations with other financial institutions.

During the coming year, the Bank is expecting to expand its support of Banco de Inversiones S.A. – a Cuban Investment Bank – and is aiming to have a very active role in the promotion of investment in the Cuban markets. The Bank has an important challenge to develop its place in the investment banking market.

The Bank's principal objective in 2005 is to broaden its scope of activities to include new business initiatives to enable the bank to play a stronger role in Cuban investment banking and to develop new financial relationships.

We are confident that with the joint effort of management and staff that these objectives will be achieved.

Michelle Abdo

Chairwoman

Directors' report

The directors present their report and the accounts for the year ended 31 December 2004.

Results

In 2004 the Bank achieved a profit on ordinary activities before tax of £262,730 (2003 - £443,581).

Dividend

No dividend has been paid or proposed for the 2004 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. Although the majority of our lending was restructured it is now mainly to Banks and Other Financial Institutions as opposed to customers. Our trade finance activities were still mainly in the Cuban market where our expertise enabled us to further develop this activity. The Bank has also been seeking new business opportunities with the support of capital markets and is keen to focus on the development of its investment banking projections.

Future developments

It is our opinion that economic development within Cuba will continue to expand, however, as with this year's results profitability may be affected as a result of the increased participation in the Cuban market by other financial institutions. The implementation of a business plan for 2005 has been approved, enabling us to remain competitive and to provide a good service.

Fixed assets

Details of the company's fixed assets are shown in note 11 to the accounts.

Directors and their interests

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

R Rangel	(Chairman – resigned 30 August 2004)
A Victoria	
A Mulet	(Resigned 6 April 2004)
G Roca	
J M Sanchez Cruz	(Resigned 6 April 2004)
D Teacher	
M Alba	(Resigned 6 April 2004)
C Rangel	(Resigned 6 April 2004)
T Lorenzo	(Managing Director)
M Abdo	(Chairwoman - appointed 18 May 2004)
N Martinez	(Appointed 18 May 2004)
G Gil	(Appointed 18 May 2004)

The directors at 31 December 2004 had no interests in the share capital of the company.

Directors' report

Auditors

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

By order of the board



Secretary

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 2004 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Statement of Cash Flows and the related notes 1 to 22. 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

The directors are responsible for preparing the accounts in accordance with United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the accounts.

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 other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This information comprises the Chairwoman's Report and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

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 2004 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

30 March 2005

Profit and loss account**for the year ended 31 December 2004**

	<i>Notes</i>	<i>2004</i> £	<i>2003</i> £
Interest receivable:			
Listed debt securities		—	78,759
Other	2	1,930,529	2,014,898
		<u>1,930,529</u>	<u>2,093,657</u>
Interest payable		(574,403)	(363,060)
Net interest income		<u>1,356,126</u>	<u>1,730,597</u>
Fees and commissions receivable		317,446	918,405
Fees and commissions payable		(74,207)	(5,536)
Dealing profits		150,865	185,265
Other operating income		8,417	15,382
		<u>402,521</u>	<u>1,113,516</u>
Total operating income		<u>1,758,647</u>	<u>2,844,113</u>
Administrative expenses	3	1,691,627	1,595,226
Depreciation and amortisation		37,205	66,523
Provisions for liabilities and charges	16	—	820,000
		<u>1,728,832</u>	<u>2,481,749</u>
Operating profit	4	29,815	362,364
Profit on sale of tangible fixed assets		232,915	81,217
Profit on ordinary activities before tax		<u>262,730</u>	<u>443,581</u>
Tax on profit on ordinary activities	6	(46,971)	(132,559)
Profit retained for the financial year	20	<u>215,759</u>	<u>311,022</u>

Statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 £	2003 £
Profit attributable to members of the company	215,759	311,022
Unrealised gain on equity investments	2,647	—
Total gains and losses relating to the year	<u>218,406</u>	<u>311,022</u>

Balance sheet

at 31 December 2004

	Notes	2004 £	2003 £
Assets			
Cash and balances at central banks		9,284	14,626
Loans and advances to banks	8	33,513,440	25,450,502
Loans and advances to customers	9	6,706,031	10,576,127
Equity investments	10	49,577	-
Tangible fixed assets	11	525,756	668,603
Prepayments and accrued income		359,219	398,648
Debtors	7	96,092	175,706
Total assets		41,259,399	37,284,212
Liabilities			
Deposits by banks	13	16,083,378	15,589,908
Customer accounts	14	4,612,446	2,848,166
Due to parent undertaking		4,369,163	1,368,806
Other liabilities - taxation		(62,650)	122,761
Accruals and deferred income		143,596	126,802
Provisions for liabilities and charges	16	100,000	1,420,000
Loans	17	333,791	346,500
		25,579,724	21,822,943
Called up share capital	19	16,000,000	16,000,000
Profit and loss account	20	(320,325)	(538,731)
		15,679,675	15,461,269
Total liabilities		41,259,399	37,284,212
Memorandum items			
Guarantees and assets pledged as collateral security		35,469	10,000
		35,469	10,000
Commitments		-	100,000
Other commitments		-	100,000

Director

Date



30/03/05



Statement of cash flows

for the year ended 31 December 2004

	Notes	2004 £	2003 £
Cash outflow from operating activities	12(a)	2,283,188	(482,737)
Taxation			
UK corporation tax paid		(152,768)	(254,429)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(14,942)	(482,276)
Receipts from sale of tangible fixed assets		353,500	144,421
Payments to acquire investments		(46,930)	–
Receipts from sale/maturity of debt securities		–	2,225,000
Net cash inflow from investing activities		291,628	1,887,145
Equity dividends paid		–	(190,000)
Increase in cash	12(b)	2,422,048	959,979

Notes to the accounts

at 31 December 2004

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. The leasehold land and buildings are not revalued at year end.

Equity investments

Equity investments are stated in the balance sheet at market value. Unrealised gains are taken to the reserves, whilst unrealised losses will be recognised in the P&L during the year.

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 2004

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.

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

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

	2004 £	2003 £
Staff costs:		
Wages and salaries	702,076	717,538
Social security costs	61,419	75,598
Pension costs	73,773	77,107
	<u>837,268</u>	<u>870,243</u>
Other administrative expenses	854,359	724,983
	<u>1,691,627</u>	<u>1,595,226</u>
	2004 No.	2003 No.
Average weekly number of employees during the year	19	20

4. Operating profit

This is stated after charging:

	2004 £	2003 £
Auditors' remuneration - audit services	48,500	46,000
- non-audit services	24,500	12,721
Depreciation of owned fixed assets	37,206	35,024

Notes to the accounts

at 31 December 2004

5. Directors' emoluments

	2004 £	2003 £
Aggregate emoluments	138,854	165,299

	2004 £	2003 £
The amount paid in respect of the highest paid director is as follows: Emoluments	60,000	55,000

No pension benefits were paid to directors during the year.

6. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

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

	2004 £	2003 £
UK corporation tax		
UK corporation tax on profits of the year	(52,757)	264,511
Adjustments in respect of previous periods	20,114	19,611
	(32,643)	284,122
Deferred tax		
Origination and reversal of timing differences	79,614	(151,563)
	46,971	132,559

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

	2004 £	2003 £
Profit on ordinary activities before tax	262,730	443,581
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 – 30%)	78,819	133,074
Effect of:		
Disallowed expenses and non-taxable income	(67,893)	(20,126)
Capital allowances in excess of depreciation	(1,746)	(4,437)
Other timing differences	(78,000)	156,000
Adjustments in respect of previous periods	20,114	19,611
Capital gains	16,063	–
Current tax charge for the year	(32,643)	284,122

Notes to the accounts

at 31 December 2004

6. Tax on profit on ordinary activities (continued)

(c) Deferred tax

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

	2004 £	2003 £
Included in debtors (note 7)	96,092	175,706
Accelerated capital allowances	18,092	19,706
General provisions	78,000	156,000
Deferred tax asset	96,092	175,706
Deferred tax asset at start of year	175,706	24,143
Deferred tax credit in profit and loss for year	(79,746)	151,563
Adjustments in respect of prior year	132	-
Deferred tax asset at end of year	96,092	175,706

7. Debtors

	2004 £	2003 £
Deferred tax asset (see note 6)	96,092	175,706

8. Loans and advances to banks

	2004 £	2003 £
Repayable:		
- within three months	21,011,797	19,600,009
- between three months and one year	12,501,643	5,850,493
	33,513,440	25,450,502
Amounts include:		
- due from related parties (unsubordinated)	3,683,250	4,408,087

Notes to the accounts

at 31 December 2004

9. Loans and advances to customers

	2004	2003
	£	£
Repayable:		
- within three months	1,455,784	4,206,963
- between three months and one year	5,246,341	6,329,358
- between one and five years	3,906	39,806
	<u>6,706,031</u>	<u>10,576,127</u>

The aggregate amount of all loans and advances to customers, which are repayable on demand, is £66,786 (2003 - £91,909).

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

10. Equity investments

	£	
Cost:		
At 1 January 2004	—	
Additions	46,930	
Disposals	—	
	<u>46,930</u>	
At 31 December 2004	<u>46,930</u>	
	2004	2003
	£	£
Listed investments	46,930	—
Unlisted investments	—	—
	<u>46,930</u>	<u>—</u>
Valuation:		
Listed investments – market value	<u>49,577</u>	<u>—</u>

Notes to the accounts

at 31 December 2004

11. Fixed assets

	Computer equipment £	Computer software £	Short leasehold property and improvements £	Long leasehold property and improvements £	Furniture/ equipment and vehicles £	Total £
Cost:						
At 31 December 2003	74,035	10,297	39,959	619,345	149,247	892,883
Additions	6,078	8,864	—	—	—	14,942
Disposals	(7,302)	—	(2,293)	(157,128)	(1,417)	(168,140)
At 31 December 2004	72,811	19,161	37,666	462,217	147,830	739,685
Depreciation:						
At 31 December 2003	48,648	2,099	7,358	35,711	130,464	224,280
Charge for the year	15,075	8,238	3,798	3,425	6,669	37,205
Disposals	(7,135)	—	(2,293)	(36,751)	(1,377)	(47,556)
At 31 December 2004	56,588	10,337	8,863	2,385	135,756	213,929
Net book value:						
At 31 December 2004	16,223	8,824	28,803	459,832	12,074	525,756
At 31 December 2003	25,387	8,198	32,601	583,634	18,783	668,603

12. Movement in cash balances

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

	2004 £	2003 £
Operating profit	29,815	362,364
Depreciation	37,205	35,024
Provisions	(1,320,000)	820,000
Amortisation of premium on investments	—	31,614
Decrease in interest receivable and prepaid expenses	39,429	113,043
Increase/(decrease) in interest payable and accrued expenses	16,794	(5,776)
Net cash (outflow)/inflow from trading activities	(1,196,757)	1,356,269
Net increase/(decrease) in deposits	5,245,398	(10,107,742)
Net (increase)/decrease in loans to banks and customers	(202,641)	8,268,736
Increase in short term trade bills discounted	(1,562,812)	—
	3,479,945	(1,839,006)
Net cash inflow/(outflow) from continuing operating activities	2,283,188	(482,737)

Notes to the accounts

at 31 December 2004

12. Movement in cash balances (continued)

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

	<i>1 January</i> 2004 £	<i>Change in</i> year £	<i>31 December</i> 2004 £
Cash and balances at central banks	14,626	(5,342)	9,284
Loans and advances to other banks repayable on demand	5,700,915	2,427,390	8,128,305
	<u>5,715,541</u>	<u>2,422,048</u>	<u>8,137,589</u>

13. Deposits by banks

	2004 £	2003 £
Repayable:		
- within three months	14,012,984	13,909,612
- between three months and one year	2,070,394	1,680,296
	<u>16,083,378</u>	<u>15,589,908</u>
Amounts include:		
- due to related parties (unsubordinated)	937,140	2,976,416

14. Customer accounts

	2004 £	2003 £
Repayable:		
- within three months	3,192,437	2,197,294
- between three months and one year	1,420,009	650,872
	<u>4,612,446</u>	<u>2,848,166</u>

The aggregate amount of customer accounts which is repayable on demand is £1,811,570 (2003 - £648,258).

15. Obligations under leases

Commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings</i>	
	2004 £	2003 £
Operating leases due:		
Within one year	120,698	120,698
In two to five years	482,792	482,792
In over five years	321,861	442,559
	<u>925,351</u>	<u>1,046,049</u>

Notes to the accounts

at 31 December 2004

16. Provisions for liabilities and charges

Other provisions

	<i>General provision for bad debts</i>		<i>Dilapidations</i>	<i>Retirement benefits</i>	<i>Total</i>
	£	£	£	£	£
At 1 January 2004	100,000	800,000	520,000	1,420,000	
Charge for the year	–	(800,000)	(520,000)	(1,320,000)	
At 31 December 2004	100,000	–	–	100,000	

Dilapidations

This provision was recognised for the refurbishment of the Bank's former premises on Ironmonger Lane. Under the lease agreement the Bank had a contractual obligation to return the premises to its original state. These costs were incurred in 2004.

Retirement benefits

This provision was for the final settlement agreed with the Trustees on the closure of the defined benefit pension scheme. The settlement was made in 2004.

17. Loans

	2004 £	2003 £
Not wholly repayable within five years:		
Bank loans of £136,500 and £210,000 at 5.25% per annum, repayable in monthly instalments of £918 and £1,412 (capital and interest) commencing 10 February 2003, wholly repayable on 10 February 2023	333,791	346,500
	333,791	346,500
Amounts repayable:		
In one year or less, or on demand	10,750	10,675
In more than one year but not more than two years	11,328	11,209
In more than two years but not more than five years	37,773	37,102
	59,851	58,986
In more than five years	273,940	287,514
	333,791	346,500

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.

Notes to the accounts

at 31 December 2004

18. 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. 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.

Market risk

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

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

Interest rate risk

The majority of the bank's lending is at fixed rates. The money market deposits are placed at the best rates available in the market. 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 2004. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Notes to the accounts

at 31 December 2004

18. Financial instruments (continued)

Interest rate sensitivity gap table

		<i>More than three months</i>	<i>More than six months</i>	<i>More than one year but not more than five years</i>	<i>More than five years</i>	<i>Non-interest bearing</i>	<i>Interest bearing</i>	<i>Total</i>
2004	<i>Not more than three months</i>	<i>Not more than three months</i>	<i>Not more than one year</i>	<i>Not more than five years</i>	<i>Not more than five years</i>	<i>Not more than five years</i>	<i>Not more than five years</i>	<i>Not more than five years</i>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets:								
Loans and advances								
to banks	13,234	6,751	5,400	—	—	8,128	25,385	33,513
Loans and advances -								
to customers	1,446	4,839	22	393	—	6	6,700	6,706
Equity investments	—	—	—	—	—	50	—	50
Other assets	—	—	—	—	—	990	—	990
Total assets	14,680	11,590	5,422	393	—	9,174	32,085	41,259
Liabilities:								
Deposits by banks	13,483	353	2,070	—	—	177	15,906	16,083
Customer accounts	2,881	644	—	—	—	1,088	3,525	4,613
Other liabilities	—	—	—	—	—	181	—	181
Holding company	3,269	1,100	—	—	—	—	4,369	4,369
Loans	—	—	—	—	333	—	333	333
Shareholders' funds	—	—	—	—	—	15,680	—	15,680
Total liabilities	19,633	2,097	2,070	—	333	17,126	24,133	41,259
Interest rate sensitivity gap	(4,953)	9,493	3,352	393	(333)	(7,952)	7,952	
Cumulative gap	(4,953)	4,540	7,892	8,285	7,952			

Notes to the accounts

at 31 December 2004

18. Financial instruments (continued)

	Not more than three months	More than three months but not more six months	More than six months but not more one year	More than one year but not more than five years	Non-interest bearing	Interest bearing	Total
2003	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets:							
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
Total assets	23,813	12,179	—	40	1,252	36,032	37,284
Liabilities:							
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
Total liabilities	17,475	2,331	—	347	17,131	20,153	37,284
Interest rate sensitivity gap	6,338	9,848	—	(307)	(15,879)	15,879	
Cumulative gap	6,338	16,186	16,186	15,879			

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 2004, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2004 £	2003 £
Assets	17,320,504	17,196,743
Liabilities	16,639,540	17,199,123

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.

The only trading book assets are equity investments, please refer to note 10 for disclosures.

Notes to the accounts

at 31 December 2004

18. Financial instruments (continued)

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

	2004	2003
	£	£
Underlying principal amounts	760,870	1,122,003

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.

19. Share capital

	2004	Authorised 2003	2004	Allotted and fully paid 2003
	£	£	£	£
Ordinary shares of £100 each	20,000,000	20,000,000	16,000,000	16,000,000

20. Reconciliation of movements in shareholders' funds

	Equity share capital £	Profit and loss account £	Total shareholders' funds £
At 1 January 2003	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
Profit for the year	–	215,759	215,759
Unrealised gain on equity investment	–	2,647	2,647
At 31 December 2004	16,000,000	(320,325)	15,679,675

21. 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 scheme was wound up in 2004 and the Bank settled its obligations under the scheme in the year, utilising the provision of £520,000 which had been set up in 2003 for this purpose.

Notes to the accounts

at 31 December 2004

22. Related parties

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

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

Any transaction with minor shareholders are based on commercial conditions. There is no lending to the majority shareholder.

Havana International Bank Limited

Profit and loss account

for the year ended 31 December 2004

	2004 £	2003 £	2002 £
Interest receivable:			
Listed debt securities	–	78,759	177,657
Other	1,930,529	2,014,898	2,108,480
	1,930,529	2,093,657	2,286,137
Interest payable	(574,403)	(363,060)	(536,198)
Net interest income	1,356,126	1,730,597	1,722,939
Fees and commissions receivable	317,446	918,405	772,498
Fees and commissions payable	(74,207)	(5,536)	(22,307)
Dealing profits	150,865	185,265	135,985
Other operating income	8,417	15,382	8,541
	402,521	1,113,516	894,627
Total operating income	1,758,647	2,844,113	2,617,566
Administrative expenses	1,691,627	1,595,226	3,398,769
Depreciation and amortisation	37,205	66,523	113,543
Provisions for liabilities and charges	–	820,000	250,000
	1,728,832	2,481,749	3,671,312
Operating profit	29,815	362,364	(1,143,746)
Profit on sale of tangible fixed assets	232,915	81,217	2,559
Profit on ordinary activities before tax	262,730	443,581	(1,141,187)
Tax on profit on ordinary activities	(46,971)	(132,559)	339,401
Profit/(loss) for the financial year	215,759	311,022	(801,786)
Dividends	–	–	(190,000)
Profit retained for the financial year	215,759	311,022	(991,786)

Havana International Bank Limited

Balance sheet

as at 31 December 2004

	2004 £	2003 £	2002 £
Assets			
Cash and balances at central banks	9,284	14,626	24,394
Loans and advances to banks	33,513,440	25,450,502	30,944,659
Loans and advances to customers	6,706,031	10,576,127	12,380,959
Equity investments	49,577	—	2,256,614
Tangible fixed assets	525,756	668,603	279,582
Prepayments and accrued income	359,219	398,648	511,691
Debtors	96,092	175,706	24,143
Total assets	41,259,399	37,284,212	46,422,042
Liabilities			
Deposits by banks	16,083,378	15,589,908	26,772,780
Customer accounts	4,612,446	2,848,166	3,413,519
Due to parent undertaking	4,369,163	1,368,806	74,823
Other liabilities - taxation	(62,650)	122,761	88,095
Accruals and deferred income	143,596	126,802	132,578
Dividends payable	—	—	190,000
Provisions for liabilities and charges	100,000	1,420,000	600,000
Loans	333,791	346,500	—
	25,579,724	21,822,943	31,271,795
Called up share capital	16,000,000	16,000,000	16,000,000
Profit and loss account	(320,325)	(538,731)	(849,753)
	15,679,675	15,461,269	15,150,247
Total liabilities	41,259,399	37,284,212	46,422,042
Memorandum items			
Acceptances and endorsements	—	—	124,417
Guarantees and assets pledged as collateral security	35,469	10,000	385,925
	35,469	10,000	510,342
Commitments			
Other commitments	—	100,000	299,152