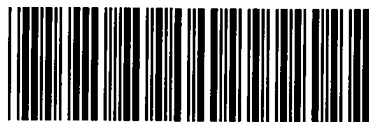


Havin Bank Limited

Report and Financial Statements

31 December 2013

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COMPANIES HOUSE

Registered No: 1074897

Directors

G Roca

A Victoria

M Cuervo

(Appointed 1 June 2013)

G Gil

S Shah

D Triesman

Secretary

B Ractliffe

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 I am pleased to bring you the results achieved by Havin Bank Ltd for the year ended 31 December 2013.

Having continued to develop the commercial lending and discounting letters of credit business which started at the end of 2012, I am pleased to report that 2013 was another profitable year for the Bank.

I referred in my 2012 report to the adverse conditions within the worldwide financial markets which continued to have an impact on the way that banks manage their business, particularly impacting Havin Bank were the tightly squeezed interbank lending rates which are still having an impact to this present day. As in 2012 regulatory compliance has also had an impact on our profitability as we have significantly reduced our lending to our home market, however we have been fortunate that development of certain infrastructures in Cuba have allowed us to develop our commercial lending business to companies in the UK and Europe who are looking to develop their relationships with Cuba.

The burden of regulatory compliance is still high on a small bank such as Havin Bank, however we endeavour to maintain an impeccable approach to supervisory requirement whilst implementing the regulatory changes required under the Basel III legislation.

Changing circumstances in a Bank the size of Havin Bank demand versatility and teamwork. Our staff's ability and willingness to adapt successfully to change and maintain customer satisfaction has again been demonstrated during this year and my colleagues on the Board and I greatly appreciate their hard work.

My thanks are also to the members of General Management, the Audit Committee and the Board for their support and contribution to the Bank's continued success.

I am confident that 2014 will bring another positive performance,



Gustavo Roca
Chairman
Havin Bank Ltd

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2013.

Results

In 2013 the Bank achieved a profit on ordinary activities before tax of £732,963 (2012 - £253,806).

Dividend

No dividend was paid during the year (2012-Nil). The directors have decided not to recommend a dividend to be paid in 2013.

Capital

During 2013 the bank capitalised £1,000,000 of reserve, this reflects the confidence held by both the Board and Shareholders' in the bank.

Future developments

The reduction of interest income attributable to money market transactions has been a major impact on the Bank for several years as have the recent changes in regulatory requirements which necessitated the reduction of our lending to our home market, this in particular has forced the Bank to look in new directions for lines of business in order for it to remain profitable.

The Board feels that these lines are the right step for the Bank to be taking and, while appreciating that for the coming year capital constraints will mean that a large increase in profit is unlikely, are positive that a similar level may be achieved by following these aims.

In order to achieve this target it is necessary:

- To raise/maintain the bank's profit attributable to business without utilising our balance sheet (e.g. Forex transactions, Collections and Letters of Credit), ensuring a quality service and low fixed costs.
- To maintain existing customer base especially those looking to invest in Cuba.
- To look for new medium term funding for the bank.

The bank aims to develop new business relationships within the banking community and with all those intermediaries who can support the management of the bank in the fulfilment of this strategy.

Compliance with all regulations issued by the regulatory authorities both in the UK and Cuba is essential, by being aware of the steps taken by all international market participants, as well as new rules issued, the bank will be prepared to implement any new measures required.

Fixed assets

Details of the bank's fixed assets are shown in note 10 to the financial statements.

Directors

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

G Roca	Chairman
A Victoria	Managing Director
M Cuervo	(Appointed 1 June 2013)
G Gil	
S Shah	
D Triesman	

Directors' report

Disclosure of information to the auditors

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

Re-appointment of auditors

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

On behalf of the board



Aldo Victoria
Director
Date: 3 April 2014

Strategic report

The Directors present their strategic report for the year ended 31 December 2013.

Business review

The bank is a UK registered, wholly Cuban owned bank. Full details of the Bank's ownership are shown in note 21 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. Towards the end of 2012 and throughout 2013 the bank has become increasingly involved with issuing and discounting letters of credit. The Bank has also started making loans relating to trade finance to non-Cuban entities.

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.

The principal risks and uncertainties of the bank during the year are set out in note 16 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 4.0%.

On behalf of the board



Aldo Victoria
Director
Date: 3 April 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the Strategic 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the bank and of the profit or loss of the bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the bank's transactions and disclose with reasonable accuracy at any time the financial position of the bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Havin Bank Limited

We have audited the financial statements of Havin Bank Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's Report, the Directors' Report and the Strategic Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the bank's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Chairman's Report, the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Havin Bank Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
3 April 2014

Profit and loss account

for the year ended 31 December 2013

	Notes	2013 £	2012 £
Interest receivable		2,202,791	1,843,664
Interest payable		(572,969)	(695,766)
Net interest income		1,629,822	1,147,898
Fees and commissions receivable		375,921	206,992
Fees and commissions payable		(33,734)	(27,537)
Dealing profits		132,616	259,009
Other operating income	3	7,665	7,666
		482,468	446,130
Total operating income		2,112,290	1,594,028
Administrative expenses	4	(1,357,413)	(1,317,865)
Depreciation of tangible fixed assets		(28,533)	(25,365)
Foreign exchange revaluation gains		2,059	3,992
		(1,383,887)	(1,339,238)
Operating profit	5	732,963	254,790
(Loss)/profit on sale of fixed assets		–	(984)
Profit on ordinary activities before tax		732,963	253,806
Tax on profit on ordinary activities	7	(174,798)	(66,967)
Profit for the financial year	18	558,165	186,839

The income and profit made this year are from continuing operations.

There are no recognised gains or losses other than the profit attributable to the shareholders of the bank of £558,165 in the year ended 31 December 2013 (2012 – profit of £186,839).

Balance sheet

at 31 December 2013

	Notes	2013 £	2012 £
Assets			
Cash balances		12,294	12,334
Loans and advances to banks and other financial institutions	8	261,084,642	307,742,434
Loans and advances to customers	9	4,312,315	211,465
Tangible fixed assets	10	302,847	307,947
Prepayments and accrued income		471,337	344,700
Other assets	11	23,091	19,685
Total assets		266,206,526	308,638,565
Liabilities			
Deposits by banks	13	189,118,962	234,421,249
Customer accounts	14	58,176,348	56,007,259
Due to parent undertaking		439,338	347,801
Current tax liabilities		78,549	21,294
Accruals and deferred income		237,592	243,390
		248,050,789	291,040,993
Called up share capital	17	17,500,000	16,500,000
Profit and loss account	18	655,737	1,097,572
Equity shareholders' funds		18,155,177	17,597,572
Total liabilities		266,206,526	308,638,565
Memorandum items			
Guarantees and assets pledged as collateral security	19	10,000	10,000
Irrevocable letters of credit	19	6,100,104	9,011,366
Acceptances	19	92,164	—
Undrawn facilities	19	—	289,411



Aldo Victoria
Director
Date: 3 April 2014

Statement of cash flows

for the year ended 31 December 2013

	Notes	2013 £	2012 £
Cash inflow/(outflow) from operating activities	12(a)	6,579,942	(7,580,163)
Taxation			
UK corporation tax paid		(118,367)	(72,600)
Capital expenditure			
Payments to acquire tangible fixed assets		(23,433)	(36,467)
Net cash outflow from capital expenditure		(23,433)	(36,467)
Equity dividends paid		—	—
Increase/(decrease) in cash and cash equivalents	12(b)	6,438,142	(7,689,230)

Notes to the financial statements

at 31 December 2013

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 provisions of the Companies Act 2006 relating to banking companies, and in accordance with applicable accounting standards.

Going concern

The directors believe that the bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. A statement of responsibilities of the directors in relation to the financial statements is shown on page 5.

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 2013

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

Notes to the financial statements

at 31 December 2013

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 – 100 years from 2013
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 2013

3. Other operating income

	2013	2012
	£	£
Trustee fees	7,665	7,666

4. Administrative expenses

	2013	2012
	£	£
Staff costs:		
Wages and salaries	554,677	528,228
Social security costs	51,958	53,187
Pension costs	41,724	39,909
	648,359	621,324
Other administrative expenses	704,494	696,541
	1,352,853	1,317,865

	2013	2012
	No.	No.
Average monthly number of employees during the year	16	15

5. Operating profit

This is stated after charging:

	2013	2012
	£	£
Auditors' remuneration - audit services	67,000	61,300
- taxation services	15,000	14,220
Depreciation of owned fixed assets	28,533	25,365
Operating lease rental – land and buildings	69,595	102,863

Notes to the financial statements

at 31 December 2013

6. Directors' emoluments

	2013 £	2012 £
Aggregate emoluments	156,983	111,559
	<hr/>	<hr/>
	2013 £	2012 £
The amount paid in respect of the highest paid director is as follows: Emoluments	49,021	66,753
	<hr/>	<hr/>
	2013 No.	2012 No.
Number of directors not paid	1	1
	<hr/>	<hr/>

Mr Gil is employed by Banco Central de Cuba, the majority shareholder. No remuneration and no pension benefits were paid to Mr Gil during the year by Havin Bank Ltd. A proportion of Mr Gil's remuneration from Banco Central de Cuba relates to his work as a board member of Havin Bank Ltd.

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2013 £	2012 £
UK corporation tax		
UK corporation tax on profits of the year	167,599	60,203
Adjustments in respect of previous periods	8,023	5,612
	<hr/>	<hr/>
Current tax charge for the period (note 7(b))	175,622	65,815
Deferred tax		
Origination and reversal of timing differences	4,069	6,414
Adjustments in respect of prior periods	(4,893)	(5,262)
	<hr/>	<hr/>
	174,798	66,967
	<hr/>	<hr/>

Notes to the financial statements

at 31 December 2013

7. Tax on profit on ordinary activities (continued)

The headline rate of UK corporation tax reduced from 24% to 23% on 1 April 2013, and through the enactment of Finance Act 2013 will reduce further to 21% from 1 April 2014 and 20% from 1 April 2015.

Under UK GAAP, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Accordingly, as the future reductions of the corporation tax rate to 21% and 20% were enacted on 17 July 2013, the deferred tax balances at 31 December 2013 have been reflected at the tax rates they are expected to be realised or settled.

- (b) The tax charge for the year is higher than the standard rate of corporation tax in the UK hybrid tax rate of 23.25% (2012 – 24.5%). The differences are reconciled below:

	2013 £	2012 £
Profit on ordinary activities before taxation	732,963	253,806
Profit on ordinary activities before taxation multiplied by UK Hybrid rate of 23.25% (2012 – 24.5%)	170,389	62,182
Effect of:		
Disallowed expenses and non-taxable income	155	3,961
Capital allowances in excess of depreciation	(1,579)	(5,911)
Adjustments in respect of prior periods	8,023	5,612
Other timing differences	(1,366)	(29)
Current tax charge for the period	175,622	65,815

Notes to the financial statements

at 31 December 2013

7. Tax on profit on ordinary activities (continued)

(c) Deferred tax

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

	2013 £	2012 £
Included in other assets (note 11)	7,709	6,885
Accelerated capital allowances	5,309	4,153
Other timing differences	2,400	2,732
Deferred tax asset	7,709	6,885
Deferred tax asset at start of year	6,885	8,037
Deferred tax charge in respect of the current year	(2,944)	(5,699)
Effect of rate change	(1,125)	(715)
Adjustments in respect of prior periods	4,893	5,262
Deferred tax asset at end of year	7,709	6,885

8. Loans and advances to banks and other financial institutions

	2013 £	2012 £
Repayable:		
- within three months	256,853,229	306,324,496
- between three months and one year	4,231,413	1,214,063
- between one and five years	-	203,875
	261,084,642	307,742,434
Amounts include:		
- due from related parties	-	-

The aggregate amount of all loans and advances repayable on demand, is £15,055,272 (2012 - £8,617,076).

9. Loans and advances to customers

	2013 £	2012 £
Repayable:		
- within three months	1,207,955	876
- between three months and one year	3,104,360	210,589
	4,312,315	211,465

The aggregate amount of all loans and advances to customers that are repayable on demand is £195,553 (2012 - £nil). The credit risk of the loan portfolio is concentrated primarily in Cuba.

Notes to the financial statements

at 31 December 2013

10. Tangible fixed assets

	Computer equipment £	Computer software £	Leasehold improvements £	Long leasehold property £	Furniture/ equipment and vehicles £	Total £
Cost:						
At 31 December 2012	75,863	100,992	37,666	279,909	93,825	588,255
Additions	7,415	15,000	—	—	1,018	23,433
Disposals	(10,840)	—	—	—	(14,270)	(25,110)
At 31 December 2013	72,438	115,992	37,666	279,909	80,573	586,578
Depreciation:						
At 31 December 2012	71,537	74,025	37,666	10,304	86,776	280,308
Charge for the year	3,725	18,945	—	2,779	3,084	28,533
Disposals	(10,840)	—	—	—	(14,270)	(25,110)
At 31 December 2013	64,422	92,970	37,666	13,083	75,590	283,731
Net book value:						
At 31 December 2012	4,326	26,967	—	269,605	7,049	307,947
At 31 December 2013	8,016	23,022	—	266,826	4,983	302,847

11. Other assets

	2013 £	2012 £
Deferred tax asset (see note 7 (c))	7,709	6,885
Loans and advances to employees	15,382	12,800
	23,091	19,685

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

	2013 £	2012 £
Repayable:		
- within three months	6,174	6,604
- between three months and one year	7,132	6,196
- between one and five years	2,076	—
	15,382	12,800

The aggregate amount of all loans and advances to employees that are repayable on demand is £nil (2012 - £nil).

Notes to the financial statements

at 31 December 2013

12. Cash inflow from operating activities and movement in cash and cash equivalents

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

	2013 £	2012 £
Operating profit	732,963	254,790
Depreciation	28,533	25,365
Increase in prepayments and accrued income	(126,637)	(119,719)
Decrease in accruals and deferred income	(5,798)	(27,235)
Net cash inflow from trading activities	629,061	133,201
Net (decrease)/increase in deposits by banks and customers	(43,041,661)	71,301,525
Net decrease/(increase) in loans to banks and customers	48,992,542	(79,014,889)
	5,950,881	(7,713,364)
Net cash inflow/(outflow) from continuing operating activities	6,579,942	(7,580,163)

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

	1 January 2013 £	Change in year £	31 December 2013 £
Cash balance	12,334	(40)	12,294
Loans and advances to other banks repayable on demand	8,617,076	6,438,182	15,055,258
	8,629,410	6,438,142	15,067,552

Notes to the financial statements

at 31 December 2013

13. Deposits by banks

	2013	2012
	£	£
Repayable:		
- within three months	185,511,228	230,038,541
- between three months and one year	3,607,734	4,382,708
	<u>189,118,962</u>	<u>234,421,249</u>
Amounts include:		
- due to related parties	<u>1,416,148</u>	<u>1,266,686</u>

The aggregate amount of deposits by banks that are repayable on demand is £12,606,884 (2012 - £26,250,281).

14. Customer accounts

	2013	2012
	£	£
Repayable:		
- within three months	57,451,348	54,448,924
- between three months and one year	725,000	1,558,335
	<u>58,176,348</u>	<u>56,007,259</u>

The aggregate amount of customer accounts which is repayable on demand is £24,466,274 (2012 - £26,869,754).

15. Obligations under leases

Commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings</i>	
	2013	2012
	£	£
Operating leases due:		
- Over five years	71,995	71,995
	<u>71,995</u>	<u>71,995</u>

Notes to the financial statements

at 31 December 2013

16. 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.

Liquidity risk

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

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

Notes to the financial statements

at 31 December 2013

16. Financial instruments (continued)

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 considered to be low.

The Bank's financial assets analysed by geographical region:

	Off Balance Sheet Letters of Credit and Acceptances		Financial Assets	
	2013 '000	2012 £'000	2013 £'000	2012 £'000
United Kingdom	–	–	200,669	234,078
Cuba	6,192	9,011	24,525	16,653
Europe	–	–	27,480	44,409
Switzerland	–	–	–	13
Guernsey	–	–	2,629	–
Canada	–	–	8,957	12,560
Others	–	–	1,138	240
	<u>6,192</u>	<u>9,011</u>	<u>265,398</u>	<u>307,953</u>
An industry sector analysis of the Bank's financial assets:				
Banks	6,192	9,011	244,586	285,742
Other Financial Institutions	–	–	16,500	22,000
Related Party Banks	–	–	–	–
Corporate	–	–	4,312	211
	<u>6,192</u>	<u>9,011</u>	<u>265,398</u>	<u>307,953</u>

Interest rate risk

All of the bank's lending is at fixed rates. In terms of maturity, value and currency the loan portfolio is matched 100%. Money market deposits are placed at the best rates available, however with market wide low yields available on money market funds, the bank will sometimes need to place funds with a zero yield. The bank mitigates this by ensuring that there is sufficient margin in other transactions while endeavouring to provide competitive rates for its customers.

Notes to the financial statements

at 31 December 2013

16. Financial instruments (continued)

Interest rate risk sensitivity analysis

Assets and liabilities are allocated to time bands in the table below on the basis of the earlier of the next contractual interest rate re pricing date and maturity date

2013

	<i>Not more than three months £'000</i>	<i>More than three months but not more than six months £'000</i>	<i>More than six months but not more than one year £'000</i>	<i>More than one year but not more than five years £'000</i>	<i>More than five years £'000</i>	<i>Non- interest bearing £'000</i>	<i>Total £'000</i>
Cash balances	–	–	–	–	–	12	12
Loans and advances to banks	237,704	–	–	–	–	23,381	261,085
Loans and advances - to customers	4,312	–	–	–	–	–	4,312
Debt securities	–	–	–	–	–	–	–
Other assets	2	2	2	2	–	789	797
Total financial assets	242,018	2	2	2	–	24,182	266,206
Deposits by banks	170,941	–	–	–	–	18,178	189,119
Customer accounts	30,450	–	–	–	–	27,726	58,176
Due to parent undertaking	339	–	–	–	–	100	439
Current tax liabilities	–	–	–	–	–	79	79
Accruals and deferred income	–	–	–	–	–	242	242
Loans	–	–	–	–	–	–	–
Shareholders' funds	–	–	–	–	–	18,151	18,151
Total financial liabilities	201,730	–	–	–	–	64,476	266,206
Interest rate sensitivity gap	40,288	2	2	2	–	(40,294)	–
Cumulative gap	40,288	40,290	40,292	40,294	40,294		

Notes to the financial statements

at 31 December 2013

16. Financial instruments (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis (continued)

2012

	<i>Not more than three months £'000</i>	<i>More than three months but not more than six months £'000</i>	<i>More than six months but not more than one year £'000</i>	<i>More than one year but not more than five years £'000</i>	<i>More than five years £'000</i>	<i>Non- interest bearing £'000</i>	<i>Total £'000</i>
Cash balances	–	–	–	–	–	12	12
Loans and advances to banks	264,945	–	297	1,427	–	41,074	307,743
Loans and advances - to customers	1	210	–	–	–	–	211
Debt securities	–	–	–	–	–	–	–
Other assets	1	1	4	–	–	666	672
Total financial assets	264,947	211	301	1,427	–	41,752	308,638
Deposits by banks	213,612	–	–	–	–	20,809	234,421
Customer accounts	26,396	–	–	–	–	29,611	56,007
Due to parent undertaking	245	–	–	–	–	103	348
Current tax liabilities	–	–	–	–	–	21	21
Accruals and deferred income	–	–	–	–	–	243	243
Loans	–	–	–	–	–	–	–
Shareholders' funds	–	–	–	–	–	17,598	17,598
Total financial liabilities	240,253	–	–	–	–	68,385	308,638
Interest rate sensitivity gap	24,694	211	301	1,427	–	(26,633)	–
Cumulative gap	24,694	24,905	25,206	26,633	26,633		

Insufficient counterparties were prepared to bid for funds at the year end therefore we were left with a large overnight balance on which no interest was receivable.

Notes to the financial statements

at 31 December 2013

16. 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 2013, the aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2013 £	2012 £
Assets	117,771,601	122,825,835
Liabilities	117,591,696	122,839,290

17. Share capital

	2013 £	2012 £
Authorised 200,000 ordinary shares of £100 each	20,000,000	20,000,000
Allotted called up and fully paid 175,000 ordinary shares of £100 each	17,500,000	16,500,000

During 2013 the bank converted £1,000,000 of distributable reserves into share capital through a bonus issue of shares to existing shareholders pari passu.

18. Reconciliation of movements in shareholders' funds

	Equity share capital £	Profit and loss account £	Total shareholders' funds £
At 1 January 2012	16,500,000	910,733	17,410,733
Profit for the year	—	186,839	186,839
Dividends	—	—	—
At 31 December 2012	16,500,000	1,097,572	17,597,572
Profit for the year	—	558,165	558,165
Capitalisation of Reserve	1,000,000	(1,000,000)	—
Dividends	—	—	—
At 31 December 2013	17,500,000	655,737	18,155,737

Notes to the financial statements

at 31 December 2013

19. Contingent liabilities and commitments

	2013	2012
	£'000	£'000
Contingent Liabilities		
Financial Guarantees	10	10
Irrevocable letters of credit	6,100	9,011
Acceptances	92	—
Undrawn facilities	—	289

To meet the financial needs of customers, the bank enters into various irrevocable contingent liabilities and commitments. These consist of financial guarantees, letters of credit, acceptances and other undrawn commitments to lend. These obligations are not recognised on the balance sheet but do form part of the credit risk of the bank, and have been included in the analysis in Note 16.

Letters of credit, acceptances (where all documentation for a letter of credit (LC) is correct and all terms have been met but the date of payment as per the LC has not been reached) and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

To mitigate the credit risk posed by the letters of credit and acceptances the bank has entered into a credit risk mitigation agreement with the main counterparty which provides collateral for these transactions. The total amount of £6,100,104 for letters of credit and £92,163 for acceptances were fully collateralised as at 31 December 2013.

20. Pillar 3 Disclosures

Full disclosures are available on our website www.hib.uk.com.

21. 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 y Comercio	2.2%

Any transactions with shareholders are based on commercial conditions.