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BANKERS TRUST INTERNATIONAL LIMITED

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 1986

BANKERS TRUST INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report and the audited accounts of the company for the year ended 31st December, 1986.

PRINCIPAL ACTIVITIES

The company carries on an international merchant banking business. During the year the company commenced business, through a subsidiary, as a market maker in gilt-edged securities. There were no other significant changes in the company's business.

RESULTS AND DIVIDEND

The profit after taxation and extraordinary items amounted to £14,250,000 (1985: £7,666,000). The directors recommend that £14,250,000 (1985: £7,666,000) should be carried to reserves.

No dividends were declared or paid during the year. The directors do not recommend the payment of any dividend in respect of 1986 (1985: nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors of the company during the year were:

A.W.P. Stenham	-	Chairman (appointed 12th March, 1987)
David O. Beim	-	Chairman (resigned 12th March, 1987)
John R. Howard	-	Managing Director
Robert L. Barbanell		
Jan R. Brumm		
Garret G. Thunen		
Allen D. Wheat		

None of the directors has at any time during the year held any beneficial interest in the shares of the company or any other group company.

SHARE CAPITAL

During the year the company issued ordinary shares as follows:

10,000,000 ordinary shares of £1 each issued in exchange for all of the issued share capital of BT Gilts Limited;

23,000,000 ordinary shares of £1 each issued in exchange for 353,623 shares of SNC BT Holdings (Europe) et Cie Limited (representing 99% of the issued share capital);

51,020,408 ordinary shares of £1 each for cash at par to provide further capital for the company's business.

AUDITORS

In accordance with section 384 of the Companies Act 1985, a resolution to appoint Arthur Young as auditors of the company will be proposed at the forthcoming annual general meeting.

By order of the Board


David J. Causer
Alternate Director

14th August, 1987

BANKERS TRUST INTERNATIONAL LIMITED

REPORT OF THE AUDITORS

We have audited the financial statements on pages 4 to 12 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31st December, 1986 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

PRICE WATERHOUSE
Chartered Accountants

London
14th August, 1987

BANKERS TRUST INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1986

	<u>Note</u>	<u>1986</u> <u>£'000</u>	<u>1985</u> <u>£'000</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	23,852	10,757
Taxation	4	(9,092)	(3,091)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<hr/> 14,760	<hr/> 7,666
Extraordinary item	5	(510)	-
RETAINED PROFIT FOR THE YEAR		<hr/> 14,250	<hr/> 7,666
Retained profit brought forward		23,548	15,882
RETAINED PROFIT CARRIED FORWARD		<hr/> <hr/> 37,798	<hr/> <hr/> 23,548

BANKERS TRUST INTERNATIONAL LIMITED

BALANCE SHEET AT 31ST DECEMBER, 1986

	<u>Note</u>	<u>1986</u> £'000	<u>1985</u> £'000
ASSETS			
Balances with bankers		347,473	73,333
Trading securities		776,128	1,103,112
Accounts receivable	6	295,870	257,736
Loans and advances repayable within one year		4,217	3,559
		<hr/>	<hr/>
		1,423,688	1,437,740
Loans and advances repayable after one year		41,553	90,608
Investments	7	102,216	59,145
		<hr/>	<hr/>
		1,567,457	1,587,493
<hr/>			
SHAREHOLDERS' FUNDS AND LIABILITIES			
Issued share capital	8	100,020	16,000
Other reserve	9	47,872	-
Profit and loss account		37,798	23,548
		<hr/>	<hr/>
		185,690	39,548
Deposits		1,021,612	967,311
Taxation		1,206	5,731
Accounts payable	10	358,949	574,903
		<hr/>	<hr/>
		1,567,457	1,587,493
		<hr/>	<hr/>

Approved by the board of directors on 14th August, 1987

Directors:

*John R. Howard*John R. Howard
Managing Director*Garret G. Thunen*

Garret G. Thunen

BANKERS TRUST INTERNATIONAL LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31ST DECEMBER, 1986

	<u>Note</u>	<u>1986</u> £'000	<u>1985</u> £'000
SOURCE OF FUNDS			
Profit before taxation		23,852	10,757
Extraordinary item		(510)	-
		<hr/>	<hr/>
Funds generated from operations		23,342	10,757
Funds from other sources:			
Issue of shares for cash		51,020	10,000
Capital injection		47,872	-
Proceeds of sale of investments		-	11,927
		<hr/>	<hr/>
		122,234	32,684
		<hr/>	<hr/>
APPLICATION OF FUNDS			
Increase in net operating assets		107,007	30,863
Purchase of investments		10,071	-
Taxation paid		5,156	1,821
		<hr/>	<hr/>
		122,234	32,684
		<hr/>	<hr/>
Analysis of increase in net operating assets:			
Balances with bankers		282,601	(8,066)
Trading securities		(326,984)	669,624
Loans and advances		(48,397)	(37,278)
Other accounts		254,088	(261,465)
Deposits		(54,301)	(331,952)
		<hr/>	<hr/>
		107,007	30,863
		<hr/>	<hr/>

BANKERS TRUST INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 1986

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention as modified by the revaluation of traded instruments to market value.

Interest and fee income

Interest and fee income receivable and payable, commitment commission and agency fees are accrued over the term of the underlying transaction. No accrual is made when payment of interest or principal is more than 90 days overdue.

Other fees and commissions are accrued over the life of the underlying transaction except to the extent that they represent compensation for arranging the transaction. This portion is recognised as income at the commencement of the transaction.

Capital markets income earned jointly with a holding company is shared equally.

Swaps

The company engages in swap activities for trading opportunities as well as acting as a financial intermediary and managing its interest rate and currency risk. Trading activities are marked to market and the resulting gains or losses are included in the profit and loss account. For intermediary transactions, income is recognised over the life of the agreements, except for arrangement fees which are recognised when the services are complete.

Investment securities

Investment securities are valued at cost, adjusted for the accretion of premiums or discounts to maturity, less any provision for diminution in value.

Provisions for losses on loans and advances

Specific provision is made against loans and advances when the likelihood of loss is considered certain or probable.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange at the balance sheet date.

Trading securities

Trading securities are stated at market value. Short positions are included in other amounts payable.

Financial futures and options

Futures and options are marked to market and resulting profits or losses are included in profit from ordinary business.

Deferred taxation

Deferred taxation is provided on all timing differences using the liability method, except where such timing differences are not expected to reverse in the foreseeable future. No provision is made for taxation on chargeable gains on investments until they are sold.

BANKERS TRUST INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 1986 (continued)

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover is not disclosed as it is attributable wholly to the business of banking.

2. FORMAT OF ACCOUNTS

Group accounts have not been prepared as the company is a wholly-owned subsidiary of another company incorporated in the United Kingdom.

The accounts have been prepared in accordance with section 257(3) of the Companies Act 1985.

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	<u>1986</u> £'000	<u>1985</u> £'000
Interest payable on deposits	80,883	58,867
Auditors' remuneration	65	45
Directors' emoluments (note 12)	634	488
Ex-gratia payment to former director	-	33
and after crediting:		
Recoveries in respect of loan losses	79	25

4. TAXATION

The taxation charge, based on the profit for the year, is made up as follows:

	<u>1986</u> £'000	<u>1985</u> £'000
United Kingdom Corporation tax based on the profit for the year at 36.25% (1985 - 41.25%)		
Current	624	3,091
Group relief	8,461	-
Prior years	7	-
Deferred	-	-
Double taxation relief	(624)	(1,645)
	<u>8,468</u>	<u>1,446</u>
Overseas withholding tax suffered	624	1,645
	<u>9,092</u>	<u>3,091</u>

The tax charge for 1985 was reduced by £3,425,000 in respect of group relief for which no payment was made.

BANKERS TRUST INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 1986 (continued)

4. TAXATION (continued)

Tax losses of approximately £272,000 utilised to obtain recovery of the tax credit on franked investment income in a prior year are available against future profits on payment of the ACT applicable.

5. EXTRAORDINARY ITEM

	<u>1986</u> £'000	<u>1985</u> £'000
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Capital duty on increase in share capital	510	-
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6. ACCOUNTS RECEIVABLE

	<u>1986</u> £'000	<u>1985</u> £'000
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Amounts receivable on securities transactions	216,197	214,681
Other accounts receivable	79,673	43,055

	<u>295,870</u>	<u>257,736</u>
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7. INVESTMENTS

	<u>1986</u> £'000	<u>1985</u> £'000
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Investment securities, unlisted	63,969	54,799
Equity investments, unlisted at cost	4,867	3,966
Investment in subsidiaries at cost (note 13)	33,380	380

	<u>102,216</u>	<u>59,145</u>
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The directors are of the opinion that the investments are worth at least their book value.

During the year the company acquired all of the issued share capital of BT Gilts Limited in exchange for which it issued 10,000,000 ordinary shares of £1 each. The company also acquired 353,623 ordinary shares of FF 750 each of SNC BT (Holdings) et Cie Limited in exchange for which it issued 23,000,000 ordinary shares of £1 each.

8. SHARE CAPITAL

	<u>1986</u> £'000	<u>1985</u> £'000
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Ordinary shares of £1 each:

Authorised	110,000	16,000
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Issued and fully paid	<u>100,020</u>	<u>16,000</u>
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BANKERS TRUST INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 1986 (continued)

9. OTHER RESERVE

The other reserve arises as a result of a capital contribution made by a holding company during the year.

10. ACCOUNTS PAYABLE

	<u>1986</u> £'000	<u>1985</u> £'000
Amounts payable on securities transactions	184,750	502,769
Other accounts payable	174,199	72,134
	<hr/>	<hr/>
	358,949	574,903
	<hr/>	<hr/>

11. BALANCES WITH GROUP COMPANIES

The assets and liabilities of the company include the following:

Assets:

	<u>1986</u> £'000	<u>1985</u> £'000
Holding companies and fellow subsidiaries	395,739	134,714
	<hr/>	<hr/>
Subsidiaries	117	-
	<hr/>	<hr/>

Liabilities:

Holding companies and fellow subsidiaries	1,099,484	1,023,525
	<hr/>	<hr/>
Subsidiaries	110	423
	<hr/>	<hr/>

BANKERS TRUST INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 1986 (continued)

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments, other than those of the chairman and highest paid director, (excluding pension contributions) fell within the following ranges:

		<u>1986</u> £'000	<u>1985</u> £'000
£0	- £5,000	5	3
£40,001	- £45,000	-	1
£160,001	- £165,000	-	1

The Chairman did not receive any emoluments during 1986 (1985: fnil). The emoluments of the highest paid director were £633,955 (1985: £284,216). Apart from the highest paid director, all other directors are employed by related companies and, where applicable, their salaries are disclosed in those companies' accounts.

The number of employees, who were not directors, receiving remuneration in excess of £30,000 was as follows:

		<u>1986</u>	<u>1985</u>
£30,001	- £35,000	6	2
£35,001	- £40,000	4	1
£40,001	- £45,000	6	1
£45,001	- £50,000	1	4
£50,001	- £55,000	5	3
£55,001	- £60,000	2	2
£60,001	- £65,000	2	3
£65,001	- £70,000	6	1
£70,001	- £75,000	1	1
£75,001	- £80,000	1	1
£80,001	- £85,000	1	2
£85,001	- £90,000	1	2
£90,001	- £95,000	1	2
£95,001	- £100,000	3	-
£100,001	- £105,000	3	-
£105,001	- £110,000	3	-
£110,001	- £115,000	1	-
£120,001	- £125,000	1	-
£125,001	- £130,000	1	-
£130,001	- £135,000	-	1
£135,001	- £140,000	1	1
£140,001	- £145,000	1	-
£145,001	- £150,000	1	-
£185,001	- £190,000	1	-

The payment to certain directors and higher paid employees of certain remuneration provided for in the accounts is not unconditional and accordingly the amounts included above are in respect only of payments made during the year.

BANKERS TRUST INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 1986 (continued)

13. SUBSIDIARIES

The names of the principal subsidiaries of the company, their country of incorporation and the percentage of share capital owned is as follows:

SNC BT (Holdings) et Cie Ltd	France	99%
BT Gilts Limited	England	100%
BTI Investments Limited	England	100%
Rodo Nominees Limited	England	100%

14. CONTINGENT LIABILITIES AND COMMITMENTS

The company had contingent liabilities and commitments, entered into in the ordinary course of business, in respect of guarantees, loans, deposit agreements, underwriting agreements, interest rate and currency swaps, financial futures and options.

Swap activities generally involve the contractual exchange of interest and currency obligations. Such contracts will result in an interest or exchange profit or loss, primarily due to interest and exchange rate movements subsequent to the date of the contract. The company manages the risk associated with its swap activities by entering into offsetting swap contracts and financial hedges. However, there would be a cost of replacement for those swap contracts that are in a gain position, should such contracts go into default and have to be replaced at prevailing market rates. As at 31st December, 1986 no such defaults had occurred.

15. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Bankers Trust New York Corporation, which is incorporated in the USA.