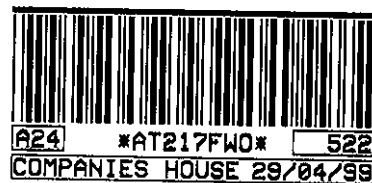


**Midland Bank International Financial
Services Limited**

Directors' report and financial statements

31 December 1998

Registered number 980554



Midland Bank International Financial Services Limited

Report of the Directors and Financial Statements

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Midland Bank International Financial Services Limited

Report of the Directors

The Directors submit their report and the audited financial statements of the Company for the year ended 31 December 1998.

Principal activities and business review

The Company is the holding company for an international group of companies providing a comprehensive range of banking, financial and related services.

Results and dividends

The results of the Company for the year are set out on page 5. The profit for the year after taxation amounted to £13,710,000 (1997 £11,340,000). Interim dividends of £28,000,000 were declared (1997 £135,000,000).

Directors

Listed below are the names of all Directors who served on the Board during the year under review:

G S Cardona	(appointed 13 January 1999)
C Kirkby	(resigned 25 January 1999)
R K McGregor	(alternate to G S Cardona and C S O'N Wallis)
R M J Orgill	(resigned 14 January 1999)
D M Ridgway	(resigned 27 February 1998)
C S O'N Wallis	

Midland Bank International Financial Services Limited

Report of the Directors (*continued*)

Directors' interests

The interests of Directors which require disclosure in accordance with the Companies Act 1985 are stated below:

HSBC Holdings plc

	1 January 1998			31 December 1998		
	Ordinary shares of 75p each	Ordinary shares of HK\$10	Bonds of £1 each	Ordinary shares of 75p each	Ordinary shares of HK\$10	Bonds of £1 each
C Kirkby	9,859	-	1,907	9,321	-	1,907
R K McGregor	4,097	-	-	4,114	-	-
C S O'N Wallis	1,080	113	-	1,099	117	-

In addition, during the year the following directors were granted options over HSBC Holdings plc ordinary shares of 75p each as indicated against their names:

	Granted
C Kirkby	4,000
R K McGregor	1,250
C S O'N Wallis	5,000

Supplier Payment Policy

The Company subscribes to the Better Payment Practice Code for all suppliers, the four principles of which are to agree payment terms at the outset and stick to them; explain payment procedures to suppliers; pay bills in accordance with any contract agreed with the supplier or as required by law; and tell suppliers without delay when an invoice is contested and settle disputes quickly.

There are no outstanding balances due to third party suppliers reported in the Company's financial statements as all supplier invoices are settled by Midland Bank plc on this Company's behalf. Information on Midland Bank plc's supplier payment policy can be found in that Company's Annual Report and Accounts.

Year 2000

The company has adopted the Year 2000 conformity requirements issued by the British Standards Institute as its definition of Year 2000 compliance. All relevant systems have been tested to ensure that they are Year 2000 compliant; those that are non-compliant will be replaced by mid 1999. The directors are satisfied with the overall progress of the programme to date.

The costs of Year 2000 modifications have been assessed on a group basis and details are incorporated within the Report of the Directors of Midland Bank plc.

Midland Bank International Financial Services Limited

Statement of Directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the Auditor's statement of responsibilities set out in the report on page 4 is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare these financial statements on the going concern basis unless it is not appropriate.

The Directors consider that in preparing the financial statements (on pages 5 to 13), the Company has used appropriate accounting policies, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

On behalf of the Board



SK Bryant
Secretary

10 Lower Thames Street
London
EC3R 6AE

26th April 1999

Midland Bank International Financial Services Limited

Report of the Auditors, KPMG Audit Plc, to the members of Midland Bank International Financial Services Limited

We have audited the financial statements on pages 5 to 13.

Respective responsibilities of Directors and Auditors

As described on page 3 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1998 and of the result of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

27 April 1999

Midland Bank International Financial Services Limited

Profit and loss account

for the year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Income from shares in group undertakings		14,440	6,167
Amounts written off investments		(18)	-
Other operating expenses		<u>(5)</u>	<u>(139)</u>
Operating profit		14,417	6,028
Profit on sale of investments		<u>-</u>	<u>6,720</u>
Profit on ordinary activities before taxation	3	14,417	12,748
Tax on ordinary activities	5	<u>(707)</u>	<u>(1,408)</u>
Profit on ordinary activities after taxation		13,710	11,340
Dividends	6	<u>(28,000)</u>	<u>(135,000)</u>
Retained loss for the year	13	<u><u>(14,290)</u></u>	<u><u>(123,660)</u></u>

All amounts relate to continuing activities.

The notes on pages 8 to 13 form part of the financial statements.

Midland Bank International Financial Services Limited

Balance sheet at 31 December 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Investments	7	167,368	143,251
Current assets			
Debtors	9	26,992	32,412
Cash at bank and in hand		<u>14,809</u>	<u>4,627</u>
		41,801	37,039
Creditors: amounts falling due within one year	10	<u>(17,178)</u>	<u>(4,495)</u>
Net current assets		<u>24,623</u>	<u>32,544</u>
Total assets less current liabilities		<u>191,991</u>	<u>175,795</u>
Provision for liabilities and charges	11	<u>(1,400)</u>	<u>-</u>
Net assets		<u><u>190,591</u></u>	<u><u>175,795</u></u>
Capital and reserves			
Called up share capital	12	46,127	46,127
Share premium account	13	113,076	113,076
Revaluation reserve	13	31,007	2,796
Profit and loss account	13	381	13,796
		<u>190,591</u>	<u>175,795</u>

These financial statements were approved by the Board of Directors on 26 April 1999 and were signed on its behalf by:



G S Cardona
Director

The notes on pages 8 to 13 form part of the financial statements.

Midland Bank International Financial Services Limited

Statement of total recognised gains and losses for the year ended 31 December 1998

	1998 £'000	1997 £'000
Profit for the financial year	13,710	11,340
Unrealised surplus on revaluation of investments in subsidiaries	<u>29,086</u>	<u>23,560</u>
Total recognised gains for the year	<u><u>42,796</u></u>	<u><u>34,900</u></u>

Reconciliation of movements in shareholders' funds for the year ended 31 December 1998

	1998 £'000	1997 £'000
Profit for the financial year	13,710	11,340
Dividends	<u>(28,000)</u>	<u>(135,000)</u>
	(14,290)	(123,660)
Other recognised gains and losses relating to the year	<u>29,086</u>	<u>23,560</u>
Net increase/(reduction) to shareholders' funds	14,796	(100,100)
Opening shareholders' funds	<u>175,795</u>	<u>275,895</u>
Closing shareholders' funds	<u><u>190,591</u></u>	<u><u>175,795</u></u>

No note of historical cost profits and losses has been presented as there is no material difference between the Company's results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

The notes on pages 8 to 13 form part of the financial statements.

Midland Bank International Financial Services Limited

Notes on the accounts

1 Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments in subsidiary undertakings, the policy for which is set out below, and in accordance with applicable accounting standards.

In accordance with Section 228 (i) of the Companies Act 1985 Group accounts have not been prepared, as the Company is a wholly owned subsidiary of a parent undertaking incorporated in the European Union, for which consolidated accounts are prepared.

In accordance with Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements", no cash flow statement is presented as all voting rights are controlled by HSBC Holdings plc which publishes such a statement in its own publicly available accounts.

The Company is involved solely in its principal activity as described in the Report of the Directors, and accordingly no analysis by business segment is given.

The Company complies with the requirements of Financial Reporting Standard 8 "Related Party Disclosures". No disclosure is presented of transactions between the Company and entities that are part of the HSBC Group in accordance with the exemptions granted to qualifying subsidiary undertakings under FRS 8 "Related Party Disclosures".

2 Principal accounting policies

(a) *Deferred taxation*

Deferred taxation is provided on timing differences, using the liability method, between the accounting and taxation treatment of income and expenditure. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

(b) *Foreign currencies*

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year-end.

Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging and exchange differences arising from retranslation of the result of the year from the average rate to the exchange rate ruling at the year-end are accounted for in reserves. Other exchange differences are recognised in the profit and loss account.

(c) *Dividend income*

Dividends received and receivable are stated gross of overseas withholding tax credits.

(d) *Investments*

The Company's investments in subsidiary undertakings are stated at attributable net asset values. Changes in the net tangible assets of subsidiary undertakings are accounted for as movements in the revaluation reserve.

Midland Bank International Financial Services Limited

Notes on the accounts *(continued)*

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is arrived at after charging:

	1998 £'000	1997 £'000
Auditor's remuneration	<u>-</u>	<u>22</u>

Audit fees for 1998 were paid by Midland Bank plc on behalf of the Company.

4 Directors and employees

No emoluments were received or are receivable by any Director in respect of his services during the year (1997 *£nil*). The Company did not have any employees during the year (1997 *nil*).

5 Tax on profit on ordinary activities

The charge for taxation comprises:

	1998 £'000	1997 £'000
UK corporation tax at 31% (1997 31.5%)	2,039	4,085
Relief for overseas tax	<u>(1,331)</u>	<u>(2,858)</u>
	708	1,227
UK corporation tax - prior year	(1,686)	-
Overseas tax	285	181
Deferred tax - current year	594	-
- prior year	<u>806</u>	<u>-</u>
	<u>707</u>	<u>1,408</u>

6 Dividends

	1998 £'000	1997 £'000
Interim dividends - first	13,000	135,000
- second	<u>15,000</u>	<u>-</u>
	<u>28,000</u>	<u>135,000</u>

Midland Bank International Financial Services Limited

Notes on the accounts *(continued)*

7 Investments

	Shares in group undertakings £'000
Cost or valuation	
At 1 January 1998	143,251
Revaluation	29,086
Additions	314
Disposals	(5,265)
Provisions made	<u>(18)</u>
At 31 December 1998	<u><u>167,368</u></u>

On the historical cost basis, the Company's interest in investments would have been included as follows:

	Shares in group undertakings £'000
Cost	
At 31 December 1997	<u><u>140,455</u></u>
At 31 December 1998	<u><u>136,361</u></u>

Midland Bank International Financial Services Limited

Notes on the accounts *(continued)*

8 Principal subsidiary undertakings

	Country of registration/ incorporation and operation	Percentage of equity capital held	Principal activities
HSBC Insurance (Ireland) Ltd	Republic of Ireland	100%	Insurance Broking
Midland Bank AS	Turkey	100%	Commercial Banking
Midland Bank Offshore Ltd	Jersey	100%	Deposit Taking and Corporate Service
Midland Bank Trust Corporation (Cayman) Ltd	Cayman Islands	100%	Trust and Corporate Services
Midland Bank Trust Corporation (Isle of Man) Ltd	Isle of Man	100%	Trust and Corporate Services
Midland Life International Ltd	Republic of Ireland	100%	Life Assurance

9 Debtors

	1998 £'000	1997 £'000
Amounts owed by fellow subsidiary undertakings	12,204	26,732
Dividends receivable from subsidiary undertakings	<u>14,788</u>	<u>5,680</u>
	<u>26,992</u>	<u>32,412</u>

10 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Dividends payable by the company	15,000	-
Amounts owed to fellow subsidiary undertakings	-	99
UK corporation tax	<u>2,178</u>	<u>4,396</u>
	<u>17,178</u>	<u>4,495</u>

Midland Bank International Financial Services Limited

Notes on the accounts *(continued)*

11 Provisions for liabilities and charges

	1998 £'000
Deferred tax provision	
At 1 January 1998	-
Charge to the profit and loss account	<u>1,400</u>
At 31 December 1998	<u>1,400</u>

Deferred tax is in respect of short term timing differences and has been fully provided for in the accounts.

12 Called up share capital

	'A' ordinary shares £'000	'B' ordinary shares £'000	'C' ordinary shares (non-voting) £'000	Total £'000
At 31 December 1997 and 1998				
Authorised shares of £1 each	<u>8</u>	<u>2</u>	<u>49,990</u>	<u>50,000</u>
Issued, allotted and fully paid shares of £1 each	<u>8</u>	<u>2</u>	<u>46,117</u>	<u>46,127</u>

13 Reserves

	Share Premium Account £'000	Revaluation Reserve £'000	Profit and Loss Account £'000
At 1 January 1998	113,076	2,796	13,796
Loss for the year	-	-	(14,290)
Revaluation of investment in subsidiaries	-	29,086	-
Disposal of subsidiaries	-	(875)	875
At 31 December 1998	<u>113,076</u>	<u>31,007</u>	<u>381</u>

Midland Bank International Financial Services Limited

Notes on the accounts *(continued)*

14 Parent undertakings

The ultimate parent undertaking and the parent undertaking of the largest Group of undertakings for which Group financial statements are drawn up and of which the Company is a member is HSBC Holdings plc, and the parent of the smallest such Group is Midland Bank plc, both of which are incorporated in England. The results of the Company are included in the Group financial statements of Midland Bank plc and HSBC Holdings plc.

Midcorp Ltd is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party as defined under FRS 8 "Related Party Disclosures".

Copies of the financial statements of Midland Bank plc and HSBC Holdings plc may be obtained from:

Midland Bank plc
Poultry
London
EC2P 2BX

HSBC Holdings plc
10 Lower Thames Street
London
EC3R 6AE