

DIRECTORS' REPORT

The directors present their report and the accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The profit for the year, after taxation and provisions, amounted to £1,338,873 (1997 - £1,248,208).

The directors do not recommend the payment of a final dividend. An interim dividend of £1,421,300 was paid during the year.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The bank's principal activities throughout the year continue to be the provision of wholesale banking services, principally trade related financing, together with money market and foreign exchange dealings. The continuing expansion of trade finance activity, which remains concentrated mainly in the Cuban market, has led to a significant increase in operating profit this year.

FUTURE DEVELOPMENTS

We remain of the opinion that the continued development of Cuba's economy will lead to increased opportunities for the bank which will enable it to maintain a good level of profitability in the forthcoming year.

FIXED ASSETS

Details of the company's fixed assets are shown in note 13 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1998 and their interests in the share capital of the company were as follows:

	<i>At 31 December 1998 Ordinary shares</i>	<i>At 31 December 1997 Ordinary shares</i>
J J Rodriguez (Chairman)	1	1
L Chao (Vice Chairman)	1	1
J Vaz	1	1
J Lebrede	1	1
R Rangel	—	—
A Victoria	1	1

CHARITABLE CONTRIBUTIONS

During the year, the company made various charitable contributions totalling £353 (1997 - £697).

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue.

A significant risk analysis has been performed to determine the impact of the issue on all our activities. We have established a year 2000 Plan that involves testing and certification of the accounting system coupled with testing and upgrading of hardware where necessary.



DIRECTORS' REPORT

YEAR 2000 COMPLIANCE (continued)

Given the complexity of the problem, it is not possible for any organisation to guarantee that no year 2000 problems will remain, because at least some level of failure may still occur. However, the directors believe that the Plan has achieved an acceptable level of readiness, and have also made arrangements for resources to be available to deal promptly with significant subsequent failures that might arise.

All costs associated with implementing the Plan have been and will be subsumed into the recurring activities of the Plan, and the exercise has not diverted an undue amount of our resources.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



Secretary

Havana International Bank Limited

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; 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.

REPORT OF THE AUDITORS**to the members of Havana International Bank Limited**

We have audited the accounts on pages 6 to 17, which have been prepared under the historical cost convention, on the basis of the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

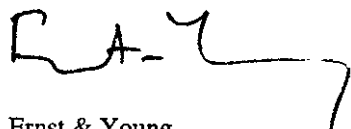
Basis of opinion

We conducted our audit in accordance with 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

26 March 1999

Havana International Bank Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	Notes	1998 £	1997 £
Interest receivable and similar income arising from debt securities		505,534	512,300
Other interest receivable and similar income		2,727,068	2,891,411
		<u>3,232,602</u>	<u>3,403,711</u>
Interest payable		(1,215,714)	(1,559,050)
NET INTEREST INCOME		<u>2,016,888</u>	<u>1,844,661</u>
Fees and commissions receivable		2,134,683	1,429,550
Fees and commissions payable		(12,332)	(3,121)
Dealing profits		396,023	339,725
Other operating income	3	7,750	48,000
		<u>2,526,124</u>	<u>1,814,154</u>
TOTAL OPERATING INCOME		<u>4,543,012</u>	<u>3,658,815</u>
Administrative expenses		2,267,813	1,748,016
Depreciation and amortisation		260,619	251,267
Provisions for contingent liabilities and commitments		52,637	—
		<u>2,581,069</u>	<u>1,999,283</u>
OPERATING PROFIT	4	<u>1,961,943</u>	<u>1,659,532</u>
(Loss)/profit on sale of tangible fixed assets		(1,353)	598
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		<u>1,960,590</u>	<u>1,660,130</u>
Tax on profit on ordinary activities	8	(621,717)	(411,922)
PROFIT FOR THE FINANCIAL YEAR		<u>1,338,873</u>	<u>1,248,208</u>
Dividends	9	(1,421,300)	(382,400)
(DEFICIT)/PROFIT RETAINED FOR THE FINANCIAL YEAR	21	<u>(82,427)</u>	<u>865,808</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

Havana International Bank Limited

BALANCE SHEET

at 31 December 1998

	Notes	1998 £	1997 £
ASSETS			
Cash and balances at central banks		16,930	12,369
Loans and advances to banks	10	26,214,699	33,568,034
Loans and advances to customers	11	9,249,050	8,857,345
Debt securities	12	4,635,386	4,535,530
Tangible fixed assets	13	651,193	698,270
Prepayments and accrued income	14	1,240,520	1,365,639
TOTAL ASSETS		42,007,778	49,037,187
LIABILITIES			
Deposits by banks	16	18,282,725	22,173,532
Customer accounts	17	7,008,143	10,207,175
Parent company		405,265	48,093
Other liabilities - taxation		84,191	336,858
Accruals and deferred income		189,824	170,273
Provisions for liabilities and charges	19	265,135	246,334
		26,235,283	33,182,265
Called up share capital	20	14,000,000	13,000,000
Profit and loss account		1,772,495	2,854,922
		15,772,495	15,854,922
TOTAL LIABILITIES		42,007,778	49,037,187
MEMORANDUM ITEMS			
Contingent liabilities			
Acceptances and endorsements		80,338	101,826
Guarantees		1,017,945	2,807,122
		1,098,283	2,908,948
Commitments			
Undrawn facilities		335,264	273,770

Director

Director

Havana International Bank Limited

STATEMENT OF CASH FLOWS for the year ended 31 December 1998

	Notes	1998 £	1997 £
CASH INFLOW FROM OPERATING ACTIVITIES	15(a)	3,783,981	719,960
TAXATION			
UK corporation tax paid		(908,220)	(298,381)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(76,015)	(42,788)
Receipts from sale of tangible fixed assets		44,797	46,197
Payments to acquire debt securities		(2,685,662)	(1,162,483)
Receipts from sale/maturity of debt securities		2,400,000	1,001,779
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(316,880)	(157,295)
EQUITY DIVIDENDS PAID		(1,421,300)	(382,400)
INCREASE/(DECREASE) IN CASH	15(b)	1,137,581	(118,116)

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts comply with the Companies Act 1985 Schedule 9 (special provisions for banking companies and groups).

Basis of preparation

The company is not required to prepare group accounts, as its subsidiary, which had been dormant for some time, was liquidated before the year end. Therefore, the comparatives relate to the company's individual accounts for the year ended 31 December 1997.

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

Debt securities and investments

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

Foreign currencies

Foreign currency balances are translated to sterling at the approximate rates ruling at the balance sheet date.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Forward contracts which are outstanding at the balance sheet date are marked to market, except those transactions held for hedging purposes which are valued on an equivalent basis to the assets, liabilities or positions hedged.

Deferred taxation

Provision is made for deferred taxation at the rates applicable on reversal, using the liability method on:

- (i) the excess of taxation allowances claimed in respect of fixed assets qualifying for such allowances over the depreciation charged; and
- (ii) taxation on income not accountable for tax purposes until later years, to the extent, that these differences will reverse in the future.

Leasing

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

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 on a receipt basis.

Havana International Bank Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES (continued)

Forward contracts

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

Provisions for bad and doubtful debts and contingencies

Specific provisions against bad and doubtful debts are made on the basis of regular reviews of exposures and deducted from the relevant asset. General provisions are made in relation to losses which, although not specifically identified, may exist in the banking portfolio, or which may arise through litigation or other operating contingencies.

Pensions

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

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

2. SEGMENTAL ANALYSIS

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

3. OTHER OPERATING INCOME

	1998	1997
	£	£
Profit on investment	-	40,000
Other	7,750	8,000
	<u>7,750</u>	<u>48,000</u>

4. OPERATING PROFIT

This is stated after charging:

	1998	1997
	£	£
Auditors' remuneration - audit services	40,000	36,175
- non-audit services	3,000	3,000
Depreciation of owned fixed assets	76,942	66,074
	<u>119,942</u>	<u>105,249</u>

Havana International Bank Limited

NOTES TO THE ACCOUNTS at 31 December 1998

5. DIRECTORS' EMOLUMENTS

	1998 £	1997 £
Emoluments	151,040	136,117
	<u> </u>	<u> </u>
	1998 No.	1997 No.
Members of defined benefit pension scheme	2	2
	<u> </u>	<u> </u>

The emoluments of the highest paid director were £100,790 (1997 - £86,772). His accumulated accrued pension at 31 December 1998 was £42,904.

6. STAFF COSTS

	1998 £	1997 £
Wages and salaries	758,311	661,303
Social security costs	59,046	51,636
Other pension costs (see note 24)	397,356	92,443
	<u>1,214,713</u>	<u>805,382</u>
	No.	No.
The average weekly number of employees during the year was	27	25
	<u> </u>	<u> </u>

7. INCOME FROM INVESTMENTS

	1998 £	1997 £
Listed	505,534	512,300
	<u> </u>	<u> </u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	1998 £	1997 £
Based on the profit for the year:		
Corporation tax at 31%	655,796	548,627
Prior period adjustment	(243)	(52,481)
Deferred taxation - current year	(33,836)	(28,243)
- prior period adjustment	-	(55,981)
	<u>621,717</u>	<u>411,922</u>

Havana International Bank Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

9. DIVIDENDS

	1998 £	1997 £
Equity dividends on ordinary shares:		
Interim dividend paid	1,421,300	382,400

10. LOANS AND ADVANCES TO BANKS

	1998 £	1997 £
Repayable:		
- within three months	25,652,848	32,999,690
- between three months and one year	561,851	568,344
	26,214,699	33,568,034

11. LOANS AND ADVANCES TO CUSTOMERS

	1998 £	1997 £
Repayable:		
- within three months	8,595,280	7,999,636
- between three months and one year	650,580	856,358
- between one and five years	3,190	1,351
	9,249,050	8,857,345

The aggregate amount of all loans and advances to customers, which are repayable on demand, is £146,949 (1997 - £295,559).

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

12. DEBT SECURITIES

(a) Held for investment

	Book value		Market value	
	1998 £	1997 £	1998 £	1997 £
Government securities	4,514,131	4,412,146	4,528,519	4,426,484
Analysed by maturity:				
Due within one year	1,850,782	2,499,487	1,859,334	2,515,937
Due after one year	2,663,349	1,912,659	2,669,185	1,910,547
	4,514,131	4,412,146	4,528,519	4,426,484
Analysed by listing status:				
Listed on the London Stock Exchange	4,514,131	4,412,146	4,528,519	4,426,484
Unamortised premiums	289,131	187,146		

Havana International Bank Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

12. DEBT SECURITIES (continued)

All government securities have been pledged to Midland Bank plc as collateral for the treasury facilities it provides.

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

	£
At 31 December 1997	4,412,146
Acquisitions	2,685,662
Maturities	(2,400,000)
Amortisation of premiums	(183,677)
At 31 December 1998	4,514,131

	1998 £	1997 £
(b) Short term discounted trade bills	121,255	123,384

13. FIXED ASSETS

	Computer equipment £	Short leasehold property and improvements £	Long leasehold property and improvements £	Furniture equipment and vehicles £	Total £
Cost:					
At 31 December 1997	183,664	668,143	445,706	605,431	1,902,944
Transfer	—	118,826	(118,826)	—	—
Additions	40,411	—	—	35,604	76,015
Disposals	—	—	(48,618)	(15,969)	(64,587)
At 31 December 1998	224,075	786,969	278,262	625,066	1,914,372
Depreciation:					
At 31 December 1997	166,923	449,030	38,006	550,715	1,204,674
Transfer	—	8,387	(8,387)	—	—
Charge for the year	25,985	16,971	3,284	30,702	76,942
Disposals	—	—	(2,468)	(15,969)	(18,437)
At 31 December 1998	192,908	474,388	30,435	565,448	1,263,179
Net book value:					
At 31 December 1998	31,167	312,581	247,827	59,618	651,193
At 31 December 1997	16,741	219,113	407,700	54,716	698,270

Havana International Bank Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

14. PREPAYMENTS AND ACCRUED INCOME

Included within prepayments and accrued income is £837,181 (1997 - £974,377) in respect of pension contribution payments made in advance of their recognition in the profit and loss account. The accounting treatment of this prepayment and the subsequent deficit arising during 1998 has been described in note 24.

15. MOVEMENT IN CASH BALANCES

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

	1998 £	1997 £
Operating profit	1,961,943	1,659,532
Depreciation	76,942	66,074
Provisions for contingent liabilities and commitments	52,637	-
Amortisation of premium on debt securities	183,677	185,193
Decrease in prepayments and accrued income	125,119	43,325
Increase/(decrease) in accruals and deferred income	19,551	(91,065)
Net cash inflow from trading activities	2,419,869	1,863,059
Net decrease in deposits by banks, including holding company, and customers	(6,732,667)	(3,703,846)
Net decrease in loans to banks and customers	8,094,650	2,560,747
Decrease in short term discounted trade bills	2,129	-
	1,364,112	(1,143,099)
Net cash inflow from continuing operating activities	3,783,981	719,960

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

	31 December 1998 £	Change in year £	1 January 1998 £
Cash and balances at central banks	16,930	4,561	12,369
Loans and advances to other banks repayable on demand	2,912,922	1,133,020	1,779,902
	2,929,852	1,137,581	1,792,271

16. DEPOSITS BY BANKS

All deposits by banks are repayable within three months.

17. CUSTOMER ACCOUNTS

	1998 £	1997 £
Repayable:		
- within three months	6,415,937	9,638,831
- between three months and one year	592,206	568,344
	7,008,143	10,207,175

The aggregate amount of customer accounts, which are repayable on demand, is £806,942 (1997 - £3,542,585).

Havana International Bank Limited

NOTES TO THE ACCOUNTS at 31 December 1998

18. OBLIGATIONS UNDER LEASES

Annual commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	1998	1997	1998	1997
	£	£	£	£
Operating leases which expire:				
Within one year	—	—	—	3,070
In two to five years	400,000	400,000	—	—
	<u>400,000</u>	<u>400,000</u>	<u>—</u>	<u>3,070</u>

19. PROVISIONS FOR LIABILITIES AND CHARGES

(a) Deferred taxation

The movements in deferred taxation during the current and previous years are as follows:

	1998	1997
	£	£
1 January	246,334	330,558
Charge for the year	(33,836)	(68,331)
Rate change adjustment	—	(15,893)
At 31 December	<u>212,498</u>	<u>246,334</u>

Deferred taxation provided in the accounts is as follows:

	<i>Provided 1998</i>	<i>Provided 1997</i>
	£	£
Capital allowances in advance of depreciation	(46,998)	(55,723)
Provision for liability arising on pension fund surplus	259,496	302,057
	<u>212,498</u>	<u>246,334</u>

	1998	1997
	£	£
(b) Specific provisions for contingent liabilities and commitments	<u>52,637</u>	<u>—</u>

Havana International Bank Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

20. SHARE CAPITAL

	1998	Authorised 1997	1998	Allotted and fully paid 1997
	£	£	£	£
Ordinary shares of £100 each	20,000,000	14,000,000	14,000,000	13,000,000

Ten thousand ordinary shares of £100 each were allotted to the existing shareholders during the year. These shares were paid in full by the capitalisation of profit and loss reserves.

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £	Profit and loss account £	Total shareholders' funds £
At 31 December 1997	13,000,000	2,854,922	15,854,922
Profit for the year	–	1,338,873	1,338,873
Dividends paid	–	(1,421,300)	(1,421,300)
Reserves capitalised	1,000,000	(1,000,000)	–
At 31 December 1998	14,000,000	1,772,495	15,772,495

22. FORWARD CONTRACTS

The following were outstanding:

	1998 £	1997 £
Exchange rate contracts:		
Contract or underlying principal amount - for dealing purposes	3,723,834	1,064,174
Credit risk weighted amount	225	630

The contract or 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. The credit risk weighted amounts have been calculated in accordance with Bank of England guidelines.

None of the amounts are intended to give an indication of possible future gains or losses.

23. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	1998 £	1997 £
Assets	17,870,112	21,267,755
Liabilities	17,481,602	21,230,642

NOTES TO THE ACCOUNTS

at 31 December 1998

24. PENSION COMMITMENTS

The company operates a defined benefit pension scheme. The pension costs are determined with the advice of an independent qualified actuary on the basis of triennial valuations using the attained age method.

The results of the most recent valuation, which was conducted at 1 April 1998, were as follows:

Main assumptions:

Rate of return on investments	- 7% pa
Rate of salary growth	- 5% pa
Rate of pension increases	- 5% pa

Market value of scheme's assets	£3,156,000
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Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	83.1%
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Contributions, in addition to the employer's current contribution at 37.3% of pensionable earnings, are being made in order to eliminate the deficiency in the scheme by 2003. The main factors behind the change in the scheme's funding from a surplus position to a deficit during the intervaluation period are:

- (a) The fall in the rate of return on investments due to the decline in long term interest rates, which affects the fixed income stocks that make up a substantial portion of the scheme's investment portfolio; and
- (b) higher than expected salary increases, particularly for those with greater benefit entitlements due to their length of service.

The difference between the brought forward surplus, included within prepayments and accrued income, and the deficit identified in the latest valuation is £1,619,380. This amount is being recognised conservatively as a variation from regular cost over 10 years. The average remaining service lives of the member employees is 12 years.

Since the date of the valuation the company has introduced a defined contribution scheme for new employees, to commence in February 1999. Contributions of 5%, rising to 10% after completion of two years service, will be made by the company.

25. RELATED PARTIES

The group's ultimate holding company is the Banco Central de Cuba which is the central monetary institution of the Republic of Cuba. The company has taken advantage of an exemption under FRS 8, relating to 90% subsidiaries, which exempts it from disclosing related party transactions with group members.