1074897

Havin Bank Limited

Report and Financial Statements

31 December 2008

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COMPANIES HOUSE

Registered No: 1074897

Directors

G Roca	(Managing Director)
O Lopez	(Appointed 15 January 2009)
T Lorenzo	(Resigned 15 January 2009)
I Bacallao	
A Victoria	
N Martinez	
G Gil	
S Shah	

Secretary

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

Auditors

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

Registered Office

5th floor
30 Marsh Wall
London E14 9TP

Chairman's report

On behalf of the Board of Directors of HIB it gives me great pleasure to present the Banks Annual Report and Financial Statements for the year ended 31st December 2008.

I am pleased to report that 2008 was another year which showed satisfactory profitability for the Bank during what can only be described as turbulent times. This is as a result, in particular, of the Bank's unique relationship with the Cuban banks.

I would like to express the Board's thanks to all our staff and management whose commitment to the Bank is appreciated, as well as to our shareholders for its support and guidance.

In the light of these results, the Board of Directors has proposed a cash dividend to be distributed in 2009 and to use the remainder of the profits to increase the reserves.

We will remain prudent in our management and control of risk, while at the same time remaining vigilant and well placed to take advantage of the opportunities that will undoubtedly arise.

In the middle of this financial crisis is very difficult to predict what might happen even in the near future, so HIB has to be prepared to take measures to reduce any impact of this crisis to its banking business and to adhere to the new rules to be implemented by the financial regulatory authorities with regard to liquidity and stress testing.

We are confident that we will meet these objectives and obtain a positive performance in 2009.

P.P

Nelson Martínez

Chairman

Havin Bank Ltd

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2008.

Results

In 2008 the Bank achieved a profit on ordinary activities before tax of £613,080 (2007 - £522,425).

Dividend

A dividend of £200,000 has been paid during the year. The directors recommend a dividend of £250,000. The dividend will be recognised and paid in 2009.

Principal activities and review of the business

The bank is a UK registered, wholly Cuban owned bank. Full details of the Bank's ownership are shown in note 23 of the financial statements.

The bank's principal activity throughout the year was the provision of loans and deposits, mainly to banks and other financial institutions. The bank also participated in the wholesale markets with money market operations, mainly short term, and also foreign exchange operations.

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

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

After the collapse of the big banks throughout the world and with the uncertainty as to who could be next, The General Management – approved by the Board – implemented some provisional measures in the second half of 2008, in order to reduce financial risk in our money market operations.

The principal risks and uncertainties of the bank during the year is set out in note 18 to the financial statements.

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

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

The bank produced a return on investment of 3.7%.

Future developments

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

In the coming years the bank's business plan aims to meet the following strategic targets:

- To gradually introduce new services related to the activities of an investment bank previously approved by FSA and the shareholders, being supported by brokers and investment banks in Europe.
- To raise the bank's profit attributable to businesses of intermediation in the capital markets.
- To adopt flexible structures ensuring quality services and low fixed costs.

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

Directors' report

On the other hand it is very important to pay special attention to the development of the financial crisis and to be aware of the steps taken by all international market participants, as well as new rules issued by the regulatory authorities in order to be prepared to implement any new measures required.

Fixed assets

Details of the bank's fixed assets are shown in note 11 to the financial statements.

Directors and their interests

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

G Roca	Managing Director
T Lorenzo	(Resigned 15 January 2009)
I Bacallao	
A Victoria	
N Martinez	Chairman
G Gil	
S Shah	

The directors at 31 December 2008 had no interests in the share capital of the company.

Disclosure of information to the auditors

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

Re-appointment of auditors

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

By order of the board

Secretary

Date: 24/03/09

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the bank and of the profit and loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

Independent auditors' report

to the members of Havin Bank Limited

We have audited the bank's financial statements of for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank and the bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Independent auditors' report

to the members of Havin Bank Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Chairman's and Directors' reports is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

Date:

26 March 2009

Profit and loss account

for the year ended 31 December 2008

	Notes	*2008* £	*2007* £
Interest receivable		2,772,349	2,273,128
Interest payable		(1,111,070)	(704,784)
Net interest income		1,661,279	1,568,344
Fees and commissions receivable		140,751	113,669
Fees and commissions payable		(1,241)	(1,412)
Dealing profits		73,461	62,812
Other operating income	3	10,147	8,049
		223,118	183,118
Total operating income		1,884,397	1,751,462
Administrative expenses	4	(1,263,196)	(1,215,653)
Depreciation of tangible fixed assets		(8,121)	(13,196)
		(1,271,317)	(1,228,849)
Operating profit	5	613,080	522,613
Loss on sale of tangible fixed assets		–	(188)
Profit on ordinary activities before tax		613,080	522,425
Tax on profit on ordinary activities	7	(175,085)	(163,381)
Profit for the financial year		437,995	359,044
Dividends	8	(200,000)	250,000)
Profit retained for the financial year	22	237,995	109,044

Statement of total recognised gains and losses

for the year ended 31 December 2008

	Note	*2008* £	*2007* £
Profit retained for the financial year	20	237,995	109,044
Total recognised gains and losses		237,995	109,044

Balance sheet

at 31 December 2008

	Notes	2008 £	2007 £
Assets			
Cash balances		14,611	18,880
Loans and advances to banks	9	62,058,812	42,407,653
Loans and advances to customers	10	6,823,764	5,874,157
Tangible fixed assets	11	304,819	300,258
Prepayments and accrued income		275,497	294,351
Other assets	12	29,992	34,442
Total assets		69,507,495	48,929,741
Liabilities			
Deposits by banks	14	16,851,647	24,530,984
Customer accounts	15	35,581,978	7,419,725
Due to parent undertaking		74,522	238,480
Current tax liabilities		75,232	77,873
Accruals and deferred income		133,423	104,843
Loans	17	183,855	188,993
		52,900,657	32,560,898
Called up share capital	19	16,000,000	16,000,000
Profit and loss account	20	606,838	368,843
		16,606,838	16,368,843
Total liabilities		69,507,495	48,929,741
Memorandum items			
Guarantees and assets pledged as collateral security	21	10,000	10,000
		10,000	10,000
Commitments			
Other commitments	21	48,131	100,000

Director [signature]

Date: 23/3/09

Statement of cash flows

for the year ended 31 December 2008

	Notes	2008 £	2007 £
Cash inflow/(outflow) from operating activities	13(a)	306,922	(3,791,053)
Taxation			
UK corporation tax paid		(174,873)	(157,181)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(12,682)	(2,242)
Net cash inflow from investing activities		(12,682)	669,558
Equity dividends paid		(200,000)	(250,000)
(Decrease) in cash and cash equivalents	13(b)	(80,633)	(3,528,676)

Notes to the financial statements

at 31 December 2008

1. Accounting policies

Accounting convention

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

Basis of preparation

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

Changes in accounting policies

As from 1 January 2007, the Bank adopted FRS 29 Financial Instruments Disclosures. As a result additional disclosures are made on Risk Management. The change has no impact on the results for the year ended 31 December 2008.

Foreign currencies

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

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate ruling at the balance sheet date. All differences are taken to profit and loss account with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity which are taken directly to reserves until disposal of the net investment, at which time they are recognised in the profit and loss account. Tax charges and credit attributable to exchange differences on those borrowings are also recorded in equity.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Financial Instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

Initial recognition of financial instruments

All financial instruments are booked at cost.

Derecognition of financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired.

Derecognition of financial liabilities

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

Loans and advances to banks and customers

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

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

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

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

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

Notes to the financial statements

at 31 December 2008

historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

1. Accounting policies (continued)

Depreciation and amortisation

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

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

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

Deferred taxation

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

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

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

Leasing

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

Interest income

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

Fees and commissions

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

Pensions

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

2. Segmental analysis

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

Notes to the financial statements

at 31 December 2008

3. Other operating income

	2008	*2007*
	£	*£*
Trustee fees	6,248	6,248
Other	978	978
FX revaluation profit	2,921	823
	10,147	8,049

4. Administrative expenses

	2008	*2007*
	£	*£*
Staff costs:		
Wages and salaries	520,346	483,299
Social security costs	50,328	63,805
Pension costs	47,256	44,068
	617,930	591,172
Other administrative expenses	645,266	624,481
	1,263,196	1,215,653

	2008	*2007*
	No.	*No.*
Average number of employees during the year	15	15

5. Operating profit

This is stated after charging:

	2008	*2007*
	£	*£*
Auditors' remuneration - audit services	57,000	54,000
- taxation services	7,400	20,670
Depreciation of owned fixed assets	8,121	13,196
Operating lease rental – land and buildings	120,698	120,698

Notes to the financial statements

at 31 December 2008

6. Directors' emoluments

	2008 £	*2007* £
Aggregate emoluments	173,366	145,834

	2008 £	*2007* £
The amount paid in respect of the highest paid director is as follows:		
Emoluments	66,872	62,550

No pension benefits were paid to directors during the year.

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2008 £	*2007* £
UK corporation tax		
UK corporation tax on profits of the year	172,232	154,373
Adjustments in respect of previous periods	–	7,205
Current tax charge for the year (note 7(b))	172,232	161,578
Deferred tax		
Origination and reversal of timing differences	2,853	1,803
	175,085	163,381

(b) The tax charge for the year is higher than the standard rate of corporation tax in the UK of 28.5% (2007 - 30%). The differences are reconciled below:

	2008 £	*2007* £
Profit on ordinary activities before tax	613,080	522,425
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007 – 30%)	174,728	156,728
Effect of:		
Disallowed expenses and non-taxable income	1,882	1,984
Capital allowances in excess of depreciation	(5,846)	(2,794)
Relief for pension contributions	1,468	(1,545)
Adjustments in respect of previous periods	–	7,205
Current tax charge for the year	172,232	161,578

Notes to the financial statements

at 31 December 2008

7. Tax on profit on ordinary activities (continued)

(c) Deferred tax

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

	2008	2007
	£	£
Included in other assets (note 12)	12,039	14,892
Accelerated capital allowances	8,679	12,974
Losses	–	1,918
Other timing differences	3,360	–
Deferred tax asset	12,039	14,892
Deferred tax asset at start of year	14,892	16,694
Deferred tax credit in profit and loss for year	(4,301)	(5,403)
Adjustments in respect of prior year	1,448	3,600
Deferred tax asset at end of year	12,039	14,891

8. Dividends

Equity dividends on ordinary shares:		
Dividend payable	200,000	250,000

9. Loans and advances to banks

	2008	2007
	£	£
Repayable:		
- within three months	52,058,812	32,407,653
- between three months and one year	10,000,000	10,000,000
	62,058,812	42,407,653
Amounts include:		
- due from related parties	9,167,000	9,416,740

The aggregate amount of all loans and advances, which are repayable on demand, is £655,999 (2007 - £732,363).

Notes to the financial statements

at 31 December 2008

10. Loans and advances to customers

	2008	*2007*
	£	*£*
Repayable:		
- within three months	6,823,764	2,899,255
- between three months and one year	–	2,974,902
	6,823,764	5,874,157

The aggregate amount of all loans and advances to customers which are repayable on demand is £61,869 (2007 - £nil).

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

11. Fixed assets

	Computer equipment	*Computer software*	*Leasehold improvements*	*Long leasehold property*	*Furniture/ equipment and vehicles*	*Total*
	£	*£*	*£*	*£*	*£*	*£*
Cost:						
At 31 December 2007	73,139	37,448	37,666	279,909	112,628	540,790
Additions	3,372	–	–	–	9,310	12,682
Disposals	(2,100)	–	–	–	–	(2,100)
At 31 December 2008	74,411	37,448	37,666	279,909	121,938	551,372
Depreciation:						
At 31 December 2007	70,734	37,151	20,257	1,405	110,985	240,532
Charge for the year	1836	210	3,798	281	1,996	8,121
Disposals	(2,100)	–	–	–	–	(2,100)
At 31 December 2008	70,470	37,361	24,055	1,686	112,981	246,553
Net book value:						
At 31 December 2007	2,405	297	17,409	278,504	1,643	300,258
At 31 December 2008	3,941	87	13,611	278,223	8,957	304,819

Notes to the financial statements

at 31 December 2008

12. Other assets

	2008	2007
	£	£
Deferred tax asset (see note 7 (c))	12,039	14,892
Loans and advances to employees	17,953	19,550
	29,992	34,442

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

	2008	2007
	£	£
Repayable:		
- within three months	5,512	5,595
- between three months and one year	11,658	9,594
- between one and five years	783	4,361
	17,953	19,550

The aggregate amount of all loans and advances to employees which are repayable on demand is £nil (2007 - £nil).

Notes to the financial statements

at 31 December 2008

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

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

	2008	*2007*
	£	*£*
Operating profit	613,080	522,613
Depreciation	8,121	13,196
Decrease in interest receivable and prepaid expenses	18,854	30,291
Increase/(decrease) in interest payable and accrued expenses	28,580	(54,719)
Net cash inflow from trading activities	668,635	511,381
Net increase in deposits by banks and customers	20,313,820	1,917,782
Net (increase) in loans to banks and customers	(20,675,533)	(6,220,216)
	(361,713)	(4,302,434)
Net cash inflow/(outflow) from continuing operating activities	306,922	(3,791,053)

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

	1 January 2008	*Change in year*	*31 December 2008*
	£	*£*	*£*
Cash balance	18,880	(4,269)	14,611
Loans and advances to other banks repayable on demand	732,363	(76,364)	655,999
	751,243	(80,633)	670,610

Notes to the financial statements

at 31 December 2008

14. Deposits by banks

	2008	*2007*
	£	*£*
Repayable:		
- within three months	16,851,647	24,530,984
	16,851,647	24,530,984
Amounts include:		
- due to related parties	1,291,113	1,131,860

The aggregate amount of customer accounts which is repayable on demand is £9,891,303 (2007 - £22,594,398).

15. Customer accounts

	2008	*2007*
	£	*£*
Repayable:		
- within three months	34,496,078	4,546,342
- between three months and one year	1,085,900	2,873,383
	35,581,978	7,419,725

The aggregate amount of customer accounts which is repayable on demand is £5,934,635 (2007 - £776,395).

16. Obligations under leases

Commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2008	*2007*
	£	*£*
Operating leases due:		
- In two to five years	120,698	120,698
	120,698	120,698

Notes to the financial statements

at 31 December 2008

17. Loans

	2008	*2007*
	£	£
Not wholly repayable within five years:		
Bank loan of £210,000 at 1.5% above the bank's base rate repayable in monthly instalments of £1,412 (capital and interest) commencing 10 February 2003, wholly repayable on 10 February 2023	183,855	188,993

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.

18. Financial instruments

The company's financial instruments comprise cash and balances at central banks, loans and advances to banks, loans and advances to customers, deposit by banks and customer accounts.

Risk management

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

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

Operational risk

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

Notes to the financial statements

at 31 December 2008

18. Financial instruments (continued)

Liquidity risk

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

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

Credit risk

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

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

Market risk

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

Concentration risk

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

The Bank's financial assets analysed by geographical region:

	2008	*2007*
	£'000	*£'000*
United Kingdom	21,354	22,421
Europe	18,289	11
Cuba	25,398	25,892
British Virgin Islands	3,858	–
Others	2	3
	68,901	48,327

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

	2008	*2007*
Bank	52,892	33,017
Related Party Banks	9,167	9,417
Corporate	6,824	5,874
Other	18	19
	68,901	48,327

Notes to the financial statements

at 31 December 2008

18. Financial instruments (continued)

Interest rate risk

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

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

Interest rate risk profile of financial instruments

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

2008

	Not more than three months £'000	*More than three months but not more than six months £'000*	*More than six months but not more than one year £'000*	*More than one year but not more than five years £'000*	*More than five years £'000*	*Non-interest bearing £'000*	*Total £'000*
Cash balances	–	–	–	–	–	15	15
Loans and advances to banks	51,402	4,000	6,000	–	–	656	62,058
Loans and advances - to customers	6,824	–	–	–	–	–	6,824
Debt securities	–	–	–	–	–	–	–
Other assets	–	–	2	3	–	606	611
Total financial assets	58,226	4,000	6,002	3	–	1,277	69,508
Deposits by banks	12,688	–	–	–	–	4,164	16,852
Customer accounts	34,164	1,086	–	–	–	332	35,582
Due to parent undertaking	74	–	–	–	–	–	74
Current tax liabilities	–	–	–	–	–	75	75
Accruals and deferred income	–	–	–	–	–	134	134
Loans	–	–	–	–	184	–	184
Shareholders' funds	–	–	–	–	–	16,607	16,607
Total financial liabilities	46,926	1,086	–	–	184	21,312	69,508
Interest rate sensitivity gap	11,300	2,914	6,002	3	(184)	(20,035)	–
Cumulative gap	11,300	14,214	20,216	20,219	20,035	–	–

Notes to the financial statements

at 31 December 2008

18. Financial instruments (continued)

Interest rate risk (continued)

Interest rate risk profile of financial instruments (continued)

2007

	Not more than three months £'000	*More than three months but not more than six months £'000*	*More than six months but not more than one year £'000*	*More than one year but not more than five years £'000*	*More than five years £'000*	*Non-interest bearing £'000*	*Total £'000*
Cash and balances at central bank	–	–	–	–	–	19	19
Loans and advances to banks	31,650	4,000	6,000	–	–	758	42,408
Loans and advances - to customers	2,899	2,975	–	–	–	–	5,874
Debt securities	–	–	–	–	–	–	–
Other assets	–	–	2	4	–	623	629
Total financial assets	34,549	6,975	6,002	4	–	1,400	48,930
Deposits by banks	23,648	–	–	–	–	883	24,531
Customer accounts	4,546	–	2,873	–	–	366	7,419
Due to parent undertaking	238	–	–	–	–	–	238
Current tax liabilities	–	–	–	–	–	77	77
Accruals and deferred income	–	–	–	–	–	105	105
Loans	–	–	–	–	189	–	189
Shareholders' funds	–	–	–	–	–	16,371	16,371
Total financial liabilities	28,066	–	2,873	–	189	17,802	48,930
Interest rate sensitivity gap	6,483	6,975	3,129	4	(189)	(16,402)	–
Cumulative gap	6,483	13,458	16,587	16,591	16,402	–	–

Capital Requirement

The Bank's capital level in relation to its business activities is very strong. Controls are in place to constantly monitor the level of capital and ensure that this strong position is maintained. Account is taken of all potential events that could have an impact on capital adequacy.

The Bank's present strategy is to monitor its existing level of activity and asset portfolio. The Bank's capital is ample to support this level of activity.

Notes to the financial statements

at 31 December 2008

18. Financial instruments (continued)

Currency risk disclosures

The bank generally manages currency risk by matching on-balance sheet financial assets in the same currencies as its on-balance sheet financial liabilities. As at 31 December 2008, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2008	*2007*
	£	*£*
Assets	47,982,298	19,831,212
Liabilities	47,762,264	19,823,273

Fair values of financial instruments

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

19. Share capital

	2008	*2007*
	£	*£*
Authorised		
200,000 ordinary shares of £100 each	20,000,000	20,000,000
Allotted and fully paid		
160,000 ordinary shares of £100 each	16,000,000	16,000,000

20. Reconciliation of movements in shareholders' funds

	Equity share capital	*Profit and loss account*	*Total shareholders' funds*
	£	*£*	*£*
At 1 January 2007	16,000,000	259,799	16,259,799
Profit for the year	–	359,044	359,044
Dividends	–	(250,000)	(250,000)
At 31 December 2007	16,000,000	368,843	16,368,843
Profit for the year	–	437,995	437,995
Dividends	–	(200,000)	(200,000)
At 31 December 2008	16,000,000	606,838	16,606,838

Notes to the financial statements

at 31 December 2008

21. Contingent liabilities and commitments

	2008 *£'000*	*2007* *£'000*
Contingent Liabilities		
Financial Guarantees	10	10
	10	10
Commitments		
Other Commitments	48	100
	48	100

22. Events after the balance sheet date

The directors recommend a dividend of £250,000 in respect of the profit for the year ended 31 December 2008. The dividend will be recognised and paid in 2009.

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:

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

Any transactions with shareholders are based on commercial conditions.