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MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

for the year ended  
31 DECEMBER 1987



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MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

REPORT OF THE DIRECTORS

YEAR ENDED 31 DECEMBER 1987

RESULTS

The profit attributable for the year ended 31 December 1987 amounted to £6,972,000 and has been dealt with as shown in the profit and loss account on Page 4. A first interim dividend of £2,000,000 was paid on 1 October 1987. The directors have declared a second interim dividend of £3,000,000 payable on 5 April 1988 in respect of 1987 instead of recommending a final dividend at the annual general meeting. Retained profits of £1,972,000 have been transferred to reserves.

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

As a result of a reconstruction within the Group, MBIFS is now the immediate parent of MITS Finance Limited, Midland Bank Aval Limited and International Debt Consultants Limited. In due course, the Midland Bank Trust Corporations in Jersey, Guernsey, Isle of Man and Cayman Islands are expected to become direct subsidiaries of MBIFS.

A new finance company, Midland Finanzaria SpA, has been established in Milan out of a dormant joint venture company. All the issued share capital was acquired by MBIFS in November 1987.

MBIFS increased its shareholding in Surinvest Casa Bancaria SA of Uruguay from 14% to just over 37% and the wholly-owned subsidiary Midland Servicios Financieros Chile SA commenced trading during the year.

Midland Bank SA capitalised part of its reserves and distributed one share for each five held. Convertible bonds issued in 1973 and 1983 were converted into 85,201 ordinary shares which had a very marginal effect on the interest MBIFS has in this French subsidiary; it remained at the 76% level. On 1 February 1988 MBIFS purchased 3,100 shares in Midland Bank SA amounting to £55,617 in accordance with a commitment made before the end of the financial year.

Investments sold during 1987 include: Midland Finance (H.K.) Limited and its associate GPA Midland Limited, AEA Development Corporation and Forward Oversea Credit Limited.

## DIRECTORS

In the table following are shown the names of all persons who were Directors of MBIFS on 31 December 1987. 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).

	<u>At 1.1.87</u> (or date of appointment if later)	<u>At 31.12.87</u>
Mr H. de Carmoy (Chairman)	100 (1) 1,997 (2)	200 (1) 2,685 (2)
Mr R. Bogni	202 (1)	404 (1)
Mr J. Dingl	1,973 (2)	2,653 (2)
Mr J. de Mandat-Grancey	Nil	Nil

- (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, adjusted for the 1987 Rights Issue.

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. de Mandat-Grancey was appointed a director on 1 May 1987.

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

  
Secretary

17 February 1988

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 1987

	<u>Note</u>	<u>1987</u> <u>£000s</u>	<u>1986</u> <u>£000s</u>
Income from shares in group companies		5,287	2,144
Interest receivable and similar income		3,827	1,008
Administrative expenses		(34)	(28)
Exchange gains		949	543
Amounts written off investments		(49)	(2)
Interest payable to group companies		(188)	(293)
 PROFIT BEFORE TAXATION	 2	 9,792	 3,372
Taxation on ordinary activities	3	(4,519)	(33)
 PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		 5,273	 3,339
Extraordinary item	4	1,699	-
 PROFIT FOR THE FINANCIAL YEAR		 6,972	 3,339
 Dividends			
First Interim - paid	2,000	1,800	
Second Interim - payable 1.4.1988	3,000	1,200	
	<u>      </u>	<u>(5,000)</u>	<u>(3,000)</u>
 RETAINED PROFIT/(LOSS) FOR THE YEAR		 1,972 =====	 339 =====

Movements on reserves are set out in note 12.

17 February 1988

MILANO BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED 31 DECEMBER 1987

	1987 <u>£000s</u>	1986 <u>£000s</u>
<b>SOURCE OF FUNDS</b>		
Profit attributable for year	6,572	3,339
Adjustment for items not involving the use of funds:		
(Decrease) in provisions against investments (including currency translation differences)	(1,380)	(69)
Increase/(decrease) in deferred taxation	990	(17)
	<u>6,582</u>	<u>3,253</u>
<b>FUNDS GENERATED BY OPERATIONS</b>		
<b>FUNDS FROM OTHER SOURCES</b>		
Increase in loans from holding company	23,364	77,156
Disposal (including currency translation differences) of investments in:		
Related companies and trade investments	1,459	-
Subsidiaries	17,933	11,000
	<u>48,756</u>	<u>88,156</u>
	<u>55,338</u>	<u>91,499</u>
<b>APPLICATION OF FUNDS</b>		
Increase in loans to holding company	(45,809)	-
Increase (including currency translation differences) in investments in:		
Related companies and trade investments	(765)	(47)
Subsidiaries	(2,581)	(87,103)
Dividends paid	(3,200)	(2,800)
	<u>(52,355)</u>	<u>(89,950)</u>
	<u>2,983</u>	<u>1,459</u>
	=====	=====
<b>Movement in working capital:</b>		
Bank balances with holding company	1,810	467
Current liabilities	(841)	(210)
Amounts due from Group companies	2,014	1,292
	<u>2,983</u>	<u>1,459</u>
	=====	=====

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.

Group accounts have not been prepared as MBIFS Ltd is itself a wholly-owned subsidiary and for this reason the related 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:

	1987 <u>£000</u>	1986 <u>£000</u>
Auditors' remuneration and after crediting	<u>14</u>	<u>15</u>
Exchange gains	<u>949</u>	<u>543</u>



MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS (Continued)

3. TAXATION

The charge for taxation is made up as follows:

	<u>1987</u> <u>£000s</u>	<u>1986</u> <u>£000s</u>
UK corporation tax at 35.00% (1986 - 36.25%) based on profits for the year	2,965	314
Relief in respect of overseas taxation	(2,289)	-
Overseas taxation	-	(260)
UK Deferred Taxation	990	(17)
Adjustments relating to prior years	2,853	(4)
	<hr/>	<hr/>
	4,519 =====	33 =====

4. EXTRAORDINARY ITEM

	<u>1987</u> <u>£000s</u>	<u>1986</u> <u>£000s</u>
Profit on sale of investment in group company	1,699	-
Related taxation	-	-
	<hr/>	<hr/>
Extraordinary profit	1,699 =====	- =====

No tax provision has been made against the above sale as the investment was sold to another company in the Midland Group.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS (Continued)

4. 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 1987	193,666	14,668	1,343	380	210,057
Prior year adjustment	904				904
Currency translation differences	(6,850)	-	(235)	(36)	(7,121)
Additions	9,431	52,798	1,000	-	63,229
Disposals	(17,933)	(6,989)	(1,306)	(117)	(26,345)
At 31 December 1987	179,218	60,477	802	227	240,724

Provisions

At 1 January 1987	-	-	(1,343)	(264)	(1,607)
Currency translation differences	-	-	37	37	37
Relating to disposals	-	-	1,306	-	1,343
At 31 December 1987	-	-	-	(227)	(227)

Net book amount at 31 December 1987	179,218	60,477	802	-	240,497
Net book amount at 31 December 1986	193,666	14,668	-	116	208,450

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS (Continued)

6. DEBTORS

Amounts falling due within one year.

<u>1987</u>	<u>1986</u>
<u>£000s</u>	<u>£000s</u>
Amounts due from group companies	
3,841	1,827
=====	=====

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

<u>1987</u>	<u>1986</u>
<u>£000s</u>	<u>£000s</u>
Taxation	
2,583	1,734
Amount due to group companies	
104	126
Second interim dividend	
3,000	1,200
Other	
14	-
-----	-----
5,701	3,060
=====	=====

8. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	<u>1987</u>	<u>1986</u>
	<u>£000s</u>	<u>£000s</u>
Loans from holding company		
	220,087	190,723
	=====	=====

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.

9. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>1987</u>	<u>1986</u>
	<u>£000s</u>	<u>£000s</u>
Deferred Taxation		
At 1 January 1987	17	-
Charge for the year	(990)	17
At 31 December 1987	(973)	17
	=====	=====

Potential deferred tax relating to all short term timing differences have been provided for and there were no other timing differences.

10. CALLED UP SHARE CAPITAL

	'A' Ordinary Shares	'B' Ordinary Shares	'C' Ordinary Shares (non-voting)	Total
Authorised shares of £1 each at 1 January 1987 and 31 December 1987	£8,000 =====	£2,000 =====	£22,990,000 =====	£23,000,000 =====
Issued and fully paid shares of £1 each at 1 January 1987 and 31 December 1987	£8,000 =====	£2,000 =====	£22,220,000 =====	£22,230,000 =====

11. REVALUATION RESERVE

In 1985 the company refinanced certain of its sterling borrowings in order to match the currency of the borrowing with the underlying current investment, as a result of which a currency revaluation reserve was created.

12. RESERVES

	1987 <u>£000s</u>	1986 <u>£000s</u>
At 1 January 1987 (as reported)	2,660	2,321
Prior year adjustment	904	-
At 1 January 1987 (as restated)	<u>3,564</u>	<u>2,321</u>
Retained profit for the year	1,972	339
At 31 December 1987	<u>5,536</u> =====	<u>2,660</u> =====

Prior year adjustment relates to restatement of Investment in Shares of Group Companies (refer note 5). Exchange losses on foreign currency hedging loans of £7,085,000 have been offset by exchange gains of the same amount arising on the translation of investments.

The principal subsidiaries at 31 December 1967, all of whose accounts were made up to 31 December 1967 unless otherwise indicated, were as follows:

	Country of Incorporation and Operation	Interest of Middles at 31 December 1967	
		Direct £	Indirect £
Midland Bank Group International Trade Services Ltd	Great Britain (30 September)	100	
Midland Bank Aval Ltd	Great Britain (30 September)	100	
International Debt Consultants Ltd	Great Britain (30 September)	100	
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 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 Holdings Germany GmbH	Germany	100	
MBI SA	Argentina		100
Midland Montagu Administracao & Participacoes Limitada	Brazil	100	
Crocker Services Limitada	Brazil	100	
Midland Servicios Financieros SA	Spain	100	

	Country of Incorporation and Operation	Interest of MBIFS at 31 December 1987	
		Direct	Indirect
		£	£
Trinkaus Und Burkhardt KGaA	Germany		70
Trinkaus Und Burkhardt (International) SA	Luxembourg		70
Midland Servicios Financieros Chile SA	Chile	100	

#### 14. DIRECTORS' EMOLUMENTS

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

	1987 £000s	1986 £000s
Fees	3,993	4,221
Other emoluments	1,067,138	711,052
	<u>1,071,131</u>	<u>715,273</u>
	=====	=====
Chairman's emoluments	748,458	564,666
	=====	=====

Emoluments of the other directors fell in the following bands:

	1987	1986
£0 to £5,000	1	1
£135,000 to £140,000	1	-
£150,000 to £155,000	-	1
£185,000 to £190,000	1	-

#### 15. 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 12 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 of the company at 31 December 1987 and of the profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

*( signed )*  
Ernst & Whinney

*1st Feb. 1988*  
Chartered Accountants  
London