

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

for the year ended  
31 DECEMBER 1986



MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

REPORT OF THE DIRECTORS

YEAR ENDED 31 DECEMBER 1986

RESULTS

The profit attributable for the year ended 31 December 1986 amounted to £3,339,000 and has been dealt with as shown in the profit and loss account on Page 4. A first interim dividend of £1,800,000 was paid on 1 October 1986. The directors have declared a second interim dividend of £1,200,000 payable on 1 April 1987 in respect of 1986 instead of recommending a final dividend at the annual general meeting.

PRINCIPAL ACTIVITIES

Midland Bank International Financial Services Limited ("MBIFS") is a holding company for a group of companies which operate in many parts of the world and provide a comprehensive range of banking, financial and related services.

SUBSIDIARY AND RELATED COMPANIES

A reconstruction took place within the Midland Bank International Trade Services Group ("MBGITS Group") which created a new holding company, Midland Bank Group International Trade Services Limited.

MBIFS purchased 35 million shares (100% holding) in this new holding company for £61,525,000 which was equivalent to the book value of the assets which had been transferred to the new holding company.

During the year convertible bonds issued in 1983 by Midland Bank SA were converted into 119470 ordinary shares and as a result, the percentage participation of MBIFS in this French subsidiary was reduced from 79.1% in January 1986 down to 76.3% in December 1986. On 22 December 1986, Midland Bank SA launched a FF 500 million ten year bond issue.

Trinkaus & Burkhardt KGaA issued DM 100 million equity linked bonds during the year. In order to prevent the dilution of their interest in the subsidiary Midland Holdings Germany GmbH purchased 70.04% of the above bonds and subsequently sold them retaining the warrant element.

The entire issued capital of Crocker Servicios Limitada was purchased by MBIFS for US \$2,747,146 from Crocker International Investment Corporation.

MBI SA, a subsidiary based in Argentina commenced trading during the year.

On 2 January 1987 Midland American Corporation Limited acquired the intermediate holding company of Midland International Trade Services Corporation. In consideration Midland International Trade Services Limited took an equivalent value in the share capital of Midland American Corporation. As a result MBIFS Limited have an indirect interest of approximately 14% in Midland American Corporation.

## DIRECTORS

In the table following are shown the names of all persons who were Directors of MBI&S on 31 December 1986. Against each name is shown the number of shares, loan stocks and options of Midland Bank plc in which the Director had an interest (as defined in the Companies Act 1985).

	At 1.1.86	At 31.12.86
	<hr/>	<hr/>
Mr H de Carmoy (Chairman)	1,997 (2)	100 (1) 1,997 (2)
Mr R Bogni	Nil	202 (1)
Mr J Dingli	1,973 (2)	1,973 (2)

(1) Beneficial interest in shares of Midland Bank plc.

(2) Options held under the Senior Executive and /or  
Savings-Related share options schemes of Midland Bank plc.

Other than Directors' qualifying shares required by certain group companies, no Director had any beneficial interest in the shares or loan stocks of subsidiaries of Midland Bank plc during the year under review.

## BOARD CHANGES

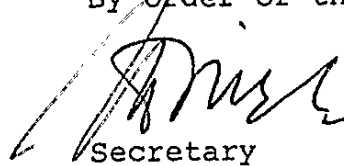
Mr J Hendley and Mr P J Nicholson resigned on 20 February 1986.

Mr J Dingli ceased to be alternate director to Mr H de Carmoy on 17 February 1986 and was appointed a Director on the same date.

AUDITORS

In accordance with Sections 384 and 385 of the Companies Act 1985, a resolution to reappoint Ernst & Whinney as auditors of the company and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

A handwritten signature in dark ink, appearing to be 'J. Smith', is written over the printed word 'Secretary'.

23 February 1987

Registered Office:

110-114 Cannon Street  
LONDON EC4N 6AA

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>Note</u>	<u>1986</u> <u>£000s</u>	<u>1985</u> <u>£000s</u>
Income from shares in group companies		2,144	1,529
Income from shares in related company		-	73
Interest receivable and similar income		1,008	714
Administrative expenses		(28)	(16)
Exchange gains		543	338
Amounts written off investments		(2)	176
Interest payable to group companies		(293)	(453)
		<hr/>	<hr/>
PROFIT BEFORE TAXATION	2	3,372	2,361
Taxation on ordinary activities	3	(33)	(450)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,339	1,911
Extraordinary item	4	-	(90)
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR		3,339	1,821
Dividends			
First Interim - paid	1,800	2,000	
Second Interim - payable 1.4.1987	1,200	1,000	
		<hr/>	<hr/>
		(3,000)	(3,000)
		<hr/>	<hr/>
RETAINED PROFIT/(LOSS) FOR THE YEAR		339	(1,179)
Retained profit brought forward		2,321	3,500
		<hr/>	<hr/>
RETAINED PROFIT CARRIED FORWARD		2,660	2,321
		=====	=====

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

BALANCE SHEET

AT 31 DECEMBER 1986

	<u>Note</u>	<u>1986</u> <u>£000s</u>	<u>1985</u> <u>£000s</u>
FIXED ASSETS			
Investments	5	208,450	132,231
CURRENT ASSETS			
Debtors	6	1,827	625
Cash at bank and in hand		11,811	11,344
		<u>13,638</u>	<u>11,969</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	7	(3,043)	(2,650)
NET CURRENT ASSETS		<u>10,595</u>	<u>9,319</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>219,045</u>	<u>141,550</u>
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Amounts due to group companies	8	(190,723)	(113,567)
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>28,322</u> =====	<u>27,983</u> =====
CAPITAL AND RESERVES			
Called up share capital	9	22,230	22,230
Revaluation reserve	10	3,432	3,432
Profit and Loss account		<u>2,660</u>	<u>2,321</u>
		<u>28,322</u> =====	<u>27,983</u> =====

DIRECTORS

February 1987

*Ken de Garmy*  
2/2/87

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED 31 DECEMBER 1986

	1986 <u>£000s</u>	1985 <u>£000s</u>
SOURCE OF FUNDS		
Profit attributable for year	3,339	1,821
Adjustment for items not involving the use of funds:		
Profit on sale of group companies	-	(1,310)
Increase/(decrease) in provisions against Investments (including currency translation differences)	(69)	1,224
Increase/(decrease) in deferred taxation	(17)	(344)
	<hr/>	<hr/>
FUNDS GENERATED BY OPERATIONS	3,253	1,391
FUNDS FROM OTHER SOURCES		
Increase in loans from holding company	77,156	-
Disposal (including currency translation differences) of investments in:		
Related companies	-	286
Subsidiaries	11,000	22,058
	<hr/>	<hr/>
	88,156	22,344
	<hr/>	<hr/>
	91,409	23,735
APPLICATION OF FUNDS		
Decrease in loans from holding company		(18,743)
Increase (including currency translation differences) in investments in:		
Related companies and trade investments	(47)	-
Subsidiaries	(87,103)	(4)
Dividends paid	(2,800)	(2,800)
	<hr/>	<hr/>
	(89,950)	(21,547)
	<hr/>	<hr/>
	1,459	2,188
	=====	=====
Movement in working capital:		
Bank balances with holding company	467	7,623
Amounts due to subsidiary	-	111
Current liabilities	(210)	(484)
Amounts due from Group companies	1,202	(3,182)
Other debtors	-	(1,880)
	<hr/>	<hr/>
	1,459	2,188
	=====	=====

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts are prepared under the historical cost convention.

Consolidated accounts have not been prepared as MBIFS Ltd. is itself a wholly owned subsidiary and for this reason the associated company has not been accounted for on the equity basis.

(b) Deferred taxation

Deferred taxation is calculated, using the liability method, on all timing differences.

(c) Currency translation

Assets and liabilities expressed in foreign currencies have been translated into sterling at the rates ruling at the balance sheet date and any difference is taken to profit and loss account except for exchange differences arising on the translation of currency investments which are taken direct to reserves, insofar as they are matched by differences on the translation of currency funding loans.

(d) Dividend income

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

2. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	1986 <u>£000</u>	1985 <u>£000</u>
Auditors' remuneration	15	13
and after crediting		
Exchange gains	543	338



MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS (CONTINUED)

3. TAXATION

The charge for taxation is made up as follows:

	<u>1986</u> <u>£000s</u>	<u>1985</u> <u>£000s</u>
UK corporation tax at 36.25% (1985 - 41.25%)	314	1,114
Relief in respect of overseas taxation	-	(1,133)
Overseas taxation	(260)	271
UK Deferred Taxation	(17)	(80)
Adjustments relating to prior years	(4)	278
	<u>33</u> =====	<u>450</u> =====

4. EXTRAORDINARY ITEM

	<u>1986</u> <u>£000s</u>	<u>1985</u> <u>£000s</u>
Profit on sale of investment in group company	-	2,583
Provision against the carrying value of related company	-	(1,400)
Extraordinary Income before tax	-	1,183
Related taxation		(1,273)
Extraordinary profit/(loss)	<u>-</u> =====	<u>(90)</u> =====

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS (CONTINUED)

5. INVESTMENTS

	Shares in Group Companies £000s	Loans to Group Companies £000s	Unlisted Shares in Related Companies £000s	Unlisted Shares in Trade Investments £000s	Total £000s
<u>Cost</u>					
At 1 January 1986	121,231	11,000	1,400	276	133,907
Currency translation differences	9,072	-	(57)	(10)	9,005
Additions	63,363	14,668	-	114	78,145
Disposals	-	(11,000)	-	-	(11,000)
At 31 December 1986	193,666	14,668	1,343	380	210,057
<u>Provisions</u>					
At 1 January 1986	-	-	(1,400)	(276)	(1,676)
Currency translation differences	-	-	57	14	71
Provisions made during the year	-	-	-	(2)	(2)
At 31 December 1986	-	-	(1,343)	(264)	(1,607)
Net book amount at 31 December 1986	193,666	14,668	-	116	208,450
=====					
Net book amount at 31 December 1985	121,231	11,000	-	-	132,231
=====					

The Company owns 40% of the ordinary share capital of Forward Oversea Credit Limited, a company incorporated in Singapore, whose principal activities are the acceptance of deposits from the general public and the financing of industry. Local trading conditions are such that full provision continues to be made against the carrying value of this investment.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS (CONTINUED)

6. DEBTORS

Amounts falling due within one year.

	<u>1986</u> <u>£000s</u>	<u>1985</u> <u>£000s</u>
Amounts due from group companies	1,827 =====	625 =====

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1986</u> <u>£000s</u>	<u>1985</u> <u>£000s</u>
Taxation	1,717	1,374
Amount due to group companies	126	276
Second interim dividend	1,200	1,000
	<hr/>	<hr/>
	3,043 =====	2,650 =====

8. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	<u>1986</u> <u>£000s</u>	<u>1985</u> <u>£000s</u>
Loans from holding company	190,723 =====	113,567 =====

These loans are technically due on demand or renewable within one year, however, the ultimate holding company has indicated that it is its intention to provide such loans as are necessary to fund the investments of MBIFS.

# CALLED UP SHARE CAPITAL

	'A' Ordinary Shares	'B' Ordinary Shares	'C' Ordinary Shares (non-voting)	Total
Authorised shares of £1 each at 1 January 1986 and 31 December 1986	£8,000 =====	£2,000 =====	£22,990,000 =====	£23,000,000 =====
Issued and fully paid shares of £1 each at 1 January 1986 and 31 December 1986	£8,000 =====	£2,000 =====	£22,220,000 =====	£22,230,000 =====

## 0. REVALUATION RESERVE

Last year the company refinanced certain of its sterling borrowings in order to match the currency of the borrowing with the underlying currency investment, as a result of which a currency revaluation reserve was created.

## 1. PRINCIPAL SUBSIDIARIES

The principal subsidiaries at 31 December 1986, all of whose accounts were made up to 31 December 1986 unless otherwise indicated, were as follows:

	Country of Incorporation and Operation	Interest of MBIFS at 31 December 1986 Direct      Indirect %            %
Midland Bank Group International Trade Services Ltd	Great Britain (30 September)	100
Midland International Trade Services Ltd	Great Britain (30 September)	100
Midland International Services (UK) Ltd	Great Britain (30 September)	100
Midland International Marketing Services Ltd	Great Britain (30 September)	75

	Country of Incorporation and Operation	Interest of MBIFS at 31 December 1986	
		Direct %	Indirect %
Midland Bank Trust Corporation (Guernsey) Ltd.	Guernsey (30 September)		100
Midland Bank Trust Corporation (Jersey) Ltd	Jersey (30 September)		100
Midland Bank Trust Corporation (Isle of Man) Ltd	Isle of Man (30 September)		100
Midland International Trade Services Corporation	USA (30 September)		100
Midland Export Creditbank AG	Austria (30 September)		100
Midland International Australia Ltd	Australia	100	
Handelsfinanz Midland Bank SA	Switzerland		85
Midland Bank Canada	Canada (31 October)	100	
Midland Bank SA	France	76	
Midland Bank (Singapore) Ltd	Singapore	100	
Midland Finance (H.K.) Ltd	Hong Kong	100	
Midland Holdings Germany GmbH	Germany	100	
MBI SA	Argentina		100
Midland Montagu Administracao & Participacoes Limitada	Brazil	100	
Crocker Servicos Limitada	Brazil	100	
Midland Servicios Financieros SA	Spain	100	
Trinkaus & Burkhardt KGaA	Germany		70
Trinkaus & Burkhardt (International) SA	Luxembourg		70

The accounts of certain subsidiaries are made up to 30 September or 31 October in order to avoid delay in the presentation of Group Accounts.

12. DIRECTORS' EMOLUMENTS AND LOANS

The aggregate emoluments received by directors (from subsidiaries of Midland Bank International Financial Services Limited), were as follows:

	1986 £	1985 £
Fees	4,221	17,410
Other emoluments	711,052	580,646
	<u>715,273</u>	<u>598,056</u>
	=====	=====
Chairman's emoluments	564,666	384,108
	=====	=====

Emoluments of the other directors fell in the following bands:

	<u>1986</u>	<u>1985</u>
£0 to £5,000	1	5
£10,000 to £15,000	-	1
£15,000 to £20,000	-	-
£55,000 to £60,000	-	1
£60,000 to £65,000	-	1
£150,000 to £155,000	1	-

13. HOLDING COMPANY

The ultimate holding company is Midland Bank plc which is incorporated in Great Britain.

REPORT OF THE AUDITORS

TO THE MEMBERS OF MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES  
LIMITED

We have audited the accounts of Midland Bank International Financial Services Limited set out on pages 4 to 13 in accordance with approved auditing standards. The accounts have been prepared under the historical cost convention.

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

Ernst & Whinney

*Ernst & Whinney*

Chartered Accountants  
London 2 March 1987